

# LEBANON POLICY PAPER RECOMMENDATIONS FOR A SUSTAINABLE BILATERAL RELATIONSHIP

US-LEBANON EXPERTS GROUP



A COLLABORATION BETWEEN  
THE AMERICAN TASK FORCE FOR LEBANON  
AND THE MIDDLE EAST INSTITUTE

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## RECOMMENDATIONS FOR US POLICIES THAT SUPPORT STRONG TIES WITH LEBANON

During the past 18 months, the American Task Force for Lebanon (ATFL) and the Middle East Institute (MEI) have been convening a group of prominent experts concerning the future of the US-Lebanon relationship. In October 2019, at the beginning of the protests in Lebanon, the dialogue became more urgent in examining the acute economic, political, and social issues of the country and how US policy and leadership might be of greater assistance in supporting Lebanon's stability while encouraging positive socio-economic and governance reform. The Covid-19 pandemic has accelerated these crises and further underscores the timeliness of publishing a policy report outlining US interests in Lebanon and ways in which the US could help the Lebanese people in these challenging times. The report does not represent the views of ATFL or MEI as institutions, but rather a consensus among a group of US-Lebanon experts whom the two institutions convened. We hope that this report contributes to policies that sustain strong US-Lebanese relations built on our shared values and interests.

We would like to acknowledge the significant contribution by the Lebanese International Finance Executives (LIFE), the Lebanese Center for Policy Studies (LCPS), the National Democratic Institute, the International Republican Institute, and experts from the US and Lebanon who shared their comments and insights with us.

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## EXECUTIVE SUMMARY

### RECOMMENDATIONS FOR US POLICIES THAT SUPPORT STRONG TIES WITH LEBANON



Lebanon is on the brink of collapse due to its domestic economic and political crises, exacerbated by the COVID-19 pandemic. Another failed state in the Middle East would negatively impact strategic US interests in the region. Lebanon requires a thorough reorientation towards stability and renewed socio-economic sustainability which entails fundamental domestic reforms and targeted international support led by the US.

The policy recommendations in the paper set forth reasons why it is in the US interest, partnering with its international allies, to strongly encourage Lebanon to reform, rebuild, and prosper as an independent, stable, and functioning country.

#### **America has significant strategic interests to support a strong and prosperous Lebanon**

- Preserving Lebanon's unique example of religious coexistence, tolerance, and openness, inclusive of diverse communities and cultures, and building on the common values and long history between the two peoples.
- Preventing a failed state on the Eastern Mediterranean which would generate new flows of refugees (Syrians and Lebanese), new havens for ISIS and al-Qaeda, and further empower Hezbollah.
- Sustaining deepening cooperation with the Lebanese Armed Forces (LAF) as the only credible national institution to safeguard Lebanon's stability and territorial integrity.
- Countering the influence of Iran and its proxy Hezbollah.
- Countering encroachment by Russia and China.
- Maintaining security across the Lebanese-Israeli border and avoiding another war.

## **SUPPORTING ECONOMIC REFORMS**

The Lebanese government has released a Financial Recovery Plan (The Plan) to improve the fiscal and monetary regimes in the country. Its program proposes to stabilize the currency, strengthen the banking sector, and bring transparency and accountability to government operations and transactions. Fiscal reforms are aimed at reducing budget deficits, improving and clarifying revenues, building independent and accountable regulatory and commercial procedures, and reducing tax and regulatory burdens on business, the middle and lower classes, and the poor. There are contending recommendations as to the way forward which are attached to this paper and should be fully considered as credible analyses.

*The question for the US is whether The Plan includes sufficient depth of detail to warrant a supportive public comment by the US, or whether the US and its partners should continue to wait until words are turned into actions.* The most important step taken by the Lebanese government has been to seek IMF help, initially opposed by those who fear the demise of their patronage systems. IMF assistance is critical to addressing Lebanon's monetary, fiscal, and socio-economic challenges.

**Given the need to strengthen Lebanon's stability and security, the United States can offer specific assistance under certain conditions.**

- Encourage the government and all stakeholders to form a shared vision for moving Lebanon forward.
- Support Lebanon's work with the IMF on a restructuring plan that enables Lebanon to achieve credible and lasting reforms, thus enhancing prospective foreign and domestic investments.
- Continue to work with the International Support Group (ISG) and its partners to offer Lebanon technical and monetary support conditioned on reducing government expenditures and implementing CEDRE reforms as donor benchmarks are met. These reforms include the establishment of transparent regulatory agencies with proper oversight authority and participation from all stakeholders, leading to transparent and regulated privatization efforts.
- The US and its partners should utilize existing international mechanisms to help Lebanon identify, impound, and repatriate stolen or corruptly accumulated funds.
- As an immediate first step to signal the importance of action to Lebanon, the time may be ripe for the US to lead and orchestrate an international meeting of friends and partners to show their support for elements of The Plan that the US and its allies are ready to contribute to, if and when Lebanon takes specific steps for reform. As a beginning, Lebanon needs to make a serious effort to facilitate a broad discussion among all stakeholders including civil society, unions, banking, business, and the professional class, as well as political leaders.

## **US SUPPORT FOR THE LEBANESE ARMED FORCES (LAF)**

The LAF is one of the best trained fighting forces in the Middle East, having not only defeated pockets of ISIS and al-Qaeda and maintained peace on its southern border, but carefully protected the freedom of Lebanese citizens to express their concerns in the streets.

- As a means of strengthening Lebanon's sovereign responsibilities, appropriations for the LAF should be commensurate with the need to provide, maintain, and sustain equipment and training. Funding should be sustained to better support LAF needs in the east and south, and carry out its mandate to extend its maritime operations.
- The US should call for immediate resumption by the Lebanese government of the national Strategic Defense Dialogue and to take steps to implement its dissociation policy vis a vis the conflict in Syria.
- The US should continue its efforts to mediate between Lebanon and Israel to settle their land and maritime border disputes. It should work to extend the UNIFIL mandate in South Lebanon and the continuation of the critical liaison and deconfliction meetings between the LAF and IDF.

