

Lebanon Scenario Plan

July 2020



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Executive Summary

As of July 2020, Lebanon stands at one of the most challenging points in its history. The Lebanese economy is in free fall due to a combination of national debt, a failing banking sector, a collapsing currency, and deep social faultlines. Beginning with the October 2019 revolution, the political status quo that has been maintained since the end of the Lebanese civil war has been confronted by a massive (and largely organic) protest movement. Lebanese political figures and parties are proving hopelessly gridlocked as they seek to preserve institutional patronage networks, contributing to the inability to implement needed reforms. Internal security concerns and social tensions, always serious issues in Lebanon, have become even more pressing as large percentages of the population become destitute and food insecure. The state's chronically limited capacity to provide even basic services is rapidly deteriorating. All of these dynamics are compounded by the fact that some 1.5 million Syrian refugees remain in Lebanon, and often face dire humanitarian conditions, despite being entirely unable to return to Syria. Lebanon is quickly becoming one of the world's major complex crises, with multifaceted systemic and mutually reinforcing issues combining to create a potential regional catastrophe.

This document is an attempt to forecast potential future scenarios in Lebanon for the purpose of strategic planning for both institutional donors and implementing organizations. This document seeks to identify future themes, trends, and dynamics in the medium and long term (namely, the two-to-five-year



Draped in a Lebanese flag, an onlooker is perched above protests in Martyrs' Square in late 2019. Image courtesy of The National.

period) with respect to Lebanon's ongoing crisis. As a consequence, this document should be considered inherently speculative, albeit grounded in in-depth analysis. It is not a needs assessment, and should not be considered as definitive, fully authoritative, or all-encompassing (especially with respect to technical sectors). This scenario plan merely presents COAR's understanding of the most likely future based on this analysis. Countless variables could and likely will arise that will also shape the course of events.

Three scenarios are studied: an optimistic scenario of cautious, albeit painful reform, a neutral scenario, whereby limited steps are taken to mitigate immediate crises without fundamentally altering the structural issues facing Lebanon, and a pessimistic scenario of rapid collapse, whereby the Lebanese state is unable to address the systemic shocks caused by political and economic crises. The likelihoods of these scenarios are based on the extrapolation of existing trends, weighed against quantitative data and qualitative assessments gathered throughout the research. However, for the purpose of this exercise, the likelihood must be viewed as being indicative, not definitive. As such, it should be noted that the neutral and pessimistic scenarios are not so much matters of different trajectories, and are instead matters of time scale — essentially becoming a question whether the collapse is protracted. Following a brief examination of each scenario is a more in-depth examination of the pessimistic scenario. The economic, political, social, security, and service provision dynamics of this scenario are explored, and individual themes within these dynamics are examined in brief detail.

In this pessimistic scenario, it is likely that the Lebanese state will be in large part unable to even attempt to address its immediate challenges. As a result of political gridlock and the unwillingness to challenge existing patronage networks, and unable to embark on needed economic, financial, or banking reforms, Lebanon will likely face further hyperinflation, drastically reduced real private sector spending, widespread unemployment, severe import challenges, reduced state service provision, a potential housing crisis, and food insecurity. This will, in turn, lead to an increasingly 'hollow' state. While the structure of the Lebanese state is likely to remain in place, it will become increasingly incapable of providing even basic services or governance on the local level. Decentralization — in a negative sense — will

become a dominant feature of Lebanon, as any of the practical dimensions of governance, economy, society, security, and service provision will devolve to the local community level and will be dominated by local elites, political parties, militias, or local governance bodies. Naturally, wide discrepancies will arise between different parts of the country, and new political and economic actors will likely challenge existing powers on the local level, based on the ability to provide new forms of patronage. While the broad security consensus remains in place, and open civil war remains unlikely, violence is likely to become increasingly common, as different social groups compete over local resources and legitimacy; this is probable both between religious sects and ethnic groups, and within them. Security will become increasingly dominated by the Lebanese Armed Forces (LAF), which will take a far more active role in the internal policing of the country. Socially, mass emigration is almost a certainty, which will both undermine grassroots organizing and grant new political and economic power to the Lebanese diaspora. What is also likely is a marked increase in the ‘diseases of despair’, as many Lebanese become newly destitute.

This scenario is also based on several key assumptions. The first is that the Lebanese state continues to actually exist. The full collapse of the Lebanese state has been posited as a distinct possibility in recent months. Ultimately, however, we assess that the complete dissolution of the Lebanese state is unlikely. Even during the worst days of the Lebanese civil war, the state remained in place, albeit as more of a skeleton structure than as a functional governance body. This is much more akin to the scenario Lebanon currently faces, whereby the national state continues to exist as a broad structure, but where most practical governance begins to take place on the local level with local actors. The second major assumption is that the broader security consensus in Lebanon continues to hold, and that Lebanon’s political factions continue to avoid open civil war at all costs. The third major assumption is that a major war with Israel does not take place. The fourth major assumption is that the LAF continues to exist in its current capacity. That is to say, it is assumed that the Lebanese Armed Forces do not internally fragment, and do not overtly seize control of the state itself. However, elements of these possible scenarios, and others, are explored briefly in ‘micro-scenarios’ near the end of this document.

A set of recommendations to donors and implementing actors is also provided. These recommendations primarily focus on the fact that donors and implementers must now navigate an extremely challenging landscape. Donors must work with local-level actors as the central state atrophies, while avoiding contributing to the weakening of the state and the fragmentation of Lebanon. Specific recommendations focus on potential strategic considerations and objectives, as well as considerations on potential entry points and programming priorities. Ultimately, a central recommendation is that donors and implementers develop close coordination mechanisms — both between themselves, but also between different local actors, local governance bodies, and the Lebanese state itself.

Methodology

This scenario plan was prepared over the course of June and July 2020. Data, information, and insights were primarily gathered from a series of 31 interviews conducted in June with academic researchers, thematic experts, government officials, state employees, local civil society actors, INGO and NGO workers, and community leaders. Interviews were semi-structured and relied upon a grounded theory approach to qualitative data collection and analysis in order to identify sets of key themes. These interviews were supplemented with secondary data collection and analysis of INGO and donor datasets and publications, grey literature, research papers, academic studies, and news articles, which allowed COAR to triangulate, contextualize, and analyze the themes identified in interviews.

1

Key Drivers

When considering potential scenarios, there are four key drivers¹ that will heavily shape the future trajectory of Lebanon. All of these drivers are closely interlinked, and thus cannot be viewed in isolation. Each driver will influence collective outcomes, as part of a constant interaction over the coming years. These drivers are: the shape and composition of the Lebanese government; the ongoing economic restructuring of Lebanon; the ability of Lebanon to access foreign funding and capital; and the degree to which Lebanon's major religious and political factions can maintain security consensus.

'Shape' of Government

The future shape and composition of the Lebanese government — and the ability of the Lebanese government to change that shape and composition — is one of the key drivers of the Lebanese crisis upon which all scenarios hinge. Here, the shape of government refers to the continuation of Lebanon's post-civil war confessional system which has been largely dominated by a group of institutional sectarian political parties and uses patronage (generally in the form of state employment and state service contracts) to maintain buy-in and popular legitimacy. This system of government has led to near-constant political gridlock, through which the state has been largely unable to enact serious reform due to the direct threat any reform would pose to the power base of the predominant political actors. Indeed, the inability of the Lebanese state to enact internal reforms, provide basic services, ensure fiscal stability responsibly, and build an effective and sustainable social safety net were significant contributors to the Lebanese 'revolution' in October 2019, which itself was a major trigger of the current crisis. However, the shape of government also refers to the degree to which the Lebanese state is capable of actually performing the basic functions of governance: essentially, whether the Lebanese state is capable of enacting and enforcing taxation, service provision, and rule of law both on the national and on the local level.

The shape of the Lebanese government in the future will thus largely dictate the degree to which Lebanon will manage the current economic crisis. The Lebanese government, under pressure from popular protest, may yet prove capable of enacting badly needed economic and political reforms. However, much more likely (as detailed below) is that through continued gridlock, inability to reform, and insolvency and hyperinflation, the Lebanese state will become increasingly incapable of performing basic functions of government. While the state structure itself (inclusive of parliament, national level positions, the foreign policy apparatus, and state ministries) is unlikely to disappear entirely, it may become a hollow structure that exists in name only, as it did for much of the Lebanese civil war period. Thus, the degree to which the Lebanese government is capable of remaining a relevant body on the local level and in the lives of the Lebanese people will be a major driver of the trajectory of the coming crisis.

Economic Restructuring

The economic crisis facing Lebanon is the largest in its history and has multifaceted causes. The most immediate cause of the economic crisis is the rapid devaluation of the Lebanese lira (LBP), which began in late-August 2019, but has rapidly accelerated since November 2019. However, the lira devaluation is only a proximate symptom of the severe indebtedness of the Lebanese state, and the 'financial engineering' practices of the Lebanese Central Bank and banking sector. Lebanon is one of the most indebted countries in the world, in large part due to bloated public sector employment that is used as a tool of political patronage. The financial engineering practices of the Lebanese banking sector were, essentially, the process by which the Lebanese Central Bank continued to enforce a fixed, artificially low 1515 LBP/USD exchange rate by maintaining large USD reserves, which were themselves sourced by offering increasingly large interest rates on USD savings accounts for Lebanese, Lebanese expats, and foreigners. These factors have now caused extreme inflation as the USD reserves of Lebanon are critically low, and the black market exchange rate as of early July 2020 is between 8,000-9,000 LBP/USD.

¹ A table of the Key Drivers and an associated set of indicators can be found in Annex I.

Compounding the inflationary pressures on the lira is the fact that the Lebanese economy is widely imbalanced and in need of serious restructuring and reform. In part due to the maintenance of the artificially low exchange rate, and in part due to political-economic monopolies, Lebanon's economy has become extremely dependent on imports. Lebanon has only a small industrial sector, relatively few local industries, and even the industries that are present are highly dependent on imported inputs. Lebanon has essentially had only two 'thriving' economic sectors: the financial sector, and a service economy, both of which have now collapsed. This situation has been exacerbated by the fact that Lebanon is a relatively hostile and notoriously corrupt business environment, discouraging foreign investment. High unemployment, food insecurity, and economic upheaval are already the norm in Lebanon, and are growing rapidly. Ultimately, the future trajectory of Lebanon will largely hinge on the ability of the Lebanese government to enact serious and credible economic reform that will allow for a post-collapse transformation of the Lebanese economy.

Access to Foreign Funding

In order to maintain state services and facilitate economic recovery, Lebanon will almost certainly require access to foreign funding mechanisms. The first, and likely most important of these mechanisms is the IMF; others include the French CEDRE funding pledge, the World Bank, direct capital infusions from international governments (including the U.S. and Gulf states), international aid funding, and foreign investment. Lebanon faces massive budget shortfalls that cannot be resolved in the near or even the medium term. Without some degree of foreign funding, investment, and dedicated support, Lebanon will be increasingly unable to carry out even the basic functions of state service provision, such as electricity provision, water network maintenance, garbage collection, and public health, let alone the continued payment of state salaries.

However, in order to access foreign funding, Lebanon will need to demonstrate credible economic reform in multiple aspects of governance and the economy



A cyclist rides past graffiti drawn on barriers erected near Lebanon's parliament building, the Grand Serail. January 2020. Image courtesy of AP News.

to regain political and fiscal confidence; as an added challenge, Lebanon will also likely be required to show compliance to western sanctions that target Syria and Iran, a condition that will place extreme stress on Lebanon's sectarian modus vivendi. The public sector will need to be reformed, as state employment has long been a source of patronage. Salaries are often high, and there are believed to be large numbers of 'ghost employees' who draw a salary but do not work. Banking and financial reform will also be critical. The structure of the Lebanese government and its constituent parts will likely also need to change in order to demonstrate a serious commitment to reform. Essentially, access to foreign funding will be needed to prevent the worst of the impending economic collapse, but without a commitment to large-scale reforms, funding will likely be withheld, further driving Lebanon towards its worst-case scenario.

Security Consensus

The degree to which Lebanon's major factions can maintain a security consensus will be a major driver of the future trajectory of Lebanon. Since the conclusion of the Lebanese civil war, Lebanon's major political parties and leaders have, broadly speaking, upheld a consensus that widespread sectarian violence must be avoided at all costs. Certainly, considerable amounts of political violence have occurred throughout this time period. However, Lebanon's political factions

have generally relied on mediation to end occasional flare-ups of violence. Indeed, in cases where political or sectarian violence has threatened the broader security consensus — such as the sectarian violence in Tripoli, ISIS incursions into the Bekaa valley, or clashes in Sidon in 2013 — political factions have rallied around the LAF and afforded it direct involvement in the maintenance of peace.²

As Lebanon slips further into crisis, the degree to which this security consensus can be maintained will be critical. As conditions in Lebanon worsen, violence between different confessional groups will become more likely. Similarly, it is increasingly likely that violence will occur within sects themselves, as political factions within each sect compete for predominance. The degree to which the LAF will remain a trusted and independent broker may also come into question, especially as the Lebanese Armed Forces is increasingly pressured to engage in domestic policing and repressive anti-protest activities. Moreover, there is one pillar of Lebanon that remains a key component of the broader security consensus: the important role of Hezbollah as an 'official' non-state armed group. Should Hezbollah feel compelled to truly take serious military action to advance its objectives within Lebanon, the entire security consensus could again come into question. As such, while Lebanon's political and armed factions will clearly attempt to maintain security consensus, the degree to which this is possible throughout the Lebanese crisis is by no means guaranteed.

² A notable exception to this rule was the May 2008 violence, in which Hezbollah took over large parts of Beirut. However, as noted below, this is due to the fact that Hezbollah plays a unique and key part in the broader security consensus.

2

Scenarios

Optimistic: Cautious Reform

Likelihood: 20%

In this scenario,³ Lebanon enters a process of gradual yet painful political and economic reform. The Lebanese economic situation will certainly continue to deteriorate. While existing political power structures remain, a new consensus-based technocratic government would create a political environment conducive to systemic reforms, a degree of social protection, and maintenance of security and stability. Early elections and a reshuffling of ministerial files will likely be necessary to reappropriate control over state assets, commensurate with systemic reforms undertaken to reduce corruption and potentially break up extant patronage networks within the most politicized sectors. In turn, this would allow for successful negotiations with foreign funding mechanisms.⁴ This tentative political and economic reform may result in the relative stabilization of the Lebanese lira (albeit at a rate much higher than the 1515 USD/LBP rate), and a shift towards a more stable local economy less dependent on credit and imports, and more based on sustainable local production and locally existing technical capacities. Security remains precarious, as there are continued regular protests and occasional instances of sectarian or political violence. However, the LAF is recognized as independent, and intervenes in local violence when necessary and with communal consent.

Economic

- Successful IMF negotiations and application of IMF terms, paving the way for other international funds and foreign direct investment.
- Economic diversification, consolidated financial sector, and a focus on sustainable local industry and agricultural production.
- An official floating rate and relative stabilization of the Lebanese lira (5,000-10,000 LBP/USD);

- Limited progress on increasing tax revenues while avoiding regressive taxation.
- Finance and business reform measures at numerous levels, to include in registration, regulation, taxation, foreign direct investment, and legal protection.

Political

- The formation of a new government that is willing and able to implement limited reform and is accepted by the international community.
- The most deeply politicized and sensitive sectors are reformed in the interest of securing international support. Political parties retain control over less sensitive ministerial files in order to maintain patronage networks vital to their power vis-a-vis constituents.
- Continued political upheaval and regular street protest, both due to competition between entrenched political parties and unpopular or painful reforms.
- New mechanisms are created to allow self-funded municipal governments, which are granted more formal authority over local policies and service provision.
- A relative diminishing of Hezbollah from state institutions and decision making to mitigate implications on the economy (with respect to sanctions and opposition to the IMF) however, Hezbollah retains considerable influence within Lebanon and the government through allied parties.

Social

- A (relative) decrease in sectarian tension, and the formation of cross-sectarian narratives focused more on socio-economic demands.
- Increased influence for Lebanese civil society movements and involvement in government, especially movements focused on economic issues.
- Civil society service provision increasingly coordinates with, and bolsters government service provision, as opposed to gap-filling.
- Continued tensions with the Syrian refugee community; forced repatriation remains a constant

³ The three scenarios presented here can also be found in Annex II.

⁴ To include the IMF, international creditors, international donors, and foreign investors.

threat. However, the government refrains from implementing concrete anti-Syrian policies and widespread forced refolement.

Security

- Continued regular protests. Lebanese security forces refrain from taking overly aggressive action, and the LAF only rarely disperses protests.
- Occasional inter-communal clashes, and growing politically-affiliated and newly formed local militias. However, the LAF remains perceived as independent, and open hostilities do not extend beyond the local level.
- Some degree of judiciary reform, focusing on legal protections for businesses and anti-corruption measures.

Services

- Key vital sectors reforms due to foreign funding mechanisms. Several of these reforms — such as reductions in state salaries, employment, or contracts, and increased service costs — will be extremely painful in the short term, likely resulting in continued political upheaval.
- A relatively open and collaborative working environment for INGOs and local NGOs, with easily obtained registrations and work approvals. The Lebanese government and the donor/INGO community prioritizes increased public collaboration to ensure that programming is more equitably distributed throughout the country.

Neutral: Buying Time

Likelihood: 30%

In this scenario, Lebanon enters a transitory period of constant crisis management in attempt to alleviate or delay the larger effects of economic collapse while not addressing the underlying causes. In this scenario, Lebanon undertakes limited and piecemeal reforms to access foreign funding, while not fundamentally changing the structures of the Lebanese political or economic system. Economic and political reforms and policies are undertaken with the aim of addressing the ‘crisis of the day’ — such as inflation, the collapse of a specific economic sector, or the maintenance of a specific service industry — but with the ultimate aim of preserving the political and economic structure. Elections and cabinet reshuffling will ultimately tighten patry control over lucrative ministries as they lose access to alternate

means of supporting expansive patronage and client networks among constituents. Reforms may also be carried out to preserve the power and wealth of Lebanon’s political and business elites. Security dynamics continue to deteriorate as protest and intercommunal tensions continue to rise amidst continuously worsening economic conditions. Ultimately, the LAF is capable of intervening and the broader security consensus in Lebanon is maintained. That said, a policy of ‘securitization’ becomes increasingly prevalent, as internal security forces increasingly target dissenters and activists within Lebanon.⁵ Ultimately, this scenario should be considered a slow economic meltdown and a gradual deterioration of the security situation, and as a temporary and unsustainable solution that sets the stage for an crisis of even greater explosive potential in the future.

Economic

- Slow onset deterioration of the current status quo; emergency steps are taken on a regular basis to shore up key economic sectors (such as agriculture and banking) as needed, but no fundamental economic reform takes place.
- IMF negotiations are concluded and terms are agreed upon; however, the terms are not entirely implemented or only implemented in a piecemeal fashion. The situation is similar for other foreign funding mechanisms.
- No holistic financial strategy is implemented by the Central Bank and/or government; instead, financial strategies are based on immediate and near-constant crises.
- Continued maintenance of an official fixed exchange rate, but with a de-facto and widely accepted floating exchange rate, likely in the 10,000-20,000 LBP/USD range.
- Limited rejuvenation of tourism and foreign investment (especially from the Gulf states).

Political

- Inter-party concessions and tradeoffs within the government that maintains the current power sharing scheme and status quo, but with the introduction of some new technocrats and ‘independents’, at least in key ministries.
- Limited pragmatism by Hezbollah, whereby Hezbollah refrains from taking a prominent direct role in

⁵ <https://www.amnesty.org/ar/latest/news/2020/07/lebanon-military-and-security-institutions-must-end-harassment-of-activists-and-journalists/>

government, but maintains dominant influence in the government through its allies.

- Continued gridlock within government; however, as opposed to debate being centered on political blocs, debate is centered on institutional parties and technocrats pushing for reform.

