

LEBANON

SYSTEMATIC COUNTRY

DIAGNOSTIC

AUGUST 2024



LEBANON:

A Systematic Country Diagnostic

(P500099)

August 2024



The World Bank Group
Middle East and North Africa Region

© 2024 The World Bank

1818 H Street NW, Washington DC 20433

Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved

This work is a product of The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The World Bank does not guarantee the accuracy, completeness, or currency of the data included in this work and does not assume responsibility for any errors, omissions, or discrepancies in the information, or liability with respect to the use of or failure to use the information, methods, processes, or conclusions set forth. The boundaries, colors, denominations, links/footnotes and other information shown in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The citation of works authored by others does not mean the World Bank endorses the views expressed by those authors or the content of their works.

Nothing herein shall constitute or be construed or considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Attribution—Please cite the work as follows: “World Bank.2024. Lebanon: A Systematic Country Diagnostic. © World Bank.”

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

Acknowledgments

This Systematic Country Diagnostic (SCD) was led by Dima Krayem (Senior Economist, MTI), Nisreen Salti (Consultant, MTI), David Bernstein (Lead Public Sector Specialist, EMNGU), and Marcel Rached (Regional Country Officer, IFC). It was completed under the guidance of Jean Christophe Carret (Country Director), Eric Le Borgne (Practice Manager), and Norbert Fiess (Lead Economist). Zeina Khalil (Communications Officer) was the lead on communications, outreach, and publishing.

The SCD relied substantially on sector-specific expertise from across the World Bank Group's units and Global Practices (GPs). We are grateful to all focal points and colleagues from the World Bank GPs, the Lebanon Country Management Unit, and other teams whose inputs, comments, and contributions made this document possible. The table below identifies team members representing each of these units and GPs, with specific knowledge and experience in Lebanon, who played an important role in providing expert input throughout the SCD process.

The team is also grateful to peer reviewers Kevin Carey (Program Manager, EFICT) and Paul Salem (Executive Director and CEO, Middle East Institute) for their insightful comments and suggestions.

| Global Practice/Unit | | Team Members |
|----------------------|---|---|
| 1 | Governance | David Bernstein, Jiwanka Wickramasinghe, Winston Percy Onipede Cole, Izzah Akram Malik, Lina Fares, Lina Tutunji, Jocelyne Jabbour, Yash Gupta, Guranda Elashvili, Mona El-Chami, Rima Koteiche |
| 2 | Poverty | Ganesh Seshan, Tala Ismail, Stefania Rodica Cnobloch |
| 3 | Macro-fiscal | Dima Krayem, Nisreen Salti, Naji Abou Hamde, Ibrahim Jamali, Samer Frangie |
| 4 | Jobs | Angela El Zir, Theresa Osborne |
| 5 | Private Sector, Trade and Competitiveness | Zeina El Khoury, Tania Ghossein, Paul Phumpiu Chang, Harald Jedlicka |
| 6 | Energy | Alexis Medelain, Rida Mawla, Yanchao Li |
| 7 | Environment/Natural Resources | Lamia Mansour |
| 8 | Education | Adelle Pushparatnam, Hana Addam El Ghali |
| 9 | Agriculture | Armine Juergenliemk, Irina Schuman |
| 10 | Financial Sector | Andrej Popovic, Nadine Chehade, Andrius Skarnulis, Samir Aita, Remi Bealle |
| 11 | Refugees | Naila Ahmad |
| 12 | Gender | Angela El Zir |
| 13 | Health | Ronald Gomez, Rim Atoui, Farah Asfahani |
| 14 | IFC | Saad Sabrah, Marcel Rached, Tania Nor, Andrew Beath, Victor Antonypillai, Diana Esmat Shohdy Ayoub, Michael Galileo Lopesciolo |
| 15 | Social Protection | Ahmet Fatih Ortakaya, Fahmina Rahman Dutta, Mohamad Mansour, Sara Hariz, Montserrat Pallares-Miralles |
| 16 | Transport | Mira Mourad, Gaelle Samaha |
| 17 | Digital Development | Abdallah Jabbour, Christopher Tullis |
| 17 | Urban, Rural Development | Salim Rouhana, Zheng Judy Jia, Sateh El-Arnaout, Philipp Petermann, Ban Edilbi, Phoram Shah |
| 18 | Social Development | Noushig Kaloustian |
| 19 | Water | Sally Zogheib |
| 20 | CMU | Mouna Couzi, Zeina El Khalil, Norbert Fiess, Dina Abu-Ghaida |

Abbreviations and Acronyms

| | |
|-------|--|
| BCCL | Banking Control Commission of Lebanon |
| BdL | Banque du Liban |
| CAGR | Compound Annual Growth Rate |
| CAS | Central Administration of Statistics |
| CCDR | Country Climate and Development Report |
| CDS | Credit Default Swap |
| CFRA | Child-Focused Rapid Assessment |
| CIP | Capital Investment Plan |
| CLIAR | Country-Level Institutional Assessment and Review |
| COED | Cost of Environmental Degradation |
| CTF | Closeness to Frontier |
| DDI | Domestic Direct Investment |
| DPI | Digital Public Infrastructure |
| DRE | Distributed Renewable Energy |
| EdL | Electricité du Liban |
| EGRA | Early Grade Reading Assessment |
| EMBI | Emerging Markets Bond Index |
| ESSNP | Emergency Social Safety Net Project |
| FDI | Foreign Direct Investment |
| GDLRC | General Directorate for Land Registry and Cadaster |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GoL | Government of Lebanon |
| GP | Global Practices |
| GPS | Global positioning systems |
| HBS | Household Budget Survey |
| HCI | Human Capital Index |
| HDI | Human Development Index |
| HLO | High-Level Outcomes |
| HRW | Human Rights Watch |
| ICC | Insurance Control Commission |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| ISWM | Integrated Solid Waste Management |
| LAYS | Learning-Adjusted Years Of Schooling |
| LFPR | Labor Force Participation Rate |
| LFS | Labour Force Survey |
| LHS | Lebanon Household Survey |
| LPSP | Long-Term Primary Care Subsidized Protocol |
| MENA | Middle East and North Africa |
| MIM | Ministry of Interior and Municipalities |
| MoE | Ministry of Environment |
| MoF | Ministry of Finance |
| MoPH | Ministry of Public Health |

| | |
|--------|---|
| MPI | Multidimensional Poverty Index |
| MPWT | Ministry of Public Works and Transport |
| MSMEs | Micro, Small and Medium Enterprises |
| NFA | Net Foreign Asset |
| NPL | Non-Performing Loan |
| NPPRS | National Public Procurement Reform Strategy |
| NPTP | National Poverty Targeting Program |
| NRW | Non-Revenue Water |
| NSPS | National Social Protection Strategy |
| NSSF | National Social Security Fund |
| O&M | Operation and Maintenance |
| OOP | Out of Pocket |
| PDM | Post Distribution Monitoring |
| PFM | Public Financial Management |
| PHC | Primary Health Care |
| PHCC | Primary Health Care Center |
| PISA | Programme for International Student Assessment |
| PIT | Personal Income Tax |
| PoB | Port of Beirut |
| PPA | Public Procurement Authority |
| PV | Photovoltaic |
| QITABI | Quality Instruction toward Access and Basic Education Improvement |
| RAMS | Road Asset Management System |
| REP | Roads and Employment Project |
| SCD | Systematic Country Diagnostic |
| SLA | Staff-Level Agreement |
| SMEs | Small and Medium Enterprises |
| SoER | State of the Environment Report |
| SPIS | Social Protection Information System |
| SWM | Solid Waste Management |
| THE | Total Health Expenditure |
| TIMSS | Trends in International Mathematics and Science Study |
| UHC | Universal Health Coverage |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| VAT | Value Added Tax |
| VC | Venture Capital |
| WBES | World Bank Enterprise Survey |
| WBG | World Bank Group |
| WEF | World Economic Forum |
| WFP | World Food Programme |
| WWTP | Wastewater Treatment Plant |

Table of Contents

| | |
|--|-----------|
| PREFACE | 1 |
| EXECUTIVE SUMMARY | 2 |
| ملخص تنفيذي | 12 |
| RÉSUMÉ ANALYTIQUE | 23 |
| I. COUNTRY CONTEXT | 35 |
| BACKGROUND..... | 35 |
| SCD THESIS: TWO OVERARCHING CONSTRAINTS LIMITING LEBANON’S DEVELOPMENT..... | 40 |
| II. CHAPTER 2: GROWTH, POVERTY & INEQUALITY, AND JOBS | 44 |
| GROWTH ANALYSIS | 44 |
| POVERTY | 48 |
| <i>Money-metric poverty</i> | 48 |
| <i>Multidimensional poverty indicators</i> | 53 |
| <i>Inequality</i> | 54 |
| LABOR MARKET..... | 56 |
| <i>Demographic trends and immigration</i> | 56 |
| <i>Job destruction</i> | 58 |
| III. CHAPTER 3: LEBANON’S CHALLENGES | 63 |
| A. OVERARCHING CONSTRAINTS..... | 63 |
| <i>Institutional paralysis</i> | 63 |
| <i>Turbulent regional environment</i> | 64 |
| B. NESTED CONSTRAINTS | 65 |
| 1. <i>Macroeconomic Instability</i> | 65 |
| 2. <i>Financial de-development</i> | 71 |
| 3. <i>Infrastructure and public utilities: Collapse and decay</i> | 78 |
| Electricity sector collapse..... | 79 |
| Water sector | 81 |
| Wastewater management | 82 |
| Solid waste management..... | 82 |
| Transportation | 84 |
| Low climate adaptive capacity..... | 85 |
| 4. <i>Public sector festering pathologies: Collapsing governance and institutions, hollowed-out state</i> | 86 |
| Civil service..... | 86 |
| Digitalization | 87 |
| Judicial system | 88 |
| 5. <i>Human capital losses that linger: Inequality, divestment, and flight</i> | 90 |
| Social protection | 90 |
| Health..... | 91 |
| Education | 94 |
| IV. CHAPTER 4: LEBANON’S OPPORTUNITIES: POLICY PRIORITIES AND HIGH-LEVEL OUTCOMES | 99 |
| HLO1: RESTORED MACROECONOMIC AND FINANCIAL STABILITY AND PRIVATE SECTOR SUPPORT | 103 |
| <i>Priority 1: Banking sector restructuring to recover a functional financial market</i> | 103 |
| <i>Priority 2: Non-banking Financial sector development and expansion of access to credit for private sector support</i> | 105 |

| | |
|--|------------|
| <i>Priority 3: Fiscal reform and consolidation</i> | 107 |
| HLO2: IMPROVED DELIVERY AND ACCOUNTABILITY IN PROVISION OF BASIC PUBLIC SERVICES TO REDUCE INEQUALITY IN ACCESS TO PUBLIC SERVICES | 110 |
| <i>Priority 1: Preservation of public sector human capital through civil service reform</i> | 110 |
| <i>Priority 2: Installing a Digital Public Infrastructure (DPI) for more transparent, efficient, and accessible digitalized services</i> | 111 |
| HLO3: IMPROVE PUBLIC UTILITIES TO SECURE BASIC NEEDS, IMPROVE STANDARDS OF LIVING, AND BUILD RESILIENCE TO SHOCKS FROM CLIMATE CHANGE | 113 |
| <i>Priority 1: Transition to cleaner energy across utilities and adapt regulatory framework</i> | 114 |
| <i>Priority 2: Upgrade management and operations in the water, wastewater, and solid waste sectors</i> | 116 |
| <i>Priority 3: Building resilient and low-carbon transport through formalizing and consolidating service and improving safety and sustainability</i> | 118 |
| HLO 4: IMPROVED AND MORE EQUITABLE HUMAN CAPITAL | 121 |
| <i>Priority 1: Expand access, form of support, and scope of social protection by building on existing modalities</i> | 121 |
| <i>Priority 2: Prioritize primary care, improve access and coverage</i> | 122 |
| <i>Priority 3: Expanded access to quality education through operational, human capital and information systems reforms</i> | 124 |
| ANNEX TO CHAPTER 1 | 127 |
| ANNEX 1.A | 127 |
| <i>Institutional paralysis reinforced by regional turbulence: Historical background</i> | 127 |
| 1. Pre-Ta'if moment: The roads of paralysis..... | 127 |
| 2. The post-war regime: Institutionalizing paralysis..... | 128 |
| 3. The Breakdown: 2005–2016 | 131 |
| 4. The Crisis: 2016–Present..... | 132 |
| ANNEX 1.B | 134 |
| <i>CLIAR methodology</i> | 134 |
| Institutional families | 134 |
| ANNEX TO CHAPTER 3 | 136 |
| NESTED CONSTRAINT 2: FINANCIAL DE-DEVELOPMENT..... | 136 |
| <i>Other financial sectors</i> | 136 |
| NESTED CONSTRAINT 3: INFRASTRUCTURE AND PUBLIC UTILITIES..... | 137 |
| 1. <i>Telecommunications</i> | 137 |
| 2. <i>Land, housing, and urban amenities</i> | 137 |
| NESTED CONSTRAINT 4: PUBLIC SECTOR: FESTERING PATHOLOGIES..... | 141 |
| 1. <i>Powerless regional administration</i> | 141 |
| 2. <i>Anti-corruption, transparency, accountability</i> | 143 |
| NESTED CONSTRAINT 5: HUMAN CAPITAL LOSSES THAT LINGER..... | 146 |
| <i>Education</i> | 146 |
| NESTED CONSTRAINT 6: CURTAILED BUSINESS ENVIRONMENT | 148 |
| 1. <i>Access to finance</i> | 148 |
| 2. <i>Infrastructure</i> | 149 |
| 3. <i>Governance</i> | 149 |
| 4. <i>Competition</i> | 149 |
| 5. <i>Investment framework</i> | 150 |
| 6. <i>Regulatory framework</i> | 150 |
| 7. <i>Informality</i> | 152 |
| 8. <i>Elite capture</i> | 152 |
| NESTED CONSTRAINT 7: ENVIRONMENT DEGRADATION AND UNPREPAREDNESS | 153 |
| ANNEX TO CHAPTER 4 | 156 |

| | |
|--|-----|
| ANNEX 4.A | 156 |
| <i>Characterizing the muddling through scenario</i> | 156 |
| 1. Macro-fiscal landscape | 156 |
| 2. Banking and financial sectors..... | 157 |
| <i>Characterizing the recovery scenario</i> | 158 |
| ANNEX 4.B | 159 |
| <i>HLO1: Restored macroeconomic and financial stability and private sector support</i> | 159 |
| Priority 3: Fiscal reform and consolidation..... | 159 |

List of Boxes

| | |
|---|-----|
| Box 1. Who are the poor? | 48 |
| Box 2. Different valuations of the banking sector assets..... | 73 |
| Box 3. Recommended interventions under muddling through and recovery scenarios in the CCDR..... | 113 |
| Box 4. CLIAR findings..... | 130 |
| Box 5. Housing sector in Lebanon..... | 139 |
| Box 6. Land laws and administration | 140 |
| Box 7. Snapshot on key regulatory constraints..... | 151 |

List of Figures

| | |
|--|-----|
| Figure 1. State capacity (MENA, 2021)..... | 42 |
| Figure 2. State capacity components (Lebanon, 2021)..... | 42 |
| Figure 3. Real GDP growth/contraction (2010–2023) | 45 |
| Figure 4. Contribution to real GDP growth (production/supply side) (2010–2023) ³⁴ | 45 |
| Figure 5. Contribution to real GDP growth (expenditure/demand side) (2010–2023) | 47 |
| Figure 6: Headcount poverty is visibly higher among displaced Syrians compared to Lebanese in 2022 | 49 |
| Figure 7: Headcount poverty among Lebanese nationals has tripled from a decade ago | 50 |
| Figure 8: Lebanese households have visibly cut back on the consumption of meat over the past decade | 50 |
| Figure 9: Poor households are larger, are more likely to be indebted, and their heads have lower levels of education attainment..... | 51 |
| Figure 10. Evolution of net enrollment rate by nationality and level of education | 55 |
| Figure 11. Inclusiveness perceptions (MENA, 2021)..... | 56 |
| Figure 12. Inclusiveness expert vs. GDP (2021) | 56 |
| Figure 13: Working-age population (15–64 years old) and fertility rates, 1990–2021, Lebanon | 57 |
| Figure 14: Estimated trend in the size of the employed and unemployed, 2007–2022 | 59 |
| Figure 15: Comparison of main overall labor market outcomes indicator, 2018–2019 and 2022..... | 61 |
| Figure 16: Comparison of main labor market outcomes indicators by gender and age, 2018/19 and 2022..... | 61 |
| Figure 17. Banks’ assets as a percentage of their balance sheet..... | 71 |
| Figure 18. Banks’ liabilities as a percentage of their balance sheet | 71 |
| Figure 19. Evolution of total balance sheet by date and exchange rate | 76 |
| Figure 20. Lebanon’s performance on the Global Competitiveness Index in 2019..... | 79 |
| Figure 21. Supply-demand gap of EdL electricity services | 80 |
| Figure 22. Lebanon’s water balance during wet and dry seasons..... | 82 |
| Figure 23. Disposal of solid waste in Lebanon, by Caza..... | 83 |
| Figure 24. Lebanon’s Rule of Law Index 2022..... | 88 |
| Figure 25. Trust in the legal system in the Arab region | 89 |
| Figure 26. Education financing as a share of expenditure and GDP over time | 95 |
| Figure 27. Segregation decomposition for the 1st and the 5th decile of socioeconomic background | 95 |
| Figure 28. Crisis-driven decrease in revenues (as a percentage of GDP) | 107 |

| | |
|---|-----|
| Figure 29. Pathway toward a climate resilient recovery of Lebanon’s water sector | 118 |
| Figure 30. Education sector interventions under each scenario | 126 |
| Figure 31. Lebanon CLIAR overview, compared to three groups of countries | 130 |
| Figure 32. Anti-corruption, transparency, and accountability in Lebanon, compared to three groups of countries | 131 |
| Figure 33. Government mode: Full executive power vs. caretaker or resigned, since February 2005 | 132 |
| Figure 34. Presidential vacuum since 2007 | 132 |
| Figure 35. Lebanon’s urban population (% of total population) | 138 |
| Figure 36. IMF per district and annual growth of total funds | 143 |
| Figure 37. Intergovernmental fiscal transfers distribution and correlation with poverty rates | 143 |
| Figure 38. Corruption and government cracking down on it, in Lebanon and other Arab countries | 144 |
| Figure 39. For Lebanese, organizing a protest is the most effective way to influence a national government decision | 145 |
| Figure 40. Lebanon PISA scores in reading | 147 |
| Figure 41. Lebanon PISA scores in mathematics | 147 |
| Figure 42. Lebanon PISA scores in science | 147 |
| Figure 43. Areas prone to elite capture in Lebanon and regional comparators | 153 |
| Figure 44. COED 2000 vs. Rapid COED 2018 - Mean estimate | 154 |
| Figure 45. EdL’s electricity generation mix | 155 |

List of Tables

| | |
|--|-----|
| Table 1. Transition matrix: labor force status in 2022 compared to 2019–2022, % | 59 |
| Table 2. Employment and informality, 2018–2019 and 2022, % | 60 |
| Table 3. Commercial banks’ balance sheet | 72 |
| Table 4. BdL balance sheet | 72 |
| Table 5. Distribution of deposits shows how a few large depositors own most of the deposits in the banks | 73 |
| Table 6. Valuations of banking sector assets | 74 |
| Table 7. Enrollment by school year and shift | 96 |
| Table 8. Distribution of teachers by type of school | 98 |
| Table 9. High-Level Outcomes | 101 |
| Table 10. Macro-financial reforms to be adopted to restore macroeconomic and financial stability | 104 |
| Table 11. Four sectors of promise | 106 |
| Table 12. Macro-fiscal reforms to be adopted to restore fiscal space and sustainability | 109 |
| Table 13. Lebanon CCDR recommended policies and interventions | 114 |

PREFACE

While comprehensive reforms and crisis resolution remain crucial to Lebanon's recovery and growth, critical investments can still be advanced in the current challenging context and without a macro-fiscal trade-off.

The 2024 Lebanon Systematic Country Diagnostic (SCD) outlines the systemic nature of the country's crisis, examines its structural root causes, and analyzes its profound impact on economic growth, poverty, inequality, and labor market outcomes. It also prioritizes realistic opportunities for reform and recovery, even amid the current challenging circumstances. The report is based on a comprehensive analysis of available evidence and has benefitted from extensive consultations with public and private sector representatives, civil society organizations and experts.

Eight years after the first Lebanon SCD report was published in 2016, the country has undergone significant changes and faces its most severe crisis yet. The Lebanon SCD finds that the country remains subject to two overarching constraints to inclusive growth: institutional paralysis and a turbulent regional and international environment. The evolving interplay between these two constraints is hampering prospects for recovery. Additionally, Lebanon's long-standing structural challenges persist: high levels of macroeconomic instability, decaying infrastructure, public services in a perpetual state of decline, weak institutional governance, and an acute erosion of human capital. These challenges have become even more binding in the ongoing crisis, further hindering the prospects of economic stability and sustainable development.

The SCD lays out a strategy to tackle Lebanon's critical challenges and presents realistic policy priorities that target for four high-level outcomes: (1) restoring macroeconomic and financial stability, (2) improving governance and access to public services, (3) enhancing public utilities, and (4) strengthening human capital.

The report emphasizes the need for immediate sectoral emergency plans to maintain essential services, including public utilities, health, education, and social protection. These emergency interventions are intended to prevent further capital depletion and kickstart basic services even under the current status quo of political and economic stagnation. For public utilities, this includes the solarization of energy for major public utilities (water, wastewater treatment, telecommunications), and a move to cleaner energies. Until large-scale investments and deeper reforms are possible, operational improvements in health and education can help maintain services despite the limited fiscal space. A vigorous effort at digitalization within each of these vital sectors and across them can unlock economies essential for continuation of services. Improvements in these targeted sectors can set the stage for larger-scale investments when conditions for broader macro-financial and governance reforms become favorable. This would need to include: (i) restructuring the financial sector to restore banks' viability and financial intermediation functions; (ii) creating fiscal space by restructuring public debt and placing it on a sustainable footing; (iii) reforming state-owned enterprise; (iv) modernizing the central bank (Banque du Liban), governance and accountability arrangements and strengthening governance and anti-corruption; and (v) establishing a credible and transparent monetary and exchange rate system—all needed to pave the way for a better investment climate going forward.

EXECUTIVE SUMMARY

Background

The World Bank Group (WBG) has undertaken a new Systematic Country Diagnostic (SCD) to update the constraints to achieving inclusive growth and shared prosperity following the publication of the first SCD in 2016.¹ The 2016 SCD posited that the root of Lebanon's failure to generate inclusive growth and jobs is the presence of two mutually reinforcing and pervasive (overarching) constraints: elite capture hidden behind the veil of confessionalism and conflict and violence. The 2016 SCD also identified nested constraints affecting Lebanon's potential to deliver high and sustained economic growth to its people, including macroeconomic instability, a weak business environment, insufficient investment in infrastructure, a skills mismatch with labor market needs, and weak institutions and regulatory framework. It not only prioritized Lebanon's challenges but also presented key reforms and opportunities. It also provided a roadmap to mitigate those challenges to avert any systemic crisis.

Eight years following the 2016 SCD, the country has witnessed dramatic changes, and is facing the most acute multipronged and systemic crisis in its history. The domestic political structure, interacting with a tumultuous regional climate, has driven the country to a political crisis and an economic collapse. Political resistance to comprehensive reforms now takes the form of a generalized state of institutional paralysis, only interspersed by selective *ad hoc* measures that have worked as gravely inefficient stopgaps and ultimately exacerbating the crisis and undermining the prospects of eventual economic recovery. This SCD aims to address the question of why reforms are lacking by looking at how the overarching and pervasive constraints tied to Lebanon's political economy model have evolved. The SCD also traces the systemic nature of the crisis, by delving deeper into its structural root causes and analyzing the crisis's profound impact on economic growth, poverty, inequality, and labor market outcomes. The years since the 2016 SCD have witnessed a perpetuation of Lebanon's long-standing sectoral challenges, as macroeconomic stability has chronically been precarious, infrastructure has progressively decayed, institutions and governance have historically been weak, and human capital has deteriorated. These challenges have become more binding nested constraints in the ongoing crisis, further hindering the prospects of economic stability and sustainable development. Finally, this SCD presents a prioritization of realistic opportunities for reform and recovery, even against the backdrop of an arduous reality. The SCD is based on a comprehensive analysis of available evidence and benefitted from extensive consultations with Lebanese experts, private sector representatives, members of the nongovernmental organization (NGO) community, and the Government of Lebanon (GoL), among other stakeholders.

¹ World Bank. 2016. *Lebanon: Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*. The World Bank Group Middle East and North Africa Region. [Link](#)

Main Findings

Institutional Paralysis Reinforced by Regional Turbulence

This SCD finds that Lebanon remains plagued by two overarching constraints to inclusive growth that continue to shape and reshape each other: (a) institutional paralysis and (b) a turbulent regional and international environment. The two overarching constraints reflect the current interplay between two axes that have shaped much of Lebanon's evolution post-independence: a political structure still bound by an imperative of consociationalism and external players and forces with significant domestic roles.

While institutional paralysis has always been a possible outcome of the power-sharing structure, the ongoing economic and financial crisis that depleted state resources cement it as an outcome that now forces the system into a standstill. With the financial crisis transforming the state from a channel for rent seeking and corruption into a financial burden, political players have lost interest in state structures and divested from them as a source of rents. This has led to a state of paralysis, in which the elite has distanced itself from the business of ruling and evaded accountability for the economic downturn.

Lebanon's acute permeability to foreign political forces means that any internal agreement requires a regional consensus, one that does not seem to be materializing anytime soon. The risk of conflict or spillover from neighboring violence remains an immediate one (as evident from the spillover of the conflict in the Middle East), pushing any plans for reform further into the background. In the meantime, the political class is choosing to face the current crisis through institutionalizing a state of paralysis, awaiting an amelioration of the international climate around Lebanon that might allow the ruling elite to reproduce its power. This interplay between the two overarching constraints is leading to disastrous human consequences and severely hampering any progress toward recovery, let alone sustainable development.

Sustained Economic Contraction, Rising Poverty and Inequality, and Job Destruction

Uneven growth driven by sectors with low value added and creation of low-productivity jobs has resulted in increasing poverty and rising inequality over time. The crisis has exacerbated existing socioeconomic disparities and poverty levels through job losses, reduced incomes, and rampant inflation, particularly affecting vulnerable populations. Labor market outcomes have further deteriorated with rising unemployment rates, underemployment, and precarious work conditions, deepening both poverty and inequality. Prospects for growth, livelihoods, equity, and jobs—the vitals of a healthy economy—were poor before the crisis but are outright dire today.

Lebanon's economy has historically experienced uneven and volatile growth due to structural deficiencies in its economic model; in the ongoing crisis, Lebanon has witnessed unprecedented economic contraction and increased reliance on remittances as a coping mechanism for households. While economic growth from 1993 to 2010 averaged 5.7 percent annually, growth sharply declined after 2011, leading to a pre-crisis period of deceleration followed by a crisis period of sustained negative growth. The increasingly sharp deceleration of growth starting in 2011 was brought about by multiple political shocks (including the Syrian conflict and its security and economic spillovers to Lebanon), resulting in extended periods of political vacuum and negatively affecting confidence in a fragile political economy. The most devastating multipronged crisis in Lebanon's modern history that began in 2019 was further exacerbated by the COVID-19 outbreak and the Beirut port explosion in 2020. The unprecedented

cumulative economic contraction by close to 35 percent in the past six years ranks Lebanon's ongoing crisis among the worst ever since the 1850s.² The services sector, constituting over 75 percent of GDP, suffered significantly, with private consumption, historically comprising over 90 percent of GDP, declining notably. Given its limited production capacity, Lebanon heavily relies on imports for consumption goods, leading to a persistent external deficit. Lebanon's heavy reliance on imports exacerbated the crisis, reflected in a persistent current account deficit, averaging more than 17 percent in the crisis years (2019–2023). Remittances are close to US\$7 billion, their proportion to GDP surged to a record high of nearly 30 percent in 2022 and 2023, highlighting their crucial role as a lifeline for Lebanese families amid the crisis.

