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State fragility in **Lebanon**: Proximate causes and sources of resilience

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About the commission

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Introduction

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Lebanon is an Arab-Mediterranean country that has endured a turbulent past and continues to suffer its consequences. The country enjoys a strong private sector and resilient communities. However, the public sector is plagued with corruption and clientelism, collective dictatorship, illegitimate arms, and failed institutions.

Lebanon had decisively escaped a previous collapse, but it has become significantly more fragile in recent years. That is, following the Lebanese civil war (1975-90), Lebanon managed to recover in many respects, largely due to its private sector and the Saudi-backed Taif Agreement. The country witnessed strong economic growth and socio-economic stability. However, it has regressed into fragility due to regional spillovers, internal political deadlock, transnational militant groups, and entrenched sectarianism. This report aims to examine Lebanon's fragility along five dimensions:

- State legitimacy
- State capacity
- Private sector development
- Security and conflict
- Resilience

It describes initial conditions that led to the 1975 collapse, the strategies for recovery, and the proximate causes of recurrent regress. It also prescribes feasible policy recommendations within the current constraints.

Unique fragility

In various ways, Lebanon's fragility is unique. Unlike other conflict-affected and fragile states, Lebanon has an open economy, an open political system, a large degree of diversity, and relatively lower poverty levels – at least in the years after independence was achieved in 1943. Atzili (2010) notes that examining the case of Lebanon sheds light on the onset of conflict and violence in the absence of acute poverty and political oppression. In its modern history, Lebanon has experienced at least four distinct periods: pre-1975, 1975-1990, 1990-2005, 2005-2011, and post-2011.

Pre-1975, Lebanon enjoyed a period of relative peace, calm, and prosperity. Fifteen years of inter-sectarian civil war erupted in 1975, with intermittent

Israeli occupation between 1982 and 1985. It wreaked havoc on the country's infrastructure, political regimes, safety, and ultimately its future. In 1989, the national reconciliation accord was signed in Taif, Saudi Arabia, which provided the ground rules for ending the war and rebuilding the country.

Post-Taif

In 1990, the Lebanese awoke to a peaceful, if deeply sectarian, country divided along the wartime borderlines, each zone heavily militarised with illegitimate weapons. Following a national amnesty, many warlords became sectarian leaders with political representation in the parliament and cabinet.

The National Pact political system in 1943 had divided governmental and military positions by confessional groups: the president a Maronite Christian, the prime minister Sunni Muslim, the speaker of the parliament Shi'a Muslim, and the parliamentary seats proportional among religious groups. In 1990, the post-civil war Taif agreement enhanced the powers of the Sunni prime minister over those of the Christian president while maintaining the multi-confessional structure of the political system. As a result, the country began recuperating from the war, despite hostilities between Hezbollah and Israel in South Lebanon. It saw a development in the private sector, tourism, capital, infrastructure, and a return of normalcy to institutions.

Following the end of Israeli occupation in year 2000, Lebanon experienced five years of prosperous stability, until Prime Minister Rafic Hariri was assassinated in 2005. That year, the Syrian pseudo-occupation ended but a series of political assassinations continued until 2013. The Syrian occupation began 1976, and the Taif agreement called for Syrian forces to remain in the country as a 'temporary' stabilizing force (Kindt, 2009). The Syrians eventually grew their military presence throughout Lebanon and interfered in local political affairs (Abdul-Hussain, 2009). After 2005, the country was divided into two political camps – the anti-Syrian 14 March alliance (which largely included the Sunnis, some of the Christians, Druze, and other religious minorities), and the pro-Syrian 8 March alliance (included Hezbollah, Shiite parties, and their allies). These alliances eventually dissolved and new political alliances emerged. In 2006, a 34-day war erupted between Hezbollah and Israel in South Lebanon, but the destruction and ramifications were witnessed throughout the country. In 2007, the Lebanese army fought against a radical group in Nahr El Bared (a Palestinian refugee camp in the North) and successfully eliminated the cell. In 2008, accusations of Hezbollah's establishment of a communications network parallel to that of the state led to its retaliation. Hezbollah invaded the Sunni-majority areas of Beirut and parts of Mount-Lebanon in an effort to reassert its power and showcase its strength. Following months of presidential vacancy due to parliamentary gridlock, the Doha agreement under Qatari sponsorship restored the functions of the political institutions that elected a new head of state, President Michel Suleiman.

Initial conditions: History, geography, and institutions

One of the structural causes of Lebanon's fragility is its geographic location. The country's seaports, moderate weather, and wealth of natural resources (e.g. water) in an arid and mostly landlocked region made it attractive to colonists. Lebanon has experienced a series of occupations in the era leading up to 1975. At the end of the Ottoman rule in 1918, the country fell under French mandate. Daron Acemoglu and James Robinson, in their book "Why nations fail?" discuss the role of colonial mandate in shaping countries' institutional structure. Indeed, many of Lebanon's current laws are inspired by French laws.

However, the French mandate was characterised by the division of Lebanon and Syria into cantons that directly reported to the high commissioner, which undermined the ability of the central state to govern. Unlike the legacy left by the British colonies in the US and elsewhere, French rule did not leave a coherent set of institutions in Lebanon. Ziad Abu-Rish, a historian at Ohio University, writes that many of the current institutions were born in the first 10 years of independence in 1943 (LCPS, 2015). While the creation of many of these institutions (e.g. ministry of energy, industry, etc.) carried some of the French legacy, contemporary elites had aspired to use these as tools for state building (LCPS, 2015).

In addition, the pressures of the Syrian and Israeli-Palestinian conflict and the onset of the civil war, undermined the efforts of state building. Since the creation of the modern state of Lebanon and until the 1943 independence from France, the different confessional groups engaged in conflict and military confrontation to claim parts of the land (Kisirwani, 1997). The neighbouring political environment was also not conducive to a strong and stable state. In 1948, the Israeli-Palestinian conflict began and resulted in a mass exodus of Palestinians, many of whom took refuge in Lebanese camps with no right of return to their homes. Tense relations with Israel also contributed to the establishment of a resistance group in Lebanon – first as the Lebanese Resistance and later as the Islamic Resistance of which Hezbollah took part. The Palestinian presence in Lebanon also contributed to the onset of the civil war. The Palestinian resistance movement of 1960s evolved in the midst of a socio-economic slowdown in Lebanon. Alleged Palestinian guerrilla attacks were the beginning of the Israeli targeting of Lebanon through military offensive (Hudson, 1978). The Christian parties viewed the Palestinians as a 'virus' and this resulted in much tension and polarisation between the groups (Hudson, 1978). The war started in 1975 and intensified with Israeli armament of Christian Maronite militias. This added pressure came in tandem with already rooted socio-economic problems. While poverty levels were low, inequalities existed. Scholars attribute the beginning of the civil war to a strike by fishermen and intra-elite strife that highlighted the inequalities amongst the Lebanese and the failure of the state to address them (Hudson, 1978).

To a large degree, the civil war was a result of the issues that the country still faces today: sectarianism, poor institutions, and external meddling with local politics such as by the Syrian regime). During the war, a Syrian force called the "Arab Peacekeeping Force" was sent to Lebanon to ensure stability. However, they soon made political alliances and supported some sides against others. It

is worth noting that, economically, in the pre-war period the country had been prosperous. While data and evidence are scarce, some reports suggest that the GDP per capita was around \$940 – among the highest in the region. The economy was mainly driven by trade and the non-financial services sector such as health, education, and transport (Kisirwani, 1997).

However, the benefits of the economic growth were not evenly distributed across the population. Indeed, Awad (1991) documents stark differences in earning across the different economic sectors. For instance, per capita income in agriculture and industry was as low as \$175 and \$503 respectively, while engaging 56% of the workforce, as opposed to \$1256 for the services sector engaging 44% of the workforce. Awad (1991) suggests that the lack of a solid development agenda and the inequality among groups of the society contributed to the breakdown of the socio-political order, leading to the civil war.

The 1989 Taif agreement marked the beginning of the end of the civil war. It came about as a result of internal fragmentation, but was actively mediated by Saudi Arabia, Syria, and the United States of America (Hudson, 1999). The Taif agreement had the eradication of sectarianism as one of its top priorities, and yet it provided no clear timeline or guidelines as to how to achieve it. In certain respects, some scholars and national actors view the Taif agreement as a tool to institutionalise the sectarianism by allocating the state positions to different factions. The agreement also called for disarmament of all groups and militias, and notionally, all militias were dissolved, with the exception of Hezbollah. Moreover, the Syrian forces remained in Lebanon after the war had ended in 1990 with an army of 300,000 and extensive intelligence units. While the country saw economic growth in the post-war period, the Syrian “occupation” of Lebanon further weakened the role of the institutions and undermined their ability to govern. It created space for organised chaos and corrupted the rule of law and governance in the country.

