

US-Lebanon Relations

Setting a New International Framework for a More Responsive Government



"Photo by Christelle Hayek on Unsplash."

PUBLISHED JOINTLY BY THE
AMERICAN TASK FORCE ON LEBANON
AND THE MIDDLE EAST INSTITUTE



The Middle East Institute and the American Task Force on Lebanon with the cooperation of the Lebanese International Financial Executives convened a group of experts on Lebanon who co-authored this policy brief.

Jean AbiNader
Jon B. Alterman
Leslie Campbell
The Hon. Ryan Crocker
The Hon. Gerald M. Feierstein

The Hon. Jeffrey Feltman
The Hon. Edward M. Gabriel
The Hon. Fredric C. Hof
Faysal Itani
Joyce Karam

Patricia Karam
Brian Katulis
Merissa Khurma
The Hon. Nick Rahall
Paul Salem
The Hon. Donna Shalala
Randa Slim
Jacques Tohme
Debbie Trent
The Hon. Frank Wisner

Thanks to Jay Ghazal, Joseph Haboush, Aram Nerguizian, and Mona Yacoubian for their advice and guidance.

EXECUTIVE SUMMARY

Lebanon is on a tragic trajectory, never before seen in its history. The next few months, with or without needed reforms, will shape its path for years to come. Lebanon's failings can be attributed to endemic corruption by the political class and the "state within a state" impunity of Hezbollah. Lebanon's leaders must take the necessary risks to reverse their country from falling into the abyss of an economic and political meltdown, but they will not be able to undertake this challenge alone.

The US must lead its friends in Europe and the Gulf to encourage political parties and leaders, who have previously failed to respond effectively to their people, to create a new framework for Lebanon to begin its recovery. The time is now ripe to build on the US-mediated maritime agreement by encouraging Lebanon to take steps on other achievable objectives that continue the momentum forward. The Lebanon Working Group proposes seven policy areas on which the US should focus its work with Lebanon.

PRESIDENTIAL ELECTION AND GOVERNMENT FORMATION

The US must make clear to Lebanon's government, parliament, and political parties that international aid and diplomatic support is contingent on the timely election of a clean, capable, and reform committed president who will address the needs of the people of Lebanon as well as the formation of an effective government. Delaying such a decision on the election of a president is not acceptable as it will only bring continuing instability to the region and suffering to its people.

ECONOMIC AND FINANCIAL REFORMS

The Lebanese government should quickly and effectively implement reforms outlined in the IMF staff-level agreement, including: reducing public expenditures, reforming tax policies and fighting tax evasion, streamlining agencies, formalizing a capital control law, concluding a realistic 2023 budget, restructuring the banking sector, and also improving it while protecting the rights of small depositors.

Importantly, Lebanese stakeholders, including leaders in the parliament and government, must come together in a spirit of cooperation and dialogue to find a consensus that builds support for passage of the IMF package.

ENERGY POLICY

The US should encourage the Minister of Energy to present an acceptable proposal to the World Bank to receive financial support for the Levantine Energy Deal, which includes a cost recovery plan for its electricity sector and a process to establish a qualified Electricity Regulatory Authority (ERA). Equally important, the US must impress upon the World Bank the importance of expediting approval of the agreement.

LEBANON'S STABILITY AND REFUGEE RIGHTS

In order to address and balance the needed services to refugees, host communities, and vulnerable populations, increase US government assistance for these populations by \$1 billion for FY2023. The international community should participate with the US in addressing the needs of these communities.

Importantly, a policy study group should be formed to recommend sustainable solutions that simultaneously promote Lebanon's stability and respect the rights of refugees, including conducting primary research to identify the full scope of the problem facing Lebanon and the refugees. A study group will create a foundation of understanding of the situation and its possible solutions.

US ASSISTANCE

The US and international community should increase support for educational institutions across the country, including a \$100M increase to both the American University of Beirut and Lebanese American University. The US should also encourage the World Bank to support a proposal from the Lebanese University for \$36M to keep the university in operation. The US and its partners should immediately address the breakdown of primary and secondary education in the country as well as the deteriorating health crisis facing citizens who cannot even receive emergency care.