Unsurprisingly, poverty in Lebanon has seen a stark rise, with approximately 44 percent of the population in five governorates identified as poor in 2022, based on a new unofficial consumption-based poverty line. The resulting survey is representative of five governorates where an estimated 59–60 percent of the population reside: Akkar, North Lebanon, Beirut, Bekaa, and most of Mount Lebanon. The poverty rate among Lebanese nationals stood at around 33 percent, while it was estimated at nearly 87 percent for Syrian households. Over the years, poverty has tripled among Lebanese nationals in the covered governorates, increasing from 11 percent in 2012 to 33 percent in 2022. The number of poor Lebanese individuals has surged from approximately 295,000 in 2012 to 722,000–866,000 in 2022. Socioeconomic disparities between poor and non-poor households are evident, with poor households tending to be larger, more likely to rent, and indebted and have lower education attainment. Despite employment rates being similar, a higher proportion of poor household heads are engaged in informal employment. Remittances and income in foreign currency act as buffers against poverty, with female-headed households more likely to receive remittances and income in foreign currency. Food insecurity is on the rise, as households cut back on food purchases and resort to cheaper food options. The struggle to meet health care and educational needs is apparent, with households reducing health expenditures and delaying medical visits or tests to pay for essential needs.

Inequality in Lebanon is pervasive and multidimensional, extending from incomes to access, opportunities, and outcomes. The crisis and its mismanagement have exacerbated inequality, with a growing poverty gap and a shrinking middle class. In education, there is a significant gap in access and outcomes, with poor households facing greater challenges. The state's failure to provide adequate public services has further widened inequalities, as spending has been fragmented, insufficient, and inefficient, allowing a predatory private sector to dominate service provision without regulation. Beyond the increasing poverty rate, rising inequality is seen across the full income distribution with the share of the middle class shrinking from 57 percent to 40 percent.

While job creation is one of the most effective means for reducing poverty, Lebanon has historically grappled with significant labor market challenges. Jobless growth, high unemployment rates, particularly among the youth, a persistent problem of skills mismatch and a dominance of informal, low-productivity jobs have all contributed to a labor force participation rate (LFPR) of only 48.8 percent in 2018–2019. The demographic transition has led to a reduction in the size of the working-age population since 2015 because of declining fertility rates since the 1990s, coupled with increasing life expectancy. Mass emigration since the onset of the crisis in 2019 has further exacerbated this decline, with significant numbers leaving Lebanon in search of better opportunities abroad.

² World Bank. 2021. *Lebanon Economic Monitor, Spring 2021: Lebanon Sinking: to the Top 3*. [Link](#)

The crisis has had profound effects on the labor market, with job destruction becoming rampant, especially in the private sector. World Bank surveys indicate that numerous formal firms have permanently closed, exacerbating joblessness, with an estimated 27 percent decrease in the number of workers and 64 percent of formal firms shedding jobs. The services sector, historically a major employer, has also been significantly affected, further diminishing job opportunities. Female employees have been disproportionately affected, experiencing a higher net job loss than their male counterparts. The rise of informality in employment has also become increasingly prevalent, leaving workers without adequate protection with 62 percent of jobs now informal, further highlighting the precarious nature of Lebanon's labor market. These trends have led to alarming rates of inactivity and unemployment, particularly among women and youth. The unemployment rate has surged from 11 percent in 2018–2019 to 30 percent in 2022, with youth unemployment more than doubling to 48 percent. Lebanon's struggles reflect broader issues faced by fragile states, including economic and political instability, limited social mobility, and a heavy reliance on informal labor.

Exacerbated Challenges across All Sectors

From a sectoral perspective, Lebanon is facing substantial and multipronged nested constraints across all sectors that continue to challenge economic development. While addressing all nested constraints across sectors is crucial for Lebanon's recovery prospects, long-term sustainable poverty reduction, and economic growth, the emphasis is placed on the most critical constraints. Nested constraints affecting Lebanon's potential to show high and sustained economic growth include (a) macroeconomic instability, (b) financial de-development, (c) crumbling infrastructure and public utilities, (d) collapsing governance and institutions, and (e) human capital losses.

Macroeconomic Instability

Lebanon's post-civil war development model has been characterized by strong interlinkages among the fiscal, monetary, financial sectors, rendering one overly dependent on the other and in the end leading to systemic failure. Persistent current account and fiscal deficits alongside frequent political and security shocks have severely affected macroeconomic stability. An overvalued pegged exchange rate and resulting import dependence have led to a precarious trade deficit. These deficits have been financed by debt, non-resident deposits, and remittances. The country's external position is further weakened by a heavy reliance on tourism, which is highly sensitive to political volatility. Wasteful public spending, with a large debt servicing bill, personnel costs, and transfers to Electricité du Liban (EdL), constrained investment spending, contributing to inequality and a deficient infrastructure. Limited revenue mobilization, regressive tax policies, and ineffective tax administration further strained fiscal resources, with tax revenues relative to GDP declining by 11.5 percentage points (pp) between 2011 and 2022. Quasi-fiscal and financial engineering operations by Banque du Liban (BdL), aimed at stabilizing the economy, only deepened the sovereign-BdL-banking sector nexus and increased mutual exposure, leading to significant vulnerabilities. Repeated international support and donor financing in the post-war era averted sovereign default but perpetuated moral hazard, providing temporary relief without addressing underlying structural issues. The sudden stop of inflows in 2019 and the sovereign default of March 2020 devastated Lebanon's fiscal position, BdL's balance sheet, and the commercial banking sector, ultimately leading to significant estimated losses exceeding US\$70 billion.

Financial De-Development

Lebanon's financial sector, once dominant in the country's economy, has now become a critical impediment to economic stability due to its insolvency in the absence of bank restructuring and resolution. The sector, comprising mainly 66 banks, accounted for a staggering 97 percent of financial system assets, reaching 450 percent of GDP by the end of 2018. This concentration, with 10 banks holding 90 percent of total assets, exposed the sector to substantial risks, particularly with its increased exposure to BdL and consequently to the sovereign. Around 75 percent of banking assets were held at BdL, largely in the form of deposits, rendering the sector insolvent as neither BdL nor the government can honor these claims. Sector losses are estimated to have surpassed US\$70 billion by September 2023. Non-performing loans (NPLs) stood at more than 70 percent as of December 2022 and depositors have faced severe restrictions on withdrawals, exacerbating losses, particularly for smaller depositors. The depreciation of the local currency by 98 percent since 2019 has made depositor accrue large losses, as foreign currency deposits can only be accessed at a significant discount. The valuation of the banking sector's assets underscores the dire situation, with the actual economic value estimated to be a fraction of their book value. While officially reported data may suggest a semblance of stability, the reality is starkly different, with the sector deeply insolvent. The lack of an equitable distribution of losses and a halt in comprehensive bank restructuring further compound the crisis.

The repercussions of the financial sector's collapse extend beyond the banking industry, significantly affecting economic growth and business operations. Credit to the private sector, crucial for economic activity, has dwindled, with firms facing severe constraints on access to finance. The reduction in financial intermediation has led to a decline in the usage of financial services, exacerbating informality and the risk of money laundering. Lebanon's economy has become increasingly cash based, further heightening risks and hindering efforts to regain trust in formal financial services. The World Bank estimates that the size of the cash economy has more than doubled between 2020 and 2022 and today accounts for close to 46 percent of GDP or US\$9.86 billion.³ Moreover, the crisis has likely exacerbated illicit flows, depriving the country of much-needed resources while enriching a select few. The smuggling of subsidized goods to neighboring countries has left vulnerable communities deprived and exacerbated socioeconomic disparities.

Crumbling Infrastructure and Public Utilities

Infrastructural decay pervades all sectors in Lebanon, posing significant challenges to the country's development and the living standards of its residents. In the **electricity sector**, chronic underinvestment and mismanagement have led to widespread blackouts and inefficiencies, undermining economic productivity and quality of life. Similarly, the **water sector** faces immense strain, with aging infrastructure, water scarcity, and pollution exacerbating shortages and compromising access to clean water. **Wastewater management and solid waste management** systems are also in a state of disrepair, posing environmental and public health risks. Inadequate treatment facilities and outdated waste management practices contribute to pollution and environmental degradation, further straining resources and exacerbating health hazards. **Transportation** infrastructure suffers from neglect and insufficient maintenance, resulting in congestion, delays, and safety concerns. The lack of investment in roads, bridges, and public transit systems hampers mobility and impedes economic growth.

³ World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

Lebanon is also highly exposed to climate change, with low adaptive capacity resulting in inadequate infrastructure, weak institutions, poor planning, and a lack of political prioritization. Expected impacts include warmer temperatures, more extreme weather events, and less predictable rainfall, leading to water shortages and increased risks of floods, erosion, droughts, and overheating. In fact, insufficient water availability and extreme weather events are already imposing costs on health, agriculture, and the economy. Without mitigation measures, these risks will result in significant health and economic costs. The ongoing economic crisis exacerbates these challenges by reducing resources for addressing climate impacts.⁴

Collapsing Governance and Institutions

Lebanon grapples with festering pathologies in its public sector, characterized by collapsing governance and institutions. The *civil service* has long been plagued by structural inefficiencies, including noncompetency-based hiring and promotion, lack of personnel performance management, and inadequate workforce planning. The absence of reliable and comprehensive data on the size of the public workforce has further complicated the situation, making it challenging to identify existing competencies, needed skills, and areas of overstaffing and understaffing. The crisis has led to significant levels of staff attrition and absenteeism, severely curtailing core government functions and service delivery. The erosion of public sector salaries has resulted in a critical skills gap, with a significant number of staff leaving their positions. The government's efforts to increase salary levels and preserve core functions have not been successful in incentivizing staff retention and attendance. The absence of a comprehensive salary adjustment mechanism has led to wide-scale fragmentation and demotivation among public sector staff. The *judicial system* faces similar challenges, with a lack of independence, inefficiency, and corruption undermining the rule of law and hindering access to justice for ordinary citizens.

Digitalization efforts are hampered by outdated technology and inadequate internet infrastructure, limiting access to information and hindering economic opportunities. The digital service delivery in Lebanon suffers from fragmentation, inefficiency, and interagency conflicts due to the lack of a suitable technological architecture and limited coordination at the political and technical levels to ensure alignment and buy-in. The lack of foundational digital public infrastructure (DPI) means the government is unable to deliver services digitally. Lebanon's weak national ID system, which lacks verifiable digital ID functionality to enable online use cases, makes it difficult for sectoral ministries to identify beneficiaries reliably, leading to fraud and corruption and reducing the accessibility of essential services. The lack of trusted data-sharing platforms further compounds the government's inability to deliver services efficiently, complicating routine operations.

Human Capital Losses: Inequality, Divestment, and Flight

Lebanon suffers from significant human capital losses due to inequality, divestment, and brain drain. The compounded crises in recent years have led to a deterioration in human capital, as evidenced by Lebanon's Human Capital Index (HCI) of 0.52. This means that a child born in Lebanon will only be 52 percent as productive when s/he grows up as s/he could be if s/he enjoyed complete education and full health. The crisis has also resulted in a significant drop in the Human Development Index (HDI), with Lebanon witnessing the biggest drop of any country in the world between 2019 and 2021.

⁴ World Bank. 2024. *Lebanon Country Climate and Development Report (CCDR)*. [Link](#)

Lebanon’s health care sector grapples with inefficiency, as evidenced by the country’s 8.3 percent GDP expenditure on health in 2018, higher than similar Middle East and North Africa (MENA) countries.

Private spending dominates, with households financing over half (53.4 percent) of total health expenditure (THE) and significant out-of-pocket (OOP) expenses, particularly on pharmaceuticals, at 45 percent of THE. Fragmented health care arrangements persist, with a plethora of providers and insurance schemes heavily involving the private sector. Although primary health care (PHC) receives international donor support, regulation outside designated centers lacks rigor. Lebanon’s health care focus traditionally prioritizes curative care, resulting in inadequate coverage for routine and preventive services, exacerbating inequalities. The crisis-induced forced divestment severely undermines Lebanon’s health care system, slashing the Ministry of Public Health’s budget from US\$485.9 million in 2018 to under US\$37 million in 2022, significantly reducing government subsidies for hospital fees and medications. This divestment intensifies disparities in access to essential health services, compounded by public health threats such as the 2022 cholera outbreak, plummeting hospitalizations, and escalating food insecurity, with growing proportions of the population facing malnutrition and food shortages. In response, primary health care centers (PHCCs) have become crucial access points, witnessing a surge in demand amid dwindling funding, with initiatives such as the Long-Term Primary Care Subsidized Protocol (LPSP) offering vital support to vulnerable populations through international aid.

Lebanon’s education sector is characterized by multiple parallel modes of provision, with households carrying the biggest burden of education costs.

Lebanon’s education sector comprises public, free private, and fee-based private schools, each operating independently. In 2018, approximately 59 percent of students attended private schools, but this proportion decreased to 54 percent by 2020, as the economic crisis prompted some families to switch to public schools due to financial constraints. Household expenditure significantly supplements government spending on education, with households contributing US\$1.5 billion alongside the government’s US\$1.2 billion. This heavy reliance on private funding exacerbates inequalities, with socioeconomic background heavily influencing educational outcomes. Government spending on education has decreased from 2 percent of GDP in 2019 to 1.8 percent in 2020, with a decline in the share allocated to public education as well. Fragmented data systems hinder accountability and planning, while insufficient financing, coupled with limited quality monitoring, contributes to high socioeconomic school segregation. The disruptions caused by the economic crisis and exacerbated by the COVID-19 pandemic have led to substantial learning losses. Public schools have been particularly affected, experiencing disruptions in staffing, funding, and operations, further widening the gap in education quality between public and private sectors. The erosion of teacher salaries and benefits has led to an exodus of qualified educators, with contractual teachers increasingly filling the gap, often with inadequate training and funding. The economic crisis has severely affected higher education as well, with drastic reductions in funding, faculty, and enrollment at the Lebanese University, undermining its capacity to provide quality education. Lost human capital due to inadequate investment in health and education inputs undermines the country’s long-term development prospects and exacerbates social inequalities.

Outlook and Main Messages

The SCD presents a strategic approach to address Lebanon's critical challenges, suggesting four High-Level Outcomes (HLOs) to eradicate poverty and enhance shared prosperity: (1) restoring macroeconomic and financial stability, (2) improving governance and access to public services, (3) enhancing public utilities, and (4) improving human capital. Eleven policy priorities are identified to achieve these HLOs, including financial and fiscal reforms, civil service reform, digitalization, energy transition, and restoring the provision of social services while expanding social protection (see Table below).

The SCD also presents two scenarios for Lebanon's future: a "muddling through" scenario with continued political and economic stagnation, and a "Recovery" scenario with improved decision-making and crisis resolution. The scenarios imply different policy possibility frontiers, so action items to address priorities under each HLO are developed separately by scenario. The table below provides an illustration of mapping the priorities to the HLOs and the consequent suggested policy actions under each scenario. Importantly, the proposed interventions under the two scenarios are not mutually exclusive, as operational improvements in targeted sectors in the muddling through scenario can serve as a foundation for larger-scale investments when conditions for deeper reforms become feasible in a recovery scenario.

Immediate sectoral emergency plans are urgently needed to preserve basic services, including public utilities and government services, health, education, and social protection, even in the absence of larger reforms. The focus on emergency interventions in critical sectors with high value-added potential, is crucial, albeit within a suitable and realistic framework. Domestic revenue mobilization is a necessary first step toward the preservation of these services, and the SCD proposes a list of proximate measures for quick revenue mobilization that promise to also redress some of the alarming rise in inequality of recent decades. The SCD also identifies some axes of intervention that would be essential for the emergency plans in each of the vital domains. For public utilities, this includes the solarization of energy for major public utilities (water, wastewater treatment, telecommunications), tariff adjustments for better cost recovery, and a move to cleaner energies. A survey of the public workforce is a first step toward identifying key functions, competency needs, redundancies, and costing any emergency adjustment in benefits and pay. Until large-scale investments and deeper reforms are possible, operational improvements in health and education can help maintain services within the limited fiscal space of the muddling through scenario. A vigorous effort at digitalization within each of these vital sectors and across them can unlock economies essential for continuation of services and valuable for deeper reforms in the future.

Visibility for the recovery scenario is clouded by the regional instability since October of 2023 as well as the elusiveness of the political conditions that could set the stage for wide and deep reforms. Still, the broad-brushed projection of the recovery landscape suggests interventions that build on the emergency measures of the muddling through scenario, expanding both the range of functions and services to be provided beyond the bare essentials and pushing the agenda past maintenance or marginal improvements toward deep overhaul to shed pathologies of the failing outgoing model of development.

High-Level Outcomes

| HLOs | Priorities | Priority policy choices | |
|---|--|---|---|
| | | Muddling through scenario | Recovery scenario |
| Restored macroeconomic and financial stability and private sector support | Restructure the banking sector to recover a functional financial market | Unifying and stabilizing the exchange rate | Comprehensive regulatory, structural, and prudential reform of the banking sector and the central bank |
| | Develop the non-banking financial sector and expand access to credit for private sector support | Fostering growth in sectors of promise | Non-banking financial market development and expansion of access to credit |
| | Fiscal reform and consolidation | Emergency measures for domestic revenue mobilization | Fiscal consolidation and reform: debt sustainability, public finance management, and tax reform |
| Improved delivery and accountability in provision of basic public services to reduce inequality in access | Preserve public sector human capital through civil service reform | Full-fledged assessment of the public sector workforce and functions, identification of essential services, basic salary adjustment, digitalization of an integrated human resource payroll database of public sector employees | Reform recruitment, retention, promotion, and benefit packages to map competencies and link public human resource management to need, merit, and performance |
| | Install a DPI for more transparent, efficient, and accessible digitalized services | Transition to new, DPI-enabled architecture to promote scalability and trust in digitalized service delivery, leverage DPI to digitalize high-priority services | Implement the 2020–2030 National Digital Transformation Strategy and associated legal and institutional reforms that are required to improve the trust environment and enable digital transformation sustainably and at scale. Achieve universal access to trusted, user-centric, end-to-end digitalized services |
| Improve public utilities to secure basic needs, improve standards of living, and build resilience to shocks from climate change | Build resilient and low-carbon transport through formalizing and consolidating service and improving safety and sustainability | Livelihood assessment of current operators, global positioning systems (GPS) fitting for better user experience, and Roads and Employment Project (REP) | Coordinating enforcement across ministries for safety and revenue generation, changing behaviors through infrastructure for alternatives to motorized travel |
| | | Structural reforms at PoB | Digital outfitting of PoB |

| HLOs | Priorities | Priority policy choices | |
|--|--|--|--|
| | | Muddling through scenario | Recovery scenario |
| | Transition to cleaner energy across utilities and adapt regulatory frameworks | Operational and financial upgrades to EdL, solarization to power other utilities | Green transition and private capital mobilization for renewable energy adoption |
| | Upgrade management and operations in the water, wastewater, and solid waste sectors | Water: expand water storage, solarize pumping and distribution | Improve water distribution efficiency and reduce NRW |
| | | Wastewater: solarize power, update operation and maintenance (O&M) budget | |
| | | Solid waste: invest in critical capital upgrades and update O&M budget | Adopt a circular economy approach to SWM |
| Improved and more equitable human capital | Expand access, form of support, and scope of social protection by building on existing modalities | Expand existing efficient modalities of support for more effective multidimensional support | Expand coverage, link social protection to social services, reform old-age pension |
| | Prioritize primary care, improve access and coverage | Invest in PHC, revise price lists and coverage rules, and expand digitalization | Universal health coverage (UHC) centered on PHC, pharmaceutical roadmap, and health system strengthening interventions |
| | Expanded access to quality education through operational, human capital and information systems reforms | Adjust salaries, improve resource utilization, digitalize the sector, and implement newly developed frameworks | Reform sector PFM for better sector planning and for improved quality of school education, enhance governance of the Lebanese University |

ملخص تنفيذي

خلفية الدراسة

أجرت مجموعة البنك الدولي دراسةً تشخيصيةً منهجيةً جديدةً خاصةً بلبنان لرصد ما استجد من قيود تحول دون تحقيق النمو الشامل والرخاء المشترك. وكان البنك الدولي قد أصدر عام 2016 دراسةً تشخيصيةً منهجيةً أولى للبنان⁵ وجدت أن السبب الجذري لإخفاق لبنان في تحقيق نمو شامل وخلق فرص عمل يتمثل في وجود قيدين رئيسيين وشاملين يعزز أحدهما الآخر وهما: هيمنة النخبة المتخفية وراء ستار الطائفية، والصراعات والعنف. كما حددت القيود المتداخلة التي تؤثر سلباً على قدرة لبنان على تحقيق نمو اقتصادي يكفل العيش الكريم لمواطنيه، ومنها عدم استقرار الاقتصاد الكلي، وضعف مناخ أنشطة الأعمال، ونقص الاستثمارات في مرافق البنية التحتية، وعدم توافق المهارات مع احتياجات سوق العمل، وضعف المؤسسات والإطار التنظيمي. ولم تكفِ الدراسة بتحديد التحديات التي تواجه لبنان وترتيب أولويتها، بل عرضت أيضاً إصلاحات وفرصاً رئيسية، كما رسمت خارطة طريق للتخفيف من آثار تلك التحديات لتجنب وقوع أي أزمة نظامية.

بعد مرور ثماني سنوات على الدراسة التشخيصية المنهجية الأولى عام 2016، شهدت البلاد تغيرات جذرية، كما أنها تواجه حالياً الأزمة الأكثر حدةً في تاريخها، حيث تتسم بتعدد جوانبها على مستوى النظام بأكمله. وتسببت هيكلية النظام السياسي في لبنان، وتشابك علاقاته مع مناخ إقليمي موج بالاضطرابات، في دفع البلاد إلى الوقوع في براثن أزمة سياسية وانهيار اقتصادي. وقد أدى عدم تنفيذ الإصلاحات الشاملة إلى حالة من الشلل المؤسسي، تتخللها تدابير انتقائية مرحلية غير فعالة، مما أدى إلى تفاقم الأزمة وتقويض آفاق التعافي الاقتصادي. وتهدف الدراسة التشخيصية المنهجية الجديدة إلى معالجة أسباب غياب الإصلاحات من خلال النظر في القيود الرئيسية والشاملة المرتبطة بنموذج الاقتصاد السياسي في لبنان وكيفية تطورها. وتتبع الدراسة التشخيصية أيضاً الطبيعة النظامية للأزمة، من خلال التعمق في أسبابها الجذرية الهيكلية وتحليل تأثيرها العميق على النمو الاقتصادي، والفقر، وعدم المساواة، ونواتج سوق العمل. وكانت السنوات التي تلت الدراسة التشخيصية المنهجية عام 2016 قد شهدت استمرار التحديات القطاعية التي طال أمدها في لبنان، حيث كان استقرار الاقتصاد الكلي محفوفاً بالمخاطر بصورة مزمنة، وتهاكت مرافق البنية التحتية تدريجياً، كما اتسمت المؤسسات وأنظمة الحوكمة بالضعف طوال تلك السنوات، إضافةً إلى تدهور رأس المال البشري. وقد تفاقمت هذه التحديات لتصبح قيوداً ملزمة ومتداخلة بصورة أكبر في الأزمة الحالية، الأمر الذي يزيد من المعوقات أمام آفاق الاستقرار الاقتصادي والتنمية المستدامة. وأخيراً، تُقدم هذه الدراسة ترتيباً لأولويات فرص واقعية لتحقيق الإصلاح والتعافي، حتى في ظل ما تشهده البلاد من واقعٍ عصيب ومزير. وتستند الدراسة إلى تحليل شامل للشواهد والأدلة المتاحة، وقد استفادت من عمليات التشاور الموسعة مع الخبراء اللبنانيين، وممثلي القطاع الخاص، وأعضاء المنظمات غير الحكومية، والحكومة اللبنانية وغيرهم من أصحاب المصلحة.

⁵ البنك الدولي، 2016. لبنان: نحو تقليص الفقر وتعزيز الرخاء المشترك، دراسة تشخيصية منهجية. منطقة الشرق الأوسط وشمال أفريقيا التابعة لمجموعة البنك الدولي.

النتائج الرئيسية للدراسة

تفاقم الشلل المؤسسي بسبب الاضطرابات الإقليمية

تخلص هذه الدراسة التشخيصية إلى أن لبنان لا يزال يواجه عائقين رئيسيين يحولان دون تحقيق النمو الشامل، ويستمران في تشكيل وإعادة تشكيل بعضهما البعض، وهما: (أ) الشلل المؤسسي، و(ب) البيئة الإقليمية والدولية المضطربة. ويعكس هذان العائقان التفاعل الحالي بين محورين ساهما في نشوء لبنان ما بعد الاستقلال، وهما: هيكلية النظام السياسي الذي لا يزال مقيداً بحتمية التوافق، والأطراف الفاعلة والقوى الخارجية التي تلعب أدواراً محورية على المستوى المحلي.

وفي حين كان الشلل المؤسسي دائماً نتيجة محتملة لهيكلية تقاسم السلطة، فإن استمرار الأزمة الاقتصادية والمالية التي استنفدت موارد الدولة يرسخ هذا الشلل كنتيجة تدفع النظام حالياً إلى طريق مسدود. لقد حولت الأزمة المالية الدولة من قناة لجني الأرباح والفساد إلى عبء مالي، مما جعل الطبقة السياسية تفقد اهتمامها بهياكل هذه الدولة وتتخلى عنها كمصدر للربح. وقد أدى ذلك إلى حالة من الشلل، حيث نأت النخبة بنفسها عن الحكم وتهربت من المسؤولية عن الإنهيار الاقتصادي.

تعني النفاذية العالية للقوى السياسية الأجنبية في لبنان أن أي اتفاق داخلي يتطلب توافقاً إقليمياً، وهو توافق يبدو أنه لن يتحقق في المدى القريب. ولا يزال خطر نشوب الصراعات أو الآثار غير المباشرة للنزاعات في بلدان الجوار يمثل تهديداً وشيكاً (كما يتضح من الآثار للصراع الدائر حالياً في الشرق الأوسط)، وهو الأمر الذي يدفع خطط الإصلاح إلى المزيد من التراجع على سلم الأولويات. وفي الوقت نفسه، تختار الطبقة السياسية مواجهة الأزمة الحالية بمأسسة حالة الشلل التي تعاني منها البلاد، في انتظار تحسن المناخ الدولي المحيط بلبنان، بما يسمح للنخبة الحاكمة بإعادة إنتاج سلطتها. ويؤدي التفاعل الذي أشرنا إليه بين هذين العائقين الرئيسيين إلى عواقب كارثية على المستوى الإنساني ويعوق بشدة أي تقدم يمكن إحرازه نحو التعافي، ناهيك عن تحقيق التنمية المستدامة.

استمرار الانكماش الاقتصادي، وارتفاع معدلات الفقر وعدم المساواة، وتقويض الوظائف

أدى تفاوت معدلات النمو المدفوعة بقطاعات تتسم بانخفاض قيمتها المضافة وخلق فرص عمل منخفضة الإنتاجية إلى ارتفاع معدلات الفقر وعدم المساواة مع مرور الوقت. وأدت الأزمة إلى تفاقم الفوارق الاجتماعية والاقتصادية ومستويات الفقر القائمة من خلال فقدان الوظائف، وانخفاض الدخل، وتقشي التضخم، مما أثر بشكل خاص على الفئات السكانية الأكثر احتياجاً والأولى بالرعاية. وتدهورت نواتج سوق العمل مع ارتفاع معدلات البطالة، والبطالة المقنعة، وظروف العمل غير المستقرة، مما أدى إلى تفاقم الفقر وعدم المساواة. وكانت آفاق النمو وسبل كسب العيش والإنصاف وفرص العمل - وهي العناصر الحيوية لسلامة الاقتصاد - ضعيفة قبل الأزمة، لكنها اليوم باتت قائمة بصورة واضحة.