In the reconstruction phase, despite many corrupt practices, the government made serious efforts to bring normalcy to people’s lives. The “ministry of the displaced” was established in 1993 in order to restore socio-economic order to those who had been displaced by the civil war. Nevertheless, much of the success in that phase was due to Lebanon’s private sector. Notably, a private company called Solidere was contracted by the government to rebuild the central district of Beirut. Solidere branded the venture as one that would transform the capital and construct a new social identity for the country (Randall, 2014). In practice, however, Solidere was an endeavour by the late Saudi-backed Prime Minister Rafic Hariri to assert his newly established power and the enhanced Sunni position in politics after the Taif agreement (Randall, 2014). There is no doubt that Beirut’s central district is now a modern icon of the city and was a major improvement over the destruction of the war. Yet, the way in which this deal was brokered between the state and Solidere meant that the central district is now owned and managed by this company. This led to increases in housing prices in and around the district, and created a space for the elite in a district that was historically the market and the residence for both the poor and the rich alike. Mr. Hariri, as prime minister, formed strong political alliances and lured the international donor community. He lowered the taxation on the rich to incentivise businesses, increased it on the poor, and led the country into a cycle of public debt (Hudson M. , 1999). This debt has since been increasing until the present day.

The commercial banks and financial institutions also had a major role in the recovery from the collapse. They attracted large sums of investment from the Lebanese diaspora, and the financial secrecy system that is in place lured Gulf and Arab millionaires. The government also borrowed prolifically from the commercial banks to finance its projects (Baumann, 2010). Meanwhile, the former militia leaders of the civil war, who were granted pardon via an amnesty law, “used ‘service ministries’ as patronage sources e.g. education, health, or regional reconstruction funds” (Baumann, 2010).



State (il)legitimacy

2

Three factors play a crucial role in undermining state legitimacy:

1. A flawed electoral system and extended parliamentary tenure.
2. The weakness of the judiciary and police.
3. The existence of illegitimate arms and state(s) within the state.

Lebanon follows a parliamentary election system within which the Lebanese constitution divides the powers of the state among the legislative, the executive, and the judicial branches. The parliament (or House of Deputies) is the legislative branch; the cabinet is the executive branch; and courts and judges constitute the judicial branch. Theoretically, every four years, citizens elect their parliamentary representatives, who – every six years – elect the president of the republic. In consultation with the cabinet, the president appoints the prime minister to form a cabinet. The cabinet is then required to gain a vote of confidence from the parliament to undertake its executive duties. The cabinet changes with the change in parliament or presidency – or by resignation.

Electoral law

Until June 2017, two major electoral laws were in place: the “1960 law” and the Syrian-engineered “2000 law”. The majority system that underscores these laws ensured that more endowed political powers within the country continued their tenure in the parliament and reduced the likelihood of representation for minorities. The ballot lists that win a majority of the votes won all the seats for their electoral district. This meant that within those districts, in an environment of sectarian divide, larger sects elected the deputies of minorities. The law also promoted the “slating” of candidates, i.e. candidates on the electoral lists are chosen based on the likelihood of winning seats and expected popularity, rather than political and economic policies. The electoral law, coupled with corrupt electoral practices (e.g. vote-buying), repeatedly resulted in elected houses that lacked nationwide legitimacy.

In the most recent era, and arguably most relevant to this report, after the departure of the Syrian forces from Lebanon in 2005, the country was left in chaos. The different state actors could not reach a consensus on any state matter without international mediation – notably from Syria, Saudi Arabia, and

Qatar, and every time a government was to be formed or a president to be elected, the country would experience extended periods of political vacuum. Most recently, it took 30 months and 45 parliamentary sessions to elect the now-president Michel Aoun (formerly a member of the parliament, an ally of Hezbollah, and a disputed former prime minister of a rival government during the civil war – that resulted in his exile).

The parliament, elected in 2009, continues to serve beyond its four-year tenure. The MPs have extended their term at the end of their tenure in 2013, and most recently in 2017 when they introduced a new electoral law. Practically, this means that the public has not voted for parliamentary elections for nine years, and therefore, at the very least, the current house of deputies does not reflect people's choices (Reuters, 2014). Local municipal elections, held in 2016, saw a plethora of new movements that emerged after the civic protests of 2015. While these movements recorded no significant victories, a large proportion of the population – particularly in Beirut – voted against the current rigged and corrupt regime (The Washington Post, 2016). In an alternative electoral system based on proportionality, local government would have changed in composition. That is, the independent movements could have secured at least 40% of the municipal seats in Beirut – given that they received 40% of the popular vote.

Another issue in the parliamentary composition is the division of seats by geographic regions and religious factions. In the 1989 Taif agreement, political/wartime leaders agreed on dividing the 128 parliamentary seats in half between Muslims and Christians (and proportionately within the factions of each) to soothe the wounds that the war left. It was clear, even then, that the division was to ensure parity, and not necessarily a true representation of the sectarian distribution within the society. Indeed, since the government has not conducted a population census since 1932, there is no accurate description of composition of society today. Leading government officials and party leaders describe the idea of a census as a very sensitive issue that may lead to sectarian strife (Economist, 2016).

Furthermore, political parties, numerous in Lebanon, do not debate a clear electoral agenda or vision. Most have simply put forward candidates that are endorsed by a political leader who leads the masses to elect them as members of the parliament. In fact, the exchange of favours, benefits, and personal/sectarian conflicts that arise within the legislative, executive, and judicial branches of power undermine this separation of power (Serhal, 2010). Indeed, "partisanship and sectarianism continue to cause rifts [between the branches of power] that are exacerbated by regional and international tension" (Hamd, 2012, p. 4). The interference of the religious institutions (both Muslim and Christian) in political appointments continues to challenge the democratic processes, and the legitimacy of the state. Often with clientelistic intentions, the religious figures and influential politicians are mediators between the state and the people (Bertelsmann Stiftung, 2016). As a result, and in addition to challenging the state legitimacy even further, citizens' true allegiance is to their confessional leader whom they believe to have the true "legitimate" power in providing jobs, assistance, social protection, legal immunity, favours, etc. Indeed, the sectarian considerations continue to take precedence over the rule of law, and some of the legal statutes explicitly reflect that (Hamd, 2012).

While the parliament is formally divided among sects and confessions (by

legal decree), informal power sharing between the different sectarian leaders, in what some call a “collective dictatorship”, results in frequent coalitions, parliamentary blocs, and “national unity government”. Since the Taif agreement, nearly every government took this form in one way or another, as the alternative would be political vacuum. Political vacuums do occur frequently, and the “collective” veto power that these blocs exercise, effectively means that rarely is a decision made without a consensus. In practice, this exacerbates the absence of policy agendas within political parties in the country and reinforces the role of sectarianism as a tool for governance. Most of the country’s important decisions are made strategically behind closed doors, outside the realm of the state institutions, and often through international mediators or sponsors, like Saudi Arabia, Qatar, Syria, France, United States, Iran and others (Bertelsmann Stiftung, 2016).

Judiciary and the police

A recent survey by a Lebanese anti-corruption NGO shows that people across the political spectrum, age groups, and geographic locations engage in corruption, and perceive high levels of it (Sakker El Dekkene, 2015). The most striking among their findings is that less than 15% of the sample fully trust the judiciary. Among those who do not fully trust it, 65% believe it is due to political interference and clientelism, and around 50% believe it is due to corruption and bribery (Sakker El Dekkene, 2015). According to Transparency International’s Global Corruption Barometer (2011), the police and the judiciary are among the top recipients of bribes in Lebanon.¹ In spite of having many well-trained Lebanese lawyers and judges, the judiciary functioning lacks independence from political authorities and confessional quotas (Bertelsmann Stiftung, 2016). There is evidence of a vast backlog of inefficiently processed cases, inequality before the law especially when adversaries have strong socio-political influence or connections (Bertelsmann Stiftung, 2016). Often, political authorities and interferences play a large role in recruiting prosecutors (Bertelsmann Stiftung, 2016).

Furthermore, the military courts have unlimited powers, which are often used for political ends. These courts are plagued by lack of fair trial principles, rights of the defendant, and political interferences. (Takieddine, 2004). The danger in distrusting the judicial apparatus is that citizens are compelled to take matters into their own hands, undermining the legitimacy of the state, law enforcement, and the legal system as a whole. Indeed, in recent years the country has seen an increase in privately owned – and politically affiliated – security firms, which enjoy a degree of liberty and immunity from the law (Al Jazeera, 2015).

Additionally, the police force itself often violates the law. In recent years, the civil society in Lebanon has taken to the streets to protest the illegitimate government and its corrupt practices. The police has faced the protests with brutality, unequal force, and heavy weaponry (Houry, 2015). While the constitution protects freedom of expression, movement, association, and peaceful assembly, and despite evidence of widespread uneven use of force by

¹ Along with the customs, registry and permit service.

the police, the authorities have not reprimanded the police officers in question (Human Rights Watch, 2015). Moreover, the Lebanese army and police have a dysfunctional structure. They lack political consensus over the remit of their duties, unity within their troops, training, and funding (Atzili, 2010). The funding and training of the Lebanese army generally comes from external donors (e.g. Saudi Arabia and United States of America). The lack of strength, unity, and mandate, coupled with high levels of corruption, undermine the state's legal and coercive capacity.

