

BTI 2014 | Lebanon Country Report

Status Index	1-10	6.00	# 51 of 129	
Political Transformation	1-10	6.00	# 61 of 129	➔
Economic Transformation	1-10	6.00	# 51 of 129	➔
Management Index	1-10	3.92	# 103 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	4.4	HDI	0.745	GDP p.c.	\$ 14609.9
Pop. growth ¹	% p.a.	1.0	HDI rank of 187	72	Gini Index	-
Life expectancy	years	79.6	UN Education Index	0.699	Poverty ³	% -
Urban population	%	87.4	Gender inequality ²	0.433	Aid per capita	\$ 81.0

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Nearly a decade after a perceived moment of national unity symbolized by a peaceful uprising against Syrian hegemony in 2005, Lebanon's political actors and population are today divided over issues that do not allow for practical compromises, are part of larger conflicts that local actors cannot influence, and which blend into long-standing conflicts driven by politicized sectarian identity.

These disruptions have impeded and delayed the implementation of economic and administrative reform strategies. As identity politics have largely drowned out debate and deliberation over other issues, the reform agenda has not been the subject of meaningful public debate, but has instead been imposed in a technocratic manner from above. The electoral support enjoyed by the parties advocating reforms does not equate to popular support for the reforms themselves – it results from unquestioning voter loyalty to sectarian leaderships, whatever policy they advocate. Both support of and resistance to reform strategies are thus expressions of sectarian identification, and the reform agenda is liable to be sucked into the larger conflict and thus ultimately be stalled.

The fragile peace that followed the eruption of violence in May 2008 is again under pressure, as Lebanon's two main political camps have positioned themselves on opposite sides of the civil war raging in Syria. While the March 8 bloc, and particularly Hezbollah, actively supports the regime of Bashar al-Assad, the opposition, especially the Sunni Future Movement, backs the Syrian opposition. This has given fresh fuel to some notorious flashpoints, such as the conflict between Sunnis and Alawis in the northern port city of Tripoli, as well as creating new ones, as in the border regions of the Eastern Bekaa valley that are playing host to Syrian refugees and serve as transit zones and safe havens for Syrian opposition fighters. More generally, the already frayed relationship between Lebanon's Shi'ites and Sunnis is deteriorating even further, and moderate Sunni parties such as the Future Movement may no longer be able to integrate and control radical currents in the community.

At the time of writing, Lebanese politicians were once more caught up in intense wrangling over a new electoral law for polls scheduled for June 2013, and the degree to which gerrymandering will favor this or that faction or bloc. In March 2013, the government resigned over this issue, as well as over irreconcilable differences vis-à-vis the conflict in Syria. With no consensus in sight, elections are liable to be postponed, most likely until after the end of the Syrian crisis, and the sitting parliament may, in a step of debatable legality, extend its own tenure. Further erosion of institutional legitimacy must be expected, while pressing issues – in particular, clearly negative macroeconomic indicators (budget deficit, inflation, contracting growth) remain unaddressed.

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 civil war, set basic rules and quotas for a power-sharing system adjusted to achieve parity between Christians and Muslims, the latter of which group 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 clientelist 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 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 onwards, and in May 2008 the persisting tensions exploded into three days of violent confrontation. Concerns over potential disintegration along sectarian lines prevented any intervention by the army and the security forces, leaving Hezbollah 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 sides. 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.

To summarize, ever since Syrian hegemony over Lebanon ended in 2005, the political system has been in a state of paralysis and blockade. The implementation of legislation and reform measures, already a difficult challenge in a country whose political dispensation requires broad consensus to function, has been slowed down and impeded even further.

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

The state monopoly on the use of force is challenged in a number of areas and in numerous ways. The northern half of the border village of Ghajar as well as the disputed Shebaa farms are occupied by Israel. Twelve Palestinian refugee camps are controlled by various armed Palestinian factions, providing safe havens for violence-prone (Lebanese and Palestinian) Sunni Islamist groups. The borders, in particular with Syria, are notoriously difficult to control; long porous to smugglers, they have recently been penetrated by individuals and groups infiltrating into Syria to participate in the fights raging there. In peripheral areas, in particular in certain areas of the Bekaa valley and in the north, control is often wielded through tacit arrangements between state organs and armed local groups (tribes and clans), which occasionally challenge state authority.

Monopoly on the
use of force

3

The persistent political division of the country also threatens a disintegration of the security forces along sectarian lines. This long-standing phenomenon has reached new dimensions as a result of the fights in Syria. In September 2012, a prominent Shi'ite family residing in the Hezbollah-dominated southern suburbs of Beirut was able to take foreign hostages and publicize its demands (related to relatives abducted in Syria) in "official" press conferences as long as the party had not given its consent for state security to enter the area. After the assassination of a prominent (Sunni) intelligence officer, enraged Sunnis (who blamed Syria) rioted for hours and blocked the coastal highway before the army was deployed. Armed conflict continues to simmer (with occasional flare-ups) in the northern city of Tripoli between armed Sunni groups (seen in alliance with the Sunni "Future" movement of former Prime Minister Saad al-Hariri) and Alawi parties (seen as allies of Syria and Hezbollah). The standing militia of "resistance fighters" under the command of Hezbollah, over which the central government has no authority whatsoever, compromises and partly usurps government capacity to decide on defense strategy and matters of war and peace.

The Lebanese state was unable to enforce the warrants issued by the Special Tribunal for Lebanon (STL) against several persons linked to Hezbollah who were allegedly involved in the assassination of former Prime Minister Rafiq al-Hariri in 2005. This points to the continued existence of highly skilled terrorist networks that appear to have penetrated Lebanese institutions at high levels, in spite of the efforts of the STL to establish accountability for such crimes and expose the networks behind them. The presence of the United Nations Interim Force in Lebanon (UNIFIL) in southern Lebanon has prevented a renewed military build-up by Hezbollah along the border, and has helped to enhance state presence there. However, this has only led to the relocation of Hezbollah's military capabilities into adjacent areas and some modifications of its military strategy, with no discernible effect on the group's overall autonomy.

Most citizens, with the exception of some marginal political groups, do not question the legitimacy of the nation-state. Almost all 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. 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 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.

Lebanon is home to an estimated 250,000 to 300,000 Palestinian refugees, who have largely been denied access to the labor market. Around half of them continue to reside in camps which have developed into squalid, impoverished and underserved neighborhoods. 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

State identity

8

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 of return," which in turn allows them to freely choose between either sidestepping the issue altogether, or improving the situation of Palestinians without prejudice to their final status. In recent months, a significant influx of Palestinians resident in Syria seeking to escape from the violence there has prompted nervous statements from mainly Christian politicians. However, the Lebanese reception of Syrian refugees has overall been sympathetic thus far.

In recent years, a sizable number of domestic workers from Africa and Asia have settled in Lebanon. These immigrants lack 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.

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 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 accommodates their interests. Still, the practical influence of actual dogma on political decisions is limited beyond the areas mentioned above, and the behavior of the leaders of religiously defined groups in the political sphere is mostly geared toward protecting the institutional, political and economic share 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.

Lebanon has a differentiated administrative structure throughout the country, but its operation is to some extent deficient, and suffers from an overcentralization inherited from Ottoman and French structures. Administrative decentralization, stipulated by the 1989 Taif peace accord, has made little headway, in part because there is a perception that it may touch upon the sectarian balance of power, and likely also because it would complicate the task of governing and generating political support for the same politicians who would have to implement it. Still, municipalities do have

No interference of religious dogmas

7

Basic administration

5

important regulatory prerogatives, which they are sometimes unable to exercise as a result of undue political influence and a basic lack of funding.

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. Yet, overall, and despite many allegations of petty corruption and complaints over bureaucratic delays, the administration provides comprehensive and accessible coverage across most of the country.

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, as the water system is badly maintained and capacities for storing the abundant winter rains have not been adequately expanded. There is also a high incidence of illegal well-drilling and technically unsound cesspits with detrimental effects on groundwater quality. Most detrimentally, the state-owned electricity company remains unable to supply sufficient power, and blackouts (three hours daily in the inner districts of Beirut, up to 12 hours in marginalized rural areas) remain a permanent fact of daily life. Electricity generated by private generators is the (expensive) solution for many. The situation is bound to become worse as electricity deliveries from Egypt and Syria have dropped dramatically, and planned emergency measures (such as renting floating power stations that would be moored off the coast) were first held up by political bickering, and then by technical difficulties amidst accusations of mishandling the fuel supply.

