



# FIXING THE ECONOMY AND PUBLIC SERVICE PROVISION IN LEBANON

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In October 2019 Lebanon was gripped by mass protests that lasted several months. The demands of protesters reflected a deep dissatisfaction with the state's performance in addressing endemic corruption and delivering public services.<sup>1</sup> The protesters clearly established a direct link between a corrupt political system based on sectarian power-sharing and the dismal quality of education and healthcare. Political elites were seen as using their positions to serve their own interests and increase their own influence.<sup>2</sup> In a context of weak institutions and limited accountability, the identity-based power-sharing system has penetrated and hindered the performance of Lebanon's economy and public services. While fundamental reform of the political system itself is needed, it is unlikely in the short term. Instead, this policy brief explores what can be done to reform and improve Lebanon's economy and public

services within the current system, despite its shortcomings.<sup>3</sup>

## THE GOVERNANCE SYSTEM IN LEBANON

Sectarian power-sharing was adopted as a mechanism to give various groups an incentive to engage in peaceful relations. Over the years, however, the political system has impeded the development of strong institutions and good governance.

Since the 2019 protests and against the backdrop of the Covid-19 pandemic, Lebanon has descended into a severe economic crisis which, together with the Beirut Port explosion on 4 August 2020, has destabilized an already fragile governance system.<sup>4</sup> Following the resignation of the government after the Beirut Port blast, the Lebanese political class failed to form a government for over a year.<sup>5</sup>

<sup>3</sup> This brief is based on the findings of a longer report, Bourhrous, A. et al., *Reform within the System: Governance in Iraq and Lebanon*, SIPRI Policy Paper no. 61 (SIPRI: Stockholm, Dec. 2021); and on interviews with current and former Lebanese government-level officials and experts.

<sup>4</sup> Hubbard, B. and Denton, B., 'Collapse: Inside Lebanon's worst economic meltdown in more than a century', *New York Times*, 4 Aug. 2021.

<sup>5</sup> Young, M., 'Michel Aoun and Saad Hariri have failed to agree over a new government in

## SUMMARY

● The limited accountability and weak institutions of Lebanon's sectarian power-sharing system have had a severe impact on the country's economy and the state's ability to provide basic public services. Protesters have repeatedly voiced discontent with a political system that facilitates corruption and allows self-serving political and sectarian elites to capture public resources and escape accountability. Many have called for the sectarian power-sharing system to be transcended.

Although a comprehensive reform of the political system remains a remote prospect, there is an urgent need to address the grievances of Lebanese people within the system. Based on interviews with current and former government-level officials and experts in Lebanon, this policy brief presents recommendations on what can be done within the existing system to fix the economy and public service provision.

<sup>1</sup> O'Driscoll, D. et al., *Protest and State-Society Relations in the Middle East and North Africa*, SIPRI Policy Paper no. 56 (SIPRI: Stockholm, Oct. 2020).

<sup>2</sup> Mehraj, K., *Breaking the Curse of Corruption in Lebanon* (Chatham House: London, June 2021).

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Government crises like this are a common feature of the Lebanese political system. The process of government formation reflects the need to preserve a delicate balance of power between the different sectarian groups. Originally established in the 1943 unwritten National Pact, this sectarian system was entrenched by the 1989 Taif Accords that ended the 1975–90 civil war. However, as the memory of the war remains fresh, the spectre of violence and conflict seems to lurk in every major political crisis.<sup>6</sup>

The Lebanese political process has been profoundly marked by the rift between the 14 March Alliance and the 8 March Alliance formed after the assassination of Rafik Hariri in 2005. This divide has contributed to the intensification of sectarianism and recurring political deadlocks. Inter-sectarian alliances are frequently made and unmade, often guided less by policy needs and more by the motivation to preserve elite interests.<sup>7</sup> Relentless political haggling has regularly caused delays and government paralysis. The five-year delay of the 2018 elections was largely due to the inability of elites to agree on a new electoral law. Although the 2017 electoral law provided for proportional representation and appeared to open the political process to political outsiders, it was also designed in such a way as to maintain the status quo and the sectarian elites' control over the

Lebanon', Diwan, Malcolm H. Kerr Carnegie Middle East Center, 23 Mar. 2021.