Apart from the failure of the judiciary in upholding the civil and criminal law, it has also fell short in holding the government accountable for unlawful practices. This is a direct implication of the lack of separation between the different branches of power, particularly the political and the judicial branches. The civil society and the media has brought forward numerous failures and corrupt practices to the judicial authorities against ministers, MPs, and other officials, but they are yet to take appropriate actions. Examples include:

- Embezzlement in the telecom industry by a high-level official and by customs officers.
- The fraudulent deals made during the 2015 garbage crisis.
- Questionable procurement procedures, public health and environmental hazards.
- Unlawful institutions owned by political leaders, among many others.

The steady decline in judicial authority is perpetuated by a vicious cycle. The politicians interfere in its functioning and intentionally weaken it, and these same politicians refuse to restore judicial independence claiming that the judicial system is now weak (Legal Agenda, 2017). Reports suggest that there is also a rise in judicial "leadership" whose aim is to represent the different political forces within the judiciary (Legal Agenda, 2017), defying the principle of separation of powers. As a result, the system of checks and balances is out of balance. A simple measure to improve the transparency and functioning of the judiciary is making public all of the judicial decisions and implementing the access to information law. Approving the currently-pending judiciary mediation law could also relieve some of the pressure on the court system and reduce its current backlog (World Bank, 2017).

Illegitimate arms

Subsequent sections of this report will examine the issues related to crime and security, but this sub-section aims to illustrate the different elements that challenge the legitimacy of the state (politically and militarily). Despite the Taif agreement calling on all armed groups and militias to disarm, this did not happen. Perhaps the biggest threat to state legitimacy is the existence of arms and (heavy) weaponry in the hands of citizens and major political parties. Since Lebanon's inception, "the state never managed to monopolise the legitimate use of force in the state-controlled military and police, a *sin-qua-non* for any strong

state” (Atzili, 2010, p. 761).

In the absence of a strong state, the remnants of the civil war militarisation pose a genuine threat to the enforcement of law and order. For instance, Hezbollah has established a state within a state: a military wing, a political wing, social services to its ‘constituents’, and near full control of the south and some other parts of the country. The party makes decisions of peace and war without consulting the government, and in 2008 the group had used its weapons internally against fellow Lebanese citizens (BBC, 2008). Most recently, the armed group has unilaterally decided to undertake military action in Syria and get involved in its war. This move not only puts Hezbollah’s Lebanese forces at risk, but also jeopardises the stability of the country as a whole. Albeit for strategic and political reasons, the current Prime Minister has been explicit about his objection to the group’s illegitimate arms and involvement in Syria (Reuters, 2017).

Admittedly, Hezbollah is not the only party with illegitimate arms. There is evidence - documented by the Lebanese media – that most other political leaders have weapon stocks and armed personnel for their “personal security”. Some parts of the country still maintain tribal traditions (mainly in the North-Eastern Bekaa valley) which operate outside the realm of the state. They defy the judiciary, believe they are untouchable, and resort to violence to resolve quarrel. The Palestinian refugee camps also bear some armed and violent cells. The Lebanese army does not enter these camps as they do not fall within the Lebanese jurisdiction, and their security is delegated to the camp residents. As a result, many criminals have taken refuge inside these camps (Zaatari, 2005).

Accordingly, the very existence of trans-national armed groups (such as Hezbollah, the Palestinian Liberation Organisation, and extremist groups such as al-Qaeda) is both a cause and a result of the state’s weakness and illegitimacy (Atzili, 2010). Such organisations could not have survived and prospered without a popular support base. Given the country’s sectarian divisions, each faction has lent its undivided support to non-state actors². The vacuum created by the absence of the state in the provision of public services also created the space for non-state actors to use it to advance parallel agendas. When challenged on the expansion of its infrastructure, like building a separate landline network in 2008, Hezbollah used their weapons against groups of the society that opposed them politically (Atzili, 2010; Abdul-Hussain, 2009; Kindt, 2009).

To sum up, Lebanese state legitimacy is challenged by a multitude of factors. Primarily, the extension of the 2009 parliament’s tenure without holding an election undermines the legitimacy of the legislative branch of power to the citizens. Only recently, the parliament has ratified a new electoral law that follows the proportional system – an improvement over the previous law. Therefore, the current challenge is to ensure the elections are held in their new proposed system in May 2018. It is equally crucial that the elections are fair and transparent, and that vote-buying practices are prevented, monitored, and punishable.

² Some political leaders are state actors (MPs, Ministers, etc.) who have formed a support base out of religious clans to advance their personal interests. While they do theoretically play a role in the state’s governance, people’s allegiance is to these people (personally) and not the state or the ideology they represent.

Importantly, the judiciary power currently lacks the integrity to uphold the law and protect the constitution. Evidence suggests that political interference in the running of the courts hinders the judicial power in holding the government and state officials accountable for their actions, but also weakens the fair and equal application of the rule of law on all citizens. Combined with a weak police force, security and order is being upheld at the personal or private level, further weakening the state's legitimacy and coercive authority. In fact, most of the current challenges that contribute to Lebanon's fragility stem from the widespread corruption. In this regard, the civil society has achieved significant breakthroughs in shedding the light on corrupt practices via its media outlets, and bringing these cases to courts. More support, therefore, should be given to the civil society's efforts. Policies need to be implemented to protect the judiciary from political intrusion and encouraging it to hold the state accountable for breaching the law.

Finally, the existence of illegitimate arms with the citizens, political groups, and militias poses a significant threat to the state's legitimacy. Instrumental in rebuilding this legitimacy is re-monopolising the use of force in the national army and security forces. The existence of transnational-armed groups, such as Hezbollah, makes immediate policies less amenable in this dimension of state fragility. The government has had several sessions of national dialogue on how to co-exist with Hezbollah without undermining the Lebanese state. However, the armed group continues to exercise force both internally and externally without governmental consent. While this issue clearly requires a sustainable solution, it is evidently more complex and intricate for internal policies to achieve.

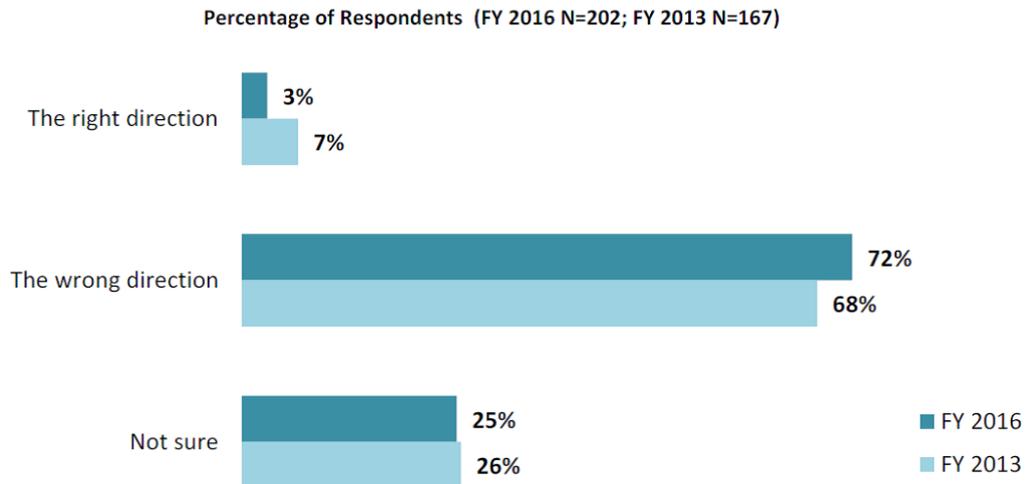


Ineffective state with limited capacity

3

Figure 1 shows that over 70% of the people surveyed in the World Bank's Country Survey in 2016 think that the government is headed in the wrong direction, a 4% increase from the 2013 survey (World Bank, 2016). This illustrates the people's lack of trust in the government, its capacity, and its legitimacy. Furthermore, 66% of people think that the government works inefficiently in 2016 as opposed to 46% in 2013 (World Bank, 2016). The Lebanese economy has experienced periods of rapid economic growth (measured by GDP), but in the recent years has seen a steady decline. This is not surprising due to its high levels of corruption, lack of governance, poor infrastructure, large numbers of refugees, and spillovers of the Syrian war. The Global Competitiveness Report (World Economic Forum, 2017) ranks Lebanon 101 out of 144 countries. This is a steady deterioration from 89 in 2011, 91 in 2012, and a slight improvement from 103 in 2013 and 113 in 2014. Furthermore, the report ranks the macroeconomic environment, institutions, labour market, and infrastructure as very low in Lebanon compared with the rest of the MENA region. However, health and education rank high in comparison with the rest of the world and MENA region. Interestingly, Lebanon's tax revenues hover in the range of 14-15% of GDP. However, the levels of corruption and leakages in the system mean that a large proportion of these revenues do not translate into public services.

Figure 1: Whether the country is headed in the right direction



Source: World Bank Country Survey 2013 and 2016

This section of the report aims to illustrate the capacity of the Lebanese in providing quality services and infrastructure, along with analysing the country's taxation, healthcare, and education systems.