2 | Political Participation

General and competitive elections are held every four years, and there are no limitations to political competition. General suffrage is somewhat restricted by the high voting age (21) and the unavailability of absentee voting, resulting in generally low turnouts (54% in the hotly contested 2009 polls).

Post-2005 elections can be called largely free and fair. Some technical improvements – such as the creation of an election commission in 2006 – have reduced the margin for fraud, yet the absence of a standard pre-printed ballot sheet enables practices of vote tracking, and with it vote buying and voter intimidation. Even in the post-Syrian era, voters' choices are still curtailed and the equality of the vote is undermined by blatant gerrymandering.

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

Free and fair
elections

7

parliamentary majority). Furthermore, power-sharing, the prevalence of grand coalitions and the dominance of political dynasties imply that elections do not really determine how political posts are filled. Rather, they determine the relative weight of political players and hence their bargaining power in the negotiations for political posts and government offices that follow the polls. While there are no explicit restrictions on party platforms, sectarian earmarking of parliamentary seats and the majoritarian system create a heavy bias in favor of parties with a clearly identifiable sectarian platform, while parties and citizens with cross-sectarian outlooks have only limited access to participation. Only four women are among the 128 representatives in the current parliament. Typically, women enter politics, if at all, as placeholders or surrogates for dead or otherwise impeded male relatives or husbands.

In the run-up to the elections scheduled for the summer of 2013, proposals for a new election law were once again discussed, and arguments ostensibly geared at the achievement of a “correct” representation (in particular for Lebanese Christians, who are suffering from a demographic contraction) were traded. However, most if not all of these proposals were transparently self-serving and geared toward maximizing partisan political gain; most were founded on the assumption that sectarian affiliation would be decisive for any electoral outcome, and were structured to make sure that this assumption would hold true. The opposing March 14 and March 8 blocs are unlikely to compromise as long as the outcome of the conflict in Syria remains uncertain, as both sides hope that favorable developments there will strengthen their hand in Lebanon. Thus, it appears likely that the elections will be postponed, potentially for a significant period.

As the constitution and political tradition provide for the inclusion of all communities in government and administration, and as most Lebanese communities have been homogenized behind a unified political leadership – with the notable exception of the Christians – nearly all major players within this political elite wield de facto veto powers. The political system grinds to a halt every time conflicts arise in which no compromise appears possible, particularly over foreign policy and alliances, and in response to shifts in the regional balance of power and configurations of conflict.

Foreign actors – in particular the United States, Saudi Arabia, Iran and Syria – have exacerbated the differences between the March 14 and March 8 camps in pursuit of their own interests since 2005, and thereby contributed to the de facto breakdown of the capacity to govern. The conflict in neighboring Syria has intensified the pressure on the political system, as the two primary political blocs have taken opposing sides. Insulating Lebanon from the fallout of this split absorbs a large part of this already severely limited governance capacity.

Lebanon has comparatively liberal association law and a long tradition of independent, nonprofit civil society organizations (CSOs). While many of these organizations are in fact part of the patronage systems established by sectarian

Effective power to govern

4

Association / assembly rights

8

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 has explored previously unknown spheres and modes of civil activity.

Associations suffer from an absence of local funding capacities and from fluctuations in foreign donor interest. In particular, foreign funding surged in the aftermath of the 2006 war but has since declined significantly, and many newly formed organizations had to dissolve or reduce and reorient their scope of activities. While civic initiatives have succeeded in achieving results on some issues (such as pushing forward a smoking ban 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.

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

6

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 (e.g., clerics), and authorities can be reluctant to come to their defense. Though former restrictions concerning Syria receded after 2005, the increasing polarization of the political sphere has resulted in even less independence and opinion pluralism within the media. Most television and radio stations and newspapers are linked to particular political groups or families and follow an unambiguously partisan political line. Hence, the overall quality of reporting and information remains low, and rumor, slander and incitement abound in the media.

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

6

Power emanates from members of parliament as directly elected representatives of the Lebanese people; they elect the president of the republic and, in binding consultations with the president, select the prime minister. The government is accountable to parliament, 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 informal arrangements between the sectarian groups. Instead of assuring checks and balances, relations between state institutions thus rather reflect the relative power balance between these sectarian elites, 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 are reliant on external political sponsors. In fact, the arbitration provided by foreign diplomats and the governments of neighboring states is an indispensable element of the domestic political process.

The judiciary operates relatively independently. Law professionals receive thorough training at specialized institutions, including a special college for judges. Judicial functions are, however, partially impeded by corruption, confessional quotas and political interference in areas related to political struggles, such as cooperation with the Special Tribunal for Lebanon.

Independent
judiciary

6

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. Media coverage sometimes results in adverse publicity, and monitoring institutions do exist, yet as the overwhelming majority of senior officeholders are part of the power structures maintained by the political elites, they are mostly beyond the law. Prosecution of office abuse is rare.

Prosecution of
office abuse

4

Many if not most citizens are complicit in such practices. Engagement in petty corruption is ubiquitous, as is the use of “contacts” for gaining access to state resources, such as public-sector employment, the commissioning of public works, or infrastructural investment.

Hence, a general sense of impunity and moral indifference reigns, and most Lebanese reserve their criticism for politicians or officeholders who are part of a different sectarian group or political power structure. Hence, elected officials have little reason to fear allegations of corruption. There is no legislation governing and guaranteeing public access to governmental information.

Civil liberties are especially compromised in areas dominated by conservative and religious sentiment and organizations, and the authorities often appear reluctant to

Civil rights

7

protect individuals or groups who fall afoul of the latter. While legislation that allowed for leniency toward perpetrators of so-called honor crimes was repealed in 2011, many crimes in this category are never reported or investigated.

The conduct of the security forces is reported to be generally professional and torture does not occur on a wide scale, but cases of arbitrary detention and abusive interrogation practices are recorded.

Refugees and foreign domestic workers who have forfeited their residency permits (often by running away from abusive employers) are frequently held over extended periods until their extradition or “voluntary” repatriation is arranged. As Lebanese prisons and detention facilities are characterized by severe overcrowding and dismal living conditions, the long detention of individuals who have not been convicted of any crime should by itself be described as an abusive practice.

Police forces occasionally conduct raids against public venues and individuals identified with male homosexuality, arrest “suspects” on these occasions, and conduct “forensic” examinations to establish the occurrence of homosexual activity, which is penalized by Lebanese law.

4 | Stability of Democratic Institutions

Democratic institutions are often impeded by deep cleavages in the polity. The elaborate power-sharing system of mostly informal arrangements depends on a modicum of compromise between the political elites of these communities. Once issues arise over which no compromise is possible, the operation of the democratic institutions is seriously impaired. The political process grinds to a halt.

Performance of
democratic
institutions

6

Since 2006, an extra-institutional National Dialogue including all major political forces has been established to tackle such issues, yet this forum has to date served only as an additional stage where the established lines of political confrontation are publicly enacted, without creating any further impulse toward compromise.

Political and social actors commonly make reference to their own adherence to institutional processes, while often insinuating (or expressing open doubt) that their rivals and adversaries fail to show equal commitment. Even during the violence that occurred in May 2008, the actors who decided to defy the decisions of the acting government (Hezbollah and its allies) almost immediately moved to restore the political process and establish institutional legitimacy, rather than seizing the power that was clearly within their reach.

Commitment to
democratic
institutions

6

However, nearly all relevant actors pair this professed adherence with the pursuit of their interests through extensive layers of informal arrangements and channels of

influence that manipulate the decisions and workings of these institutions in their favor, thus effectively undermining them.

5 | Political and Social Integration

Most parties show only a very 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.

Party system
5

Even transnational and ideological parties such as the Communist or the Syrian National Socialist Party (SNSP), which play only a marginal role, emulate these patterns to a certain extent, and tend to form distinct milieus that function along similar lines. Consequently, there is little if any voter volatility. Where there are serious contenders for power within the same sect, the division between sects is often even more acrimonious, making a change of allegiance difficult to imagine. If voters wish to express discontent with their hitherto preferred political choice, they tend to do so by abstention in elections.