LEBANESE ARMED FORCES AND INTERNAL SECURITY FORCES

During the past several years the Lebanese Armed Forces (LAF) has proven to be one of the most competent militaries in the Middle East region, according to the US Department of Defense, and is becoming the best institutional deterrent to Iran's military intervention via Hezbollah. The US should continue providing material and operational support to the LAF. The US should also sustain livelihood support for families of the LAF and Internal Security Forces (ISF) in order to sustain the security, stability, and sovereignty of the country.

SANCTIONS

The US should continue its sanctions policy, which has been carefully based on evidence of corruption, human rights abuses, and terrorism, and better communicate that evidence transparently to the Lebanese and international public.

THE TIME IS NOW

The US should work with its friends and partners to promote capable and committed leadership in Lebanon that both responds to the current humanitarian crisis and builds a sustainable foundation for Lebanon's future. The question is whether this response will come in time.

FULL ANALYSIS AND RECOMMENDATIONS

CURRENT US POLICY

The Biden Administration's first two years have been characterized by a steady and pragmatic approach to United States policy in the Middle East. Its policy is grounded in the difficult realities of the region, taking a balanced approach that has set modest goals but has also looked for opportunities that de-escalate tensions and create new connections across the region. With targeted diplomatic interventions in regional hotspots, the US has built on previous efforts and developed new initiatives aimed at sending the message that it will remain engaged in the region.

Meanwhile Congress, on a bipartisan basis, has demonstrated wide support for Lebanon and a high level of concern over malign Iranian regional activity. The Iranian issue has dominated Congress' engagement with the administration over Middle East policy and is a top issue guiding the way in which many elected officials view US-Lebanon relations.

The administration and Congress both have a shared concern over the efforts of China, Russia, and Iran to increase their influence in Lebanon, which runs contrary to US goals and objectives.

The US has continued to create opportunities for regional de-escalation and to bolster stability in Lebanon. A principal example is the October 2022 Lebanon-Israel maritime agreement brokered with mediation and strong diplomatic engagement by the US.

The US has also stepped up its efforts to work with other global partners to shore up the cohesion and stability of the Lebanese Armed Forces (LAF) – one of the last pillars of stability still standing after three years of economic decline. These are prime examples of US-Lebanon policy under the current administration, with bipartisan support, offering a practical template for US engagement in the broader Middle East.

The US should lead its friends, including France, other European countries, and Gulf partners, in providing incentives for political parties and leaders, who have previously failed to respond effectively to their people, to create a framework for Lebanon to recover and move forward.

The US should lead its friends, including France, other European countries, and Gulf partners, in providing incentives for political parties and leaders, who have previously failed to respond effectively to their people, to create a framework for Lebanon to recover and move forward.

CURRENT SITUATION IN LEBANON

In 1963 Lebanon was the fourth wealthiest country by per capita income in the world. Today it ranks among the four poorest globally. Its economy is in tatters and cannot fully sustain the country's domestic or international functions. More than 80% of the people live in multidimensional poverty featuring limited and grossly expensive health care, a crumbling educational sector, a failed banking sector, and an almost worthless currency. Factoring in the electricity crisis, they also often live in darkness.

If ignored, Lebanon can destabilize in ways creating more uncertainty in a region already beset by challenges that include poor governance, legacy inter and intra-state conflict, the effects of poor development planning, and the growing toll of climate change.

The people of Lebanon are facing a dual crisis of political gridlock and economic meltdown. It is urgent that the country's new parliament elect a clean, capable, and reform-committed president, and that an equally credible government be subsequently formed. The lack of positive action by Lebanese leaders up to this point conveys a sense that they have deliberately avoided enacting needed reforms. The country is currently on a disastrous trajectory and the next few months, with or without needed reforms, will shape Lebanon's path for years to come.¹

The country is currently on a disastrous trajectory and the next few months, with or without needed reforms, will shape Lebanon's path for years to come.

NEED FOR US LEADERSHIP

We encourage the US government to lead the international community in using its leverage to incentivize the new Lebanese parliament to take the necessary steps to elect an effective and reform-committed president; address short and long term social, economic, and political matters; and nominate a credible prime minister capable of forming an effective government committed to enacting the necessary reforms.