Poor service delivery

Perhaps the following quote, from an expert at the United Nations in Beirut, summarises the situation of public services in Lebanon: "We're ruled by a kleptocratic, corrupt class. Why they don't fix the electricity? They won't! They give it to their constituents for free and use this for their popularity and to win votes. [. . .] This is a structural deficiency; it's serious, it has been like this for 23 years. Accidents you can always survive, this structural deficiency is much more problematic than the Syrian situation or an explosion or assassination." (Stel & Naude, 2015)

In a violation of the social contract between the state and the people, the successive Lebanese governments failed to provide quality public services to citizens. The country's infrastructure is inadequate and requires rehabilitation (World Bank, 2013). According to the Urban Development Transport Project of the World Bank, Lebanese people spend an average of 720 out of 4,380 day-hours on the road (Arab Weekly, 2016). Government officials suggest, "the traffic in Lebanon is largely caused by the big volume of cars exceeding the capacity of the road network" (Arab Weekly, 2016). After the 2006 war, Qatar and other gulf nations pledged financial support for the government to reconstruct some of the destroyed infrastructure. The World Bank, and other donors, have supported the country in multiple projects both nationally and at the municipality levels, but efforts need to be multiplied in order to achieve decent roads, water networks, drainage, etc.

In recent years, Lebanon has experienced a devastating garbage crisis. Despite the fact that waste collection and disposal is the duty of local municipalities, this task has been contracted with private company Sukleen in

1994 (Revolve Media, 2016). After the civil war, a large landfill in the centre of Beirut (the Normandy) had overflowed and had to be closed. As a result, garbage disposal was moved to the southern side of the city in the Naameh landfill, in what was to be an emergency and temporary measure. Reports suggest that by 2015 the government was paying around \$147 per ton of garbage to Sukleen while the global average was \$75/ton, and the regional average \$40/ton. All the while, the government had not liberated the funds in the “independent municipal fund” that would allow the local municipalities to undertake their obligations of collecting and disposing of the garbage within their areas.

After multiple expirations of the Sukleen contract, the government was set to renew it once again in 2015 despite a public outrage and protests against this unlawful practice. This crisis was culminated in 2015 with the garbage crisis, where Sukleen’s contract had run out, and the government (then a provisional government) failed to hold transparent procurement procedures to commission a safe, efficient, and sustainable garbage collection company. Indeed, the World Bank (2017) recommends the government to ratify the public procurement law that was revised in 2013. Due to this, the Naameh landfill was shut down in response to the public outcry, Sukleen stopped collecting household waste, and as a result, the garbage had filled the streets. In response, the government executed another emergency plan: the Naameh landfill was reopened against the will of the residents who had voiced their health concerns. These landfills are often on the border of the Mediterranean Sea, rivers, and groundwater reservoirs, thus risking water pollution – evidence of which has indeed surfaced (DW, 2017).

Another long-standing problem in Lebanon is electricity. The power cuts began during the civil war. Despite many attempts to reform the corrupt electricity institution of Lebanon (EDL), households still face frequent and often long spells of power cuts (Washington Post, 2016). The government strategy throughout the years was to sell electric power at a flat tariff that has not changed since 1994 (Bouri & El Assaad, 2016). This sector is plagued with corruption and costs the national budget substantial losses. “Subsidies to domestic electricity production in the form of direct payments to EDL have been increasing in Lebanon over the last three decades. They increased from \$62 million in 1998 to \$2.026 billion in 2013, implying an annual compounded growth rate of 26.17%.

Moreover, EDL losses impose one of the largest burdens on the public budget. In 2013, electricity subsidies reached \$2.20 billion or 14.85% of the government budget. This sum is equivalent to more than 21.5% of national revenue or 4.6% of national GDP. It also contributed an astonishing 3.2% of the national debt burden” (Bouri & El Assaad, 2016, p. 4). Most households (estimated at around 85% of the population) rely on private generators or the local rural and urban cartels that provide power from a large generator with very high prices and low wattage. While households pay the public utility bill for electricity at around 9.58 US cents per kWh, it is estimated that they pay around 45 US cents per kWh to the private operators (Bouri & El Assaad, 2016). EDL is over \$4 billion in debt, and collects less than half of its utility bills, while private generators and their benefactors make around \$1 billion annually in profits (Lebanese Transparency Association, 2015). As a result, the current Minister of Energy has recently resolved to restrict the illegitimate power providers by

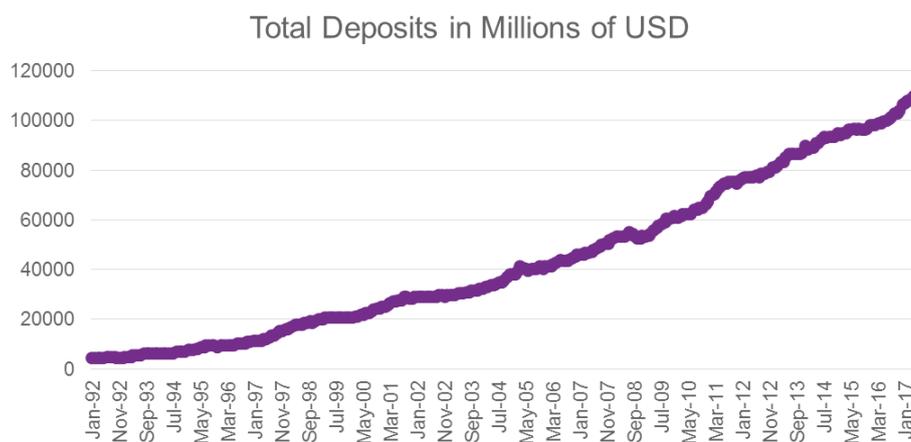
obliging them to install metres and abide by laws enforced by the government (The Daily Star, 2017). It is recommended that the government also put in a place procedures to ensure sustainable power generation. For instance, the World Bank (2017) recommends gas-run power generation as one of the priority reform areas in Lebanon.

Further examples of corrupt sectors include: tele-communications, water services, and urban planning. Perhaps, the most sustainable strategy to improve the quality of public services is through decentralisation of service provision. In fact, despite their limited capacity and hindered access to the “Independent Municipal Fund”, most municipalities have much more legitimacy (than the state) to their constituents as they are personally known to them with frequent interaction.

The economy and taxation

The central bank managed to stabilise the Lebanese Pound after a currency crisis in 1992, and led an excellent monetary policy ever since. Even during the global financial crisis of 2008, Lebanon was among the very few countries that not only had been fairly shielded against its ramifications, but also experienced high and steady economic growth for several years. The fixed exchange rate regime (fixed against the US Dollar) adopted by the central bank served to stabilise expectations and restore confidence in the domestic currency (Figure 2). The pound-dollar pegged system, as well as attractively high interest rates, managed to draw foreign investment and bank deposits. Furthermore, the banking system enjoys a large degree of banking secrecy as well as a strong anti-laundering commission, appealing to many investors. However, “the growth of non-resident inflows has been slowing, from an average of 21.5 percent during 1993–2002 to 16.2 percent during 2003–11 and to an average of 7.4 percent since 2011 and the onset of the Syrian crisis” (World Bank, 2016, p. 91).

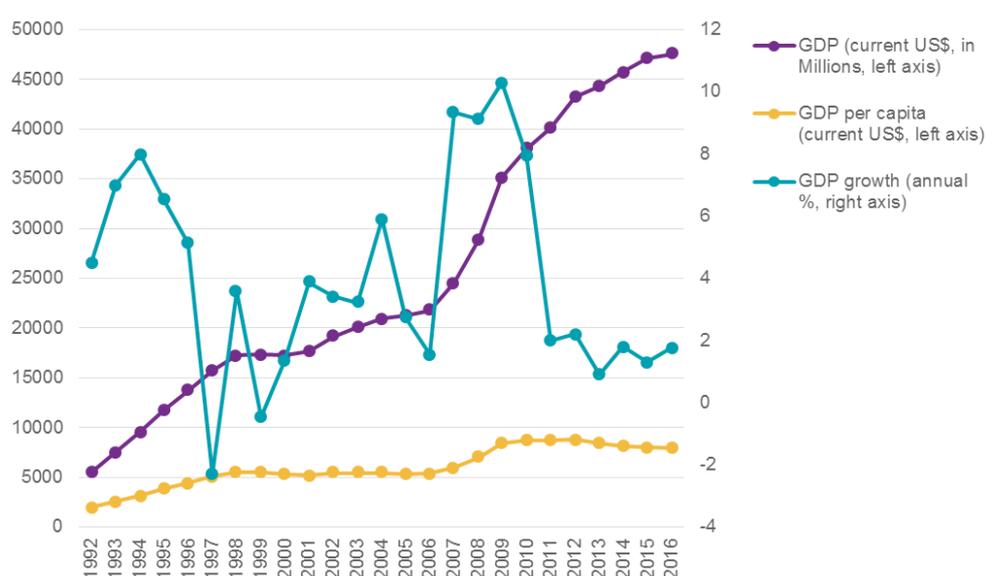
Figure 2: Monthly Total Deposits in Millions of USD



Source: Banque De Liban

Figure 3 shows the GDP, GDP per capita, and GDP growth in Lebanon. While this is illustrative, and does not control for any other factors that may explain GDP growth, the figure shows that at around each conflict event or security breach³, there had been a reduction in growth. Since 2010, the level of GDP had increased but the per capita GDP and rate of growth have decreased. Notwithstanding, even during periods of growth the economy did not create sufficient (and decent) jobs, leading to increasing levels of unemployment and youth emigration (UNDP, 2017). In addition, the Lebanese public debt has reached 138% of GDP in 2015. The IMF suggests that in the absence of corrective action this is likely to increase, and to crowd out public investment and social spending (IMF, 2017). The budget deficit further perpetuates the problem. According to the Finance Ministry, the budget deficit in the summer of 2016 was at around 27% of spending – a several points increase from 2015. The fact that the parliament has not passed a budget for the past 12 years further exacerbates the issue.

