

# BTI 2010 | Lebanon Country Report

<b>Status Index</b>	1-10	<b>6.21</b>	# 45 of 128	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	4.1	HDI	0.80	GDP p.c.	\$	10593
Pop. growth	% p.a.	1.0	HDI rank of 182	83	Gini Index		-
Life expectancy	years	72	UN Education Index	0.86	Poverty <sup>2</sup>	%	-
Urban population	%	86.8	Gender equality <sup>1</sup>	0.59	Aid per capita	\$	229.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The assassination of former Prime Minister Rafiq al-Hariri in February 2005, the subsequent withdrawal of Syrian troops after decades of Syrian military presence, and the end of Syrian economic and political dominance of the country together marked an important turning point in Lebanon's history. With the external mediator out, internal divisions quickly deteriorated into a standoff between two opposing camps. This development was spurred by the 2006 war between Israel and Hezbollah, from which Hezbollah claimed to have emerged as the victor. Regional division between countries allied with the West (the so-called "moderates," such as Saudi Arabia, Egypt and Jordan) and those states and entities allied with Iran (Syria, Hezbollah, Hamas) also contributed to political fragmentation within Lebanon.

On the eve of the Paris III International Donor Conference in January 2007, the Lebanese government adopted an agenda entitled "Recovery, Reconstruction and Reform." Implementation of reform was delayed, in part, because of the 2007 crisis involving the Palestinian refugee camp in Nahr al-Bared (near Tripoli). The main reason for postponing reform, however, was a period of intense political destabilization (marked by political assassinations, street violence and a siege of the government building), which culminated in May 2008 with violent clashes between Hezbollah and its allies (the so-called March 8 camp) and the majority (the so-called March 14 camp). During this period of chaos, the Hezbollah-led opposition blockaded political institutions and paralyzed parliament. Under these conditions, Lebanon's presidency remained vacant following the end of Emil Lahoud's term in November 2007.

Despite the difficult circumstances, the Lebanese government has undertaken some reforms in the areas of economics, finance and trade (according to Paris commitments). Progress in the fields of human rights and judicial and social sector reform, on the other hand, has been slow. Some reform decisions were taken but could not be implemented.

The May 2008 Doha compromise, which halted the political standoff in Lebanon, together with the election of Michel Suleiman as president and the formation of a national unity government in early July 2008 ended the blockade of institutions and removed some major obstacles to implementing reform. Major policy differences nonetheless persist between the coalition partners from opposed political camps. Reconciliation has not taken place. A dialogue on questions of vital national interest has started, albeit outside the formal institutions, though it has not led to any serious discussion of the issues at stake. No consensus has emerged so far. Parliamentary elections are scheduled for June 2009, and the election campaign has already begun in 2008. This political climate works in favor of short-term spending and increased division rather than unified efforts for implementation of long-term reform.

## History and Characteristics of Transformation

Since independence, Lebanon has been a consociational democracy characterized by societal and political pluralism, power-sharing arrangements between its different religious sects, and the principle of government by consensus. Quotas determine the representation of religious communities in all institutions. The size of the quotas among the country's largest religious groups, however, has been one of Lebanon's key problems, particularly as its demographics have shifted considerably over the last 70 years – with the share of Christians decreasing and the share of Muslims, and Shi'ites in particular, on the rise. There are 18 officially recognized denominations, the biggest being Christians, Muslims (Sunnites and Shi'ites) and Druzes. The dominant denominations compete for resources, influence and cultural hegemony. Lebanon's population is estimated to be about 3.5 million. In addition, between 12 and 15 million Lebanese live outside the country, with a vast majority residing in South and North America.

Exact population figures for each denomination are not available, and due to the political sensitivity of the confessional balance, no official census has been taken since 1932. Statistical proof of demographic shifts could quickly undermine the quotas that the main communities currently hold in the political institutions. These quotas have their root in the unwritten National Pact of 1943, according to which seats in parliament were distributed between Christians and Muslims at a ratio of 6 to 5. In addition, the pact established that the office of the president was to be held by a Maronite Christian, the post of prime minister by a Sunni Muslim and that of the speaker of parliament by a Shi'ite Muslim. The posts of deputy prime minister and deputy speaker have been reserved for the Greek Orthodox. At the end of the civil war, during peace negotiations in Ta'if (Saudi Arabia), it was agreed that the distribution of power would be adjusted in favor of Muslims. The distribution of seats in parliament was changed to 1 to 1. The pre-war system was also altered so as to shift most of the (Maronite) president's authority to the (Sunni) prime minister and with him, the council of ministers.

The proportional distribution of offices runs through all of Lebanon's public institutions (parliament, cabinet, administration, military, etc.). Lebanon's politics have remained characterized by sectarianism and, at times, by violent attempts of communities to enhance their share of power and access to resources. In the last two decades, the Shi'ite community, above all, has – against the backdrop of demographic strength and its role in the resistance against Israel – struggled to gain a greater share of power and resources.

While Lebanon is formally a parliamentary democracy with a constitution, parliament and regular elections, political power in the country stems from informal, clientelist networks, which are headed by the various sectarian elites or big families, rather than from formal political institutions. Power struggles and clientelism have negatively affected governance and corruption control. The principle of consensus and the system of confessional representation have stressed the importance of communal inclusiveness and power-sharing; they have not provided for effectiveness in government.

A variety of other important factors have shaped Lebanon's politics and transformation.

First, Lebanon's 15-year civil war has left an economic and political legacy. At the end of the war, the state institutions responsible for ensuring order, supplying public services and distributing resources had de facto ceased to exist. Hundreds of thousands of Lebanese, particularly members of the educated middle class, had fled or left the country. Self-made millionaire Rafiq al-Hariri, nominated prime minister in 1992 following the first post-war elections, gave the highest priority to rebuilding the country's infrastructure and stabilizing the Lebanese currency. Rapid reconstruction, which mainly focused on the Sunni areas of Beirut, was largely funded by heavy borrowing. During this time, the nation's domestic and foreign debt ballooned five-fold and twenty-fold respectively. The government's neoliberal growth policy intensified social inequalities and concentrated wealth among a small percentage of the population. At the same time, however, policymakers were able to cut inflation from more than 120% to just 2-3% by the end of the 1990s. In addition, while the infrastructure was returned to working order (e.g., garbage collection and the system of mail delivery were up and running again) large parts of the country remained underdeveloped and marginalized, in particular the country's north and south.

Lebanon has a long-standing tradition of a liberal economic framework. Trade, in particular, has not been subject to significant constraints, and Lebanon has been seeking to recapture its former role as the region's financial hub. Lebanon has made progress with regard to reducing its massive debts, which were caused by mobilizing international support after the 2006 war between Israel and Hezbollah. Other challenges include disentangling private and public economic interests, particularly in services such as electricity and telecommunications, corruption control as well as countering growing inequalities and providing a social safety net.

After the civil war, the state was unable to restore its monopoly on the use of force. While the Ta'if Agreement envisaged the demilitarization of all militias, powerful non-state actors such as Hezbollah have not given up their military arsenal and continue to control parts of the country. Small arms have remained widely spread among the population.

The second important set of factors shaping Lebanon's politics and transformation are the repercussions of both the ongoing Arab-Israeli conflict and the long years of Israeli occupation in the south of the country, which came to almost a complete end in May 2000. Following the war in 2006, which brought massive destruction above all (but not only) to Lebanon's south, the Lebanese armed forces deployed for the first time in 30 years, together with an upgraded United Nations force (UNIFIL), to the area south of the Litani River. Nevertheless, Hezbollah still largely controls the south (and the southern neighborhoods of Beirut) and provides services to the population there.

