

IT'S NOW OR NEVER

LEBANON POLICY CONFERENCE

KEY TAKEAWAYS

THE MIDDLE EAST INSTITUTE

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EXECUTIVE SUMMARY

Over the course of two weeks in May and June, the Middle East Institute hosted its inaugural [Lebanon policy conference](#) in collaboration with the [American Task Force on Lebanon](#) (ATFL) and [LIFE](#). This series of events brought together leading diplomats, policymakers, economists, development practitioners, and think tank professionals from the U.S., Europe, the Middle East, and Lebanon to discuss the urgency and viable paths forward for the country's political, financial, and humanitarian crises.

Both the conference and this booklet come at a time when decisions made in the weeks and months ahead by Lebanese stakeholders and the international community will fundamentally influence the country's trajectory for years to come. The booklet summarizes the main insights, takeaways, and policy recommendations that conference participants have put forward over the course of nine panels and keynote conversations. Below are some of the conference's overarching and recurring themes.

On the Political and Diplomatic Fronts

- Lebanon's current political stalemate is deliberate. Narrow political calculus and unwillingness to conduct serious reforms have prevented the formation of a much-needed government for months. An international consensus and joint diplomatic effort bringing together the U.S., France, and like-minded allies can help hasten the formation of a functioning, credible, and responsible government. Targeted sanctions can and should be used as necessary to penalize obstruction, corruption, and abuses.
- Lebanon's municipal, parliamentary, and presidential elections should be held freely, fairly, transparently, and as scheduled in 2022 without internal or external delays, interferences, or obstacles.
- The future of Lebanon and the broader Levant will significantly be affected by the extent to which U.S. negotiations with Iran include provisions to stop and contain Iran's nefarious influence through its proxies in the region.
- U.S. leadership and mediation are critical to restart, sustain, and finalize the maritime border negotiations between Lebanon and Israel and hence unlock the economic potential of natural resources in the eastern Mediterranean.

On the Economic and Financial Fronts

- Lebanon needs to recognize the extent and magnitude of its systemic losses and develop a fair and comprehensive macro-stabilization plan to avert total collapse. A piecemeal approach and a lack of vision and strategy are proving detrimental to the country's long-term prospects for recovery. Any serious attempt at putting Lebanon back on track will require strong economic leadership and a political willingness to reform.
- Reforms are likely to be possible only within a credible program negotiated with the IMF and a stronger engagement with the World Bank and Lebanon's International Support Group. They should include a credible fiscal strategy based on effective debt restructuring and fiscal reforms, a banking system restructuring plan addressing the future of the central and commercial banks, a credible monetary

strategy and new exchange rate regime, an overhaul of institutions and state-owned enterprises, and the development of a modern, dynamic, and productive private sector.

On the Social and Humanitarian Fronts

- U.S. leadership and involvement in international humanitarian relief efforts and targeted assistance programs through USAID, international financial institutions, and trusted non-governmental entities remain essential. Such engagement can help prevent a humanitarian catastrophe in the short term among the ranks of Lebanese citizens and refugee communities and hence minimize the risks of severe civil unrest and instability.
- The implementation of a social safety net in collaboration with the World Bank to shield poor households from deteriorating socio-economic conditions and the eventual lifting of subsidies is an urgent priority. This should include the development and adoption of credible and transparent beneficiary identification mechanisms and the provision of direct foreign currency cash payments.
- The education and health care systems are collapsing at alarming rates. Earmarking specific funding to enable such institutions to continue operations and service provision will help avert long-term damage to Lebanon's human capital.

On the Defense and Security Fronts

- The Lebanese Armed Forces (LAF) are the remaining backbone of the state in Lebanon and have proven to be a capable, reliable, and respected U.S. partner in the region. Continued support to the LAF's mission and troops as well as the Internal Security Forces in such dire times is critical to protect Lebanese stability, public order, and territorial integrity.
- While the U.S. administration remains concerned about Hezbollah's influence in Lebanon, the LAF has proven to be an independent decisionmaker. By design, U.S. military assistance includes strict controls and monitoring mechanisms, which ensure that weapons and support are fully delivered to and used by the LAF. The LAF-Hezbollah relationship is one that is limited to deconfliction.

Although it is entirely up to the people of Lebanon to chart their own path forward and effect the change and future they want to see for their country, a concerted effort by the international community will remain essential to support and empower their aspirations. We hope that this inaugural Lebanon conference and booklet will help inform the approach of Lebanon's partners to supporting the country's recovery, stability, and prosperity.

ملخص تنفيذي

على مدار أسبوعين في أيار وحزيران، استضاف معهد الشرق الأوسط مؤتمره الافتتاحي حول سياسة لبنان بالتعاون مع فريق العمل الأميركي من أجل لبنان ولايف. جمع المؤتمر دبلوماسيين وصانعي سياسات واقتصاديين وخبراء في مجال التنمية وباحثين من الولايات المتحدة وأوروبا والشرق الأوسط ولبنان لمناقشة خطورة الأزمات السياسية والمالية والإقتصادية والإنسانية التي تعصف بلبنان والمسارات والحلول الممكنة لها.

يأتي المؤتمر وهذا الكتيب في وقت حساس ستؤثر فيه القرارات المتخذة في الأسابيع والأشهر المقبلة من قبل أصحاب القرار في لبنان والمجتمع الدولي على مسار البلاد لسنوات عديدة. يلخص الكتيب الأفكار والتوصيات الرئيسية التي طرحها المشاركون في المؤتمر على مدار تسع جلسات حوار. فيما يلي أبرز عناوين المؤتمر.

على الصعيد السياسي والدبلوماسي

- المأزق السياسي الحالي في لبنان متعمد. لقد حالت الحسابات السياسية الضيقة وعدم الرغبة في إجراء إصلاحات جادة دون تشكيل حكومة تشد الحاجة إليها منذ شهور. بإمكان الإجماع الدولي والجهد الدبلوماسي المشترك بقيادة الولايات المتحدة وفرنسا ومشاركة الحلفاء الإسراع في تشكيل حكومة فاعلة ومستقلة وذات مصداقية في عيون اللبنانيين والعالم. يمكن ويجب استخدام العقوبات المستهدفة عند الضرورة لمعاقبة العرقلة والفساد والانتهاكات من قبل سياسيي لبنان.
- على الانتخابات البلدية والنيابية والرئاسية في لبنان أن تقام بحرية ونزاهة وشفافية في حينها عام 2022 دون أي تأخير أو تدخلات أو عقبات داخلية أو خارجية.
- سيتأثر مستقبل المنطقة عموماً ولبنان خصوصاً بمدى احتواء المفاوضات الأميركية مع إيران على بنود لوقف واحتواء النفوذ الإيراني عبر وكلاء إيران في المنطقة.
- تبقى القيادة والوساطة الأميركية ضروريتان لاستئناف وإنهاء المفاوضات على الحدود البحرية بين لبنان وإسرائيل، وبالتالي إطلاق الإمكانيات الاقتصادية للموارد الطبيعية في شرق البحر الأبيض المتوسط.

