Lebanon Risk and Resilience Assessment

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Lebanon Risk and Resilience Assessment

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ACRONYMS

3RF	Reform, Recovery and Reconstruction Framework
B5	Building Beirut Businesses Back and Better
CDP	Community Development Project
CDR	Council for Development and Reconstruction
CSO	civil society organization
ESCWA	United Nations Economic and Social Commission for Western Asia
ESSN	Emergency Crisis Response Social Safety Net
FCV	fragility, conflict, and violence
GCC	Gulf Cooperation Council
GDP	gross domestic product
IOB	Independent Oversight Board
IMF	International Monetary Fun
ISF	Internal Security Forces
LAF	Lebanese Armed Forces
LFF	Lebanon Financing Facility
LRC	Lebanese Red Cross
MENA	Middle East North Africa
NGO	nongovernmental organization
NPTP	National Poverty Targeting Program
NSSF	National Social Security Fund
PSA	power-sharing arrangement
RHUH	Rafik Hariri University Hospital
RRA	Risk and Resilience Assessment
SCD	Systematic Country Diagnosis
SME	small- and medium-sized enterprise
UNIFIL	United Nations Interim Force in Lebanon
UNFPA	United Nations Population Fund

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EXECUTIVE SUMMARY

For more than two years, Lebanon has been assailed by compounding shocks and crises that exacerbated many of its pre-existing drivers of fragility. While socioeconomic conditions deteriorated for years, the summer of 2019 marked the beginning of a severe economic and financial crisis, which were further exacerbated by the COVID-19 pandemic, and the devastating explosion in Beirut's port on August 4, 2020. The combination of chronic macroeconomic imbalances and deliberate political inaction to mitigate its impact resulted in a crisis that has been described as one of the worst in recorded human history (World Bank 2021). Despite this dire situation, Lebanon was without an empowered government for much of the time since the onset of the crisis in 2019. Not only have the protracted political crisis and daily deprivation eroded popular trust in government institutions, but they have also given rise to social unrest, sectarian and political polarization, increasing tensions between refugees and host communities, and other forms of crime and violence.

To unpack Lebanon structural causes of fragility, this RRA applies a "social contract" framework that takes the contestation between political elites ("elite bargaining"), relations between elites and society ("state-society relations"), and the relationship between social groups ("societal relations") as a starting point for analysis. At the root of Lebanon's fragility lies an elite-level power-sharing arrangement that has entrenched a system of governance based on sectarian allegiance, widespread clientelism and patronage. This has led to increasing political polarization and paralysis in decision-making. The accumulation of popular grievances as a result of weak public services, widespread lack of accountability, and low-quality economic growth have undermined state-society relations and given rise to mass protests and social unrest. High levels of socioeconomic inequality and exclusion, very low levels of trust between communities, and (perceived) competition between host communities and refugees weaken the quality of social relations. By leveraging sectarian identities for political competition, elites aggravate such social tensions. High levels of foreign inference further exacerbate domestic political and social polarization and expose the country to wider geopolitical contestations.

Emanating from these structural causes, the RRA identifies seven drivers of fragility in five key areas. Political decision-making processes on all levels of government give ample room for political actors to influence, stall or slow down decision making – often under the pretext of sectarianism. As this makes agreement on complex legislation that require lengthy negotiations between a large set of actors highly challenging, policymaking remains biased towards short-term decisions that often fail

Elite-level arrangement	**Structural cause 1:** Lebanon's political settlement, which is grounded in a sectarian power-sharing agreement, has led to elite capture, widespread clientelism, and patronage, increasing polarization and political paralysis.
State-society relations	**Structural cause 2:** An increasing divide between people's needs and expectations and the political elite's priorities has undermined state-society relations and fueled discontent, grievances, and widespread unrest.
Intra-societal relations	**Structural cause 3:** High levels of socioeconomic inequality and exclusion, very low levels of trust between communities, and (perceived) competition between host communities and refugees over access to services and economic opportunities harm the quality of social relations.
External influence	**Structural cause 4:** High levels of foreign interference and the simmering conflict with Israel reinforce domestic polarization and expose Lebanon to wider geopolitical contestations.

to address the structural causes of Lebanon's governance deficits. Weak accountability institutions and pervasive corruption in the public sector combined with high levels of political interference in the justice system have contributed to a culture of impunity and undermined public trust into state institutions. The dominance of vested interests in government institutions and the absence of transparency and appropriate checks and balances have contributed to unsustainable economic and fiscal policies. Lebanon's economic model has not been able to generate economic opportunities and led to high levels of inequality and poverty. Moreover, the privatization and exclusionary, patronage-based access to services, as well as capture and mismanagement of public funds for infrastructure have led to a steady decline in the quality of virtually all public services—and in some cases, such as for electricity provision, to a near collapse. The current crisis has exacerbated these trends and fueled public grievances, giving rise to frequent protests and riots. Finally, the erosion of public sector wages has affected the capacities of formal security actors to respond to the changing demands of a more volatile security environment.

While Lebanon faces critical challenges ahead, it can also draw on important sources of resilience. Critical among these are the high levels of personal wealth of both residents and diaspora Lebanese, as well as international business networks and remittance flows, which can serve as a basis and important resource for economic recovery. A high number of CSOs, as well as an active diaspora, help to fill gaps in various areas of service delivery, contribute to public debate, and advocate for civil rights and reforms. Many of these organizations are driven by youth who exhibit high degrees of political

Political processes	**Driver 1:** Subordination of political processes to the prerogatives of sectarian politics and elite interests has led to stalled and short-term decisions and politicized government institutions.
Public sector governance and justice	**Driver 2:** Pervasive corruption, near absence of accountability, and a politicized and weak judiciary have undermined trust in state institutions and fueled a culture of impunity.
Economic determinants	**Driver 3:** Limited economic opportunities and rising levels of poverty and vulnerability—a result of a misdirected growth model, unsustainable macroeconomic policies and an unmanaged crisis—fuel grievances and drive mass emigration of skilled labor. **Driver 4:** High levels of connectedness between political and business elites have led to weak competition and contestability in key sectors.
Service delivery and public infrastructure	**Driver 5:** Privatization and patronage-based delivery of social services, exacerbated by the current crises, leads to exclusionary access and reinforces tensions between social groups. **Driver 6:** Elite capture and mismanagement of public funds have resulted in a steady decline in the quality of public infrastructure and led to high inequalities between regions.
Security	**Driver 7:** The weakening of the operational capabilities of formal security actors, the presence of militant nonstate actors, as well as a high availability of small arms lead to a deteriorating security environment.

consciousness and engagement. Strong familial and communal networks complement other systems of social protection and provide important mechanisms in mitigating the fallout of the crises. Lebanon moreover benefits from several public institutions, chief of them the Lebanese Armed Forces, whose impartiality and effectiveness have helped to retain or restore some public trust into public institutions across sectarian and partisan lines. They have contributed to improve governance in important sectors, for example in the response to the pandemic and the roll out of the vaccination campaign.

Lebanon's trajectory remains highly uncertain and will depend on the form and evolution of its political settlement. To identify appropriate priorities and potential entry points for addressing fragility, the RRA identifies three potential scenarios. Within a scenario of *political gridlock*, impasse prevails and political actors are unable to achieve consensus on matters related to reform or crisis response. Under such a scenario, socioeconomic conditions will continue to deteriorate, making shortages of essential services a new normal, further undermining popular trust in government institutions with increasing risks of instability and violence. In a scenario of a *minimal consensus*, political parties are able to reach consensus on selected or urgent issues. Reforms with distributional consequences, however, are unlikely to be implemented given the strong influence of special interest groups. Under such a scenario, international support is likely to remain limited and could stabilize the delivery of basic services and contribute to limited socioeconomic recovery. Within a scenario of a gradual *political shift*, changes in the distribution of power between traditional elites and new non-sectarian actors could lead—with popular and international support—to the implementation of more far-reaching structural economic and governance reforms.

The RRA identifies "pathways" and associated priority interventions to address drivers of fragility. These pathways are centered around five broad objectives: i) support the emergence of a new political settlement based on inclusive political representation, ii) macro-fiscal stabilization and transition to a new economic model, iii) strengthen accountability institutions and the judiciary, iv) preserve human capital and mitigate impacts of the crisis on inequality, and v) improve equity and quality of infrastructure and public services. The priority interventions within each pathway will depend on the political scenario. In a scenario of continued gridlock, interventions should prioritize urgent needs, preserve institutional capacity and address immediate drivers of unrest while promoting the "demand side" of governance reform. Priorities include social protection, maintenance of critical infrastructure and ensuring the provision of electricity and basic social services for the most vulnerable, including at municipal level. Under a minimal consensus, priority reforms and interventions should target areas critical for crisis recovery and addressing fragility drivers. These include macro-fiscal reform, the management of public resources, and strengthening of accountability and oversight institutions as well as the judiciary. Once a political shift materializes, broader economic, governance and sector reforms may be feasible, notably a review of the frameworks for territorial governance, combined with programs strengthening infrastructure and public services.

The analysis identifies a number of implications for the Bank's strategic role, its program, and the operational engagement model. At the strategic level, the Bank should continue to proactively engage key stakeholders beyond the government and identify and support coalitions for reform. Strong international partnerships and engagement across humanitarian, political, and development actors will remain key to harmonize approaches and jointly communicate priorities and policy benchmarks to government. In the short-term, expectations with respect to addressing entrenched fragility drivers should be modest: World Bank engagement should focus on delivering tangible benefits to the Lebanese people while helping to reduce risks of further instability and generating momentum on a selected set of reforms. At the same time, the World Bank should not lose sight of a long-term vision of pathways out of fragility and initiate analytical work and policy dialogue in anticipation of potential changes in the political settlement. In terms of the operational engagement model, the Bank should ensure a "do no harm" approach by

applying a fragility lens in project selection and design and consider alternative channels for implementation (including NGOs and municipalities) to accelerate the implementation of projects that respond to the crisis. In addition, it should ensure strong fiduciary oversight and monitoring arrangements remain in place and further strengthen the use of civil society-led monitoring and citizen engagement mechanisms.

INTRODUCTION

Lebanon weathers a "perfect storm" of overlapping crises that have led to mounting, almost unprecedented socioeconomic hardship, threatening the country's social and political stability. Chronic macroeconomic imbalances and misguided policies dating back decades resulted in a financial and economic crisis that has been described as one of the worst in recorded human history (World Bank 2021). The Lebanese economy went into a free fall in the summer of 2019 with an estimated contraction of around 58 percent in nominal gross domestic product (GDP) in the span of three years and inflation rates reaching over 145 percent in 2021. COVID-19 induced lockdowns, and the devastating Beirut port explosion on August 4, 2020, compounded the already grave socioeconomic impact on the population with a significant fallout on poverty rates, unemployment, basic service delivery, social stability, and even food security. Despite this dire situation, Lebanon was without an empowered government largely since the onset of the crisis in 2019, and little action was taken to address urgent issues. Not only have the protracted political crisis and daily deprivation eroded popular trust in government institutions, but they have also given rise to social unrest, sectarian and political polarization, skyrocketing organized crime, increasing tensions between refugees and host communities, and other forms of violence.

At the root of Lebanon's fragility lies an elite-level power-sharing arrangement that has entrenched a system of governance based on sectarian allegiance and patronage. This arrangement comes to the detriment of reform and political renewal and has resulted in weak public services, widespread corruption, lack of accountability, low-quality economic growth, and massive inequalities. The Beirut port explosion provides one of the most recent and catastrophic testimonies of how governance failures resulted in significant social harm and hardship. Long before the explosion, public grievances about the lack of public services, accountability, and economic opportunities accumulated for years, and finally erupted in mass protests in October 2019, paralyzing the country for weeks. The protest movement provided a visible illustration of the limits of Lebanon's postwar social contract to sustain social stability.

These crises are also challenging Lebanon's core pillars of resilience.[1] First, Lebanon's elite-level power-sharing arrangement, in place in various forms since the 1860s, has come under stress and proved

[1] See Yahya (2020). These statements are reflected in the outcomes of roundtable discussions on the changes to Lebanon's social contract, hosted by Carnegie Middle East Center and the World Bank in June and July 2020.

unable to generate timely and effective political responses to prevent or contain the crises. Many of the established mechanisms of rent-sharing that lent stability to the political settlement have ceased functioning, exacerbating political competition and polarization. Second, the financial crisis (including subsequent capital account restrictions, as well as currency depreciations) has undermined the banking sector's role as a hub for financial and trading services for the region. This changes the country's geopolitical role and severely impacts traditional drivers of economic growth. Third, the accumulation of these crises erodes the middle class, making up much of the country's human capital, by reducing purchasing power and inducing pressures for emigration. Finally, these developments challenge Lebanon's security consensus by affecting the balance of power among domestic security actors, militias, and other nonstate actors, and by giving rise to new forms of violence.

Against this background, this Risk and Resilience Assessment (RRA) analyzes Lebanon's causes and drivers of fragility and resilience. The report elaborates on the World Bank's 2015 Systematic Country Diagnosis (SCD) that argued that two overarching constraints explain Lebanon's failure to develop a sustainable economic model: first, elite capture hidden behind a "veil of confessionalism," and second, conflict and violence that partly stem from broader dynamics of conflict in the Middle East (Le Borgne et al. 2015). This RRA analyzes in further detail how Lebanon's political economy and sectarian governance model has affected fragility. It shows how the detrimental effects of the elite-level arrangement pervade state institutions as well as state-society relations and impede Lebanon's prospects for stability and economic recovery. To that end, this RRA applies a "social contract" framework that takes the contestation between political elites ("elite bargaining"), relations between elites and society ("state-society relations"), and the relationship between social groups ("societal relations") as a starting point for analysis. The analysis also reflects on the impact of external, geo-political dynamics.

This RRA is organized as follows: Section 1 provides an overview of the structural and historical factors of fragility. Section 2 discusses the overarching fragility constraints by applying the social-contract framework outlined above. Section 3 identifies key drivers of fragility in five main sectors. Section 4 turns to resilience factors while section 5 describes how the preceding discussion manifests in a set of short-term risks related to fragility, conflict and violence. Section 6 concludes by outlining priority areas for pathways out of fragility and provides recommendations for the World Bank.

1

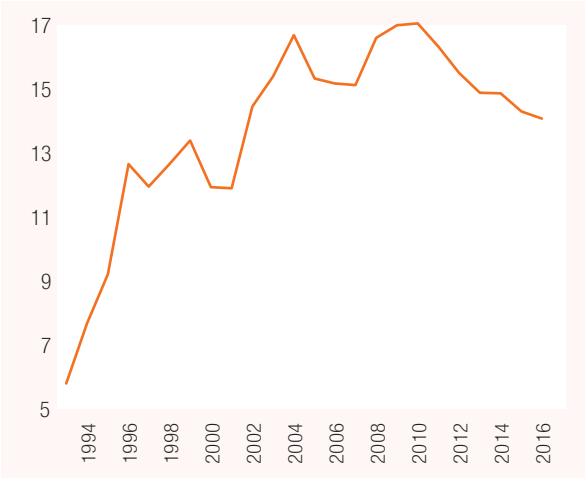
HISTORICAL FACTORS

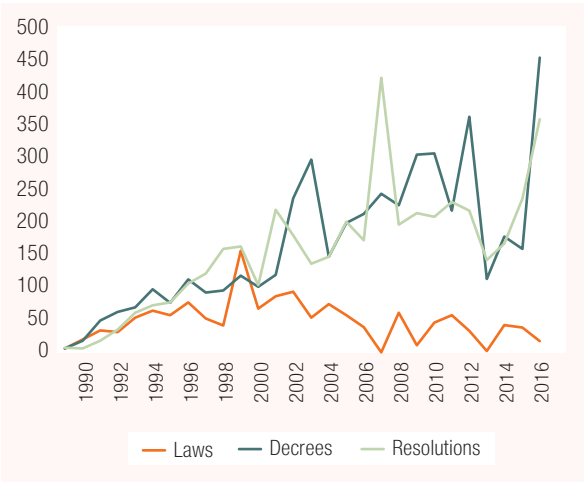
Lebanon has a long tradition of communal power-sharing arrangements (PSAs) which structures political life and its system of sectarian governance to date. Lebanon's polity is organized as a parliamentary republic based on a sectarian PSA that allocates access to political functions to the country's 18 recognized sects. While the first PSAs in Mount Lebanon date back as far as the 1860s between only a few communities, the allocation of political power has been adjusted several times, granting all major communities of socioeconomic significance access to valuable economic and political functions of the state today (Diwan and Chaitani 2014). Today, political elites of all major communities retain informal veto powers over issues pertaining to decision-making at the national level and to individual communities.[2]

Lebanon's social order has become fragile at several points in time. Leaders of sectarian communities challenged the distribution of political and economic resources whenever the PSA failed to match the allocation of rents to the underlying socio-economic strength of their constituencies (Diwan and Chaitani 2014). These periods include the late 50s, in which a brief descent into communal violence threatened a major conflict and precipitated increasing influence of the Sunni community (Traboulsi 2007). A second period includes the protracted civil war (1975–90), which experienced changing dominations and precipitated the rise of the Shi'a communities to the PSA. After the end of a 30-year period of Syrian military presence and political domination, 2005–09 witnessed another period of political and communal violence and a readjustment of political and economic power in favor of the Christian and Shi'a communities. A relatively balanced demographic development among sectarian groups helped stabilize the PSA thereafter and deterred political elites from challenging the arrangement (Faour 2007).

[2] Many political and administrative positions are allocated in formal and informal agreements among sectarian communities. The so-called "National Pact," for example, closed upon independence 1943, stipulates that the president of the Republic should be a Maronite Christian, while the Prime Minister should be a Sunni Muslim and the Speaker of Parliament a Shi'a Muslim. Seats in parliament are divided 50/50 between Christians and Muslims, while tier 1 administrative positions underlie more complex sectarian quotas.

FIGURE 1 Evolution of State Capacity after the Civil War, Tax to GDP Ratio (left, in %) and Total Issuance of Important Legislation (right, Number of Laws, Decrees and Resolutions)





Sources: Based on data from the International Monetary Fund, Ministry of Finance, World Bank and the Lebanese Official Gazette.

While the Taif Accords (1989) marks an important milestone in stipulating ways out of sectarian governance, important parts that would have facilitated the transition into a civil state have never been implemented. The agreement that ended the civil war stipulated, among others, the creation of a senate to represent sectarian communities, while the parliament would become nonsectarian. Fiscal and administrative decentralization would have increased the responsibilities of local governments, in particular newly established regional governments.[3] Moreover, Art. 95 of the Constitution calls for the end of confessionalism through a national transition plan. In practice, however, the Taif Accords entrenched sectarianism by reinforcing confessional self-identification, increasing cohesion within groups, while weakening social cohesion at the national level (Rosiny 2015; Salloukh et al. 2015; Bogaards 2019).[4] The sectarian-based nature of political exchange largely curtails political competition on ideological or programmatic grounds but fuels intercommunal tensions and competition over resource allocation.

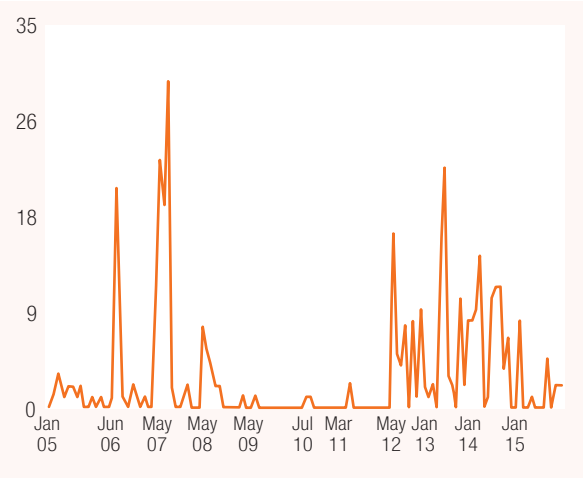
Lebanon's protracted civil war hollowed out public institutions, which facilitated their political capture and undermines their capacities to date. The final years of the civil war were marked by intense intra- and intercommunal fighting, which led to significant and persistent intercommunal antagonism as well as physical destruction, mass migration, hyperinflation, and a weakened public sector (Makdisi 2004; Dibeh 2005; Traboulsi 2007). State capacity, such as the ability to collect taxes or draft and implement legislation, was severely impaired and only slowly recovered. The ratio of tax revenue to GDP, widely used as an indicator for state capacity (Hendrix 2010), increased from about 6 percent in 1994 to 14 percent in 2016 and remains below the world average of middle-income countries (16.4 percent in 2015) (figure 1). This indicates a severe impasse of administrative capacities at the end of the war, as ministries were understaffed and resources for the development of policies and legislation were missing (Makdisi 2004).[5] A parallel governance structure emerged, dominated by powerful individuals

[3] While important advances were made on a reform of the fiscal decentralization framework after a draft law has been introduced to parliament in 2014, the reform has stalled since.

[4] See also Aoun and Zahar (2016) and World Bank (2019).

[5] For example, only 24 important legislative texts (including laws, decrees, ministerial resolutions, and inter-ministerial circulars) could be issued in 1989, compared to an average of 430 from 1990 to 2016 when state capacities increased (Mahmalat 2020).

FIGURE 2 Number of Security Incidents from 2005 to 2015



Sources: Lebanon Support; Lebanese Center for Policy Studies.
Note: Original conflict map based on data collection of car bombs, street clashes, major militant ambushes in Lebanon from 2005–15: definition of "armed conflict events" are those that are political in nature or politically motivated as identified by involvement of political groups and militia rivals, the discourse messaging from belligerents, including claims of responsibility for attacks, and declared objectives or political demands (judicial, military).

and sectarian service providers which never released their influence thereafter (Parreira 2019). At the same time, the political settlement encouraged *laissez-faire* economic policies to minimize state interference in the economy, leaving large parts of the provisioning of public goods and services to private and sectarian providers (Gaspard 2004; Baumann 2019).

The postwar rentier economic model rendered growth unproductive and subdued economic opportunities. To attract funds for reconstruction after the civil war, Lebanon adopted a fiscal policy approach based on liberalization and high interest rates (World Bank 2016), and based on a regressive tax regime (Bifani et al. 2021). Large deposit inflows by the diaspora and international supporters, however, were not channeled into the productive sector of the economy, but rather were used to finance consumption and real estate. Unproductive sectors, in particular real estate and construction, tourism, banking, as well as remittances, became main drivers of economic growth, while productive industries and manufacturing became uncompetitive. As export sectors remained weak and economic diversification low, the high interest rates to attract foreign deposits made commercial lending by banks to private companies and individuals unattractive and depressed entrepreneurial activity. The lack of economic opportunities, in turn, facilitated emigration, particularly among highly educated Lebanese, many of whom repatriated income that in turn was used to finance imports as well as government debt.

Violence capacity was left insufficiently consolidated in the hands of state institutions following the civil war, and remains scattered across actors. While many militias were disarmed and integrated into the Lebanese Armed Forces (LAF) after the civil war, warlords and communal leaders maintained some military capacity. Hezbollah in particular was allowed to remain armed to continue the resistance against Israeli occupation of South Lebanon. Until today, armed nonstate actors continue to operate outside of the direct control of the state security institutions, while weapons in the hands of individuals remain ubiquitous (Centre for Social Sciences Research and Action 2018). This contributes to periodic outbreaks of violence or major conflict (figure 2), such as between political parties in May 2008 (Rizkallah 2017), and compels nonstate actors to retain military capacities as deterrence. Several regions remain outside of full governmental control, most notably Palestinian refugee camps, as well as some border regions and illegal crossings that are controlled by armed nonstate actors (at the northeastern border with Syria), while the United Nations Interim Force in Lebanon (UNIFIL) maintains its mission at the southern border with Israel.