شهد الاقتصاد اللبناني تاريخياً نمواً متفاوتاً ومتقلباً بسبب أوجه القصور الهيكلية في نموده الاقتصادي. وفي ظل الأزمة الحالية، شهد لبنان انكماشاً اقتصادياً غير مسبوق وزيادة في الاعتماد على التحويلات المالية من الخارج كآلية تكيف لجأت إليها الأسر اللبنانية. وفي حين كان معدل النمو الاقتصادي يبلغ 5.7% سنوياً في المتوسط في الفترة من 1993 إلى 2010، فإن النمو تراجع بشدة بعد عام 2011، مما أدى إلى فترة تباطؤ قبل الأزمة أعقبتها فترة أزمة شهدت استمرار تحقيق نمو سلبي. ويعود التباطؤ الحاد في معدلات النمو بدءاً من عام 2011 إلى صدمات سياسية متعددة شهدتها البلاد (منها الصراع في سوريا وتداعياته الأمنية والاقتصادية غير المباشرة على لبنان)، مما أدى إلى فترات طويلة من الفراغ السياسي والتأثير السلبي على الثقة في اقتصاد سياسي يتسم بالهشاشة والضعف. وتفاقمت الأزمة المتعددة الجوانب والأكثر تدميراً في تاريخ لبنان الحديث، والتي بدأت في عام 2019، بسبب نقشي جائحة كورونا وانفجار مرفأ بيروت في عام

2020. ويضع الانكماش الاقتصادي التراكمي غير المسبوق الذي يقارب 35% في السنوات الست الماضية أزمة لبنان المستمرة بين أسوأ الأزمات منذ خمسينيات القرن التاسع عشر.⁶ وعانى قطاع الخدمات، الذي يمثل أكثر من 75% من إجمالي الناتج المحلي، بشكل ملحوظ، مع تراجع كبير في الاستهلاك الخاص، الذي كان يشكل تاريخياً أكثر من 90% من إجمالي الناتج المحلي. ونظراً للقدرات الإنتاجية المحدودة لدى لبنان، فإن البلاد تعتمد بشدة على واردات السلع الاستهلاكية، مما يؤدي إلى عجز خارجي مستمر. وأدى اعتماد لبنان الشديد على الواردات إلى تفاقم الأزمة، وهو ما انعكس في استمرار عجز حساب المعاملات الجارية، الذي بلغ في المتوسط أكثر من 17% في سنوات الأزمة (2019-2023). وتقترب التحويلات من الخارج من 7 مليارات دولار أميركي، وقد ارتفعت نسبتها من إجمالي الناتج المحلي إلى مستوى قياسي بلغ نحو 30% في عامي 2022 و2023، مما يسلب الضوء على دورها الحيوي كشريان حياة للأسر اللبنانية في خضم الأزمة.

ليس من المستغرب أن يشهد لبنان ارتفاعاً صارخاً في معدلات الفقر، حيث تم تحديد ما يقرب من 44% من السكان في خمس محافظات على أنهم فقراء في عام 2022، بناءً على خط فقر جديد غير رسمي يستند إلى الاستهلاك. ويمثل المسح الاستقصائي خمس محافظات تضم نحو 59-60% من السكان وهي: عكار وشمال لبنان وبيروت والبقاع ومعظم جبل لبنان. وبلغ معدل الفقر بين المواطنين اللبنانيين نحو 33%، في حين أنه بلغ نحو 87% بين الأسر السورية وفقاً للتقديرات. وعلى مر السنين، تضاعف معدل الفقر ثلاث مرات بين المواطنين اللبنانيين في المحافظات التي يغطيها المسح، حيث ارتفع من 11% في عام 2012 إلى 33% في عام 2022. وارتفع عدد اللبنانيين الفقراء من نحو 295 ألفاً في عام 2012 إلى ما بين 722 ألفاً و866 ألفاً في عام 2022. وهناك تفاوتات اجتماعية واقتصادية واضحة بين الأسر الفقيرة وغير الفقيرة، حيث تميل الأولى إلى أن تكون أكبر حجماً وأكثر ميلاً إلى الإيجار والمديونية، وتدني مستوى التحصيل التعليمي. وعلى الرغم من تشابه معدلات التشغيل، فإن نسبة أعلى من أرباب الأسر الفقيرة يعملون في وظائف غير رسمية. وتشكل التحويلات والدخل بالعملة الأجنبية احتياطات وقائية ضد الفقر، ومن المرجح أن تتلقى الأسر التي تعولها نساء هذه التحويلات والدخل بالعملة الأجنبية. وتتزايد معدلات انعدام الأمن الغذائي، حيث قامت الأسر بتقليص مشترياتها الغذائية ولجأت إلى خيارات غذائية أرخص. ومن الواضح أن هناك صعوبة عالية في تلبية احتياجات الرعاية الصحية والتعليم، حيث تقوم الأسر بتقليص النفقات الصحية وتأجيل الزيارات الطبية أو إجراء الفحوصات الطبية لدفع تكاليف الاحتياجات الأساسية.

ينتشر عدم المساواة في لبنان على نطاق واسع وتتعدد أبعاده، حيث يمتد من الدخل إلى إمكانية الحصول على التعليم والفرص والنواتج. وأدت الأزمة وسوء إدارتها إلى تفاقم أوجه عدم المساواة، مع اتساع فجوة الفقر وتراجع الطبقة الوسطى. وفي قطاع التعليم، هناك فجوة كبيرة في إمكانية الحصول على التعليم ونواتجه، حيث تواجه الأسر الفقيرة تحديات أكبر. وأدى إخفاق الدولة في توفير خدمات عامة كافية إلى اتساع نطاق أوجه عدم المساواة، حيث كان الإنفاق مجزأ وغير كاف وغير فعال، مما سمح للقطاع الخاص الذي يتوخى الربح بالهيمنة على تقديم الخدمات دون تنظيم. وبخلاف معدل الفقر المتزايد، يمكن ملاحظة تزايد عدم المساواة في كافة فئات توزيع الدخل، مع تقلص نسبة الطبقة الوسطى من 57% إلى 40%.

على الرغم من أن خلق فرص العمل يُعد إحدى أكثر الوسائل فعاليةً للحد من الفقر، فقد واجه لبنان تحديات كبيرة في سوق العمل على مر السنين. وساهم النمو غير المنشئ لفرص العمل، وارتفاع معدلات البطالة، لا سيما بين الشباب، واستمرار مشكلة عدم توافق المهارات مع احتياجات سوق العمل، وهيمنة الوظائف غير الرسمية منخفضة الإنتاجية، في بلوغ معدل المشاركة في القوى العاملة 48.8% فقط في الفترة 2018-2019. وأدى التحول الديموغرافي إلى انخفاض عدد السكان ممن هم في سن العمل منذ عام 2015 بسبب تراجع معدلات

⁶ البنك الدولي، 2021. تقرير مرصد الاقتصاد اللبناني، عدد الربيع لعام 2021 "لبنان يغرق (نحو أسوأ 3 أزمات عالمية)". [رابط](#)

الخصوبة منذ تسعينيات القرن العشرين، إلى جانب زيادة متوسط العمر المتوقع. وأسهمت الهجرة الجماعية منذ بداية الأزمة في عام 2019 في تفاقم هذا التراجع، حيث غادرت أعداد كبيرة لبنان بحثاً عن فرص أفضل في الخارج.

كان للأزمة آثار عميقة على سوق العمل، حيث تفشى تقويض الوظائف، لا سيما في القطاع الخاص. وتشير المسوح التي أجراها البنك الدولي إلى أن العديد من الشركات الرسمية أغلقت أبوابها بشكل دائم، مما أدى إلى تفاقم البطالة، وانخفاض عدد العمال بنحو 27% وتقليص الشركات الرسمية لأعداد الموظفين بنحو 64%. كما تأثر قطاع الخدمات، الذي كان تاريخياً مصدراً رئيسياً للتوظيف، بشكل كبير، مما أدى إلى زيادة تقليص فرص العمل. وقد تأثرت الوظائف أكثر من غيرهن، حيث عانين من صافي فقدان الوظائف بصورة أكبر من نظرائهن من الذكور. كما أصبح ارتفاع العمالة غير الرسمية منتشراً بشكل متزايد، مما ترك العمال دون حماية كافية حيث أصبحت 62% من الوظائف حالياً في القطاع غير الرسمي، مما يسلط مزيداً من الضوء على الطبيعة المحفوفة بالمخاطر لسوق العمل في لبنان. وقد أدت هذه الاتجاهات إلى معدلات مثيرة للقلق من انعدام النشاط والبطالة، لا سيما بين صفوف النساء والشباب. فقد قفز معدل البطالة من 11% في الفترة 2018-2019 إلى 30% في عام 2022، مع زيادة البطالة بين الشباب بأكثر من الضعف لتصل إلى 48%. وتُعكس صراعات لبنان قضايا أوسع تواجهها الدول الهشة، منها عدم الاستقرار الاقتصادي والسياسي، ومحدودية الحراك الاجتماعي، والاعتماد الشديد على العمالة غير الرسمية.

تفاقم التحديات في جميع القطاعات

من منظور قطاعي، يواجه لبنان قيوداً كبيرة ومتداخلة ومتعددة الجوانب في جميع القطاعات لا تزال تشكل تحدياً للتنمية الاقتصادية. وفي حين أن التصدي لجميع القيود المتداخلة في جميع القطاعات يُعد أمراً بالغ الأهمية لآفاق التعافي في لبنان، والحد من الفقر على المدى الطويل والمستدام، وتحقيق النمو الاقتصادي، يتم التركيز على أبرز هذه القيود. ومن بين تلك القيود المتداخلة التي تؤثر على قدرة لبنان على تحقيق نمو اقتصادي مرتفع ومستدام ما يلي: (أ) عدم استقرار الاقتصاد الكلي، و(ب) تقويض التنمية المالية، و(ج) تداعي البنية التحتية والمرافق العامة، و(د) انهيار أنظمة الحوكمة والمؤسسات، و(هـ) خسائر رأس المال البشري.

عدم استقرار الاقتصاد الكلي

اتسم نموذج التنمية في لبنان بعد الحرب الأهلية بوجود روابط قوية بين قطاع المالية العامة والقطاعين النقدي والمالي، مما جعل أحدهما يعتمد بشكل مفرط على الآخر، وهو ما أدى في نهاية المطاف إلى إخفاق النظام. وقد أثر العجز المستمر في حساب المعاملات الجارية والمالية العامة، إلى جانب الصدمات السياسية والأمنية المتكررة، بشدة على استقرار الاقتصاد الكلي. وأدى سعر الصرف المثبت المُقدر بأعلى من قيمته الحقيقية وما نتج عنه من اعتماد على الواردات إلى عجز تجاري محفوف بالمخاطر. وتم تمويل هذا العجز من خلال الديون وودائع غير المقيمين وتحويلات المغتربين. وازداد صافي المركز الخارجي للبلاد ضعفاً بسبب الاعتماد الشديد على السياحة، التي تتأثر بالتقلبات السياسية بصورة كبيرة. وأدى الإسراف في الإنفاق العام، مع ارتفاع فاتورة خدمة الدين، وتكاليف العمال والموظفين، والتحويلات إلى مؤسسة كهرباء لبنان، إلى تقييد الإنفاق الاستثماري، مما أسهم في عدم المساواة وقصور البنية التحتية. وأدت محدودية تعبئة الإيرادات، والسياسات الضريبية التازلية، وعدم فاعلية الإدارة الضريبية إلى زيادة الضغوط على موارد المالية العامة، مع انخفاض الإيرادات الضريبية نسبةً إلى إجمالي الناتج المحلي بنسبة 11.5 نقطة مئوية بين عامي 2011 و2022. ولم تؤد عمليات الهندسة شبه المالية والمالية التي قام بها مصرف لبنان بهدف تحقيق استقرار الاقتصاد إلا إلى تعميق الصلة بين القطاع المصرفي السيادي ومصرف لبنان (المركزي) وزيادة حجم الانكشاف المتبادل بينهما، مما أدى إلى خلق مواطن ضعف كبيرة. وأدى الدعم الدولي المتكرر والتمويل المقدم من المانحين في فترة

ما بعد الحرب إلى تفادي التخلف عن سداد ديون لبنان السيادية، لكنه أطال أمد المخاطر المعنوية، ووفر إغاثة مؤقتة دون معالجة القضايا الهيكلية الأساسية. وأدى التوقف المفاجئ لتدفقات الدعم وتمويل المانحين في عام 2019 والتخلف عن سداد الديون السيادية في مارس/آذار 2020 إلى تدمير وضع المالية العامة ، والمركز المالي لمصرف لبنان، والقطاع المصرفي ، مما أدى في نهاية المطاف إلى خسائر كبيرة تقدر بأكثر من 70 مليار دولار أميركي.

تقويض التنمية المالية

أصبح القطاع المالي في لبنان، الذي كان مهيمناً في السابق على اقتصاد البلاد، عائقاً خطيراً أمام تحقيق الاستقرار الاقتصادي بسبب إعساره في غياب إعادة هيكلة المصارف وتسوية أوضاعها. واستحوذ القطاع، الذي يضم 66 مصرفاً، على نسبة مرتفعة للغاية تبلغ 97% من أصول النظام المالي، ليصل إلى 450% من إجمالي الناتج المحلي بنهاية عام 2018. وأدى هذا التركيز، مع حيازة 10 مصارف لنسبة تبلغ 90% من إجمالي الأصول، إلى تعريض القطاع لمخاطر كبيرة، لا سيما مع زيادة انكشافه على مصرف لبنان وبالتالي على الدين السيادي. وكان نحو 75% من الأصول المصرفية مُحْتَفَظاً بها لدى مصرف لبنان، معظمها في شكل ودائع، وهو ما جعل القطاع عاجزاً عن السداد لأنه لا يمكن لمصرف لبنان ولا للحكومة الوفاء بمثل هذه المطالبات. وتشير التقديرات إلى أن خسائر القطاع تجاوزت 70 مليار دولار أميركي بحلول سبتمبر/أيلول 2023. وبلغت نسبة القروض المتعثرة أكثر من 70% في ديسمبر/كانون الأول 2022، وواجه المودعون قيوداً صارمة على عمليات السحب، مما أدى إلى تفاقم الخسائر، لا سيما بالنسبة لصغار المودعين. وأدى انخفاض قيمة العملة المحلية بنسبة 98% منذ عام 2019 إلى تكبد المودعين خسائر كبيرة، حيث لا يمكنهم سحب ودائعهم بالعملة الأجنبية إلا بخصم كبير من قيمتها. ويؤكد تقييم أصول القطاع المصرفي الوضع المتردي لهذا القطاع، حيث تُقدَّر قيمتها الاقتصادية الفعلية بجزء صغير من قيمتها الدفترية. وفي حين قد تشير البيانات الرسمية المعلنة إلى قدر من الاستقرار، فإن الواقع مختلف تماماً، حيث يعاني هذا القطاع من الإعسار الشديد. ويؤدي غياب التوزيع العادل للخسائر ووقف إعادة الهيكلة الشاملة للمصارف إلى تفاقم الأزمة.

تمتد تداعيات انهيار القطاع المالي لتتجاوز القطاع المصرفي، وتتأثر بشكل كبير على النمو الاقتصادي والعمليات التجارية والأنشطة الاقتصادية. فقد تضاعف الائتمان المتاح للقطاع الخاص، وهو عامل حيوي للنشاط الاقتصادي، كما تواجه الشركات قيوداً شديدة في الحصول على التمويل. وأدى انخفاض خدمات الوساطة المالية إلى تراجع استخدام الخدمات المالية، مما أدى إلى تفاقم النشاط المالي غير الرسمي ومخاطر غسل الأموال. وأصبح الاقتصاد اللبناني يعتمد على التعامل النقدي بشكل متزايد، مما يزيد من المخاطر ويعوق الجهود الرامية إلى استعادة الثقة في الخدمات المالية الرسمية. وتشير تقديرات البنك الدولي إلى أن حجم الاقتصاد النقدي قد زاد بأكثر من الضعف بين عامي 2020 و2022، ويمثل اليوم ما يقرب من 46% من إجمالي الناتج المحلي أو 9.86 مليارات دولار أميركي⁷. وبالإضافة إلى ما سبق، من المرجح أن تؤدي الأزمة إلى تفاقم التدفقات غير المشروعة، مما يحرم البلاد من الموارد التي تشتد الحاجة إليها، ويؤدي إلى إثراء قلة مختارة في الوقت ذاته. وقد تسبب تهريب السلع المدعومة إلى البلدان المجاورة في حرمان الفئات السكانية في المجتمعات المحلية الأكثر احتياجاً والأولى بالرعاية وتفاقم التفاوتات الاجتماعية والاقتصادية.

تدهور البنية التحتية والمرافق العامة

يشمل تدهور البنية التحتية جميع القطاعات في لبنان، مما يشكل تحديات كبيرة أمام التنمية في البلاد ومستويات معيشة السكان. ففي قطاع الكهرباء، أدى النقص المزمن في الاستثمارات وسوء الإدارة إلى انقطاع التيار الكهربائي وعدم كفاءته على نطاق واسع، مما يقوض

⁷ البنك الدولي، 2023. تقرير المرصد الاقتصادي للبنان ربيع 2023 "التطبيع مع الأزمة ليس طريقاً للاستقرار" [رابط](#)

الإنتاجية الاقتصادية ويؤدي إلى تراجع في نوعية الحياة. وعلى نحو مماثل، يواجه قطاع المياه ضغطاً هائلاً، حيث يؤدي تقادم البنية التحتية وندرة المياه والتلوث إلى تفاقم نقص المياه وتقويض إمكانية الحصول على المياه النظيفة. كما أن أنظمة إدارة مياه الصرف الصحي وإدارة النفايات الصلبة في حالة سيئة، مما يشكل مخاطر على البيئة والصحة العامة. ويسهم عدم كفاية مرافق المعالجة وإدارة النفايات باستخدام ممارسات بالية في التلوث والتدهور البيئي، مما يزيد من استنزاف الموارد وتفاقم المخاطر الصحية. وتعاني البنية التحتية لوسائل النقل والمواصلات من الإهمال وعدم كفاية الصيانة، مما يؤدي إلى الازدحام والتأخير والمخاطر المتعلقة بالسلامة. ويؤدي نقص الاستثمار في الطرق والجسور وشبكات النقل العام إلى تقليص القدرة على التنقل وإعاقة النمو الاقتصادي.

يُعد لبنان أيضاً من البلدان المعرضة بشدة لتغير المناخ، حيث يؤدي ضعف القدرة على التكيف إلى عدم كفاية البنية التحتية، وضعف المؤسسات، وسوء التخطيط، وعدم تحديد الأولويات على الصعيد السياسي. وبالنسبة للآثار المتوقعة لتغير المناخ فتشمل ارتفاع درجات الحرارة، وازدياد وتيرة الظواهر المناخية بالغة الشدة، وانخفاض التوقعات بهطول الأمطار، مما يؤدي إلى نقص المياه، وزيادة مخاطر الفيضانات، وتآكل التربة، وموجات الجفاف، وارتفاع درجة الحرارة، والحرائق. والواقع أن عدم توافر الموارد المائية الكافية والظواهر المناخية الشديدة تفرض بالفعل تكاليف على قطاعات الصحة والزراعة والاقتصاد. ومن شأن هذه المخاطر أن تؤدي إلى تكاليف صحية واقتصادية كبيرة في غياب تدابير التخفيف من آثار تغير المناخ. وتؤدي الأزمة الاقتصادية الحالية إلى تفاقم هذه التحديات بسبب تقليص الموارد المتاحة للتصدي لتلك الآثار.⁸

انهيار أنظمة الحوكمة والمؤسسات

يصارع لبنان آفات مزمنة في قطاعه العام تتسم بتلاشي الحوكمة والمؤسسات. وتعاني الخدمة المدنية منذ فترة طويلة من أوجه القصور الهيكلية، بما في ذلك اعتماد التعيين والترقية على أسس لا تستند إلى الكفاءة، وغياب الإدارة الرشيدة لأداء الموظفين، وعدم كفاية تخطيط القوى العاملة. وأدى غياب البيانات الموثوقة والشاملة عن حجم القوى العاملة في القطاع العام إلى زيادة تعقيد الوضع، مما يجعل من الصعب تحديد الكفاءات القائمة، والمهارات اللازمة، والمجالات التي يزيد أو يقل فيها الموظفون عن العدد المطلوب. وأدت الأزمة إلى مستويات كبيرة من تناقص الموظفين وتغييبهم عن العمل، مما أدى إلى تقليص كبير في الوظائف والمهام الأساسية التي تؤديها الجهات الحكومية وفي تقديم الخدمات. كما أدى تآكل رواتب القطاع العام إلى نقص شديد في المهارات، مع ترك عدد كبير من الموظفين مناصبهم. ولم تتجح جهود الحكومة الرامية إلى زيادة مستويات الرواتب والحفاظ على المهام والوظائف الأساسية في تحفيز استبقاء الموظفين وحضورهم إلى أعمالهم. كما أدى غياب آلية شاملة لتعديل الرواتب إلى تشتت واسع النطاق وتراجع عزيمة موظفي القطاع العام. ويواجه الجهاز القضائي تحديات مماثلة، مع غياب الاستقلالية، وعدم الكفاءة، والفساد الذي يقوض سيادة القانون ويعوق وصول المواطنين إلى العدالة.

تتعرض جهود التحول الرقمي للعرقلة بسبب التكنولوجيا القديمة وعدم كفاية البنية التحتية للإنترنت، مما يحد من إمكانية الوصول إلى المعلومات ويعوق الفرص الاقتصادية. ويعاني قطاع الخدمات الرقمية في لبنان من التجزؤ وعدم الكفاءة والخلافات بين الهيئات بسبب غياب البنية التكنولوجية المناسبة ومحدودية التنسيق على المستويين السياسي والفني لضمان المواءمة والتأييد. ويعني الافتقار إلى البنية التحتية العامة الرقمية الأساسية أن الحكومة غير قادرة على تقديم الخدمات رقمياً. ونظراً لضعف نظام الهوية الوطنية في لبنان، الذي يفترق إلى وظائف واستخدامات الهوية الرقمية التي يمكن التحقق منها لتمكين حالات الاستخدام عبر الإنترنت، يصبح من الصعب على الوزارات

⁸ البنك الدولي، 2024. تقرير المناخ والتنمية الخاص بلبنان. [رابط](#)

القطاعية تحديد المستفيدين بشكل موثوق، مما يؤدي إلى الاحتيال والفساد ويقلل من إمكانية الوصول إلى الخدمات الأساسية. ويؤدي الافتقار إلى منصات موثوقة لتبادل البيانات إلى تقاوم عجز الحكومة عن تقديم الخدمات بكفاءة، مما يزيد من تعقيد عملياتها الروتينية المعتادة.

خسائر رأس المال البشري: عدم المساواة وتصفية الاستثمارات وهجرة الكفاءات

يعاني لبنان خسائر كبيرة في رأس المال البشري بسبب عدم المساواة والتراجع الحاد في الإنفاق وهجرة الكفاءات. وأدى تراكم الأزمات التي شهدتها البلاد في السنوات الأخيرة إلى تدهور رأس المال البشري، كما يتضح من مؤشر رأس المال البشري للبنان البالغ 0.52. وهذا يعني أن إنتاجية الطفل المولود في لبنان ستبلغ 52% فقط عندما يكبر مقارنة بنسبة إنتاجية كاملة إذا أكمل تعليمه وتمتع بصحة جيدة. وأسفرت الأزمة أيضاً عن انخفاض كبير في مؤشر التنمية البشرية، حيث شهد لبنان أكبر انخفاض في المؤشر مقارنة بأي بلد آخر في العالم بين عامي 2019 و2021.

يعاني قطاع الرعاية الصحية في لبنان من انعدام الكفاءة، كما يتضح من إنفاق البلاد نسبة 8.3% من إجمالي الناتج المحلي على الصحة في عام 2018، وهي نسبة أعلى من بلدان الشرق الأوسط وشمال أفريقيا المماثلة. ويهيمن الإنفاق الخاص على الرعاية الصحية، حيث تُمول الأسر اللبنانية أكثر من نصف (53.4%) إجمالي ما يُنفق عليها، كما تبلغ نسبة الإنفاق الشخصي المباشر 45% من إجمالي الإنفاق الصحي، لاسيما على الأدوية. ولا تزال ترتيبات الرعاية الصحية مجزأة، مع وجود عدد كبير من مقدمي الخدمات وأنظمة التأمين الصحي التي يشارك فيها القطاع الخاص بشكل كبير. وعلى الرغم من أن قطاع الرعاية الصحية الأولية يتلقى دعماً من مانحين دوليين، فإن التنظيم خارج المراكز المحددة لتلقي الدعم يفترق إلى الدقة. وعادة ما تكون الرعاية العلاجية هي الأولوية التي يركز عليها قطاع الرعاية الصحية في لبنان، مما يؤدي إلى عدم كفاية التغطية للخدمات الروتينية والوقائية، وبالتالي إلى تقاوم أوجه عدم المساواة. ويؤدي التراجع الحاد في الإنفاق الناجم عن الأزمة إلى تقويض نظام الرعاية الصحية في لبنان بشدة، حيث تم خفض ميزانية وزارة الصحة العامة من 485.9 مليون دولار أميركي في عام 2018 إلى أقل من 37 مليون دولار أميركي في عام 2022، مما تسبب في خفض كبير في الدعم الحكومي الموجه لرسوم تلقي العلاج في المستشفيات والأدوية. ويزيد التراجع في الإنفاق هذا من حدة التفاوتات في إمكانية الحصول على الخدمات الصحية الأساسية، التي تقاومت بسبب مخاطر الصحة العامة مثل نقشي وباء الكوليرا في عام 2022، والانخفاض الحاد في عدد حالات العلاج بالمستشفيات، وتقاوم انعدام الأمن الغذائي، مع تزايد نسب الفئات السكانية التي تعاني سوء التغذية ونقص الغذاء. واستجابة لذلك، أصبحت مراكز الرعاية الصحية الأولية نقاطاً بالغة الأهمية للحصول على الخدمات، حيث شهدت زيادة كبيرة في الطلب على خدماتها وسط تضارؤ التمويل، جنباً إلى جنب مع بعض المبادرات مثل بروتوكول دعم الرعاية الصحية الأولية طويل الأجل الذي يقدم دعماً حيوياً للفئات السكانية الأكثر احتياجاً والأولى بالرعاية من خلال المساعدات الدولية.

يتميز قطاع التعليم في لبنان بوجود أنماط متوازية ومتعددة لتقديم الخدمات التعليمية، حيث تتحمل الأسر العبء الأكبر من تكاليفها. ويتألف قطاع التعليم في لبنان من المدارس الحكومية والخاصة المجانية والمدارس الخاصة برسوم، وتعمل كل منها بصورة مستقلة. وفي عام 2018، التحق نحو 59% من الطلاب بالمدارس الخاصة، لكن هذه النسبة انخفضت إلى 54% بحلول عام 2020، حيث دفعت الأزمة الاقتصادية بعض الأسر إلى التوجه من المدارس الخاصة نحو المدارس الحكومية بسبب الصعوبات المالية. ويُعد إنفاق الأسر على التعليم مكملاً للإنفاق الحكومي بشكل كبير، حيث تساهم الأسر بمبلغ 1.5 مليار دولار أميركي إلى جانب إنفاق الحكومة الذي يبلغ 1.2 مليار دولار أميركي. ويؤدي هذا الاعتماد الشديد على التمويل الخاص إلى تقاوم أوجه عدم المساواة، حيث تؤثر الخلفية الاجتماعية والاقتصادية بصورة كبيرة على مُخرجات التعليم. وقد انخفض الإنفاق الحكومي على التعليم من 2% من إجمالي الناتج المحلي في عام

2019 إلى 1.8% في عام 2020، مع تراجع النسبة المخصصة للتعليم العام أيضاً. وتؤدي أنظمة البيانات المجزأة إلى إعاقة المساءلة والتخطيط، في حين يسهم نقص التمويل، إلى جانب ضعف مراقبة الجودة، في ارتفاع معدلات التفرة الاجتماعية والاقتصادية بين المدارس. وأدت الاضطرابات الناجمة عن الأزمة الاقتصادية التي تمر بها البلاد، والتي تفاقم بسبب جائحة كورونا، إلى فاقد كبير في التعلم. كما تأثرت المدارس الحكومية بشكل خاص، حيث عانت من اضطرابات في التوظيف والتمويل وعمليات تشغيلها، مما زاد من اتساع الفجوة في جودة التعليم بين القطاعين العام والخاص. وتسبب تآكل رواتب المعلمين ومزاياهم في هجرة المعلمين المؤهلين، حيث يقوم المعلمون العاملون بموجب عقود بسد الفجوة بشكل متزايد، وهم في الغالب يفتقرون إلى التدريب والتمويل الكافيين. وتركت الأزمة الاقتصادية أثرها الشديد على قطاع التعليم العالي أيضاً، وتجلت ذلك في انخفاض حاد في التمويل، ونقص في عدد أعضاء هيئة التدريس وأعداد الطلاب الملتحقين بالجامعة اللبنانية، مما قوض قدرتها على توفير تعليم جيد. وتؤدي الخسائر في رأس المال البشري الناتج عن عدم كفاية الاستثمار في متطلبات الرعاية الصحية ومدخلات التعليم إلى تفويض آفاق التنمية في البلاد على المدى الطويل وتفاقم التفاوتات الاجتماعية.