على الصعيد الإقتصادي والمالي

- على المسؤولين اللبنانيين إدراك حجم خسائر لبنان النظامية ووضع خطة عادلة وهادفة لتحقيق الاستقرار وتجنب الانهيار التام. لقد ثبت أن النهج المجزأ وعدم وجود رؤية واستراتيجية بضرر باقٍ التعافي الطويلة الأجل للبلد. إن أي محاولة جادة لإعادة لبنان إلى المسار الصحيح ستطلب قيادة اقتصادية قوية واستعداداً سياسياً جاداً للإصلاح.
- من المرجح أن تكون الإصلاحات ممكنة فقط في إطار برنامج موثوق يتم التفاوض عليه مع صندوق النقد الدولي وفي ظل تعاون أكبر مع البنك الدولي ومجموعة الدعم الدولية للبنان. على أي استراتيجية مالية وإقتصادية ذات مصداقية أن تتضمن إعادة هيكلة الديون بفاعلية، وإعادة هيكلة النظام المصرفي المفلس، وإعادة النظر بمستقبل ودور المصرف المركزي والمصارف التجارية، وتحديد نظام سعر صرف جديد، وإصلاح شامل للمؤسسات والشركات المملوكة من قبل الدولة، وتطوير قطاع خاص حديث وديناميكي ومنتج.

على الصعيد الاجتماعي والإنساني

- لا تزال قيادة الولايات المتحدة ومشاركاتها في جهود الإغاثة الإنسانية الدولية ضرورية في لبنان. كذلك، تبقى برامج المساعدة من خلال الوكالة الأميركية للتنمية الدولية والمؤسسات المالية الدولية والهيئات غير الحكومية الموثوقة أساسية لدرء كارثة إنسانية على المدى القصير في صفوف المواطنين اللبنانيين واللاجئين السوريين والفلسطينيين، وبالتالي تقليل مخاطر الاضطرابات المدنية الشديدة وحالات الفوضى وعدم الاستقرار.
- يعد إنجاز وتنفيذ شبكة أمان اجتماعية بالتعاون مع البنك الدولي لحماية الأسر الأكثر فقرا من تدهور الظروف الاجتماعية والاقتصادية ورفع الدعم أولوية ملحة. ومن الأولويات على هذا الصعيد اعتماد آليات موثوقة وشفافة لتحديد المستفيدين المحتملين وتوفير مدفوعات نقدية مباشرة بالعملات الأجنبية لهم.

على الصعيد الأمني والدفاعي

- الجيش اللبناني هو العمود الفقري الوحيد المتبقي للدولة في لبنان، وقد أثبت أنه شريك قادر وموثوق ومحترم في المنطقة للقوات الأميركية. إن استمرار دعم مهمة القوات المسلحة اللبنانية وعناصرها وقوى الأمن الداخلي في هذه الأوقات الصعبة أمر بالغ الأهمية لحماية الاستقرار والنظام العام وسلامة الأراضي اللبنانية.
- في وقت لا تزال الإدارة الأميركية قلقة بشأن نفوذ حزب الله في لبنان، أثبت الجيش اللبناني أنه صانع قرار مستقل. تشمل المساعدة العسكرية الأميركية ضوابط وآليات مراقبة صارمة، مما يضمن تسليم الأسلحة والدعم بشكل كامل إلى الجيش اللبناني واستخدامهم من قبله وحده. تقتصر علاقة الجيش اللبناني وحزب الله على تجنب وإزالة احتمال صراع مباشر بينهما في حين يبقى الحل السياسي هو الحل الوحيد لمسألة حزب الله.
- في نهاية المطاف، من الواضح أنه على الشعب اللبناني وحده رسم خريطة الطريق وإحداث التغيير الذي يريد أن يراه لنفسه وللجيل القادم. إلا أن الجهود المتضافرة من قبل المجتمع الدولي ستظل ضرورية لدعم وتمكين تطلعات اللبنانيين وآمالهم للمستقبل. نأمل أن يساهم هذا المؤتمر الافتتاحي والكتيب الناتج عنه في مساعدة وإرشاد شركاء لبنان في سعيهم لدعم تعافي لبنان واستقراره وازدهاره.

ABOUT THE MEI LEBANON PROGRAM

The past two years have been grueling for Lebanon. Political, humanitarian, financial, and socio-economic crises have converged. In parallel, citizens have risen up to demand accountability, reforms, and an end to corruption and incompetence.

In such critical times, MEI's dedicated Lebanon program seeks to inform and advance the policy conversation on Lebanon in the United States and globally. The program particularly focuses on investigating and promoting viable paths forward for Lebanon as it battles through one of the darkest periods in its 100-year modern history.

ACKNOWLEDGEMENTS

We thank ATFL and LIFE for their support and partnership on this inaugural Lebanon conference as well as the Lebanon program's advisory council for their guidance and vision along the way. We also thank the individual panelists, guests, and moderators who have helped make this important effort in Washington, DC a reality. A final thank you goes to MEI's communications and programs teams as well as the great roster of interns without whom this conference and booklet would not have seen the light of day.



Session 1

The Future of US Policy Toward Lebanon: A Conversation with Senator Tim Kaine and Ambassador David Hale

Senator Tim Kaine, United States Senate

Ambassador David Hale, The Wilson Center

Ambassador Edward Gabriel (moderator), American Task Force on Lebanon

In This Session: Which themes and issues should the United States prioritize in its approach to the Lebanon file? Where does Lebanon fall within the United States' broader Middle East strategy?