## **US SUPPORT FOR THE LEBANESE PEOPLE AND CIVIL SOCIETY**

The US should continue its statements in support of the demonstrators' civil and human rights and state support for a national dialogue between government and civil society regarding key issues. The reality is that the demonstrators must also organize to take initiatives in driving political reforms. US assistance should:

- Promote capacity building on how to organize and implement political campaigns.
- Fund efforts that strengthen civil society, human and civil rights, rule of law, independence of the judiciary, and capacity building for communities and organizations.
- Expand education and exchange programs and funding for ESF, ECA, and other programs that directly reach beneficiaries in Lebanon.
- Encourage business reforms to grow micro-enterprises, SMEs, and larger entities to lead in building a productive private sector in the country.
- Lead international efforts to fund comprehensive and effective social safety nets for all Lebanese.



### **SUPPORT FOR REFUGEES AND HOST COMMUNITIES**

With nearly 1 million registered Syrian refugees in a country of 4 million, Lebanon has the highest refugee per capita ratio in the world. The US should maintain its lead role among the international and regional donor community to provide assistance to refugees and to their host communities commensurate with actual costs, and work to promote conditions for refugees to be able to return home voluntarily under conditions of dignity and security.

### **RENEWING THE RELATIONSHIP**

The US and Lebanon should renew their partnership in this challenging time for both nations, in ways that strengthen the security, stability, and prosperity of both. The US should work to enhance its relationship with Lebanon by showing its leadership to undertake these recommended actions in concert with the Lebanese people and the institutions of the Lebanese state.

# RECOMMENDATIONS FOR US POLICIES THAT SUPPORT STRONG TIES WITH LEBANON

**The purpose of the paper is to assess the current situation in Lebanon, indicate key US interests in Lebanon, and propose recommendations for how the US and the international community can encourage positive and sustainable reform, in line with the wishes of the Lebanese people, and work toward a more inclusive, prosperous, and stable Lebanon.**

## INTRODUCTION

The purpose of the paper is to assess the current situation in Lebanon, indicate key US interests in Lebanon, and propose recommendations for how the US and the international community can encourage positive and sustainable reform, in line with the wishes of the Lebanese people, and work toward a more inclusive, prosperous, and stable Lebanon. Lebanon is on the brink of collapse due to its domestic economic and political crises, exacerbated by the COVID-19 pandemic. Another failed state in the Middle East would create additional humanitarian, political, and security risks in the region, and would negatively impact US interests. Lebanon requires a thorough reorientation towards stability and renewed socio-economic sustainability, which entails fundamental domestic reforms and targeted international support led by the US.

Despite the turmoil that has engulfed Lebanon's society and the economy, the United States has significant interests in maintaining Lebanon's legitimate and democratic state institutions, national armed forces, pluralist society, and open economy. This is the case despite the forced presence of Hezbollah, a heavily armed organization allied with Iran, which is a target of the recent Caesar Act sanctions regime. The broader society of Lebanon has been a beacon of critical shared values for over a century, and it continues to be a link between American interests and the countries of the region due to its outsized cultural, educational, and social influence.

As the US refines and develops its overseas policies following the massive dislocation of the COVID-19 virus, it is worth considering Lebanon's status as a friend and partner, and one that furthers US values and interests in the Levant and wider Middle East.

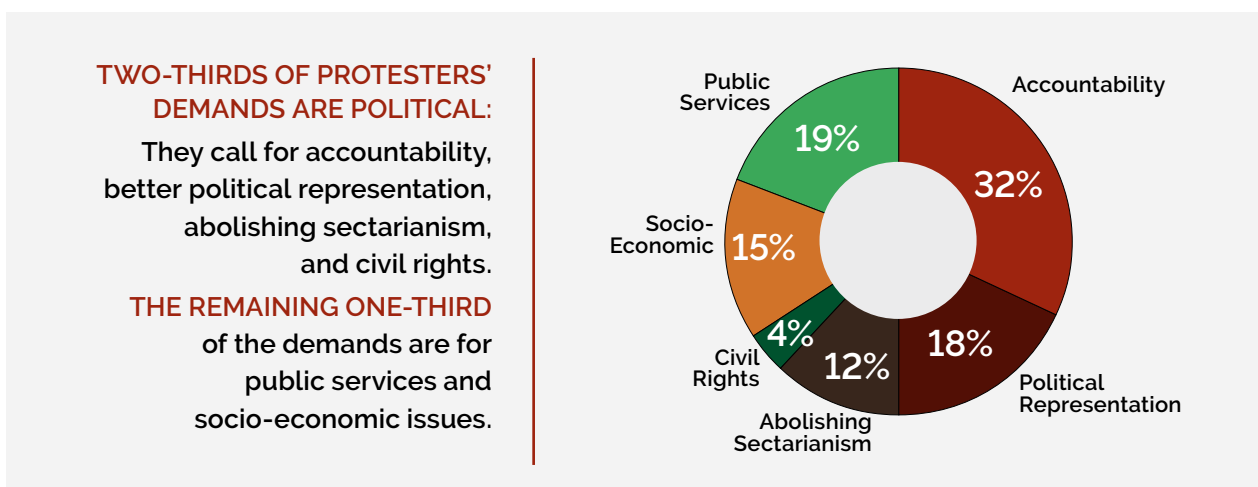
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The country is the most indebted country in the world relative to its GDP. An over-valued currency is in free fall, considerably eroding people's real income and standards of living, especially in an economy largely dependent on imports for its domestic market.

