USAID | LEBANON
FROM THE AMERICAN PEOPLE

POLITICAL ECONOMY ASSESSMENT OF LEBANON

Performance Management and Support Program for Lebanon (PMSPL II)

March 2019

This publication, produced for the United States Agency for International Development (USAID), does not necessarily reflect the views of the United States Government. It was prepared by Social Impact, Inc. in collaboration with Guilain Denoeux, Robert Springborg, Rhys Payne, Imad Salamey, Christina Abu Haidar, and Zeina S. El-Hélou.

-

Note: Limited redactions have been made to this version of the report in accordance with the principled exceptions to the presumption in favor of openness established in OMB Bulletin 12-01, "Guidance on Collection of U.S. Foreign Assistance Data."

ACKNOWLEDGEMENTS

The authors wish to acknowledge the contributions of the following people at USAID/Lebanon for their inputs, guidance, and support at various stages of the assessment design, research, and reporting process: Walter Doetsch, Program Office Director; William Butterfield, Economic Growth Office Director; Claude Zullo, Democracy and Governance Office Director; and Bruce McFarland, Office of Education Director. Social Impact's local research team of Rana Taher, Tamara Nassereddine, and Amer Haddad contributed to all stages of the assessment, notably data collection, analysis, and revision. Social Impact's Sr. Gender Specialist, Najwa Andraos, provided input relevant to gender considerations throughout the assessment process. Social Impact also supplied additional inputs on research design and was responsible for quality assurance, logistics, and the management of data collection, under the guidance and supervision of Chief of Party, Harvey Herr, and Deputy Chief of Party, Carine Khoury.

The team is also grateful to the key informants whose input made this assessment possible, and to the Government of Lebanon.

POLITICAL ECONOMY ASSESSMENT OF LEBANON

Performance Management and Support Program for Lebanon (PMSPL II)

Contracted under AID-268-C-15-00001
Performance Management and Support Program for Lebanon (PMSPL II) for USAID/Lebanon

This document is not available in printed or online versions. Additional information can be obtained from:

Social Impact, Inc. Corporate Office
2300 Clarendon Boulevard Suite 10300
Arlington, VA, 22201
Tel: (703) 465-1884
Fax: (703) 465-1888
info@socialimpact.com

Social Impact, Inc.
Arz Street
Librex Bldg. Bloc B – 3rd Floor
Zalka, Metn, Lebanon
Tel: +961-1-879260

CONTENTS

Table of Figures

ACRONYMS

AUB	American University of Beirut
BdL	Banque du Liban
BeT	Bab el-Tebbaneh
CDCS	Country Development Cooperation Strategy
CEDRE	*Conférence économique pour le développement, par les réformes et avec les entreprises*
CCECS	Center for Civic Engagement and Community Service
COOP	Cooperation
CSO	Civil Society Organization
DO	Development Objective
EDL	Electricité du Liban
EU	European Union
FDI	Foreign Direct Investment
FM	Future Movement
Forex	Foreign Exchange
FPM	Free Patriotic Movement
FPP	First Past the Post
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoL	Government of Lebanon
HIFPA	Hizballah International Financing Prevention Act
HIFPAA	Hizballah International Financing Prevention Amendments Act
ICS	Integrated Country Strategy
IMF	International Monetary Fund
IRGC	Islamic Revolutionary Guard Corps
IS	Islamic State
ISF	Internal Security Forces
ISIS	Islamic State of Iraq and al-Sham
JM	Jabal Mohsen
KII	Key Informant Interview
LAF	Lebanese Armed Forces
LEA	Lebanese Environmental Action
LF	Lebanese Forces
MBS	Mohammed bin Salman
MBZ	Muhammed bin Zayed
MECW	Middle East Civil War
MENA	Middle East and North Africa
MOH	Ministry of Health
MP	Member of Parliament
NEEREA	National Energy Efficiency and Renewable Energy Action
NGO	Non-Governmental Organization
OFAC	Office of Foreign Assets Control
OTI	Office of Transition Initiatives
PE	Political Economy
PEA	Political Economy Analysis
PLO	Palestine Liberation Organization
PM	Prime Minister

PPP	Public-Private Partnership
PSP	Progressive Socialist Party
SA	Saudi Arabia
TA	Technical Assistance
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNIFIL	United Nations Interim Force in Lebanon
UNSC	United Nations Security Council
UNWFP	United Nations World Food Programme
US	United States
USAID	United States Agency for International Development
USG	United States Government
VE	Violent Extremism
VEO	Violent Extremist Organization
WWII	World War II

ABSTRACT

The following political economy assessment (PEA), prepared at the request of the United States Agency for International Development (USAID)/Lebanon, describes the socioeconomic dynamics that underpin Lebanon's national political decision making. The PEA analyzes Lebanon's current political situation, emphasizing key development challenges, including reducing the budget deficit/national debt, increasing infrastructure spending, and addressing obstacles to more effective governance. The assessment aims to increase USAID, wider U.S. Embassy, and donor community understanding of political economy constraints and opportunities that affect development programming. This national-level PEA, to be followed by sector- and issue-level PEAs, has followed the methodological guidelines established by USAID in 2018 and has drawn primarily on data collected through key informant interviews, extensive desk review, and ongoing documentary analysis. The PEA highlights long-term, structural characteristics of the Lebanese PE that explain complex national power-sharing arrangements and identifies key political actors (domestic and external) and their guiding interests. The PEA concludes that Lebanon presents a difficult programming environment that is facing pressures for change on numerous fronts. It recommends that USAID avoid to the extent possible working directly with the national government, whose ministries serve primarily as sources of patronage rather than effective, integrated administrative bodies. It recommends instead focusing on local, small-scale interventions that are less appealing targets for elite capture than would be large-scale interventions at the central level. The sectors in which the Mission currently works all seem appropriate, but guidelines derived from the analysis imply that some recalibration to existing and planned projects could enhance their impacts.

EXECUTIVE SUMMARY

Introduction

To better understand the broader context in which it operates, support its upcoming program designs, and improve its ongoing activities, the United States Agency for International Development (USAID)/Lebanon requested an assessment and analysis of Lebanon's political economy. This political economy assessment (PEA) describes the socioeconomic dynamics that underpin national-level political decision making, assesses these decisions' developmental consequences, and considers implications for USAID programming. Phase II of the Mission's PEA initiative will link these dynamics to sector- and project-level effects, particularly on sector-specific state institutions, and define what these effects mean for USAID and the broader donor community.

This Phase I of the PEA initiative analyzes Lebanon's current political situation, emphasizing key development challenges such as reducing the budget deficit/national debt; increasing infrastructure spending; and reforming well-known critical policy constraints, including those concerning macroeconomic management, the electricity sector, public service delivery, and so on. The PEA aims to inform USAID and the broader donor community of political realities that will enable or constrain Lebanon's abilities to meet commitments under the "Vision for Reform and Development" document, which the Government presented to the *Conférence économique pour le développement, par les réformes et avec les entreprises* (CEDRE) investors' conference hosted by France in Paris on April 6, 2018. The status of some of the initiatives that were sparked in part by CEDRE will be examined, such as the new Public-Private Partnership (PPP) law and related processes, and the efforts to pass into law the draft decentralization legislative proposal. The PEA also provides an overview of Lebanon's broader reform efforts and the implications of various scenarios for specific sectors, including the business-enabling environment, education, solid waste management, water and wastewater treatment, and local governance.

Assessment Purpose

This assessment aims to deepen USAID, wider U.S. Embassy, and donor community understanding of political economy constraints and opportunities that affect the U.S. Mission's main programs under the Integrated Country Strategy (ICS), as well as the development objectives that are widely shared in the donor community (for example, meeting the objectives and commitments formed at the CEDRE conference). The national-level results and learning produced during Phase I should then lay the groundwork for Phase II sector- and issue-level PEAs.

Intended Audience

The assessment is intended for the USAID/Lebanon Mission, the wider U.S. Embassy, international donors, and the development community.

Methodological Framework

This national-level PEA closely follows the USAID political economy analysis methodology formally adopted in 2018. The USAID Guidance for Political Economy Assessments may be found in Annex 1. Please see the end of that document for links to a suite of relevant tools and resources that provide a comprehensive "How To" for applying this conceptual framework.

Documentary Resources

Annex 2 provides a select list of documentary resources drawn upon to draft this PEA. These resources were used not only for the Desk Study but also for the entire PEA. Since this was a national level PEA, the documents were selected principally on the macro level that cover the contextual features needed

to address the three analytical pillars identified in the USAID 2018 PEA Guidance. In addition, key current dynamics that involved the interplay of the three analytical pillars provided another selection of documents, many of which were from academic or journalistic sources. In addition, sources for the sectors expected to feature prominently going forward were included, although the attention of the PEA was mainly on the national level. The published documentary resources were augmented by a number of topic briefs done by the Lebanese members of the PEA Team, some of which are included under the Special Topics section of this report. Finally, relevant USAID documents, such as the CDCS were also included, as were publications by the GoL and other donors and by the multilateral agencies such as the World Bank and IMF.

Representative Key Informant Interviews

For a representational list of persons interviewed, please see Annex 3. As with the selection of documentary resources, the selection of key informants was informed by the need to rapidly gain an understanding of the macro PEA at the national level, with some other key informants interviewed to touch on specific development sectors in which USAID has or is likely to invest. The three analytical pillars of the USAID 2018 PEA Guidance also was used to generate types of informants based on subject matter expertise. Gender balance was factored into the selection of informants. The list is representative because at many meetings other relevant individuals were present and made contributions even if they were not the principal informant. Several field trips outside of the capital Beirut for KIIs were carried out in order to ensure regional input, as follows:

Field Research

The full PEA team was deployed in Lebanon from January 7 to January 26, 2019. Most of the KIIs were held in Beirut and its broader environs, but field trips were undertaken to Tyre, Tripoli, Bir Elias, Saad Nayel, Majdal Anjar, and Mekseh in the West Bekaa.

Structure and Findings of the Report

Part One, the Summary Report, provides a more detailed version of the more concise précis of the Findings in the next sub-section. The document adheres to the analytical pillars and process stipulated in the USAID 2018 PEA Guidance. Programmatically actionable lessons from the Lebanese political economy are distilled and articulated. Part One examines the Foundational Factors that explain the establishment of consociationalism (through confessionalism) as a means to promote coexistence among a marked heterogeneity of sects. Part One goes on to identify the key political actors, both domestic and foreign, and to examine the rules that have been constructed (both formal and informal) to try to structure the dynamics of their interactions. These basic building blocks of the country's political economy are then used to help dissect and explain the recent and ongoing political and economic developments in the country in terms of how the resulting dynamics affect the prospects and feasibility for foreign assistance development interventions. Domestic realignments and power shifts are evaluated in terms of their potential to enhance or diminish the prospects for the types of reform as called for in CEDRE. Special attention is accorded in Part One to the political economy roots of the worsening economic crisis, which pose challenges of a different type and magnitude that Lebanon has faced before. The findings of the assessment show that dysfunction in the governance system is likely to make it difficult for Lebanon to meet its reform obligations made at CEDRE, which are key to unlocking access to the desperately needed foreign capital. A series of scenarios are considered to underline the uncertainty that abounds regarding the country's future, especially its ability to reform its political and economic systems in favor of sustainable, self-reliant development. Part One ends with several overarching and sectoral programmatic principles implied by the scenarios and the drivers behind them. These include:

1) Be flexible with programming because of the potential for abrupt, significant changes in key PE aspects. Avoid activities that require extended time for design and implementation.
2) Closely and regularly monitor the PE to detect as quickly and as accurately as possible changes that will impact programs and enable new ones. Both principles are based on the wide range of possible outcomes and the rapidity with which significant change might occur.
3) Focus on tangible outcomes and deliverables rather than institutional capacity building or improvements to policy frameworks. The weakness of all governmental institutions is profound and overdetermined, so efforts to strengthen them are unlikely to succeed and might aggravate inter-confessional relations while undermining intended benefits and products from that capacity building. The policy framework has been rendered partially if not entirely irrelevant by flouting of important legislation by the executive coupled with its control over much of the legal/judicial system. Rule of law has been so undermined that legal frameworks have become virtually irrelevant to governmental procedures and actions.
4) Target interventions at subnational levels because of the complications of collaborating with a fragmented and corrupt national government and because of the possibility of selecting the most promising subnational governmental units that can balance regions, confessions, political actors, and beneficiaries, whether end users or providers of goods and services.
5) Deal as directly with individual beneficiaries of assistance as possible, bypassing government wherever possible.
6) Limit intervention scale, favoring multiple small ones over fewer, larger ones. Although this poses more management challenges, it has the twin advantages of spreading bets in an unpredictable environment while not attracting unwanted attention from rapacious elites seeking to capture resources.
7) Emphasize assistance for basic service delivery. The economic crisis will likely intensify, thereby exacerbating the struggle to meet basic needs. It makes sense to prepare for this likelihood by launching programs that can be expanded in tandem with the deepening crisis.
8) Consider activities that can help the country reduce the intensity of or emerge from the economic crisis. Lebanon should become economically more self-reliant by local production of goods and services while developing capacities to generate foreign currency through exports. Prepare to stimulate local production to take advantage of competitive advantages made possible by a devaluation.

Part Two of the Lebanon PEA provides a companion reference document which delves deeper into the complex and multi-stranded themes that were uncovered in the application of the methodology. It provides a nuanced and detailed exposition of the resilience and adaptability of what most observers would regard as a fragile or even failed state. It goes into great detail in exploring the evolving relationships and enduring risks that underlie the perpetuation of a state that appears incapable of reversing Lebanon's inextricable decline as a result of internal squabbling and headline-grabbing externalities. Indeed, the resilience of Lebanon's confessionalism is never fully explained, contributing to a perpetual state of uncertainty that is one reason why Lebanon's access to international credit markets is currently being downgraded. A more detailed look at various scenarios illustrate the uncertainty going forward. A combination of what is known about the developmental dysfunction of the current political system and the constraints to reform suggest that the path ahead will be difficult, especially so for foreign donors. Part Two goes on to showcase several Special Topics that explore in some depth certain indicative areas of interest that are likely to be of interest to foreign assistance programmers going forward.

PART I – SUMMARY REPORT

Section One: Background

It required nine months of negotiations following the May 2018 parliamentary election for the Lebanese political elite to form the new government, which was announced on January 31. Symptomatic of the Lebanese political economy's structural weaknesses, this extended delay was just the most recent example of many protracted post-election negotiations over cabinet formation. An amalgam of those who dominate the confessional clientage networks that cleave both society and the state, this cabinet, like its predecessors, does not constitute a unified or even a coalition government pursuing agreed-upon policies. It serves primarily to distribute patronage as agreed among confession-based political machines. Structurally, it cannot adopt a coherent governing program, much less fundamental reforms. The vacuum created by this governmental paralysis has drawn three actors into the political system—the Lebanese Central Bank, Hizballah, and protest organizations—and endowed them with variable amounts of decision-making influence.

The first, the Lebanese Central Bank, has assumed the primary role in formulating not only monetary but also fiscal and even broader economic policies. Its role far exceeds that of typical central banks. It performs this vital, expansive role without public scrutiny, its annual reports not having been publicly available since 2002. Its overextension into fiscal, monetary, and broader economic policymaking has drawn mounting criticism from international financial institutions, which have recommended its role be constricted.

The second, Hizballah, deemed a designated terrorist organization by the U.S. government, has created a deep state under the nominal one, eroding the government's autonomy. It has established veto power over national government decision making while siphoning off resources from the central government and local municipalities under its control. Having secured with its allies the largest share of votes in the May parliamentary election, Hizballah successfully demanded not only that the prime minister (PM) accept a pro-Syrian Sunni in the cabinet but that it also name the minister of health, who presides over the fourth-largest ministerial budget.

The third, despite such a long gestation process one doubts it will ever be born, comprises cross-confessional, largely secularized, semipolitical protest organizations rooted primarily in the urban middle classes. These organizations have over the past few years intermittently played more direct political roles, including contesting municipal elections. Although subject to fracture in the heat of intensifying political contestation, this new actor may assume greater coherence and power when and if the political economy further deteriorates.

Two factors have exacerbated the state's decline over the past few years, of which the more important is economic decay. Governmental debt as a proportion of the gross domestic product (GDP), after falling from astronomical levels in the early 1990s, has steadily crept back upward, making Lebanon the world's third most heavily indebted country by that measure. Its credit default swap rate is now second only to Venezuela's as the world's costliest. Inward flow of capital in the form of foreign direct investment (FDI), bank deposits, or purchases of sovereign debt has been in decline for several years, threatening the viability of commercial banks, the dollar peg, and the country's ability to service its debt. Faced with an intensifying dearth of foreign exchange (forex), the Central Bank has been imposing greater restrictions on market access to foreign currencies, further discouraging the inward flow of capital. Because Lebanon is one of the world's most import-dependent economies, forex constraints threaten not just economic activity, hence the balance of payments, but the population's very sustenance as well.

The second factor driving the decline in state capacities results from the paradoxical combination of intensified regional conflict with growing disinterest in Lebanon. The regional "civil war" has exacerbated intra-Lebanese conflicts, rendering effective governance even more difficult to achieve. Yet Lebanon has declining geostrategic importance in the Middle East, the center of gravity of which has shifted from the eastern Mediterranean to the Gulf, thereby reducing the need for Lebanon's potential regional and global supporters to compete for influence on its territory. This is a lose–lose situation for Lebanon over which it has no control and from which it is unlikely soon to escape.

Section Two: Foundational Factors

These contextual features constitute "givens" or "hard constraints" that donors should consider when designing and implementing programs. They may rule out certain types of interventions or approaches as unrealistic or unlikely to have much of an impact. Conversely, careful consideration of them may draw attention to more promising strategies, approaches, and activities.

The Ties that Bind: Sectarianism and Confessionalism and the Primacy of Sect

The Primacy of Sect

Any analysis of Lebanon must begin by recognizing the decisive role that sects, sectarian identities, and sectarian leaders play in shaping political, social, and economic interactions among Lebanese and by noting how the confessional system both reflects and reinforces the centrality of sect in the country's political economy (PE). The first characteristic of sect-based politics is the remarkable resilience of Lebanon's sectarian-political establishment. A second and related feature is the underlying fear associated with sectarian affiliations and the constant risk of political instability or violence associated with this fear being triggered, whether accidentally or deliberately. Finally, although sects remain the preeminent political markers in Lebanon, they by no means constitute monolithic entities. Critical differences exist within sects over how best to promote sectarian interests (as reflected, for instance, in the post-2005 split among Maronites between supporters of, respectively, the March 14 and March 8 coalitions).

Confessionalism

The confessional system, which dates to the second half of the nineteenth century, was designed to reduce sectarian friction by dividing political power among Lebanon's various sects. It can be viewed as a practical response to the country's sectarian pluralism and as a way of mitigating its potentially harmful, destabilizing consequences. But confessionalism has created a straitjacket that has thwarted Lebanon's political and economic development. First, it has perpetuated and hardened sectarian cleavages, thereby also entrenching the power of sectarian leaders, who have been one of the main culprits behind both poor governance and Lebanon's experiences with civil violence. Second, since under the confessional formula consensus of all key players is required for significant decisions, confessionalism promotes institutional paralysis and policy gridlock.[1] Third, it has generated substantial inter-sectarian friction and intra-sectarian anxieties, including those over what the future of sectarianism, to say nothing of Lebanon as a whole, should be.[2]

---

[1] That dynamic is discussed further below under the "weak state, ineffective governments" section.

[2] Historically, Christians and Druze have been determined to resist its abolition. They have seen their security and ability to maintain a degree of political and social influence as being tied to the confessional system's survival and have feared that its elimination would lead to the further marginalization of their respective sects. By contrast, largely because of their status as the largest and fastest-growing sect, the Shi`a have been keener on its being phased out. Such disagreements are extremely hard to bridge. They evoke powerful feelings and

Finally, confessionalism has created numerous entry points for foreign actors whose machinations repeatedly have destabilized Lebanon. It has also provided a conduit for the import into Lebanon—and indeed into the Lebanese state's very heart—of region-wide sectarian tensions (such as the current Sunni-Shi`a rivalry) or state rivalries (such as the contest between Saudi Arabia and Iran). These tensions, in turn, have had debilitating social, political, and economic impacts on Lebanon and have repeatedly contributed to the state's incapacitation.

The Weakness of Horizontal Solidarities and Thwarted Civic Development

Both sectarianism and confessionalism are sustained by robust and ubiquitous patron–client networks that tie sectarian leaders to their respective constituencies. These leaders' capacity to distribute patronage is critical to their ability to maintain their political and social dominance and therefore drives their determination to control the state and the access to patronage that such control confers. The flip side of that phenomenon has been the historical weakness of "horizontal solidarities" based on class affiliations, professional identities, ideological leanings, policy preferences, and/or a shared civic project that is neither defined nor constrained by sectarian or patron–client ties but cuts across them. The frailty of horizontal solidarities is also reflected in what may be described as "the syndrome of thwarted civic development in Lebanon," a phenomenon that has critical implications for donors, particularly in areas such as civil society programming. Again and again in modern Lebanese history, broad-based but short-lived civic movements bringing Lebanese across sectarian boundaries have emerged, typically in response to a sudden and severe political crisis. These horizontal civic movements, however, have consistently proven unable to sustain themselves and have given way to the reassertion of both the sectarian system and the vertical solidarities and elite interests associated with it.

External Shocks, Foreign Meddling, and Overlapping Contests

One of the most distinctive and longstanding features of Lebanon's political economy has been the very thin line that separates what happens inside the country's borders from trends and forces that originate beyond them. Forces rooted in internal dynamics and those that stem from external meddling, regional developments, and broader international diplomacy typically intersect, feed into, and reinforce one another, making it difficult to determine where and when internal drivers end and those that originate in the regional/international arena begin. In addition, regional conflicts such as the Israeli-Palestinian conflict often spill over into Lebanon or constantly threaten to do so, either directly or because Lebanese actors often hold radically opposite views about them, and these differences of opinion can lead to a dangerous escalation of tensions within the country.

Since 2011, the war in Syria has offered a dramatic illustration of the propensity for regional conflicts to spill over into Lebanon. That war's impact has been felt on several levels. The first has been the influx of Syrian refugees into the country. The Syrian war has also polarized the Lebanese public along intertwined political and sectarian lines, largely because it has entailed the vicious repression of a Sunni uprising by an Alawite-dominated regime. The Syrian war did not just fuel sectarian antagonisms; it also rekindled divisive issues surrounding what the nature of the political relationship between Lebanon and Syria should be. These issues had been mostly dormant since the withdrawal of Syrian troops from Lebanon in April 2005 but have reemerged in full force as the conflict began to wind down and the focus shifted towards rebuilding the Syrian state and economy.

---

can trigger passionate reactions on all sides because they fundamentally affect the division of power in the country and are tied to very clear political and economic interests.

Weak State, Ineffective Governments

The final foundational factor is Lebanon's particularly weak state and chronically ineffective governments. The state is weak in both legitimacy and capacity. It lacks legitimacy because Lebanese people's primary loyalty goes to other institutions, particularly sect-based ones, thereby undermining consensus over national identity and how the state should promote it. Inadequate state capacity constitutes both the fundamental cause and the most consequential outcome of the ills that befall Lebanon. The confessional system promotes institutional paralysis and policymaking gridlock. Because consensus is required for any significant decision, important issues are shelved out of fear that tackling them will dangerously divide the main political actors, bringing the country to a standstill (or worse). Unfortunately, many of these issues incorporate key development challenges—widespread poverty and high levels of social marginality; skewed development; poor public service delivery; governmental neglect of certain areas; as well as persisting or widening inequalities among regions, sects, and communities that, when left unaddressed, tend to worsen, become more intractable, and then, in a vicious cycle, further sap state capacities.

The confessional system also produces ineffective and incoherent governments that amount to little more than unwieldy assortments of leaders and organizations with widely divergent interests and preferences. Cabinets are divided on the key domestic and foreign issues that confront the country and thus cannot agree on policies to shore up a system perpetually on the brink of collapse.

Section Three: Political Actors, Rules, and Dynamics

Domestic Actors and Dynamics

As Section One noted, sectarianism, clientelism, and the confessional system are not just the defining elements of the Lebanese political life but also key contributors to the critical PE problems that Lebanon confronts: inadequate state capacities and elite capture of that state (with the latter problem largely accounting for the former). Against that backdrop, one can organize Lebanon's political actors into two rival categories: sectarian/politico-economic elites and non-sectarian, anti-sectarian, or anti-establishment forces.

Sectarian Political Elites and Their Interactions

Sectarian bosses owe their dominance of Lebanon's PE to the existence of a "consociational system" that initially sought to guarantee political order and social stability through agreements struck among elites acting as the self-appointed representatives of their respective sects. That said, except for Hizballah Secretary General, Hassan Nasrallah, who has not offered his candidacy for parliament, all political sectarian leaders are elected by a large vote margin. These elites form an oligarchic kleptocracy that views the state primarily as the source of rents that underpin their power. Lebanon's elites compete fiercely with each other, both within and across sectarian divides and for both political power and economic gain. One key distinguishing characteristic of the interactions between sectarian elites is their propensity to reach 11th-hour deals after protracted exercises in brinkmanship and repeated testing of opponents' intentions, determination, and capacities. Threats and outbidding usually end in imperfect compromises and temporary bargains. Critical as well is the remarkable capacity of Lebanon's fractious elites to suddenly close ranks when they perceive that their privileged position and/or the system they control is facing a serious challenge.

The elites discussed in this section are simultaneously sectarian, political, and economic elites, and these various components of their power feed into each other. Because their political power rests on their ability to dispense patronage to their respective sectarian constituencies, they can sustain their political influence only if they retain control over the key economic opportunities and sources of wealth in the

country. Political influence, in turn, provides these elites with access to state resources that they use to accumulate wealth and maintain or expand their clientelistic networks.

One of the most distinguishing features of Lebanon's PE is the striking resilience and staying power of this sectarian/politico-economic establishment. Repeatedly that establishment—and the confessional system that guarantees its power and that it strives very hard to preserve—has been confronted with serious threats to its survival. These challenges have taken the form of severe external shocks, including wars and foreign occupation, or have stemmed from emerging social forces and new movements that have openly defied the sectarian-political system and the elites that preside over it. Inevitably, however, sectarian leaders have managed to deflect the challenges in question. Elite capture of the three branches of government undermines oversight and emphasizes politics by consensus outside institutions. For example, all major political agreements such as Ta'if and Doha were framed outside of parliament and through National Dialogue Conferences attended by selected elite representatives.

Non-Sectarian or Anti-Sectarian Reform Movements

Lebanon has repeatedly seen the sudden emergence and equally rapid decline of cross-confessional initiatives and social movements that have urged the Lebanese to break away from the logic of sectarianism and confessionalism and commence a new way of organizing politics and conducting governmental affairs. These movements have emerged in response to different issues, ranging from the successive postponements of municipal elections in the 1990s to the "garbage crisis" of 2015. Some of these movements are best described as "cross-confessional," whereas others have been more explicitly anti-sectarian and/or aimed at the politico-economic establishment.

The You Stink movement, which mobilized other preexisting civil society groups, received significant attention from observers both in Lebanon and abroad and highlighted the extent of the anger at the system. At the same time, it exposed the limits of "people power" in Lebanon. The largest crowds the movement attracted (in late August 2015) did not exceed 10,000 protesters. Beirut Madinati picked up where You Stink left off. In the fall of 2015, a group of professionals, technocrats, and academics (many affiliated with the American University of Beirut [AUB]) organized a movement they called Beirut Madinati ("Beirut is my City") to contest the municipal elections scheduled for May 2016. Beirut Madinati received a few thousand votes amid low turnout, which did not translate into even a single seat on the municipal council due to the first-past-the-post, winner-take-all electoral system. Following the election, Beirut Madinati could not translate its strong showing into lasting momentum as it, like its predecessors, experienced divisions within its ranks along political lines. Such short-term and incoherent movements, however, could be predecessors to broader cross-confessional calls for reform should the economic crisis lead to a devaluation, high inflation, and associated hardships.

Foreign Actors and Regional and Global Dynamics

Syria's Impact

The spillover into Lebanon of the regional war waged on Syrian soil since 2011 has taken many forms. The first has been the influx of more than a million Syrian refugees. The social impact of refugee flows has been considerable as well, sometimes resulting in friction between host communities and refugee populations. The Syrian crisis also exacerbated long-running political and sectarian divisions in the country, largely because different Lebanese actors took conflicting sides in the Syrian war and because some of them became directly involved in the fighting. The Syrian conflict thus revived or intensified existential "fears of the sectarian other," particularly along the Sunni-Shi`a divide. Finally, because the national debate about the Syrian tragedy ultimately was about how Lebanon should relate to its neighbor and the regime in Damascus, the war next door also rekindled divisive issues about the Lebanese-Syrian political relationship.

Lebanon's Receding Regional Significance

Lebanon no longer occupies the centrality it once did in the region's political struggles, as reflected in decreasing political and economic investments in the country by external powers, particularly the Gulf states. This process has been at work at least since the onset of the Arab Spring upheavals and has accelerated markedly since 2016. Although Lebanon will not be left entirely alone to manage its own fate, it seems today more sheltered from heavily disruptive foreign interventions than perhaps at any point since the 1940s.

Section Four: Recent and Ongoing Dynamics

Domestic Realignments and Power Shifts

Hizballah Ascendant

Hizballah has become significantly stronger politically and militarily over the past several years, a process signified and accelerated by President Aoun's election. It became more entrenched, both in society at large and in the state, including in the army and the security services. Individuals loyal to Hizballah occupy strategic positions within key ministries, where they operate as the eyes and ears of the party and make sure that that those formally tasked with making decisions do not act in ways that might undermine the party's core interests. As the most cohesive political force in the country, Hizballah has also benefited from the political landscape's growing fragmentation.

The Weakening of Saad Hariri and His Future Movement

While Hizballah has become stronger, the dominant political force within the March 14th coalition, Prime Minister Saad Hariri's Future Movement (FM), has weakened, along with Hariri himself. From 2011 onward, Saudi Arabia began to withdraw its patronage of Hariri after nearly two decades of massive financial and political support of him and his father. The loss of Saudi support, underscored by his forced resignation at the hands of Mohammed bin Salman, weakened Hariri's domestic clout. Although the strange saga of Hariri's de facto detention in Riyadh in November 2017 led Lebanese of all stripes to rally behind their beleaguered PM and prompted a surge of sympathy and public support for him, including among longstanding rivals, it also dramatically exposed his political weakness. The May 2018 parliamentary elections dealt a further setback to Hariri and his FM, with the outgoing PM and his party emerging as the biggest losers from the election.

Intensified intra-sectarian competition

The greater salience of sectarian affiliations and discourses in political life has gone hand in hand with intensified political competition within sects (except in the Shi`a community). Among Maronites, the race to succeed President Aoun, who turned 84 in February 2019 and whose term expires in October 2022, has begun, and there already is fierce competition among his three main potential successors: the Free Patriotic Movement (FPM)'s leader, Gebran Bassil; the Lebanese Forces (LF)'s Executive Chairman, Samir Geagea; and the Marada Movement's leader, Suleiman Franjieh. Hariri's position as the preeminent Sunni leader has been increasingly challenged by established and new political forces alike, by both pro- and anti-Syrian elements, and within Hariri's own FM, which has become far less coherent as a political force. For his part, anti-Syrian Druze leader and head of the Progressive Socialist Party (PSP), Walid Jumblatt, faces greater competition from his old archrival in the Druze community, March 8–affiliated Talal Arslan, who has been bolstered by Bashar al-Assad's victory next door and by what most analysts view as the inevitability of a normalization of ties between Lebanon and Syria. Overall, Jumblatt's position among Druze has eroded, though not as much as Hariri's among Sunnis.

Political Fragmentation and Opportunistic Alliance

The past several years have seen further fragmentation of the political landscape. The March 14th bloc in particular has lost much of the limited internal cohesion it once had. Political alliances increasingly reflect

short-term opportunistic considerations and personal ambitions more than shared policy and/or political stances. Overwhelmingly Lebanese parties are populist—that is, they flip-flop on the left–right spectrum as opportunity emerges. The PSP, for instance, supported Hariri's liberal agenda when it attained benefits and partnership for the Druze constituency. Currently, anti-privatization groups are those whose adherents are mostly public employees, such as the Amal Movement and PSP. Greater political fragmentation and ever more opportunistic alliances result not only from the strictly internal political factors identified but also from two contextual factors. The first is increasing economic hardship, which causes political elites to struggle ever more intensely for resources to sustain their patronage networks. Growing pressure on political elites resulting from the economic crisis and their inability to cope with it has considerably delegitimized them and the entire political system. The second factor is the increasingly complex regional context and its spillover into Lebanon. As just discussed, strained relations between Saudi Arabia and Hariri exemplify the fragility of at least some of the long-standing relationships between foreign clients and Lebanese politicians.

Receding of the Anti-Sectarian Reform Movement

During the 2018 parliamentary elections, the hopes that had been placed in the anti-sectarian, programmatically oriented proto-political forces that had emerged in 2015–2016 failed to materialize, in line with the well-established historical pattern. The poor performance of non-sectarian candidates in the 2018 contest can be ascribed in part to the list-based electoral system, which favors the main political parties (all of which are associated with specific sectarian interests). It was also due to rival wings of the political establishment again having closed ranks and forming joint lists to defeat anti-system challengers, as had happened two years earlier during the municipal elections.

Diminishing Salience of the March 8–March 14 Cleavage

In the years that followed the assassination of Saad Hariri's father and Lebanon's Prime Minister at the time, Rafik Hariri, on February 14, 2005, Lebanese politics was often analyzed through the lens of a contest between two rival coalitions: March 8 and March 14. In the past several years, however, and especially given the dynamics that characterized the municipal, presidential, and parliamentary elections held since 2016, the relevance of that division has been increasingly called into question. As noted above, electoral alliances have increasingly reflected political expediency and the quest for political and personal advantage. Consequently, they have repeatedly cut across the March 8–March 14 divide, which rested on policy disagreements. Back in 2010, March 8 and March 14 had competed against each other in a majority of municipal contests nationwide. In contrast, as discussed earlier, during the 2016 municipal elections, members of those two coalitions formed joint lists in numerous races across the country. Hizballah is now so strong that to describe it merely as one component (even if the dominant one) of one of two coalitions vying for power is somewhat misleading. March 14 has fractured to the point where it no longer constitutes a bloc in any meaningful sense of the term.

Impacts of Recent Shifts in Lebanon's Regional and Global Environment

Although by global standards foreign actors' influence on the Lebanese PE remains high, by Lebanese standards it is relatively low—lower in early 2019 than perhaps at any point in the past half-century. Most regional and global players alike, particularly Western powers and the Gulf States, are significantly less interested in Lebanon and less directly involved in its internal political struggles than they were during the first decade of the twenty-first century. Although there are exceptions to this trend, most notably Iran and to a lesser extent Russia, Lebanon is playing a diminishing role in regional politics.

Iran

Iran is by far the most powerful foreign actor in Lebanon, its influence being exercised primarily through Hizballah, whose clout has increased so significantly and organic connection to Tehran has become so strong that no critical Government of Lebanon (GoL) decision on issues that affect the Iranian regime's

core interests can be made without Iranian consent. As recent developments have shown, Iran's influence extends to whether a government can be formed, the overall balance of power in it, and presumably how long it will survive.

The above notwithstanding, Lebanon's centrality to Iran's regional strategy has receded somewhat in the past few years, given Iran's extensive other commitments in Iraq, Yemen, and especially Syria, where it is now actively competing with Russia for reconstruction contracts and influence in decision-making arenas. In addition, Iran no longer can sustain its extensive financial commitments to Hizballah given its dire economic situation, renewed U.S. sanctions, and mounting domestic discontent over the vast amounts the regime spends on its quest for regional influence. This context is pushing Iran to encourage Hizballah to embed more deeply in the Lebanese state and the broader Lebanese political landscape.

Saudi Arabia

The October 1989 Ta'if Agreement that put an end to the Lebanese civil war, which had been raging since 1975, was signed under Saudi auspices, and Saudi Arabia (SA) played a key role in Lebanon's political economy through the 1990s and 2000s. Understandings reached between Riyadh and Damascus were critical in regulating Lebanese political life during that period, particularly under the premiership of Rafik Hariri (1992–98 and 2000-2004), SA's foremost ally in the Levant (and a Saudi citizen). Following Hariri's assassination in February 2005, SA became the primary sponsor of the March 14 alliance and of his son Saad's FM, founded in 2007.

Historically, SA's political role in Lebanon has been intertwined with its critical contributions to the country's economy and finances. These contributions have taken many forms, including direct government-to-government aid, loans, and large deposits in Lebanon's Central Bank (*Banque du Liban* [BdL]) and commercial Lebanese banks (which has enabled those banks to buy GoL debt). Moreover, Saudi spending on Lebanese real estate and Saudi tourism to Lebanon, particularly during the summer, have traditionally buoyed the country's economy. In addition, approximately half of the 400,000 Lebanese workers in the Gulf live in SA; their remittances, too, constitute a significant source of deposits in Lebanese banks and have enabled tens of thousands of Lebanese families to make ends meet.

The course and tone of SA's policy toward Lebanon shifted significantly following the advent of King Salman to the throne in January 2015 and the concomitant rise of his son Muhammad bin Salman (MBS). The new Saudi leadership was determined to take a far more confrontational posture toward Iran and was intent on not just containing but also rolling back perceived Iranian gains in the region. That stance was not consistent with Hariri's policy of reluctant accommodation with Hizballah, on which the late Saudi King Abdallah had signed off. The rift between Hariri and MBS reflected those new realities but was widened as well by the personal fallout between the two men. Tensions with SA already have translated into a sharp decline in Saudi travelers to Lebanon.[3] Total remittances, to which the approximately 400,000 Lebanese expatriates in the Gulf contribute between 43 and 60 percent, fell by 7 percent in 2017, and that decline is believed to have continued in 2018.[4]

[3] Spending by Saudi tourists was 21.4 percent lower in the first half of 2018 than in the first six months in 2017. The number of visitors from SA and the UAE dropped by nearly one-third in the first half of 2018.
4 Byblos Bank, "Lebanon This Week," Economic Research & Analysis Department, Issue 547, July 30-August 4, 2018, as quoted in Mona Alami, "Lebanon's Perfect Financial Storm," *Sada*, Carnegie Endowment for International Peace, October 17, 2018.

Syria

The "victory" of Bashar al-Assad in the Syrian war and the reconstitution of a repressive regime nominally under his control have opened the door to greater Syrian influence in Lebanon. To be sure, the Syrian regime will be both unable and unwilling to reassert itself in anything like the dominant role it played in Lebanon between 1990 and 2005. Its attention, energy, and very limited resources will be consumed by other daunting internal tasks: consolidation of political power, physical reconstruction, and coping with the impact on its freedom to maneuver around rivalries playing themselves out on Syrian soil and involving Iran, Russia, Israel, Turkey, and the United States.

Syria will also impact Lebanese politics indirectly through the polarizing issue of Syrian-Lebanese relations. Some form of normalization is inevitable, given the balance of power in Lebanon and the imminent reintegration of an Assad-ruled Syria into the Arab fold. But Hizballah and others may push for the reestablishment of the privileged relationship between the two countries, which is a far more contentious issue and is vehemently opposed by key Lebanese political actors, including Geagea's LF and Jumblatt's PSP.

Israel

Lebanon matters to Israel first and foremost because of Hizballah and its ability to threaten population centers inside the Jewish state. Conversely, Israel is the only force in the region that could seriously degrade Hizballah's military capabilities, and any attempt on its part to do so would come at great human, infrastructural, and economic cost to Lebanon. However, given the current balance of power in the region and the developments that occurred there in the past several years, a large-scale military confrontation between Israel and Hizballah along the lines of the July 2006 war seems unlikely. For one, Hizballah's deterrent capacity is much greater than it was at that time. Russia's influence on Hizballah and its determination to maintain good relations with Israel also mitigate against an Israeli attack on the Shi`a organization. Israel feels it can rely on Russia to restrain Hizballah and is reassured by Russia's policy of not interfering with Israeli airstrikes on Iranian installations in Syria. In sum, although the constant threat of war with Israel has hung over Lebanon since the 1970s, the likelihood of such a scenario is much lower today than previously.