Figure 3: Gross Domestic Product of Lebanon,



Source: World Development Indicators, World Bank

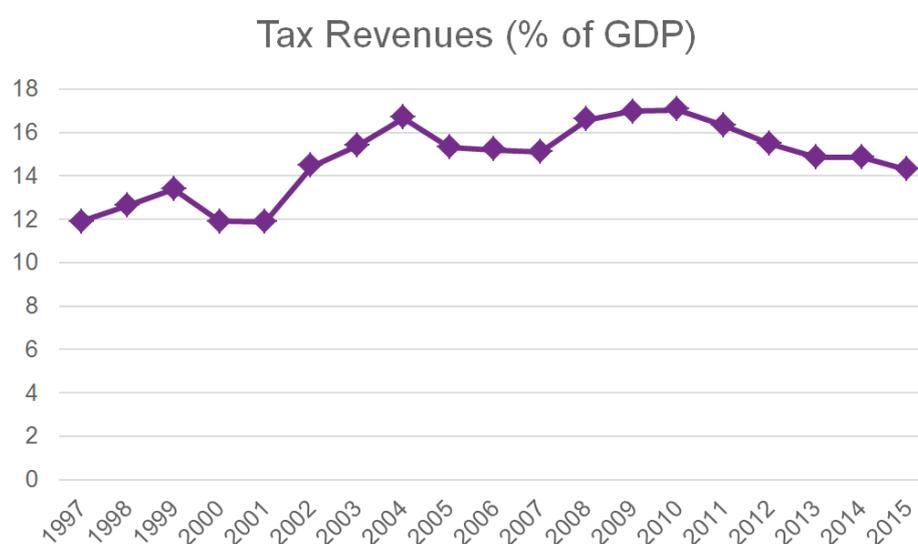
The parliament approved the budget and increased taxes in 2017. Indeed, approving the budget in a manner that ensures a primary surplus must be a priority for the Lebanese government (World Bank, 2017). In October 2017, the parliament passed a tax bill that increases the VAT to 11%, from its previous 10% level, along with a basket of taxes. The increase in taxes is sensible in order to meet the budgetary needs of the government in terms of public investment, spending, and most importantly the public sector salaries, as well as starting a sustainable path to reduce the public debt. However, the leakages within the system spur doubts among citizens around these taxes' effectiveness.

It worth noting that the tax revenues have hovered in the region of 12 to 18

³ 2005: assassination of Rafic Hariri, 2006: war between Hezbollah and Israel, 2007: war with radical groups in the north, 2011: Syrian war and influx of refugees.

percent since the 1990s as shown in Figure 4. These figures are around the IMF recommended minimum of 15% tax revenue to GDP ratio. Nevertheless, these tax revenues have not translated into sound public policies. Indeed, without transparent governance and government spending, tax revenues would not improve the ability of the government to deliver services or finance its debt. Furthermore, tax evasion remains very high. A recent study suggests that tax evasion amounts to more than \$4.2 billion annually (Daily Star, 2017). According to the head of the research department of Bank Audi, given the level of GDP of around \$50 billion, of which two-thirds are salaries and wages, the estimated tax revenue should be approximately \$3 billion, while the government collects less than half of this figure (Daily Star, 2017).

Figure 4. Tax Revenues in Lebanon (% of GDP)



Source: World Development Indicators, World Bank

Education and health

Lebanon enjoys a high level of human capital and evidence suggests that higher education levels result in higher earnings in the Lebanese labour market (World Bank, 2017). “Lebanon invests heavily in its human capital, especially in education, primarily through high private spending. The quality of the (privately dominated) education system is high, ranking 13 out of 122.” (World Bank, 2016). Private school and higher education dominate the market, offer better pay, and attract high calibre teachers. This results in a gap between public and private quality. The public education sector is largely inefficient and unequal. Public school teachers’ salaries are poor and two-tiered. As of this report’s publication, the current salary scales bill, ratified by parliament, raised the teachers (and public servants’) salaries to match the cost of living. However, this sector is in need of major reforms in recruitment, management, and institutionalising the information system to promote better planning (World Bank, 2017). The World Bank (2017), in its priority reforms suggestions to the Lebanese government, suggests better planning and allocation of teachers according to high-need

subjects and geographic areas, as geographic inequalities also plague the educational system.

In healthcare, private hospitals and medical centres are generally better equipped, attract a higher calibre workforce, and offer better pay than their public counterparts. The private healthcare bill is however very high, especially given the reliance on direct payments for healthcare. Consequently, this deprives many people of adequate care or forces them into poverty (World Bank, 2017). Private healthcare centres often reject patients because they are unable to prove an insurance cover or their ability to pay themselves. Indeed, less than half the population is covered by a health insurance scheme. Among those who are insured, “about 23% are covered by the National Social Security Fund (NSSF), 9% by military schemes, 7% by private insurance, 4% by the Civil Servants Cooperative (CSC) and 4% by other schemes” (World Bank, 2017).

Those who are not covered by a formal scheme resort to coverage from the Ministry of Public Health, which has stringent requirements on healthcare provisions. These factors allowed for the privatisation of the insurance market and created further inequalities between the citizens in the quality and access to healthcare. The government is currently investing in building the capacity of around 35% of primary health centres, and providing subsidies on healthcare for many, but not all, of those living in extreme poverty. There is a strong recommendation for the government to ensure universal health care coverage for all the citizens who live below the poverty line, expand coverage of treatment services, and meeting the health needs of the elderly (World Bank, 2017).

In conclusion, the evidence suggests that state capacity in Lebanon is largely ineffective. Primarily, this is because of the corrupt governments that have not invested in infrastructure, service delivery, and wellbeing of the citizens. Despite tax revenues of around 12% of GDP, the government failed to refinance the public debt or to implement a solid public policy. For instance, the 2015 garbage crisis portrayed the inefficacy of the government in creating transparent and sustainable solutions for a basic service. Similar evidence can be gleaned from the failure in providing full coverage of electric power over the years, despite repeated efforts to do so.

In spite of the poor governance, the Lebanese economy enjoyed a stable currency due to the central bank’s robust monetary policy. However, the public deficit represents around 27% of public spending. Further, the public debt exceeds \$69 billion and represents around 138% of GDP (using 2015 figures). Without corrective policies, further increases in public debt would crowd out public investment and government spending. Notably, the government approved the budget of 2017, after 12 years of not doing so, and introduced new taxes. This being said, without limiting the corruption and leakages in the system, these taxes are unlikely to improve public services.

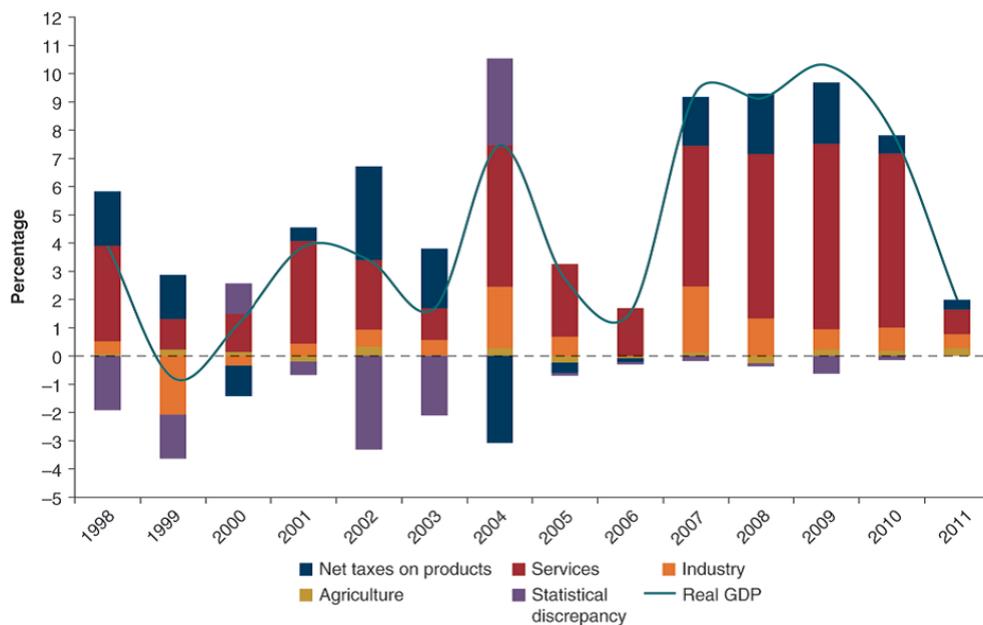
Finally, the country enjoys a good calibre of educational and healthcare institutions, but has a large gap in quality between the public and private services, because of higher wages in the latter. The inequality in pay between public and private sectors leads to the concentration of talent in the private domain. Given the high cost of education and healthcare in the private sector, poorer citizens do not have access to quality services. Therefore, it is recommended to ensure universal health care coverage to all citizens who live below the poverty line.

