



## CARE International in Lebanon *Context Analysis*



October 2020

## Executive Summary

Lebanon is facing its worst political, economic, and financial disaster since its civil war. Long term, chronic political dysfunction and fiscal mismanagement have led to growing deficits and deepening debt, with monetary imbalances and waning foreign currency reserves threatening many imports, upon which the economy is critically dependent. These interrelated, compounding crises have led to dramatic inflation, currency depreciation, food insecurity, electricity shortages, and widespread unemployment. They have also combined to create a likely imminent humanitarian emergency; spanning shelter, WASH, education, livelihoods, and healthcare crises.

The majority of Lebanese citizens have seen their wages collapse and savings evaporate, all while inflation has soared and many businesses have closed. The humanitarian challenges presented by these crises will be profound and long lasting.



The 4 August explosion in the port of Beirut not only dramatically increased the urgency and complexity of the country's predicament, but also reflected the systemic and structural weaknesses that have made reform so elusive. In addition to killing nearly 200 and leaving nearly 300,000 at least temporarily homeless, the blast also caused an estimated \$15B in overall damage.

## Background and Introduction –Drivers of Current Crises

### Political, Economic, and Financial

Though the October 2019 protests, Eurobond default, and COVID-19 lockdown accelerated Lebanon's current economic collapse, the present crisis is the result of decades of unsustainable governance and institutionalized clientalism. The state's chronic inability to provide basic services is not just the result of parallel [patronage](#) networks, but a major driver of them, as utilities and public goods are doled out as favors in exchange for loyalty, rather than as services to which all citizens are entitled. Parties and elites have therefore grown in strength and influence while the state has withered, functioning primarily as a mechanism for the negotiated distribution of jobs, resources, contracts, and power along lines of patronage. These practices also contribute to the monopolization of the private sector by unproductive businesses, which [dominate](#) procurement and tendering and stifle competition, inhibiting the diversification of a labor market already imbalanced with a bloated public sector.<sup>1</sup> Governance is also crippled by the system's finely balanced allocation of ministries and posts to various sects, which, though prepared to form coalitions on the basis of expedience, nevertheless protect their access to the power and resources of the state. These features have made not just government formation but also substantive reforms nearly impossible in many instances, given the "exceptionally" high number of formal and informal veto players. Additionally, the nepotistic allocation of lower and mid-level jobs

<sup>1</sup>These and other issues have contributed to an economic system highly dependent on unsustainably subsidized imports, making supply chain vulnerabilities particularly acute.

in various institutions undermines the efficiency and competence of administration and governance.

The government's budget has been heavily [constrained](#) by interest payments on debt (30% of the annual budget in 2017), public sector salaries (nearly 30% in some recent years), and transfers, notably to Lebanon's electricity producer, EdL.<sup>2</sup> Lebanon also has a regressive and inefficient taxation system, with considerably lower relative taxation on wealthier parts of society, while weak corporate governance has allowed for likely enormous tax evasion, with estimates from 2015 suggesting that the practice amounted to somewhere between \$1B-\$5B in total lost tax, as much as 10% of GDP. Lebanon experiences extremely high degrees of inequality already, with an [estimated](#) 1% of the population controlling approximately 80% of deposits.<sup>3</sup>

The Central Bank has also pursued controversial monetary policies, financing the state's insolvency and debt and [underwriting](#) the lira's peg<sup>4</sup> to the dollar at the cost of rapid [inflation](#),<sup>5</sup> while offering high yield interest rates to banks depositing dollars. Beginning in 2016, the Central Bank began engaging in a scheme of "[financial engineering](#)", which saw the rollout of lucrative and convoluted swap operations in order to draw in more dollars from Lebanese banks. Though the efforts postponed the crisis and proved highly profitable for some, they also accumulated systemic risks as the balance sheets of the central bank, lenders, and the government grew more and more entangled. For his part, Central Bank governor Salameh has said he was "[buying time](#) for Lebanon to fix itself," though the government now claims his tactics resulted in losses of over \$40B. Further, the currency depreciation exacerbated by printing lira has considerably worsened the country's fiscal situation, particularly given its [exposure](#) to dollar denominated debt.

On top of this, the government's failure to act in recent months has in itself constituted a passive policy choice, and had profound consequences for Lebanese citizens. The precipitous devaluation of the LBP, exacerbated by the Central Bank's inflationary efforts to maintain liquidity, have [amounted effectively](#) to a further tax on real incomes, while the informal capital controls imposed by banks have disproportionately affected ordinary Lebanese rather than the country's elite, who are accused of moving \$6B out of the country as the crisis deepened. At the same time, the Central Bank has allowed the country's banks to pay for deposit withdrawals at the official LBP rate. The "[lirasation](#)" of deposits then stands again to make banks an estimated \$50B, essentially on the backs of depositors, since most bank assets are dollar denominated. This process would also greatly reduce LL based government debt, and then allow for the remaining dollar-based sovereign debt to be financed through the windfall made by banks, at the expense of depositors. It would also be enormously economically damaging and even more inflationary while bankrupting many private firms who earn in LBP but borrow in dollars.

The Central Bank now owes Lebanese banks over \$100M according to some estimates, while its foreign reserves have apparently depleted to just under \$20M, all while the government's other debts have required servicing or matured and the currency has continued to slip against the dollar. The government has tried to set aside around \$2B worth of reserves to subsidize the import of wheat, fuel, and medicines amid a persistently skewed current account [deficit](#), while protecting the supposedly remaining \$17.5B. Though the country is critically dependent on these imports, their severe [contraction](#) caused by the collapse of real incomes and the

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<sup>2</sup> Unsustainable [subsidies](#) on commodities and services such as fuel and other goods also waste resources, as they often simply drive smuggling into neighboring Syria.

<sup>3</sup> According to recent [research](#), Lebanon experiences "An extreme concentration of incomes where 1 and 10 percent of the adult population received approximately 25 and 55 percent of national income... [and] , 1 and 10 percent receive almost 40 and 70 percent of total personal wealth (Assouad, 2017)." These disparities have only become more extreme over the past year, as well-connected depositors were able to protect and grow their wealth while many ordinary citizens saw their savings collapse.

<sup>4</sup> Overvalued by as much as 50% according to some estimates, the peg also distorted the economy, making domestic manufacturing and agriculture uncompetitive.

<sup>5</sup> According to some [estimates](#) in mid-2020, Lebanon was experiencing 52.6% inflation per month, reaching the threshold of hyperinflation.

pound is also helping the government protect remaining foreign reserves by lowering the current account deficit, again to the detriment of ordinary citizens.

The [disruption](#) to supply chains caused by COVID-19 has only further exacerbated this vulnerability, as cross-border shipments and value chains have been interrupted and countries have begun hoarding staples such as wheat.

Lebanon has also previously relied in part on foreign investment<sup>6</sup> and remittances to compensate for the imbalances above, but these have slowed in recent years, and the latter dropped sharply as a result of the COVID-19 pandemic. The World Bank expects a 20% global decline in remittances in 2020, which for Lebanon have amounted to as much as 14% of GDP in recent years, and 40% of income for many households, as well as 40% of funding for education and healthcare costs for many families. GoL debt is now estimated to be at least 170% of GDP, and on 28 July Moody downgraded Lebanon's credit rating to C, the lowest grade on the agency's scale. The lira has lost 80% of its value since October, 2019, and most Lebanese citizens have seen their savings disappear and purchasing power collapse, with over 220,000 jobs lost between October and January [alone](#). Subsequent job loss due to the pandemic and worsening economic crisis has been severe.