Thirdly, the legacy of Syria's presence and political influence, as well as the meddling of other external actors, complicate Lebanon's political and economic environment. Syria was forced to withdraw its troops in spring 2005 against the backdrop of the assassination of former Prime Minister Rafiq al-Hariri (an assassination that was immediately blamed on the Syrians). Popular outrage quickly developed into large-scale anti-Syrian demonstrations dubbed the Cedar Revolution. This movement did not stabilize Lebanon's security situation, however, and political assassinations and street violence continued after Syria's withdrawal. Syrian-Lebanese relations remain in need of clarification. External interference in Lebanon's political power struggle continues.

## Transformation Status

### I. Democracy

#### 1 | Stateness

Only after the end of the civil war (1990), Israeli withdrawal from Southern Lebanon (2000), Syrian withdrawal from the rest of the country (2005) and the 2006 war could the Lebanese state deploy its army to almost all of its territory. After the 2006 war, the Lebanese Armed Forces for the first time in almost 30 years entered the area south of the Litani River. Still, pieces of Lebanese territory remain occupied by Israel, including the northern part of Ghajar Village and, at least according to Lebanese claims, the Shebaa Farms. Palestinian refugee camps remain under the control of the PLO (and other Palestinian factions) and bar access to the Lebanese military. De facto, the state's monopoly on the use of force is established only in parts of the country. Powerful non-state actors, for example Hezbollah, remain heavily armed and exert control over large areas in the south and the Bekaa in the east of the country. Hezbollah also exerts control over the predominantly Shi'ite southern suburbs of Beirut, which generally remain off-limits for the state's security apparatus. Over the last two years, several developments linked to the absence of a monopoly on the use of force have dominated the course of events in Lebanon. In the summer of 2007, the army needed three months to defeat a small group of Jihadists (Fatah al-Islam) in the Nahr al-Bared refugee camp (next to the northern town of Tripoli) who had robbed a bank and killed several soldiers. In the course of fighting a large part of the camp was destroyed and its inhabitants were driven out. In May 2008, after a protracted governmental crisis, Hezbollah and its allies overran West Beirut in order to compel a return to a national unity government and the principle of governing by consensus. This was the first time Hezbollah employed its military strength and discipline for domestic political purposes. The army remained neutral and started to reclaim control only after several days. Once the government was formed in July 2008, debate over the future of Hezbollah's weapons, among other points of contentions, delayed the government policy statement for another month. In the end, the statement emphasized "the right of Lebanon's people, army and resistance to liberate the Shebaa Farms [...] and defend Lebanon," thus implicitly declaring that Hezbollah had a legitimate right to maintain its weapons, while at the same time stressing Lebanon's adherence to Security Council resolution 1701.

Monopoly on the  
use of force

All Lebanese citizens enjoy civic rights and, with the exception of some marginal political groups, do not question the legitimacy of the nation-state. Almost all groups, however, question the loyalty of other groups to the state and to the principles of pluralism, religious coexistence, and power sharing. In addition, groups often perceive other groups as agents of foreign interests. Some groups, particularly the Shi'ites, feel like they are being systematically discriminated against with regard to job opportunities in the public sector. Among Maronite Christians, a feeling of marginalization has emerged in the postwar period due to the loss of influence linked to the Ta'if adjustments – a feeling that has been termed “ihbat,” meaning disenchantment, frustration, or hopelessness and discontent. Compared to other countries in the region, Lebanon has managed to integrate minorities socially and politically. The Lebanese nation is composed of 18 officially acknowledged denominations with guaranteed freedoms of religious practice, belief and speech. Nevertheless, since the Lebanese system is built on apportionment of seats based on sectarian and communal quotas, an inherent discrimination is practiced within the system. Confessional background rather than merit determines individual careers and opportunities. Lebanon is home to between 250,000 and 300,000 Palestinian refugees (while the number of Palestinian refugees registered with UNRWA is more than 400,000, the actual number is believed to be only around 250,000-300,000) who either fled during the 1948 war or who are descendants of these refugees. These refugees have been denied citizenship as well as equal access to jobs and decent living conditions. In recent years, an increasing number of domestic workers from Africa and Asia have settled in Lebanon. Like the refugees, these immigrants lack protection and are denied basic human rights by their employers.

State identity

Lebanon has no state religion. Its entire political and social system is built on power sharing between acknowledged confessional groups. Therefore, many aspects of life, such as personal status issues, are regulated by the confessions. There is no civil marriage and no civil status law. The absence of such laws demonstrates the power that religious leaders wield in Lebanese politics – even though no formal institution exists through which to exert it. Religious leaders also regularly speak out on pertinent political questions and the respective communities largely follow their advice. The sectarian nature of the system necessitates that politicians make their decisions either in coordination with the respective religious leaders or in a manner that does not conflict with the latter's interests. There is freedom of religion in the sense that each of the recognized confessional groups has the right to practice its beliefs. Many political rights or access to job opportunities, however, can only be exercised within the confession. This places strict limitations on individual beliefs and choices.

No interference of religious dogmas

Lebanon has rebuilt an administrative structure that extends throughout the country, but its operation is to some extent deficient, particularly in peripheral and rural

Basic administration

areas. The aftermath of the 2006 war has highlighted these deficiencies. For instance, the administration had to rely heavily on international help for emergency and reconstruction measures, and it has proven to be much slower and less efficient than Hezbollah in providing compensation to the war's victims and in rebuilding damaged housing and infrastructure. The administration has also proven weak with regard to law enforcement. One example of this is that considerable cross-border smuggling activities have largely not been prosecuted.

## 2 | Political Participation

General elections are held regularly (every four years) in Lebanon and serve in principle as the means of filling leadership positions. In 2005, for the first time, elections were held without direct foreign interference; the international community labeled them as mostly free but not fair. Election procedures have provided ample opportunity for manipulation, vote buying, voter intimidation and fraud. The law regulating elections does not meet the international standards for free and fair elections. The new election law, which was adopted in late 2008, has not changed the situation substantially. One of the major reasons for this is that the law does not require standard pre-printed ballots. In addition, the quota system, which regulates the number of seats in parliament for each of the communities, substantially reduces freedom of choice. Excessive gerrymandering, worsened even further as a consequence of the latest legal amendments, severely undermines the equality of the vote.

Free and fair  
elections

There is no majority rule in Lebanon. Rather, governance is based on consensus politics, with each member of the governing troika – the prime minister, president and speaker of parliament – having a de facto veto power. The president, for example, is needed to enact laws and can block implementation of these laws by refusing to sign a council of ministers' decree. The speaker can effectively paralyze parliament and stall the legislative process by not calling the parliament to session. This is exactly what happened in the aftermath of the 2006 war when a power struggle between the two main political camps erupted. The speaker of parliament refused to convene the body in order to support the then-opposition's demands for more representation in government, thereby effectively paralyzing parliament and government between late 2006 and mid-2008.

Effective power to  
govern

Lebanon's association law is very liberal in comparison with other countries in the region. It allows for the freedom to form new associations and groupings of various kinds. In practice, previous ministers of the interior have abused the law by restricting freedoms and curbing the formation of rights-based civil society associations. While, in general, freedom of assembly and association is unrestricted – at least for Lebanese citizens – in some cases registration notification has been withheld without explanatory statement, a comfortable bureaucratic procedure to

Association /  
assembly rights



keep organizations in a state of uncertainty. Because to the prevalence of small arms dispersed throughout society, assemblies often quickly deteriorate into armed clashes with casualties. This phenomenon was rampant in the heated atmosphere between the end of 2006 and the culminating clashes in May 2008.