### PARAMETERS OF THE CURRENT CRISIS, OCTOBER 2019 TO THE PRESENT

Decades of mismanagement and corruption and impending economic collapse led, in October of 2019, to massive demonstrations that cut across traditional sectarian and regional lines. Although without a designated leadership, the demands of the demonstrators coalesced around four areas of government failure: widespread corruption and lack of transparency in government operations; the persistence of a sectarian political system built on patronage networks and clientelism; the inability of government to provide basic public services such as electricity and waste management, or to protect the environment, fight forest fires, and preserve

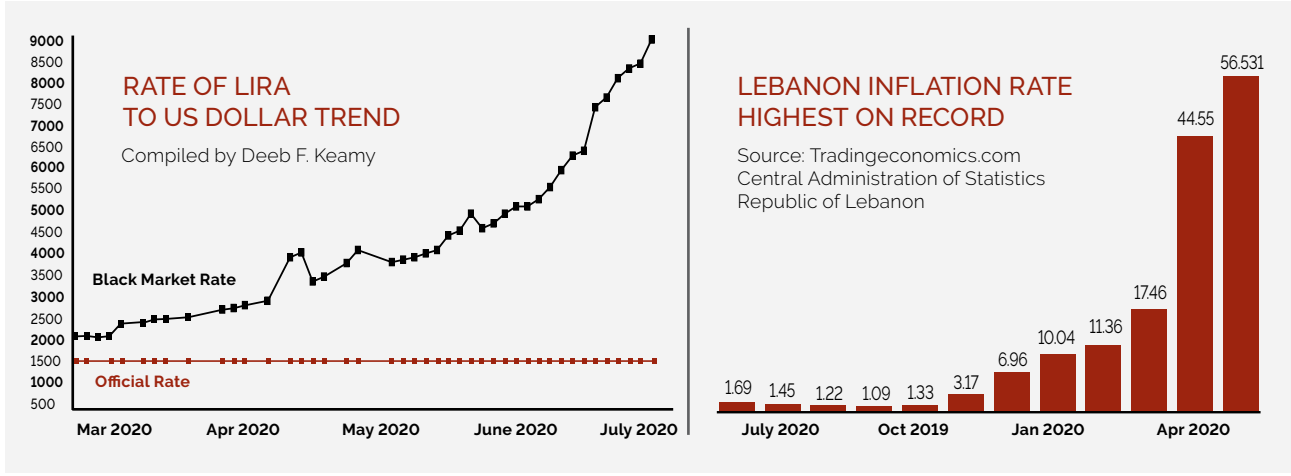
Lebanon's natural bounty; and years of mismanagement of the economy that brought the country to bankruptcy, wiped out the savings of millions, and led to a spike in unemployment and poverty.



Source: LCPS surveyed 213 protesters in Riad al-Solh and Martyrs' Square between 23 and 26 October, compiling 590 demands.

Demonstrators expressed demands for fundamental changes in the country's political life. They demanded replacing the entire corrupt ruling oligarchy; providing services and a social safety net in an effective and equitable manner across social and regional groups; effective steps to stave off the collapse of the currency, restrictions on corrupt bank transactions, and protections for the savings of citizens; reconfiguring a failed economic model unable to generate employment; transparently and thoughtfully eliminating the sectarian basis for allocating government resources and offices; effectively implementing the rule of law throughout society at all levels; and protecting the environment. Despite these many shared objectives, the protesters have not yet developed a common action platform or tactics that would enable them to more effectively pressure the ruling oligarchy to adopt a credible reform agenda.





The failed economy and quality of life are a consequence of past and current failures of government stewardship and economic leadership that catalyzed an increasingly unproductive economy with no investments in productive sectors to speak of, macro financial instabilities fueled by years of economic imbalances, and external factors, namely a persistent drop in remittances, which were Lebanon's lifeline. The country is the most indebted country in the world relative to its GDP. An over-valued currency is in free fall, considerably eroding people's real income and standards of living, especially in an economy largely dependent on imports for its domestic market. The loss of jobs and closures of businesses have further disrupted the livelihoods of most of the people. Basic services such as power, sanitation, telecommunications, health, education, and environmental management, of which the supply and quality have been poor for decades, are now in disarray. National public spending far exceeds government revenues. These dysfunctions are compounded by the COVID-19 virus which has shuttered public life, sapped further life out of the economy, and threatens to push the society toward the risk of disintegration and the state toward the risk of state failure. These conditions will require more than a generation to turn around.

**90.6%: Percentage of Lebanese who think that economic conditions in the country will be worse off in October 2020 than they were last April, according to the April 2020 survey of the Byblos Bank/ AUB Consumer Confidence Index**

Prime Minister Hassan Diab and his team have released a Financial Recovery Plan (The Plan) to deal with some of these multiple challenges and it is currently in negotiation with the International Monetary Fund to define a comprehensive reform strategy to restore trust in Lebanon between the government and the Lebanese people and between Lebanon and international donors and investors. It is clear that without fundamental changes in the country's vision and governance, it is in danger of joining the list of failed states in the region, a liability that does not serve US interests. A lingering concern of the international community and the government's domestic critics is that the current government

may not have the political muscle to challenge the oligarchy and initiate credible reforms.

**The importance of a unifying vision for Lebanon cannot be overstated.** Lack of agreement among demonstrators, civil society, other stakeholders including unions, professional organizations, service organizations, religious bodies, and political leadership on the basic hallmarks of the country makes the task of moving ahead difficult. Common points of reference are needed to appeal to shared values and aspirations as the basis for undertaking the sacrifices necessary to rebuild and energize Lebanon.

By demonstrating support for Lebanon moving forward to redefine its priorities and hopes, the US and the international community can make an important contribution to its recovery.



After an assessment of the importance of US-Lebanon relations, this paper examines three interrelated areas of concern. The **first and most visible issue is the distressed socio-economic situation**, particularly steps to support poor and vulnerable citizens, as well as steps to find a soft landing for the monetary, banking and economic free fall, and to work toward a rapid and sustainable recovery. The **second is the current political environment** which obstructs and constrains a dynamic political culture in the country, effectively disenfranchising the Lebanese people from securing and exercising their rights. The **final section provides recommendations on how the US, and by extension the international community, can play a supportive role** in enabling Lebanon to restore its vitality and credibility in the region and internationally.

**The US also has an interest in ensuring that Russia, which reestablished a role and foothold in the Middle East via its 2015 military intervention in Syria, does not develop significant influence in Lebanon.**

## **THE RATIONALE FOR US CONCERN FOR LEBANON**

US interest in Lebanon as a stable, democratic, prosperous state helps define US policies to achieve that outcome. US interests in the region are evolving vis-à-vis regional powers such as Iran and Turkey, external powers such as Russia and China, and long-term allies in the Gulf and Israel, which makes Lebanon's geostrategic role more important.