Russia

Russia exercises influence in and over Lebanon because it has become the dominant external actor in Syria and, beyond Syria, because of its significant success in casting itself as the indispensable nation in the region. As an Israeli military analyst recently put it, Russia dances at every wedding possible: it is on good terms and actively communicates with all key regional players (Israel, Iran, Syria, SA, and Turkey) and, even more importantly, it is perceived by each of them as a critical force that can restrain their existing or potential enemies. Russia's emergence as the region's dominant balancing or restraining power automatically makes it important to Lebanon, if only because of the latter's historical propensity to be a stage where destructive regional rivalries play themselves out. Russia additionally protects Lebanon by reducing the potential for an Israeli-Iranian confrontation in Syria that would spill over into Lebanon. Finally, Russia's efforts to establish itself as a dominant force in the Syrian reconstruction process further enhance its importance to Lebanon.

Russia has sent signals that it intends to expand its influence in Lebanon proper. In 2018, it opened new Russian cultural centers in the country, raising the number to ten, and in January 2019 the state-owned Russian oil company Rosneft was the second one (after Novatek in February 2018) to sign a contract with the GoL that provided Russia with a foothold in Lebanon's nascent oil and gas sector.

The European Union

Since 2011, the European Union (EU) has been too preoccupied with the Syrian catastrophe and its political and economic impact on Europe (especially in the form of refugees and the Islamic State's [IS's] ability to use its Syrian sanctuary to plot attacks on European soil and radicalize young European Muslims) to show more than limited interest in Lebanon. The EU's primary concern with respect to Lebanon has been about aiding the more than one million Syrian refugees present on Lebanese soil and, more specifically, preventing an influx of large numbers of those refugees to European shores.

The United States

The United States Government (USG) remains a significant actor in Lebanon, though it no longer is as directly involved in Lebanon's domestic struggles as it was between 2004 and 2008, when it was viewed as actively seeking to remake the region's political map. The core challenge currently faced by the USG is how to reconcile its desire to support the GoL with its efforts to isolate and weaken Hizballah at a time when the Shi`a organization's influence over the GoL is rising. The USG must find ways of ensuring that U.S. aid to the GoL will not undercut the effectiveness of its sanctions against Hizballah. The difficulties inherent in balancing these different objectives came in sharp relief in early 2019 after Lebanon finally formed a government that gave key ministries to Hizballah members or individuals with ties to the organization. The Ministry of Health (MOH), which was assigned to Dr. Jamil Jabak, a physician backed by Hizballah, is of particular concern since the MOH controls the fourth-largest budget in the government and could be used by Hizballah to provide state-subsidized health care and jobs to its supporters, thus enabling the organization to sustain its base of support and compensate for the likely decrease in Iranian financial assistance to it in the coming years.

However, the USG remains the largest provider of bilateral economic aid to the GoL. In recent years, much of this aid has focused on helping Lebanon cope with the strains that Syrian refugees have placed on the country's weak infrastructure and precarious social fabric and on diminishing vulnerability to recruitment by violent extremist groups, especially among underserved populations. Through USAID, the USG has provided basic services to both refugees and host communities, especially in such areas as potable water, sanitation, and health. USG support for the Lebanese Armed Forces (LAF), in excess of $2.3 billion since 2005, has been a core component of U.S. aid to the country. It has aimed to help Lebanon secure its borders, protect itself against threats emanating from violent extremist (VE) organizations, and build up the legitimacy of its state institutions. As importantly, the USG has sought to rely on the LAF as a counterweight to Hizballah's influence over Lebanese state institutions in general and within the country's military security apparatus in particular.

Section Five: Political Economy Roots of Economic Crisis

Lebanon's marked exposure to Middle East and North Africa (MENA) hydrocarbon economies mirrors the distinctive features of its history and political economy. The laissez-faire economy that emerged after independence in 1943 reflected the fact that the confessional system fragmented and dispersed power beyond the capacity of a modern state to harness and deploy it centrally. Although this initially helped make Lebanon the region's most dynamic country, it also rendered its polity and economy particularly open, hence vulnerable, to increasing penetration by regional and global external actors. Lebanon's response to the challenge posed by the MENA's hydrocarbon-driven development after 1973 was not to reinvent itself as a high-tech, sophisticated hub for the provision of goods and services of various sorts to the newly rich Arab countries. Instead Beirut sought with considerable success to become the MENA's banking center. Lebanon also became a prime supplier of manpower to the oil-rich states, thereby generating remittances that constituted a greater proportion of its GDP and external earnings than most if not all other MENA countries.

That national political economy is now collapsing, just as the region-wide oil- and gas-driven rentier economy itself is also receding. The regional economy's decline is the result of the sustained, substantial fall in the rent-to-population ratios of the primary oil producers. The decline of hydrocarbon prices, both absolutely and relatively, poses a mortal threat to these rentier economies, driving them to attempt to diversify into more productive, sustainable economic activity. For this they need capital at home, not in Lebanon. And they need to employ nationals, not expatriates. Hence Lebanon's two key sources of capital and income are both taking a hit that shows no sign of abating and will most probably intensify.

During the fat years, Lebanon did not prepare itself for this inevitable outcome. It built a consumption-based economy, fueled by a currency peg to the U.S. dollar that underpinned capital flow into the country by rendering it more secure against devaluation. The peg guaranteed that the overvalued Lebanese Pound rendered the production and export of tradeable goods and services non-competitive. For the six years leading up to 2018 the balance of payments was in deficit, with the trade deficit in 2017 alone amounting to almost $17 billion. Devaluation, a normal recipe to cure these macroeconomic ills, would seriously impact the rentier-dependent economy and therefore has been avoided thus far. The same political elites who have captured the state have also gained control over banks, the profitability of which was essentially guaranteed through high-interest-bearing loans orchestrated by the Central Bank to the government.

In this fashion Lebanon accumulated the world's third-highest public debt as a proportion of its GDP, a proportion that now hovers at around 150 percent and is forecast by the World Bank to reach 165 percent in 2020. This house of cards can only be kept upright by continued deposits in banks, by provision of public foreign assistance to the GoL, and by implicit guarantees provided by Gulf Cooperation Council (GCC) states. Domestic production has no chance of playing an important role. But easy salvation is not at hand. The capital available in the West for bailouts of financially beleaguered MENA states is insufficient. Private investments have been lagging for some years now, as reflected by the steady decline in FDI not only into Lebanon, where in 2017 green field FDI was less than 1 percent of GDP, but into the entire MENA as well.

The long-simmering crisis is thus reaching a boiling point with no indication that a steady hand will emerge to reduce the heat. Successive World Bank and International Monetary Fund (IMF) reports and the data contained in them suggest mounting concern and frustration, further reflected in the early 2019 downgrading by both Moody's and S&P of Lebanon's sovereign credit rating. Not surprisingly, the Lebanese have been becoming poorer over the past five years and are predicted by the World Bank to grow poorer still. Real GDP per capita fell by 4 percent annually from 2013 to 2015 and by 1.6 percent in 2018 and is forecast to fall by about that amount through 2020. The Economist Intelligence Unit reported in December 2018 that there was a "high probability" of a banking sector crisis and that its impact would be "very high." At the same time the U.S. Council on Foreign Relations' Risk Tracker placed Lebanon second in the world, after Venezuela, on the list of countries that are most likely to default on their sovereign debt. Early in 2019, the Risk Tracker also ranked Lebanon as the world's "riskiest" country on the measures of current account deficit and government debt as a percentage of GDP.

Section Six: Scenarios and Their Programmatic Implications

Challenging Context for Constructing Scenarios

The Lebanese PE presents profound challenges to forecasting. A half-century ago, Lebanon was accurately characterized as a "precarious republic." Although it subsequently tipped over into civil war and has also been subject to large-scale military interventions, it has survived and, intermittently at least,

prospered. During this period, the four main drivers of this unpredictable precariousness have remained unchanged although their precise natures and relative importance have varied.

First, the country's perennial weak state, rendered such at its foundation by being based on confessionalism, was further weakened by the way the Ta'if Accord was implemented. Confessionalism, previously ubiquitous at only the higher levels of the state, was extended downward to its lowest levels, undermining meritocracy and administrative coherence. In the absence of institutional checks and balances and tangible civil opposition, the only oversight of administrative performance is confessionally based and typically ends in benefit trade-offs rather than in improved performance and administrative management. Second, the Ta'if Accord further facilitated elite capture of the state. Ta'if did so by increasing the powers of the elites who forged it while not counterbalancing that power by rendering the government accountable to citizens. Third, Lebanon's economy, always relatively open by regional standards—hence vulnerable to external influences—was similarly reconfigured as a result of Ta'if. It was rendered yet more dependent on the region-wide oil economy by virtue of the key roles assigned to its banking sector and to the export of labor to the Gulf, the success of both roles requiring a stable currency. Finally, the long-standing penetration of Lebanon by outside actors, both regional and global, was also exacerbated by Ta'if, which legitimated an unofficial Syrian presence under Saudi influence, supported at a distance by the United States. In sum, these inherent four causes of Lebanon's perennial precariousness have over the past 20 years intensified and become yet more intertwined, thereby enhancing the threat level while rendering it ever more difficult to forecast outcomes.

The scenarios selected for this PEA that should be considered when making decisions about programming exist along a continuum (Figure 3). Those that do not alter the status quo condition of systemic paralysis are in the middle, accounting for an estimated 70 percent of possibilities. This assessment ranks the first of the following three scenarios the highest (the analysis in the text suggests that the systemic breakdown might be more likely than the percentage accorded to it in this assessment). The first scenario, which might be termed "muddling through," was given higher weight for two reasons. First, the Lebanese have a legendary ability to magically perpetuate their problematic political system of consociationalism. Many Lebanese have a faith that somehow, in spite of mounting evidence of a pending financial crisis, they will be able to weather the storm and carry on. The second reason the "muddling through" scenario was given more weight is the sheer size of the black and illegal economies, which don't factor into the formal economic indicators that are so worrisome.

Systemic paralysis scenarios: 70 percent probability

This broad scenario of relatively limited change comprises three sub-scenarios, including two of no change and another of limited but positive changes.

1. *All aspects of status quo of paralysis persist:* In this sub-scenario, the broad status quo persists with no reform or change to the PE.
2. *Marginal improvements to the status quo of systemic paralysis generate momentum for mild elite-led reforms:* In this sub-scenario, the status quo improves marginally, enabling limited reform of or change to the PE.
3. *Marginal improvements to the status quo of systemic paralysis deter further elite-led reform:* This sub-scenario is the same as sub-scenario 2 except that the wiggle room opened up by improved economic and political contexts is not used. Instead, these improvements encourage decision makers to persist with present policies, thus solidifying the present paralysis but only temporarily by rendering it yet more brittle, hence subject to sudden breakdown probably in the relatively near future.

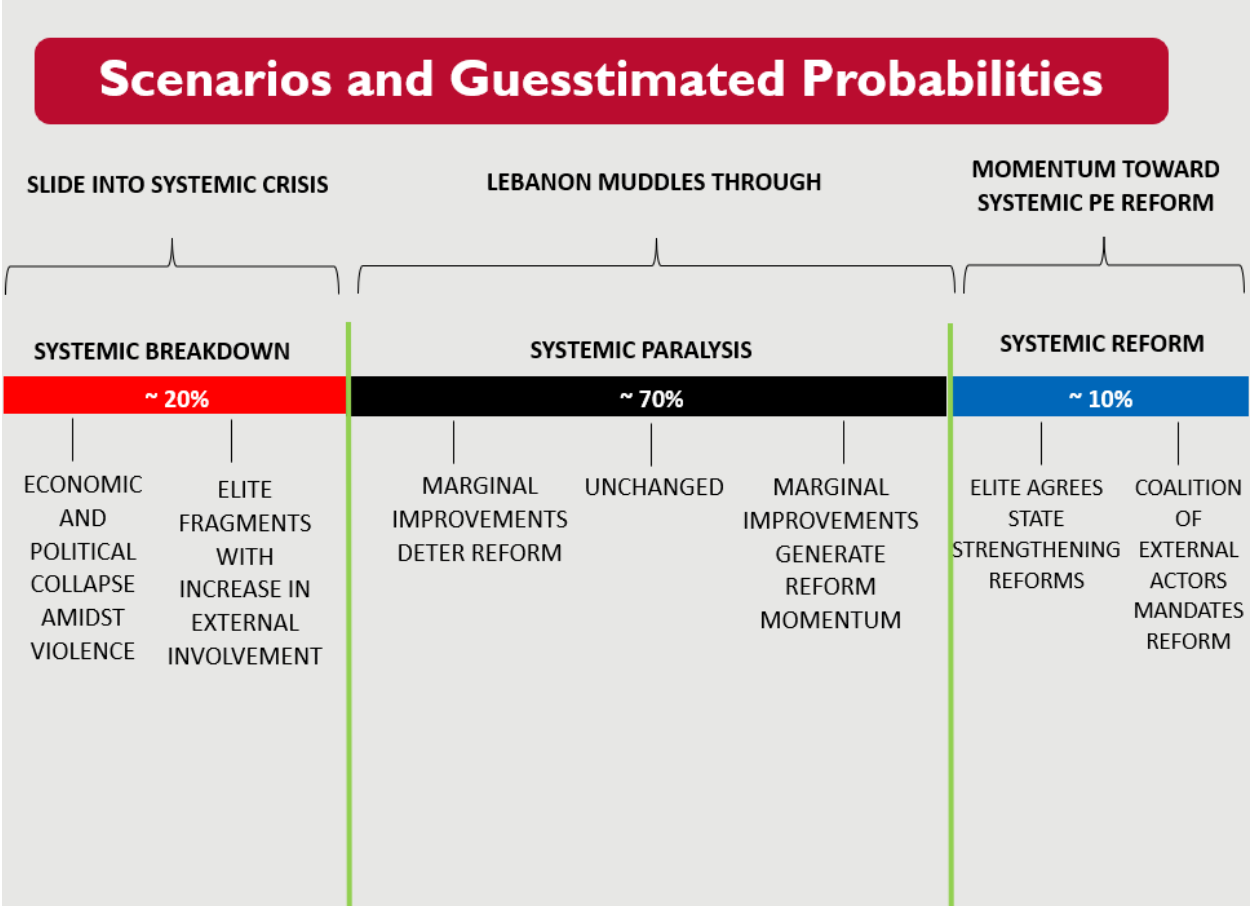


Figure 1: Scenarios and Probabilities

Systemic breakdown scenarios: 20 percent probability

Scenarios that posit varying degrees of PE breakdown result primarily from enhanced domestic economic pressures rather than from external interventions, although the latter remain possible, if unlikely, and they could be driven by and reinforce economic pressures.

1. *Accelerated economic deterioration not accompanied by major domestic or external political changes:* External support resulting from *Conférence économique pour le développement, par les réformes et avec les entreprises* (CEDRE) or other sources is insufficient to prop up the Lebanese Pound, which is devalued initially by up to 20 percent. This would in turn drive inflation up by about the same amount while stimulating an acceleration of capital flight, thereby placing additional downward pressure on the exchange rate. Resultant reductions in consumption stimulate political discontent but not enough to destabilize the system.
2. *Profound economic deterioration fragments the political elite and stimulates more external intervention:* This scenario's economic components resemble those of scenario 1 but with substantially greater economic stress, including a currency devaluation and resultant inflation in excess of 25 percent, accompanied with very substantial capital flight and reduction of remittances through official channels. Negatively impacted by this sharp fiscal and economic deterioration, the political elite fragments amid mutual recrimination, with many of its members having suffered substantial economic losses. Popular discontent expands in tandem with the reduction in the real value of all Pound-denominated salaries, the price increase of goods and services, the loss of

investments and savings as a result of the banking crisis, and the political elite's manifest incapacity to resolve the economic crisis. Lebanon in this sub-scenario has thus become a powder keg on the verge of explosion.

3. *Economic and political collapse coupled with outbreaks of violent conflict:* This sub-scenario is essentially the same as sub-scenario 2 (and indeed could follow on from that scenario) with the addition of even more intense economic difficulties coupled with more active foreign interventions, all contributing to outbreaks of violence and the country's repolarization.

Systemic reform scenarios: 10 percent probability

1. *Incumbent elites agree to reduce their shared capture of the state and to strengthen in some degree its capacities and autonomy in at least certain sectors:* Incumbent elites are motivated to compromise and cooperate by some combination of factors, including addressing economic deterioration, perceived collective and individual benefits from reforms, prospects for greater external support following reforms, popular discontent, and external pressures. In this sub-scenario the incumbent elite would try to engineer enough reform to reduce economic and popular pressures on them in the hopes that their reformative efforts would extend their incumbency. But these reforms might also provide enough traction for alternative elites to ultimately replace these incumbents. In short, they would open the way to a political struggle that might in turn result in more substantial changes.
2. *Reforms imposed on incumbent elites by coalition of external actors—a sort of Ta'if 2:* The imposition of reforms could result from economic deterioration, as outlined under the previous sub-scenario. Fear of collapse could induce a coalition of external actors to agree to a type of Ta'if 2 in which elite capture, state weakness, and possibly denial of citizenship would be addressed, with solutions to these problems essentially imposed on Lebanese actors, presumably in exchange for the financial support necessary to save the nation.

Section Seven: Overarching and Sectoral Programmatic Principles Implied by the Scenarios and Drivers behind Them

Overarching Principles:

1. Be flexible with programming.
2. Closely and regularly monitor the political economy.
3. Focus on tangible outcomes.
4. Target interventions at subnational levels.
5. Deal as directly as possible with individual beneficiaries of assistance.
6. Limit the scale of interventions, favoring multiple small ones over fewer, larger ones.
7. Emphasize assistance for basic service delivery.
8. Consider activities that can help the country reduce the intensity of or emerge from the economic crisis.

Rules of Thumb for Specific Sectors

Effects on the following sectors must be considered: the business-enabling environment, education, water and wastewater, local governance (decentralization), and the environment.

Business-Enabling Environment

The major constraint to productive business growth is the macroeconomic context, most notably the Dutch Disease,5 but also the accompanying restricted access to finance for private firms, high interest rates, increasingly scarce foreign exchange, and declining domestic demand. These negative macroeconomic features are byproducts of PE structure and thus not susceptible to change through USAID program interventions. The broad and important macroeconomic environment within which Lebanese businesses operate should be considered as a contextual variable subject to reform only as part of a wide-ranging, fundamental overhaul of the political economy.

However, if thought of in more sector-specific, discrete, small-scale terms, the business environment is a suitable target for USAID programming. Whereas constraints on business formation and growth imposed by macroeconomic deficiencies are in most senses beyond USAID's manageable interest, assisting businesses to overcome other, more immediate, less systemic constraints is not. These constraints are numerous, including the availability of various inputs such as skilled labor and technology, as well as access to market information and capacities to develop and service markets.

Synergies might be developed by assisting enterprises that can provide goods and services at local levels, thereby enhancing the quality and range of such goods and services available to residents in non-national units of government. Businesses that might best provide synergies with efforts to upgrade local service delivery are those involved in education and educational supplies, water and wastewater, and environmental preservation and upgrading.

Suggested interventions to improve the business-enabling environment include the following:

- Assist private sector–municipal collaboration.
- Help unions of municipalities maximize replication and economies of scale.
- Test potential for public-private partnerships (PPPs) at local level.
- Improve access to capital for small and medium-size enterprises (SMEs).

Education

The American University of Beirut (AUB), a very substantial asset to Lebanese-American relations, produces substantial portions of the country's academic, technical, economic, and political elites. It is thus especially appropriate to consider USAID-supported activities to enhance contributions from AUB and possibly other universities to help USAID realize its development objectives in the sectors analyzed here.

Technical and vocational education providers constitute another component of the private educational system. Some might be suitable recipients of USAID assistance as part of an effort to enhance technical skill levels in the labor market. A possible avenue to explore is skill training for university graduates to render them more employable in the private sector.

In both public and private educational systems, targeting assistance at early educational levels and at deprived communities can probably have the greatest impact on upgrading performance. Some of that assistance might include efforts to provide counselling to help young pupils deal with the psychological issues associated with conflict and deprivation. Interventions to the extent possible should be targeted

5 Dutch Disease is the deindustrialization of an economy as a result of the discovery of a natural resource—for example, the exploitation of North Sea Oil in Holland raised the value of the Dutch currency, making its exports uncompetitive and causing its industry to decline.

directly at schools or at activities and programs that work directly with schools rather than through central government.

Suggested targets of interventions to enhance education include the following:

- Early education (emphasis on girls), including some vocational and technical training.
- Cross-sectarian extracurricular activities.
- Higher educational institutions.

Decentralization, Local Governance, and Small-Scale Community Social Infrastructure Projects

As with other programmatic interventions, the weak central state's limitations are such that it would be unproductive to address policy constraints to decentralization. Although weak, the state is grasping, so unlikely to let control pass from its hands to local government, especially when that control involves substantial financial resources. Top-down decentralization, in other words, is unlikely and not worth trying to stimulate. But bottom-up work with selected local government units addressed to service delivery rather than only to governance capacity building might provide reasonable returns. Among other benefits, engagement with local government units pre-positions USAID to provide humanitarian assistance more effectively in the event of a chronic breakdown.

Specifically, the policy, personnel, and administrative contexts at the cabinet level are not conducive to supporting aid-assisted interventions that would address centrally the country's delivery of services, including potable water provision, wastewater treatment, solid waste removal and treatment, education, local transportation, and public space provision and management. The magnitude of the threat posed by the deterioration of potable water supply and quality and wastewater treatment, as well as accumulating untreated solid waste, is so great that remedial localized actions should be taken. Quality of life deficiencies can be addressed by efforts to improve local transportation and access to well-managed public spaces. One method of enhancing intervention impact might be to facilitate relations between private sector actors and municipalities, possibly providing technical assistance to better manage both the contractual and technical relationships. The PEA highlights the inability of central government to enhance service delivery, implying a default position of working locally with both public and private actors as the only realistic strategy. The follow-on sectoral analyses should address the ways and means of these relationships within the sectors considered.

Environmental Protection and Management

Environmental degradation is a very serious problem in Lebanon, exacerbated by inappropriate policies, lax oversight and regulation, and corruption. As with other service sectors, the most promising approach is to deal with the problem at local levels through small-scale community infrastructure projects, as noted above. Potential environmental targets for such interventions other than those focused on water and solid waste include parks and playing fields, built cultural heritage sites, and ecotourism facilities.

Section Eight: Conclusion

Lebanon's state has long been fragile, as the 1968 appellation "precarious republic" suggests. Based on a bewildering array of partial compromises between Muslims and Christians, of "confessions" within those religions, of local notables, and between Western powers and Arab nationalism, national sovereignty in Lebanon has always been attenuated by subnational or supranational loyalties and affiliations. The state erected on such fragile foundations was necessarily weak as its writ was constrained by competitive internal and external forces. The economic model best suited to such a state was laissez faire capitalism, requiring as it did minimal state intervention into markets. The formula of a weak state presiding over a vigorous market-driven economy also suited the post–World War II (WWII) Middle East region, for

which Beirut served as a principal entrepot for emerging oil-producing states and for those in which "Arab socialism" obstructed external commercial relations. As regional tensions escalated, however, especially those stemming from the Israel-Palestine conflict, the porous Lebanese polity was overwhelmed by external interventions, collapsing in 1975 into 15 years of civil war.

A state this weak and divided could not hope to emulate the East Asian developmental model. Strengthening the state would require fundamentally different relationships among elites and between elites and citizens, so it has not been attempted because it would be difficult and because present arrangements serve elite interests, at least for a limited time—a time that may now be ending. Instead of seeking to stimulate the export of goods and services by improving human and physical resources, creating a conducive business environment, minimizing corruption, and maintaining fiscal probity coupled with low interest rates and a competitively valued currency, Lebanon essentially did the opposite. Contentious and fragmented politics prevented the emergence of a national consensus around the need to strengthen state institutional capacities. Lebanon thus became a parasite of the booming regional oil economy, dependent on financial flows from it in the form of capital transfers into Lebanese banks or Lebanese sovereign debt. Wealth became increasingly concentrated, not only leaving swathes of the population behind but also depriving them of public services, which the state was unwilling or unable to provide. Citizens cannot assert sufficient political pressure to hold elites accountable, so these elites have few incentives to provide public services as opposed to using access to services to bolster their followings.

This was inherently an unsustainable economic model. Its demise commenced with the collapse of oil prices in the summer of 2014 and has gathered pace since then. Factionalized political elites have been unable to agree on austerity measures to slow the slide into crisis, vainly hoping that an external savior would obviate the necessity for stringencies they fear would undermine their political standings and personal material welfare. The economic crisis has now intensified to the point that the credit default swap rate for Lebanese sovereign debt is second only to Venezuela's, suggestive of the widespread belief in global financial markets that Lebanon will indeed default. This would bring down the financial house of cards upon which the broader economy has rested since 1990, requiring the state and its leadership to fashion an entirely new political economy, a task that seems beyond its capacities. Lebanon, in sum, faces a bleak, ever darkening future.

Providing effective external assistance to this "precarious republic" is challenging. Because of state capture and state weakness, efforts to upgrade state capacities or to improve the policy framework would be ineffective, even counterproductive. Delivering humanitarian assistance directly might benefit recipients even more than doing so through Lebanese institutions and organizations, but it could further undermine state political will and capacities and be deemed to violate Lebanese sovereignty, thus creating a political backlash.

A middle path is therefore the most desirable, one in which USAID works with carefully selected governmental and nongovernmental organizations (NGOs) and institutions to improve service delivery and enhance human and physical infrastructure. Local governmental institutions are most likely to prove to be reliable partners because they are most proximate to citizens. NGOs equipped to improve services and develop infrastructure are private businesses and associations, many of which are currently involved in such. Facilitating relations between local government and providers of goods and services is a related area for potentially useful programming, especially since Lebanon has demonstrated an interest in PPPs. Although self-reliance seems very distant in contemporary Lebanon, upgrading business know-how in developing partnerships with local governmental units can improve community resilience. The most important public services with which USAID has the most experience are those of potable water delivery and wastewater treatment, solid waste management, education at all levels from kindergarten

to universities, and the environment broadly conceived (including public spaces of various types, such as forests, cultural heritage sites, parks, and playing fields).

Because USAID programming occurs in complex contexts with the ever-present potential for rapid change, it should further develop its capacities to monitor these contexts at local and national levels and be prepared to both respond to new opportunities and scale back, alter, or altogether abandon activities because of adverse contextual changes.

PART II - DELVING DEEPER – A REFERENCE DOCUMENT

Political Economy Context

It required nine months of negotiations following the parliamentary election of May 2018 for the Lebanese political elite to form the new government announced on January 31. In February the Council of Ministers was formed. Implications of the formation of the Council of Ministers for the feasibility of the needed economic reforms envisaged in the CEDRE commitments are found here. Symptomatic of structural weaknesses of the Lebanese political economy, this extended delay was just the most recent example of many protracted post-election negotiations over cabinet formation. An amalgam of those who dominate the confessional clientage networks that cleave both society and the state, this cabinet, like its predecessors, is not a unified or even a coalition government pursuing agreed-on policies. It simply serves to distribute patronage as agreed between the confession-based political machines. Structurally, it cannot adopt a coherent governing program, much less fundamental reforms. Government formation is thus not an appropriate benchmark of progress toward reform despite its description as such by some of Lebanon's external supporters, including backers of the CEDRE conference. The politically and confessionally divided cabinet can agree on the division of spoils, thereby diminishing the chances of open conflict, but it has not implemented and likely will not implement fundamental reforms that would render the political economy sustainable and self-sufficient.

The Lebanese Central Bank

The vacuum created by governmental paralysis has drawn three actors into the political system and endowed them with variable amounts of decision-making influence. The Lebanese Central Bank has assumed the primary role in formulating not only monetary but also fiscal and even broader economic policies. Its role far exceeds that of typical central banks. It performs its vital, expansive role in almost complete secrecy, its annual reports not having been publicly available since 2002. Members of the political elite own substantial shares of the 69 banks that make Lebanon among the world's most "overbanked" countries. These banks on average allocate two-thirds of their credit to the Government of Lebanon (GoL) through the Central Bank. The lack of transparency and accountability that characterizes interactions among this nominal overseer of commercial banks, these banks, the broader economy, and the political elite that owns a major share of the banks, bespeaks a tacit agreement among this elite for the Central Bank to manage the patronage-based political economy that maintains their power and material rewards. Reflecting the opacity of governmental finances at the heart of which is the Central Bank is Lebanon's ranking on the Open Budget Index, which now with a score of 3—after having scored over 30 as recently as 2012—places it in the bottom 10 of the 102 countries surveyed. The International Monetary Fund (IMF)'s *Lebanon: Staff Concluding Statement of the 2018 Article IV Mission* criticizes the Central Bank's financial operations and urges it to "rely on conventional interest rate policy instead of financial operations" and to "improve data quality." The Central Bank, in sum, both reflects and contributes to governmental weakness.

Hizballah

The second actor is Hizballah, which has created a deep state under the nominal one, thereby eroding government autonomy. It has established veto power over national government decision making while siphoning off resources from it and local municipalities. Hizballah, with its network of associated organizations, is considered the second-largest employer after the Lebanese government. Its annual budget, estimated at $700 million, is generated by transfers from Iran, mainly in cash to evade sanctions, and by donations such as the Khums alms to its charities. Having secured with its allies the largest share of votes in the May parliamentary election, the party successfully demanded not only that the prime minister accept a pro-Syrian Sunni in the cabinet but that it also name the minister of health, who presides over the fourth-largest ministerial budget. Like other participants in the political elite but more

powerful than any other, Hizballah is a parasite on the state. It has sucked more resources out of that state as its political power has expanded and its financial support from Iran has declined. Militarily it is strong enough to neutralize, at least politically, the Lebanese Armed Forces (LAF), thereby rendering Lebanon an only semi-sovereign national entity. Hizballah paradoxically portrays itself, with considerable success domestically, as the nation's real defender.

Protest Organizations

The third actor, despite such a long gestation process one doubts it will ever be born, comprises cross-confessional, largely secularized semi-political protest organizations rooted primarily in the urban middle classes. These organizations have over the past few years intermittently played more direct political roles, including contesting municipal elections. Although subject to fracture in the heat of intensifying political contestation, this "new" actor may assume greater coherence and power when and if the political economy further deteriorates. If it did so though it would be more as a mass protest movement like the 2011 Arab Spring than as a well-organized political party competing with the incumbent elite.

Post Ta'if Weakened State

Since the 1989 Ta'if Accord, the Lebanese state, never strong, has been hollowed out. Through the Accord's framing and implementation, the elite capture was agreed and carried out even though the implementation contradicted much of the Accord's spirit and actual provisions. Remaining is a shell under which the established political elite conducts its intermixed political and economic affairs, further draining state resources. It has surrendered principal functions to the Central Bank, to Hizballah, and potentially to the LAF, and even to a disenchanted if largely unorganized populace.

Two factors have exacerbated the state's decline over the past few years, of which the more important is economic decay. After Ta'if the Lebanese economy became increasingly parasitic on the Arab regional oil rentier economy, drawing on financial transfers and human movement for its primary sustenance. As that regional oil economy has declined due primarily to falling oil rent-to-population ratios in the key exporting countries, so have financial transfers and human movement slowed. The financial mechanisms used to sustain financial inflows, key of which were a hard currency peg to the dollar combined with high interest rates, strangled the productive economy and undercut Lebanon's once reasonably competitive position even in such services as tourism, real estate, and education. The siphoning of state resources combined with a public administration rendered impotent by intensified confessionalism undermined Lebanon's once region-leading physical and human infrastructure to the point that the Lebanese have in some sub-categories even become global laggards.

Economic Crisis

The macroeconomic dashboard reflects the growing intensity of the economic crisis. Governmental debt as a proportion of the gross domestic product (GDP), after falling from astronomical levels in the early 1990s, has steadily crept upward, making Lebanon the world's third most heavily indebted country by that measure. Not surprisingly, its credit default swap rate is now second only to Venezuela's as the world's costliest. Inward flow of capital in the form of foreign direct investment (FDI), bank deposits, or purchases of sovereign debt have been in decline for several years, threatening the viability of commercial banks, the dollar peg, and the country's ability to service its debt. Faced with an intensifying dearth of foreign exchange (forex), the Central Bank has been placing increasing restrictions on market access to foreign currencies, further discouraging the inward flow of capital. Because Lebanon is one of the world's most import-dependent economies, forex constraints threaten not just economic activity, hence the balance of payments, but the population's very sustenance.

Regional Conflicts Have Sidelined Lebanon

The second factor driving the decline of state capacities results from the paradoxical combination of intensified regional conflict with growing disinterest in Lebanon. The regional "civil war" has exacerbated intra-Lebanese conflicts, rendering effective governance more difficult to achieve. The center of gravity of that conflict, however, is no longer the Eastern Mediterranean but the Gulf. The Arab-Israeli conflict has been displaced by other regional divisions, such as that between Sunni and Shi`a Muslims, as the focus of regional attention. Lebanon thus has declining geostrategic importance in the Middle East, thereby undermining the need for its potential regional and global supporters to compete for influence there. This is a lose-lose situation for Lebanon over which it has no control and from which the country is unlikely to escape soon.

Weak State Impedes Development Assistance

The consequences of an already weak state having been captured by a parasitic elite and therefore further weakened, combined with a deteriorating economy and an increasingly dysfunctional regional context whose epicenter is elsewhere, render Lebanon an extremely difficult country for external supporters to effectively promote development and self-sufficiency.

Nation states can be arrayed along a continuum, at one end of which are states with high governance capacities that include their populations through democratic processes and are led by effective decision makers and at the other end of which are collapsed states that have given way to ungoverned spaces of flourishing suffering and lawlessness. The high-performing nation state rightly directs assistance to further strengthening governing institutions, civil society organizations (CSOs), and interactions between the two precisely because the state and civil society have both the will and capacities effectively to use such assistance. In the low-performing nation state, external assistance providers are limited almost entirely to delivering humanitarian assistance, as there are few if any institutionalized bodies or processes to support.

Lebanon unfortunately lies toward the latter rather than the former end. Its state is too weak and too captured by a kleptocratic political elite for it to be possible to upgrade its capacities to make and implement policies or to adjudicate conflicts. Root and branch reform would first be necessary and would have to be internally rather than externally driven. In the meantime, the rule of law is so deficient that the executive routinely ignores the legal and even constitutional framework. Providing support for either institutional capacity building or policy reform, therefore, would be a waste of resources.

Similarly, much of civil society is composed of extensions of confessionalized clientage networks, so broad support for civil society could reinforce the reasons they have difficulties in sustaining collective action. On the other hand, Lebanon is a flawed but not a failed state, so to resort to direct delivery of humanitarian aid is neither advisable nor practicable and could be seen as a violation of Lebanon's sovereignty.

Challenges to a Coherent Effective Assistance Program

This leaves comparatively little wiggle room in which to formulate a coherent, effective assistance program. The targets of interventions must be carefully selected and should not include national governmental institutions or CSOs beholden to specific confessionalized clientage networks, of which those connected to Hizballah are particularly numerous. Appropriate targets are more likely to be found in the private sector and at local levels of government and in the connections between them—for example, in the facilitation of local PPPs. The service provision capacities by such targeted public and private organizations for both human and physical infrastructure are most suitable for training and technical assistance.

The complex and challenging conditions of contemporary Lebanon thus dictate a nuanced, cautious approach combined with careful monitoring of both specific sectors and the overall PE to detect changes that may render some current activities ineffective while opening up opportunities for new ones.

Contextual Factors Shaping Political and Economic Life

a. Political life (political behavior by both elites and average citizens).
b. Policymaking (its logic, dynamics, and quality).
c. Economic performance (or underperformance).
d. Prospects for stability (or lack thereof).

These contextual features are not susceptible to significant alteration by foreign public assistance—at most, they change in only very limited ways and extremely slowly. But they constitute givens or hard constraints that donors must consider and to which programming should be sensitive. They may rule out certain types of interventions or approaches as unrealistic or unlikely to have much of an impact. Conversely, their careful consideration may draw attention to more promising strategies, approaches, and activities. They therefore not only illuminate political and economic analysis but also shape where, how, and how much donors may contribute to positive change.

This analysis addresses five interrelated critical factors that create a distinctive, resilient ecosystem—one that constitutes an unusually challenging programming environment with: sectarianism and confessionalism, weak horizontal solidarities and thwarted civic development, political arguments over the definition of Lebanon's identity, permeability to external shocks and foreign meddling, and the weak Lebanese state. Although Lebanon's weak state is the most decisive factor because of its effect on political life, policy, and economic performance, it is discussed last to highlight how the other four factors contribute to it.

The Ties That Bind: Sectarianism and Confessionalism

The Primacy of Sect

Sects, sectarian identities, and sectarian leaders play a decisive role in shaping Lebanese political, social, and economic interactions; their centrality to the country's PE is reflected and reinforced by the confessional system. Sectarian loyalties remain the strongest force binding the Lebanese to each other—or driving them apart by sustaining divisions among them. This phenomenon reflects not only primordial feelings (important as these are) but also complex, resilient societal interests, forces, and institutional arrangements, both domestic and external. Far from monolithic entities, sects form the basis of most political mobilization—for both peaceful and violent ends. If anything, since the February 2005 assassination of former PM Rafik Hariri, sectarian feelings and tensions—particularly those associated with the Sunni-Shi`a divide—have become more entrenched. In part as a result, the demarcation of space along sectarian lines has strengthened, and zones are forming with greater sectarian homogeneity than at any time since the civil war.[6]

[6] Since approximately 2006, sectarian tensions occasionally have flared up in mixed neighborhoods, at times triggering population movements along sectarian lines. As a result, these neighborhoods now are viewed as more closely associated with particular sects than was the case previously. Consequently, any large-scale movements by members of other sects into those areas likely would be perceived as intrusion, encroachment, and/or provocation.

The centrality of sectarian identities, affiliations, and loyalties is closely associated with, reflected in, and/or reinforced by four defining features of Lebanon's PE. They are mentioned only briefly here, as they will be discussed further in subsequent sections.

Resilient Sectarian-political Establishment

1) The first feature is the remarkable resilience of Lebanon's sectarian-political establishment. In the past 40 years, this establishment's members have repeatedly been confronted with serious challenges to their power, including from new social forces and movements that have encouraged the Lebanese to think beyond sectarian identities. Consistently, however, sectarian leaders have managed to deflect those challenges. Cross-confessional movements and groups and grassroots efforts to build a public sphere and discourse not driven primarily by sectarian logic have been unable to overcome the resistance of the country's politico-sectarian elites and their ability to neutralize, deflect, or appropriate the very efforts directed against them.

Fragile Sectarian Affiliations

2) A second and related feature is the fear associated with sectarian affiliations and the constant risk of political instability or violence associated with that fear being triggered, either accidentally or deliberately. All the major sects view themselves as facing grave threats to their core interests and future position in the country, and sectarian elites deliberately encourage this sense of existential danger as a strategy to maintain their dominance.

Sect Frames Political and Social Perceptions

3) Because sect remains the most basic frame of political and social reference, and because particular sects tend to be associated with certain political stances and policy preferences, disputes over issues that have nothing or little to do with sect easily take on sectarian connotations, and individuals may ascribe sectarian motives to positions not necessarily driven by sectarian identities or interests. For instance, any suggestion that the Alawite-dominated, Iranian-aligned regime in Damascus might have legitimate security concerns in Lebanon may come to be perceived by Sunnis as an indication of hostility toward their sect and as a threat to their security. Similarly, many Shi`a instinctively may perceive criticism of Hizballah as at least a veiled attack, and Druze may react the same way to condemnation of Jumblatt's behavior. These dynamics make it difficult for political debates to focus on the actual issues nominally being debated and the costs and benefits of particular policy options. Instead, they tend to make such debates and political life in general a hostage to sectarian views and interests.