Freedoms of opinion and the press are guaranteed in principle, but subject to some intervention, in particular with regard to principles of morality. Some intervention is also aimed at political speech. Although the structure of the mass media system provides for a plurality of opinions, each television and radio station or newspapers is linked to a certain political group or family and clearly follows a distinct political line. This reduces the chances for the public to get trustworthy, well-researched and evenhanded information. Rather, rumors, slander, and incitement abound in the media. Extremist groups at times threaten or injure people who express alternative ideas about life, society and religion, though this is much less of a problem than in other, less pluralist, Arab states.

Freedom of  
expression

### 3 | Rule of Law

In order to protect the interests of Lebanon's numerous religious groups, the constitution intentionally designed a weak central government whose actions are subject to a complex system of checks and balances. In principle, Lebanon's constitution outlines three separate branches of government. In Lebanon's parliamentary system, parliament elects a president with a two-thirds majority. Parliamentary blocs nominate a prime minister, who, in turn, is officially nominated by the president. The prime minister forms a cabinet, which must then gain the parliament's vote of confidence. The prime minister is accountable to the parliament. In practice, however, politics operate differently. Because of the confessional system and the necessity to generate a consensus on major decisions, all action requires a compromise between the governing troika (president, prime minister, and speaker). This negotiation blurs the lines of clear checks and balances between the executive and legislative branches. In 2007 and 2008, the speaker of parliament used his position to back the then-opposition's demands for greater consideration of their claims in the cabinet rather than for parliamentary checks on specific legislative initiatives or decrees.

Separation of  
powers

The judiciary operates relatively independently, but its functions are partially restricted by factors such as corruption, political interference and confessional representation (to the detriment of merit and professionalism). The constitution provides for an independent judiciary in Lebanon, and all citizens enjoy access to the system. The system is relatively well organized and offers the possibility to appeal decisions. It suffers, however, from confessional allotments, for example the seats in the Constitutional Court and the Higher Judicial Council are allotted based on confessional representation rather than professional excellence. In practice, the

Independent  
judiciary

judiciary has been subject to political pressure, particularly in the appointments of key prosecutors and investigating magistrates. Moreover, many citizens doubt the existence of equality before the law. Rather, people perceive the judicial system as being open to manipulation by political and confessional interests.

The perception of corruption within the public sector is widespread. Corrupt officeholders are not prosecuted adequately under the law, though they occasionally attract adverse publicity. In a system where compromise is always necessary to maintain a balance of power between various groups and to protect confessional spheres of influence, enforcing accountability and integrity in office becomes very difficult. Even though there are legally mandated disciplinary councils that produce yearly reports about abuse and corruption, and the need to take action, prosecutions of public officeholders for corruption, in practice, are rare.

Prosecution of  
office abuse

Lebanon's constitution guarantees largely unrestricted civil rights, including the right to freely practice religious beliefs. In practice, civil rights have been restricted in the past, especially in the 1990s and until 2005 when Syrian forces withdrew from Lebanon. Since then, freedoms of association, assembly and demonstration have been practiced rather freely. The judiciary remains the main guarantor of civil rights and the legal medium through which to seek redress. A person's right to life and security, however, are not adequately protected against infringements from others. Violence against women, as well as other forms of non-legal discrimination of women, continue unhindered with no clear measures or legal provisions to protect them. The perpetrators of so-called honor crimes, such as violence (often murder) of women who have behaved "immorally," often receive light sentences or no punishment at all. These crimes are a regular feature in Lebanon, especially in rural areas. Political violence and human rights violations that occurred during the civil war and under Syrian tutelage have not been persecuted.

Civil rights

#### 4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but clientelism and confessional apportionment of jobs and positions severely hinder their efficiency. Several informal mechanisms have also rendered formal institutions less relevant and efficient. First, strategic policy decisions are not discussed in the elected institutions, but rather in informal circles or in national dialogues encompassing communal leaders. After Syrian withdrawal, the president invited political leaders and strongmen to meet in a national dialogue about basic issues of co-existence in Lebanon as well as the country's strategic outlook. While this dialogue broke down in 2006, it started up again in September 2008. During the last two years, a political power struggle seriously affected the country's political institutions. Six government ministers of the March 8 camp (the ministers of foreign affairs, energy and water, labor, health, agriculture and environment) resigned in late 2006.

Performance of  
democratic  
institutions

Because the prime minister did not accept their resignations, the posts remained de facto vacant until the government of national unity was formed in July 2008. Parliament was paralyzed between late 2006 and mid-2008, and the post of the presidency remained vacant between fall 2007 and mid-2008. Hence, not only was the ability of the government to rule highly reduced, but also a number of appointments and accreditations could not be implemented.

While, in principle, all relevant political and social players accept democratic institutions as legitimate, in practice almost all forces use informal channels to pursue their interests and thereby undermine the democratic institutions. In the past, power plays and foreign interference in these institutions' operational activities have been common means of maintaining the balance of power among various actors and a weak central authority. The reform plans provided under the Ta'if Accords, particularly the plans for administrative decentralization and the establishment of a second chamber of parliament not based on sectarian representation, have stalled. As a consequence, full confidence in state institutions is far from being restored. Due to the consensus principle, all major groups hold veto powers and can obstruct the democratic process. Despite a strident political debate between the March 14 and the March 8 coalitions in 2006 on this issue, a consensus government was re-institutionalized through a compromise mediated by Qatar in the aftermath of the violent show of force by Hezbollah and its allies in May 2008. This compromise provided the March 8 forces with a blocking third in the cabinet.

Commitment to democratic institutions

## 5 | Political and Social Integration

Lebanon's political party system is replete with organizations that call themselves political parties but are in essence sectarian-based entities. This is true of the major political parties, with the exception of some smaller transnational parties and fundamentally ideological parties, such as the communist party. Most of the major parties, therefore, can hardly be considered modern political parties. They do not play a significant role in forming opinions and political will. These organizations are active in the service of the party leader, who has typically gained this position by inheritance and/or rubber-stamp elections. The parties' usefulness in elections generally centers on their ability to organize voters, rather than the ability to advance a political platform or political programs for candidates. Additionally, parties are subject to drastic political and ideological changes as dictated by their leaders and electoral alliances. Because parties are mostly sectarian-based, there is little voter volatility. The party system is rather strongly fragmented and polarized.

Party system

Lebanon has an entrenched patron-client system that is fuelled by the apportionment of state resources and benefits on the basis of confessional identity. This system wields power to community leaders, religious figures and political

Interest groups

strongmen, who represent sectarian or communal interests. They become the mediators between the state and community and are perceived as the main vehicle for favoritism and the conduit for a clientelist system that is constantly at risk of polarization. Community leaders enjoy significant power as a result of this system to the point that they are able to mobilize their “clients” around important political issues at any given time. In addition, professional associations play an important role in regulating access to jobs and licenses. Workers organize in labor unions and syndicates, with the main union also playing a role in political mobilization. For example, the May 2008 clashes began with a general strike and demonstrations called for by the labor unions.