Social

- Emigration remains a major dynamic, furthering both brain drain and reliance on remittances from abroad.
- Street protests remain a constant factor, especially in Beirut and Tripoli. However, protest movements are increasingly controlled, are increasingly focused on specific issues (i.e. electricity, inflation, industry-specific issues) and existing political parties regularly 'co-opt' protests.
- Tensions between Lebanese and Syrian refugees continue, as do inter-Lebanese sectarian tensions; there are sporadic flare ups in local violence.

Security

- Sporadic violence takes place on a regular basis between Lebanese and Syrians, among Lebanese sectarian groups, and between factions within a given sect. Political groups attempt to mediate violence, but in cases where the violence cannot be resolved the LAF is used to enforce order.
- The LAF is increasingly used to police protests. Lebanon becomes increasingly securitized and repressive as a result, as Lebanese security services become increasingly focused on managing internal dissent.

Services

- Provision of key services (such as water, electricity, and garbage collection) continues to deteriorate. Periodic 'crises' take place on a regular basis, which often lead to protest until they are temporarily resolved.
- There is considerable reliance on non-state actors (such political parties, NGOs, and other communal socio-economic initiatives) for basic service provision and life necessities. This is true in both urban and rural areas.
- NGOs and INGOs face regular challenges in working with the Lebanese government, and policies change regularly or are rarely implemented in full, but there is regular access for humanitarian and development actors.

Pessimistic: Rapid Collapse

Likelihood: 50%

In this scenario, Lebanon faces a rapid economic and political collapse, whereby multiple different and interlinked sectors of the Lebanese political, economic, and social landscape begin to break down simultaneously. The structure and composition of the Lebanese government remains largely unchanged, and political gridlock prevents any serious reform; the primary function of the central state becomes crisis management and allocation of increasingly limited resources to different political stakeholders. Due to a lack of reform, and the likely absence of foreign funding through international mechanisms, inflation likely becomes hyperinflation, and the Lebanese lira rate climbs on a regular and continuous basis. As state funds dwindle, Lebanon increasingly faces 'negative decentralization', whereby the state is incapable of providing services and effectively governing many parts of the country, especially outside of major cities. Local community structures (centered around entities such as political parties, local militias, municipal governments, or local elites) increasingly take on the role of de-facto local governance. Essentially, in this scenario the za'im system of governance and patronage becomes even more prevalent. However, considering the dire economic conditions in Lebanon and the bankruptcy of the state, patronage increasingly takes the form of access to goods or services, as opposed to state employment or state contracts. Much of the middle class will become impoverished or be forced to emigrate; this will naturally have a large impact on Lebanese society, as the middle class forms the backbone of much of Lebanese civil society. Additionally, social and sectarian identities will become much stronger, and while the broader security consensus remains in place, security conditions in general deteriorate across Lebanon. Conflict between sectarian groups becomes more common, and conflict within the sect becomes increasingly common as different factions compete for dominance, local support, and patronage. The LAF is called in to securitize conflicts which threaten broader peace, but numerous localized conflicts flare up on a regular basis.

Economic

- Negotiations between Lebanon and the IMF fail, or are a continuously ongoing process with limited tangible results. What foreign funding is allocated to Lebanon is generally to support a specific or immediate crisis, such as fuel for the electrical sector, needed agricultural inputs, or the telecoms sector.

- Lebanon's financial sector is hamstrung, as meaningful debt restructuring and alignment of balance sheets between commercial banks and BDL becomes unachievable. BDL struggles to contain its losses, further hampering imports, contributing to inflation, and financing state budgets. The finance industry is further crippled by a crisis of confidence as well as compliance issues with respect to the US Caesar sanctions.
- The government continues to defend a formally pegged lira rate, despite the fact that the black market rate continues to climb. The Lebanese lira enters hyperinflation, with a black market rate that could climb over 30,000 LBP/USD.
- The Lebanese state becomes increasingly unable to pay salaries or service existing debt obligations. A 'Lirafication' policy of printing money is pursued to continue to pay public sector salaries.
- Lebanon faces a near-constant and severe import crisis due to lira inflation; many parts of the Lebanese economy (especially agriculture) face huge challenges in securing needed inputs. Food insecurity becomes a major concern for the medium term.
- Lebanon faces a severe housing crisis in the medium term as renters are unable to pay rents and owners are unable to pay mortgages.
- Remittances become an increasingly critical pillar of the Lebanese economy as a vital mechanism to prop up household purchasing power and ensure survival.

Political

- The structure and composition of the Lebanese government remains largely unchanged, and political decision-making is gridlocked and generally hostile to major reform.
- Frequent government resignations; prolonged periods of 'caretaker' governments.
- The Lebanese state becomes unable to provide services or govern peripheral areas, leading to a 'negative decentralization' whereby local elites, political parties, or local governance bodies begin to take a more direct role in governance.
- Fragmentation driven by the rise of new local political actors and new patronage dynamics that challenge current parties and facilitates the return of previously sidelined political actors.
- Hezbollah retains an important role in the Lebanese government, leading to further political gridlock

and economic obstacles to foreign investment due to existing and potential sanctions.

Social

- Increased prevalence of 'primary allegiances' (such as family, tribe, and sect) leads to greater social tension and cleavages.
- Mass poverty and middle class flight leads to the weakening of effective civil society movements.
- Large influx of migration to rural areas, as people return to their areas of origin and traditional support systems.
- 'Diseases of despair', such as substance abuse, domestic violence, and suicide become much more prevalent as a consequence of downward mobility.

Security

- The broader security consensus is upheld; however tensions between sectarian groups, and within sects themselves, increasingly lead to localized violence.
- Local militias proliferate, both as community defense structures and as near-criminal enterprises.
- Periodic violent riots become increasingly common due to economic hardships, with no overarching political narrative or cohesive objective.
- The LAF retains its role as a mediating and securitizing force; however, it increasingly becomes focused on containing internal dissent and threats to the status quo.

Services

- State services deteriorate and become essentially nonexistent in many parts of the country.
- Service gaps are increasingly filled by a combination of local political figures and elites, local governance bodies, or local civil society, often as a part of patronage.
- There is a decrease in international funding available to humanitarian and development agencies, due to both donor disengagement and challenges related to procurement, market availability, and humanitarian access.

3

Rapid Collapse: In-Depth Examination

As noted, this scenario witnesses the Lebanese state largely unable to even attempt to address its immediate challenges, leading to systemic and long-term series of interrelated economic and political shocks. Entrenched political actors unwilling to make concessions or reforms that would threaten existing patronage networks will create political gridlock, which will be compounded by international isolation. The Lebanese state will be largely unable to embark on needed economic, financial, or banking reforms, which will make securing much needed foreign funding difficult. An inability to embark on reform or secure foreign funding will lead to further hyperinflation, drastically reduced real private sector spending, widespread unemployment, severe import challenges, reduced state service provision, a potential housing crisis, food insecurity, and large-scale emigration. Economic collapse is perhaps an overused term - some sectors of the Lebanese economy, such as local agriculture and industry, will certainly expand in order to attempt to meet local demand and import challenges. However, this economic activity will be further captured within existing political patronage systems, as Lebanon increasingly decentralizes.

And indeed, a 'negative' decentralization is one of the likeliest outcomes of a rapid collapse scenario. As the Lebanese state becomes even more ineffective, gridlocked, and bankrupt amidst economic deterioration, many of the practical elements of Lebanese governance, economy, society, security, and service provision will take place on the local community level. The za'im system of political patronage will be forced to adapt as the central Lebanese state weakens, but it will be simultaneously strengthened by the further shrinking of the state.⁶ Local political parties, militias, and elites will likely gain increasing prominence. While open civil war is unlikely, instability and communal clashes will likely become increasingly

⁶ Za'im, or 'leader/chief', is an Arabic word locally used to refer to the system of political patronage that has been common in Lebanon since at least the late Ottoman period. The za'im refers to a sectarian political leader, usually from a historically prominent family, who uses patronage (initially granted by controlling some part of the state) to bind other prominent people to himself, who themselves also distribute patronage further down to lower parts of society. Nearly every major Lebanese political party could be said to follow the za'im system to some degree.

common as communities compete with and within one another for resources. In some communities, new political actors may arise through the provision of patronage, which will undermine the significance of existing political parties, and increase the prominence of new and previously sidelined actors. Basic service provision (such as electricity, water, sanitation, health, and education) will continue to deteriorate, and will also increasingly be provided by local governance bodies or political actors, and quality will likely vary between communities. Indeed, wide discrepancies will exist between different regions of the country (and even between different neighborhoods) based on local community cohesion and leadership, local governance and civil society effectiveness, access to existing local resources, and local capacity for economic resilience.

The following will examine some of the key dynamics, trends, and inflection points of a rapid collapse scenario, specifically focusing on the economic, political, social, security, and service provision dimensions of this scenario.

Economic

Key indicators:

- Government unable to secure foreign funding
- Sharp yet protracted decrease of imports, particularly basic commodities and staple goods
- Shortages of basic commodities and market goods
- Hyperinflation and a collapse in purchasing power (unofficial exchange rate fails to stabilize)
- Collapse of a major banking institution or merger of multiple institutions
- Piecemeal, belated, and/or superficial financial reforms
- Unemployment, particularly for public sector
- Private loan default rate
- Housing market occupancy vs homelessness
- Legal measures enacted and enforced against refugees or informal laborers



This series of images show how quickly the lira has devalued on the black market as compared to one hundred USD, beginning at 215,000 LBP in April (top left) to 800,000 LBP in June (bottom right). Image courtesy of Joseph Eid/AFP.

Ultimately, the economic prospects of Lebanon rest on both a government capable of implementing reforms and on securing foreign funding (IMF, CEDRE, and other donor mechanisms) and private investment. In this scenario, Lebanese government's unwillingness to dismantle existing political patronage mechanisms prevents any systemic economic reforms. Compounded by the impact of the Caesar Act and other sanctions, and continued role of Hezbollah in government, securing foreign funding sources will be extremely challenging, if not impossible. In this scenario, continued inflation, and even hyperinflation, is almost certain, and without a means of securing reliable foreign currency reserves, inflation will likely become endemic for the medium to long term. Imports will be drastically reduced (having a massive impact on food security, local economic recovery, and quality of life), and public sector austerity measures will be undertaken; these impacts will likely compound as the state is unable to support any extant social safety nets. In the medium term, this will cause significant economic shocks to nearly every sector of the Lebanese economy, which is heavily reliant on the public sector and imports for both inputs and consumption. In the longer term, the Lebanese economy, particularly the agricultural and light industrial sector, may begin to recover as market forces attempt to meet local demand; however, securing key inputs, capital, and operational stability will remain a challenge. To that end, those actors with existing capital resources locally — often, political figures and local business elites — will likely continue to dominate what functional economic sectors exist on the local level. Their increasing importance will likely prevent such resources from reaching other actors.

Foreign Funding and Investment Shortfalls

Lebanon's urgent need for massive and sustained injections of foreign capital cannot be overstated. Basic economic stability, provision of state services, and Lebanese livelihoods strongly depend on consistent availability of foreign reserves. Due to its fundamental economic structure, without access to foreign capital, Lebanon will be unable to import vital commodities and goods, avoid spiraling inflation, service its massive debt obligations, or bring about any real economic recovery or stability. The potential sources of foreign capital continue to narrow, while the prospects of external economic or monetary assistance are further hamstrung by Lebanon's political incapacity and resistance to meaningful reform.

In this scenario, IMF assistance to Lebanon will likely not take place due to a notable lack of will or ability by the Lebanese government. Negotiations between the Lebanese government and the International Monetary Fund will likely continue to falter so long as Lebanese technocrats and politicians continue in a state of disunity (particularly in consideration of the intertwined relationships between BDL and private sector banks, and the private sector banks and political stakeholders), bicker over fundamental indicators required by for a preliminary IMF assessment, and attempt to pass blame and responsibility for structural defects of the Lebanese financial and monetary

Breakdown of Main Pledges at CEDRE Conference

	US\$ million
World Bank	4,000
European Bank for Reconstruction and Development	1,364
Arab Fund for Economic and Social Development*	1,000
Saudi Arabia**	1,000
European Investment Bank	992
Islamic Development Bank	750
France	682
Qatar	500
Kuwait Fund for Arab Economic Development	500
* Initial pledge of \$500m that could possibly double	
**Re-activation of a pre-existing \$1bn credit line	

In addition to major reformation obstacles to unlock funding pledged by CEDRE, Lebanon will likely face donor government concerns related to the perception of Hezbollah's control over the Lebanese government as well as Caesar sanctions implications. Data courtesy of Byblos Bank.

system.⁷ Even if IMF negotiations do advance, the prototypical IMF austerity reforms that are often required for assistance will be highly contested in Lebanon's political sphere, as public sector spending (particularly in the form of employment and social welfare) has been a key facet of the Lebanese confessional and political patronage system. Injections of IMF funding, which would otherwise be offered in a piecemeal manner over the course of several years and are contingent on tangible yet highly sensitive reforms, may prove difficult if not impossible for the Lebanese political class to countenance.

Even if Lebanon does secure IMF funding, it is very unlikely that it will be the silver bullet to Lebanon's current crisis without additional inflows of foreign capital. Several other potential sources of external support to Lebanon does exist, though in this scenario inflows of foreign capital will be unattainable. International creditors are highly unlikely to provide lines of credit to the Lebanese banking system, considering Lebanon's current debt obligations, insolvency, and lack of meaningful reform or debt restructuring. Support by foreign governments, either bilaterally by donors such as France, the US, the EU, and Gulf countries or through multilateral aid such as the \$11 billion package pledged by the CEDRE conference, will also continue to falter without any meaningful reform aimed at combating rampant corruption as well as concerns related to Hezbollah's influence and control

over the Lebanese state.⁸ Investment into Lebanon's private sector will also likely be highly risky, not only due to Lebanon's structural economic and political defects, but also owing to the US' Caesar Act and its potential impact on the Lebanese banking sector.⁹ Finally, the nature of individual deposits into Lebanon from abroad (either individuals or companies) is also likely to shift, from what was once largely investment-based deposits to small-value transfers with the purpose of supporting family members. This shift is largely owed to the fact that the banking system can no longer offer high-interest savings accounts, uncertainty over banking regulations, and that investment into the local Lebanese economy will continue to be highly risky for the foreseeable future.

Financial Sector

Lebanon's former prosperity and — and indeed, current crisis — has been predicated on the performance of the financial sector. Throughout the past several decades, the success of Lebanon's finance and banking sector has been built upon attractive banking secrecy

⁷ More information can be accessed [here](#).

⁸ <https://english.aawsat.com/home/article/2344231/paris-upset-lebanese-government-over-inaction>

⁹ https://www.zawya.com/mena/en/economy/story/PM_calls_to_protect_Lebanon_from_Caesar_Act-SNG_178450583/

laws,¹⁰ the high degree of Lebanese financial expertise and alignment with global financial standards and, most notably, interest rates on USD deposits that are consistently above international benchmarks. Lebanon's finance sector has heavily relied on inflows of foreign currency deposits and interest accumulated by loaning foreign capital to the central bank. For its part, Lebanon's central bank, the Banque du Liban (BDL) has financed Lebanon's massive imports by lending USD deposits from the private sector for lira at notably high interest rates. With a degree of autonomy and flexibility, BDL has also leveraged its position to finance specific Lebanese commercial and industrial development to supplant Lebanon's political gridlock. The relationship between the private sector and BDL has allowed private sector banks to post profits as high as \$1.39 billion in 2018 (from \$678 million in 2008), while allowing BDL to make the (now contested) claim of \$31.5 billion in foreign reserves at the end of 2019.¹¹

Several factors have led to the current financial crisis, destroying confidence in the sector. External factors such as US-based lawsuits, sanctions, sovereign debt rating downgrades, and the influx of Syrian refugees have decreased foreign currency inflows and strained state treasure. To support the lira's peg to the USD and the state budget, BDL has increased borrowing from both foreign creditors and local lenders at progressively higher interest rates. In recent years, high-interest local debt as well as increased foreign debt obligations have spiralled; the issue of deposit and debt swaps between BDL and the private sector accelerated in 2017 when BDL began to offer double-digit interest rates for USD swaps to cover immediate needs. This 'financial engineering' scheme has allowed both private sector banks and BDL to swap responsibility for financial

losses and claim a misleading level of solvency.¹² More recently, the calculation of financial sector losses is now fundamental for an IMF bailout, though the exact loss value varies widely (between \$49 and \$61 billion, or more) as both the private sector and BDL compete to avoid incurring losses on their balance sheets and argue over how to distribute the burden.¹³ Servicing debt obligations, liquidity for imports, support for the USD peg, and access to depositors' USD accounts remain key issues, as the value of approximately 80% USD deposits in Lebanon as well as BDL's foreign reserves are now in question.¹⁴

In this scenario, the crisis of local and international confidence will continue to plague Lebanon's banking sector for years to come, as Lebanon struggles with difficult reforms and is largely unable to align private and public finances. Unlike in years past, BDL will likely lose any semblance of flexibility, dynamism, and pragmatism, as instability and political competition with regards to governance and oversight of the banking sector creates gridlock. A marked lack of confidence in Lebanon's banking sector will continue to drive foreign capital away from Lebanon; the failure of IMF negotiations will cripple BDL's ability to manage Lebanon's monetary policy and restructure its debt, as well as further threaten the private sector's solvency. Unlike other states that experienced similar financial peril such as Cyprus, Egypt, or Greece, Lebanon's lack of significant state assets and its geopolitical sensitivities due to relationships with heavily sanctioned countries such as Syria and Iran (via Hezbollah) will continue to impede fiscal support from western financial institutions and countries.¹⁵ Critical reforms will likely be rolled out at a very slow pace over a timespan that is out of sync with how quickly Lebanon continues

10 The Bank Secrecy Law of September 3rd, 1956, intended to promote business and reduce government interference. The law prohibited bank staff from disclosing account holder information to government authorities, barring specific circumstances. This has led tax haven comparisons akin to Panama and Guernsey, and to widespread tax evasion that undercuts the Lebanese state's ability to generate revenue (with losses estimated at \$3 billion to \$4 billion per year). In response to international pressure, the Special Investigation Commission (SIC) was created in 2001; in 2008, the SIC's ability to force disclosure was expanded due to international pressure. The SIC is composed of key stakeholders within the finance sector itself (to include Riad Salame) and remains exposed to political pressure that effectively de-fangs public prosecutors.

11 This figure has been widely up for debate, as the value of foreign reserves hinges on the calculation used. If mandatory private bank reserve deposits are considered, the value of BDL's own reserves drops to approximately \$11 billion. Taken a step further, if BDL's debt obligations are considered (such as the now-defaulted eurobond), some analysts have suggested that Lebanon's foreign reserves are deep into the red. For more information, please click [here](#).

12 Notably, the private sector has calculated profits based on interest from BDL for USD deposits, which is the basis for BDL's foreign reserves; both are fundamentally affected by inflows from abroad (on the decline since 2011), and are directly related to Lebanon's ability to import goods and materials.

13 This issue has since compelled two high-level Lebanese technocrats involved with the IMF to quit negotiations. An open letter on the contested financial loss values, penned by Secretary General of the Association of Banks Makram Sader, alleges that the government's plan places the loss burden unfairly on the financial sector while ducking painful state reforms. This letter can be accessed [here](#).

14 On November 11, 2019, after informal capital controls were implemented by private sector banks (effectively slashing liquidity of USD), Riad Salame announced the availability of USD transfers from BDL's foreign reserves to private banks, with the condition of 20% interest and restrictions on transferring funds abroad. In response, the Union of the Syndicates of Bank Employees announced an open strike.

15 Indeed, the west's (particularly the US') leverage over Lebanon's financial sector is significant, particularly in relation to the recent implementation of the Caesar sanctions, which may expose large portions of Lebanon's banks to sanctions.