Key Insights and Takeaways

- Amid the current pivot in American foreign policy toward the Indo-Pacific and the growing competition with China, U.S. policy vis-à-vis the Middle East today is in flux.
- The lack of urgency from Lebanese leaders lies at the root of the country's problems today. This comes at a time when despair among the population reaches a level not seen since the end of the civil war in 1990.
- Despite the unfolding events around the world and the realignment of U.S. resources, dedicated attention to Lebanon remains important to avoid unexpected problems and surprises that may be hard to grapple with ex-post.
- Lebanese popular demands are well known: transparency, accountability, and an end to the endemic corruption and mismanagement, and meeting these demands will lead Lebanon toward its incredible potential.
- There has been strong U.S. bipartisan support for the approach taken by the Department of State, the Bureau of Near Eastern Affairs, and the U.S. embassy in Lebanon vis-à-vis the Lebanese file. But for this support to materialize, Lebanese leaders have to do their part in forming a cabinet that is capable of undertaking the necessary reforms to salvage the socio-economic situation and access international financial resources. Only then can the faith of the Lebanese people in their country and future be restored.
- Support to Lebanon will be conditional upon reforms. The U.S. is willing to pay for reforms, but not for a bailout.
- Over the past three administrations, the Pentagon has consistently emphasized that the LAF are a reliable, effective, and valued partner of the U.S. military.
- Lebanon will never regain its strength or achieve true sovereignty so long that there's one faction — Hezbollah — that can accumulate dangerous weapons and undertake smuggling and other illicit and corrupt actions. No state can live up to that name as long as a faction that only answers to a foreign capital can make life and death decisions affecting all of that state's citizens.
- That said, the U.S. should be smart about its approach to Hezbollah. Restricting U.S. support to the Lebanese people can in fact empower Hezbollah because of the party's parallel programs and ability to absorb and address local citizens' needs. For U.S. policy vis-à-vis Lebanon, there is no room for brochure-type statements on Hezbollah. It is therefore important to be careful and nuanced in America's legitimate opposition to the party.

- There is hope for successful U.S.-facilitated talks between Israel and Lebanon on offshore natural gas that may benefit both sides. Lebanese leaders should not allow internal conflicts and competition to prevent a positive movement on these talks.
- There should be and will be more significant focus on Lebanon at Senate Foreign Relations Committee hearings. Senators Tim Kaine and Jeanne Shaheen will make sure that the U.S.-Lebanon portfolio will remain on the radar of Secretary Antony Blinken, Administrator Samantha Power, and the National Security Council.

Policy Recommendations

- Although the Vienna talks are focused on the Joint Comprehensive Plan of Action (JCPOA), it is essential for regional stability that the U.S. addresses all elements of Iran's destabilizing behavior in the region, including in Lebanon.
- Although it is not up to the U.S. to form a Lebanese government, the U.S. should work with France and other allies to push for the formation of a truly independent government that is willing and capable of implementing reforms.
- May 2022 elections in Lebanon need to be held on time and under laws that ensure freedom and fairness to give the Lebanese people a chance to bring about a change in leadership and governance.
- Given the proven effectiveness of the security cooperation and partnership between the U.S. and Lebanon, sustaining support for the LAF is critical to strengthening the authority of the state.
- In the humanitarian space, support to the Lebanese people and large refugee communities should continue through USAID and NGOs that the U.S. trusts and believes are competent and incorruptible.
- Hezbollah's Lebanese political allies should use their leverage over the party to change its destabilizing behavior or walk away from that alliance.



The U.S. must insist that parliamentary elections stay on track for May 2022 because these elections will allow Lebanese citizens to make institutional changes.

Senator Tim Kaine



The time to build a [Lebanese] government, not block it, is now; the time for flexibility is now.

Ambassador David Hale

Session 2

Breaking the Lebanese Political Logjam

Jon Alterman, Center for Strategic and International Studies

Paul Salem, Middle East Institute

Maha Yahya, Malcolm H. Kerr Carnegie Middle East Center

Christophe Abi-Nassif (moderator), Middle East Institute

In This Session: How can Lebanon overcome the domestic and international obstacles to forming a truly independent, reform-minded government? Is such a government even possible with the current political establishment? Which political scenarios are the most likely to unfold in the weeks and months ahead? How far has the protest movement come since October 2019? How can an increasingly busy United States and international community support the Lebanese people in their quest for change? Where does Lebanon fall on the international community's priority list?

Key Insights and Takeaways

- Politically, Saad Hariri (Future Movement) and Gebran Bassil (Free Patriotic Movement) are unable to form a government and agree on cabinet structure and portfolio allocation. In the meantime, state institutions continue to deteriorate. The current constitution ended the civil war but failed to establish a strong mechanism that can create an effective executive branch capable of making decisions and navigating political impasses.
- Economically, politicians don't have the courage to face the financial collapse and make the right but painful decisions on critical issues such as the future of subsidies or the distribution of systemic losses. This partially explains the oligarchy's reliance on the current caretaker government to preside over the financial collapse before stepping back in when the storm eventually passes.
- When it comes to opposition parties and civil society, progress has been made, but it is not enough. An alternative narrative is yet to materialize to shift from a negative campaigning mode highlighting what the establishment has done wrong to more actionable plans and visions for the future of Lebanon.
- The regional logjam also adds to Lebanon's troubles. Iran-U.S. negotiations in Vienna have not yet reached a resolution. Hezbollah's lack of urgency in resolving the crisis should be seen as one of Iran's pressure instruments. Once a deal is achieved, certain regional issues, such as Iranian proxies and Hezbollah's position, might be engaged with as well.
- The U.S. does not perceive Lebanon as a top foreign policy priority in the Middle East and will not get involved when Lebanese politicians are fighting in the ditches. The Biden administration is unlikely to produce momentum out of nothing in Lebanon.
- Further U.S. engagement in Lebanon is only realistic in one of two scenarios. Either the country totally collapses, necessitating U.S. intervention to prevent a great political and humanitarian disaster, or the country's outlook improves. A Lebanon "on the upswing" could provide an opportunity for the U.S. to invest in combatting corruption and strengthening governance.
- That said, the U.S. remains engaged in Lebanon through its support to the LAF, its role as a leader in humanitarian relief, and as a mediator between Lebanon and Israel on the maritime border dispute.

- The upcoming elections in May 2022 may not turn the table entirely in domestic politics, but they remain essential for two reasons. First, the Free Patriotic Movement, the largest Christian ally of Hezbollah, is widely expected to suffer big losses, which will in turn lead to the Hezbollah coalition losing its parliamentary majority. This represents a major political shift. Second, and despite the challenges, alternative political parties have started organizing into coalitions and will have an opportunity to gain seats and convert street protests into political representation.
- Also planned for 2022, municipal elections are very important as well given the status of municipalities as the primary state institutions in charge of development and day-to-day issues for Lebanese citizens.