The private sector: A source of resilience

4

A large contributor to Lebanon's GDP is the services sector, which predominantly is a private sector. Given the country's mercantile heritage, the private sector has often searched abroad for opportunities and the large Lebanese diaspora facilitates the connection with the rest of the world (World Bank, 2016).

Figure 5: Percentage of each of the sectors of real GDP



Source: World Bank Poverty Reduction and Shared Prosperity Report (2017), Data from Central Administration of Statistics, Lebanon.

The services sector mainly operates in commerce, tourism, financial services, health care, and education. Indeed, the country is home to some of the Middle East's finest and oldest academic institutions, such as the American University of Beirut, which attracts pupils from around the globe and notably from the Arab region. Home to around 2000 international students from 75 countries, this university takes pride in its diversity where one in every four students comes from

abroad.

The country also has highly qualified doctors and health care professionals. This makes this sector highly tradeable within the country and regionally. Tourism has also long been a strong sector within the economy, but is very sensitive to the political environment. It has long been argued that the country's heavy reliance on tourism is dangerous especially in a volatile region/neighbourhood. The country received a record high number of tourists in 2009 to 2011, surpassing its previous 1974 record; however, the inflow of tourists declined significantly after the onset of the Syrian crisis (Cali, Harake, Hassan, & Struck, 2015).

Since the 1950s (with an interruption during the civil war), Lebanon had been the centre for financial services in the Middle East region. During the oil boom in the 1960s, most petrodollars were sent to Lebanese financial institutions (Embassy of Lebanon, US, n.d.). Indeed, the financial sector has been one of the most successful sectors of the economy. The banking sector was, largely, the main driver in rebuilding Lebanon after the civil war. In fact, during the post-war period, the commercial banks financed the government reconstruction projects.

It is estimated that 80% of the public debt is held by local financial institutions – which comes at the expense of private sector development (World Bank, 2016). These banks and financial institutions, however, do not pay their fair share of taxes on their massive income and wealth. A recent proposal for a new tax law included taxing these institutions with around \$250 million out their yearly estimated \$2.2 billion revenues. While the role of these institutions is recognised as very crucial to the Lebanese markets, strategies must be adopted to encourage them to pay their fair share to strengthen the public sector's delivery of services and enhance public-private partnership.

In addition, this dynamic private sector faces a challenging political environment given the widespread corruption in public institutions. The World Bank's Shared Prosperity report (2016) suggests that the main challenge is to separate the private sector from the sectarian clientelistic environment in Lebanon. This can be achieved by promoting transparency and equitable distribution of investment within the country. Currently, the private sector, despite its prominence, reinforces inequalities within the country by aligning itself with political and sectarian players (World Bank, 2016).

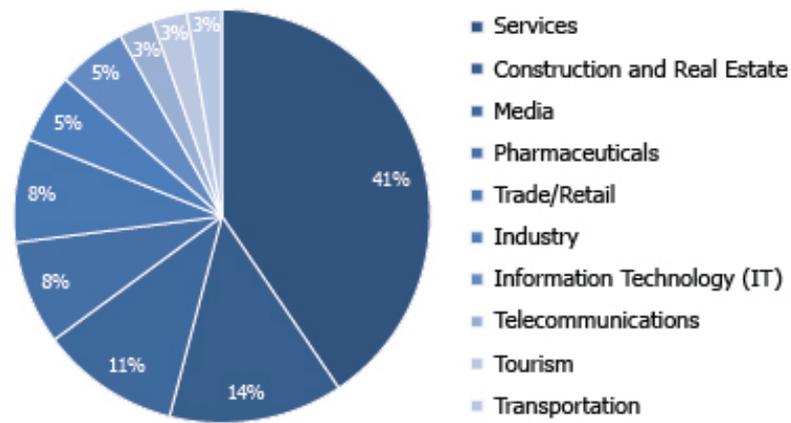
Despite periods of economic growth, the private sector failed to create jobs or reduce unemployment (World Bank, 2016). Estimates show that around 90% of private firms are small (less than 50 employees, and most have less than five). These firms employ around 70% of the active labour force, and contribute around 80% of the GDP (Bertelsmann Stiftung, 2016). However, the red tape, bureaucracy, corruption, limited access to credit or public finance, and poor infrastructure hinder the growth of small enterprises. The start-ups, and small and medium enterprises (SMEs), find it difficult to penetrate the market due to a relatively undersized stock market and lack of government support (Bertelsmann Stiftung, 2016). As a result, SMEs generally rely on commercial banking loans.

Recently, however, the ministry of economy and trade, central bank, and other key actors with the support of international organisations, have made serious efforts to encourage micro, small, and medium enterprises, e.g. by launching the SME Forum 2017. More efforts remain to be done to make available financing plans for start-ups, infrastructure projects, and public-private partnerships

(UNDP, 2017).

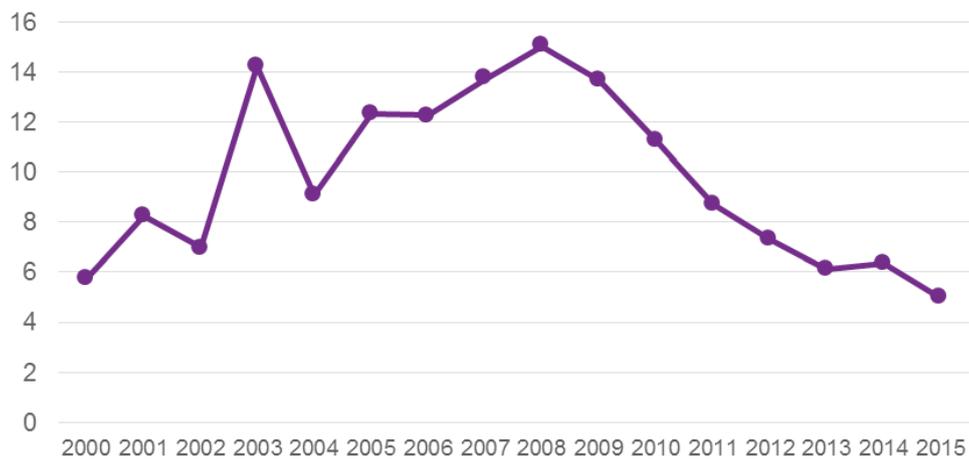
In terms of foreign investment, the United Nations Conference on Trade and Development (UNCTAD) ranked Lebanon among the top 10 countries for FDI attraction in 2011, and among the 3rd quartile for FDI potential. As shown in Figure 7, however, the FDI inflows have reduced over the course of the Syrian war and due to the economic slowdown in the GCC⁴ countries, despite the EU maintaining close investment relations with Lebanon (IDAL, 2016). However, between 2015 and 2016 FDI increased by around 9% to reach \$2.5 billion. The foreign companies are mainly concentrated in the services and real estate sectors as shown in Figure 6.

Figure 6: Distribution of Foreign Companies by Sector in Lebanon (2016)



Source: Ministry of Economy and Trade, fdi intelligence

Figure 7: FDI Net Inflows as % of GDP



Source: World Development Indicators, World Bank

⁴ Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

While the private sector is strong in Lebanon, it faces many challenges and requires certain reforms. As a priority, more support is needed in terms of financing and supporting innovation. This can be achieved by strengthening public-private partnerships and introducing policies that are conducive to the growth of start-ups and small enterprises. Certainly, given the state's limited capacity, a public-private partnership can help in improving public service provision, increasing innovation and competitiveness, and rehabilitating the infrastructure (World Bank, 2017).

Moreover, the private sector workers are not covered by a pension scheme. The employees are often given a (rather small) lump-sum end-of-service payment making them vulnerable retirees (World Bank, 2017). Further, the low public spending on education and the high prices in the private sector higher education institutions exclude the poorer and more vulnerable class of the population from quality education and eventually access to decent jobs. The private sector faces a high informality rate (50%), mainly concentrated in construction, agriculture, and commerce (ILO, 2015).

Decent working conditions have also been lagging. The sector has a significant portion of the population working long hours, with low wages, without health and social security benefits, and often without formal contracts. Therefore, to reform the private sector, it would be crucial to introduce private sector pension schemes, improve labour laws, reform taxation on large financial institutions, and strengthen public-private partnership.