Sectarian Insecurities

Maronites have long feared political and social marginalization in a country in which they once were the dominant sect but in which their influence has experienced a steady decline since the outbreak of the civil war in 1975. They realize that their diminishing demographic weight and political clout may lead to intensified pressure on them to reconsider the distribution of political power under a confessional system that grants Christians in general, and Maronites in particular, a degree of influence in state institutions that is out of proportion with their actual share of the population. Many Christians also worry that Hizballah's weapons could be turned against them (just as they were against Sunni and Druze militias in the May 2008 armed clashes) or that Hizballah once again might drag Lebanon into a major military confrontation with Israel and/or a political clash with the West. Viewing the Shi`a organization as little more than a proxy for Iran, many Maronites fear that Hizballah remains ready to sacrifice Lebanon's well-being for the sake of advancing a destructive "resistance agenda," or the regional interests of the Iranian and Syrian regimes. Conversely, Maronite supporters of President Aoun and his Free Patriotic Movement have been deeply concerned about Sunni ambitions (once embodied by Saad Hariri and the Future Movement) to dominate the state, about the growing danger posed by Salafism and Sunni violent extremism, and about the possibility that Syrian and Palestinian refugees (who are overwhelmingly Sunni) might stay in the country and shift the balance of power to the Sunnis' advantage.

Many Sunnis regard Hizballah's weapons as a grave threat to their community and to the sovereignty of the Lebanese state. They also resent what they view as a combined Shi`a and Syrian-Iranian effort to undermine Sunni influence in Lebanon. They are still reeling from the February 14, 2005, assassination (attributed to Hizballah) of their undisputed leader, Rafik Hariri; from a Syrian-orchestrated assassination campaign directed at critics of Syria from 2005 through 2008; from the armed clashes of May 7, 2008, during which Sunni militias easily were routed by Hizballah and its allies; from Hizballah's post-2012 show of military force in Syria, where the organization enabled the Assad regime to defeat a Sunni uprising; from Hizballah's growing influence in state institutions, including the military and security services; from its strong performance in the May 2018 parliamentary elections; and from Hizballah's ability, demonstrated on numerous occasions since 2011, to exercise veto power over the government's formation or key strategic decisions. In the past several years, many Sunnis' sense of vulnerability has been accentuated by the perception that Saudi Arabia, historically the community's main foreign sponsor, has disengaged from Lebanese affairs and resigned itself to Lebanon having fallen, at least for the time being, under Tehran's sphere of influence.

There is also widespread apprehension among Shi`a, despite the community's demographic weight and superior military capabilities. A history, going back to the 1970s, of Israeli strikes on southern Lebanon (which is predominantly Shi`a) has created among Shi`a a deep sense of vulnerability to the actions of their southern neighbor. From 2004 through at least May 2008, many Shi`a also perceived themselves to be on the receiving end of a campaign by Lebanon's Sunnis—acting in coordination with their Druze and Christian allies, as well as with the United States, France, Saudi Arabia, and other Sunni Arab regimes (Egypt, Jordan)—to contain the influence of their community in the political system and the bureaucracy; to roll back many of the prerogatives that the Shi`a had gained under the post-war, Syrian dominated political order (1990–2005); and to deny Shi`a their fair share of political and economic power. Hizballah may have exploited those fears for political advantage, but it did not invent them. Nor were those fears groundless, as the Future Movement at the time seemed bent on exercising over the state apparatus a level of influence that was inconsistent with the Lebanese system's power-sharing logic. Even the controversy over the establishment of an international tribunal to investigate Rafik Hariri's assassination (and, more specifically, over the exact prerogatives of that tribunal) was viewed by many Shi`a as part of a broader effort to isolate, weaken, and neutralize Hizballah and, by extension, their community. New Shi`a insecurities arose in 2011–12 after the Syrian regime was confronted with a Sunni-dominated popular upheaval bent on its overthrow. Even many Shi`a with no sympathy for the Assad regime came to fear that the downfall of that regime would represent a strategic setback for Hizballah and, by extension, leave the Shi`a community more exposed and vulnerable. And since the rise of Mohammed bin Salman (MBS) in Riyadh in 2015 and the election of Donald Trump to the U.S. presidency in 2016, many Shi`a have felt apprehension over what the new U.S.-Israeli-Saudi axis, its determination to confront Iran, and its implications on the Sunni-Shi`a balance of power in the region might mean for their community.

The small size of their community (estimated at fewer than 200,000 members) explains the Druze's longstanding apprehension that the larger and more powerful sects might squeeze them out of the country's political equation. Druze historically have managed to avoid that fate through careful political maneuvering and adroit political leadership. But in recent years their longstanding sense of vulnerability has been heightened by several developments. The May 2008 armed clashes with Hizballah, during which Druze areas easily fell under the control of the Shi`a organization, were particularly traumatic. They forced Druze leader Walid Jumblatt into a recognition that the security of his community was, in effect, in the hands of Hizballah. Other regional and domestic developments have raised anxieties among Druze. One such trend is the increased visibility and assertive stance, in Lebanon as well as the broader region, of Salafi movements, the members of which are puritanical Sunnis who typically regard Druze as heretics. Another Druze fear relates to the prospect of a full-fledged Sunni-Shi`a confrontation fueled by mutually reinforcing domestic and regional tensions. Such a clash might force

Druze to take sides in a battle that they do not regard as theirs and that would result in their earning the lasting enmity of whichever side they did not align with. Druze also recognize that the likelihood that Lebanon will be a Shi`a-majority country by 2025 is bound to weaken their hand. After all, they historically have derived much of their political influence (disproportionate to their small demographic weight) from their leadership's skills at navigating a highly fragmented sectarian and political landscape. The emergence of a single sect as a dominant demographic and political force would undercut Druze politicians' ability to maximize their sect's power by acting as kingmakers.

Sects are not Monolithic

Finally, although sects remain the preeminent political markers in Lebanon, they by no means constitute monolithic entities. Critical differences exist within sects over how best to promote sectarian interests (as reflected, for instance, in the post-2005 split among Maronites between supporters of, respectively, the March 14 and March 8 coalitions). In addition, old and more recent rivalries pitting dominant families and their respective clienteles against each other have created or contributed to significant competition, and sometimes even violence, within sects. The Maronites perhaps have suffered the most from that phenomenon.[7] Sunni politics, too, historically has been driven largely by the competition for influence among the leaders of families based in, respectively, Beirut, Tripoli, and the Beqaa.[8] Meanwhile, the Druze community has long been divided between the Jumblatt and Arslan clans.[9] For all these communities, family-based divisions have overlapped with, and usually greatly contributed to, rival political alliances (for instance, schisms between supporters of the March 14 and March 8 blocs). Within each sect, one also must consider regional differences. For instance, in their political outlook and behavior, Shi`a in the south differ from those in the northern Bekaa, where clan affiliations play a far more significant role. Similarly, cosmopolitan, urban-based Sunnis in Beirut or Sidon often are very different from their more parochial co-religionists in rural areas such as Akkar (in the north) and Western Bekaa. The same is true of Maronites in rural northern Lebanon, as opposed to their co-religionists in the more economically developed parts of Mount Lebanon or in the coastal cities, especially Beirut. Finally, within each sect, differences in socioeconomic background, class, professional affiliation, and exposure to education and travel lead to marked disparities in political preferences and behavior. For instance, although much of the Shi`a community stands behind Hizballah and Amal, many Shi`a professionals and much of the Shi`a intelligentsia do not identify with either organization. They are deeply troubled by Hizballah's top-down, militarized structures; theological and populist outlook; and links to Tehran. They also feel alienated from Amal due to that organization's legacy of corruption and militia practices.

---

[7] One thinks, for instance, of the series of massacres and political assassinations associated with the competition among the Gemayel, Franjieh, and Chamoun clans throughout the 1975–90 civil war; of the clashes between Samir Geagea and Elie Hobeika for leadership of the Lebanese Forces in 1985–86; or of the devastating infighting between Michel Aoun and Geagea during what came to be known as the war of elimination in 1990, which left at least 1,000 dead and 3,000 wounded. That inter-Christian war for control of the tiny territory between Beirut and Byblos/Jubail was the deadliest bout of fighting during the entire civil war.

[8] One thinks for example of the competition at various points in the past two decades among supporters of Rafik and then Saad Hariri (Beirut, though the family originally is from Sidon), Omar Karami (Tripoli), Muhammad Safadi (Tripoli), Najib Mikati (Tripoli), and Abdu Rahim Mrad (Bekaa).

[9] The vast majority of Druze have followed the leadership of the Jumblatt family, whose Progressive Socialist Party remains the dominant political force within the community. However, the Arslan clan retains influence, especially in the Shwayfat and Aley areas.

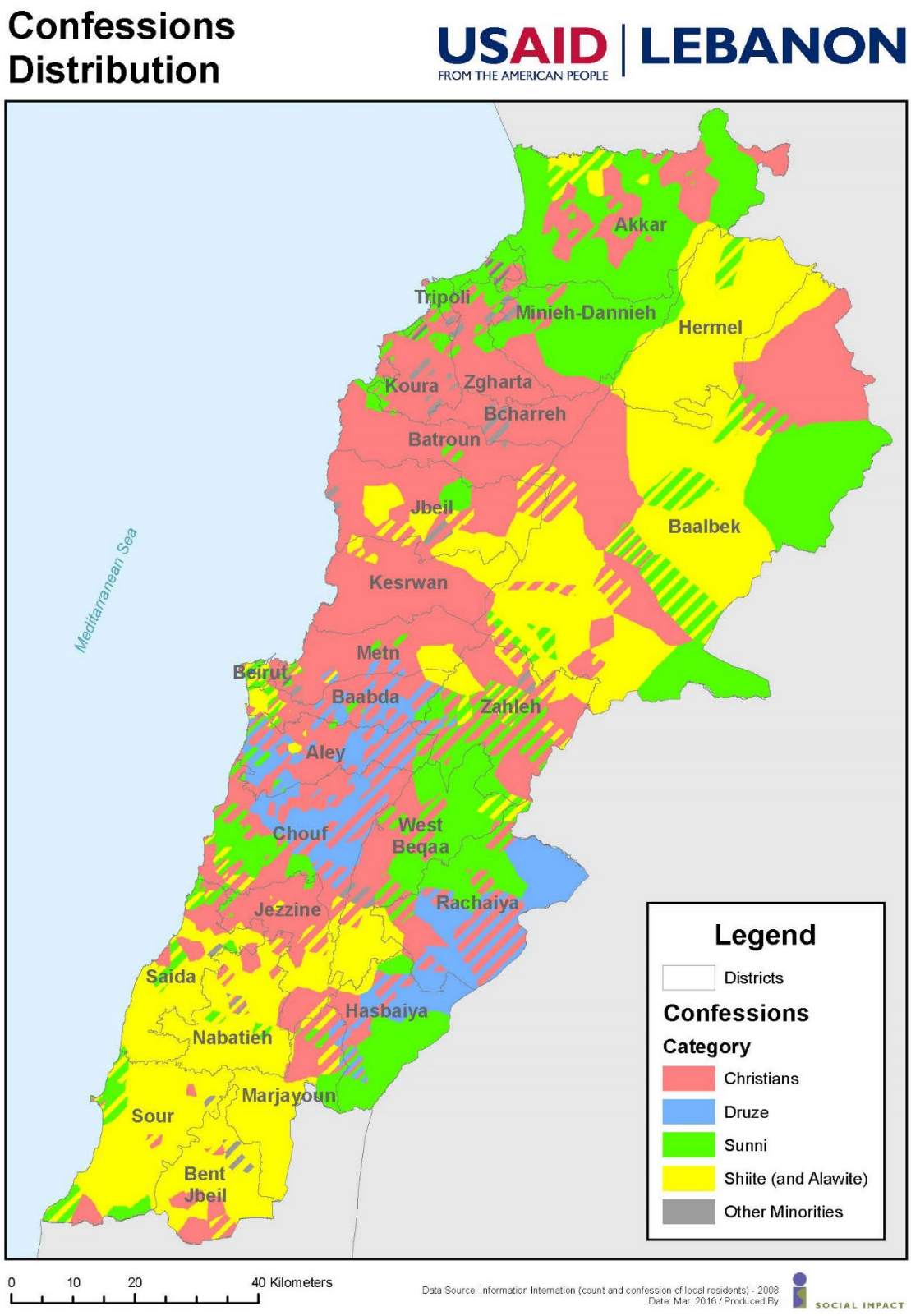


Figure 2. Confessions Distribution

Confessionalism

The confessional system was adopted largely to reduce sectarian frictions by dividing political power among Lebanon's various sects (see Figure 1). From one angle, it can be viewed as a practical response to the country's sectarian pluralism and as a way of mitigating against its potentially harmful, destabilizing consequences. But it has also created a straitjacket that has consistently thwarted Lebanon's political and economic development. First, it has perpetuated and hardened sectarian cleavages, thereby also entrenching the power of sectarian leaders, who have been one of the main culprits behind both poor governance and Lebanon's experiences with civil violence. Second, since under the confessional formula the consensus of all key players is required for any significant decision, confessionalism also promotes a tendency toward institutional paralysis and policy gridlock.[10] Third, it has been a source of significant intersectarian friction and intra-sectarian anxieties, largely due to profound disagreements over what its future should be.[11]

Finally, confessionalism has created numerous entry points for foreign actors whose machinations repeatedly have destabilized Lebanon. It also has provided a conduit for the import into Lebanon—and indeed into the Lebanese state's very heart—of region-wide sectarian tensions (such as the current Sunni-Shi`a rivalry) or state rivalries (such as the contest between Saudi Arabia and Iran). These tensions, in turn, have had debilitating social, political, and economic impacts on Lebanon and repeatedly have contributed to the state's partial or total incapacitation (a point that will be taken up again below in the discussion of Lebanon's weak state).

The Weakness of Horizontal Solidarities and the Syndrome of Thwarted Civic Development

Pervasive Patronage

Both sectarianism and confessionalism are sustained by robust and ubiquitous patron-client networks that tie sectarian leaders to their respective constituencies. Clientelism displaces citizenship and its implied right to public goods and political participation. Leaders' capacity to distribute patronage is thus critical to their ability to maintain their political and social dominance, which drives their determination to control the state and the access to patronage that such control confers. Distinctive features of Lebanon's PE therefore include the pervasive nature of patronage as a mode of political and social regulation, the extent to which patronage is intertwined with sectarianism and the confessional system, and the unusual strength of vertical solidarities (based on sectarian and/or patron-client ties) in the country. The bibliography contains references to studies of such networks in various institutional settings, including entire sectors such as education.

Weak Horizontal Solidarities

The flip side of this phenomenon has been the historical weakness of horizontal solidarities based on class affiliations, professional identities, ideological leanings, policy preferences, and/or a shared civic project that is neither defined nor constrained by sectarian or patron-client ties but instead cuts across them. Revealingly, most Lebanese voluntary and philanthropic associations, especially those that deliver

---

[10] That dynamic is discussed further below under the "weak state, ineffective governments" section.

[11] Historically, Christians and Druze have been determined to resist its abolition. They have seen their security and ability to maintain a degree of political and social influence as being tied to the survival of the confessional system and have feared that its elimination would lead to the further marginalization of their respective sects. By contrast, largely because of their status as the largest and fastest-growing sect, the Shi`a have been keener on its being phased out. Such disagreements are extremely hard to bridge. They evoke powerful feelings and can trigger passionate reactions on all sides because they fundamentally affect the division of power in the country and are tied to very clear political and economic interests.

education, health, and social services, remain associated with a particular sect and cater to members of that sect.[12] Even sports teams are identified with specific sects, and the fear that disputes over game results might degenerate into sectarian violence explains why fans are not allowed to attend many such games.[13] Cultural and recreational institutions and events, too, often have very overt and widely recognized sectarian identities.

CSOs seen to Undermine True Civic Consciousness

The strength of CSOs tied to sectarian loyalties has had double-edged effects on the Lebanese social and political life. On the one hand, these associations have played a critical role in providing the Lebanese with a sense of intimacy and solidarity in an otherwise highly individualistic, fractious, and competitive society. Particularly for disadvantaged populations, these associations have also served as vital sources of social and economic support; in that regard, they have mitigated some of the failings associated with a minimalist, laissez-faire state and largely corrupt and inefficient state institutions. But by the same token they have also undermined true civic consciousness and widened the gaps between confessions, often exacerbating sectarian prejudices or hostilities in the process.

Thwarted Civic Development

The frailty of horizontal solidarities is also reflected in what may be described as the syndrome of thwarted civic development in Lebanon, a phenomenon that has critical implications for donors, particularly in areas such as civil society programming. Again and again in modern Lebanese history, broad-based but short-lived civic movements bringing Lebanese across sectarian boundaries have emerged, typically in response to a sudden and severe political crisis. These horizontal civic movements, however, have consistently proven unable to sustain themselves and quickly given way to a reassertion of the sectarian system and of the vertical solidarities and elite interests associated with it.

Thwarted civic development involves a pattern that typically consists of three phases. The first entails a sudden and severe crisis that dramatically exposes the confessional system's flaws and that the system, by its very nature, cannot resolve. Those within confessional elites don't have an incentive to provide public goods or even much patronage to their fellow confessionals unless challenged by other elites of the same confession. The Lebanese cannot basically engage in politics outside of their own confession, so their bargaining power is minimal, possibly causing them to seek to fundamentally alter the status quo. The country finds itself in a major political and social upheaval, and there is a growing sense among the Lebanese that the confessional system's blockages and dysfunctions, which they had been willing to put up with, have become intolerable.

Breaking the Civic Bonds of Confessionalism

The second phase involves large-scale civic mobilization across confessional lines to force decision makers into taking appropriate action to address the crisis. A variety of multi-confessional civic organizations, coalitions, and initiatives appear that celebrate cross-sectarian coexistence; seek to foster a new political culture by highlighting non-sectarian ways for the Lebanese to relate to one another; and

---

[12] The *Makassed*, for example, serves Sunnis (especially those in Beirut), whereas *Amel* focuses on Shi`a in the south. The same is true of Christians, who have their own old and robust network of private schools.
[13] Thus, for instance, among First Division soccer teams, *Nejmeh*, *al-Ahad*, *Shabab al-Sahel* and *al-Mabarrat* are all Shi`a teams, whereas *Ansar* is Sunni, *Racing* and *Sagesse* are Maronite, and *al-Safa* is Druze. In Sidon, *al-Ghazieh* is Shi`a whereas *Ahli Sa`ida* is Sunni. Both Tyre-based teams (*Tadamon* and *Islah-Bourj Chamali*) are Shi`a. The same phenomenon characterizes First Division basketball teams: *al-Riyadhi* in Beirut and *al-Muttahid* in Tripoli are both Sunni, for instance, whereas *Sagesse* (Beirut) is Maronite and Greek Orthodox, *al-Kharaba* (Jounieh) is Maronite and Catholic, *Hoops* (Beirut) is Shi`a, and *Antranik* (Beirut) is Armenian Orthodox.

call for a corresponding, fundamental reorganization of the country's governance system. These groups explicitly seek to tap into the shared sense of Lebanese identity. Their main targets are sectarianism, sectarian elites, and clientelism. That phase typically generates among analysts, donors, and activists alike enormous hopes that a new politics is in the making, and evidence to that effect is often given disproportionate attention. Young urban-based professionals and youth yearning to escape the straitjacket of sectarian thinking and emancipate themselves from the hegemony exercised by sectarian elites believe that their moment has come. Throughout that phase, the politico-sectarian establishment finds itself on the defensive.

Confessionalism Redux

In the third phase, however, that establishment reasserts itself. Through clever political maneuvering; by harnessing the considerable political resources at their disposal; and by taking advantage of the lack of experience, naïveté, opportunism, and/or internal rifts present in nascent civic organizations, politico-sectarian elites are able to neutralize and sideline them. Mutually reinforcing negative dynamics then are unleashed, which foreign interference typically exacerbates. Renewed fears of sectarian conflict or violence create a context increasingly hostile to civic organizing. Disillusionment and despondency set in among civic activists. Some of these activists doggedly persevere in their efforts, and they occasionally achieve limited gains. However, these gains are not consolidated over time and do not aggregate into the critical mass necessary for substantial progress, including on policy-reform issues.

Many examples of civic mobilization in Lebanese history have unfolded according to the general pattern outlined above. One thinks, for instance, of the first half of the 1970s, when an array of student, labor, and CSOs that transcended communal ties became increasingly active on the Lebanese political scene and seemed to suggest the emergence of a non-confessional civil society. All that ended abruptly when the country began its irreversible slide into civil war. Three decades later, in the days and weeks that followed the assassination of the late PM Rafik Hariri on February 14, 2005, what came to be celebrated as the Cedar Revolution or Independence Intifada followed a similar trajectory. At first, that movement took the form of a spectacular surge in grassroots, cross-confessional activism that escaped the control of the sectarian elites and was explicitly directed against them. To the young Lebanese who set up tents in Martyr's Square and joined together across sectarian boundaries, the Cedar Revolution was not just about forcing a withdrawal of Syrian troops from the country and bringing an end to Syrian domination, which may indeed be regarded as a positive result of civic action. It also was aimed, very deliberately and explicitly, at a confessional logic that reduces individuals and organizations to their sectarian identities. But by the time parliamentary elections were held in May–June 2005, only four months later, the country's old politico-sectarian elites had already reasserted themselves and defeated the challenge to their power.

The way the 2011 Arab popular upheavals affected Lebanon also broadly conformed to the pattern analyzed above. In the weeks that followed Tunisian President Ben Ali's ousting, a few hundred young Lebanese activists began to agitate, not against the government itself or, for that matter, in favor of one or the other of the two blocs (the so-called March 8 and March 14 alliances) vying with each other at the time, but to try to mobilize the public opinion against the confessional system and sect-based politics. On February 27, 2011, hundreds of them, brought into the streets through Facebook groups, braved a cold rainstorm in Beirut to take part in a demonstration during which banners were held that read *al-sha`b yurid al-isqat al-nizam al-ta'ifi* ("The people want to topple the sectarian regime"). They chanted "Revolution has arrived in Lebanon" and distributed leaflets that called for a "secular, civil, democratic, socially just and equal state."[14] Organizers described the February 27 demonstration as the

[14] Other slogans were intended explicitly to display the movement's hostility toward both March 8 and March 14 alliances, with one banner reading: "You made us hate the month of March."

beginning of the end for the sectarian system. But the movement rapidly fizzled after a handful of other, smaller rallies and protests took place in other cities, including in Tripoli (April 2) and Sidon (April 3).

The Consociational System

The combination of variables and dynamics that account for the historical frailty of cross-confessional civic movements deserves more attention than is possible in these pages. But to set the stage for subsequent analysis and inform the programmatic implications section, a few key relevant factors should be highlighted. One is the very nature of the consociational system, which provides sectarian elites with a built-in advantage while presenting enormous hurdles for civic activists seeking to nudge individuals toward thinking beyond their respective sects. That system creates a political playing field that is inherently tilted against reform-minded civic activists. By institutionalizing sectarian differences in the political arena, and by allowing confessional leaders to control the distribution of administrative favors, governmental posts, and services, it places at their disposal powerful resources that they can use to perpetuate their power. Intra-sectarian competition is certainly important, but its impacts are limited by virtue of the constraints of sectarianism itself (that is, the difficulty of abandoning one's sect for other forms of political organization).

Consociational System Creates Political Monopolies

In economist language, it creates political monopolies that limit competition. Monopolies create rents that said monopolists will fight to defend. The central electricity sector is probably the best example as it is a near monopoly provider controlled by key elite politicians. Since the transaction costs of decision making are so elevated by the system because it requires near-consensus, the system, instead of producing public goods, specializes in the production of mostly private transfers instead. Resources are generated by the state, including through employment and taxes, which are then converted into patronage.

Deflecting Pressures for Change

A second factor relates to the impressive political skills that sectarian elites consistently have demonstrated in their efforts to neutralize or deflect grassroots pressures for change, including, when they have deemed it necessary (as they did in 2005 and again in 2011), by striking opportunistic alliances that bring together previously antagonistic forces and politicians with a long history of bitter rivalries. Finally, civic movements consistently have fallen victim to their own weaknesses. These groups and the activists behind them have found it difficult to agree on a shared agenda or sustain coalitions. They typically have failed to broaden their base by addressing the concrete socioeconomic needs that remain the primary preoccupation of the vast majority of the population. The personality-driven nature of many of them has made them vulnerable to debilitating internal divisions and fueled cynicism or skepticism toward them. And they have found it difficult to insulate themselves from the country's political and sectarian battles.

Which Country, Whose Country?

Political arguments in Lebanon are often intertwined with, and sometimes merely reflect, fundamental and chronic disagreements over the very nature of the country's identity. These divisions, furthermore, typically overlap with and reinforce sectarian cleavages (that is, different sects have sharply contrasting visions of what Lebanon is or should be about). All that matters a great deal because it means that:

a) Political debates often are mere expressions of, or can quickly escalate into, existential disputes, which makes them much harder to resolve and dramatically increases the potential for political gridlock, policy paralysis, and poor overall institutional performance.

b) These debates reinforce sectarian identities and the societal and political divisions associated with them.

Divergent Views of Lebanese Identity

All this suggests not that there is no real sense of Lebanese nationalism, as is sometimes mistakenly argued.[15] It instead indicates that what this nationalism is all about remains a source of contention. The Lebanese, including the many millions in the diaspora overseas, are still arguing over "the idea of Lebanon." Those arguments can be fierce, and their outcome is undetermined. Since the 2000s in particular, the lack of consensus over the nature of Lebanese identity has been reflected in the tug of war between two main groups.

a) The first, made up predominantly of Christians and Sunnis, includes those who believe that Lebanon's vocation is to be a merchant republic: an outward-looking, trade- and investment-oriented country that seeks to insert itself in the global economy. To members of that group, Lebanon's future hinges on its regaining its niche as a commercial hub and regional service center, on its avoiding becoming entangled in regional rivalries, and on its ability to position itself as a bridge between East and West. This group tends to assume a more center-right PE ideology.
b) Members of the second group—within which Shi`a are heavily represented but which also include a few influential Christian and Sunni politicians, particularly those associated with the March 8 bloc (at least when the March 14–March 8 cleavage was more central to Lebanese politics than it has become)—share a different outlook. They argue that Lebanon must resist efforts by outsiders—mainly Israel and the United States—to dominate the region and impose agendas that are inimical to it and to Lebanon. They do not believe that Lebanon's fate can be separated from that of its broader Arab and Middle Eastern environment and contend that it in fact is wishful thinking for Lebanese to believe that. They claim that the protection of national sovereignty and independence requires that Lebanon not shy away from its regional responsibilities, which in their view necessitates "resistance" to plots being hatched in Jerusalem; Washington, D.C.; and/or Riyadh. In the past two decades, members of this second group have been closely aligned with the so-called Iranian-Syrian axis and have been predictably denounced by their rivals as Iranian proxies. This group tends to adopt a more center-left PE ideology.

These sharply divergent visions of what Lebanon truly is about, or should aim to become, do not betray mere differences of opinion about public policy. They are not even just ideological disputes. Instead, they reflect fundamental disagreements about which of the many available paths Lebanon should choose for itself. They also lead to radically different understandings of the state's role and scope and of what governmental policies should be, both at home (for instance, on issues related to economic policy, income inequalities, or regional disparities) and abroad (particularly with regard to Lebanon's position toward divisive geopolitical and regional issues). Unfortunately, as noted above, that situation tends to transform mere political or policy-related disputes into much broader existential or identity-related questions; it makes compromise much harder to achieve and increases the likelihood that individuals and groups alike will feel justified in resorting to extra-constitutional means to see their respective viewpoints prevail.

[15] Anyone who has spent any time in Lebanon is in fact well aware that most Lebanese share a strong, emotional attachment to their country.

External Shocks, Foreign Meddling, and Overlapping Contests

A Weak State Open to Foreign Influence/Meddling

One of the most distinctive and longstanding features of Lebanon's PE has been the very thin line that separates what happens inside the country's borders from trends and forces that originate beyond them. Lebanon has always had an outward orientation and has served as an arena for competitive regional and even global actors. The Lebanese diaspora, which is more than twice the size of the country's local population, further interconnects the country regionally and globally, most notably by providing about $7 billion annually in remittances that play a central role in supporting the currency and indeed, the entire post-Ta'if economic model. Most recently, geostrategic calculations related to the power struggle that pits Shi`a Iran and its backers and allies, including Russia and Hizballah, against the leading Sunni states, in turn backed by the United States, have had the most impact on internal Lebanese affairs. This characteristic can be articulated in different ways, but they all point to the same fundamental dynamics: an unusually high level of interplay between internal and external variables, the degree to which domestic contests overlap between regional and geopolitical ones, the status of Lebanon as arguably the most penetrated of all Arab polities, and the country's vulnerability to external shocks and foreign machinations. That situation has been a recurrent source of volatility, violence, and uncertainty.

Forces rooted in internal dynamics and those that stem from external meddling, regional developments, and broader international diplomacy typically intersect, feed into, and reinforce one another, making it difficult to determine where and when internal drivers end and those that originate in the regional/international arena begin: internal alignments often mirror regional rivalries and are sustained by them, domestic tensions commonly invite (directly or indirectly) external interference, and foreign meddling frequently widens gaps among Lebanese actors or sects.

Regional Conflict Spillover

In addition, regional conflicts often spill over into Lebanon or constantly threaten to do so, either directly or because Lebanese actors often hold radically opposite views about them, and these differences of opinion can lead to a dangerous escalation of tensions within the country. Indeed, that was how the civil war began in 1975 after the Lebanese became polarized along lines that both reflected and reinforced sectarian divides on the armed Palestinian presence in the country. That issue, in turn, was revealingly the by-product of a sequence of regional developments that began with the creation of Israel, the resulting Palestinian exodus and Israeli-Palestinian conflict, the emergence of armed Palestinian groups in the region during the 1950s and 1960s, the expulsion of the Palestine Liberation Organization (PLO) from Jordan in September 1970, and the PLO's subsequent relocation to Lebanon.[16]

---

[16] The Palestinian presence in Lebanon remains a source of instability, uncertainty, and sectarian tensions, particularly due to the existence of a dozen large Palestinian refugee camps often described by Lebanese as "ticking time bombs." Those living in these camps represent an impoverished, embittered, and increasingly radicalized population that has no stake in the country, since they are deprived of the most basic socioeconomic, political, and legal rights (for instance, they are banned from a wide range of white-collar professions, and their ability to own property is severely constrained under the law). These camps feed pervasive anxiety among Lebanese of all sects (but especially among Christians and Shi`a) about the possibility of Palestinian settlement or naturalization (*tawteen*) in the country, especially in light of the demise of the two-state solution to the Israeli-Palestinian dispute. The Lebanese state does not exercise true control over these camps and has insufficient information about developments inside them. Many organizations based in refugee camps are heavily armed and often tied to foreign interests. Camps also operate as havens for outlaws, fugitives, foreign intelligence agents, and non-state extremist actors, especially radical Salafi groups, many of which can be activated by their foreign and domestic sponsors.

The Syrian War's Impact

Since 2011, the Syrian war has offered yet another dramatic illustration of the propensity for regional conflicts to spill over into Lebanon. That war's impact has been felt on several levels. The first has been the influx of Syrian refugees into the country. By 2016, over one million Syrian refugees were officially registered in Lebanon through the United Nations High Commissioner for Refugees (UNHCR), but the actual number was estimated at approximately 1.5 million persons, or nearly a quarter of Lebanon's total population of about six million people.[17] The presence of such a large refugee population, in turn, has been destabilizing through the drain it has created on already scarce public resources, particularly in economically deprived areas such as in the northern Bekaa; through the friction it has generated between host communities and refugees (particularly in those areas along the Syrian border where the influx of refugees has been most sizable); and because of the increase in sectarian tensions to which it has contributed (the vast majority of Syrian refugees are Sunnis and their presence thus changes the demographic balance in affected areas, triggering fears and resentment among sects negatively impacted by that trend).

The Syrian war has also polarized the Lebanese public along intertwined political and sectarian lines, largely because it has entailed the vicious repression of a Sunni uprising by an Alawite-dominated regime. Even though early on in the war the GoL adopted an official policy of dissociation from the Syrian conflict (precisely in an effort to prevent it from spilling over into Lebanon), in practice Lebanese actors have been pulled into the war, which as a result has reverberated into the country and reopened or widened old fractures in it. A critically important contributor to this process was Hizballah's massive and decisive military intervention in Syria on the side of the regime in Damascus, which alienated large sections of the Lebanese public, particularly (but not only) among Sunnis.[18] Meanwhile, especially in disenfranchised Sunni communities in northern Lebanon (in and around Tripoli, in Akkar, and in Northern Bekaa), many Sunni youth either left to join the jihad in Syria or were further radicalized by it and by what they viewed as Hizballah's complicity and active participation in the slaughter of Sunnis by a Tehran-aligned, Alawite-dominated regime.

Support for Bashar al-Assad and his regime also has been felt in Lebanon's Alawite community. Consequently, in areas featuring longstanding Sunni-Alawite tensions—most notably in Tripoli, between the (predominantly Sunni) Bab el-Tebbaneh neighborhood and the adjacent (overwhelmingly Alawite) community of Jabal Mohsen—divisions triggered by the Syrian war have also led to fears of a new surge in armed hostilities between these two neighborhoods.

The Syrian war did not just fuel sectarian antagonisms but also rekindled divisive issues surrounding what the nature of the political relationship between Lebanon and Syria should be. These issues had been mostly dormant since the withdrawal of Syrian troops from Lebanon in April 2005, but they have reemerged in full force, largely because of the Syrian war and the regional and geopolitical dynamics that now surround the process by which it will be terminated. This issue will likely assume increased salience in the months and years to come, and its impact on Lebanon's PE will be decisive.

Finally, the Syrian war affected not only intersectarian dynamics but intra-sectarian ones as well, particularly in the Sunni community. For one, it has fueled radicalization in sections of that community and put added pressure on its political establishment. It has also created new opportunities for

[17] These figures mean that since the outbreak of the Syrian war in 2011 Lebanon has absorbed more Syrian refugees per capita than any other country in the region, including Turkey and Jordan.

[18] Hizballah played a key role in decisive military battles during the Syrian war, particularly in Qusayr (near Homs) in May 2013. Had it not been for its intervention on the side of the regime in Damascus, that regime arguably might have fallen around that time.

transnational violent extremist organizations (VEOs) and movements to recruit and radicalize Lebanese Sunnis.

The Middle East Civil War in Lebanon

Many analysts refer to an ongoing Middle East civil war to capture the following separate but overlapping contests:

- Saudi Arabia against Iran.
- Sunnis against Shi`a.
- Sunni regimes against each other (mostly Turkey and Qatar against Saudi Arabia and the UAE).
- Sunni regimes and non-regime actors aligned with the Muslim Brotherhood and other "mainstream Islamists" against Sunni regimes and non-regime actors that favor the destruction or at least decisive political neutralization of political Islam.
- Takfiri jihadists against basically everyone else.

Just like the Syrian war, which is both a manifestation and consequence of the Middle East civil war, this broader conflict is accentuating cleavages in Lebanon's already fragmented body politic, constantly threatening to lead to an eruption of violence—indeed, it could trigger several overlapping militarized contests. The main, but by no means only, line of division is between forces aligned with Iran, the Damascus regime, and Russia against those allied with Saudi Arabia, the UAE, the United States, and the EU. Political room in the middle of these two blocs has progressively shrunk in the past several years, making political compromise even more elusive.

Foreign Meddling and External Interference

Ever since the 1958 Lebanon crisis, which featured a U.S. military intervention, Lebanon has served as a primary site for regional and/or geopolitical contests that unfold against a backdrop of domestic sectarian conflict (or conversely as a theater in which fierce competition among politico-sectarian actors constantly intersects with, and is exacerbated by, regional and geopolitical rivalries). Lebanon has repeatedly been turned into a battleground by other states vying with each other for influence in the regional arena or that have sought to settle their disputes with each other on Lebanese soil. At times, most notably in the conflict between Israel and the PLO during the 1970s and 1980s, that situation has had devastating consequences for Lebanon, as exemplified most dramatically by the 1982 Israeli invasion and the considerable human and economic toll it took on Lebanon. The 1975–90 civil war also lasted as long as it did in part because of the extent to which a broad array of other states in the region (especially Syria, Israel, Libya, and Iraq) used Lebanese proxies to settle their battles with each other in ways that heralded what has unfolded in Syria since 2011. More recently, the 33-day war between Israel and Hizballah in July 2006 provided yet another example of the enormous price Lebanon has paid for being turned into a proxy battlefield in the confrontation between Israel and Iran and in U.S. efforts to remake the region's political landscape following the September 11, 2001 attacks and the March 2003 invasion of Iraq.

Exposed to Meddling But Resilient

At the same time, although foreign governments and transnational movements (for example, VEOs such as al-Qaeda and the Islamic State) have repeatedly made Lebanon hostage to their own agendas, Lebanese actors still exert agency and are not mere pawns manipulated by foreign state and non-state entities. Instead, they have recurrently sought to harness foreign patrons' political, diplomatic, and/or financial backing as they have competed with one another for larger slices of the politico-confessional pie. The role of foreign meddling in Lebanon's misfortunes must be qualified accordingly. Lebanese politicians and factions have consistently invited foreign intervention, usually to balance the influence of their domestic opponents, who have acted in the same manner.

Weak State, Ineffective Governments

The final foundational factor is Lebanon's particularly weak state and its chronically and almost congenitally ineffective governments. This final variable, which is fundamentally shaped by and feeds into the previous four, also constitutes the key challenge facing donors.

A State Weak in Legitimacy and Capacity

The state is weak in both legitimacy and capacity. It lacks legitimacy for several reasons: the primary loyalty of Lebanese goes to other institutions, particularly sect-based ones (which refers back to the first foundational factor); greater strength would require greater consensus over national identity (third foundational factor) and would have to reflect stronger horizontal solidarities (second foundational factor); and the weakness of the state's capacities in all key areas has prevented the Lebanese from developing a sense of respect for and loyalty to it.

Inadequate state capacities thus tower over all other factors; from a PE perspective, they constitute both the fundamental root and the most consequential outcome of all the ills that befall Lebanon. Indeed, the Lebanese state can be viewed as the antithesis of the developmental states that are widely credited as having made possible the economic miracles of several East Asian countries. The shortcomings in state capacities fall into two main areas: 1. those that relate to the legitimate use of violence by state institutions and the ability to guarantee and maintain public order, and 2. those that constrict the state's capacity to administer the economy and create an environment conducive to private sector–driven growth and sustainable development.

Coercive Capacities: Security, Public Order, and the Rule of Law

Max Weber famously defined the state as a set of institutions that can claim a monopoly over the legitimate use of violence. From that perspective, it is questionable whether a Lebanese state truly exists. The Lebanese state indeed lacks a clear monopoly over the use of legitimate violence and a strong ability to police borders and monitor the flow of weapons and people. Hizballah is widely regarded as militarily more powerful than the state itself, and the latter is not generally regarded as able to affect in any meaningful way Hizballah's decision to use or refrain from using the considerable arsenal at its disposal. More generally, if one or several of the country's well-organized politico-sectarian forces were to defy the state itself, the latter would be hard pressed to face up to that challenge, either because it might not prevail over them or because violently clashing with them might lead to its break-up. In any event, the state has repeatedly proven unwilling or unable to confront the powerful politico-sectarian organizations that on numerous occasions have shown a readiness to use extralegal means to advance their interests. One reason for that situation is that many of these forces exercise critical influence over the state's coercive institutions and/or can paralyze it from the inside in a myriad of other ways. Penetrated as it is by powerful societal forces that enjoy far greater legitimacy than it does, and lacking a will of its own, the state is not truly in a position to assert its authority over such forces.