Policy Recommendations

- Partners and outside observers should make sure that preparations for the May 2022 elections are launched on time and as planned. The key institutions to watch are the Ministry of Interior (which runs elections), the Ministry of Finance (which funds the process), the Ministry of Foreign Affairs (which organizes and oversees expat voting), and the caretaker prime minister, who must refrain from blocking elections should the current caretaker government remain in charge in the months building up to the elections.

“

Politicians don't have the courage to face the crisis [...] No one is in a hurry to go to their own execution.

Paul Salem

“

Politics is no longer a dirty word in Lebanon. The sense of public service is slowly coming back.

Maha Yahya



Session 3

Lebanon Amid Evolving Regional and International Dynamics

Emile Hokayem, International Institute for Strategic Studies

Lina Khatib, Chatham House

Maxim Suchkov, Moscow State Institute of International Relations

Patricia Karam (moderator), International Republican Institute

In This Session: *What are the regional end goals for key players such as Russia, Iran, the Gulf, and Turkey today? Where does Lebanon fit strategically within the broader regional context and power struggle? Under which scenarios and circumstances would a regional or international settlement be in favor or at the expense of Lebanon?*

Key Insights and Takeaways

Iran

- Iran's role in Lebanon is growing, and Iranian-backed Hezbollah remains the most influential and powerful political actor in Lebanon today. An attempted extension of President Michel Aoun's term in 2022 would be in its favor.
- Despite sanctions, Hezbollah is relatively comfortable domestically because it has managed to keep its inbound weapons supply routes through Syria open. Amid the Lebanese financial crisis, it is siphoning off more resources than ever into Syria through the smuggling of subsidized goods such as fuel.
- Iran's favorite strategy is to lead from behind in Lebanon, which entails having Hezbollah retain its exceptional status as a defense group without having to be on the front lines politically and hence assume responsibility for the crisis.
- Iran's strategy is also about soft power that extends beyond the Shi'a community; Hezbollah's alliance with the Free Patriotic Movement allows it to have a great deal of influence within the Lebanese Christian community.
- Should U.S. political will exist, the key game changer would be American attempts to rein in Iran's role in the Arab world. Only then will changes in Lebanon begin to materialize.

Russia

- Russia is focused on three main factors in the eastern Mediterranean and, by extension, in Lebanon: military and security, energy and energy security, and great power projection.
- On military and security, Lebanon and its surrounding region is important to the Russian military both for potential interceptions of military launches from NATO countries as well as for monitoring U.S. and NATO military activity.
- On energy and energy security, different Russian actors, including Kremlin-affiliated state and private companies, are very interested in potential discoveries of new energy reserves in the region. They are therefore interested in cooperating with Lebanese authorities to secure a share of those reserves. More strategically, Russia wants to ensure there are no immediate challenges from the region to its own pipeline dominance in Europe.

- On great power projection, Russia may try to help stabilize Lebanon to present itself as a more potent and constructive power in the region compared to Western players. In turn, Lebanese leaders are using their relationship with Moscow as a bargaining chip when dealing with the West.
- Despite the fact that Hezbollah is a Russian military ally in Syria and that Russia sees the Syrian and Lebanese crises as a joint puzzle, Russia remains cautious and has steered clear of considering Hezbollah an ally with regards to domestic Lebanese politics.

Gulf States

- The Gulf is not particularly interested in Lebanon today, nor does it have a definitive strategy in the country. The relationship has become largely antagonistic, particularly after the detention of then-Prime Minister Saad Hariri in Riyadh in 2017 and Hezbollah's involvement in the war in Yemen.
- Now that Gulf states have become mature economic players, the Lebanese are no longer the sought-after traders, fixers, and intermediaries they once were. Only legacy and existing economic and cultural entanglements are effectively preserving the relationship.
- The perception in the Gulf today is that political and economic investments in Lebanon over the past years and decades have not delivered: engagement in Lebanon comes with high costs, low returns, and risks of reputational damage. Once a safety net for Lebanon, the Gulf is no longer there to help.
- Traditional Gulf allies in Lebanon are perceived as weak, two-faced, and unreliable. Saudi Arabia does not openly oppose Hariri, but at the same time won't endorse him unless he can deliver upfront. He won't, however, given his need to compromise domestically. In parallel, and as long as Hezbollah's influence in Lebanon is not curtailed, the Gulf's interest in the country is unlikely to warm up again.

Other Players

- The eastern Mediterranean is a low-priority area for China strategically and economically. It is unlikely to invest in Lebanon given the country's small size, limited resources, and unstable outlook.
- Turkey is trying to maintain its own relevance in the region and be part of the conversation around Lebanon. However, it is unlikely to be very influential in the process despite its positive standing in Lebanon's Sunni north.

Policy Recommendations

- Current debates over the JCPOA are not tackling Iran's destabilizing regional role. If that role is not discussed, the U.S. will be missing out on a rare opportunity to rein in Iran's influence in the Arab world.
- The biggest mistake the international community can make is to take an all-or-nothing attitude toward Lebanon. Incremental reform is key in addressing Lebanon's challenges.



If discussions on Iran's regional role do not take place as part of the JCPOA, the U.S. would be missing an opportunity to rein in Iran's influence in the Arab world and to try to stabilize Lebanon.

Lina Khatib



Session 4

The Future of the “French Initiative”: A Conversation with Ambassador Pierre Duquesne

Ambassador Pierre Duquesne, French Ministry for Europe and Foreign Affairs

Charbel Abou Charaf (moderator), White & Case LLP; LIFE

In This Session: *How has the role of French and European diplomacy in Lebanon evolved in recent months? How does France intend to continue playing a leading role in trying to support Lebanon?*