We have outlined major areas for action and identified steps that both respond to immediate needs and provide longer term support and vision for additional actions. This is not a simple sequential model, but rather a set of recommendations that build on one another and address serious concerns in the coming months to build for a more sustainable economy and government. At its core, Lebanon's failings can be attributed to two key causes – endemic corruption by the political class and the "state within a state" impunity of Hezbollah. Without addressing both manifestations at all levels of government and in relation with the banking sector, private and public sectors, and NGOs, there is little chance that Lebanon will recover, let alone progress to a fully functioning state.

At its core, Lebanon's failings can be attributed to two key causes – endemic corruption by the political class and the "state within a state" impunity of Hezbollah.

¹Ed Gabriel and Paul Salem, "In Lebanon, the next six months will shape the next six years." *The Hill*. September 7, 2022. Available at <https://thehill.com/opinion/international/3624423-in-lebanon-the-next-six-months-will-shape-the-next-six-years/>.

CHALLENGE OF GOVERNANCE: ELECTING A PRESIDENT AND FORMING AN EFFECTIVE GOVERNMENT

Lebanon is mired in a vacuum of governing authority. The president's term expired on October 31, 2022 and parliament has so far failed to elect a replacement. Following the May 2022 parliamentary elections, as spelled out in the constitution, the government entered into caretaker status, leaving its authority to function without a president in question. The country desperately needs the election of a clean, capable, and reform-oriented president who can help lead the way toward rebuilding state institutions, fighting corruption, encouraging reform, and enabling a rapid socio-economic recovery. Equally important is the subsequent naming of a credible prime minister and government committed to restoring confidence in basic governance, reversing a general loss of confidence in Lebanese institutions, and supporting an effective socio-economic recovery plan. The US can use its influence, its diplomatic good offices, and the leverage of its European and Gulf partners, to press Lebanese parties to move quickly toward electing a qualified and capable president.

Recommendations

- Make clear to the current parliament and the various political parties that international aid and diplomatic support are contingent on the election of a clean, capable, and reform committed president who will address the needs of the people of Lebanon as well as the subsequent formation of an effective government. The longer the presidential election process takes, the more turmoil Lebanon is likely to face, which is not in US interests.
- Establish clear expectations for US aid and diplomatic support with Lebanon's political parties and leaders by hinging support for any new presidential administration or new government on the appointment of clean, effective, and credible persons in positions of responsibility as well as on clear and measurable progress with respect to implementing reforms, fighting corruption, reclaiming state sovereignty, rebuilding state institutions, and improving governance.
- Advocate that Lebanon's leadership strengthen the country's democratic institutions through policies such as decentralization, and engage in a serious process of ending the "state within a state" presence of Hezbollah by agreeing to a National Defense Strategy, placing the responsibility for sovereignty solely within the authority of the state. The US, France, and the Gulf States have a key role to play here.
- Strengthen and support new reformist political parties and new Members of Parliament and parliamentary committees, as well as independent media through NGOs such as the International Republican Institute and the National Democratic Institute to enable Lebanon to transition into a better functioning democracy, particularly given expected municipal elections in 2023.

- Include provisions to revive and compensate for a competent and independent civil service sector based on reforms introduced by parliament. The brain drain and depleting salaries are weakening the civil service sector. Rehabilitating this sector is essential for addressing Lebanon's governance challenges.
- Pass a law that grants independence to Lebanon's judicial branch. Independence of the judiciary is a hallmark of any democracy and the current draft law fails to protect the judicial system from political interference.

CHALLENGE OF REFORMS: SUSTAINABLE, TARGETED, CREDIBLE STEPS

Any eventual IMF reforms will require courageous and difficult decisions by the parliament. Some of the key requirements lawmakers must address include: reducing public expenditures, reforming tax policies and fighting tax evasion, streamlining agencies, formalizing a capital control law, concluding a realistic 2023 budget, restructuring the banking sector, and improving it while protecting the rights of small depositors. If the government wants the IMF package to be adopted, a strong endorsement by the leadership is needed.