## COVID

These various crises have come to a head in recent months, all compounded by the economic impact of COVID-19 lockdowns and control measures. By June, WFP [estimated](#) that at least two thirds of households had experienced reduced income over the previous year, and the outbreak and containment measures had pushed nearly a third of Lebanese into unemployment, with women and young adults seeing some of the worst salary reductions overall. More than 60% of Syrian women reported losing their jobs, compared to 46% of Syrian men. As expected, the construction, service, and sales sectors were the worst hit, which disproportionately employ Syrian refugees, as well as most Lebanese in the workforce. These developments have forced two thirds of each population surveyed to spend less on food, spend savings, and/or borrow. A quarter of Syrians, a fifth of Palestinians, and a tenth of Lebanese reported having "exhausted their coping capacity". Over 40% of Lebanese and Palestinians and over 60% of Syrians reported the inability to stockpile food, with half of Lebanese, nearly two thirds of Palestinians, and three quarters of Syrians reporting worries about having insufficient food. Lebanese residents in Akkar reported particular concern. More than one in ten Syrian refugees reported going 24 hours without eating, and one in five had skipped meals.

A fifth of Lebanese reported the deterioration of health services, a tenth reported they were nonfunctioning, and fifth reported not having access at all. Predictably, those in formal work are relatively less affected by the pandemic, according to the [ILO](#), while workers in the informal market are much more vulnerable.

By late September, the head of the parliamentary health committee Assem Araji [stated](#) that Lebanon had "lost control" of the coronavirus outbreak, but that coordination between relevant ministries was still not occurring. As the country continued to set daily records for new infections and deaths, Araji warned that Lebanon was heading towards 'herd immunity', despite the serious and unknown risks of such an outcome.<sup>7</sup> By early October, confirmed infection rates had passed 1,000 per day amid fears that the healthcare sector already facing human capital shortages could soon see an [exodus](#) of trained professionals due to the country's compounding crises. By mid-October, WHO was [reporting](#) that 72% of beds allocated to COVID-19 cases in ICUs were occupied. Around half of the beds set aside for the pandemic are in private hospitals, raising concerns about accessibility for the country's increasingly impoverished population, with coordination between public and private hospitals still poor. The sole hospital in Akkar province reportedly neared 90% ICU bed capacity in October, with severe funding shortages for essentials such as hand sanitizer and disinfectants.

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<sup>6</sup>The bizarre disappearance of PM Hariri in late 2017 may also have [contributed](#) to declining depositor confidence and ultimately, the present crisis, as many affluent Lebanese residents moved money out of the country. By early 2019, foreign deposits had also evaporated.

<sup>7</sup>Though in late August the Higher Defense Council did [extend](#) general mobilization through the end of 2020, granting legal authorities to enforce extraordinary containment measures.

## Key Actors

An assessment of the priorities, influence, and coherence of key actors in Lebanon's current crises provides some basis for assessing likely future scenarios.

### Lebanese Elites

As in the past, Lebanon's elite political class is highly incentivized to preserve the status quo as much as possible, avoiding serious reforms, accountability, or transparency. Elites will also seek to preserve their ability to capture rents through patronage, and ensure any forthcoming bailouts or humanitarian aid pass through existing public channels designed to facilitate the distribution of resources along clientelist lines.<sup>8</sup> These efforts will complicate humanitarian access and operations, multiplying bureaucratic as well as political obstacles to effective, neutral, and impartial program delivery.

Lebanon's political elites also enjoy significant influence as well as bargaining power and relative collective coherence. Some political science literature has conceptualized Lebanese politics in terms of "party cartels", which, much like national unity governments, provide stability but often preclude voter choice and can make elite consequences/ accountability almost impossible. Additionally, while Lebanon's system of negotiated distribution of state resources by parties provides a basis for organized elite cooperation, it also has the potential to provide a basis for instability, should the system begin to become unbalanced by one party's pursuit of "anti-corruption" campaigns.

Further, despite the paralysis and apparent passivity exhibited over the past 8 months, the Lebanese government's approach to the crisis has not been entirely without effect. By allowing inflation to continue, the government is reducing its lira denominated debt and the economy's painful 'adjusting' is collapsing the current account deficit. Though at the expense of deposit holders and ordinary citizens, this has amounted to a policy response, though one with costs unevenly borne.

Hezbollah is both a part of and distinct from the political class; enjoying the benefits of the current system and ensuring its persistence. Hezbollah also benefits from the chronic [weakness](#) of the Lebanese state, while finding its preservation useful as a framework for rent extraction, legitimation, and the exercise of political power. While all of Lebanon's parties enjoy veto power to a certain extent, Hezbollah's unique role as both political faction and preponderant security actor allows it to establish the parameters of Lebanon's politics in a way that is both decisive and definitive. Thus, though Lebanon's systemic problems predate and extend beyond Hezbollah's presence in government, the party presents unique challenges to domestic reform and accountability efforts. Its presence in government also remains deeply controversial for some external actors, some of whom are likely to prioritize competing with the group over stabilizing the state.

In the aftermath of the explosion, Nasrallah has called for a national unity government. This superficially exceptional proposal is in fact intended to ensure the perpetuation of Hezbollah's role in the status quo, which in Lebanon has effectively functioned as a unity government already for years, with a great deal of paralysis and little accountability as a result. Hezbollah thus prefers that Lebanon remains a semi-functioning and semi-sovereign state, and will enjoy a relatively high degree of coherence and bargaining effectiveness in efforts towards this outcome. Nasrallah also repeatedly raised the threat of renewed civil war in the days that followed the explosion, and other aligned politicians have warned of the "catastrophic results" of "incitement against the Resistance". These comments likely reflect the dangerous reality that at least a partial degradation of the security environment is arguably in the interest of certain parties, particularly if and as their claims to legitimacy on the basis of social service provision continue to erode.

### France

Despite President Macron's dramatic appearance in Beirut following the blast and his prominent calls for a

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<sup>8</sup>Lebanon's current political arrangement stems from the 1989 Taif Agreement, a "readjustment" and "reorganization" of the distribution of political, sectarian, and constitutional powers and official positions following the civil war.

“new political pact” that would not feed corruption, French policy in Lebanon is likely to ultimately prefer stability, influence, and leverage over radical and risky revolution. While continuing to call for technocratic government and reform, Macron’s history and worldview to date reflect [realist](#) caution, preeminent concerns around [instability](#), and a desire to insulate Lebanon from regional conflict. Though France has taken the lead on humanitarian aid following the port disaster and so far held firm on linking CEDRE funding to real reforms, this commitment will certainly be tested in the coming months, as Lebanese elites resist fundamental changes while their country slips further into collapse. While President Macron’s visibility and personal role in negotiations contributes to the personalization of French policy and the management of the crisis, French policy is also driven both by historical ties and a sense of Lebanon’s role in the Middle East regional balance.

### United States

Containing Hezbollah remains a primary U.S. policy priority in Lebanon for the current administration. To this end, in addition to significant development aid over the years, the U.S. has invested considerably in supporting the Lebanese Armed Forces, in the hopes that this would contribute to the legitimacy and sovereignty of the Lebanese state, and counterbalance Hezbollah as a security actor. Some U.S. aid was briefly withheld in late 2019, likely over concerns relating to the role and influence of Hezbollah. Some \$100M was eventually released in early December, 2019. The outcome of these investments will soon become clear, as the LAF is likely to play an uncomfortable and increasingly prominent political role in the coming months. The U.S. may also again seek to more forcefully leverage aid in attempts to sideline Hezbollah.

Further, U.S. sanctions will continue to [target](#) Hezbollah and associated figures. Though the U.S. has wanted to force the party out of the government for some time, it has generally been cautious and risk averse, for fear of further destabilizing the country’s already precarious system. These reservations have evidently receded under the current administration, which has continued to tighten its ‘maximum pressure’ campaign against Iran, and likely sees the current crisis as an opportunity to pressure Hezbollah in the midst of heightened domestic stress and popular scrutiny. The U.S. will rely primarily on economic levers in this effort, however.