Protestors march past a shuttered bank near downtown Beirut. Image courtesy of Greg Demarque.

to deteriorate; indeed, reforms such as formalized capital controls, depositor 'haircuts,' repatriation of capital transferred abroad, and bail-ins will be further harm confidence in Lebanon's financial sector and will be improbable (if not impossible) without tangible reformation of Lebanon's bank secrecy law, increased cohesion among banks, and a high tolerance for incredibly slow recovery of assets.¹⁶

Critically, a collapse of one major private bank in Lebanon would very likely cascade to others, reverberating throughout the Lebanese economy (and indeed, throughout the region), ostensibly destroying liquidity and lending for years to come; this will likely lead to an expansion of informal, unregulated financial entities that will expand extant corruption, money laundering, and financial inefficiencies. Notably, BDL's issues stem from ensuring continued bank USD deposits, servicing debt obligations (international and domestic), and covering losses due to high interest rates and low revenue; these issues will continue to linger for the foreseeable future, hampering financial recovery efforts and crippling Lebanon's ability to import. Finally, it is possible that BDL will seek to sell off state assets, such as the Port of Beirut, telecommunications companies, Middle East Airlines, real estate holdings, and gold reserves; however, the

value of state assets may be called into question and sales will require elusive political buy-in.

Inflation, to Hyperinflation

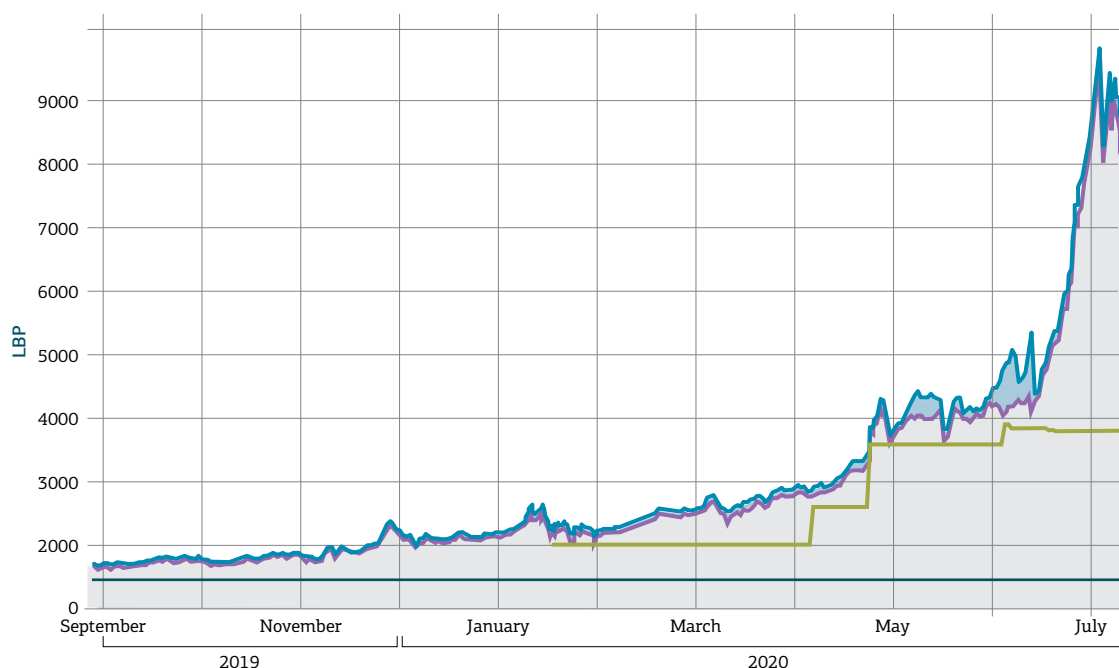
Currency inflation will remain perhaps the most significant economic issue in Lebanon. According to expert sources, maintaining a stable exchange rate in the range of 5,000-10,000 LBP/USD should be considered an ideal (indeed, almost unattainable) best case scenario. However, this would likely require Lebanon to become less import-focused, a feat that will require years of fundamental economic restructuring and reform even in the best of political environments. In this more pessimistic scenario, Lebanon will likely continue to attempt to maintain an 'official' rate of 1515 for as long as possible. The Lebanese government and Central Bank will also likely continue to introduce legislation to create further 'official parallel' rates (as was attempted in late January), which will only serve to speed the process of inflation.

Indeed, in a rapid collapse scenario Lebanon will likely enter hyperinflationary territory.¹⁷ Lebanon already has the third highest inflation rate in the world by some metrics (see above), and widely used 'black market'

¹⁶ For more information regarding potential options such as 'haircuts' or 'bail-ins,' with a comparison to the Cypriot experience, [click here](#).

¹⁷ One rubric of defining 'hyperinflation' would be that used by Professor Steven Hanke. Here, Hyperinflation is defined as a monthly inflation rate that exceeds 50%/mo for 30 days.

The Lebanese Lira depreciation and volatility, September 2019 to July 2020



— Black market USD purchase rate (LBP) — Black market USD sell rate (LBP)
— Syndicate USD purchase rate (LBP)* — Official BDL exchange rate (LBP)

*Note: Beginning in January 2020, BDL attempted to control the LBP:USD exchange rate by enforcing a fixed rate on the Syndicate of Money Changers in Lebanon. As the black market rate continued to rise, most money exchange shops raised their own rates independently; this led to the arrest of the head of the syndicate and a subsequent strike by most money exchange shops in Lebanon. By early June, the syndicate and BDL agreed to update the rate on a daily basis, though it remains misaligned with the much higher black market rate. Data courtesy of lebaneselira.org and ellira.org

Hanke Inflation, June 2020					
Country	Free-Market Exchange Rate	Date of Hanke Measurement	Hanke Annual Measured Inflation Rate ¹	IMF Year - End Inflation Projection ²	Hanke - IMF Differential
Venezuela †	199,495.39 USD/VES	06/25/20	2,553%	15,000%	-12,44 7% pts.
Zimbabwe*	126.44 USD/ZIM	06/25/20	999%	154%	845% pts.
Lebanon	7000.00 USD/LBP	06/25/20	363%	17%	346% pts.
Syria	2500.00 USD/SYP	06/25/20	1 314%	N/A	-09% pts.
Sudan	133.00 USD/SDG	06/25/20	88%	96%	-
Argentina	73.52 USO/ ARS	06/25/20	67%	N/A	-
Iran	196,200.00 USD/IRR	06/25/20	45%	42%	03% pts.
Brazil	5.36 USD/BRL	06/25/20	39%	3%	36% pts.
Libya	5.87 USD/LYD	06/25/20	33%	22%	11% pts.
Nigeria	459.00 USD/NGN	06/25/20	27%	14%	13% pts.

Computed by Steve H. Hanke, The Johns Hopkins University.

¹ Hanke annual inflation rates are implied using PPP from free and black market exchange rate data.

² These are the International Monetary Fund's year-end inflation projections for 2020 as of the April 2020 World Economic Outlook.

† The redenomination ratio of Venezuela's new sovereign bolivar (VES) to old bolivar fuerte (VEF) is 1:100,000.

* Annual Inflation Rate calculated using the Old Mutual Implied Rate due to lack of reliable black market data

rates will likely reach far beyond 10,000 LBP/USD in the medium term, with some experts interviewed expected 30,000-50,000 LBP/USD as likely targets within two years.¹⁸ Entering a hyperinflationary period is perhaps the largest economic impact in this scenario, and will have wide ranging effects on every other aspect of Lebanese politics, governance, security, and society (many of these impacts will be addressed in the following sections). However, some of the most significant impacts will be: a severe import crisis, as imports become extremely difficult to secure; a severe food insecurity crisis related to the import crisis and growing poverty and unemployment; government and public sector funding crises and austerity, with vast economic and political implications; a severe housing crisis; and critical service provision shortfalls. Furthermore, the small number of individuals who have access to foreign currency (and therefore higher purchasing power) may attempt to leverage their position, which in turn could upset local power structures and dynamics. Ultimately, exiting

hyperinflationary conditions will also be extremely challenging, and will require, at the bare minimum, the development of a sustainable export economy and fiscal restructuring.

Import Crisis: Food Insecurity, Inputs, and Smuggling

Lebanon has been heavily dependent on imports for the past 20 years. In 2019, Lebanon imported \$19.6 billion USD in goods, and exported only \$4.8 billion.¹⁹ Of important note, many of these imports are foodstuffs and agricultural goods.²⁰ There are two reasons for Lebanon’s dependence on imports. The first is Lebanon’s long-standing maintenance of the 1515 USD/LBP exchange rate, making imports artificially cheap when compared to local goods and thus undercutting local production; the second is due to strong political lobbies of major importers, as reportedly many of Lebanon’s important political figures are major stakeholders in

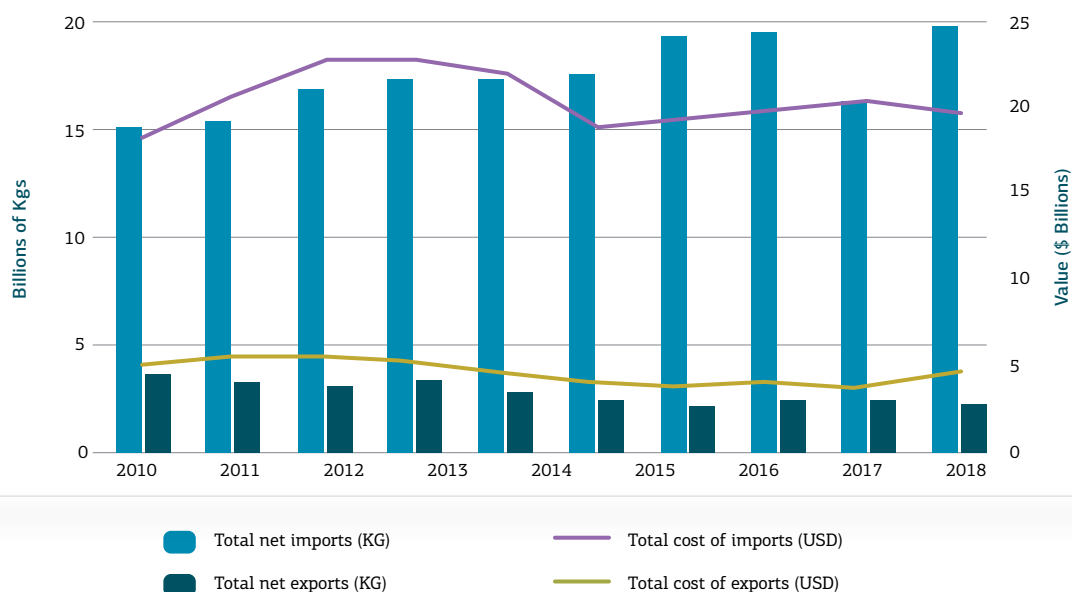
¹⁸ Indeed, a recent [Bank of America circular](#) considered that 14,000 LBP/USD would be a likely scenario for the end of 2020, while noting that further inflation is almost a certainty in the medium to long term.

¹⁹ <https://ellira.org/customs/10-year-comparison>

²⁰ According to the World Bank, in 2019 17.79% of Lebanon’s total imports were food imports, and according to a recent study conducted by Ad-Diyar newspaper, Lebanon imports nearly 85% of its food.

Lebanon’s Trade Imbalance Trade balance in Weight and USD value, 2010-2018

Source: ellira.org, elgherbal.org



Lebanon's import conglomerates and wholesalers. Thus, rapidly increasing currency inflation will likely cause a severe import crisis with several important economic impacts.

The first and most significant impact of this scenario will be acute food insecurity in the medium term, as imported food becomes prohibitively expensive and the local agricultural industry adjusts to more sustainable local production. Considering that Lebanon's agriculture industry is also dependent on imported inputs (such as seeds, fertilizer, fodder, and packaging), it may take several years for Lebanon's agriculture to meet local demand. The second major impact will be in shortages of imported industrial and consumer goods. While some of these shortfalls will be largely 'cosmetic', others will have a severe impact on quality of life; this is especially true for staple non-food items and fuel. These challenges will require the development of a local industry, which again may take years and will still be dependent on imported fuel or industrial inputs. The third major impact will be in the creation of new smuggling economies, especially with Syria (and potentially even Israel). While smuggling may fill some market gaps (especially in border communities and major cities), smuggling may also undermine attempts to begin local production and more sustainable market cycles.

Private Sector Collapse, Unemployment, and Local 'Private Sectors'

After several years of stagnation, the deterioration of Lebanon's private sector accelerated significantly during the last quarter of 2019. In recent months, private sector deterioration has spiraled unabated, largely owed to several compounding structural issues. A sharp rise in inflation, economic downturns in some of Lebanon's most vital sectors,²¹ constrained access to foreign currency and lines of credit, and rampant insolvency have caused continuous salary cuts and mass-layoffs of Lebanese workers. Indeed, by late January 2020, experts estimated that the private sector's hardships had led to 12% of businesses laying off all employees, while an additional third laid off an average of 60% of its workers.²² By May 2020, the ILO's unemployment estimates in Lebanon reached upwards of 37%, though official unemployment figures remain

elusive due to the scale of the informal economy.²³ As a result, domestic consumption has collapsed as the lira continues to depreciate and Lebanese consumer purchasing power decreases, and unemployment skyrockets bringing about massive loss of income and household austerity. These compounding fundamental issues have resulted in alarming estimates that as of June 2020, 25% of private sector businesses had closed, a figure that could reach 50% by the end of 2020.²⁴ What must also be considered is the fact that the global coronavirus pandemic will continue to have a massive impact on the global economy for the foreseeable future, further hindering Lebanon's ability to recover.

The cyclical process described above will likely continue into the long term, causing a collapse in Lebanon's private economy in virtually all sectors resulting in mass unemployment at rates as much as 65% or higher.²⁵ The downward spiral of Lebanon's private sector will likely continue unabated until a fundamental restructure of Lebanon's private sector occurs. Upon restructuring, Lebanon's economy will no longer be centered around large-scale financial services, construction, trade, and tourism; out of necessity, localized, small-scale private sector enterprises may emerge to replace basic goods and services that were once imported (or relied on imported materials) or have since collapsed. Local businesses, such as light industrial production, will likely rely on the limited local capital and resources available for a narrow consumer base, leading to the atomization of Lebanon's private sector. However, this transformed private sector will likely continue to be extremely vulnerable to challenges such as access to capital, investment, and limited capacity to import raw materials. Therefore, local private enterprises will likely be highly susceptible to elite capture, as local powerbrokers attempt to develop patronage through incentivization such as access to financing, localized commercial and market protectionism, and provision of limited capital such as local resources and industrial inputs.

Public Sector Austerity

As state resources are stretched and the economic crisis worsens, the Government of Lebanon is expected

²¹ To include finance (described above), construction/real estate, tourism, and service industry. While the collapse was not necessarily due to COVID-19, the lockdown measures to slow the spread in Lebanon certainly exposed these private sector weaknesses.

²² <https://www.crisisgroup.org/middle-east-north-africa/eastern-mediterranean/lebanon/214-pulling-lebanon-out-pit>

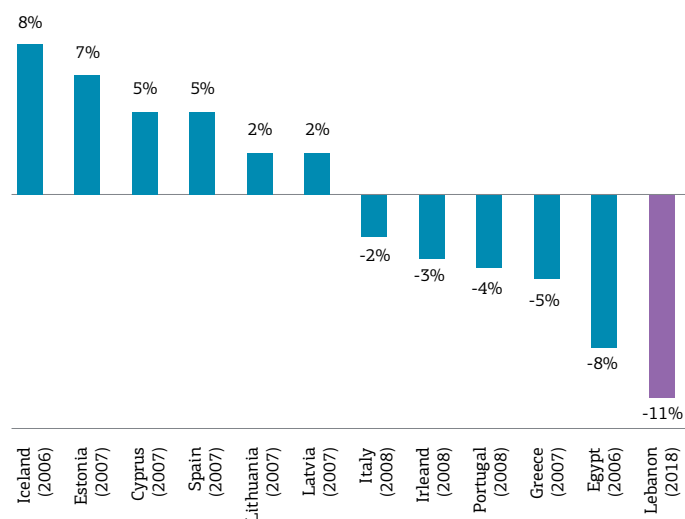
²³ https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_747070.pdf

²⁴ https://www.zawya.com/mena/en/economy/story/Half_of_Lebanese_businesses_could_close_in_2020_Head_of_the_Beirut_Traders_Association-SNG_177212706/

²⁵ <https://www.middleeasteye.net/news/lebanon-coronavirus-economic-crisis-poverty>

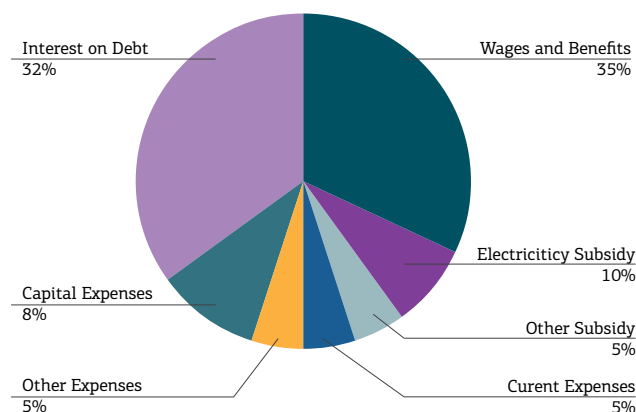
Fiscal Balance (% of GDP) vs. Other “Crisis countries”

Source: IMF, World Bank, Lebanon’s Ministry of Finance, Banque du Liban, Alia Moubayed and Gerard Zouein



Distribution of Lebanese Government Expenses, 2018 Budget

Compiled by Dr. Jad Chaaban using Ministry of Finance Data



to implement public sector austerity measures to reign in Lebanon’s fiscal deficit and reform public expenditure, a significant portion of which is allocated to public sector salaries and debt servicing.²⁶ Notably, Lebanon’s public fiscal deficit is significantly worse than countries that have recently required external assistance to rectify poor financial conditions (see chart). As noted, Lebanon’s public sector is also bloated with respect to human resources; according to figures released by the Lebanese Finance Ministry, payments to public-sector personnel totaled \$3.28 billion in the first half of 2019 alone.²⁷ Although austerity measures and public sector reforms are widely presumed to be an integral component of any IMF deal, cutting public sector expenditure is likely to take place out of absolute necessity, regardless of IMF negotiation outcomes. Indeed, prior to IMF negotiations in 2019 the government attempted several austerity measures to cut its expenses as part of the 2019 austerity budget as a key CEDRE conference pledge;²⁸ these measures included cutting public sector wages,²⁹ and a freeze in

public employment until 2022.³⁰ Notably, Lebanon has not implemented any significant reforms with respect to boosting public revenue, such as a much-needed improvement in tax administration and collection.³¹ Therefore, incoherent and inefficient measures taken by the Government remain indicative of potential state policies regarding the public sector going forward. That said, public sector institutions are also a key factor in political parties’ patronage networks, whereby public employment has been used by these parties as a means to garner support and maintain legitimacy among their supporting communities.³²

Considering the political importance of public sector salaries in political patronage, in the short to medium

²⁶ <https://www.lebaneslw.com/index.php/details/itemlist/tag/%D8%A7%D9%84%D8%B6%D8%B1%D8%A7%D8%A6%D8%A8>

²⁷ <https://www.albawaba.com/business/payments-public-sector-employees-lebanon-exceed-3-billion-first-half-1312061>

²⁸ <https://www.reuters.com/article/us-lebanon-economy-france/lebanon-wins-pledges-exceeding-11-billion-in-paris-idUSKCN1HDOUU>

²⁹ <https://carnegie-mec.org/diwan/79465?lang=en>

³⁰ <https://www.almodon.com/economy/2019/5/17/%D9%84%D8%A7-%D8%AA%D9%88%D8%B8%D9%8A%D9%81-%D9%81%D9%8A-%D8%A7%D9%84%D8%AF%D9%88%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D8%A8%D8%B7%D8%A7%D9%84%D8%A9-%D8%AA%D8%AA%D9%81%D8%B4%D9%89-%D9%85%D8%A7-%D9%87%D9%8A-%D8%A7%D9%84%D8%A8%D8%AF%D8%A7%D8%A6%D9%84>

³¹ Some estimates indicate that tax evasion in Lebanon amounts to approximately \$5 billion annually, or 10% of Lebanon’s annual GDP. More information can be found [here](#) and [here](#).