The party system is strongly fragmented and polarized. Civil society has evolved to a certain degree into an alternative public sphere for mainly young Lebanese alienated by this state of party-political affairs, yet attempts to convert this momentum into new, nonsectarian political formations have 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 clientelist 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 clientelist structures and the individual.

Interest groups
7

Formal interest groups such as unions and professional associations bear the imprint of the polarized sectarian and political system and therefore have limited functionality. Since the mid-1990s, political actors have successfully subverted and subsequently subordinated the General Federation of Trade Unions; this has undermined any significant resistance to the declining standard of living for the majority of the working population. 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 was delayed by the resignation of the government,

leaving room for the possibility that the raise may not materialize after all. Other types of interest groups (e.g., the association of industrialists) mainly function as organs of publicity, while effective political influence is wielded through the clientelist structures.

The 2011 Arab Opinion Index, compiled by the Arab Center for Research and Policy Studies, shows Lebanon to have the strongest commitment to democracy as the best political system “in spite of having its problems” among all Arab states (24% agree, 59% strongly agree). Remarkably, 48% reject the proposition that “the democratic system is characterized as indecisive and full of bickering,” although the reality of Lebanese politics would appear to provide ample evidence to support such a notion. Trepidations exist with regard to majority rule – 60% oppose the idea of a party they oppose taking power even if it wins in elections – yet the universal rejection of rule by religious parties – 70% – and acceptance of secular rule – 64% – seems to indicate that reservations toward majority rule are mostly driven by fear of being dominated by other sectarian groups.

Approval of
democracy
7

Conversely, levels of trust in and satisfaction with the actual performance of democratic institutions are dismally low, with around 80% expressing distrust and dissatisfaction. Even fervent followers of a certain political leader may have little trust in his political party or organization. Thus democratic values are strongly grounded in Lebanon, and the blatant dysfunction of the democratic system in the country is blamed on the political class, not the principle itself.

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 do not trust 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
5

Lebanon has a medium to high score of 0.739 on the 2011 UNDP Human Development Index, giving it rank 71 out of 187 countries, well ahead of other Middle Eastern non-oil economies such as Egypt, Jordan or Tunisia. Success in the educational sector contributes to this overall positive impression. In particular, 54% of each age cohort reaches tertiary education, a percentage that stands out in the region, though sometimes poor-quality public education offerings and expensive private education services perpetuate social inequality and exclusion.

Likewise, available figures on income distribution appear to obscure more than they reveal. Data on poverty is sketchy, but according to a 2008 study by the International Poverty Center (IPC), roughly 30% of Lebanese live below the poverty line (defined at \$4 per day), and 8% (about 300,000 individuals) live below the margin of extreme poverty (defined as \$2.40 per day). The bottom 20% of the population account for only 7% of all consumption in Lebanon, while the richest 20% account for 43%.

Poverty levels show dramatic geographic divergence, at less than 6% in Beirut, above 40% in the south and above 50% in the north. Median consumption levels in Beirut are 2.5 times as high as in the north, and double that in the south and the Bekaa. Those inequalities are further accentuated by income that wealthy Lebanese generate through business activities outside the country, which are neither taxed nor accounted for statistically.

As a result, the pace of migration to the capital has continued at a high level. In combination with heavy, often speculative investment in real estate, the cost of housing in the inner district of Beirut has soared far beyond the reach of the average wage earner, contributing to further urban sprawl and traffic congestion.

In the absence of any coordinated strategy to enhance industrial or agricultural production, investment has disproportionately poured into real estate, construction and services, in particular hospitality, retail and the banking sector. While banking in particular has thrived, all other sectors rely heavily on clients and consumers from the Arab oil economies (citizens of the Gulf Cooperation Council countries, but also Lebanese residing there), and are therefore exposed to risks related to the international price of oil, as well as domestic and regional security issues.

There is no institutionalized or legal socioeconomic discrimination or exclusion based on gender, and Lebanon takes a middle-ranked place in the Gender Inequality

Index with a score of 0.44, comparable with regional neighbor Turkey and slightly above its non-oil economy neighbors Arab Jordan and Syria (but significantly behind Tunisia). Still, women rarely reach positions beyond a median managerial level, despite levels of education that are often superior to those of the men with whom they compete.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	34650.7	37124.4	40094.3	42945.3
GDP growth	%	8.5	7.0	3.0	1.4
Inflation (CPI)	%	1.2	4.0	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	13.9	11.5	8.7	-
Export growth	%	1.7	12.8	-2.3	3.8
Import growth	%	20.7	3.1	-3.2	0.3
Current account balance	\$ M	-6740.9	-7587.5	-4865.6	-
Public debt	% of GDP	147.6	141.7	137.5	139.5
External debt	\$ M	24803.1	24590.5	24767.2	-
Total debt service	\$ M	4611.4	4152.4	5333.8	-
Cash surplus or deficit	% of GDP	-8.3	-7.7	-5.9	-
Tax revenue	% of GDP	17.2	18.5	17.0	-
Government consumption	% of GDP	14.2	14.3	13.8	14.5
Public expnd. on edu.	% of GDP	1.8	1.7	1.6	-
Public expnd. on health	% of GDP	2.8	1.7	1.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.1	4.3	4.1	4.0

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Since independence, the Lebanese political elite has favored laissez-faire liberalism and a minimum of state intervention and regulation. Only few strategic sectors (telecommunications, tobacco, energy) are state-owned or state-controlled, and pricing is left to the market except in the case of some basic staples (e.g., flour). The currency is fully convertible, no limitations on the transfer of currency or profits exist, and some 65% of bank deposits and 80% of loans are dollarized. Lebanese law treats national and international investors equally, except in land acquisition, where a decree from the council of ministers is required for purchases exceeding 3,000 square meters. Foreigners can fully engage in economic activities, whether establishing Lebanese companies and joint ventures or creating a local subsidiary of an existing business enterprise, although Lebanese involvement is required for certain venture types (joint stock or offshore companies).

However, the establishment and registration of economic ventures is complicated by red tape and bureaucratic procedures, and Lebanon has made little headway in terms of deregulation. The World Bank's 2013 Doing Business report ranks Lebanon at 115rd place out of 185 economies, slightly behind neighboring non-oil Arab economies such as Egypt and Jordan, and significantly behind economies with close links to the European Union such as Morocco and Tunisia. The OECD's 2011 – 2012 Global Competitiveness Index (GCI) places Lebanon at rank 89 out of 142 countries, more or less in a league with Egypt and Syria (respectively 94 and 98), and clearly behind Jordan (71). Here, weak institutional performance (rank 117), an inadequate judiciary (105) and corruption (132) are particularly detrimental to the overall business environment. Remarkably in the light of the construction boom of the past years, Doing Business gives Lebanon a particularly bad ranking in the area of construction permits (172nd out of 185, with an overall processing time of more than 200 days, three times more than in Jordan), suggesting that in this sector (as in others) short-circuiting procedures may be a routine mode of operation in practice. Hence, Lebanon's regulatory environment is complex, and the country ranks behind its regional competitors.

Market competition is relatively free in the private sector, while contenders for public-sector projects and tenders encounter a system of clientelist apportionment deriving both from sectarian quotas and political expediency. A significant informal sector exists (50% of the non-agricultural labor force, according to the GCI), but is mainly driven by the urge to avoid the high start-up costs, taxes, fees and the mandatory contributions to the national social security fund. This informal sector is not so much an outcome of inappropriate frameworks and overregulation as it is a testimony to the undercapitalization of many economic actors; however, the

Market-based
competition

6

weakness of the state and the urgent need to streamline bureaucratic procedures and modernize the collection of revenue also play a role in its creation.

Roughly 60% of Lebanon's economy is comprised of oligopolies which are amplified by a weak institutional framework prone to favoritism (rank 141 out of 144 in the World Economic Forum's Global Competitiveness Index) and ineffective anti-monopoly policies (rank 105). A 2006 study commissioned by the World Bank found that rents accruing from monopolistic positions represent more than 16% of GDP in Lebanon. A joint 2011 study by the Lebanese Consumer Protection Association and the Arab Consumer Union blamed high prices for food commodities on monopolistic structures, which according to the Lebanese Consumer Protection Association control 80% of the products marketed domestically.