Lebanon has historically been exposed to complex dynamics of conflict in the Middle East, which remains a significant impediment to political stability. Lebanon has suffered through multiple periods of military contestation, including civil war, occupation—Syria (1976–2005) and Israel (1982–2000)—and open warfare (such as the conflict with Israel in 2006). To date, regional political developments influence domestic politics by way of inducing polarization among elites and social groups and creating latent security threats. Political actors leverage political alliances with regional actors to strengthen political power. These alliances historically involved

financial contributions to fund ongoing operations and networks, which in turn has limited politicians' political space to maneuver and Lebanon's sovereignty overall (Geukjian 2017). Moreover, security threats emanate most notably from spillover effects of the Syrian crisis, the conflict between the United States and Iran (and respective allies), as well as ongoing tensions between Israel and Lebanon.

2

STRUCTURAL CAUSES OF FRAGILITY

This section discusses fragility-related constraints to development by applying a social contract framework and examining the role of the regional environment. It first describes the nature of the elite-level consensus and how it led to inefficiencies in decision making. Second, it discusses how and why the relationship between citizens and political elites has come under persistent stress and generated frustrations and grievances that gave rise to the 2019 mass protests. Third, it discusses the nature of intra-societal relations and dynamics of inequality and exclusion. It finishes with an assessment of the impact of regional dynamics.

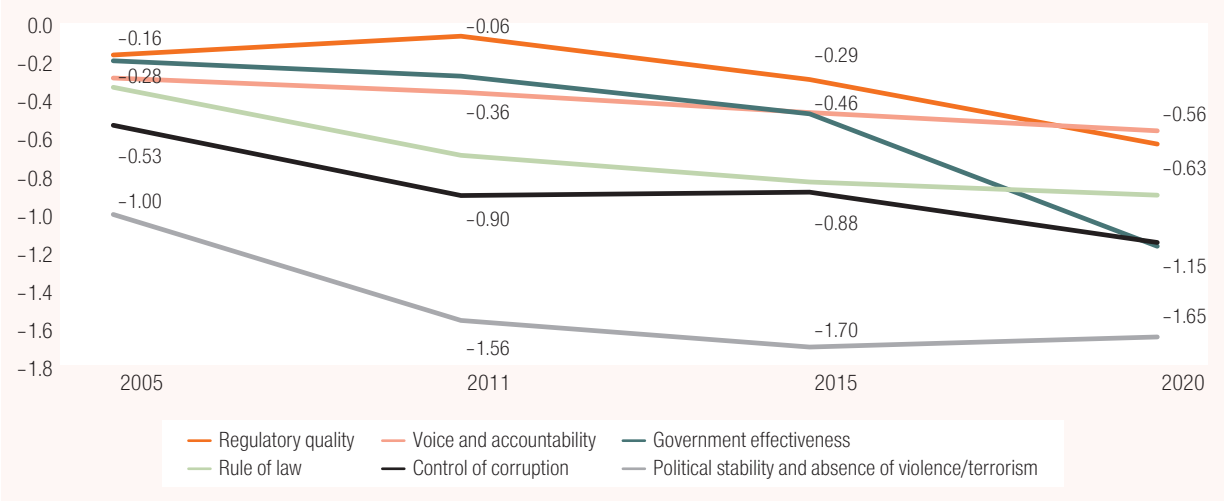
1. Elite-level settlement

Structural Cause 1	Lebanon's political settlement, which is grounded in a sectarian power-sharing agreement, has led to elite capture, widespread clientelism, and patronage, increasing polarization and political paralysis.

A power and rent-sharing arrangement among elites[6] of sectarian communities regulates political exchange and prevents political violence. Based on strong norms of power and resource sharing, rents from valuable economic and political functions of the state are distributed among communal elites according to the socioeconomic power of their constituencies. Political elites, in turn, derive their power and legitimacy from the distribution of rents and services to their constituencies and connected individuals. These norms structure political life and, among other things, precipitate a sectarian balance in public sector employment (Salloukh 2019), the allocation of procurement and infrastructure projects (Leenders 2012), and the provision of public

[6] This RRA refers to elites as the group of individuals that hold significant power over political decision-making processes. It broadly differentiates three groups of elites. Political elites hold political office at the national level (government or parliament), or are leaders of political parties, of sectarian communities, or both. Their power rests on the distribution of clientelist services to constituencies as well as the sustenance of a critical level of violence capacity outside the direct control of state institutions (Rizkallah 2017). Economic elites, partly overlapping with political elites, are businessmen and women that use their wealth and political connections to influence political decision making. Local elites refer to individuals that significantly influence decision making at a local level by holding political office in local governments or head influential families, tribes, or clans. An elite-level settlement includes the sum of deals, economic and political, to enable political decisions to be made and implemented.

FIGURE 3 Worldwide Governance Indicators for Lebanon, 2005–20



Source: World Bank Worldwide Governance Indicators.

goods and funds among communities (Salti and Chaaban 2010). Equal access to state functions is a precondition for elites to uphold mutual consensus on matters of security and the absence of violence for political gains.

The large number of elites with veto powers reduces the ability of the executive and legislative branches of government to respond to changing environments and shocks. Most governments since 2005 have included all political factions, bloating them in size and hampering decision making.[7] The need to establish and maintain a power balance among political elites has also prolonged the time of negotiations over political decisions and increased political instability. The government formation periods, for example, came to take up to 13 months after 2005 while it ranged only between 2 and 14 days between 1989 and 2005. At the same time, the average life span of governments remained almost constant with about 1.5 years, indicating a significant increase in the share of time governments remain effectively paralyzed in caretaker functions. This has impacted political actors' ability to negotiate complex legislation, thereby undermining government's ability to react quickly and decisively with regulatory amendments to changing environments and shocks.

Political contestation under a "veil of confessionalism" undermines the accountability of public officials and the quality of governance and political processes. Labelled as a "governance trap" in the SCD (Le Borgne et al. 2015, 5), politicians use sectarian identification to evade accountability and to remain unchecked in their performance in office. As ministers or high-ranking officials represent their confessional group and party, attempts to hold individual politicians accountable can be dismissed as an attack on a specific group. This subjugates accountability mechanisms to the intra-elite bargain. As a result, Lebanon's governance quality has steadily declined, especially after 2005 (figure 3).

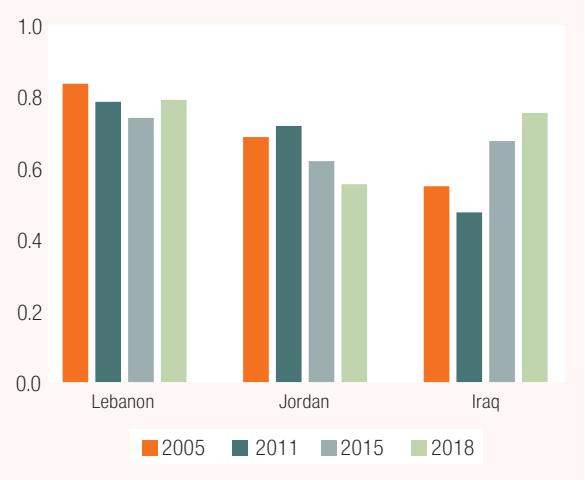
The system of sectarian governance pervades center-periphery relations and leads to inefficient planning and implementation of development projects. Because Lebanon is a single-tier unitary country, municipalities bear significant responsibility for the provision of local public goods. Endowed with these responsibilities during a temporary lull in fighting in 1977, the renewal of the conflict

[7] Of the 10 governments formed after 2005, 6 were unity governments. The size of these unity governments increased to up to 30 ministers, such as the government under PM Saad Hariri (2019), compared to 20 in the "one-sided" government under PM Diab and 14 under the "technocratic" government under PM Mikati in 2005 (Mahmalat 2020b).

left municipalities devoid of the resources needed to implement them. Parties and wealthy individuals came to fill this vacuum during and after the war. Local actors became co-opted by political parties, and often depend on their approval to implement significant developmental projects. More than 20 years after municipal elections were reinstated in 1998, strong ties to ruling national parties are still a precondition for access to financial and administrative resources necessary to provide local public goods (Parreira 2020). Subjected to the strategies and considerations of national actors, local authorities therefore often fail to channel citizens' demands for public services into socioeconomic development initiatives and projects, fueling citizens' frustration with local politicians and dependency on private providers.

Elite capture of state institutions has undermined policymaking processes and trust. The Taif Accords do not specify that any administrative positions should be allocated to specific sects. In practice, however, almost the entire public administration became subject to sectarian quotas, leaving a significant proportion of hiring decisions taken on communal affiliation and personal connections, rather than meritocratic principles (Le Borgne et al. 2015; Salloukh 2019). Many public institutions have become "bastions of privilege" (Leenders 2012, 225) for political elites who use employment within these institutions and the services they offer as patronage tools for their constituencies. This leaves much of the ministerial staff with dependencies to elites, who report to the heads of political parties, rather than administrative superiors. The ubiquitous nature of such practices has far reaching effects on policymaking processes and significantly impacts bureaucratic effectiveness. Unsurprisingly, public perceptions of corruption are dismal as 96 percent of Lebanese believe corruption is "endemic" in public administration.[8]

FIGURE 4 Clientelism Index, Lebanon and Peer Countries



Source: Coppedge et al. 2021.
Note: Question: To what extent are politics based on clientelist relationships? Clientelist relationships include the targeted, contingent distribution of resources (goods, services, jobs, money, etc.) in exchange for political support. Scale: Interval, from low to high (0–1).

Lebanon's social contract is shaped by the exchange of clientelist services from political elites to constituencies in return for political support. Elites use their prerogatives over state institutions as well as sectarian providers for targeted provision of services and basic goods to legitimize their positions as leaders of sectarian communities, in particular in the areas of health care, employment, and education. Elites and their political parties have made access to these services highly exclusionary by targeting specific individuals or groups in return for political support. Health care services, for example, are often provided by partisan nongovernmental organizations (NGOs) that provide access to services depending on an individual's strategic importance for the party, such as whether an individual is a core supporter or a sympathizer.[9] Many contractual positions in the public administration and increasingly in politically connected private sector firms are

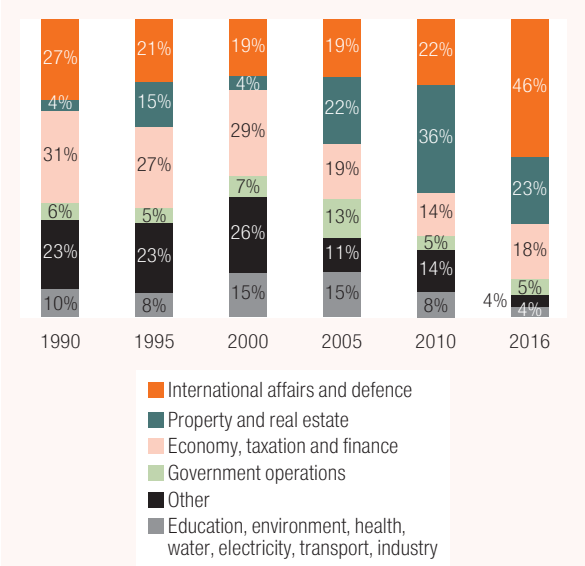
2. State-society relations

Structural Cause 2	An increasing divide between people's needs and expectations and the political elite's priorities has undermined state-society relations and fueled discontent, grievances, and widespread unrest.

[8] Arab Barometer Surveys Wave V.

[9] Recent research shows that the extent to which parties offer services to in- or outgroup members depends on their political strategies and thereby varies among regions and the locally dominant parties (Cammett 2014; Corstange 2016; Cammett and Sasmaz 2017).

FIGURE 5 Share of Significant Laws and Decrees in Developmental Categories to Total Laws and Decrees, 1990 to 2016



Source: Mahmalat 2020.

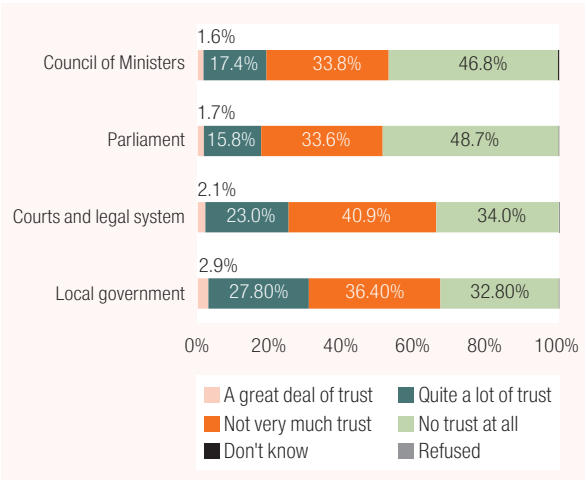
provided based on an individual's relationships to politicians (Salloukh 2019; Diwan and Haidar 2020). This system renders constituencies dependent on sectarian providers and binds them geographically to the area of influence of a specific elite, as the same set of services would not be available to citizens in other regions. Accordingly, Lebanon ranks second among Middle East North Africa (MENA) countries in the clientelist index of the Varieties of Democracy project (0.79 out of 1), measuring the extent to which politics is based on clientelist relationships (figure 4).

The system of sectarian governance undermines feedback mechanisms for citizens, resulting in a disconnect between the priorities of citizens and governments. The restrained role of the state is reflected in the attention paid to areas of public service provision within the political agenda, which never exceeded 15 percent of legislative activity after 1990 and stands at only 4 percent of total legislative activity today (figure 5). This low priority on the government's political agenda, however, fails to reflect the priorities voiced by citizens. The priority issues stated by politicians, particularly Members of Parliament, overlap less than half with the priority issues of citizens (LCPS 2018), highlighting the difficulties for citizens to influence politicians' agendas.[10]

Accordingly, satisfaction with politicians and services has decreased over the past decade, and citizens have become increasingly frustrated and alienated from politicians. 83 percent of respondents in the 2018 Arab Barometer reported to disagree or strongly disagree that political leaders are concerned with the needs of ordinary citizens. In the same survey, only 4 percent of respondents believe that the government is doing a good or very good job in creating employment opportunities, the lowest rate of all MENA countries (16.1 percent regional average). Moreover, citizens' trust in virtually all governmental institutions (except the police and army) experienced a significant decline between 2013 and 2018 (Fakih et al. 2020). In 2018, less than 20 percent of respondents reported having trust in governmental institutions (notably the government, Parliament, and political parties), while almost half of respondents reported having "no trust at all" in the Council of Ministers and the Parliament (figure 6).

The accumulation of popular grievances has led to a significant decline in life satisfaction

FIGURE 6 General Trust Levels in Governmental Institutions in 2018

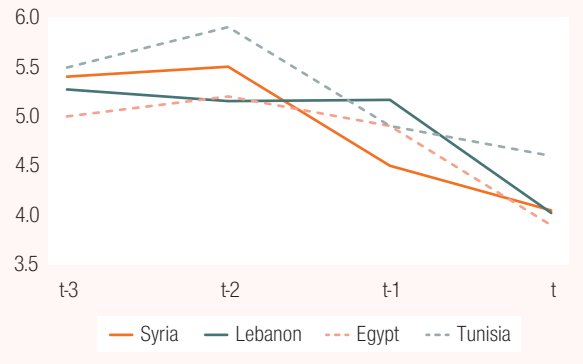


Source: Arab Barometer Surveys Wave V.

[10] See also Atallah (2018).

and led to mass protests in October 2019. Economic conditions deteriorated even before the onset of the economic and financial crisis of fall 2019, severely limiting economic and employment opportunities for citizens. New business entries, for example, experienced a severe contraction between 2015 and 2019 and were less than half the levels during the economic growth years of 2008 to 2010 (Berthier and Harling 2020). Accordingly, individual satisfaction with economic standard of living experienced a significant contraction. While in 2017, 59 percent of respondents to a yearly Gallup poll reported to be satisfied with their "standard of living [and] all the things [they] can buy and do," this share decreased to 28 percent in 2019. Accordingly, the share of people saying that their standard of living gets better declined from 28 percent in 2017 to only 5 percent in 2019. These developments in general trust levels coincide with developments in other Arab countries that experienced revolutions and violent conflict after 2010. Lebanon today experiences a similar drop in overall life satisfaction (the Cantril ladder) as other countries experienced prior to the onset of their political upheavals (figure 7). Long in the making, these frustrations eventually gave rise to the October 2019 "revolution."

FIGURE 7 Cantril Ladder for Lebanon and Arab Countries Experiencing Revolutions or Armed Conflict in 2010–11



Source: Gallup.
Note: t = 2019 for Lebanon, while t = 2011 for Syria, Tunisia, and Egypt. Question: "Please imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?".

Grievances boiling over: the October 2019 protests

Social mobilization flared up sporadically on several occasions in the past, culminating in the nationwide protests of October 2019. These events reflected larger trends of a growing and widespread discontent with the country's socioeconomic conditions as well as its sectarian and clientelist system (Khouri 2020). Among the most notable of these were the "You Stink!" protests that emerged in 2015 in response to the government's failure to address a waste crisis caused by the closure of the Beirut and Mount Lebanon regional waste landfill site in July of that year. The 2015 protests were noteworthy because they translated into new forms of political mobilization. In what followed, social mobilizations increased in numbers and eventually culminated in the October protests, which were the largest social mobilization in recent Lebanese history.[11]

The so-called "October revolution" transcended traditional economic, political, and confessional cleavages. The protests reached virtually all of the country's geographical areas and social groups.. In this way, the protests reflected a diverse set of organizations, actors, and citizens that were united in rejecting the traditional political class and the confessional system of governance, upholding the common slogan "Killon yane killon" ("all of them means all of them"). Despite the magnitude of the protests, which featured hundreds of thousands of protesters (up to an estimated 1.5 million during peak times) for several consecutive weeks, the protests remained largely peaceful.

Protestors expressed discontent over the political elite's consistent failure to address longstanding economic and social issues

[11] The mass-protests were triggered by plans of the government to tax internet-based telecommunication services in the course of the draft budget 2020. The tax was proposed in the aftermath of the government's poor management of wildfires that engulfed the country earlier the same month and reinforced pre-existing grievances regarding corruption and mismanagement.

coupled with corruption and the country's sectarian and clientelist system. Demands by protestors are diverse and span a wide range of topics. While no representative surveys have been conducted, a strong emphasis emerged on political and governance issues, including improvements in judicial independence, service provisioning, calls for early parliamentary elections based on a new electoral law, accountability of public officials, recovering "stolen funds" that have been transferred out of the country illegally, and safeguarding the public sector from patronage. As women and women-led organizations were central to the protest movement, many highlighted the challenges women and sexual minorities face in daily life, demanding changes to discriminatory laws and practices (Geha 2020). Protestors also called for macro-fiscal and banking sector reforms (notably lifting banking secrecy laws) as well as enacting socioeconomic reforms and strengthening environmental regulation and management.

The COVID-19 pandemic, the economic crisis, and an increasing securitization of public life have changed social mobilization. In response to the 2019 protests, security forces were deployed in Beirut and other areas, which, together with the onset of the pandemic, brought the movement of popular mass-protests to a halt. Together with newly established protections in many public spaces, such as walls and fences, an increasing securitization of public life has limited mass mobilization. With a deterioration of the economic crisis, the nature and focus of protests has shifted from demands for governance and accountability towards the alleviation of socioeconomic grievances. This has also resulted in an increase in riots and violent escalations—see section 5 on short-term fragility, conflict, and violence (FCV) risks.

3. Intra-societal relations

Structural Cause 3	High levels of socioeconomic inequality and exclusion, very low levels of trust between communities, and (perceived) competition between host communities and refugees over access to services and economic opportunities harm the quality of social relations.

This section discusses the underlying fault lines that reinforce fragility and contribute to making societal relations prone to conflict. It first discusses the role of sectarianism and shows how it pervades the organization of social life. The section goes on to examine structural inequality and poverty, and sheds light on the relationship between refugees and host communities. Finally, it discusses the effects of excluding women and youth from many functions of public, economic, and political life.

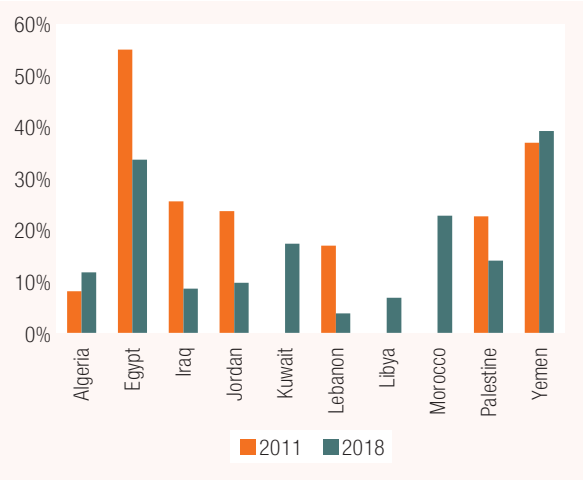
Sectarianism and the organization of social life

Lebanese society is among the most religiously diverse in the Middle East, recognizing 18 different faiths whose religious courts administer personal status laws and segregate Lebanese society along sectarian lines. Within their communities, religious leaders are legally responsible for managing religious affairs, leading nationwide hierarchies of clerics who run places of worship, schools, and personal status courts that adjudicate many aspects of daily life, including marriage, divorce, and inheritance. Outside their communities, they function as spokespeople representing their communities during interactions with public authorities (Henley 2016). Sectarian divisions impact intra-societal relations in various ways, such as by inhibiting intercommunal exchange. Civil marriage, for example, continues to be impossible under Lebanese jurisdiction.

Across populations in the Arab region, Lebanon exhibits the lowest degree of general interpersonal trust. In 2019, this stood at only 4 percent, compared to a 20 percent average in the region (see figure 8; ESCWA, forthcoming).[12] Distrust between communities remains particularly high. Around 80 percent of both Sunni and Shi'a across all

[12] Interpersonal trust refers to the degree of trust individuals have in people they do not know (general trust) or in known persons, such as family members, friends, and neighbors. While conceptually distinct from institutional trust introduced earlier, interpersonal and institutional trust have important causal interactions that will facilitate the reproduction of trust.

FIGURE 8 Level of Interpersonal Trust in Lebanon and Peer Countries, 2011 and 2018



Source: Arab Barometer Surveys Waves II and V.

age groups, for example, trust their co-religionists "a great deal," while they trust members of other religions around 30 percent of the time across all age groups.[13] As the Arab Barometer surveys show, 21 percent of Lebanese said they dislike or strongly dislike having members of a different religion as neighbors in 2018, up from 5 percent in 2007. Similarly, almost 30 percent of Lebanese characterized the relations to different groups in their area as "negative" or "very negative" in May 2021, showing a long-term trend in the deterioration of intra-Lebanese relations (ARK and UNDP 2021a). Amid a lack of trust in the political leadership, such low levels of interpersonal trust gave rise to non-cooperative behavior in everyday life in the form of, for example, individual corrupt behavior (Acemoglu and Jackson 2015).

Despite growing demands for a civil state, citizens still show little willingness to accept concessions to a community's allocated political power. As the protest movements showcase growing demand for a transition into a civil state, more than half of Lebanese (56 percent) express a desire for a civil secular political system (Robbins 2020). Only 10 percent are in favor of leaving the system as it is today, while 23 percent prefer a federal system that preserves a role for sectarian communities. However, the potential loss of the current political system's benefits makes respondents skeptical of change. When asked whether political positions that have historically been occupied by members of their sect should be open to all, nearly half (47 percent) responded "no," with significant variations across sects. These survey results exemplify the complexity of interaction effects of sectarian identification with political outcomes. Moreover, they illustrate how elites can leverage sectarian identification for legitimizing their political power by perpetuating their constituents' fear of other communities (Salloukh et al. 2015).