³² According to the latest investigation by the Parliament Finance and Budget Committee a total of 10,000 to 15,000 employees were hired ‘illegally’ in the public sector, not including the Armed Forces and the security. Additionally, considerable spikes in employment prior to elections are commonplace, the latest reported in August 2017 prior to the May 2018 Parliamentary Elections. [Source](#).

term, the Lebanese state will most likely prioritize the continued payment of public wages, especially the wages of Armed Forces and security personnel. Going forward, the state's only means to cover this need will likely be through 'Lirafication,' or printing money to pay public sector salaries, further driving inflation and lowering the actual value of public sector wages. However, sectarian political parties dependent on state institutions and employment as key vehicles for furthering their patronage networks are likely to push back against an all-encompassing (and badly needed) austerity plan in the sector. As such, austerity measures are likely to be implemented in a confessional manner, with an aim to maintain the same pre-existing governance model within state institutions.

Ultimately, austerity measures in the public sector will have a drastic impact on the provision of services, livelihoods, and purchasing power for civil servants. Such impact will necessarily have the gravest toll on rural communities predominantly reliant on public employment salaries, where access to other income-generating opportunities and services is limited. In the longer term, public sector austerity is

unlikely to entail an allocation of human resources to underfunded and understaffed state institutions, and the efficacy of public services is likely to decrease.³³ Additionally, political gridlock and the maintenance of confessional employment mechanisms at high-level positions will further curtail the government's capacity to implement long-term strategies and policies. This would in turn challenge its capacity to partner with international actors on various service related projects or developments trajectories.

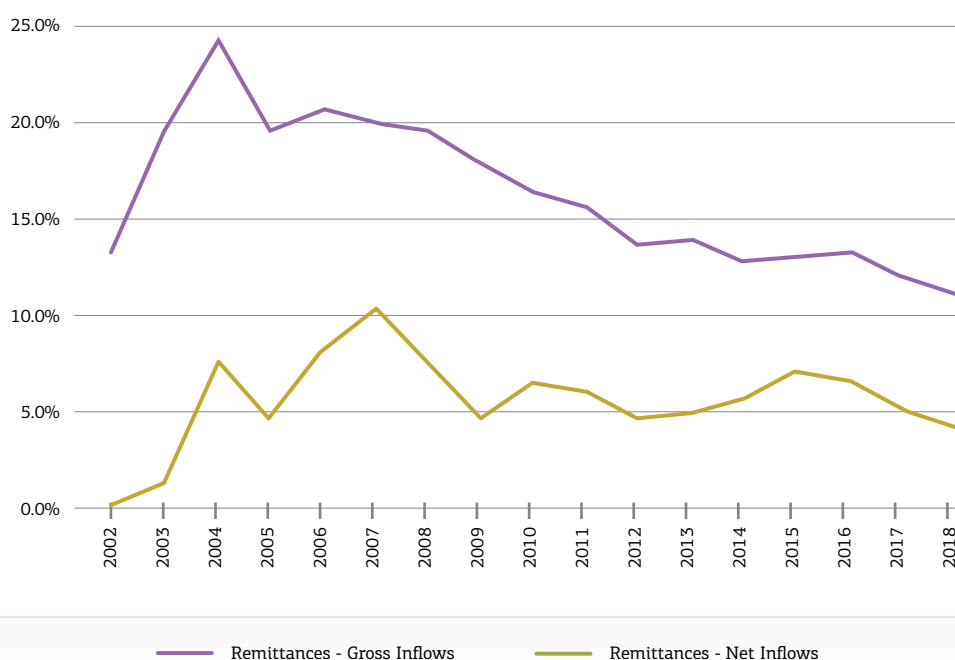
Remittances as the Essential Pillar of Economy

As an essential pillar of Lebanon's economy, and indeed a primary source of capital inflow, remittances to Lebanon have steadily increased year-on-year to approximately \$7.46 billion in 2019, making up

³³ <https://www.rosalux-lb.org/index.php/en/publications-en/item/132-anticipating-austerity-lebanon-s-poor-on-the-chopping-block>

Remittances to Lebanon Net and Gross Inflows as % GDP

Sources: IMF, World Bank, Lebanon's Ministry of Finance, Banque du Liban, Alia Moubayed and Gerard Zouein



around 13.9% of Lebanon’s annual GDP.³⁴ Reliance on these inflows leaves Lebanon vulnerable to external shocks; for instance, as a majority of remittances originate from oil-producing Gulf countries, volatility in oil prices have a direct impact on remittances to Lebanon. Various factors, both domestic and external, have had a negative impact on the inflow of foreign capital into Lebanon through the first half of 2020. The global economic downturn caused by the COVID-19 pandemic and resulting drop in commodities such as oil, compounded by the collapse in confidence in the Lebanese financial sector and political process, have lowered expectations³⁵. Indeed, the World Bank forecasts a decreased amount of global remittances in 2020 by 19% for low and middle income countries.³⁶

As hyperinflation, mass unemployment and emigration, and the emergence of ‘fresh dollar’ bank accounts proliferate, remittances will remain a vital economic survival mechanism. While brief shocks affecting global markets will have short-term effects, it is likely that the Lebanese diaspora will explore alternate mechanisms to remit funds to Lebanon as the need for foreign currency in Lebanon becomes acute. These remittances (and the foreign currency flown in by the visiting diaspora) will no longer be sent as capital investment or savings to the formal banking sector, but rather as direct support to family members and communities in Lebanon as cash transfers (potentially through alternative financial mechanisms, formal and informal).³⁷ In turn, the political gravitas and influence of the Lebanese expatriate community — which will likely serve as a vital lifeline for many communities in Lebanon — may increase as a result (for more detail, see the ‘Social’ dynamics section).

34 <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=LB>

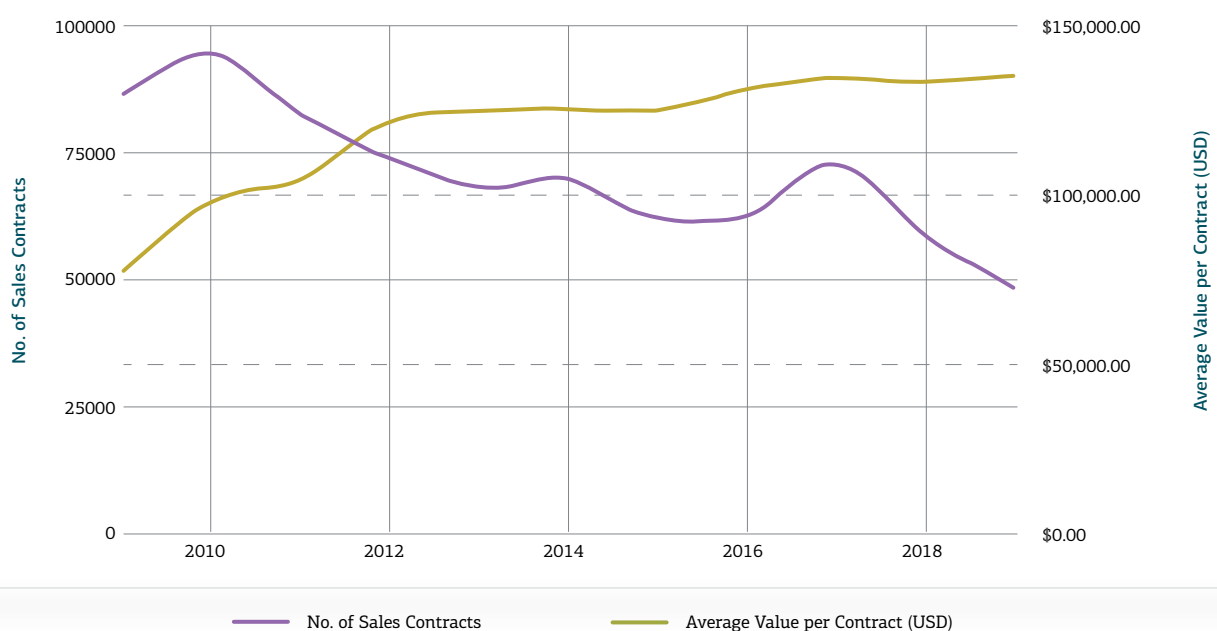
35 <https://www.dailystar.com.lb/News/Lebanon-News/2020/Jul-01/508333-lebanons-plea-to-skeptical-expats-come-visit-bring-cash.ashx>

36 <https://www.worldbank.org/en/topic/socialprotection/publication/covid-19-crisis-through-a-migration-lens>

37 <https://apnews.com/ca075a02b01289459b37da623fae3191>

Real Estate Purchases in Lebanon

Source: Information International SAL



Note: Many analysts have indicated that the number of real estate transactions in 2020, has sharply increased in the first half of the year. This is likely due to a surge in depositors seeking to protect the value of their cash deposits by purchasing property.

Housing Crisis

A troubling side effect of Lebanon's economic crisis will be a severe revaluation of the housing and real estate market. Lebanon's housing market has likely been significantly overvalued for years; occupancy is low, while housing prices and rents have risen dramatically year after year since at least 2008.³⁸ Financialization in the housing market and access to credit have prevented a housing crisis thus far. Currently, Lebanon's real estate market is experiencing a temporary boom, as many Lebanese attempt to convert their lira into tangible real estate. However, as access to easy credit comes to end, and as the purchasing power of many Lebanese is drastically reduced, many Lebanese will be unable to pay mortgages or rent. Anecdotally, many poorer Lebanese, Syrian refugees, and informal workers are already being forced out of their homes.³⁹ The housing market will eventually stabilize, as prices adjust to meet market conditions. Mass eviction and mortgage default, as well as considerable wealth destruction due to revaluation, will become a major concern for the medium and even the long term.

Refugees and Informal Labor

The estimated 1.5 million Syrian refugees in Lebanon are among the most vulnerable populations in Lebanon. In this scenario, continued disintegration of Lebanon's socio-economic status will only exacerbate the acute hardships currently faced by Syrian refugees,⁴⁰ and engender increased socio-political tensions between Syrian refugees and Lebanese communities (and, by extension, their political patrons). It is highly likely that the most severe needs of Syrian refugees will become increasingly acute, such as food security, adequate shelter, access to income, and availability of basic services such as water and electricity. Income will be increasingly difficult to secure for Syrian refugees as well; according to UNHCR, only 26% of the Syrian refugee population are employed,⁴¹ a vast majority of which are informally employed without work permits in economically vulnerable sectors such as agriculture, construction, and the service industry.⁴²

For most refugees, remaining in Lebanon is indeed the only option; returning to Syria is not possible for many due to well-documented security and protection concerns related to returnees, as well as the fact that the socio-economic situation in Syria is highly likely to deteriorate in parallel with Lebanon, and will potentially be more severe in comparison.⁴³

Syrian refugees are not the only vulnerable non-Lebanese population. First and foremost is Lebanon's Palestinian community, the vast majority of whom lack legal status, rights to work, or rights to home ownership. According to interviews, the majority of Palestinians are dependent on informal labor in the service or construction sector, and many have already lost their jobs. Additionally, as the financial crisis in early 2020 has unfolded, commercial and household austerity measures have led to the rapid termination of migrant worker employment in the informal economy and within the Lebanese kafala system.⁴⁴ According to Amnesty International, the economic crisis has led to the abandonment of migrant workers without proper remuneration, documentation, belongings, passports, or repatriation flights; this trend is highly likely to continue as Lebanese business owners and households become desperate to shrink their budgets in the wake of income loss and inflation.⁴⁵ Without income, sponsorship, labor rights, or access to social services, many migrant workers will likely seek repatriation back to their country of origin, if and when possible. Migrants who are unable to leave Lebanon will likely continue to be exploited; without social or financial support networks, some perhaps may fall into extreme poverty.

As middle-income employment disappears, the supply of low-income labor will likely increase as Lebanese workers compete for jobs once held by Palestinians, Syrians, and other migrant workers in the informal economic sector. Demand for public resources and humanitarian assistance for the most vulnerable segments of Lebanese society will also likely increase; competition for assistance may indeed contribute to increasing hostility and tension between Lebanese host communities and the Syrian refugee populations

³⁸ More in depth information on some of the challenges in the housing market can be found [here](#).

³⁹ This includes a considerable number of renters that were using old renter's laws and thus paying very low prices. Most of them are elderly and are under serious threat of eviction should the state implement amendments to the old rent law without securing alternatives (according to sources from the Committee of the Old Renters).

⁴⁰ <https://www.unhcr.org/news/stories/2020/6/5ef9dd944/economic-misery-engulfs-syrian-refugees-hosts.html>

⁴¹ <https://reliefweb.int/sites/reliefweb.int/files/resources/77303.pdf>

⁴² https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_747070.pdf

⁴³ <https://www.crisisgroup.org/middle-east-north-africa/eastern-mediterranean/lebanon/211-easing-syrian-refugees-plight-lebanon>

⁴⁴ Including, but not limited to, Egyptian, Sudanese, Bengala, Sri Lankan, Ethiopian, and Filipina/o nationals

⁴⁵ <https://www.amnesty.org/en/latest/news/2020/06/lebanon-abandoned-migrant-domestic-workers-must-be-protected/>

within.⁴⁶ Competition for low-income employment, aid, and public services between Lebanese and non-Lebanese will likely lead to social and political pressure, particularly related to Syrian populations. As a result, the degree of discrimination, hostile rhetoric, detention, and violence targeting non-Lebanese populations (particularly Syrians) will likely increase.

Political

Key Indicators:

- **Changes in the existing political system (Ta'if confessionalism, electoral laws, etc.)**
- **Protracted period of 'caretaker' government**
- **Direct political party service provision vs service availability**
- **Protest movement creation and fragmentation**
- **Increased targeting of state institutions, exchange agencies, political party offices and political leaders' key businesses and houses**
- **Local governance directly assumed by political parties**

As a major contributor to the economic crisis, the political landscape of Lebanon is — in this scenario — likely to remain fundamentally unchanged: the Lebanese government and state will remain dominated by institutional sectarian political parties that derive much of their legitimacy from personal za'im politics and complex patronage networks. These political parties will remain locked in large political blocs, leading to a government that is paralyzed and unable to undertake realistic reforms, further preventing access to international funding and accelerating economic deterioration. In this scenario (and as is currently the case), it is also likely that Hezbollah will continue to play a large role in the political direction of the Lebanese state, if not in a direct way, at least through its acknowledged allies. The formalized role of Hezbollah in government will both serve as a further obstacle to securing foreign funding (due to the Caesar Act and other sanctions) and will further complicate reform by giving the group effective veto power over reforms, especially reforms to the actual shape of Lebanese government.

What will change is the degree to which the state actually exerts authority on the local level. Indeed, in this scenario the systemic economic crisis and inability to reform are likely to severely hollow out the national state apparatus. As the state becomes increasingly incapable of providing basic services and paying public sector salaries, more decentralized governance is likely to become a dominant trend in Lebanon. This does not necessarily mean that formal local governance bodies will fill gaps created by the retreat of the state. Instead, it is likely that political parties, influential za'ims, affiliated militias, and in some cases municipalities and community structures will instead begin to assume greater responsibility for governance and service provision on the local level. Political party patronage, currently heavily reliant upon providing public sector employment and state service contracts, will likely shift to more direct patronage. Civil society groups will continue to protest economic conditions, fill service gaps, and push for national level political change, but civil society groups linked to competing sectarian political parties will become an increasingly important (and even dominant) part of the civic landscape. Moreover, new sectarian political parties and movements will likely arise to compete with existing political parties; this is especially true for factions that are less able to adequately secure funding, demonstrate communal cohesion, and distribute patronage.

Hollow, Gridlocked State

As a result of political gridlock and an inability to enact basic reform, the capacity of the central state apparatus as a service provider is expected to diminish.⁴⁷ In a rapid collapse scenario, the Lebanese state is likely to become a 'hollow' apparatus that will function almost exclusively as means to house Lebanon's various political parties, and as an emblem of the security consensus and the 'communal peace'. As state resources and foreign aid diminish, the state is expected to actively outsource or passively cede social service provision to more localized actors. This will likely happen somewhat organically; at times, service provision and governance functions will be outsourced to the private sector, while at other times governance may be assumed by political parties and local elites directly. Increasingly, the 'state' may come

⁴⁶ Prior to the current economic collapse, the target of a '50-50 split' of humanitarian assistance between Syrian refugees and Lebanese host communities was widely perceived to be untrue, as many Lebanese communities viewed assistance largely benefited Syrian populations at a higher degree than the host communities.

⁴⁷ While posturing by Lebanon's political class will continue to be a key impediment for reform, gridlock will be further exacerbated by the resignation of the current or future governments, resulting in prolonged periods of caretaker ministers. Notably, a caretaker government is legally unable to pass new legislation or enact new laws, including annual state budgets and public sector reform.

to function purely as a manifestation of the security apparatus and the status quo.

‘Negative’ Decentralization and Political Regions

As the state loses its capacity to provide services and fulfill its governance mandate, many functions such as service provision, basic governance, and de-facto authority will thus become incumbent upon communities themselves. In essence, what is likely to take place is a ‘negative’ decentralization driven by the state’s inability to provide governance, as opposed to an official policy of empowered local decision-making. In many cases, local governance will increasingly be assumed by political parties, municipal governments, religious leaders, militias, or local social or economic elites. In some communities, this may actually be a positive development. However, in many localities this ‘negative’ decentralization will lead to elite capture, predatory economies, and new forms of dependence and patronage.

Changing Patronage and New Political Parties

With the weakening of the central state and the shrinking of the public sector, political parties forced into their geographic bases will necessarily revert to traditional, in-kind forms of patronage to maintain their leverage and legitimacy vis-a-vis their constituencies. These networks will increasingly consist of the direct provision of services without the mediation of the state apparatus. Such services have already begun to proliferate, and they include but are not limited to provision of food parcels, the stockpiling of wheat, and the payment of generator fees.⁴⁸ In the longer term, such services might well become far more systematized, leading to the creation of new institutions and administrations parallel to the state. Indeed, elements of such service provision networks are already present to varying degrees, according to each party’s financing and resources. However, the future status of these networks and their sustainability are hard to predict. Hezbollah will be most likely to maintain such service provision mechanisms (at least for supporters) due to its access to international funding. However, for other parties the capacity to

scale up more direct patronage networks will depend upon their future finances, organizational capacity, and direct ties with communities and international revenue streams.

Additionally, the scale and efficiency of these new patronage networks will vary geographically, dependent upon the resources available in the respective geographic region as much as the political parties’ resources. In rural areas, political parties and local elites can rely on supporting small-scale crop production and agriculture, whereas the ability of the parties to maintain similar outreach for their supporters in urban slums is, at best, questionable. Maintaining strongholds in various neighborhoods in the capital for instance will be harder than in rural areas. Moreover, regions of confessionally and politically mixed populations, such as Beirut, Saida, the Shouf, the northern Bekaa valley, and Mount Lebanon will be sites of competing patronage networks by various parties and religious institutions, making them fertile ground for tensions and potentially small-scale communal violence and unrest.

Constant Protest and Political Pressures

Looking at the geography of the protest so far is indicative of the future location and concentrations of protests and violent riots. Beyond Beirut, protests have been most sustained in under-served communities and highly populated Sunni areas, such as Tripoli and Saida. In the medium to long term, protests in these regions are expected to continue taking a violent turn. These movements will likely increasingly resort to violence and vandalism of state institutions, exchange agencies, political party offices, and political leaders’ businesses and homes. In localities that maintain sustained political protest, this is likely to form a new, much more radical, political environment; however the ultimate shape of this political environment remains impossible to determine at present.