Anti-monopoly
policy
5

The government has recently submitted a competition law to the parliament. Preparatory work has commenced for the establishment of an independent national competition council whose competences will extend both to private and public undertakings, and training has been provided by the Technical Assistance and Information Exchange instrument of the European Union. However, prolonged political stalemate and vested interests continue to slow the process.

Foreign trade is hardly controlled, except for goods suspected to be of Israeli origin. However, some businesses do own "exclusive licenses," protected by the state and enforced by custom authorities, for the importation of certain goods and brands. Lebanon was cofounder of the Greater Arab Free Trade Area (GAFTA) in 1997 and eliminated most tariffs with other Arab countries as of 2005, exposing its own agriculture to significant competition from neighboring countries with significantly lower production and labor cost.

Liberalization of
foreign trade
8

Lebanon formally applied for accession to the WTO in 1999, and seven meetings of the working party were held prior to the end of 2009, but its lack of progress is seen as a main obstacle to further trade liberalization with the European Union. Lebanon's association agreement with the EU went into effect in 2006. The European Neighborhood Policy (ENP) progress report notes that many agreements and reform measures that have been agreed upon, including the ENP Action Plan, were stalled as of 2011 as a result of political conflict.

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. However, according to the World Bank's Doing Business report, the average time for export and import (22 and 30 days) is still double that of regional neighbors, with only slight improvements over the past five years.

Lebanon ratified the United Nations' New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1997 and has been a member of the

World Bank's International Center for the Settlement of Investment Disputes (ICSID) since 2003.

The banking regulatory system is transparent and consistent with international norms, Lebanese banks operate in line with the Bank for International Settlements (BIS) standards, and are regarded favorably by international rating agencies. The capital adequacy ratio stands at around 12% to 13%, and the banks' capital-to-assets ratio is 7.8%, reversing a moderate slump that occurred in 2008 – 2009. The ratio of nonperforming loans has improved remarkably in recent years, standing at around 4% in 2011, down from almost 18% in 2004. Following concerted efforts by the central bank and the Banking Control Commission, the Lebanese banking sector now complies with the first and second pillar of the Basel II guidelines (new capital adequacy ratio, supervisory review process). Central bank Governor Riad Salameh repeatedly predicted that compliance with the third pillar (transparency and market discipline) will be reached three years before the final deadline, thus in 2013. More than 25 bank mergers have taken place over the past decade. In 2010, the consolidated balance sheet of all Lebanese banks stood at roughly 300% of GDP.

Banking system

9

The central bank has consistently mandated conservative standards of credit and liquidity, and has prevented Lebanese banks from engaging in investment in highly leveraged financial products in the international markets. This strategy has successfully shielded the banking system from the direct impact of the global financial crisis. Capital inflow continues, with total deposits standing at \$121.8 billion in 2012. While Lebanese banks have significant exposure to public debt (60% of the public debt is held by local banks), Lebanese treasury bonds continue to be well received in financial markets, in particular by investors from Arab countries. In this way, holding public debt appears to be a source of secure earning rather than a serious liability.

8 | Currency and Price Stability

Lebanon's central bank is independent and pursues a consistent inflation and currency stabilization policy. Inflation has been low over the past decade (less than 2% until 2005), with a moderate spike to around 5% in 2006 and nearly 10% in 2008, as a result of the 2006 war and a sharp rise in world commodity prices. It fell back to around 2% in 2009 due to a steep decline in energy costs, and rested at around 5% in 2010. Most recent reports estimate inflation in 2012 at around 10%, with forecasts of up to 15% in 2013 driven by high energy prices, the real estate boom, and the increasing demand by Syrian refugees (more than 200,000 registered at the time of writing, with real figures probably approaching 300,000).

Anti-inflation /
forex policy

8

The central bank often intervenes to stabilize the Lebanese pound by selling foreign currencies, and has successfully stabilized the exchange rate at around LBP 1,500 to

the U.S. dollar since 1994. The exchange rate has constituted an effective anchor for Lebanon's financial stability in the face of persisting large vulnerabilities and repeated shocks. The Lebanese economy is dollarized to a considerable degree (some 65% of bank assets are dollarized), creating further safeguard against currency devaluation. Financially powerful regional actors, in particular oil-rich states such as Saudi Arabia and Kuwait, have also supported stability through depositing significant funds with the central bank at times of politically induced capital flight, such as during the 2006 war between Hezbollah and Israel.

However, the dangerous dependence of the Lebanese economy upon outside and regional factors is currently fueling inflationary pressures, producing the estimated two-digit inflation rate for 2013. In late 2012, the government agreed to a significant increase in salaries, yet it remains unclear how this could be implemented without further widening the already unsustainable budget deficit, in particular if regional instability were to lead to a contraction in GDP, as now appears likely. If the additional burden were to be covered by new taxes or a rise in the value-added tax rate, inflation could soar.

Despite repeatedly announced sound monetary policies by successive governments, fiscal results are mixed, with expenditures still outstripping revenue and budget deficits at around 8% of GDP, one of the highest ratios worldwide. While publicly declaring a commitment to reform, successive Lebanese governments have failed to address a number of crucial issues, in particular the intended privatization of the ailing electricity sector, which constitutes a permanent drain on public finances (approximately half of the budget deficit). Similarly, the public employee payroll remains one of the biggest items in the budget. Limited government activity in potentially costly areas such as social services and infrastructure partly compensate for other expenditures, if at the price of social standards, quality of life and long-term growth opportunities. Overall government consumption is a moderate 12.3% of GDP.

The main macroeconomic challenge remains the public debt. Debt service consumes roughly one-third of all government expenditure. Public debt stood at \$55.4 billion or 136.4% of GDP at the end of 2012, a ratio nearly unchanged over the past three years, but a significant improvement over the peak of nearly 180% in 2006. However, this improvement is mainly due to strong GDP growth of 7% to 10% annually in the 2007 – 2010 period, even as absolute debt levels have grown. However, important components of this GDP growth – notably, investment in real estate and the tourism sector – are highly volatile. A GDP growth of only 2% in 2012 resulted particularly from a sharp slump in the tourism sector. A significant share of capital inflows also depends on investors from the Gulf economies and hence on high oil prices.

Lebanon has a chronic trade deficit, yet capital inflows (in particular remittances, which some estimates put at 30% of the value of the Lebanese economy) partly compensate for this. The balance of payments remains in the red at a rate of some

4%. On the other hand, the central bank has amassed some \$25 billion in foreign currency reserves as a partial guarantor of financial stability, contributing to a stark contrast between a prudently and professionally run financial sector and a feckless political sphere characterized by paralysis and lack of responsibility on financial and fiscal matters.

9 | Private Property

Property rights are well-defined and well-respected. Restrictions exist with regard to the purchase of real estate by foreigners, who need to obtain a decree from the council of ministers if they wish to purchase more than 3,000 square meters. Costs and efforts associated with property registration are comparable to other countries in the region (e.g., Jordan), but still significantly behind regional best-practice examples such as Turkey. Expropriation of land is limited to narrowly defined cases of public interest (in particular, roads), and compensation, although necessarily subject to disputes, is substantial. In peripheral areas, some of which have only recently been surveyed, ambiguities between various patterns of land use and holding are sometimes exploited by well-connected investors to convert state and communal lands into private property.

Property rights
8

The overall inefficiencies of the legal system can sometimes make property law enforcement difficult, time-consuming and expensive. This refers particularly to intellectual property rights protection, where enforcement is weak and the incidence of product piracy and counterfeit goods remains high.

Private companies represent the backbone of Lebanon's economy. Investors are neither obliged to engage in any particular sector or project, nor are public authorities permitted to influence private-sector resource allocation through direct intervention. Competition is not impeded by any discriminatory tax breaks, incentives or levies.

Private enterprise
7

A Higher Privatization Council was established in 2000, and privatization legislation was passed in 2002, aiming especially at privatizing the telecommunications network (the biggest source of government revenue besides taxes) and the electricity sector (the biggest drain on the public budget). However, repeated political crisis and stalemate, as well as an ongoing struggle over potential spoils, have delayed this process. It appears highly unlikely that privatization processes, should they ever occur, would comply with market principles.

Establishing a company in Lebanon is not significantly easier than elsewhere in the region, even in countries with strong statist traditions such as Syria or Egypt. The World Bank's 2013 Doing Business report singles out the comparatively high costs of starting a business (67% of per capita gross national income, compared to 13.8%

in Jordan, 15.6% in Syria, and only 10.2% in Egypt) and high capital requirements (35.2% of per capita GNI, as opposed to 7.2% in Turkey).