الآفاق المستقبلية والرسائل الرئيسية

تقدم الدراسة التشخيصية المنهجية نهجاً إستراتيجياً للتصدي للتحديات الخطيرة التي يواجهها لبنان، وتحدد أربعة أهداف رئيسية للقضاء على الفقر وتعزيز الرخاء المشترك، وهي: (1) استعادة استقرار الاقتصاد الكلي والاستقرار المالي، و(2) الارتقاء بمستوى أنظمة الحوكمة وتيسير سبل الحصول على الخدمات العامة، و(3) تحسين أوضاع المرافق العامة، و(4) تطوير رأس المال البشري. وقد حددت الدراسة 11 أولوية من أولويات السياسات لتحقيق هذه الأهداف، بما في ذلك إصلاحات القطاع المالي والمالية العامة، وإصلاح جهاز الخدمة المدنية، والتحول الرقمي، والتحول في استخدام الطاقة، واستعادة تقديم الخدمات الاجتماعية مع توسيع مظلة الحماية الاجتماعية (انظر الجدول أدناه).

تقدم الدراسة التشخيصية المنهجية أيضاً سيناريوهين لمستقبل لبنان: سيناريو "التخبط" مع استمرار الركود السياسي والاقتصادي، وسيناريو "التعافي" مع تحسين عملية اتخاذ القرار وحل الأزمات. ويتضمن السيناريوهان حدوداً مختلفة للإمكانيات التي تتيحها السياسات العامة، ولذلك يتم إعداد إجراءات العمل لمعالجة الأولويات في إطار كل هدف من الأهداف الرئيسية بشكل منفصل حسب السيناريو. ويقدم الجدول أدناه توضيحاً لمطابقة الأولويات مع الأهداف الرئيسية وما يترتب على ذلك من إجراءات مقترحة على صعيد السياسات في إطار كل سيناريو. وتجدر الإشارة إلى أن الإجراءات المقترحة في إطار السيناريوهين لا يستبعد بعضها بعضاً، لأن تحسين عمليات التشغيل في القطاعات المستهدفة في إطار سيناريو "التخبط" يمكن أن تشكل أساساً للاستثمارات الأكبر حجماً عندما تصبح الظروف مؤاتية لإجراء إصلاحات أعمق في إطار سيناريو "التعافي".

هناك حاجة ماسة إلى خطط طوارئ قطاعية للحفاظ على الخدمات الأساسية، ومنها المرافق العامة والخدمات الحكومية والصحة والتعليم والحماية الاجتماعية، حتى في غياب إصلاحات أشمل. ويُعد التركيز على الإجراءات التدخلية الطارئة في القطاعات الحيوية ذات القيمة المضافة العالية أمراً بالغ الأهمية، وإن كان ضمن إطار مناسب وواقعي. كما تُعتبر تعبئة الإيرادات المحلية خطوة أولى ضرورية نحو الحفاظ على هذه الخدمات، وتقتصر الدراسة التشخيصية المنهجية قائمة من التدابير المباشرة لتعبئة الإيرادات بسرعة والتي تبشر أيضاً بمعالجة الارتفاع المقلق في مستوى عدم المساواة الذي شهدته العقود الأخيرة. وتحدد الدراسة التشخيصية أيضاً بعض المحاور الضرورية لخطط طوارئ في كل مجال من المجالات الحيوية. وفي ما يتعلق بالمرافق العامة، فإن هذه المحاور تشمل استخدام الطاقة الشمسية للمرافق العامة الرئيسية (المياه، ومعالجة مياه الصرف الصحي، والاتصالات)، وتعديل تعرفه الاستهلاك لتحسين استرداد التكاليف، والانتقال نحو مصادر طاقة أنظف. ويُعتبر إجراء مسح استقصائي للقوى العاملة في القطاع العام خطوة أولى نحو تحديد الوظائف والمهام الأساسية، والاحتياجات

من الكفاءات، والوظائف الزائدة عن الحاجة، وحساب تكاليف أي تعديل طارئ في المزايا والأجور. وإلى أن تصبح الاستثمارات واسعة النطاق والإصلاحات الأكثر عمقاً في المتناول، فإن تحسين مستوى عمليات التشغيل في قطاعي الصحة والتعليم يمكن أن يساعد في الحفاظ على الخدمات في حدود الحيز المالي المحدود الذي يتضمنه سيناريو "التخبط". ويمكن أن يؤدي بذل الجهود الكثيفة نحو التحول الرقمي داخل كل قطاع من هذين القطاعين الحيويين وعبرهما، إلى فتح المجال أمام الإجراءات الاقتصادية الضرورية لاستمرار الخدمات ولتعميق الإصلاحات في المستقبل.

تُلقي الاضطرابات الإقليمية منذ أكتوبر/تشرين الأول 2023 بظلالها على وضوح الرؤية لسيناريو "التعافي"، فضلاً عن الظروف السياسية التي لا تسهل إجراء إصلاحات واسعة وعميقة. ومع ذلك، تشير التوقعات العامة لمشهد "التعافي" إلى إجراءات تستند إلى التدابير الطارئة الواردة في سيناريو "التخبط"، وتوسيع نطاق المهام والخدمات التي سيتم تقديمها بما يتجاوز الأساسيات، ودفع برنامج العمل إلى ما هو أبعد من مجرد الصيانة أو إدخال تحسينات هامشية، وتوجيهه نحو تحقيق الإصلاح الشامل للتخلص من آفة نموذج التنمية السابق المُنتهي بالفشل.

الأهداف الرئيسية

| خيارات السياسات ذات الأولوية | | الأولويات | الأهداف الرئيسية |
|--|--|---|--|
| سيناريو التعافي | سيناريو التخبط | | |
| الإصلاح التنظيمي والهيكلية والتحوطية الشامل للقطاع المصرفي والبنك المركزي | توحيد سعر الصرف وتحقيق استقراره | إعادة هيكلة القطاع المصرفي لاستعادة نشاط السوق المالية | استعادة استقرار الاقتصاد الكلي والاستقرار المالي ودعم القطاع الخاص |
| تطوير الأسواق المالية غير المصرفية وتوسيع نطاق الحصول على الائتمان | تعزيز النمو في القطاعات الواعدة | تطوير القطاع المالي غير المصرفي وتوسيع نطاق الحصول على الائتمان لدعم القطاع الخاص | |
| تصحيح أوضاع المالية العامة وإصلاحها: استمرارية القدرة على تحمل الدين، وإدارة المالية العامة، والإصلاح الضريبي | التدابير الطارئة لتعبئة الإيرادات المحلية | تصحيح أوضاع المالية العامة وإصلاحها | |
| إصلاح الحزم المالية الخاصة بالموظفين عند تعيينهم أو استبقائهم أو ترقيتهم وإصلاح حزم المزايا التي يحصلون عليها، وذلك بغرض تحديد الكفاءات وربط إدارة الموارد البشرية العامة بالاحتياجات والجدارة والأداء | إجراء تقييم كامل للقوى العاملة في القطاع العام ومهامها ووظائفها، وتحديد الخدمات الأساسية، وتعديل الرواتب الأساسية، ورقمنة قاعدة بيانات متكاملة لأجور ورواتب العاملين بالقطاع العام | الحفاظ على رأس المال البشري في القطاع العام من خلال إصلاح جهاز الخدمة المدنية | |
| | | | تحسين مستوى تقديم الخدمات العامة الأساسية والمساءلة عن ذلك بغرض الحد من عدم المساواة في الحصول عليها |

| خيارات السياسات ذات الأولوية | | الأولويات | الأهداف الرئيسية |
|--|---|--|--|
| سيناريو التحوط | سيناريو التعافي | | |
| تنفيذ الإستراتيجية الوطنية للتحول الرقمي 2020-2030 وما يرتبط بها من إصلاحات قانونية ومؤسسية مطلوبة لتعزيز الثقة وتمكين التحول الرقمي على نحو مستدام وواسع النطاق. تحقيق وصول الجميع إلى الخدمات الرقمية الموثوقة والشاملة والمراعية للمستخدمين | الانتقال إلى هيكل جديد يقوم على البنية التحتية العامة الرقمية لتعزيز إمكانية التوسع والثقة في تقديم الخدمات الرقمية، والاستفادة من البنية التحتية الرقمية في رقمنة الخدمات ذات الأولوية العالية | تركيب واستخدام نظام للبنية التحتية العامة الرقمية للحصول على خدمات رقمية أكثر شفافية وكفاءة وتيسر سبل الوصول إليها | |
| تنسيق الإنفاذ بين الوزارات من أجل تحقيق السلامة وتوليد الإيرادات، وتغيير السلوكيات من خلال إيجاد البنية التحتية اللازمة لبدائل التنقل بالمركبات الآلية | تقييم سبل كسب العيش للمشغلين الحاليين، والأنظمة العالمية لتحديد المواقع الملائمة لتحسين خبرة المستخدمين، ومشروع الطرقات والتوظيف | توفير وسائل نقل منخفضة الانبعاثات الكربونية وقادرة على الصمود من خلال تقنين الخدمات وتوحيدها وتحسين السلامة والاستدامة | |
| التجهيزات الرقمية لمرفأ بيروت | الإصلاحات الهيكلية بمرفأ بيروت | | |
| التحول الأخضر وتعبئة رؤوس الأموال الخاصة لاعتماد مصادر الطاقة المتجددة | إجراء ترقية لجوانب التشغيلية والمالية لمؤسسة كهرباء لبنان، وتوليد الطاقة الشمسية لتشغيل غيرها من المرافق والمنشآت | التحول إلى استخدام مصادر الطاقة النظيفة في مختلف المرافق والمنشآت وتكييف الأطر التنظيمية | تحسين المرافق العامة لتأمين الاحتياجات الأساسية، وتعزيز مستويات المعيشة، وبناء القدرة على الصمود في وجه الصدمات الناجمة عن تغير المناخ |
| رفع كفاءة توزيع المياه وتقليل إمدادات المياه التي لا تحقق إيرادات | قطاع المياه: توسيع نطاق تخزين المياه، واستخدام الطاقة الشمسية في عمليات ضخها وتوزيعها | تحديث جوانب الإدارة وعمليات التشغيل في قطاعات المياه والصرف الصحي والنفايات الصلبة | |
| اعتماد نهج الاقتصاد الدائري في إدارة المخلفات الصلبة | قطاع النفايات الصلبة: الاستثمار في عمليات تطوير رأس المال وتحديث موازنة التشغيل والصيانة | | |
| توسيع مظلة التغطية، وربط الحماية الاجتماعية بالخدمات الاجتماعية، وإصلاح معاشات الشيخوخة | توسيع نطاق أساليب الدعم الحالية المتممة بالكفاءة من أجل زيادة فاعلية الدعم متعدد الأبعاد | توسيع نطاق الحصول على الحماية الاجتماعية وأشكالها ونطاقها من خلال البناء على الأساليب القائمة | تعزيز رأس المال البشري وزيادة المساواة |
| تركيز التغطية الصحية الشاملة على الرعاية الصحية الأولية، وخرطة طريق قطاع الصناعات الدوائية، | الاستثمار في الرعاية الصحية الأولية، ومراجعة قوائم الأسعار | إعطاء الأولوية للرعاية الصحية الأولية، وتيسير سبل الحصول عليها وتوسيع مظلة تغطيتها | |

| خيارات السياسات ذات الأولوية | | الأولويات | الأهداف الرئيسية |
|--|--|---|------------------|
| سيناريو التعافي | سيناريو التخبط | | |
| والإجراءات التدخلية لتدعيم النظام الصحي | وقواعد التغطية، وتوسيع نطاق الرقمنة | | |
| إصلاح الإدارة المالية العامة لقطاع التعليم من أجل التخطيط الأفضل لهذا القطاع، وتحسين جودة التعليم المدرسي، وتعزيز أنظمة الحوكمة في الجامعة اللبنانية | تعديل الرواتب، وتحسين استخدام الموارد، ورقمنة القطاع، وتطبيق أطر العمل الحديثة في مجال التعليم | توسيع نطاق الحصول على التعليم الجيد عن طريق الإصلاحات الخاصة بعمليات التشغيل ورأس المال البشري وأنظمة المعلومات | |

RÉSUMÉ ANALYTIQUE

Contexte

Le Groupe de la Banque mondiale a entrepris un nouveau diagnostic-pays systématique (DPS) pour évaluer les obstacles à surmonter afin de promouvoir une croissance inclusive et une prospérité partagée, suite à la publication du premier DPS en 2016⁹. Le DPS de 2016 postulait que l'incapacité du Liban à générer une croissance inclusive et des emplois découlait de deux obstacles (majeurs), interdépendants et omniprésents : la captation par les élites sous le voile du confessionnalisme, et la persistance des conflits et de la violence. Le DPS de 2016 identifiait également des obstacles interconnectés ayant une incidence sur le potentiel du Liban à faire bénéficier sa population d'une croissance économique élevée et durable, tels que l'instabilité macroéconomique, un environnement des affaires défavorable, des investissements insuffisants dans les infrastructures, une inadéquation des compétences avec les besoins du marché du travail, ainsi que la faiblesse des institutions et du cadre réglementaire. En plus de hiérarchiser les défis auxquels le Liban était confronté, le rapport proposait des réformes clés et des opportunités, tout en fournissant une feuille de route pour atténuer ces défis et prévenir une crise systémique.

Huit ans après le DPS de 2016, le pays a connu des changements profonds et est confronté à la crise systémique multidimensionnelle la plus grave de son histoire. La structure politique nationale conjuguée à un climat régional tumultueux a conduit le pays à une crise politique et à un effondrement économique. La résistance politique aux réformes globales s'est transformée en une paralysie institutionnelle généralisée, ponctuée uniquement de mesures *ad hoc* sélectives. Ces mesures, qui ont fonctionné comme des aménagements temporaires gravement inefficaces, ont finalement exacerbé la crise et nui aux perspectives d'une possible reprise économique. Ce DPS cherche à expliquer l'absence de réformes, en examinant l'évolution des contraintes globales et omniprésentes liées au modèle d'économie politique du Liban. Il explore également la nature systémique de la crise, en approfondissant l'examen de ses causes structurelles profondes et en analysant son impact significatif sur la croissance économique, la pauvreté, les inégalités et les résultats sur le marché du travail. Les années qui se sont écoulées depuis le DPS de 2016 ont été marquées par la persistance des défis sectoriels auxquels le Liban est confronté depuis longtemps : une instabilité macroéconomique chronique, une dégradation progressive des infrastructures, des institutions et une gouvernance historiquement faibles, ainsi qu'un capital humain en déclin. Ces défis sont devenus des obstacles interconnectés encore plus contraignants dans la crise actuelle, entravant davantage les perspectives de stabilité économique et de développement durable. Enfin, ce DPS présente une priorisation des possibilités réalistes de réforme et de reprise, même dans le contexte d'une réalité difficile. Le DPS s'appuie sur une analyse complète des données probantes disponibles et a bénéficié de vastes consultations avec des experts libanais, des représentants du secteur privé, des membres de la communauté des organisations non gouvernementales (ONG) et le Gouvernement du Liban, entre autres parties prenantes.

⁹ Banque mondiale. 2016. *Lebanon: Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*. Groupe de la Banque mondiale, région Moyen-Orient et Afrique du Nord. [Lien](#)

Principales constatations

Paralyse institutionnelle renforcée par des turbulences régionales

Ce DPS constate que le Liban reste confronté à deux obstacles majeurs à la croissance inclusive qui continuent à se façonner et à se remodeler mutuellement : (a) la paralysie institutionnelle et (b) un environnement régional et international agité. Ces deux contraintes majeures reflètent l'interaction actuelle entre deux axes qui ont façonné une grande partie de l'évolution du Liban depuis l'indépendance : une structure politique toujours liée à un impératif de consociationnalisme et des acteurs et forces externes jouant un rôle important au niveau national.

Si la paralysie institutionnelle a toujours été un résultat possible de la structure de partage du pouvoir, la crise économique et financière actuelle, ayant épuisé les ressources de l'État, renforce cette paralysie en contraignant désormais le système à l'immobilisme. La crise financière a transformé l'État, autrefois un vecteur de rente et de corruption, en un fardeau financier. Les acteurs politiques se sont désintéressés des structures de l'État et s'en sont désengagés en tant que source de rentes. Cette situation a conduit à un état de paralysie, dans lequel l'élite s'est distancée des rôles dirigeants et s'est déchargée de la responsabilité de la récession économique.

Du fait de la forte perméabilité du Liban aux forces politiques étrangères, tout accord interne nécessite un consensus régional, qui ne semble pas devoir se matérialiser de sitôt. Le risque d'un conflit ou d'un effet de contagion de la violence voisine reste immédiate (comme en témoignent les répercussions du conflit au Moyen-Orient), repoussant tout projet de réforme à l'arrière-plan. Dans l'intervalle, la classe politique choisit de faire face à la crise actuelle en institutionnalisant un état de paralysie, dans l'attente d'une amélioration du climat international autour du Liban qui pourrait permettre à l'élite dirigeante de reproduire son pouvoir. Cette interaction entre les deux contraintes majeures entraîne des conséquences humaines désastreuses et entrave gravement tout progrès en termes de reprise, et plus encore de développement durable.

Contraction économique durable, augmentation de la pauvreté et des inégalités, et destruction des emplois

Une croissance inégale, alimentée par des secteurs à faible valeur ajoutée et la création d'emplois peu productifs, a entraîné une augmentation de la pauvreté et des inégalités au fil du temps. La crise a exacerbé les disparités socioéconomiques et les niveaux de pauvreté existants en raison des pertes d'emploi, de la baisse des revenus et de l'inflation galopante, qui touchent particulièrement les populations vulnérables. Les résultats du marché du travail se sont encore détériorés avec l'augmentation des taux de chômage, du sous-emploi et des conditions de travail précaires, aggravant à la fois la pauvreté et les inégalités. Les perspectives de croissance, de moyens de subsistance, d'équité et d'emploi — les éléments vitaux d'une économie en bonne santé — médiocres avant la crise, sont aujourd'hui tout à fait désastreuses.

L'économie libanaise a historiquement connu une croissance inégale et volatile en raison des lacunes structurelles de son modèle économique ; dans la crise actuelle, le Liban a connu une contraction économique sans précédent et un recours accru aux envois de fonds de l'étranger comme mécanisme permettant aux ménages de faire face. Alors que la croissance économique entre 1993 et 2010 se situait en moyenne à 5,7 % par an, elle a fortement diminué après 2011, entraînant une période de

ralentissement marqué avant la crise, suivie d'une période de crise caractérisée par une croissance négative prolongée. Le ralentissement de plus en plus marqué de la croissance à compter de 2011 est dû à de multiples chocs politiques (notamment le conflit syrien et ses retombées sécuritaires et économiques au Liban), ce qui a entraîné de longues périodes de vide politique et a eu un impact négatif sur la confiance dans une économie politique fragile. La crise multidimensionnelle la plus dévastatrice de l'histoire moderne du Liban, qui a débuté en 2019, a été exacerbée par l'épidémie de COVID-19 et l'explosion du port de Beyrouth en 2020. La contraction économique cumulée sans précédent de près de 35 % au cours des six dernières années fait figurer la crise actuelle du Liban au rang des pires crises depuis les années 1850¹⁰. Le secteur des services, qui représente plus de 75 % du PIB, a beaucoup souffert, la consommation privée, qui représente historiquement plus de 90 % du PIB, ayant considérablement diminué. Compte tenu de sa capacité de production limitée, le Liban dépend fortement des importations pour les biens de consommation, ce qui entraîne un déficit extérieur persistant. La forte dépendance du Liban à l'égard des importations a exacerbé la crise, ce qui s'est traduit par un déficit persistant des transactions courantes, qui a atteint en moyenne plus de 17 % au cours des années de crise (2019-2023). Les envois de fonds de l'étranger, qui ont atteint près de 7 milliards de dollars, ont représenté près de 30 % du PIB en 2022 et 2023, un niveau record. Cela souligne leur rôle crucial en tant que planche de salut pour les familles libanaises dans le contexte de la crise.

Sans surprise, la pauvreté au Liban a connu une forte augmentation, avec environ 44 % de la population dans cinq gouvernorats identifiés comme pauvres en 2022, sur la base d'un nouveau seuil de pauvreté non officiel fondé sur la consommation. L'enquête qui en résulte est représentative de cinq gouvernorats où résident, d'après les estimations, 59 à 60 % de la population : Akkar, Liban-Nord, Beyrouth, Bekaa et la majeure partie du Mont-Liban. Le taux de pauvreté parmi les ressortissants libanais s'élevait à environ 33 %, tandis qu'il était estimé à près de 87 % pour les ménages syriens. Au fil des ans, la pauvreté a triplé parmi les ressortissants libanais dans les gouvernorats couverts, passant de 11 % en 2012 à 33 % en 2022. Le nombre de Libanais pauvres est monté en flèche, passant d'environ 295 000 en 2012 à 722 000-866 000 en 2022. Les disparités socioéconomiques entre les ménages pauvres et non pauvres sont manifestes : les ménages pauvres comptent généralement plus de personnes, sont plus susceptibles de louer leur logement, sont davantage endettés et affichent souvent un niveau d'éducation plus faible. Bien que les taux d'emploi soient similaires, une proportion plus élevée de chefs de ménage pauvres occupe un emploi informel. Les envois de fonds de l'étranger et les revenus en devises étrangères agissent comme une protection contre la pauvreté, les ménages dirigés par des femmes étant plus susceptibles de recevoir des envois de fonds de l'étranger et des revenus en devises étrangères. L'insécurité alimentaire est en hausse, les ménages réduisant leurs achats de nourriture et recourant à des options alimentaires moins chères. Les difficultés à répondre aux besoins en matière de soins de santé et d'éducation sont évidentes, les ménages réduisant leurs dépenses de santé et retardant les visites médicales ou les examens pour couvrir les besoins essentiels.

Au Liban, les inégalités sont généralisées et multidimensionnelles, affectant non seulement les revenus, mais aussi l'accès, les opportunités et les résultats. La crise et sa gestion défailante ont exacerbé les inégalités, entraînant un écart de pauvreté croissant et une réduction de la classe moyenne. Dans le domaine de l'éducation, il existe un écart important en termes d'accès et de résultats, les ménages pauvres étant confrontés à des défis plus importants. L'incapacité de l'État à fournir des services publics

¹⁰ Banque mondiale. 2021. *Lebanon Economic Monitor, Spring 2021: Lebanon Sinking: to the Top 3*. [Lien](#)

adéquats a encore creusé les inégalités, les dépenses étant fragmentées, insuffisantes et inefficaces, ce qui a permis à un secteur privé prédateur de dominer la fourniture de services sans réglementation. Au-delà de l'augmentation du taux de pauvreté, des inégalités croissantes sont observées sur l'ensemble de la distribution des revenus, la part de la classe moyenne se réduisant de 57 % à 40 %.

Alors que la création d'emplois est l'un des moyens les plus efficaces pour réduire la pauvreté, le Liban a historiquement été confronté à d'importants défis sur le marché du travail. Une croissance sans emploi, des taux de chômage élevés, en particulier chez les jeunes, un problème persistant d'inadéquation des compétences et une prédominance des emplois informels et peu productifs sont autant de facteurs qui ont contribué à un taux de participation à la population active de seulement 48,8 % en 2018-2019. La transition démographique a entraîné une réduction de la taille de la population en âge de travailler depuis 2015 en raison de la baisse des taux de fécondité depuis les années 1990, conjuguée à l'augmentation de l'espérance de vie. L'émigration massive depuis le début de la crise en 2019 a encore exacerbé ce déclin, un grand nombre de personnes quittant le Liban à la recherche de meilleures opportunités à l'étranger.

La crise a eu des effets profonds sur le marché du travail, avec des destructions d'emplois généralisées, en particulier dans le secteur privé. Les enquêtes de la Banque mondiale font apparaître que de nombreuses entreprises formelles ont fermé définitivement leurs portes, aggravant le chômage, avec une diminution estimée à 27 % du nombre de travailleurs et 64 % des entreprises formelles supprimant des emplois. Le secteur des services, qui a toujours été un employeur important, a également été fortement touché, ce qui a encore réduit les opportunités d'emploi. Les femmes ont été touchées de manière disproportionnée, subissant une perte nette d'emplois plus importante que leurs homologues masculins. L'augmentation de l'informalité dans l'emploi a également pris de l'ampleur, laissant les travailleurs sans protection adéquate. Actuellement, 62 % des emplois sont désormais informels, ce qui souligne encore la nature précaire du marché du travail au Liban. Ces tendances ont conduit à des taux alarmants d'inactivité et de chômage, en particulier chez les femmes et les jeunes. Le taux de chômage a enregistré une forte hausse, passant de 11 % en 2018-2019 à 30 % en 2022, le taux de chômage des jeunes ayant plus que doublé pour atteindre 48 %. Les difficultés du Liban reflètent des problèmes plus généraux auxquels font face les États fragiles, notamment l'instabilité économique et politique, une mobilité sociale limitée et une forte dépendance à l'égard du travail informel.

Des défis exacerbés dans tous les secteurs

D'un point de vue sectoriel, le Liban est confronté à des obstacles interconnectés importants et à facettes multiples dans tous les secteurs, qui continuent à entraver le développement économique. Bien qu'il soit crucial de s'attaquer à tous les obstacles interconnectés dans tous les secteurs pour les perspectives de reprise, la réduction durable et à long terme de la pauvreté et la croissance économique du Liban, les obstacles les plus critiques sont mis en exergue. Les obstacles interconnectés qui ont une incidence sur le potentiel du Liban à afficher une croissance économique élevée et durable comprennent (a) l'instabilité macroéconomique, (b) le recul du développement financier, (c) le délabrement des infrastructures et des services publics de distribution, (d) l'effondrement de la gouvernance et des institutions, et (e) les pertes de capital humain.