As long-term surveys indicate, consent to democracy in its specific Lebanese form of consociationalism is high, and the constitutional framework (as well as the National Pact of 1943 and the Ta’if Accords of 1989) is generally well accepted. In particular, a majority of Lebanese favor a multiparty system, independent judiciary, free press, as well as sectarian coexistence and rule by consensus. No regular representative opinion polls or official referenda in Lebanon beyond occasional polls (mostly conducted by private firms with distinct political leanings) survey the public mood. Nevertheless, street demonstrations are usually a good way of assessing the proportion of the population in favor of any given issue. Voter turnout in parliamentary elections has increased since Syria’s withdrawal, but is still only moderate (well below 50% in the last parliamentary elections in 2005). This low voter turnout is also caused by the inability of Lebanese to vote out-of-country and the need to travel back to one’s place of registration to vote.

Consent to  
democratic norms

Lebanon enjoys one of the most active and least restrained civil societies in the Arab world. Several forms of self-organization and interest groups and a vibrant civil society sector represent a large variety of issues, including cultural, environmental, gender and rights-based interests. Associations exist even in remote villages and center around cultural or sports activities. There is also a large spectrum of religious welfare associations. Lebanon’s 1,300 officially registered NGOs testify to the importance and size of civil society. It is estimated that there are at least as many unofficial, unregistered organizations operating. The strength of Lebanon’s NGO sector stems from the major role NGOs played during the 1975-1990 civil war. During that war, organizations filled the vacuum of state authority and compensated for the breakdown in public services. At the same time, very little trust exists among the population and few organizations cut across confessional affiliations.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Lebanon financed its push to quickly rebuild the country after the civil war with heavy borrowing and focused on reconstructing the capital city Beirut, to the exclusion of balanced regional development. The reconstruction plans included a major overhaul of the tourism sector. The agriculture and small industry sectors as well as plans for staving off poverty and increasing employment, on the other hand, were neglected. Heavy borrowing by the government for over 15 years has left the country with a considerable debt. The country has also suffered from repeated conflict and war, particularly in 2006 and 2007, which has adversely affected tourism and economic growth and necessitated massive investment in reconstruction. Policies have traditionally included only minimal attention to social safety nets and investment in social services. Since 2006, however, government reforms have started to address social issues and the reform plans include comprehensive strategies to overhaul the education and social security systems and to attend to the poor and needy. Despite such efforts, official unemployment rates remain as high as 20%, and wealth is concentrated in the hands of a few. UNDP's Human Development Index ranks Lebanon as a country with medium human development. Since the end of the civil war, the country has steadily improved its ratings. Nevertheless, poverty is a serious problem in Lebanon despite some apparent improvement in the last decade. In 2005, poverty estimates placed extreme poverty at 8% of the Lebanese population. This implies that almost 300,000 individuals in Lebanon are unable to meet their basic food and non-food needs. Around 28% of the population is below the upper poverty line (about \$4 per capita per day). There is a considerable disparity in the distribution of poverty with a heavy concentration in certain marginalized regions. In principle, all Lebanese citizens have access to education and jobs, and institutional discrimination or exclusion based on gender or other factors does not exist. Nevertheless, in practice, gender equality is absent and some sects feel discriminated against when it comes to public sector employment. There is no holistic approach to women's participation in social, political and economic life. Women's participation is thus very weak.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	21465.3	21558.2	22136.1	<b>24731.3</b>
Growth of GDP	%	7.5	1.0	-0.6	<b>7.5</b>
Inflation (CPI)	%	-	-	-	-
Unemployment	%	7.9	-	-	<b>9.0</b>
Foreign direct investment	% of GDP	9.3	12.9	12.4	<b>11.5</b>
Export growth	%	25.9	5.0	-6.2	<b>6.6</b>
Import growth	%	13.4	-5.7	-2.0	<b>8.9</b>
Current account balance	\$ mn.	-4405.8	-2747.9	-1207.9	<b>-1395.1</b>
Public debt	\$ mn.	17456.3	17902.3	18981.2	<b>19789.2</b>
External debt	\$ mn.	22173.3	22363.3	23986.2	<b>24634.4</b>
Total debt service	% of GNI	21.1	16.6	19.9	<b>17.8</b>
Cash surplus or deficit	% of GDP	-8.5	-7.9	-11.1	<b>-11.3</b>
Tax Revenue	% of GDP	16.3	15.1	14.9	<b>15.0</b>
Government consumption	% of GDP	15.0	15.4	15.1	<b>14.5</b>
Public expnd. on edu.	% of GDP	2.6	2.6	2.7	<b>2.7</b>
Public expnd. on health	% of GDP	3.6	3.7	3.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.4	4.5	4.7	<b>5.1</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Lebanon's economy is based largely on laissez-faire liberalism; market competition operates under a weak institutional framework. The informal sector is large. The country's economic system is the only major attribute of governance that has generated and maintained consensus between major leaders, who generally seem committed to protecting it and preventing its collapse. Almost three quarters of the economy is dollarized, and moving capital in and out of the country is relatively simple. Opening and registering a business in Lebanon is practically free and open

Market-based  
competition

to all, but bureaucratic red tape and rampant petty corruption stand in the way. Opening a business in Lebanon requires an estimated 26 days, while in advanced countries it takes 11 days. Highly subsidized food items and other goods imported from Syria negatively affect Lebanese producers.

Roughly 60% of Lebanon's economy is comprised of oligopolies, which are rarely regulated. The government's 2006 reform plans, which were submitted at the Paris donor conference, include amongst other provisions a new package of anti-trust laws, which, if passed in parliament, will regulate and prevent unfair monopolies. Due to the political turmoil over the last two years, however, the pace of reform has been particularly slow. The council of ministers adopted a new draft of the competition law and submitted it to the parliament. Preparatory work commenced for the establishment of an independent national competition council whose competences will apply to both private and public undertakings.

Anti-monopoly  
policy

In Lebanon, foreign trade is liberalized, and state intervention is kept to a minimum. Having gained observer status in 1999, Lebanon has been preparing for full membership in the WTO. The fifth meeting of the WTO working party on Lebanon's accession took place in May 2007. Lebanon is currently working on its reply to the questions received. The country is expected to join the WTO by the end of 2009. In general, the country's trade policy is directed toward cutting customs and increasing trade, whether through bilateral agreements with neighboring Arab countries or through other accords. Lebanon is a member in the Euro-Mediterranean Partnership. In this context, an Association Agreement with the European Union, Lebanon's largest trading partner, went into effect in April 2006. In the framework of the European Neighborhood Policy, an Action Plan was worked out with Lebanon detailing reform steps in line with Lebanon's Paris III commitment; it took effect in January 2007. Lebanon has made progress in the simplification of import procedures by reducing the number of steps, employing a standardized automated document and establishing a one-stop shop procedure at the Port of Beirut with the presence of customs and the Ministry of Agriculture. The country removed restrictions on foreigners' import and export activities in April 2007. It has started a process of progressive dismantling of tariffs on European industrial and certain agricultural products. Lebanon has continued its involvement in the development of a dispute settlement mechanism.