10 | Welfare Regime

Lebanon has only rudimentary measures in place to avert social risks. Roughly half of the population has no health-care coverage, but receives aid from the Ministry of Health in emergency cases and when treatment of chronic diseases requires expensive medicine. The share of uncovered individuals is higher in areas with high poverty rates (Bekaa, the north). Apparently, some hospitals refuse to serve patients who are covered by the National Social Security Fund (NSSF), and physicians sometimes demand fees beyond the amount covered by it. Private insurance companies and professional associations' health plans often have annual ceilings, leaving patients exposed to the risk of prolonged or exceptionally costly medical treatment.

To improve the efficiency of social spending and to reduce poverty, Lebanon initiated a social action plan in January 2007, stipulating that \$75 million annually be provided for the most needy groups of society. Proposed reforms include restructuring the NSSF, a new legal framework and plans for financial sustainability. Lack of resources and perpetual political instability continue to hinder progress in designing and implementing this social action plan. An Economic and Social Action Plan prepared by the presidency of the council of ministers in 2011 focuses mostly on growth-enhancing measures.

There is no unemployment insurance, no welfare system to cover citizens with no or insufficient income, and no pension system except for mandatory end-of-service indemnity payments. Only state employees (civil servants and military personnel, about 10% of the labor force) can choose between a monthly retirement benefit and a lump sum amount as end-of-service compensation after retirement. According to U.N. Economic and Social Commission for Western Asia (ESCWA) 2011 figures, 67% of Lebanese do not contribute to a retirement plan. Private companies frequently shirk payments to the NSSF and indemnity payments, leaving employees with little recourse in obtaining even the limited social protection provided for by the law. Unemployment leads to loss of health coverage and ineligibility for severance pay.

Family support and religious charities partially compensate for all these insufficiencies, tending to blur into structures of dependency and clientelism that are then open to political exploitation.

Political power-sharing and sectarian quotas can mean that competing for coveted jobs is harder for members of some communities than for others, as there are often insufficient applicants to fill the quota of one community, and an abundance of applicants from another. In addition, contacts with influential personalities and

Social safety nets
4

Equal opportunity
6

networks make a difference. Such contacts are often based on family connections, but are also established through attendance at prestigious (exclusively private) schools, which are prohibitively expensive for the poor. Thus, educational standards are not only lower for the poor, but they also remain detached from circles of influence.

Residents who lack Lebanese citizenship, especially refugees and foreign workers, but also “stateless aliens” (mostly Kurds), face severe limits in access to education, economic activity, property rights, and sometimes even basic official procedures such as the documentation of marriage and childbirth. Conversely, official restrictions on children of Lebanese mothers and foreign fathers (who do not receive Lebanese citizenship) have been largely removed.

Although women enjoy equal opportunity in principle, female participation in the labor force, particularly in the formal sector, is considerably lower than male. Only 18% of women aged 15 to 24 participate in the labor force, while the percentage for men in the same age bracket is 42%. Lebanon has no holistic approach to women’s participation in social and economic life; a national commission aiming at increasing female participation in the economy has been established, but has not produced meaningful results thus far.

11 | Economic Performance

Services, in particular financial and tourism-related services, are estimated to account for 75% to 80% of GDP. Even the construction sector, contributing some 15% to GDP, is largely driven by touristic infrastructure. The outbreak of violence in Syria heavily affected Lebanon’s output strength, sharply undercutting formerly impressive GDP growth rates (7% to 9% per year), FDI (14% of GDP in 2008) and gross capital formation (34.3% of GDP in 2009). FDI dropped by 62.7% in 2011 and 84% in 2012, while tourism contracted by 36% between 2010 and 2012.

Trade too has been affected by security problems in Syria, which is the only overland transport option for Lebanese importers and exporters. Adjusted IMF figures indicate GDP growth of only 2% in 2012, perhaps heralding an even sharper decline in 2013. Remittances by Lebanese abroad also dropped in 2010 and 2011, most likely as a result of the global economic crisis.

Such developments do not bode well for debt management, a major concern as Lebanon still has one of the highest debt-to-GDP ratios worldwide, at 136%. That ratio had improved significantly since the 2006 peak of 180%, but entirely on the strength of GDP growth. If GDP were to contract in 2013, government revenue would probably also drop, pushing the already worrisome budget deficit of around 10% significantly upward.

Output strength
6

There is no official unemployment data, and estimates are inconsistent, ranging between 10% and 20% for the first half of the 2000s. Some recent reports claim that unemployment figures have fallen (below 10%) for the 2008 – 2010 period. Figures compiled by ESCWA suggest that the unemployment rate among youth is slightly above 20%. Inflation is expected to reach 10% in 2012 and 15% in 2013.

12 | Sustainability

Lebanon is a signatory to major treaties on environmental protection, but sustainable concepts receive only sporadic consideration. A national environmental action plan has been prepared but not yet adopted, and sectoral legislation is in place but requires further development and implementation. For example, large parts of the countryside are without proper sanitation, and makeshift cesspits often affect underground aquifers. Only a tiny percentage of raw sewage is treated, while most is released untreated into the sea. In the cities, leakage from sewers, unauthorized well drilling and the subsequent seawater intrusion compromise the quality of underground aquifers. Lack of surveillance has led to repeated cases of contamination, even in bottled drinking water that is marketed commercially. There is almost no environmental supervision of Lebanon's mainly light industry and agricultural sector, and destructive practices (e.g., illegal quarrying) often happen under the protection of clientelist networks. Solid waste is mostly deposited in open landfills, some of which operate under substandard conditions.

The cabinet adopted a National Energy Efficiency Action Plan in late 2011, advocating better use and increased production of alternative energies. However, despite favorable conditions for the production of solar energy, no government initiatives to promote renewable energies have materialized, and dependence on fossil energy (in particular fuel oil) remains nearly total.

Regulations and pricing do not provide incentives for environmentally sound behavior. Water and garbage are charged at flat rates, while road taxes and registration fees encourage the use of old cars. Public transport is left almost entirely to private operators who often use highly polluting vehicles. Accordingly, traffic congestion and air pollution are heavy, in particular during summer.

Lebanese put a high premium on education. State and private institutions exist, but improvements in the quality of and access to education, and investment in R&D activities are still needed. Public expenditure on education declined from an already low 2.6% of GDP in 2006 to 1.8% in 2012. The share of education in total government expenditure fell from above 12% in 2002 to some 7% in 2011 (prewar levels reached above 16%). The total spending on both private and public education was around 13% of GDP in 2010, with 70% covered by private funds, indicating a strong private role that seems likely to continue or even grow with the continuous

Environmental
policy
4

Education policy /
R&D
5

expansion of the private university sector and the chronic underfunding of public education.

Even low-income families shun the public education system and shoulder the significant burden of private schooling on the primary and secondary level. Private institutions receive government support, yet the amounts typically cover only a tiny fraction of the actual cost, and payments are often in arrears.

While primary and secondary education is dominated by the private sector, roughly half the student population (out of a high 54% tertiary education enrollment rate) attends the state-funded Lebanese University. However, the differences in resources are striking: in 2007, per student expenditure by the Lebanese University amounted to \$1,380, while at the elite American University of Beirut (AUB), it stood at \$15,500. In response to this situation, there has been a significant proliferation of middle-tier tertiary education offering more moderate costs, while a few highly exclusive institutions remain the prime choice for those who can afford them.

Research and innovation activities in Lebanon are modest and mostly restricted to universities, where again the private sector takes the lead. The AUB accounts for nearly half of all publications, while the Lebanese University produces less than 20%. In 2007, research allowances to the Lebanese University did not exceed the equivalent of \$180,000. The government-funded (at a rate of some \$4 million annually) National Council for Scientific Research runs four research centers (Geophysical Research, Marine Sciences, Remote Sensing, Atomic Energy) and provides research grants and scholarships. Private sector R&D is still very limited, despite the creation of the Lebanese Industrial Research Association (LIRA) in 1997 and the promotion of joint industry-university research projects.