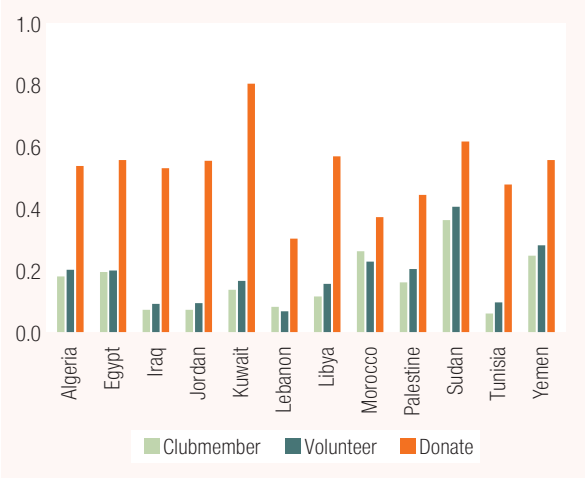
Sectarian identification continues to structure social exchange, yet is undergoing complex transformations as alternative political identities emerge. Sectarian identities generally retain a strong influence in shaping social exchange, and "political and sectarian conflict" remains the most-cited source of tensions in intra-Lebanese relations (according to 55.4 percent of respondents; ARK and UNDP 2021a).[14] At the same time, Lebanon's younger generation appears to focus less on sectarian identity than previous generations. In the 15–29-year-old age group, 74.3 percent of Lebanese believe that society places too much emphasis on religion (AbiYaghi and Yammine 2019). More broadly, personal piety in Lebanon has declined significantly in the past decade: in 2018, only 24 percent described themselves as religious compared to 44 percent in 2010 (Arab Barometer 2019). The basis of sectarian identification therefore slightly shifted towards alternative salient political issues, most notably class, inequality, and political affiliation with external powers.

While Lebanon has historically had an active civil society due to the relative freedom of expression and organization, its influence over governance and policymaking has traditionally been limited and subject to elite capture. Civic and civil society engagement play important roles in socioeconomic development and in the prevention of

[13] World Value Survey Wave VI. See also Diwan and Chaitani (2014).

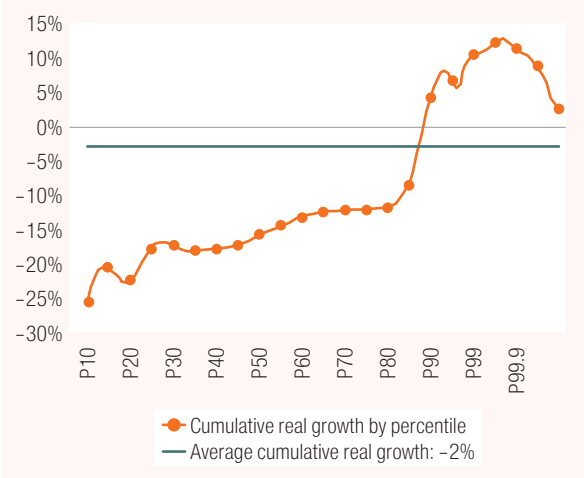
[14] The percentage of respondents citing sectarian conflict notably increased in recent months from 38 percent in 2019 (Wave VI).

FIGURE 9 Civic Engagement in Regional Comparison 2019, Proportion of Adults Responding



Source: Arab Barometer Surveys Wave V.

FIGURE 10 Cumulative Real Growth of National Income by Percentile, 2005–14



Source: Assouad 2017.

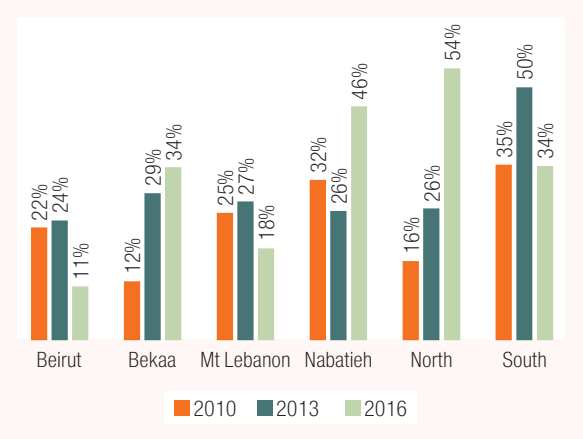
conflict.[15] Compared to regional standards, Lebanon exhibits a low degree of organized civic engagement. Only 8.2 percent of citizens report to be an active member of a club, while civic engagement focuses more on donations (figure 9). While a large number of civil society organizations (CSOs) exist (about 1.3 associations per 1,000 inhabitants in 2015; Beyond Reform & Development 2015), their proliferation appears to be an "indicator of fragmentation rather than a characteristic of a 'vibrant civil society'" (AbiYaghi et al. 2019). Many CSOs pursue functions as charities to address the lack of welfare functions of the state, reinforcing sectarian and communal allegiances and affecting their impact on policymaking (AbiYaghi et al. 2019). Many CSOs also tend to seek sectarian elites' support to ensure access to government decision-makers and/or receive public attention (Clark and Salloukh 2013).Cross- or anti-sectarian CSOs exist, however, as evident in the October 2019 popular protests, and play an important role in the process of altering political consciousness and improving horizontal social cohesion (see section 4 on resilience factors).

Poverty and inequality

Lebanon's comparably large amounts of personal wealth has become concentrated within the hands of a small layer of society, which drives perceptions of injustice and became a dominant theme in the October 2019 mass protests. The wealth of Lebanon's top decile of the population amounted to approximately $360,000 in 2019, more than three times as much as the average of middle-income Arab peer countries with (~$98,000; Abu-Ismail and Hlasny 2020b). The country's Gini coefficient of 81.9 percent in 2019 is the second highest in the MENA region after Saudi Arabia. The median wealth of the population was approximately $9,100 in 2019, while the top decile of adults owned about 70.6 percent of all personal wealth in the country. Fiscal and economic policies in the prevailing macroeconomic framework aggravated these inequalities over time (Salti 2019) and led to widespread structural poverty and unemployment. From 2005 to 2014, the cumulative real growth of income was only positive for individuals in the top 10 percent of income earners (Assouad 2017; see figure 10). Consequently,

[15] Civic engagement is a crucial determinant for democratic governance as CSOs serve to interact with state institutions to address public problems. Volunteerism and membership in organizations to cooperate with other members of society are moreover essential to build trust beyond the immediate family or clan circle.

FIGURE 11 Perceptions of Equal Treatment by the Government (Answer to "Some" or "Great" Extent, % of Adults)



Source: Arab Barometer Surveys, Waves II, III, IV.
Note: Question: "To what extend do you feel you are being treated equally by the government compared to other citizens in your country to some or great extent?".

Lebanon has become one of the most unequal societies worldwide (Alvaredo et al. 2017; Assouad et al. 2018). The mass protests that erupted in October 2019 picked upon these issues, such as by demanding a contribution of wealthy individuals to Lebanon's financial recovery and the repatriation of "stolen funds."

High regional variation in the distribution of poverty and income contribute to perceptions of unfair treatment by the government. While income (vertical) inequalities within societies generally add to the perception of injustice, it is the relative deprivation of groups vis-à-vis others (i.e., horizontal inequality) that increases the risk of violence (Gurr 1970, 1994; Cederman et al. 2013). In Lebanon, significant variations persist in the distribution of income and access to services among regions, which in some places, overlaps with the prevalence of sectarian groups. While the current crisis has exacerbated poverty rates to an extent that accurate regional indications are unavailable at the time of this writing, they have historically been unequally distributed. Some areas in the North and Akkar, mostly inhabited by Sunni Muslims, as well as the South and the Bekaa, mostly Shi'a inhabited, have long suffered from structural poverty pockets.[16] Public spending patterns on services and public goods perpetuate these inequalities as they disregard developmental needs but coincide with sectarian lines (Salti and Chaaban 2010). This has reinforced perceptions of unequal treatment by the government among citizens, which exhibits significant variation across regions (figure 11).

Refugees and their relation to host communities

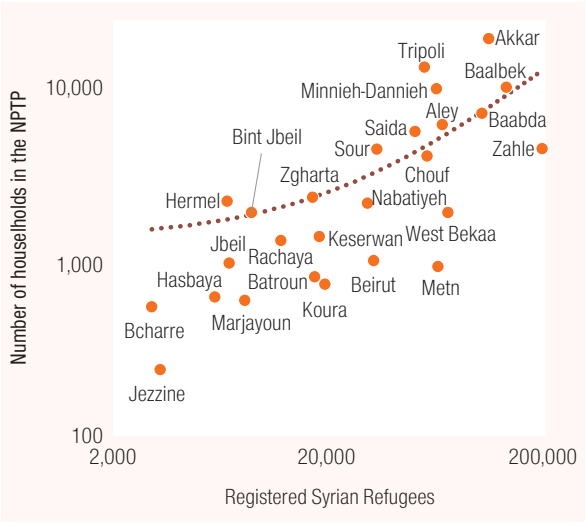
Lebanon hosts the world's highest concentration of refugees per citizen, which are located in relatively poorer regions and thus disproportionately impact vulnerable parts of society (GoL and United Nations 2019).[17] Approximately 1–1.5 million Syrian refugees and ~175,000 to 200,000 resident Palestinian refugees (Rasbey 2017) are presently hosted on Lebanese soil. Of the Syrian refugees, 87 percent live in Lebanon's most vulnerable areas, which also has the highest concentration of deprived Lebanese (67 percent; GoL and United Nations 2016, 2). Syrian refugees disproportionately concentrate in those districts in which a higher number of Lebanese families reside that are registered in the National Poverty Targeting Program (figure 12), thus disproportionately affecting poorer regions' access to scarce public services, labor, or aid. As the current crisis intensifies, individuals and communities facing hardship and deprivation may foster resentment, which in turn can affect inter-group relations. The very limited coverage of targeted social safety net programs—chiefly the National Poverty Targeting Program (NPTP)—among extreme poor Lebanese households could give rise to greater resentment in the context of higher and more visible social assistance to displaced communities provided by the UN system.

Tensions between Syrian refugees and Lebanese host communities primarily relate to (i) competition over jobs; (ii) saturation of basic

[16] North Lebanon, for example, hosted 36 percent of citizens living in poverty in 2011/12, compared to only 16 percent of the poor living in Beirut (Yaacoub et al. 2016). Note that no detailed household surveys were published after 2007.

[17] There has been no official population census since 1932, hence an estimate.

FIGURE 12 Concentration of Registered Syrian Refugees to Number of Lebanese Households Registered in the NPTP



Source: United Nations High Commissioner for Refugees, Atallah et al. 2019.

public services; and (iii) perceptions of inadequate aid allocation. As recent survey work finds, nearly a third of Lebanese (32.2 percent) describe relations with Syrian refugees as "negative" or "very negative" (ARK and UNDP 2021a). First, Syrian refugees tend to have lower education levels, and, due to the lack of formal job creation in the economy, they are constrained to work in the informal economy, competing with poor and vulnerable Lebanese (World Bank 2019). Second, local infrastructure and public services fail to match the increased demand imposed by displaced populations, disproportionately affecting poorer regions with already lower quality of public infrastructure (World Bank 2019). Third, several studies identify perceptions of ineffective targeting and distribution of aid as a major source of tension in host communities. While this source of tension became less salient in relation to those aforementioned over the course of the crises, many municipalities and beneficiaries claim Syrians would receive more aid/cash than vulnerable Lebanese.

Exclusion of women and youth

Legal, institutional, and social hurdles to women's rights remain in place and reflect high levels of exclusion.[18] Despite some progress, gender inequality is endemic to all aspects of life in Lebanon, starting with its legal foundation. With a score of 52.5 out of 100 on the Women Business and the Law Index, Lebanon scores slightly higher than the regional average but notably lower compared to the average of upper-middle-income countries.[19] Lebanon's low ranking is reflected in its legal framework (World Bank and UN Women 2021). For example, Art. 7 of the 1926 Constitution does not include any provisions related to sex and gender equality. Furthermore, laws that negatively affect women's basic rights, status, and participation in the political, economic, and social spheres continue to prevail, including those related to nationality, the civil registry, the penal code, personal status laws, labor, and social assistance (Lebanese Constitution of 1926 with all amendments, 2004; ESCWA 2014; UNDP 2018). Also the application of existing legislation to protect women and girls from abuse and violence remains insufficient. According to United Nations Population Fund (UNFPA) data, about 50 percent of persons reported that they know of someone subjected to domestic violence, with 65 percent of the cases committed by family members and 71 percent of incidents taking place inside the perpetrator's home (UNFPA 2017).

The legal regulation of private life (marriage, divorce, maternal custody, inheritance) systematically disadvantages women and girls. Private life is not governed by a unified civil code but is based on 15 different religious legal systems. These laws and their application in practice, however, often favor men and thereby deny equal rights to women (UN Women n.d.). Further, it keeps communities closed by preventing individuals from moving across sectarian groups. Accordingly, Lebanon is one of the worst-ranked countries in the Gender Gap Index (145 out of 153

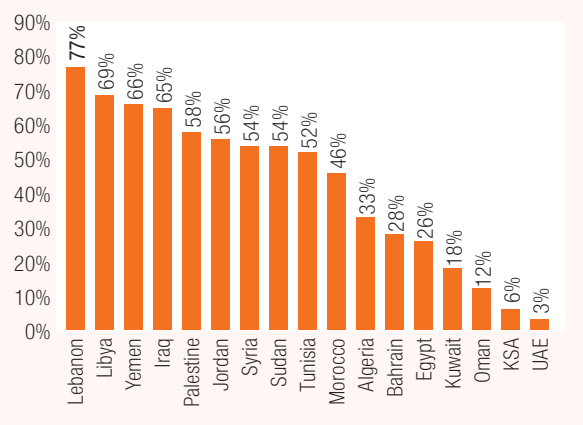
[18] Gender inequality is often a reflection of overall levels of exclusion in a society, and the degree to which women are included in political, economic and social life is thereby a key indicator of fragility and potential instability, see Østby (2008), Cederman et al. (2013), and United Nations and World Bank (2018, xxiii, 115–16).

[19] The Women Business and the Law Index measures gender differences in laws that impact access to economic opportunities in 190 economies. Detailed methodology is available at https://wbl.worldbank.org/en/methodology.

countries), driven by inequalities in civic and political freedom as well as rights to equal justice, while the women's labor force participation rate is one of the lowest globally (26 percent vs. 76 percent men; World Economic Forum 2019b). Only 17 percent of women are self-employed compared to 43 percent of men, and only 4 percent of companies in Lebanon have a woman as top manager.[20] In the political sphere, only six deputies out of the 128 in the 2018 Parliament are women (4.6 percent). Similarly, the representation of women in government has remained very low.[21] Clientelistrelationships,establishedacrosspatrilinealand sectarian lines, disproportionately affect women's abilities to enter the political arena (Lebanon Support 2018).

Multidimensional exclusion of Lebanese youth creates frustration and grievances that lead to high emigration rates and risks of extremism among those who cannot leave. The economic crisis has had a disproportionate effect on young people entering the workforce. Even before the current economic crises unfolded, Lebanon's youth unemployment rate was 23.3 percent in 2018, more than twice the national average (CAS et al. 2020). This impacts youths' hopes for a future in Lebanon and led 77 percent of youth aged 18–24 report wanting to leave the country (figure 13). Beyond youth, the current crises exacerbate a significant brain drain of skilled labor in both the public and private sectors. A staggering 57 percent for those with a secondary or university degree seek to emigrate (AbiYaghi and Yammine 2019), amid media reports that almost 40 percent of skilled medical doctors have already left the country either permanently or temporarily until 2021.[22] However, emigration is not an option for all, leaving youth from disadvantaged communities and regions at a higher risk to be pulled into criminality, violence, and violent extremism (United Nations and World Bank 2018, 22; ESCWA, forthcoming).

FIGURE 13 Percent among Youth Reporting "Actively Trying to Emigrate" or "Having Considered Emigrating" in 2020



Source: Arab Youth Survey.

4. Regional dynamics

Structural Cause 4	High levels of foreign interference and the simmering conflict with Israel reinforce domestic polarization and expose Lebanon to wider geopolitical contestations.

Lebanon's geographical location and the simmering conflict with Israel exposes it to competing foreign policy agendas. International actors traditionally maintain close ties to Lebanese political parties and movements by offering formal and informal support, both political and in terms of resources, to advance geostrategic agendas. Foreign actors therefore provide a form of rent for domestic elites that helps to sustain the power-sharing arrangement. However, these close connections to international actors, or patrons, expose Lebanese politics and economy to geopolitical tensions. The relations and tensions between the United States, Israel, as well as the Gulf Cooperation Council countries and Iran in particular influences the political strategies of armed actors and tends to impact government formations and decision-making processes in cabinets. Similarly, sanctions or the threat thereof impact political and economic dynamics. For example, the 2019 "Caesar Act,"

[20] See the Mashreq Gender Facility, https://www.worldbank.org/en/programs/mashreq-gender-facility#4.

[21] While the appointment of six women to the ministerial cabinet in 2020 marked a first in the country's history, the 2021 cabinet included only one female minister.

[22] See https://twitter.com/who/status/1439573458967486468?lang=ar.

which subjects any organization aiding the Syrian government to U.S. sanctions, entails political and economic risks for political collaboration between the Lebanese and Syrian governments, as well as for business relationships, trade, and investments.

Military confrontations (or the threat thereof) between Israel and Hezbollah, as well as the spill-over effects from the war in Syria, remain the two most direct repercussions from regional conflicts. The conflict in Syria has notably impacted economic activity via various channels, mostly by cutting supply chains, trade routes to important trading partners, and demand in tourism, agriculture, and manufacturing (World Bank 2020b). While the demographic shock of refugee arrivals boosted GDP by 0.9 percent by increasing aggregate demand and labor supply, the conflict is estimated to have reduced the average annual GDP growth rate by 1.7 percent from 2011 onwards (World Bank 2020b). Moreover, the influx of refugees placed further strain on key infrastructure, notably electricity, sanitation, and solid waste management, as well as other municipal services (World Bank 2013).

3

DRIVERS OF FRAGILITY IN KEY SECTORS

Against the background of Lebanon's overarching fragility constraints, this section discusses how these constraints manifest in key areas, and in turn drive fragility. It also analyzes how the unprecedented set of overlapping crises exacerbates existing grievances and drivers of fragility. The analysis focuses on five key areas: (i) political decision-making processes; (ii) public sector governance and justice; (iii) economic determinants; (iv) service delivery and infrastructure; and (v) security (see table 1 for an overview).

1. Political processes

Driver 1	Subordination of political processes to the prerogatives of sectarian politics and elite interests has led to politicized government institutions and stalled and short-term decisions.

TABLE 1 Overview of Fragility Drivers in Key Sectors

Focus area	Fragility driver
Political processes	• Subordination of political processes to the prerogatives of sectarian politics and elite interests has led to stalled and short-term decisions and politicized government institutions.
Public sector governance and justice	• Pervasive corruption, near absence of accountability, and a politicized and weak judiciary have undermined trust in state institutions and fueled a culture of impunity.
Economic Determinants	• Limited economic opportunities and rising levels of poverty and vulnerability—a result of a misdirected growth model, unsustainable macroeconomic policies and an unmanaged crisis—fuel grievances and drive mass emigration of skilled labor. • High levels of connectedness between political and business elites have led to weak competition and contestability in key sectors.
Service delivery and public infrastructure	• Privatization and patronage-based delivery of social services, exacerbated by the current crises, leads to exclusionary access and reinforces tensions between social groups. • Elite capture and mismanagement of public funds have resulted in a steady decline in the quality of public infrastructure and led to high inequalities between regions.
Security	• The weakening of the operational capabilities of formal security actors, the presence of militant nonstate actors, as well as a high availability of small arms lead to a deteriorating security environment.

Legislative institutions have low technical capacity to prepare and process complex legislative proposals. Several institutional deficiencies undermine the processing of legislation.[23] Any bill must be discussed within Parliamentary commissions that refer these bills to Parliament after consensus has been reached. These commissions, however, constitute bottlenecks in the technical elaboration of legislative texts, as their capacities both in terms of technical expertise and human resources are low. Complex reform can take up to a decade to be completed even when consensus among elites and lawmakers is reached. The necessity for implementation decrees by the government introduces an additional mechanism for political interference and to thwart reform, as the cabinet can opt not to specify how to implement laws in practice. A whole series of laws that are formally enacted by Parliament lack the specifications in the form of decrees necessary to be implemented, such as the law for the creation of the office of an Ombudsman from 2005 or the higher education law from 2014. Legislating can thereby become a way of showcasing political will vis-à-vis constituents and donors, rather than introducing real change.

The high number of veto players and political instability bias the policymaking processes towards decisions with short time horizons. Policymaking requires political commitments among political actors and the trust between them that mutual promises and concessions are being kept (Scartascini et al. 2013). In Lebanon, however, the many veto players (i.e., those actors that can individually block the policymaking process) make mutual commitments difficult to surveil amid a severe lack of trust among political actors (Mahmalat and Curran 2020). Moreover, endemic political instability of governments shortens the time horizons of political actors and thereby undermines the credibility of political commitments for future actions.[24] These mechanisms disadvantage complex legislation that require lengthy negotiations between a large set of actors.[25] That way, policymaking remains biased towards low-complexity legislation with a short time horizon that fail to address the structural causes of Lebanon's governance deficits.

Political elites can impede reform by leveraging governmental institutions, notably the Parliament, as a "backstop" for preserving sectarian and partisan interests. Powerful political actors (such as the heads of Parliamentary commissions) enjoy extensive veto powers in the decision-making processes. These actors can amend the agenda of the institutions over which they preside to the extent that doing so delays decisions or leads to non-decisions. In this way, political parties can leverage institutions like the Parliament to stop unwanted decisions or legislative projects.[26] As a consequence, Parliament lost much of its agenda-setting capacities in the policy-making process[27] and has limited "de facto" oversight over the government.[28] To the extent that maintaining the status quo benefits elites, legislative responses to the prevailing economic and financial crisis can be protracted or fail to materialize all together.

Electoral processes are undermined by vote-buying while the prevailing legal framework limits competition. Voter mobility is low, as about 90 percent of voters cast ballots for the same party in both 2009 and 2018. There are three overarching constraints

[23] The average number of laws passed per year from 1990 until 2009 in Lebanon was 80.2 compared to 186.3 for a set of European countries; see Mahmalat and Curran (2020).

[24] For example, the average lifespan of a government was only 1.5 years since 1990 including the times of formation. While the average period to form a government was 6 days from 1989 to 2005, this time increased to 100 days from 2005 to 2016.

[25] The government under Prime Minister Saad Hariri, for example, despite the significant economic and financial distress that precipitated the outbreak of the present economic and financial crisis and two major reform plans following the Brussels and CEDRE conferences, only produced two significant pieces of legislation during its term in 2019, a budget law 2019 and the electricity plan (LCPS 2019).

[26] For example, two opposition parties prohibited voting on bills related to the disbursement of cash assistance to families in need during the parliamentary session in April 2020 by simply leaving the meeting and make the parliament lose quorum. See Rose (2020).

[27] For example, out of 352 laws that were enacted during the 2009 to 2018 legislative session, 31 were related to basic services, of which parliamentarian legislators drafted only five (LCPS 2018).

[28] Governmental refusals to adopt implementation decrees or to appear before parliament exemplify such lack of oversight.

that predetermine electoral results (Gharizi 2020). First, elections are subject to significant patronage and vote-buying in various forms, including handouts, provision of jobs in private firms or public institutions, and others. A post-election survey in 2018 by the Lebanese Center for Policy Studies found that about 40 percent of voters reported incidents of vote-buying in their neighborhood, while 35 percent of lower-income groups acknowledged personal receipts of handouts (Mourad and Sanchez 2019). Second, the prevailing electoral laws are complex while electoral districts are gerrymandered corresponding to communal demographics and requiring citizens to vote in their town of origin, rather than where they live. Third, some citizens appear reluctant to weaken sectarian leadership by voting for nonsectarian parties, since they perceive the need to constrain the influence of other sectarian leaders (Haydar 2020).

As a result, political actors have little incentives to compete on programmatic or ideological grounds, as voters rarely change political allegiances. Even after transition to partial proportional representation in the 2018 elections, elites rely on the mobilization of core supporters, rather than campaigning over policy issues or performance in office. These mechanisms effectively prevent new political actors from entering the political arena via elections, both at the national and subnational level (Dagher and El Kak 2020).[29] Moreover, they undermine the effectiveness of voting for holding political actors accountable and fail to signal changes in policy preferences of citizens.

