

BTI 2016 | Lebanon Country Report

Status Index	1-10	5.74	# 59 of 129	
Political Transformation	1-10	5.70	# 64 of 129	➔
Economic Transformation	1-10	5.79	# 60 of 129	➔
Management Index	1-10	3.90	# 97 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	4.5	HDI	0.765	GDP p.c., PPP \$	17462.2
Pop. growth ¹	% p.a.	1.2	HDI rank of 187	65	Gini Index	-
Life expectancy	years	80.1	UN Education Index	0.631	Poverty ³	% -
Urban population	%	87.7	Gender inequality ²	0.413	Aid per capita \$	139.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Regional conflicts, particularly the civil war in Syria, have had a significant impact on Lebanon during the period under review. Lebanese political parties' historical alliances with foreign powers (the "March 8" coalition with the Syrian regime and Iran, the "March 14" coalition with the Syrian opposition, Saudi Arabia and Western powers) have locked them into an increasingly intense regional game of domination that, having been set in motion, is difficult to control. These have also increased the polarization between the two principal political alliances that were created after the 2009 general elections and that currently share the responsibility of governing the country. This polarization has mostly been the result of: 1) the neutral role played by the Lebanese state as a neighbor in the Syrian conflict; 2) how the state addressed the Syrian refugee crises; 3) the risks being incurred by Lebanon as a result of large numbers of Hezbollah fighters supporting the regime inside Syria; and 4) the existing tensions between Saudi Arabia, the Gulf states, the United States, Turkey and Israel, on the one hand, and Russia, Iran and the Syrian regime, on the other (e.g., regarding Iran's nuclear program).

Domestically, Lebanon witnessed two general election postponements since 2013 due to a struggle over a new electoral law, leading de facto to a full term extension. It now appears that the next elections will not occur until 2017. It has also prevented the election of a new president (Michel Suleiman's term ended in May 2014), since some actors linked the two issues. At least Tamam Salam, who was entrusted by the parliament with forming a government, has served as prime minister since February 15, 2014 and enjoys the support of the "March 14" and "March 8" coalitions. However, Lebanon today is marked by a confession-based political system that gives political leaders and their parties' tremendous power at the expense of institutions and the citizenry.

Weak governmental institutions, a polarized regional and local landscape between Sunni and Shi'a, the lack of political agreement on policies to address important economic and social issues, the inability to effectively tackle rampant corruption, in addition to the prohibitive cost of hosting the largest refugee population since the second World War, has further intensified internal tensions

and disagreements leading to a standstill in reforms and appointments of top government positions. In the fields of economic and financial policymaking, as well as addressing the deficient infrastructure, progress has remained relatively slow during the last years. Additionally, the Syrian civil war and the refugee crisis have put crucial infrastructures, and the education and health systems under extreme pressure.

Efforts by civil society and private organizations to palliate the weakness of government institutions are commendable, but insufficient given the increasing needs of impoverished Lebanese as well as Syrian refugees and decreasing international support. The relative internal stability offers an opportunity for growth and development that Lebanon has yet to fully take advantage of. While internal political agreement has yielded positive outcomes in allowing the army to stop, at least for now, fighting in the city of Tripoli and on the north-eastern border of the country, political reforms in a number of key areas are urgently needed for Lebanon to regain its role as a democratic model in the region. Unfortunately, progress has been excruciatingly slow and internal and external challenges have been too numerous, predicting a bumpy road ahead with further slippages. Certainly the bright hopes of many for a new era, which were connected with the withdrawal of Syrian troops from Lebanon in 2005, have been tempered by the multiple regional crisis and their implications for Lebanon's already dysfunctional political life. Despite all these problems, however, there are also signs of hope, such as the high quality of education and the broad consensus not to slide (back) into civil war.

History and Characteristics of Transformation

Ever since the central areas of what is today Lebanon achieved a degree of limited local autonomy in the mid-19th century, political representation has been organized into power sharing between sectarian communities. Struggles over the exact size of the shares allotted to individual communities (mainly Sunni, Shi'ite and Druze Muslims, Orthodox and Maronite Christians) have been a permanent source of tension, particularly in response to demographic change.

The 1989 Taif agreement, which ended the 1975 – 1990 war, set basic rules and quotas for a power-sharing system adjusted to achieve parity between Christians and Muslims, the latter of which already held the demographic majority. The agreement also included a road map for a transition to a system based on equal citizenship, which has never been implemented.

The slow disintegration of the Lebanese state during the civil war and the capture of state institutions by militias and sectarian elites greatly reduced their credibility and efficiency. Successive postwar Lebanese governments have embarked on a course of administrative reform, albeit without seriously challenging the clientelistic networks that pervade all levels of public administration, as these are ultimately under the control of important players in the power structure.

Sectarian division also resulted from the country's strategic location on the fault line of major international conflicts. Lebanon has been converted into an arena for proxy wars by regional and

international actors on numerous occasions. Since the 1950s, the country's major political fault line has been its position vis-à-vis the Arab-Israeli conflict and its wider implications. In the run-up to the Lebanese civil war, active solidarity with the Arab cause was advocated by an alliance of Muslim and nationalist/anti-imperialist forces. Christian representatives feared that such a course and the concomitant influence of neighboring countries, as well as the presence of armed groups that were predominantly Muslim, would bolster the Muslim communities at their expense.

After 1990, the decline of the major Christian parties coincided with Syria's hegemony over Lebanon. However, when American involvement in the region increased in the aftermath of 9/11, political forces critical of Syrian involvement started gaining momentum. Syrian control finally collapsed in 2005 in the face of a peaceful mass uprising triggered by the assassination of former Prime Minister Rafiq al-Hariri. This popular and political mobilization against the Syrian presence was not supported by the political leadership of the Shi'a community (roughly one-third of the population), who feared that the newly forged alliance of Sunni, Christian and Druze parties would seek alignment with pro-Western neighbors such as Egypt, Saudi Arabia and even Israel, while distancing the country from actors who resisted such a course (e.g., Syria, Iran, Hezbollah and Hamas). Since early 2006, intra-Christian rivalry has led one of the main Christian parties to quit the anti-Syrian coalition following the Syrian pullout and join the Shi'ite parties in a formal alliance.

Hence, since 2005 and increasingly after 2006, Lebanese politics have been dominated by a sharp polarization between two blocs of nearly equal strength, referred to, after two rival demonstrations in 2005, as "March 8" (the Shi'ite parties Amal and Hezbollah, the Christian Free Patriotic Movement and an array of smaller nationalist/pan-Arab oriented parties) and "March 14" (the Sunni Future Movement, the Christian parties Kata'ib and Lebanese Forces and, until 2009, the Druze-dominated Democratic Gathering, which since has adopted a centrist position). The two camps also differ on economic and social policies, with "March 14" veering toward market liberalism and "March 8" toward statism, yet both tendencies are little developed in the political platforms of the two blocs and remain subordinated to foreign policy stances.

The conflict came to the fore in the aftermath of the 2006 war between Hezbollah and Israel. Between November 2006 and May 2008, parliament did not meet, and the "March 8" bloc disputed the legitimacy of the "March 14"-led government. The country also lacked a president from late 2007 until May 2008, when Michel Sulaiman was elected by the reconvened parliament; in parallel, the persisting tensions exploded into three days of violent confrontation. Concerns over potential disintegration along sectarian lines prevented any intervention by the army and security forces, leaving Hezbollah, and other supporting groups, to exploit the clear superiority of its professionally trained and equipped military apparatus over the proto-militias organized by their opponents.

Peace was restored with the formation of a national unity government after a meeting of all sides in Doha, Qatar in May 2008, and parliamentary elections held in June 2009 returned a narrow majority for the "March 14" coalition. After five months of wrangling and intense mediation by Saudi Arabia and Syria, yet another unity government was formed, but collapsed in January 2011

when the major Druze party switched coalitions. It took another five months to form a government dominated by “March 8”, which in turn collapsed in March 2013 over differences concerning Lebanon’s position vis-à-vis the conflict in Syria. The new government of Prime Minister Tammam Salam, elected in February 2014, is weak and lacks parliamentary control. In summary, the political system has been in a state of paralysis and blockade since 2005, but the implementation of legislation and reform measures has been slowed down and impeded even further over the last two years.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Despite internal political divisions and foreign meddling in internal affairs that have hampered the adoption of a clear national defense strategy, the army has gradually increased its control over most Lebanese territory in the past two years. Nonetheless, there remain many obvious challenges to this control. The northern half of the border village of Ghajar as well as the disputed Shebaa farms continue to be occupied by Israel. 12 Palestinian refugee camps are controlled by various armed Palestinian factions, providing at times safe havens for violence-prone (Lebanese and Palestinian) Sunni Islamist and militants groups. In peripheral areas, such as the Bekaa valley and the north, state control has often been wielded through tacit arrangements between security forces and armed local groups (tribes and clans), which occasionally challenge state authority.

Monopoly on the
use of force

5

In 2006, following the war with Israel, the Lebanese army deployed over 15,000 troops to the country's southern border to complement the United Nations Interim Force in Lebanon (UNIFIL). This was followed in 2007 by the Lebanese army winning the war against extremist elements who took refuge in the Nahr el-Bared Palestinian Refugee camp.

Lebanon's borders, in particular with Syria, have been insufficiently controlled and open for smugglers; large numbers of militants and refugees have been able to cross since the beginning of the Syrian civil war in 2012. A major incident occurred on 2 August 2014, when Syrian rebels started to attack Lebanese military posts in reaction to the arrest of Ahmed Jomaa, leader of the Syrian Fajr al-Islam brigades; two soldiers died. This incident developed into a hostage crisis with 25 Lebanese kept in custody by the al-Nusra front and the Islamic State (IS) group. However, the army, with massive foreign military support, started to fend off repeated incursions by IS around the city of Aarsal in northeastern Lebanon (Bekaa) and brought almost to a complete halt the cross-border deadly suicide attacks by these groups. In early 2015, the army

deployed close to 1,000 troops to the Bekaa valley, bringing under its control villages and areas that had for years been subjugated to criminal gangs and drug traffickers.