US security assistance to Lebanon began its current trajectory in 2006 and has totalled more than \$2.0bn since then. The Lebanese Armed Forces (LAF) has become an important partner for US policy interests especially for maintaining the cessation of hostilities along the UN Blue Line with Israel, pursuing shared counterterrorism objectives, providing much needed internal stability, consolidating Lebanon's growing military posture along the eastern frontier with Syria, and supporting the LAF as the only credible national alternative to Hezbollah. The US also has an interest in deescalating tensions between Lebanon and Israel to forestall another Hezbollah-Israel war, which threatens to be far more devastating than the 2006 war. To this effect, the US is mediating the Lebanon-Israel land and maritime border disputes.

The US has an interest in ensuring that Lebanon's financial institutions are not accessed and used by Hezbollah, Iran, and Syria. This has intensified under the Trump administration's 'maximum pressure' campaign against Iran. This is a compelling argument for ensuring the stability and integrity of the banking system.

**Lebanon's survival and quality of existence provide an example for coexistence, tolerance, and openness that is inclusive of diverse peoples and cultures**

The US also has an interest in ensuring that Russia, which reestablished a role and foothold in the Middle East via its 2015 military intervention in Syria, does not develop significant influence in Lebanon. And Russia is on the move. Russia's Novatek won a joint bid with France's Total and Italy's Eni to start drilling in one of Lebanon's offshore gas blocks; and Russia's Rosneft signed a 20-year lease for the Tripoli Oil Installations in Lebanon (TOIL), giving it a long term foothold in north Lebanon near the sensitive Hamat air base where the US and LAF cooperate on CT operations. Russia has offered military equipment, help with repatriating Syrian refugees, investments in the energy sector, and wants Lebanese business expertise to help it access African markets; but none of this has materialized.

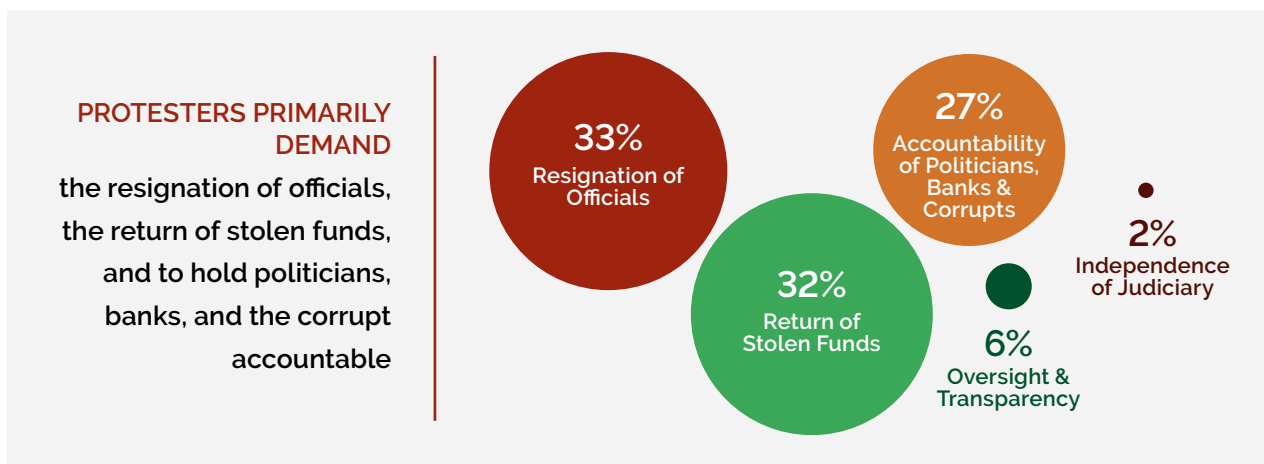
Lebanon values its relations with the US for more than their historical ties and commitment to an open and free society. The relationship is based on shared values and mutual interests in stability, security, and prosperity throughout the region, and America's support for an independent, free, and vibrant Lebanon. Lebanon's survival and quality of existence provide an example for coexistence, tolerance, and openness that is inclusive of diverse peoples and cultures. The relationship is also bolstered by the Lebanese-American community that has been a pillar of cultural, economic, and political life in the US for over a century.

**As a basic first step, Lebanon needs to focus on its priorities based on a commonly supported economic model**

## **REFORMING THE ECONOMY AND PUBLIC FINANCE SECTOR**

The economy has been on a downward path for a long time, but it took a particularly steep decline in the fall of 2019 and again after the government announced on March 7, 2020

that it would default on its foreign currency denominated bonds. The currency, the Lebanese pound (lira), has been overvalued for more than two decades and has now lost more than 60% of its value and is falling sharply, severely diminishing the purchasing power of citizens, leading to rapidly rising poverty rates. The devaluation strategy noted in The Plan lacks specific references to an exchange rate regime or how to inject liquidity into the system, thereby causing further fluctuations in the value of the lira and currency manipulation. Since banks no longer have access to monies owed them by the government or the Central Bank, they are restricting the ability of account holders to withdraw their money either in pounds or US dollars. Capital flight has been dramatic but uneven as some with large dollar accounts and outsized political influence have been able to move their funds outside of the country regardless of the informal constraints implemented by the banks.



Source: LCPS surveyed 213 protesters in Riad al-Solh and Martyrs' Square between 23 and 26 October, compiling 590 demands.

These concerns need to be addressed by the government and, where need be, legislated by Parliament. This is not easy, as Parliament is dominated by the parties of the entrenched political oligarchy. Compounding potential roadblocks are reservations raised by sectarian leaders that an IMF rescue package might expose corrupt practices and dry up their sources for patronage, or reservations from Hezbollah and its political allies that IMF engagement would bring with it US or Western influence.

**Without a broad and inclusive consensus of Lebanon's stakeholders, foreign aid will be illusory.**

As a basic first step, Lebanon needs to focus on its priorities based on a commonly supported economic model. While there are many remedies being proposed, a unified framework will provide a template for assessing and prioritizing possible actions required by the IMF and steps tied to CEDRE-related projects in terms that should be related to the aspirations of the

Lebanese people. Without a broad and inclusive consensus of Lebanon's stakeholders, foreign aid will be illusory.