2. Public sector governance and justice

Driver 2	Pervasive corruption, near absence of accountability, and a politicized and weak judiciary have undermined trust in state institutions and fueled a culture of impunity.

Clientelism and corruption in public administration

The extensive abuse of public sector employment for clientelist services severely impairs bureaucratic effectiveness. Elites use the public sector to maintain patronage networks by circumventing many of the established mechanisms for staffing institutions, such as the Civil Service Board, or simply ignoring the law, such as by maintaining sectarian quotas below tier one bureaucrats. While detailed numbers of staffing are not made available, some ministries appear to have as much as half of their formal line positions vacant and filled with consultants and temporary staff that are partly paid by political parties and maintain a dependency to elites, rather than to administrative superiors, and is largely excepted from institutional accountability mechanisms. In turn, subjugating public administration to clientelist dependencies significantly undermines bureaucratic processes and effectiveness. Mahmalat and Zoughaib (2021) show how parties use their control over ministries to intentionally obstruct the work of other administrations, which becomes particularly problematic when ministers rotate in party affiliation at the beginning of a new term. Leveraging the dependencies of staff in ministries, outgoing administrations deliberately destroy or withhold information, forcing incoming ones to start anew. The present economic crisis will further weaken public administration and put their functionality at risk via austerity measures and emigration of high-skilled personnel.

Corruption and inefficiencies in public administration undermine the relationship between elites and citizens. Transparency International ranks Lebanon among the worst performers worldwide for perception of corruption with a rank of 149th out of 179 countries in 2020. The effectiveness of oversight institutions, such as the Court of Accounts, the Central Inspection, or the Higher Disciplinary Committee (responsible for reviewing civil service actions and taking disciplinary action against public servants), is undermined by outdated institutional structures and severe financial limitations (*Monthly* 2019). Limited oversight over public institu-

[29] The 2016 municipal elections are a good example, in which the nonsectarian platform *Beirut Medinati* off the cut received 40 percent of vote shares in Beirut but yet failed to secure a single seat in Beirut's municipal council.

tions gives rise to a range of administrative dysfunctions or outright corruption. Tax collection rates, for example, remain low due to lack of enforcement due to frequent corruption between state officials and businesses, and widespread evasion under the pretext of misuse of public funds.[30] Such practices fuel public grievances and perception of elite-level impunity and were a central theme during the October 2019 protests.

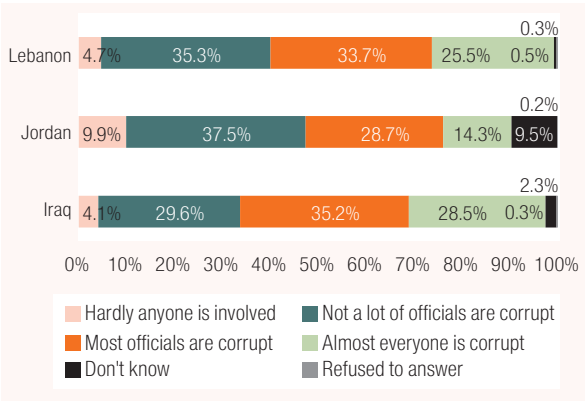
Perceptions of corruption extend to local governments. As the Arab Barometer surveys reveal, 59 percent of individuals respond that "most" or "almost every" official working in local governments is corrupt (figure 14). Bribery for obtaining public services is ubiquitous, as 41 percent of public service users reported to have paid a bribe in 2019, the highest rate among peer countries in the Arab region (Transparency International 2019). As a regressive tax, corruption restricts poor households' access to public services and disadvantages poor and small enterprises, as these have to pay a relatively higher share of their income on bribes. As the present economic crisis makes private services increasingly unaffordable for large parts of the population and thereby increases the reliance on state services, corruption drives perceptions of unfairness and strains the relationship between local governmental institutions and citizens. As the ongoing crisis caused severe losses in purchasing power for public sector employees, bribery and corruption are expected to further increase to compensate for these losses.

Absent or inefficient accountability mechanisms

The absence or inefficiency of formal accountability mechanisms provides few checks on government actions. Existing institutions to provide accountability are generally inefficient due to understaffing and political influence, while others are not even put into effect. The Court of Audit (the supreme audit institution), for example, oversees the management of public funds and thereby, among others, the implementation of budget laws. As members of the institution openly discussed in public media, a severe lack of staff undermines the institutions' ability to fulfill their assigned role, as hiring freezes prohibit full staffing, leaving only 10 accountants to audit the procurement decisions of all public institutions (Lebanon 24 2020). Moreover, political influence impedes the audit of the public budgets from 1993 until 2017, for which the Ministry of Finance handed over the relevant documents only in 2019 (General Directorate of General Security 2019). Lack of digitization further facilitates fraud, as relevant documents are frequently claimed to be missing, destroyed, or altered. Other accountability institutions have been stipulated by law but never established or applied in practice.[31]

The public financial management process is deficient and contributes to macro-fiscal

FIGURE 14 Perception of Corruption in Local/municipal Governments 2018, Lebanon and Selected Peer Countries



Source: Arab Barometer Surveys, Wave V.
Note: Question: "How widespread do you think corruption is in your local/municipal government? Would you say ...?".

[30] While tax evasion is chronically difficult to measure, reports from Blombank and Bank Audi (in 2017) estimated the fiscal evasion gap to be between 2.28 percent ($1.13 billion) and 10 percent ($5 billion) in 2015. Tax evasion on corporate profits as well as on wages and salaries constitute the majority of foregone tax revenue, made possible by frail implementation of corporate governance and lack of governmental oversight. See Mahmalat and Atallah (2018).

[31] The office of an Ombudsman, for example, designed to channel citizens' complaints about fraud or corruption in public administration, has been voted by Parliament in 2005 but never been established in practice.

imbalances. The framework governing budget preparation and execution is outdated (the Public Accounting Law of 1963) and Lebanon's ranking in the Open Budget Index very low (108 of 117 countries). Transparency and public participation are particularly deficient as key budgetary documents remain absent, such as pre-budget statements, mid-year reviews, and audit reports, among others. Accounting procedures are not properly enforced, hindering timely financial reporting in accordance with international practices, while the public financial management system fails to fully capture public expenditures. These deficiencies give rise to abuse and have contributed to the accumulation of debt over the past decades, which, weakly managed, precipitated the present crises.

As a result, the primary grievance redress mechanisms open to citizens remain informal, such as by complaining to political or confessional leaders or to religious figures. The mass protests of October 2019 are the most salient consequences of the lack of grievance redress mechanisms, as people took to the streets as their only outlet for complaints against systemic corruption. As Parliament approved the establishment of an Anti-Corruption Commission in April 2020 as part of the National Anti-Corruption Strategy 2020–25, this institution could, if fully operationalized, help to make laws such as the Access to Information Law, the Illicit Enrichment Law, or the Whistleblower Protection Law, effective tools for improving accountability, transparency, and citizens' trust in government institutions.[32]

As formal regulations fail to structure social life, a strong culture of "deals" emerged to bypass formal regulations. Individuals and businesses frequently take advantage of weak accountability institutions to engage directly with public officials. The divergence between the World Bank's Enterprise Surveys and the Doing Business Indicators serves as a primary indicator of the extent to which deals structure formal interactions (Pritchett et al. 2018). Such significant discrepancies between formal rules and actual time and efforts needed to complete a task (e.g., to obtain a construction license) indicate that firms resort to deals with administrative authorities to solve challenges, rather than formally trying to navigate the official regulations (Hallward-Driemeier and Pritchett 2015; Kar et al. 2019). As a consequence, improvements in the regulatory business environment will be of limited effect unless governmental authority to implement rules and regulations improves in tandem.

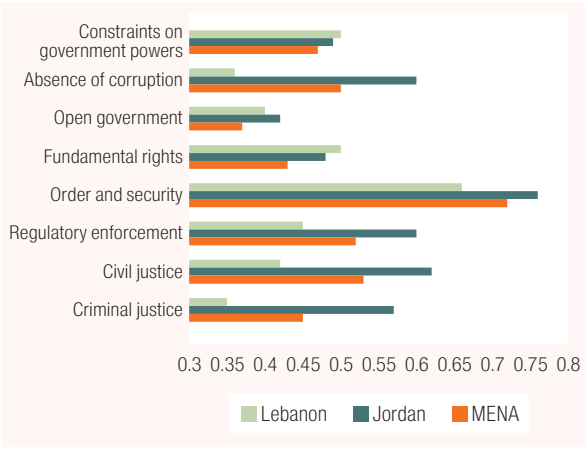
Weak and exclusionary judicial service delivery

Political interference undermines judicial service delivery, judicial independence, and trust in the justice system, adding to public perceptions of elite-level impunity. Lebanon's Rule of Law score in the World Justice Project further declined from 0.48 in 2015 to 0.45 in 2020 (0 being worst and 1 meaning "best performance") or 96th of 128 countries globally. Most sub-indicators lag behind regional standards, while the indicators in which Lebanon scores above MENA averages are still low, notably constraints on government powers and fundamental rights (figure 15). Moreover, disagreements between political and administrative institutions frequently delay the appointment of judges. While all ministerial statements since 2005 promise improvements of judicial institutions and have been listed as priorities by successive governments, almost no progress has been achieved. A law on the independence of the judiciary, for example, has been pending in the legislative process for years. Accordingly, citizens' trust in the judicial system is generally low, adding to public grievances and perceptions of unfairness. Gallup surveys find the share of respondents that report having confidence in the judicial system and the courts declined further, from 38 percent in 2013/14 to 34 percent in 2019. Improving judicial independence and justice service delivery has since become a core demand and top priority for civil society and the protest movement.

Inefficiencies in the justice system impose high transaction costs for individuals and businesses to enforce contracts, making access to

[32] The commission has been endowed with the authority to implement the ATI law by investigating complaints against government agencies' application of the Law and advising authorities on its implementation (Art. 18 c.3).

FIGURE 15 Performance of Lebanon's Judicial System (0 = Worst to 1 = Best)



Source: WJP 2021.

justice expensive and exclusionary. Organizational procedures remain outdated and automation rudimentary, contributing to significantly prolonged times to enforce standard commercial claims (721 versus 622 days as a MENA average). Procedural costs make up 30.8 percent of a claim's value, significantly higher than the MENA average of 24.7 percent. These costs are not driven by court fees (3 percent) nor by enforcement fees (3 percent) but by fees for lawyers. These make up 21.7 percent of the claim, the highest ratio in all MENA countries, indicating that lawyers charge extra for the necessity to "navigate" the system on the behalf of clients to "get things done." Such high costs for additional services amid a lack of legal aid impede access to justice systems for poorer segments of society that lack the necessary means or connections.

3. Economic determinants

Driver 3	Limited economic opportunities and rising levels of poverty and vulnerability—a result of a misdirected growth model, an unsustainable macroeconomic framework, and an unmanaged crisis—fuel grievances and drive mass emigration of skilled labor.
Driver 4	High levels of connectedness between political and business elites have led to weak competition and contestability in key sectors.

Lebanon's economic model has failed to generate quality jobs in the productive sector. The post-civil war development strategy was to attract regional investment and demonstrate stability by pegging the lira to the U.S. dollar (World Bank 1995). With this strategy, the country could maintain a 5.9 percent average economic growth rate until 2018 and an average annual investment rate of 25.4 of GDP. However, the overvalued real exchange rate, poor governance, and low labor productivity undermined competitiveness. As a result, Lebanon saw growth in nontradable services and construction over manufacturing and other tradable sectors, imports over exports, consumption over investment, and accumulation of government debt over fiscal prudence. Several analyses have shown that Lebanon's economic model depressed job creation, and, when employment was created, it was concentrated in government or low productivity sectors (such as wholesale, retail trade, construction, and real estate) which employed 30–35 percent of wage employees. In contrast, high productivity services (such as information and communications, finance, and insurance) and the manufacturing sector only contributed to 14 and 11 percent of total employment, respectively (Robalino and Sayed 2012). While Lebanon's labor productivity has been declining for several decades (CEIC Data n.d.), the complexity of its economic output has decreased significantly.[33]

Macroeconomic framework and economic crisis management

The dominance of vested interests in government institutions and the absence of appropriate checks and balances have contributed to unsustainable economic and fiscal policies (Makdisi 2007). The lira's peg to the dollar, the

[33] The economic complexity of a country is calculated based on the diversity of exports a country produces and their ubiquity, or the number of the countries able to produce them (and those countries' complexity. Lebanon's complexity ranking decreased from a peak of 30 in 1988 to 60 in 2017, according to the Observatory of Economic Complexity.

country's lack of natural resources, and its loss of external competitiveness created a structural current account deficit that required foreign capital inflows and external borrowing to be sustained. Vested interests of political elites in economic sectors (see below) supported an overvalued currency, a fast-rising public wage bill (Mahmalat and Atallah 2018) (driven by a large number of ghost employees, as well as generous employment and retirement compensation schemes; Le Borgne et al. 2015, 47), and an opaque and inefficient procurement of public contracts, which drove large fiscal deficits and a rising public debt service. Governments opted to finance the deficit through borrowing rather than taxation, which benefited wealthy citizens (Le Borgne et al. 2015, 40) and limited the economy's capacity to innovate and grow. Deficits were primarily financed from external depositors that supported commercial bank lending to the sovereign at high interest rates.[34] Hence, Lebanon's macroeconomic framework created a feedback loop where higher interest rates were required to finance consumption and a persistent and large current account deficit. The risks to Lebanon's macroeconomic stability have become visible on several occasions (including in 2001, 2002, 2006, and 2007) which saw periods of loss in confidence and capital flight. While the international community supported the government in all these instances, successive governments failed to reform. The present crises highlight the unsustainability of this macroeconomic framework and the extent to which it constrains economic development.

While Lebanon's policymakers had many opportunities to avert further disaster, deliberate inaction aggravated the crisis and pushed its burden on small depositors, the local labor market, and small businesses. Even more than a year after the Port of Beirut disaster and two years after the economic crisis erupted, the government had not yet adopted adequate policy responses to stabilize the economy. This deliberate inaction by the authorities can be traced back to disagreements among political elites over the policies to address the crises and the motivation to preserve vested interests ("a political consensus in defense of a bankrupt economic system, which benefited a few for so long" [World Bank 2021]). The government's May 2020 financial recovery plan, which aimed to reestablish macro-financial stability, was not implemented over disagreements between government and the Central Bank (and the financial sector at large) for resolving and equitably distributing losses in the banking sector. Similarly, at the time of writing, capital account restrictions remain informal, allowing for discretion in the withdrawal of deposits to the advantage of large depositors and politically well-connected individuals. This, together with uncertainty over the fate of deposits and the fact that most small depositors have lost most of their savings, has further reinforced popular grievances with political leaders.

While historically an anchor of economic resilience, the banking sector will be unable to facilitate economic recovery in the short to medium term. Before the crisis, the banking sector supported a comparably high level of financial inclusion and contributed to more than 20 percent of national GDP. The banking sector's business model, however, was diverted to lending to government and the Central Bank at high interest rates, rather than financing private investment into productive activities. Since 2019, the financial crisis limited any meaningful involvement of banks in the productive economy altogether. The government's failure to address critical reform requirements, such as restructuring the banking sector and improving regulations for corporate governance, as well as largely unregulated capital account restrictions, impede new lending activities. The government's default in March 2020, the first in Lebanon's history, made investors and depositors lose confidence in both private banks and the Central Bank, which hold much of the public debt.[35]

[34] Under this macroeconomic framework, foreign capital demanded high returns and priced in a significant risk spread within Lebanon's yield curve.

[35] Ongoing investigations into financial operations of the Central Bank's governor, secrecy about the level of foreign reserves, as well as the obstacles to conducting a forensic audit of the Central Bank's accounts have moreover led to a significant erosion of international confidence into the Central Bank.

TABLE 2 Share of Firms Experiencing Change in Workers since September 2019

	Share of firms that created jobs	Positive net job creation	Share of firms that shed jobs	Negative net job creation
Small	1%	17%	55%	–50%
Medium	4%	19%	70%	–43%
Large	1%	13%	76%	–37%
All	**2%**	**17%**	**61%**	**–43%**

Source: According to a World Bank survey of 379 registered firms.

Economic opportunities and mass emigration

Lack of decent employment, exacerbated by the crises, has become a major source of grievances, and has fueled mass emigration. Recent surveys show that one in five formal workers lost their jobs between October 2019 and October 2020 (table 2). The impact is expected to be worse amongst informal and micro-sized formal firms, which are not included in the survey, as well as refugees. While the lack of economic opportunities has historically led to waves of emigration, the current crises have increased pressure to emigrate, particularly among highly educated Lebanese. This has started to exert significant constraints on key sectors, such as health care, where emigration has led to reductions in service delivery. Apart from depriving the economy of high-skilled labor, especially for sectors with recovery potential, mass emigration will significantly weaken CSOs and emerging political movements, thereby reducing public pressure accountability and political reform.

The multiple crises have also set back previous gains in women's economic empowerment. Female entrepreneurship took a disproportionate hit in 2020, as pandemic-related firm closures were 6 percentage points higher for women than for men (Goldstein et al. 2020). In terms of wage employment, the average share of job losses was higher among women than it was among men.[36] This is in a context where women comprise less than a third of the total full-time workforce in those firms. The net job loss was 5 percent higher for women than men on average, with significant female employment contraction amongst larger firms. Crises can impact women's access to economic opportunities in various ways, with school closures due to the pandemic making it difficult for women to juggle work and care responsibilities. The prolonged confinement alongside socioeconomic hardship has also led to a significant surge in mental and physical abuse of women, both in intensity and frequency.[37]

Limited competition and contestability

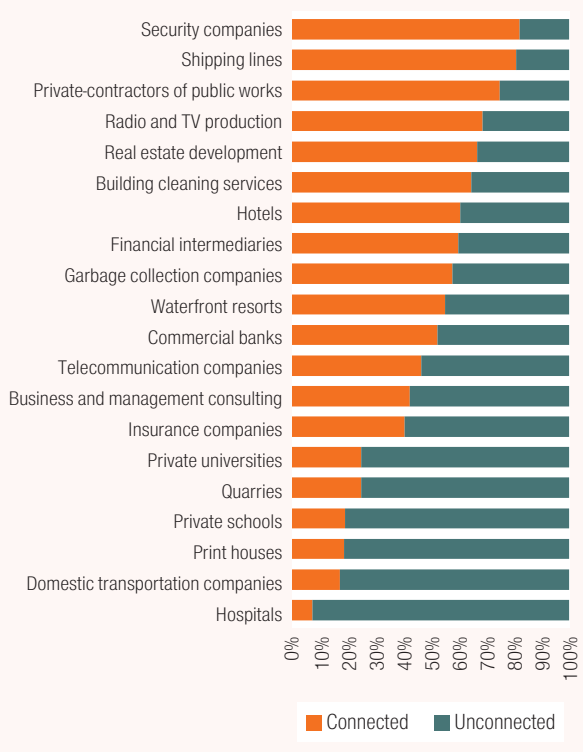
Lebanon's endemic elite capture has also affected the private sector by limiting contestability and competition of key sectors. In the absence of a good governance framework for the economy (including for the regulation of market competition), political interference in critical sectors has become a significant impediment to growth. Notably, trade and import-related business activities are largely dominated by legal monopolies.[38] According to

[36] The one-year period covers the start of the banking crisis, the emergence of the COVID-19 pandemic and the Port of Beirut explosions. While it is not possible to link job losses to any one of the crises, it is clear that such as confluence of crises has had a tremendous impact on the job market, with women disproportionately impacted.

[37] NGOs providing support for women affected by gender-based violence have witnessed a more than three-fold increase in calls from March 2020 to June 2020 and thereafter. The hotline provided by the ISF recorded a similar significant increase of 102 percent from February to November 2020 compared to the same period in 2019.

[38] Lebanon's Legislative Decree No. 34 of 1967 grants exclusive agencies and sole distribution rights to importers of all products, except foodstuffs and washing products.

FIGURE 16 Share of Politically Connected Firms with More than 50 Employees in Sectors with More than 10 Firms

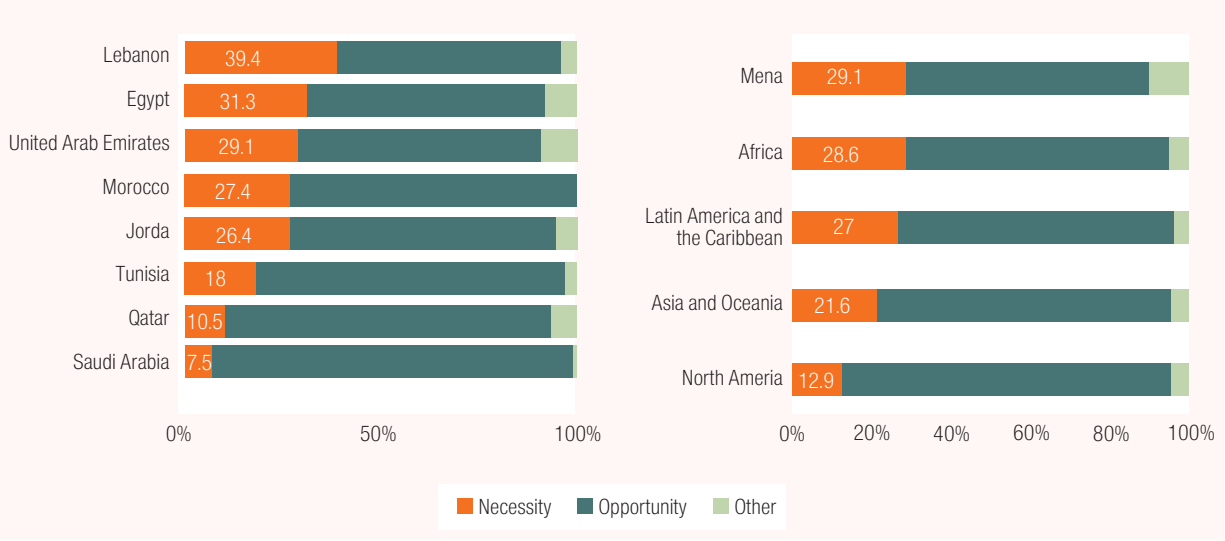


Sources: Mahmalat and Atallah 2019; Diwan and Haidar 2020.

Diwan and Haidar (2020), 44 percent of all firms with more than 50 employees have a board member that is either a politician or a close relative or friend of one (figure 16). 18 out of the 20 largest banks, for example, are politically connected (Chaaban 2019). As elites moreover opted to connect into sectors that were long shielded from economic downturn, these connections moreover relieved pressures on elites to reform (Mahmalat and Atallah 2019). The subdued competition in many key sectors weighs significantly on employment growth, imposes high entry barriers for incoming firms, and raises consumer prices in affected sectors.

Private sector elite capture has and continues to be translated into a hostile business environment. Lebanon's business environment has been on the decline for years. Complex procedures and pervasive corruption in public administration depress economic opportunities in various ways and are only manageable through political connections. In effect, Lebanon's workforce is more than 50 percent informal (CAS et al. 2020), while a large share of businesses is small and necessity-driven (figure 17). Combined with the unsustainable macroeconomic framework, innovation or

FIGURE 17 Left: Necessity-Driven Compared to Opportunity-Driven Entrepreneurship in Arab Countries 2016; Right: Necessity-Driven Compared to Opportunity-Driven Entrepreneurship in Global Comparison



Sources: GEM 2017; Mahmalat and Sumpf 2020.

opportunity-driven entrepreneurship[39]—critically needed for formal employment creation, economic recovery, and improving the economic model—is much more limited than in comparator countries. Moreover, businesses and employees have limited coverage from coping mechanisms such as insurances or access to finance. As a result, economic shocks, such as the COVID-19 pandemic, could disproportionately impact livelihoods and economic opportunities.