Key Insights and Takeaways

- The French initiative that President Emmanuel Macron launched in the aftermath of the Beirut port explosion is still paradoxically relevant today despite nearly 10 months of delays caused by Lebanon’s politicians. The formation of a reform-minded government is the only way to regain the confidence of the people, the markets, and the international community.
- There is no miracle solution for Lebanon’s difficulties. There is no tool, no event, no financial engineering, no change of regional powers, no foreign election that will in itself change the situation in Lebanon.
- The dissociation of Lebanon from regional crises and conflicts is essential for reforms, and in turn, reforms can further promote dissociation from what’s happening in the region.
- France distinguishes between the military and political arms of Hezbollah. The former is treated as a terrorist organization by the European Union while the latter is elected by Lebanese citizens to parliament. That said, France does not ignore the blocking role that the party can play, directly or indirectly, despite its endorsement of both CEDRE and the principle of an IMF program.
- Although France has decided to step up the pressure on Lebanese politicians, the nature and details of sanctions have not yet been revealed. They remain a work in progress at both the national and the EU levels.
- The CEDRE conference resolutions and the \$11.1bn in pledged loans and grants are still critical for development and rehabilitation. More than ever before, Lebanon needs significant infrastructure investments; macroeconomic, regulatory, and governance reforms; and external funding, which will materialize within the framework of an IMF program.
- Not a single reform has been implemented to date, and hence not a single cent has been disbursed. This is in contrast to the Paris I, II and III conferences, which disbursed some funding without the implementation of reforms. Also unique to CEDRE is the involvement of civil society organizations in monitoring fund disbursement.
- Excessive debt, an overvalued currency, a largely dollarized economy, living beyond the country’s means, and unsustainable subsidies have all led to the financial and economic collapse as well as the stagflation that Lebanon is witnessing today.
- The implementation of the import subsidy regime by the central bank was a mistake to begin with and ending it without social compensation mechanisms and a social safety net will also be a mistake. The World Bank has been ready to help since January, but once again, parliament has put sticks in the wheels of adopting the mechanism.

- The lack of political evolution in Lebanon might cause international fatigue and indifference vis-à-vis the country, both of which are dangerous. France will not, however, abandon Lebanon.

Policy Recommendations

- The U.S. and France should and will continue to coordinate and work closely on the Lebanon file as demonstrated by bilateral exchanges between their presidents and ministers of foreign affairs. In this context, France also welcomes the recent letter that members of Congress under the leadership of Rep. Gregory Meeks sent to Secretary Blinken urging the creation of a “friends of Lebanon” group of like-minded partners, France prime among them.
- A concerted, multilateral approach to Lebanon remains essential as illustrated by efforts and initiatives such as the International Support Group (which includes representatives of the permanent members of the U.N. Security Council), the post-explosion August 9 international mobilization meeting with heads of state (including President Donald Trump), the 3RF (Reform, Reconstruction, Recovery) framework for donors, the multi-donor trust fund, etc.
- The current Lebanese parliament and caretaker government can signal confidence to the international community today, even before a new cabinet is formed. Examples of such signaling would include passing the laws on public procurement and independence of the judiciary, embarking on the reconstruction of the Beirut port, and conducting a forensic audit of central bank accounts.



**Instead of building back better,
now might be the time to build
something else.**

Amb. Pierre Duquesne



Session 5

The Final Countdown: How to Manage Lebanon's Transformational Economic Crisis and Avert Total Collapse

Thanos Arvanitis, International Monetary Fund

Saroj Kumar, World Bank

Alia Moubayed, Jefferies

Dr. Nasser Saidi, Nasser Saidi and Associates

Jacques J. Tohme (moderator), LIFE

***In This Session:** What should a short-term macro-stabilization plan look like for any upcoming Lebanese government? How should the dwindling foreign currency reserves at the central bank be dealt with to maximize the chances of recovery? What is the optimal path forward for subsidy reform? How should the Lebanese financial system be restructured to ensure fairness and regain trust? How can the entrenched interests of Lebanon's political establishment and banking sector be effectively disentangled?*

Key Insights and Takeaways

- Lebanon's economy is collapsing. The country's main sectors — notably banking, trade, tourism, health, and education — are being gradually destroyed. Because of the central bank's continued financing of the government and the printing of Lebanese pounds, hyperinflation is imminent. The crisis has eroded state capacity and adversely impacted security institutions. Lebanon today is facing a deliberate policy of immiseration where politicians have chosen to impoverish citizens rather than seek adjustments and reforms.
- The World Bank today is particularly focusing on achieving fair and equitable vaccination for everyone in Lebanon. Vaccination is what will get the private sector on its feet.
- The World Bank has developed a solid program to counter extreme poverty and support struggling Lebanese households. The \$246 million program is ready to be implemented but is facing a deadlock because of the inability of parliament and the caretaker government to come together and put the program into action.
- The IMF and the World Bank are aware of what needs to be done and what the priorities are, but they are unable to move forward because of a lack of strategy and direction on behalf of the Lebanese government. They stand ready to work together with bilateral donors on helping Lebanon implement such a strategy once developed.
- Lebanon's financing needs are greater than what an IMF program can offer. These needs can be met through a combination of debt relief, debt adjustments, and temporary external financing from international financial institutions and bilateral donors to support the transition out of the crisis and into a new economic and financial model.
- Only an emergency cabinet with extraordinary legislative powers has a chance of developing and implementing a stabilization plan and the needed reforms. Forming any government for the sake of forming a government is a recipe for disaster.

Policy Recommendations

- According to the IMF, the focus now should be on formulating a strategy that can repair the public sector, the financial system, and the central bank while rebuilding the Lebanese economy on sounder foundations. Such a strategy should be built on four pillars:
 - **A credible fiscal strategy based on an effective debt restructuring and fiscal reforms.** This would include bringing public debt down to sustainable levels that can be financed and serviced over time, expanding social protection, rebuilding infrastructure, designing a fair tax system, reforming the subsidy system, etc.
 - **A comprehensive strategy to rebuild the banking system focused on both central and commercial banks.** A transparent assessment of the central bank's balance sheet and income statement as well as the formulation of a credible capitalization plan need to take place to ensure that the central bank can perform its functions. A bank-by-bank diagnostic analysis should be conducted after which viable banks will need to be recapitalized and non-viable banks should be dissolved.
 - **A credible monetary and foreign exchange rate system.** The multiple exchange rates should be unified into a new, competitive rate. Formal capital controls remain essential to support the eventual adjustment until confidence returns.
 - **A modern and dynamic private sector.** This entails the improvement of the performance of state-owned enterprises, which are heavily subsidized and loss-making, as well as the development of a more favorable business environment for entrepreneurs to create jobs and growth opportunities.
- Essential factors that are needed to effectively land such a strategy include a credible leadership that works for the collective interest, a willingness and ability to find common ground when it comes to implementation, domestic institutions that can work together and gain the trust of external and internal stakeholders, as well as transparent public access to data.
- The solution to the eventual lifting of subsidies is straightforward and should rely on a targeted, dollar-denominated, cash-based system directly geared toward the poor and needy. The World Bank is ready to deploy such a system as soon as political will materializes. An immediate next step consists of developing a credible and transparent way of identifying beneficiaries.
- Reforming state-owned enterprises will require an urgent focus on better governance. A reform-focused national wealth fund can be a solution. In parallel, the implementation of a stolen asset recovery plan is critical.
- The Lebanese government should begin the transformation of the country's economic model by transitioning to a digital economy, improving transparency and efficiency in the public sector, deploying sustainable investments (particularly in renewable energy and agri-tech), rethinking the national taxation policy to accommodate the new model, leveraging and promoting Lebanese culture and heritage abroad, etc.