In 2013, the army had disbanded the nascent radical Sunni, anti-Hezbollah group, led by Ahmed al-Assir in Saida, and in 2014 ended the long violent conflict between pro- (mostly Alawites) and anti-Syrian regime (mostly Sunni) forces in Lebanon's second largest city Tripoli. However, extremist groups remain an imminent threat to Lebanon's stability. The powerful, Iran-backed Hezbollah militia remains present in large parts of southern Lebanon and has yet to agree to be dissolved or integrated into the Lebanese army. Hezbollah's involvement in the Syrian civil war to maintain Iranian and Syrian regime support against a potential new Israeli attack has increased tensions between the two dominant political coalitions "March 8" (close to Iran and the Syrian regime) and "March 14" (close to Saudi Arabia and the Syrian opposition). This limits the state's ability to further monopolize the use of force.

Most citizens, with the exception of some marginal Islamist radical political groups, do not question the legitimacy of the nation-state. Several groups, however, second-guess the loyalty of other groups to the state, and often look for outside support to enhance their position in domestic competitions over state power and its spoils.

Lebanon has managed to integrate most of its minorities socially and politically. In fact, integration and accommodation of a multitude of mostly religiously defined groups – none of which comprises more than one-third of the population – has been the basic organizing principle since the establishment of the state. Consequently, access to state power and resources is organized through political power-sharing and group quotas. While this may compromise equal and merit-based opportunity in individual cases, there is no systematic discrimination against any particular group of Lebanese citizens. Potentially, however, this system of proportional allocation of power and resources is liable to come under pressure once gaps open between established quota definitions and new demographic realities. This currently mostly affects the Christian community, whose share of the population continues to drop.

The influx of 1.2 million Syrian refugees, which are officially registered through the United Nations (one in four inhabitants), plus an unknown number of unregistered Syrians has added to the existing problem posed by 280,000 to 300,000 (estimated) Palestinian refugees, who have been excluded from a number of professional fields. Around half the Palestinians continue to reside in camps which have developed into squalid, impoverished and underserved neighborhoods since 1948. A clause prohibiting their naturalization was included in the Lebanese constitution in the early 1990s. Because these refugees are overwhelmingly Sunni Muslim, Lebanese Christians are especially concerned with the matter, construing it as a major element in the threat scenarios of majorization and marginalization. Such demographic apprehensions to some degree also apply to Shi'ite Muslims, yet the fiercely anti-Israeli stance of the major Shi'ite parties lends credibility to their focus on the "right

State identity
8

of return.” In addition, major financial burdens are connected with the high number of refugees in Lebanon.

In recent years, over 120,000 domestic workers from Africa and Asia have settled in Lebanon. While these immigrants are, for the most part, gainfully employed, they often lack adequate protection and are sometimes denied basic human rights by their employers. Individuals with Kurdish origins, a comparatively small group, are to be considered stateless aliens, without guaranteed civil and political rights.

Citizenship is passed on exclusively through paternal lineage and is denied to the children of Lebanese mothers with foreign husbands, with the notable exception of children born out of wedlock. By the same token, naturalization is easily available to female foreign spouses, but unavailable to males. However, the practical consequences of these inequalities have been mitigated by recent regulations that accord free long-term residency permits to foreign spouses of Lebanese women and their children, while lifting the requirement to obtain a work permit.

Lebanon has no state religion, and freedom of belief is enshrined in the constitution. However, religious groups are institutionalized, wield exclusive power over personal status law (issues of marriage, divorce, child custody, inheritance) and control a sizable part of social services, including the education system. The leaders of the officially recognized 18 religious communities also have the right to challenge legislation that affect vital interests related to their prerogatives through the “constitutional council,” an action otherwise restricted to the president of the republic, the prime minister, the speaker of parliament or groups of at least 10 members of parliament. However, no such case has occurred since the council was established under the current constitution.

Religious leaders regularly speak out on pertinent political questions, in many cases straddling the line between religious and political leadership, and large parts of their respective communities follow their advice. Hence, there is permanent interchange between the political and the religious sphere, and politicians make their decisions either in coordination with the primary religious leaders or in a manner that often accommodates their interests.

In 2013, efforts to establish legalized civil marriage on Lebanese soil, breaking the exclusive authority of sectarian groups on matrimonial matters, have been stonewalled by Lebanon’s Grand Mufti, Sheikh Mohammed Rashid Qabbani. The ministry of interior asked for further legislation to govern the rights of newlyweds and their children before it could process new requests for civil marriage or the registration of newborns to couples married civilly in Lebanon.

Still, beyond certain political influence as exemplified above, the behavior of the leaders of religiously defined groups in the political sphere is mostly geared toward protecting the institutional, political and economic interests and position of the group, in a fashion akin to the behavior of ethnic groups in other contexts, rather than toward imposing a religious agenda on society.

No interference of religious dogmas

7

Lebanon has a differentiated administrative structure throughout the country, but suffers from frequent allegations of petty corruption and complaints over bureaucratic delays. Sectarian interests complicate the task of decentralization (as stipulated in the 1989 Taif accord). Still, municipalities do have important regulatory prerogatives, which they are sometimes unable to exercise as a result of undue political influence and a basic lack of funding.

Basic
administration

5

Indirect and direct taxation is generally applied, yet it is common practice for many businesses to conceal portions of their activities in their accounting. Law enforcement is present and effective in most parts of the country; in areas where the state monopoly on the use of force is partly compromised, law enforcement services operate in conjunction with local power wielders.

Basic infrastructure such as water, sanitation and electricity does not reach areas of the periphery in sufficient measure. Even in the capital, water shortages are common, in particular at the end of summer, and electricity blackouts (three hours daily in the inner districts of Beirut, up to 12 hours in marginalized rural areas) remain frequent. The situation is bound to become worse as electricity deliveries from Egypt and Syria have dropped dramatically, and existing private power generators do not keep pace with demand or are too expensive for many. Planned emergency measures, such as renting floating power stations moored off the coast, have been insufficient for the meeting the electricity needs. Since the end of the war in 1990, this sector has faced significant political interference, corruption and administrative inefficiencies.

2 | Political Participation

After Lebanon's electoral system under Syrian occupation was perceived by many as unfair, the blue ribbon "Boutros Commission" presented a comprehensive and realistic election reform plan in 2007, yet political parties dismissed it mainly for inter-sectarian reasons. Following the 2008 violence and the ensuing Doha agreement, Lebanon adopted a number of changes to the existing election system. This included the (transitional) adoption of pre-war electoral district lines, out-of-country voting, measures to increase secrecy in the voting process, official recognition of national and international election observation, the creation of a commission to oversee election campaign spending and advertisement, and holding elections on one day. Yet, these needed changes did not address other fundamental electoral problems, such as the adoption of a more representative system, the high voting age (21), the inability to vote in one's district of residence, the need to adopt pre-printed ballots to reduce "carousel" voting (and related possible vote buying) and access to voting booths for handicapped citizens.

Free and fair
elections

6

As in all majority-based systems, the composition of parliament often does not reflect the popular vote (in the 2009 elections, the then-opposition “March 8” bloc carried about 55% of the vote cast, yet the governing “March 14” bloc was able to defend its parliamentary majority). The power-sharing based dominance of political dynasties rather determines their relevance and bargaining power in the negotiations for political posts that follow the polls, favoring parties with clearly identifiable sectarian platforms over cross-sectarian initiatives.

Lebanon experienced serious setbacks to political participation in 2013 and 2014. In the lead up to the June 2013 parliamentary elections, political parties could not reach agreement over a new electoral law and instead preferred to postpone elections for 17 months. Again in 2014, the new election date was announced one day too late, and the cabinet of ministers was unable to set up the committee in charge of overseeing campaign funding and advertisement regulations. Hence, a majority of political parties in parliament agreed to extend their term by another two years and seven months, securing, as such, a full term extension, even after 514 persons had announced their candidacy.

The stepping down of the Lebanese president following his six-year term in May 2014 and the need to elect a new president represented a new point of contention for Lebanese parliamentarians in charge of electing the president. Opposition parties boycotted parliamentary sessions to elect the president and, as of early 2015, Lebanon’s presidency remains vacant. Deep animosities between the two leading Maronite candidates (former wartime enemies) were one of the main stumbling blocks, besides foreign interventions by competing regional powers in support of one or the other candidate.

Despite polls indicating that a majority of Lebanese were against parliament’s term-extension, and despite repeated calls and demonstrations by civil society groups against such an extension, popular mobilization did not materialize. A legal challenge in front of the constitutional council, by 10 parliamentarians from an opposition party, was rejected. While the council recognized the unconstitutional nature of the extension and found its length unjustified, it explained its rejection on the grounds that the government was too weak, and if dissolved, could lead to a power vacuum in the absence of a president and a parliament whose term was to expire in a week’s time from the council’s decision.

The inability of the parliamentary groups to agree on a new election law, which potentially could diminish the influence of certain political parties, and foreign powers’ interests in maintaining Lebanese support for or against the Syrian regime, as well as fear and apathy among the Lebanese public, help explain the second term extension.

These slippages may affect local elections scheduled for 2016 and even the ability of lawmakers to adopt a new parliamentary election law before the next elections in 2017.

As the constitution and political tradition provide for the inclusion of all communities in government and administration, nearly all major players within the political elite wield de facto veto powers. After having blocked all political procedures from 2005 on, Hezbollah and some of its allies went beyond the legal constitutional framework in 2008 and deployed direct force in order to compel the other camp to agree to a compromise on their terms.

The political system grinds to a halt every time conflicts arise in which no compromise appears possible, particularly when the interests of political leaders and their power base are at stake. Foreign alliances are often called upon by Lebanese political parties to intervene in Lebanese politics to help break a deadlock or impose a solution on opposing groups. Foreign actors – in particular Iran and Syria, Saudi Arabia and the United States – have also exacerbated the differences between the “March 8” and “March 14” camps in pursuit of their own interests since 2005 and, more recently, since the Syrian uprising, thereby contributing to the de facto breakdown of the capacity to govern. The conflict in neighboring Syria has intensified the pressure on the Lebanese political system, as the two primary political blocs have taken opposing sides; some parties have even engaged in combat on the side of the Syrian regime or its opposition. Insulating Lebanon from the fallout of this split and addressing the needs of a growing refugee population further absorbs large parts of the already severely limited governance capacity.

Lebanon has comparatively to neighboring countries a liberal association law and a long tradition of independent, non-for-profit civil society organizations (CSOs). While many of these organizations are part of the patronage system established by sectarian political leaders, independent and cross-sectarian organizations have existed since long before the civil war. In the postwar era, partly in response to the dysfunctional state, a wave of new organizations have explored previously unknown spheres and modes of civil activity, including human rights, civic awareness, conflict resolution and civil society capacity building.