### Popular Movements

A number of new civil society groups and movements have emerged in Lebanon in recent years. While these have been successful in drawing attention to mismanagement and forcing the resignation of various governments, they have not been able to build sustained parliamentary coalitions or effect significant policy reforms. These failures have been due not just to the intransigence of elites, but also [structural](#) elements of Lebanon’s electoral system, which though partially reformed in favor of proportional representation, nevertheless favors the status quo and has restricted the ability of voters to select candidates across lists. While voter dissatisfaction was “exceptionally” high in previous elections, turnout was only about 50% in 2018, and only one seat was [won](#) by an independent civil society list. While future elections in the aftermath of the country’s recent crises would likely see higher participation and potentially better results for independent lists, the system remains inhospitable to emergent parties, who also face disadvantages in access to resources, media, and advertising, not to mention the clientelist rewards systems that status quo parties enjoy and use to buy votes.

### The IMF and CEDRE Donors

The IMF and CEDRE donors are wary of the failure of past reform efforts and the unwillingness of Lebanese elites to take serious steps towards accountability, transparency, and good governance. While some limited humanitarian relief will be released particularly following the port explosion, the IMF will most likely hold firm on its requirements, and would only accept a structured, phased, and incremental plan of genuine reform. On 9 August, the IMF [reiterated](#) its requirements, highlighting fiscal reforms, capital controls, audits, and a social safety net as key prerequisites for a deal. Whether Lebanese parties will agree to these remains to be seen, but they are nearly certain to exhaust all other alternatives before considering them more seriously.

## Outlook for Bailout and Political and Economic Reforms

In the face of these crises, Lebanon's government has staked its hopes on the prospect of an IMF bailout, and the subsequent follow on investment and pledges that an "umbrella" agreement with the Fund would ostensibly unlock. Lebanon has also yet to receive concessional funding pledged at the 2018 CEDRE conference however, as it is yet to take promised steps on which the funds are contingent. [Prerequisite](#) reforms include progress addressing corruption and clientalism, as well as towards fixing the country's electricity utility, which loses an estimated \$2B a year and is still unable to provide reliable service.<sup>9</sup> France's ambassador has also highlighted the needs for improved transparency, governance, financial stability, and judicial independence, as well as addressing tax evasion, which cost the government an estimated \$5B in 2018. France's pledges at CEDRE amounted to \$660M, while those of the World Bank exceeded \$4B.

Though discussions with the IMF initially revolved around a figure of around \$10B, Economy Minister Raoul Nehme [said](#) in late July that the bailout could instead be for somewhere in the range of \$5-9B. Even if the approximately \$11B in total from CEDRE also came through, that would still leave Lebanon around \$5-\$10B short of the \$25-\$30B it supposedly needs.

The IMF's requirements will likely be even more strict than those of the CEDRE donors. The Fund has [called](#) for a "credible medium-term fiscal plan" to build a budget surplus and eventually begin to address the debt-to-GDP ratio, structural and governance reforms including for the electricity sector in particular, and the stabilization of the financial sector by addressing the Central Bank's balance sheet and increasing reserves. Other measures call for a tax increase on interest income and a freeze on public sector hiring, raising the VAT and fuel excises, improving tax compliance, removing electricity subsidies, and other structural reforms to increase growth and competitiveness. Other issues include procurement reform, anticorruption efforts, and further efforts to clean up the Central Bank's balance sheet, with an eye to an eventual "phase out" of its "financial operations". The Fund is also likely to be asking for formal capital controls and a currency devaluation, and may also be requesting the privatization of some assets, debt restructuring, and pension reforms.

Another sensitive topic has been the question of a forensic audit of the Central Bank. [Previous](#) audits by international consultancies had produced highly qualified reports, largely sidestepping definitive judgements while politely noting that the bank's practices were idiosyncratic. The bank supposedly holds nearly \$14B in gold for example, but international auditors were not permitted to inspect the vaults and the former DG of public finance, Alain Bifani, said that he did not believe the inventory had been physically verified in decades. The bank has been accused of dramatically inflating a number of other assets to disguise its precarious balance sheet.

Despite Lebanon's increasingly desperate situation, most observers are pessimistic about the willingness of elites to implement necessary reforms, and believe that an IMF agreement is unlikely and maybe impossible. The government has been unable to agree even with the parliament and the Central Bank not just over basic reform measures, but also crucially over the nature and extent of the crisis itself. Bankers stand accused of "[smuggling](#)" \$6B out of the country since October, and Bifani has accused elites of "dismantling the state" and warned of "losses being shifted massively to the population" as the currency fell. Others warn that corruption is so endemic as to make reforms nearly impossible. As one opposition figure and former minister [said](#): "The role of these parties is to appropriate state resources and redistribute them to their constituents...The status quo parties are functionally incapable of [leading reforms]". Elites are heavily invested in the maintenance of the status quo, and piecemeal reforms would likely imbalance the delicately calibrated distribution of power in the country, with potentially destabilizing results.

Protests, on the other hand, have apparently struggled to build a sustained movement or broad social

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<sup>9</sup> A recent World Bank [report](#) on the power sector noted that a lack of political will, transparency, good governance, and oversight have been key obstacles to successful reform in the past.

constituency, and the political future and prospects for the “revolution” are unclear. While arguably contributing to the movement’s perceived neutrality and independence, the relatively decentralized nature of the “leaderless” revolution may also complicate efforts to coordinate and drive reforms. As many observers have [noted](#), the breadth of the movement’s support was partly a result of the relative abstraction of their demands. The more specific demands became, the more fractures appeared. Additionally, the disintegration of the state and worsening of socio-economic conditions may only further strengthen traditional elites, as their parallel clientalist networks and “[protection rackets](#)” will grow in relative power, and many constituents will likely be forced to look to them even more for resources and protection.<sup>10</sup> The economic downturn will also have less effect on politically [connected](#) firms, further strengthening elite networks.<sup>11</sup> These dynamics will likely be only more self-reinforcing if and as security conditions deteriorate.

### Outlook for currency

The Central Bank’s efforts to protect the overvalued lira’s pegged exchange rate have been costly, [worsening](#) the current account deficit and undermining sectors suited for exports, which have contributed to the economy’s imbalances. The persistence of multiple exchange rates is in itself likely to be [destructive](#) in a number of ways; distorting markets, facilitating rent-seeking, and offering new pathways for corruption. Lebanon’s system already suffers from these ills, but the opportunities presented will only grow as conditions worsen. A gradual weakening of the lira is inevitable, but ideally would occur as a delicately managed process over time to soften the transition.

## Outlook for social context and security

### Social context and demographics: Counter-urbanization and Emigration

Polling showed around a 15% increase in intra-Lebanese tension in recent years, with around three quarters of Lebanese expressing a sense that violence is a potential option for addressing needs. Electricity, healthcare, and waste removal appear particularly linked to social stability, and the severe overcrowding of public schools caused by the closure of many private institutions will add more opportunities for social tension to grow. Many Lebanese who are able are expected to leave the country in the coming months, adding to brain drain and probably further altering the country’s demographics with consequences that will be difficult to predict. Arab Youth Survey results [published](#) in October, 2020 found that 77% of Lebanese youth were either actively trying to emigrate or had at least considered emigrating. The same percentage of Lebanese young people cited COVID-19 as making them more likely to emigrate, and increasingly desperate attempts at irregular migration have grown since summer 2020. Between July and mid-September, at least 21 boats have [left](#) Lebanon for Cyprus according to UNHCR, more than attempted the same journey during all of 2019. De-urbanization may also continue to gather pace, potentially further straining the capacity of rural municipalities.