Instabilité macroéconomique

Le modèle de développement du Liban après la guerre civile a été caractérisé par des liens étroits entre les secteurs budgétaire, monétaire et financier, créant une dépendance excessive et conduisant finalement à une défaillance systémique. Des déficits persistants des transactions courantes et des finances publiques, ainsi que les chocs politiques et sécuritaires fréquents, ont eu de graves répercussions sur la stabilité macroéconomique. L'ancrage du taux de change, associé à son niveau surévalué, ainsi que la dépendance accrue aux importations qui en résulte, ont engendré un déficit commercial précaire. Ces déficits ont été financés par la dette, les dépôts des non-résidents et les envois de fonds de l'étranger. La position extérieure du pays est encore affaiblie par une forte dépendance à l'égard du tourisme, très sensible à la volatilité politique. Le gaspillage des dépenses publiques, avec une facture importante au titre du service de la dette, les frais de personnel et les transferts à *Électricité du Liban* (EdL), a limité les dépenses d'investissement, ce qui a contribué aux inégalités et aux infrastructures déficientes. La mobilisation limitée des recettes, les politiques fiscales régressives et l'inefficacité de l'administration fiscale ont encore pesé sur les ressources budgétaires, le ratio recettes fiscales/PIB ayant diminué de 11,5 points de pourcentage (pp) entre 2011 et 2022. Les opérations quasi-budgétaires et d'ingénierie financière menées par la Banque du Liban (BdL) pour stabiliser l'économie ont uniquement renforcé les liens entre l'État, la BdL et le secteur bancaire, augmentant ainsi leur exposition mutuelle et entraînant d'importantes vulnérabilités. Le soutien international et le financement des bailleurs de fonds répétés dans la période d'après-guerre ont permis d'éviter le défaut de paiement de l'État, mais ont perpétué le risque moral, en apportant un soulagement temporaire sans remédier aux problèmes structurels sous-jacents. L'arrêt soudain des entrées de capitaux en 2019 et la défaillance de la dette souveraine en mars 2020 ont eu un effet dévastateur sur la situation budgétaire du Liban, le bilan de la BdL et le secteur des banques commerciales, entraînant ainsi des pertes importantes estimées à plus de 70 milliards de dollars.

Recul du développement financier

Le secteur financier libanais, autrefois dominant dans l'économie du pays, est désormais devenu un obstacle critique à la stabilité économique en raison de son insolvabilité en l'absence de restructuration et de résolution bancaire. Le secteur, composé principalement de 66 banques, représentait un pourcentage stupéfiant de 97 % des actifs du système financier, atteignant 450 % du PIB à la fin de 2018. Cette concentration, où 10 banques détenaient 90 % du total des actifs, a soumis le secteur à des risques significatifs, surtout en raison de son exposition élevée à la BdL et, par extension, au risque souverain. Environ 75 % des actifs bancaires étaient détenus à la BdL, en grande partie sous forme de dépôts, rendant le secteur insolvable dans la mesure où ni la BdL, ni l'État, ne sont en mesure d'honorer ces créances. Les pertes du secteur sont estimées à plus de 70 milliards de dollars en septembre 2023. Les prêts non productifs s'élevaient à plus de 70 % en décembre 2022 et les déposants ont dû faire face à de sévères restrictions sur les retraits, ce qui a exacerbé les pertes, en particulier pour les petits déposants. La dépréciation de la monnaie locale de 98 % depuis 2019 a occasionné des pertes majeures pour les déposants, les dépôts en devises étrangères n'étant accessibles qu'avec une forte décote. L'évaluation des actifs du secteur bancaire met en exergue la situation désastreuse, la valeur économique réelle étant estimée à une fraction de leur valeur comptable. Alors que les données officielles peuvent suggérer un semblant de stabilité, la réalité est tout autre, le secteur étant profondément insolvable. L'absence de répartition équitable des pertes et l'arrêt de la restructuration globale des banques aggravent encore la crise.

Les répercussions de l'effondrement du secteur financier s'étendent au-delà du secteur bancaire, touchant de manière significative la croissance économique et les activités des entreprises. Le crédit au secteur privé, crucial pour l'activité économique, a chuté, les entreprises faisant face à de graves contraintes en matière d'accès au financement. La réduction de l'intermédiation financière a entraîné une baisse de l'utilisation des services financiers, exacerbant l'informalité et le risque de blanchiment d'argent. L'économie libanaise repose de plus en plus sur le numéraire, ce qui accroît encore les risques et entrave les efforts visant à rétablir la confiance dans les services financiers formels. La Banque mondiale estime que la taille de l'économie fondée sur le numéraire a plus que doublé entre 2020 et 2022 et qu'elle représente aujourd'hui près de 46 % du PIB, soit 9,86 milliards de dollars¹¹. En outre, la crise a probablement exacerbé les flux illicites, privant le pays de ressources indispensables tout en enrichissant quelques privilégiés. La contrebande de produits subventionnés vers les pays voisins intervient au détriment des communautés vulnérables et a exacerbé les disparités socioéconomiques.

Délabrement des infrastructures et des services publics de distribution

Le délabrement des infrastructures touche tous les secteurs au Liban, ce qui pose des problèmes importants pour le développement du pays et le niveau de vie de ses habitants. Dans le *secteur de l'électricité*, le sous-investissement chronique et la mauvaise gestion ont conduit à des coupures d'électricité et à des inefficacités généralisées, nuisant à la productivité économique et à la qualité de vie. De même, le *secteur de l'eau* subit d'énormes pressions en raison d'infrastructures vieillissantes, de la rareté de l'eau et de la pollution, qui exacerbent les pénuries et compromettent l'accès à l'eau potable. Les systèmes de *gestion des eaux usées et des déchets solides* sont également en mauvais état et présentent des risques pour l'environnement et la santé publique. Des installations de traitement inadéquates et des pratiques de gestion des déchets dépassées contribuent à la pollution et à la dégradation de l'environnement, ce qui pèse encore plus sur les ressources et aggrave les risques sanitaires. Les infrastructures de *transport* sont négligées et insuffisamment entretenues, ce qui entraîne des embouteillages, des retards et des problèmes de sécurité. Le manque d'investissement dans les routes, les ponts et les systèmes de transport public entrave la mobilité et freine la croissance économique.

Le Liban est également très exposé au changement climatique, avec une faible capacité d'adaptation résultant d'infrastructures inadéquates, de la faiblesse des institutions, d'une mauvaise planification et d'un manque de priorisation politique. Les effets attendus comprennent des températures plus élevées, des phénomènes météorologiques plus extrêmes et des précipitations moins prévisibles, entraînant des pénuries d'eau et des risques accrus d'inondations, d'érosion, de sécheresse et de surchauffe. En fait, la disponibilité insuffisante de l'eau et les phénomènes météorologiques extrêmes ont déjà un coût pour la santé, l'agriculture et l'économie. En l'absence de mesures d'atténuation, ces risques entraîneront des coûts sanitaires et économiques considérables. La crise économique actuelle exacerbe ces défis en réduisant les ressources consacrées à la lutte contre les effets du climat¹².

¹¹ Banque mondiale. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Lien](#)

¹² Banque mondiale. 2024. *Lebanon Country Climate and Development Report (CCDR)*. [Lien](#)

Effondrement de la gouvernance et des institutions

Le Liban est aux prises avec des fléaux qui continuent de sévir dans son secteur public, caractérisé par l'effondrement de la gouvernance et des institutions. La *fonction publique* souffre depuis longtemps d'inefficacités structurelles, notamment le recrutement et la promotion non fondés sur les compétences, l'absence de gestion de la performance du personnel, et une planification inadéquate des effectifs. L'absence de données fiables et complètes sur la taille du nombre de fonctionnaires a encore compliqué la situation, rendant difficile l'identification des compétences existantes, des qualifications nécessaires et des domaines en sureffectifs et en sous-effectifs. La crise a entraîné des niveaux importants d'attrition du personnel et d'absentéisme, ce qui a gravement compromis les fonctions essentielles de l'État et la prestation de services. L'érosion des salaires dans le secteur public a entraîné un manque critique de compétences, un nombre important de fonctionnaires ayant quitté leurs postes. Les efforts des pouvoirs publics pour augmenter les salaires et préserver les fonctions essentielles n'ont pas réussi à inciter le personnel à rester en poste et à être assidu. L'absence d'un mécanisme global d'ajustement des salaires a entraîné une fragmentation et une démotivation à grande échelle du personnel du secteur public. Le *système judiciaire* fait face à des défis similaires, le manque d'indépendance, l'inefficacité et la corruption sapant l'État de droit et entravant l'accès à la justice pour les citoyens ordinaires.

Les efforts de numérisation se heurtent à une technologie dépassée et une infrastructure internet inadéquate, ce qui limite l'accès à l'information et entrave les opportunités économiques. La prestation de services numériques au Liban souffre de fragmentation, d'inefficacité et de conflits entre agences en raison de l'absence d'une architecture technologique appropriée et d'une coordination insuffisante aux niveaux politique et technique pour assurer l'alignement et l'adhésion. En l'absence d'une infrastructure publique numérique (IPN) de base, les pouvoirs publics peinent à offrir des services par voie numérique. La faiblesse du système national d'identification du Liban, qui ne dispose pas d'une fonctionnalité d'identification numérique vérifiable pour les applications en ligne, complique l'identification fiable des bénéficiaires par les ministères sectoriels, ce qui engendre des problèmes de fraude et de corruption, tout en réduisant l'accessibilité aux services essentiels. L'absence de plateformes de partage de données fiables aggrave encore l'incapacité des pouvoirs publics à fournir des services de manière efficace, ce qui complique les opérations de routine.

Pertes de capital humain : inégalités, désinvestissement et fuite des cerveaux

Le Liban souffre d'importantes pertes de capital humain dues aux inégalités, au désinvestissement et à la fuite des cerveaux. Les crises successives de ces dernières années ont entraîné une détérioration du capital humain, comme en témoigne l'indice de capital humain (ICH) du Liban, qui est de 0,52. Ce chiffre indique qu'un enfant né au Liban n'atteindra que 52 % de son potentiel de productivité à l'âge adulte, faute d'une éducation complète et d'une santé optimale. La crise a également entraîné une baisse significative de l'indice de développement humain (IDH), le Liban enregistrant la plus forte baisse de tous les pays du monde entre 2019 et 2021.

Le secteur des soins de santé au Liban souffre d'inefficacité, comme en témoignent les dépenses de santé de 8,3 % du PIB du pays en 2018, plus élevées que celles des pays similaires du Moyen-Orient et de l'Afrique du Nord (MENA). Les dépenses privées dominent, les ménages finançant plus de la moitié (53,4 %) des dépenses totales de santé et d'importantes dépenses directes, en particulier pour les produits pharmaceutiques, à hauteur de 45 % des dépenses totales de santé. Les dispositifs de soins de santé restent fragmentés, avec une pléthore de prestataires et de régimes d'assurance, marqués par une

forte participation du secteur privé. Bien que les soins de santé primaires (SSP) bénéficient du soutien des bailleurs de fonds internationaux, la réglementation en dehors des centres désignés manque de rigueur. Au Liban, les soins de santé sont traditionnellement axés sur les soins curatifs, ce qui se traduit par une couverture inadéquate des services de routine et de prévention, exacerbant ainsi les inégalités. Le désinvestissement forcé résultant de la crise compromet gravement le système de santé libanais, avec une forte coupe du budget du ministère de la Santé publique qui est passé de 485,9 millions de dollars en 2018 à moins de 37 millions de dollars en 2022, et une baisse considérable des subventions de l'État pour les frais d'hospitalisation et les médicaments. Ce désinvestissement accentue les disparités dans l'accès aux services de santé essentiels, aggravées par les menaces pour la santé publique telles que la flambée épidémique de choléra de 2022, la chute des hospitalisations et l'augmentation de l'insécurité alimentaire, avec des proportions croissantes de la population confrontée à la malnutrition et aux pénuries alimentaires. En réponse, les centres de soins de santé primaires (CSSP) sont devenus des points d'accès essentiels, connaissant une forte augmentation de la demande dans un contexte de réduction des financements, avec des initiatives telles que le Protocole de subventions à long terme des soins primaires qui offre un soutien vital aux populations vulnérables grâce à l'aide internationale.

Le secteur de l'éducation au Liban est caractérisé par de multiples modes de prestation parallèles, les ménages supportant la plus grande partie des coûts de l'éducation. Le secteur de l'éducation au Liban comprend des écoles publiques, des écoles privées gratuites et des écoles privées payantes, chacune fonctionnant de manière indépendante. En 2018, environ 59 % des élèves fréquentaient des écoles privées, mais cette proportion a diminué, passant à 54 % en 2020, la crise économique ayant incité certaines familles à opter pour des écoles publiques en raison de contraintes financières. Les dépenses des ménages complètent de manière significative les dépenses de l'État en matière d'éducation, les ménages apportant une contribution à hauteur de 1,5 milliard de dollars en plus des 1,2 milliard de dollars de l'État. Cette forte dépendance à l'égard du financement privé exacerbe les inégalités, le milieu socioéconomique influençant fortement les résultats scolaires. Les dépenses de l'État en matière d'éducation ont diminué, passant de 2 % du PIB en 2019 à 1,8 % en 2020, avec également une baisse de la part allouée à l'enseignement public. Les systèmes de données fragmentés nuisent à la reddition de comptes et à la planification, tandis que le financement insuffisant, associé à un suivi de la qualité limité, renforce une ségrégation socioéconomique marquée entre les écoles. Les perturbations causées par la crise économique et exacerbées par la pandémie de COVID-19 ont entraîné d'importantes pertes d'apprentissage. Les écoles publiques ont été particulièrement touchées, subissant des perturbations au niveau du personnel, des financements et du fonctionnement, ce qui a encore creusé l'écart de qualité de l'éducation entre les secteurs public et privé. L'érosion des salaires et des avantages sociaux des enseignants a entraîné un exode des éducateurs qualifiés, les enseignants contractuels remplissant de plus en plus les postes non pourvus, souvent avec une formation et un financement inadéquats. La crise économique a également gravement touché l'enseignement supérieur, avec des réductions drastiques du financement, du corps professoral et des inscriptions à l'Université libanaise, ce qui a nui à sa capacité à fournir un enseignement de qualité. La perte de capital humain due à l'insuffisance des investissements dans les intrants de la santé et de l'éducation compromet les perspectives de développement à long terme du pays et exacerbe les inégalités sociales.

Perspectives et principaux messages

Le DPS présente une approche stratégique pour relever les défis critiques du Liban, suggérant quatre résultats de haut niveau pour éradiquer la pauvreté et améliorer la prospérité partagée : (1) restaurer la stabilité macroéconomique et financière, (2) améliorer la gouvernance et l'accès aux services publics, (3) renforcer les services publics de distribution, et (4) améliorer le capital humain. Onze priorités stratégiques sont identifiées pour atteindre ces résultats de haut niveau, parmi lesquelles figurent des réformes financières et budgétaires, la réforme de la fonction publique, la numérisation, la transition énergétique, ainsi que la restauration des services sociaux et l'élargissement de la protection sociale (voir le tableau ci-dessous).

Le DPS présente également deux scénarios pour l'avenir du Liban : un scénario de « tâtonnement » dans lequel la stagnation politique et économique se poursuit, et un scénario de « reprise » avec une amélioration de la prise de décisions et de la résolution des crises. Les scénarios impliquent des frontières différentes en termes de possibilités d'action, de sorte que les mesures à prendre pour répondre aux priorités de chaque résultat de haut niveau sont élaborées séparément pour chaque scénario. Le tableau ci-dessous illustre la correspondance entre les priorités et les résultats de haut niveau, ainsi que les actions stratégiques suggérées en conséquence pour chaque scénario. Il est important de noter que les interventions proposées dans les deux scénarios ne s'excluent pas mutuellement, dans la mesure où les améliorations opérationnelles dans les secteurs ciblés dans le scénario de « tâtonnement » peuvent servir de base à des investissements à plus grande échelle lorsque les conditions pour des réformes plus profondes deviendront réalisables dans un scénario de reprise.

Des plans sectoriels immédiats sont nécessaires de toute urgence pour préserver les services de base, tels que les services de distribution et les services de l'État, ainsi que ceux liés à la santé, l'éducation et la protection sociale, même en l'absence de réformes plus vastes. Il est essentiel de mettre l'accent sur les interventions d'urgence dans les secteurs critiques à fort potentiel de valeur ajoutée, tout en veillant à les intégrer dans un cadre approprié et réaliste. La mobilisation des recettes nationales constitue une première étape nécessaire à la préservation de ces services. Le DPS propose une liste de mesures à court terme pour une mobilisation rapide des recettes qui promet de remédier également à l'augmentation alarmante des inégalités au cours des dernières décennies. Le DPS identifie aussi certains axes d'intervention qui seraient essentiels pour les plans d'urgence dans chacun des domaines vitaux. Pour les services publics de distribution, il s'agit notamment de la solarisation de l'énergie pour les principaux services de distribution (eau, traitement des eaux usées, télécommunications), d'ajustements tarifaires pour un meilleur recouvrement des coûts et d'un passage à des énergies plus propres. Une enquête auprès des employés de la fonction publique constitue une première étape pour identifier les fonctions clés, les besoins en compétences, les redondances et le coût de tout ajustement d'urgence des avantages et des salaires. En attendant que des investissements à grande échelle et des réformes plus profondes soient possibles, des améliorations opérationnelles dans les domaines de la santé et de l'éducation peuvent contribuer à maintenir les services au sein de la marge de manœuvre budgétaire limitée du scénario de *tâtonnement*. Un effort intensif de numérisation dans chacun de ces secteurs vitaux, ainsi qu'une intégration efficace entre eux, peut permettre de réaliser des économies cruciales pour maintenir les services et fournir des ressources précieuses pour des réformes plus profondes à l'avenir.

La visibilité pour le scénario de *reprise* est assombrie par les bouleversements régionaux survenus depuis octobre 2023, ainsi que par la difficulté à mettre en place des conditions politiques susceptibles d'ouvrir la voie à des réformes profondes et de grande ampleur. Néanmoins, la vision globale du paysage de la *reprise* suggère des interventions qui s'appuient sur les mesures d'urgence du scénario de

tâtonnement, en élargissant l'éventail des fonctions et des services à fournir au-delà du strict nécessaire. Cela implique d'étendre le programme d'action au-delà de la maintenance ou des améliorations marginales, pour entreprendre une révision en profondeur afin de se débarrasser des fléaux du modèle de développement précédent qui se solde par un échec.

Résultats de haut niveau

| Résultats de haut niveau | Priorités | Choix stratégiques prioritaires | |
|--|---|--|---|
| | | Scénario de tâtonnement | Scénario de reprise |
| Rétablissement de la stabilité macroéconomique et financière et soutien au secteur privé | Restructurer le secteur bancaire pour rétablir un marché financier fonctionnel | Unification et stabilisation du taux de change | Réforme réglementaire, structurelle et prudentielle globale du secteur bancaire et de la banque centrale |
| | Développer le secteur financier non bancaire et élargir l'accès au crédit pour soutenir le secteur privé | Promotion de la croissance dans les secteurs prometteurs | Développement du marché financier non bancaire et élargissement de l'accès au crédit |
| | Procéder à une réforme budgétaire et un assainissement des finances publiques | Mesures d'urgence pour la mobilisation des recettes nationales | Assainissement des finances publiques et réforme budgétaire : viabilité de la dette, gestion des finances publiques et réforme fiscale |
| Amélioration de la fourniture et de la responsabilité pour les services publics de base afin de réduire les inégalités d'accès | Préserver le capital humain du secteur public au moyen d'une réforme de la fonction publique | Évaluation complète des effectifs et des fonctions du secteur public, identification des services essentiels, ajustement des salaires de base, numérisation d'une base de données salariale intégrée des ressources humaines pour les employés du secteur public | Réforme du recrutement, de la rétention, de la promotion et des avantages sociaux afin de répertorier les compétences et de lier la gestion des ressources humaines publiques aux besoins, au mérite et à la performance |
| | Mettre en place une IPN pour des services numérisés plus transparents, plus efficaces et plus accessibles | Transition vers une nouvelle architecture avec fonctionnalité IPN pour promouvoir l'évolutivité et la confiance dans la fourniture de services numérisés, en exploitant l'IPN pour numériser les services les plus prioritaires | Mise en œuvre de la Stratégie nationale de transformation numérique 2020-2030 et des réformes juridiques et institutionnelles associées qui sont nécessaires pour améliorer l'environnement de confiance et permettre la transformation numérique de manière durable et l'échelle voulue. Réalisation de l'accès universel à des services numérisés de bout en bout, fiables et centrés sur l'utilisateur |

| Résultats de haut niveau | Priorités | Choix stratégiques prioritaires | |
|--|--|--|---|
| | | Scénario de tâtonnement | Scénario de reprise |
| Amélioration des services publics de distribution afin de répondre aux besoins de base, d'améliorer les niveaux de vie et de renforcer la résilience aux chocs liés au changement climatique | Construire des transports résilients et à faible émission de carbone en formalisant et en consolidant les services et en améliorant la sécurité et la durabilité | Évaluation des moyens d'existence des opérateurs actuels, installation de systèmes de positionnement global (GPS) pour une meilleure expérience des utilisateurs, et Projet « Routes et emploi » (PRE) | Coordination de l'application des mesures entre les ministères pour assurer la sécurité et générer des recettes, changement des comportements grâce à des infrastructures permettant de trouver des alternatives aux déplacements motorisés |
| | | Réformes structurelles au Port de Beyrouth | Équipement en numérique du Port de Beyrouth |
| | Opérer une transition vers des énergies plus propres dans l'ensemble des services publics de distribution et adapter les cadres réglementaires | Améliorations opérationnelles et financières pour EdL, solarisation pour alimenter d'autres services publics de distribution | Transition verte et mobilisation de capitaux privés pour l'adoption d'énergies renouvelables |
| | Améliorer la gestion et les opérations dans les secteurs de l'eau, des eaux usées et des déchets solides | Eau : extension du stockage de l'eau, solarisation du pompage et de la distribution | Amélioration de l'efficacité de la distribution de l'eau et réduction de l'eau non génératrice de recettes |
| | | Eaux usées : solarisation de l'énergie, mise à jour du budget d'exploitation et de maintenance | |
| | | Déchets solides : investir dans des améliorations essentielles des équipements et actualiser le budget d'exploitation et de maintenance | Adoption d'une approche d'économie circulaire pour la gestion des déchets solides |
| Un capital humain amélioré et plus équitable | Élargir l'accès, la forme de soutien et le champ d'application de la protection sociale en s'appuyant sur les modalités existantes | Élargissement des modalités d'aide existantes pour un soutien multidimensionnel plus efficace | Élargissement de la couverture, établissement d'un lien entre la protection sociale et les services sociaux, réforme de la pension de vieillesse |
| | Prioriser les soins primaires, améliorer l'accès et la couverture | Investissement dans les soins de santé primaires, révision des listes de prix et des règles de couverture, et développement de la transformation numérique | Couverture sanitaire universelle (CSU) axée sur les soins de santé primaires, accompagnée d'une feuille de route pharmaceutique et d'interventions pour le renforcement du système de santé |

| Résultats de haut niveau | Priorités | Choix stratégiques prioritaires | |
|--------------------------|---|--|---|
| | | Scénario de tâtonnement | Scénario de reprise |
| | Élargir l'accès à une éducation de qualité grâce à des réformes opérationnelles, au développement du capital humain et à l'amélioration des systèmes d'information | Ajustement des salaires, amélioration de l'utilisation des ressources, transformation numérique du secteur et mise en œuvre des nouveaux cadres de travail | Réforme de la gestion des finances publiques du secteur pour améliorer la planification sectorielle et la qualité de l'enseignement scolaire ; amélioration de la gouvernance de l'Université libanaise |

I. COUNTRY CONTEXT

Background

- 1. Well into its fifth year, Lebanon’s multipronged crisis continues to be weighed down by political and institutional vacuum and a lack of comprehensive and equitable reforms.** The exceptional macro-financial duress Lebanon is under is due to the country’s most serious financial and economic crisis, further exacerbated by the economic impact of the COVID-19 pandemic and the devastating Beirut port explosion in August 2020. Lebanon’s economic and financial crisis ranks among the worst crises globally since the mid-nineteenth century.¹³ Real gross domestic product (GDP) has cumulatively contracted by close to 35 percent between 2018 and 2023, wiping out more than 15 years of economic growth. GDP per capita dropped from US\$8,925.4 to US\$3,750.3 between 2019 and 2023 (by 58 percent in nominal terms). In the absence of consensus over a comprehensive equitable resolution, the bulk of the cost of economic adjustment is being borne by the most vulnerable segments of society.
- 2. The ongoing economic and financial meltdown is rooted in a structural crisis of a disintegrating post-war political economy model that has failed to generate balanced, sustainable, and inclusive growth.** Lebanon’s confessional power-sharing system has proven to be an impediment to balanced growth and development and effective governance and service delivery and, most importantly, has resulted in a hollowed-out state, vulnerable to external factors and influence. It has created widespread inefficiency in the Lebanese public sector and helped sustain clientelist networks and mechanisms of patronage.¹⁴
- 3. The confessional power-sharing system is deeply intertwined with a post-war economic model benefiting a narrow elite base.** Post-war reconstruction was financed by the public sector, with the government borrowing at high interest rates from the domestic financial sector, ultimately leading to soaring fiscal deficits, heavy debt servicing costs, and a ballooning public debt. Very early in the reconstruction era, debt servicing, salaries and wages, and a costly state-run electricity company ate up the lion’s share of public spending, leaving no room for social and capital spending and redistributive efforts.
- 4. Lebanon’s post-war economy was characterized by large and persistent twin current account and fiscal deficits.** While the internal financing needs were met by racking up debt, the external financing was forthcoming from the sizeable and stable growth in the deposits and remittances of the Lebanese diaspora. Lebanon was, therefore, largely dependent on debt-creating flows to finance its fiscal and external deficits. With the build-up of the internal and external imbalances, the banking sector became gradually more exposed to the sovereign (that is, the central bank and the government), thus solidifying the sovereign-Banque du Liban (BdL)-banking sector nexus.
- 5. Strong interlinkages among the fiscal, monetary, financial sectors rendered each overly dependent on the other and in the end led to systemic failure.** Large structural fiscal deficits required ever-growing capital inflows (mostly remittances) attracted by high dollar interest rates offered by the financial sector (including the central bank). By favoring a model that relies on foreign capital invested in government and central bank debt sold at overpriced interest rates, commercial banks have amassed

¹³ World Bank. 2021. *Lebanon Economic Monitor, Spring 2021: Lebanon Sinking: to the Top 3*. [Link](#)

¹⁴ World Bank. 2016. *Lebanon: Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*. The World Bank Group Middle East and North Africa Region. [Link](#)

large profits and crowded out private investment. Capital inflows were also necessary to maintain the second pillar of the post-war economic model, that of a pegged exchange rate. Over time, however, this model produced oversized balance sheets among the three actors (the sovereign, the central bank, and the banking sector)—broadly several times of GDP—which placed each of these actors at the top of the global league in terms of balance sheet size and therefore losses (for example, Lebanon’s public debt consistently being among the highest in the world, and Lebanon’s banking system being among the largest in the world, relative to the size of its economy).

6. **The choice of the economic model has also undermined productive sectors, failed to create adequate job opportunities, favored out-migration and brain drain, and marginalized public services.** It is no surprise that such dynamics have resulted in stark regional and income inequalities, unbridled depletion of national resources and pollution of the environment, and uneven social development. For example, the richest 1 percent in Lebanon owned 25 percent of the national income between 2005 and 2014.¹⁵ Government service provision has been fragmented, characterized by weak governance, poor coordination, the absence of a comprehensive policy framework, all in the context of a lack of political will for reform.

7. **As outlined in the 2016 SCD, this reality has necessitated major reforms if not a complete rethinking and overhaul of Lebanon’s political economy model.** Yet, the power-sharing system, grounded in the need for consociational decision-making and geopolitical alliances and considerations, has often led to political paralysis. The political system continues to produce and reproduce periods of state capture and rent distribution by the ruling elites, intersected by growing periods of political vacuum, impeding a ny possible reform track.

8. **2011 was a year of major inflection points, both in terms of an evolving geopolitical landscape and consequent alliances and economic spillovers compounding deep structural imbalances.** For many states in the region, the Arab spring instigated a shift in priorities to securing their hold. For regional players with geopolitical interest and involvement in Lebanon, domestic concerns for their own stability and legitimacy took precedence. The Syrian conflict brought about yet another round of (preexisting) deep political polarization among Lebanon’s political constituencies standing on opposing sides of the Syrian conflict and triggered mounting sectarian tensions, cross-border movements of fighters, and political deadlock. The Syrian conflict also constituted an exogenous shock to the Lebanese economy, affecting trade and depressing the tourism sector that the country vitally relies on. The mass exodus of close to 1 million Syrian refugees fleeing the war, and seeking refuge in Lebanon, quickly transpired to a protracted refugee crisis.