## **PEOPLE FIRST: STRENGTHENING AND EXPANDING SOCIAL SAFETY NETS**

Any credible economic strategy must include expanding and strengthening the country's social safety net, fully funding existing government social support funds, and ensuring long term support for Lebanon's public health, welfare, affordable housing, and pension systems which currently range from non-existent to poorly funded. Dealing with immediate needs must be grounded in long term solutions for a durable social services regime.

At the end of 2019, 45% of Lebanese were living in poverty, according to the World Bank, and soon estimated to become upwards of 75%. As a result, hundreds of thousands of Lebanese are facing hunger and homelessness on an unprecedented scale. That does not even include refugee populations: in Lebanon more than 65% of Palestinians and 73% of Syrians already lived in poverty before COVID-19 according to figures from UN agencies.

Poverty and unemployment are pervasive. It has been estimated that the middle class, which was almost 65% of society in 2016, has lost about two-thirds of its purchasing power and become increasingly impoverished. This is most dramatically apparent in growing cases of malnutrition and people forgoing needed medications and healthcare that they can no longer afford.

An IMF-related recovery effort will require reductions in government expenditures. The international community and the US should make it a simultaneous priority that funding for services such as healthcare, education, social assistance, and social protection is part of the solution and not a victim of the government's mismanagement. Additional consideration should target the lack of resources and expertise at the Ministry of Social Affairs, the fragmented and greatly underfunded National Social Security Fund that covers only the less than 45% of the workforce in the formal sector, leaving a significant segment of the population unprotected, and the inadequate funding for all types of public education.

**The Lebanese people must be at the center of any recovery strategy and this should be communicated and monitored effectively throughout the program, particularly if the US and international community earmark programs related to building an effective social services capacity in Lebanon.**

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## THE BANKING SECTOR MUST UNDERGO DRASTIC RESTRUCTURING

**The primary goal of any financial sector interventions must be to restore confidence in the banking sector and restart the flow of credit and unrestricted access to deposits.**

There are specific steps that can be taken in the coming year to set the economy on a path to restore vibrant activity, reliable transactions, and a sound financial system. Restructuring the banking sector must be part of any economic transformation plan, and it is imperative that small and medium deposits, including those of the government social security and pension funds and the social welfare syndicates be protected. As has been mentioned, capital control legislation should be formalized

in order to manage the remaining liquidity among Lebanese citizens and the productive sectors in a fair and open manner. If appropriate, criminal conduct by banks should be dealt with swiftly and firmly. While a bail-in for larger deposits could be adopted as a last resort, it must be properly legislated and conducted in an orderly and transparent manner. Treatment of existing bank equity will depend on the outcomes of current negotiations between the government, IMF, and the banking sector.

Several sources have mentioned the option of bundling government assets that could be privatized such as energy, fuel, telecoms, and other sectors, physical properties and land resources, and functions such as customs and mail delivery into a fund that could as a sources for repaying the banks for government debt and as a source of collateral for attracting liquidity. This fund would be related to the notion of preferential entitlements to government assets that depositors may directly have, as mooted in The Plan, which would require a full legal review to ascertain whether this would be practical, equitable, or even possible.

As indicated in The Plan, restructuring of the banking sector and any related impact on deposits must go hand in hand with immediate, credible, and wide ranging fiscal reforms without which such restructuring will eventually prove futile, further exposing depositors to a weakening of sovereign credit and discouraging further recapitalization of banks. Critically important is that the rule of law and a strong institutional judicial and regulatory frameworks are prerequisites for the success of any plan.

The primary goal of any financial sector interventions must be to restore confidence in the banking sector and restart the flow of credit and unrestricted access to deposits. In addition to rebuilding capital buffers and addressing the disastrous state of government finances, reforms

of the financial sector should aim at avoiding banks' over-exposure to the public sector, and incentivizing them to lend to the economy's productive sectors. This should include a halt to the Central Bank's (BDL) previous unorthodox financial engineering schemes while improving banks' capacity to access local and global markets.

Reforms in the fiscal regime must encompass multiple functions and operations in the government, and should begin, as has been mentioned, with enabling both an independent and transparent judiciary and regulatory agencies that answer to Parliament rather than to ministries, which currently blurs the lines of responsibility and allocation of resources. Given the current sectarian-driven control of government and Parliament, these steps are contingent on amending the scope of the regulatory agencies for the petroleum, telecommunications, and power sectors to ensure their independence from the related ministry. Ensuring the independence and hands-off oversight of the Central Bank, Directorate of Procurements, the Board of Accounts, and Capital Markets Authority are several agencies which should be subject to the relevant judiciary, with Parliament's oversight.



**PUBLIC SPENDING, CURRENTLY INEFFICIENT, WASTEFUL, AND VULNERABLE TO CORRUPTION, MUST BE TRANSFORMED.**

The electricity sector is but one example. A wholesale governance and regulatory reform program is needed to curb the rent-seeking culture. These reforms, along with savings accruing from lower debt servicing, should allow for increased spending on social sectors and infrastructure. Broad

revenue reform is needed that focuses less on raising tax rates and more on addressing weak and corrupt collection systems and over-reliance on specific sectors. The fiscal codes need to be revised to establish the right balance between direct and indirect taxation, and introduce a progressive tax on aggregated income. Another step is to establish a binding and credible "fiscal rule" that caps the size of future budget deficits to be adopted.

Corruption is endemic at all levels of governance. It cannot be diminished without a wholesale reform of the culture of corruption by advocating for greater transparency, addressing roots of the patronage system, and implementing tougher anti-corruption/anti-white collar crime legislation.

**There are no short cuts in bringing corruption under control and rooting out its practice.**

**There are UN and World Bank mechanisms as well as US laws that can be utilized to investigate the sources and destinations of transfers abroad that occurred in violation of banking restrictions or as a result of insider dealings.**

There are no short cuts in bringing corruption under control and rooting out its practice. From illegally obtained contracts and diverted government funds to payments to avoid taxes and duties, and smuggling, moving against corruption and enabling transparency will require courage by the government and the courts. In reality, it will be a generational effort.