### Security situation

In recent months, reports of “hunger crimes” emerged as economic conditions worsened, with thefts in the first half of 2020 exceeding those across all of 2019. Growing desperation is apparent in the rise of thefts targeting medicine, baby milk, and food, and the collapse of confidence in the banking sector has led to widespread holding of cash, increasing incentives for robbery. Petty and violent crime will continue to increase in the coming months, with unpredictable effects on social stability. Civil disorder, riots, and unrest are also likely, and may become a more regular feature of the political landscape, with further roadblocks and extended protests likely obstructing access and movement around the country. The emergence of political violence or sustained terrorist campaigns would be especially concerning developments, and could herald a broader securitization

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<sup>10</sup> An increase in service provision by political parties has already been observed, as well as the materialization of some informal community security mechanisms.

<sup>11</sup> Real estate constitutes a notable exception in this respect.



and militarization of the country's crisis, which in turn could draw regional actors into the conflict.



## Implications for Humanitarian Needs

Lebanese civil society actors have already begun assessing the emerging humanitarian needs affecting the country's population. A group of experts [convened](#) by AUB on 21 January laid out a "A Social Protection Emergency Response", highlighting the country's "inherently" weak social protection systems and calling for an overhaul of the National Poverty Targeting Program (NPTP), the prioritization of services for the most vulnerable, and incentives to keep children in school, spur job creation, and ensure continued healthcare access. Given the state of Lebanon's public services and scale of the impending crisis, these needs have only become more urgent and will require broad coordination across Lebanese civil society actors, INGOs, and multilaterals.

Unfortunately, however, Lebanon's government has historically shown [relative disinterest](#) in addressing issues such as public utilities, education, and healthcare, instead focusing more on the macroeconomic context, monetary policy, real estate, and taxation (though not of the sort that would sustainably address the country's budgetary problems).

These priorities likely reflect not only polarization and poor capacity for public administration, but also greater attention to the interests of elites as opposed to the general population.

In November 2019, well before the pandemic, the World Bank [projected](#) over 50% poverty levels among Lebanese by the end of 2020, a proportion that was instead reached by July.<sup>12</sup> In this context, needs for Lebanese citizens and Palestinians as well as Syrians are likely to grow acute, especially for nutrition, shelter, protection, livelihoods, health, and education. Poverty is also associated with a higher risk of death from communicable diseases, highlighting the dangers posed by the combined economic and COVID-19 crises. Surveys of Lebanese citizens in early 2020 noted a recent deterioration in perceived access to a number of public services, notably electricity, water, sewage, and waste. By April, the government was [estimating](#) that 75% of the population was in need of aid. In many ways the overall crisis has hit peripheral governorates more [severely](#) than more central ones, as already vulnerable workers in their disproportionately large public sectors have suffered the worst losses in purchasing power. Similar disparities in income have driven comparable patterns in education as well.

Further, even in a highly optimistic ideal-case scenario of a robust IMF agreement with widespread reforms, the implementation of the relief program and eventual economic recovery will play out over the course of years rather than weeks or months. In July, experts [predicted](#) the country's economy would contract by 25% in real

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<sup>12</sup> WFP has estimated that over 80% of Syrians already live below the extreme poverty line.

terms over the next two years. While the currency could begin to stabilize and confidence in the banking sector and investment climate could begin to improve on announcement of a deal, the current economic crisis will not be turned around overnight, and the consequences of the pandemic and decades of poor governance will not be resolved in the short or medium term. Humanitarian planning should therefore anticipate that current needs will persist and even worsen in the coming months and years.

Assessments and projections of the extent of needs are especially difficult, given the absence or poor quality of data around Lebanese populations in particular. Even statistical dashboards published in recent months contain data that is several years out of date. More quality data is available at more localized levels, however; Household Economy Analysis (HEA) on urban greater Beirut published in April 2020 was able to [model](#) the impacts of different scenarios and interventions on very poor, poor, and middle-income households. This analysis projected that all income category households will see a “monthly survival deficit” of around \$400 at the official bank rate. While focused on only a dozen neighborhoods, the findings are likely at least somewhat indicative of the way the crisis is affecting poor and even middle-income families across the country.

Other rapid needs assessments conducted by CARE in late August and early September in Akkar, Tripoli, and Mount Lebanon found food cited as a top priority for 40%, 52%, and 44% of respondents respectively, with health needs also cited by about a fifth, a quarter, and a third, respectively. While not generalizable, the surveys also found 81% of surveyed populations earned below the minimum wage based on the Bank’s currency exchange rate, and 94.68% were below minimum wage based on the black market rate. Further, over a third of HHs had seen income decline by more than 50% since 2019 and nearly a third had had members lose jobs. Additionally, HHs in all three governorates spent nearly a third or more of their income on food, followed by rent costs ranging from 15-27% of expenditures. HHs with children in school in Mount Lebanon and Tripoli spent just over 50% of their income on tuition and related costs, with HHs in Akkar spending about 44% on the same.

### Food crisis<sup>13</sup>

As noted, growing numbers of Lebanese are food insecure, and while estimates are difficult to make, the WFP [reportedly](#) expects that at least 750,000 Lebanese citizens will need food distribution by the end of the year. By May, food inflation had risen by 190% over the last year, and by June, the figure had neared [250%](#). This is particularly devastating for Syrian refugee families, 92% of whom were [estimated](#) have some degree of food insecurity as of 2019 (the number has likely grown). Very poor households likely spend about [30%](#) of their income on food, with proportions only somewhat less for poor and middle-income households. In late July, some [estimates](#) found that 910,000 people in the greater Beirut area alone had insufficient money for basic needs, including food. According to the World Food Programme (WFP), 163,000 households – close to one million people – live below the food poverty line.<sup>14</sup> In May, WFP found that half of all Lebanese and three quarters of Syrians were concerned about having sufficient food. Though these numbers had been growing since mid-2019, they increased substantially during the first months of 2020.

The government has announced more subsidies to facilitate food imports in recent months, but the required foreign reserves are limited and already under strain. Though global supply chain issues arising from the pandemic are partly to blame for food shortages, the main issue has been Lebanon’s extraordinary reliance on imported food, which has become increasingly expensive due to the collapse of the currency. The government’s ability to maintain food subsidies in the face of diminishing foreign reserves and simultaneously stabilize the currency will therefore be key variables affecting the severity of food insecurity over the coming months. A Reuters [report](#) from 20 August stated that the Central Bank would only continue fuel, wheat, and medicine

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<sup>13</sup>Cash-Strapped Lebanon Considers First Wheat Imports in Six Years

<https://www.bloomberg.com/news/articles/2020-04-07/cash-strapped-lebanon-mulls-importing-80-000-tons-of-wheat>

<sup>14</sup> Lebanon economic crisis: Food prices are so high not even shops can afford them:

<https://www.middleeasteye.net/news/lebanon-economic-crisis-food-shortage-price-hike>

subsidies for three more months, supposedly to avoid reserves dropping below \$17.5B.<sup>15</sup> More recent [reports](#) have suggested some subsidies on goods may only last a “few weeks” from late September. While the blast did not disrupt the country’s wheat supply as much as was initially [feared](#), the need to reestablish bulk capacity at the port remained ‘urgent’, according to WFP. A UNESCWA [brief](#) from late August estimated that half the country’s population could be “at risk of failing to access basic food needs” by the end of the year, with household food expenditure expected to reach 85% for the ‘most vulnerable’, according to the same report.