Liberalization of  
foreign trade

Lebanon's banking regulatory system is transparent and consistent with international norms, and Lebanon is exerting considerable effort to re-establish itself as a regional banking hub. Accordingly, the banking system is sound and enjoys a high capital adequacy ratio, which reached around 12% in 2008, compared to the 8% set by Basel II. The Central Bank of Lebanon and the Banking Control Commission set up a committee to prepare the banking sector to comply with the three pillars of the Basel II recommendations. As of November 2008, the Lebanese banking sector complied with the first and second pillars (new capital adequacy

Banking system

ratio, supervisory review process) and banks will receive new circulars to comply with the third pillar (transparency and market discipline) in 2009. Transparency is mainly a problem with the many small local establishments. Over the last few years, the Central Bank has, therefore, sought to encourage mergers, most directly by raising capital-adequacy ratios. In addition, the Banking Control Commission has performed an assessment on the implementation of new core principles for effective banking supervision and set up an action plan for compliance during 2009. The banking sector has been well protected in Lebanon, and international banks established in Lebanon are active. In 2008, 131 licensed banks operated in Lebanon, including banks with full commercial licenses, investment banks and foreign bank representative offices. The local banking sector is considered well protected against liquidity shocks. The liquidity ratio is around 35%. Prudent oversight by the central bank and the supervisory authority has so far shielded the banking system from the direct impact of the global financial crisis. Capital inflows contributed to the rapid growth of deposits held with locally-based commercial banks. On the downside, the fact that nearly half of the government's debt is borrowed from local banks has imposed a significant burden on local financial institutions.

## 8 | Currency and Price Stability

Lebanon's independent central bank pursues a consistent inflation and currency stabilization policy in line with the economic priorities of the country. The bank further strengthened its governance structures in 2008 and developed a roadmap toward full implementation of the International Financial Reporting Standards. The Banque du Liban will also adopt a formal policy for the selection, appointment and rotation of its external auditors, in line with good practices. In addition, it will adopt formal guidelines for foreign reserve management and establish an investment committee. In 2007, Lebanon gained support from an IMF Emergency Post-Conflict Assistance program, which was conducted successfully and was judged as instrumental in strengthening financial discipline and mobilizing external financial support. A second program was approved in November 2008. Consumer price inflation was low until 2005 (between -0.7 and 1.7%). It rose to 5.6% in 2006 and then fell back to 4.1% in 2007. It was pushed to an average of 10% in 2008 because of a sharp rise in world commodity prices, above all for fuel and food. Increases in civil service wages and pensions, adopted in September 2008 and retroactively effective as of May 2008, have also increased inflationary pressures. The U.S. dollar also weakened on average against the euro in 2008, and this contributed to imported inflation; the Lebanese pound is pegged to the U.S. dollar, but the euro area is a more significant source of imports. Consumer price inflation is, however, expected to decline in 2009 and 2010. The central bank often intervenes to stabilize the Lebanese pound by selling foreign currencies. The exchange rate has constituted an effective anchor for Lebanon's financial stability in the face of persisting large

Anti-inflation /  
forex policy



vulnerabilities and repeated shocks. For example, the fiscal system successfully withstood two major shocks, one in 2005 after Hariri's assassination, who had been, by virtue of his personal fortune and the trust put in him by investors, a guarantor of stability, and again after the July 2006 war. In both instances, capital flight from Lebanon was high, reaching \$1.8 and \$1.3 billion respectively.

The government's fiscal and debt policies have been in line with efforts to reduce debt and manage public finances in a way that will continue to attract investment and spur economic growth. Indeed, over the last two years, Lebanon's macroeconomic conditions have improved, despite political strife and security problems. The central bank's foreign reserve position has improved. At 7.5% in 2007 and 8.5% in 2008, growth has been strong over the last two years. The government debt-to-GDP ratio – Lebanon is the world's most indebted middle-income country with a debt-to-GDP ratio of some 175% – is on a downward trend. In fact, it has declined faster than targeted at the Paris III conference. Debt reduction has benefited from a considerable increase in revenues, expenditure control and favorable real interest rate developments. Given Lebanon's large debt overhang – the IMF projects its debt-to-GDP ratio to be 136% by the end of 2009 – and its fiscal and external imbalances, the country will remain vulnerable to liquidity shocks for years, even if it achieves full implementation of its reforms. Expected delays in privatization and in the implementation of fiscal adjustment imply that these vulnerabilities will most probably be reduced more slowly than initially envisaged.

Macrostability

## 9 | Private Property

Property rights and regulations with regard to acquisition, benefits, use and sale are well-defined and are limited only by basic liberal rights. The right to private ownership is also well respected in Lebanon. As in many Arab countries, this has been much less the case with regard to intellectual property rights. While there is legislation that provides intellectual property rights protection, enforcement has been weak and the level of product piracy and counterfeited goods remains high. The government is aware that it needs to act more vigilantly in this area, not least with regard to WTO accession. It launched a national awareness campaign to try to combat this problem, and during 2008, the government continued to raid shops and warehouses that were selling or storing pirated goods. In general, foreign private entities can engage in all kinds of business activities. Real estate acquisition is, however, restricted for foreigners. This includes stipulations that prevent Palestinians living in Lebanon from owning land – for fear that this ownership might lead the large Palestinian refugee population to settle in Lebanon, which would alter the country's demographic balance.

Property rights

Private companies represent the backbone of Lebanon's economy. Foreign investors may fully own and manage their business and private assets without any restriction. The freedom of entrepreneurial activity does not oblige investors to engage in any particular sector or project; resource allocation is a business decision that public authorities are not permitted to influence through direct intervention. Competition is not impeded by any discriminatory tax breaks, incentives or levies. Still, Lebanon has state companies and strong market concentrations. In May 2000, parliament adopted a privatization law that established a framework for the privatization of state-owned enterprises. The law also established a Higher Privatization Council and stipulated that the proceeds from privatization be applied toward debt repayment. Political in-fighting and the ensuing parliamentary stalemate have delayed the privatization of state institutions. The government's latest reform plan includes concrete and sequenced measures to proceed with privatization, for example, in the telecom sector (privatization of the two mobile phone companies and the fixed line Liban Telecom), the energy sector (with privatization of the electricity sector and reform of the water sector), and the national airline. However, further delays in privatization efforts are likely, as strong interests linked to the clientelist system will prevent a smooth and quick process.

Private enterprise

## 10 | Welfare Regime

To date, Lebanon has only rudimentary measures in place to avert social risks, and there are wide socioeconomic disparities between regional territories and social strata. Almost half of the population has no health coverage, but receives aid from the Ministry of Health to support the treatment of chronic diseases that require expensive medicine. This lack of public social safety nets is partially compensated by religious charities and family support structures. In addition, the government has embarked on reforms that aim at improving the efficiency of social spending and reducing poverty. In January 2007, Lebanon adopted a social action plan that made recommendations for implementing social safety nets for the very poor and most vulnerable groups. Proposed reforms include restructuring the National Social Security Fund, which would have appointed external auditors, a new legal framework, and plans for financial sustainability. The difficult political situation, lack of resources and coordination between the ministries concerned, as well as the non-participation in government of the minister of labor between November 2006 and mid-2008 combined to hinder progress in designing and implementing the instruments of the social action plan. Lebanon intends to promote comprehensive reforms of the public pension and social security systems, as well as of the health sector, which aims, inter alia, at increasing accessibility (in particular for the most vulnerable segment of the population), efficiency and quality of care.

Social safety nets

Equal opportunity exists to some extent in Lebanon, but income disparities and poverty have been on the rise. The minimum wage – which only applies in the public sector – is very low. In September 2008, the Lebanese cabinet finalized a law raising the official monthly minimum wage by two thirds, in other words from an equivalent of around \$200 to around \$333. Political pressures forced the government to agree to the raise. Although women enjoy equal opportunity in principle, female participation in the labor force, particularly in the formal sector, and the rate of women holding senior positions are remarkably lower than for men. Women are the first victims of poverty and negative developments on the labor market. Lebanon has no holistic approach to women's participation in social and economic life, which is subsequently very weak. A National Commission aiming at increasing female participation in the economy has been established but has as of yet not yielded meaningful results. No official discrimination exists in access to education, but the difference in educational quality between public and private schools is profound and the latter remain prohibitively expensive for the poor.