‘Politicized’ Civil Society

Though the intensity and the frequency of protests has been increasing with the deterioration of the economic situation and the continued rapid devaluation of the currency, the prospect of the creation of an overarching national-scale political movement capable of instigating change to the political scene is unlikely. Activists in these movements and researchers closely examining the architecture of ‘17 October revolution groups’ highlight various key impediments facing new political movements. Most importantly, many protest groups lack clear ideological backgrounds to mobilize

⁴⁸ For example, PSP has been distributing wheat in Shouf district; Kata’eb has also distributed food items and baskets in Antelias; Hezbollah has also been distributing bread packs. In perhaps the most noteworthy case, the FPM branch in Beirut announced a campaign in June distributing cages of birds as a promotion of self-sufficiency under the slogan “an egg a day”

sections of the population, and lack frameworks for political action (namely a party). That said, the protest movement has catalyzed political energy in civil society entities, including syndicates, unions, and legal institutions. Various groups have also sought to create alternative trade unions to challenge pre-existing unions, which are perceived as being co-opted by the state. Such movements are unlikely to change the political system itself, but will potentially create space for small-scale reforms or limited economic opportunities.

However, a potentially existential threat to these growing political movements is the expected mass emigration of the middle class, primarily the educated youth, that make up the backbone of these groups. While the street movements have so far portrayed a facade of large-scale inclusivity across sects and classes, the outreach such groups have to various sections of the Lebanese population, particularly the most vulnerable, has been limited and in some cases nonexistent. Their ability to reach out to poor, rural, and homogenous communities will become more difficult as better-resourced political parties harness their support via service provision and pledges of security and protection.

Geopolitical Considerations

The geopolitical position and relevance of Lebanon will become an important dimension of a rapid collapse in Lebanon. As noted, in a rapid collapse scenario the Lebanese state will become progressively weaker as practical governance becomes more localized. Foreign engagement with Lebanese communities on the local level has been a constant throughout Lebanon's history. A rapid collapse will only accelerate this trend. In such a scenario, there are four major regional actors to consider: the Arab Gulf, Iran, Turkey, and Syria. Each is likely to attempt to support specific elements of the Lebanese political landscape, to varying degrees and in varying places. Indeed, regional states should be considered one of the major potential financial resources available to Lebanese political parties (both large and small) in the future. That said, it is worth bearing in mind that Lebanon is not as geopolitically relevant as it once was (or is perceived to be). Certainly, regional actors will likely fund individual Lebanese political parties or movements (or regions of the country) to some degree, yet large-scale funding capable of supporting the state is unlikely to be forthcoming.

International geopolitical dynamics must also be considered. One of the most critical questions that

will face Lebanon in the medium term will be where Lebanon orients itself toward Europe and the US, toward Russia or China, or toward regional states. This question is often presented as a binary. In reality, various factions in Lebanon will continue to pursue relationships with different international actors. In a rapid collapse scenario, one of the few functions which the state is likely to maintain is the institutional architecture of foreign policy, such as foreign embassies and adherence to international treaty obligations. Considering the potential impact of US sanctions, a major foreign policy shift by the state itself toward Iran, Russia, or China could threaten Lebanon's ability to access foreign support, or lead to punitive measures on Lebanon itself.

A final geopolitical dynamic cannot be discounted — the potential for conflict with Israel. An Israeli incursion would naturally have vast consequences, which are beyond the scope of this scenario plan. A potential Israeli incursion is covered in the Micro-Scenarios below.

Social

Key Indicators:

- Increased inter-communal tensions and 'flash-point' incidents
- Inter- and intra-communal competition over jobs and resources
- Middle-class large scale emigration
- Migration from urban areas to rural areas
- Reliance on 'traditional' forms of support and patronage
- Downward mobility indicators
- Increased level of despair (robberies, extortion, drug use, suicide)

Social upheaval will be a necessary consequence of Lebanon's worsening political and military crisis. In this scenario, economic deterioration will likely drive two major social trends. The first is increased inter-communal tensions, competition, and fear as communities compete over resources, economic opportunity, and local political influence. The second is a large-scale emigration from Lebanon, especially among the shrinking middle class, causing both capital flight and brain drain, especially among the portions of the population that are most educated and most active in local civil society. This does not mean that an energized civil society movement will collapse; on the contrary, there is likely to be considerable space for civil society groups to engage in both activism

and filling service provision gaps. However, the pool of likely activists will shrink as more engaged young Lebanese emigrate to Europe or other Arab countries seeking employment.

Essentially, in a rapid collapse scenario, the Lebanese social landscape is likely (at least for the medium term) to become more insular. Many individuals, especially those hit hardest by economic deterioration, will be forced to rely on more traditional forms of support, such as religious institutions and sectarian political parties, further increasing sectarian solidarities. As the urban service-based economy deteriorates, many of the urban poor may return to their rural areas of origin, thus driving localism as a major social dynamic. Indeed, localism is likely to become a dominant trend as many individuals fall back on traditional allegiances. While the sect will likely be one of those allegiances, family, tribe, and community are equally likely to become important social signifiers.

Communal Competition, Tension, and Fear

Communal tensions and fears have been the norm in Lebanon since the conclusion of the civil war. However, as Lebanon enters rapid collapse, one of the key underlying sources of communal tension will be that of competition for increasingly limited employment opportunities and economic resources. To date, such tensions have largely been monitored between refugees and host communities,⁴⁹ or nationals and foreign workers, such tensions among Lebanese themselves are increasing. As Lebanon continues to slide into instability, communal tensions will deepen mistrust between social and religious groups. The manifestations of these tensions are already noted throughout this report, particularly in the political and security sections.

Indeed, competition for employment and access to local economic opportunity are likely to become an underlying driver of communal tension throughout Lebanon. The downward mobility of large segments of the Lebanese population will push them to take on jobs that have previously been socially regarded as degrading and were consequently relegated to foreign laborers (such as agriculture, construction, cleaning services).⁵⁰ In the long term, competition for these

jobs, both between Lebanese and Syrian refugees and among Lebanese themselves, will become increasingly prevalent. Coupled with social, sectarian and political tensions, competition for job opportunities is likely to play a divisive role and potentially fuel inter-communal tension and confrontations within communities, especially among inhabitants of slums and poor urban areas as well as underserved rural regions.

Mass Emigration: Social, Economic, and Political Impact of Brain Drain

The emigration of educated, middle class, and high-skilled workers has been a natural consequence of Lebanon's adverse business climate for decades, particularly among recent university graduates and youth. The current crisis will accelerate this trend.⁵¹ For instance, 2019 witnessed a 42% jump in the number of Lebanese who left Lebanon and have not returned.⁵² The increased pace of emigration, particularly will have several cross-cutting consequences. The heightened emigration of populations that serve as the backbone of Lebanon's civil society movements will, initially, weaken grassroots organizing and leave Lebanon's destitute population vulnerable to political manipulation and leverage through increasingly localized patronage systems. However, the diaspora has historically capitalized on influence gained through remittances to amass social and political capital.⁵³ With the emergence of the fresh dollars account and the onset of hyperinflation, mass unemployment, and emigration, the diaspora will likely take on a broader, increasingly indispensable socio-political and economic role in Lebanon.⁵⁴ Lebanese emigres are expected to engage in a greater degree of political activity, likely functioning as pressure or advocacy groups, in addition to their potential economic role as key providers of hard currency. As such, the Lebanese diaspora middle class may retain an important role within Lebanese civil society organizations, albeit more as donors than as direct participants.

⁵¹ <https://www.aljazeera.com/ajimpact/escape-lebanon-braces-emigration-wave-200701094323974.html>

⁵² <https://www.dailystar.com.lb/News/Lebanon-News/2020/Jan-30/500218-im-never-coming-back-lebanon-crisis-fuels-brain-drain.ashx>

⁵³ Reliance on these inflows also leaves Lebanon vulnerable to external shocks; as a majority of remittances originate from oil-producing Gulf countries, volatility in oil prices have a direct impact on remittances to Lebanon. Various factors, both domestic and external, have had a negative impact on the inflow of foreign capital into Lebanon through the first half of 2020.

⁵⁴ These remittances (and the foreign currency flow in by the visiting diaspora) will no longer be sent as capital/investment or savings, but rather as direct support to family members and communities in Lebanon as cash transfers rather than bank deposits.

⁴⁹ <https://data2.unhcr.org/en/documents/download/71216>

⁵⁰ For example, several advertisements calling of Lebanese female cleaning workers have recently been circulated, and instigated conflicting reactions on the social perception of this kind of labor, but mostly highlighting the Lebanese population's primacy in securing these jobs rather than foreign workers.

Return to Areas of Origin and ‘Primary Allegiances’

The return of sections of urban population to their areas of origin is increasingly likely in a rapid collapse scenario. Indeed, upon the outbreak of the coronavirus pandemic, numerous families returned to their areas of origin. Coupled with increasing economic precariousness and the inability to afford living expenses in the city, a considerable proportion of the population of Beirut or nearby coastal areas is likely to move to home villages — which are generally much less diverse confessionally and politically. This migration will likely come hand in hand with an increased focus from sectarian political parties on patronage within their strongholds. The concurrent geographic, social, and economic trajectories of insulation will necessarily feed one another, resurfacing pre-existing primary allegiances and the rise of new affinities.

Here, primary allegiance does not necessarily mean sectarian identities, although sectarian identity is certainly an important primary allegiance. Other primary allegiances must also be considered, including political party, the family, or the tribe. Indeed, such allegiances and identities are not mutually exclusive and often converge or overlap. Given the inevitable change in the power of political parties and the potential rise of new formerly political factions, inter-sectarian tension is highly likely. As such, rapid collapse will not necessarily excavate the tensions that defined the civil war era, but may instead produce new social pacts on a local level that diverge from extant sectarian divisions.

Social Impact of Downward Mobility

It is important to note that despite the common refrain over the resilience of the Lebanese population, the economic collapse detailed in this scenario may come as an even greater psychological shock than that of the Lebanese civil war. For the past 20 years, Lebanon has had a relatively strong economy, albeit one based on easy credit, remittances, and a service economy. Many Lebanese, especially the educated, the well-off elderly, the middle class, and the *nouveau riche* are likely unprepared economically and psychologically for the prospect of sustained downward mobility. As noted, many will emigrate, but many more will have their entire lives upended in a way that was unthinkable even during periods of political or security upheaval, as the Lebanese economic crisis is likely to be a decades-long recovery. As such, it may be especially difficult for many to adjust to much more modest employment, living conditions, and ways of life. ‘Diseases of despair,’ such as substance abuse,

domestic violence, and suicide are likely to become much more prevalent. The social impacts of this shock are certainly not limited to the middle class, and will likely be felt across the population.

Security

Key indicators:

- **Reactivation of political party militias**
- **Proliferation of local communal self defense groups**
- **Emergence of intra-sectarian conflict**
- **Increase in violent security incidents and crime**
- **LAF taking action in internal security dynamics**
- **Arrests and prosecutions for political actions**

In a rapid collapse scenario, Lebanon’s security situation will certainly deteriorate. Fears of crime and increased tensions are likely to spark the reactivation of political party militias, and creation of more local communal defense groups; indeed, in many parts of rural Lebanon and in cities such as Tripoli and Saida this is already taking place. The formation of militias which closely resemble criminal gangs, especially in larger cities, may also become increasingly likely. Open conflict between different militia groups is likely to take place on an intermittent basis, especially in areas with high sectarian tensions or intense inter-sect competition (Tripoli, Sidon, the Matn region, the Shouf region, and parts of Beirut in particular). Additionally, while local militias and political party groups will occasionally clash with each other, one of their primary functions will likely be to internally police dissident voices within their own communities, effectively acting as ‘internal police’ to ensure community cohesion. Projections of an all out civil war are certainly premature, and there is a clear consensus on the part of Lebanon’s political leadership that open sustained conflict will not be pursued. That said, intra-sectarian conflict within the sect may become the dominant conflict in the country, as different political groups compete within their own communities for political power. In this scenario, much of this security status quo will ultimately be upheld and dominated by the two critical security actors in Lebanon: the LAF and Hezbollah.

It is highly likely that in this scenario the role of the LAF will become one which is much more focused on internal policing, both against protest movements and against local militia groups which threaten a broader civil/communal peace in Lebanon. The central priorities for both the Lebanese state and the Armed

Forces in this scenario will be to both maintain military salaries, and ensure sectarian representation, so as to ensure that the Armed Forces can continue to play an increasingly unpopular policing role. As for Hezbollah, it will likely continue to play a similar role to the present: as the largest and most powerful military force in Lebanon, it will attempt to avoid directly acting in security incidents in Lebanon to the degree possible, but will take decisive steps if its critical political and security objectives (such as maintaining its weapons and its economic enterprises, maintaining a government that does not openly challenge the role of Hezbollah, and maintaining continued engagement with Syria and Iran) or predominantly Shi'ite regions of the country are threatened.

Militia Proliferation

In the medium to long term, de facto social, political and administrative decentralization will necessarily be one of the main drivers for the proliferation of armed actors outside the state security apparatus. This could potentially take several forms, such as community policing, political party-affiliated militias, and criminal gangs. Community policing is already common in much of rural Lebanon; in various areas, specifically rural areas, the police or municipal police have only a marginal role in times of crisis or external threats. Instead, organically organized armed communal groups take on the role of the community's protection and policing. In a rapid collapse scenario where actual and perceived threats will necessarily intensify, these forms of communal policing are expected to become more organized and to gain prominence in their respective locality. However, the formation of militias that are far more organized and have direct ties to political parties is also increasingly likely (and anecdotally, is already taking place in many parts of Lebanon). Increasingly, while political parties do leverage and control over the actions and operations of local militias, this control may become increasingly precarious as Lebanon enters rapid collapse.

Crime and Intermittent Violence

Rising inter-communal tension and the general state of fear (See the 'Social Dynamics' section) will necessarily result in an increase in both violent security incidents and the crime rate. Security incidents will likely entail: confrontations between protestors and security personnel; confrontations between non-aligned protestors and political party supporters; and clashes between the supporters of different political parties (See 'Political Dynamics'). Some neighborhoods and communities are at greater risk than others of

violence. For example, in Beirut Bourj Barajneh, Ain El Remenneh, Shiyeh, and Tariq El-Jdide are likely to be particularly tense. Tripoli, Sidon, the Matn region, and the Shouf region are also likely to become important 'hot spots'.

However, in addition to political violence, communal violence may also begin to increasingly resemble criminal enterprises. Street crime, business extortion, vandalism of private property, and kidnapping for profit are likely to become increasingly common. Similarly, inter-clan and familial violence will likely also increase, especially as the localities become increasingly charged with competing political and economic actors. Indeed, in the longer term it will become increasingly difficult to draw a distinction between communal and political violence.

Armed Forces as Security

Viewed by many as an 'apolitical,' non-sectarian, and independent state actor, the LAF remains a fairly popular institution throughout Lebanon. Indeed, this perception has been the central source of the LAF's legitimacy and ability to transcend confessional tensions. The LAF's role throughout the current period of instability has primarily been the containment of protests to specific neighborhoods, prevention of the closure of Lebanon's primary highways and roads, and to serve as a buffer between competing protest movements. Unlike the Internal Security Forces (ISF), the LAF has not been the primary security actor to directly confront uprisings, though their presence on the sidelines often leads activists, protestors, and observers to conflate the LAF with other security actors; indeed, the ISF has largely been responsible for the deployment of tear gas, rubber bullets, and detainment of protestors. Separately, the LAF has not been immune from the country's disastrous economic situation; notably, several local media sources have reported that due to skyrocketing prices, meat will no longer be included in meals provided to LAF soldiers.⁵⁵ Moreover, the LAF has been the recipient of external assistance in the form of equipment and training from several international benefactors such as the US,

⁵⁵ <https://arabi21.com/story/1282663/%D9%84%D8%A8%D9%86%D8%A7%D9%86-%D9%8A%D8%B1%D9%81%D8%B9-%D8%B3%D8%B9%D8%B1-%D8%A7%D9%84%D8%AE%D8%A8%D8%B2-%D8%A7%D9%84%D9%85%D8%AF%D8%B9%D9%88%D9%85-%D9%88%D9%8A%D8%AD%D8%B8%D8%B1-%D8%A7%D9%84%D9%84%D8%AD%D9%88%D9%85-%D8%A8%D9%88%D8%AC%D8%A8%D8%A7%D8%AA-%D8%A7%D9%84%D8%AC%D9%8A%D8%B4>

France, UK, Saudi Arabia, UAE, and Russia.⁵⁶ Since the May 2018 elections, this external support has been called into question as many in the West and the Gulf, particularly the US, have expressed fears that political actors aligned with Hezbollah may seek to erode the LAF's independence and autonomy.⁵⁷ Indeed, the fact that the LAF takes its orders from the executive branch of Lebanon's government, currently controlled by the Hezbollah-allied FPM party-led coalition, has only exacerbated those fears.

In a rapid collapse scenario, the LAF will seek to secure broad security and stability throughout Lebanon with respect to protest movements and the proliferation of localized militia groups alike. Publicly, this role will likely be unpopular if the LAF becomes more iron-fisted in its strategy and tactics, harshly cracking down on perceived insurrection to maintain any semblance of peace and order — even in response to continued peaceful protests. Public perception of the LAF will not be uniform throughout the country; perception and opinion of the LAF will likely depend on two

main factors. The first factor is the LAF's treatment of disparate communities throughout Lebanon. For instance, throughout the end of 2019 and 2020, the response by Lebanese security forces to popular uprisings and protests in Tripoli and Saida have been much harsher than in Beirut and other communities throughout Lebanon. This trend will likely continue, creating variable levels of public discontent with respect to the military if and when it becomes more involved in countering protests, demonstrations, and riots. The second is the perception of the LAF's role within the state as a non-aligned, non-sectarian actor; indeed, it will be a crucial priority for the LAF to ensure sectarian representation, particularly at the leadership level, in order to maintain its role as Lebanon's neutral provider of stability. This is especially important in relation to Hezbollah; any perception that the LAF may be co-opted, aligned, or otherwise controlled by Hezbollah may decrease the LAF's legitimacy as the state's impartial guarantor of security, creating increased friction between the Lebanese military and certain communities domestically.

By providing stronger internal security, however, the LAF will likely increase its clout among political stakeholders and elites, as the LAF's role will ensure the survival of the political status quo and the institutional legitimacy of the state. With a more central role

⁵⁶ <https://civilsociety-centre.org/party/lebanese-armed-forces-laf-0>

⁵⁷ <https://www.atlanticcouncil.org/blogs/menasource/the-us-military-assistance-program-to-the-lebanese-armed-forces-must-endure/>



Lebanese Armed Forces are peacefully deployed to separate competing protests in October 2019. Image courtesy of AP.

within the Lebanese state, the LAF will likely attempt to leverage its position to influence domestic policy (to include exclusion from future austerity and ensure salaries are secured; however the likelihood and efficacy of this may be questionable at best), increase its operational mandate, and expand its institutional autonomy. In turn, the LAF's increased clout over policy making, state resource allocation, and its continued role as Lebanon's security guarantor will likely help ensure the military remains cohesive and unified.

Hezbollah's Continued Role

In this scenario, Hezbollah will likely continue to play an important role in the Lebanese government (both directly and through allied parties); it will also remain the predominant military power in Lebanon. As is the case currently Hezbollah will continue to avoid directly using force against other political parties and armed groups to the greatest degree possible, as part of maintaining the broader security consensus. However, Hezbollah will certainly continue to take action against dissent within the Shiite community,⁵⁸ and will also threaten military action to prevent any political decisions which directly threaten its primacy within Lebanon, to include political reform that threatens the confessional system, the ability of Hezbollah to maintain its arms,⁵⁹ and the ability of Hezbollah to continue to take direct military action in Syria or in support of Iran. In this way, Hezbollah will likely continue to hold 'veto' power against any security decision or policy change in Lebanon, and will effectively act as a force that preserves the status quo. Naturally, the continued role of Hezbollah will thus remain a significant obstacle to securing foreign funding and government legitimacy, and will also cause numerous businesses and institutions in Lebanon to remain at risk of sanctions violations through the Caesar sanctions. Hezbollah's continued role also highlights the ever present likelihood of conflict with Israel; while conflict with Israel is impossible to predict, the possibility cannot be discounted.