Transformation Management

I. Level of Difficulty

Lebanon is located on the fault line of several interconnected regional and international conflict configurations and remains critically exposed to the vicissitudes of much larger developments and interests that it cannot control: The Arab-Israeli conflict, connected with the struggle between regional states vis-à-vis Israel and perceived Western (or American) influence in the region; the strategic competition between Iran and Saudi Arabia; and fundamental differences between external actors (United States, European Union, Russia, China) over the operational structures and rules of international institutions and law.

Structural
constraints

8

Regional and international actors have long used Lebanon as a tool for their own purposes. Lebanese actors, in turn, have looked for precisely such external allies to bolster their own interests. Thus, whenever regional conflict heats up, Lebanese actors tend to take intransigent stances, and the political process grinds to a halt.

With an enemy country (Israel) as its southern neighbor, Syria remains Lebanon's sole available overland outlet and transit country, a position it has repeatedly used to blackmail Lebanese governments into compliance, even after its withdrawal from Lebanese territory in 2005. Similarly, Syria provides a political as well as strategic conduit which assures that Lebanon remains a theatre for confrontation with Israel.

The current violent conflict in Syria is a case in point. Since the two political camps in Lebanon support opposing sides, and fear for their position in the Lebanese power structure should their Syrian allies lose out, neutrality ("disassociation" in official parlance) is the only possible stance to prevent the conflict from engulfing Lebanon as well. Hence, the political process in Lebanon remains frozen as long as the new configuration of power in Syria has not taken shape.

Lebanon has strong civil society traditions, dating back to the state-led modernization of the declining Ottoman Empire in the 19th century. In the 1960s, another modernizing push to establish a developmental state also brought about the proliferation of different civic associations. During the civil war, such organizations provided some basic services and relief operations. However, many were unable to recover in the postwar period.

Civil society
traditions

3

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.

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, nonformal 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 (mostly inherited) family status. Significant amounts of social capital are bound up in these largely involuntary forms of association, and specific persons may function as intermediaries between certain quarters and the authorities. In this way, they are also an integral element in the (re)production of clientelist patterns of political power.

The nature of the political system in Lebanon keeps sectarian and religious sensitivities alive and sensitized, and reproduces sectarian identity as the main and overriding cleavage in society. Political elites routinely generate support by mobilizing and exploiting identity-based fear perceptions and grievances among their constituents, 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 significant followings. Even at times of low regional conflict intensity, 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 are quickly reactivated as lines of conflict once the political elites again push or are drawn into such an activity. Violence remains a part of the political game, mostly in the form of “spontaneous” actions by “enraged” communities that leaders then hurry to control (implying that they can only establish control if certain conditions are met).

Conflict intensity

7

II. Management Performance

14 | Steering Capability

Question
Score

Due to a significant overlap between the political and the economic elite, long-term governmental priorities such as integration into regional and international markets, developing infrastructure, reforming the public sector, privatization and deregulation have rarely been challenged by critics from the political sphere. Even objections by organizations with stronger grassroots orientation (e.g., Hezbollah, Free Patriotic Movement) have remained vague and rather populist (e.g., calls for a more “balanced” development approach, unspecified objections against “globalization” or “corruption”). Although some progress has been achieved, implementation often lags behind legislation, and nearly every step of the process is marred by conflict over the relative allocation of benefits and costs, as can be seen in the painstakingly slow progress of Lebanon’s WTO accession, or the apparently impossible reform of the crucial energy sector.

Prioritization
5

In stark contrast to the clear and largely consensual priorities in the fields of governance and economics, the same governments, and indeed all political forces, have been extremely reluctant to advance political reform, or even to implement the Taif peace accords of 1989. Central provisions of the accord (creation of a commission to end political sectarianism, administrative decentralization, creation of a bicameral system) were never even attempted. Until 2005, these shortcomings were blamed mainly on the Syrian occupation, but no improvement has been achieved since. Demands for political and constitutional reform – most prominently for a reformed electoral law in accord with the spirit of the Taif accord – continue to be wielded as rhetorical weapons in ongoing conflicts, but no policy priorities have been formulated beyond ritualistic denunciations of sectarianism and its political manifestations.

The implementation of strategic priorities in governance and the economy includes some of the obligations that Lebanon assumed as part of the process of international integration. However, this has been hampered and in some cases aborted by conflicts of interest, resistance by stakeholders and the clientelist nature of the country’s channels of political legitimation. The consensus-driven rules of the political system invest political players with effective veto rights; this fact creates bargaining power that is used to exert concessions on behalf of politicians’ clients or even their own direct interests (e.g., some politicians have economic stakes in the import of fuel oil that would be affected by a reform of the energy sector) in such a way as to sometimes undermine reform efforts. Since this applies to all political actors across the board

Implementation
4

(even those who make denouncing this state of affairs a central part of their political platform), no clear division between drivers of reform and defenders of the status quo can be drawn. Notably, successive governments have paid lip service to the strategic objective of rooting out corruption, without ever taking effective steps toward this end.

Despite these constraints, incremental if slow progress has been achieved (e.g., implementation of a VAT, facilitation of import procedures, joining Greater Arab Free Trade Area), and the priorities themselves have not been subject to substantial change or challenge. Yet the fundamental disagreements over key issues such as foreign and security policy tend to affect policy areas that are formally unrelated, rendering the prospects for further progress dim even in areas where there are no fundamental differences.

The Lebanese government's commitment to a free market economy and the priority of growth remains unshaken. At the same time, policymakers have on a theoretical level become more aware that the country needs a minimal social safety net, and that the continued marginalization of certain regions is counterproductive. Consequently, the reform plans adopted in the aftermath of the 2007 Paris donor conference focused on education, health care, poverty eradication and similar issues. The political leadership has responded to mistakes and failed policies with changes in strategies; learning processes occur, often through cooperation with international agencies such as UNDP, the World Bank or USAID. The emphasis placed on the social road map put forward by the donor community at the Paris III meeting presumably also helped to spur this development along.

Changes in government are not likely to lead to severe reversals and loss of institutional knowledge, as the Lebanese consensus-based system of governance and appointments makes extensive turnover on the operational and managerial level unlikely. However, the translation of these learning processes into material reform has been slow and haphazard, and liable to stall as confrontation between the two political blocs monopolizes attention and undermines cooperation.

On that level, the picture appears much bleaker. Both government and opposition continue to pursue confrontational strategies that have proved disastrous in the past, attempt to bolster their position by mobilizing along the lines of sectarian division rather than through performance, and continue to seek foreign support. Despite disastrous experiences in the past, in particular the 2007 uprising in the Palestinian camp of Nahr al-Bared near Tripoli, the March 14 bloc continues to display an ambiguous stance vis-à-vis Islamist extremists, while March 8 continues to condone or actively support Hezbollah's continuous military buildup, ignoring the disastrous consequences – another war with Israel, and destruction far beyond what occurred in 2006 – that appear inevitable if such a course continues. Finally, both sides continue to consider gerrymandering a legitimate part of the political process and hence insist

on an election law that would maximize their own advantage, a behavior that is liable to lead to yet another collapse of the political process in the summer of 2013.

15 | Resource Efficiency

The government does not make efficient use of available human, financial and organizational resources. Frequently, sectarian quotas get in the way of meritocratic recruitment and promotion. Even more problematically, employment opportunities are often doled out through political leaders as part of clientelist arrangements, with political expediency (i.e., the political support achieved in return) taking precedence over merit. For the same reason, it is rarely possible to hold officeholders accountable for unsound practices.

Efficient use of
assets

3

While wartime practices of politically motivated overstaffing and no-show jobs have receded, recruitment for posts that require highly developed skills has become difficult. This is in part due to higher salaries in the private sector, but also to difficulties in filling the quotas of demographic groups with a high propensity for migration, in particular Christians. Qualified candidates are turned away because their sectarian group's quota has been exhausted, and posts remain vacant because not enough candidates from other groups apply. Political instability, insecure job prospects and low pay encourage a general brain drain (about 40% of tertiary-educated Lebanese emigrate).

High budget deficits and huge debts constrain the government's margin for maneuver and intervention. Some economists claim that the interest payments incurred by the Lebanese state in the past were disproportionately high, and that only a tiny fraction (around 10%) of the overall debt was actually spent on investment. In many cases, the need to balance budget spending across regions and sectarian communities, as well as to cater to clientelist interests, leads to waste as facilities are constructed not according to need but according to considerations of sectarian quotas and electoral geography.