**In addition to public spending, revenues must be enhanced** through a multi-pronged approach that includes transparent independent tax and customs authorities

free from sectarian political control and influence. Uncollected taxes are a scandal as is the smuggling and opaque collection of import duties at entry points. The government cannot move to improve revenues without freeing relevant authorities from the decades-old manipulation by political elites.

Additional measures could include restructuring bank debt while protecting the rights of small and medium sized depositors, and consideration of a one-time tax leveled on the largest bank deposits in exchange for bank equity. As mentioned, the government may also consider the sale of idle government property at a propitious time and implement legislation to recover public lands and waterfront properties that are illegally occupied and exploited. There is also value to be gained by disbanding or merging some of the 94 public enterprises and boards that have out-lived their usefulness, and redeploying their staff to public sector entities with open vacancies.



It will also be necessary to develop short and medium-term action plans, including a forensic audit of the Central Bank, to accelerate the campaign to **retrieve overseas funds that were generated by corrupt means**. There are UN and World Bank mechanisms as well as US laws that can be utilized to investigate the sources and destinations of transfers abroad that occurred in violation of banking restrictions or as a result of insider dealings. The scope, details, and extent of these and other steps must be communicated clearly and frequently to the public to build trust in the process and for the sacrifices that the people are enduring.



**It is essential that Lebanese authorities adopt restructuring as the government's own policy, not imposed by the IMF, to build support for what will be a difficult road forward.**

## **ROLE OF THE INTERNATIONAL COMMUNITY**

The significance of the roles of international lenders, financial institutions, and rating agencies cannot be understated. The conditionality criteria they have proposed as the necessary cure for the economy's long-standing ills are well known. These conditions include a plan to deal with the power sector, disbanding or merging existing public enterprises and boards, a progressive tax on aggregate income, proper regulations regarding capital controls, and instituting laws passed

pertaining to the independence and prerogatives of regulatory institutions and the judiciary. Funding in convertible currency from the IMF and others must be monitored to ensure that funds are not being siphoned off into Syria and beyond by corrupt officials.

These immediate actions should minimize disruptions to public sector employment and avoid draconian measures that would impact the lower and middle classes. In all efforts, there must be clear and monitored efforts to reduce and eliminate corruption in the government's activities and in the provision of needed services.

An IMF-led restructuring is required to restore sufficient confidence for attracting investments from external and domestic sources. Regardless of how it is characterized, anything short of this type of intervention and its aftershocks across Lebanese society and economy cannot be minimized if Lebanon is to move forward with a realistic strategy for recovering its economic health. It is essential that Lebanese authorities adopt restructuring as the government's own policy, not imposed by the IMF, to build support for what will be a difficult road forward.

## **MOVING TOWARDS A GOVERNMENT OF, BY, AND FOR THE PEOPLE**

Despite the widespread protest movement, the current government has yet to push ahead with pressing economic and political reforms, several of which have been passed or are tabled in Parliament. The COVID-19 crisis has given the government a brief hiatus as most protesters have avoided large demonstrations. Yet, the underlying tension persists, demonstrators are returning to the streets, and resistance is likely to get worse as the health and economic situations worsen.

**While COVID-19 may have provided a brief reprieve from the protests, the underlying tension persists, demonstrators are returning to the streets, and resistance is likely to get worse as the health and economic situations worsen.**

**The rights of the people are already enshrined in the constitution and various international agreements to which Lebanon is a party, yet these are largely for display and are seldom enforced.**

Ultimately the political showdown can only be resolved by parliamentary elections scheduled for 2022. The guarantee of on-time elections is vital although some in the opposition are calling for that date to be brought forward. While many of the demonstrators and even some political leaders have mentioned the need for new elections under a revised electoral law and an independent national election commission, early elections might only benefit traditional elites who are organized and have the resources to manage campaigns.

Holding elections as scheduled provides time for new entrants to develop an organized political strategy that enables them to compete effectively on the 2022 ballot. The demonstrators must decide if they will return to the streets, and/or seek change through elections, or take more radical action, as the recent riots damaging banks and private property illustrate.

It all begins with a credible and transparent process for political change. It will take time. There are structural obstacles such as articles in the constitution which mandate a sectarian balance in parliament and a voting age of 21. There are also requirements in the Taif Agreement to eliminate political sectarianism and establish an upper house of Parliament to deal with Defense and Foreign Policy issues. None of these provisions has seen the light of day.

## **TOWARDS A MORE EQUITABLE AND JUST SOCIETY**

However, there are steps that can be taken, beginning with a broad and credible commitment by the government to rule of law in all of its operations. This includes eliminating corruption through effective legal and institutional mechanisms, protecting basic human and civil rights, establishing a truly independent judiciary and regulatory bodies, equal treatment for the rights of women and minorities, and providing services on an equitable and reliable basis. The rights of the people are already enshrined in the constitution and various international agreements to which Lebanon is a party, yet these are largely for display and are seldom enforced. Mechanisms must be put in place to ensure accountability and provide for reporting violations without fear of reprisal.



**The national protest movement has led to a historic opportunity for reform and better governance in Lebanon. It faces a number of tasks:**

- Build a more integrated central coordinating mechanism among the hundreds of groups that are currently acting, often separately.
- Continue to organize and mobilize effectively online in light of COVID-19 and prepare coherent, peaceful strategies for re-entering the public space.
- Develop a long term and phased strategy that includes how to be more effective now, how to prepare for upcoming parliamentary elections, and how to become a sustained and effective political movement with real influence in parliament and the country.
- Integrate and empower the hundreds of thousands of citizens who reacted spontaneously to social media appeals for protest and who have not been integrated into any organized political movement.
- Build grass roots presence and coordination in all Qadas (administrative districts), towns, and villages throughout the country.

In all these challenges, US and international NGOs have a lot of experience and guidance they could provide.