Security

5 Internal instability

5

In the recent years, Lebanon experienced several forms of conflict. In the period between 2005 and 2013, there were 25 assassinations or attempts thereof. The fatalities included a prime minister, ministers, members of parliament, members of the security and intelligence units, vocal journalists, and of course untargeted civilians. Although a special tribunal for Lebanon was established at the Hague to investigate Hariri's assassination, there has been minimal findings from public inquiries. Media leaks suggested they may be members of Hezbollah, and the tribunal has subpoenaed some alleged suspects, but has not yet provided conclusive evidence on the case.

In summer 2006, Hezbollah engaged in a war with Israel without consulting the national government. The war lasted for a little over a month but led to colossal damage throughout the country (but predominantly in the southern districts), many casualties, and mass migration within the country. In May 2007, a terrorist cell was found in a northern Palestinian refugee camp "Nahr El Bared". Over the course of four months, the Lebanese army attacked the radical group named "Jund El Sham" and successfully cleansed the camp of these cells.

A year later, in May 2008, the government moved to dissolve Hezbollah's telecommunication and surveillance network and fire an airport official with ties to the party. Hezbollah demanded the government to back down from its position, which the group regarded as a declaration of war. As a result, its military-wing took to the streets with heavy weaponry, through West Beirut (a predominantly Sunni area) and parts of Mount Lebanon, and caused a number of civilian fatalities. Consequently, an agreement was signed in Doha, Qatar, under the patronage of its Emir to ease the political hostility that had led the country to this point. The agreement also sponsored the election of a new president and a temporary restoration of the parliamentary functioning.

Between 2011 and 2015, recurrent clashes also occurred in the poor and marginalised Northern towns of Bab El Tebbaneh (Sunni town) and Jabal Mohsen (Alawite town). These conflicts stem from civil war rivalries, support to the Alawite Syrian government, and sectarian divide between the two towns. As a result, hundreds of casualties have been incurred on both sides.

Apart from organised violence, Lebanon's crime rates had escalated recently. Situations of blatant lawlessness occurred throughout the country: violent personal quarrels, murders in broad daylight, road rage leading to fired shots, ransom kidnapping, as well as numerous conflicts with Syrian refugees.

Spillover from the Syrian war

In 2014, the Lebanese army engaged in violent conflict with Al Nusra Front and Daesh who had spilled over from Syria into the northern eastern town of Aarsal. The army launched a series of offensives against the group and pushed them into the border mountains. However, Daesh militants had kidnapped eight soldiers. In the summer of 2017, the conflict restarted. Hezbollah attacked terrorist groups, mainly from the Al-Nusra group, that had leaked from Syria. Meanwhile, the Lebanese army launched a war against Daesh terrorist cells that had infested the mountainous areas along the North Eastern border with Syria. As a result, the terrorists were eliminated from the area, and the bodies of the eight kidnapped soldiers had been returned.

Syrian refugee influx

Recent estimates suggest that Lebanon hosts around 1.5 million Syrian refugees that have fled the war in Syria. This is a large number for a host population of around 4.5 million, making it the largest refugee (per capita) hosting country. The refugees themselves are, of course, not the problem. The real issue is a state with debilitating capacity that cannot offer its own citizens good and reliable governance and service delivery, so how can it provide for a sudden influx of millions of people? The international community's response was disproportionate to the size of the crisis. That said, the country received large amounts of funding from donors, states, and international organisations for strengthening its capacity to host these refugees and to ensure they receive the basic and necessary services for their return to Syria in the future.

Lebanon is not a signatory to the 1951 Refugee Convention. Nevertheless, the country maintained an open-door policy towards Syrians, but refused to recognise them as refugees. Indeed, in almost all public communications the government refers to refugees as migrants, therefore denying them the rights that status would give them. Given a long history between Lebanon and Syria, it was anticipated that sensitivities would arise between the two people. Some groups of the population are more vocal in their opposition to hosting these refugees, and others argue that the refugee crisis negatively affected an already fragile labour market. From the limited studies that have emerged so far, evidence on the effect of the refugee influx is inconclusive. A World Bank report suggests that the crisis has improved trade in the country because of border restrictions⁵, and the increased demand from the influx of refugees contributed at least partially to the strength of services export and local production (Cali, Harake, Hassan, & Struck, 2015).

However, the Syrian crisis and influx of refugees have certainly affected the tourism industry. As noted previously, Lebanon is a tourism and services focused economy. Therefore, the bans and cautions against the region and the uncertainty about Syrian war spillovers decreased tourist numbers by around a quarter in 2011, which declined further after 2012 (Cali, Harake, Hassan, & Struck, 2015).

⁵ Lebanon's only open land border was through Syria

Some media reports suggest increased crime from Syrian refugees; however, these have not been substantiated with robust causal evidence (The Atlantic, 2013). Violence from the Lebanese side against the Syrians have also been documented. For instance, in recent months the army raided an informal Syrian settlement in the Bekaa area and detained four Syrian refugees. The four refugees died in custody amidst a lot of uncertainty on whether they were tortured or killed by the security forces. As a result, Syrians attempted to organise a protest against the Lebanese security forces, which was met with increased violence and discrimination from the host communities. Such events have exacerbated the existing tension between the two groups, which in turn intensifies the state's fragility. A thorough account of the socio-economic consequences of the Syrian refugee influx is beyond the scope of the report, however, in relation to the state's capacity and security, it is clear that the sheer number of Syrians in Lebanon stretches the infrastructure and resources very thin.



Resilience

6

Political unrest along with security breaches and threats from neighbouring states pose a high risk to Lebanon's stability. Paradoxically, some of the issues that are the symptoms and causes of Lebanon fragility are themselves serving as a shield to its "stability". The intricate composition in Lebanon means that governments need to include all the factions in order to be formed and functional. Despite leaders following their own narrow economic and political interests, seeking rents, and monopolising this shared power among them, the sectarian divide leads people into believing they are represented. This sense of sectarian and political self-preservation offers the current status quo a sense of resilience, despite its weaknesses. In some respects, the religious pluralism and shared political power in the hands of the few, prevented the existence of a single dictator as is the case in many of the MENA countries (Tueni, 1993).

In addition, the post-war legacy created a social dynamic and ethno-religious identity that translated militias into political parties. Despite its conduciveness to mobilisation and insurgency, this creates strong and cohesive communities that support each other (Rizkallah, 2017). Furthermore, while the presence of arms in the hands of the people also poses a huge challenge to the state's fragility, the existence groups, such as Hezbollah, insures that no other group revolts violently or a military coup occurs, which has happened in several neighbouring countries following the Arab Spring.

Finally, a major contributor for Lebanese resilience is the Lebanese expatriates. It is estimated that there are around 14 million Lebanese people overseas, more than three times the resident population. Ever since the civil war, the diaspora formed a resource that the country relies on at the time of need. Their sizeable remittances and investments in the country offer an economic buffer at a time of need. The educational system and the high human capital of the Lebanese, inside and outside Lebanon, has also contributed to the resilience of the economy and flourishing of the private sector. In turn, the dynamic and solid private sector, particularly the financial one, has withstood several shocks and turned challenges into opportunities. While these sources of resilience have contributed to the survival of Lebanon in history, the country remains vulnerable to political shocks and insurgency.

Conclusion and policy recommendations

7

This report aimed to describe the proximate causes and consequences of Lebanon's fragility. After describing the initial conditions that led to its collapse in 1975, and the framework through which it had escaped, the report discusses the current roots of state fragility along five dimensions: legitimacy, capacity, private sector, security, and resilience. The report is timely in that it comes at a time that Lebanon has finally escaped the stalemate that it had experienced in recent years. The recommendations that follow aim to capitalise on the current status quo for the country in order that it emerges from its fragility and onto a sustainable development path towards prosperity.

To summarise, the civil war of 1975 erupted due to spillovers from the Palestinian conflict, the uneven distribution of the economic gains achieved before that period, sectarian rivalries, and poor institutions. Towards the end of the civil war, the Taif agreement was brokered by Saudi Arabia and other international powers. The agreement called for the reconstruction of the state and the disarmament of the militias, and redistributed the power among the different religious factions. While the agreement, contributed to the end of the war, its recommendations were not fully implemented. After the war, the strong and dynamic Lebanese private sector had a positive role in reconstructing the country and financing most of the post-war projects.

State legitimacy

The report then describes the elements that undermine state legitimacy, namely, the electoral law, the judiciary, and the illegitimate arms. In a positive step forward, a new electoral law under the proportional system was ratified in 2017. The report recommends that policymakers build on this achievement and ensure that the elections are held during their proposed date (May 2018) in a fair and transparent manner.

Furthermore, following a discussion on the weak system of checks and balances, the report recommends for the protection of the judiciary from political interference. The civil society and media outlets in Lebanon have taken serious

steps to bring corrupt practices and violations in the law to court. Therefore, supporting the civil society in holding the judiciary and the government accountable could strengthen the system of checks and balances. It is equally important to implement policies that would strengthen the police to restore the legal and coercive capacity of the state without violating human rights.