Associations suffer from limited local politically independent funding capacities and from fluctuations in foreign donor interest. In particular, foreign funding from the Gulf, Iran and the United States has surged in the aftermath of the 2006 war and more recently with the unfolding Syrian refugee humanitarian crises from the United Nations’ donor countries. Between such humanitarian crises periods, many organizations have had to dissolve or reduce and reorient their scope of activities. While civic initiatives have succeeded in achieving results on some issues (such as getting parliament to pass a law banning smoking in public places), they are regularly drawn into larger societal conflicts and tend to fail once they touch upon issues of relevance to the larger confrontation pertaining to political reform and fighting corruption.

Effective power to govern

4

Association / assembly rights

7

The freedoms of opinion and the press are guaranteed by law in principle, but are subject to some intervention, in particular with regard to content deemed offensive to morality and religious beliefs, or incendiary to relations between the sectarian communities. Public screenings of films and theater performances are subject to prior authorization by the authorities, and are sometimes banned or abridged on these grounds.

Freedom of
expression

7

At times, journalists and artists brushing up against such taboos may also be at risk of attack from non-state actors that may include those considered to be part of the social and political mainstream. At times, authorities can be reluctant or slow to come to their defense.

The increasing polarization of the political sphere has resulted in less independence and opinion pluralism within the media. Most media outlets are linked to political groups or families and follow an unambiguously partisan political line, but print press remain freer to criticize and overall more balanced than TV and radio. While the overall quality of reporting and information sometimes suffers from rumor, slander and incitement, Lebanese journalistic reports remain well respected in Lebanon and regionally.

3 | Rule of Law

The formal separation of power, realized by an intricate array of mandatory mutual ratification procedures and decision rules (quorums, supermajorities), is supplemented by a (mostly informal) power division between sects. As a result, grand coalitions or “governments of national unity” are a frequent occurrence.

Separation of
powers

5

Power emanates from members of parliament as directly elected representatives of the Lebanese people; they elect the president of the republic (who should always be a Maronite) and, in binding consultations with him, select the prime minister (always a Sunni). The government is accountable to parliament (whose president is always a Shi'ite), and both the president and members of parliament can initiate legislation. Several institutions (constitutional council, civil service board) are supposed to provide for additional checks. In reality, these checks and balances are often offset by sectarian loyalties and their informal power arrangements, implying the threat of institutional paralysis, public unrest or even violence if actors feel that their vital interests are threatened.

Strategically important decisions are typically achieved through direct deals between these actors, outside the nominally competent institutions, and frequently even outside the country, as they often rely on external political sponsors. This has become more urgent since the civil war in Syria.

Despite notable improvements in the training of lawyers at specialized institutions and a large number of well-respected judges, their performance and independence still face serious challenges. Judicial functions remain partially impeded by corruption and the omnipresent confessional quotas.

Independent
judiciary
6

Cooperation with the Special Tribunal for Lebanon in The Hague, established after Prime Minister Hariri's murder in 2005, has continued despite significant controversy related to information leaks, the role of fake witnesses and strong opposition to the tribunal by certain political groups, especially Hezbollah, which claims that the indictment of some of its members is politically motivated. Political intervention also occurs in the appointments of key prosecutors and investigating magistrates, and accounts of petty corruption involving judges abound. Many professional judges act with integrity, but the overwhelming and partly accurate public perception is that there is no real equality before the law, and that the legal system does not offer effective recourse against socially powerful adversaries. In combination with long backlogs, such negative expectations often dissuade people from taking legal action, and become partly self-fulfilling.

Pervasive clientelism is a central feature of the political system and corruption is systemic. Coverage by media and monitoring institutions exists, yet as most senior officeholders are part of the cemented power structure, they are mostly beyond the law. Legislation governing and guaranteeing public access to governmental information does not exist, so prosecution of office abuse is rare and often politically motivated.

Prosecution of
office abuse
3

Many citizens are complicit in such practices. Engagement in petty corruption is ubiquitous, as is the use of "contacts" for gaining access to state resources. Hence, elected officials have little reason to fear allegations of corruption. Several parties are said to rule over an uncontrolled imperium of corruption and in some cases even money laundering. The increased income generated through international financial support for the refugee problem has made the problem of corruption in Lebanon more urgent. Nevertheless, the tackling of corruption in certain ministries has seen significant progress with the privatization of certain administrative processes and online technologies.

Civil liberties are less protected in religiously or societally sensitive issues. While honor crimes are rare, violence against women has been somewhat reduced since 2011 through tougher legislation. Homosexuality (which is forbidden by law) is tolerated, but anyone arrested under such accusations can experience harsh police brutality, including arrest and enforced "forensic" examination.

Civil rights
7

The passage of a domestic violence law on 1 April 2014, elaborated through civil society participation, was hailed by human rights activists and organizations. The law advances women's rights, but is seen by human rights organizations as just one step

in the right direction. Many others have to follow, especially to ensure proper mechanisms to help the victims of such violence.

Lebanese prisons and detention facilities are usually overcrowded and offer dismal living conditions. This particularly affects refugees and foreign domestic workers who have forfeited their residency permits (often by running away from abusive employers). They are frequently held over extended periods until their extradition or “voluntary” repatriation is arranged. These problems within jails have recently been considerably exacerbated by the large number of Syrians being arrested on an almost daily basis for various crimes or for being involved in militant activities.

4 | Stability of Democratic Institutions

While Lebanon’s elaborate power-sharing system has, on the one hand, kept the country comparatively stable, it has also had considerable impact on the performance of all political and judicial institutions. This has become worse since the mutual blockage imposed by the “March 8” and “March 14” coalitions and the failure to elect a new parliament in 2013. The political process has, to a large extent, grounded to a halt. Extra-institutional national dialogues convened by the speaker of parliament and later (in 2006) the president of the republic failed to overcome this paralysis, despite a number of agreements on key issues (the most recent one being the “Baabda declaration,” which advocated Lebanon adopt a neutral stance in neighboring conflicts). The limited ability to put into practice any of these agreements has made this forum an additional stage where the established lines of political confrontation are publicly presented, limiting the willingness of leaders to compromise.

Performance of
democratic
institutions
5

As official political channels are often blocked by sectarian-based interests, most relevant actors pursue their interests through extensive layers of informal arrangements. By this, they manipulate decisions and proceedings of national institutions in their favor, thus often undermining them.

Commitment to
democratic
institutions
5

The 2013 and 2014 extension of the term of parliament was a glaring example of how the narrow and partisan interests of a majority in the political class manipulate the political system, in contravention of the Lebanese constitution. Still, the interest of all political parties and social actors to benefit from the resources of the central government and the existence of a rather resilient bureaucracy means that state institutions have resisted years of war, political manipulation and corruption. In addition, private initiatives, both in the form of civic groups and business actors, have in recent years increasingly demanded state services, which bodes well for the stability of these institutions. Notwithstanding, particularly strengthening the independence of the judicial branch remains an essential part of that process.

5 | Political and Social Integration

Most parties show only a limited degree of institutionalization and refrain from the development of elaborate political platforms as a means of generating support. Instead, party allegiance is maintained through a pragmatic mix of clientelism and deference to an inherited leadership cast as representatives and defenders of sectarian interests, or a certain interpretation thereof. The support thus generated is deeply rooted; young Lebanese often inherit their political orientation from their elders, and sometimes drastic reversals of party orientation and alliances are accepted with little if any resistance from affiliates and voters. Yet, if voters wish to express discontent with their hitherto preferred political choice, they tend to do so by abstention in elections, as voting for alternative parties is often not an option.

Party system
5

In addition, a (still small) number of youth feel increasingly disenchanted with the political parties' performance and ability to address basic living issues. Civil society has somehow evolved and offers alternatives, yet attempts to create new, nonsectarian political formations have so far proved unsuccessful.

Religious figures and political strongmen who act as representatives of sectarian or communal interests are the main mediators between the state, communities and the individual, based on clientelistic calculations. They are supplemented by tightly woven social networks at the grassroots level (neighborhood associations, family leagues, parishes, charities) which provide the main interface between clientelistic structures and the individual.

Interest groups
7

Meanwhile, non-sectarian interest groups such as unions and syndicates have had limited success. While unions have recently lobbied the cabinet to pass the (already fully negotiated) new public-sector pay scale and allocate funding for its implementation, this policy may not materialize as union members representing the "March 8" and "March 14" coalitions allied with each other in early 2015 to win a majority of parliamentary seats. Leftist and independent candidates, who for two years had led strikes and public protests on this issue, were overruled. Other types of professional interest groups, such as the association of industrialists, suffer from similar shortcomings.

Civil society efforts have been more noticeable and successful: the domestic violence law of 1 April 2014 (which was developed with major input from the local NGO "Kafa," meaning "enough") and the "Civil Movement for Accountability" against the second parliamentary term extension in 2014 as well as coalitions advocating for civil peace, such as "The Gathering Wahdatouna Khalasouna" (which allies over 31 nongovernmental organizations), and for the environment, such as the "Lebanese Eco Movement" (which allies over 60 nongovernmental environmental organizations),

have played a significant and increasing role in raising public awareness and shaping public opinion debates and decision-making.

Back in 2011, the “Arab Opinion Index”, compiled by the Arab Center for Research and Policy Studies, had shown that Lebanese had the strongest commitment to democracy among all Arab states. However, in mid-2014 a poll conducted by Lebanon’s leading election observation institution, the Lebanese Association for Democratic Elections (LADE), showed that 68.3% of citizens had no trust in government and 53% did not trust the parliament. In addition, more than 60% rejected the parliament’s term extension, while only 11.5% supported it. In the same poll, 70% showed “complete” and 23% “moderate” support for the army as an institution.

Approval of
democracy
6

With the exception of a few civil society activists and some lone supporters, public protest staged against the parliament’s 2014 term extension was almost nonexistent. This is probably due to security concerns particularly along the Syrian border and (at that time) in the city of Tripoli, the clientelistic nature of the existing political system, the unified position within each religious group in support of the extension (except among Christians), but also to people’s disillusionment with the current political class. Thus, democratic values may still have strong roots in Lebanon, but citizens blame the blatant dysfunction of the democratic system for the political impasse.