**At the level of governance reforms, recommendations include:**

- Pass new stringent anti-corruption legislation and establish an independent and empowered body with the authority both to investigate and incarcerate corrupt officials, whether regular civil servants, ministers, or former officials and presidents.
- Dramatically strengthen the authority, budget, and independence of the entire judicial branch to take it out of the control of politicians, and to render it as a third branch of government which it currently is not.
- Implement the administrative decentralization reform agreed in Taif that has been held up in draft legislation for many years. The oligarchy thrives on keeping all decision-making under their control in the capital, Beirut. Decentralization is a means of increasing transparency, increasing decision-making efficiency, empowering the citizenry, and loosening the stranglehold that the oligarchy has on all decision and moneys of the state. However, this can only be effectively implemented by building local capacity in governance skills at the municipal and regional level that disrupt corruption and support rule of law administration.
- Consider passing a new election law that bans foreign funding, bans religious political parties, encourages cross-sectarian national parties, and requires internal party democracy and transparency.

- Consider the date of parliamentary elections. If civil society can mobilize around platforms and leadership that will make them competitive, then moving elections to 2021 from 2022 may be possible. The current parliament has lost its legitimacy in the face of national protests; the current government has no political legitimacy in the eyes of many Lebanese; and the uncertainty of their commitments to vital reform agendas demonstrates the weaknesses of both institutions. It is a critical trade-off to assess if new elections will actually open up the political space to new entrants or instead return current office holders.
- Consider a new electoral law. The current law has its strengths and weaknesses like any election law; the key point is that it rewards those who are best mobilized. A concern is that negotiating a new election law among all parties in the country could be used by the oligarchy as an excuse for postponing elections even beyond 2022.



#### **At the level of social and humanitarian priorities:**

- Lebanon, like all countries in the world, is going through the health and economic shutdown consequences of the prolonged COVID-19 crisis. The country entered the crisis worse off than most in that the government and banks were already constrained and the economy had already come to a standstill. The compounding of COVID-19 and the pre-existing crises means that unemployment and poverty levels among Lebanese are soaring to unprecedented levels, including conditions of hunger and real desperation. The government is not in a financial position to offer substantial assistance. In order to prevent a collapse of social order and the humanitarian and security nightmare that it might create, it is in the interest of the US and other international friends of Lebanon to work with local government, civil society, and even the central government to provide urgent assistance to the neediest in society.
- Lebanon hosts the highest per capita number of refugees in the world. The US and the international community have been helpful in providing support, which needs to continue for both the refugees and the host communities.



## Recommendations for US Policies and Actions

We clearly understand and support the condition that Lebanon must help itself and demonstrate to the international community and donors its commitment to emerging as a functioning democratic country based on good governance, inclusion, justice, equal opportunity, and respect for its citizens. It is critical that the US express its willingness to work with Lebanon and the Lebanese as they show their determination to undertake reforms, enhance the rule of law, and take steps that promote security and stability internally and throughout the region.

### **There are specific steps we recommend for US policy.**

- The US should continue to clearly state that it supports the Lebanese people and encourages economic and political reforms that enable its government to better serve the people transparently and effectively. A clear unambiguous statement is important at this time of uncertainty. It should also emphasize the critical importance of supporting the democratic constitutional process and key institutions such as the LAF.
- As an immediate first step to signal to Lebanon the importance of action, the time may be ripe for the US to lead and orchestrate an international meeting of friends and allies to show their support for aspects of The Plan that the US and its allies are ready to contribute to, if and when Lebanon takes specific steps for reform. As a beginning, Lebanon needs to make a serious effort to facilitate a discussion of all stakeholders, broader than the sectarian leaders, to include key civil society, unions, banking, business actors, and the professional class.

- The US and partners should prioritize support for social safety nets and helping the more than half of the population that is falling under the poverty line.
- The US, working with its international partners, should publicly endorse efforts to achieve a rescue effort for the economy and the financial system working with the IMF and others to secure short term capital for short term stability as reforms are implemented in the near term.
- The US should work with the IMF, ISG, and its partners to advise Lebanon on reducing government expenditures over time, with a goal to reach a balanced budget with a set time frame and implement CEDRE reforms according to donor expectations of transparency and reforms.
- The US should encourage a national dialogue between government and civil society regarding issues being raised by the protesters; and emphasize the need to protect the civil and human rights of the people.
- The US should insist on Lebanon reviving its National Defense Dialogue, and charting a credible pathway and timeline way for the state to regain full sovereignty over its territories and borders.

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**Actions to promote civil society, human and civil rights, rule of law, and community and organizational development are:**

- In coordination with international and local NGOs and CSOs, develop transparent and accountable stabilization strategies that will build social and economic stability, reduce inequality, bridge geographic areas and socio-economic classes, and enhance local political decision-making in distribution and appropriation of resources that affect their quality of life.
- Obtain and monitor assurances from the government for the protection of the rights of the demonstrators to freedom of speech, assembly, and access.
- Expand capacity for non-violent protests by investing in community reconciliation and intervention capabilities.
- The US should expand its PL480 program to assist in addressing the extreme poverty in Lebanon.
- The State Department should task the Embassy in Beirut to build the relationships needed to expand governance and democracy programs focusing on leadership training, community development, and civil society empowerment.

- The needs of the youth for jobs and market-driven education are at the center of the demands of many of the demonstrators. Assisting the private sector to strengthen the eco-system for entrepreneurs and SMEs is vital for creating jobs, promoting innovations, adopting technology, and addressing the concerns of youth.
- An increase in the ESF appropriation in FY2021 is recommended as there is nothing more important than enhancing our education, civil society, exchange programs, and US aid that incentivize and support the values central to the US-Lebanon relationship. We recommend a review of US funding for Lebanon in order to make sure the US proactively addresses programs that can reach beneficiaries in Lebanon that show America's continuing interest in and support of the Lebanese people. This would include educational institutions, ECA, USAID, and MEPI programs for civil society and NGOs working throughout the country, and other opportunities to empower civil society and Lebanese citizens.
- The US should work with the LAF and other international partners to determine the needs of the LAF as it moves from its current acquisition phase to sustainment of current operations. This will be needed while the government develops a realistically funded defense budget. It is also critical to maintain the morale and military effectiveness of the troops as the weakened lira forces the LAF to direct its limited resources toward maintaining unit and operations cohesion at the expense of execution of field operations.