For lack of a choice, the state also has allowed many parts of the national territory (for example, in and around Palestinian refugee camps but also in the north and the Bekaa) to operate, if not as ungoverned areas, at least as areas in which state authority is particularly weak and/or contested. In addition, the GoL constantly struggles to deny foreign states and transnational VEOs the ability to disrupt the status quo by pushing their Lebanese proxies, allies, or clients into violent confrontations or by manipulating vulnerable populations.

These structural weaknesses create significant space for violent extremist groups and for other organizations with violent proclivities, including militias, armed wings of powerful clans, and criminal syndicates that are tied to weapons or drug trafficking. They also decrease the costs associated with the

use of violence by well-connected, powerful individuals and organizations. Predictably, these conditions fuel an ambiance of insecurity and anxiety that creates incentives for armament or re-armament, especially along sectarian lines.

Administrative and Developmental Capacities

Due to its sectarian composition, the broader logic of the confessional and patronage-driven system in which it operates, and the domestic and external forces that structurally constrict its effectiveness, the Lebanese state has proven consistently unable to provide an environment conducive to economic growth and sustainable development. That failure can be traced back to inadequate capacities in several interrelated areas:

a) The capacities needed to design and implement coherent, far-sighted policies geared toward national development.
b) The capacities required to manage the economy effectively, including through the adoption of suitable macroeconomic policies and the provision of needed physical infrastructure (especially in such areas as energy provision, telecommunications, and transportation).
c) The capacity to regulate markets fairly and effectively, including by ensuring that property rights and contracts can be enforced according to legitimate, widely accepted rules.
d) The capacities needed to overcome and correct a legacy of skewed economic development that has led to dangerous levels of social exclusion and marginality in several parts of the country.[19]
e) Human resources development capacities, particularly in the vital public education and health sectors, which are critical to providing the labor force needed for success in the global economy.
f) The fiscal capacities to generate the revenues without which a state cannot function and that are necessary to make possible all of the above tasks.

Policymaking Gridlock

The confessional system's very nature promotes institutional paralysis and policymaking gridlock. Because the consensus of all confessional actors is required for any significant decision, important issues are typically shelved for fear that seeking to tackle them will create conflict among the main political actors and bring the country to a standstill (or worse). Most significant government decisions require close to 100 percent consensus. There are 11 parties in government, of which at least six are key players (FM, HA, FPM, PSP, LF, Amal). In its Article 65, the constitution stipulates that "basic issues" require the consent of two-thirds of the members of the cabinet (i.e., a one-third block of votes in the cabinet is sufficient to veto decisions on those issues).20 For its part, Article 69 (1.b.) stipulates that the cabinet must resign if it has lost one-third or more of the members that composed it when it was formed (Article 69, 1.b.). Thus, a cabinet can be rendered unconstitutional through the collective resignation of one-third of its members.

---

[19] Historically, regional inequalities have overlapped with sectarian divisions. They have therefore reinforced animosities between sects that have been seen as privileged under the country's PE and those that have felt neglected if not discriminated under it.

20 Article 65 further defines "basic issues" as: "Amending the Constitution; the declaration of a state of emergency and its termination; [declaring] general mobilization; [approving] international accords and treaties; [approving] the state budget; [approving] long-term, comprehensive development plans; the appointment of first-grade and grade-one equivalent civil servants; redrawing the boundaries of administrative districts; dissolving the Chamber of Deputies; [approving] electoral laws, nationality laws, and personal status laws; and the dismissal of Ministers.

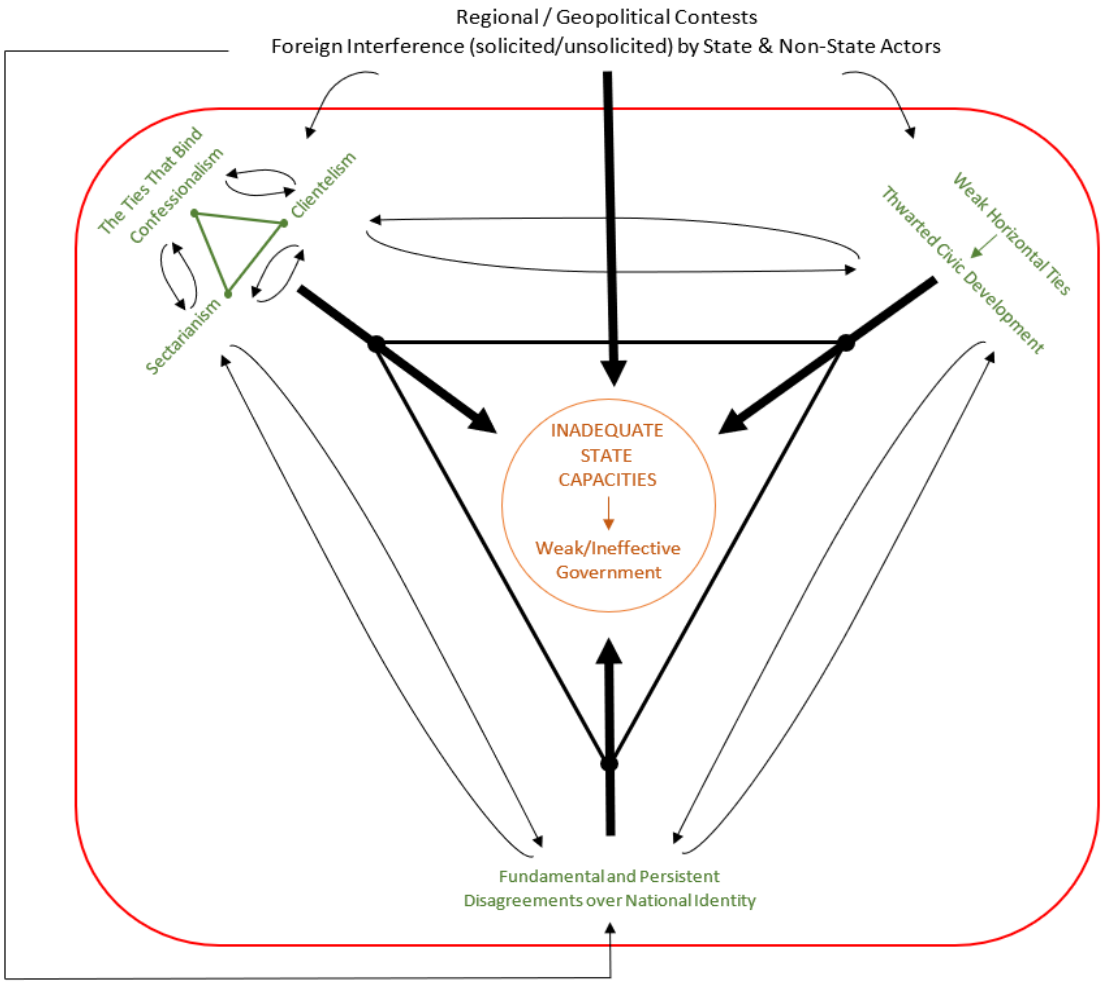
Any one of the following can refuse to sign a bill into law: the president, PM, concerned minister, or minister of finance. The precarious balancing act among the sectarian actors recognized in the country's consociational political system is so delicate that a zero-sum attitude exists that reform is either benefiting or hurting one group at the expense of another. Unfortunately, many of the issues awaiting attention are serious problems: widespread poverty and high levels of social marginality; skewed development; poor public service delivery; governmental neglect of certain areas; and persisting or widening inequalities among regions, sects, and communities that when unaddressed tend to worsen, become more intractable, and then, in a vicious cycle, further sap state capacities.

Ineffective and Incoherent Governments

The confessional system also inevitably produces ineffective and incoherent governments that amount to little more than unwieldy assortments of leaders and organizations with widely divergent interests and preferences. Cabinets predictably often end up being hopelessly divided on the key domestic and foreign issues that confront the country and are thus unable to agree on the policies desperately needed to shore up a system perpetually on the brink of collapse. The cabinet represents all important political forces, which is its principal function, as that representation provides access to patronage. The primary purpose of the cabinet is not to make public policy, except as a byproduct of the machinations of its members. Thus, problems fester or more often worsen, which in turn creates an environment even more hostile to the enhancement of state capacities. (Examples are provided in the Select List of Documentary Sources.) The state then remains what it always has been:

a) A collection of fiefdoms controlled by sectarian leaders who use the institutions and agencies at their disposal to dole out public resources to their allies and "fixers" and more broadly to dispense patronage to their clienteles. Regulating the economy undermines patronage and clientelistic relations that are essential for the proliferation of the confessional system.
b) An arena for bargaining and rent-seeking among sectarian leaders constantly jockeying with each other for power and influence.
c) A mere venue through which elites with conflicting interests and different conceptions of the country endeavor to strike short-term bargains with one another. These bargains are always precarious and rarely involve more than stop-gap measures that at best stabilize the situation only until the next crisis erupts

Figure 3. Regional/Geopolitical Contests



Finally, the Lebanese state's structural deficiencies have undermined its ability to cope with the considerable burdens that its regional and geopolitical environment have placed on it (see Figure 2). Lebanon has been the victim of the wide discrepancy between its state's extremely limited capabilities and the enormous pressure, by global standards, that the regional and geopolitical environment have put on the country. The state's inability to cope with those pressures, in turn, has intensified society's propensity to rely on sectarian organizations to meet basic needs in such areas as health, education, and welfare. And it has encouraged the tendency to look for external sources of support as well, thus embroiling the country in regional and international disputes from which it has little if anything to gain.

Programmatic Implications Informed by Political Analysis

Critical Questions for Development Programming

1) In which direction have state capacities evolved in the past two or three years, and what are the current prospects for their enhancement?

2) What is the likelihood that during the lifetime of the next CDCS (January 2020–January 2025) the domestic and regional/geopolitical contexts will become more conducive to a stronger and more inclusive and responsive Lebanese state?

3) How are state capacities likely to be affected by current economic trends and by prospects for the Lebanese economy in the next five years?

4) How are state capacities likely to be impacted by ongoing domestic political trends, by potential fundamental realignments among dominant political actors, and/or by the emergence of one or more new political force(s) capable of substantively altering prevailing political dynamics (and therefore economic ones as well)? Will the dominant politico-sectarian interests remain so, and will they continue to align in a way that does not meaningfully shift current political and economic equilibria? Or is there evidence to suggest that current arrangements and power relationships may undergo significant change? If so, in which direction, and how will all this affect state capacities?

5) Can donors, specifically USAID, meaningfully impact state capacities given the wide-ranging and deep-seated obstacles discussed here and the constraints created by U.S. diplomacy toward Lebanon? Is the GoL likely to respond to CEDRE by greater appetite for reform, as it began to do with the passage of a new PPP law? In which areas would technical assistance (TA) likely be effective and where would it likely be a waste of resources because of PE constraints?

6) Are there types of state capacities or intervention sectors that appear to be more promising for donors than others? If so, which ones and why?

7) Assuming that some space exists for donors to enhance state capacities, how is that challenge best approached through strategy and implementation? Specifically, how much emphasis should be placed on direct engagement with state institutions as opposed to efforts to affect their behavior and performance in other ways, including by harnessing CSOs or targeting other pressure points?

8) Which service delivery sectors should receive greater attention? Are certain types of approaches more suited to some sectors than to others, and why?

9) To the extent that efforts to build state capacities and improve the delivery of vital public goods should engage with state institutions, does it make more sense to target the core of the state (for example, central government institutions) or its periphery (for example, by engaging on municipal governance issues with or without the passage of the draft law on decentralization)?

10) What are the respective advantages and disadvantages, as well as the potential risks, pitfalls, and unintended consequences, associated with each of the approaches and choices outlined above?

11) If it is unrealistic to envision that state effectiveness can be substantially and sustainably increased through foreign public assistance, including from USAID, what are the best uses and targets for such assistance, especially in the sectors of particular interest to USAID? Should efforts to improve service delivery and overall performance in targeted sectors rely more heavily on PPPs or even on private providers?

Political Economy Dynamics

This section identifies key politico-economic actors; examines the formal and informal rules that govern their behavior and interactions; and highlights the distinct governance and developmental challenges that the behavior, rules, and interactions in question generate. The analysis differentiates between, on one side, Lebanese actors and the politico-economic dynamics associated with them and, on the other, regional and global actors and forces that significantly impact Lebanon's PE. As the discussion will illustrate, these categories of actors and dynamics are often hard to disentangle.

Domestic Actors and Dynamics

Sectarianism, clientelism, and the confessional system are not just the defining elements of Lebanese political life but also key contributors to the critical PE problems that Lebanon confronts: inadequate state capacities and elite capture (with the latter problem largely accounting for the former). Against that backdrop, one can organize Lebanon's political actors into two rival categories: sectarian/politico-economic elites and non-sectarian, anti-sectarian, or anti-establishment forces. There is a grave power imbalance between these two sets of actors, and those in the former category exercise a de facto hegemony that those in the latter category have tried to challenge repeatedly but with no sustained success thus far. Understanding this dichotomy is helpful in analyzing the fundamental role that sectarianism and confessionalism play in structuring Lebanon's PE.

Sectarian Political Elites and Their Interactions

Sectarian bosses owe their dominance of Lebanon's PE to a consociational system that initially sought to guarantee political order and social stability through power-sharing agreements struck among elites acting as the self-appointed representatives of their respective sects. These elites view the state primarily as a means to extract the rents that underpin their power. They have been both remarkably inept at governance and remarkably skilled and resourceful in ensuring the perpetuation of their power.

Sectarian Competition for both Political Power and Economic Gain

Lebanon's elites compete fiercely with each other both within and across sectarian divides and for both political power and economic gain. As they do so, they routinely engage in mutual accusations, blackmail, intimidation, bluffing, backstabbing, smear campaigns, and overt threats. At times, these tactics have led internal tensions to escalate to the boiling point, sometimes even pushing the country into deep political crises and even violence. But that usually has happened only due to miscalculations or reckless behavior by one or more of the parties involved and/or after they were egged on by their foreign sponsors (as happened during the May 2008 crisis). As a rule, the tactics discussed above are deployed to extract concessions from the other side while seeking to avoid an outright slide over into protracted, large-scale violent conflict that would damage the core interests of all parties involved.

11th-hour Deals

That, indeed, constitutes one key distinguishing characteristic of the interactions between sectarian elites: the propensity to reach 11th-hour deals after long, protracted exercises in brinkmanship and repeated testing of the intentions, determination, and capacities of one's opponents. Threats and outbidding usually end in imperfect compromises and temporary bargains. Critical as well is the remarkable capacity of Lebanon's fractious elites to suddenly close ranks when they perceive their privileged position and/or the system that they control to be facing a serious challenge. Thus, Lebanon's long, well-established tradition of deal making, mutual accommodation, and compromise among the various factions that make up the country's sectarian/political establishment has been an important source of the system's resilience.

The elites discussed in this section are simultaneously sectarian, political, and economic elites, and these various components of their power feed into each other. Because their political power rests on their ability to dispense patronage to their respective sectarian constituencies, they can sustain their political influence only if they retain control over the key economic opportunities and sources of wealth in the country. Political influence in turn provides these elites with access to state resources that they can use to accumulate wealth and maintain or expand their clientelistic networks.

Perpetuating Clientelist Networks – How it Works

To operate smoothly and perpetuate itself, the system is predicated on the elites' ability to retain their grip over rents generated domestically or coming from abroad—in both cases as a result of control of some part of the state—and to apportion those rents among themselves.[21] The few non-elite members who somehow manage to gain independent access to wealth usually end up being coopted and integrated into the system or find their way through it. That, for instance, was the case of the late PM Rafik Hariri, who was born into a poor Sunni family in Sidon; made his fortune in construction, real estate, and finance in the Gulf; and then managed to harness that fortune to force his way through the country's political elite after he returned to Lebanon in the early 1990s. Conversely, militia leaders and warlords of modest backgrounds who rose to prominence through the 1975–90 civil war were able after the war to convert their assets into political influence and hence economic power as well.

Sectarian/politico-economic elites also do not hesitate to marshal the significant coercive capabilities at their disposal to advance their political influence and material interests.[22] In addition, they preside over a broad network of sect-based institutions—educational, philanthropic, and welfare organizations—that they can use not just for patronage purposes but also to sustain the sectarian mindsets, instincts, and reflexes that constitute a pillar of their political strength, social influence, and ability to mobilize their communities along rigid sectarian lines.

One of the most distinguishing features of Lebanon's PE is the striking resilience and staying power of this sectarian/politico-economic establishment. Repeatedly this establishment—and the confessional system that guarantees its power and that it strives very hard to preserve—has been confronted with serious threats to its survival. These challenges have taken the form of severe external shocks, including wars and foreign occupation, or have stemmed from emerging social forces and new movements that have openly defied the politico-sectarian system and the elites that preside over it. Inevitably, however, sectarian leaders have managed to deflect the challenges in question.

To neutralize, redirect, or appropriate the very efforts directed against them and to maintain their grip over their respective clienteles and over the country's broader PE, sectarian/political elites have recurrently played on their constituents' fear of the other, which in Lebanon typically means fear of the sectarian other and apprehension that any changes to the system might be at the expense of one's sect and to the benefit of one or more rival ones. Sectarian bosses know full well that the greater the perception of threat emanating from other sects, the greater the tendency for individuals and communities to rally behind confessional organizations and leaders, since the latter are viewed as most capable of providing the needed protection and security. They thus have not hesitated to exaggerate the degree to which other sects are seeking to expand their influence, power, or wealth at the expense of

[21] In other words, the system operates along the lines of the "Limited Access Orders" that Douglas North and his colleagues have analyzed.

[22] Some of these capabilities are legal-constitutional and stem from these elites' influence over the police and security apparatus, whereas others are of an extra- or para-legal nature.

members of their own sect. They have endeavored to convince their constituencies that the root of their daily difficulties lies in the machinations of other sects and their leaders. They have not hesitated to resort to blatant appeals to sectarian chauvinism, verbally as well as in print, or to stereotype members of other sects as foreign, unpatriotic, and mere proxies of foreign powers.

Political Sectarianism Driven by Self-interest

Lebanon's political/sectarian bosses are driven less by ideological or policy preferences than by pure self-interest and the relentless pursuit of personal advantage (of a political and economic nature). On most issues, they are not wedded to particular stances from which they cannot possibly be moved. They tend not to use the considerable symbolic capital and material and political resources at their disposal to further the common good, preferring to focus on defending the slice of pie accorded to them by consociationalism. Those features negatively affect the quality of governance and the national interest—even as one concedes that occasionally these elites' lack of any ideological or policy compass and the fact that their behavior is driven purely by tactical and opportunistic considerations can also facilitate their readiness to adjust swiftly to new political equations and scale back earlier goals and demands.

Historically and recently, therefore, politics in Lebanon has revolved largely around prominent politicians or personality-based factions constantly squabbling over their respective shares of the system's spoils. Elites relentlessly maneuver to improve their position relative to that of their competitors—through means that occasionally include the use of low-intensity, targeted, and temporary violence—and they do so with little regard for how their behavior affects the public interest and the national welfare.

Consequences of Draining Public Resources

This pattern of behavior drains public resources enormously, and only the availability of foreign aid and remittances provides the social safety net that enables elites to persist on such a destructive path. It also leads to chronic political and governmental gridlock that invites foreign intervention. Ultimately, impasses are overcome (but only until the next round) through a negotiated settlement, formal or informal, in which no side totally defeats and humiliates the others but instead accepts living with them within the context of an imperfect, fragile, power-sharing arrangement that is never fully accepted by its nominal signatories. This arrangement not only glosses over persisting fundamental disagreements but is also highly susceptible to destabilization by spoilers. Nonetheless, its primary strength typically resides in it not giving any player everything it wants while also protecting all key players' core interests and alleviating their existential fears.[23]

How and how much has the behavior of Lebanon's politico/sectarian elites in the past few years conformed to, or deviated from, the pattern described above? What might be the implications of that situation for Lebanon's PE? Continuities in elite motivations and behavior—and in the negative outcomes they produce—certainly stand out. Nonetheless, one observes the following three consequential transformations:

Shrinking Foreign Deposits

The foreign aid, remittances, tourism revenues, and foreign deposits in Lebanese banks that enable the form of elite behavior analyzed above are shrinking rapidly and in sizable amounts, and in the next few years they seem unlikely to return to previous levels, discussed at greater length below. This is bound to affect system sustainability in ways that are profound yet hard to specify.

---

[23] As happened in May 2008, one side may occasionally be emboldened (including by foreign allies) to seek to defeat decisively its foes, but if and when that approach fails, that side also shows itself ready to sit down across the table from them to negotiate a new elite settlement.

Gridlock is the Norm

Lebanon's sectarian/political elites are finding it increasingly difficult to strike the political bargains necessary to ensure even basic governance. Gridlock has become the norm. Political impasses have become more frequent and last longer. This situation stems from the shrinking size of the overall "pie," combined with growing polarization resulting primarily from Hizballah's growing power. Between November 2006 and May 2008, unresolved disputes over whether Hizballah and March 8 were entitled to a "blocking third" in the cabinet led to protracted disagreements over whether the government itself could be regarded as legitimate. Even after the Doha Agreement of May 2008—and the new form of regionally brokered elite settlement it reflected—stabilized Lebanese political life and enabled parliamentary elections to be held in May 2009, it took six months for a government to be formed after those elections. That government, formed in November 2009 and headed by Saad Hariri, lasted only 13 months before it was brought down in January 2011 by Hizballah. When President Michel Suleiman's term expired in May 2014, the country's elites could not agree on a successor until October 2016. Following the parliamentary elections of May 2018, prime minister-designate Saad Hariri proved unable to form a government until January 31, 2019. The political haggling and stalemate endured despite mounting evidence of a potential economic collapse and growing public frustration that even pushed those Lebanese long resigned to being abused by their elites into joining widespread street protests in major urban centers across the country in December 2018–January 2019. A quick calculation reveals that since 2006 Lebanon has been without president and/or cabinet for nearly 7 out of 13 years. This is staggering. And although the Lebanese and analysts of Lebanon alike have become accustomed to that reality, one should pause and reflect on what it says about the state of politics and governance in the country.

Elites Versus the Vast Majority

The socioeconomic gap, always wide to begin with, between Lebanon's small circle of elites and the vast majority of the population has become even wider in the past several years. Concomitantly, the price that the average Lebanese have paid for the misdeeds of their sectarian/political overlords has risen even higher, as reflected in pauperization, rising levels of poverty and social marginality, declining standards of living, and further deterioration in service provision. Elites, however, have persisted in their destructive behavior as if none of this had been happening, and thus far they have paid no price for their increasingly malignant and costly behavior. This situation has created not just rising anger at those elites and at political parties but also broader alienation from political life and state institutions, and it has unfortunately accentuated the tendency toward communitarianism, thus feeding into a vicious cycle. The examples of civic movements' failure to develop into effective political organizations demonstrate the constraints placed by confessionalism and the patronage dispensed within it. The Lebanese are not citizens—they are patrons or clients, albeit some are struggling to attain the economic and political rights associated with citizenship.

Non-Sectarian or Anti-Sectarian Reform Movements

As discussed, since the 1990s (and even going back to the early 1970s) Lebanon has repeatedly seen the sudden emergence and equally rapid decline of cross-confessional initiatives and social movements that have urged the Lebanese to break away from the logic of sectarianism and confessionalism and imagine a new way of doing politics and conducting governmental affairs. These movements have emerged in response to different issues, ranging from the successive postponements of municipal elections in the 1990s to the "garbage crisis" of 2015. Some of these movements are best described as non-sectarian, whereas others have been more explicitly anti-sectarian and/or aimed at the politico-economic establishment. Still, although they have taken different forms and manifestations and their specific objectives have varied, these movements have tended to share the following recurrent features:

1) They have encouraged the Lebanese to think beyond the straitjacket of sectarian and other primordial (for example, regional or family-based) identities and sought to build a public sphere and develop a political discourse consistent with that objective.
2) They have exposed and denounced the dysfunctions associated with the confessional system and the abuses of the sectarian elites that control it.
3) They have implicitly or explicitly presented themselves as alternative or new political forces that offer the Lebanese a different model for conducting political life and for governance.
4) Their main and interconnected themes have included the need for the secularization of the state, non-sectarian governance, better public services, the reining in of systemic corruption, and greater accountability of politicians and government officials. Their broader objectives have been to urge the Lebanese to transform themselves from sectarian subjects into citizens, to generate momentum for the evolution of a neo-feudal system run through neo-patrimonial networks into a rights-based system, and to ensure greater respect for the basic dignity of the Lebanese (and/or to shelter Lebanese against the indignities inflicted upon them by a predatory elite).

These courageous efforts have taken place in an environment particularly inhospitable to their success:

1) The confessional system creates enormous obstacles to their ability to gain traction, as does widespread public skepticism about the possibility of changing that system.
2) Sectarian elites predictably have deployed their considerable resources and skills to foil these movements and the activists behind them through both clever maneuvering and heavy-handed tactics.
3) The prevalence of sectarian mindsets and reflexes—deliberately cultivated by elites and constantly reinforced by the array of social organizations that are tied to sectarian interest—has impeded civic movements' ability to gain traction.
4) Although most Lebanese are hurt by the system in their daily lives, ironically the very dysfunctions associated with that system make them more dependent on the clientelistic networks, safety nets, and protection that sectarian elites can provide. A related obstacle for civic activists is the existence of a risk-averse population, with memories of the 1975–90 civil war and the May 2008 clashes, that often prefers the devils they know to siding with inexperienced and untested activists who might not be able to handle a volatile situation.

Reform Movements No Match for the Politico-economic Establishment

Predictably, in such an environment, efforts to mobilize the public against the politico-economic establishment have typically proven to be no match for the sectarian/political elites and the very system against which they have been directed. It is nonetheless significant that non-sectarian or anti-sectarian movements have kept reemerging as consistently as they have been defeated. Repeated defeats, therefore, have not amounted to capitulation, and although thus far the many battles against confessional politics have been lost, the war against it continues, even if it is waged in the trenches by small groups of citizen-activists. There has been a learning curve, and more recent reform movements (such as You Stink and Beirut Madinati, discussed below) have deliberately sought to draw on the lessons of previous, unsuccessful reform efforts not just in Lebanon but in the broader region as well. Moreover, the ever-growing magnitude of the economic crisis and the incumbent elites' manifest inability to deal with it, ensure that political disaffection will continue to intensify, presumably stimulating growing numbers of potential participants in reform movements and organizations.

Since the so-called Cedar Revolution of 2005 (which ended up falling far short of a revolution), there have been numerous attempts by civil society actors to mobilize the Lebanese public against the confessional system, the sectarian PE associated with it, and the dysfunctions and bad governance they

produce. This section examines the nature, impact, and broader significance of efforts in that direction since the so-called You Stink movement in 2015.

During the summer of 2015, a dispute over commissions and profit shares among segments of the elites that dominate both government and economic life brought garbage collection to a halt. Within days, the streets of Beirut were awash in waste. Lebanon's "garbage crisis" became the trigger for a powerful protest movement for several reasons. First, unlike other manifestations of the deterioration in public services (such as power outages or disruption in water supply), this one was a source of particular indignity, as garbage began piling up in the streets of Beirut and its suburbs in the midst of summer, and both the stench and associated scenes became unbearable. Second, in the course of public discussions and media coverage of the issue, new evidence surfaced about the extent to which sectarian/political elites have used garbage collection and waste management to enrich themselves through the diversion of state resources into their private coffers. Micro studies of the impacts of resource extraction and distribution in specific sectors can and should be part of the follow-on sectoral studies. This was one step too far even to the Lebanese, who had grown resigned to the corruption of the ruling clique. A small group of activists organized a movement they called You Stink (the name clearly being addressed at the political class), which initiated protests in August and September 2015. The message was a simple one focused on government corruption, incompetence, and inaction.

How the You Stink Movement Fizzled

The movement, which mobilized other civil society groups, received significant attention from observers both in Lebanon and abroad and highlighted the extent of anger at the system. At the same time, it exposed the limits of people power in Lebanon. The largest crowds the movement attracted (in late August 2015) did not exceed 10,000 protesters. More importantly, the movement quickly fizzled. The reasons it did so deserve to be summarized here, as they are symptomatic of the limits of efforts at building horizontal, cross-sectarian solidarities that aim to operate as vehicles of democratic accountability in Lebanon:

1) Once the sectarian elites came to feel under attack, the police repressed demonstrations and made arrests. Leaders became the target of threats and carefully-orchestrated smear campaigns that denounced them as atheists, agents of foreign powers, and/or the spoiled offspring of the Beirut bourgeoisie. To drown out You Stink's message and prevent it from gaining coherence and traction, the elites established rival, "fake" protest groups.
2) The movement, which had briefly united secular and non-secular activists, liberals, and leftists and members of various sects and parties, quickly balkanized once it sought to articulate even the most rudimentary platform and define itself in relation to the government, existing parties, and the broader system.
3) The politico-economic establishment weathered the crisis without having to make a single concession (first and foremost a "concession on its concessions" from its lucrative involvement in the garbage collection and waste management business).

The Beirut Madinati Movement

Beirut Madinati picked up where You Stink left off. In the fall of 2015, a group of professionals, technocrats, and academics (many affiliated with the American University of Beirut [AUB]) organized a movement they called Beirut Madinati ("Beirut is my City"), to contest the municipal elections scheduled for May 2016. Beirut Madinati was made up overwhelmingly of well-educated, middle-class, and upper-middle-class secular activists from across the sectarian spectrum (though with overrepresentation of Christians and, to a lesser extent, Sunnis). Many were independents with no prior history of involvement in politics or elections, while others had been affiliated with one of Lebanon's political parties. In the weeks leading up to the elections, Beirut Madinati presented voters with a programmatic

alternative to program-devoid, personality- and sect-based establishment parties. Its 10-point platform focused squarely on issues of urban governance and its list included an eclectic mix of architects, professors, artists, entertainment professionals, and engineers, among others.

Foreign Actors and Regional and Global Dynamics

Lebanon's weak state has rendered its PE particularly vulnerable to penetration by external actors, while foreign meddling, in turn, has exacerbated the governance and developmental gaps associated with state fragility. Simultaneously, weak state capacities have considerably magnified the impact of regional rivalries and shocks. This is important because all Lebanese political actors are affected by the external environment and actors within it, so there are limits on their autonomy.

Since 2011, the two main and related regional conflicts that have had the greatest impact on Lebanon's PE have been the Syrian war and what has been termed the Middle East civil war (with the former being to a significant extent a manifestation of the latter). These two politico-military conflagrations and their effects on Lebanon are briefly discussed below. This section ends by explaining why, paradoxically, Lebanon today may be more insulated from the region's political contests than it was in the past. A more granular analysis of how Lebanon is impacted by the policies of the countries that most influence its PE will be taken up below.

Syria's Impact

The spillover into Lebanon of the regional war waged on Syrian soil since 2011 has taken many forms. The first has been the presence of a large Syrian refugee population. By 2014, nearly one million Syrians had fled to Lebanon, and two years later that figure had risen to 1.5 million (including refugees not registered by UN agencies). Since 2016, therefore, nearly one quarter of Lebanon's total population has been made up of Syrian refugees, and only a very small number of them have begun to return. Although the presence of Syrian refugees on Lebanese soil has boosted consumption and triggered foreign assistance that otherwise might not have materialized, its economic impact has been overwhelmingly negative, particularly in already economically depressed areas in the Beqaa Valley and the north, where refugees put additional strain on already scarce public resources in regions long neglected by the state.

The Impact of Syrian Refugees on Lebanon

Syria's violent conflict has had a direct impact on Lebanon, with more than one million Syrian refugees spilling over the border. Such a massive influx into Lebanon represented a demographic and economic shock for a small country of four million that has few natural resources and faces deteriorating public services while its government is burdened with debts in excess of about 150 percent of its GDP.

Even more seriously, the displacement of Syrians into Lebanese territory threatened the latter's fragile peace by polarizing its political divide along confessional lines in support of the different sides of the Syrian conflict and consequently shaping public attitudes toward hosting policies. This quarrel has prevented the Lebanese government from developing a national hosting strategy and denied the displaced migrants "refugee status." As a consequence, refugees have been scattered around the country, staying mostly in informal tented settlements (ITSs).

Responses to the Syrian refugees have varied according to political and confessional affiliations. Part of the population fears permanent settlement, replicating the Palestinian experience, increasing stress on resources, competition over jobs, and ultimately tilting the demographic and delicate confessional balance of power. Proponents, on the other hand, display sympathy and support, demanding economic and financial backing for refugees and host communities (particularly in economically deprived areas such as Akkar and Bekaa). International responses, especially from Europe and the United States, have been financially generous, pumping in an approximate annual $1–1.5 billion, mostly in humanitarian assistance. But questions are increasing about the sustainability of that support.

There are also relative benefits for the country from the influx of Syrian refugees. First, Lebanon has pumped in significant foreign cash donations to benefit the host communities, which helped create jobs around the refugee hosting sector (approximately 15,000). Second, border communities increased their cross-border activities (including illicit and smuggling operations such as oil, merchandise, and cash transfers). Third, the refugee situation has elevated international concerns over the country's stability and hosting capacity, playing no small role in the $11 billion in pledges made by the international communities during the CEDRE Conference.

The social impact of refugee flows has been considerable as well, sometimes resulting in friction between host communities and refugee populations. These tensions have stemmed from the confluence of several forces: the perception by host communities that refugees are competing with them for jobs and other resources, sectarian antagonisms between (overwhelmingly Sunni) refugees and (largely Shi`a or Christian) host communities, and/or broader cultural and class-based differences between Lebanese nationals and Syrian refugees.

Political and Sectarian Divisions Exacerbated

The Syrian crisis also exacerbated long-running political and sectarian divisions in the country, largely because different Lebanese actors took conflicting sides in the Syrian war and because some of them became directly involved in the fighting.

Hizballah's Direct Support to Bashar al-Assad

Hizballah, in particular, did not just support Bashar al-Assad's regime but also intervened militarily and massively on its side, playing a critical role in key battles (such as that for control of Qusayr in April 2013). The regime in Damascus likely would not have survived—let alone prevailed against Sunni rebels—without Hizballah's military backing. That predictably infuriated Sunnis, incensed at the view of Hizballah rushing to prop up an Alawite regime brutally suppressing a Sunni uprising, using methods that in many instances amounted to war crimes. Hizballah's bold, forceful intervention in Syria exacerbated longstanding Sunni anxieties about the assertiveness and ascendancy of Shi`a and pro-Iranian forces, not just in Lebanon but across the region. That was especially the case since that intervention took place amid growing perceptions of diminishing Sunni influence, both over Lebanese politics in general and in core decision-making arenas within the state in particular.

Sunni Youth Support for ISIS

Mirroring Hizballah's support for Bashar al-Assad, though on a much smaller scale and in far less consequential ways, some disenfranchised Sunni youth, particularly in and around Tripoli and Akkar, volunteered for the jihad against the Damascus regime. After crossing the border, they typically joined such groups as *Ahrar al-Sham*, the *Al Qaida*-affiliated *Jabhat al-Nusra* (which in 2016 renamed itself *Jabhat*

Fatah al-Sham), and the Islamic State of Iraq and al-Sham (ISIS, subsequently IS). Across Lebanon, but particularly in economically-deprived areas, Sunni anger at the events in Syria and at Hizballah's role in them created opportunities for VEOs to recruit and radicalize. Especially among Sunni youth living in areas featuring longstanding state neglect and high levels of unemployment and social marginality, the Syrian crisis facilitated the dissemination of increasingly crude sectarian narratives. It also encouraged the rise of "entrepreneurs of sectarianism" who openly tapped into sectarian feelings to carve out a space for themselves on the political scene, openly challenging the Sunni political and religious establishment (for example, Saad Hariri, the Future Movement, and official religious bodies such as Dar el-Fatwa) and accusing it of having been unable to protect Sunni interests and "dignity" in Lebanon.

Among Shi`a and Christians, these trends increased anxieties about the gravitational pull exercised by Salafi Jihadi ideas within the Sunni community. Apprehension that violence in Syria might spread over to Lebanon was compounded by the occasional use of north Lebanon as a rear base by Syrian rebels and by the presence in and around Tripoli of radical Salafi groups that dispatched fighters into Syria. It was further exacerbated by the proclamation of the so-called Islamic State (IS) in June 2014; by the large swaths of Syrian and Iraqi territory that fell under IS control; by the gruesome displays of violence in which the organization engaged; and by the battle of Arsal, which took place in August 2014 after *Jabhat al-Nusra* and ISIS fighters attacked checkpoints manned by the LAF and briefly seized control of the town.

Open Conflict in Divided Communities

In Lebanese communities divided along Sunni-Shi`a or Sunni-Alawite lines, the Syrian war sometimes led to a dangerous escalation of sectarian tensions, especially when Shi`a or Alawite expressed open support for the regime of Bashar al-Assad, and/or when Sunnis did the same for the Syrian rebels. In Tripoli, the Syrian war triggered renewed friction between two neighborhoods that have a long history of armed clashes: the poor Alawite-dominated Jabal Mohsen (JM) neighborhood, which constitutes an Alawite enclave in a predominantly Sunni city, and the adjacent, equally impoverished Bab el-Tebbaneh (BeT) district, which overlooks JM. Street battles between BeT and JM have been a regular feature of life in Tripoli for over three decades, but tensions had subsided somewhat since the 1990s. Largely due to the different sides that these two economically-deprived neighborhoods supported in the Syrian civil war, and because of the sudden infusion of charged sectarian rhetoric in them, the war in Syria triggered renewed episodes of armed clashes between them.

In all the ways examined above, the Syrian conflict thus revived or intensified old existential fears of the sectarian other, particularly along the Sunni-Shi`a divide. It increased the tendency to look upon sectarian rivals as pawns or agents of foreign powers, actively plotting with them to destroy Lebanon and/or to marginalize or dominate one's sect. Finally, because the national debate about the Syrian tragedy ultimately was about how Lebanon should relate to its neighbor and the regime in Damascus, the war next door also rekindled divisive issues about the Lebanese-Syrian political relationship. That landmine of a topic, which had become less salient in public and political discourse since Syria's expulsion from Lebanon in April 2005 and especially since the May 2008 Doha Agreement, came back in full force from 2012 onward, once again polarizing the Lebanese around it.

Lebanon and the Middle East Civil War (MECW)

Long before the wars in Syria (since 2011) and Yemen (since 2015), Lebanon was the main venue in the Arab world for proxy wars fought on its soil between regional and even global competitors. The present version of such wars, sometimes referred to as the Middle East civil war, began to take shape in the wake of the 2011 Arab upheavals. It has consisted of several overlapping struggles:

- Sunni regimes and organizations against Iranian-backed Shi`a movements.

- Sunni governments against one another (for example, Qatar and Turkey against Saudi Arabia, the UAE, Egypt, and Jordan).
- Sunni governments (primarily Saudi Arabia, the UAE, and Egypt) determined to destroy mainstream political Islam against Sunni governments (Qatar, Turkey) that support various strands of it.
- Violent Sunni Islamists (Salafis jihadis) against more moderate Islamists.
- Salafi jihadis against Sunni regimes, Iranian-backed movements, and Shi`a more generally.

The Middle East Civil War (MECW) has been hugely debilitating for the region, including Lebanon. Its economic cost has been in the trillions of dollars, while on the political front it has rendered impossible, ineffective, or irrelevant any effort at collective action by Arab states, again including Lebanon. It has provided justification for intensifying authoritarian rule in Algeria, Bahrain, Egypt, Kuwait, Morocco, Saudi Arabia, Sudan, and the UAE. And it has been a major contributing factor to civil wars and partial or total disintegration in Libya and Yemen.