The bureaucracy remains slow, often inefficient, and highly centralized. Plans for administrative decentralization have not been carried out, and many municipalities in marginalized areas remain underfunded and dysfunctional. Municipalities raise their own taxes, leading to significant differences between mostly urbanized areas where dense economic activity provides sustained revenue, and marginalized areas dominated by subsistence agriculture, where municipal structures and services are virtually absent. There is a budget to compensate for these differentials, but it is notoriously underfunded and in arrears on its payments. There are significant differences between municipalities in different regions concerning basic functionality and efficient service provision.

Although Lebanon's consensus-based politics are characterized by resilience and compromise, the attempt to juggle different and sometimes incoherent policy priorities often results in deadlock. As the consensus system mandates broad coalitions in government, it is often difficult to commit ministers to cooperation or compromise on issues that involve more than one portfolio. Frequently, such ministers prefer to ignore each other, compete or even work at cross-purposes. This situation was especially pronounced during the two cabinets of "national unity" established since 2008, but has not improved significantly under the current government. While the government has managed to devise comprehensive reform plans and sectoral policies, in practice intragovernmental friction, redundancies, and lacunae abound. During the current crisis over a new electoral law, each faction in the ruling coalition pursued a different line and ignored the draft proposed by the government it was nominally part of.

Policy
coordination
4

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, but political and petty corruption is widespread. As all political actors generate legitimacy through clientelist practices, corruption is in fact systemic. Bodies such as the Civil Service Board that were designed to control the performance and financial conduct of executive bodies did exert real control in the prewar period, but were largely domesticated in a process of state capture by political elites during and after the civil war. The 2012 – 2013 Global Competitiveness Report ranks Lebanon at a dismal rank 141 (out of 144) for the "favoritism in decisions of government officials" indicator, and at rank 132 for the "irregular payments and bribes" Indicator.

Anti-corruption
policy
2

Lebanon has ratified the United Nations Convention against Corruption (UNCAC), but has never developed a national anti-corruption strategy. After the civil war, the Office of the Minister of State for Administrative Reform (OMSAR) launched initiatives to fight corruption, including laws for access to information and the establishment of an ombudsman, but those laws were never enacted. Initiatives were also launched by individual politicians, but ended up stuck in procedural loops.

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 demands officeholder accountability, but the law is not enforced, and accountability is rarely established. In 2009, the Lebanese National Network for the Right of Access to Information and Whistleblowers, a coalition including ministries, CSOs and members of parliament, developed a draft law that has however not been discussed in parliament.

Lebanon has no legislation that prevents officeholders from holding private jobs, or that clearly defines conflicts of interest. 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 such as 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 and have a notorious reputation. The election law passed in late 2008 demanded transparency in campaign spending, yet the period actually given scrutiny (the last two months before election day) is short, while informal and long-term practices of trading material benefits for electoral performance are difficult to monitor.

16 | Consensus-Building

All relevant political actors agree in principle on a market-based economy. Nuances exist with some actors (e.g., Hezbollah) giving some emphasis to a stronger state developmental role and voicing reservations about privatization, while others (e.g., the Future Movement) are oriented toward market liberalism. However, these differences are only rudimentarily developed in the public platforms of these political players, and their role, as is true of all issue-based political differences, is by far secondary to identity-based conflicts.

Likewise, 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.

However, there are all but irreconcilable differences as to when and how this objective could be achieved, and the sincerity of many actors can be doubted. 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 clientelist 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. Conversely, communities whose demographic share is seen to be rising (in particular Shi'a Muslims, although such claims are difficult to ascertain in the absence of official census data) are strongly in favor of such reforms, since this would translate their demographic ascendance into greater political power. As no consensus between these conflicting 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

Consensus on goals

6

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. At least one party, Hezbollah, has a proven record for backing up such tactics by military force if necessary, while others such as the Sunni Future Movement have ambiguous relations with armed groups with sectarian orientation, and occasionally use the looming threat of unrest from such quarters for leverage.

Most recently, consensus was achieved across all political divides that Lebanon should stay neutral in the ongoing conflict that is wrecking Syria. On the surface, this would appear to be a significant achievement given the sharply opposed views that the two camps hold with respect to this conflict, and the repercussions that the victory or defeat of either side in this war will have on the balance of power in Lebanon. Yet there is strong evidence that both sides are actively if surreptitiously intervening in the conflict on various levels, and that the official “consensus” of neutrality is nothing more than a smokescreen to cover the buildup of competing support structures that may, and in some places already have, make Lebanese face off against each other in an armed fashion.

Since all parties profess to adhere to democracy underpinned by constitutionalism as the sole legitimate political order, while the main obstacles to democratic reform are the continuing predominance of communal over national identification and the reluctance of communal elites to relinquish their positions of power, no clear separation between “democracy-minded reformers” and “anti-democratic defenders of the status quo” appears possible.

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. 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 constitutional texts and tradition in order 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 camp to agree to a compromise on their terms. This proven track record of using violence has loomed over the democratic process ever since and has established Hezbollah as a veto actor that employs democratic and constitutional means as long as possible, but once those are exhausted, resorts to violence to protect what it considers its vital interests.

Anti-democratic
actors

4

Hezbollah has increasingly become involved in the war in Syria, thus ignoring and undermining the official policy of the government it is nominally part of. Other political actors have followed a similar course, if to a much lesser extent due to their more limited capabilities.

Lebanon's political leadership is incapable of and unwilling to reduce existing divisions and prevent cleavage-based conflicts. On the contrary, on many occasions, political actors seek to generate support and legitimacy by emphasizing their role as powerful defenders of communal interest 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 increase the defensive cohesion of other communities in turn. While these cleavages are exacerbated by regional events and foreign intervention, appealing to communal sentiment and resentment remains the favorite political pitch even in times when such negative influences are absent or low. In early 2013, months of wrangling over a new election law, which at the time of this report was still undecided, as well as debates over the conflict in Syria and the possible involvement of Lebanese actors in it produced a new low point of sectarian and populist fear-mongering. In this context, and for the first time, a significant number of key political actors are now pushing for the introduction of separate electoral colleges for each sect.

Cleavage /
conflict
management
2

Lebanon's political leadership occasionally 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. 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 advocacy concerning specific issues or sectors have proliferated since 2005, and members of parliament are usually receptive to lobbying efforts. Watchdog and performance monitoring organizations have also become active, yet in general, obtaining visibility in the public sphere has been difficult in the presence of overwhelming sectarian political conflict.

Civil society
participation
6

On occasion, initiatives emerging from civil society have become draft laws that were fed into the political process by supportive politicians, and sometimes even result in legal change, as in the case of the ban on smoking in public locations. Partnerships between certain politicians and civil society organizations also exist in the development of policy platforms. At the same time, as the political process is controlled by a very small leadership circle engaged in perpetual bargaining, the scope of bottom-up influence remains limited. It is indeed entirely ineffective once it touches upon issues that may affect the balance of power or the contentious issues pursued by these leading political actors. For example, the abovementioned draft electoral law was never even debated in cabinet or parliament, and one of the crucial

technical improvements it proposed was scrapped as a result of last-minute maneuvers by major players among the political elite. Likewise, 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.

Alongside the formal civil society in the shape of NGOs, Lebanese society is permeated by dense and partly formalized networks of relations based on kinship and locality, which blur into clientelist structures. 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. While these networks are hierarchically organized and generally lend unquestioning support to sectarian leaders, bottom-up initiatives that manage to obtain support from these quarters can on occasion have direct influence on politicians' behavior.

The political leadership does not address past acts of injustice and does not initiate reconciliation. 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 peace-building or reconciliation process accompanied these measures, and the issue of 17,000 people who disappeared during the civil war has not been officially addressed. 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. 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 transparently 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

The political leadership works with bilateral and multilateral international donors and tries to make use of international assistance, but this does not always facilitate significant improvements to the policymaking process or to policy learning. Government reform plans are partly based on a genuine reform agenda, not least in the pursuit of WTO membership, but are also often donor-driven, as was the case with the reform plans put forward at the three Paris donor conferences. A recent European Neighborhood Policy (ENP) progress report cites Lebanon's lack of progress in its WTO accession as the main obstacle to further trade liberalization with the European Union. The report notes that many agreements and reform measures

Effective use of
support
5

are stalled on the political and legislative level, and that the ENP action plan stalled in 2011 as a result of political conflict.