⁵⁸ To some extent, this is already taking place. Several sources highlighted the predominantly Shi'ite protest movements in Tyre and Nabatieh (both locations that are considered to be Hezbollah strongholds). In response to the protests, Hezbollah and Amal Movement supporters and party members violently clamped down on protests, and forced activists to publicly recant anti-Hezbollah or anti-Amal statements on video.

⁵⁹ A clear past example would be the May 2008 conflict, in which Hezbollah combatants took over parts of the city of Beirut in protest of a government attempt to shut down Hezbollah's telecommunications networks.

That said, in this scenario Hezbollah may also act as a broadly stabilizing force in the parts of Lebanon where it is strongest, primarily in southern Lebanon, southern Beirut, and the Bekaa valley. Hezbollah likely has the most developed patronage and service provision networks of any political party in Lebanon, and has few realistic challengers in the Shi'ite community.⁶⁰ To that end, despite increasing financial difficulties and expected austerity measured across the ranks, Hezbollah will likely continue to have access to funds, including USD (through its allies, and through its built in resilience to sanctions and the financial economy), and will retain the ability to maintain local security through its military force and demonstrated willingness to 'police' its own community.

Intra-Sectarian Conflict

One dynamic that must be taken into serious consideration in a rapid collapse scenario is the likelihood of increased violence between different factions within a sect, as opposed to between sects themselves. This could have powerful implications for the future of conflict and stability in Lebanon, where friction points have traditionally been in areas where different sectarian populations are neighboring or intermixed. Certainly, as noted elsewhere in this section, inter-sectarian tensions will remain a significant issue. However, in the pessimistic scenario detailed in this scenario plan, the hollowing out of the Lebanese state and the changing nature of patronage must be taken into account when considering violence and political competition.

As noted above, patronage in Lebanon, at least since the end of the civil war, has largely revolved around providing supporters with public sector jobs and granting state contracts to connected private sector businessmen. As the central state begins to weaken and funds dwindle, political parties will increasingly have less state patronage to distribute, and more supporters in need of direct material assistance. Patronage will increasingly become basic, and will manifest through the distribution of money and in-kind materials. Many existing political parties will struggle with the change, and will certainly be challenged by other parties within their sect. The Sunni community's existing political leadership is particularly vulnerable to local challengers due to the fact that the primary Sunni political party is increasingly deprived of funding,

⁶⁰ The Amal Movement, the other major Shi'ite political party, is closely aligned with Hezbollah in important ways, and according to some analysts the two parties share a relationship that is both competitive and symbiotic.

and numerous small local Sunni parties will contest its influence. The Druze community is by no means unified between the political factions led by the Progressive Socialist Party, the Lebanese Democratic Party, and Arab Tawhid Party. The competition between the different Christian parties over the past several years is well documented. Thus, as Lebanon enters rapid collapse and competition over support, resources, and legitimacy becomes even more of a factor, conflict within the sect must be considered as likely as conflict between sects. To that end, the 'strongholds' of different sects may increasingly become more violent; this could include Tripoli, Mount Lebanon, the Shouf district, and the Lebanese coast.

The accentuation and concurrence of intra and inter-sect conflict and competition will also necessarily spillover to other groups of the population, such as the Palestinian and Syrian, mainly those residing in camps and settlements. To date, conflict between either and other factions of the Lebanese population has not materialized. However, despite the ongoing security arrangements between Palestinian factions and Lebanese security forces in most Palestinian camps, potential security threats relating to Palestinians camps remain higher than with Syrian refugees, given the degree of independence of Palestinian camps, the presence of arms and a degree of political organization among Palestinian factions. Overall, a major flare up of violence in the camps would be a by-product of the overall deterioration of the country (and in particular of the worsening socio-economic conditions of its inhabitants), rather than a contributing factor itself. Indeed, any change to the current status of the Palestinian camps would likely take place only in the event of a major shift in the national and regional political dynamics that are beyond the scope of this scenario exercise.

Securitization

Though a rapid collapse scenario entails the regression of state institutions' relevance and local-level presence, such regression is likely to accompany the accelerated securitization of the social and political life and, indeed, public arena as whole. Indeed, elements of this securitization have been recently common, which have included (but have not been limited to) increased detentions of political activists; close observation, scrutiny, and intimidation of civil society activities, particularly those carried out publicly in local communities by ISF and the intelligence; and pressure on public speech and media. For the foreseeable future, this would inevitably curtail the space in which civil society action can safely take place and limit

an already shrinking space for political dialogue and small-scale political change and reform. Furthermore, increased securitization would undoubtedly have negative consequences on the operational space for national and international humanitarian and development actors, as it would limit the capacity and number of their potential partners and their scope of interventions.

The widening role of the various security actors in the social and political lives of the Lebanese population would necessarily have varying impacts depending on the local context in the respective area (the general perception of the security actor at play, the political parties and groups prevalent etc.)⁶¹. Depending on such factors the attitude of the security actors and possible reactions to it might be a trigger for confrontation and security incidents. The extreme diffusion of power and the presence of other armed non-state actors (not restricted to Hezbollah in the worst case scenario) indicates that a trajectory towards securitization necessitates a tacit agreement with local actors (such as political militias). It follows that actors responsible for quelling political activism or freedom of speech will not be limited to state security personnel. Though elements of the parties' supporters clamp down on protests and demonstrations in various communities and have been common since the onset of the October 17 uprising, these actions are expected to become far more systematized and organized, thereby infringing on the private as well as the public activities of newly formed political groups or old groups trying to regain prominence in the political scene.

The public perception of such implicit coordination between state institutions and other armed actors or otherwise its explicit flagrant character will infringe upon the long held image of neutrality specifically tied to the LAF. As a result, confrontation with state security groups, including the LAF, could be perceived as less problematic and of lesser social condemnation and public shaming. The tenuous control on these security incidents and the ability to mitigate their development from a state of organized chaos to an unorganized nationwide chaos, hinges upon the maintenance of the security consensus among key political actors.

⁶¹ Perhaps the most recent circulated news on the possibility of re-instigation of the conscription including a social and administrative role is reflective of the security apparatus need to increase their capacity not only militarily but also in other spheres of public life, thereby risking the widening of the security apparatus' role beyond policing and safeguarding of the status quo. In the same vein, LAF's involvement in distributing food baskets might as well point into the same direction. <https://twitter.com/zeinaakar/status/1279880166194413568?s=21>

Services and Infrastructure

Key Indicators:

- Service availability metrics, including electricity, water, education, sanitation, health
- Infrastructure failures and/or declining maintenance
- Large-scale budget cuts or closure of public service institutions
- Service provision through PPP contracts
- Informal service provision prevalence
- Disruptions in waste collection and disposal
- School and hospital lay-offs and closures; decreased student enrollment

Service provision and Lebanon's already derelict infrastructure will undoubtedly suffer as a consequence of the current crisis. Amid rapid collapse, several trends will likely emerge as the Lebanese government's ability to finance and deliver public services sharply decreases. First, it is highly likely that limited public resources for service provision will be prioritized to cover immediate needs rather than investment for rehabilitation, expansion, or strengthening of national-

level, long-term infrastructure. The second trend is the proliferation of public-private partnerships (PPP), whereby politically-aligned businesses attempt to leverage control over state resources and influence the distribution of services such as water and electricity. A likely outcome of this trend is reduced incentive for national-scale strategic planning or service provision frameworks, further leading to the unequal decentralization of service provision throughout Lebanon.

In the aggregate, the lack of investment in national infrastructure and a reliance on PPP for service provision will likely lead to a rise in informal service provision, controlled by a localized class of stakeholders who own local infrastructure and are beholden to the political elite. While this dynamic has been endemic to Lebanon for years (e.g., generators, private-sector water supply), localized private sector service providers will proliferate, becoming influential across many sectors; these actors may also seek to create new local monopolies based on political leverage and access, effectively eliminating competition by both public and private service providers. Finally, services for many communities throughout Lebanon will likely rely



A protestor holds a sign in front of the Electricité du Liban headquarters in November 2019. Image courtesy of Rafael Yaghobzadeh/Abaca/Sipa via AP Images

on aid as state resources are constrained, particularly in sectors such as health. Without a national-level strategy or framework, it is possible that aid focused on maximizing the number of beneficiaries may overlook more vulnerable populations such as rural, low-income communities.

Electricity

Beginning in the mid 1990s, the Government of Lebanon halted nearly all public investment in the electricity sector, relying almost entirely on PPP-managed projects.⁶² While an increase of PPP-based projects to reform and manage Lebanon’s energy production theoretically intended to combat corruption and strengthen the sector’s transparency and accountability, it has nonetheless further weakened the

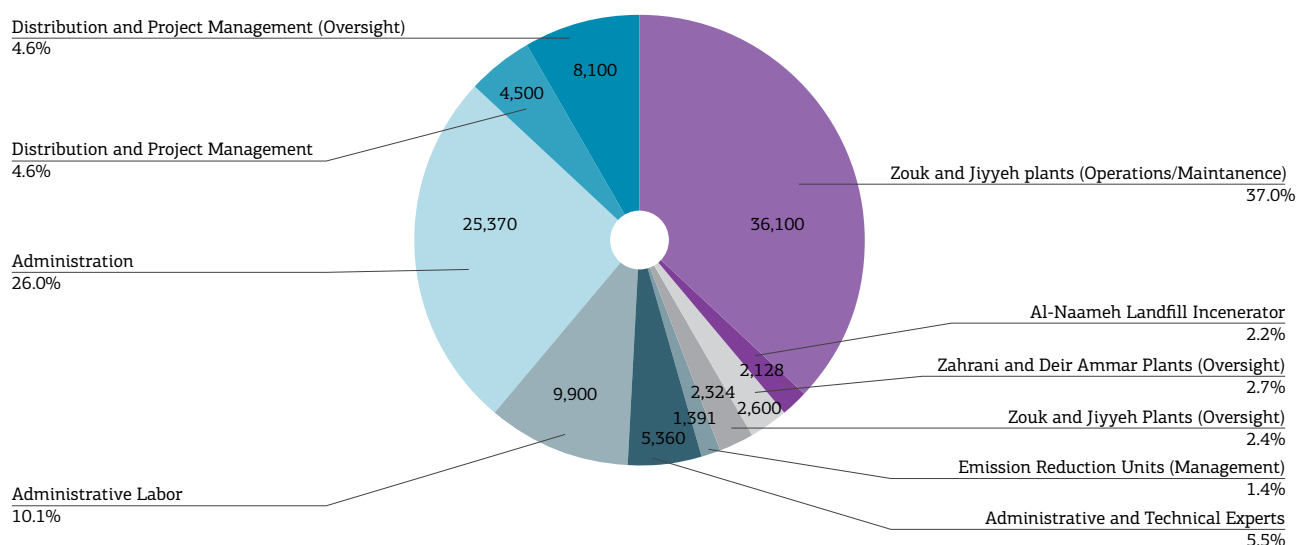
⁶² PPP contracts with private sector actors have been inclusive of all aspects of electricity production, including the management of employee contracts. <https://civilsociety-centre.org/ar/party/%D9%85%D9%8A%D8%A7%D9%88%D9%85%D9%88-%D8%B4%D8%B1%D9%83%D8%A9-%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A1-%D9%84%D8%A8%D9%86%D8%A7%D9%86>.

prospects for national-scale investment in electricity infrastructure and has acted as a vehicle for political influence and interference that has curtailed most (if not all) progress. Consequently, Lebanon continues to suffer from an electricity deficit, and remains dependent on the import of fuel and infrastructure, and PPP to provide electricity.

Going forward, the Lebanese government’s ability and willingness to adopt reforms in the electricity sector remains questionable and is highly dependent upon political bargaining between parties within the government. The prospects of continued reliance on PPP in this sector is also dubious, given that trust in state institutions is in decline. As a result, electricity provision is expected to become increasingly contingent on local, small-scale projects. However, these projects will likely fall short of providing electricity, especially as the fuel shortages increase and the state’s monetary resources dwindle. Furthermore, considering the derelict state of Lebanon’s power plants and electrical grids, imported fuel, and constrained financial resources, the state’s ability to produce electricity is highly dependent on access to foreign currency. Within the context of the

Cost and Purpose of PPP Contracts with Electricité du Liban (2019 EDL Budget, in billions of Lira)

Total: 201,733 billion lira || Source: Electricité du Liban 2019 Budget



current economic and financial crisis, importing fuel has become more difficult.

As a result of the state's increasing inability to provide electricity, communities will likely increase their reliance on privately-owned generators. In the long term, as the state continues to weaken, government regulations on generator owners will likely be enforced only as a reflection of political bargaining and patronage. For example, on February 19, 2019, Minister of Industry and Trade Raed Hourri issued a circular to regulate prices of electricity service provided by the owners of private generators.⁶³ Naturally, generator owners resisted the measure. At present, prices of alternative electricity services remain unregulated and are expected to increase in the long term.⁶⁴ The leverage of these stakeholders is expected to grow as they become the main providers of electricity in the country. Political parties and municipalities might also lay claim to such services to further their interests in expanding patronage networks.

Waste Management and Sanitation

Against the backdrop of the 2015 garbage crisis, civil society actors have long advocated a decentralized waste management system through the legal and financial empowerment of municipalities.⁶⁵ Structural impediments for decentralized waste management remain in place. For instance, the government's willingness to allow increased municipal control over financial resources is incredibly low, and the long-term issue related to new landfills for increased waste management capacity remains a major obstacle.⁶⁶ Additionally, municipalities in Lebanon are generally small in size, which in turn necessitates inter-municipal coordination to ensure waste management on the regional level. Indeed, such coordination and the functioning of the municipal authorities will remain subject to political positioning, trade offs, and profit sharing among political parties, which in turn

disincentivizes impactful reform.⁶⁷ Additionally, such coordination will become increasingly challenging in a context of decentralization and hardening communal and sectarian allegiances. As such, waste management issues (such as the location of formal and informal landfills, recycling facilities, and incinerators) will increasingly become a stage for inter-regional and inter-communal tensions and possibly conflict.

Indeed, with an expected decrease in state resources and the lack of a national strategy for waste management, the ability of the Lebanese state to cover this sector's cost⁶⁸ and mitigate serious environmental hazards resulting from mismanagement of solid waste is highly questionable, and thereby puts Lebanon at risk of another 'garbage crisis' similar to that witnessed in 2015.⁶⁹ Lebanon's government will likely be forced to decrease its oversight of waste management, thus making room for other local and political actors to gain stronger leverage over local administrative bodies, resulting in the further privatization and de facto decentralization of waste management in the absence of a national strategy. Local initiatives outside of for-profit waste management businesses may also emerge. For example, community-led initiatives might play a role in waste collection, sorting, and small scale recycling and sanitary dumping initiatives. The proliferation of such initiatives will, however, remain partitioned and unsustainable in the long term. Separately, the capacity of waste management companies may decrease in the short term. These companies are highly dependent upon a foreign labor force that is likely to leave Lebanon as the economic conditions worsen, potentially to be replaced by Lebanese workers in the medium to long term.⁷⁰

63 <https://al-akhbar.com/Community/259556/%D8%B7%D8%B9%D9%86-%D8%A3%D9%85%D8%A7%D9%85-%D8%A7%D9%84%D8%B4%D9%88%D8%B1%D9%89-%D8%AE%D9%88%D8%B1%D9%8A-%D8%AE%D8%A7%D9%84%D9%81-%D8%A7%D9%84%D8%AF%D8%B3%D8%AA%D9%88>

64 <http://lebaneselaborwatch.com/index.php/details/itemlist/tag/%D8%A7%D8%B5%D8%AD%D8%A7%D8%A8%20%D8%A7%D9%84%D9%85%D9%88%D9%84%D8%AF%D8%A7%D8%AA>

65 An example can be found here: <https://democracy-reporting.org/decentralisation-of-waste-management-a-viable-solution-for-lebanon/>

66 <https://english.alarabiya.net/en/features/2020/05/09/Out-of-sight-out-of-mind-Lebanon-expands-landfill-to-clear-garbage-from-streets>

67 For example, a former municipal head in Mount Lebanon indicated that the Progressive Socialist Party (PSP) has previously refrained from adopting a recycling waste management project supported by foreign funds, and in turn agreed on the contract with Sukleen in the area given the PSP's political alliance with Future Movement. Of note, Sukleen's founding director was known to be a business partner of Former Prime Minister, Rafic Hariri.

68 Lebanon's annual cost of waste management is estimated at \$420 million, compared to a range of \$48 and \$54 million in Jordan and Tunisia respectively as an example. More information can be accessed here: <https://www.hrw.org/news/2020/06/09/lebanon-huge-cost-inaction-trash-crisis>.

69 More on the politics of waste management can be accessed here: <https://www.jadaliyya.com/Details/33377>.

70 For example, the strike of predominantly Bangladesh migrant workers at RAMCO waste management against cuts to their wages. <https://www.business-humanrights.org/en/lebanon-after-a-week-long-strike-waste-sector-migrant-workers-reach-a-deal-with-ramco-inclco-comments>



Reminiscent of 2015, several days of uncollected garbage remains strewn through the streets of Beirut on July 14, 2020. While short-lived, the July 2020 labor strike by Ramco’s migrant workforce over the demand of salaries in USD highlights the likelihood of future (potentially prolonged) interruptions with garbage collection, as foreign currency becomes inaccessible. Image courtesy of Twitter user @mhijazi.

Water Management

Decentralization of water management has also been a key trend in Lebanon. The Ministry of Energy and Water is limited to managing the provision of potable water, and municipalities and industries have taken on management of resources such as irrigation networks directly. The area coverage of state water management entities is likewise determined by social, administrative, and natural boundaries rather than water basin locations and hydrologic limits. Additionally, water services in Lebanon suffer from poor infrastructure, pollution, and the overuse of groundwater. As with other sectors, the Ministry’s capacity and political will to adopt a comprehensive management of the water supply is unlikely. In the same vein, limiting pollution and environmental impact on freshwater resources often impinges on the profits and operation of industrial and commercial enterprises, which are often directly or indirectly linked to political interest of

various actors.⁷¹ These challenges will necessarily have considerable impact on the proliferation of small-scale agriculture initiatives and will exacerbate challenges of the agricultural sector as a whole.

Similar patronage and client relations are expected to govern future projects in this sector, though prospects for securing capital for new infrastructure and improvements to existing networks will remain dim for the foreseeable future, given the current economic and financial conditions. Furthermore, following the latest civil society movement against the Bisri Dam

⁷¹ For example, an investigation on the pollution of Litani River can be accessed here: <https://m.assafir.com/Channel/353/%D8%A7%D8%BA%D8%AA%D9%8A%D8%A7%D9%84%20%D9%86%D9%87%D8%B1%20%D8%A7%D9%84%D9%84%D9%8A%D8%B7%D8%A7%D9%86%D9%8A%20%D9%88%D9%86%D8%A7%D8%B3%D9%87>

project,⁷² the implementation of similar projects in the future is expected to face similar scrutiny by civil society organizations, communities, and technical experts. However, these movements will likely remain ineffective at pushing for sustainable and ecologically-conscious projects, given the manner by which political actors leverage infrastructure contracts to support their patronage networks. Investment aside, the public sector water network will likely continue to deteriorate without the resources or political will to ensure regular maintenance. As public water provision diminishes, it is likely that private distributors, who rely on poorly regulated water wells to tap into the increasingly limited supply of (often polluted) groundwater, will increase in number.