<sup>6</sup> Hermez, S., *War Is Coming: Between Past and Future Violence in Lebanon* (University of Pennsylvania Press: Philadelphia, PA, 2017).

<sup>7</sup> Rabah, M., 'Lebanon's Hezbollah and the Free Patriotic Movement: The end of an affair?', Alarabiya News, 26 May 2020.

political system.<sup>8</sup> Hopes for freer and more policy-focused politics were largely unrealized. Overall, these dynamics have resulted in sluggish government action and growing state weakness.<sup>9</sup>

## UNPRECEDENTED ECONOMIC COLLAPSE

According to the World Bank, Lebanon's economic collapse is largely the result of deliberate inaction on the part of Lebanese politicians.<sup>10</sup> Over the past few years Lebanon has accumulated a fiscal deficit through a steep decline in revenue combined with a sharp rise in public debt.<sup>11</sup> In 2020 Lebanon's gross domestic product (GDP) contracted by 21 per cent in real terms, while public debt reached 179 per cent of GDP.<sup>12</sup> In addition, the collapse of the exchange rate produced a severe foreign currency crisis: the Lebanese pound lost nearly 90 per cent of its value. As Lebanon relies heavily on imports and expatriate remittances, the collapse in the exchange rate, coupled with rising inflation, dramatically increased the cost of living, with soaring prices

<sup>8</sup> Law on Election of the Members of the Parliament, Law no. 44 of 2017, signed into law 17 June 2017, *Official Journal of the Republic of Lebanon*, 17 June 2017 (in Arabic); and Elghossain, A., 'One step forward for Lebanon's election', Sada, Carnegie Endowment for International Peace, 11 June 2017

<sup>9</sup> Picard, E. and Ramsbotham, A. (eds.), 'Reconciliation, reform and resilience: Positive peace for Lebanon', *Accord*, no. 24. (June 2012).

<sup>10</sup> World Bank, *Lebanon Economic Monitor: Lebanon Sinking (To the Top 3)* (World Bank: Washington, DC, spring 2021).

<sup>11</sup> Lebanese Ministry of Finance, Public Debt Directorate, 'General debt overview', Feb. 2021.

<sup>12</sup> World Bank, *Macro Poverty Outlook* (World Bank: Washington, DC, Oct. 2021), pp. 162–63.



for food, medicine and other basic necessities.<sup>13</sup>

The economic crisis has been exacerbated by the twin shocks of the Covid-19 pandemic and the Beirut Port explosion. Covid restrictions have resulted in increased unemployment and further loss of income for many households.<sup>14</sup> The Beirut Port blast, in which hundreds of people were killed and thousands were injured, caused massive damage to public infrastructure and dealt another blow to Lebanon's already shattered economy.<sup>15</sup> In this context, poverty rates reached unprecedented levels: more than half of the Lebanese population was estimated to be living below the poverty line by July 2021.<sup>16</sup> The economic crisis has also highlighted the vast disparities in income and wealth in Lebanon.<sup>17</sup> Ordinary Lebanese citizens and vulnerable groups have been disproportionately affected by the economic breakdown.<sup>18</sup>

A laissez-faire economy has long prevailed in Lebanon. Private companies associated with sectarian groups and political elites have taken over the provision of services in various sectors.<sup>19</sup> With

limited state regulation, the private sector's domination of post-war reconstruction has given rise to systemic corruption. Many private contractors obtained contracts through their connections with political elites. The pervasiveness of corruption has largely been an outcome of a political system in which public institutions have not only failed to curtail corrupt practices but have actually created the structural conditions that facilitate them.<sup>20</sup> As Lebanon has repeatedly received foreign aid following economic crises, this has disincentivized ruling elites from implementing meaningful reform.<sup>21</sup> In the aftermath of the Beirut Port blast, donors pledged aid that was conditional on reforms. Nonetheless, the Lebanese political class has adopted a wait-and-see attitude, hoping that Lebanon will eventually be bailed out without any need to implement reform.<sup>22</sup>

### FAILING PUBLIC SERVICES

Endemic corruption and elite capture have undermined the Lebanese public sector, which has been transformed into a tool to reward supporters. Several state institutions have become the strongholds of sectarian elites.<sup>23</sup>

<sup>13</sup> 'Lebanese pound retreats on black market', *Daily Star* (Beirut), 7 Aug. 2021.