9. **Spillovers from the Syrian conflict also exacerbated macro-financial fragility.** Lebanon’s pre-crisis economic model necessitated that the country continues to attract capital and financial inflows. Nonetheless, the post-2011 period witnessed a sharp decline in foreign direct investments (FDIs) and other inflows.¹⁶ Moreover, deposit growth, the bulwark of external and internal deficit financing, slowed

¹⁵ Assouad, L. 2019. “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon.” PSE Working Paper, HAL. [Link](#)

¹⁶ World Bank. 2018. *Lebanon Economic Monitor, Fall 2018: De-Risking Lebanon*. [Link](#)

down markedly. As a result, the net foreign asset (NFA) position has been in gradual decline since 2011 and risk premiums increased discernably in 2018.¹⁷

10. **For the first time since the late 1990s, real GDP growth turned negative and dollar inflows faltered, in addition to a negative balance of payments.** The central bank engaged in costly financial engineering swaps starting in 2016 to limit the shortage of foreign currency by luring commercial banks into depositing dollars at high interest in return for Lebanese pound (LBP) liquidity, resulting in an acute banking and liquidity crisis. The central bank, commercial banks, and the government were mired in a web of mutual liabilities, ultimately rendering the financial sector insolvent.

11. **On October 17, 2019, a few months into a period of sharp economic downturn and early signs of collapse, waves of unprecedented mass demonstrations and protests (also known as the October revolution) swept the country.** Hundreds of thousands of residents took to the streets across the country showing collective disillusionment with deteriorating economic conditions and a political system that has consolidated economic and political power in the hands of a narrow elite base. The uprising ultimately triggered the resignation of the government, then led by Saad El Hariri. To defuse the momentum of the October revolution, a technocratic government was formed and was tasked with arresting the ensuing economic, financial, and social crisis.

12. **The Government of Lebanon (GoL) defaulted on its foreign debt (Eurobond) payment in March 2020, effectively marking the country's first-ever sovereign default and representing the collapse of the erstwhile equilibrium.** The government then devised a comprehensive macroeconomic and financial plan as a basis for the negotiation with the International Monetary Fund (IMF) on a potential rescue program. The plan presented losses in the financial sector estimated at more than US\$70 billion and proposed a comprehensive banking sector restructuring process, while asserting the full realization of losses in the financial sector, coupled with an equitable distribution of these losses. The plan, however, was strongly opposed by Lebanon's ruling elite and banking sector.

13. **Since then, the economic and financial crisis has only accelerated, exacerbated by the COVID-19 pandemic and the Beirut port explosion.** Corruption and negligence exploded in the Beirut port in August 2020, only deepening the calamities of residents and wreaking havoc on hundreds of thousands of families and dwellings and leading to the resignation of the government in the aftermath of the explosion. More than three years later, the Beirut blast probe has been suspended countless times and has been at the center of political polarization, derailing justice and accountability and deepening political impunity.

14. **While the unfolding multipronged crisis has been long in the making, its management since 2019 has brought about devastating and long-lasting consequences.** Upon the resignation of the Diab government in August 2020, 13 months of political deadlock ensued, with political factions unable to form a government as the country witnessed one of the most acute crises in its modern history. The subsequent government, headed by Mikati, was formed in September of 2021 but lasted only 13 months before it too resigned and became a caretaker government. It has struggled to put the country back on a long-awaited recovery track. The government plunged into political paralysis over the Beirut blast probe, witnessed renewed deadly clashes reminiscent of the civil war landscape in November 2021, and grappled to manage a costly diplomatic row with Gulf countries in December 2021. In April 2022, the government reached a

¹⁷ World Bank. 2018. *Lebanon Economic Monitor, Fall 2018: De-Risking Lebanon*. [Link](#)

staff-level agreement (SLA) with the IMF on a US\$3 billion, 46—month lending program (Extended Fund Facility), subject to the timely implementation of 10 prior actions and confirmation of international partners' financial support. Over two years following the SLA signature, progress on meeting the prior actions remains woefully limited.

15. **Upon the end of the president's term on October 31, 2022, and following the failure to elect a new president, Lebanon has entered an unprecedented institutional vacuum.** A caretaker government struggling to interpret the extent of its executive authority under a presidential vacuum and a divided Parliament lacking capacity to pass critical laws until it elects a president, add further material delays to any progress on the preconditions of the IMF loan, any agreement on crisis resolution, and any of the much-needed reforms.

16. **Amid continued political deadlock and high uncertainty, residents grapple with the largest brunt of the economic and financial meltdown, in a man-made human tragedy.** As early as November 2019, and in the absence of formal capital controls, the financial sector introduced discretionary and informal capital controls to conserve its liquidity, as depositors struggled to access the full value of their pre-crisis deposits. A distorting and costly multiple exchange rate system was put in place, governed by ad hoc central bank circulars, in lieu of a new monetary exchange rate framework grounded in the full realization of financial losses. Since June 2021, BdL has formally allowed for a gradual withdrawal of pre-crisis foreign currency deposits, a lirafication scheme that has resulted in haircuts on deposits between 60 percent and 80 percent. The burden of the ongoing adjustment and deleveraging in the financial sector is highly regressive, falling hardest on smaller depositors.

17. **The Lebanese pound has lost more than 98 percent of its value since the onset of the crisis, driving surging inflation.** A first-degree effect of the sharp depreciation in the exchange rate has been triple digit inflation rates since July 2020. Inflationary pressure was exacerbated by the rise in global food prices since the onset of Russia's invasion of Ukraine. Globally, Lebanon is one of the countries most affected by food price inflation owing to the destruction of its strategic wheat reserves in the Beirut port explosion, heavy dependence on the wheat imports of Ukraine and the Russian Federation, and the depreciation of the LBP. Food inflation stood at 239 percent (y-o-y) in September 2023, having reached a peak of 483.2 percent (y-o-y) in January 2022. Inflation is a highly regressive tax, disproportionately affecting the poor and vulnerable, especially when basic goods, including food items, are the primary drivers of overall inflation. Finally, the severe shortage of foreign currency in the country and rationing of depleting foreign currency reserves have led to acute shortages and supply shocks in crucial imports, ranging from medications to fuel. The national electrical grid in Lebanon has experienced more than eight total blackouts, while between July of 2021 and November of 2022 electricity supply averaged 1–2 hours a day across the country, leaving the majority of the population at the mercy of unregulated, extortionary, private, and often unaffordable and pollutive alternatives.

18. **The protracted economic contraction has led to a marked decline in disposable income and rising poverty rates.** Following a 57 percent nominal drop in GDP per capita between 2019 and 2022, Lebanon was reclassified by the World Bank in July 2022 as a lower-middle-income country, down from upper-middle-income status. By 2022, at least one-third of Lebanon's population plunged into poverty (see chapter 2). The middle class has been all but wiped out by an unprecedented brain drain and massive wealth destruction. Lebanon is entering its 'third mass exodus', ranking 113 out of 144 globally in terms

of its brain drain.¹⁸ The 2021 Gallup poll results for Lebanon report a record high of 63 percent respondents expressing a disposition to leave the country permanently if they were able to. About 40 percent of Lebanon's doctors and 30 percent of its nurses have emigrated since the beginning of the economic meltdown.¹⁹

19. **Structural and endemic gender inequality and intersectional discrimination against women has also increased.** The majority of women in Lebanon are jobless. In addition to 77.8 percent inactivity among women, among the 22 percent who are active and in the labor force, 32.7 percent are unemployed (compared to 28.4 percent of men).²⁰

20. **Starting in October 2023, and as a direct spillover of the conflict in the Middle East, military confrontation on the southern border with Israel is on the rise and may quickly degenerate into an all-out war.** The attacks have resulted in hundreds of casualties, injuries, and mass displacement of more than 100,000 individuals from southern Lebanon. Tens of thousands of households in South Lebanon have lost their livelihoods, and hundreds of houses have been destroyed amid massive destruction to local infrastructure. Agricultural lands in the south have suffered substantial damage, burning and contamination. So far, both Lebanon and Israel appear intent on avoiding an all-out war; however, with the volatility of the situation, incentives are constantly shifting and the gradual escalation does not preclude a plunge into full-blown military conflict.

21. **The pace of Lebanon's economic decline in real GDP slowed down to -0.6 percent in 2022 before slightly accelerating to -0.8 percent in 2023 due to the spillovers from the Conflict in the Middle East.** Following years of sharp contraction, decline was initially muffled in 2022 and 2023 by modest tourism activity and sizeable remittances. However, both of these sources of revenues are volatile to external shocks. Since tensions have started rising due to the military clashes in the south since October 2023, real GDP growth estimates in 2023 have been revised downward following a decline in tourism spending, as presented in the Fall 2023 LEM.²¹ Dependence on tourism and remittances is also a clear indication that there has been no real departure from the pre-crisis economic model.²² The systemic failure of Lebanon's banking system and the collapse of the currency have resulted in a dollarized cash-based economy, worth an estimated US\$9.81 billion or 45.7 percent of GDP in 2022.²³ A pervasive and growing dollarized cash economy remains a major impediment to Lebanon's economic recovery.

22. **Against this backdrop, the Lebanese economy remains in precipitous decline, markedly distant from a stabilization path, let alone a path of recovery.** A highly polarized political landscape, a presidential vacuum, a caretaker government with restricted executive powers, an interim central bank governor, and limited legislative action by the Parliament have all significantly slowed the progress needed for a comprehensive crisis resolution plan. The longer the delay without a comprehensive, adequate, and equitable recovery plan, the bleaker the available policy options become, as resources vital to that recovery are eroded and ad hoc stopgap policies cause further distortions and losses. As long as the economy is sluggish and crisis conditions persist, living standards are set for further erosion, poverty

¹⁸ AUB Crisis Observatory, August 2021.

¹⁹ WHO Secretary General statement, September 2021. [Link](#)

²⁰ CAS. 2022. "Lebanon Follow-up Labour Force Survey." [Link](#)

²¹ World Bank. 2023. *Lebanon Economic Monitor, Fall 2023: In the Grip of a New Crisis*. [Link](#)

²² World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

²³ World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

will continue to spiral, and an overall precarious environment will prevail. In short, the status quo ensures that Lebanon's woes will only multiply to serve a privileged few at the expense of the nation.

23. **On the other hand, mustering the political will can put Lebanon back on a sustainable and transformative development track.** Renegotiating a social contract that would restore the trust needed to implement crucial reforms would put a halt to the ongoing deterioration of living standards and conditions and pave the way for long-awaited economic recovery. It is against this uncertainty that the SCD presents two scenarios for Lebanon in the outlook and opportunities for the years ahead (chapter 4): a muddling through/status quo scenario and a recovery scenario.

SCD Thesis: Two Overarching Constraints Limiting Lebanon's Development

24. **The 2016 SCD *Lebanon: Promoting Poverty Reduction and Shared Prosperity* highlighted two mutually reinforcing overarching constraints that stood as obstacles to inclusive growth and jobs.**²⁴ These constraints were (a) *Elite capture hidden behind the veil of confessionalism/confessional governance* and (b) *Conflict and violence*. These constraints were found to impose a heavy burden on the Lebanese economy while blocking the adoption of any meaningful reform plan that could reverse Lebanon's declining economy. In addition to the two overarching constraints, a number of nested constraints were identified, such as macroeconomic instability, a weak business environment, insufficient investment in infrastructure, a skills mismatch with labor market needs, weak institutions, and a poor regulatory framework, all of which add to the already burdened Lebanese economy.

25. **The overarching constraints identified in the 2016 SCD represent the specific historical inflections of the two axes of Lebanon's development since its formation as a modern nation-state.** The first axis is *the domestic political structure*, including both the formal rules of confessional governance and informal rules structuring the political field more generally. This structure of rules unfolded over the last century, responding to broader political and historical changes. The outcomes of these changing rules, or their temporary equilibrium, varied over time. Prior to the civil war (1975–1990), the confessional rules of the game led to a strong executive office coupled with an institutional sectarian imbalance. After the civil war and the Ta'if reforms, confessionalism led to state capture by the post-war elites under the guise of consensus and its continuous search for sectarian balance (or the overarching constraint identified in the 2016 SCD). In other words, confessionalism as a broad set of political and institutional rules leads to different equilibria, at various historical junctures.

26. **The second overarching constraint identified in the 2016 SCD, *conflict and violence*, alludes to the second axis of Lebanon's development, namely the role of external players and forces in shaping Lebanon's political and economic outcomes.** One factor that has been invariant in the history of Lebanon is the disproportionate role external factors have played, even though their effect has varied over time. As laid out in the 2016 SCD, external dynamics, combined with domestic ones, have perpetuated the country's vulnerability to regional instability, including spillover effects from neighboring conflicts and direct, often violent, regional intervention. At some historical moments, Lebanon has been able to take advantage of particular regional economic developments or political events, such as the rise of the Gulf economies, which spurred its growth in the middle of the twentieth century, or the post-cold war regional consensus, which provided one of the conditions for the decade of relative domestic stability. But at other

²⁴ World Bank. 2016. *Lebanon: Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*. The World Bank Group Middle East and North Africa Region. [Link](#)

moments, the regional impact was detrimental to Lebanon's stability and economic growth. For instance, the growing regional polarization and the emergence of transnational political forces in the 1960s and 1970s played a crucial role in the descent of the country into a state of civil war. And since 2005, and especially after 2011, external forces have returned to playing a detrimental role, especially with the spillovers from the Syrian conflict, as identified in the last SCD.

27. **Since the publication of the first SCD in 2016, the situation in Lebanon has changed dramatically, with the onset of one of the worst financial crises in modern history.**²⁵ Even though the roots of the crisis reach further back than 2019, as laid out above, what has panned out in the last four years corresponds to what the 2016 SCD characterized as the worst-case scenario. The rapid unravelling of state structures and the economic collapse have dramatically transformed the situation since the writing of the first SCD. From the vantage point of the current crisis, inclusive growth and job creation seem like distant goals, especially in the absence of any comprehensive and meaningful recovery plan by the Lebanese government.

28. **The internal/external axes that have structured Lebanon's political economic development remain the same, even though their particular inflections and the resulting outcomes have changed,** as a result of the current economic crisis and change in regional political landscape. The first overarching constraint identified in the present SCD is *institutional paralysis*. Paralysis was always inscribed as a possibility in the confessional rules of the game. But with the breakdown of the underlying political consensus and the financial crisis, it has become a reality. The underlying political divisions, the financial unravelling of the state, and the strategic interests of the ruling elites are all factors that led the system to a standstill. Starting in 2005 with the deepening of the political divisions in the country, the practice of institutional paralysis was perfected, leading to the present outcome of a country unravelling without a central authority attempting to reverse the trend.

29. **Prior to the ongoing crisis, elite capture was an outcome made possible by the presence of state rents or rents that elites used state structures to plunder.** The financial meltdown and draining of state resources have altered the source of rents, and with it, any interest in keeping state institutions functional. The ruling elites have divested from most state structures, pursuing new rents that do not necessarily require the same state presence as in the past, such as illegal trade and trafficking, and the private provision of certain services. Compounded with the absence of a political consensus, and hence of any domestic, equitable, and comprehensive solution, state institutions have been left to decay, reversing the very timid steps toward state building achieved in the last decades (Figure 1). 'The Great Denial' found its institutional translation in this state of overarching paralysis.²⁶

30. **Institutional paralysis is neither an aberration nor the necessary outcome of the confessional power-sharing system and its rules, but a possibility that is inscribed in these rules.** In a system that is constantly mitigating the divisive tendencies threatening its unity, a number of institutional devices were developed to provide the basis for sectarian consensus, especially following the civil war. From the sectarian allocation of political positions to the networks of vetoes and counter-vetoes or the practice of 'blocking thirds', the system has devised multiple 'guarantees' for the various sectarian representatives as a way to assuage their fears of exclusion. These institutional devices are predicated on the possibility of paralysis, which, with the required amount of political power, political players can exploit to secure

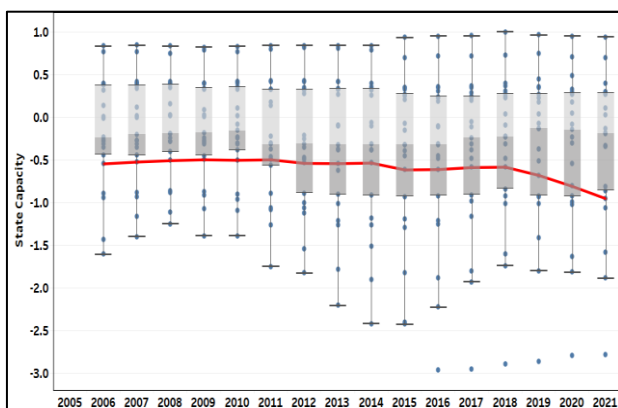
²⁵ World Bank. 2021. *Lebanon Economic Monitor, Spring 2021: Lebanon Sinking: to the Top 3*. [Link](#)

²⁶ World Bank. 2021. *Lebanon Economic Monitor, Fall 2021: The Great Denial*. [Link](#)

their participation and preserve their position. With the unravelling of the underlying political consensus since 2005, and the perception by some political players that they were being denied their ‘full participatory rights’, paralysis became a reality.

31. **Institutional paralysis does not mean that no policies were implemented or no decisions were taken.** As mentioned earlier, since the beginning of the economic crisis, there has been an active, even if not always official, decision to socialize financial losses while opening new venues for profits for those who could benefit from the unpredictability and non-transparency of official measures (see for example, LEM 2023 on the Sayrafa Platform).²⁷ Moreover, unequitable crisis management decisions continue to be made on an ad hoc basis, rendering the lives of vulnerable populations even more precarious. These policies were made possible by the absence of any clear governmental plan and hence lacked transparency or accountability. The path of institutional paralysis, in other words, was also a strategic choice made by the political elites to evade accountability for the economic downturn or the failure to remedy any of its effects.

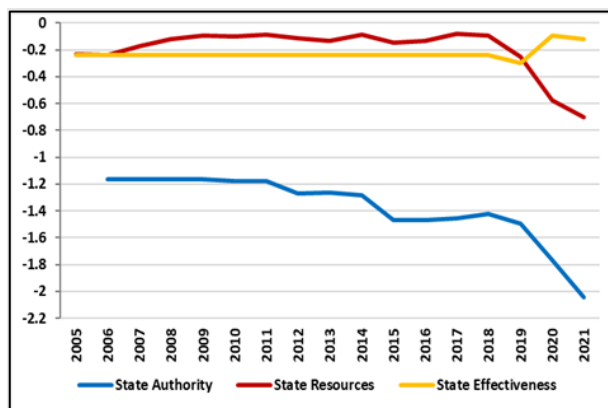
Figure 1. State capacity (MENA, 2021)



Source: V-DEM, EIU Risk Tracker, International Country Risk Guide, and PRS Group

Note: Lebanon exhibits a relatively low level of state capacity compared to the rest of world and its regional neighbors. The index component analysis suggests that the incapacity of the country to enforce control and the rule of law across the country is the main limiting factor to state capacity. State capacity has also been decreasing over the past 15 years (and acceleratingly so since 2018), mostly driven by decreasing levels of state authority and decreasing capacity to mobilize

Figure 2. State capacity components (Lebanon, 2021)



Source: V-DEM, EIU Risk Tracker, International Country Risk Guide, and PRS Group.

Note: Lebanon’s social contract could be categorized as capacity constrained, especially state capacity constrained: the binding constraint to having a thicker and more inclusive social contract could be from the state’s limited capacity to provide it.

32. **The second overarching constraint facing Lebanon’s recovery is the turbulent regional and international environment that underpins Lebanon’s endemic susceptibility to conflict.** The threat of conflict or spillover from neighboring violence remains palpable, compounded by the risks of domestic strife with the worsening socioeconomic situation. As laid out in the 2016 SCD, the cost of conflict on Lebanon has historically been large and recurrent—from the civil war (1975–1990) to the 2006 hostilities

²⁷ World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

between Israel and Lebanon to the fallout from the Syrian conflict in 2011. While the risk of conflict remains high (especially more recently with military confrontation at the southern border), this SCD will focus on a key evolving dynamic: a turbulent regional environment that exposes Lebanon to the risk of conflict, amid a larger international environment that has led to Lebanon's growing isolation. The absence of regional consensus has impeded any external drive to sustain a reform plan, despite the various initiatives.

33. **The two overarching constraints are intertwined, leading to disastrous human consequences and severely hampering any progress toward a new development model.** The implementation of a reform plan awaits a domestic political settlement that would result in the election of a president and the formation of a functional government empowered to execute such a plan. So far, such a political settlement has been impossible to achieve domestically, with most political players waiting for a regional deal that could provide the basis for an agreement, in a manner perhaps similar to the Ta'if agreement or the Doha Accords, which were both regionally negotiated. This wait-and-see policy is not only a costly course of (in)action, in terms of the human toll on the underlying population, but also a tenuous strategy, as the regional and international contexts are not conducive to reaching a deal. In the absence of regional will to support a solution, there seems to be no end in sight for such a policy of non-decision-making. The concurrent unravelling of the state and hollowing out of its main institutions mean that Lebanon's recovery plan faces the challenge of the missing agent responsible for managing recovery.

34. **In the absence of functioning state institutions, Lebanon is more exposed to global economic shocks.** The financial meltdown of the state, which has resulted in the removal of all subsidies, has rendered the population vulnerable to any change in global prices or world supply of certain goods. The turbulent global economic situation, especially following Russia's invasion of Ukraine, led to more pressure on import prices, further deepening the economic challenges the country faces.²⁸ Moreover, the growing humanitarian needs, especially in terms of energy, make Lebanon highly dependent on the goodwill of neighboring countries and the changing political requirements of such deals. By foreclosing any possibility of a plan for domestic comprehensive reforms and allowing state institutions to slide into decay, the ruling elites have rendered Lebanon even more vulnerable to global forces.

35. **Similar to the 2016 SCD, this SCD posits that other traditional constraints are *nested* within the two overarching constraints of institutional paralysis and vulnerability to a turbulent regional and international environment.** The most critical nested constraints affecting Lebanon's potential to deliver high and sustained economic growth include macroeconomic instability, financial de-development, crumbling infrastructure and public utilities, collapsing governance and institutions, and significant losses in human capital. Chapter 3.B provides a detailed analysis of these critical nested constraints in Lebanon. The SCD posits that, without the destabilizing impact of the two overarching constraints, these nested constraints would be significantly less binding than they currently are.

²⁸ Mohammad Al-Saidi. 2023. "Caught Off Guard and Beaten: The Ukraine War and Food Security in the Middle East." *Frontiers in Nutrition* 10: 983346. doi: 10.3389/fnut.2023.983346. [Link](#)

II. CHAPTER 2: GROWTH, POVERTY & INEQUALITY, AND JOBS

Growth Analysis

36. **For decades, Lebanon’s economy has been characterized by uneven and volatile economic growth, a symptom of the structural deficiencies in its post-war economic model.** The traditional drivers of the Lebanese economy have been service-oriented, namely the real estate, construction, finance, and tourism sectors, all of which are vulnerable to external shocks and political turmoil. While real GDP growth between 1993 and 2010 averaged 5.7 percent yearly (always in the context of compounding internal and external shocks), growth sharply decelerated starting in 2011, leading up to an unprecedented economic and financial crisis starting in 2019. The period since 2010 can be characterized by a pre-crisis period of decelerating growth, followed by a crisis period of negative growth.²⁹

i. Pre-crisis: Decelerating growth as a result of multiple regional and external shocks (2011–2018)

The increasingly sharp deceleration of growth starting in 2011 was brought about by multiple political shocks (including the Syrian conflict and its security and economic spillovers to Lebanon), resulting in extended periods of political vacuum and negatively affecting confidence in a fragile political economy. Anemic average real GDP growth slumped to 1.8 percent between 2011 and 2018; for the first time in decades, 2018 witnessed an economic contraction of 1.9 percent (Figure 3).

ii. (Multiple) Crises: Unprecedented economic contraction (2019–present)

The most devastating multipronged crisis in Lebanon’s modern history began to unravel in 2019. The unfolding economic and financial crisis starting in October 2019 was further exacerbated by the dual economic impact of the COVID-19 outbreak and the massive Beirut port explosion in August 2020. In the absence of a crisis resolution plan, the Lebanese economy has contracted for six consecutive years (through 2023) by close to 35 percent (Figure 3) and is estimated to have erased 15 years of economic growth. In fact, the depth of the cumulative economic contraction ranks Lebanon’s ongoing crisis among the worst ever since the 1850s.³⁰

37. **Real GDP per capita fell by 34.7 percent between 2011 and 2023** (Figure 3). The decline has been primarily driven by the economic crisis and, before that, by low growth since 2011, alongside a 13.3 percent increase in the population during the same period (a denominator-led effect).³¹ Real GDP per capita briefly turned positive between 2016-2018, mainly due to a downward revision of population figures.³² However, despite the downward revision of population figures,³³ RGDP per capita has been decreasing since the onset of the crisis in 2019. The contraction in RGDP in 2019 and 2020 was greater

²⁹ For growth analysis before 2010 refer to 2016 SCD. [Link](#)

³⁰ World Bank. 2021. Lebanon Economic Monitor, Spring 2021: Lebanon Sinking: to the Top 3. [Link](#)

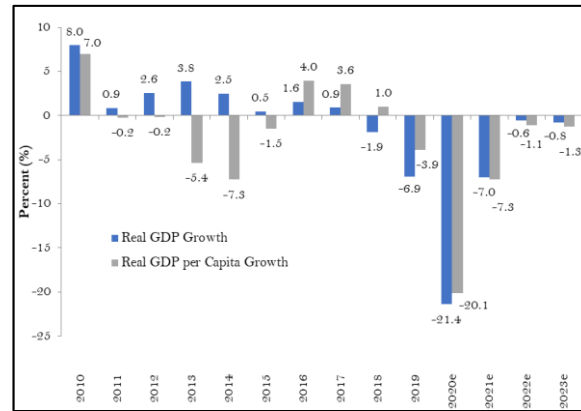
³¹ Per-capita calculations are based on population estimates produced by the UN population division ([Link](#)).

³² The population of Lebanon includes Syrian refugees residing in Lebanon. As of 2022, the population of Lebanon is 5.74 million, revised down from 6.77 million previously.

³³ The population of Lebanon includes Syrian refugees residing in Lebanon. As of 2022, the population of Lebanon is 5.74 million, revised down from 6.77 million previously.

than the reduction in population; the downward trend in RGDP per capita continued between 2021 and 2023, exacerbated by a growing population.

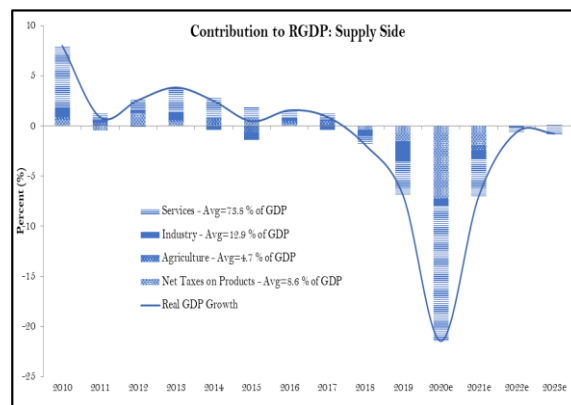
Figure 3. Real GDP growth/contraction (2010–2023)³⁴



Sources: CAS, UN Population, and World Bank Staff estimates.

38. **The pre-crisis and crisis periods did not alter the service-oriented nature of the Lebanese economy; instead, the severe blow to the sector in those years led to a sustained period of weak and then negative growth.** The services sector constituted 71.6 percent of real GDP over the 2011–2018 period, while industry and agriculture only constituted 13.2 percent and 4.1 percent of GDP, respectively (Figure 4). In the crisis period (2019–2023), the services sector, continued to account for the bulk of real GDP at 77.3 percent (Figure 4). Given the dominant share of the services sector in the Lebanese economy, the negative impact of the financial crisis and COVID-19 pandemic significantly dampened growth.