Lebanon has a long and rich tradition of associational life, in urban as well as in rural areas. In particular, associations concerned with public welfare abound – with a large, but by no means exclusive presence of religious organizations – in addition to a large number of sports and cultural associations. This rich associational life should not be confused with social capital and trust. Survey data demonstrate that an overwhelming majority of Lebanese have low trust in the people they live and work with. The repositories of trust are the family and close friends.

Social capital
6

Sectarianism bears strongly on the quality of social trust: Except for a small section of society – mostly educated urban dwellers – mixed marriage is frowned upon, increasingly even among the various Muslim denominations. In the 2011 Arab Opinion Index, 31% cite being “from the same religious sect” as the most important criteria in choosing a spouse, by far the highest such ratio in the Arab world. Even for the more common cross-sectarian friendships, survey and interview data confirm qualitative differences compared to same-sect friendships.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
4

Socioeconomic barriers are often ineffectively addressed by Lebanon's social policymakers. The most pressing problem is poverty: World Bank data for 2014 listed 1.2 million Lebanese (nearly 27% of the total population) as poor, living with less than \$4 a day. Among these, 300,000 (7% of population) are extremely poor (having less than \$2.4 per day). Poverty is concentrated in the north (52% of population), the south (42%) and the Bekaa region (29%).

The ILO estimated the unemployment rate a decent 6.5% for 2013, but youth unemployment (ages 15-24) reached 20.6% (up from 19.9% in 2012). The majority of employment is in the service sector (72.6%), only a minor part in industry (21%, 2009).

About 44% of the total population over 15 years is in employment (2013), of which a share of roughly 40% is self-employed. Gini index and other standardized poverty and inequality indicator data do not exist, but the differences between the many poor and the few super rich (and politically influential) families, such as the Hariri and Mikati families, are extreme.

Education is a priority in Lebanon. Thus, the share of primary school enrollment has risen constantly in the last years to 93.2% in 2012, up from 88.4% in 2007. 67.5% of students were enrolled in secondary education and 46.2% in tertiary education, both with slight downward trends over the previous years. Female students outnumber male students in secondary (100.8%) and tertiary (107.4%) education, but not in primary schools (91.4%). Literacy is high (89.6% overall, 93.4% male, 86.0% female, World Bank 2014). At 87.5% (2013), the share of the population living in an urban setting is comparatively high, growing about 1% per year. While 70.9% of men over 15 years participate in the labor market, only 23.3% of same-age women do, yet with growing tendencies (19.8% in 2003). This gender gap is less related to education but rather is an expression of persistent traditional values within families.

The increasing number of Syrian refugees (1.2 million are registered with UNHCR) puts pressure on these overall satisfying data. The World Bank estimates the related economic and social cost at over \$7.5 billion by the end of 2014. In early 2015, the Lebanese government decided to abolish the ceiling of a maximum 50% of Syrian students at Lebanese schools in Beirut and Mount Lebanon. The effect on local pupils remains to be seen.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	21287.6	38010.0	44352.4	45730.9
GDP growth	%	2.7	8.0	0.9	2.0
Inflation (CPI)	%	-	4.0	5.5	0.7
Unemployment	%	8.2	6.2	6.5	-
Foreign direct investment	% of GDP	12.3	11.3	6.8	-
Export growth	%	6.5	11.7	-0.5	3.2
Import growth	%	-5.2	6.2	-1.2	-1.5
Current account balance	\$ M	-2748.0	-7552.1	-10982.6	-
Public debt	% of GDP	180.7	138.4	133.4	133.1
External debt	\$ M	23333.6	24590.5	30946.7	-
Total debt service	\$ M	3634.1	4152.4	3505.3	-
Cash surplus or deficit	% of GDP	-8.0	-7.6	-	-
Tax revenue	% of GDP	15.3	17.0	-	-
Government consumption	% of GDP	14.7	12.4	14.7	14.8
Public expnd. on education	% of GDP	2.7	1.6	2.6	-
Public expnd. on health	% of GDP	3.2	2.7	3.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.5	4.2	4.0	4.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The overall picture of market-based competition remained ambivalent in the last years. Some sectors still have state monopolies (such as energy, water and telecommunications), some have oligopolies with entrenched cartelistic structures (such as the steel and cement industry). A general competition law, planned for more than ten years but not yet in force, is intended to address these oligopolistic structures and the potential for abuse. Furthermore, barriers to market entry are regarded as high, such as access to finance (there is only a limited capital market).

In terms of competition policy, the “March 14” coalition pushes for more deregulation and marketization, whereas the “March 8” coalition values the amenities of a large public sector and state controlled enterprises. These different preferences partly explain Lebanon’s economic fragmentation: depending on the respective minister’s preferences, privatization and deregulation are either advanced or hindered. Thus, the structure of the economy reaches from laissez-faire liberalism to state monopoly.

In the World Economic Forum’s Global Competitive Report 2014/2015 Lebanon received an overall rank of 113 (out of 144), a worsening from 103 (2013), 91 (2012) and 89 (2011). Among the sub-indicators, Lebanon underperformed in comparison to the MENA average in macroeconomic environment (rank 143), institutions (139), labor market efficiency (123), infrastructure (122), and innovation (119), whereas in health and primary education (rank 30) and higher education and training (67) it did better than the MENA average. An inadequate infrastructure, high corruption, inefficient and unstable governments and limited access to financing were identified by the report as the biggest challenges for doing business.

The Ministry of Economy and Trade (MOET) was a main actor in drafting and championing the proposed competition law as well as in overseeing and setting a ceiling on commodity selling prices or profit rates. However, in a few cases such as electricity, prices are still directly regulated by the MOET, despite privatization attempts which started in 2002. These consolidation strategies widely failed due to chronic procrastination. Staple foods, such as bread, are subsidized by the government.

The Lebanese pound is freely convertible, as Lebanon has (small but) liberal capital and money markets, with almost no restrictions on inflows or outflows. Residents’ accounts are fully convertible to foreign exchange. An underdeveloped stock market and lack of funding opportunities besides the cartelized banking system, however, make it more difficult for start-ups and SMEs to grow.

Market-based
competition
6

Freedom to launch and withdraw investments is largely realized, especially for non-residents. Legal discrimination based on ownership (state/private, foreign/local) and size is widely absent, and legal entry barriers in product and factor markets are rare as well. However, non-legal barriers do exist such as high factor costs and low economies of scale due to the small size of the Lebanese market.

Anti-cartelistic policies enjoy only limited support due to the close interconnections among political and business elites: the protracted debate on the competition law is just one example of a general unwillingness to reform, even among business-oriented politicians. As an enforcement institution, a National Competition Authority was proposed as well as a Competition Council with, among others, the right to appeal to the Court of Appeals. Yet, privatization is still heavily associated with bribery and corruption, and the indicated framework institutions are also subject to political and sectarian quarrels.

Anti-monopoly
policy
5

Energy (with the exception of micro-energy producers, which fill the gap in supply with private generators; prices are set by the energy ministry), telecommunications, water supply and airline companies are still widely state owned. National flag carrier Middle East Airlines, for example, is still owned by the central bank (Banque du Liban, BDL), discussions about reducing the government's shares have not yet led to results.

Few companies still have a dominant market position in many sectors. Against the background of the relatively small Lebanese market, firms tend to concentrate in order to realize scale effects and/or pursue an export or internationalization strategy. This induces barriers to local start-ups, further reducing competition. The recently established "Impact Fund" by BDL aims at addressing this problem by providing venture capital to Lebanese start-ups who aim to produce for export, especially in the field of ICTs.

Due to Lebanon's small market size, the government is tempted to protect the domestic economy through tariff and non-tariff measures. At the same time, exports are supported and subsidized, including through preferential trade agreements (mainly with Saudi Arabia) and the joining of regional free trade areas. Lebanon was a founding member of the Greater Arab Free Trade Area (GAFTA) in 1997, eliminating most trade tariffs among its 18 members. Nonetheless, considerable tariffs still exist on trade with other countries (e.g., on car and mobile phone imports). In October 2014, BDL called for a minimum 25% down payment on new cars. Accession negotiations with the WTO have not progressed in the last years.

Liberalization of
foreign trade
8

Overall, the trade balance is still chronically negative, with imports reaching \$19.7 billion and exports reaching \$4.4 billion in 2014. Yet, as petroleum products account for up to \$4.7 billion alone, the drop in oil prices makes a slight improvement of the negative balance likely.

Trade liberalization has developed positively, with some politically motivated limitations. Trade with Israel is prohibited and the Syrian civil war has cut Lebanon off from its remaining land trade routes. Corruption at the customs authority is another factor that negatively impacts foreign trade.

Net inflow of FDI reached 6.8% of GDP in 2013, down from 15% in 2008, but similar to 2002 when it was 6.9%. Foreign investors are increasingly suspicious of moving their money into Lebanese projects, due to the multiple crises in the country and region. FDI net outflows were still moderate in 2013 with 2.7% of GDP, up from 1.3% (2012) and 1.8% (2011).

The banking system is well developed, due to solid regulation and supervision by BDL and international agreements such as those with the Bank for International Settlements (BIS). In 2013, banking sector assets grew by 9.7% to \$199 billion, the loan to deposit ratio was 37.7% (the regional average is 70%). However, the ratio of Lebanese sovereign Eurobonds to deposits in foreign currency increased to 15.7% in 2013. Lebanese banks are required to hold a minimum share of capital proportional to deposits. This is designed to protect bank stakeholders from the risks associated with a bank's lending and investment practices. They also undergo a supervisory review process and must disclose information about their economic activities. In 2013, the BDL's reserve requirements were set at 25% for local currency sight deposits and 15% for all other deposits. Domestic deposits make up a large majority of banks' funding, leading to a minimal reliance on market funding. The ratio of bank capital to total assets (financial and non-financial) proved relatively stable with 7.6% in 2011, 7.3% in 2010, 7.2% in 2009 and in 8.5% in 2008.

Shares of bank nonperforming loans in relation to total gross loans have decreased from 17.7% in 2004 to 3.9% in 2013 – high compared to Saudi Arabia (1.3%) and Turkey (2.6%), but low compared to Kuwait (4.6%), Jordan (7.4%), UAE (8.4%) and Egypt (9.5%).