<sup>14</sup> World Food Programme (WFP), *Assessing the Impact of the Economic and COVID-19 Crises in Lebanon* (WFP: Beirut, June 2020).

<sup>15</sup> Consultancy.uk, '8 charts on the economic cost of Beirut's port explosion', 16 Sep. 2020.

<sup>16</sup> World Bank (note 10)

<sup>17</sup> Assouad, L., *Lebanon's Political Economy: From Predatory to Self-Devouring*, Working paper (Malcolm H. Kerr Carnegie Middle East Center: Beirut, Jan. 2021).

<sup>18</sup> Vohra, A., 'Nobody knows what Lebanon's currency is worth anymore', *Foreign Policy*, 5 Apr. 2021.

<sup>19</sup> Leenders, R., 'Nobody having too much to answer for: Laissez-faire, networks, and postwar reconstruction in Lebanon', ed. S. Heydemann, *Networks of Privilege in the Middle East: The Politics of Economic Reform*

*Revisited* (Palgrave Macmillan: New York, 2004).

<sup>20</sup> Leenders, R., *Spoils of Truce: Corruption and State-building in Postwar Lebanon* (Cornell University Press: Ithaca, 2012); and Salloukh, B. F. et al., *The Politics of Sectarianism in Postwar Lebanon* (Pluto Press: London, 2015).

<sup>21</sup> Finckenstein, V., *How International Aid Can Do More Harm Than Good: The Case of Lebanon* (LSE Ideas: London, Feb. 2021).

<sup>22</sup> Momtaz, R., 'Macron reckons with limits of French power as Lebanon initiative hits a wall', *Politico*, 27 Sep. 2020.

<sup>23</sup> Salloukh, B. F., 'Taif and the Lebanese state: The political economy of a very sectarian public sector', *Nationalism and Ethnic Politics*, vol. 25, no. 1 (2019).



Public recruitment processes tend to prioritize sectarian affiliation over competence and actual needs in the public sector.<sup>24</sup> This entails considerable costs, wasteful management of public resources, and fiscal strains for the state.<sup>25</sup>

The impact of these dynamics can be seen in the state's limited capacity to provide public services.<sup>26</sup> Access to healthcare, education, water and electricity services remain vastly inadequate. According to the Arab Barometer opinion survey of April 2021, Lebanon has some of the lowest rates of satisfaction with service provision: only 17 per cent say they are completely or partially satisfied with the healthcare system, and only 18 per cent are completely or partially satisfied with the education system.<sup>27</sup> The impact of inadequate services is also felt differently by various segments of society, as factors such as gender, socio-economic position, regional disparities and rural–urban divides, and refugee status deeply influence experiences.<sup>28</sup>

Communal groups have traditionally taken charge of administering their own healthcare institutions, with the state playing mainly a regulatory role. However,

in the post-war period, the extensive privatization of healthcare services in a context of sectarian dominance and weak state institutional capacity has enabled the spread of corruption.<sup>29</sup> Private contractors have routinely over-charged the state for services provided, often with the collusion of political elites and compliance officers. This has resulted in mounting financial burdens for the state and damaging consequences for the accessibility, affordability and quality of healthcare. Vulnerable populations have particular difficulty accessing healthcare.<sup>30</sup> The Covid-19 pandemic put enormous stress on an already fragile sector, which was aggravated by the Beirut Port explosion due to the damage to healthcare facilities. With crises piling up, many Lebanese health professionals have left the country in search of better conditions.<sup>31</sup>

Lebanon's sectarian power-sharing system also penetrates the education sector. Many educational institutions are affiliated with communal groups, which contributes to the fragmentation of the sector and the perpetuation of sectarian divisions and identities.<sup>32</sup> It also affects equitable access to quality education for all as educational institutions have considerable leeway to implement their own programmes in the absence of standardized national frameworks and weak oversight

<sup>24</sup> Akoum, C., 'Dispute on Lebanon's sectarian quota system in public jobs', *Asharq al-Awsat*, 1 Aug. 2019.