In Lebanon, the MECW's direct and indirect consequences can be summarized as follows:

1) The Syrian conflict, which as noted earlier has been enormously disruptive of Lebanon's precarious sectarian, political, and economic equilibria, was in many ways but one expression of that broader war.
2) Due to its massive economic cost, the considerable diversion of energy and other resources it has entailed, and the divisions it created or accentuated within the region, the MECW has impeded reconstruction efforts in Lebanon.[24]
3) The MECW has also fragmented the Gulf Cooperation Council (GCC) and led to a sharp deterioration in relations among its key member states, thereby undermining the collective political, economic, and military capacities of the most dynamic MENA sub-region. That development, in turn, has impacted Lebanon indirectly but in powerful ways, due to Lebanon's heavy political and economic reliance on Gulf states, particularly since the 1990s.
4) For countries outside the MENA, the MECW has made the Arab world too risky a partner for most types of sustained economic relationships, other than the extraction of hydrocarbons and arms sales. Consequently, foreign direct investment (FDI) across the region and in most sectors has been in steady decline for several years. Lebanon has been affected by that phenomenon both directly and especially indirectly (due to its dependence on remittances and capital or real estate investments in it by other countries in the region, especially Gulf states). One of the reasons Lebanon still bears the economic scars of its civil war—to say nothing of the political ones—is that it has continued to serve as a proxy battleground.

In Lebanon, the MECW was fought largely along the divide between two preexisting coalitions, known respectively as March 8 and March 14.[25] The Hizballah-led March 8 bloc consisted of forces allied with Iran, the Syrian regime, and Russia. It was pitted against the March 14 bloc, which comprised politicians and political parties allied with Saudi Arabia, the UAE, the United States, and the EU. From 2011 through 2016, the MECW further widened the chasm between these two domestic coalitions.

[24] That has been true as well of Iraq, another country that experienced its own civil war prior to the outbreak of the MECW.

[25] For a more detailed discussion of these two blocs and of the extent to which they still provide a useful lens for analyzing Lebanese politics, please refer to Section Four.

The New Phase of the MECW

Since 2017, the MECW has entered a new phase as a result of three sets of interrelated developments. The first has been the near-total defeat of region-wide organizational manifestations of violent Sunni Islamist extremism in general and the collapse of IS's territorial control in both Iraq and Syria in particular. The second has been the consolidation of power by Bashar al Assad's government in Syria. The third has been the weakening of Saudi Arabia's regional and global position, as reflected in:

a) The political and military defeat of the forces it had supported in the Syrian civil war.
b) Its inability (and that of its Emirati allies) to defeat the Iranian-backed Houthis in Yemen, despite its massive financial investments in that war since 2015.
c) Its failure to subdue Qatar in 2016–17 despite its all-out economic and diplomatic effort in that direction.[26]
d) The global backlash, including in the United States, against its killing of journalist Jamal Khashoggi.

Russian Influence/American Disengagement

It is hard to interpret this confluence of developments other than as a significant victory for Iran, Iran-backed allies (most prominently Hizballah and Bashar al-Assad's regime), and Russia, which, largely through its involvement in the Syrian conflict, was able to regain over events in the Levant a position of global influence it had not enjoyed since the days of the Soviet Union. That has become even more true in the wake of President Trump's December 2018 announcement that all American forces would be withdrawn from Syria. That decision was widely interpreted in the region (and elsewhere) as yet another indication of American disengagement from regional affairs, a process that began under the Obama administration.

Manifestations of Regional Reconfigurations

In Lebanon proper, the regional reconfigurations that have been examined translate first and foremost into balance-of-power shifts that benefit Hizballah and Hizballah-allied forces. Following sections will explore the manifestations and implications of those shifts and how they are for the most part accentuated, but also in other ways partially mitigated, by domestic power realignments. But three key points may be underscored briefly here.

Iran's Qualified Victory

The victory of Iran and its allies must be qualified. The decision by the Trump Administration to withdraw from the Iran nuclear deal in May 2018, coupled with the re-imposition of U.S.-coordinated sanctions on Iran and the tightening of existing ones on Hizballah, has created significant problems for Iran, especially when considered against that country's already dire economic situation and the unpopularity of its regime at home.

Iran/Hizballah Influence Now Decisive

1) In Lebanon, Iran and its allies certainly will seek to reap the benefits of their recent military and political successes. Whenever their core interests are at stake, they will hold the line and either prevail or enable an unsatisfactory stalemate to endure. Their influence on the formation, operations, and survival of any government in Beirut have become decisive, as was reflected most recently in the composition of the government formed in January 2019. At the same time, they are

[26] One certainly might argue that merely by not having been soundly defeated by Saudi Arabia, both Qatar and the Houthis scored a victory.

unlikely to "push the envelope" and be too provocative in displaying their power in Lebanon. That is for several reasons, foremost among which is their determination not to endanger their significant gains but to use them instead to consolidate their position and lay the foundation for subsequent advances. Iran and Hizballah know full well that any attempt to assert themselves too forcefully on the Lebanese stage likely would trigger significant counter-moves by powerful rivals, including Israel, and that it even might prompt Saudi Arabia and others to re-engage on the Lebanese theater. It also knows that if it were openly to tighten its grip over Lebanon's government, it would place it at risk of losing crucial foreign support and be diplomatically and economically isolated.

Iran Plays the Long Game

One of the arguments running through this document is that Iran plays the long game. Indeed, for several decades now, it has been the only country to do so on the basis of a coherent and sustained regional strategy. That being the case, and because presumably the regime in Tehran is both confident of the strength of its position in Lebanon and aware of how it could be endangered by adventurism, it is likely to continue to use its considerable clout in the country in carefully calibrated ways.

2) For the time being as well, neither Israel nor Saudi Arabia seem particularly eager to confront Iran and/or Hizballah on Lebanese soil. In particular, mutual deterrence between Israel and Iran/Hizballah seems acceptable to both sides. Both parties appear to have concluded that the risks associated with escalation are higher than those tied to accepting an imperfect status quo.[27]

War Weariness/Continuation of Proxy Political Struggles

As far as Arab actors are concerned, a war weariness seems to be settling across the region. Encouraged by the woeful state of the MENA economy, this fatigue also pleads against the likelihood of yet another major political and/or military confrontation being waged on Lebanese soil. More likely, then, is a continuation of shadowy proxy political struggles, intense enough to thwart effective governance and accentuate the dysfunctions associated with internal Lebanese dynamics but not so severe as to trigger a costly showdown. In that respect, the current state of the MECW feeds into the broader trend of Lebanon's declining regional relevance.

Lebanon's Receding Regional Significance

Lebanon no longer occupies the centrality it once did in the region's political struggles, as reflected in declining political and economic investments in it by external powers, especially the Gulf states. This process has been at work at least since the onset of the Arab upheavals, and it has accelerated markedly since 2016. Saudi Arabia, the UAE, and other Arab Gulf countries have become far less interested in Lebanon than was the case historically. This trend reflects, in part, their perception that their political investments in Lebanon have not paid off (or, worse, have benefited Iran), that the country has fallen into the Iranian sphere of influence, and that it is unrealistic to expect it to escape from that situation in any meaningful way. But there is something more profound at work as well: the new generation of Gulf rulers, embodied by Mohammed bin Salman (MBS) and Muhammed bin Zayed (MBZ)—the crown princes of, respectively, Saudi Arabia and the UAE—have global ambitions and horizons; they are far more interested in economic relations with and financial investments in the United States, Asia, and Europe than, as was the case of their forefathers, in Lebanon. As one interviewee put it, to them

[27] One nonetheless must remain aware of the always present risk that tensions between the two sides could escalate and draw Lebanon into yet another destructive war, particularly perhaps as Israel readies itself for elections.

Lebanon is a childhood memory; it is where their parents used to vacation in the summer. They have no particular attachment to the country, do not see much potential in it, and do not view their and their countries' political and economic interests to be tied to it in any meaningful way. To them, Lebanon is at best a regional backwater, at worst an Iranian outpost, and it is more likely to be a cause of diverted energy and resources than a target of fruitful investment. Other regional and global players, including the EU and the United States, have shown diminishing if continued political interest in Lebanon.[28]

Lebanon will still be subjected to foreign interference, however. Syria is bound to want to reassert influence, and Israel will remain determined that Syrian and Hizballah military and political capacities are held in check. Russia may conclude that to consolidate its position in Syria, for which it may have to counter Iranian ambitions, it must make limited diplomatic and political investments in Lebanon. And if the United States is confronted with what it considers aggressive Iranian behavior, including of a nature that might pose a threat to Israel, it may decide to draw some lines in Lebanese sands. But the foreign interventions that might ensue would fall under the rubric of business as usual for Lebanon. They would not signal efforts to restructure the Lebanese polity or radically alter internal Lebanese political equations. And they would not entail looking upon Lebanon as a critical regional battlefield.

Thus, although Lebanon is likely never to be left alone to manage its own fate, it seems today far more sheltered from heavily disruptive foreign interventions than perhaps at any point since the 1940s. A region-wide political storm is not likely to explode over Lebanon in the near future, leaving it instead to continue to struggle with the effects of previous such storms.

Consequences of Declining Foreign Interest in Lebanon

Declining foreign interest in Lebanon constitutes mixed news. On the one hand, it provides the country's sectarian/political elites with greater decision-making autonomy and more room to maneuver (though even that needs to be qualified, considering the combination of Hizballah's dominance and its close ties to Tehran). On the other hand, the fact that Lebanese elites increasingly are left to their own devices also means that, unlike on many occasions in the past 30 years, they cannot count on an external intervention to break the gridlock created by their inability to reach agreements on their own.[29] Furthermore, the growing perception that Lebanon is increasingly peripheral to the region's key political and economic struggles also is translating into declining external rents. That situation, which is likely only to intensify in the years ahead, will make it more difficult for Lebanese elites to access the resources

---

[28] It is hard to imagine an American president making statements about Lebanon similar to those issued by President Reagan in the aftermath of the attack on the Marine barracks in October 1983. These statements included the following: "We have vital interests in Lebanon. And our actions in Lebanon are in the cause of world peace"; "[The presence of American troops] is making it possible for reason to triumph over the forces of violence, hatred, and intimidation"; and, as the president sought to justify maintaining U.S. troops in that small, peripheral country, "If we are to be secure in our homes and in the world, we must stand against those who threaten us [in Lebanon]."

[29] The October 1989 Ta'if Agreement was negotiated under Saudi auspices. Under the Syrian occupation (1990–2005), Damascus operated as the ultimate regulator of Lebanese politics, and intra-Lebanese disagreements on issues such as the budget (in which the Syrian regime did not have a particular interest) often were resolved only after Syria imposed a decision on the various Lebanese actors involved. Similarly, the 2008 crisis was resolved in an agreement signed in Doha, under Qatari auspices, while between 2000 and 2015 or so the ability of Saudi Arabia and Syria to reach tacit understandings or compromises over Lebanese affairs, and their ability to ensure that that respective proxies would operate according to those understandings, often were critical to stabilizing the situation in Lebanon.

they need to maintain their patronage networks and, beyond that, for Lebanon's PE to sustain itself. Lebanon may be condemned to suffer from relative neglect by external actors just as much as it was hurt by their machinations in the past.

Recent and Ongoing Geopolitical/Regional Dynamics

Lebanon's historic and contemporary state fragility render its PE particularly vulnerable to penetration by external actors and events. It has long been the venue for proxy wars fought on its soil between regional and even global competitors. The present version of such wars began to take shape in the wake of the 2011 Arab Spring, when the MECW broke out. This civil war has already fragmented the Gulf Cooperation Council (GCC) and relations among its key member states, thereby undermining the collective political, economic, and military capacities of the MENA's most dynamic sub-region. It has resulted in civil wars and partial or total disintegration in Libya, Syria, and Yemen while preventing the effective political and economic rebuilding of Lebanon and Iraq. It has provided justification for intensifying authoritarian rule in Algeria, Bahrain, Egypt, Kuwait, Morocco, Saudi Arabia, Sudan, and the United Arab Emirates. Its economic cost is in the trillions of dollars, and its political cost is to render impossible or irrelevant any effective collective, institutionally based behavior across the region or in any of its nation states. The MECW makes the region too risky a partner for most types of sustained economic relationships, other than extraction of hydrocarbons and selling of arms, so FDI in most sectors has declined steadily for several years.

Recent Changes Shaping the Political Economy

Recent changes, or pressures on, longstanding behavior patterns of key domestic and foreign actors; relevant regional and international dynamics; and attendant political, economic, and governance outcomes, the analysis now zooms in on outstanding recent changes in those areas. The discussion highlights modifications in power relationships, political alliances, and the rules (formal and informal) that shape interaction among key Lebanese players. The discussion also addresses consequential alterations in regional and global actors' strategies toward Lebanon, how they have impacted the country's PE, and how they are likely to shape it even further.

Domestic Realignments and Power Shifts

The most significant recent or ongoing changes in domestic political dynamics and in the balance of power and coalitions among domestic actors can be summarized as follows:

- Hizballah's ascendancy.
- The weakening of Saad Hariri and his Future Movement (FM).
- The heightened salience of sectarianism in political life.
- Fiercer intra-sectarian political competition (except among Shi`a).
- Further political fragmentation and increasingly opportunistic and fluid alliances.
- The receding of anti-sectarian reform movements.
- The diminishing salience of the March 8–March 14 cleavage.

These interrelated trends feed into each other and create a situation in which political life has become even more devoid than before of meaningful debate about policies, programs, or the daunting social and economic issues Lebanon faces. Instead, it is increasingly a contest both among sects and for personal advantage within sects against a backdrop in which one organization (Hizballah) and its regional patron (Iran) exercises a level of influence that no single actor and its regional sponsor previously enjoyed.

Hizballah Ascendant

There is much evidence, summarized below, to support the consensus among both Lebanese and analysts of Lebanon that Hizballah has become significantly stronger, politically as well as militarily, in the past several years. Still, arguments to that effect at times understate the extent to which Hizballah has hovered over the Lebanese political arena since the mid-2000s. After all, in 2005–06, the organization physically eliminated (alone and/or in concert with Syria) powerful politicians who stood in its way, beginning with the late PM Rafik Hariri himself. It is widely believed to have orchestrated or played a critical role in the string of assassinations of influential public figures that marked that period. Ever since 2005 as well, no government has been able to be formed or remain in office without Hizballah's consent. Between December 2005 and May 2008, as Hizballah sought to secure veto power on critical government decisions (through the March 8 alliance being granted a so-called "blocking third" in the composition of the cabinet), the Shi`a party-cum-militia effectively brought the country to a halt by paralyzing its institutions. And when at the urging of their regional and international sponsors forces affiliated with the March 14 bloc—especially Hariri's FM and PM Fuad Siniora himself—sought to defy Hizballah, the latter routed the militias aligned against it in a matter of hours on May 7, 2008.

After the May 23, 2008, Doha Agreement brought renewed political stability to Lebanon, Hizballah retained its dominance and no domestic political actors could mount a credible military or political challenge to it, no matter the election results. Thus, despite the victory of the March 14 bloc in the June 2009 elections, Hizballah blocked the formation of the first Saad Hariri government for six months until the PM-designate acceded to its demands. And when on January 11, 2011, Hizballah decided to bring down that same cabinet while the PM was on an official visit to the United States, it did so through the collective resignation of all March 8 ministers. Subsequent governments were increasingly influenced by Hizballah, despite the organization's limited formal presence in them, and in 2016 Hizballah imposed its preferred candidate, Michel Aoun, as president, following a standoff that lasted 546 days.

But although Hizballah's disproportionate influence over the government and the political system is not new, it has grown even more since Aoun's election. One need not accept this premise to note that Hizballah has become steadily more entrenched, both in society at large and in the state, including the army and the security services. Individuals loyal to Hizballah occupy strategic positions within all key ministries, where they operate as the party's eyes and ears and make sure that that those formally tasked with making decisions do not act in ways that might undermine Hizballah's core interests.

As the most cohesive political force in the country, Hizballah also has benefited from the political landscape's greater fragmentation, discussed further below. Whereas the Sunni, Christian, and to a lesser extent Druze communities, have become more divided politically,[30] Hizballah retains a solid grip over the Shi`a (its electoral strength notwithstanding, Amal enjoys no real autonomy or independence of action from Hizballah). Hizballah's continued popularity with its Shi`a base means that it remains the hegemonic force within the country's largest sect (Syrian and Palestinian refugees not included).[31]

---

[30] As discussed below, Christians' political allegiances are largely split between the FPM and the LF, with the Marada Party and the Kata'ib also playing a significant role in Christian politics. Among Sunnis, Hariri's FM faces increasing competition from other voices, including pro-Syrian Sunni politicians, and the party itself has experienced growing internal dissent and fragmentation. Druze leader Walid Jumblatt, too, faces stiffer political competition among his co-religionists.

[31] The size of the Shi`a community is estimated at approximately 35 percent of the Lebanese population—that is, nearly as much as all Christian sects combined.

Although Hizballah's image and standing among non-Shi`a, especially among Sunnis, suffered significantly during the first few years after its decision to intervene militarily in the Syrian conflict (in clear violation of the GoL's official dissociation policy), the rise of ISIS and then IS in 2014–15 partially mitigated the damage, enabling Hizballah to cast itself as Lebanon's leading force in the existential fight against jihadi extremism. After it cooperated with the LAF in re-establishing GoL control over the city of Arsal in August 2014, Hizballah presented itself as a guarantor of safety and stability in Lebanon, not just for Shi`a but for Christians, other minorities, and even moderate Sunnis. It was reasonably successful in that effort, especially in the aftermath of the Yazedi tragedy and broader persecution and exodus of Christians in Iraq in 2015–16.

The party was further buoyed by the critical role it played in ensuring the military victory of Bashar al-Assad's regime in Syria. Feeling empowered and more confident, it tightened its grip on Lebanon, arguably shifting its position from merely trying to protect the "state within the state" it had long created to asserting itself more forcefully over the Lebanese state itself and indeed over the entire country.

Most recently, Hizballah's self-confidence and political clout received a further boost from the organization's strong performance in the May 2018 parliamentary elections, during which the (Hizballah-dominated) Hizballah-Amal alliance won 26 of the 27 seats set aside for Shi`a across the country. The mere 13 seats that Hizballah itself received is a deceptive number, since when the seats won by Hizballah's allies (all of whom enjoy very limited autonomy relative to it) are added to that number, the latter rises to at least 68 out of parliament's 128 seats. Furthermore, Hizballah proved more successful than in previous elections at expanding its base of support beyond the Shi`a community to include independent Sunni, Christian, and Druze MPs.

However, Hizballah's influence is not without constraints. Three such limitations deserve to be noted. First, as discussed further below, the U.S. Government (USG) recently tightened preexisting financial sanctions against Hizballah. Hizballah continues to face strong opposition from both the United States and Israel and remains aware that it cannot cross certain red lines for fear of increasing the incentives for both countries to act more decisively against it. Second, Hizballah also knows that it cannot afford to antagonize the international community, the support of which it needs to both finance the GoL and facilitate the return to Syria of at least a significant percentage of the (mostly Sunni) Syrian refugees currently residing in Lebanon. Finally, Hizballah is also aware of the strong resentment that its overarching influence and involvement on behalf of Iran in the Syrian, Iraqi, and Yemeni theaters have created within the Sunni, Christian, and Druze communities. It knows that, outside the Shi`a community it is more feared than respected and that large majorities view it and its leader Hassan Nasrallah unfavorably at best, and that, too, constrains its margin to maneuver.

The Weakening of Saad Hariri and His Future Movement

While Hizballah has become much stronger, the dominant political force within the March 14 coalition, Hariri's FM, and Saad Hariri himself are politically much weaker than a decade or even five years ago. This phenomenon can be traced back to a confluence of several developments.

When in January 2011 Hariri was forced to resign as PM, he left the country and remained abroad for much of the following three years. That situation resulted in further decay of his patronage networks, a phenomenon that was accentuated by his growing financial difficulties.[32] Hariri's lengthy stays abroad also discredited him in the eyes of his Sunni base, which felt abandoned by their community's

[32] Saudi Oger, the Hariri family's construction company, ultimately filed for bankruptcy and closed in July 2017.

preeminent leader at a time when Hizballah seemed ascendant and the Sunni-Shi`a conflict was intensifying across the region. Deep dissatisfaction with Hariri's perceived failure to stand up for Sunni interests when many in his community felt under siege compounded earlier discontent generated by the political compromises he was viewed as having made to Hizballah during this first tenure as PM (May 2009–January 2011).

From 2011 onward, Saudi Arabia began to withdraw its patronage of Hariri after nearly two decades of staunch and massive financial and political support of him and his father. The loss of Saudi support weakened Hariri's domestic clout because of the broader, powerful message it sent. The decline in Saudi support for Hariri accelerated after the ascent to the throne of King Salman in January 2015, especially since the kingdom's de facto ruler, MBS, favored a far more aggressive regional posture against Iran and frowned upon Hariri's earlier policy of accommodation with Hizballah, which the late King Abdallah had reluctantly condoned.

After Hariri returned to Lebanon in August 2014, he found himself in a much weaker position than when he had left, three-and-a-half years earlier. Aware of his new vulnerability, other Sunni politicians became more assertive in openly challenging him as the preeminent Sunni leader. After Hariri endorsed first Suleimain Franjiyeh and then Michel Aoun for the presidency, he even alienated many within his own FM. Among them was Justice Minister and former Internal Security Forces (ISF) leader Ashraf Rifi, who resigned from the government to protest what he denounced as Hariri's appeasement of Hizballah. Rifi's public criticism of Hariri was significant as it came from a pillar of the country's security establishment and because the ISF has long been viewed as a Sunni stronghold within the security sector. Rifi, who hails from Tripoli and enjoys significant support within the FM, proceeded to announce that he would challenge Hariri's list in Tripoli in the municipal elections scheduled for May 2016.

When those elections were held, Hariri fared poorly in them. Although his "Beirutis" list won in the capital, his joint list in Tripoli with local heavyweights, billionaires, and former PMs Najib Mikati and Mohammad Safadi did poorly, receiving only 6 of the city's 24 municipal seats. The challengers' list (Tripoli's Choice), headed by Rifi, won 18 seats. Analysts interpreted those results as the biggest upset in the elections nationwide and as having dealt a fatal blow to Hariri's standing, especially since he had lost 32 percent of the vote to the Beirut Madinati list in the capital.

A little over a year later, Hariri was humiliated by his forced resignation at the hands of MBS and by the conditions under which it was announced. Although the strange saga of Hariri's de facto detention in Riyadh in November 2017 led Lebanese of all stripes to rally behind their beleaguered PM and prompted a surge of sympathy and public support for him, including among longstanding rivals, it also dramatically exposed his political weakness.

The May 2018 parliamentary elections dealt a further setback to Hariri and his FM, with the outgoing PM and his party emerging as the biggest losers from the election. The parliamentary bloc controlled by the FM shrunk from 34 to 21 seats. Although the FM had been expected to lose seats, the scope of its defeat still struck observers. To some extent, as Hariri and his supporters were quick to claim, that poor showing reflected the new electoral law, which had made it more difficult for the FM to perform as strongly in communally mixed districts as it had in the past. But other forces also had played a key role. For one, Hariri had faced a lack of campaign cash, due to both his own parlous financial situation and Saudi disengagement. SA's overt disinterest in the race had had broader implications as well, underscoring Hariri's political isolation and lack of a regional sponsor at the very moment when Hizballah and its allies were buoyed by developments in Syria, the standoff in Yemen, and the global outcry against SA in the wake of Khashoggi's murder.

Most damaging to Hariri was evidence that he had been unable to mobilize the Sunni base and unite his community behind him, including in his former stronghold of Beirut. It was striking that the turnout in Sunni areas was substantially lower than the national average. In Beirut's first district, which has a majority Sunni population, a mere 32 percent of registered voters cast their votes, as opposed to 41 percent in the 2009 parliamentary election.

The election of several of Hariri's pro-Syrian Sunni rivals amounted to a particularly significant blow to Hariri. It also paved the way for the demand by Hizballah Secretary General (SG) Hassan Nasrallah in November 2018 that a pro-Syrian Sunni be given a portfolio in Hariri's government and that he come out of Hariri's share of ministers. Just as it seemed that a deal had been reached that would enable a cabinet finally to be appointed, that demand led to a new round of political squabbling and further delays in government formation. When the government was finally formed at the end of January, it included the pro-Syrian Sunni backed by Hizballah.

Heightened Confessionalization

The past several years have seen an increase in the role that sectarian identities play in political life. In that regard, as in several related ones, Lebanon has experienced political backsliding, not political progress, and it has moved farther away from the objective of progressive deconfessionalization set in the October 1989 Ta'if Agreement almost 30 years ago.

The greater sectarianization of political life can be ascribed to a confluence of regional and domestic forces. Relevant regional developments include the tragedy in Syria; the broader Sunni-Shi`a regional war; the rise of IS, the gruesome violence associated with it, and the existential fears tied to Sunni violent extremism that it exacerbated; and the experience of Yazidis and Christians in Iraq, whose fate had a particularly traumatic impact on Lebanese Christians.

Parliamentary Election Law Entrenches Sectarian Politics

Domestic factors include the parliamentary elections law that Lebanon adopted in June 2017, which divides the country into 15 electoral districts, most of which have a clear confessional (Christian or Muslim) and even sectarian majority.[33] Under it, for instance, 51 of the 64 Christian members of parliament (MPs) now are elected in Christian-majority districts. The law therefore diminishes politicians' incentives to appeal to voters outside their own community or sect. Instead, it further entrenches sectarian politics by incentivizing politicians to form confessionally homogeneous lists that deliberately target the sectarian majority in any given district. Under that system, the majority community or sect in any given district ends up choosing those who will win the seats set aside not just for that community or sect but also for the minority ones. For example, in a Sunni-majority district where Sunnis are allotted five MPs and Christians and Shi`a one MP each, the Sunni majority exercises disproportionate influence over the identity of all seven MPs, and Sunni candidates therefore are incentivized to campaign in ways that will resonate with Sunni voters, who make up a majority of the electorate. The same logic applies to Christian- or Shi`a-dominated districts.

This new system does result in a legislature that, in particular, is more reflective of grassroots political leanings among Christians than was the case in all prior elections since the end of the civil war. MPs in

[33] For instance, Beirut is divided into two districts: Beirut I, which is predominantly Muslim, and Beirut II, the population of which is mostly Christian. Beirut I is represented by 11 MPs, and Beirut II by 8. The 15 electoral constituencies delineated by the law are uneven in size, the number of voters in them, and the number of seats allotted to each. Some of them consist of a single *qada* (pl. *aqdiyat*), others comprise several *aqdiyat,* and a few coincide with a single *muhafaza* (pl. *muhafazat*). *Aqdiyat* are the smallest administrative districts in Lebanon, and *muhafazat* the largest ones. Lebanon is divided into 8 *muhafazat* and 26 *aqdiyat*.

previous parliaments elected after the first post-Ta'if election in 1992 had been chosen through a highly gerrymandered system (developed under Syrian tutelage, but largely maintained after 2005) in which the Christian electorate had been deliberately fragmented across electoral districts, creating a situation in which Muslim voters exercised disproportionate influence over the identity and political orientation of Christian MPs. That situation now has been largely corrected, and for the first time since 1992 Christian MPs in 2018 were selected predominantly by Christian voters. But this has come at the heavy price of increasing the role of sectarian identities and affiliations in political life. As discussed below, it also has turned elections increasingly into intra-sectarian contests and in the process increased the potential for candidates to engage in sectarian outbidding.

Intensified Intra-Sectarian Competition

The greater salience of sectarian affiliations and discourses in political life has gone hand in hand with intensified political competition within sects (except in the Shi`a community). Among Maronites, the race to succeed President Aoun, who turned 84 in February 2019 and whose term expires in October 2022, has begun, and there already is fierce competition among his three main potential successors: the Free Patriotic Movement's (FPM's) Gebran Bassil, the Lebanese Forces' (LF) Samir Geagea, and Marada Party leader Suleiman Franjiyeh. The rivalry between the FPM and the LF also has heated up in the wake of the latter's strong showing in the May 2018 parliamentary elections. Geagea's party nearly doubled its representation in the legislature (from 8 to 15 seats) and it now enjoys a stronger hand in its competition with the FPM (the parliamentary bloc of which controls 29 seats).[34]

Hariri Challenged

Meanwhile, as discussed above, Hariri's position as the preeminent Sunni leader has been increasingly challenged by established and new political forces alike; by both pro- and anti-Syrian elements; and within Hariri's own FM, which has become far less coherent as a political force. For his part, anti-Syrian Druze leader Walid Jumblatt faces greater competition from his old archrival in the Druze community, March 8-affiliated Talal Arslan, who has been bolstered by Bashar al-Assad's victory next door and by what most analysts view as the inevitability of a normalization of ties between Lebanon and Syria. Druze politician Wiam Wahhab also has been increasingly a thorn in Jumblatt's side. A former environment minister, leader of the Tawhid (Arab Unification) Party, and *agent provocateur* known for his extreme pro-Syrian views, Wahhab in the past two years has been repeatedly activated by Damascus and Hizballah to place Jumblatt (and his ally Hariri) on the defensive, including in Jumblatt's Chouf stronghold (which also constitutes Wahhab's base).[35]

Jumblatt Weakened

Overall, Jumblatt's position among Druze has eroded, though not as much as Hariri's among Sunnis. During the 2018 parliamentary elections, Jumblatt faced relentless and often highly personal political attacks from Arslan, and the war of words between the two escalated to acrimonious exchanges on Twitter and other social media. By the time the election was over, the parliamentary bloc of Jumblatt's Progressive Socialist Party (PSP) had shrunk by two seats and was down to nine MPs. As importantly, the so-called new political forces unaffiliated with any of the major political parties and claiming non-sectarian identities had done best in Jumblatt's stronghold of Chouf-Aley, where they won nearly 30,000

[34] The Kata'ib lost two seats and its presence in the legislature is now limited to three MPs.

[35] In late 2018, Wahhab insulted Saad Hariri and the memory of his father. Hariri supporters filed a defamation suit against him, and the state prosecutor accused him of inflaming sectarian tensions. When the ISF arrived in Wahhab's home village to bring him in for questioning, a firefight erupted and one of Wahhab's bodyguards was killed. In protest, Wahhab's supporters staged public demonstrations across the Chuf, the Druze heartland, and Hizballah was quick to signal his support for Wahhab by sending a delegation to attend his bodyguard's funeral.

votes. Had these forces not split their votes by running on two separate lists, they could have posed a more significant threat to the Druze leader.

Political Fragmentation and Opportunistic Alliance

Recent years have seen further fragmentation of the political landscape. The March 14 bloc, in particular, has lost much of the limited internal cohesion it once had. Political alliances increasingly reflect short-term opportunistic considerations and personal ambitions as opposed to shared policy and/or political stances. Although Lebanese politics was never known for being driven by ideology or competing programs of government, it has become even more shaped by political expediency and the quest for short-term personal or factional advantage. In that regard, too, the past few years have witnessed significant political regression. Revealingly, during the 2018 parliamentary elections, Hezbollah and Amal were the only two parties that formed joint electoral lists across the country's 15 electoral districts. All other major political forces found themselves allied in some constituencies but competing elsewhere. In several districts, parties that seemed natural allies given their history of political alignments and/or stated objectives were running against each other only due to personal rivalries, while in other districts longstanding rivals formed joint lists.

Greater political fragmentation and even more opportunistic alliances result not only from the strictly internal political factors identified, including the break-up of the two dominant political blocs and the new electoral law, but also from two contextual factors. The first is increasing economic hardship, which causes political elites to struggle ever more intensely for resources to sustain their patronage networks. Growing pressure on political elites resulting from the economic crisis and their inability to cope with it has considerably delegitimized them and the entire political system. The political elite is now more vulnerable to challenges welling up from dissatisfied constituents. It has responded not by seeking collectively to deal with the causes of the economic crisis but by fragmenting in the search for spoils by individual politicians anxious to sustain their political bases.

The second cause of growing fragmentation is the more complex regional and global environments, coupled with less polarized interventions into Lebanese politics by external actors. At first glance this seems counterintuitive because antagonisms between Iran and its allies on the one hand and Saudi Arabia and its allies on the other have intensified. However, neither Iran nor Saudi Arabia is investing as heavily in Lebanon as formerly. Iran is preoccupied elsewhere, chiefly in Syria and Iraq, its material resources are stretched, and its core interest in Lebanon is just to ensure that Hizballah has sufficient capacity to deter possible Israeli aggression against Iran. Saudi Arabia's capacities are overstretched as a result of other entanglements, such as in Yemen, Iraq, and its conflict with Qatar, while its now perennial budget deficits preclude overseas extravagance. U.S. policy toward the entire region is ambiguous and half-hearted, while toward Lebanon it seems to have placed most of its chips on the LAF and their willingness to ally with the United States in the event of a crisis, or at least their ability to save the nation from dissolving into chaos. Russia is seeking to enhance its influence on the margins but is yet to become a central player in Lebanon. In sum, Lebanon's reduced salience among the formerly key external actors and Russia's still minimal influence provide Lebanese politicians with more room to maneuver as they are less tethered to a strong, external backer.

The Receding of the Anti-Sectarian Reform Movement

During the 2018 parliamentary elections, the hopes that had been placed in the anti-sectarian, programmatically oriented proto-political forces that had emerged in 2015–16 failed to materialize, in line with the well-established historical pattern. Civil society groups had aimed to create a surprise and build on the limited momentum achieved by Beirut Madinati and other cross-confessional alliances of civic activists during the municipal elections of 2016. But that did not happen. Only one of their candidates, TV journalist Paula Yacoubian, managed to be elected, winning Beirut's Armenian seat.

The poor performance of non-sectarian candidates in the 2018 contest can be ascribed, in part, to the list-based electoral system, which favors the main political parties (all of which are associated with specific sectarian interests). It also was due to rival wings of the political establishment again having closed ranks and formed joint lists to defeat anti-system challengers, as had happened two years earlier during the municipal elections. As in the past, too, candidates opposed to sectarian politics and advocating progressive deconfessionalization failed to convince voters that they could deliver the same level of benefits and protection as established sectarian leaders and organizations. But other factors, reflecting more poorly on some of the new political actors, played a role as well, including the defection of some civil society activists to parties led by the very members of the political class they earlier had denounced vociferously. That development underscored once more the system's capacity to co-opt its critics and, in the process, sideline meaningful debate about its dysfunctions and the need for internal reform. That some of those who had been such vocal critics of that system proved unable to resist its enticements likely will exacerbate the already deep public cynicism about prospects for political renewal. A possible consequence of that disaffection from the political system could be that the anti-sectarian reform movement would morph into a mass protest movement akin to those that brought about Arab regime changes in 2011. Its chances for overthrowing the regime, however, would not be great precisely because the GoL, despite its weaknesses, is more diverse and inclusive than the authoritarian Arab states, so more resilient.

Restrictions on Freedom of Expression in Lebanon

Lebanon prides itself on the freedom of speech it has traditionally provided. But this pride is now ebbing with a wave of prosecutions against media figures (journalists, bloggers, and TV personalities) aimed at silencing criticism by activists as well as the general public. Empirical evidence documents the deterioration of freedom of speech and human rights more generally. On the World Bank's "voice and accountability" scale, Lebanon's score deteriorated from a high of 40 in 2005 to 32 presently. Reporters without Borders describes media freedom in Lebanon as follows: "Lebanon's media are outspoken but also extremely politicized and polarized. Newspapers, radio stations, and TV channels serve as the mouthpieces of political parties or businessmen. Lebanon's criminal code regards defamation and the dissemination of false information as crimes and defines them very broadly. In 2017, the judicial authorities harassed the well-known TV presenter Marcel Ghanem for allowing guests to criticize the Lebanese authorities during his program. Journalists who are prosecuted and convicted by military or print media courts are usually fined but a prison sentence is still legally possible. Bloggers and online journalists may receive summonses from the "Bureau for Combating Cyber-Crimes" if something they have posted on a social network elicits a complaint from a private party." Between 2015 and 2018 Lebanon's rank on that organization's press freedom index fell from 98th to 100th place out of 180 countries ranked.

In May 2017, nine civil rights and media organizations issued a statement in which they declared that Lebanese authorities do not fulfill their obligations to protect individuals from unjust trials and in guaranteeing their rights to freedom of expression. This came after a criminal investigation was conducted of a Lebanese citizen by a military tribunal because of a Facebook statement he wrote that allegedly tarnished the reputation of the military, a charge that could carry a maximum sentence of three years in jail. This was not an isolated incident, as many individuals have faced the same fate. The organizations pointed out that the military court cannot "provide assurances of impartiality and independence and does not guarantee the defendant's basic rights in due process." In July 2018, three individuals were detained and questioned in Beirut over Facebook posts for various reasons.

One of them was interrogated by the Internal Security Forces Anti-Cybercrimes Bureau over a Facebook post in which he joked about the medical miracles of St. Charbel. Another was summoned by the same Bureau over a post he wrote about the illegal construction of the Eden Bay Hotel at Beirut's Ramlet al-Baida beach. The third was detained by General Security not for a specific post, but for his overall activity on social media. This person is known to be critical of Hizballah and its leader Sayyed Hassan Nasrallah, as well as President Michel Aoun and Minister Gebran Bassil. He was obliged to sign a pledge not to refer to religious or political figures. According to Agence France-Presse, activists have been made to sign pledges they will abstain from social media for a given period or stop criticizing certain people in exchange for being released.

The Diminishing Salience of the March 8–March 14 Cleavage

In the years that followed Rafik Hariri's assassination on February 14, 2005, Lebanese politics often was analyzed through the lens of a contest between two rival coalitions: March 8 and March 14.[36] In the past several years, however, and especially given the dynamics that characterized the municipal, presidential, and parliamentary elections held since 2016, the relevance of that division increasingly has been called into question. Even though the polarizing issue of Lebanon's relationship to Syria continues to divide the population along March 8 (pro-Syria) vs. March 14 (anti-Syria) lines, the broader utility of the March 8–March 14 prism has been largely overtaken by the following developments:

1) As noted above, electoral alliances increasingly have reflected political expediency and the quest for political and personal advantage. Consequently, they repeatedly have cut across the March 8–March 14 divide, which rested on policy disagreements (on such issues as Hizballah's arsenal, the mandate and prerogatives of the Special Tribunal for Lebanon, the extent to which the GoL ought to cooperate with it, and Lebanon's stances on the various contests tearing the region apart).

2) After the presidency became vacant following the expiration of President Michel Suleiman's term in May 2014, Saad Hariri initially supported the presidential candidacy of his March 14 ally, LF leader Samir Geagea. However, by November 2015, it had become clear that Hizballah's veto of Geagea's candidacy had made it a hopeless cause, and Hariri consequently endorsed instead March 8 stalwart Suleiman Franjieh, before rallying behind Hizballah's preferred candidate, Michel Aoun. In the span of one short year, therefore, March 14 leader Hariri had backed two March 8–affiliated candidates for president, and the LF itself eventually endorsed Aoun. The presidential contest thus ultimately was one in which the March 8 candidate ended up being the March 14 candidate as well.

3) Back in 2010, March 8 and March 14 had competed against each other in a majority of municipal contests nationwide. In contrast, as discussed earlier, during the 2016 municipal elections, members of those two coalitions formed joint lists in numerous races across the country. In the capital, the FM, the Kata'ib, and the PSP (all affiliated with March 14) joined hands with Amal and the FPM (both affiliated with March 8) to set up the "Beirutis" list (which faced off against the Beirut Madinati one). In Tripoli, Hariri's FM (March 14) formed a joint list with March 8–aligned politicians Najib Mikati, Muhammad al-Safadi, and Faysal Karami,[37] while the rival list was headed by Ashraf Rifi, a prominent March 14 personality.[38] Meanwhile, in several Christian-majority municipalities, the LF (March 14) and the FPM (March 8) formed joint lists, despite Aoun and Geagea's 25-year-old enmity. Electoral alliances during

---

[36] The names are derived from two rival demonstrations that were held in March 2005, shortly before the withdrawal of Syrian troops from Lebanon the following month. The March 14 bloc brought together a majority of the Sunni and Druze communities (especially supporters of Saad Hariri's FM and Walid Jumblatt's PSP), Christians affiliated with the LF and the Kata'ib Party, and many independent Christians. March 8 was dominated by Shi`a, especially Hizballah, though it also included supporters of Suleiman Franjiey's Marada Party, and, from February 2006 onward, Christians aligned behind Michel Aoun's FPM. From the onset, March 8 was pro-Iran and pro-Assad, whereas March 14 was backed by SA and Western powers, especially the United States and EU member states. There were always cross-cutting personal relationships, which are especially critical in the Lebanese context, that partially bridged the gap between these two coalitions. For instance, March 14's Walid Jumblatt has a longstanding friendship with March 8's Amal leader Nabih Berri, while there long has been significant personal animosity between Speaker Berri and President Aoun (even though both are affiliated with March 8).