The overall healthy picture should not overshadow some critical developments. These include increasing concentration in the banking sector due to a large number of mergers in the last decade as well as an excessive growth of large banks. In 2013, banks with customer deposits of more than \$2 billion grew by 10.1%, accounting for 88.6% of total banking assets. Bank Audi, Bloom and Byblos Bank cover over two-thirds of loans and deposits alone. Conversely, banks with deposits not exceeding \$200 million account for only 1.3%.

The banking system faces some strict regulations by international actors. Particularly the United States takes tough action to inhibit money laundering for Islamist terrorist groups and other internationally suspicious actors. In this context, international bank transactions must be cleared by BDL. International sanctions against the Syrian regime also affect Lebanese companies and banks. The U.S. Treasury is blacklisting

Banking system

9

companies that do business with or support the Syrian government. However, many Lebanese companies still operate in Syria and might face allegations of skirting sanctions against the regime. Being blacklisted by the U.S. Treasury results in a freezing of all assets under U.S. jurisdiction and blocks all transactions with American and U.S.-based persons. Lebanese banks might withdraw from the respective firms to avoid being blacklisted as well. In October 2014, the United States blacklisted a Lebanese daughter of a Russian banknote manufacturer, accusing her of helping transport Syrian banknotes from Russia to the Syrian Central Bank.

8 | Currency and Price Stability

Lebanon's Central Administration of Statistics (CAS) recorded a peak inflation rate of around 11% in late 2012. This has declined since the second half of 2013 and monthly figures in 2014 have even been negative. This is mainly due to the global drop in oil prices. Given the high dependency of the Lebanese economy on oil imports, inflation projections primarily depend on oil price developments.

Anti-inflation /
forex policy

8

Since 2002, the Lebanese pound is fixed to the U.S. dollar at a rate of 1:1,507.5. The central bank, which is formally and de facto independent, successfully achieved a stable real exchange rate due to its coupling with the U.S. dollar as the anchor currency. The fixed exchange rate has constituted an effective anchor for Lebanon's financial stability in the face of persisting large vulnerabilities. The Lebanese economy is dollarized to a considerable degree (some 65% of bank assets are dollarized), creating a further safeguard against currency devaluation.

Lebanon's notoriously lax budgetary discipline is a result of the weak parliament, which often fails to scrutinize and approve the government's budget. Indeed, the parliament has not released a budget since 2005. Instead, governmental spending is decided by the cabinet, where short-term interests often prevail over consistent macroeconomic stability policies with medium-term prioritization (such as debt reduction and fiscal consolidation). Thus, Lebanon has the highest public debt rate in the MENA region and one of the highest in the world: gross public debt reached 141% of GDP in 2013, compared to 133.9% in 2011 and 185.2% in 2006. For 2014, the debt quota is projected to be 143.6%.

Macrostability

6

Budget deficit was highest in 2000 (18.4%), but declined until 2011 to 6.4% before increasing again (partly due to the Syrian crisis) to 8.7% (2012) and 9.3% (2013). However, the fall of oil prices has a positive impact on the budget deficit, as for instance transfers to national electricity provider EDL shrunk below 4% of GDP in 2014.

Government consumption has ranged between 12% (2012) and 14.7% (2013).

9 | Private Property

Legal institutionalization and the enforcement of property rights has a long history in Lebanon, dating back to 1924. In 1999, a copyrights law was issued and in 2000 a patent law. A new law on intellectual property is in the making. In exceptional cases such as the planning of new roads, expropriation of land is possible if justified by public interest and compensation is paid. Registering property, on average, involves eight procedures and requires 25 days to complete, according to the World Bank, which is average in the MENA region.

Property rights
8

The private sector mainly consists of small firms, despite a conservative banking sector often risk averse lending to small private companies. Over 90% of private enterprises have less than 50 employees, most have less than five. Around 70% of the workforce is employed in the service sector, where around 80% of GDP is produced.

Private enterprise
7

Some of the big companies, such as in the electricity and telecommunication sectors, are still state-owned and largely inefficient. However, attempts to privatize these sectors often amount to lip service. The national energy supplier Electricité du Liban (EDL), for instance, struggles with income generation because of inadequate billing; contract workers striking for over five month prevented serious privatization processes in 2014. The provision of telephone and internet is still dominated by the state-owned company Ogero, which was initially set up in 1972 as a radio provider. Due to a lack of competition, internet connectivity is still slow (though it is improving) and does not comply with modern economic requirements.

The overall mood in Lebanese private enterprises is monitored by Bloom Bank's monthly Purchasing Manager Index (PMI), with scores above 50.0 indicating improvements in business conditions. Since July 2013, PMI shows contracting activities among private enterprise. However, the November 2014 value of 49.5 signaled at least a 17-month high.

Nonetheless, starting a business in Lebanon is relatively easy. Setting up a new firm with up to 50 employees with capital ten times the economy's per capita gross national income (GNI) takes, on average, nine days and involves five procedures, according to the World Bank. This, again, is somewhere in the middle of the other MENA countries.

10 | Welfare Regime

Lebanon's social safety nets are characterized by a wide range of small and not well-targeted programs. 6% of GDP is spent on social safety, with electricity subsidies consuming the largest share, allowing for a progressive tariff that advantages the poor. Basic goods including bread and some agricultural products are also subsidized, yet problems with the targeting and efficiency of social benefits abound. Non-subsidy programs, however, make up only about 1% of GDP.

In 2011, the Ministry of Social Affairs (MOSA) reacted to these problems as well as to the onset of the Syrian refugee crisis by introducing a "National Poverty Targeting Program" (NPTP). Originally set up as a three year emergency program with a volume of 0.08% of GDP (\$42 million in 2014/2015), politicians are now considering transferring it into a permanent scheme with increasing financial volumes.

Besides food subsidies, emphasis is put on the health and education of children. School and hospital fee waivers are two forms of social assistance. In addition, the MOSA distributes money through religious and civil society organizations, raising issues of public control and fiscal supervision, distribution efficiency and outreach effectiveness. International donors, such as the United Nations, are also present.

So far, social safety programs are estimated to not have significantly contributed to poverty reduction. Unemployment protection is rudimentary and by the end of 2014 another 170,000 Lebanese were expected to slip into poverty, raising the total share of people living on less than \$4 per day to about 31%.

Despite such problems, life expectancy at birth reaches a considerable 79.8 years (2012), superior than better off Qatar or the UAE. This might be due to Lebanon's relatively good health system: public expenditure on health care has been constant (up to 3% of GDP, World Bank 2014).

Though ratio of female-to-male enrollment in Lebanon's secondary (100.8%) and tertiary (107.4%) education is higher for women, the overall literacy rate still disfavors women by 7.4 percentage points (93.4% men, 86.0% women, 89.6% overall, World Bank 2014). This can mainly be attributed to a lower rate of female attendance in primary education (91.4%), particularly in the rural areas. Access to qualified education, particularly in higher education, strongly depends on families' financial resources, as most of the universities are private and expensive; thus, the poor are mainly excluded.

Women's participation in Lebanon's labor force still does not exceed 23.6% (2012, a slow increase from 21.3% in 2004, data from the World Bank). This is an expression of persistent, traditional religious values and a gender-based division of roles within families. The current parliament has only four women among its 128 representatives

Social safety nets

4

Equal opportunity

6

(3.1%). If at all, women enter politics usually as surrogates for dead or otherwise impeded male relatives or husbands. In the new Salam cabinet that came into office in February 2014, there is only one woman (out of 24 posts), nominated by the “centrist bloc” in the government. Neither the “March 8” nor the “March 14” coalitions nominated even one women.

The sectarian quota system leads to another form of discrimination: even if qualified candidates from one specific sect are not available to fill a public position, qualified persons from other sects will not be hired. Only the army has managed to achieve a good sectarian balance.

Highly qualified Syrian refugees willing to take underpaid positions put additional constraints on low-quality jobs.

11 | Economic Performance

Lebanon’s economic performance became more sluggish due to the Syrian crisis and the volatile internal security situation. GDP growth, which had been up to 10% annually between 2007 and 2010, declined to 2% in 2011 and 2012, and fell further to 0.9% in 2013. Induced by the crisis, tourism and dependent sectors showed particularly heavy declines. However, World Bank estimates for 2014 were slightly more optimistic (1.5%), due to improved consumer confidence and higher private demand as well as increased construction activities in the first half of 2014. GDP per capita has been constantly rising over the last years, from \$5,400 in 2007 to \$7,240 in 2013.

Unemployment estimates (official numbers do not exist) ranged around a low 6.5% in 2013, according to the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC). However, ILO estimated youth unemployment at a high 22% in 2013.

The current account balance is notoriously deficient (-\$10,982.6 million in 2013). In the first half of 2014, exports of industrial goods decreased about 12% and exports of industrial machines about 15%, putting pressure on currency reserves. Tax revenues as a share of GDP have declined from 17% in 2010 to 15.4% in 2012. However, the budget deficit was estimated to decline as well, from 9.3% of GDP in 2013 to less than 9% in 2014. Yet, public debt remains highly problematic at 143.6% of GDP in 2014, around ten percentage points more than in 2009/2010.

The volatile security situation has heavily impacted foreign direct investments (FDIs). International investors with no strong ties to Lebanon shy away from (further) engagement in Lebanon. For example, investors from the Gulf region redirect investments to other destinations such as Saudi Arabia and the UAE.

Output strength
5

12 | Sustainability

Environmental concerns are not systematically taken into account by Lebanese policymakers nor by a majority of the population. At the microeconomic level, basic goods such as water and electricity are priced mainly by flat tariffs, which set no incentives for austere consumption. The decline of oil prices in 2014 has further reduced economic and, subsequently, political pressure for an efficient and sustainable use of fuels.

Environmental regulation by the government is either non-existing or lax. CO2 emission goals do not exist and the use of alternative fuels and energy sources (solar, wind, biomass) is not supported by government policies. Up to 95% of energy is still generated by burning oil. CO2 emissions reached a comparatively high 4.7 tons per capita in 2010 (the latest available figure). The country's large cement industry is a major carbon dioxide producer, but this remains unaddressed by public policies.

Recycling and waste reduction programs are only laxly implemented by the government. Only an estimated 20% of waste in Beirut is recycled. In rural areas, a large share of wastewater is directly released into the sea. Wastewater treatment plants do exist, however, especially in the capital. Water shortages are common even in the capital, in particular at the end of summer, as the water system is badly maintained and capacities for storing the abundant winter rains have not been adequately expanded. Illegal well drilling and technically unsound cesspits heavily impact groundwater quality.