The crisis is already generating renewed attention in domestic agricultural production. While this is a necessary and important component of a sustainable recovery plan, it will not address needs in the short term, and Lebanon’s small portion of arable land (14%) means that imports will remain a permanent component of the country’s food supply. Small scale, urban, and subsistence farming efforts will form an important element of medium and long term recovery efforts, however. Despite this critical need, the agriculture sector in Lebanon is under severe [strain](#) already, as farms go bankrupt and land is sold to cover dollar denominated debt. Supply chain issues, lack of financing, and inflation are making it impossible for many farmers to purchase supplies such as fuel, fertilizer, seeds, pesticides, and other key components, with many farmers making losses of around 80%, according to the head of the farmer’s union. UNESCWA stated in late August that production costs had [increased](#) by over 50% for some agricultural systems, and that the cost of basic inputs had increased by as much as 400% based on a cash payment modality, with these factors expected to contribute to a more than 30% decrease in land under production in the winter. The same report stated that Lebanese farmers lost around a third of perishable products due to shortcomings in infrastructure and technical skills.

[Further](#), despite its centrality to the Lebanese diet, (providing around a third of calories) wheat is not a high revenue crop, making it less attractive to farmers. Production costs also remain high, due to labor, land, and post-harvest costs, as well as inefficiencies in irrigation. Lack of land security also complicates production for many farmers. A 2019 [study](#) also found that nearly half of farmers might stop growing wheat in the absence of government subsidies. Many also lack access to substantial cooperatives and, as in many other countries, represent an aging demographic, meaning that domestic capacity is likely to decline further in the future without intervention.

## Water

[21%](#) of Lebanese were reliant on piped water at the end of 2019, and for at least a dozen [neighborhoods](#) in greater Beirut, public water is generally only available 3-4 days a week. In Mount Lebanon, the price of drinking water from trucking increased by 30% since October. Reliable statistics are difficult to come by, but WHO/ UNICEF assessments made in 2016 and [cited](#) by the UN as recently as May 2020 state that 64% of the population in Lebanon lacks access to “safely managed drinking water”,<sup>16</sup> and that 97% of the country’s sewage does not receive secondary treatment. In at least one governorate, the second half of 2019 saw a dramatic increase in the number of Lebanese expressing concern about access to drinking water.

The outlook for the water establishment is also very concerning: unable to collect subscription fees,<sup>17</sup> pay staff, or buy diesel or parts to run pumping stations, it also struggles to afford chemicals and supplies for treatment plants. Maintenance is also becoming increasingly difficult due to aging infrastructure and the cost of components for equipment. The water establishment will need urgent support for the operation and maintenance of the system, including donations in kind.

On top of these needs, the 4 August port explosion caused an [estimated](#) \$40-45M in damage to water supply and sanitation facilities in greater Beirut, with losses of an estimated \$5M. Recovery needs for the sector were

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<sup>15</sup>The outlook for subsidies depends not just on the rate at which they are maintained or reduced, but also the extent of the government’s willingness to dip into reserves and potentially, depositor’s accounts.

<sup>16</sup> Defined as water that is 1) from an improved water source, 2) that is located on premises, 3) available when needed, and 4) free from faecal and priority chemical contamination.

<sup>17</sup>While [affordability](#) is a factor for poorer households, sector assessments have also [cited](#) “poor customer compliance with billing, unsystematic and low collection rates of bills” as contributing to the low cost recovery of water service providers.

estimated at as much as \$60M, with extensive operation, maintenance, and repair needs across the networks.

## Shelter

While direct data on the size of Lebanese populations facing shelter risks is difficult to come by, the number of citizens facing job loss and the severe decline in the LBP's value place the majority of Lebanese in considerable jeopardy. Landlords are also demanding rents set in dollars, making mass defaults and widespread evictions likely inevitable,<sup>18</sup> unless some sort of amnesty can be negotiated and enforced. July 2020 [surveys](#) in urban slum areas in Beirut and Mount Lebanon found a "critical" risk of evictions, with 98% of respondents anticipating an inability to afford rent in the coming months.<sup>19</sup> The 4 August blast is [estimated](#) to have caused up to \$2.3B in damage to the housing sector, and up to \$1.2B in losses, while leaving up to 300,000 homeless.

## Gender

The crises will have [disproportionate](#) gender impacts in a variety of ways, and may have long term effects on women's workforce participation and social roles. 81% of Lebanese women and 73% of Syrian women reported having increased domestic duties during the COVID lockdown, though in some cases layoffs have affected men more than women. Recent [research](#) has found that one of the biggest gender inequalities in Lebanon is the difference in time spent on unpaid care work, and this disparity is likely to worsen under current circumstances.

CARE [research](#) has also highlighted the extra burdens women face as caregivers, the reduced access to SRHR due to movement restrictions and income reductions, increased incidence of GBV during lockdowns, and the increased risk of negative coping mechanisms and sexual exploitation as a result of deepening basic needs. Domestic violence reports increased by 100%<sup>20</sup> during lockdowns, and "alarming" numbers of survivors have been coming to shelters in search of support. The medium to long term effects of the pandemic may also complicate protection modalities, as in person meetings may not be possible and access to online platforms may be limited as internet access declines.

## Protection

The compounding crises are likely to significantly increase risks around protection, with food insecurity and economic conditions likely pressuring more children into various forms of [child labor](#), which was "prevalent" in Lebanon even before the pandemic. Forced and early marriages may also become more of an issue across the country, as well as negative coping mechanisms, prostitution, trafficking, and survival sex.

While difficult to assess, the need for psychosocial support services is likely becoming acute, with a "marked increase" in requests in recent months and the prevalence of a variety of high risk factors for mental health problems across all populations. The apparent resurgence and likely persistence of the coronavirus will also continue to complicate community-based activities, and require modified modalities for supporting casework. Elderly Lebanese populations may also be at particular risk, and some may not be willing or able to communicate the extent of their needs, particularly for things like food, rent, and water. Following the port explosion, the World Bank estimated up to \$40M in recovery needs for social protection and livelihoods, including for social safety nets and immediate assistance.

Syrian refugees already face discrimination and legal pressures at the local and national level, and current residency and civil status challenges will only worsen with the introduction of the new draft plan, which is discussed in more detail below.

## Livelihoods

Lebanon is also facing a severe jobs crisis. Public sector jobs accounting for 14% of the labor force are likely to be under significant strain, facing salary cuts if not layoffs due to the state's worsening fiscal outlook. The service sector [employs](#) 76% of the workforce, many informally, and has already been severely impacted by the

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<sup>18</sup> At the end of 2019, 31% of residents did not own their dwellings.

<sup>19</sup> The sample focused on former beneficiaries but was not representative of that population.

<sup>20</sup> Some reports cite a 184% increase.

pandemic and crisis to date. Much of the service sector is specifically [tourism](#) related (25% of the country's labor force overall<sup>21</sup>). Between October and January, 25,000 people lost their jobs in the [restaurant](#) sector alone, according to the Secretary-General of a restaurants syndicate. Many more have been closed due to the lockdown and are now finding their costs unsustainable. These jobs in particular are not likely to recover in the near or medium term. The International Labor Organization [estimates](#) that some 819,000 work in the "high risk" sectors of accommodation and food services, manufacturing, construction, wholesale and retail trade, real estate, and arts and entertainment.

A Labor Force and Household Living Conditions (LFHLC) survey published in December 2019 by the Lebanese Central Administration for Statistics (CAS) found 55% of employment to be informal, highlighting the precarious circumstances for most workers. The unemployment rate was already over 11% at the end of 2019, and reached 23% for youths between 15 and 24. Fully 44% of residents lacked any form of social protection, and nearly half of those who had protection were reliant on the National Social Security Fund (NSSF).

By May, 2020, ILO and Fafo Institute [surveys](#) suggested that the unemployment rate may have reached as high as 37% among Lebanese men and women, and as high as 52% for Syrian men. 84% of respondents had been laid off either permanently or temporarily as a result of the COVID crisis, with about equal portions of Lebanese permanently laid off as temporarily laid off. Many workers will also shift from the formal to the informal labor force, with the added precarity that entails. Income over the month of March declined by more than two-thirds compared with monthly averages over the last year, and only a fifth of Lebanese households reported having savings, of which only half could last over a month. A May, 2020 survey by CARE found that a full third of households reported their income having fallen by half in the preceding two months.