Time is of the essence. The longer it takes Lebanon to formulate and more importantly implement a comprehensive financial and economic strategy, the higher the costs. There are no easy solutions. There is no magic bullet.

Thanos Arvanitis

Session 6

Addressing the Lebanese Social and Humanitarian Crises

Congressman Darin LaHood, US House of Representatives

Alex Mahoney, USAID

Nadine Masoud-Bernheim, LIFE

Haneen Sayed, The World Bank

Mona Yacoubian (moderator), United States Institute of Peace

In This Session: How have international partners and the Lebanese diaspora circumvented the absence of a strong and capable central government to deliver much-needed support to citizens and refugees alike? What are some of the different potential scenarios for Lebanon on the social and humanitarian fronts in the months ahead? What must be done in the short and long term to prevent the country from spiraling further downward?

Key Insights and Takeaways

- Lebanon is simultaneously facing a plethora of crises that pose a dire threat to the nation's future, as well as the stability of the region. These crises include a banking and financial crisis, a balance of payment crisis, an ongoing refugee crisis, a political crisis, a health crisis posed by the COVID-19 pandemic, and the crises associated with the Port of Beirut explosion.
- Lebanon's GDP per capita has fallen by roughly 40% since 2018 and at least half of the population lives below the poverty line. According to the World Bank's latest economic monitor, the situation in Lebanon is currently on track to be among the top three worst financial crises of this century.
- Access to food, education, health care, and employment have been severely inhibited, thus putting the nation at a high risk for civil unrest.
- Current assistance efforts have focused on sustainable development that will contribute to Lebanon's eventual ability to function independently of mass humanitarian assistance. For example, USAID's development assistance for Lebanon has included funding for inclusive private sector growth, support for civil society and local government, and the transparent provision of essential services.

Policy Recommendations

- **Prioritize sustainable development alongside short-term humanitarian aid.** Despite the urgency of the crisis, providing excessive short-term humanitarian aid is ill-advised as it does not represent a sustainable approach to addressing the multiple crises occurring within Lebanon. While some types of humanitarian aid can be very effective (e.g., livelihood support, disaster relief), the excessive allocation of short-term aid creates a dependency on external assistance that is conducive to a failed state.
- **Promote education and job creation.** The promotion of educational opportunities and job creation would not only ease current economic crises but would also represent a sustainable approach to promoting a prosperous future for the Lebanese people. Promoting education is a particularly effective long-term strategy as it would help prevent brain drain and the continued loss of human capital in Lebanon.

- **Work to strengthen Lebanese institutions.** Sustainable development efforts and the necessary economic, social, and political reforms cannot be implemented without effective, transparent institutions and the development of their in-country capacities.
- **Promote transparent and representative governance.** Many funding resources (including those existing within the Lebanese diaspora) will remain unavailable unless Lebanon experiences substantial political change. Furthermore, without a capable partner in local government, the ability of governmental organizations, NGOs, and international organizations to engage with the country is severely limited. Therefore, Lebanon's May 2022 general election must go forward as planned in a transparent and fair manner.

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Ultimately, without institutions, Lebanon cannot come out of its crises.

Haneen Sayed

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Humanitarian assistance is really not the answer to this downward spiral. It is a last resort. Once you have to rely on such assistance, you're already [a failed state]. The goal needs to be to prevent us from getting there.

Alex Mahoney



Session 7

The Future of US-Lebanon Defense and Security Cooperation

Brig. Gen. Duke Pirak, U.S. Central Command (CENTCOM)

Bilal Y. Saab, Middle East Institute

Dana Stroul, U.S. Department of Defense

Missy Ryan (moderator), The Washington Post

In This Session: *What are the major defense and security concerns in Lebanon today? How does a deterioration of security conditions in Lebanon hurt regional stability and U.S. interests? Why is support to the LAF still relevant? How can the LAF-Hezbollah dichotomy best be approached? What does the future of U.S.-Lebanon defense and security cooperation look like?*

Key Insights and Takeaways

- The Biden administration emphasizes diplomacy as the solution to the region's problems; there is no military solution to the increasing Iranian threat in the Levant, including against Hezbollah.
- The administration is keenly interested in Lebanon's stability. The Department of State (DoS) has recently initiated a provision of \$59 million in Section 1226 funding to the LAF as reimbursement for security cooperation along the Lebanese border. The Department of Defense announced that it will donate three U.S. coastguard protector-class patrol boats to the LAF navy, which will greatly strengthen Lebanon's maritime patrol capabilities. DoS also announce its intent to provide \$120 million in foreign military financing for FY2021, a \$15 million increase over previous years. The funds will provide the LAF with defense systems, services, and training.
- U.S. forces in Lebanon are under the Chief of Mission authority in the Office of Security Cooperation. They are tasked with foreign military financing and border security under Section 1226 and with ensuring that the LAF continues to protect human rights and use divested equipment responsibly.
- Despite Lebanon's dire economic situation and the collapse of soldiers' salaries by ~90% due to the devaluation of the Lebanese pound, the LAF continues to provide a steadying force in the country. It has performed remarkably in combined-arms operations such as Resolute Union 21 — complex air and sea operations very few others in the region have the ability to engage in. Its institutional capacity allows it to sustainably incorporate U.S. military assistance, advice, and training into its programs. In addition, the LAF continues to conduct effective border and counterterrorism operations.
- The threats from ISIS and al-Qaeda continue to be present, but the U.S. has been able to keep them at bay in partnership with the LAF.
- In a matter of 10 years, U.S. efforts have transformed the LAF from a decrepit force into a military that has gained the respect of CENTCOM. The U.S. values its strategic partnership with Lebanon and has finally begun to think about it in the long term, considering the LAF the sole legitimate defender of Lebanon's sovereignty.
- The U.S. is not invested in the LAF for the sake of the relationship. It seeks to have a committed security partner that shares its objectives throughout the Middle East. U.S. security cooperation today is intended to build resilient national institutions that are responsive to the needs and desires of their citizens.