Some environmental NGOs such as Eco Movement and Sweep-Net do exist, but ecological issues lack a sufficiently strong lobby.

The overall high quality of Lebanese education is not directly related to the government's spending on education. Modest public expenditure on education (2.2% of GDP in 2012, 7.1% of total governmental spending in 2011) are supplemented by massive private spending, so that the overall share (public and private) of educational spending is quite high. As private institutions offer much better education, even parents with lower incomes try their utmost to enroll their children in private education. In the 2015 Times Higher Education ranking, the private Lebanese American University and the American University in Beirut took second and fourth in the MENA region in terms of research impact.

However, the largest state-funded institution, the Lebanese University, still attracts up to half of all students. The National Council of Scientific Research (CNRS), funded by the government, serves as an independent science policymaking institution under the authority of the prime minister, combining advisory and executive functions. It initiates, encourages and coordinates research, for instance through research grants and scholarships, as well as supports international cooperation.

Environmental
policy
4

Education policy /
R&D
6

The ratio of female-to-male enrollment in Lebanon is 91.4% for primary education, 100.8% for secondary education and 107.4% for higher education. In other words, there is a considerable dropout of male students, giving female students a majority in higher education.

In 2015, the education minister cancelled the ceiling of having a maximum of 50% non-Lebanese pupils in schools in Beirut and Mount Lebanon, against the background that only one out of five Syrian children in Lebanon is formally enrolled. This was supported by a \$50 million donation for schools by the British government. The obligation to provide humanitarian support is contrasted by fears on the side of the Lebanese government of an increasing nationalization of refugees, plus constraints in providing sufficient classroom space and teachers.

Transformation Management

I. Level of Difficulty

Low administrative steering capacities and a lack of efficiency, the need for cross-cutting consensus (resulting from veto players), clientelism, and corruption all heavily impact Lebanon's governance capacity. As a consequence, widespread poverty levels and deficient infrastructures are not efficiently addressed. In the energy sector, for instance, two new power plants in Jiyeh and Zouk Mikael were commissioned in 2013 to add an additional 270 MW beginning in 2015 to the country's existing capacity (1,550 MW). However, an additional 2,400 MW are still needed to satisfy domestic demand. Likewise, despite recent improvements, internet connectivity is still slow and not competitive.

Structural
constraints

8

In addition, regional conflicts heavily impact the small country. Despite the formal withdrawal of Syrian troops in 2005, international actors, especially Saudi Arabia and Iran, massively interfere in Lebanon's domestic politics, as could be seen during the governmental vacuum from April 2013 until May 2014 and the ongoing presidential vacuum (which began in May 2014).

The impact of the Syrian refugee crisis on the government's capacity for reform is enormous, particularly as they only add to the existing issue of millions of Palestinian refugees residing in Lebanon. Since the beginning of the Syrian conflict, a significant influx of Palestinians escaping from Syria has prompted nervous statements mainly from Christian politicians. The influx of more than 1.2 million Syrian refugees registered with UNHCR (one in four inhabitants) have produced economic and social costs estimated by the World Bank at over \$7.5 billion by the end of 2014. Meanwhile, international aid to help the refugees has remained considerably below United Nations' expectations.

New advocacy groups and defenders of civil liberties emerged during the 1990s and to some extent succeeded in challenging the monopoly claimed by the sectarian political elites on political representation. In 2005, members of these movements were central actors against the Syrian occupation, with nonaligned individuals and groups with no prior record of engaging in public affairs also contributing significant social capital to its success. More recent developments include the 2011 anti-

Civil society
traditions

3

sectarian movement, the anti-domestic violence campaign and the civil marriage campaign.

A significant inflow of foreign aid especially after the 2006 war spurred a rapid growth in the number and size of civil society organizations (CSOs). Increased professionalization and institutionalization occurred, but also a decline in the culture of voluntary involvement, with the civil society sector turning into a supplementary entry-level labor market for highly educated Lebanese unable to find employment elsewhere. With the advance of online social media, non-formal networks of activists who form pressure groups on specific issues have also emerged.

At the same time, political and sectarian polarization affect an ever-widening part of the public sphere and narrow the opportunity for nonpartisan civil activism. In addition, densely woven social networks are based on extended family relations that blur into structures of local solidarity, themselves hierarchically structured along lines of seniority and often tied to traditional authorities, contributing to the maintenance and (re)production of clientelistic patterns of political power.

Elites routinely generate support for their agendas by keeping sectarian and religious sensitivities alive, mobilizing and exploiting identity-based fears and grievances among their constituents. This is accomplished by evoking memories of recent and not so recent victimization and social marginalization and by conjuring up scenarios of current or future threats to the position or even the survival of the community. Meanwhile, political forces promoting cross-communal or issue-oriented platforms rarely succeed in generating a significant followings. Sectarian identity continues to function as the overriding matrix for social relations, the distribution of resources and life chances. This is kept alive and reproduced in distinct social milieus, which merge and to some extent even fuse only on the upper levels of the social and educational hierarchies. Hence, cleavage structures are maintained during political lulls and quickly reactivated as lines of conflict once the political elites again push or are drawn into such an activity.

Violence as part of the political game is still partially regarded as a legitimate tool, mostly in the form of “spontaneous” (translate: elite driven) community actions which enable their leaders to hurry in and control the situation, presenting themselves as indispensable and reaffirming their central role.

The high conflict intensity in many fields of Lebanese politics is largely the result of proxy conflicts between regional actors such as Syria (though its influence has been reduced since 2012), Iran and Saudi Arabia. However, this should not be understood as an internalization of external conflict patters. Instead, domestic sectarian actors seek the support of their “natural” regional affiliates, such as Hezbollah in the case of Iran and Syria. With Hezbollah joining the side of the Syrian government in 2012, the Shi’ite community in Lebanon became a more attractive target for Sunni

Conflict intensity

7

extremists in Syria and Lebanon. Particularly Tripoli and some radical Sunni strongholds in the north are more prone to slide further into conflict.

In joining the Syrian war, Hezbollah, which had used guerilla tactics against Israel, had to adapt its tactics due to the much more intense fighting in Syria. The losses in the Syrian war have been much higher for Hezbollah than in previous conflicts. Hezbollah is estimated to have 4,000 to 5,000 fighters deployed in Syria, with more than 1,000 casualties by the end of 2014. Furthermore, it had to relocate from the south of Lebanon to “unfamiliar” Syrian territory. On the other hand, in the al-Nusra Front (linked to al-Qaeda) and the IS, Hezbollah faces two new enemies, particularly in rural and mountainous areas of northern and eastern Lebanon as well as in Syria. Despite rising casualties while fighting along several fronts, Hezbollah is still regarded as one of the best-trained and equipped non-state armies worldwide.

II. Management Performance

14 | Steering Capability

Prioritization becomes easier when international agencies or influential, independent domestic agencies, such as the central bank and the National Council for Scientific Research (CNRS), are involved. A cabinet consensus on strategic priorities is more difficult to reach in more politicized policy areas.

Having the highest per capita ratio of refugees in the world, the chief priority of government has been focused on “stabilization,” supporting development and avoiding conflicts in deprived areas. For this purpose, a Lebanese Recovery Fund (LRF) was set up after the 2006 war with Israel in order to pool international donor support of recovery and reconstruction projects. These projects are identified by the Lebanese government and often implemented together with United Nations agencies.

The frequent cabinet reshuffles do not favor long-term planning and prioritization, rather they are of particular value to clientelistic interests. The Mikati cabinet was in office from June 2011 to March 2013 (21 months), the previous Hariri cabinet from November 2009 to January 2011 (14 months). Given these short-term cabinets, it is no surprise that the new electoral law is still pending.

To support the creation of a knowledge-based economy, in autumn 2013 the central bank (CB) committed itself to invest up to \$400 million into ICT companies over the next years. As part of this commitment, the CB introduced a venture capital fund (“Impact Fund”) of \$50 million in autumn 2014, designed to invest \$5 million in up to five projects in “creative intellectual-property-driven sectors.” The companies nurtured by this fund are expected to aim for the MENA and world markets, rather than the (small) Lebanese market.

Question
Score

Prioritization
5

As large parts of public tasks are carried out by either domestic non-state groups, such as sectarian communities and NGOs, or by international organizations, the implementation capacity of the government often relies more on indirect forms, such as negotiations and setting incentives. For example, among the 24 United Nations agencies working in Lebanon, great emphasis is placed on the implementation of specific programs, such as WHO assistance in building quarantine wards in Beirut hospitals during the 2014 Ebola crisis. Driven by EU pressure, in 2013 the government started implementing the second “EU Neighborhood Policy Action Plan,” which requires, for example, important advancements in justice reform. This includes strengthening the independence of judicial appointments and restricting the jurisdiction of military courts as well as improving the energy supply.

Implementation
4

In domestic public policy, decisions by the cabinet can be obstructed during implementation by dissenting individual ministers or bureaucratic staff. For instance, while fighting corruption is on the government’s agenda (at least rhetorically), its effective implementation can be obstructed by staff. Modern container scanners introduced in 2006 at the Beirut port’s customs office to reduce the notorious corruption in this authority, were permanently damaged and out of commission. Strikes at public corporations, such as Electricité du Liban and Casino du Liban, forced officials to adapt their reform plans and make costly compromises. In addition, the “endless” electoral reform debates have still not yield a change in the law, legislation on public finance management awaits adoption and sound statistical data collection is still wanting.

In the context of consociational politics and many veto players, policy learning in Lebanon often involves “the art of the possible,” as best practice solutions often cannot be realized. Thus, contrary to common sense, policy learning also encompasses ways of bypassing resistance from political opponents, through compromise and other tactics. However, in the conventional sense of transforming basic beliefs and changing policies (and outcomes), policy learning has been much more hampered.

Policy learning
5

Policy learning can be induced by the annual reports issued by the court of audit. This body has a mandate to scrutinize the management of public funds at the central government and municipal levels, including ruling on the validity and legality of government transactions. As regular budgets are rarely passed, the function of supervising budgetary spending lies fallow. Despite being under the authority of the prime minister (in whose name the annual reports are issued), the auditing court enjoys a high degree of independence. Further opportunities for policy learning are given through the high degree of international cooperation and support, through direct consultation with international organizations, such as the World Bank and ESCWA, and also indirectly through knowledge transfer in the collaborative execution of projects. Furthermore, the high density of higher education and research institutions provide resources for academic expertise and study, for instance on the

chronically deficient energy and transportation sectors. However, despite such promising resources, the flexibility of policymakers to initiate new policies is limited due to the veto player constellation in domestic politics, as illustrated by the faltering accession negotiations with the WTO.