Figure 4. Contribution to real GDP growth (production/supply side) (2010–2023)³⁴



Sources: CAS and World Bank staff calculations.

39. **On the demand side, Lebanon’s economy continues to be heavily consumption based with private consumption decelerating in the pre-crisis era before being dealt a severe blow in the early crisis years.** Private consumption averaged 90.3 percent of GDP between 2011 and 2018 and has taken a severe

³⁴ Based on CAS estimates of GDP figures for 2010-2019; World Bank estimates of GDP for 2019 onwards. Per-capita calculations are based on population estimates produced by the UN population division ([Link](#)).

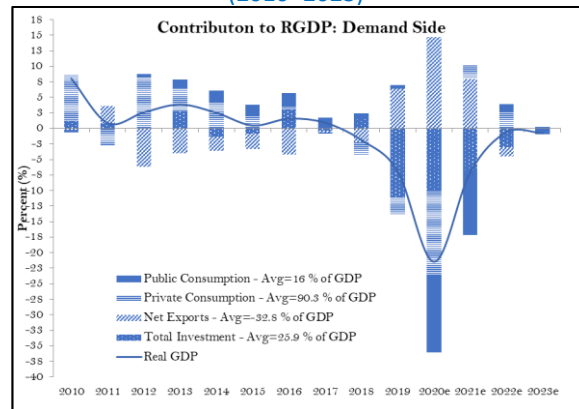
blow since the onset of the crisis, with Byblos Bank/AUB's consumer confidence index declining by 65.1 percent (y-o-y) in the first nine months of 2020 (9M-2020; latest available). With its weak production capacity, Lebanon's economy is heavily reliant on imports of consumption goods, resulting in a chronic and structural external deficit. For decades, the external sector has had a negative impact on output; between 2011 and 2018, the current account deficit averaged 21.7 percent of GDP.

40. **Despite being in a prolonged financial crisis and under sovereign default, Lebanon continues to run a significant current account deficit, reflecting longstanding external imbalances.** The current account deficit increased between 2020 and 2021 (from 8.8 percent to 14.7 percent of GDP) and is estimated to have increased further to a staggering 34.6 percent in 2022, on the back of higher imports and falling exports of goods. Imports hit pre-crisis levels in 2022, reaching nearly US\$19 billion—a 40 percent increase from the previous year. Anticipated increases in the custom duties and the customs duties exchange rate, which increased to 15,000 LBP/US\$ at the end of 2022, likely contributed to the substantive increase in imports of industrial goods (a year-on-year increase of 45.8 percent) as businesses and consumers hoard goods in anticipation of a price adjustment. In fact, the current account deficit in 2022 is higher than the pre-crisis medium-term average (2011–2018) of 21.7 percent of GDP. In nominal terms however, the current account deficit reached US\$7.3 billion in 2022, 32 percent less than the pre-crisis medium-term average of US\$10.7 billion between 2011 and 2019. The current account deficit has slightly decreased to 28.1 percent of GDP in 2023 but remains driven by a widening trade-in-goods deficit. The trade-in-services balance has steadily improved since 2022, as a result of the rebound in the tourism sector and increase in current transfers (including remittances). Tourist arrivals surged by 56.6 percent in 2022 (following a 126 percent increase in 2021) and grew by 13.7 percent in 2023. Despite this, the gains in the trade-in-services balance have been outweighed by the expanding trade-in-goods deficit. During the crisis years, the current account deficit has been largely financed by the Central Bank's usable gross foreign reserves. However, historically weak balance of payments data and the prevalence of a dollarized cash economy may distort official estimates of hard currency inflows, potentially overstating the current account deficit.

41. **The crisis years have seen a collapse in demand and radical shifts in its composition:**

- **Total investments averaged 25.9 percent of real GDP between 2011 and 2018 but fell sharply to 6.1 percent between 2019 and 2023.** This significant decline in the total investments share of RGDP is attributed to depressed demand, lack of access to credit, dampened future expectations, and lack of macroeconomic stability more generally.
- **Although in nominal terms consumption has declined since the onset of the crisis, its share of Real GDP increased markedly, averaging 110.6% between 2019 and 2023.** The steep contraction in total investments as a share of RGDP, has resulted in consumption making up a larger share of real GDP.
- **In the early years of the crisis (2019–2021), net exports were a positive contributor to growth as domestic demand, historically concentrated on imported goods, collapsed.** Domestic demand for imported goods has increased to pre-crisis levels, with an adverse impact on the trade in goods balance, resulting in net exports contributing negatively to growth in 2022 and 2023 despite the relative recovery in the tourism sector in those years (Figure 5).

Figure 5. Contribution to real GDP growth (expenditure/demand side) (2010–2023)³⁵



Sources: CAS and World Bank staff calculations.

42. In 2022, Lebanon received a record 29.9 percent of its GDP in remittances, the third highest ratio globally; this ratio is estimated to have increased to 32.7 percent of GDP in 2023. As a percentage of GDP, remittances have increased from an average of 13 percent between 2012 and 2019 to 19.8 percent in 2020, 26.4 percent in 2021, 29.9 percent in 2022, and 30.4 percent in 2023. In nominal terms, remittances grew by 2.8 percent from 2021 and 2022 reaching an estimated US\$6.3 billion, only partially offsetting the current account deficit. In the current crisis, remittances have become a crucial role safety net for many Lebanese families, helping to finance household consumption and basic needs.³⁶ The ongoing exodus of skilled and educated workers is expected to further increase reliance on remittances. In 2023, remittances rose to US\$6.6 billion. Net remittances accounted for 24.2 percent of GDP, while remittance inflows reached a record high of 32.7 percent of GDP, primarily due to the decline in nominal US\$ GDP. These figures reflect only official remittance channels and may therefore underestimate the total amount of remittances received.³⁷

³⁵ Based on CAS estimates of GDP figures for 2010-2019; World Bank estimates of GDP for 2019 onwards.

³⁶ For a detailed analysis on remittances, please refer to the Fall 2023 Lebanon Economic Monitor. [Link](#)

³⁷ Lebanese expatriates could have brought in remittances in cash.

Poverty

Money-metric poverty

43. **A new household survey in Lebanon reveals that approximately 44 percent of its population residing in five governorates were poor in 2022, using a new unofficial consumption-based poverty line.** The 2022–2023 Lebanon Household Survey (LHS) was initiated by the World Bank in partnership with United Nations High Commissioner for Refugees (UNHCR) and the World Food Programme (WFP) to generate new data on the welfare of households in the country. Data collection started in December 2022 and was paused in May 2023, as access to certain areas of the country was not granted.³⁸ The resulting survey is representative of five governorates where an estimated 59–60 percent of the population reside: Akkar, North Lebanon, Beirut, Bekaa, and most of Mount Lebanon. Between 2012 and 2022, the purchasing power of the general population was eroded with the overall price level increasing by almost 15 times while growth in earnings failed to keep pace with escalating inflation. This prevailing inflationary environment would also have played a substantial role in altering the consumption patterns of the country's residents, which was the impetus to construct a new poverty line using the 2022–2023 data.

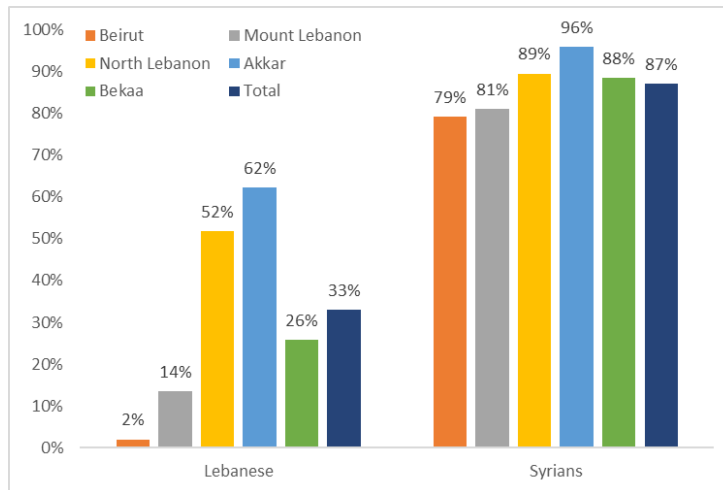
Box 1. Who are the poor?

Poverty is a condition in which an individual has insufficient resources to afford a certain standard of living. As the World Bank often uses an expenditure-based approach to define 'sufficient resources', the poor are defined as individuals whose expenditures over a particular period fall below a predefined standard of living or threshold defined by a poverty line. There are different ways to set the poverty line; a basic-needs approach was used for Lebanon to generate its national poverty line, constructed with data from the 2012 Household Budget Survey (HBS). The poverty line in this approach represents the per person cost to meet basic needs such as food, shelter, and clothing. It is first computed as the cost of consuming a minimum amount of calories (2,400 calories daily per person in Lebanon's case) for a reference group of households and is known as the food poverty line. A non-food allowance is then added for the same reference group to reach an 'overall' poverty line. The poor are individuals whose spending falls below this line (or amount) that is deemed necessary to cover basic food and non-food needs. The same methodology was deployed in constructing an updated poverty line using data from the 2022–2023 LHS. The newly constructed (unofficial) poverty line stands at LBP 53.4 million per person per year (in January 2023 currency). Using this poverty line, a person is categorized as poor if his/her yearly consumption is less than LBP 53.4 million.

44. **Poverty among Lebanese nationals in 2022 stood at about 33 percent while it was estimated at nearly 87 percent for Syrian refugees.** Among Lebanese nationals, the poverty rate is lowest in Beirut at 2 percent and highest in Akkar at 62 percent. The poverty rates for Syrian refugees in the five governorates are multiple times higher than for their Lebanese counterparts, ranging from 79 percent in Beirut to 96 percent in Akkar (Figure 6).

³⁸ The inaccessible areas were primarily in the governorates of South Lebanon, Nabatieh, Baalbek-Hermel, and districts of Baabda and Aley in Mount Lebanon.

Figure 6: Headcount poverty is visibly higher among displaced Syrians compared to Lebanese in 2022



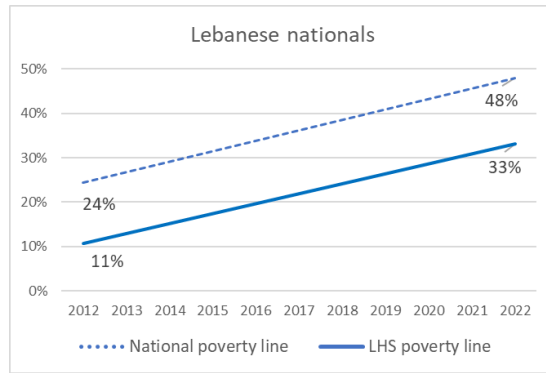
Source: Staff calculations using 2022-2023 LHS.

45. **Using the new poverty line as a common reference, poverty among Lebanese nationals in the five governorates has tripled from 2012 to 2022 (Figure 7).** In comparing annual poverty over time, the same poverty line needs to be used so that the underlying bundle of consumption for the poor is fixed to facilitate comparison. If Lebanon’s national poverty line, created based on data from the 2012 HBS, is used, poverty among Lebanese in the five governorates shows an increase from 24 percent to 48 percent. However, this method unrealistically assumes that household consumption patterns remain unchanged over a decade, marked by escalating inflation and declining real incomes. To address this shortcoming, the new poverty line for 2022, reflecting more current household consumption choices, is used.

To be applicable for 2012, a cost-of-living adjustment is applied to the new line using 2012 prices, considering the cost of purchasing the same goods and services consumed by the poor in 2022 and applying to the distribution of household expenditures in 2012.³⁹ This method reveals that poverty among Lebanese nationals in these governorates has tripled, rising 22 percentage points from 11 percent in 2012 to 33 percent in 2022. Regardless of the poverty lines used, there is a clear and unambiguous increase in the rate of poverty among Lebanese over the past decade.

³⁹ This is similar to an exercise where a Consumer Price Index is updated with new weights in a particular period and adjustments are then applied to prior periods to enable comparisons over time.

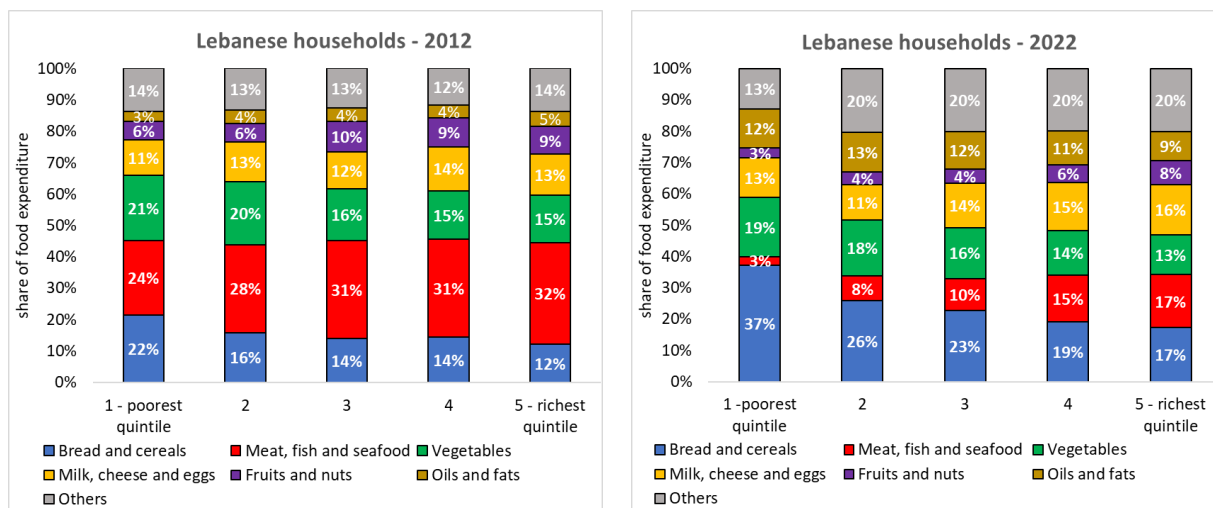
Figure 7: Headcount poverty among Lebanese nationals has tripled from a decade ago



Source: Staff calculations using 2022–2023 LHS.

46. **The share of household income spent on food has increased by 6 percentage points from 2012 to 2022**, rising from 29 percent to 35 percent for Lebanese households in the five governorates. This increase also alludes to a rise in poverty among Lebanese in these areas, as a greater portion of household budgets is now devoted to food expenses, indicating a shift in financial priorities and constraints over the decade. Between 2012 and 2022, the pattern of food consumption has also visibly changed among Lebanese households in response to high food inflation. Households are resorting to cheaper means of meeting their caloric needs, cutting back on relatively more expensive meat and fish consumption while raising their dietary share of more affordable bread and cereals in their food basket. Among the richest households in 2022, the share of meat and fish in their overall food consumption is a little over half of what was allocated in 2012 and is even lower than the share allocated by the poorest households in 2012 (Figure 8).

Figure 8: Lebanese households have visibly cut back on the consumption of meat over the past decade



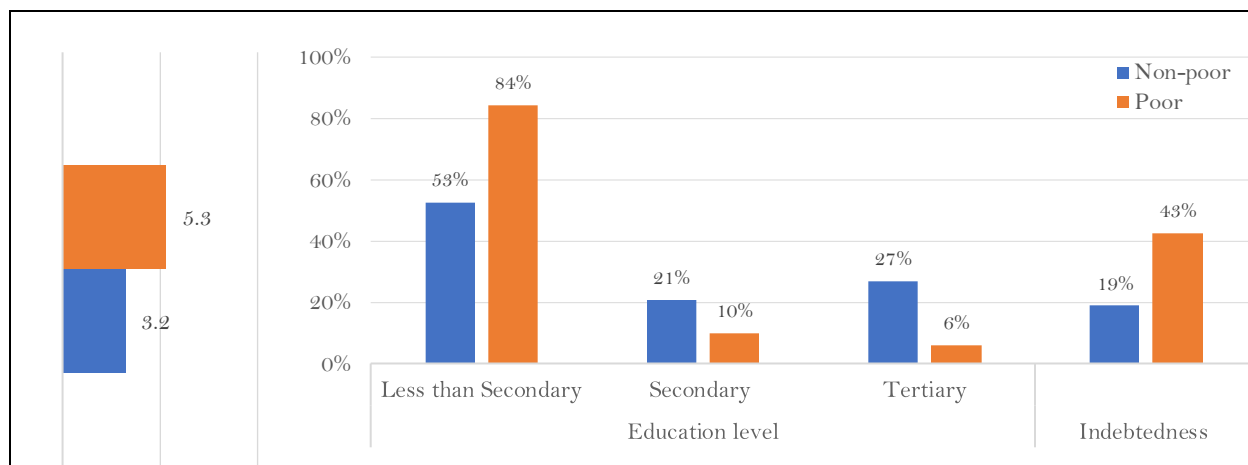
Sources: 2011–2012 HBS and 2022–2023 LHS.

Note: Food share estimates using the 2011–2012 HBS and, separately, the 2022–2023 LHS are limited to the Lebanese households in the governorates of Akkar, Bekaa, North Lebanon, Mount Lebanon, and Beirut.

47. **The number of poor Lebanese is estimated to have increased by 2.4 to 2.9 times between 2012 and 2022 in the five governorates.** There are varying estimates of the population in Lebanon due to the absence of a census, with Lebanese nationals ranging from 3.86 million to 4.64 million in 2018–2019.⁴⁰ Projections for 2022 suggest that approximately 722,000 to 866,000 Lebanese were under the (unofficial) poverty line in the five covered governorates compared to 295,000 in 2012.⁴¹ While we do not have estimates of poor Syrians in 2012 due to their limited presence, in 2022, the number is estimated to be 783,000 in those same governorates.⁴²

48. **Socioeconomic disparities between poor and non-poor families in the five governorates are evident in household size and age composition, educational attainment, indebtedness, and formal employment.** Poor households tend to be larger (five members), averaging two additional members more than non-poor households (three members). The presence of children ages 14 and under more than doubles the likelihood of being poor. Relative to non-poor households, poor families are over twice as likely to rent and to be indebted, with a significant portion of their obligations dedicated to covering food expenses. Almost 7 out of every 10 households that borrowed or received credit to buy food were poor. Low education attainment is also a factor associated with poverty, with 84 percent of poor household heads having less than secondary education (Figure 9). Although employment rates are similar among poor and non-poor household heads, nearly 9 out of 10 poor household heads are employed informally. Among non-poor households, that rate is 5 out of 10.

Figure 9: Poor households are larger, are more likely to be indebted, and their heads have lower levels of education attainment



Source: Staff calculations using 2022–2023 LHS.

⁴⁰ Population estimates from the CAS using the 2018–2019 Labour Force Survey and Household Living Conditions Survey (LFHCLS) had Lebanese nationals at 3.86 million. Numbers shared by a contact at a local ministry raised these by 20 percent, presumably to account for coverage gaps in the Labour Force Survey (LFS). Projecting forward by applying population growth rates inferred from the 2022 revision of the UN World Population Prospects for Lebanon, the number of Lebanese in 2022 would range between 3.7 million and 4.44 million.

⁴¹ If it is assumed that a similar proportion of poor reside in the remaining areas that were not surveyed in 2022–2023, the estimated number of poor Lebanese across the country would have been 421,000 in 2012, rising up to anywhere between 1.22 million and 1.47 million in 2022.

⁴² We also assume that 60 percent out of an estimated 1.5 million Syrians resided in the covered areas, of which 87 percent are poor.

49. **Poor and non-poor households also differ in their income sources, with remittances and income in foreign currency acting as effective buffers against poverty.** Female-headed households are less likely to be impoverished compared to their male counterparts, partly because they are nearly twice as likely (22 percent) to receive remittances (cash and in-kind) from abroad than male-headed households (13 percent). More broadly, similar shares of male- and female-headed households received foreign income including remittances (around 35 percent). Since 2019, the Lebanese pound has lost more than 98 percent of its value, and households with income in foreign currency are better equipped to withstand the erosion of the Lebanese pound's purchasing power. In fact, households without any foreign income were 2.5 times more likely to be poor.

50. **A comparative analysis of poor and non-poor Lebanese households between 2012 and 2022 in the same five governorates reveals similar trends.** Much like in 2022, poor Lebanese households in 2012 were larger on average (six members), with about two more members than non-poor counterparts (four members) and a more pronounced presence of young members with two children under 15 years of age (in contrast to just one in non-poor households). In comparing household sizes between 2012 and 2022, there is a noticeable trend in both poor and non-poor households: a decrease of one household member on average. This reduction across different economic groups indicates a demographic transition and changes in family dynamics, potentially reflecting factors such as altered fertility rates, migration, or shifts in living arrangements.

51. **In 2012, a higher percentage of heads of poor (69 percent) than non-poor (60 percent) Lebanese households were employed.** However, by 2022, nearly 83 percent of employed heads of poor Lebanese households worked in the informal sector, a rate higher than the 50 percent seen among their non-poor counterparts. Housing circumstances showed no significant differences in 2012, with both poor and non-poor Lebanese households equally likely to rent their homes but the share renting rose for the non-poor Lebanese families in 2022.

52. **The 2012 data underscored the significant impact of remittances on poverty dynamics, mirroring trends observed in 2022.** Non-poor Lebanese households were more likely to receive remittances (15 percent) compared to their poor counterparts (5 percent), consistent even a decade later. Similar to the 2022 findings, in 2012, Lebanese female-headed households showed a lower likelihood of poverty (6 percent) in contrast to male-headed households (8 percent), with a notably higher rate (34 percent) of receiving remittances from abroad compared to male-headed households (8 percent). The data suggest that remittances have consistently served as a crucial financial buffer, particularly in protecting women-led households from poverty.

53. **Food insecurity is on the rise.** Almost two-thirds of households surveyed in the 2022–2023 LHS reported to have cut back on food purchases relative to pre-crisis 2019. Also, to cope with the lack of food or means to purchase it, 83 percent of households indicated that they relied on less preferred or cheaper food in at least one day of the seven days before the interview. On average, 31 percent of households reported cutting back on meals in the previous week while 15 percent saw their household limiting the consumption of adult members to feed their children.

54. **Syrian refugee households are worse off compared to their Lebanese counterparts on every metric.** Heads of poor Syrian households were half as likely to have completed a secondary education compared to the heads of poor Lebanese households. Nearly all Syrian household heads (~96 percent) were employed informally, compared to 58 percent of their Lebanese counterparts. Compounding their

economic hardships, only 24 percent of employed Syrian heads receive monthly wages while the majority were in casual work (52 percent). By contrast, 47 percent of Lebanese heads received regular pay while 20 percent were engaged in casual labor. Syrian refugee households were twice as likely than their Lebanese counterparts to reduce the number of meals and were three times more likely to restrict the consumption of adult members for their children to eat.

Multidimensional poverty indicators

55. **Multidimensional, nonmonetary poverty indicators further point to a rise in deprivation among households in recent years.** The 2019 Lebanon Multidimensional Poverty Index (MPI)⁴³ produced by CAS and the World Bank based on the 2018–2019 LFHCLS found 51 percent of the residents in the five governorates to be multidimensionally poor in 2019, with slightly higher incidence among female-headed households (3.2 percentage points more than male-headed families).⁴⁴ This underscores the vulnerability of households with young children and the potentially adverse repercussions of the ongoing crises to their well-being. A similar index estimated using the 2022–2023 LHS saw a rise in the share of multidimensionally poor residents in the same governorates to 78 percent.

56. **Deprivation measured using the MPI indicators between 2019 and early 2023 for the common governorates remains the highest for the health dimension, followed by employment and education.** The 2022–2023 LHS reveals that about 35 percent of households in the five governorates reduced spending on health and medication in response to the crises. A little over half of households indicated that they reduced health expenditures in addition to delaying medical visits or tests in the month before the interview to pay for essential needs. Findings from child-focused rapid assessment (CFRA) phone surveys⁴⁵ of the United Nations Children's Fund (UNICEF) that target households with children also suggest a rising trend of reducing spending on health care and education. The struggle households face with meeting health and educational needs is also reflected in the findings of the Human Rights Watch (HRW) survey,⁴⁶ with 43.1 percent and 55.2 percent of households reporting being unable to meet the needed expenses on health and education, respectively. The inability to afford health care is also seen in the rise in the share of children who could not access health care when they needed it, from 28 percent in April to 34 percent in October 2021. Curtailing spending on health and education is likely to have dire long-term consequences, as insufficient human capital investments result in a lifetime of lower returns. This is already starting to affect health outcomes as maternal mortality has gone up from 13.7 to 37 per 100,000 births between 2019 and 2021. On a more systemic level, a 12.6 percent and a 27 percent drop in hospital bed capacity for maternal care and pediatric care, respectively, further reduces health access.⁴⁷

⁴³ [Link](#)

⁴⁴ The MPI index is derived from 19 indicators across five dimensions: education, health, financial security/well-being, basic infrastructure, and living standards. For the whole country, the share of the population that was MPI-poor in 2019 was 53.1 percent.

⁴⁵ UNICEF conducts the child-focused rapid assessment or CFRA twice yearly. The latest phone survey was done in April 2023 with 2,059 households having at least one child (1,083 Lebanese, 518 Syrian refugees, and 489 Palestinian refugees). Phone surveys were limited to families with landlines and suffered from high refusal rates which was compensated by using snowball sampling that may have introduced (an upward) bias. The results show 75 percent of families reported cuts in health care spending in April 2023, up from 42 percent two years prior. For spending on education, the fraction of households who reported cutting expenditures doubled from 26 percent in April 2021 to 52 percent in April 2023.

⁴⁶ [Link](#)

⁴⁷ UNICEF. 2022. *A Worsening Health Crisis for Children, the Consequences of the Failing Health System Has Immediate and Long-Term Impacts on Children.* [Link](#)

57. **Labor market outcomes have also weakened.** Between 2019 and early 2023, a higher share of working-age (15–64 years) Lebanese in the five governorates were out of the labor force (up from 46 percent to 55 percent) while there was a decline in the proportion of working-age nationals employed, from 48 percent to 39 percent. Both Lebanese men and women experienced a drop in their employment rate and weekly hours worked among the employed also fell from an average of 47 to 42 hours. In comparison, a higher share of displaced Syrians of working age were out the labor force in early 2023, at 61 percent while the proportion employed was at 31 percent. The unemployment rate was also relatively higher among Syrians at 8 percent compared to Lebanese (at 6 percent) in the five governorates.

Inequality

58. **The pretext of consensus building has entrenched a mode of rule that, even before the economic collapse, produced higher levels of inequality in incomes, and eventually wealth, than in almost any other country.**⁴⁸ The inequality results from a combination of an active adoption of regressive policies, a failure to correct structural imbalances, and a passive permissiveness with predatory practices. Both the crisis and the pandemic have only exacerbated the degree of inequality. In a ranking of least to most unequal based on the Gini coefficient for income inequality, Lebanon in 2017 placed at 129 of 140 countries.⁴⁹

59. **The poverty headcount is rising, but the poverty gap is also growing, indicating a further skew in the income distribution and deeper, more complex poverty.** The rising poverty rates for the Lebanese described in the section above and for Syrian households observed from consecutive VASyR surveys should be understood in the context of a bi-modal distribution of incomes whose density has gradually shifted downward. But discrepancies between these two subpopulations have only persisted or worsened, further increasing degrees and aspects of inequality.

60. **Like poverty, inequality too is multi-dimensional and extends from inequality in incomes to inequality in access, opportunities, and outcomes for several other rights, services, and amenities.** Informal employment has risen over the last decade, but the rise has not been neutral, with a larger share in 2022 of heads of poor households employed informally and a lower share of informality among heads of non-poor households than a decade ago. According to household surveys, 23 percent of Lebanese, 3 percent of migrants, 32 percent of Palestinian refugees in Lebanon, and 32 percent of displaced Syrian households have at least one member with a disability. It is worth noting that persons with disabilities in Lebanon encounter significant discrimination, marginalization, and exclusion particularly in employment opportunities and access to basic services.⁵⁰ Similarly, the multidimensional poverty rate is higher among female-headed households, but the gap in multidimensional poverty between female- and male-headed households has grown.