Recommendations

- Emphasize to any incoming president, as well as the current parliament, that the US and its international partners expect quick, effective, and thoroughgoing implementation of reforms as outlined in the IMF staff agreement. The US and its partners should also make clear that further steps, policies, and reforms will be needed if the IMF agreement is to take hold, and if international investment and aid is to flow back into the country. Furthermore, the US should clarify that its support and funding are contingent upon such results.
- Encourage the Lebanese government to better engage with the general public and explain to the Lebanese people in a transparent manner which reforms will be needed and why, as well as build public awareness and support for this process. Targeted and responsive social media are essential.
- Encourage Lebanese stakeholders, including leaders in the parliament and government, to come together in a spirit of cooperation and dialogue to find a consensus that builds support for passage of the IMF package.
- Inform the Lebanese public that in any reform package, small and medium depositors will be protected. A dramatic commitment to the public is needed. For instance, a statement ensuring that capital remaining in the Central Bank will be set aside for these depositors to guarantee their life savings.

ENERGY AND ELECTRICITY SECTOR

Perhaps no issue better illustrates the integrated nature of the reforms and their outcomes than restructuring the energy sector, which is currently rife with inefficiency, unsustainable pricing and subsidy policies, and poor tariff collection. *Electricité du Liban* (EDL) has literally been providing electricity for free for over a decade, subsidized by bank depositors' money. The energy sector has suffered from years of mismanagement, neglected investments on equipment upgrades, and poor collection of fees.

It should be noted that Lebanon took a major step in gaining international support, increased security and stability, and potential economic benefit from the agreement demarcating its maritime border with Israel. While this is an important long-term step forward for Lebanon, it does not address the short-term and dire needs of the country.

Regarding the Levantine Energy Deal, the Lebanese government has recently taken one of two initial reform steps in order to receive World Bank financial support: announcing sustainable electricity tariffs. Unfortunately, the government has yet to initiate the other step: appointing a qualified Electricity Regulatory Authority (ERA).

Without sufficient, well-regulated energy flows, public facilities struggle, companies cannot provide IT or other services to their customers, diesel prices continue to impoverish consumers, and businesses cannot function efficiently.

Recommendations

- Make clear to Lebanese lawmakers that the US and its partners do not view the maritime border deal as a substitute for an IMF reform package and that it will take years before Lebanon sees any benefit from exploration and extraction.
- Offer encouragement, from the US, to Lebanon for developing a sustainable sovereign fund, with proper accounting standards and investment strategy for investing proceeds from any oil and gas development solely for the future development of the country.
- Cooperate with Lebanon to develop its eventual energy export plans, which will require engagement and coordination with the Eastern Mediterranean Gas Forum and additional US diplomacy.
- Urge the Minister of Energy to present an acceptable proposal to the World Bank, for the long-term development and sustainability of Lebanon's electricity sector, which is vital for finalizing the Levantine Energy Deal. Such a program must meet international norms to competitively unbundle and privatize electrical power and establish an ERA independent of political influence.
- The government of Lebanon and, in particular, the Ministry of Energy should be held accountable for providing the necessary guarantees to the World Bank, which will allow an immediate and short-term opportunity to increase electricity to the people of Lebanon in the coming weeks.

- Impress upon the World Bank the urgent need to help the citizens of Lebanon and how the Levantine Energy Deal is the quickest way to address that need. The US should make it clear to the World Bank, at the highest levels, the significance of this project. The World Bank, likewise, should proceed based on its commitment to finalize an agreement based upon Lebanon's delivery of the tariff rates, an acceptable cost recovery proposal, and the initiation of ERA recruitment.
- Encourage the Lebanese government, as an immediate step forward, to allow up to 30% of electricity needs to be met by small renewable electricity projects (maximum 15MW/plant) developed by municipalities, non-profits, and other entities, with a provision to sell excess power to the grid. USAID should continue to support local initiatives that develop decentralized energy production eligible to receive USG support.