[37] Mikati and Safadi are billionaires, the former being the richest man in Lebanon. Both also served as PM between 2011 and 2014 (Mikati was succeeded by Safadi). Faysal Karami is the son of former PM Omar Karami, a fixture of Lebanese politics from the 1960s through the 1990s.

[38] Rifi is generally regarded as one of the most hawkish, anti-Hizballah leaders of March 14.

the May 2018 legislative elections similarly cut across the March 8–March 14 divide, whereas the previous parliamentary elections in June 2009 had been waged largely along it.

4) In the past two years, PM Hariri (March 14) and President Aoun (March 8) increasingly have found themselves on the same side of key domestic policy debates, particularly those that relate to the economy. Since Hariri returned to Lebanon following his de facto detention by MBS in Saudi Arabia in November 2017, he and Aoun appear to have developed an increasingly close personal and working relationship.

5) Hizballah is now so strong that to describe it merely as one component—even if the dominant one—of one of two coalitions vying for power in the country is somewhat misleading. Similarly, framing Lebanese politics as a March 8 vs. March 14 contest might suggest a country divided into two nearly equally balanced blocs. That is an increasingly questionable perspective given Hizballah's ascendancy, the sharp decline in the political strength of what once was the backbone of March 14, Hariri's FM, and the much weaker political hand of Saad Hariri himself.

6) March 14 has fractured to the point where it no longer constitutes a bloc in any meaningful sense of the term. Meanwhile, while March 8 has withstood the test of time better than March 14, its utility as an analytical category can be questioned on two main grounds.

a) It might be described more accurately as "Hizballah plus." The other Shi`a party in the coalition, Amal, is increasingly weak (even if not in an electoral sense); it takes its marching orders from Hizballah and likely will experience internal squabbling and broader travails after the passing of Berri, who turned 81 in January 2019.[39] The other components of the March 8 coalition, too, lack autonomous standing relative to Hizballah. The six Sunni MPs currently affiliated with March 8 are local leaders who lack a national political base and act largely independently of each other (except on issues that directly relate to Syria). The Marada party, another component of March 8, is little more than the political arm of the Franjiyeh family, and its influence does not extend beyond northern Lebanon.
b) The alliance between the FPM and Hizballah is fraying. [40] Whereas President Aoun remains on generally good terms with Hassan Nasrallah, the same cannot be said of FPM leader (and Aoun's son-in-law and interim foreign minister) Gebran Bassil. Senior Hizballah leaders, beginning with Naim Qasim (Nasrallah's deputy), are known to dislike and be very distrustful of Bassil.[41] The "alliance of minorities" argument that could be invoked to justify the FPM's alliance with Hizballah when Sunni, and Hariri's FM in particular, were seen by many Shi`a and Christians as making a bid for dominance over the state (in 2005–08) has lost much of its credibility, given the political disarray and lack of strong leadership in the Sunni community over the past several years. Meanwhile, the FPM is at increasingly loggerheads with Amal, and the two movements' supporters nearly came to blows on several occasions during the electoral campaign, even though they nominally are allies within March 8.

[39] Berri has served as Speaker of Parliament continuously since 1992, when the first post-war legislature was elected. He has led Amal since 1980.
[40] The FPM became formally affiliated with March 8 in February 2006, when Aoun and Nasrallah signed a memorandum of understanding to that effect. The FPM's parliamentary bloc, called "Strong Lebanon," controls 29 seats.
[41] Antipathy toward Bassil is widespread. It cuts across political and sectarian divides and pervades the ranks of the FPM itself, from which a breakaway faction, including some former generals who served under Aoun in the LAF but who detest his son-in-law, split off and is presently contemplating formation of a party independent of the FPM

The End of Politics?

To the extent that politics is understood as a contest over rival political projects, programs of government, and/or visions for the country, there is very little politics left in Lebanon today. Political life has been largely reduced to mere competition among political elites, factions, and sects over the spoils of the system. That was always to some extent the case, but it is even more true today—yet another indication of the political regression mentioned at several junctures in this section—a regression resulting not only from inherent features of Lebanese politics but also from the two key contextual factors of economic malaise coupled with growing disinterest in Lebanon by external actors.

Politics has become increasingly communitarian and personalistic at the same time: political battles are waged along sectarian lines, within sects, and/or for personal advantage; they tend to involve clashes of personal ambitions that express themselves during broader disagreements over sectarian allotments of political and governmental power. What are cast as political disputes are, in reality, overwhelmingly about how to divide the country's political and economic pie—among sects as well as among elites within them—against a backdrop of increased communitarian rhetoric and existential fears about one's sect's longer-term position in the system. Revealingly, the 2018 parliamentary elections were not waged around political platforms, and the ensuing, prolonged standoff over the formation of the government reflected disagreements not over policy but over how to divvy up governmental positions.

Impacts of Recent Shifts in Lebanon's Regional and Global Environment

Although by global standards the influence of foreign actors on the Lebanese political economy remains high, by Lebanese standards it is relatively low—lower in early 2019 than perhaps at any point in the past half-century. Most regional and global players alike—particularly Western powers and the Gulf States—are significantly less interested in Lebanon and less directly involved in its internal political struggles than during the first decade of the twenty-first century. There are exceptions to this trend, most notably Iran and to a lesser extent Russia, but the tendency is toward Lebanon playing a diminishing role in regional politics. To be sure, the country will not be left alone: by virtue of its location and history it will continue to attract a degree of regional and international attention. But it is also becoming more peripheral to most key regional and international actors' interests and strategies. That situation may present Lebanon with new opportunities, but mostly it will create new and sizable challenges for it. For one, it will place added burdens on elites and donors alike to ensure that the country can find internal and sustainable solutions to its chronic and sizable governance and developmental ills.

Iran- the Most Powerful Foreign Actor in Lebanon

Iran is by far the most powerful foreign actor in Lebanon, its influence being exercised primarily through Hizballah. Hizballah's clout has increased so significantly, and the organic connection between it and Tehran is so strong, that no critical GoL decision on issues that affect the Iranian regime's core interests can be made without Iranian consent. As recent developments have shown, Iran's influence extends to whether a government can be formed, the overall balance of power in it, and, presumably, how long it will survive.

Viewed from Tehran, Lebanon matters first and foremost because it is home to Hizballah, Iran's single most important regional proxy and strategic ally. Hizballah is front and center in the game of mutual deterrence in which Iran and Israel are engaged. By bolstering Hizballah's military capacity to inflict significant losses on Israel, the regime in Tehran aims to discourage an Israeli or American strike on Iran, and/or to be able to retaliate accordingly. Iran also has signaled that a strike on it or on Hizballah would guarantee that Lebanon itself is dragged into the military confrontation and that the resulting havoc wrought on Lebanon might not stop at the latter's borders.

Hizballah demonstrated its value to Iran through the decisive role it played in the military battle for Syria.[42] In addition, it is actively engaged in the Iraqi and Yemeni theaters, where it provides training, intelligence, and other forms of support to pro-Iranian militias (the Houthis in Yemen and the Popular Mobilization Forces in Iraq). Through the vast networks of Hizballah-affiliated schools, clinics, and welfare institutions, Iran operates as a de facto provider of jobs, services, and welfare to Lebanon's Shi`a community.

Iran provides Hizballah with significant funding (estimated by the USG at $700 million a year), weapons, intelligence, technical expertise, and training (for both foreign operatives and rank-and-file members). Its support underpins Hizballah's offensive as well as defensive military capabilities, which have considerably expanded in the past several years, and the organization's prized independent telecommunications network.

The above notwithstanding, Lebanon's centrality to Iran's regional strategy has receded somewhat in the past few years, given Iran's extensive other commitments in Iraq, Yemen, and especially Syria, where it is now actively competing with Russia for reconstruction contracts and influence in decision-making arenas. In addition, Iran no longer can sustain its extensive financial commitments to Hizballah given its dire economic situation, renewed U.S. sanctions, and mounting domestic discontent over the vast amounts the regime spends on its quest for regional influence. This context is pushing Iran to encourage Hizballah to embed more deeply in the Lebanese state and the broader Lebanese political landscape. By forging alliances with political actors outside the Shi`a community, Hizballah is making it more difficult for Israel or the United States to isolate it and strike at it. Similarly, by playing a more visible and active role in Lebanese state institutions, and by gaining access to the resources and the international legitimacy they provide, Hizballah also makes itself less vulnerable to Israeli and U.S. efforts to undermine it. Control over certain ministries and other government agencies may help the organization make up for the likely coming decline in financial support from an increasingly cash-strapped Iran. The Lebanese government formed in late January 2019, in which key posts, including the Ministry of Health, went to individuals affiliated with Hizballah or close to it, should be analyzed in that light.

Saudi Arabia – Influence Waning

The October 1989 Ta'if Agreement that put an end to the Lebanese civil war was signed under Saudi auspices, and SA played a key role in Lebanon's PE through the 1990s and 2000s. Understandings reached between Riyadh and Damascus were critical in regulating Lebanese political life during that period, particularly under the premiership of Rafik Hariri (1992–98 and 2000–04), SA's foremost ally in the Levant (and a Saudi citizen). Following Hariri's assassination in February 2005, SA became the primary sponsor of the March 14 alliance and of his son Saad's FM, founded in 2007.

The 2005–08 period witnessed a sharp rise in Lebanon's centrality to the political struggles raging in the region at the time. The country became a key arena for the contest between SA and Iran and for the broader struggle between SA and the United States on one side and the so-called "resistance axis" formed by Iran and Syria on the other. When prompted by its Saudi and American backers, March 14 openly challenged Hizballah on May 6, 2008, and it was dealt a severe blow the next day, including in the streets of predominantly Sunni West Beirut, where Hizballah routed the FM's poorly trained and equipped militias within a few hours. The outcome of the confrontation was humiliating for Saad Hariri

[42] It was the combination of Russian airpower and Iranian-controlled manpower (that is, Hizballah and the IRGC's al-Quds Force, with limited assistance from pro-Iranian Shi`a militias from Iraq, Afghanistan, and elsewhere) that enabled Bashar al-Assad's regime to defeat the insurgency.

and his FM, and, consequently, it represented a significant setback for SA. Thereafter, SA reached with Syria a new quid-pro-quo aimed at maintaining stability in Lebanon and at sheltering the country against the most destabilizing consequences of the overlapping regional and geopolitical contests that were still unfolding. However, that understanding collapsed in 2011 after Hizballah brought down the Hariri cabinet in January and SA later that year began actively to support Syrian rebels. As discussed further below, 2011 also marked the beginning of a process of Saudi disengagement from Lebanon.

Historically, SA's political role in Lebanon has been intertwined with its critical contributions to the country's economy and finances. Those contributions have taken many forms, including direct government-to-government aid, loans, and large deposits in Lebanon's Central Bank (*Banque du Liban* [BdL]) and commercial Lebanese banks (which has enabled those banks to buy GoL debt). Saudi spending on Lebanese real estate and Saudi visitors to Lebanon, particularly during the summer, traditionally also have buoyed the Lebanese economy. In addition, approximately half of the 400,000 Lebanese workers in the Gulf live in SA; their remittances, too, constitute a significant source of deposits in Lebanese banks and have enabled tens of thousands of Lebanese families to make ends meet. Were SA and other Gulf countries to expel a significant number of Lebanese expatriates, the impact on Lebanon's already wobbly economy would be immediate and drastic.

The course and tone of SA's policy toward Lebanon shifted significantly following the advent of King Salman to the throne in January 2015 and the concomitant rise of Muhammad bin Salman (MBS).[43] The new Saudi leadership was determined to take a far more confrontational posture toward Iran and was intent on not just containing but also rolling back perceived Iranian gains in the region. That stance was not consistent with Hariri's policy of reluctant accommodation with Hizballah, on which the late Saudi King Abdallah had signed off. The rift between Hariri and MBS reflected those new realities but was widened as well by the personal fallout between the two men. It did not help that MBS—just like the UAE's Crown Prince Muhammad bin Zayed (MBZ) and others among the new generation of Gulf decision-makers—had no personal attachment or ties to Lebanon, which was peripheral to his ambitious agenda. King Salman and MBS also were said to be increasingly frustrated at the perception that, far from buying the kingdom influence over GoL decisions critical to Saudi interests, SA's generous financial contributions to that government instead often seemed to be benefiting institutions and decision makers controlled by Iran.

Lebanon's refusal to join an Arab League condemnation of the mob attack on the Saudi Embassy in Tehran on January 2–3, 2016, may have been the proverbial straw that broke the camel's back.[44] The GoL's stance, widely attributed to Hizballah's opposition to Lebanon signing off on a denunciation of Iran, incensed SA. The kingdom swiftly exacted revenge by suspending a $3 billion military aid package to Lebanon that had been earmarked for the purchase of French weapons. It also revoked another $1 billion pledge to support Lebanon's ISF. Concurrently, the UAE announced a drawdown of its diplomatic

[43] Although MBS was not elevated to the position of Crown Prince until June 2017, by the summer of 2015 already he was the power behind the throne. As Deputy Crown Prince, Minister of Defense, Chairman of the Council of Economic and Development Affairs, and architect of both the "Vision 2030" plan and SA's war in (or on) Yemen, he was widely viewed as responsible for the kingdom's economic, foreign, and defense policies.

[44] The attack was prompted by the execution of the prominent Shi`a cleric and leader Nimr al-Nimr. While Foreign Minister and FPM leader Gebran Bassil expressed solidarity with Riyadh, he did not endorse the broader Arab League condemnation of Iran's and Hizballah's regional roles, invoking Lebanon's official dissociation policy and neutrality in regional conflicts.

staff in Beirut. SA, the UAE, Kuwait, Bahrain, and Qatar and then all warned their residents against traveling to Lebanon and encouraged those already there to leave immediately.

Saad Hariri's forced resignation and de facto detention by MBS in Riyadh in November 2017 was yet another low point in Saudi-Lebanese relations. On November 4, 2017, while on a visit to SA, Hariri issued a surprise television statement in which he announced, clearly under duress, that he was resigning his position as PM, citing pressure by Iran and Hizballah and mentioning related fears of assassination. In Lebanon as elsewhere, this unprecedented turn of events immediately prompted allegations that SA had just punished Hariri for having failed to check Iranian influence in Lebanon and was holding him hostage. Amid outrage at SA in the country, President Aoun announced he would not accept Hariri's resignation until it was made in person following the PM's safe return to Lebanon. In response to the accusations directed at it, SA then threatened to expel Lebanese nationals working in SA and suspend its investments in Lebanon.

Following an intervention by French President Emmanuel Macron, Hariri and his family were able to leave SA, and after his return to Beirut on December 5 Hariri withdrew his resignation. But Saudi-Lebanese relations have struggled to recover from that episode. It is true that, since then, Hariri has been back to the kingdom on several occasions and that he publicly has denied ever having been detained by MBS. It is also true that in April 2018 SA pledged $1 billion in aid to Lebanon at the CEDRE conference, making it the largest single contributor to that assistance package, and that in February 2019, after Qatar bought $500 million in Lebanese government bonds, Riyadh promised additional aid to Lebanon. But the deeper reality is continued, steady deterioration in the bilateral relationship. Insofar as can be determined by the public record, neither of the financial pledges has yet been implemented.

Tensions with SA already have translated into a sharp decline in Saudi travelers to Lebanon.[45] Meanwhile, remittances from Lebanese workers in the Gulf dropped by 7 percent in 2017, and that decline is believed to have continued in 2018. Moreover, SA's "Vision 2030" program aims to "free" jobs currently occupied by expatriates and make them available to Saudi citizens, and it also increases taxes on foreign residency permits. As components of that program begin to be implemented, prospects for Lebanese nationals in SA will continue to worsen, a trend that analysts believe will be mirrored in other Gulf states. Most importantly, the new Saudi leadership is unlikely to revisit its conclusion that, as one analyst put it, "Lebanon is a black hole in which there is no political return for financial assistance" or, as another has suggested, "at this point Saudi political investments in Lebanon would amount to throwing good money after bad." Saudi disengagement from Lebanon is unlikely to be significantly reversed, as is its highly negative long-term impact on Lebanon's already precarious finances.

Syria – Influence Regained

The "victory" of Bashar al-Assad in the Syrian war and the reconstitution of a repressive regime nominally under his control has opened the door to greater Syrian influence in Lebanon. To be sure, the Syrian regime will be both unable and unwilling to reassert itself in anything like the dominant role it played in Lebanon between 1990 and 2005. Its attention, energy, and very limited resources will be consumed by other daunting internal tasks: consolidation of political power, physical reconstruction, and coping with the impact on its freedom to maneuver around rivalries playing themselves out on Syrian soil and involving Iran, Russia, Israel, Turkey, and the United States. Besides, the extensive networks of control that Syria once enjoyed in Lebanon have atrophied or disappeared in the past 15 years. Damascus also is keenly aware that both Iran and Hizballah would resist and block any effort on its part

[45] Compared with the first six months in 2017, spending by Saudi tourists decreased by 21.4 percent in the first half of 2018. The number of visitors from SA and the UAE dropped by nearly one-third in the first half of 2018.

to insert itself too deeply in Lebanon's internal affairs without due deference to their interests. Consequently, Syria will be neither inclined nor capable of resuming the role it once played of orchestrator of Lebanese political life and/or ultimate referee among Lebanese factions.

The above notwithstanding, the Syrian regime can count on the support of many individual Lebanese politicians willing to do its bidding for reasons including political opportunism, material gain, fear, and/or longstanding connections to Syria and/or the Assad family. In the 2018 parliamentary elections, several such candidates were elected, six of them Sunnis (who won with support from Shi`a and pro-Aounist Christians).

Syria also will impact Lebanese politics indirectly, through the polarizing issue of Syrian-Lebanese relations. Some form of normalization is inevitable, given the balance of power in Lebanon and the imminent reintegration of an Assad-ruled Syria into the Arab fold. But Hizballah and others may push for the reestablishment of the privileged relationship between the two countries, which is a far more contentious issue, and is vehemently opposed by key Lebanese political actors, including Geagea's LF and Jumblatt's PSP.

Syrian reconstruction and the fate of Syrian refugees will provide Syria with significant leverage over Lebanon. Many Lebanese are hoping that their country will be well placed to benefit economically from Syrian reconstruction, at least in an intermediary position. Lebanese politicians, including PM Hariri, have fueled related expectations. The reality is unlikely to conform to those expectations, especially in light of Russia's and Iran's determination to maximize the economic returns on their military investments in Syria. Russia already has signed agreements with the government in Damascus to provide Russian businesses with preferential access to reconstruction contracts. Still, the pervasive belief that Lebanon's economy stands much to gain from Syrian rebuilding provides Damascus with leverage over the government in Beirut, as does the degree to which the Assad regime proves willing to facilitate the return of Syrian refugees.[46]

Israel – Confrontation Unlikely

Lebanon matters to Israel first and foremost because of Hizballah and its ability to threaten population centers inside the Jewish state. Conversely, Israel is the only force in the region that could seriously degrade Hizballah's military capabilities, and any attempt on its part to do so would come at great human, infrastructural, and economic cost to all of Lebanon. However, given developments in the region in the past several years and the current balance of power in it, a large-scale military confrontation between Israel and Hizballah along the lines of the July 2006 war seems unlikely. For one, Hizballah's deterrent capacity is much greater than it was at that time. The organization now has a massive stock of short-to-mid-range missiles, which it has stated it is ready to use to strike at Israeli civilian areas if and

[46] The regime in Damascus will seek to leverage refugee return in exchange for international and bilateral pledges to help with Syria's reconstruction. But according to even the most generous estimates, no more than 150,000 refugees are likely to return to Syria, unless forced to do so (in violation of international law on that issue). Syria does not want the vast majority of the six million Syrian refugees currently living in Turkey, Europe, Lebanon, Jordan and elsewhere to go back to Syria. Many who have returned have been harassed, detained, and/or tortured, and many more have "disappeared" into the regime's prison system. The regime has portrayed refugees as traitors or cowards who left the country at its highest time of need, and therefore are not entitled to much consideration. In short, current conditions are highly inimical to refugee return. Besides, most refugees have nothing to return to: the regime already has dispossessed many from their former properties in Syria, and the areas from which refugees hail have been devastated by the fighting (that is particularly true of Homs and its surrounding region, which is the place of origin of an estimated 40 percent of all Syrian refugees in Lebanon).

when it comes under attack.[47] Hizballah's offensive capabilities also have been strengthened by its close military cooperation with Russia in the Syrian war after September 2015. Both the organization's leadership and its rank and file benefited considerably from working side by side with the Russians in such areas as military strategy, intelligence gathering, and the execution of specific operations. Israel's understanding of this new reality will continue to restrain its appetite for an all-out assault on Hizballah. For their part, Hizballah and Iran are unlikely to cross well-understood "red lines" with Israel, as both have much to lose at a time of renewed or heightened U.S. sanctions against them, and neither wants to provide Israel and the USG, possibly in collusion with SA, with the ability to invoke a *casus belli*.

Russia's influence on Hizballah and its determination to maintain good relations with Israel also mitigate against an Israeli attack on the Shi`a organization. Israel feels it can rely on Russia to restrain Hizballah and it is reassured by Russia's policy of not interfering with Israeli airstrikes on Iranian installations in Syria.[48] As recently as January 25, 2019, Russia's deputy foreign minister underscored Russia's commitment to maintaining Israeli security.

In sum, although the constant threat of war with Israel has hung over Lebanon since the 1970s, the likelihood of such a scenario is much lower today than previously. Still, it would be unwise to rule out miscalculations, missteps, and/or misread signals that might trigger an Israel-Hizballah confrontation that, in turn, would engulf all of Lebanon. The most likely origin of such a clash would be not in Lebanon but in Syria, given Israel's determination to prevent a dangerous military build-up by Hizballah and Iran along the border with the Israeli-occupied Golan Heights.[49]

Russia – Emergence as the Indispensable Nation

Russia exercises influence in and over Lebanon by virtue of it having become the dominant external actor in Syria and, beyond Syria, because of the significant success it has met in its efforts to cast itself as the indispensable nation in the region. As an Israeli military analyst recently put it, Russia dances at every wedding possible: it is on good terms and actively communicates with all key regional players (Israel, Iran, Syria, Saudi Arabia, and Turkey) and, even more importantly, it is perceived by each of them as a critical force that can restrain their existing or potential enemies. Thus, for instance, Israel relies on Russia to dissuade Iran and Hizballah from seeking to cross Israel's red lines in Syria. Meanwhile, Hizballah and Iran desperately need Russia for several related reasons: to persuade Israel to show restraint when striking at Iranian interests in Syria; to convince Israel not to engage in a major military confrontation with them; and to counter-balance American efforts to isolate them and turn them into international pariahs (especially following the reimposition of American sanctions on Iran and the tightening of previous ones on Hizballah). Meanwhile, as SA becomes increasingly isolated internationally following Jamal Khashoggi's killing, it can take solace in the fact that Putin has made it very clear he will not let the brutal murder and dismembering of a journalist interfere with Saudi-Russian ties. SA's main Sunni nemeses—Turkey and Qatar—also have developed a close relationship with Moscow.

Russia's emergence as the dominant balancing or restraining power in the region automatically makes it important to Lebanon, if only because of the latter's historical propensity to be a stage where

---

[47] Unconfirmed reports suggest that Hizballah now has over 130,000 such missiles and rockets in its arsenal, as opposed to only 15,000 in 2006.

[48] The fact that Israel has refused to join Western sanctions against Russia cannot be understood outside of that context.

[49] Israel has made it clear that it regards the provision of high-precision long-range missiles to Hizballah as a red line, which it already has enforced by striking at dozens of convoys crossing Syria.

destructive regional rivalries play themselves out.[50] Russia additionally protects Lebanon by reducing the potential for an Israeli-Iranian confrontation in Syria that would spill over into Lebanon.[51]

Russia can project additional influence into Lebanon because of the extent to which it has penetrated Syria's military and security services. Its September 2015 military intervention in the Syrian war to rescue Assad with airpower has enabled it to ensconce itself even more deeply inside key decision-making arenas in Damascus. As is also true of Iran, with which it now competes for influence within Syria's coercive apparatus, Russia has placed "advisers" across Syria's military and security and intelligence agencies. Its position has been further strengthened by the American troop withdrawal, since together with Hizballah and the Islamic Revolutionary Guard Corps (IRGC)'s al-Quds Force it now finds itself in a position to exercise a degree of direct control over territories in northeastern Syria that are being vacated by the United States (and where Syria's oil resources are concentrated). Because of Russia's heightened clout in Damascus, Lebanese seeking to affect Syrian policies in or toward Lebanon may come to see ties to Moscow as a means of achieving that objective. To those Lebanese politicians who fear being targeted physically by Syria, Russian influence on Syrian decision makers also may provide a form of insurance policy.

Finally, Russia's efforts to establish itself as a dominant force in the Syrian reconstruction process further enhance its importance to Lebanon. That particularly applies to Lebanese businessmen who lack connections in Tehran or Damascus but who might hope to leverage ties to Russia to benefit from rebuilding in Syria, whether as sub-contractors or as intermediaries. Russia has sent signals that it intends to expand its influence in Lebanon proper. In 2018, it opened new Russian cultural centers in the country, raising the number to 10, and in January 2019 the state-owned Russian oil company Rosneft was the second one (after Novatek in February 2018) to sign with the GoL a contract that provided Russia with a foothold in Lebanon's nascent oil and gas sector.[52]

Equally important is the mere perception among Lebanese politicians and the general public alike that Russian influence in the Levant is still on the rise. Moscow may be able to leverage that perception to create new realities in line with it. Against this backdrop, it should come as no surprise that the past 18 months have seen a flurry of high-level visits to Moscow by Lebanese officials and politicians from across the political spectrum and sectarian divides. Lebanese leaders understand that they have much to gain from establishing or expanding ties to a country that can provide them with ways of restraining their enemies, communicating indirectly with their opponents, perhaps securing concessions from them, and

---

[50] Arguments to the effect that Russia has displaced the United States as the region's balancing power are inaccurate since the United States never truly played that role, as it always was strongly aligned with one or more parties against the others in regional conflicts. It is not just distinctive of the Russian position today but also a key source of its strength that it is on good terms with both SA and Iran, Iran and Israel, SA and Turkey, and Israel and Syria.

[51] Moscow sees such a clash as a development that would seriously undermine its goal of seeing to it that the process of political and economic reconstruction moves forward in Syria under a pro-Russian and Russian-influenced government.

[52] The January 2019 contract provided for Rosneft to rehabilitate, expand, and operate oil storage facilities in Tripoli. The February 2018 deal was an offshore oil and gas exploration agreement that involved Novatek as part of a consortium with France's Total and Italy's Eni. Potentially substantial reserves of hydrocarbons have been identified off the Lebanese coast in an area of about 850 square kilometers that is disputed between Israel and Lebanon. Israel already has started extracting natural gas from fields close to its maritime border with Lebanon. The geographic proximity between those fields and the "blocks" on the Lebanese side makes experts confident that similar fields lie in Lebanese waters. The legal process to resolve the Lebanese-Israeli maritime border dispute remains stalled.

gaining access to some of the expected economic benefits from Syrian reconstruction. If and when Russia makes new and significant political and economic investments in Lebanon itself, the value to key Lebanese actors of personal connections to the Kremlin or Kremlin-tied entities will increase further.

The European Union – Limited Ability to Influence

Since 2011, the EU has been too preoccupied with the Syrian catastrophe and its political and economic impact on Europe (especially in the form of refugees and IS's ability to use its Syrian sanctuary to plot attacks on European soil and radicalize young European Muslims) to show more than limited interest in Lebanon. The EU's primary concern with respect to Lebanon has been in relation to the presence of over one million Syrian refugees on Lebanese soil and, specifically, with preventing an influx of large numbers of those refugees to European shores. Accordingly, the EU has sought to maintain Lebanon's capacity to operate as a relatively safe and stable host country for these refugees, mostly by relying on the GoL and international agencies operating on Lebanese soil to direct aid to both refugees and vulnerable host communities. The overarching goal of that assistance has had less to do with Lebanon itself than with ensuring that refugees will not seek to reach Europe.

Past EU efforts to encourage the GoL to engage in needed structural reforms in such areas as the fiscal deficit, electricity provision, and the fight against corruption have gained little traction, as is also true of EU attempts at mediating among Lebanese actors to improve the quality of governance and prevent civil conflict. Repeated EU calls on Lebanon to adhere to its official dissociation policy from regional conflicts have had even less impact, while EU support for the LAF has done little to strengthen the broader Lebanese state. Perhaps as a result, it is easy to detect a significant degree of "Lebanon fatigue" among European leaders who do not see much return on their diplomatic and economic investments in that country, the strategic importance of which they, like others, increasingly see as declining and mostly derivative (that is, tied to the fate of Syrian refugees). European leaders also generally agree that Hizballah's dominant position in Lebanon is not a reality that they easily can affect, and that it creates sharp constraints on the extent to which they can or should engage with Lebanon. To make matters worse, they are divided on what exactly Europe's policy toward Hizballah—and, therefore, toward a government over which Hizballah wields significant influence—should be. On that critical issue as much as on others, divisions within European ranks prevent the EU from formulating a clear and coherent diplomacy toward Lebanon, which in turn undermines the effectiveness of its engagement with that country.

Among EU countries, France remains the most active in and toward Lebanon. That engagement reflects historical ties, bilateral economic exchanges,[53] technical assistance and arms sales to the LAF,[54] collaboration in the cultural and educational fields, personal relationships across the two countries' respective elites,[55] and past French efforts to rely on Lebanon to advance a broader diplomatic agenda in the region. Together with the United States, France played a key role in seeking to force Syria out of Lebanon in 2004–05, and Paris was with Washington one of the two sponsors of UN Resolution 1559 adopted with that objective in mind on September 2, 2004. More recently, French President Emmanuel Macron was instrumental in extricating PM Hariri from his de facto Saudi captivity in November 2017, reportedly convincing MBS to allow Hariri to travel from Riyadh to Paris (where Hariri stayed at the

[53] France is one of Lebanon's largest trading partners and Lebanon is the biggest beneficiary of French foreign aid in the region.

[54] The $3 billion February 2016 military aid package that SA suspended in February 2016 was for the LAF to purchase French weapons.

[55] For one, former French President Jacques Chirac and the late Rafik Hariri had a close friendship. In 2007, shortly before the end of his term, President Chirac awarded Saad Hariri the prestigious *Légion d'honneur*.

Elysée Palace for three days before returning to Beirut). France also organized the April 2018 CEDRE conference in Paris, where it pledged €550 million, including €150 in gifts, and it often has taken the lead in European initiatives toward Lebanon. But none of this can compensate for the overarching fact that, in Lebanon as elsewhere in the region, France no longer has the means to realize its ambitions. Since the mid-2000s, it has not been able meaningfully to affect the course of Lebanese politics, which generally has been inconsistent with its stated objectives for that country. Its policy toward Syria from 2011 to 2017—specifically its demand that Bashar step down, its gamble that his regime would collapse, its support for Syrian rebels, and its diplomatic investments in the so-called Geneva process—have left it devoid of any meaningful influence in today's Syria, especially in the wake of the American withdrawal and the strengthening of the Russian position there. None of this is conducive to its ability to impact meaningfully the course of Lebanese affairs.

The United States – Faces New Complexities

The USG remains a significant actor in Lebanon, though it no longer is as directly involved in Lebanon's domestic struggles as was the case between 2004 and 2008, when it was viewed as actively seeking to remake the region's political map. In those years, U.S. efforts to contain Iran, Syria, Hizballah, and Hamas played themselves out in a dramatic fashion both on Lebanese soil or on matters related to Lebanon. Key U.S. initiatives toward Lebanon during that period included Washington's successful push for United Nations Security Council (UNSC) resolution 1559; its active celebration of the "Cedar Revolution" (an expression coined by then-U.S. Undersecretary of State for Global Affairs Paula Dobrianksy) in early 2005; its public backing for the March 14 bloc and for then-PM Fouad Siniora's efforts to mobilize the UNSC and the Special Tribunal for Lebanon to force a disarmament of Hizballah; U.S. involvement in the making of the July 2006 Israel-Hizballah war; and Washington's role in Siniora's ill-fated clash with Hizballah in May 2008. In sharp contrast to that era, the USG today is not viewed as actively backing particular political forces, though it is engaged in a sustained and significant effort to isolate Hizballah through sanctions as well as public and private diplomacy.

The core challenge currently faced by the USG is how to reconcile its desire to support the GoL with its efforts to isolate and weaken Hizballah at a time when the Shi`a organization's influence over the GoL is rising. The USG must find ways of ensuring that U.S. aid to the GoL will not undercut the effectiveness of its sanctions against Hizballah. The difficulties inherent in balancing these different objectives came in sharp relief in early 2019 after Lebanon finally formed a government that gave key ministries to Hizballah members or individuals with ties to the organization. Although the USG does not provide assistance to the Ministry of Health, this ministry was assigned to Dr. Jamil Jabak, a physician considered close to Hizballah, which was of particular concern since it controls the fourth-largest budget in the government and could be used by Hizballah to provide state-subsidized health care and jobs to its supporters, thus enabling the organization to sustain its base of support and compensate for the likely decrease in Iranian financial assistance to it in the coming years.

A related challenge for the United States involves the difficulty of isolating Hizballah on the Lebanese scene at a time when that organization has proven able not just to forge but also to sustain alliances with an array of Christian and even Sunni and Druze politicians, despite it being treated as a pariah by the United States. These alliances, combined with Hizballah's ability to embed itself ever more tightly into state institutions, make it difficult to confront the Shi`a organization primarily through such blunt tools as sanctions, threats, and admonishments to other actors not to engage with it. Hizballah's perceived "victory" in the Syrian war and its ties to Russia, whose influence is viewed as rising, complicate the situation even further, especially as many Lebanese also regard the United States' role and clout in their country as receding.

Nevertheless, the USG remains the largest provider of bilateral economic aid to the GoL. In recent years, much of this aid has focused on helping Lebanon cope with the strains that Syrian refugees have placed on the country's weak infrastructure and precarious social fabric and on diminishing vulnerability to recruitment by violent extremist groups, especially among underserved populations. Through the Department of State's Bureau of Population, Refugees, and Migration, the United States is providing emergency medical care and supplies, shelter, food, clean water, relief supplies, access to education, and protection—including activities to prevent and respond to gender-based violenc— to those affected by the crisis inside Syria and in neighboring countries, including Lebanon. Through USAID, the USG has provided basic services to both refugees and host communities, especially in such areas as potable water, sanitation, and health. As discussed further in this document's programmatic recommendations section, other USAID programs have aimed to foster economic growth, particularly in impoverished areas.

USG support for the LAF, in excess of $2.3 billion since 2005, has been a core component of U.S. assistance to Lebanon. It has aimed to help Lebanon secure its borders, protect itself against threats emanating from VE organizations, and build up the legitimacy of its state institutions. As importantly, the USG has sought to rely on the LAF as a counterweight to Hizballah's influence over Lebanese state institutions in general and within the country's military-security apparatus in particular.[56]

The USG's continued assistance to the LAF has been coupled with its tightening of financial sanctions against Hizballah and firms linked to it. In May 2018, shortly after President Trump announced the U.S. withdrawal from the Iran nuclear deal, the Treasury Department, through its Office of Foreign Assets Control (OFAC), announced new measures against Hizballah leader Hassan Nasrallah, his deputy Skeikh Naim Qassem, and four other senior members of the organization's main decision-making body, the Shura Council. The decision, largely aimed at making it even more difficult for those individuals and Hizballah to gain access to global financial networks, were accompanied by similar steps by SA, Kuwait, Bahrain, Qatar, the UAE, and Oman. Around the same time, OFAC designated two additional Hizballah members as Specially Designated Global Terrorists (SDGTs): party financier and businessman Muhammad Ibrahim Ibrahim Bazzi and the organization's representative to Tehran, Abdullah Safi al-Din. Five months later, in October 2018, President Trump signed the Hizballah International Financing Prevention Amendments Act (HIFPAA), which expands the 2015 Hizballah International Financing Prevention Act (HIFPA) in significant ways.

As the field interviews conducted for this report underscored, two related questions currently on many Lebanese's minds, particularly in the wake of the U.S. withdrawal from Syria and its impact on the United States' Kurdish allies there, are whether the United States has decided to "walk away" from

[56] The effectiveness of a policy that relies on assistance to the LAF to contain Hizballah's influence is open to debate. That issue goes beyond the scope of the present document, but key facts relevant to it include the significant reluctance on the part of many LAF officers and rank-and-file members alike to be too closely identified with a U.S. agenda; the risk that the LAF could fragment if pressure were to be placed on it openly to side with the United States on controversial issues; the presence of officers well disposed toward Hizballah in the LAF high command (an estimated one-third of senior officers are Shi`a, and while that does not translate into automatic support for Hizballah, it certainly gives the organization significant clout in LAF decision-making circles); the deterioration of the LAF's reputation among Sunnis, particularly in Tripoli and the north, in the past several years; the sheer military superiority of Hizballah over the LAF; and the inability of U.S. assistance to the LAF to prevent Hizballah from defying the United States, as through its direct and critical involvement in the Syrian war to prop up the Assad government. The above considerations have led some members of Congress to question the rationale behind, and effectiveness of, U.S. assistance to the LAF.

Lebanon and/or whether Washington can be viewed as a reliable partner in the region.[57] Since early 2019, the USG has gone out of its way to try to allay those fears. In January 2019, Undersecretary of state (and former U.S. Ambassador to Lebanon) David Hale visited Beirut to underscore the continued U.S. commitment to Lebanon and to reassure his Lebanese counterparts that the U.S. withdrawal from Syria would not impact the U.S.'s role in their country.[58]

Political Economy at the Core of the Crisis

From Laissez Faire to Rentier State

The Lebanese economy unfortunately exemplifies more than any other in the MENA the region-wide impacts of dependence on oil and gas wealth and the national rentier economies most blessed (or cursed) by that wealth. Lebanon's marked exposure to MENA hydrocarbon economies reflects the distinctive features of its history and political economy. The laissez faire economy that emerged shortly after independence in 1943 reflected the fact that the confessional system that dated back to the second half of the nineteenth century fragmented and dispersed power beyond the capacity of a modern state to harness and deploy it centrally. The only sustained effort to do so, that by President Fuad Chehab from 1958 to 1964, ended in failure. A second critical feature is that this laissez faire political economy was the MENA's most open during the nationalist era that only waned in the 1970s. Although this helped make it the region's most dynamic, it also rendered its polity and economy particularly open, hence vulnerable, to penetration by regional and global external actors. The incentives for outside actors to penetrate Lebanese politics are not primarily economic but political and geostrategic. The MENA's incessant political struggles were fought out more in Lebanon than in any other country.