Private enterprises reported significant challenges arising from the COVID crisis, including reduced sales and revenue, reduced access to cash, increased production costs, and supply chain issues with imports. By the end of May, most small businesses surveyed stated that they would be out of business if current conditions continued for more than three months. More than 130,000 private sector jobs were lost in the first half of 2020 according to the UN. Recent research has also [shown](#) that Lebanon's clientelist system undermines growth and job creation at the sectoral level, likely due in part to reduced incentives for innovation.<sup>22</sup>

Additionally, 59,000 teachers and 15,000 school administrators currently work for private schools, many of which will likely be forced to close in the coming months.

Emergency, short term measures will be required to protect already vulnerable economic sectors, and the many workers already laid off or in precarious conditions. In the medium to longer term, some employment [opportunities](#) will be found in infrastructure, green energy, local production, entrepreneurship, and related sectors, which will be crucial to Lebanon's eventual recovery. Other recent [initiatives](#) have focused on the potential for job creation in the horticulture sector.

## Education

The effects of the crises on primary and secondary education in Lebanon will also be severe. Though clear numbers are so far difficult to determine, it is likely that many private schools will have to close in the coming year, due not just to the pandemic but also the inability of most families to pay tuition fees. At least 16,000 children [moved](#) to public schools during the spring 2020 semester, even before the full effects of the economic situation had set in. Though French FM Le Drian said in late July that France has been "totally mobilized" to support the 52 French schools and 300 French-speaking Christian schools around the country,<sup>23</sup> the details of the "emergency plan" for "all" the families of the 52 French schools or a foundation to support other French-

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<sup>21</sup> 25,000 people in tourism and related services lost their jobs between October 2019 and January 2020, before the pandemic.

<sup>22</sup> Ishac Diwan, Jamal Ibrahim Haidar, Cronyism reduces job creation in Lebanon, 18 January 2020, <https://voxeu.org/article/cronyism-reduces-job-creation-lebanon>

<sup>23</sup> 61,000 students attend the former, and 190,000 attend the latter.

speaking schools were not clear. France has reportedly pledged to donate \$17M to francophone schools in the country, and Le Drian promised in July that France “would not allow the education sector to collapse”.

Lebanon’s Education Minister has [warned](#) that public schools would not be able to accommodate all the students leaving private schools however, and plans to increase public school capacity through renting additional buildings appear unfunded and in very early stages. 70% of Lebanese children attend over 1,600 private schools, with the head of Catholic and private school associations [warning](#) in late May that “If the economic situation continues, private schools will be forced to close down for good, a move that will affect more than 700,000 students, 59,000 teachers and 15,000 school administrators.” Aside from the obvious ways in which lower-income families will suffer [disproportionately](#) from the growing education crisis, disparities in utilities such as electricity provision will also undermine efforts to transition to remote learning in governorates with lower electric and internet connectivity, highlighting the various equity issues likely to worsen as the crisis continues.

In late September, the IRC [estimated](#) that at least a quarter of children in Beirut were at risk of missing out on their education in the coming school year, following the extensive damage from the port explosion. The estimate also highlighted the indirect challenges presented in the aftermath of the blast, including the safety and cost of public transport to backup school locations, and the effects on children with disabilities. The blast is also [estimated](#) to have caused up to \$20M in damage to the education sector, and up to \$85M in losses.

Many Syrian children will likely be pushed out of the already overburdened public school system, depending on the numbers of Lebanese students that arrive in the coming semester. The cost of transportation was already a major barrier to Syrian refugee children attending school before the crises, and now has likely become prohibitive for many or most.

### Health sector

At the end of 2019, nearly a quarter of Lebanese residents had regular medical expenses, suggesting that the collapse of real incomes will significantly affect healthcare access as well as food, shelter, and many other needs. Over the last quarter of 2019, NGOs [reported](#) a 20-30% increase in Lebanese citizens seeking access to NGO-provided health services, suggesting that the alternatives were becoming too expensive for many Lebanese even before the deepening of the economic crisis and onset of the pandemic. As of June 2020, the price of imported medical supplies had increased 30-40%, and over the course of 2020 the sector has seen repeated shortages of medicines for chronic and acute diseases, due to the government’s failure to allocate funds. The importation of medical equipment has also been [hindered](#) by the lack of dollars and bank restrictions on transferring money outside the country, affecting the ability to access PPE equipment and ventilators in particular.

Many of Lebanon’s hospitals have been [forced](#) to scale back operations and even close departments and delay non urgent procedures, due to the lack of electricity and prohibitive cost of fuel for generators. By July, most had cut bed capacity by at least 40%, according to WHO. Many have also been unable to pay staff, and warn they are days away from being “overwhelmed” or on the verge of collapse. Government advisors have warned of the exhaustion of ICUs by mid-August, and medical workers report “serious” shortages of PPE. The government owes private hospitals nearly \$1.5B, and nearly 99% of medical supplies are imported, with shortages already reported across the country. On top of this, the port explosion is [estimated](#) to have caused up to \$115M in damage to the health sector, and up to \$245M in losses. Preexisting supply chain issues will exacerbate efforts to rebuild stocks and replace critical equipment.

Over the month of July, Lebanon clocked over half of its total coronavirus cases, a fifth of which were untraceable. Additionally, over a third of Lebanon’s nurses have reportedly been laid off since November, adding additional strain to the sector. Further, many populations in Lebanon, both Lebanese and refugees, live with poor access to water, sanitation, and hygiene, raising the risks of transmission of communicable diseases. As in other sectors, the converging crises will magnify existing socio-economic disparities in [access](#) to healthcare, with higher uninsured populations in areas such as North Lebanon and Akkar.

## Refugees

In July, the Lebanese Ministry of Social Affairs produced a paper containing plans for accelerating returns of Syrian refugees and reordering their presence in Lebanon. The plan presents severe protection risks and would add considerable legal pressure on refugees already facing an increasingly hostile social environment. It also contains provisions that would add scrutiny over and enable greater pressure on NGOs serving Syrian populations, while also apparently seeking to exert greater control over the development and implementation of refugee oriented programs. It also outlines aggressive measures to more fully register Syrian populations in Lebanon, as well as an “electronic platform” designed to collect and house this data. It further contains language questioning the validity of asylum claims, and generally intended to facilitate and pressure returns. In reality, polling has consistently shown that Syrian refugees are well aware of the severe risks of return, and the threats to their safety that persist in Syria.

More broadly, Syrian refugees in Lebanon also face growing resentment and hostility from host communities. These tensions are likely to grow as conditions worsen for Lebanese citizens, particularly as utilities and public services come under increasing strain due to the combined effects of the pandemic and economic crisis.

Starting in early 2019, relations between Lebanese citizens and Syrian refugees became increasingly tense and underwent notable politicization. Relations continued to deteriorate over the course of 2020, with particular perceived competition over jobs, access to services (such as electricity and healthcare), and aid. These developments pose conflict sensitivity concerns for NGOs as well, as the already perceived bias in service provision will only become more frustrating for Lebanese citizens as their living conditions decline. These issues will pose particular concerns around cash and food distributions, and instances of exploitation and harassment are already growing around these modalities, including during ATM withdrawals. The further decline of social services will likely be a key precipitant of worsening social tension, with electricity, healthcare and waste removal likely to be particularly sensitive. These tensions are likely to complicate NGO interactions with both community members and municipal governments. In the aftermath of the 4 August blast in Beirut, numerous reports emerged of refugees being denied assistance after distributors learned they were Syrian, suggesting that refugees will continue to experience discrimination even when they share the trauma of their neighbors.

Concerns have also grown over conditions for Palestinian refugees in the country, with disproportionate economic effects compounded by a COVID-19 death rate reportedly double that of the Lebanese population, and fears that social distancing and sanitation measures will be nearly impossible in dense and crowded camps, where high positivity rates are anticipated.