<sup>25</sup> Nehme, D., 'Lebanon's public sector plagued by inefficiency, waste', Reuters, 5 Feb. 2018.

<sup>26</sup> Mouawad, J. and Baumann, H., 'In search of the Lebanese state', *Arab Studies Journal*, vol. 25, no. 1 (2017).

<sup>27</sup> Kayyali, A.-W., *Arab Public Opinion on Domestic Conditions: Findings from the Sixth Wave of Arab Barometer* (Arab Barometer: Princeton, NJ, 22 June 2021).

<sup>28</sup> Baumann, H. and Kanafani, S., *Vulnerability and Public Services in the Lebanese Context of Mass Displacement: A Literature Review*, Working paper (Relief Centre: London, Nov. 2020).

<sup>29</sup> Leenders (note 20); and Gjertsson, S., *The Impact of Corruption on Lebanon's Public Health*, UI Brief no. 3/2021 (Swedish Institute of International Affairs: Stockholm, 2021)

<sup>30</sup> Gjertsson (note 29).

<sup>31</sup> 'Lebanon economic crisis: Medics leaving country at "alarming" rate', Middle East Eye, 20 Sep. 2021.

<sup>32</sup> Salloukh et al. (note 20).



mechanisms.<sup>33</sup> While 4.5 per cent of Lebanon's GDP is spent on the education sector, the government's share is only 1.8 per cent of GDP since a sizable share of the burden of education spending is borne by households through private education.<sup>34</sup> Consequently, access to quality education often depends on socio-economic background. Academic attainment is also lower and dropout rates are higher among students from poorer families. The Covid-19 pandemic has dramatically disrupted education due to school closures, the absence of a strategy for distance learning and a weak digital infrastructure.<sup>35</sup>

Access to water and electricity services has also been constrained. Actual electricity production is considerably lower than demand, especially in the summer months when cooling systems are needed.<sup>36</sup> Supply from the national grid is intermittent, covering only a few hours per day, forcing many people to rely on more expensive private and neighbourhood power generators if they can afford it.<sup>37</sup> Considerable technical losses and high production costs also make Lebanon's electricity sector highly inefficient, due partly to increasingly failing infrastructure and partly

to widespread corruption.<sup>38</sup> Fuel shortages due to the foreign currency crisis as well as the central bank's decision to remove subsidies on fuel imports have driven fuel prices up, with dramatic consequences for the population.<sup>39</sup> Insufficient fuel and electricity supplies have also affected the water sector, as several pumping stations have become non-operational due to the lack of power.<sup>40</sup> Lebanon has largely relied on donor support and funding to keep the water and sanitation sector functioning.<sup>41</sup>

## RECOMMENDATIONS

Lebanon's economic collapse and crumbling public services have given sectarian actors the opportunity to increase their influence by providing relief.<sup>42</sup> This allows them to become even more entrenched, which further undermines the state. The deterioration of the socio-economic conditions and public services threatens stability in Lebanon, as the mass protests in 2019 have shown.

While an overhaul of the political system itself is needed, this process may take years. Nonetheless, opportunities for immediate reform within the system do exist and have

<sup>33</sup> Abourjeili, S. A.-R. and Harb, S., *The Deteriorated Educational Reality in Lebanon: Towards 'Another' Critical Approach* (Arab Reform Initiative: Paris, 20 Oct. 2020).

<sup>34</sup> Abdul-Hamid, H. and Yassine, M., *The Political Economy of Education in Lebanon: Research for Results Program* (World Bank: Washington, DC, 2020).

<sup>35</sup> Save the Children, 'Lebanon education in crisis: Raising the alarm', Mar. 2021.

<sup>36</sup> El Deeb, S., 'Lebanon's rising power cuts add to gloom of economic crisis', *Washington Post*, 7 July 2020.

<sup>37</sup> Durgham, N. and Sly, L., 'Lebanon's national electricity grid collapses', *Washington Post*, 9 Oct. 2021.