- While the U.S. administration remains concerned about Hezbollah's influence in Lebanon, the LAF has proven to be an independent decisionmaker. The LAF-Hezbollah relationship is one that is limited to deconfliction.
- By design, U.S. military assistance includes strict conditions, controls, and monitoring mechanisms, which ensures that weapons and support are fully delivered to and used by the LAF. If these conditions change, support gets cut off. The U.S. continues to validate the LAF's vetting mechanisms.
- Despite the extraordinary circumstances and deprivation across Lebanese society, the LAF has conducted itself with consistency. The question, however, is how long the LAF can continue to operate with scant resources. Over time, the economic situation might start to erode the LAF's capacity to continue to fund operations; this will remain a challenge.
- Regarding great power rivalry, Lebanon does not seem to be a geostrategic priority for the Chinese. However, if the Russians are able to cheaply establish a presence in Lebanon were the U.S. to leave, they would do so in order to expand their influence in the Mediterranean.

Policy Recommendations

- The administration should continue military assistance to the LAF. If it collapses, so will U.S. influence and standing in Lebanon. The program does not cost much and is achieving more than anticipated; the U.S. should continue to think long term in Lebanon and the wider region.
- In order to counter the threat posed by Hezbollah, the U.S. should support the LAF in continuing joint patrols (whether it is with the UNIFIL or themselves along the southern borders), securing the borders with Syria, countering smuggling, and going after narcoterrorism.
- The U.S. should not shift objectives to directly confronting Hezbollah and its arsenal. It should continue its military assistance with the objectives of building the LAF's institutional capacity, providing support for defensive operations such as border security, and effectively sustaining the shared advice and training. The Hezbollah issue will not be solved militarily.
- A higher level of scrutiny when it comes to U.S. military assistance to Lebanon and any other recipient (e.g., Egypt, Jordan) of Title 10 or 22 funds is welcome and encouraged to ensure this assistance maximizes outcomes.
- The U.S. should not be worried about the threat of Russian or Chinese influence in Lebanon. The LAF does not have ties with these countries. Ties might however form as a *consequence* of U.S. departure, which is one reason to continue the U.S. presence in Lebanon.



What the Biden administration is saying is that there is no unilateral fix or military solution. What we can do is invest in partners and alliances to help shape and share government responses.

DASD Dana Stroul



You can pump money into a partner, but what you can't buy is a sense of patriotism and pride in one's nation.

Brig. Gen. Duke Pirak

Session 8

Coordinating International Support to Lebanon: A Conversation with Dr. Najat Rochdi

Dr. Najat Rochdi, Office of the United Nations Special Coordinator for Lebanon

Joyce Karam (moderator), The National

In This Session: *How is international aid coordination unfolding in Lebanon? Which mechanisms are already in place? What are they building toward? What challenges and obstacles lie ahead? How will the role and involvement of the United Nations in Lebanon develop in the months ahead?*

Key Insights and Takeaways

- For the first time in its modern history, Lebanon faces its own humanitarian crisis and is witnessing food insecurity. Most humanitarian crises in the world are caused by conflicts or natural disasters. The Lebanese crisis is a direct result of politicians' poor decision-making (or lack thereof) and their unwillingness to support good governance and conduct reforms. Scapegoating foreign actors or refugees is baseless.
- The longer Lebanon goes on without a new government, the worse the situation will become. The Lebanese people's trust in their leaders and institutions is at an all-time low. The ongoing political vacuum may agitate civil unrest, extremism, as well as intercommunal and interconfessional tensions. There is nothing more dangerous than somebody who has nothing to lose. Any instability in Lebanon is bound to spill over to its neighbors.
- More than 50% of the Lebanese people are living in poverty and 25% are in extreme poverty. The health system is increasingly strained by the economic crisis, low vaccinations rates, migration of doctors, and shortages of medicine and medical supplies. The education of 1.2 million children has been disrupted. Lebanese citizens are now in need of assistance as much as Syrian and Palestinian refugees living in the country.
- The U.N. is currently finalizing a multi-sector needs assessment that feeds into an emergency response plan for Lebanese citizens and migrant workers that will coexist with the current Syrian refugee plan and UNRWA's work. Nearly 400,000 migrant workers previously employed by the Lebanese middle class have been left with nothing.
- Two types of channels exist for aid: direct assistance, which goes directly to beneficiaries (e.g., assistance after the Beirut port blast), and large-scale programs, which need to go through state institutions (e.g., education programs, social safety nets). That said, given the notorious corruption in such institutions, transparency measures have been put in place to monitor the disbursement and use of funding. Funds are transferred to ministries and institutions in tranches and only after transparency checks and detailed reporting have been conducted.
- The aim of all efforts is not to replace and substitute for institutions. The aim is to get out of the humanitarian need situation. Humanitarian assistance can never be the answer.
- Contingency planning for a total collapse began in January and has been shared with donors and the diplomatic community. The first scenario consists of a breakdown in basic services, and Lebanon is already there. The second scenario consists of a total security breakdown coupled with social unrest, and that scenario has already begun. The third scenario consists of internal or external conflict, but it remains the least likely to materialize for now.
- Lebanese NGOs are doing an excellent and professional job of providing support and relief on the ground.

Policy Recommendations

- Donor countries and international partners should not sanction the Lebanese people for the irresponsible behavior of Lebanese politicians. Support to the people is essential to fend off despair, unrest, and instability.
- The four primary support areas that warrant significant attention by donors and the international community are food security, nutrition, education, and health care (e.g., medical shortages, COVID). Funding gaps continue to grow faster than the actual needs assessments, and international support along these three areas is critical.
- The 2022 municipal, legislative, and presidential elections must be held on time, and any delays, postponements, or cancellations should be very strongly countered. Elections are the last hope for many Lebanese today.
- Judicial accountability is necessary for faith in government, and impunity for Lebanese politicians must end for the port explosion and beyond. International partners should support the independence of the judiciary.
- Syrian refugees ask for three factors to be able to return to Syria: ensuring that their kids get access to education, ensuring that they get to go back to their own villages and houses (which is a humanitarian principle), and avoiding regime retaliation. Voluntary, safe, and dignified return is therefore key to resolving the refugee crisis.
- Addressing the aid bias perception when it comes to aid to Syrian refugees is critical, particularly now that the needs of Lebanese citizens are ballooning and that domestic acceptance of refugees is plummeting.



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The most heartbreaking element in the current Lebanese crisis is that it could have been so easily avoided and prevented.