Syrian refugees also face a worsening shelter crisis, which has been explored in several recent [reports](#). Over 2,200 were evicted in the first half of 2020. The three sectors in which Syrians are allowed to formally work (agriculture, construction, and cleaning) are all also especially hard hit by the pandemic and economic crises, and will remain vulnerable for the foreseeable future. These trends are likely to negatively impact many Syrians remaining in Syria as well, who remain dependent on remittances from across the border. Overall, annual remittances to Syria are [estimated](#) to amount to about \$1.6B, or nearly 15% of nominal GDP. Around 17% of this [amount](#) came from Lebanon in recent years, though current real figures are difficult to assess and may be “orders of magnitude” larger, according to some [analysts](#). Syrians in Lebanon attempting to send money home are already seeing their ability to support relatives undermined by widespread job losses, the collapse of the Lebanese pound, the closure or complication of many formal and informal money transfer channels, and recent regulations by the Syrian Central Bank, stipulating that incoming remittances use the official exchange rate, essentially halving their value again. Border closures and movement restrictions arising from the pandemic have also further complicated informal means of sending money.

## Broader Linkages with Syria

The Lebanese and Syrian political and economic systems are closely intertwined in wider ways. Many Syrian businessmen and elites became heavily dependent on the Lebanese banking system as sanctions expanded, heightening the shock when Lebanese banks imposed capital controls and Caesar sanctions raised risks for

financial institutions doing business with Syrian figures.

The Syrian economy has also relied significantly on imports through Lebanon, though some research early in the war [demonstrated](#) that Lebanese exporters were at least initially not as affected by the conflict as those in Turkey and Jordan. Lebanese exporters of wheat, for example, initially benefitted from the war, though exporters of manufactured goods and mineral fuels suffered. It also diverted licit overland trade to the port system, raising costs of some goods. As the war continued, however, the economies' respective sizes flipped, with the Lebanese economy [overtaking](#) the Syrian considerably, due to the effective collapse of the latter. The instability of the Syrian war obviously also hurt an already unproductive Lebanese economy in other ways, due partly to its heavy dependence on tourism, services, and real estate, all particularly vulnerable to insecurity.

Many Lebanese elites and business figures were also anticipating economic relief arising from eventual reconstruction across the border, which has also failed to materialize. While the Lebanese economy's dependence on Syria has already declined considerably and the possibility of full collapse is likely already priced in to a certain extent, the effects of further economic deterioration in GoS-controlled areas are difficult to predict, and the indefinite postponement of reconstruction will only complicate Lebanon's economic outlook.

## Scenarios

### The Impact of the Beirut Blast



The explosion at the Beirut port has dramatically changed political dynamics in certain ways, while leaving underlying conditions unaltered in others. The explosion and investigation that followed galvanized public anger and focused scrutiny even more clearly on the government's incompetence and corruption. It is still unclear, however, whether this anger can be translated into effective, coherent pressure on the government to implement reforms, or whether it would be sufficient to loosen the hold of sectarian parties on their respective constituencies.

While the blast quickly led to renewed protest cycles and expressions of solidarity, the multiple cabinet resignations it precipitated have not led to substantive changes in the country's political system. Additionally, the negotiations that followed have not broken the political stalemate and only underscored elite resolve and determination to maintain the status quo. It is also possible that, as in past elections, public anger could give way to apathy and despair. Some Lebanese may also prefer the current system to the fear of anarchy and disorder that could result from destabilizing the political system, a fear that some political actors will be tempted to cultivate.

The blast has also accelerated and worsened the country's looming humanitarian crisis, exacerbating already profound food insecurity and growing shelter needs. It may complicate the supply chain issues the country was already facing as well, and the infrastructural weaknesses underlying many of the social issues already confronting most of the population. While it will precipitate immediate humanitarian aid at least in the hundreds of millions of dollars, it will not short-cut the conditions placed on the IMF or CEDRE bailouts, which likely remain nearly impossible for parties to accept given their implications.



### Assumptions:

- While a partial deterioration of the security environment may be perceived as advantageous to some of Lebanon's elites, a full civil war is not desirable for any parties.
- The IMF and CEDRE donors will remain unwilling to offer large scale support in the absence of real substantive reforms.
- Real, substantive reforms on the scale demanded by the IMF are a fundamental threat to Lebanon's current government system and elites
- Lebanon's system deeply disadvantages non-sectarian parties, which will struggle to build constituencies and coalitions
- While unintended escalation remains possible, Israel and Hezbollah prefer to maintain their "balance of deterrence" for the time being. Nevertheless, small skirmishes or exchanges will continue.

### Scenario One: Partial reforms and stabilization – *Unlikely Best Case*

A still unlikely best case scenario would see some sort of limited deal with the IMF and other lenders, combined with at least piecemeal reforms and a gradual medium term stabilization of the current crisis. While the implementation of the full range of proposed reforms is improbable given the obstacles and scale of the systemic problems noted above, the magnitude of the impending crisis may force some compromises on various sides, allowing for full collapse to be avoided and some of the system's worst excesses to be curtailed.<sup>24</sup> The country would still experience a severe economic contraction for the next several years at least, with a sharp decline in living standards, most of the population remaining in various levels of poverty, and broad humanitarian needs among the Lebanese population for at least several years. The country would be forced to make a painful transition to "muddle through" to a more sustainable and productive economic model, with greater domestic production of food and key goods and a relatively more rural population. Incomplete reforms would not set the country on a fiscally sustainable path, however, and popular anger following the port blast would not be effectively channeled into substantive political progress.<sup>25</sup>

*Potential Triggers: (not independently sufficient)*

1. *Focused and sustained popular pressure*
2. *Early elections leading to entry of independent MPs and / or parties into parliament*
3. *Threat of sanctions and clear path of intermediate, partial reforms acceptable to elites*
4. *Depletion of reserves may combine with other factors to add urgency*
5. *Prospect of complete economic collapse*

### Scenario Two: Protracted stalemate and deterioration – *Likely Bad Case*

A likely scenario would see a stalemate and eventual breakdown in IMF negotiations leading to the deepening of the current crisis. While some limited international support may be possible, any relief in the absence of the IMF umbrella would be insufficient to protect the currency or maintain subsidies for food imports, much less return the country to a sustainable fiscal path. Additionally, the failure of reforms would see the further

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<sup>24</sup> Some in the Lebanese government have expressed increasing interest in turning "east". While most of the potential patrons floated in this option are themselves facing fiscal crises or unwilling to bail out the current government, China might potentially have the means and willingness to consider support to the government. While preferred by Nasrallah and potentially less politically problematic due to a disinterest in reforms and good governance, this option would still have strings attached. Though potentially attractive in the short term, help from the Chinese government would likely entail some combination of privatization, business concessions, high interest rates, and potential asset forfeiture in the event of an inability to repay loans. Further, it would not address the fundamental dysfunctions at the heart of governance in Lebanon, or set the country on a sustainable fiscal path.

<sup>25</sup> This and related but more optimistic outcomes, if achieved, would likely follow from a "flanking" strategy, which would avoid directly confronting thorny issues such as the role of Hezbollah in the short term, while focusing on electoral reforms, civil society, political organization, civic education, and media development in order to cultivate a space and constituency for wider and more sustainable reforms in the longer term.

withering of state capacity and the reinforcement of and growing reliance on parallel clientelist networks competing over increasingly scarce state resources. The vast majority of the population would remain in poverty for the foreseeable future, with widespread and profound humanitarian needs for at least several years, particularly for food, water, shelter, livelihoods, and healthcare. Most Lebanese with the option will seek to emigrate abroad, worsening brain drain and undermining human capital. Others will seek to leave irregularly, despite the hardening of European borders in recent years. Political elites will be increasingly tempted to further rely on fear and social divisions to maintain loyalty in their constituencies, and may find some deterioration of the security environment advantageous towards these ends. Public anger following the port blast would lead to further unrest and clashes with security forces, and though it might escalate and prompt further crackdowns, would likely eventually dissipate into apathy and not succeed in forcing fundamental political changes. Civic space would continue to shrink while legacy parties would remain the actors best positioned to provide security and services to their client base.