**The US should expand its PL480 program to assist in addressing the extreme poverty in Lebanon.**

## Actions by the Government of Lebanon

Among the recommendations made by domestic and international analysts and institutions, the country needs to consider the following steps.

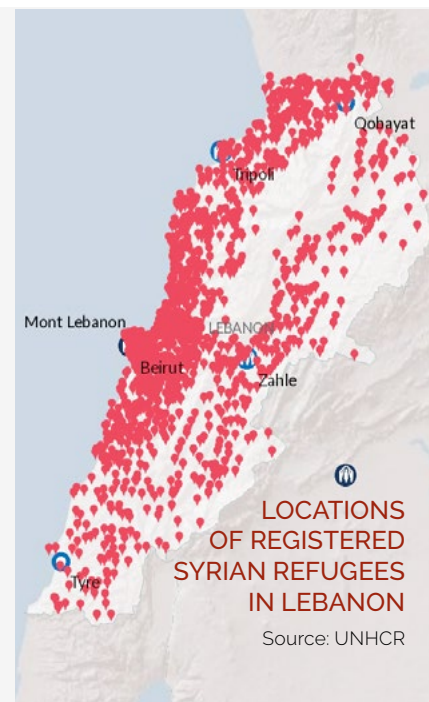
- An oversight body under the Prime Minister, made up of reputable experts outside of the government, should be assembled to provide guidance on public policy reforms and privatization. This should be done with input from civil society through a good faith dialogue.
- Broad, inclusive consultations with NGOs, civil society, representative organizations, professional groups, labor unions, and others are essential to building trust in the country's future vision.

**The government must understand that it is critical to implement a regulatory reform process, establishing independent regulatory agencies with technocrats and with input from civil society and the donor community.**

- The government must understand that it is critical to implement a regulatory reform process, establishing independent regulatory agencies with technocrats and with input from civil society and the donor community. Together with the High Council for Privatization, these bodies should be empowered to establish a well-thought-out and transparent privatization process. Electricity and energy could be among the first efforts in this regard with an eye toward other privatizations as opportunities arise for beneficial offerings.
- The role of the High Council for Privatization should be reconstituted and staffed with technocrats. The appointment of a qualified Director is a good first step. The Council is a key entity to ensure transparency and independent separation from government ministry influence.
- There are a number of pending appointments that the PM and the Council of Ministers can make in the immediate future that will indicate if sectarian politics still dominate the process or if truly independent, qualified technocrats can take up important roles in agencies such as the Central Bank and the Board of Auditors.

## International Cooperation

- The US has significant international leverage that can be brought to bear in order to encourage economic and governance reform and strengthen state institutions. The US should work with its allies and partners in Europe, the Gulf, and around the world to unify the reform message being communicated to the Lebanese government and people, and to link the provision of support and rescue assistance to real and substantial reform in the country. The US can also use its leverage to ensure that the same powerful but constructive message is being put forward by the IMF and the World Bank in their engagements with Lebanon.
- There is no immediate short-term fix for Syrian refugees living in Lebanon. Alternative medium- and long-term solutions require extensive donor assistance. The US and its partners should study the economic and social impact of the Syrian refugee crisis on Lebanon and its host communities and estimate and fund its direct and indirect costs in order to sufficiently enable Lebanon to bear this enormous burden.





## Security Actions

- The Department of Defense considers the LAF one of the most capable armies in the region. US appropriations for the LAF should be maintained as the LAF is now in a sustainment mode in terms of aggregating its experience, achieving greater effectiveness in field operations, and building out its mission nationally. The US should call for an immediate implementation by the Lebanese government of its Strategic Defense Dialogue that defines its overall priorities and objectives. The LAF needs to increase its military footprint in the east and south, and carry out its mandate to extend its maritime operations.
- The US should continue to mediate between Israel and Lebanon to settle their land and maritime borders. This will have a substantial positive political and economic impact for Lebanon in opening an important initiative on gas development, and further reducing the risk of another war with Israel.
- UNIFIL's mandate should be renewed at the end of August 2020. It has performed quite well given the constraints of Lebanon's political environment. To enhance its effectiveness, it is recommended that its troop presence be maintained, and that UNIFIL be required to report to the Security Council within 48 hours each time it is prevented from concluding reconnaissance trips or inspections or other restraints on its daily reconnaissance in the time frames and routes selected. Blockades by local groups to prevent its operations are unacceptable and UNIFIL should report on these obstacles as well as the IDF violations of the no-go zones and overflights of Lebanese territory.

**UNIFIL's mandate should be renewed at the end of August 2020. It has performed quite well given the constraints of Lebanon's political environment.**

## CONCLUSION

These recommendations will not succeed without an inclusive national dialogue centered on a vision for Lebanon's future. It is time for the Lebanese to come together and build a vision shared by all stakeholders who collaborate on a national strategy and social contract for a healthy, efficient, inclusive future that the Lebanese people deserve. We believe that US leadership with the international community will demonstrate the benefits to the Lebanese of moving forward with a comprehensive implementation of reforms that will enable Lebanon to make the sacrifices needed to rebuild and restore its capable and needed role in the region.

## LINKS RELATED TO THE FINANCIAL RECOVERY PLAN

[www.lifelebanon.com/promote/economic-research-hub/lebanon-has-run-out-of-time.html](http://www.lifelebanon.com/promote/economic-research-hub/lebanon-has-run-out-of-time.html)

[www.lifelebanon.com/promote/economic-research-hub/government-of-lebanon-s-electricity-reform.html](http://www.lifelebanon.com/promote/economic-research-hub/government-of-lebanon-s-electricity-reform.html)

[web-release.com/lifes-response-to-the-draft-of-the-lebanese-governments-reform-program/](http://web-release.com/lifes-response-to-the-draft-of-the-lebanese-governments-reform-program/)

<https://www.abl.org.lb/Library/Assets/Gallery/Documents/ABL%20Contribution%20ENGLISH%20AW.pdf>

<https://files.elnashra.com/elnashra/documents/20200406DiscussionMaterialsforCoM1110420.pdf>

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