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 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. This cooperation has intensified and become more systematic and coherent since the adoption of the action plan in early 2007. There is also significant donor support from affluent countries in the region such as Saudi Arabia, Kuwait, Qatar and Iran.

Despite an unambiguous orientation toward efficient governance, multiple sources of donor support and a lack of coordination between government institutions prevent the development of a concerted road map for reform. In the aftermath of the 2006 war, some foreign governments such as Iran and Qatar explicitly circumvented the Lebanese government, citing efficiency and concerns over corruption. Other support, such as Iran's funding for Hezbollah, is often not officially accounted for, and is meant to translate into political capital for specific groups rather than to serve as support for a developmental agenda. The same holds true for some of the official aid; for instance, some \$500 million was allocated by USAID in the aftermath of the 2005 Cedar Revolution in support of "democracy, good governance and civil society," with the clear objective of curbing the influence of Hezbollah. Both the United States and the European Union have provided significant support to improve security and governance, in particular after the 2006 war, yet many of the existing structural deficits (e.g., corruption and clientelism, a political elite that undermines and hollows out institutions and processes) cannot be addressed easily on the level of technical assistance.

After the Syrian withdrawal in 2005, and even more so in the aftermath of the 2006 war between Israel and Hezbollah, Western and so-called moderate Arab states provided vehement support to the pro-Western government majority that held power until 2008. On critical reform issues, the government's plans were perceived as credible and received unqualified support, even though much was left to be desired in terms of statistics and data collection, actual implementation of the reform agenda, and fighting corruption. Clearly, such positive attitudes were driven by the desire to prop up this government against opponents (notably, Hezbollah) seen as proxies for radical, anti-Western actors such as Syria and Iran. Government credibility vis-à-vis international actors suffered as a result of its inability to deliver on the reform strategy; yet such expectations were misguided in the first place, and elevating them

Credibility

7

to policy strategies speaks primarily of the irresponsibility or ill-informedness of Western approaches that a beleaguered government had little choice but to adopt.

Events in 2008 (the clashes leading to the temporary occupation of parts of Beirut by Hezbollah loyalists, and subsequently the Doha agreement) clearly showed the dangerous consequences of pushing the government into a confrontation it had no chance of winning, while equipping it with the means to win would have carried the risk of prolonged civil war. Western allies have since toned down the partisan aspect of their support, and continued their assistance even after a government with significant involvement by Hezbollah was appointed.

More generally speaking, it appears that eight years after Lebanese government's recovery of its role a sovereign actor, throwing off the tutelage of its neighbor Syria, 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 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.

Lebanon has also earned international respect for its welcoming treatment of Syrian refugees, despite domestic economic and political difficulties, and for its efforts to maintain neutrality while mitigating the crisis. It is currently viewed as a comparatively reliable factor for stability in an otherwise highly volatile region.

Lebanon is a founding member of the United Nations and a member of a large number of international and regional organizations. 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, including Saudi Arabia, Qatar and Kuwait. Recently, a marked improvement has occurred in relations with Turkey, reflected in the mutual abolishment of visa requirements in 2010.

Due to the unresolved Middle East conflict, Lebanon remains technically in a state of war with and does not recognize the existence of the state of Israel. Lebanon complies with Security Council Resolution 1701, and the Lebanese army cooperates smoothly with the United Nations Interim Force in Lebanon (UNIFIL) international peacekeeping force, present with some 12,000 personnel in the south of the country.

Relations with Syria have fluctuated considerably over the past five years, going from extremely hostile at the end of 2005 to reconciliation after 2008. Diplomatic relations

were established and ambassadors exchanged for the first time in the history of the two countries. Since the beginning of the uprising in Syria, Lebanon has struggled to maintain neutrality in the conflict, despite – or rather, precisely because – both political camps in Lebanon support different sides in this conflict. If the Lebanese government were made to take sides – be it by either of the two political camps or through the influence of external actors – it would almost certainly import the conflict into the country.

As a result of the generally deteriorating relations between Sunni and Shi'ite Muslims in the region, relations with some Gulf states have recently suffered. Lebanese residing in those states are experiencing difficulties as a result of the alleged destabilizing activities of Hezbollah in the area. Threats against Gulf state nationals travelling to Lebanon, related to the positions of these countries with regard to the conflict in Syria, have also exacerbated this situation.

In general, relations with regional countries are overshadowed and in some cases dominated by the personal relations of Lebanese politicians to the political elites in the individual countries, and can thus fluctuate considerably according to the configurations of power in Lebanon, and the relative position of such “clients” of regional actors within the local power structure.

Strategic Outlook

At the time of this writing (early 2013), Lebanon is struggling hard to avoid being sucked into the violent clashes raging in neighboring Syria. Both political camps officially condone the government's approach of keeping Lebanon out of the Syrian struggle, while at the same time providing active support for opposite sides of the Syrian conflict. This carries the grave and present danger that Lebanese may be drawn into armed confrontation over the events in Syria, which has indeed already happened on some occasions. Problems are especially likely and dangerous where border areas populated by Shi'ites (who side with the Syrian regime) and Sunnis (who support the rebels) abut each other or overlap. In some areas, family ties that straddle the border complicate things even further. Perhaps most worrisome, Lebanese army units trying to maintain border control are liable to run into conflict with Syrian rebels and their Lebanese support systems (while Hezbollah, as an ally of the Syrian regime, can rely on official crossings, and has an established system of unofficial cross-border channels, in particular for the transit of weapons into Lebanon, with the tacit approval of officials on each side). This is very likely to further undermine the standing of the Lebanese army as one of the very few national institutions that enjoys cross-sectarian trust and legitimacy. That image already took a blow in 2008 when the army did not move against the occupation of West Beirut by Hezbollah and its allies.

At the same time, the crisis in Syria is deepening and prolonging the protracted paralysis of the Lebanese political system. Both political camps expect the outcome there to have a decisive impact on the balance of power in Lebanon, and are thus extremely reluctant to accept bargains that may turn out to be much less than what could have been achieved a little further down the road, or which an emboldened opponent may not find necessary to keep.

Political and sectarian polarization also ensures that the overwhelming majority of Lebanese will continue to support, if sometimes grudgingly, the existing, largely sectarian-based political leadership. While a stable core constituency for cross-sectarian platforms exists, these groups will not gain political representation through an electoral system that is heavily weighted against them, and are extremely unlikely to achieve mass support as long as most of the population remains entrenched in communal sentiments.

Despite its anti-imperialist rhetoric, Hezbollah is unlikely to push for a radical turnaround in the strategies of international integration and free market access pursued by previous governments. On the one hand, Hezbollah's priorities clearly lie in the field of foreign policy. On the other hand, some of its allies have close links to major economic actors, and are not likely to abet such moves.

International actors such as the United Nations and the European Union have contributed to attempts to establish forums (such as the National Dialogue), where representatives of both political blocs can cooperate and achieve pragmatic solutions in areas where no substantial differences exist. Such initiatives may reduce the level of mutual suspicion, but do not provide a

realistic prospect for the resolution of the fundamental differences between the two camps. Moreover, in the long run, stability, growth and democratic progress will remain precariously linked to regional developments. Hezbollah will continue to pursue its confrontational approach vis-à-vis Israel, and can be expected to expand its already considerable arsenal further, which may ultimately cross a red line beyond which Israel will feel compelled to act. Since Hezbollah is widely perceived as acting on behalf of Iran, further developments in the crisis over Iran's alleged regional and nuclear ambitions will be decisive in determining exactly when this crucial turning point may arrive. As the Lebanese population is sharply divided on the issue, regional and domestic tensions are likely in most cases to rise in tandem.

Rather than applying pressure against Hezbollah and propping up its domestic opponents – a strategy that has failed before and is not likely to yield better results if applied again – the international community needs to keep existing channels of communication open and remain vigilantly involved in order to head off any possible slide into military escalation, and impress the disastrous consequences of such a scenario upon both sides. In order to achieve that end, maintaining a substantial European presence in the UNIFIL peacekeeping force in south Lebanon will be crucial. In the medium term, the most practical and credible approach will be close engagement aimed at preserving the current precarious balance until a regional political settlement can be reached. Without such a long-term settlement, none of the progress reached in other areas can be sustainable.