High vulnerability to shocks

The economy's import dependent model renders it vulnerable to price shocks of basic commodities, including agricultural products and other basic food items. Large parts of Lebanon's investment and consumption needs are satisfied via imports. As domestic production of basic commodities has limited capacities to substitute imported goods, the currency depreciation that started in October 2019 has led to significant price hikes for goods along the whole value chain. The annual inflation rate surged to 157.4 percent in March 2021, and the food sector, which imports about 80 percent of its goods, became the main driver (World Bank 2021). As a highly regressive tax, inflation disproportionately affects the poor and middle classes as well as people with fixed incomes, such as pensioners. As the Central Bank phased out the subsidy scheme for the import of basic goods, food insecurity is a potential threat in the upcoming period for the poor and may increase dependency on humanitarian providers.

Existing social protection schemes fail to protect all vulnerable populations and increase dependencies on sectarian providers. The economic crisis significantly exacerbated unemployment and poverty.[40] Social protection schemes, however, are insufficient to alleviate high levels of vulnerability and poverty, and currently cover only about half of the population (CAS et al. 2020). While the National Social Security Fund (NSSF) covers formal wage earners and the NPTP provides relief to the poorest of society, a large segment of the population that is neither poor enough nor formally employed is left without any access to social protection. The absence of a comprehensive social policy renders households vulnerable to income shocks that add to existing grievances. Moreover, it pushes individuals into informal dependencies, such as on partisan providers or privately organized relief mechanisms, that may leverage these dependencies for political purposes. Access to funds tends to be exclusionary as sectarian NGOs and parties determine beneficiaries, which are selected based on whether a household supports a political party (Cammett 2014; Cammett and Mourad 2020; Khater 2020). This scheme of social protection has been described as a "political safety net" rather than a "social safety net" in that sectarian or political affiliation determines access to welfare (Tabar et al. 2020).

The fallout of the present crises disproportionately affects vulnerable populations, increasing tensions and the propensity for violence. Informal employees in particular have endured a significant income shock in the absence of social safety nets, as related businesses largely depend on consumption expenditure and services, such as transportation or food retail. Amid high inflation, such income shocks deprive citizens of access to existential needs, including food, medicine, and essential services, and increases stress and tension. These shocks disproportionately affect various vulnerable groups. The living conditions of refugee communities have deteriorated to the point of posing existential threats, increasing social tensions with host communities over access to employment, services, and basic goods (see box 1).

[39] Necessity entrepreneurship: entrepreneurs are forced into entrepreneurship by their environment to satisfy basic needs. Opportunity entrepreneurship: entrepreneurs identify and exploit a demand/supply gap by choosing to start a new business and seizing that opportunity. Innovation entrepreneurship: entrepreneurs create new demand by exploiting an innovative idea they developed or acquired.

[40] Forthcoming analysis conducted by the International Labor Organization and the Central Administration of Statistics, cited in Khater and Eghnatios (2021).

BOX 1: IMPACT OF THE CRISES ON REFUGEES

Syrian workers have suffered from further wage decreases following the outbreak of the economic and financial crisis. In 2019, 55 percent of refugees were living below survival minimum income which, according to United Nations High Commissioner for Refugees (UNHCR), the United Nations Children's Fund (UNICEF), and the World Food Programme (WFP) was US$87 per person per month. In total, 73 percent of refugees lived below the minimum income, or poverty line, of US$114 per month per person, an increase from 68 percent in 2018. Female-headed households were particularly affected from further income losses, as women's employment rates and salaries are generally lower. Driven by the present economic crisis, the WFP estimates that 83 percent of refugees survived on less than US$2.90 per day in 2020, the minimum needed for physical survival. These trends further increase aid dependency and conflict over scarce labor and services with host communities. One immediate effect, for example, is low school attendance, with more than half of Syrian children remaining out of school. Health care, however, becomes one of the most contested service areas as well as a key source of tensions for refugees and host communities alike.

Sources: Human Rights Watch 2018; UNHCR et al. 2019; Inter-Agency Coordination 2020.

4. Service delivery and public infrastructure

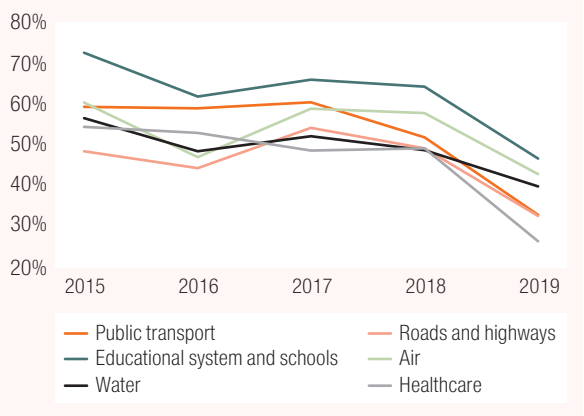
Driver 5	Privatization and patronage-based delivery of social services, exacerbated by the current crises, leads to exclusionary access and reinforces tensions between social groups.
Driver 6	Elite capture and mismanagement of public funds have resulted in a steady decline in the quality of public infrastructure and lead to high inequalities between regions.

Deficiencies with public service and infrastructure provisioning can be traced back to several mechanisms: (i) privatization, and exclusionary, patronage-based access to services; and (ii) weaknesses in governance and management of public funds for infrastructure procurement and maintenance. These challenges are pervasive in virtually all sectors of public service provisioning. As a result, citizens' satisfaction with public services has plummeted in recent years (figure 18), making their improvement a core demand of the October 2019 mass protests. At the time of this writing, the crisis has exacerbated the provision of some services to the point of near collapse, such as for electricity and water.

Exclusionary access to services and privatization

Privatization of social services has caused systematic discrimination against poorer social segments and vulnerable groups. Amid increasing poverty rates and declining purchasing power, privatization systematically disadvantages poorer segments of society by effectively depriving them of essential services and impairing social and economic opportunities. Developments in the education sector are particularly problematic because they infringe on intergenerational social mobility and (the perceptions of) economic opportunities. In 2017–18, some 57 percent of pupils attended paid private schools. While public schooling is free, they fare significantly worse

FIGURE 18 Satisfaction with Public Services (Question: In the City or Area You Live in, are You Satisfied with [xxx])



Source: Gallup, survey data for 2019 collected in November.

than private schools in terms of learning outcomes (which themselves fare much worse than the average of countries in the Organization for Economic Co-operation and Development; Abdul-Hamid and Yassine 2020, 9). This makes socioeconomic status a main driver of learning achievements, and richer segments of society are much more likely to continue higher education. Moreover, significant regional inequalities persist in learning outcomes (as measured by PISA test scores), with students in Mount Lebanon and Beirut outperforming those in other governorates (Abdul-Hamid and Yassine 2020, 11). Such systematic discrimination perpetuates inequality and antagonism across groups.

The economic crisis reinforces clientelist networks via local service providers that replace or complement missing local services. Amid mounting socioeconomic grievances, partisan providers, many in the form of politically connected NGOs, have scaled up services for in-group members and core supporters. To mitigate the fallout of poverty and rising food insecurity, parties increase their services for in-kind assistance, such food packages or health care services. While political parties have long provided additional health services to selected supporters (Cammett 2014), funding shortages for public hospitals (Holtmeier 2020) as well as a lack of medication due to scant funding for subsidized imports, further increase citizens' dependency on such sectarian providers (Khater 2020). The lack of fuel and diesel, for example, has exacerbated these dependencies, as parties leverage citizens' needs by linking access to goods and services to party membership, among others.

Weakness in governance and management of public funds for infrastructure

The quality of public infrastructure has declined to the point of severe shortages of basic services, foremost electricity. Even prior to the economic crisis, Lebanon's infrastructure quality ranked among the worst worldwide (Sanchez 2018a). In the competitiveness index of the World Economic Forum, Lebanon ranks 89th (out of 141 countries) in terms of infrastructure quality, well below the average of upper-middle-income countries and MENA countries. The quality of road infrastructure (rank 127) and reliability of water supply (rank 132) were marked by a particularly severe decline (World Economic Forum 2019a). Electricity supply by Électricité du Liban only covered some 63 percent of electricity demand before the crisis, despite having received annual transfers that would have been more than enough to establish a modern energy infrastructure and asset base (IMF 2017). Citizens are consequently subjected to rotating outages and have to pay for private generator services. The present crisis significantly prolonged power outages to the extent of full blackouts in important parts of the country, including reduced provision for critical infrastructure, such as hospitals. Other services—including water supply or internet, cellphone network coverage, as well as public administrations—have been affected in tandem, as these critically depend on the availability of electricity.

The decline in infrastructure quality partly emanates from governance deficiencies to invest and maintain public infrastructure. Capital expenditures have long been below the average of peer countries[41] and have been further slashed in recent government budgets. Outdated procedures and policies, with responsibilities fragmented among different institutions, hinder the implementation of even those projects for which funding is available. Bureaucratic red tape tends to result in significant delays in project implementation, while corruption makes tenders uncompetitive and leads to sizeable overrun costs, especially for large projects. With little fiscal space left for capital expenditures in the foreseeable future, however, international assistance programs will be crucial for maintenance and recovery of basic infrastructure, bearing the risk of protracting recovery.

Elite-level collusion over the allocation of funds for capital investment leads to opaque and inefficient spending. Virtually all development

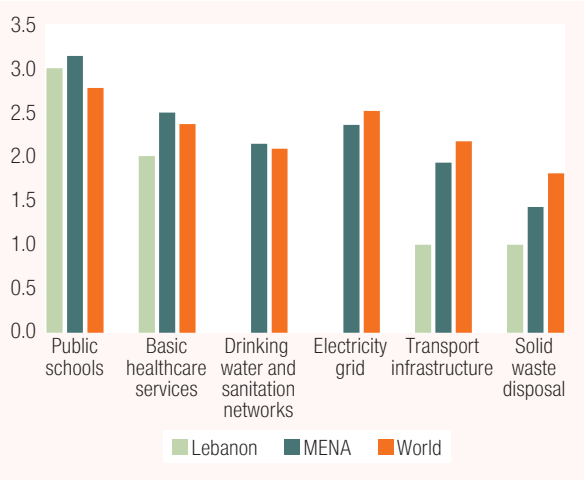
[41] With less than 2% of capital expenditures to GDP, Lebanon ranked well below average compared to peer-countries of 6% to GDP in 2015. Source: IMF Government Finance Statistics Database.

institutions tasked with executing infrastructure projects are effectively earmarked for sectarian groups, with overlapping mandates and limited or no central oversight (Leenders 2012). These include the Council for Development and Reconstruction (CDR), the Council of the South, and the Fund for the Displaced. A review of CDR procurement contracts between 2008 and 2018 shows that sectarian elites maintain collusive networks that undermine competitiveness of bids and lead to politically connected firms receiving inflated contracts that are about 40 percent larger than the average contract (Atallah et al. 2021). Leveraging such networks, elites ensure coordination among companies, CDR officials, and their protégés by preventing non-connected firms from placing competitive bids. Some sectors, such as waste management and irrigation, are dominated by a few connected firms that capture more than 90 percent of all project values. Some 60 percent of total CDR spending—or US$1.9 billion—was awarded to only 10 companies (Atallah et al. 2020b), exemplifying how elite-level collusion can constrain the workings of otherwise functional institutions.[42]

Weak governance and elite collusion have led to an inequitable provision of services among regions. These disparities became particularly severe in the electricity, water, and transportation sectors (figure 19). Even developmental plans, such as the Capital Investment Plan presented at the CEDRE conference, fail to sufficiently address these inequities (Atallah et al. 2019). In terms of geographical areas, the north and northeastern regions generally lag far behind the coastal ones (Beirut and Mount Lebanon in particular) (Sanchez 2018b). Other key public services show fewer spatial disparities, such as the supply of public education and health services. These two sectors, however, are largely privatized, and hence regional differences in access and quality remain significant (Sanchez 2018b; Abdul-Hamid and Yassine 2020).

At the local level, the government's ability to provide basic services and maintain even small-scale infrastructure is limited due to the prevailing legal framework and governance constraints. Local governments, both municipalities and unions of municipalities, retain important responsibilities for initiating and running development projects and basic infrastructure, including waste management, street lightning, transportation, and others. However, in the current legal framework, local governments lack both the funds as well as the capacities to assume these responsibilities (see box 2). Even for implemented projects, municipalities tend to lack the human and technical capacities to sustain operations of a particular infrastructure or service, making the current system of decentralized governance an important constraint to improving service delivery.

FIGURE 19 Territorial Coverage of Public Services 2016 (0 = Low Coverage, 4 = Territory Entirely Covered)



Source: Institutional Profiles Database 2016.

5. Security

Driver 7 Formal security actors' weakened operational capabilities, the presence of militant nonstate actors, as well as high availability of small arms lead to a deteriorating security environment.

The increases in poverty and unemployment resulting from the economic crisis affect the general security environment and increase

[42] Note that World Bank-funded projects are not subjugated to inflated contract pricing, as the World Bank demands CDR to abstain from pre-selecting eligible companies and thereby ensures greater competition.

BOX 2: GOVERNANCE CONSTRAINTS TO MUNICIPAL-LEVEL SERVICE DELIVERY AND DEVELOPMENT

The prevailing decentralization framework constrains municipalities and local governments to improve service delivery and developmental outcomes at the local level. Apart from elite-level influence and informal dependencies discussed above, three such governance constraints stand out: lack of governance capacities, insufficient inter-municipal collaboration, and unreliable and insufficient funding.

- *Small size and weak capacity*: Municipalities tend to be too small to effectively administer tax collection. With about 1,050 municipalities in 2020, Lebanon has one of the highest numbers of municipalities worldwide relative to its surface area and population size.[a] Many municipalities lack functioning administrations, as 38 percent of municipalities have only one employee.[b] Close administrative and financial oversight by central governments, as well as the near total absence of e-governance, results in administrative bottlenecks which facilitates political control over resources and impedes municipalities' ability to channel development funds, including international ones, into sustainable services and projects.[c] As a result, some 63 to 70 percent of local expenditures cover basic infrastructure works only, leaving planning exercises largely ad hoc.[d]
- *Unreliable and insufficient funding*: Even before the crises, about 75 percent of Lebanon's municipalities had a weak financial position, undermining their capacities to provide public goods.[e] Municipal revenues come largely from two sources: the Inter Municipal Fund and tax collection. Direct transfers from the Independent Municipal Fund make up roughly a third of municipal revenues. However, their disbursements are notoriously unreliable and subject to illicit deductions to cover other budgets, undermining planning and funding of public projects.[f] In terms of tax collection, of some 16 taxes and fees they are mandated to collect, only three constitute about 86 percent of their direct revenue.[g] Many of the other taxes remain inefficient to collect as the level of fees that municipalities can collect are outdated (the last amendment occurred in Law no. 107/1999). And because Law no. 60/1988 prevents municipalities from amending the tax base themselves, local governments are left with little autonomy to adjust their revenue sources to changing needs and economic circumstances. Moreover, unreliable disbursements render mechanisms for rewarding municipalities for increased revenue collection ineffective. In effect, the decentralization framework provides few incentives for local governments to broaden their tax base and invest in capacities to increase revenue collection.
- *Insufficient inter-municipal collaboration*: Options for inter-municipal collaboration fail to offer efficient mechanisms for developmental projects. While several legal frameworks exist for municipalities to collaborate on developmental projects such as waste management, only Unions of Municipalities (UoMs) are commonly used. About three-quarters of municipalities are organized within 60 UoMs; however, they are generally unable to carry out the developmental role they are required to fulfil. Many UoMs are administratively weak and suffer from persistent underfunding and unpredictable revenue streams. As the Municipal Act does not provide UoMs with the prerogatives to claim contributions from member municipalities if they fail to pay voluntarily, their contribution to UoMs' overall budget is as low as 10 percent.[h] This leaves them dependent on the Independent Municipal Fund, inducing uncertainty in budget forecasting that impedes strategic coordination between municipalities and the implementation of common projects.

Sources: a. Atallah et al. 2020a; b. Atallah 2012; c. Parreira 2019; d. Sleiman 2017; e. Marei 2019; f., g. Atallah et al. 2020a; h. Atallah 2012.

the risk of riots. Although still on a comparably high level, expert assessments and crime statistics indicate that the general security environment deteriorated significantly in the course of 2020 as opportunity costs for petty and organized crime decrease.[43] Moreover, public perceptions of safety indicate a significant deterioration, with 44 percent stating in May 2021 that they feel "unsafe" or "very unsafe" in their neighborhood at night (up from 30 percent in December 2020; ARK and UNDP 2021a). While riots in the first two quarters of 2020 were limited following lockdown measures to address the COVID-19 crisis, increasing economic hardship and frustrations over government (in)action have led to periodic resurgences of social unrest and riots targeting government and/or financial institutions thereafter.[44]

[43] Experts report that car theft and murder rates have increased by about 50 and 100 percent in 2020, while other forms of security threats started to become a serious concern, such as cyber-crime and domestic violence. Data on petty and organized crime, however, remains patchy and a large number of cases are likely to go unnoticed.

[44] Short-term risks of social unrest and violence are discussed in further detail in section 5.

Reported increases in repression of protests, intimidations, and infringements of freedom of speech reflect a sharp decline in human rights.[45] Following the outbreak of the 2019 protests and the Port of Beirut explosion, political authorities started to emphasize security as a priority to maintain social stability with a strong deployment of the LAF to contain violent protests and confrontations. Among other developments, civil society organizations have reported intimidation of protestors, activists and social media influences, and violent suppression of otherwise peaceful protests by security actors.[46] Moreover, numerous accounts report infringements on freedom of speech (Majzoub 2021) This seems to be part of a larger trend, as the share of citizens who say that freedom of expression is guaranteed to a great or medium extent declined from 69 percent to 43 percent between 2016 and 2021, according to Arab Barometer surveys.

The availability of small arms due to the volatile security situation in neighboring Syria is a key concern. Weapons smuggling between Syria and Lebanon is widespread (United Nations Security Council 2020). These weapons benefit nonstate actors and increase that violence capacity within Lebanon, while their smuggling constitutes a violation of UN Security Council Resolution 1701 (2006). While no independent assessments of the magnitude of smuggling activities are available, interviews with security specialists indicate that the price of weapons on the black market surged during 2020 and 2021, reflecting an increase in local demand for light weapons.

The economic crisis led to austerity measures and declining purchasing power of security personnel, which threaten institutions' capacity to fulfill their missions. The current crisis and devaluation of the lira has led to a more than 94 percent decrease in budgetary expenditures for procurement of essential equipment, an 88 percent decline in funding for operational maintenance, and an 87 percent reduction in the U.S. dollar equivalent of personnel expenditures between 2019 and 2021 (Young 2021). In addition the LAF has had to take on new domestic tasks, e.g. distributing humanitarian aid, protecting gas stations, among others. While the LAF could contain terrorist insurgencies in the recent past,[47] declining capabilities risk losing the advances thus far achieved and enable terrorist cells to increase operations. Importantly, the LAF loses many critical high-quality officers and capabilities necessary to maintain its operations. As these are resources that took many years to develop, this brain drain risks undermining previous successes in security sector reform.

[45] See, for example, Human Rights Watch (2021a).

[46] For example, Human Rights Watch (2020, 2021b), Amnesty International (2020b).

[47] Lebanon improved markedly in the Global Terrorism Index with a rating of 4.39 in 2018 (on a scale from 0, best, to 10, worst), compared to 6.38 in 2014. In 2018, only two deaths were recorded from five terrorism-related incidents with not a single attack claimed by the IS. See Institute for Economics & Peace (2019).

4

RESILIENCE FACTORS

Lebanon's fragility constraints have been balanced with a set of resilience factors which, for a long time, allowed a modicum of stability. However, the present crises have placed the country's resilience factors under increasing stress. It is therefore important to understand what sources of resilience exist and to what extent they can still function as buffers to a range of economic and social shocks or provide a basis for recovery and overcoming fragility. The resilience factors discussed in this section relate to economic factors, examples of functioning institutions, and a vibrant civil society with many organizations that supplement governmental work, as well as other social factors.

1. Economic factors

Factor 1	High levels of personal wealth, both of residents and diaspora Lebanese, as well as international business networks and remittance flows, can serve as sources of economic recovery.

High levels of personal wealth could serve as a basis for economic and financial recovery. While income inequality is exceptionally stark with a Gini coefficient of 81.9 percent, the society's top income decile owns an exceptional amount of wealth compared to other Arab countries (Abu-Ismail and Hlasny 2020a). With an average of US$55,226 real wealth per adult in 2019, 21.3 percent of Lebanon's adults appear among the region's richest 10 percent—only adults from GCC countries appear more frequently among the region's richest individuals.[48] While these wealth accumulations have contributed to grievances and perceptions of injustice, they constitute a crucial lever at the disposal of policymakers to address the current crises, notably the banking crisis. Next to exceptional measures, such as bail-ins of wealthy depositors into banks, fiscal policies can play a central role in addressing the country's socioeconomic disparities, notably the widening poverty gap. As the United Nations Economic and Social Commission for Western Asia (ESCWA) (Abu-Ismail and Hlasny 2020b) estimates, only 0.5 percent of a solidarity tax on top decile incomes would suffice to cover the poverty gap in 2020.

Expatriate support, primarily in the form of remittances, is a main source of economic resilience. In 2018, the inflows of external remittances to Lebanon were estimated by the World Bank to be US$7.2 billion and constituted around 12.7 percent of the country's GDP in 2018 (Byblos Bank 2019). Prior to the 2019 banking crisis, remittances were depicted

[48] In 2019, the top 10 percent of adults owned 70.6 percent (or $151.4 billion) of all personal wealth, while top-decile individuals owned $360,000 on average compared to the median wealth of $9,144.

as the lifeline of the country's economic and financial system by funding government expenditures and private sector borrowing. Moreover, remittances exhibited a positive elasticity during previous crises.[49] While the losses in credibility of the banking sector following the recent financial crisis impedes the inflow of remittances via formal channels, such positive elasticity suggests that Lebanese expats will continue to support family members via informal channels. No reliable estimates are available to date; however, remittances contributed to support consumption after 2019.

At the household level, high rates of home ownership cushion against economic shocks. For many Lebanese households, access to housing is primarily based on ownership. Surveys in 2012 carried out by the Central Administration of Statistics recorded that around 70 percent of the Lebanese population owned a house or apartment (CAS 2007). The high rate of house ownership serves to bolster households in periods of economic stress. The housing market is also considered to be a pillar of the Lebanese economy even though it is largely unregulated, with low property taxes and no efforts to tax real estate speculation.

Lebanon's well-educated workforce carries the innovative capacity to instate a sustainable economic model. Lebanon has high childhood and adult literacy rates. In 2018, for those aged between 15–24, 99.7 percent were literate, with a 99.8 percent literacy rate among females and 99.6 percent among males (UIS n.d). Concerning the labor force, the CAS 2011 report on the labor market found that "the percentage of working people with no or basic education reached 30 percent while the percentage of employed holding secondary or university degrees is 43 percent." By focusing on skilled working persons, the report finds that "43 percent of working women were holding a university degree, while working men with university degree were 20 percent" (Yaacoub and Badre 2011). However, according to the World Bank's 2015 Systematic Country Diagnostic, around 44 percent of tertiary degree holders emigrated (Le Borgne and Jacobs 2016, 35) amid high degrees of unemployment (35.7 percent; CAS et al. 2020). Provided that the structural drivers for the emigration of highly skilled and educated youth can be addressed, Lebanon's workforce retains the potential for realizing the innovation needed to deploy a novel and sustainable economic model.

2. Social factors

Factor 2	A high number of CSOs, as well as an active diaspora, complement state-led social safety provision, contribute to public debate, and advocate for civil rights and reforms.
Factor 3	Strong familial and communal support systems are important mechanisms of protection against socioeconomic shocks.

Lebanon maintains a high number of CSOs, which are key providers of safety nets for vulnerable populations and play important roles for advocacy, research, and journalistic work. Despite the above-mentioned challenges to maintain independence from political pressures, a diverse community of CSOs helps to fill gaps in various areas of service delivery.[50] A prominent example is the independent national society of the Lebanese Red Cross (LRC), which offers critical humanitarian assistance and emergency care across the country with a high degree of professionalism and wide access to communities and remote parts of the country. The LRC has a large pool of volunteers and operates numerous medical and first aid centers, as well as social and youth clubs across the country.[51] There is also a wide range of

[49] Inflows grew by 5.6 percent to $5.2 billion in 2006 ("July War" with Israel), increased by 11 percent to $5.8 billion in 2007 (extended political gridlock and violent clashes between the LAF and Palestinian militant groups) and 24.5 percent of GDP, or to $7.2 billion in 2008 (violent clashes in Beirut in May 2008.