Indeed, in some senses Lebanon has had a "war economy" since the 1950s, whereby external actors invested substantial resources in influencing events in it. But the perils of profit from violence became profound from 1975 on, thereby adding further downward pressure on a political economy that suddenly was facing dramatic regional changes to which it has never truly adjusted. One peril was the physical destruction and human cost wreaked upon Lebanon by conflict and violence. Another was that as Lebanon's centrality to regional affairs has declined, so too have external investments to sustain its war economy. Dramatic regional changes were driven by the newly achieved independence in 1971 of several of the Arab Gulf countries that went on to form the GCC. The 1973 Arab-Israeli war and accompanying oil boycott kicked off the era of high oil prices that, while varying in intensity, seemed finally to have come to an end only in the summer of 2014. The threat the oil boom posed to Lebanon became apparent only somewhat later when competition within the GCC for the entrepot trade over which Lebanon had previously enjoyed a virtual monopoly was suddenly challenged by Dubai and subsequently other of the sub-region's city states. Lebanon was no longer the chief provider of goods and services to the Gulf sub-region. Moreover, within the MENA writ large, formerly closed economies such as those in Iraq, Syria, and Egypt began to open, thereby no longer in need of Lebanon's "middleman" role. The Lebanese political economy basically remained structurally unchanged amid the broader regional and global changes.

---

[57] Predictably, Hizballah immediately seized on those developments for political advantage, with Hassan Nasrallah describing the withdrawal of U.S. troops as "a victory of Syria and the resistance axis in the face of American disengagement" and as "an official recognition of the failure of the U.S. in the region."

[58] During his visit, which took place two weeks before a cabinet finally was formed, Undersecretary Hale made clear the USG's opposition to the Ministry of Health being entrusted to a Hizballah member or someone close to the party. The limits of U.S. influence in Lebanon were underscored by subsequent developments regarding that specific issue.

Lebanon's response to the challenge posed by hydrocarbon-driven MENA development was not to reinvent itself as a high-tech, sophisticated hub for the provision of goods and services of various sorts to the newly rich Arab countries but to seek a share of the rents they generated. Israel is called the "start-up country." Lebanon conceivably could have followed that path of technical innovation, but that would have required investments in human resources Lebanese elites were unwilling to make and a financial system that did not depend on guaranteed returns from the BdL acting on behalf of the state. Rent seeking took two primary forms. First and foremost, Beirut sought with considerable success to become the MENA's banking center. Although challenged by Bahrain and other GCC countries in this endeavor, Beirut capitalized on some advantages, key of which were that it was not in the GCC so comparatively distant from intra-GCC politics and supervision; that its weak state ensured the independence of the banking sector coupled with its capable management by the region's most sophisticated central bank; and because its banking secrecy was extensive and not under threat from internal or external forces similar to those brought to bear on, for example, Bahrain and Dubai.

The source of rents other than the movement of capital was the movement of people. Lebanon became a prime supplier of manpower to the oil-rich states, thereby generating remittances that constituted a greater proportion of its GDP and external earnings than most if not all other MENA countries. Human movement in the opposite direction was by oil-rich Arabs and even by Iranians and Turks, who came to Lebanon not only for banking and tourism but to invest in real estate and enjoy the fruits of those investments. Although the movement of capital and humans was temporarily reduced during the 1975–90 civil war, it did not cease altogether. More importantly, once the war came to an end with the Ta'if Accords, the Lebanese set about rebuilding not a productive but a rent-based economy even more dependent on capital and human movement than before.

The Need for Reform

It is that economy that is now collapsing, just as the region-wide oil- and gas-driven rentier economy itself is. Its demise is the result of the sustained, substantial fall in the rent-to-population ratios of the primary oil producers. All the major oil exporters have high population growth rates, with their steadily expanding populations as or even more dependent on earnings from oil and gas than a generation previously. The decline of hydrocarbon prices, both absolutely and relatively, thus poses a mortal threat to these rentier economies, driving them to attempt to diversify into more productive, sustainable economic activity. For this they need capital at home, not in Lebanon. And they need to employ nationals, not expatriates, including Lebanese. Hence Lebanon's two key sources of rent are both taking a hit that shows no sign of abating and will most probably intensify.

The Grasshopper and the Ant

During the fat years Lebanon did not prepare itself for this inevitable outcome. It built a consumption-based economy, fueled in considerable measure by a currency peg to the U.S. dollar that underpinned capital flow into the country by rendering it more secure against devaluation. The peg guaranteed a severe case where the overvalued Lebanese Pound rendered the production and export of tradeable goods and services non-competitive. The agricultural and industrial sectors stagnated while construction and real estate, along with banking, boomed. Industrial exports, which averaged over $3 billion annually from 2008 to 2015 and peaked at $3.57 billion in 2012, had by 2016 dropped to some $2.5 billion and fell further in 2017. The service, industry, and agricultural sectors constituted 72 percent, 14 percent, and 4 percent, respectively, of real GDP from 2004 to 2016. Real estate is the largest service sector, averaging during that period 14 percent of GDP. For the six years leading up to 2018, the balance of payments was in deficit, with the trade deficit in 2017 amounting to almost $17 billion. Construction, so vital to the economy, is not only primarily a consumption good; it is inherently incapable of significant productivity increases, thereby ensuring the growth of a low-skilled, low-wage labor force. Inadequate investment in and management of public education reinforced the trend of stagnating human skills and

productivity, further reinforced by emigration of educated and skilled Lebanese. In 2018, Lebanon ranked 105th out of 137 countries on the Global Competitiveness Index, outranking only Yemen in the MENA.

Banking that Crowds Out the Private Sector

As for the vitally important banking sector, it too failed to adjust to new realities as it was also harnessed to consumption. While the state was not strong enough to subordinate the banking sector directly, the interests of the elites who have captured the state lay in gaining control over banks and ensuring their profitability. That they did, with the Lebanese banking sector being dominated by locally owned enterprises, unlike most banking elsewhere in the region. Most foreign-owned banks simply gave up in the face of what became a closed system, whereby high interest rates attracted domestic and regional deposits that could then be lent to the GoL at eye-watering interest rates. The private sector was crowded out such that its portion of bank credit fell to only about one-third of the total.

No Easy Solutions

Faced with dependence on capital inflows due to high interest and a pegged currency with the ever greater indebtedness it implied, Lebanon accumulated the world's third-highest public debt as a proportion of its GDP, a proportion that now hovers at around 150 percent and is forecast by the World Bank to reach 165 percent in 2020. This house of cards can be kept upright only by continued deposits in banks; by provision of public foreign assistance to the GoL; and by implicit guarantees provided by GCC states, key of which is Saudi Arabia. Domestic production has no chance of playing an important role in the time needed to make a difference. The massive public debt was accumulated not for the purpose of investment in fixed capital assets, but for the private gain of the elites who captured the state and the vital banking sector. Since 2007 public spending on capital projects has averaged less than 2 percent of GDP, significantly below comparator countries, as the World Bank notes. That the public is now being held responsible for repayment of some of that debt obviously poses what thus far has been a politically impossible task, as reflected in Lebanon's very low total tax revenues and especially low revenues generated by income taxes as a percentage of GDP. A further deterrent to righting the fiscal imbalance is Lebanon's profound inequality, coupled with growing poverty. According to a 2017 World Bank Working Paper by Lydia Assouda, the top 1 and top 10 percent of the adult population receive approximately 25 and 55 percent of national income, respectively, thereby placing Lebanon "among countries with the highest level of income inequality in the world." According to the United Nations Development Programme (UNDP)'s 2018 survey, 30 percent of the population (1.5 million people) lives on less than $4 daily with 300,000 surviving on less than $2 per day. So fiscal policy can only nibble at the edge of deficit reduction, while the elite continue to hope that the system can be salvaged with more international bailouts, maybe made more likely by rising oil prices and European fears of uncontrolled migration, especially of Syrian refugees.

Salvation is not at Hand

But salvation does not appear to be at hand. The capital available in the West for bailouts of financially beleaguered MENA states, which include Egypt, Jordan, Tunisia, Syria, Yemen, and possibly others, is not enough to go around. Lebanon does not have the geopolitical significance of several of those states and thus is not a likely candidate to receive large shares of public foreign assistance. Private investments have been lagging for some years now, as reflected by the steady decline in FDI not only into Lebanon, where in 2017 green field FDI was less than 1 percent of GDP, but into the entire MENA. It is in most countries now about half of what it was before 2007. Rising global interest rates are particularly threatening to Lebanon's fiscal sustainability given its profound debt and already high debt servicing costs, which absorb about a third of total public expenditure. The World Bank observed in 2018, while expressing concern about Lebanon's Net Foreign Asset position, that "since 2011, there has been a discernible slowdown in deposit growth, the bulwark for financing internal and external imbalances." An

upsurge of FDI and even of bank deposits and direct purchases of government bond and T-bill issues would require not only dramatic improvements in Lebanon's unstable conditions due to spillover from the Syrian war, but a thoroughgoing overhaul of the PE, the most central feature of which would be the emergence of a responsive, accountable, transparent, capable state able to impose macroeconomic stability while upgrading human and physical infrastructure. Even were such a state to emerge, it would be many years before such accomplishments could be achieved and become apparent.

The chances of a responsive, accountable, transparent, capable state able to impose macroeconomic stability while upgrading human and physical infrastructure are low. Rental income is addictive, so weaning an entire PE off it is a political challenge that no MENA state has yet met, although several of them are making bigger efforts to do so than is Lebanon. Holland was heavily dependent on gas revenues but overcame that dependence. Indonesia has diversified its economy much more than the MENA oil exporters. Inadequate preparation for and handling of the April 2018 CEDRE Conference and its outputs suggests a state that still lacks an appropriate development model as well as the capacities to implement it. The CEDRE conference was virtually a dead letter at the time it was conducted, just like its predecessors. It was intended by the Lebanese to demonstrate an awareness of the need for reform but was not a commitment to that reform, as has been demonstrated on previous occasions. Combined with the unstable regional political system, with the most threatening manifestation of it just next door in Syria, the outlook for successful reform of the Lebanese state and the PE it presides over ineptly is bleak.

Imminent Crisis

The long-simmering crisis is thus reaching boiling point with no indication that a steady hand will emerge to reduce the heat. Successive World Bank and IMF reports and the data contained in them suggest mounting concern and frustration. The latter's 2018 Article IV mission report, for example, is substantially more negative than the 2016 one. It concludes by saying that "Lebanon's outlook remains uncertain" as "growth remains low" and "the fiscal situation remains very difficult and poses significant risks," as reflected in the downgrading by Moody's of Lebanon's sovereign credit rating. Fear of collapse of the ability to sustain the currency peg, thus of associated runaway inflation, dramatically escalating interest rates and Pound-denominated public debt, is reflected in the documents and data. Inflation rose from less than 1 percent to 4.4 percent between 2016 and 2017, suggesting that worse may well be in store unless demand collapses due to impoverishment. And not surprisingly the Lebanese have indeed been becoming poorer over the past five years and are predicted by the World Bank to grow poorer still. Real GDP per capita fell by 4 percent annually from 2013 to 2015 and by 1.6 percent in 2018 and is forecast to fall by about that amount through 2020. Remittances are not picking up the slack in the domestic economy. They are lower as a percentage of GDP in 2018 than in any of the preceding five years and are predicted to stagnate or fall in the coming two years. The budget deficit has remained stubbornly high over the past five years at around 8 percent of GDP but is predicted to rise next year to 8.9 percent and then in 2020 to 9.2 percent. The Economist Intelligence Unit reported in December 2018 that there was a "high probability" of a banking sector crisis and that its impact would be "very high." At the same time the U.S. Council on Foreign Relations' "Risk Tracker" placed Lebanon second in the world, after Venezuela, as countries most likely to default on their sovereign debt. Lebanon was also ranked as the world's "riskiest" country on the measures of current account deficit and government debt as a percentage of GDP.

There is, in sum, no data or reputable analysis to suggest that the present economic crisis, now in the making for a generation, will do anything but intensify.

Probable Political Economy Scenarios

Challenging Context for Constructing Scenarios

The Lebanese PE presents profound challenges to forecasting. A half-century ago, Lebanon was accurately characterized as a "precarious republic." While it subsequently tipped over into civil war and has also been subject to large-scale military interventions, it has survived and, intermittently at least, prospered. During this period the four main drivers of this unpredictable precariousness have remained unchanged, although their precise natures and relative importance have varied.

First, the country's perennial weak state, rendered such at its foundation by being based on confessionalism, was further weakened by the way the Ta'if Accord was implemented. Confessionalism, previously ubiquitous at only the higher levels of the state, was extended downward to its lowest levels, further undermining meritocracy and administrative coherence. Lebanon's state, fragmented by civil war, was reconstituted but in a substantially weaker form than it had been before that war.

Second, the Ta'if Accord further facilitated elite capture of the state. It increased the powers of elites who forged it while not counterbalancing that power by rendering it accountable to citizens. Instead, citizen access to public goods was made yet more contingent on their being enmeshed in clientage networks, thereby disempowering them with respect to elite patrons.[59]

Third, Lebanon's economy, always relatively open by regional standards, hence vulnerable to external influences, and laissez faire (thus not subject to careful state management) was similarly reconfigured as a result of Ta'if. It was rendered yet more dependent on the region-wide oil economy by virtue of the key roles assigned to its banking sector and to the export of labor to the Gulf, the success of both roles requiring a stable currency. Over time the currency peg to the dollar infected the economy, undermining the productivity of tradeable goods and services and rendering the economy yet more dependent on inward financial inflows. This situation has not been addressed because the state is too weak to effectively design and manage a more appropriate economic policy that imposes immediate hardships on citizens in exchange for prospects of future growth, while the confessionalized political elite is too divided to agree to, and then orchestrate, mutual burden sharing.

Finally, the long-standing penetration of Lebanon by outside actors, both regional and global, was also exacerbated by Ta'if, which legitimated an unofficial Syrian presence under Saudi influence, supported at a distance by the United States. The expulsion of Syrian forces in 2005 did not altogether remove Syrian influence, as the continued political predominance of Hizballah has attested, while the winding down of the Syrian civil war has again raised the venerable question of what the nature of Syrian-Lebanese relations should be. Simultaneously the region-wide civil war has impacted virtually all countries in the region, rendering them less autonomous while opening the door to reentry into the region of the Russians, whose precise ambitions remain unclear.

Downplaying the Magnitude of Present Threats

In sum, these inherent four causes of Lebanon's perennial precariousness have over the past 20 years intensified and become yet more intertwined, thereby enhancing the threat level while rendering it ever more difficult to forecast outcomes. The history of persistence amid precariousness, however, provides a rationale for the widespread tendency to downplay the magnitude of present threats. Many Lebanese and even analysts of the country emphasize what might be termed the inherent self-righting characteristics of a system guided by seasoned elites, supported at arms length by regional and global

59 Please see Basel Salloukh's paper in the bibliographical annex on the gap between the intent and wording of Ta'if, on the one hand, and what has been done, on the other.

actors and populated by a peoples who endured almost 15 years of civil war and who have witnessed next door another seven years of war, so are necessarily fearful of sliding again into violence. The natural desire for wishful thinking adds to this overly optimistic but commonly expressed appraisal.

The challenge then is to assess the magnitude and probable consequences of current challenges against Lebanon's putative capacities to ward off threats that might be mortal to a country less experienced in risk management. While forecasting is thus a difficult task and prone to error, it is essential if decisions about future programming are not to be based on the simplistic assumption of current conditions prevailing unchanged into the indefinite future. Mounting pressures are bound to have implications for virtually any programs USAID will support, so an effort should be made to foresee how Lebanon will respond to current pressures. That effort will proceed here by assigning heuristic probabilities to three broad categories of scenarios, within each of which sub-scenarios will also be presented. Any effort to be that precise would belie the complex reality and likely impacts of unpredictable human agency.

The assumption upon which all scenarios are based is that the PE's principal driver is the present economic crisis, as discussed above. Having sustained an overvalued currency for too long to prop up the rent-seeking economy that underpins elite incumbency, Lebanon faces not only a currency devaluation, but some degree of economic and possibly also political reform just to maintain the status quo, let alone improve it. Managing the economic crisis is thus assuming ever greater importance. Simultaneously, challenges posed by external penetration of the Lebanese system by external actors are declining in centrality, at least as compared to some previous periods. Syrian, Iranian, Saudi, American, and other external influences remain, but none requires such immediate or profound attention or has such wide-ranging impacts as does the intensifying economic crisis. The role of state weakness and elite capture of the state in constructing scenarios is largely that of intervening variables between the economy and external penetration.

Finally, since the scenarios address the probability of reform, it is necessary to clarify what that term implies and how it is measured. As the following graphic indicates, there are two types of reforms—those that are limited in their impact on the PE's structure and that therefore sustain the status quo but for a limited period only given its profound weaknesses, and those that are associated with fundamental, structural change to the existing PE, thus replacing the status quo with a new, more sustainable system.

Limited Moderate Reform

The first type—limited, moderate reform—would not address the weak state's key constraints nor elite capture, would not transform clients into citizens enjoying full economic and political rights, and could be orchestrated by the incumbent political elite without involvement of external actors or substantial recruitment of new members into the political elite accompanied by removal of some existing ones. Instead, reform would be a top-down exercise orchestrated by those currently in power to sustain the system they have constructed. It would address only marginally state weakness, elite capture, and denial of full citizenship rights. Its main thrust would be directed at monetary and fiscal policies to reduce the budget and current account deficits and by so doing begin the process of improving the economy's overall health.

Thoroughgoing Reform

The second type of reform would address the system's key constraints of a weak state, captured by elites who deny citizenship rights to the population. It would necessarily therefore reduce confessionalism within the state, replace at least some of the incumbent political elite, and empower citizens economically by improving public service delivery and politically by expanding basic freedoms and rendering elites more accountable to civil society. The rentier economy based on financial inflows

through the banking sector would be altered by an emphasis on tradeable goods and services facilitated by a more competitive currency exchange rate and in due course reduced interest rates.

While the prospects for either mild or thoroughgoing reform are not great, they are better for the former than the latter, in part because thoroughgoing reform would necessitate the involvement and approval of foreign actors, whose interests would also be impacted by those reforms. In addition, thoroughgoing reform could be stimulated only by an at least partial if not total collapse of the system, in which case the choice is reduced to reform versus intensified conflict. Reform in such dire circumstances is always difficult for several reasons. Mild reforms to delay or ward off systemic breakdown are more easily achieved.

Figure 1 (in Part I – Section Six) depicts the scenarios along a continuum. Those that do not alter the status quo condition of systemic paralysis are in the middle, accounting for 70 percent of possibilities. Within the range of systemic paralysis, the sub-scenario on the right is one of limited change, as just described. The sub-scenario on the left of the systemic paralysis dimension is one in which prospects for even moderate reform are undermined, thereby opening up the likelihood that the system will deteriorate further, crossing the line into the category of scenarios of deterioration. That category, which accounts for 20 percent of possible outcomes, terminates on the extreme left in total breakdown and possible civil war. To the right of the status quo dimension are systemic reform scenarios, the assigned probability for which total 10 percent, composed in about equal measures of sub-scenarios that include both moderate and thoroughgoing system-transforming reforms, the latter of which, as just noted, require the involvement of external actors in something resembling a Ta'if 2.

Lebanese Faith in Muddling Through

This assessment ranks the first of the following three scenarios the highest. The analysis suggests that the systemic breakdown might be more likely than the percentage accorded to it in this assessment. However, the first scenario, which might be termed "muddling through," was given higher weight for two reasons. First, the Lebanese have a legendary ability to magically perpetuate their problematic political system of consociationalism. Many Lebanese have a faith that somehow, despite mounting evidence of a pending financial crisis, they will be able to weather the storm and carry on. The second reason the "muddling through" scenario was given more weight is the sheer size of the black and illegal economies, which don't factor into the formal economic indicators that are so worrisome. IThe Special Topic on Lebanon's Informal Sector (below) provides additional detail and relevant references to Lebanon's contemporary informal economy.

Systemic paralysis scenarios: 70 percent probability

This broad scenario of relatively limited change comprises three sub-scenarios, including two of no change and another of limited but positive changes.

All aspects of status quo of paralysis persist

The sub-scenario of persistence of the broad status quo with no reform to the PE reflects the following assumptions:

1) The financial crisis will persist but be contained by a combination of external and internal developments, including government formation unlocking some of the funding pledged at CEDRE combined with a limited cascade effect of further additional funding from some combination of Gulf, European, American, and other sources.
2) No IMF package will be sought nor will the currency be more than marginally devalued.
3) Economic growth will remain sluggish.
4) Syrian reconstruction will commence with limited participation by Lebanese firms.

5) The region-wide civil war will not intensify and may show signs of gradually abating.
6) Present relations between incumbent Lebanese political elites will persist with only minor changes.
7) The Lebanese state will remain weak and not gain greater autonomy from political elites.
8) Protest movements will continue episodically but be of only marginal political importance.

Marginal improvements to the status quo of systemic paralysis generate momentum for mild elite-led reforms

The sub-scenario of the status quo being marginally improved enabling limited reform of the PE reflects the following assumptions:

1) A noticeably greater inflow of foreign currency resulting from implementation of CEDRE reinforced by some cascading of additional investments and possibly also reasonably substantial involvement in Syrian reconstruction, provides additional "wiggle room" for economic and fiscal management. A return of some sense of economic optimism is also supported by commencement of exploration for offshore oil and gas deposits.
2) An improved regional political environment, including progress on settling the "Syrian issue," contributes to a more optimistic outlook for Lebanon.
3) Political elites capitalize on these enhancements of the domestic and regional contexts and the widened "wiggle room" they provide to commence at least limited reforms, such as to vital service delivery sectors including electricity, water, sewerage, education, transport, and so on.

Marginal improvements to the status quo of systemic paralysis deter further elite-led reform

This scenario is the same as scenario 2 except that the "wiggle room" opened up by improved economic and political contexts is not utilized. Instead those improvements encourage decision makers to persist with present policies, thus solidifying the present paralysis but only temporarily by rendering it yet more brittle, hence subject to sudden breakdown probably in the relatively near future.

The present paralysis, in sum, can be reinforced by little or no improvement to the economy and regional contexts, but also by moderate such improvements.

Systemic breakdown scenarios: 20 percent probability

Scenarios that posit varying degrees of breakdown of the PE result primarily from enhanced domestic economic pressures rather than from external interventions, although the latter remain possible, if unlikely, and they could be driven by and reinforce economic pressures.

Accelerated economic deterioration not accompanied by major domestic or external political changes

This sub-scenario reflects the following assumptions:

1) External support resulting from CEDRE or other sources is insufficient to prop up the Lebanese Pound, which is devalued, in turn driving inflation up by about the same amount while stimulating an acceleration of capital flight. A limited run on banks brings down the weakest, smallest ones, but is contained by Central Bank interventions. Slow global economic growth; stagnating hydrocarbon prices weakening the economies and currencies of the major Arab oil and gas exporters; European confidence that their border security will deter illegal migration so additional funding need not be provided potential transit countries; and U.S. disinterest prevent a major financial rescue package from being mounted outside the framework of the IMF. Lebanese politicians agree to an IMF standby agreement that requires sufficient fiscal and monetary reforms to stabilize the currency and inflation at the rates identified above.

2) Resultant reductions in consumption stimulate political discontent, but not of a magnitude to destabilize the existing system.
3) External actors are not drawn into Lebanon any more deeply as a result of the economic crisis.

Profound economic deterioration fragments the political elite and stimulates more external intervention

1) The economic components of this scenario are similar to those in scenario I, with substantially greater magnitude of economic stress, including a currency devaluation and resultant inflation in excess of 25 percent, accompanied with very substantial capital flight and reduction of remittances through official channels that are thus not available to the banking system. Lebanon defaults on a portion of its debt, which places additional pressure on domestic banks, of which a substantial number fail. An IMF rescue package cannot be agreed by a divided political elite, or even if reached is of insufficient magnitude to restore domestic and international confidence in the Lebanese currency, debt, or broader economy. The informal and illegal economies expand rapidly to fill the vacuums left by the retreating formal, legal economy.
2) Negatively impacted by this sharp fiscal and economic deterioration, the political elite fragments amid mutual recrimination, with many of its members having suffered substantial economic losses. Neither the cabinet, if one exists, nor the parliament can conduct business as usual. The opposing political groupings begin surreptitiously to develop or enhance their coercive capacities. One or more parties approach the military to intervene, assume responsibility for a "breathing" period in which those parties can reconstitute a civilian governing elite. This in turn creates three sub-scenarios, in one of which the military considers itself cohesive enough to intervene for a limited period and does so, facilitating a reconfiguration of the elite; in another of which it tries to intervene but fragments, thereby reinforcing the general breakdown in the country; and in a third whereby the military is paralyzed by its internal divisions and refuses to act or indeed to work actively to preserve national coherence.
3) Popular discontent expands in tandem with the reduction in the real value of all Pound-denominated salaries, the price increase of goods and services, the loss of investments and savings as a result of the banking crisis, and the manifest incapacity of the political elite to resolve the economic crisis.
4) As the crisis intensifies, external parties provide additional support, including that of a coercive nature, to their local allied organizations.
5) Lebanon in this sub-scenario has thus become a powder keg on the verge of explosion.

Economic and political collapse coupled with outbreaks of violent conflict

1) This scenario is essentially the same as 2 (and could follow on from that scenario) with the addition of even more intense economic difficulties coupled with more active foreign interventions, all contributing to outbreaks of violence and a repolarization of the country, further aggravated by connections to the regional civil war.
2) Lebanon is effectively repartitioned along confessional/political lines, thereby in effect terminating the national PE as regions become economically and politically substantially independent, as they were during much of the civil war.

Systemic reform scenarios: 10 percent probability

Incumbent elites agree to reduce their shared capture of the state and to strengthen in some degree its capacities and autonomy in at least certain sectors.

1) Incumbent elites are motivated to compromise and cooperate by some combination of factors, including economic deterioration, perceived collective and individual benefits from reforms,

prospects for greater external support following reforms, popular discontent, and external pressures.

2) Reforms might be introduced piecemeal as part of a cautious, testing strategy or wholesale out of a sense of urgency, even panic. It is possible that the military would be called on to hold the reins of power temporarily as the political elite was reconfigured and reforms agreed upon.
3) Some reduction of clientelism and at least limited expansion of political and economic rights of citizenship would necessarily accompany reductions in elite capture of the state and the state's strengthening, if only because public service delivery would be rendered more independent of elite control. This in turn would provide impetus for continuation and deepening of reforms.

In sum, in this sub-scenario the incumbent elite would try to engineer enough reform to reduce economic and popular pressures on them in the hopes that the reforms would extend their incumbency, but the reforms might provide enough traction for alternative elites ultimately to replace those incumbents. These reforms, in short, would open the way to a political struggle that might in turn result in more substantial changes. The prospects for this sub-scenario appear to be less than those for the following one given the outlooks and behaviors of the dominant members of the incumbent political elite.

Reforms imposed on incumbent elites by coalition of external actors—a sort of Ta'if 2

1) Imposition of reforms could result from economic deterioration as outlined under the previous scenario. Fear of collapse could induce a coalition of external actors to agree to a type of Ta'if 2 in which elite capture, state weakness, and possibly denial of citizenship would be addressed, with solutions to these problems essentially imposed on Lebanese actors, presumably in exchange for the financial support necessary to save the nation.

2) A variation on this sub-scenario with quite a small probability is that as at Ta'if, it would be mooted that a "designee" state would be informally nominated to oversee the Lebanese political economy. The resulting fear of subordination to a foreign actor would impel Lebanese elites to agree to reforms, or indeed the designee state would be assigned sufficient sovereign powers to make major changes to the PE.

Overarching and Sectoral Programmatic Principles Implied by the Scenarios and Drivers behind Them

Overarching Principles

9) Be flexible with programming because of the potential for abrupt, significant changes in key PE aspects. Avoid activities that require extended time for design and implementation.
10) Closely and regularly monitor the PE to detect as quickly and as accurately as possible changes that will impact programs and enable new ones. Both principles are based on the wide range of possible outcomes and the rapidity with which significant change might occur.
11) Focus on tangible outcomes and deliverables rather than institutional capacity building or improvements to policy frameworks. The weakness of all governmental institutions is profound and overdetermined, so efforts to strengthen them are unlikely to succeed and might aggravate inter-confessional relations while undermining intended benefits and products from that capacity building. The policy framework has been rendered partially if not entirely irrelevant by flouting of important legislation by the executive coupled with its control over much of the legal/judicial system. Rule of law has been so undermined that legal frameworks have become virtually irrelevant to governmental procedures and actions.

12) Target interventions at subnational levels because of the complications of collaborating with a fragmented and corrupt national government and because of the possibility of selecting the most promising subnational governmental units that can balance regions, confessions, political actors, and beneficiaries, whether end users or providers of goods and services.
13) Deal as directly with individual beneficiaries of assistance as possible, bypassing government wherever possible.
14) Limit intervention scale, favoring multiple small ones over fewer, larger ones. Although this poses more management challenges, it has the twin advantages of spreading bets in an unpredictable environment while not attracting unwanted attention from rapacious elites seeking to capture resources.
15) Emphasize assistance for basic service delivery. The economic crisis will likely intensify, thereby exacerbating the struggle to meet basic needs. It makes sense to prepare for this likelihood by launching programs that can be expanded in tandem with the deepening crisis.
16) Consider activities that can help the country reduce the intensity of or emerge from the economic crisis. Lebanon should become economically more self-reliant by local production of goods and services while developing capacities to generate foreign currency through exports. Prepare to stimulate local production to take advantage of competitive advantages made possible by a devaluation.

Rules of Thumb for Specific Sectors: Business-Enabling Environment, Education, Water and Wastewater, Local Governance (Decentralization), And Environment

Business-Enabling Environment

Environment is probably not the appropriate term for activities intended to enhance productive business capacities. A major, if not the major, constraint to growth of productive businesses is the macroeconomic context, most notably the currency peg but also including accompanying restricted access to finance of private firms, high interest rates, increasingly scarce foreign exchange, declining domestic demand, and so on. These negative features of the macroeconomic environment are byproducts of PE structure and thus are not susceptible to change through USAID program interventions. Moreover, formal policy changes adopted in response to external pressures from donors nominally addressed to macroeconomic constraints might not be implemented, as with much legislation and even executive decrees. So the broad and important macroeconomic environment within which Lebanese businesses operate should be considered as a contextual variable subject to reform only as part of a wide-ranging and fundamental PE overhaul.

But in more sector-specific, small-scale terms, the business environment is a suitable target for USAID programming. While constraints on business formation and growth imposed by macroeconomic deficiencies are mostly beyond USAID's manageable interest, helping businesses overcome other more immediate, less systemic constraints is not. Those numerous constraints include availability of various inputs such as skilled labor and technology, as well as access to market information, capacities to develop and service markets, and so on. Most of these microenvironmental constraints are best addressed case by case with individual businesses, possibly in conjunction with subnational levels of government that rely on these businesses' goods and services.

Synergies might be developed by assisting businesses that can provide local goods and services, thereby enhancing the quality and range of such goods and services available to non-national units of government. Types of businesses that might best provide synergies with efforts to upgrade local service

delivery are those involved in education and educational supplies, water and wastewater, and environmental preservation and upgrading.

Suggested interventions to improve the business-enabling environment include the following:

- Assist private sector–municipal collaboration.
- Help unions of municipalities maximize replication and economies of scale.
- Test local PPP potential (See Annex 1 for local PPP success stories).
- Improve access to capital for SMEs.

Education

Lebanon possesses the region's best-developed system of primary, secondary, and tertiary education, virtually no component of which is in dire need of USAID assistance. AUB, a particularly substantial asset to Lebanese-American relations, produces substantial portions of the country's academic, technical, economic, and political elites. It is thus especially appropriate to consider USAID-supported activities to enhance contributions from AUB and possibly other universities to help USAID realize its development objectives in the sectors analyzed here.

Technical and vocational education providers constitute another component of the private educational system. Some might be suitable recipients of USAID assistance as part of an effort to enhance technical skill levels in the labor market. A possible avenue to explore is skill training for university graduates and secondary school graduates to render them more employable in the private sector.

In both public and private educational systems, targeting assistance at early educational levels and at deprived communities can probably have the greatest impact on upgrading performance. Some of that assistance might include efforts to provide counseling to help young pupils deal with the psychological issues associated with conflict and deprivation. Interventions to the extent possible should be targeted directly at schools or at activities and programs that work directly with schools rather than through central government. Partnerships between municipalities and schools aimed at upgrading public education, such as that of the AUB-based Tamam Project, are another possible area for USAID programming assistance. Because the educational system is highly confessionalized, efforts should be made to facilitate cross-sectarian interactions of young Lebanese, presumably primarily in after-school extracurricular activities. Please see Annex 2 for a description of an innovative network of schools bringing together Syrian refugees with host country counterparts.

Suggested targets of interventions to enhance education include the following:

- Early education (emphasis on girls).
- Vocational and technical training.
- Cross-sectarian extracurricular activities.
- Higher educational institutions.

Democracy and Governance: Decentralization, Local Governance around Small-Scale Community Social Infrastructure Projects, and Elections

As with other programmatic interventions, the limitations of the weak central state are such that it would be unproductive to address policy constraints to decentralization.

Key points of the draft decentralization law and some reasons it did not pass

The Ta'if Agreement (1989), which laid the groundwork for a political settlement, stipulated the adoption of extensive administrative decentralization to foster even development among Lebanon's regions. With the integration of the Agreement into the Lebanese Constitution in 1990, a comprehensive decentralization reform became constitutionally mandated. Subsequently several decentralization draft laws have followed this model, but none were adopted. The latest attempt was the Administrative Decentralization draft law established in 2014, which is being discussed in the parliamentary subcommittee. The key points of the draft law could be summarized as follows:

- Division of Lebanon into regions with regional elected councils that are granted a wide scope of work.
- Elections on the basis of proportional representation.
- A sustainable fiscal and financial system.
- Developing a decentralized fund, which replaces the IMF Independent Municipal Fund. The decentralized fund shall enjoy a new governance structure, more resources, and equitable distributional criteria to both Qadas (Casa level) and municipalities.
- Promotion of PPPs in local governance.
- Improvement of transparency and mandatory use of e-governance.

But this draft law is silent about municipalities and does not introduce any amendment to their legal framework; nor does it provide a basis for the reform of the municipal electoral system.

Many challenges hinder the ratification of the decentralization law, including:

- Political challenges.
- Financial challenges.
- Administrative challenges.

Although weak, the state is grasping and thus unlikely to let control pass from its hands to local government, especially when that control involves substantial financial resources. Top-down decentralization, in other words, is unlikely and not worth trying to stimulate. But bottom-up work with selected local government units addressed to service delivery rather than only to governance capacity building might provide reasonable returns. Among other benefits, engagement with local government units pre-positions USAID to provide more humanitarian assistance in the event of a chronic breakdown. Specifically, the cabinet-level policy, personnel, and administrative contexts are not conducive to supporting aid-assisted interventions that would address the country's provision of services, including potable water and wastewater, solid waste removal and treatment, local transportation, provision and management of public spaces, and so on. The magnitude of the threat posed by deterioration of the supply and quality of potable water and treatment of wastewater, as well as accumulating untreated solid waste. is so great that remedial localized actions should be taken. Quality-of-life deficiencies can be addressed by efforts to improve local transportation and access to well-managed public spaces. One method of enhancing impacts of interventions might be to facilitate relations between private sector actors in the sector with municipalities, possibly providing technical assistance to better manage the contractual and technical relationships.

The 2022 Elections and their Significance

Lebanon is anticipating elections in 2022 at the municipal, national, and presidential levels. However, if history is a judge, it is rare that parliamentary and presidential elections are convened as scheduled. Of the three, only the municipal elections are likely to be held as anticipated.

The last elections for local councils were held in 2016 across more than 1,000 municipalities. The one-day municipal elections are based on a First Past the Post (FPP) plurality vote in small multi-member districts. There are no confessional criteria for candidates so electoral campaigns are typically conducted around local issues while alliances are formed based on families and political affiliations. Because of their local nature, the 2016 municipal elections challenged dominant political parties, as exemplified by the formation of "Beirut Madinati" and "Baalbek My City" coalitions that mobilized independent and local civil actors and received more than 40 percent of the votes in respective districts. It is highly likely that this trend will gain momentum in 2022 amid deteriorating local confidence in the performance of large centralized parties. The local elections are more transparent and responsive to development needs than the national elections as they loosen up the grip held by dominant confessional parties over the voters.

Various technical challenges could prevent the simultaneous holding of parliamentary and municipal elections in the same year, including the lack of sufficient manpower to provide security arrangements, observers, and monitors for both absentee and in-country ballots. But serious obstacles will most likely be presented in a debate around amending the electoral law, particularly by those who lost seats in the 2018 election (Kataab Party, Future Movement, Progressive Socialist Party) and around various technicalities (redistricting, amending single preferential vote to multiple, organizing absentee ballots, including women quota, utilizing biometric IDs, lowering the voting age, and observing transparency).

The presidential election is likely to share a similar paralysis. Most likely, the quarrels will be centered around whether the 2018 Parliament or a new one is the legitimate forum to elect the President. Parliament will most likely be divided around presidential candidates already in the race, including the current Foreign Minister and President's son-in-law Gebran Bassil (most likely supporters include Hezbollah, Free Patriotic Movement, and possibly the Future Movement) and his rival Suleiman Frangieh (most likely to be supported by the rest of the parties). Two scenarios are plausible: one is to extend the Aoun presidency to three years (to avoid a vacuum) and the second is to repeat the prior experience where Parliament extends its own term while coping with a presidential vacuum until a consensus is reached.

The 2022 municipal, parliament, and national elections (another Democracy, Human Rights, and Governance sub-sector) will likely also present a window of opportunity. Only the municipal poll will likely be held that year, but given the importance of work at the municipal level, as recommended by this PEA, this election presents an opportunity for synergies.

Environmental Protection and Management

Environmental degradation is a very serious problem in Lebanon, exacerbated by inappropriate policies, lax oversight and regulation, and corruption. None of these issues will be effectively addressed at the national level. As with other service sectors, therefore, the only available approach is to deal with them at local levels through small-scale community infrastructure projects, as noted above. Potential environmental targets for such interventions other than those focused on water and solid waste include parks and playing fields, built cultural heritage sites, and ecotourism facilities.

Municipal Rights to Finance Tourism Projects

Touristic projects can be financed if proven that municipalities will generate revenues through incorporating sites within their districts (through fee collection). This right is stipulated in the following article:

Article 67. According to Law number 60 date 12/8/1988, modified in accordance with Law 671 of 5 February 1998

1. Special fees are imposed on access to archaeological and tourist sites.
2. Fees and exemptions shall be determined by a decision issued by the municipal council and subject to the approval of the ministers of finance and tourism.
3. Fees shall be levied by entry tickets deducted from the booklets bearing serial numbers that shall be placed by the indirect tax department of the Ministry of Finance for this purpose at the request of the competent municipality.
4. Half of the fee is due to the municipality and the other half to the state treasury.

Almost all municipalities practice this right, including Baalebek, Jbeil, Anjar, and many others.

SPECIAL TOPICS

Working at the Municipal Level

Success Stories of Municipalities (Often Involving the Municipal Unions) in Using the PPP Platform at the Local Level, Briefing Document for the PEA Team, (by Christina Abu Haidar, February 2019)

Before highlighting some recent success stories of municipalities/Union of Municipalities using the PPP model in implementing projects, it is important to review the legal texts of the PPP regulatory framework. Municipal Decree-Law 118, issued on 30 June 1977 and its amendments, provide that the municipality is a local administration exercising the powers entrusted thereto by the law, enjoying legal personality as well as financial and administrative independence.

Article 86 of the Municipal Law states that municipal finances shall consist of the following:

- Fees collected by the municipality directly from taxpayers, constituting local municipal revenues, with fees levied and collected directly at the local level.
- Fees collected by the State, independent authorities or public institutions on behalf of the municipalities and distributed directly to each municipality.
- Fees collected by the State on behalf of all municipalities and deposited into the Independent Municipal Fund.
- Financial aid.
- Loans.
- Revenues from municipal properties: These revenues are generated through investments in municipal properties or common lands that are managed, leased, or invested by the municipality on behalf of all the native residents.
- Fines: All court fines resulting from violations of construction, traffic, public health, or any other municipal regulations. They are allocated to the municipality's fund in the area where the violation occurred.
- Donations.