Health

Plummeting state finances, immigration of medical personnel, and continued import difficulties are expected to have a grave negative impact on health sector infrastructure and the population as a whole. Moreover, the hollowing of the state is expected to inhibit the adoption of a universal hospitalization and primary health care system that would help address regional inequality in the system that is in place.

As such, the ongoing COVID-19 pandemic is likely to generate new opportunities for healthcare professionals to emigrate to countries with greater resources, which will in turn decrease the capacity of the health sector human resources locally. Additionally, with expected austerity measures, the capacity of the MOPH to ensure the continuity of its services is questionable.⁷³ Currently, the MOPH contracts (semi-autonomous) public and private hospitals for the

delivery of services to its beneficiaries,⁷⁴ as does the NSSF.

Given that MOPH is the primary provider of medication and equipment of primary health centers across the country, and the largest financiers of private and public hospitals (along with MOSA),⁷⁵ the continued operation of these facilities is thereby threatened for the foreseeable future. In fact, many private hospitals are owed large sums from the state in the form of delayed payments for previously delivered hospitalization services, where some are only able to remain functional through banking loans. Additionally, a large proportion of hospitals, particularly in more rural areas, are highly dependent on finances from the MOPH, and for many the relation with the NSSF and MOPH is necessary to sustain services in their communities.

As the economic deterioration accelerates, the Lebanese state is expected to resort to diverting its resources to respond to the immediate needs of the population which will necessarily come at the expense of the healthcare system as a whole. Resources previously allocated for various facilities might be diverted to cover expenses of imported medication or COVID-19 response.⁷⁶ While all public and private hospitals would be challenged by the current crisis, it is the small and more rural private hospitals that are the most vulnerable. Generally speaking, the absolute number of hospitals is far too large, and a decrease in such numbers would not necessarily affect health outcomes as the geographic distribution of such closure would necessarily intensify services inequality among regions and communities and feed into pre-existing tension between refugees and host communities accessing the same primary healthcare institutions.

⁷² <https://www.annahar.com/article/976783-%D8%A7%D8%B9%D9%84%D8%A7%D9%86-%D9%85%D8%B1%D8%AC-%D8%A8%D8%B3%D8%B1%D9%8A-%D9%85%D8%AD%D9%85%D9%8A%D8%A9-%D8%B7%D8%A8%D9%8A%D8%B9%D9%8A%D8%A9-%D8%AA%D8%B2%D8%A7%D9%85%D9%86%D8%A7-%D9%85%D8%B9-%D8%B2%D9%8A%D8%A7%D8%B1%D8%A9-%D8%A8%D8%A7%D8%B3%D9%8A%D9%84-%D9%86%D8%AD%D9%86%D8%A7-%D8%B3%D8%AF-%D8%A8%D9%88%D8%AC-%D8%A7%D9%84%D8%B3%D8%AF>

⁷³ The budget allocated to the Ministry of Public Health is 2.91% of the general state budget. http://elgherbal.org/state_budget/index/en/2019

⁷⁴ MOPH beneficiaries typically have to cover 10-15% of their hospitalization bill, with the remaining 85-90% directly paid by the MOPH to hospitals. Unlike the NSSF, MOPH beneficiaries are not entitled to out-patient coverage or subsidization, with the exception of specific primary care. From 2019 the MOPH has removed the co-payment requirement for all persons aged 65 years or older. Protection from catastrophic payments has been a core function of the MOPH, with a large share of the curative budget used for chemotherapy, coronary artery bypass surgery (open heart), and renal dialysis. The MOPH also has the mandate for preventive care and public health, as well as regulation of hospitalization and any other treatment services.

⁷⁵ While public hospitals get minimal funds from patient co-payment and primary health centers receive aid from various non-governmental organizations, such aid is minimal compared to the state's support.

⁷⁶ Lebanon is highly dependent on imported equipment and supplies for its healthcare sector, as are most countries. Much of these supplies are imported from China, the EU, the US and some regional countries (e.g. Jordan, UAE). As exposed by the COVID-19 pandemic, most countries – including Lebanon – have failed to develop local manufacturing and supplies of essential materials for healthcare.



A worker disinfects the handrails along Beirut's corniche, April 2020. Image courtesy of Reuters.

Inequity in terms of access to hospitalization would be expected to widen further across the socioeconomic groups, as well as exacerbate political clientelism and favoritism. Although charitable support from various sources would be expected to alleviate some conditions, at a system level the resulting negative outcomes will remain considerable.

Finally, it is also important to note that resource and finance allocations are expected to remain subject to patronage. For instance, the Syndicate of Private Hospitals — a main stakeholder in the health sector involved in various collaborations with the MOPH and representing a large majority of private hospitals in Lebanon — wields considerable influence over these allocation decisions. This would in turn risk a growing role for political parties to control and leverage health services within their strongholds at the expense of the state-led national-scale health care system.

Continued outbreaks of COVID-19 are likely to accelerate the depletion of state resources, while in turn decentralizing public health care management to local actors that will impact the sector for the foreseeable future. Future outbreaks of COVID-19 will likely also serve as a catalyst for inter-communal tension based on service provision. In light of the recent surge of new COVID-19 cases, experts have

assessed that the government's measures point to an uncontrollable outbreak in the future.⁷⁷ In the event of future protracted outbreaks, the location, management, and oversight of isolation facilities are expected to be points of contention. As such, state security forces and political parties' supporters are expected to police these centers which, in turn, will lead to the securitization or factional disintegration of the health sector. Additionally, localized establishment and management of community isolation centers is also expected to integrate commercial patronage networks, such as the contracting of local hotels. Furthermore, intermittent isolation of communities to control the spread of the virus, if taken forward, will further accentuate communal decentralization along formerly delineated lines or newly formed ones. A new outbreak will also accelerate migration from densely populated urban areas to rural areas, feeding into social, political, and economic drivers for communal isolation and decentralization in general.

⁷⁷ As per expert opinion areas are densely populated, specifically urban areas such as Beirut, Tripoli and to a lesser extent Saida and Tyre are under high risks of covid-19 spread.

Education

Lebanon's education sector is largely denominated by private schooling, and educational services provided by NGOs in the primary and secondary levels. Notably, private schooling is already a major form of political patronage, and it is common for political parties to pay for private religious schooling and negotiate discounts or scholarships for private universities. Similarly, the Ministry of Education has licensed a significant number of private universities. A considerable portion of the population relies on private education on all levels, given the low quality of the public education sector, the lack of infrastructure and services in public educational facilities, and the general distrust in state services. As of 2018 and increasingly beginning in 2019, a significant number of families and students have transferred enrolment to public schools and the Lebanese University.⁷⁸ Indeed, according to a top administrator in the Ministry of Education, these numbers have skyrocketed recently and are already exceeding the public sector's capacity. As per this source, public schools lack space and human resources to respond to an influx of students. On the longer term, given the expected austerity measures in various public sectors, these challenges are expected to increase.⁷⁹ However, despite the financial strain that private/religious schools face, a resurgence in religious endowments and charity organizations should be expected in a rapid collapse. As such increased outreach for religious schools will be the result of a weak public sector, which may have social implications.

At the level of universities, prominent private universities have already started implementing austerity measures⁸⁰ that have mostly impacted educational staff and other low wage workers. The impact of the current crisis will have the gravest impact on the Lebanese University, as the government will likely seek to cut its budget in line with the (failed) 2019 budget law.⁸¹ Any future budget cuts to the Lebanese University are expected to instigate union-driven activities and strikes at the level of the staff and students, threatening the continuity and sustainability of the educational service, similar to the 2019 strike.

That said, the political parties will likely maintain a strong leverage on the University's administration making it far more prone to competition and even confrontation internally.

Additionally, the outbreak of the novel coronavirus and the impact it has had on the educational sector are likely to have impacts on public educational institutions for the long term. In the medium term, should new waves of COVID-19 occur, then the state would be compelled to adopt distance learning. However, Lebanon lacks frameworks, internet network connectivity, and other means to render this option accessible for students. As electricity provision decreases and becomes far more unstable, this would put the considerable percentage of the Lebanese and non-Lebanese students at risk of dropping out of school or prevent them from receiving high-quality education services. The crisis will also impact salary payment and employment for teachers in both the public and private sectors. As such, schools and universities will most likely remain incapable to replenish their finances and retain their educational staff.

Alternative Service Provision Networks

As the state's ability to provide services decreases over time and governance is increasingly assumed by local political actors, alternative service provision networks are expected to proliferate across key sectors. However, the degree to which these networks will expand horizontally and vertically is dependent on the local socio-economic and political situation in each region as well as the state's ability to maintain a minimum benchmark of its services. Various forms of alternative service provision networks have already started proliferating, and so far have largely taken two forms: charities and in-kind distributions linked to political parties, and independent civil society and community-led initiative of solidarity economy and charity work. Indeed, in many cases these two networks converge and overlap, specifically those undertaken on a small-scale or the local level.

For example, since the outbreak of COVID-19 various political parties began distributing sanitary and hygiene material to their supporting communities; more recently, these distributions have included food

⁷⁸ The majority of Lebanese people resort to bank loans or political party subsidies to cover highly priced private education.

⁷⁹ The Union of Contracted Teachers in Secondary Public Education has raised concerns over salary payment and protested against the government, which has refrained from enrolling them as public school teachers, thus giving them tenure and access to civil servants' social security services, despite their success in the civil service examination.

⁸⁰ An example can be accessed here: <https://www.aub.edu.lb/President/Documents/Messages/fiscal-20-21.pdf>.

⁸¹ <https://www.legal-agenda.com/article.php?id=5689>

baskets and bread.⁸² Sources have also reported on political parties subsidizing crop production (wheat, for example) and stockpiling of flour and grain to maintain food provision in their areas of control.⁸³ Notably, as of April 2020, the LAF announced the beginning of its own campaign to distribute in-kind assistance to populations in need.⁸⁴ Such activities will likely continue and expand as the Lebanese crisis deepens, alleviating immediate needs but further building dependency and patronage networks.

Civil society and community-led initiatives to distribute in-kind assistance have also recently increased, and are likely to continue to as Lebanon enters systemic shock.⁸⁵ Some of these initiatives are carried out by local NGOs or newly formed organizations, but they also include local solidarity initiatives organized by communities and individual families. Additionally, several initiatives have been pushing for organic and cooperative agriculture. These initiatives mostly include planting crops in the immediate vicinity of houses in places where individuals do not own agricultural land.⁸⁶ While some of these initiatives have reportedly been supported by the Ministry of Agriculture through provision of grains for municipalities,⁸⁷ the ministry's intervention remains highly limited and does not come

as part of a national-scale agricultural strategy. In the long term, these initiatives are expected to increase, as some might as well seek to register as NGOs to secure funding, while very limited numbers are likely to pursue cooperative based economic initiatives and not be limited to charitable work. Indeed, existing NGOs and INGOs in Lebanon will necessarily play a role in service provision, specifically in-kind distribution. However, local NGO staff have also raised concerns over the ability of the local NGOs to respond to the growing local needs, shedding light on these organizations' limited sustainability. Various workers in INGOs have also highlighted the limited capacity building of local NGOs and donor tendencies to fund large INGOs, which may curtail the ability for local CBOs and NGOs to play a role in humanitarian assistance in the long term.

82 <https://kataeb.org/%D8%A7%D9%82%D9%84%D9%8A%D9%85-%D8%B2%D8%BA%D8%B1%D8%AA%D8%A7-%D9%8A%D9%88%D8%B2%D8%B9-%D8%A7%D9%84%D8%AD%D8%B5%D8%B5-%D8%A7%D9%84%D8%BA%D8%B0%D8%A7%D8%A6%D9%8A%D8%A9/2019/12/30/-%D9%83%D8%AA%D8%A7%D8%A6%D8%A8%D9%8A%D8%A7%D8%AA>

83 <https://anbaaonline.com/news/60327/%D8%AF%D8%B9%D9%85%D8%A7%D9%8B-%D9%84%D9%84%D8%B2%D8%B1%D8%A7%D8%B9%D8%A9-%D8%A7%D9%84%D8%AA%D9%82%D8%AF%D9%85%D9%8A-%D8%A7%D9%84%D8%A-8%D9%82%D8%A7%D8%B9-%D8%A7%D9%84%D8%AC%D9%86%D9%88%D8%A8%D9%8A-%D9%8A%D8%B7%D9%84%D9%82-%D8%AD%D9%85%D9%84%D8%A9-%D9%81%D8%B1%D9%8A%D9%82-%D8%A7%D9%84-%D9%88%D8%A7%D8%AC%D8%A8-%D8%A7%D9%84%D8%B2%D8%B1%D8%A7%D8%B9%D9%8A>

84 <https://almanar.com.lb/6542131>

85 For example: <https://www.facebook.com/daleeltadamon>

86 See for example Haba' Initiative <https://www.almodon.com/society/2020/3/2/%D8%AD%D8%B1%D9%83%D8%A9-%D8%AD%D8%A8%D9%82-%D9%85%D8%B4%D8%B1%D9%88%D8%B9-%D8%AA%D8%B9%D8%A7%D9%88%D9%86%D9%8A-%D9%84%D8%AA%D8%AD%D8%B1%D9%8A%D8%B1-%D8%A7%D9%84%D8%B2%D8%B1%D8%A7%D8%B9%D8%A9-%D9%85%D9%86-%D9%83%D8%A7%D8%B1%D8%AA%D9%8A%D9%84%D8%A7%D8%AA-%D8%A7%D9%84%D8%AA%D8%AC%D8%A7%D8%B1>

87 <http://greenarea.me/ar/295726/%D9%85%D8%A8%D8%A7%D8%AF%D8%B1%D8%A7%D8%AA-%D8%A7%D9%84%D8%AA%D8%B4%D8%AC%D9%8A%D8%B9-%D8%B9%D9%84%D9%89-%D8%A7%D9%84%D8%B2%D8%B1%D8%A7%D8%B9%D8%A9-%D9%81%D9%8A-%D9%84%D8%A8%D9%86%D8%A7%D9%86-%D8%B0/>

Micro-Scenarios and Potential Triggers

As noted, in some ways the pessimistic scenario described above is in fact a more rapid continuation of existing trends. However, several other ‘worst case’ possibilities must also be examined. These micro-scenarios are considered separately from the main pessimistic scenario due to the fact that each would likely have such vast and transformative impacts on the Lebanese landscape that their consequences and likelihood are difficult to predict. That said, while each of these micro-scenarios are not necessarily individually likely, they must be considered as distinct possibilities; indeed, considering the speed and severity of the Lebanese crisis, none of these micro-scenarios can be discounted in the medium-term. The potential triggers for each of these scenarios are also listed.

Military Takeover of the Lebanese State

Triggers:

- The LAF and security forces are unable to quell anti-government protests due to unprecedented scale and duration.
- The LAF refuses to follow the orders of the Lebanese government.
- The LAF takes a direct role in forming a new Lebanese government, with the Armed Forces continuing to act as a major political force within the government.

In this scenario, the political situation in Lebanon reaches an intensity (through protest, communal violence, and economic collapse) whereby the leadership of the LAF is compelled to effectively take control of the state in order to maintain order and force political progress. This is one of the most likely micro-scenarios; indeed, the LAF are multi-sectarian, and are one of the few remaining Lebanese state institutions that are still broadly accepted as legitimate by much of the Lebanese population.⁸⁸ In this case, the leadership of the LAF, with the backing of at least some of Lebanon’s political parties, would essentially take control of the Lebanese state and

create a military-formed and backed government. This is especially true for Hezbollah, and any military ‘takeover’ of the state would need to be tacitly negotiated with Hezbollah in some capacity; Hezbollah would certainly need guarantees that its core interests would remain respected, considering Hezbollah’s unique role in southern Lebanon, its access to arms, and its strategic imperative to maintain those arms. Additionally, any military takeover of Lebanon would also need to be done with the tacit or overt acquiescence of major regional and international actors, to include Turkey, the Gulf States, Iran, and Europe or the US. The impact of a military takeover of Lebanon as a last ditch attempt to maintain stability would be far-reaching, and would likely fundamentally and permanently change the nature of the Lebanese political system. However, considering the scale of the challenges facing Lebanon, it should be considered a distinct possibility.

Fragmentation of the LAF

Triggers:

- The Lebanese state is unable to pay the salaries of the LAF or security personnel, or salaries become entirely insufficient due to inflation
- Large scale defections from the LAF take place
- As inter-sectarian violence increases, LAF breaks down along sectarian lines

In this scenario, the LAF effectively collapses due to an inability of the state to pay salaries, or due to the fact that soldiers and officers return to their homes in order to focus on issues of local concern to their families or communities. Naturally, a breakdown in the LAF would have several massive implications. The first of these would be that the fragmentation of the LAF would practically mean the end of the Lebanese state as it currently exists; when considering the above pessimistic scenario, as the state is increasingly unable to provide basic governance one of the few remaining national institutions would be the LAF. Should the LAF cease to exist, the state itself would likely also cease to exist in a meaningful sense. The second major implication of military fragmentation would be that the Lebanon security consensus would be deeply imperiled; should the LAF fragment, a renewed civil war (or multiple ‘civil wars’) would be distinctly possible. A complete breakdown of the LAF is not necessarily likely; as noted, continued funding for the LAF is likely to be

⁸⁸ Indeed, there is precedent for a military-backed government in Lebanon. After the crisis of 1952, General Fouad Chehab became the leading political figure in Lebanon in a military-backed government between 1952-1964.

one of the highest priority government institutions for funding. However, considering the scale of inflation and the impending economic collapse, it cannot be entirely discounted.

Israeli Incursion into Lebanon

Triggers:

- A notable escalation in tit-for-tat security incidents between Israeli Defense Forces and Hezbollah (or other Lebanese actors) along the Lebanon-Israel border
- Tensions between Israel/US and Iran escalate to regional military confrontations

In this scenario, Israel launches a full-scale military operation into Lebanon in confrontation with Hezbollah and its perceived allies in Lebanon with the objective of total state collapse. A notable implication in a renewed Israeli offensive into Lebanon is that, unlike in previous confrontations, Israeli officials are likely to view Lebanese state institutions, including the LAF, as beholden to or even allied with Hezbollah; in turn, these institutions will likely be viewed as legitimate targets during a potential conflict by Israel. Additionally, an Israeli campaign would likely be unrestrained by the US, as American officials remain in alignment with Israel's goal of defeating Hezbollah. In terms of magnitude, a renewed Israeli operation into Lebanon would be significantly more destructive (as compared to the 2006 war), evolving into a Lebanon-wide confrontation with Hezbollah and its perceived allies. Unlike in 2006, Israel would likely launch a ground offensive into southern Lebanon up to the Litani River. Aerial bombardment would reach all of Lebanon, with the most intense targeting in south Lebanon, southern Beirut, the northern Bekaa valley, and along the Syrian-Lebanese border; an Israeli campaign would likely target all key infrastructure, including power plants, transportation infrastructure, telecommunications, ports, Lebanon's only airport, commodity storage facilities, heavy industrial facilities, and military installations (including LAF). Furthermore, it is likely that Israel would impose a naval blockade, further exacerbating the already dire socio-economic conditions as it cuts off Lebanon's ability to import critical goods, materials, commodities, and food. As a result, the number of civilian casualties would likely be significantly higher as compared to the previous war; unlike in 2006, Syria may be reluctant or even refuse to allow Lebanese fleeing the conflict to find refuge in Syria, as political and socioeconomic sensitivities remain acute. Finally, Israel would likely identify and attempt to support new local and national political

figures, as it seeks to upend the current political system and empower a less adversarial political class (with potential involvement or participation from the Lebanese diaspora).

Major Political Assassination

Trigger:

- The assassination of a major political party leader, LAF leader, or sectarian/religious figure.