Dr. Najat Rochdi

Session 9

Envisioning Lebanon's Path to Sustainable and Equitable Growth: A Conversation with Ferid Belhaj

Ferid Belhaj, The World Bank

Ronnie W. Hammad, The World Bank; LIFE

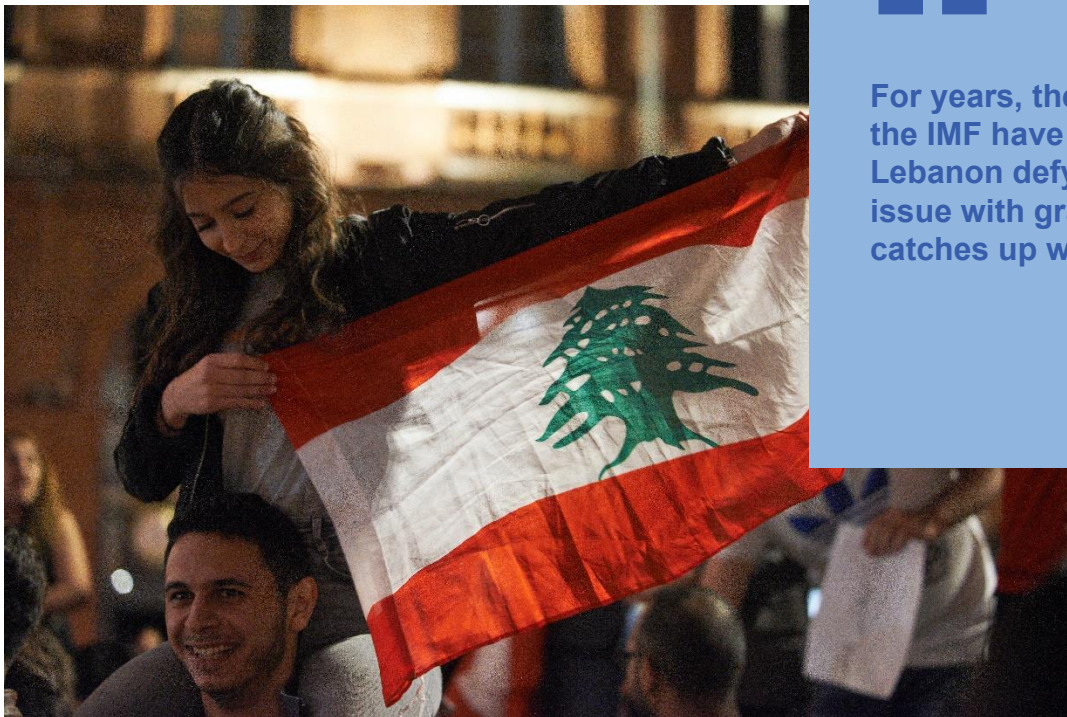
In This Session: How can Lebanon develop and implement a new economic model to promote sustainable and equitable growth? How will the role and involvement of the World Bank in Lebanon evolve in the months ahead?

Key Insights and Takeaways

- Lebanon is sinking. The country's real GDP is expected to shrink further by 9.5% in 2021 after 20.3% and 6.7% contractions in 2020 and 2019, respectively. The current economic and financial crisis is thought to be the worst loss of income for a country since the mid-19th century. This is a deliberate economic depression. Despite the fallout, the World Bank does not see real political commitment to address the situation.
- Everyone knows what needs to be done. At some point, someone needs to make decisions that will cause systemic losses to be incurred and distributed, but these decisions will prevent the majority from losing everything. The biggest victims of the crisis are not the elites, but small bank depositors and average citizens of Lebanon.
- Politicians need to be willing to engage with the World Bank and the IMF. Many solutions can be put on the table, but they require negotiations and political will. Lebanese leaders need to forget the idea that the IMF or the World Bank will come up with an immediate, cross-cutting solution. Things will take time.
- Lebanon's subsidies cost \$5.8 billion a year. Only 20% of them go to vulnerable citizens who need help, and 80% go to people who can afford market prices. In the meantime, central bank reserves are quickly depleting.
- Lebanese civil society is vital in holding the government accountable. This can happen through governance by pressure and positive engagement as well as through coordination with international partners such as the World Bank. The vaccine distribution experience is a case in point. Civil society is a complement, a sounding board, and an alert system to any government. Even for the World Bank, representative civil society consultations are a must.
- Starting in 2011, Lebanon delivered to the world a global public good by welcoming and integrating more than 1 million Syrian refugees. The world never responded to that generosity at the appropriate level, and that is partially why the World Bank will not let go of supporting Lebanon today.
- The World Bank has a Stolen Asset Recovery Initiative. The issue is that it needs to be requested by countries and is often initiated by transitional governments. In the meantime in Lebanon's case, such an initiative can be homegrown if there is a strong and independent enough judiciary to go after those who have abused the system. Core issues remain a weak rule of law and the Lebanese government's inability to regain the trust of its people.
- World Bank projects are audited "ad nauseum" and processes exist to ensure that every dollar is well spent. Public spending, state budgets, and national accounts are reviewed as part of the conditionality clauses before allocating funding and investments. World Bank documents are published; public scrutiny is not only allowed but encouraged and can be voiced (e.g., World Bank Inspection Panel; Integrity Vice-Presidency).

Policy Recommendations

- Lebanon's current caretaker government needs to signal a willingness to implement “no-regret reforms” – reforms that are essential today and that will be needed both tomorrow and five years from now.
- Lebanon needs a new system of governance and flexible and adaptable framework laws that allow the state to fulfill its role as an enabler rather than a doer. In such a system, laws and regulations are simplified and applied equally to everyone, from starting businesses to securing basic services from public entities. The private sector needs opportunities to thrive, with flexible regulations rather than laws that incentivize red tape and corruption.
- Removing subsidies cannot happen overnight. There is a need for a clear, targeted, sequenced, responsible, and adequately managed system that identifies citizens who really need subsidies and channels direct cash payments to them. The World Bank's \$246 million program is ready to be deployed but needs political buy-in to begin.
- Instead of rebuilding the Beirut port as is, there is an opportunity to rethink and rebuild a coastline and service industries that will attract both people and investments, develop better infrastructure, and unlock a higher potential for growth. By 2030 and 2040, Beirut can become a massive economic and cultural hub in the Mediterranean, and planning for such a future should begin now.



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For years, the World Bank and the IMF have talked about Lebanon defying gravity. The issue with gravity is that it catches up with you.

Ferid Belhaj



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