*Potential Triggers:*

*The current trajectory is sufficient to bring about Scenario 2. However, continued deterioration of economic and social situation could contribute to intercommunal tensions and/or political violence, or facilitate growth of extremist elements.*

### **Scenario Three: Accelerated collapse – Possible Worst Case**

A possible worst case scenario would see the combined effects of mass unemployment, the banking crisis, political paralysis, and soaring hyperinflation lead to precipitous economic collapse and state disintegration, pushing nearly the entire population into profound poverty and in need of urgent humanitarian assistance. Severe food scarcity would combine with widespread shelter crises and water shortages and near complete loss of electricity. These developments could be accompanied by sustained civil unrest and insecurity, which could cause or be the cause of political violence, including with international and/or intercommunal dimensions. These, combined with hostility and suspicion towards refugees and international organizations would add profound access challenges to an already fragmented relief effort and humanitarian architecture unsuited for the nature and scale of the crisis. Continuing public anger following the port explosion would drive instability but not succeed in creating sustained coherent pressure for substantive reforms, which would be drowned out in the social and economic breakdown.

*Potential Triggers:*

*The current trajectory is sufficient to bring about Scenario 3, however, certain triggers could accelerate a transition to the third scenario, or make it more likely:*

- 1. Depletion of reserves/removal or reduction of subsidies*
- 2. Intersecting social, health, and economic crises*
- 3. Sustained failure to form governments*
- 4. Regional and/or intercommunal security incidents*

### **Caveats, key variables and dynamics**

Careful contextual analysis can highlight the drivers of the current crises, their likely implications for humanitarian needs, and the broad contours of possible futures. Comparisons with historical and contemporary case studies can also help illuminate some of the likely consequences of and interactions between key social, political, and economic variables. Ultimately, however, the present confluence of crises in Lebanon is unique and unprecedented, and the effects of the global pandemic alone are likely to be very difficult to predict, even in countries with relatively stable and effective governance. The analysis above will therefore require regular updating and reassessment in light of the emergence of new data and the evolution of the crises. These scenarios are focused primarily around the trajectory of key issues such as IMF negotiations, proposed reforms, and basic governance. Various other trends could act as catalysts, driving descent into versions of Scenario Three. Key variables will include:

### Security variables:

- Regionalization- extent to which regional powers become more assertive and involved in the situation.
- Role of Hezbollah – and efforts of external powers to address its presence in government, with more overt and coercive attempts to force Hezbollah out of the government likely contributing to the securitization of the crisis.
- Securitization- decline in stability and security could become self-reinforcing.
- Response of LAF and other security forces – the government has moved to grant emergency powers to the military. This places the LAF in an especially difficult situation, as the government has sought to draw on the LAF's perceived legitimacy as its own has all but evaporated. It is highly likely that the military will increasingly be drawn into a highly sensitive and complicated role in the coming months, with profound risks for its independence and ability to maintain a de-politicized domestic role.

### Social / economic variables:

- Worsening of food / humanitarian crises.
- Maintenance and rate of import subsidies, and corresponding increases in prices of wheat, fuel, and medicines.
- Further inflationary policies.
- Coherence of opposition/ popular movements.
- An attempt by the Lebanese government to significantly increase pressure on Syrian refugees.
- Demographics- will continue to evolve as migration grows, potentially altering the make-up and relative balance of various constituencies in unpredictable ways.
- Further defactocantonization- as the central government continues to disintegrate, Lebanon may see some signs of increasing defactocantonization in parts of the country. The way this might play out and its implications for stability remain unclear.

### Major Risks

- Systemic paralysis leads to a breakdown in political talks and IMF negotiations, leading to **eventual economic and currency collapse** after short term aid following the explosion is exhausted.
- Increased political and social tensions lead to a **deterioration of security environment**, including political violence, crackdowns on protestors by security services, and the further **securitization of the political environment**.
- Price inflation, currency devaluation, supply chain issues, and dependency on imports (with weak local currency) all contribute to growing **food insecurity**.
- Worsening deterioration of aging infrastructure leads to increasing **water shortages** for both Lebanese and refugee populations.
- Uncontrolled COVID spread continues to overburden an already severely underfunded and strained healthcare system. Shortages of equipment, supplies, electricity, and staff bring **hospitals to point of collapse**.
- Mass unemployment, banking crisis, and currency devaluation lead to **shelter crisis** as rent becomes unaffordable for many Lebanese citizens.
- Perceptions of partiality in beneficiary selection and growing poverty in Lebanese population leads to **increased tension between refugee and host communities**, with particular focus around ATM withdrawals, distribution points, and informal settlements.
- The absence of the state and high visibility of NGOs and INGOs combined with severe and growing needs driven by long standing, systemic dysfunction contributes to increasingly unrealistic expectations among local populations, raising risks that NGOs and INGOs become associated with the failures and incoherence of the relief effort. French President Macron prominently **stated** that French aid would be going "directly towards NGOs", further associating the sector with the inevitably challenging response,

and focusing attention on the ability of NGOs to respond to the crisis. The relative passivity of the state in coordinating response efforts will present both challenges and opportunities for NGO programming. Relatedly, INGOs should also ensure the inclusion of local NGOs in decision-making and funding, and seek to localize the response as possible.

- The deepening and protracted economic crisis in Lebanon, worsened by COVID-19 restrictions, leads to **widespread unemployment/ underemployment** among both Lebanese and Syrian populations.
- **Regionalization** of conflict leads to increased communal tension fueled by foreign patrons of various factions, including potentially uneven or lopsided foreign intervention in support of certain parties.

## Key Considerations

- **The need for data:** While generally well understood qualitatively, the scope and scale of the deepening needs of Lebanese citizens are not well understood. Much of the data on service provision and emerging gaps is incomplete or out of date, even in official documents published in recent months. Over the next several months, there will be an urgent need to coordinate and scale up assessment capacity in order to better understand and track the multiple crises affecting Lebanese populations. I/LNGOs will play a critical role in this process.
- **Cash programming** is likely to become more important and more complicated in the coming months, as many interventions pose risks of both exacerbating social tensions and perceptions of bias in NGO programming. While some [research](#) has suggested that cash distributions do not necessarily drive intercommunal resentment, these relationships may be placed under additional strain as broader socio-economic conditions deteriorate. There may also be a risk that severe economic contraction and currency disruptions will inflate the relative size of NGO-implemented cash programming, increasing the possibility that these programs could begin to distort local economies.
- Significant increases in emergency WASH needs in general populations may provide opportunities for new engagement and creative thinking around more ambitious WASH programming.
- Widespread pressure on healthcare system may provide opportunities for broadened and more equitable social service provision.
- **Food:** While not sufficient to address Lebanon's food needs and with limited immediate payoff, the development of the domestic agriculture and agro-food sector will be crucial for mitigating the food crisis and supporting livelihoods in the medium to long term. The sector will require considerable investment and support across the entire value chain, and small scale farming initiatives and strong cooperatives should also be supported where possible.
- **Conflict Sensitivity:** Social tensions will grow considerably in the coming months, and political factions will seek to ensure incoming aid flows along lines of patronage and clientelist networks. Aid actors should redouble their due diligence and conflict sensitivity efforts to ensure interventions understand local contexts, political landscapes, and social dynamics and are consciously designed to mitigate negative trends wherever possible.