Equal opportunity

## 11 | Economic Performance

While real GDP growth in 2006 was negative (-4.3%), the economy, despite political tensions and the blockade of government institutions, improved in 2007 and 2008 with real GDP growth rates of 4% and 6.3% respectively. In particular, tourism, construction and trade experienced strong expansion in 2008. Tourist arrivals reached a record 1.33 million in 2008, a 31% increase on 2007 and a 4% increase on 2004, which was previously Lebanon's strongest year for tourism. The sector is acutely sensitive to political developments, and the growth in 2008 mostly occurred after the May political settlement. Public spending increased further, though at a lesser rate than in the war year 2006. At the same time, debt as percentage of GDP and the budget deficit were reduced slightly. Stronger economic growth and rising global commodity prices pushed up Lebanon's consumer price inflation in 2008. The employment situation in Lebanon remained marked by high unemployment, particularly among youth. In addition, a survey of Lebanon's employment picture includes the low participation of women, a large informal sector and a noticeable presence of foreign workers, especially in low paid sectors.

Output strength

## 12 | Sustainability

Though Lebanon is a signatory to major treaties on environmental protection, environmentally compatible growth receives only sporadic consideration. In general, the government gives little or no consideration to environmental issues when formulating major policies. Several scandals have surfaced over the years regarding the illegal licensing of environmentally damaging quarries, but the government took no significant action until years after the fact. The July 2006 war

Environmental policy

caused the largest ever oil spill in the Mediterranean Sea along the Lebanese coastline. To date, the greater part of the Lebanese coast has been cleaned with massive international help. The July 2006 war also left southern Lebanon littered with over two million cluster bombs and anti-personnel explosive devices, which disrupted plans for the development of eco-tourism there. Mine clearance is proceeding slowly. Other key environmental issues concern threats related to climate change, air quality, water quality, water resource management, waste management, nature protection, deforestation, land use, and coastal and marine pollution. A national environment action plan has been prepared but not yet adopted. Overall, framework and sectoral legislation is in place in many areas, but requires further development and implementation. For example, in the field of water, further steps towards a fully integrated water resource management system are necessary. Lebanon aims to increase the use of renewable energy sources to reduce its energy bill. In June 2007, Lebanon established, together with UNDP, a National Centre for Energy Efficiency.

State and private institutions for education, training, and research and development exist, but improvements in the quality of education, access to quality education and investment into R&D activities are needed. Public expenditure on education stood relatively low at 2.6% of GDP between 2002 and 2005. The total spending on education by both private and public sectors reached 11% of GDP in 2005. Education is in principle accessible for all, and the combined rate of enrolment in primary, secondary and tertiary education stands at 84.6%, which is far above the Arab average and rather at OECD levels. However, while the quality of primary, secondary and tertiary education is very high in private schools, it is considerably lower in public schools. In the last two years, the Ministry of Education and Higher Education finalized a national strategy for education with a focus on facilitating access to quality education as well as a policy commitment to provide free secondary education. Research and innovation activities in Lebanon remain modest. Although the National Council for Scientific Research, which promotes and oversees research and related activities in Lebanon, has developed a plan for science, technology and innovation policy, the absence of a coherent national research and innovation policy is noticeable.

Education policy /  
R&D

# Transformation Management

## I. Level of Difficulty

Although the government's prospects for enhancing its governing capacity improved after the withdrawal of Syrian troops from Lebanon and the restoration of the country's sovereignty, formidable constraints remain. First, the country's economic growth, which depends heavily on the service sector and to a large degree on tourism, is closely linked to political stability and the absence of violence. Lebanon finds itself in a volatile environment and has been severely affected by the Arab-Israeli conflict, external interference, political violence and terrorism. Severe setbacks to Lebanon's security included the destabilizing effect of a string of assassinations in the aftermath of Syrian withdrawal, the July 2006 war and the political polarization that paralyzed government institutions in the period from 2007 to 2008 and brought the country to the brink of civil war in May 2008. Armed groups like Hezbollah and Palestinian radical organizations remain strong and control areas that are effectively off-limits to the government. Secondly, skilled labor and the highly educated classes continue to emigrate, depriving the state of highly valuable human resources and potential assets. Thirdly, confessionalism, which pervades the socioeconomic and political fabrics of Lebanese society, remains a severe impediment to the expansion of governing capacity in Lebanon due to its inability to reinvent itself within a merit-based system. Fourthly, efficient governance is further constrained by the consensus principle and the overuse of veto powers in decision-making mechanisms.

Structural  
constraints

Lebanon has moderate to considerable strong civil society traditions. These date back to the days of the civil war when civil society groups replaced state institutions in providing basic services and relief operations. Following the withdrawal of Syrian troops from Lebanon, civil society activity multiplied and initiatives to press for more freedoms and reforms increased. After the July 2006 war, several civil society institutions worked hand-in-hand with the government, the Red Cross and other international relief organizations to provide aid and manage relief operations for the one million people displaced by the war. This saw a repeat, though on a considerable smaller scale, during and after the 2007 Nahr al-Bared crisis. The country now boasts a vibrant civil society. Civil society institutions champion important causes of reform, development, environmental protection and freedoms through a series of advanced and well-funded advocacy strategies that at times also cut across confessional divisions. A vibrant civil society, however, has not

Civil society  
traditions

translated into building social trust, overcoming confessional cleavages or anchoring a civic culture in society.

The nature of the confessional system in Lebanon keeps sectarian and religious sensitivities alive and alert. Society and the political elite are polarized along sectarian and religious lines. Radical political actors show increasing success in mobilizing support along these cleavages. As a case in point, the political confrontation between the Hezbollah-led opposition movement and the elected majority that began with the resignation of Shi'ite and allied ministers from government in late 2006, quickly turned into massive street protests and clashes, instrumentalizing, amongst other organizations, the General Labor Union. These clashes blocked democratic institutions and culminated in a week of violence in May 2008 that raised massive fears of civil war. Because small arms are widely spread among the population, and many political groups have armed wings or paramilitary structures, conflict quickly turns violent.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

Over the past two years, the government has attempted to pursue long-term aims but has been forced on more than one occasion to postpone them in favor of short-term needs. For example, the July 2006 war created massive destruction of civil infrastructure and internally displaced one million people. It thus severely disrupted plans and forced a change in the government's spending agenda and economic priorities – to date, considerable portions of the population need help for reconstruction and to meet their basic needs. The 2007 conflict over the Nahr al-Bared camp, which almost completely destroyed the camp and left 30,000 Palestinian refugees homeless, further strained Lebanon's budget and the country's capacity to implement long-term reform. The government's reform plans, submitted at subsequent Paris donor conferences, focus on building a healthy administration, balanced development and market economy, but its figures and forecasts are no longer consistent with realities on the ground. Moreover, plans for privatization and other economic reform measures have been the subject of intense political bargaining, often in the interest of short-term or particular gains.

Prioritization

The government is committed to consociational democracy and a market economy, but has had only limited success in implementing its announced reforms due to heavy political deadlocks and violent conflict over the last years. Implementation is also complicated by the need for consensus within the council of ministers – which

Implementation

includes major parochial, confessional interests. Since the national unity government was formed in July 2008, fundamental disagreements on key policy issues within the cabinet have transformed every policy decision into a major bargaining process. This has favored short-term interests and seriously hampered the course of reform. Hence, while small reform steps have been taken, none of the larger projects, such as privatization or social security reform, has made significant process.