Another factor that undermines state legitimacy is the existence of illegitimate arms and transnational militant groups. While this issue requires a sustainable solution, it is admittedly less amenable than other recommendations in this report. Indeed, the government has held a series of dialogues in order to establish the role of Hezbollah and its military capacity, but could not reach a consensus on the issue. In order to achieve this goal, an international cooperation would be required to stabilise Middle Eastern politics in general.

State capacity

In terms of state capacity, the state, through its successive governments has not achieved an adequate level of service delivery. The corruption and venality in the public sector (for instance, waste, water, transport, electricity, telecommunications, and others) have resulted in poor infrastructure and dissatisfaction of citizens with their governments. In terms of service provision, one amenable solution is to take serious steps to decentralise power and delegate some of the duties to the local governments. Indeed, municipalities have a legal obligation in providing services such as waste collection and disposal. Therefore, liberating the 'independent municipal fund' would allow the local governments to implement policies and carry out their duties.

Despite the poor governance and violent events, the Lebanese economy had some periods of prosperity. The currency has been stable since 1992 and the GDP growing, largely due to a robust monetary policy by the central bank. However, Lebanon has a public deficit of around 27% of public spending and a public debt that represents around 138% of GDP (using 2015 figures). Since the government has not had a budget since 2005, a major recommendation of this report is to approve the budget in 2017 and to take measures to reduce the deficit. While the government is set to introduce new taxes this year, it is unlikely that public services or the deficit would improve without limiting the corruption and leakages in the system. In an effort to reduce corruption, the Lebanese Transparency Association has pressured the parliament to ratify the access to information act in 2017. Therefore, it is essential to support the anti-corruption efforts led by some state actors (e.g. MP Ghassan Moukhaiber) and the civil society in order to end bribery, clientelism, and favouritism.

In terms of social protection, the report recommends that the government introduces universal healthcare for all households below the poverty line and improves the quality of public healthcare and education services. Currently, quality healthcare and education are mostly provided by expensive private institutions, leading to poorer households being marginalised, as they are required to choose between lower quality public services or incur a bill they cannot afford.

Private sector

While the state has limited legitimacy and capacity, it hosts a vibrant and strong private sector. In many ways, the private sector offers a source of resiliency that keeps the country afloat. This sector has been attractive for foreign investment and has often searched abroad for opportunities through the large Lebanese diaspora. Furthermore, the banking sector has been effective at attracting petrodollar deposits due to its favourable reputation in the region and the banking secrecy in which it operates. In fact, it is estimated that 80% of the public debt is held by local financial institutions, which have also helped the government rebuild the country after the civil war.

However, the strength of the commercial banks has given them the advantage of negotiating lower tax rates. The current tax reforms suggest that the large financial corporations will be liable to pay their fair share. This policy would be useful in order to finance the public deficit without effecting the poorer households or smaller firms. Indeed, in examining the private sector, evidence suggests that small enterprises constitute a large proportion of the private sector. In this respect, it is beneficial to the economy to support start-ups and SMEs by strengthening the public private partnership and facilitating access to credit.

Another challenge in the private sector, unlike the public sector, is the absence of a pension scheme. Retirees are often given a lump-sum end of service payment, leaving them vulnerable in their late stages of life. Therefore, it is recommended to establish a secure pension scheme that protects the elderly from being marginalised.

Security

Finally, one of the major concerns in Lebanon's fragility is its volatile security situation. After the civil war, Lebanon has experienced several conflicts that undermined its internal stability. What emerges from the discussion is that the existence of a strong militant group, such as Hezbollah, and the fragile security in Palestinian refugee camps pose an austere threat to Lebanon's stability.

This internal fragility is exacerbated by the on-going Syrian war and the Israeli-Palestinian conflict. In fact, Lebanese security has been aggravated by spillovers from the Syrian war. Most recently, the Lebanese army and Hezbollah battled against Daesh and Al-Nusra groups that have infiltrated the north-eastern parts of the country. On top of the security breaches, the large influx of Syrian refugees has caused frictions with the host communities and stretched the state resources very thin. Consequently, establishing long-term peace and security in Lebanon cannot be achieved without an international consensus to bring stability to the Middle East as a whole.

Resilience

Despite Lebanon's fragility along these four dimensions, there are many sources for its resilience. Paradoxically, many of the elements of Lebanon's fragility also

contribute to its resilience. The intricate sectarian composition, which constitutes one of the structural causes of Lebanon's fragility, creates resilient communities that support each other. This pluralism and shared political power also inhibits the existence of a single dictator, as is the case in many neighbouring countries. Furthermore, in terms of economic resilience, Lebanon has a dynamic private sector as well as a diaspora that has often cushioned it from collapse.

In conclusion, Lebanon must channel its strengths in the private sector and capitalise on its sources of resilience in order to prosper. While the stability of the country is directly tied to that of the surrounding region, these sources of resilience and growth can ensure economic, social, and political viability (World Bank, 2016), but only if the country manages to secure a suitable environment of peace, transparency, and quality institutions for resilience to turn into opportunities.

Table: Dimensions of fragility

Deep causes	Symptoms	Empirical proxies	Consequences	Amenable policies and solutions, given constraints
<ul style="list-style-type: none"> • Geography/ bordering countries • Sectarianism • Legacy of the civil war • Regional instability • Weak and inadequate institutions 	Limited state legitimacy	<ul style="list-style-type: none"> • Trust in government • Attitudes of compliance • Postponement of elections • Vacancy in presidency • Periods of political vacuum • Illegitimate arms • Judicial weakness • No checks and balances • Weak police 	<ul style="list-style-type: none"> • No budget for 12 years • Low tax revenue • Limited compliance • Low state capacity • No/poor legislation • Increased crime and risk of insurgency • Corruption • Disruption of democratic processes 	<ul style="list-style-type: none"> • Approving the 2017 budget • Ensuring the implementation of 2018 elections • Increasing data availability and transparency of information (reducing corruption) • Strengthening institutions and ensuring stable succession • Implementing access to information law • Publishing judicial decisions in the public domain • Approving judicial mediation law
	Poor state capacity	<ul style="list-style-type: none"> • State ineffectiveness • Lack of service delivery • Corruption • Tax evasion • Poor legislation • Limited social protection, despite recent improvement • Inefficiencies and inequalities in public education • Limited healthcare coverage 	<ul style="list-style-type: none"> • Poor state services • Poor infrastructure • Unattractive for starting business • Increasing poverty • High unemployment and emigration • Growth has not led to job creation • Some groups are marginalised in health and education • Widening the gap between the rich and the poor • Inequality of opportunities in health and education 	<ul style="list-style-type: none"> • Investing in transport and infrastructure • Investing in gas-run power generation • Ensuring new tax reforms are insulated from leakages in the system • Implementing necessary and overdue reforms to electricity • Decentralisation and giving municipalities their rightful powers and duties • Improving the poverty targeting programme • Increasing public spending on health and education following a well-constructed budget • Setting plans and targets for a reduced budget deficit and public debt
	Lack of Security	<ul style="list-style-type: none"> • Transnational violent groups • Palestinian Refugee camps • Insurgency of marginalised groups • Increased crime rate • Tensions between Lebanese and Syrian refugees • Spillover from Syrian war 	<ul style="list-style-type: none"> • Disorder • Volatile business environment • Tourism affected • Destruction of infrastructure • Weakening the state legitimacy and capacity 	<ul style="list-style-type: none"> • Reducing corruption within the security forces • Strengthening capacities of state forces (fund, human resources, and weapons) • Encouraging efficient and forward thinking dialogue among state actors within state institutions • Supporting the civil society in anti-corruption campaigns and endeavours. • More international support for the Syrian refugees

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	Private sector: a source of resilience	<ul style="list-style-type: none"> • Contributes 80% of GDP • FDI attractive environment (before Syrian conflict) • Good level of human capital • Good banking sector • Predominantly services driven • Large immunity to the 2008 financial crisis 	<ul style="list-style-type: none"> • Anchors the economy • Stable currency • Trade opportunities • Services sector vulnerable to internal and external political instability 	<ul style="list-style-type: none"> • Insulating the private sector from political interference and corruption • Supporting SMEs and improving public-private partnership • Reform private sector pension system • Promote equality in education and better opportunities for youth • Strengthening labour laws • Promoting decent working conditions
	Moderately resilient but vulnerable to shocks	<p>Vulnerabilities:</p> <ul style="list-style-type: none"> • Regional instability • Limited state capacity and poor legislative power • Limited risk of coups given the level of polarisation • Corruption • Poverty • Poor checks and balances <p>Resilience:</p> <ul style="list-style-type: none"> • Good human capital • Large and competitive diaspora • Good private and banking sectors • Strong and resilient communities (support system) 	<ul style="list-style-type: none"> • Unpredictable risk • Lack of confidence and security • Inhibition of a single dictator 	<ul style="list-style-type: none"> • Rebuilding institutions • Reducing corruption • Ensuring fair and transparent elections in 2018 • Widening civic participation • Involving the diaspora in local decisions (new electoral law allows voting of expatriates) • Encouraging foreign investment • Strengthening social protection in a non-political manner (e.g. employment guarantee schemes for infrastructure projects).

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