[50] According to a 2015 report mapping CSOs in Lebanon, the majority of CSOs are focused on service provision (28 percent), capacity building (37 percent), and awareness raising (46 percent). And while the report found that CSOs generally operate across sectors, the sectors with the most coverage were social development, health, education, human rights, and education. See Beyond Reform & Development (2015, 8).

[51] See the Lebanese Red Cross, www.redcross.org.lb/SubPage.aspx?pageid=169&PID=154.

CSOs that work on research, governance, human rights, and advocacy issues. These organizations leverage a degree of freedom of press, speech, and assembly that, despite recent setbacks, ranks favorably in the regional context and enables CSOs to operate with few restrictions. Whereas Lebanese media institutions are traditionally financed by and operate as a voice for political or sectarian factions, new independent media outlets and online platforms for news, analysis, and commentary have emerged that offer critical information to the broader public.[52] To date, Lebanon's CSOs have been able to retain qualified researchers, journalists, and activists, although the emigration of skilled professionals risks undermining the outreach of these organizations. Many of these organizations are driven by youth who exhibit very high degrees of political consciousness[53] and have been at the forefront of protests and other forms of political activism.[54]

Lebanon's large diaspora retains strong ties to the country and remains involved in politics and various other factors of social life. The size of the Lebanese diaspora largely exceeds the number of residents in the country.[55] As many expat Lebanese retain strong ties to relatives living in the country, many remain involved in social life and organize in dedicated CSOs to represent expatriate political demands, or support existing CSOs within the country. Moreover, recent changes in the electoral law that allow for expatriate voting for Parliamentary seats give expatriates a direct channel to influence national politics (Fakhoury 2018). Amid the ongoing significant brain drain, expatriate involvement in politics and social life carries opportunities for upholding widespread social demand for political reform as well as economic recovery.

Strong familial and communal support systems are another source of informal social protection. Informal support providers like local communities, faith-based networks, charities, and relatives are heavily relied on due to gaps in formal state support. The familial and communal nature of these providers often link support to a recipient's sectarian association (Al-Jamal and Eichholz 2016). Along with CSOs, such actors are the main providers of informal support—other than traditional elites or politically affiliated organizations. Notably, familial support in Lebanon appears to be one of the main protection mechanisms against unemployment, health challenges, and old-age related challenges (Abdo 2014). Such informal support helps more economically vulnerable members of a community or family to pursue opportunities such as higher education that might otherwise be unavailable.

3. Effective public institutions

Factor 4	Several public institutions, chief among them the LAF, have garnered public trust that spans across sectarian and partisan lines and could contribute to improve public governance.

Several public institutions have garnered public trust that spans across sectarian and partisan lines, and could contribute to improve public governance. These institutions have operated effectively on the basis of a nonsectarian governance model that was able to depoliticize decision making. The Central Inspection, for example, has hosted the IMPACT platform, which has helped improve the exchange of information between municipalities, ministries, and central accountability institutions. With a technical solution to facilitate information gathering and auditing, the IMPACT platform has helped to increase local government's accountability by facilitating a shift towards standards of transparency. With a centralized administration of the vaccination campaign, IMPACT has contributed to ensuring what is seen as a largely equitable distribution of vaccines. The Institut des Finance Basil Fuleihan has been able to deliver important trainings for public administrations

[52] See Friedrich Naumann Foundation (2021) for a recent mapping of such outlets.

[53] According to the Arab Barometer Surveys Wave V (2018–19), 31 percent of youth report to be "interested" or "very interested" in politics, which is the highest measure among all MENA countries.

[54] See, for example, Osseiran (2019).

[55] Estimates on the size of the diaspora differ widely and amount to up to14 million 20 years ago.

and was capable of building coalitions across governmental institutions for common projects, such as the public procurement framework adopted in 2021. The Rafik Hariri University Hospital (RHUH) has been another success story in the health sector. This governmental hospital spearheaded the COVID-19 response since the start of the pandemic and led a successful and equitable vaccination campaign. Previously poorly reputed, RHUH has undergone a transformation in recent years that was mainly attributed to new management and its strong partnerships with international organizations.

Over the last two decades, the LAF became an important source of resilience based on strong perceptions of being a neutral, professional organization. The LAF received extensive international financial and technical assistance, which facilitated its organization based on nonsectarian norms. Widely perceived by all groups as a professional, nonsectarian organization, the LAF enjoys the highest degree of trust (94 percent in 2018) among citizens of all national institutions, according to the Arab Barometer survey. Leveraging this impartiality, the LAF was able to mitigate intra-societal tensions, most notably Sunni-Shi'a military confrontations in the past (Nerguizian 2019). In order to play that role, the LAF leadership emphasizes the institution's neutrality to avoid any politization of the armed forces. However, two developments have affected its broad public support, especially among the youth. First, the LAF's limited ability to successfully patrol the border and prevent illegal smuggling of necessities like fuel and bread to Syria has been a point of controversy (ICG 2021). Second, the LAF and other state security actors have been accused of disproportionate use of force as well as infringements on basic freedoms against anti-government protesters during the mass-protests that started in October 2019 (see for example Majzoub, 2021).

5

SHORT-TERM RISKS RELATED TO FRAGILITY, CONFLICT, AND VIOLENCE

The structural causes and fragility drivers discussed in this RRA manifest in short-term risks related to fragility, conflict, and violence.[56] These risks can be grouped in five areas: (i) social unrest and protests; (ii) violence involving refugees; (iii) organized violence between sectarian or political groups; (iv) political instability; and (v) external risks and intra-state conflict (see figure 20). Although each of these risks have their own dynamics, proximate causes, and triggers, they are interlinked and several drivers can influence more than one risk.

1. Social unrest and protests

Public grievances toward the political elite, the economic and financial crises, as well as the inadequate political response to address them has generated regular protests and bouts of unrest, particularly since October 2019. As this RRA discusses, the structural issues that drive unrest and protests are deeply rooted and will likely make social unrest a recurring, protracted phenomenon in the near future. Over the past year, the deteriorating economic situation has been the single most important factor driving this unrest. By summer 2021, the Lebanese pound had lost more than 90 percent of its value, driving inflation of more than 100 percent. More than 60 percent of Lebanese households and more than 80 percent of Syrian reported to be worried about food supplies (ARK and UNDP 2021b). The near absence of social support for Lebanon's most vulnerable, persistent shortages of basic commodities (notably fuel and medicine), and high price inflation have led to recurring, countrywide protests and unrest. They have also triggered violent

[56] This section draws on a separate baseline risk assessment and regular risk reporting carried out by ARK Group.

FIGURE 20 Main Risk Areas and their Sub-Risks

Social Unrest / Protest	Violence Involving Refugees	Organized Violence	Political Instability	External Risk
i. Risk that peaceful protests escalate into violent riots with significant destruction of property and injuries, loss of life ii. Risk of (spontaneous) clashes between group iii. Risk that government uses coercive measures/violence to repress protests or unrest	i. Risk of violence involving refugees from Syria, and either host communities, state entities, or other refugees from Syria ii. Risk of violence involving refugees from Palestina, and either host communities, state entities, or other refugees from	i. Sectarian violence between groups and followers of political parties ii. Political violence between followers of political parties	i. Risk of paralysis of decision-making due to absence of governing body and/or political conflict ii. Risk of a worsening security environment in which political contestation takes place	i. Risk of armed conflict between Israel and Hezbollah in Lebanon, causing widespread damage, primarily but not limited to, South Lebanon

incidents, for example around fuel stations or food distribution points.

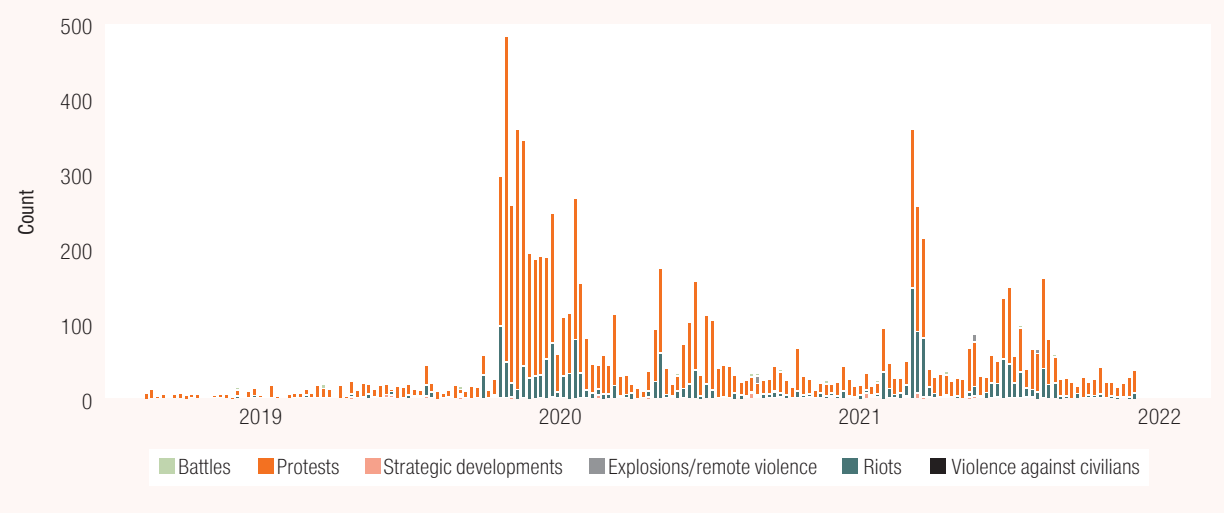
Social unrest with periods of escalating violence will remain a regular occurrence in the short to medium term. Coordinated nationwide protests, as seen in autumn 2019, remain a possibility. However, the failure of past protests to achieve change, combined with increasing cooptation of public protests by political parties and forceful responses by security forces, has limited the potential for mass mobilization. Protests will therefore more likely be localized and uncoordinated; for instance, using temporary road blockages. Potential "hotspots," which have an elevated risk of protests turning violent, include areas affected by structural poverty, below average service provision and municipal governance, and polarization among political parties or tribes, such as Tripoli or Khalde. The continued paralysis of state institutions and the persistence of socioeconomic grievances would increase the risk of protests escalating into violent riots with fatalities, injuries, and destruction of property. During summer 2021, for example, electricity provision worsened to the extent that most consumers received less than two hours of service per day with uncertain prospects of quick improvements, contributing to protests and unrest all over the country (figure 21). The use of excessive force, targeted assassinations and other forms of intimidation, including by para-military groups, could trigger further (violent) protests.

More frequent large-scale unrest could further undermine security conditions, especially when co-opted by political parties. Such unrest would affect the implementation of development projects as they could hamper access and/or ability to operate effectively.

2. Violence between refugees, host communities, and the state

Given pre-existing vulnerabilities, refugees are among the groups most affected by the present crises and are thus subject to distributional conflicts with host communities. Over the course of the crisis, more than 88 percent of Syrian refugees fell below the survival minimum expenditure basket, up from about 50 percent in 2018 (UNHCR 2021). The aid programs in place to support these communities triggered frequent tensions over the perceived unfairness of the distribution of resources. Underlying these conflicts are perceptions among host communities that the prolonged stay of Palestinian and Syrian refugees might alter the demographic and socioeconomic balance between sectarian communities and thereby

FIGURE 21 Conflict Events from August 2018 to December 2021



Source: Armed Conflict Location & Event Data Project (ACLED).

the distribution of power amongst elites. Memories of foreign occupation and the civil war further underpin resentment towards refugees. While refugees from other countries are present, in the recent past Syrian and Palestinian refugees have had the highest likelihood to be involved in violence with either host communities, state entities, or other refugees.

In the recent past, occasional violent clashes occurred between refugee and host communities. Harassment and evictions were the triggers for these clashes, which were eventually contained as local security actors deescalated the conflict. Restrictions on refugee labor and shelter, however, increase refugees' negative sentiment towards authorities, while scarcities in basic goods, services, resources, and jobs increase tensions between refugees and host communities. In August 2021, 37.4 percent of Lebanese citizens responded "negative" or "very negative" when asked to describe the relation between refugees and Lebanese in their area (ARK and UNDP 2021b). This negative sentiment has also manifested in violent incidents. In August 2021, for example, nearly 900 Syrian refugee families were evicted following a dispute between Syrian refugees and young men from a village in Nabatiye. In the Palestinian camps, where weapons are readily available, familial disputes occasionally escalate into factional clashes, yet have rarely spilled over to neighboring host communities.

The deteriorating economic conditions for both host communities and refugees increase resentment and tensions, which raises the risk of spontaneous violence involving refugees. Perceptions of unfairness in the rollout of aid and cash assistance to address the crises can exacerbate latent tensions between host and refugee communities. While more widespread violence or even organized conflict between host communities and refugees remains a risk, especially considering the significant numbers of displaced people residing in Lebanon, it is unlikely at present. Escalations are quickly contained through the interference of state entities, such as the LAF and the Internal Security Forces (ISF), as well as local elites. A renewed influx of refugees (e.g., due to a deterioration of Syria's security situation), would be destabilizing as the reception that host communities offer is likely to be significantly more hostile than in the past.

3. Organized violence between political and sectarian groups

The political settlement has preserved a balance of power and cooperation on security issues,

which has largely prevented organized violence. The present crises, as well as the loss of state authority, however, threaten the durability of these arrangements. This may influence the calculus of elites to use organized violence, rather than political bargaining, as a means of political contestation to preserve their status in the power-sharing agreement. While the scenario of a civil war akin to the 1975–90 conflict remains unlikely, different forms of organized violence could emerge. First, violence can be sectarian in nature when elites instrumentalize polarization among sectarian communities. Such violence can be triggered by small incidents at the community level and be driven by short-term political contestation. Second, violence can be political in nature when elites exploit polarization among followers of political parties. Such clashes and conflict can also lead to violence among members of the same sectarian communities.

Although armed conflict events remain sporadic to date, there is a risk that small incidents can quickly escalate into larger clashes and organized violence. As the crisis persists and socioeconomic conditions deteriorate, sectar-

FIGURE 22 Evolution of the Quality of Intra-Lebanese Relations by Governorate

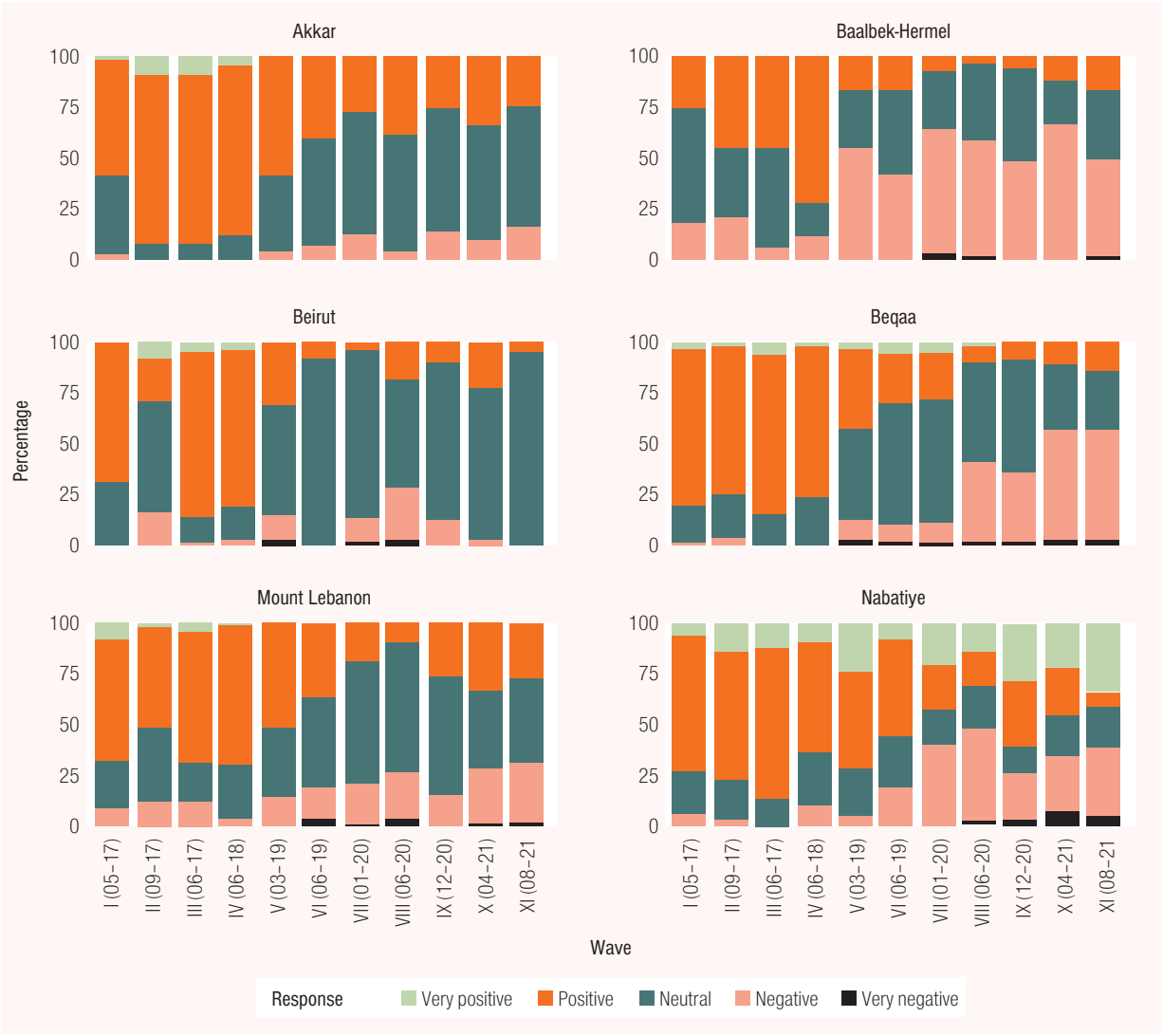


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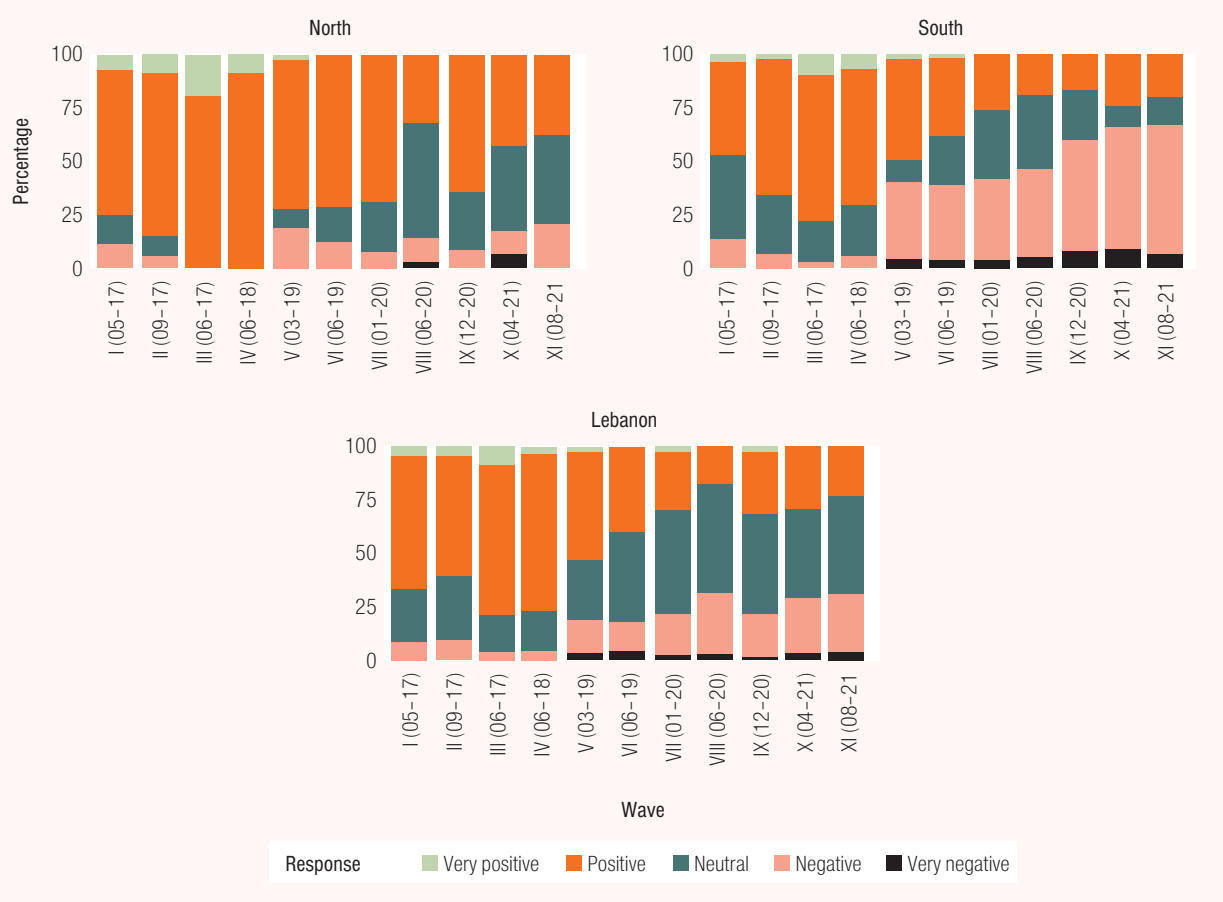
FIGURE 22 Evolution of the Quality of Intra-Lebanese Relations by Governorate *(continued)*



Source: ARK and UNDP, *Regular Perception Surveys on Social Tensions throughout* Lebanon, Waves I–XI (2017–21).

ian rhetoric is likely to intensify further, and would exacerbate polarization between communities and political parties. Competition over access to political power remains a key driver of risk, as evident in the protracted contestation over the form and mandate of a new government in 2020–21. Disputes over access to scarce goods, such as fuel or medicine, have already triggered multiple incidents of armed violence in 2021, some of which have escalated into organized violence. Public perception of the quality of intra-group relations accordingly deteriorated significantly. In 2018, before the onset of the crisis, only 4 percent of the public had characterized relations between different Lebanese groups as "negative" or "very negative," yet nearly a third (31 percent) did so in August 2021 (figure 22; ARK and UNDP 2021b). Such an environment will increase incentives of political parties to protect their constituents' access to these goods, thereby increasing the risk of violence between parties and clans, both within and between sectarian groups. Local competition could then serve as triggers for conflict on a larger scale, notably in areas that are located near strategically important assets or buildings where conflict would threaten the interests of armed groups (ICG 2021). Amid deteriorating conditions for security personnel, LAF and ISF would face difficulties in bringing escalating conflict under control.

Escalations in the intensity or frequency of organized violence would directly affect development programs. Since political developments and events would significantly influence prospects for violence, security conditions would be more volatile and affect the opportunities for project teams to operate.

4. Political instability

Lebanon's elite-level arrangement has generated high levels of political instability and affected the functioning of state institutions. Repeated and prolonged paralysis of political decision-making and politicization of state institutions are among the most palpable manifestation of this risk. This has impaired the functioning of the security and justice sectors. These developments in turn have given rise to the emergence of additional threats to the general security environment.