In addition to the above-mentioned decree, Law No. 60/88 dated 12/8/1988, as amended by Law No. 14 dated 20/8/1990, provides that municipalities directly collect fees on the following:

- Rental value
- Public/meeting places and gambling clubs
- Advertisements
- Occupation of public municipal property
- Shops and fuel stations
- Classified institutions
- Auctions
- Touristic places
- Street vendors
- Butchered animals
- Access to municipal public spaces
- Registration of rent agreements
- Construction licenses
- Sewage and pavement maintenance
- Attestations, certificates and technical studies
- Compensation resulting from improvement works
- Special fee on combustible and explosive materials

According to the municipal law, all public works and developmental projects as well as administrative, financial, health, social, economic and educational affairs which fall within municipal boundaries are subject to the authority of the municipal council and the executive authority. The Ministry of Interior and Municipalities (MoIM) exercises its authority over the management, budget and finances of all municipalities through the Qaemaqam, the Mohafez (governor) and the Minister of Interior and Municipalities.

Municipal unions established among interested municipalities to consolidate their capacities also enjoy moral legal personality and financial autonomy. A union is created by a decree from the Council of Ministers, upon the suggestion of the Minister of Interior and Municipalities either through an initiative from the Minister of Interior and Municipalities or upon the request of the municipalities.

Municipalities have been able to develop and tender PPP projects under existing laws and decrees prior to the ratification of the PPP law 48/2017 such as:

- Municipal Act Decree-Law No. 118/1977.
- Decree 5595/1982 (Specifying Accounting Procedures in Municipalities and Unions of Municipalities).
- Municipalities that are subject to Court of Audit (such as Beirut, Tripoli, and Saida etc.) are obliged to follow the procurement procedures laid out in the Public Accounting Law of 1963.
- Municipalities that do not follow the Public Accounting Law are obliged to follow the financial regulations and procurement procedures detailed in Decree 5595/1982.
- Municipal fees and Surtaxes Law 60/1988, as amended by Law No. 14 dated 20/8/1990.

Municipalities should play a vital role in strengthening local economic development. They are, however, unable to fulfill even the most basic duties such as the provision of services and investment in development because despite enjoying legal autonomy they are administratively constrained and fiscally dependent. For municipalities to keep pace with increased local demands and provide local development, the involvement of the private sector is essential due to its expertise, know-how and financial capacity.

Examples of Municipalities Using PPP:

The existing legal framework:

Article 50 of the municipal-decree law states clearly that the municipalities and unions of municipalities have the legal right to establish joint projects with the private sector**:**

"The Municipal Council shall be entitled, within its area, to establish or manage directly or indirectly, or contribute to or to help in the execution of the following works and projects:

- Public schools, nurseries and technical schools
- Popular residences, toilets, public wash houses and swimming pools
- Public hospitals, sanitariums, dispensaries and other health establishments and institutions
- Museums, public libraries, theaters, cinemas, amusement centers, clubs, playgrounds and other public and sports shops as well as social, cultural and artistic institutions
- Local means of public transportation
- Public shops for buying food, refrigerators for keeping them, and threshing floors."

Also, according to Article 49 of the same law, the Municipal Council shall be in charge, without limitation, of the following:

- "…. Planning, improving and expanding the streets, establishing gardens and public places and executing designs related to municipality…
- Establishing shops, parks, racing places, playgrounds, toilets, museums, hospitals, dispensaries, shelters, libraries, popular residences, wash houses, sewers, waste drainage and others.
- Regulating transportation of all types, determining its fees if necessary within the municipal area, with observance of the provisions of the laws in force.
- Enjoying the right to enter into contracts to conclude agreements with municipalities.
- Supervising public utilities and drawing up reports regarding the work progress thereof to the concerned administrations."

Examples of projects which have been implemented in partnership with private firms or donors include:

1. **Municipal Union of Jezzine (located in South Lebanon)**

The Municipal Union of Jezzine has invested in several projects in partnership with the private sector**.** The aim behind these projects was to attract visitors and investors alike and contribute to the creation of job opportunities for the local residents; all within a systematic institutional framework.

- Three projects were executed in the Municipal Union of Jezzine in accordance with the PPP model:

- "La Maison de la Forêt:" This eco-tourism project highlighted the beauty of the Bkassin forests by building some bungalows, restaurants, conference rooms, and by launching touristic activities such as hiking. These undertakings were all executed and operated by the private sector on land owned by the municipality.
- "Pine House:" The aim behind this eco-agriculture project was to boost the production of pine nuts and subsequently other products such as honey through encouraging agriculture, light industries and social development. All projects were executed and operated by the private sector on land owned by the municipality.
- The "Olive Factory" was a PPP project implemented to support the olive farmers COOP (eco-agricultural project). The olive cooperative was able to produce olive oil but lacked appropriate expertise and technical capacities. The private sector through the PPP model helped the COOP and together they were able to diversify the types of olive production.
- Future planned project: to establish an apple packing/processing facility within the same PPP model.

- These projects were implemented at a union level applying the municipal law.
- The union, in most of these projects, offered the land that was considered their share in the project.
- The private company invested money to execute and operate the project.
- Memorandum of agreements were concluded between the union and the private companies.

Conditions for and regulations of the private sector were imposed by the union for the duration of the contract term.

N.B: USAID and other donors supported the Union of Jezzine in implementing some of these PPP projects by providing needed equipment.

2. **El Ghbaire Municipality (Suburbs of Beirut)**

El Ghbaire municipality has also jointly invested in several projects with the private sector including a sports stadium, a disaster council, and a health center.

These projects have created employment opportunities for the residents, boosted local production, and generated revenues for both the municipality and the Union.

3. Qabrikha Model Village (located in Marjayoun District South Lebanon)

Qabrikha Model Village is a telling example how municipalities and donors can cooperate to find sustainable solutions.[60] (The donor could be replaced by the private sector to replicate this success story). Qabrikha residents enjoy electricity 24 hours a day, seven days a week due to a 250kWh solar farm there. The solar farm was funded by the EU and implemented by UNDP and managed by the municipality of Qabrikha, which offered the land on which the station and the connection infrastructure were installed. Smart meters were put in to support around 150 homes from this green source of energy. When the electricity is cut off, the solar supply provides a variable intensity, according to the counters installed in the homes.

In Qabrikha, UNDP has chosen to adopt net metering technology which has been authorized in Lebanon since 2011. An individual or a collectivity owning photovoltaic panels will use this "net billing" method to subtract its production of energy from its consumption. *Electricité du Liban* (EDL) measures household consumption through a bidirectional meter, a very accurate system according to the state-owned company, and only the net difference is billed and paid by the user. If the amount of solar electricity production exported to EDL is greater than the power consumed, the surplus is rolled over to the next billing period. This will be the case until the end of the year where any surplus will be considered as granted without compensation to the utility. Exchange is upon deduction from monthly bills and not through paying direct money so it is well known as a barter exchange ("Troc exchange"). This case may be subject to change in the future upon the discretion of the national utility EDL. Apart from the ecofriendly nature of the solution, residents benefiting from the new solar farm have cited a 30 percent decrease in their power bills using the net-metering process. This model is a successful example of how the electricity power shortage can be mitigated while decreasing carbon emissions.

This concept could be applied in other municipalities adopting the PPP model in order to implement and operate the facility and replicate Qabrikha's model.

4. Examples of how municipalities faced the garbage crisis through applying the PPP model (in these cases it was donor oriented):

- The Municipality of Bikfaya-Mhaiydseh (Metn district), in collaboration with a neighboring municipality (Sakiet el Misk-Bhersaf), has taken the lead in handling waste management according to a system of integrated waste management. This initiative involves a waste management center operated through a private company (grant from the EU) that is now treating eight tons of waste a day sorted from source.
- The Solid Waste Treatment Plant of Tripoli is the largest in the country to date and combines sorting, recycling and composting. The facility receives waste from Fayha union of municipalities which include Tripoli, Mina, Bedawi and Qalamoun. It was built with a grant from the EU and is managed by the office of the minister of state for administration reform and operated by the private sector. The plant helped to create more than 50 new jobs in the area.

➢ **With the ratification of law 80/2018 the "Integrated Solid Waste Management Law,"** which places the responsibility of waste reduction on municipalities,

[60] The donor could be replaced by the private sector in order to replicate this success story.

provides national authorities room to override municipalities, which in accordance with their mandate and legislation have the right and duty to assume a leading management role, while national authorities are expected to support local actors with capacity building and financial contributions. The law stipulates integrated waste management must be done by local administrations such as municipalities and union of municipalities when it is economically and environmentally feasible. The law also specifies procedures to be set by local administrations for solid waste management. Each municipality should prepare a project for managing solid waste to be referred to the Ministry of Environment for approval within six months from approving the strategy. This provides the opportunity for the PPP model to be used to implement this law and achieve some decentralization in waste treatment at municipal level.

Banque Du Liban Subsidies

The BdL helps finance investments with subsidized rates specifically in energy saving, renewable energy technology, and even environmental green projects with low-cost financing and medium- to long-term maturities, by exempting banks from part of the required reserve requirement to finance these projects at low cost.

Types of existing subsidized loans:

- **NEEREA**: National Energy Efficiency and Renewable Energy Action loans
- **LEA:** The Lebanese Environmental Action (LEA) for Water, Air, and the Environment is another National Financing Mechanism aims at offering subsidized loans for projects dealing with air quality, water, and the environment. Solutions include waste water treatment plants, rain water collection, landscaping, and traditional roof tiling and stone cladding systems.
- **BdL Circular No 399: (*This circular is tailored specifically to meet municipal needs.):*** It is important to highlight that the Central Bank of Lebanon (BdL) issued the circular 399 date 08/10/2015 that extends NEEREA (National Energy Efficiency and Renewable Energy Action) loans financing mechanism to villages and rural areas, which supports loans in Lebanese Lira for villages and rural areas for financing environment friendly and renewable energy projects.

Challenges for subsidized loans

All the above-mentioned subsidized loans are accessible for municipalities but in practice are not being utilized despite the legal right for municipalities to profit from financial aid, donations, and loans, after taking into consideration administrative control over Municipal Council's decisions as stated by article 86 of the Municipal Act Decree-Law 118. The controlling authority has not given permission for municipalities to access loans. There is interest in municipalities developing and implementing such projects mainly to respond to key issues like energy deficits as well as other non-energy issues like waste management, but they do not have the technical capacities to design the projects nor to access financial resources. Through the PPP type of financing mechanism, the private company targets the subsidized loan (NEEREA or other BdL or bank loan) on behalf of the municipality. The municipality commits to pay the loan through the whole loan period to the private company, which in turn pays back the loan when due to the financing institution. The main advantage of this process is that the financing will be sourced through NEEREA or other BdL subsidized existing loans which are already in place with a clear and well-established procedure allowing the municipalities through PPP to indirectly benefit from these subsidized loans.

Law 48/2017 Regulating Public Private Partnerships

Until August 2017 there was no clear framework, law, or model specifically for the PPPs. With 18 articles, this new law establishes the regulatory framework of the contracts that the government will use to entrust private investors to build and/or manage equipment and infrastructure in different sectors,

among which electricity, telecommunications, and civil aviation are expressly included. The provisions of this law shall govern all PPP Projects undertaken by the state and public institutions and all moral persons of public law, with the exception of municipalities and unions of municipalities, which may choose to subject their PPP Projects to the provisions of this law. This gives freedom to municipalities to choose the PPP law they find suitable in applying their desired projects.

The creation of a Communication and Development Unit at one of the Unions of Municipalities to help donors access municipalities and their citizens.

- **The Platform for Progress (P4P)**: is a civil initiative established lately in Kesserwein district, with the support of the Municipality of Jounieh and the Union of Kesserwein, to advocate for more PPPs in Lebanese municipalities. It aims to contribute to the PPP-enabling environment through awareness-raising and capacity-building activities for municipalities and unions.

Membership: Membership with the Platform is open to all Lebanese cities willing to develop more projects for progress, especially projects that utilize the PPP model.

Objective: This platform aims to contribute to the PPP-enabling environment in Lebanon by providing support to Lebanese municipalities/unions via legal and technical assistance, capacity building, and solution for multiplying the amount of possible PPPs designed to address their challenges and needs (e.g., transport, water, energy and waste efficiency and effectiveness).

Activities: Capacity building, provide legal and technical solutions.

- **Municipalities and NGOs Coordination Unit at the Level of Baalbek el Hermel Governorate**

Established in February 2017, trying to achieve equity, and transparency in the humanitarian and development projects and build the resilience of the local community and governmental institutions in the governorate especially that this area is considered as one of the most vulnerable areas in addition to its sensitivity for some donors, from here this unit is very beneficial and its objectives is to perform the following:

1. Link the municipalities with the humanitarian actors.
2. Capacity building for the municipalities to raise funds through applying community-based approach in their projects.
3. Municipal policies related to transparency, gender equality, child rights and refugees.
4. Data system for the projects and needs.
5. Measuring the achievements of the SDGs.
6. Advocating for inclusion of refugees.
7. Link the donors and INGOs with the service providers.
8. Capacity building for the governmental departments.

Local Education Initiatives

Successful Local Education Initiative: The Kayany Foundation

Kayany Foundation is one of the many Lebanese non-governmental organizations (NGOs) established in response to the Syrian refugee crisis that resulted in approximately 500,000 school-aged children coming to Lebanon. The Kayany initiative aimed to complement the Lebanese public education system by catering to the most vulnerable school-age children. From 2014 to 2019 it established 9 accredited elementary and middle schools and enrolled 4,000 children from informal tented settlements (ITSs) in the Western Bekaa region.

The schooling model included the following distinguished local development features:

1. Schools were established within or in a close proximity to ITSs, providing ongoing interaction between the displaced community and the school while incentivizing both girls' and boys' education. This has also contributed to direct access of the targeted population and to trust-building between the school and the displaced community.
2. Schools facilitated a participatory environment with the ITSs as they provided children with wintering needs (meals, clothes, hygiene kits, and school supplies) and psycho-social support through outside therapists while employing local Syrian and Lebanese Human Resources (teachers, administrators, and staff) and utilizing local resources (food, transportation, and construction).
3. Local partnership with host communities was also achieved through land-lease, employment, capacity building, infrastructural development, open access to free education, and joined service providing collaboration with the hosts and municipalities.
4. Local capacity building for local school administrators, teachers, and staff were provided on an ongoing basis in partnership with American University of Beirut and international organizations.
5. Older students were provided with vocational training and certification in job skills such as IT, cosmetics, and handcrafts.
6. Academic partnership with the American University of Beirut's Center for Civic Engagement and Community Service (CCECS) and other departments developed portable low-cost classrooms based on the Ghata design, provide healthy and nutritious meals, utilize modern teaching and learning methods, deliver intensive college preparation programs, and supported the children overcome their traumatic events and stressful environment through psychosocial counseling.
7. All Kayany schools became accredited by the Lebanese Ministry of Education and Higher Education and through a partnership with the Ministry of Social Affairs and in collaboration with the Ministry of Interior and Municipalities.
8. Fundraising was primarily based on donations and grants, yet the foundation has diversified its sources of solicitations to include: international art donations and auctions, U.S. tax deductible contributions (Friends of Kayany – 501 (c) (3)), direct website donations, allocated contributions to programs and facilities, United Nations organizations funds to programs and constructions (UNESCO, UNICEF, UNWFP, UNHCR), Private non-profit organizations' sponsorship (MALALA Fund), other international foundations and institutions donations (Boghossian, UN Women for Peace Association , Save the Children, and German Rotary among others).
9. The foundation kept an annual online financial open book prepared by independent auditors.

There is a good reason to believe that a protracted displacement situation, amid deteriorating public services and declining responsive government's capacities, would elevate the relevancy and significance of local initiatives. The Kayany education model presents a successful story and displays a sample of a

Lebanese NGOs' efforts to establish a committed network of partners, donors, and local stakeholders ready to provide educational support for the refugees. This model also demonstrates the feasibility of mobilizing local resources and human capital to furnish a vulnerable children population with quality education, vocational training, capacity building, and local participation and development at efficient cost while helping to prevent their leaks to early marriage and extreme impoverishment. Equally important, it shows how local educational developments can contribute to the prospective future of youth and facilitate mutualities and cooperation between hosts and refugees in mitigating challenges in difficult environment.

Sources: The assessment is based on interviews and field visits to nine Kayany schools in West Bekaa including: Bir Elias, Saad Nayel, Majdal Anjar, and Mekseh. Also, personal interviews with Kayany's Founder and Director Ms. Nora Joumblatt and Board Member Ms. Aida Sharabati Shawwaf. Detailed information and financial reporting can be found at the Foundation's website: http://kayany-foundation.org/default.aspx (January 2019), Friends of Kayany's website: https://friendsofkayany.org (January 2019) and http://www.syri-arts.org (January 2019).

PEA and the CDCS

How to Approach the CDCS Process

The CDCS should reflect an appreciation of the merits of a "working-with-the-grain," iterative approach to programming. Such an approach may be needed given the extreme fluidity of the context and the high likelihood of a severe economic crisis that may result in political and social upheaval. The idea of setting and then pursuing systematically over a five-year period a set of pre-determined objectives and sub-objectives, without recognizing that they likely will need to be adjusted in very significant ways over the lifetime of the strategy does not seem realistic.

The approach should recognize that the context will be, at best, extremely messy; that it may change dramatically over the lifetime of the CDCS; and that attendant, extremely disruptive changes could render largely irrelevant an ambitious, pre-specified "strategic blueprint" (with the kind of detailed expected results usually associated with a CDCS). Better to acknowledge that, in the type of environment in which USAID will operate, it will be difficult to determine in advance what will be possible or effective and how particular USAID efforts will play themselves out. What may be called for is an approach that relies more heavily than is usually the case (and more heavily than USAID might wish) on "learning by doing." The strategy should be relatively modest in its ambitions: it should aim for incremental improvements, in a handful of comparatively more promising sectors, and in carefully selected target geographic areas. The CDCS should recognize explicitly that it, and the expected results associated with it, likely will need to be significantly modified over the strategy's five-year lifetime.

As discussed, the overarching objective should be to strengthen community resilience and social cohesion during a period that likely will witness severe social, economic, and political disruptions. The CDCS should revolve around helping communities manage the shocks with which they likely will be faced and muddle through the coming five-year period to reduce the risk of further social fragmentation, sectarian violence, and/or systemic breakdown.

As far as how specific interventions should be conceptualized and implemented, the Office of Transition Initiatives (OTI) model – act, assess, adjust – seems quite relevant to the context with which USAID will be presented. In light of the volatility of the environment, it is difficult to anticipate what the exact impacts of particular interventions will be. Consequently, the "act" component of the "act, assess, and

adjust" approach should be viewed as a way of testing the environment in question. Each project or set of interventions therefore should be modest in scale initially (which also will help shelter them against the possibility of elite capture), and there should be room in the design to modify these projects or interventions (and to scale them up or phase them out) depending on observed outcomes. Regular impact assessments should point to needed modifications in the approach, interventions, and overall strategy. This might require significant reliance on pilot projects in the first year or two of the strategy.

Lebanon's Informal Sector

Concise Manuscript on the Informal Economy of Lebanon prepared for the PEA team (Dr. Imad Salamey, February 2019).

Lebanon's weak state and chronic instabilities are responsible for the proliferation of its informal sector, particularly in terms of illicit and shadow economies. These economies have been driven by at least four major tiers: illicit activities, corruption, informal remittances, and informal employment and commerce.[61] In 2011, conservative estimates placed this sector at 30 percent of GDP (IMF).[62] There are good reasons to believe that since the beginning of the 2012 Syrian crisis, it has expanded by cross border activities including trafficking, armed activities, and smuggling operations. It is estimated that more than 1,500 illegal crossing routes exist today between Lebanon and Syria.[63]

It has been suggested that Lebanon informality contributes to its resiliency amid turmoil and instability.[64] Its large size may also serve as an explanation for the abundant supply of cash and dollars in the local market.[65] Finance Minister Ali Hassan Khalil reported $32.6 billion of illicit cash inflow from 2005 to 2014, equivalent to 17 percent of Lebanon's trade volume for the same period (*Daily Star* 29 November, 2018).

Some important figures relevant to informal cash inflow:

- Lebanon was categorized by the US as a "major source country for illicit drugs."[66] Drug industry is quite large where the sale of Captagon alone is estimated annually at $1 billion (2016 est.).[67] This is not accounting for the large Hashish harvesting and production sector.

- Hizballah is considered as the second largest employer after the Lebanese government with an annual budget estimated at $700 million, mostly in Iranian cash funds in addition to donations gathered through charitable and religious contributions such as Khums[68] and Hizballah's own

---

61 https://www.researchgate.net/publication/279506218_The_Informal_Economy_in_Lebanon_Dangers_and_Benefits

62 http://www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=1215

63 https://thearabweekly.com/contraband-depriving-lebanon-badly-needed-revenues

64 https://website.aub.edu.lb/ifi/publications/Documents/research_reports/20170706_informal_systems.pdf Also see: https://www.tandfonline.com/doi/abs/10.1080/14678802.2011.614126?journalCode=ccsd20

65 Interview with Khalid Bohsali, Central Bank.

66 https://www.state.gov/j/inl/rls/nrcrpt/2016/vol1/253284.htm

67 https://globalinitiative.net/wp-content/uploads/2017/06/TGIATOC-Captured-by-Captagon-Lebanon_s-evolving-illicit-drug-economy-web.pdf

68 Salamey, I (2017). *The Decline of Nation States after the Arab Spring: The Rise of Communitocracy*. London: Routledge.

financial activities (local and abroad).[69] The money is mostly transferred in cash to evade sanctions.[70] Other Lebanese political parties have also relied on foreign cash support, though not as sizable.

- Money laundering is another source of cash inflow channeled through the banking sector, and often linked to other transactions such as remittances.[71] In addition, Lebanon has not complied with the Arab Leagues' imposed sanctions on Syria and remains among the financial hubs for Syria transactions.[72]

- Annual remittances to Lebanon range between $7-8 billion (about 15.5 percent of GDP in 2017).[73] Yet informal remittances transferred through hand-cash and "hawala" system may prove sizable.

State losses and informal cash:

- According to 2017 Bank Audi Report, tax evasion (mostly informal employment and commerce) amount to an annual $4.2 billion.[74] Approximately 44 percent of the Lebanese labor force is informal (2009 est.).[75]

- According to the Ministry of Finance, port smuggling operations alone cost the government $1 billion annually (*Daily Star*, 11 July 2017).

- Overall, Lebanon has been ranked 138/175 on TI's Corruption Perception Index.[76] The cost of this corruption may range between 5-10 percent of its GDP.

Formalizing the informal economy of Lebanon will be structurally difficult if not impossible, not only because of the presence of non-formal armed groups operating within the framework of a state within the state while receiving significant cash inflow from abroad, but also due to sophisticated and nepotistic networks of corruption tied and linked to the very survival of the political establishment. There is a whole set of other foundational challenges awaiting any formalization associated with uncontrolled borders with Syria, the employment of refugees and foreign workers, a large self-employed class (mainly in agriculture, handcrafts, and services), flow of informal remittances, and illicit drug and smuggling economies. Thus, development strategies may need to account for the depth and relevancy of informality, particularly in setting up action plans to combat corruption and alleviate poverty.

---

[69] https://nationalinterest.org/feature/hezbollahs-finances-are-its-achilles-heel-42462
[70] https://www.justice.gov/archive/usao/nys/pressreleases/December11/hizballahmoneylaunderingpr.pdf
[71] https://www.state.gov/j/inl/rls/nrcrpt/2014/vol2/222744.htm
[72] https://www.knowyourcountry.com/lebanon11111
[73] https://en.annahar.com/article/680616-expatriates-remittances-to-lebanon-to-hint-nearly-8-billion-this-year
[74] https://globalinitiative.net/wp-content/uploads/2017/06/TGIATOC-Captured-by-Captagon-Lebanon_s-evolving-illicit-drug-economy-web.pdf
[75] https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_374826.pdf#page29
[76] https://tradingeconomics.com/lebanon/corruption-rank

New Lebanese Cabinet January 2019

Briefing Manuscript on the New Lebanese Cabinet of January 2019 and some Implications Looking forward, prepared for the PEA team (Dr. Imad Salamey, February 2019).

The Numbers[77]

Bloc	Party	#Portfolios	Bloc Seats
Strong Lebanon + President	Free Patriotic Movement (FPM)	8	
Strong Lebanon + President	Tashnag	1	
Strong Lebanon + President	Democratic Party	1	
Strong Lebanon + President	Consultative Gathering	1	
			11
Future Movement + Prime Minister	Future Movement (FM0	4	
Future Movement + Prime Minister	Azm	1	
Future Movement + Prime Minister	Independent	1	
			6
Strong Republic	Lebanese Forces (LF)	4	
			4
Democratic Gathering	Progressive Socialist Party (PSP)	2	
			2
National Coalition	Marada Party (MP)	1	
			1
Development and Liberation	AMAL	3	
			3
Loyalty to Resistance	Hezbollah (HA)	3	
			3

[77] Sources: http://www.dailystar.com.lb/News/Lebanon-News/2019/Feb-01/475573-lebanons-new-cabinet-lineup.ashx, https://en.annahar.com/article/931496-lebanon-forms-government-after-nine-months-of-bickering, http://arabic.news.cn/2019-02/01/c_137792796.htm

- **The President**: From the above table it appears evident that President Aoun and his Free Patriotic Movement (FPM), headed by his son-in-law Mr. Jubran Bassil, holds the largest share of government portfolios (Strong Lebanon). This is not only in number (11) but also in the quality of ministries they control: Defense, Foreign Affairs, Energy, Economy, and Justice among others. Their 1/3 share of the cabinet provides them with the ability to block any proposed legislation or Ministerial Decree of national importance that requires 2/3 votes.[78] This share also allows them to obstruct the cabinet from convening if they abstained from attending and can cause its collapse upon their resignation.[79] Yet, important to the number is the ability of Strong Lebanon to decisively determine the appointments of key public administrative posts such as Director Generals, Ambassadors, and Head of Central Bank among others.[80] In that sense, the Maronite President along Jubran Bassil are now in a comfortable control over the executive branch, spreading concerns that Lebanon has reverted back to the pre-Ta'if Presidential system (a position most vocally expressed by the Druze leader Walid Jumblatt).[81]

- **March 14:** The Future Movement's share of cabinet seats has been significantly curtailed while remaining in control over the Prime Ministry, Ministry of Interior, and Telecommunication. Its traditional March 14 allies (Lebanese Forces (LF) and Progressive Socialist Party (PSP)) control ministries of secondary importance and their combined size with the FM amounts to 12, but serious disputes may undermine their alignment. The FM's rapprochement with the FPM has significantly weakened FM's alliance with the LF and PSP who find in FPM a serious threat against their respective power bases.

- **March 8**: Despite minor differences, the March 8 alliance remains most coherent and commands 7 ministers (Amal, Hezbollah, Marada Party) including the very important ministry of Finance as well as Health. It also relies on the support of at least 3 other March 8 ministers from under the wing of the President (Tashnag, Consultative Gathering, and Democratic Party), making it in reality as large if not larger than other political blocs.

The number of players in this cabinet is quite large. The government is made up of 11.5 parties (.5 for independent) and 7 blocs that add to its fragility and unpredictability.

Divisive Issues

- **The Economy**: the economy is the elephant in the room. Major challenges that are in dire need of being addressed include public debt, the reduction of the the public budget deficit, salaries and promotions, CEDRE, privatization, fuel, energy, waste management, and administrative reforms.[82] Each one of these issues provides significant grounds for disputes and divisions. Strong Lebanon and the FM will most likely form a liberal alliance in pushing for privatization, foreign investment, and CEDRE. The LF and Hezbollah (HA) may play a centrist

[78] Constitution, Article 65.
[79] Constitution, Article 69.
[80] Constitution, Article 65.
[81] https://www.europeanforum.net/headlines/finally-a-new-government-in-lebanon
[82] http://www.kataeb.org/local/2019/02/11/lebanese-government-s-policy-statement-in-full

position.[83] AMAL and PSP would most likely stand on the Left-opposition, fearing shrinking pools of support and resources that thrive on benefits extracted from the public sector.[84] Most likely they would be backed up by leftist groups, Kataeb Party (KP), Civil Society Organizations (CSOs), and syndicate unions.

- **Syria**: the normalization with Syria adds another dimension to the political divisions.[85] As it stands, there are 10 strong supporters for normalization (March 8), 12 strong opposers (March 14), and 8 leaners (President). But March 14 may split rank (particularly the FM) if Arab states began to normalize relations and moderate positions. Among the most likely scenarios is an exchange of official visits between both countries under the pretext of Lebanon's role in Syria's post-conflict reconstruction, resettlement, and economic cooperation.[86] Russia may play an intermediary role in facilitating bilateralism.[87]

- **Ta'if**: The question over President vs. Prime Minister executive powers will most likely surface to bring a wedge between the different blocs over the stipulations of the Ta'if Accord.[88] Three groups are already shaping distinctive positions on the question: the FPM is attempting to reverse/amend Ta'if in favor of a Presidential system (in a formal and/or informal ways), HA is eager to renegotiate the Ta'if terms in favor of a tripartite arrangement (an equal share of power between Sunnis, Christians, and Shias), and the rest of parties are calling for Ta'if's preservation and the consolidation of equal Christian-Muslim's share of the state and the division of executive powers between the President and the Council of Ministers (FM, AMAL, PSP, LF, KP, and Marada).

- **Future Elections**: the year 2022 is scheduled to feature three elections: municipal, presidential, and parliamentary; thus, parties are expected to fiercely fight to preserve or strengthen respective positions. Yet the Presidential election will most likely drive the main wedge between contenders. It is expected that mobilization to divide the pro-President coalition (with options to extend terms or elect Jubran Bassil) and the anti-President coalition (to elect Suleiman Frangieh) will bring a déjà vu of 2014-16 presidential nomination standoff. The latter coalition will most likely bring together LF, PSP, Amal, KP, and Marada while HA and FM will weigh their options according to gains. None of these groups or respective alliances, standing alone, can have a command of 2/3 seats necessary to convene the 2018 parliament to elect a President, hence a wider consensus will be required.[89]

- **Resistance**: a call for the disarmament of HA will continue to divide traditional alliances (Marches) but will probably take a back seat as the anti-HA coalition is weakened.[90]

---

[83] https://aawsat.com/english/home/article/1230746/lebanon-hezbollah-shows-reservation-towards-cedar-conference-11-bln-pledges
[84] http://www.naharnet.com/stories/en/256364
[85] https://www.lebanese-forces.com/2019/03/01/lebanon-cedre/
[86] http://www.dailystar.com.lb/News/Lebanon-News/2019/Feb-19/476956-refugee-affairs-minister-briefs-aoun-on-syria-trip.ashx
[87] http://www.dailystar.com.lb/News/Lebanon-News/2019/Mar-26/479704-aoun-moscow-visit-new-stage-in-lebanese-russian-relations.ashx
[88] https://www.europeanforum.net/headlines/finally-a-new-government-in-lebanon
[89] Constitution, Article 49.
[90] http://www.naharnet.com/stories/en/256255-govt-approves-policy-statement-as-lf-strongly-objects-to-resistance-text

- **Hariri Tribunal**: The government would most likely renew its financial commitment to support the tribunal, but it is highly unlikely that the indictments of HA will yield any tangible outcomes.[91]

In sum, the government is fragile and serious disagreements will soon surface to yield paralysis at major junctures where decisive policy decisions are required (particularly when economic measures are called for). Its collapse, however, is not an option as no viable alternatives exist. Alignments will form according to issues. Parties' foundational concerns will drive alliance formations. Most evident and contemporary political division will be shaped by the proximity of support to the President/Son-in-Law or his opponents (Amal, LF, PSP, KP, and Marada). The remainders will act as opportunist swingers (FM and HA). Confessional polarization is expected to be overshadowed by partisan and personalized politics.

[91] See Lebanese Government Policy Statement: http://www.kataeb.org/local/2019/02/11/lebanese-government-s-policy-statement-in-full

ANNEXES

ANNEX 1

Working and Thinking Politically through Applied Political Economy Analysis: A Guide for Practitioners (USAID 2018)

Working and Thinking Politically -

ANNEX 2

Select List of Documentary Sources

Assouad, Lydia, *Rethinking the Lebanon Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon, 2005-2014*, WID.World Working Paper Series No 2017/13, World Inequality Lab (September 2018).

Cammett, Melani, *Compassionate Communalism: Welfare and Sectarianism in Lebanon*, Ithaca: Cornell University Press (2014).

Corstange Daniel, *The Syrian Conflict and Public Opinion among Syrians in Lebanon*, British Journal of Middle Eastern Studies, 46:1, pp. 178-200 (2019).
Dakroub,Hussein, Anti-Graft Drive Doomed: Analysts, The Daily Star (March 5, 2019).

Department for International Development (DfID), *Political Economy Analysis How to Note*, A DFID Practice Paper (July 2009).

Downgrade Deeper into Junk, Bloomberg News (January 22, 2019).

El Mikawy, Nora and Claudia Melim-McLeod, *Lebanon: Local Governance in Complex Environments*, Project Assessment, The DGTFF Lessons Learned Series, UNDP (2010).

Gaspard, Toufic, *Financial Crisis in Lebanon*. Konrad Adenauer Stiftung, Maison du Futur (contents of the paper do not necessarily reflect the opinions of these institutions) Policy Paper No. 12 (August 2017).

Hamud, Carla, *Lebanon*, Congressional Research Service (5 October 2018).

Hamud, Carla, *Lebanon's 2018 Elections*, Congressional Research Services Insight (11 May 2018).

Hempfling, Craig, Richard Danicic, Edi Majstorovic and Branislav Savic for ACDI/VOCA with funding from USAID/E3's Leveraging Economic Opportunities (LEO) project. Report NO. 29: *Serbia Competitiveness Assessment & Political Economy Analysis.* (June 2016).

Hudson, David and Heather Marquette. 2015, *Mind The Gaps: What's Missing in Political Economy Analysis and Why It Matters*, A Governance Practitioner's Notebook: Alternative Ideas and Approaches © OECD (2015).

IMF Country Report No. 17/19, Lebanon, 2016 Article IV Consultation Staff Report; and Statement by the Executive Director for Lebanon (January 2017).
IMF, *Lebanon: Staff Concluding Statement of the 2018 Article IV Mission* (12 February 2018).

International Crisis Group, *A Huthi Missile, a Saudi Purge and a Lebanese Resignation Shake the Middle East*, Commentary (10 November 2017).

International Crisis Group, *Hizballah's Syria Conundrum*, Report No. 175, 14 (March 2017).

International Crisis Group, *In Lebanon's Elections, More of the Same is Mostly Good News*, Commentary (9 May 2018).

International Crisis Group, *Lebanon's Self-Defeating Survival Strategies*, Report No. 160 (20 July 2015).

International Support Group, CEDRE Economic Conference for Development through Reform with the Private Sector, *Joint Statement*, Paris (6 April 2018).

J. E. Austin Associates, Inc. for Tetra Tech ARD, *Political Economy Analysis: Coffee, Dried Bean, and Soybean Value Chains*. USAID Feed the Future Democratic of the Congo Strengthening Value Chains Activity (November 2017).

Kamisher, Eliyahu, *The Political Economy of Lebanon's Garbage Crisis*, Middle East Economy, Vol. 6, No. 4, Tel Aviv University (May 2016).

Karunungan, Lilian and Netty Idayu Ismail, *Lebanese Default Risk Prompts Moody's Downgrade Deeper into Junk. Bloomberg News* (January 22, 2019) *https://www.bloomberg.com/news/articles/2019-01-22/lebanon-rating-cut-deeper-into-junk-by-moody-s-on-default-risks*

Le Borgne, Eric, and Thomas J. Jacobs, *Lebanon: Promoting Poverty Reduction and Shared Prosperity (Systematic Country Diagnostic)*," World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO (2016).

Leenders, Reinoud. *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Ithaca and London: Cornell University Press (2012).

Overseas Development Institute. January 2012. "What is political economy analysis? An introductory text for the ODI workshop on Political Economy Analysis."

Parker, Joel, *Hizballah's Influence in Lebanon and the Syrian Refugee Crisis*, Tel Aviv Notes, Vol. 12, No. 9 (May 2018).

Ramani, Samuel, ***Russia's Eye on Syrian Reconstruction***, *Sada*, Carnegie Endowment, (January 31, 2019).

Safieddin, Hicham, *Banking on the State: The Financial Foundations of Lebanon*, Palo Alto, Stanford University Press, 2019 (forthcoming).

Salamey, Imad, *Mitigating the Resource Curse for Extractive Industry: The case of Lebanon*, Oil, Gas and Energy Law Intelligence (OGEL), Vol 11, Issue 3 (April 2013).

Salamey, Imad, *PEA - Syrian Refugees and Conflict Spillover to Lebanon*, Assessment Team Brief (2019).

Salamey, Imad, *The Political Economy of Education in Lebanon*, Assessment Team Brief (2019).

Salamey, Imad, *The Informal Economy of Lebanon*, Assesfsment Team Brief (2019).

Salloukh, Bassel et al. *The Politics of Sectarianism in Postwar Lebanon*. London: Pluto Press, 2015.

Salloukh, Bassel F., *Ta'if and the Lebanese State: The Political Economy of a Very Sectarian Public Sector*, forthcoming in *Nationalism and Ethnic Politics*, 2019.

Salloukh, Bassel, *Lebanon, Ghosts of Christmas Past, Present, and Future*, LCPS (December 2018).

Sanchez, Daniel Garrote, Perpetuating Regional Inequalities in Lebanon's Infrastructure: The Role of Public Investment, LCPS Policy Brief (December 2018).

Social Impact, Baladi CAP: Midterm Performance Evaluation Report, USAID (April 2018).

Social Impact, *Economic Growth Assessment*, USAID (November 2018).

Social Impact, *Local Governance Assessment*, USAID (January 2017).

Thanassis Cambassis, *People Power and Its Limits: Lessons from Lebanon's Anti-Sectarian Reform Movement.* In Thanassis Cambanis & Michael Wahid Hanna (eds.), *Arab Politics Beyond the Uprisings* (New York: The Century Foundation Press, pp. 105-133 (2017).

UNDP, *Women in Municipal Elections 2016*, UNDP Lebanese Elections Assistance Project (2016).

USAID, *Democracy, Human Rights, and Governance Strategic Assessment Framework* (2014). See especially Section 3.0, Step 2 for guidance on PEA (2014)

USAID, *Thinking and Working Politically through Applied Political Economy Analysis: A Guide for Practitioners*, Center of Excellence on Democracy, Human Rights, and Governance (April 2018)

USAID, *USAID/Lebanon Country Development Strategy (CDCS) December 2014-December 2019* (2014).

Uzelac, Ana and Jos Meester, *Is there Protection in the Region? Leveraging Funds and Political Capital in Lebanon's Refugee Crisis*, CRO Report, Clingendael Netherlands Institute of International Relations (July 2018).

Wimmen, Heiko, *Lebanon's State of Erosion*, SWP Comments 46, German Institute for International and Security Affairs (October 2016).

World Bank, *Lebanon Economic Monitor*: De-Risking Lebanon, (Fall, 2018).

Yee, Vivian and Hwaida Saad, *As Hezbollah Rises in Lebanon's Government, Fears Grow about U.S. Response Follow*, *New York Times* (February 9, 2019).

Zoughaib, Sami and Daniel Garrote Sanchez, *Growing Pessimism and Concern over the State of Lebanon's Economy*, LCPS Policy Brief (February 2019).

1. http://blogs.worldbank.org/governance/busting-5-myths-political-economy-analysis
2. www.gsdrc.org/go/topic-guides/political-economy-analysis
3. https://nationalinterest.org/feature/hezbollahs-finances-are-its-achilles-heel-42462
4. https://www.justice.gov/archive/usao/nys/pressreleases/December11/hizballahmoneylaunderingpr.pdf

ANNEX 3

Representative List of Key Informant Interviews

Representative List of KIIs.xlsx