15 | Resource Efficiency

Consociational and clientelistic arrangements lead to a dominance of sectarian (and regional) aspects over meritocratic in the recruitment and promotion of civil servants. This not only opens recruiting procedures to undue political influence, but also leads to overstaffing and limited competition within the public administration. It also deters highly qualified and motivated candidates, who instead approach the more attractive and better-paid private sector or even go abroad.

Efficient use of
assets
3

Being aware of public sector efficiency problems, the Ministry of Finance (MoF) published a “Commitment Document” in 2007 indicating priorities and measures to improve the situation on the revenue as well as expenditure side. Following up on this, two Fiscal Management Reforms (FMR) have been implemented at the MoF, with the second running from autumn 2013 to 2016.

The high share of fixed costs (current expenditures) leave little space for flexible investments (capital expenditures). In relation to GDP, primary current expenditure decreased in 2013 to 17.6%, down from 18.5% in 2012. The biggest part of current expenditures are personnel costs with 9.5% of GDP in 2013, down from 10.4% in 2012. On the other side, capital expenditures totaled only 1.5% in 2013, up from 1.2% in 2012. Of the total government expenditure in 2013 of 20,563 billion Lebanese pounds (+2.4% compared to 2012), personnel costs of 6,473 billion pounds took a share of 31.47%, with the military accounting for roughly half of these costs (teaching staff follow at a distant second). Transfers to energy provider Electricité Du Liban (3,056 billion pounds) took a share of 14.8%, and capital expenditures (investments) covered nearly 5% (up from 3.8% in 2012) of governmental spending (own calculation based on MoF’s Public Finance Annual Review 2013). At the same time, capital expenditures improved in 2013 to 987 billion pounds. However, their share of total expenditure is only 4.8% of the public budget.

Regarding the gross public debt level, some progress has been achieved since the peak of 179% of GDP in 2006. However, compared to the previous years the figures are rising again, from 134% in 2011 and 2012 to 140% in 2013. With these figures, Lebanon ranks 9th in the world and first in the MENA region, according to the CIA World Factbook. As nearly 60% of gross debt is from domestic lenders, Lebanon might be sheltered from the international financial crisis. However, the government is trying to increase the share of foreign debt as part of its debt management strategy,

as it hopes for better conditions (given the oligopolistic banking sector in Lebanon) and to extend maturities.

If not requested by international organizations and lenders, intrinsic motivation for a more efficient use of assets is still moderate. Issues of administrative decentralization and increased local autonomy remain double-edged, as they raise fear among policymakers of sectarian motivated break away.

Policy coordination within the government is often distorted and low, as ministers from different sects partially maintain ritual clashes over cross-cutting policies. One example involves attempts by the ministry of justice to legalize civil marriage in Lebanon. This effort led to rejection and protraction by the interior ministry. In economic policies, “March 14” coalition ministers often push for more deregulation and marketization, whereas “March 8” coalition cabinet members value the amenities of a large public sector and state-controlled enterprises. As a key ministry, the Treasury has to release the payments to private contractors from the other ministries, giving the finance minister some control over the proper fulfillment of contracts, leading to disputes between this key ministry and the contracting ministries. This sometimes results in private contractors not working until they receive payment.

Policy
coordination
4

A further example of deficient policy coordination is the tendering of offshore licenses for Lebanon’s expected gas reserves. At the time of writing (January 2015), a cabinet consensus about the needed decree to start the license tendering was far from being realized. Regarding the refugee crises, there has been more consensus, as illustrated for example by the halt in the influx of Syrian refugees in October 2014.

Overall, the Salam cabinet has achieved some improvement since February 2014 (one-third of the cabinet’s ministers are “independent”). Nonetheless, controversial issues such as the new electoral law have not yet been decided.

Corruption is not efficiently addressed in Lebanon. This may be understood as the cost of an all-encompassing, consociational form of government that almost completely eliminates the clearance capacity of an institutionalized opposition. The “self-cleansing power” of political competition does not work and complementary scrutinizing institutions are rare, as political actors generate legitimacy through clientelistic practices. Thus, monitoring functions are mainly left to the media and civil society. Yet, both have no real power to push for further investigation in cases of suspicion or impose consequences. Public entities such as the Civil Service Board that were designed to control the performance and financial conduct of executive bodies do not systematically and effectively supervise abuse. Despite exhortations from international actors such as the EU, an anti-corruption law is far from adoption. While having signed the United Nations Convention against Corruption (UNCAC) in 2009, ratification is still pending and the government has never developed a national anti-corruption strategy. There is also no law that regulates access to

Anti-corruption
policy
2

information. Disclosure of information is left to the discretion of officials. In 2009, the Lebanese “National Network for the Right of Access to Information,” a coalition including ministries, CSOs and members of parliament, developed a draft law to protect whistleblowers. This bill, however, has not been discussed in parliament. Theoretically, a controversial and ambiguous asset declaration law demands officeholder accountability, but the law is not enforced and accountability is rarely achieved.

In 2008, a Parliamentary Election Law took effect that sets up a political finance regulatory system, which was first applied in the 2009 parliamentary elections. The law focuses more on candidates than on parties. According to its article 56.2, only Lebanese natural or legal persons are allowed to offer contributions to a candidate’s campaign. Article 61 demands that each candidate “should” prepare a comprehensive statement, including details of the total contributions received during the electoral period (including sources, expenses and dates).

Even if its stipulations and enforcement are rather lax, the 2008 law brought some improved transparency to party financing and candidate spending.

The weak anti-corruption policy is clearly mirrored in Lebanon’s ranking in respective international indices. The 2014 – 2015 Global Competitiveness Report ranks Lebanon at a dismal 142 (out of 144) on both the “favoritism in decisions of government officials” and “irregular payments and bribes” indicators.

16 | Consensus-Building

Despite serious democratic setbacks, all relevant political actors agree to democracy underpinned by constitutionalism as the sole legitimate political order and mode of operation. Furthermore, there is wide agreement that a transition from the current system of sectarian-based power-sharing democracy to a system based on equal citizenship rights is desirable and indeed necessary, as mandated by the Taif peace agreement of 1989. Nevertheless, the political parties have been unwilling to reconcile this position with their contradictory communal and narrow interests.

The political representatives of communities experiencing a demographic decline, in particular Christians, are transparently concerned that abolishing the sectarian quota will harm their political standing (which, due to the dominant clientelistic structures, would inevitably affect their access to resources and economic opportunities), at least as long as the primary loyalty and solidarity of most Lebanese lies with their sectarian community first and the nation only secondarily. Communities whose demographic share is seen to be rising, in particular Shi’a Muslims (although official census data do not exist) are supportive towards reforms, since this would translate into their demographic ascendance into power. As no consensus between these conflicting

Consensus on goals

6

objectives appears possible, all parties in fact settle for the continuation of the current power-sharing system. Opinion polls confirm that most Lebanese follow a similar rationale by supporting a nonsectarian “citizen-state” as a long-term, distant vision that they do not expect to become a reality in their lifetime.

In a similar vein, all parties profess commitment to the constitutional order, yet whenever a conflict arises, elaborate and frequently arcane rationalizations are developed to bend rules in one’s favor, and to obstruct the workings of the institutions if this is not possible. Despite the appearance of agreement on controversial decisions, such as the twice extension of parliament’s term, political parties have been unable to pass a new election law and, after ten months, have yet to agree on the election of a president.

In principle, all relevant political actors agree on a market-based economy. Nuances exist with the “March 8” coalition (Hezbollah, Free Patriotic Movement and similar parties) giving some emphasis to a stronger state development role and voicing reservations about privatization, while the “March 14” coalition (Future Movement, Lebanese Forces, Kata’eb and similar groups) are oriented toward market liberalism. However, these differences are only rudimentarily developed in the public platforms of these political groups, and their role, as is true of all issue-based political differences, is by far secondary to identity-based conflicts. Overall, consensus on economic goals is (much) easier to achieve than on democratic ones.

On many occasions, political actors seek to generate support and legitimacy by emphasizing their role as powerful defenders of communal interests against the alleged competition or encroachment of other communities. Even positions which ostensibly advocate “national” interests or the abolishment of sectarianism transparently do so on terms that favor the interests of the sectarian constituency of their authors and thus, in turn, increase the defensive cohesion of other communities. While these cleavages are exacerbated by regional events and foreign intervention, appealing to communal sentiment and resentment remains the favorite political pitch.

In 2013, months of wrangling over a new election law led to the extension of the term of parliament by 17 months which was extended again in November 2014 by two years and seven months, giving the 2009 parliament a full new term. The opposition of three political parties and a small number of civil society activists was not enough to stand in the way of such a decision. Populist fear-mongering, instability in the northern and eastern parts of the country, the involvement of Hezbollah in Syria, and an inability to reach agreement on a new president are a few of the many reasons that were given to carry through this postponement.

Hezbollah itself has increasingly become involved in the war in Syria, thus ignoring and undermining the official policy of the government it is nominally part of. Anti-democratic political actors (e.g., fragmented Sunni groups such as the followers of radical cleric Ahmed al-Assir, whom IS reportedly named “Emir of Lebanon” in late January 2015) have developed similar strategies, if to a much lesser extent due to their more limited capabilities.

Anti-democratic
actors

3

Lebanon's political leadership is incapable (some may argue, unwilling) to reduce existing divisions and prevent cleavage-based conflicts. Here, the sectarian system serves as a double-edge sword: On the one hand, it has allowed for the existence of 18 religious groups on the small territory; on the other hand, it prevents any serious process of cohesion and cooperation. For instance, between 2005 and 2008 Hezbollah and its allies behaved as veto players obstructing and paralyzing a government that had majority support in the first freely elected Lebanese parliament since the civil war.

Cleavage /
conflict
management
2

Yet since the Lebanese tradition of consensus democracy militates against the marginalization of any of the major sectarian groups, the then-opposition did not behave in an anti-democratic manner but deployed the means provided for by the constitution and tradition (designed to limit the exercise of majority rule). However, in 2008 Hezbollah and some of its allies went beyond the legal constitutional framework and deployed direct force in order to compel the other political camps to agree to a compromise on their terms, which illustrates the deeply engrained structure of sectarian cleavages that still exists.