<sup>38</sup> Saghir, J. et al., *Electricity Sector: Lebanon Needs an Immediate Action Plan and a New Approach* (Kulluna Irada and Lebanese Foundation for Renewable Energy: Beirut, July 2020).

<sup>39</sup> Hamdan, H., 'Fuel crisis roils Lebanon', *Al-Monitor*, 19 Aug. 2021.

<sup>40</sup> Alsharif, G., 'No power means no water: Authorities warn of an impending crisis', *L'Orient Today*, 9 June 2021.

<sup>41</sup> USAID, 'United States provides nearly \$100 million in additional humanitarian assistance for Lebanon', Press release, 5 Aug. 2021.

<sup>42</sup> Hubbard, B. and Saad, H., 'With fuel from Iran, Hezbollah steps in where Lebanon has failed', *New York Times*, 16 Sep. 2021.



the potential to at least alleviate some of the governance problems.

**Addressing and reducing corruption should be a key priority of the Lebanese Government**

Pervasive corruption has been extremely damaging to the state in every possible way. The adoption of anti-corruption policies is a first step, but the core priority is to enforce them and to make corrupt practices more difficult in the first place. Lebanon should establish and empower independent bodies to curtail corrupt practices in different sectors. Policies that ensure the recruitment of qualified individuals in the public sector are also needed. Overall, measures to increase accountability and transparency are essential to rebuilding public trust.

**External actors need to ensure that assistance focuses less on expedient solutions and more on the soundness of the process**

This would be in line with accountability principles and the need for long-term results. Safeguards should be built into international assistance systems to prevent corruption and mismanagement of external funds. Civil society actors should be empowered to act as watchdogs to monitor how funds are used.

**Reforms to the banking system are crucial**

The banking system was, for a long time, the bedrock of Lebanon's economic growth. A comprehensive reform of the banking sector is imperative to restore confidence in the Lebanese financial system and to help the country secure the

international assistance needed to inject liquidity into the system, overhaul state institutions and rebuild public services.

**Economic recovery in Lebanon hinges on strengthening productive sectors**

Lebanon needs to quickly implement policies to rehabilitate productive sectors, such as agriculture and tourism. The agricultural sector requires new and modernized infrastructure. Lebanon has great potential as a tourist destination, but it needs to promote the sector and upgrade the tourist infrastructure.

**Lebanon needs to increase government spending on its healthcare system**

Public health infrastructure needs to be overhauled so that citizens with limited financial resources can still access quality healthcare. The Covid-19 pandemic should serve as a wake-up call to invest in the healthcare system to meet the needs of the population. At the same time, Lebanese policymakers need to take steps to alleviate the pressure on medical staff by providing an adequate work environment and conditions. Incentives are also needed for highly skilled professionals to stay in Lebanon and contribute to improving the Lebanese health sector.

**Lebanon needs to ensure equal access to quality education for all**

Lebanon needs a clear strategy and more investment in the education sector to ensure that graduates have the necessary skills to enter the job market.

**Lebanese policymakers must depoliticize electricity and water resource management.**

These sectors are too critical to be hampered by political instrumentalization to serve sectarian or personal interests. Service-level agreements can be used to organize the relationship between service providers and users according to standards of performance, efficiency, and equal and inclusive access.

**Lebanon needs to establish independent electricity and water-management bodies**

These bodies should implement long-term strategies to restructure the electricity sector and manage water resources, in close coordination with the Ministry of Energy and Water. Robust oversight mechanisms are needed to monitor the work of these independent bodies and evaluate their progress. Anti-corruption mechanisms in

these sectors should be enhanced and, more importantly, enforced.

**Lebanese policymakers need to stabilize the energy sector in the short term, while also taking steps towards long-term sustainability**

Lebanese authorities must urgently secure long-term fuel contracts to reliably operate existing power plants and build new ones to meet demand for electricity in the medium term. The Lebanese Government also needs to elaborate a long-term comprehensive energy strategy based on the shift to gas as well as a serious transition to renewables for greater sustainability. International actors can help Lebanon set clear and realistic plans for restructuring the energy sector and help finance projects that meet sustainability criteria. As such structural transformations are bound to produce winners and losers, it is important to monitor and mitigate their repercussions.

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