In this scenario, a significant Lebanese figure, to include (but not limited to) a *za'im*, political party leader, high-ranking government official, LAF leader, religious/sectarian clergy, is assassinated. The exact details of a hypothetical assassination are not necessarily relevant; however, an assassination of a significant Lebanese public figure is likely to have several cascading outcomes. First, confessionally-driven political communities will immediately harden, eroding any remaining trust between communities within Lebanon; it will likely be difficult for any existing political community to remain neutral as Lebanon digests a high number of accusations and the likely possibility of future reprisal assassinations. Open tensions and hostilities will sharply increase, leading to a spiralling cycle of tit-for-tat violence that increases the likelihood of widespread intercommunal conflict; this cycle will also likely be driven by perceived involvement of regional or international actors in the assassination itself. In fear of widespread violence and increase in the number of militias, many Lebanese will likely return to their communities of primary allegiances to seek protection, further diminishing the likelihood of intercommunal cohesion or solidarity. In returning to their communities, proliferation and hardening of localized patronage networks is likely to accelerate. For their part, civil society and 'new' political movements will likely make very public and concerted efforts to rescue any semblance of solidarity; however, their attempts will likely fall short, due to a lack of political capital and resources, threat (or perception) of cooptation by existing political parties, and accusations of backing by regional or international actors.

New Syrian Refugee Crisis

Trigger:

- A major political or economic crisis in Syria causes a mass exodus of new Syrian refugees into Lebanon, fleeing either security or economic conditions.

Given the (further) deteriorating situation in Syria, this scenario considers the potential for an influx of Syrian refugees into Lebanon due to either dire socioeconomic conditions or a reemergence of widespread violence. A future influx of Syrian refugees has several implications for Lebanon. Resources, services, and employment (formal or informal) for all of Lebanon will be strained to a much higher degree than as compared to the previous nine years, further exacerbating Lebanon's current socio-economic crisis. The absence of services and lack basic resources will continue to be the primary cause of hardship throughout the country, given the current number of Syria refugees in Lebanon; as a

result, larger portion of Lebanese society will likely respond with varying degrees of contempt towards Syrians, resulting in increased tensions, discrimination, open hostility, and violence. In parallel, an increase in Syrian refugees may also serve as a scapegoat by political and sectarian leaders for the compounding crisis in Lebanon, further fanning hostilities towards Syrian refugees and distracting segments of the Lebanese population from the political class' failures. As Lebanon's situation —for both Lebanese and Syrian refugees — grows increasingly dire, desperate attempts to flee Lebanon and claim asylum in Europe and beyond become common.

Implications and Recommendations for Partners

One of the greatest implications of a rapid collapse Lebanon will likely be the growing negative decentralization and ‘localism’ that will manifest as the state grows weaker, as economic conditions deteriorate, and as humanitarian needs grow. Donors and implementers, both development and humanitarian, must now navigate an extremely challenging problem: on the one hand, donors and implementers should increasingly engage with more local level actors as the central state becomes less effective. However donors must also avoid contributing to the continued weakening of the state and the fragmentation of Lebanon by doing so. Additionally, donors and implementers will also be challenged with another balancing act: how much effort should be allocated toward mitigating the worst impacts of the crisis vs thinking ahead toward new models of programming.

The central recommendation⁸⁹ of this scenario plan is that programs should be increasingly planned, funded, and implemented on a case by case basis, likely with more donor oversight and direction than is the norm,

and should ideally meet the following basic guidelines and criteria:

- Programs should be ‘nexus-ed’ to the greatest degree possible; they should mitigate humanitarian conditions and contribute to local peacebuilding while still having development objectives.
- Programs should focus on ‘keeping the lights on’ and preventing unrecoverable shocks; maintaining basic services, such as electricity, water, sanitation, and health will be critical in the short and medium term, and will be essential to long-term recovery and hence to any long-term strategic engagement with the state.
- Programs should not contribute to the negative decentralization of Lebanon; they should not promote one region over another, or promote local elites over the state structure. Interventions should seek to build connections between communal regions, as opposed to creating ‘islands’ of support. Programs should also avoid contributing to the formation of monopolies, and the consolidation of greater elite power.
- Programs should be aimed at preparing Lebanon for a new economy, and not reinforce existing economic structures; this means helping to build an economy which is both more focused on local

⁸⁹ Recommendations can also be found in Annex II.



Image courtesy of Wikimedia.

production and export, and an economy which is more equitable overall.

When considering potential entry points:

- In this context, working with the Lebanese state will pose major challenges. Working through the Lebanese state will be necessary, especially in terms of supporting basic service provision. However, donors and implementers should ideally continue to support the Lebanese state where needed, as opposed to being a default, so as not to contribute to or enable state ineffectiveness, waste, and corruption.
- Municipal structures will be viable entry points, as will local civil society organizations, local NGOs, and private companies. The private sector especially will likely be an essential entry point, both for immediate service delivery and for development focused programming. However, care must be taken when considering partners. Regularly and thoroughly examining the political and personal affiliations of potential partners should be advised as a means of avoiding contributing to elite power structures, especially on the local level.
- When considering the private sector in particular, it will be important to differentiate between support to the private sector, and using the private sector to support service provision through PPP. The former will be critical; the latter must be considered carefully, and where possible public funding should be considered over PPP that may contribute to fragmentation and is subject to elite capture.
- Serious trust gaps exist between the Lebanese population, governance bodies, and international institutions (to include INGOs and UN agencies). The Lebanese population does not differentiate between different international actors, and the perception remains that international actors are more concerned with Syrians than Lebanese. Building trust will be critical, and will require donor coordination and shared messaging.
- A joint approach to programming should be implemented by donors. This would mean ensuring and incentivising coordination not between INGOs and the UN, but between local civil society partners, private sector providers, municipal bodies, and state structures. In this way, local programming objectives and national programming objectives could ideally be harmonized to prevent negative decentralization
- Support and engagement with new civil society groups that are not necessarily formal NGOs or CBOs should be considered. This should include 'alternative' (i.e. non-state) trade unions, professional syndicates, religious organizations, co-operatives, and informal networks.

When considering types of projects:

- As noted, interventions in basic service provision (electricity, water, sanitation, health, and education) will be critical in the medium term. However, any intervention in service provision sectors should take into consideration the potential negative impact it will have on livelihoods in the 'informal' service provision. In addition, service provision interventions may often compete with local market monopolies, which in turn may entail reputational risks to implementing actors and threatens their access to certain regions.
- In the medium and long term, support to sustainable local industry and agricultural production should be prioritized. Ideally, support should be oriented toward small scale industries which are aimed at export or domestic consumption, and which utilize local resources that are sustainably managed. Few of these industries exist now, although as exports cease, market forces will likely force an economic shift which should be supported.
- Helping to build inter-regional supply chains should be emphasized to the greatest degree possible. One of the most damaging outcomes in Lebanon's economic restructuring would be the creation of 'regional' economies, where supply and production chains are all concentrated in the same locations. Programs should consider ways to connect supply with demand throughout the country, rather than focus on the most 'local' production and consumption, as a means of hindering negative decentralization and fragmentation.
- Any programs engaging in participatory governance or urban development will necessitate examining impacts on segments of the population that have no direct 'input' into these programs; specifically, the impact on the Palestinian and Syrian refugee community. The Palestinian and Syrian refugee communities are highly unlikely to return in even the long term, and should be factored into all future planning.
- Mental health programming will be needed. The social and mental impact of the crisis is already being felt in Lebanon. Mental health infrastructure exists, but mental health needs will certainly grow worse as the Lebanese crisis develops.

Further considerations:

- As noted, there are multiple strategic objectives to balance: mitigating the impact of immediate and future shocks; developing a prevention agenda to prevent shocks; and keeping pressure on key reforms. Again, a 'triple-nexus' approach to the Lebanon crisis should be strongly considered, espe-

cially considering that these balancing objectives will come in phases.

- Enacting a ‘triple-nexus’ approach would require considerable coordination and collective action on the part of donors, as different donors and implementing agencies (especially UN agencies) have different funding instruments and partners available. At minimum, donors should ensure coordination on mutually agreed upon indicators, broad objectives, and shared tools.
- In time, more localized contextual analysis will be increasingly needed and should be pursued. Tailoring approaches to different regions and communities will need to be explored. In-depth stakeholder analysis will need to be conducted, particularly on potential partners, local economic actors, and informal service providers. Specific analysis on individual program locations will become critical as conditions change in different regions of the country. Program design should increasingly align with analysis of local conditions and stakeholders.

Annex I: Key Drivers and Indicators

Drivers

When considering potential scenarios, there are four key drivers that will heavily shape the future trajectory of Lebanon. All of these drivers are closely interlinked, and thus cannot be viewed in isolation. Each driver will influence collective outcomes, as part of a constant interaction over the coming years.

Shape and Composition of the Lebanese Government

- The shape of the Lebanese Government refers to the post-civil war confessional system established by the Ta'if agreement, whereby sectarian political parties leverage patronage to maintain buy-in and legitimacy. Also refers to the degree to which the state is capable of governing (e.g., taxation, service provision, rule of law).
- System is characterized by near-constant political gridlock, particularly with respect to reforms.
- The current crisis, and the state's ability to navigate emerging failures and mitigate risks, will be based on either the continuity or modification of this political system. Cross-cutting issues such as policy gridlock, insolvency and inflation, and deteriorating service provision hinge on the ability to dismantle or mitigate institutional political patronage.

Ongoing Economic Restructuring of Lebanon

- The current economic crisis is rooted in fundamental, multifaceted, and overlapping structural characteristics of Lebanon's economy; it therefore will require a massive reformation and restructure effort at all levels, from national fiscal policy and banking regulations to local production.
- Lebanon's economy has been fundamentally out of balance for decades. The artificially low USD exchange rate, which has been supported by foreign currency deposits largely by the Lebanese diaspora, has led to an overreliance on imports, ostensibly undercutting local production.
- The main pillars of Lebanon's economy (remittances, finance, real estate, tourism, and construction) have all but collapsed.

- The current crisis cannot be undone; in the long-term, recovery of the Lebanese economy will hinge on fundamental economic transformation, predicated on the ability to implement serious and credible reform.

Access to Foreign Funding and Capital

- Basic functionality of Lebanon — both the private sector economy and public sector — is predicated on foreign funding mechanisms and access to foreign capital.
- External support mechanisms and platforms such as the IMF, CEDRE, the World-Bank, bilateral grants and loans, and private investment all hinge on three primary concerns: sanctions related to Syria and Iran, economic and financial reform, and endemic corruption of Lebanon's politically leveraged public sector.
- In order to 'keep the lights on,' access to foreign financial support is critical for the basic functionality of services and social safety nets, and the facilitation of economic recovery; notably, the nature of state services and the private sector economy will have implications for all drivers, dynamics, and the future trajectory.

Maintenance of the Security Consensus

- In terms of security and conflict, Lebanon's past stability has relied on a consensus of political and military actors that widespread sectarian violence must be avoided at all costs.
- Lebanon's state security actors, such as the Lebanese Armed Forces (LAF) and the Internal Security Forces (ISF), have typically acted as 'impartial' custodians of internal stability, particularly when Lebanon has gone through occasional political or sectarian violence.
- As Lebanon slips further into crisis, the degree to which this security consensus can be maintained will be critical. As the likelihood of confessional-based violence will likely increase, state security actors will be critical in upholding nation-wide stability; this role hinges on their ability to uphold public trust, and the perception of independence from political forces.

Indicators

The set of indicators below is associated with the ‘pessimistic’ scenario; however, these indicators may apply to all three scenarios outlined below.

Economic	<ul style="list-style-type: none"> ▪ Government unable to secure foreign funding ▪ Sharp yet protracted decrease of imports, particularly basic commodities and staple goods ▪ Shortages of basic commodities and market goods ▪ Hyperinflation and a collapse in purchasing power (unofficial exchange rate fails to stabilize) ▪ Collapse of a major banking institution or merger of multiple institutions ▪ Piecemeal, belated, and/or superficial financial reforms ▪ Unemployment, particularly for public sector ▪ Private loan default rate ▪ Housing market occupancy vs homelessness ▪ Legal measures enacted and enforced against refugees or informal laborers
Political	<ul style="list-style-type: none"> ▪ Changes in the existing political system (Ta'if confessionalism, electoral laws, etc.) ▪ Protracted period of ‘caretaker’ government ▪ Direct political party service provision vs service availability ▪ Protest movement creation and fragmentation ▪ Increased targeting of state institutions, exchange agencies, political party offices and political leaders’ key businesses and houses ▪ Local governance directly assumed by political parties
Social	<ul style="list-style-type: none"> ▪ Increased inter-communal tensions and ‘flashpoint’ incidents ▪ Inter- and intra-communal competition over jobs and resources ▪ Middle-class large scale emigration ▪ Migration from urban areas to rural areas ▪ Reliance on ‘traditional’ forms of support and patronage ▪ Downward mobility indicators ▪ Increased level of despair (robberies, extortion, drug use, suicide)
Security	<ul style="list-style-type: none"> ▪ Reactivation of political party militias ▪ Proliferation of local communal self defense groups ▪ Emergence of intra-sectarian conflict ▪ Increase in violent security incidents and crime ▪ LAF taking action in internal security dynamics ▪ Arrests and prosecutions for political actions
Service Provision and Infrastructure	<ul style="list-style-type: none"> ▪ Service availability metrics, including electricity, water, education, sanitation, health ▪ Infrastructure failures and/or declining maintenance ▪ Large-scale budget cuts or closure of public service institutions ▪ Service provision through PPP contracts ▪ Informal service provision prevalence ▪ Disruptions in waste collection and disposal ▪ School and hospital lay-offs and closures; decreased student enrollment

Annex II: Scenarios

	Optimistic: Cautious Reform	Neutral: Buying Time	Pessimistic: Rapid Collapse
Economic	<ul style="list-style-type: none"> ▪ Successful IMF negotiations, commercial and financial reforms are implemented; other international funds and foreign direct investment follow. ▪ Economic diversification, consolidated financial sector, and a focus on sustainable local industry and agricultural production. ▪ The lira floats, stabilizing around 5,000-10,000 LBP/USD; ▪ Limited progress on increasing tax revenues. 	<ul style="list-style-type: none"> ▪ Slow deterioration of the status quo; emergency steps are taken on a regular basis certain sectors; no fundamental economic reform takes place. ▪ IMF negotiations conclude; the terms are not implemented or in a piecemeal fashion, same for other foreign funding mechanisms. ▪ No holistic financial strategy is implemented by the BDL. ▪ Official fixed exchange rate continues in parallel with a floating exchange rate (10,000-20,000 LBP/USD). ▪ Limited rejuvenation of tourism and foreign investment. 	<ul style="list-style-type: none"> ▪ IMF talks fail, or continue with limited (if any) results. ▪ Debt restructuring and reforms are unachievable. BDL struggles to support imports, the lira, and state budgets. ▪ The lira remains formally pegged as the black market rate continues to climb to > 30,000 LBP/USD. ▪ Inability to pay public sector salaries or existing debt obligations, based on 'Lirafication.' ▪ A severe import crisis causes acute food insecurity. ▪ Housing crisis occurs due to inability to pay rent and mortgages. ▪ Remittances support households to ensure survival.
Political	<ul style="list-style-type: none"> ▪ Limited reform implemented by a new government, accepted by the international community. ▪ Politicized ministries are reformed to secure international support. ▪ Continued political upheaval and regular protests, both due to political competition and reforms. ▪ Self-funding of municipal governments and increased authority over local policies and services. ▪ A diminishing influence of Hezbollah from institutions to mitigate IMF opposition. 	<ul style="list-style-type: none"> ▪ Inter-party tradeoffs maintain the current power sharing with new technocrats and 'independents.' ▪ Hezbollah refrains from taking an increased role in government but maintains influence through its allies. ▪ Political debate between institutional parties and technocrats pushing for reform. 	<ul style="list-style-type: none"> ▪ The political structure remains unchanged; political decision-making is gridlocked and hostile to major reform. ▪ The state is unable to provide services or govern, leading to 'negative decentralization.' ▪ New political actors and patronage challenge current parties. ▪ Hezbollah retains an important role in the Lebanese government, restraining foreign capital.

	Optimistic: Cautious Reform	Neutral: Buying Time	Pessimistic: Rapid Collapse
Social	<ul style="list-style-type: none"> Increased cross-sectarian narratives focus on socio-economic demands. Increased influence of CSOs and involvement in government and service provision. The government refrains from implementing anti-Syrian refugee policies despite continued tensions. 	<ul style="list-style-type: none"> Emigration furthers brain drain and reliance on remittances. Street protests remain prolific, and are focused on specific issues; existing political parties regularly ‘co-opt’ protests. Tensions between Lebanese and Syrian refugees continue, as do sectarian tensions leading to sporadic flare-ups in local violence. 	<ul style="list-style-type: none"> Increased prevalence of ‘primary allegiances’ leads to greater social cleavages. Mass poverty and middle class flight weakens civil society. Significant migration to rural areas back to areas of origin and traditional support systems. ‘Diseases of despair’ become prevalent.
Security	<ul style="list-style-type: none"> Protests continue. Security forces refrain from taking overly aggressive action. Occasional inter-communal clashes, and growing number of local militias. LAF remains independent and open hostilities do not proliferate. Limited judicial reform. 	<ul style="list-style-type: none"> Sporadic yet regular violence between Lebanese and Syrians, among Lebanese sectarian groups, and between intra-sectarian factions. The LAF is used to enforce order regularly. The LAF is used to police protests. Lebanon becomes securitized and repressive, as security services focus on managing internal dissent. 	<ul style="list-style-type: none"> Security consensus is upheld; tensions lead to localized violence. Local militias proliferate as community defense and near-criminal enterprises. Riots become violent with no political narrative or cohesive objective; the LAF mediates as a securitizing force to uphold status quo.
Services and Infrastructure	<ul style="list-style-type: none"> Key reforms take place. Some reforms — such as reductions in state expenditures — will be painful and result in continued political upheaval. A relatively open and collaborative working environment for NGOs, with government collaboration and equitably distributed projects throughout the country. 	<ul style="list-style-type: none"> Key services continue to deteriorate. Periodic ‘crises’ often take place, leading to protests. A reliance on non-state actors for basic service provision. I/NGOs face ambiguous state policies, but there is regular access for humanitarian and development actors. 	<ul style="list-style-type: none"> State services deteriorate, essentially nonexistent. Service gaps are increasingly localized, leveraged for patronage. Decreased funding to humanitarian and development agencies, due to donor disengagement and operational challenges.

Annex III: Recommendations

Recommendations for Donors and Implementing Partners

Central Challenges for Donors: Donors and implementers must balance between working with local actors vs contributing to the fragmentation of Lebanon, as well as mitigating the worst impacts of the crisis vs thinking ahead and new models of programming.

Means

- ‘Keeping the Lights On’: maintaining basic services
- Avoid contributing to negative decentralization; build connections between regions
- Preparing and building a new economy – not reinforcing existing economic structures
- Nexus Thinking: Cross-cutting humanitarian, development, and peacebuilding programming

Partners

- Lebanese state must be worked with, but should not be a default
- Municipal structures, CSO/NGOs, private sector needed; elevated due diligence will be required
- Mitigate serious trust gaps with local CSOs/NGOs and communities
- Joint approach to programs; not between UN and INGOs, but between local actors
- Non-traditional partners (alternative unions, syndicates, co-ops) should be explored

Types of Projects

- Basic service provision critical in mid term; interventions will be challenged if they threaten informal providers
- Sustainable local industry and agriculture production; aimed at domestic consumption or export
- Building inter-regional supply chains
- Must consider impacts on populations without input
- Mental health infrastructure

Final Considerations

- Balancing between: impact of shocks; preventing shocks; and pressuring on reform – A triple nexus approach
- Would require high degree of coordination – between and within donor orgs, and between donors and implementers. At minimum, coordination on shared tools, objectives, and indicators
- Localized contextual analysis should be explored to tailor programs to different regions
- Emphasis on stakeholder analysis and due diligence of potential partners and service providers; focus on political economy analysis



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