THE CHALLENGE OF SYRIAN REFUGEES – UNTYING THE KNOT

There are over 825,000 Syrian refugees in Lebanon registered with UNHCR. However, the government of Lebanon directed UNHCR to cease registering refugees in 2015. Consequently, estimates vary on the actual number of refugees in-country. Lebanon is the highest per-capita host of refugees in the world. It should be understood that Lebanon has done and is continuing to do a global public good in its response to the Syrian refugee crisis. Despite international efforts, the status of refugees in Lebanon, as well as the plight of their local host communities, continues to deteriorate.

It is vitally important for the international community to insist on and protect the safe, dignified, and voluntary return of all refugees. There is, however, an increasing need to seek an understanding of and response to the needs of Lebanese host communities. Syrian refugee programs were developed before the collapse of Lebanon. Today, with high unemployment and more than 80% poverty in Lebanon, a fresh look at the problem is necessary.

Anti-refugee political pressure in Lebanon is building, resulting in discriminatory rhetoric, exclusionary policies (particularly at the municipal level), and a short-sighted voluntary repatriation effort that is having only marginal results. The information currently circulating concerning Syrian refugees is sometimes evidence-based and other times hyperbolic. There is a need to widely disseminate information, based on strong research and conditions on the ground, in order to develop potential solutions.

After more than a decade of conflict, it is clear there is a need for creative solutions to the Syrian refugee crisis that both uphold international refugee law stipulating that returns to Syria be safe, voluntary, and dignified, and recognize that Lebanon cannot manage this situation alone.

Recommendations

- Increase US government assistance for refugees, host communities, and vulnerable populations by \$1 billion for FY2023 in order to address and balance the needed services for these populations. The international community should participate with the US in addressing the needs of these communities. Such increases should be equally balanced between host communities and refugee families and tied to the Lebanese government's respect for the internationally recognized rights of refugees living in Lebanon.
- Form a policy study group to study the current refugee crisis, with a mandate to identify and create sustainable solutions, taking into consideration Lebanon's stability, while also upholding international law that any refugee returns should be safe, voluntary, and dignified. Such an effort will display US understanding of the full impact of the refugee crisis in Lebanon.
- Conduct primary research, as part of the study effort, to establish credible data on the impacts of the refugee crisis in the country, separating fact from misstatements, in order to fully understand the scope of the problem. This can help clear up misunderstandings in Lebanon about the refugee impact on the country.

CHALLENGE OF ADEQUATE HUMANITARIAN AND SOCIAL DEVELOPMENT RELIEF – LIFELINE FOR SURVIVAL

The United States deserves exceptional credit for leading the world's humanitarian relief effort for Lebanon, particularly after the Beirut Port explosion of 2020. Since Fiscal Year 2021, over \$800M in US humanitarian support has found its way through NGOs, hospitals and clinics, and community organizations to over 900,000 beneficiaries in the country. Now is not a time to reduce these efforts.

To make this impact sustainable, the US, along with its friends, should strengthen K-12 and university public and private education, health, agriculture, the small-scale energy sector, technical and primary schools, and programs and policies that encourage decentralized and innovative solutions to the challenges facing the country.

The United States deserves exceptional credit for leading the world's humanitarian relief effort for Lebanon, particularly after the Beirut Port explosion of 2020.

Recommendations

- Continue to mobilize international humanitarian support, with US leadership, for the Lebanese people. This support should be channeled through credible local and international NGOs and not through the government, where corruption remains a high risk.

- Increase annual aid to \$100M for both American universities, The American University of Beirut and Lebanese American University, and ensure they do not fail during this crisis. They are among the best soft power tools of the US.
- Increase support for the Middle East Partnership Initiative (MEPI) as well as grants that support research institutions and civil society organizations working on governance, democratization, and Lebanon's crisis and recovery.
- Support Lebanese University's proposal to the World Bank to stave off its closing. Lebanon is facing a lost generation as its largest university cannot even keep its lights on. Professors are departing and students are left with minimal virtual learning and without basic supplies.
- Prioritize support to private and public educational institutions in Lebanon, ranging from primary schools to universities, who face the same threat as Lebanese University.
- Expand USAID projects to include more youth and women with a focus on entrepreneurship, upskilling, and reskilling in sectors deemed crucial for the stability and rebuilding of the country.
- Form a partnership between USAID and the Lebanese American community to formalize an effort by Lebanese American doctors to create a virtual support system for medical education.
- Recognize that certain regions within the country are experiencing a severe cholera outbreak: the US should continue to contribute toward the cholera vaccination effort.