The Lebanese government's commitment to liberal economic ideals and a free market economy remains unshaken but has, over the last years, been supplemented by an understanding that the country needs a minimal social safety net. Consequently, the adopted reform plans give substantial attention not only to debt reduction and fiscal improvements, but also to social development policies, education, health care, poverty eradication and other similar issues. The plans also seek more balanced development in the country. The political leadership has responded to mistakes and failed policies with changes; learning processes occur. Actual reform, however, has been slow. While, in principle, the governing leadership since the 2005 elections (under Prime Minister Fuad Siniora) has been committed to these reform plans, in practice, the implementation of long-term aims has been severely hampered by political conflict.

Policy learning

## 15 | Resource Efficiency

The government does not make efficient use of available human, financial and organizational resources. Constant political interference by sectarian leaders hampers the development of a meritocracy in the state's administration. Whilst competitive recruiting procedures exist in some state institutions, in reality, appointments most often serve to fulfill confessional quota. This practice also gets in the way of establishing accountability and taking disciplinary action against employees. Rather, dismissals as well as appointments are politically motivated. The bureaucracy remains slow, inefficient and highly centralized. Plans for administrative decentralization have not been carried out. In addition, there is prodigality with regard to natural resources and state subsidies. An estimated \$1 billion is wasted on financing the electricity sector, which remains inefficient and suffers from weak collection and outdated distribution networks that cannot meet demands for electricity. Lebanon's difficult energy situation (dependence, growing energy needs, high energy import bill) calls for swift reform. In particular, the heavily subsidized energy prices remain a serious burden for the country. The government started the development of a master plan on energy production and transportation, and prepared the creation of a National Control Center. It amended the electricity law to allow the licensing of independent power producers, and it signed agreements for the construction of two private power plants. Lebanon

Efficient use of assets

continued the rehabilitation and completion of electricity networks, which is very much necessary in view of regular blackouts and network losses.

Although Lebanon's consensus-based politics is characterized by resilience and compromise, the attempt to juggle different and sometimes incoherent policy priorities often results in deadlock. Some ministries within the government compete with each other and some policies counter the effects of other policies. While the government has devised comprehensive reform plans and sectoral policies, in practice, intra-governmental friction, redundancies, and lacunae abound.

Policy  
coordination

Most integrity mechanisms and tools to curb corruption are nonexistent or ineffective in Lebanon. An active Transparency International chapter works in Lebanon and conducts awareness campaigns. Still, political and petty corruption abound. Fighting corruption would need a political decision, which is not forthcoming as it is directly related to the balance of power between major players. Lebanon lacks any legislation that provides access to information. The only way the public hears about corruption is when something is leaked to the press or is publicly declared by a state official. Theoretically, a controversial and ambiguous asset declaration law provides accountability, but the law is not enforced, and officeholders are very rarely held accountable. Lebanon has no legislation that prevents officeholders from holding private jobs or that clearly defines conflicts of interest. The country does not have legislation to protect whistleblowers, and the regulation of party financing is rarely, if ever, enforced. Political parties are financed by unknown sources and in undisclosed amounts. Hezbollah's formidably financed institutions are a case in point. No official report is published about the amounts and sources of its financing. The government conducts no audits of state institutions like the Council of the South or the Funds for the Displaced, even though these institutions take up a sizable share of the annual state budget. A new election law passed in autumn 2008, however, regulates campaign spending.

Anti-corruption  
policy

## 16 | Consensus-Building

All political actors agree in principle on the vision of a market-based, power-sharing democracy. This has become apparent over the last two years in the course of three workshops, which the European Commission delegation organized in May 2007, April 2008 and October 2008. In these workshops, representatives of all major Lebanese political forces, professional associations and independent experts participated and were – in spite of the general political tension in the country – able to get closer to a common vision on economic and social policies that would benefit all Lebanese citizens. This agenda included important elements of reform in the education and health sectors and reforms aimed at making the economy more competitive. In practice, however, political actors differ on the role they and their communities should have in the system, on questions concerning the country's

Consensus on goals



political leaning and alliances, and on how to divide the spoils of this system. Hence, the commitment to market-based democracy is often mere lip service and is belied by the behavior of various members of the elite, who are often in competition with each other and work tirelessly to strengthen their position and protect their gains – openly practicing cronyism and favoritism.

Following the 2005 legislative elections and the formation of a new government, a new opposition front emerged that has since been led by Hezbollah. The opposition intensified its rejection of government policies and legitimacy first by resigning from the government in late 2006. It followed this by leading mass demonstrations, including a permanent sit-in (protest camp) around the seat of the government, by paralyzing parliament, thereby also preventing the election of a new president after the term in office ended in November 2007, and in the end by a show of force in May 2008. With the compromise deal struck in Doha at the end of May 2008, Hezbollah and its allies gained a blocking third in the re-constituted government of national unity. It should be noted, however, that while the political tug-of-war disrupted the reform process, Hezbollah and its allies have not rejected the administrative and economic reform policies as such – at least as long as they did not infringe on its military infrastructure – and continued to cooperate on policy implementation in some ministries even after their ministers had resigned. The opposition has also not aimed at overthrowing the government, but rather at reinstalling a government based on consensus. Their use of substantial force in order to compel the governing majority to compromise, however, has shed considerable doubts on their democratic and civic culture. The events of May 2008 also showed that the central authority lacked the strength to counter such powerful actors as Hezbollah.

Lebanon's political leadership is incapable of reducing existing divisions and preventing cleavage-based conflicts. The crisis in Lebanon stems from a mangled web of poor leadership, parochial sectarian interests and competing political agendas. Each political camp sees its own agenda as the authentic, national one and perceives the other camp's agenda as driven by the interests of external powers. These perceptions are, in fact, based in reality as both major camps receive external backing. The Hezbollah-led March 8 camp benefits from the backing of Syria and Iran. The current majority, or March 14 camp, is backed by Western states, above all the United States and France, as well as so-called moderate Arab states.

Occasionally, Lebanon's political leadership assigns an important role to civil society actors in deliberating and preparing policies. In late 2005, the government formed a national commission composed of leading scholars and civil society activists to reform the electoral law, the so-called Boutros Commission. In June 2006, the commission submitted a draft law to the government, which the government proceeded to ignore for a long time. Only in early 2008 was the law debated in parliament. However, in the Qatari mediated reconciliation talks in May

Anti-democratic  
veto actors

Cleavage /  
conflict  
management

Civil society  
participation

2008, political leaders agreed on a new version of the law – ignoring the more progressive provisions that had been suggested by the commission. In late 2008, Parliament then adopted a version that revealed little influence of the commission. The government that formed in mid-2008 included an interior minister, who had a civil society background and who, after becoming minister, maintained strong relations with the NGO scene. Indeed, in preparation for the 2009 elections, the ministry cooperated intensively not only with the donor community, but also with civil society – with the latter assuming important functions with regard to awareness campaigns, voter education and election monitoring.

The political leadership does not address past acts of injustice and does not initiate reconciliation. In 1991, following the civil war, the government granted a blanket amnesty to those who committed crimes during the war and initiated a repatriation program for refugees and internally displaced persons. No peace-building or reconciliation process, however, accompanied these measures. The issue of the 17,000 people who “disappeared” during the civil war has not been officially addressed, though there are organizations that call upon the state to acknowledge atrocities committed. While the trauma left behind by the civil war has discouraged a renewed massive escalation of violence so far, the fact that war crimes have not been persecuted, that many war lords are still in politics and that reconciliation has not taken place has left Lebanese society deeply divided and full of distrust and even hatred. Social and political cleavages have proved to be persistent.