The risk of continued political instability remains very high—especially in the period leading to the parliamentary elections planned for 2022—and is likely to continue to undermine the effectiveness of state institutions. Executive and legislative decision-making processes have largely been paralyzed, despite the urgent need for legislative and political action after the onset of the financial crisis in summer 2019. The number of legislative sessions and laws passed in the year after the onset of the financial crisis in summer 2019 even declined compared to the pre-crisis year (from 12 to 5 sessions and 67 to 41 laws).[57] The government formation process in 2020–21 and the level of aggression in statements made by politicians, with accusations of obstruction and negligence, have exposed deep rifts among the political elites. These rifts include disputes over the nature of Lebanon's power-sharing arrangement, such as the limits of the president's constitutional authority in the government formation process and alterations of the 1989 Taif Accords to move from equitable power-sharing between Christians and Muslims to a tripartite system (Sunni-Shia-Christian). As elections approach, it is likely that such contestation intensifies and challenges the written and unwritten rules of power-sharing, which would raise the risk of increasing sectarian retrenchment, polarization, and politicization of state institutions.

The financial and operational challenges faced by the LAF and other security institutions pose significant risks to the security environment. While external assistance and pledges of support to the LAF and other security institutions made in 2021 should enable the army to meet essential needs in the short term, they are unlikely to stop a continued deterioration of the capacities of security forces.[58] In this context, the declining socioeconomic conditions and capacities of state institutions give rise to a range of developing threats, such as violent extremism (notably in Akkar, the north, or Baalbek-Hermel), regular transborder smuggling, and a stark increase in crime rates. In January–February 2021, according to ISF data, homicides increased 45.5 percent and theft by 144 percent in comparison to the same period last year. The continued deterioration of the socioeconomic situation could reinforce insecurity and increase robberies, extorsion cases, and kidnappings.

The paralysis of the judiciary is among the most evident manifestations of Lebanon's political instability and risks further undermining governance and trust in state institutions. The expiration of the mandates of 7 of the 10 members of the Higher Judicial Council in May 2021, for example, effectively paralyzed the institution.[59] The activities of the Constitutional Council, the body that assesses the constitutionality of laws and electoral challenges, was placed on hold after the failure to replace three of its members who passed away. Moreover, many judges and other judiciary sector employees have reportedly resigned, further reducing the capacities of the sector. Public disputes concerning high-level cases, such as the investigations into the Port of Beirut explosion, further undermine the integrity of the judiciary as elites use sectarian rhetoric to increase polarization and defend their allies. Polarization over the investigations into the Beirut port explosion has

[57] Calculations by the Policy Initiative, based on the Lebanese Official Gazette and the webpages of the parliament and government.

[58] In the first half of 2021 LAF Commander General Joseph Aoun and caretaker Interior Minister Mohammed Fahmi made alarming statements about the impact of plummeting salaries on the ability of Lebanon's security institutions to maintain security and public order. In 2019 and for the first time since 2007, the numbers of those leaving the LAF surpassed those joining.

[59] At least six active members are required to meet officially and seven to fully exert its prerogatives.

triggered, among others, violent clashes in Beirut's Tayyouneh area in October 2021. The continued paralysis in the judiciary sector thereby represents an important risk factor that can impact public trust in state institutions, feed the sense of impunity, and raise concerns about the integrity of electoral processes in case disputes arise.

Protracted political instability would affect the work of international actors in various ways. The above risks impede predictable political exchange and limit entry points for international support; lack of credible progress on reforms will also challenge the disbursement of external assistance. Greater polarization amongst government institutions also makes multi-sectoral development programming more difficult.

5. External risks and intra-state conflict

External risks emanate from the latent conflict between Hezbollah and Israel, which is influenced by wider geopolitical tensions. Amid these broader tensions, the two sides maintain a delicate stand-off of force. For example, violations of Lebanon's territorial sovereignty, including airspace and seaside violations, bear the risk of counteractions (Blanford and Orion 2020). This simmering conflict has significant implications for Lebanon's security situation, as well as its domestic politics.

While the probability of direct conflict between Hezbollah and Israel is currently low, the impact would be devastating. Recurrent aggressions from both sides continue to trigger repeated clashes in the form or retaliatory attacks,and are influenced by wider geo-political dynamics. South Lebanon would be most severely affected by conflict, although the experience of the 2006 conflict suggests that Israeli targets can include areas up to Beirut, in the Bekaa and Mount Lebanon. Any direct confrontation would have major repercussions for the work of the wider international community.

6

PRIORITY AREAS FOR PATHWAYS OUT OF FRAGILITY

This RRA has argued that Lebanon's power-sharing arrangement and resulting system of sectarian governance not only precipitated the present crises but also prevents the generation of solutions that benefit society at large. Lebanon's elite-level arrangement in particular has caused or aggravated various institutional dysfunctions which led to administrative and economic decline and resulted in a breakdown of trust between citizens and the state. The instrumentalization of sectarianism by political elites for the pursuit of special interests has also exacerbated significant social inequalities and tensions. To date, political gridlock among Lebanon's elites has prevented any meaningful measures to mitigate the repercussions of the economic and financial crises. Without a change in the political settlement, it will be difficult to address Lebanon's root causes of fragility or put its economy back on a sustainable development trajectory.

Lebanon's pathways out of fragility and potential for international support will depend on whether and how fast a new political settlement emerges, and what form it might take. Given Lebanon's small size and dependency on international assistance, this process will also be influenced by outside actors and regional dynamics. Political developments, both regional and domestic, will significantly influence the trajectory of economic recovery, the scope for interaction with a given government, as well as the nature of policy responses available to international actors. At the time of this writing, three broad scenarios can be identified. Each scenario imposes a different set of constraints and opportunities for international and World Bank engagement, and calls for an adjusted engagement model that can help improve the country's development trajectory.

- ***Political gridlock ("continued deterioration"):*** In this scenario, the impasse to build elite-level consensus on matters related to political representation and on a reform or crisis response program continues. Delays in government formation (e.g., following parliamentary elections) and the staffing of executive, administrative, and judicial institutions undermines decision making and administrative processes. The

legitimacy of political actors and state institutions will remain very low and/or experience further decline, while decisions regarding how to pass and implement legislation to address the crises are protracted. This political gridlock leads to a continued deterioration of socioeconomic conditions, making shortages in essential services including water, electricity, and internet, as well as basic goods such as fuel, medicines, and basic foodstuffs, a new normal. The security environment continues to deteriorate, increasing the occurrence of social unrest with increased risks of riots and organized violence. Amid rising poverty rates, elites maintain or even deepen clientelist dependencies to constituencies by facilitating access to scarce goods and services. As opportunities for economic resource-sharing via public sector procurement or civil service employment are significantly reduced, foreign aid will become a main resource for distributing clientelist rents and contestation among political elites. As this scenario persists and resilience factors are further eroded, pathways out of fragility become increasingly difficult, and the likelihood of drifting into "worst case" scenarios increases.[60]

- ***Minimal consensus ("socioeconomic stabilization"):*** In this scenario, one or successive "rescue" governments are formed under one of the major political elites with implicit support of most political factions. A minimal consensus can be reached to take and implement political decisions amid significant influence of special interest groups. Relative political stability attracts modest foreign assistance and expatriate investment as sources of foreign income for the economy. Elites, however, maintain strong incentives for rent seeking and capture of funds. An International Monetary Fund (IMF) program could offer technical assistance and reprieve for financing basic government services. The provision of basic services will stabilize, contributing to stopping losses in economic activity as well as slowing the emigration of highly educated Lebanese. In many policy areas, the nature of political exchange will remain contentious, stalling or slowing the implementation of significant structural reforms. Reforms that have profound distributional consequences and affect core elite interests are unlikely to move forward, and have the potential to destabilize the "minimal consensus."
- ***Political shift ("gradual improvement"):*** In this scenario, non-sectarian and other emerging political parties manage to gradually increase political influence that changes the distribution of power within the elite-level arrangement. A new political consensus emerges as new political forces can push—with popular and international support, potentially in the form of an IMF program—for the implementation of economic and governance reforms. These reforms build mutual confidence and facilitate a change of incentives by which elites approach the bargaining over key policies. This provides opportunities for a renewed political settlement to emerge that is bound by enhanced accountability mechanisms and a set of norms to improve public sector governance. The gradual political shift leads to a return in confidence of diaspora and international investors, facilitating economic recovery, improvements in service delivery, and the security situation. In this scenario, structural drivers of fragility can be addressed, setting the country on a positive pathway even though setbacks are likely to occur (as in most transition situations).

Lebanon's pathways out of fragility need to be grounded in a long-term vision and set of associated objectives. These aspirational objectives are based on the overarching structural constraints that have been identified in this analysis and reflect good practice for engagement in FCV situations:

- **Renew the elite-level arrangement:** Facilitate the development of a new political settlement that is

[60] Crises of the severity as Lebanon's crisis today tend to be accompanied by distributional conflict or even civil war. While some analysts have argued that the preconditions for the escalation into a civil war have indeed been set, such a scenario remains unlikely at present and is therefore not discussed further. For a discussion of potential worst-case scenarios please see COAR (2020).

more responsive to citizens' demands and reflects new norms of cooperation and accountability among political elites and social groups.

- **Strengthen the social contract:** (Re)build citizens' trust in government institutions and political actors by reducing elite-level impunity, expanding institutional capacities to respond to people's expectations and needs, and facilitating private sector development to improve economic opportunities and ensure inclusiveness for all citizens, including the vulnerable and poor.
- **Improve intra-societal relations:** Increase cooperation and trust among groups by reinforcing national identity, reducing vertical and horizontal inequalities in economic, social, and infrastructural development, and strengthening conflict resolution mechanisms.

The following sections identify a set of priorities and entry points for domestic actors and international support in five key areas. They represent a "menu of options" rather than specific advice for a particular institution, and distinguish potential entry points according to the three scenarios outlined above (table 3). It is important to stress that movement from one scenario to the next is not necessarily linear and that the feasibility of implementing these priorities will depend on the political space for reform, which is likely to vary by policy area. In other words, it is unlikely that all of the priorities in a given scenario could be pursued in parallel, and further engagement with government, civil society, and international actors will be needed to determine the most realistic set of entry points. International actors also have different comparative advantages across these priority areas. A coherent and harmonized approach by the international community among political, humanitarian, and development actors is crucial in this regard.

1. Support the emergence of a new political settlement and inclusive representation

A stable, elite-level settlement will remain a necessary precondition for stability, but a new consensus is necessary to overcome Lebanon's structural fragility and promote economic development. A shift in the political settlement must be grounded in the recognition that the current economic and political framework is not sustainable and will lead to further social fragmentation, fragility, and conflict. In the short term, stability will be contingent on maintaining the security consensus among elites (i.e., that none of the major actors perceives larger gains to be made from pursuing political goals with violence). Gradually, a new consensus needs to be found that provides incentives for parties to use formal access to state institutions and decision-making processes for improving governance and to abstain from (threats of) violence or coercion.[61] The form of this settlement and the degree to which it includes new voices and actors will determine the success in achieving developmental gains and the mitigation of fragility. Addressing structural fragility constraints will also require a new form of political leadership and exchange in pursuit of a national, policy-oriented agenda, rather than clientelist exchange.

Establishing or strengthening platforms for consensus building and national dialogue will be important, regardless of the scenario, to contribute to the formulation of a vision for Lebanon's renewal. The change in social perceptions and demands towards the political leadership, accentuated by the mass protests of October 2019, are an important opportunity to shift political exchange, away from sectarian and clientelist discourse towards policy orientation. Mechanisms for civil society and broader citizens engagement and platforms for dialogue, such as the Reform, Recovery and Reconstruction Framework (3RF), can support the emergence of new coalitions for reform and support the formulation of citizens' demands and their constructive engagement

[61] The consensus must provide a set of guarantees that can allow elites, their parties as well as their communities to concede a part of their access to state institutions and rent-seeking activities without fears of losing power relative to each other. Such concessions must start with small interventions and agreement on a gradual reforms that reduce fragility and set the basis for the emergence of norms and institutions that improve governance and thereby political and economic outcomes.

TABLE 3 Pathways Out of Fragility

Priority areas/scenario	Political gridlock	Minimal consensus	Political shift
Support the emergence of a new political settlement and inclusive representation	• Build leadership coalitions for reform and develop mechanisms for strategic citizen engagement • Promote the "demand side" of governance reform, e.g., by supporting civil society and promoting policy-based platforms, such as on women's empowerment • Support nonsectarian security actors, notably the LAF, to preserve operational readiness and integrity	• Support national dialogue on the role and function of the state as well as the security architecture • Promote dialogue on the merits, challenges, and opportunities for strengthening territorial governance	• Support decentralization reform to improve subnational governance and accountability by revisiting the responsibilities in service delivery between central, regional, and local levels • Support reform of electoral law and electoral commission to facilitate participation in the democratic process • Strengthen the security sector governance, financing models, and financial management, as well as public oversight over security actors
Macro-fiscal stabilization and transition to a new economic model	• Urgent macro-fiscal/economic crisis response reforms and policies • Support "survival" of viable SMEs via recovery grants and other short-term solutions	• Macro-fiscal adjustment with focus on debt restructuring and tax reform • Promote dialogue and consensus building on new economic vision and model	• Business environment/financial sector reforms (see 3RF pillar 2) • Strengthen regional and local economic development, and reposition the role of large and secondary cities as drivers of economic growth • Facilitate entrepreneurial activities in emergent sectors that are contestable and competitive, notably the ICT sector, manufacturing, and high-end agricultural products
Strengthening accountability institutions and the judiciary	• Promote innovative, CSO-led accountability institutions such as 3RF Independent Oversight Board (IOB) • Support IMPACT platform and other decentralized ICT solutions to improve accountability of both local and central institutions • Strengthen institutions for the oversight of elections to ensure legitimacy of electoral results	• Strengthen management of public resources with focus on public financial management and procurement reforms • Prioritize support to the judiciary (subject to law) and Anti-Corruption Commission • Strengthen institutions for oversight and accountability (Court of Accounts, Central Inspection)	• Support broader governance reform and institutional development, such as via ICT deployment • Support civil service reform, notably the civil service board to minimize sectarian dependencies of bureaucrats in public administration

(continued on next page)

TABLE 3 Pathways Out of Fragility *(continued)*

Priority areas/scenario	Political gridlock	Minimal consensus	Political shift
Preserving human capital and mitigating crisis impact and inequality	• Targeted social assistance programs, including cash transfer, to mitigate extreme inequality of income • Public works programs that provide income-generating activities for low-income and low-skilled populations, including refugees, with focus on small-scale infrastructure works and maintenance (e.g., water supply/waste water) as well as food/agriculture • Emergency responses in the public health care and education sectors to preserve essential services and mitigate the fallout of the crises on the most vulnerable	• Reform the social security sector by providing protection schemes that include the "missing middle" and go beyond cash assistance for poor populations • Strengthen the public education sector to improve learning outcomes and mitigate the impact of increased transfers of students from private to public schools due to the crisis • Support the public health sector to create the capacities to accommodate patients shifting from private to the public sector • Identify the distributional impact of structural adjustment and price liberalization	• Assist in the development of a new service delivery model in the health care sector based on the principles of universal health coverage to increase access to care for vulnerable populations in an affordable manner • Support educational reform to increase employability and job opportunities for youth and to promote social cohesion
Improve equity and quality of infrastructure and public services	• Support municipalities and unions of municipalities to ensure continuity of critical services, including waste management, street maintenance, maintenance of health centers and schools, permits issuance, among others • Support (decentralized) deployment of renewable energy to improve electricity supply, notably via solar energy • Support the repair and maintenance of existing critical infrastructures for electricity and water supply (including, where useful, via cash-for-work programs) • Mitigate the most important environmental hazards, including pollution, hazardous waste management, forest fire responses, and land erosion	• Support performance-based financial support for local governments to improve local service delivery and accountability • Provide technical assistance and facilitate coalition building for structural reform in priority sectors as basis for future investments: • o Electricity sector by supporting governance reform (such as the creation of an independent energy regulatory authority) and renewable energy generation • o Water/wastewater management	• Support broader reform of municipal governance and service delivery (roles/responsibilities, financing, governance/accountability) • Support rehabilitation of priority infrastructure and the port (based on clear governance pre-conditions)

with state institutions. Beyond issue- or sector-based dialogue, there are also examples of national dialogue processes in peacebuilding and transition situations (including from Lebanon's own experience). Such processes gather relevant stakeholder groups to facilitate an open and genuine discussion on sources of conflict and forge consensus on potential solutions and a vision for the country's future.[62] International actors can support these dialogues (whether policy/issue-based or national in scope) by sharing international experiences and helping ensure that women, youth, and marginalized stakeholder groups are represented and heard.[63] They can also promote the "demand side" of reform, e.g., by supporting civil society actors and policy-based platforms, such as on women's empowerment. This also includes activities to strengthen the national identity, such as cultural production and youth programs, which can facilitate broad societal exchange and facilitate the emergence and formulation of common demands and interests.

In the medium to long term, a reform of Lebanon's decentralization framework, if designed carefully, can play an important role in the transition out of fragility. In the context of Lebanon's system of sectarian governance, strengthening the role of local governments and the quality of governance can change the incentives of elected policymakers to serve citizens and can improve local-level administration and service delivery. However, the notion of decentralization and the form it should take remains contested, and more work is necessary to identify the service areas in which improvements can be realized in the short-term. It will therefore be necessary to invest time and energy to build a broad-based consensus underpinned by the necessary technical knowledge on the way forward.

In the meantime, under a *minimal consensus* scenario, national dialogue on the merits, challenges, and opportunities for strengthened territorial governance, coupled with pilot programs to strengthen local governance within the existing legal framework, can pioneer such efforts. The aim of reforming the decentralization framework should be to decrease the dependencies of local actors to central-level elites and rebalance the relationship between local and central-level governments. Notably, shifts in responsibilities for taxation and service delivery from central to local levels can contribute to isolating local service delivery from periodic consensus-building processes at the national level. In a *gradual improvement* scenario, a reform of the decentralization framework (e.g., by pursuing adaptations to the 2014 decentralization draft law) could establish local governments as a new administrative tier with dedicated fiscal authorities.

Support security actors to maintain stability

Maintaining stability and security will be a priority regardless of Lebanon's political scenario, but is essential in a scenario of *continued deterioration*. First and foremost, the operational capabilities of the LAF, the ISF, and local police must be maintained by ensuring that personnel can uphold their duties and have access to sufficient fuel, food, and medical care. In a scenario of continued deterioration, international support to the LAF in particular will be of paramount importance to ensure it can provide a minimum level of security as well as attend to what are potentially additional tasks, such as providing security for critical national infrastructure, notably electricity, water, and fuel supply, as well as counterterrorism operations and ensuring security for elections. Over time, state control over the entire territory needs to be strengthened, notably via the General Security and customs as well as at border crossings and ports, in order to curb illicit economic activities and organized crime.

Security institutions' compliance with human rights norms and commitments is critical for maintaining citizens' trust and international support. Support for security institutions must remain tied to their role in maintaining and securing free-

[62] See discussion of lessons from Lebanon's national dialogue in Murray and Stigant (2021) and Wählisch (2017).

[63] As recent evidence shows, engaging women and women's rights and interest organizations in national dialogue can foster a sense of belonging and promote prospects of intercommunal collaboration and lasting peace (Alrifai and Dore-Weeks 2018).

doms of speech, press, and assembly. Regular dialogue between security institutions and human rights organizations can help ensure the adherence to existing laws and commitments. Under a gradual improvement scenario it will also be important to develop impartial public oversight of security institutions to prevent abuses of power by state security actors. This should be accompanied by security sector reform efforts to strengthen governance and financial management of security institutions.

2. Macro-fiscal stabilization and transition to a new economic model

Urgent measures to reduce monetary and fiscal imbalances, restore confidence, and achieve macroeconomic stability will be necessary for economic stabilization. In the short term, an agreement on a program of structural reform with the IMF that is supported by the international community is necessary, alongside negotiations with creditors to ensure a swift and equitable restructuring of public debt, introduce a credible monetary and exchange rate policy, and restore solvency in the banking sector (World Bank 2020c). The program must adhere to the principles of protecting taxpayers, supporting vulnerable groups, and equity in distributing the costs of fiscal adjustment. These reforms need to provide a stepping-stone to facilitate the emergence of a new economic model that is conditional on a restructured banking sector with better corporate governance to be able to leverage existing financial infrastructure and inclusion. Reforms of the macroeconomic framework and the banking sector are a key prerequisite to enable the emergence of a new economic growth model that can facilitate new economic and political actors to increase pressure to establish a contestable and competitive economy.

A sustainable pathway out of fragility will require agreement on a new economic vision and model, which is grounded in a new macroeconomic framework and restructured banking sector. As discussed above, Lebanon's macroeconomic framework gave rise to a rentier economic model facilitated by banking secrecy, high interest rates, import monopolies, and a fixed exchange rate, overvalued in real terms, which led to low-quality economic growth, undermined competitiveness and competition in key sectors, and limited the role of the financial sector in supporting productive economic activity. In parallel to implementing a macro-fiscal emergency program, key stakeholders need to agree on a new economic vision for Lebanon and a model that can promote sustainable and equitable economic growth and resilient financial inflows. Facilitating agreement on such a vision will not only require technical expertise but also necessitate dialogue and consensus building across various stakeholder groups.

Creating economic opportunities is imperative not only for preserving human capital but also for mitigating risks of instability.[64] Rising unemployment rates amid plunging real wages and lack of social protection have led to a cycle of social depression, reinforced clientelist dependencies, and fueled social unrest, particularly in the poorest parts of the country (such as Tripoli). As discussed above, women are disproportionately affected. An exodus of high-skilled labor accelerates these pressures and leads to deteriorating state services, notably in health care and education, and reduces demands for reform by weakening new political movements that could foster the formulation of political demands. While such trends are not irreversible, the declining supply of high-skilled labor moreover reduces entrepreneurial activities and slows down the pace by which the economy can transition to a more sustainable model.

In a *deteriorating* scenario, an important entry point will be to support the survival of viable small- and medium-sized businesses. Drawing on approaches and emerging lessons from the recently launched Building Beirut Businesses Back and Better (B5) Fund, resources can be funneled via

[64] Enhancing economic opportunities is particularly important in fragile contexts, as better jobs lead to a set of positive social externalities, such as stronger community involvement, higher tolerance toward other ethnic groups, and greater willingness to pay for public goods (Robalino and Walker 2017).

microfinance institutions to support micro and small enterprises, while new funds can be leveraged to support small- and medium-sized enterprises (SMEs) in secondary cities and rural areas. Beyond direct support for businesses, development interventions to support locally driven economic recovery should be explored. These could connect local entrepreneurs with local and national governments, particularly in the fields of agri-food value chains and tourism. People interested in working in these fields could avail of new commercial and entrepreneurial links and benefit local economies. Such programs can pay special attention to women (as is the case in the recently launched B5 facility), youth, and migrant workers, who are disproportionately affected by the crises.

With a *gradual shift*, interventions should focus on supporting entrepreneurial activities in contestable and competitive sectors. These sectors notably include ICT, manufacturing, and high-end agricultural products. Reform efforts should aim to review the tax code and its administration to improve (perceptions of) fairness and reduce income inequality. The improvement of the business environment, notably the reduction of red tape and the deployment of e-government services, can facilitate formal employment and entrepreneurial activities (see 3RF pillar 2 for reform priorities in this regard). Once the economy shows gradual improvements, planning activities must identify and prioritize the sectors of the economy that will require support in a post-crisis economic model.

3. Strengthen accountability institutions and the judiciary

Although a *deteriorating* scenario will constrain efforts to address Lebanon's governance deficit, entry points are available to improve accountability and reestablish public trust in government institutions. For example, recent efforts under the 3RF to channel assistance through NGOs, CSOs, and the private sector provide opportunities to introduce new approaches and tools that enhance transparency and social accountability. Supporting new CSO-led accountability institutions, like the 3RF's Independent Oversight Board, and expanding citizen access to the IMPACT platform managed by the Central Inspection Bureau, for example, can help ensure citizens that funds are being used transparently for their benefit. Such interventions can serve as a model for the longer-term efforts to institutionalize high standards of accountability and transparency in the management of public resources. In parallel, international support for existing accountability institutions (e.g., Court of Accounts and Central Inspection) can begin to address the capacity gaps that have limited their impact.