CHALLENGE OF SECURITY – REMEDIES MUST BE SUSTAINABLE

The Lebanese Armed Forces (LAF), the most trusted institution in the country, has the full confidence of the US Department of Defense, bipartisan Congressional leaders, and the administration. After the loss of confidence in Lebanon's banking sector, the LAF now stands as the only institution holding the country together.

The US continues to strengthen ties with officers and helps advance the LAF to maintain its allegiance to the Lebanese state rather than to any sectarian identity. Robust security assistance and coordinated programming, the allocation of unspent funds to support a UN effort to finance an LAF cost of living adjustment, visits by officials during joint exercises, and strategic meetings and reviews will strengthen the spirit that is vital to the security of the country.

Over the past several years the LAF has proven to be one of the most competent militaries in the Middle East region, according to the US Department of Defense, and is becoming the best institutional deterrent to Iran's military intervention via Hezbollah.

Further complicating Lebanon's stability is malign Iranian activity which continues to be a key driver in Lebanon's protracted crisis. We believe a nuclear deal with Iran addressing nuclear security is important and should be a starting point in negotiating further curbs on Iranian missile activity and terrorist proxies in the region. Over the past several years the LAF has proven to be one of the most competent militaries in the Middle East region, according to the US Department of Defense, and is becoming the best institutional deterrent to Iran's military intervention via Hezbollah.

Recommendations

- Continue material support for the LAF, a key piece of our presence in the region, mainly for the operation and maintenance of the LAF and Internal Security Forces (ISF).
- Sustain livelihood support for LAF/ISF families. The US should continue to recruit support from our allies in Europe and the Gulf for food, school aid, and family support.
- The US should encourage the Council of Ministers and the appropriate ministries to develop a National Defense Strategy.
- Combat the Iranian-propagated "resistance" narrative that the current suffering of the Lebanese people is due to US policy. The US must engage in public diplomacy efforts in this regard.
- Maintain an active role for the US in the full implementation of the Lebanon-Israel maritime agreement with a view to eventually extending mediation services to resolve land-based disputes between the two states.

SANCTIONS

The US has imposed Magnitsky Act and terrorism sanctions on several Lebanese actors for abuses of human rights, corruption, and supporting terrorist activities. Sanctions have been wisely crafted to target individuals and have avoided the negative consequences of harming the larger public. In our visits, much of the Lebanese public expressed the need for assistance in holding corrupt and abusive officials accountable.

Recommendations

- Continue to ensure that sanctions are based on clear evidence of corruption, human rights abuses, or terrorism, and communicate that evidence transparently with the Lebanese and international public.
- Continue to ensure and that sanctions are consistent and evidence-based, and not used for political purposes.

RARE MOMENT FOR US LEVERAGE

In our lifetime, the Lebanese have displayed characteristics which have earned them global admiration. Lebanon is a country that is culturally diverse, democratically-rooted, market-oriented, educated, and welcoming of minorities and refugees, among other qualities. However, it has also suffered from the turmoil of civil war, several regional conflagrations, a corrupt and sectarian ruling class, and the presence of a large foreign-backed armed group. If the US and its allies fail to act today, they will be forced to act tomorrow as the consequences

If the US and its allies fail to act today, they will be forced to act tomorrow as the consequences for the entire region would be detrimental.

for the entire region would be detrimental. A failed state, also home to one of the world's largest population of refugees, bordering both Syria and Israel would become both an imminent security threat and a humanitarian disaster that could not be ignored.

Lebanese youth are working to construct a national vision that is inclusive, based on equity, and non-sectarian. With the country in socio-economic disarray, facing the need to elect a new president and form a new government, the US can employ a whole-of-government strategy, based on these recommendations, and work with its friends and partners to help bring forward capable and committed leaders who are able to not only address the humanitarian crises afflicting the Lebanese people but also build a sustainable foundation for Lebanon's future. The question at hand, however, is whether the US response will come in time.