Reconciliation

## 17 | International Cooperation

The political leadership works with bilateral and multilateral international donors and tries to make use of international assistance, but this does not facilitate significant policy learning and improvement. Government reform plans are partly based on a genuine reform agenda and partly donor-driven – as has been the case with the reform plans put forward at the Paris donor conferences. The state’s monetary and fiscal policies are closely coordinated with the IMF and the World Bank, both of which 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 succeeded in attracting a generation of well-trained Lebanese expatriates to return to Lebanon and take part in the postwar reform process. The European Union supports administrative, trade and social reform. This cooperation has intensified and become more systematic and coherent since the adoption of the Action Plan in early 2007. Other donor support, such as from Iran, is often not officially accounted for. It is often translated into political capital for specific groups rather than the government’s official agenda.

Effective use of support

The government is considered credible and reliable by the international community and international finance institutions, which acknowledge the government's commitment and efforts under difficult circumstances. On critical reform issues, the government's plans are perceived as credible and are strongly supported by the international community, even though the government's efforts to improve the collection of data and statistics still leave much to be desired. In this perception, of course, politics play an important role. The West and so-called moderate Arab states have an interest in supporting Lebanese sovereignty after Syrian and Israeli withdrawal and in propping up the elected majority against Hezbollah and its allies.

Credibility

The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Lebanon maintains particularly close relations with France, the United States and some Arab states, such as Saudi Arabia and Qatar. However, because of the unstable regional situation and the fragility of the state, Lebanon remains unable to effectively manage or stabilize relations with Syria and Israel. Since mid-2008, relations with Syria have improved considerably and diplomatic relations have been established. Still, important issues in the bilateral relationship remain unsettled, including border demarcation and border control, the exchange of ambassadors, and the status of Lebanese citizens who have disappeared in or to Syria. After the 2006 war, an upgraded international force deployed in southern Lebanon (UNIFIL) to oversee the cease-fire with Israel. While there have been incidents on the border, the situation has remained generally calm. No steps have been taken, however, to address any of the underlying factors of the last war. Thus, Israel and Lebanon remain in a state of war; progress remains tied to progress in Israeli-Syrian relations.

Regional  
cooperation

## Strategic Outlook

Lebanon's national unity government, which formed in July 2008, is characterized by fundamental disagreements between the pro-Western parliamentary majority, led by the largely Sunni Future Movement, and the opposition bloc, which is dominated by Hezbollah. The government will therefore have difficulty reaching agreement on key policy issues, and tensions are expected to rise ahead of elections in June 2009. Lebanon's electoral system, with its predetermined allocation of parliamentary seats to different denominations, makes it likely that the new parliament's composition will be similar to the current one, although the opposition is expected to increase its share. Electoral alliances, however, will be shifting until shortly before the elections. In any case, an outbreak of violence in relation to the campaign, the election itself or in its aftermath is not unlikely. International actors should consistently point out to all Lebanese forces that they expect elections to take place on time and without manipulation. Europeans have already offered to help administer and monitor the election. Following the elections, the Europeans should maintain support for more far-reaching electoral and political reform as envisaged in the Ta'if Agreement and the constitution. These reforms should aim at increasing transparency and the equality of the vote and, in the mid- to long-term, at reducing the role played by religious communities and local strong men. One approach proposed in Ta'if would be to introduce a bicameral parliamentary system. Europeans should also rethink whether they should continue to financially and technically support and monitor the country's elections if Lebanon keeps ignoring key electoral reforms, such as the introduction of standard preprinted ballots.

Despite the Doha Compromise and the establishment of a government of national unity, major issues remain unresolved between the political camps. A resort to violence or a renewed blockage of institutions is by no means inconceivable. This might happen in the context of the international tribunal to try the suspects in the murder of Rafiq al-Hariri. The tribunal is scheduled to begin its work in March 2009. At the same time, the tribunal offers the prospect of starting to end Lebanon's culture of impunity. In general, sectarian grievances, further increased by social marginalization, are likely to grow over the longer term unless the government implements social reforms. Hezbollah's brief occupation of Sunni parts of Beirut in May 2008 set a precedent for unilateral military action and sparked anger within many Sunni, Druze and Christian communities – prompting them to acquire (more and more advanced) weapons and to engage in training. This raises the risk of further sectarian violence.

In principle, international support should focus on strengthening democratic institutions rather than propping up political strongmen. In the current situation, however, national dialogue should be supported to resolve some of the stickiest issues. International actors should be careful not to establish competing tracks, but rather to act in a supporting role. An example of this type of support would be to provide experts on peace, negotiations or other technical issues who could contribute to a well structured and inclusive reform process. In general, international actors should maintain steady contact with all political forces with a substantial representation in parliament. In contrast to the United States, Europeans do not face any legal impediments in

doing so, as European countries, with the exception of the Dutch, do not consider Hezbollah a terrorist organization. At the same time, attempts to support one camp with the aim of militarily defeating or counterbalancing another (one strong motivation for Western support of the Sunni-dominated Internal Security Forces) should be abandoned.

Given the precarious security situation in the country, international actors should concentrate on directly addressing factors for instability in the country's soft spots, from example in its marginalized areas (not only in the south, but also in the northern regions and the Bekaa) and refugee camps. In particular, progress with regard to the improvement of living conditions and stabilization of the security situation in the camps has lagged far behind. A recurrence of a crisis similar to what happened in Nahr al-Bared is altogether possible. International actors should concentrate on supporting measures that provide the camp population with decent living conditions. This will work against desperation and radicalization. They should also encourage further progress in the Lebanese-Palestinian dialogue.

Finally, international actors should aim at the stabilization of the regional environment. Europeans should follow up on positive Syrian signals at the July 2008 Paris Mediterranean summit, the August 2008 Syrian-Lebanese summit, and the October 2008 establishment of diplomatic relations between the two countries, by pressing for early border demarcation, the securing of border crossing points, and Syrian-Lebanese cooperation in border control. The deployment of thousands of Syrian special forces to the north of the Syrian-Lebanese border in September and October 2008, in reaction to bomb attacks in Damascus and Tripoli, combined with Syrian warnings of intervention should the Lebanese government prove incapable of containing militant Salafis in Tripoli, raised great fear among Lebanese that Syria would launch military operations on Lebanese territory. These events highlighted the urgent need for Syrian-Lebanese coordination and cooperation in border control.

The international presence in the form of UNIFIL and its maritime component helped to end hostilities after the 2006 war and have since contributed to securing the cease-fire. However, it has served as a mere conflict management tool and will not be able to stabilize the region in the mid- to long-term unless Lebanon and Israel make progress toward settling their unresolved issues. In July 2008, the issue of prisoners and hostages was solved through U.N. mediation. Other open disputes remain, above all over the Shebaa farms and the village of Ghajar. In the end, a peace agreement will have to contain mutual security guarantees and an agreement on a formula for water management. It will also have to address the plight of Palestinian refugees in Lebanon. International actors should actively encourage progress in Israeli-Syrian relations and contribute to conflict management between the two nations by discouraging pre-emptive strikes and maintaining open channels of communication via the tripartite U.N.-Israel-Lebanon dialogue as well as other channels. International actors should also push for an interim solution for northern Ghajar village, even before peace negotiations take place, and a phased approach to the issue of the Shebaa farms. The international community should also prepare for Israeli-Lebanese final-status negotiations by supporting forums and studies that develop the in-depth expertise necessary to formulate solutions to the other contentious issues in the bilateral relationship, such as the refugee question and joint water management.