Many draft laws that have been lobbied for by civil society actors and have found support within the political sphere nonetheless remain dormant or are buried intentionally in procedural cul-de-sacs. Only on rare occasions, civil society involvement results in legal change. This was the case with the ban on smoking in public locations passed in 2011 (but weakly implemented), the passage of a new driving code and a law against domestic violence. In late 2005, the government formed a national commission composed of leading scholars and civil society activists to reform the electoral law. A member of this commission and prominent civil society activist was appointed minister of the interior in 2008, and government institutions cooperated closely with civil society in the organization of the 2009 elections. NGOs specializing in issue or sector specific advocacy have proliferated since 2005 and members of parliament are usually receptive to lobbying efforts. Watchdog and performance monitoring organizations have also become active; however, obtaining visibility in the public sphere has been difficult, especially on party-owned television channels and in the presence of overwhelming sectarian political conflict.

Civil society
participation
6

Alongside formal civil society in the form of NGOs, Lebanese society is permeated by dense and partly formalized networks of relations based on kinship and locality which blur into clientelistic structures. These networks are hierarchically organized and generally lend unquestioning support to sectarian leaders. Politicians invest great and careful efforts into cultivating support from these networks and, in particular, from so-called key voters who command the votes of sometimes large groups of individuals.

In 1991, following the civil war, a blanket amnesty for crimes committed was passed. Only a single militia leader was subsequently prosecuted, for transparently political reasons, and in turn received an amnesty after the political change in 2005. A fund dedicated to the reconstruction of the homes of internally displaced was established, but payments have been slow and accompanied by claims of corruption. No peacebuilding or reconciliation process accompanied these measures, and the issue of 17,000 people who disappeared during the civil war has not been officially addressed in a meaningful way. The fact that many prominent political actors in both camps have past records as militia leaders and warlords, and thus bear responsibility for atrocities, fuels distrust and mutual fear between communities. The leaders have further resisted the strengthening of the judiciary, for fear of being prosecuted for crimes and other infractions committed during the war. It also contributes to the cultivation of selective memories, emphasizing atrocities suffered by one's own community in order to exculpate one's own leaders. Shifting political alliances have sometimes been accompanied by openly instrumental performances of "reconciliation" between political leaders that fail to initiate any sustained momentum for reconciliation between the respective communities.

Reconciliation
3

17 | International Cooperation

Given the high density of international organizations active in Lebanon, it is less surprising that Lebanese officials have gained solid experience in effectively using the support offered by international providers. In the course of the Syrian crisis, international donors have raised their investments in order to help the refugees and support domestic stability. Lebanon's government often prefers short-term gains over long-term goals. Cooperation with international organization is often driven by sudden crises rather than by strategic development schemes. However, international donors prefer to develop their own aid programs and, at the very least, to be involved in the implementation (in order to bypass government inefficiencies and corruption). Against this background, opportunities for learning from international experience do exist, but are limited due to internal efficiency and coordination problems. For example, as of December 2014, no Ebola case has been reported in Lebanon, despite up to a quarter million Lebanese residing in West African countries. With the help of WHO, a first isolation unit was set up in autumn 2014 at the Hariri Hospital near the airport, with more to follow in 2015.

Effective use of
support
5

The state's monetary and fiscal policies are closely coordinated with the IMF and the World Bank, which both maintain permanent offices in the country. Within key ministries and institutions, teams of U.N. and World Bank-salaried Lebanese professionals are a common sight. The government has also successfully attracted a generation of well-trained Lebanese expatriates to return and take part in the postwar reconstruction process. The European Union supports administrative, trade and social

reforms and monitors these in its annual progress reports. For 2013, the report finds a slow pace of implementation for most of the objectives set out in the EU Neighborhood Policy Action Plan. The report faults the government crisis of that year.

There is also significant donor support from affluent MENA countries such as Saudi Arabia, Kuwait, Qatar and Iran. Saudi Arabia has supported the Lebanese army with a grant of \$3 billion to be spent on French weapons. Offers from Iran to help bolster the Lebanese army have been rejected.

The new Salam cabinet is mainly perceived as credible by international actors, with some exceptions regarding the complex nature of the consociational decision-making system (where political actors have affiliations with regional powers). International partners have developed a greater understanding of the generally limited capacity for governance and policy implementation caused by the political system in general and internal polarization in particular, and have adjusted their expectations accordingly. Remarkably, and to the surprise of many observers, Lebanon has stuck to its funding commitments concerning the U.N. Special Tribunal for Lebanon (STL), although Hezbollah – which is part of the government – considers the tribunal to be part of an Israeli-inspired scheme against it. Conversely, Lebanese authorities have made formal moves to apprehend the persons indicted by the STL (all likely or confirmed Hezbollah operatives), but have not taken effective measures toward this end, fearing security repercussions.

Under the aspect of political autonomy, the Syrian crisis has loosened Syrian influence and thus strengthened Lebanese political autonomy. The government has also earned international respect for its open borders policy towards Syrian refugees, despite massive economic and political difficulties, and for its efforts to remain neutral while mitigating the crisis. It is currently viewed as a comparatively reliable factor for stability in the otherwise highly volatile region. This is despite the apparent involvement of Hezbollah in the fighting. The \$3 billion grant from Saudi Arabia to purchase French weapons was formally meant to support Lebanon's fight against terrorism, but might informally reflect a tougher stance against Hezbollah. Despite numerous threats – such as a spillover from war-ravaged Syria, violent events in Tripoli and along the Syrian border, defections from the army stemming from the ascent of the IS, and infiltration by radical factions – Lebanese governments have an overall good international reputation as a reliable partner.

Credibility

7

Lebanon is a founding member of the United Nations and a member of a large number of international and regional organizations, such as the League of Arab States (LAS) and the Organization of the Islamic Conference (OIC). Lebanon maintains particularly close relations with France and the United States. Fearing a further expansion of the IS, several foreign powers have offered weapons and technical support to Lebanon worth billions of dollars.

Cooperation with MENA countries depends a) on the Lebanese sectarian affiliation and b) on the respective policy field. In trade and tourism, the Gulf countries and specifically Saudi Arabia are important partners, with the latter particularly for Sunni representatives. In autumn 2014, Qatar served as mediator in the hostage crisis (without success), when 25 Lebanese servicemen were taken captive as the al-Nusra front and IS overran the northern Lebanese town of Arsal. Iran backs particularly Hezbollah. Already in 2010, the mutual abolishment of visa requirements reflected improvements in relations with Turkey, which is critically viewed by some Armenian Christians in Lebanon. In general, relations with regional countries are in some cases dominated by the personal relationships of Lebanese politicians to those countries' ruling elites. As such, they can fluctuate considerably depending on the configuration of power in Lebanon and the relative position of such "clients" of regional actors within the domestic power structure.

Due to the unresolved Middle East conflict, Lebanon remains technically in a state of war with Israel and does not recognize its existence. Lebanon complies with Security Council Resolution 1701 and the Lebanese army cooperates smoothly with the U.N. Interim Force in Lebanon (UNIFIL), represented by some 10,000 troops in the country's south and off its coastline. The killings of six Hezbollah fighters and an Iranian general by Israel's army in January 2015 at the Golan Heights and the Hezbollah retaliation, in which a Spanish peacekeeper was killed, led to strong commitments by Lebanese politicians to the UNIFIL mission.

Relations with Syria have fluctuated considerably over the past years. Lebanon has struggled to maintain neutral in the Syrian conflict and has attempted to prevent a spillover. As a result of the generally deteriorating relations between Sunni and Shi'ite Muslims in the region, relations with some Gulf states have suffered too. Lebanese residing in those states experience difficulties as a result of the alleged destabilizing activities of Hezbollah in the area.

Strategic Outlook

Lebanon's path toward a fully fledged democracy with a market economy is unique. Despite a set of adverse conditions, a relatively stable democracy and liberal market economy has been developed. Among the current political challenges, keeping Lebanon as far as possible out of the Syrian civil war and coping with the refugee crisis remain paramount. As a multi-confessional, small-sized political economy, it is particularly exposed to (changing) regional and international political, economic and social conditions. External influence has always played a major role in Lebanese politics and economy; thus, for domestic politicians and policymakers, learning to look inwards for solutions might be a useful strategy to get through the increasing "cold war" between Iran and Saudi Arabia. In early 2015, the Yemeni crisis posed another potential thread to internal consensus. While Syrian influence on domestic affairs is at its lowest point since the civil war, Iran and Saudi Arabia are believed to intermingle massively in Lebanon's domestic affairs (e.g., in the case of the (non-) election of a president), illustrating its fragile sovereignty.

However, located at such a strategic geographical position, with a political culture of balancing interests, a free market economy with relatively liberal economic and financial policies (and low tax rates), free foreign exchange markets (with free inward and outward flows of capital), full convertibility of currencies, banking secrecy, an excellent education system, and a well-skilled labor force, Lebanon must address its precarious condition, particularly its security situation. As of early 2015, new tensions arose between Israel and Hezbollah after the Israeli killing at the Golan Heights of two high-ranking Hezbollah commanders and a general from the Iranian Revolutionary Guards. The security situation looks more unpredictable than ever. While, of course, Hezbollah attracts much public attention, Sunni fragmentation (and radicalization) as a future threat should not be underestimated.

Overall, security issues and the Syrian crisis should not be used as justification for procrastinating on urgently needed reforms in domestic infrastructure and the energy sector as well as in fighting corruption and improving administrative efficiency. Electricity, telecommunications and aviation are still state monopolies. A new competition law to privatize these specific sectors is still pending. This, however, leaves sectors such as steel, cement and banking in an oligopolistic state. In addition, high public debt and deficit rates appear to have become unmanageable. Against this background, the low oil price in early 2015 contributed to financial consolidation, while at the same time lessening the pressure for reform.

Furthermore, despite international mediation efforts, a consensus for the office of president was still not in sight in early 2015, leaving the country without a head of state since May 2014. Parliamentary elections have been postponed twice, now until May 2017, due to internal divisions and external meddling (to ensure Lebanese support in the Syrian crises). Overall, it has become less likely that Lebanon's political conflict intensity will decline in the next years. Despite its deficiencies, however, in the last decades the political elites have always found a way to avoid the worst outcome: sliding back into civil war.