With a *minimal consensus*, it will be paramount to prioritize actions that can begin to address the causes of corruption, abuse, and impunity in public administration that have undermined the relationship between elites and citizens. Two entry points for improved accountability should be prioritized: (i) the implementation of the National Anti-Corruption Strategy; and (ii) the strengthening of judicial independence. Key outcomes under the National Anti-Corruption Strategy include the creation of an Anti-Corruption Commission as well as the adoption of implementing regulations for a range of laws that can address corruption and elite impunity (notably the Access to Information Law, Illicit Enrichment Law, Whistleblower Protection Law, among others). A more independent and capacitated judiciary will take time to develop and requires a legislative foundation. Improved judicial performance can begin to hold political elites accountable and can improve the enforcement of contract and property rights needed to strengthen the private sector, and thereby open economic opportunities. As opportunities for engagement increase under a *gradual shift* scenario, support to strengthen the independent operation of accountability institutions could be scaled up, for example through the adoption of new legislation to insulate the Court of Accounts and Central Inspection Bureau from attacks on their independence.

Efforts to strengthen the management of public finances can restore citizens' confidence in the delivery of public services and infrastructure. Formalizing spending and revenue collection to improve fiscal transparency and accountability is key to combat the culture of nontransparency and elite

capture of public finances. Improving the legal, regulatory, and institutional framework for public investment management will notably help to ensure the efficient use of funding for recovery and reconstruction. Fully institutionalizing the Public Procurement Law can help to remove political influence on the use of public funds and instill public confidence in government procurement. It is also a crucial confidence-building signal to attract international and private sector support, especially for the reconstruction of Beirut.

To address structural fragility drivers, under a *gradual improvement* scenario, deeper reforms of the public administration will be necessary and could focus on selected civil service management and e-governance priorities. Priority reforms should strengthen the Civil Service Board to ensure merit-based hiring of civil servants, reduce dependencies of bureaucrats on elites, and curb appointments based on sectarian quotas in administrative positions that are exempt from such quotas by law. Support for the *Ecole Nationale D'administration* can help build an ethical civil service, among others through training programs designed to understand corruption risks. These efforts can be complemented by broader digitalization of government services which can reduce opportunities for administrative corruption and improve the transparent delivery of government services.

4. Preserve human capital and mitigate impacts of the crisis on inequality

To address the immediate impacts of the crises, emergency programs should focus on shock-responsive safety net programs that provide cash assistance and specialized services to vulnerable citizens. Income supplementation via cash transfer programs, such as the Emergency Crisis Response Social Safety Net (ESSN), remain a priority in the immediate future regardless of the political scenario. Such programs, however, should remain but one component of a wider reform of the social safety system and need to be seen as interim measures given the lack of impact on inciting growth. Amid declining rents in other sectors of the economy, incoming donor aid for such programs will create major incentives for the capture of these resources by elites to reinforce clientelist dependencies. This is a particular risk in the context of forthcoming elections, both parliamentary and municipal, and a widely documented practice of "vote buying" in the past. The implementation of these programs must therefore be closely monitored to ensure equitable distribution of resources. This requires strong grievance redress mechanisms and verification systems as key transparency measures. Beneficiary households or individuals must be selected from transparently built databases capturing the neediest households or individuals based on scientific approaches and without political interference. Moreover, they should be coupled with investments in data systems as well as the development of a unified registry for all social protection programs moving forward.

Beyond cash assistance, cash-for-work and cash-for-service programs can be scaled up or expanded to support livelihood and income generation, particularly for "at risk" groups. Carefully designed and targeted, such programs can be an effective means to mitigate demand for direct cash assistance and undercut dependencies to sectarian providers of primary services. They can also help maintain social cohesion, support the maintenance of basic infrastructure, and help to address economic grievances that contribute to extremism and radicalization. The targeting criteria should contain aspects such as the (risk of) instability, refugee presence, and large incidence of poverty, and be based on empirical approaches.

Under a *minimal consensus* or *gradual shift* scenario, a reform of the social protection system—as a key "ingredient" for resilience—must be a priority. As discussed above, this system has not only proven to fall short of providing sufficient coverage of the needs of a large number of citizens, but has created opportunities for elites to maintain clientelist dependencies (Tabar et al. 2020). This is a priority, as the most important mechanisms of protection—subsidies for basic foodstuffs and other goods—have been lifted. A further significant deterioration of the living standards of poor and the

(former) middle class will undermine social cohesion and increase the risk of violence. A new social protection scheme must address the fundamental shifts in needs and vulnerability that occurred in the course of the crises. Beyond targeting the poor with cash assistance, a universal social protection system should expand pension programs, health insurance, and even unemployment insurance schemes. This should aim to, first, reduce dependencies on sectarian elites by preventing them from making targeting of aid discriminatory or exclusionary. Second, it should expand coverage to today's "missing middle" of residents that are neither poor enough to qualify for the NPTP nor wealthy enough to be covered via formal insurances or the NSSF (ILO 2021). As identified in the 3RF, reforming the system requires addressing structural issues, such as fragmentation, weak governance, and the absence of an overarching policy and legal framework. It also needs fiscal space for social spending and prioritization of investments to develop social assistance systems.

In the health care and education sectors, the continuation of basic services is the priority in a *deterioration* scenario. As the crisis leads to scarcity in the supply of electricity, medicines, and fuel, and drastic devaluation of public servant salaries health care facilities must receive critical support to remain operational and retain staff, with priority given to areas with a lower density of public clinics. In the education sector, emergency interventions should help public schools maintain operations and ensure presence of teachers and school personnel, overcome learning loss, and augment the capacities of the public schooling system to manage the surge of new pupils who joined from private schools over the course of the crisis. It is also critical to ensure that all children have access to quality public education, given that the socioeconomic situation has impacted the capacities of families to get their children back to learning.

As political conditions improve, interventions should address the structural constraints within the health and education sectors that contribute to fragility. In the health care sector, it is necessary to develop a new service delivery model that increases access for vulnerable populations and reduces inequality. This new model should be based on the principles of universal health coverage, prioritizing access to essential services with financial protection of the most vulnerable. To successfully negotiate the complex political process required for a fundamental reform of the sector, consensus building efforts among all key stakeholders should be a main focus. Platforms for public dialogue must be part of these efforts to maximize public legitimacy and elite-level support of such reforms. In the education sector, a priority will be to ensure that learning improves for all children across the country, and to orient the sector and curricula to the emerging needs of Lebanon's new economic model. This will be of crucial importance to support the employability of youth, open critical job opportunities, and facilitate economic transition. The education sector also offers entry points for reinforcing social cohesion and conflict management.

Across the human capital "cluster," it will be important to understand the distributional impact of the overlapping crises as well as the inevitable adjustment programs and price liberalizations. Amid a lack of comprehensive data to assess these impacts, the repercussions on income distribution, consumption patterns, labor markets and, eventually, social stability are difficult to estimate. Building on the World Bank's forthcoming vulnerability survey and other data work, detailed and high-frequency household surveys should further inform the design of emergency responses and assess the evolution of socioeconomic grievances as key drivers of risk.

5. Improve equity and quality of infrastructure and public services

Improvements in local governance and municipal service delivery provide a critical entry point for addressing Lebanon's fragility constraints, including in a *deteriorating* scenario. In the short term, local governments will require support to maintain even a low level of critical public services, including waste management, maintenance of health care centers and public schools, street lighting, and local roads, among others. Emergency interventions could

operate within the present regulatory framework to enable local governments, both unions of municipalities and municipalities, to maintain stability of services and a "role for the state" at the local level. Support should thereby target notably rural municipalities where the "absence" of state institutions is a major source of instability and local governments have insufficient resources to operate infrastructure.

Building on emergency interventions, and once political conditions allow (the *minimal consensus/political shift* scenario), more performance-based support programs can help municipalities to improve governance and service delivery. These programs should be designed by way of rewarding municipalities for intermunicipal cooperation, improved accountability, and sustained augmentation and improved service delivery. Such interventions can address some of the overarching constraints within which local governments currently operate, notably fragmentation and lack of coordination, lack of planning, insecure funding, and insufficient administrative capacities. By rewarding improvements in service delivery, the aim of such programs is to improve the link of local governments to citizens and thereby address popular perceptions of the "lack of state."

Amid a lack of elite-level consensus on the future of the electricity sector, "second-best" solutions should be pursued to improve emergency electricity provision from the local level up. Lack of electricity constitutes one of the most critical constraints to public service provision in Lebanon's current crisis. The decentralized deployment of renewable energies, notably solar, can provide an important complement to other approaches to increase electricity supply and ensure the working of other basic services, such as water pumps, street lighting, schools, and potentially health care centers. International actors can facilitate plans to coordinate such decentralized deployment among Electricité du Liban, the ministry, and local governments. Such plans can include provisions for the maintenance of critical existing infrastructure to curb technical and non-technical losses and extend to the maintenance and sustenance of water pumps and treatment plants.

Structural reforms in the electricity and water sectors are top priorities once improvements in political decision-making take place. The electricity sector should be at the center of any reform program. Given the government's fiscal constraints, the private sector can play an important role to facilitate a shift towards decentralized renewable energy production, notably solar. For such a transition to materialize, however, a coherent legal framework needs to be in place and implemented, as well as an independent electricity regulatory authority instated that serves to balance the interests of private developers, and the government while protecting consumers. International support should facilitate the resolution of major political economy constraints on these reforms (Ahmad et al. 2021), such as by supporting local coalitions to secure regional concessions for electricity generation, preferably for the deployment of renewable energies (Ahmad et al. 2020). Other policy options can include the operationalization of the Green Investment Facility as part of the government's Financial Recovery Plan.

Only under a *gradual improvement* scenario and once structural reforms are clearly underway should infrastructure programs support the rehabilitation and improvement of infrastructure, including the port of Beirut.[65] Any efforts to improve infrastructure for service delivery should focus on currently neglected areas to mitigate regional inequalities and avoid politically motivated or sectarian-based allocation of resources. Support programs should include components that aim to increase the capacities of local governments to better sustain the operation of new infrastructure. Such efforts can feed into the broader reform of decentralized governance mentioned above.

[65] The Reform, Recovery and Reconstruction framework (3RF) from 2020 offers guidance as to how the reforms towards port rehabilitation can be structured and sequenced (World Bank 2020d).

7

IMPLICATIONS FOR THE WORLD BANK PROGRAM IN LEBANON

This section formulates a series of recommendations on how the Bank could strengthen its engagement and program to support Lebanon's pathways out of fragility. First, it identifies a number of lessons and challenges derived from past international and World Bank engagement. It then outlines recommendations or considerations that focus on the overall strategic role of the Bank, adjustments to the country portfolio, and the operational engagement model. This section focuses primarily on priorities for the short term (i.e., the next 2–3 years).

1. Lessons from prior engagement

International and World Bank engagement in Lebanon has generated a range of lessons over the past decades. Unsurprisingly, international and World Bank operations have not been spared from the system of elite capture and patronage that has obstructed decision making. The following challenges to the implementation of donor-financed projects in Lebanon stand out, and should inform a revised engagement strategy:

- **Delays in high-level decision making and approval.** Donor projects have experienced significant approval and effectiveness delays, leading in some cases to the cancellation of important projects. This is in part due to the inability of high-level decision bodies, notably the Council of Ministers and Parliament, to reach consensus across partisan lines, often due to competition over the distribution of resources across groups.[66]
- **Political interference in allocation and targeting of project resources.** Donor projects have, at times, been susceptible to the same sectarian logic as government resource allocation. Such resource allocation goes at the

[66] The PEA of the electricity sector provides a comprehensive analysis of the networks of interests currently favoring the untenable status quo in the sector which currently impede critical reforms.

expense of equity considerations and resulted in deeply unequal distribution of investments, as well as corruption and mismanagement (see section 3.iv on service delivery). Even if rigorous mechanisms governing allocation and disbursement of funds are mitigating against this risk, this can have the impact of delaying implementation.

- **Weak institutional and implementation capacities.** The international community has reinforced institutional weaknesses by substituting missing institutional capacities with the extensive use of project implementation units. This has led to the creation of parallel structures within the civil service and exacerbated existing tension and fragmentation between ministerial staff, further contributing to the inability of institutions to function effectively.
- **Balancing politically feasible and transformational approaches.** A review of the Bank's engagement between 2006–11 highlighted trade-offs between supporting politically feasible interventions and attempting to address the country's underlying structural weaknesses in the economic and the public sector. Limited financial leverage, as well as the need to respond to recurrent crises, have meant that priority has often been given to the former, which has tended to deliver more immediate results and ensured project disbursements.
- **Institutionalizing decentralized implementation mechanisms.** Lessons from the World Bank's engagement from 2006–11 highlight the relevance of bottom-up approaches that work with local institutions, communities, and NGOs/CSOs. Given the role many Lebanese NGOs/CSOs play as key service providers, it is important to develop and maintain mechanisms that build bridges between state and nonstate actors and can channel funding directly to nonstate actors when needed (such as the Community Development Project, CDP). However, the long-term sustainability of decentralized approaches has been mixed. For example, the CDP funding mechanism was discontinued when the project closed in 2008. It was found that more attention should be paid to ensuring the institutionalization of decentralized channels of engagement, rather than reestablishing channels each time a crisis occurs.
- **The role of international support in entrenching the political status quo.** Consultations with civil society for this RRA (and documented in ICG [2020]) highlight the perception among many civil society actors that international support has reinforced the legitimacy of the current elite settlement[67] and that international pressure and/or largely technical reform preconditions for financial support (as articulated for the first time in CEDRE) failed to sufficiently address Lebanon's fundamental governance failures.

2. Strategic role and key principles for engagement

Lebanon is at a crossroads in terms of the evolution of its political settlement and the trajectory of its intersecting crises. It is challenging to define a clear engagement model for the World Bank in such a context characterized by high levels of uncertainty and risk. It remains unclear how the crises will impact the interests of political elites (as well as relationships between them). In the short term, Lebanon is likely to oscillate between a situation of *political deadlock* and *minimal consensus*. This uncertainty means that the World Bank's engagement will need to balance people-centered crisis response measures aimed at socioeconomic stabilization with selective engagement in areas where reform can be initiated. The appointment of a new government in September 2021 may provide opportunities for identifying areas in which the "minimal consensus" allows for engaging on selected reform pathways. However, in the absence of clear reform progress, investments should be limited to support the Lebanese people and vulnerable groups in line with the policy positions

[67] This includes the 2018 CEDRE conference which was organized just ahead of the May 2018 legislative elections and seen as support for the outgoing government (ICG 2020).

adopted by international donors following the Beirut Port explosion.[68]

The World Bank will need a proactive engagement with key stakeholders beyond the government. In light of the erosion of trust between the state and its citizens, the World Bank needs to be mindful of how its engagements with government can legitimize political elites. It will therefore be important to balance these engagements with an increased engagement of civil society and other stakeholder groups. Given the range of civil society groups and the alignment of many organizations with political groups (as discussed in section 3) careful analysis on who to engage with will be needed. The engagement model under the 3RF based on nongovernmental delivery channels, strong engagement with civil society, and a focus on principles of transparency, accountability, and inclusion provides a useful reference point in this regard. To navigate these relationships, a robust and up-to-date awareness of the perceptions that key stakeholders hold of the Bank will also be essential.

A cornerstone of this approach will be to help identify and support coalitions for reform and strengthen platforms for dialogue. The World Bank should leverage its convening power to help build reform coalitions of actors within and outside government (including actors across the public sector, private sector, civil society, media and advocacy groups, and the broader public) that could more effectively apply pressure on governmental actors and political elites. The Bank can also promote institutional solutions to create inclusive platforms or fora for multi-stakeholder dialogue and facilitate national dialogue on crucial reform measures. Finally, the Bank can do more to strengthen or promote voices of civil society actors or organizations that advocate for change and/or bring the perspectives of marginalized groups to the debate on important policy matters. The engagements that the World Bank and other partners have initiated under the 3RF can be systematized and widened in this regard.

Strong international partnerships and engagement across humanitarian, political, and development actors will be needed to harmonize approaches and jointly communicate key priorities and policy conditionalities. The World Bank (together with the EU and UN) can play a critical role in ensuring strong coordination across actors and facilitating agreement on unitary positions for engagement with the Lebanese government. Strategic planning tools and processes such as those introduced for the Port of Beirut explosion response under the 3RF could be scaled up in close collaboration with key bilateral partners and in consultation with the government. It will be essential to maintain a coherent approach with regards to clear policy conditions that need to be in place before any assistance beyond emergency responses and people-centered recovery programs can proceed.

3. Adjustments to the Bank program

Over the next two years, expectations with respect to addressing fragility drivers should be modest. World Bank engagement should focus on delivering tangible benefits to the Lebanese people while generating momentum on a selected set of reforms. Opportunities for reform will be limited given the complex political dynamics and many interest groups. For this reason, priorities for the Bank should include those actions that can help mitigate the impact of the crisis on the most vulnerable (including refugees) and help to reduce risks of further instability. In addition, flexible support in priority reform areas where a minimal consensus emerges should help to build confidence, generate positive incentives, and increase trust between all stakeholders. This could provide a basis on which to move forward on specific (reform) pathways and pave the way for future investments.

At the same time, the World Bank should not lose sight of a long-term vision of pathways out of fragility and how support can be initiated in anticipation of potential changes in the political settlement. This is important to ensure that future World Bank assistance is strategically focused on priority areas (such as the ones outlined under a *gradual*

[68] As recently reiterated in statements by the International Support Group and the European Parliament. See, for example, ISG and the European Parliament (2021).

shift scenario) that constitute building blocks for the longer-term political, economic, and institutional transformations that are needed to lift Lebanon out of fragility. The World Bank will therefore need to remain flexible, initiate knowledge and dialogue work in some areas, and be ready to take advantage of windows of opportunity once they materialize.

Against this background, adjustments to the World Bank portfolio should be pursued along the following lines:

First, leverage current projects to respond to the crises and mitigate the impact on the most vulnerable. This could include the following:

i. Expand social safety net projects based on clear progress on "systems building" benchmarks as a precondition.
ii. Scale up responses in the health and education sectors building on existing engagements with strong(er) emphasis on increasing transparency, accountability, and citizen engagement as a platform for strengthening sector governance in the medium term.
iii. Scale up the B5 project to provide critical SME support in areas beyond Beirut, and leverage experiences/lessons from the i-SME project.

Second, explore new recovery operations as part of portfolio restructuring, where a people-centered approach is feasible and there is high potential for addressing fragility drivers. Some of these projects could be conceived as grant- (co) financed operations under an expanded LFF and/or the GCFF. This is particularly important given Lebanon's macroeconomic risks and the implications of taking on more debt for medium- to long-term recovery. Care will need to be taken that programs are designed in such a way so as not to "do harm" by reinforcing the political "status quo," such as by conveying legitimacy to the government in the absence of reform. The application of a fragility lens in the design of such operations will therefore be necessary (see below).

i. Public works programs for low-income and low-skilled populations in "hotspots" with a focus on small-scale infrastructure works and maintenance as well as food/agriculture (leveraging experiences from the Roads and Employment project).
ii. Decentralized deployment of renewable energy/solar solutions to improve electricity supply (complementing engagement at the regional level), generate entry points for the private sector, and bypass political economy bottlenecks at national level.
iii. Support local governments/municipalities to improve local service delivery and accountability, leveraging sector knowledge and prior work from the Municipal Investment Project.

Third, in a limited number of sectors (e.g., accountability and justice, electricity, water), facilitate consensus building on reform requirements and provide assistance for reform implementation, and as a precondition for continued and/or scaled up support in the future. As discussed above, emphasis should be placed not only on providing technical advice, but also on facilitating dialogue to secure societal buy-in and consensus on politically viable reforms to be taken forward. This should also entail continued collaboration with other donors to ensure a common set of reform prerequisites is jointly communicated. On the basis of sector dialogue, ongoing operations (such as in the water and environment sectors) could be adjusted to strengthen aspects of institutional reform, enhance avenues for citizen engagement, and address core governance constraints related to transparency and corruption in the sector.

Fourth, to bridge the period towards a potential *gradual shift* scenario (and a new Country Partnership Framework), preparatory work could be initiated to expand knowledge and facilitate national dialogue on prospective pathways for medium/long-term transformational change. This would entail initiating or scaling up reflections through Advisory Services and Analytics work on issues such as (i) decentralization/territorial governance; (ii) a new economic model and avenues for private sector strengthening; (iii) the justice sector; (iv) new approaches to service delivery in health and education; (v) civil service reform and gov-tech

solutions; and (vi) public finances in the security sector.

4. Operational engagement model

An overarching priority across the current portfolio, but particularly in new recovery operations**, will be to mitigate against the risks of elite capture.** Key recommendations include the following:

- ***Ensure a "do no harm" approach by applying a fragility filter/lens to prioritize and design projects***: The objective of applying such a lens would be twofold: (i) to help identify which projects would have the highest impact in terms of addressing fragility drivers; and (ii) to ensure the design is sensitive to the operating context. Illustrative questions to ask in this regard could include: do project gains benefit certain political actors over others? Does the project design minimize opportunities for rent-seeking and have strong oversight and accountability measures in place? What is the impact on the macroeconomic framework, and the potential to contribute to a renewed growth strategy? Are there strong actors for change that can drive project implementation, and does the project have support from a wide set of stakeholders beyond government? Does the operation balance recovery and institutional change objectives that can contribute to addressing structural issues? Can the operation contribute to strengthening a national identity?
- ***Consider alternative delivery channels to fast-track crisis response efforts and support socioeconomic recovery***. The goal of such alternative channels would not be to bypass state institutions but to ringfence aid from elite capture and ensure delivery mechanisms are in place in case no or little reform progress is achieved. The Lebanon Financing Facility (LFF) provides a financing channel that could be scaled up to deliver nationwide flagship recovery programs across the humanitarian-development nexus. In parallel, third-party implementation (via credible NGOs, the UN, or others) under World Bank lending should be considered.
- ***Work with local governments to ensure continuation of key service delivery while trying to strengthen their institutional capacities.*** While municipalities are subject to significant political economy constraints, they present an important partner for the World Bank to engage. To mitigate risks, local-level political economy assessments should inform operational engagements with local bodies.
- ***Further strengthen fiduciary oversight and monitoring arrangements and make use of civil society-led monitoring and citizen engagement mechanisms***. Targeting schemes, beneficiary selection criteria, or prioritization of investments will all be subject to political interference and part of elite bargaining. Information technology such as the IMPACT platform should be leveraged to ensure independent oversight of resource allocation and targeting mechanisms. Additional options include using project proceeds to pay for technical and social audits to monitor social risks and compliance with safeguard standards.
- ***Avoid using or replicating existing institutions that risk facilitating clientelist dependencies to political elites.*** The heavy reliance by international partners on institutions such as CDR that are discredited in the eyes of the public poses a dilemma. A thorough and careful examination of whether or not such institutions are "reformable" will be needed.

The World Bank's engagement on reform **will need to use a variety of different entry points and/or approaches to open space for reform and promote incremental change.** The following considerations should guide the World Bank's engagement in this regard:

- ***Make technical assistance on cross-cutting or sector reforms dependent on clear initial progress that signals government commitment.*** It is not the lack of technical knowledge or expertise that has hindered reforms

over the past. For the World Bank's technical-level engagement to be impactful, clear and visible signs of commitment need to be in place. These "policy thresholds" for engagement should be defined and clearly communicated.[69]

- ***Identify and navigate the political economy constraints of reform when prioritizing support.*** More regular political economy and stakeholder analysis could help to identify constraint and identify potential solutions, e.g., by understanding which reform options do not pose an immediate existential threat to political elites and/or reforms that can create incentives for engagement by political stakeholders given the scale of the current crisis and significant risks.
- ***Promote accountability, oversight, and public scrutiny for priority reforms.*** The current scrutiny of government by civil society and the public could generate some leverage in reducing space for backtracking, maintaining pressure, and hold all actors accountable for agreed commitments.
- ***Invest heavily in dialogue and engagement of civil society to build consensus on reforms and minimize loopholes for elite capture.***

[69] These policy thresholds or triggers may be the passage of legislation or regulation, the staffing of a commission, etc.

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