61. **The crisis and its mismanagement have especially hit the lower end of the income distribution, but they have also seriously affected the middle class.** The near total collapse in publicly provided state services, including water and power, has left more vulnerable households with very little access to costly

⁴⁸ Assouad, L. 2023. "Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon, 2005–2014." *Journal of Development Economics* 161: 103003. [Link](#)

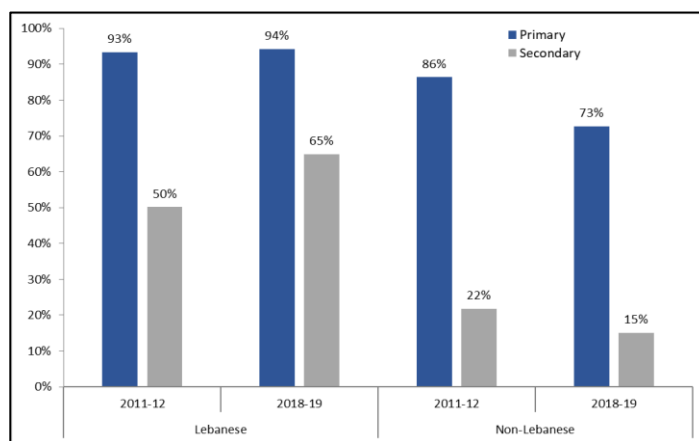
⁴⁹ Saliba, E., W. Sayegh, and T. Salman. 2017 "Assessing Labor Income Inequality in Lebanon's Private Sector: Findings, Comparative Analysis of Determinants and Recommendations." UNDP Fiscal Policy Advisory and Reform Project, Ministry of Finance. [Link](#)

⁵⁰ UNHCR Inter-Agency Coordination Lebanon. 2023. "In Focus: Women, Girls, Men and Boys with Disabilities in Lebanon." [Link](#)

private alternatives available, while middle-class households have seen an enormous rise in the share of their expenditures going toward energy and water. The middle class has also been squeezed financially as it has borne a disproportionate share of the burden of the ongoing adjustment in the banking sector. Some of the coping mechanisms that people have resorted to may impose hefty costs in the long run: food insecurity is on the rise, hospitalization rates have decreased since 2019, and the length of a hospital stay is also shorter. By 2020, it is estimated that the middle class had shrunk from 57 to less than 40 percent of the population, the affluent from 15 to 5 percent.⁵¹

Inequality in access and outcomes in education in particular is cause for concern. As discussed in further detail in subsection ‘Education’ of chapter 3, a combination of the fragmentation of the sector, inadequate and misallocated public funding, poor quality control, and a growing rift in resources, service delivery, funding, and quality between public and private schools meant that Lebanon has one of the highest school segregation scores by socioeconomic background. Since the crisis, disruptions because of COVID and teacher strikes have disproportionately affected public schools. The gap in education levels between poor and non-poor has also risen with improvements in education for the non-poor outpacing those for the poor. While the data suggest a slight improvement in overall educational attainment over that decade, this improvement is not balanced across poor and non-poor.⁵² Data from LFS and HBS show that between 2012 and 2018 (Figure 10), net enrollment rates for Lebanese students increased slightly in primary education and sharply in upper secondary education. However, net enrollment rates for non-Lebanese decreased in both primary and secondary education—with only around one-quarter of non-Lebanese children enrolled in secondary education in 2018. Non-Lebanese students are much more concentrated in public schools as of 2018. Instead of helping to level the playing field and limit the intergenerational transmission of deprivation, it foreshadows a persistence of polarization and a future with even greater inequity.

Figure 10. Evolution of net enrollment rate by nationality and level of education



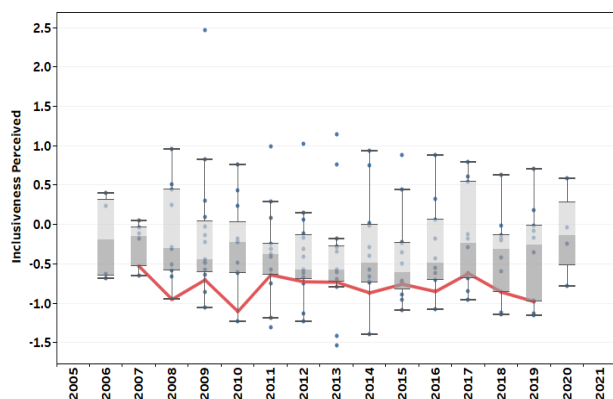
Source: World Bank staff from HBS (2011–2012) and LFS (2018–2019).

⁵¹ ESCWA. 2020. “Poverty in Lebanon: Solidarity Is Vital to Address the Impact of Multiple Shocks.” Policy Brief N. 15. [Link](#)

⁵² The LHS shows that 90 percent of heads of poor Lebanese households had less than secondary education in 2012, down to 81 percent in 2022; in contrast, 67 percent of household heads had less than secondary education among non-poor households in 2012, down to 52 percent in 2022.

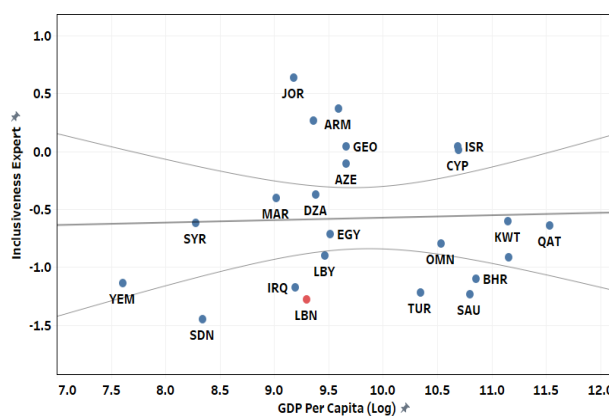
62. **Where state capacity is deployed primarily for extractive purposes, the social contract is thinner for the state’s failure to provide adequate public services but also less inclusive and less equitable.** Had state spending on services such as health, education, and social protection been better targeted before the crisis, it could have curbed the staggering rates of inequality. Instead, the delivery of state services has chronically been fragmented, insufficient, and inefficient. The state has effectively ceded provision to a highly concentrated and predatory private sector, one that it has also refused to regulate or oversee.

Figure 11. Inclusiveness perceptions (MENA, 2021)



Source: V-DEM, EIU Risk Tracker, International Country Risk Guide, and PRS Group.

Figure 12. Inclusiveness expert vs. GDP (2021)



Source: V-DEM, EIU Risk Tracker, International Country Risk Guide, and PRS Group.

Labor Market

Demographic trends and immigration

63. **The Lebanese consider job creation as one of the most important factors toward reducing poverty and the third most important—especially for young people—for shared prosperity.** Moving out of poverty and improving the well-being of workers and their families in a sustainable way entails enhancing labor market opportunities. This is particularly the case in Lebanon where Lebanese stakeholders ranked job creation as the factor that would contribute most to reducing poverty.⁵³

64. **The country faced important labor market challenges even before the crises started in 2019:** joblessness growth, low labor force participation rates (LFPRs), especially among women, unemployment at high rates and with long spells, especially among youth, skills mismatch, and the preponderance of informal, low-productive jobs. In 2018/2019, labor force participation stood at only 48.8 percent, indicating that over half the working-age population was inactive.

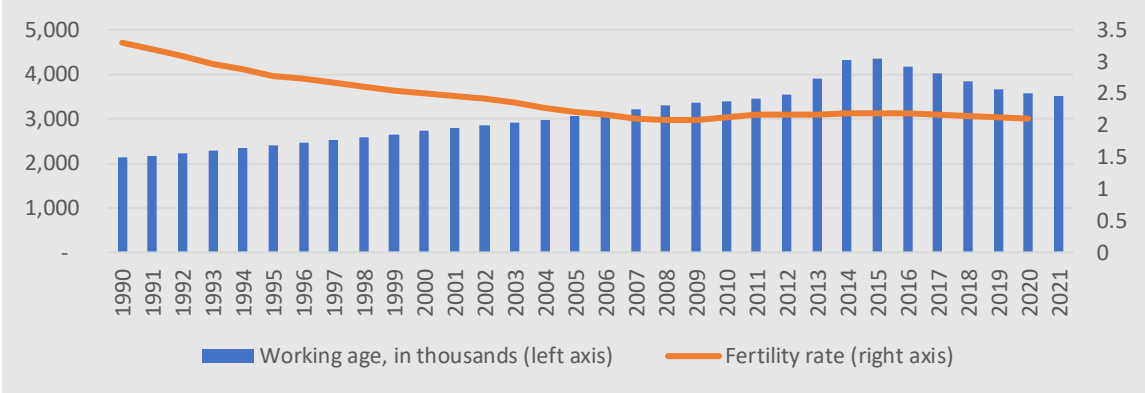
65. **Demographic trends have reduced the size of the working-age population and, consequently, the size of the labor force.** In Lebanon, fertility rates dropped significantly in the 1990s and have been stable since the 2000s at around two children per woman. Life expectancy has been increasing constantly from 75 to 79 years over two decades.⁵⁴ These trends affect the size of the working-age population and,

⁵³ Report synthesizing the 2014 stakeholder consultations for the SCD. Other key factors were economic growth, social protection, rural development, public sector governance, equality of opportunity, education, anti-corruption, and balanced regional development.

⁵⁴ Population data are based on UN World Population Prospects numbers. Fertility rates and life expectancy numbers are based on World Bank Databank.

consequently, of the labor force and the size of the dependent population to the workforce (Figure 13). The working-age population (15–64 years old) was increasing until 2015, a demographic transition that carried a demographic dividend: a large (and increasing) share of the population was becoming of working age, the size of the labor force was increasing while the dependency ratio dropped. Since 2015, the working-age population has been decreasing by an average compounded annual rate of 3.5 percent. In addition, the proportion of older adults over 60 years is projected to increase significantly to 27.1 percent of the population⁵⁵ with a corresponding rise in the concerns of older people.

Figure 13: Working-age population (15–64 years old) and fertility rates, 1990–2021, Lebanon



Source: UN World Population Prospects numbers [[World Population Prospects - Population Division - United Nations](#)] and World Bank’s Databank.

66. **The shrinking of the working-age population is also due to mass emigration since 2019.** The number of people who have emigrated from Lebanon is difficult to estimate precisely given the lack of official data. However, it is widely acknowledged that there has been a significant increase in emigration from Lebanon in recent years, particularly following the multiple crises that have gripped the country since 2019. Data from UN DESA⁵⁶ estimated the net migration in 2022 to stand at 115,100 and the total number of emigrants at mid-year 2020 to be 856,800 people. Lack of decent employment, exacerbated by the crises, has become a major source of grievance and fueled mass emigration. It is worth noting that emigration from Lebanon is not a new phenomenon, and the country has a long history of its citizens, including its youth, leaving to seek better economic opportunities abroad. However, the recent increase in emigration is alarming for its scale and the speed at which it has occurred, and it has led to concerns about brain drain and its long-term economic and social impact on the country. This has started to exert significant constraints on key sectors, such as health care, where emigration has led to reductions in service delivery.

⁵⁵ UNFPA and HelpAge International. 2022. “The Rights and Wellbeing of Older Persons in Lebanon.” [Link](#)

⁵⁶ [Link](#)

Job destruction

67. **The unprecedented and complex crises have choked an already difficult labor market in the private sector.** World Bank surveys of formal firms⁵⁷ showed that the multiple crises in Lebanon led to substantial permanent closures. Out of a sample of formal firms from 2019, 22 percent were confirmed or assumed permanently closed by October 2021. The multiple crises exacerbated joblessness (unemployment or inactivity), with an average decrease in the number of workers at 27 percent and 64 percent of formal firms shedding jobs. The impact is likely worse among informal firms and micro-size formal firms not included in the survey. The contraction is likely to have continued past the survey, as 21 percent of firms expected further layoffs in 2021.

68. **The crisis has reduced opportunities in the services sector, historically dominated by activities that create few jobs, with low productivity.** Throughout the pre-crisis and crisis years, the branch of economic activity with the highest share of employment remained wholesale and retail trade (between 19 percent and 20 percent), characterized by low rates of productivity and job creation.⁵⁸ In fact, around 50 percent of the Lebanese workforce and 60 percent of non-Lebanese workers are employed in low value-added sectors, prone to wage reduction and job loss.⁵⁹

69. **Total job loss based on the two labor force surveys by CAS in 2018–2019 and 2022 is estimated at 28 percent.** Of the 28 percent of workers who lost their jobs, 17 percent became unemployed and the remaining 11 percent left the labor force (as discouraged workers, retirees, or emigrants). Out of all those unemployed in 2019, it is estimated that 53 percent are still unemployed in 2022 and 18 percent exited the workforce and became inactive. However, it is still important to note that 29 percent of them were able to find a job by 2022. Instead, if job loss is calculated based on the contraction in GDP and using the employment to growth elasticity, an estimated 320,000 jobs were destroyed at a rate of almost 80,000 per year (Figure 14).

⁵⁷ See separate note summarizing the finding of the three consecutive surveys launched as a follow-up to the 2019/2020 Enterprise Survey to monitor the impact of the multiple crises on firms in Lebanon (Blog from 2020 discussing the effect of the compounded crises on Lebanese firms and workers; [Link](#))

⁵⁸ CAS (Lebanon Central Administration of Statistics), ILO (International Labour Organization), and EU (European Union). 2020. "Labour Force and Household Living Conditions Survey 2018–2019." [Link](#)

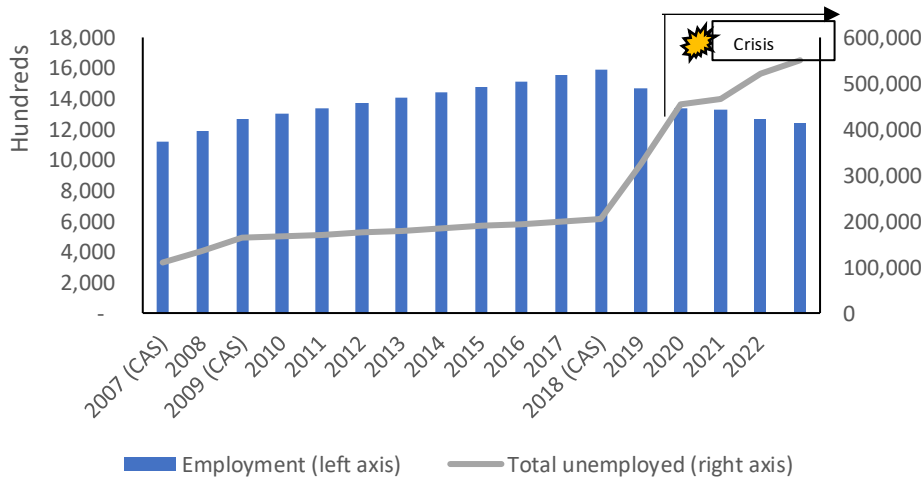
⁵⁹ UNICEF. 2022. "Synthesis of the Crisis Impact on the Lebanese Labour Market and Potential Business, Employment and Training Opportunities." [Link](#)

Table 1. Transition matrix: labor force status in 2022 compared to 2019–2022, %

| Major events | | Labor force status 2022 | | | |
|--|------------------------------|-------------------------|------------|---------------------|-------|
| | | Employed | Unemployed | Outside labor force | Total |
| October 2019 revolution triggered by the economic crisis | Employed | 72.3 | 17.0 | 10.7 | 100 |
| | Unemployed | 29.3 | 52.5 | 18.2 | 100 |
| | Outside labor force | 4.7 | 4.5 | 90.7 | 100 |
| | Non-residents of working age | 29.4 | 33.4 | 37.1 | 100 |
| COVID-19 total lockdown | Employed | 80.8 | 11.4 | 7.8 | 100 |
| | Unemployed | 32.1 | 52.1 | 15.9 | 100 |
| | Outside labor force | 11.2 | 6.1 | 82.7 | 100 |
| | Non-residents of working age | 34.7 | 27.0 | 38.3 | 100 |
| Before the Beirut port blast | Employed | 81.5 | 11.8 | 6.7 | 100 |
| | Unemployed | 20.1 | 61.2 | 18.7 | 100 |
| | Outside labor force | 3.6 | 3.5 | 92.9 | 100 |
| | Non-residents of working age | 35.9 | 27.0 | 37.1 | 100 |

Source: CAS, 2022 LFS.

Figure 14: Estimated trend in the size of the employed and unemployed, 2007–2022



Source: Author’s estimations using employment to growth elasticities for 2019–2022. Growth numbers are based on World Bank estimates. Labor market figures for 2007, 2009, and 2018 are based on CAS; data for 2008 and 2010–2017 are estimated based on compound annual growth rate (CAGR) computed using CAS number for 2007–2009 and 2009–2018. The total unemployment calculation for 2019–2020 assumes additional unemployed individuals to remain unemployed and not inactive.

70. **Female employees were hit relatively harder than male employees.** The net job loss was 9 percentage points higher for women than men on average between October 2019 and October 2021. The loss of women-led businesses diminishes future employment opportunities for women. Although the crises can affect women’s access to economic opportunities in different ways, the pandemic-related school closures are likely to have made it particularly difficult for women to juggle work and care responsibilities. This job destruction led to a significant increase in joblessness, in the form of both inactivity and unemployment.

71. **Informality is increasingly becoming the norm, exposing workers to a total absence of protection.** Lebanon does not have an unemployment insurance program and upgrading the current End-of-Service-Indemnity program into an effective pension system requires significant reforms. The severely deteriorating economic situation has pushed many Lebanese to informal jobs (either as wage- or self-employed workers) as a coping mechanism. Thus, work in the informal sector has increased substantially from 35 percent of all employment in 2018–2019 to 48 percent in 2022 (Table 2). Similarly, informal employment increased from 54.9 percent in 2018–2019 to 62.4 percent in 2022. These jobs are mostly labor intensive, unskilled or low skilled, and poorly paid.

Table 2. Employment and informality, 2018–2019 and 2022, %

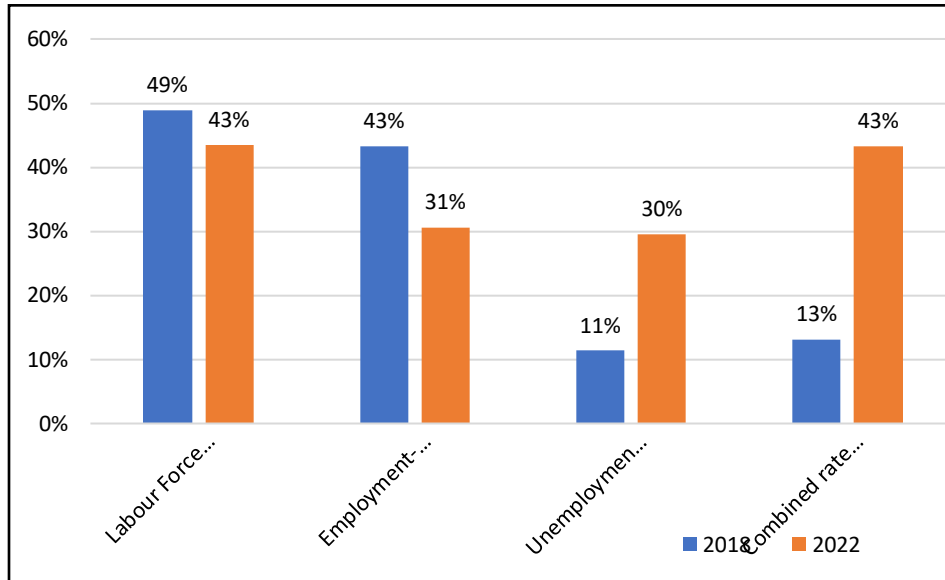
| Production units | 2018-2019 (%) | | | Production units | 2022 (%) | | |
|-------------------------|---------------|-------------|--------------|------------------|---------------|-------------|--------------|
| | Informal jobs | Formal jobs | Total | | Informal jobs | Formal jobs | Total |
| Informal sector | 35.1 | 0.0 | 35.2 | Informal sector | 45.8 | 2.5 | 48.3 |
| Outside informal sector | 19.8 | 45.0 | 64.8 | Formal sector | 15.2 | 35.1 | 50.3 |
| Households | | | | Households | 1.4 | 0.0 | 1.4 |
| Total | 54.9 | 45.1 | 100.0 | Total | 62.4 | 37.6 | 100.0 |

Source: CAS, 2022 Follow Up Labor Force Survey. The 2022 LFS show that 15.2 percent of total employment included persons with informal jobs working in the formal sector. This category includes, for example, employees working in large private corporations or government agencies with short-term contracts and without social security contributions by the employer.

72. **The rate of inactivity stood at an alarming 57 percent in 2022.** Inactivity leads to the depreciation of human capital in the long term, creating barriers to the possibility of transitioning back into the workforce. But it also has short-term risks, as inactive youth are more likely to be involved in violence, crime, and conflict. The decrease in the working-age population was compounded by a drop in the LFPR from 48.8 percent in 2018–2019 to 43.4 percent in 2022—which means that inactivity increased by 5 percentage points (Figure 15). The decrease in participation is larger for women, as it dropped from 29 percent in 2018–2019 to 22 percent in 2022, whereas the LFPR for men decreased from 70 percent in 2018–2019 to 66 percent in 2022 (Figure 16).

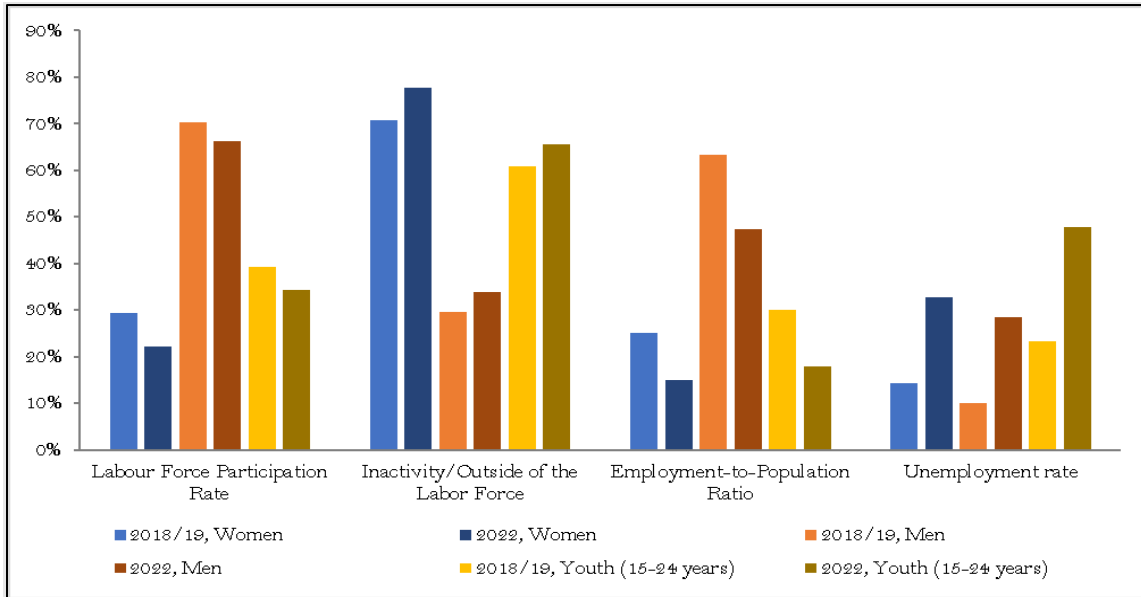
73. **The unemployment rate increased drastically from 11 percent in 2018–2019 to 30 percent in 2022.** When we add time-related underemployment (the share of the employed not working full time and available and willing to work more hours), the hike in unemployment is even more drastic in the same period, from 13 percent to 43 percent (Figure 15). The unemployment rate increased for both women (from 14 percent to 33 percent) and men (from 10 percent to 28 percent). The most alarming indicator is the more than doubling of the unemployment rate among youth ages 15–24, from 23 percent to 48 percent (Figure 16). Inclusive growth will not be achieved until the constraints faced, especially by women and youth, are understood and addressed and their participation in the labor force is increased.

Figure 15: Comparison of main overall labor market outcomes indicator, 2018–2019 and 2022⁶⁰



Source: CAS, 2018–2019 LFHCLS and 2022 LFS.

Figure 16: Comparison of main labor market outcomes indicators by gender and age, 2018/19 and 2022



Source: CAS, 2018–2019 LFHCLS and 2022 LFS.

⁶⁰ Working-age population for 2022 was estimated using UN population data, then subtracting the number of refugees and non-residents, to bring the total to 3.351 million.

74. **Lebanon exemplifies the challenges faced by fragile states, grappling with significant economic and political instability.** This is exacerbated by limited class mobility, high inequality, and a heavy reliance on informal labor. The country's inability to generate enough formal jobs or provide adequate protection to its poor and vulnerable in the face of deteriorating public institutions and declining quality of state-provided basic social services is symptomatic of its fragility. This situation has led many who can afford to emigrate to leave, further depriving the country of talent and know-how. Unless one is fortunate to be the beneficiary of earnings in foreign currency or remittances sent by the diaspora, the vulnerable that remain behind are more likely to be driven into the hands of non-state actors that offer some respite, further weakening incentives to reform the state and its institutions. Lebanon's struggle with these issues reflects the broader trends seen across fragile states in the region, highlighting the urgent need for comprehensive strategies to address poverty, conflict, and state fragility.

III. CHAPTER 3: LEBANON'S CHALLENGES

A. Overarching Constraints

Institutional paralysis

75. **Lebanon is facing an unprecedented financial and economic crisis with its main political institutions paralyzed, while the state administration is gradually being hollowed out.** The current financial crisis, with the sharp depreciation of the national currency and the erosion of the purchasing power of the Lebanese, especially public servants, has put immense strain on the functioning of state institutions, most times paralyzing them completely. The difficulty of securing basic operating expenses for state offices, compounded by the regular strikes by public employees, has brought many of the state institutions to a standstill, often with grave social repercussions.⁶¹ In addition, the decline in public services, most notably electricity provision, has forced most of the population to turn to privatized forms of service provision, rendering state institutions irrelevant for many.⁶²

76. **Allowing most political and public institutions to gradually waste away was primarily a collective decision by the ruling political elite.** It is the result of a concerted, even if suboptimal, decision by political agents to disinvest from state institutions and public structures. There are many interpretations for such a decision. The financial crisis has transformed the state from a channel for rent seeking and corruption into a financial burden. With the drying out of the 'spoils of truce' that provided the material underpinning of the project of post-war state building, political players have lost interest in state structures and have divested from them as a source of rents.⁶³ Lebanon's growing political isolation in the turbulent regional climate has meant that these spoils have not been renewed, so that one overarching constraint acts to reinforce the other. This does not mean that the state has become completely irrelevant, as access to state power is still important in some sectors, such as the security sector, or the potentially lucrative oil and gas sector, but the location of the state in the matrix of rents that provided the material underpinning of the Ta'if republic has changed.

77. **With no financial interest to be gained from maintaining state structures, the political elite is choosing to face the current crisis through institutionalizing a state of paralysis and distancing itself from the business of ruling and subsequent criticism that might be associated with it.** Instead, the elite consensus seems to be to wait for an amelioration of the international climate around Lebanon, which might lead to a deal that could allow the ruling elites to reproduce their power. This policy of waiting also allows some players, namely powerful economic elites including bank owners,⁶⁴ to clean up some of their balance sheets and improve their negotiating power in case comprehensive reforms of the banking sector are eventually imposed as a prelude for a future aid package.⁶⁵ Furthermore, the inevitable recourse of ordinary citizens to unregulated private sources of provision is a new arena for economic predation by the business elite.

⁶¹ Enders, David. 2022. *Ongoing Civil Strikes Further Cripple Everyday Life in Lebanon*. *Al-Jazeera*, July 10, 2022. [Link](#)

⁶² Human Rights Watch. 2023. *"Cut Off From Life Itself": Lebanon's Failure on the Right to Electricity*. [Link](#); Chaplain, Alix, and Éric Verdeil. 2022. "Governing Hybridized Electricity Systems: The Case of Decentralized Electricity in Lebanon." *Journal of Urban Technology* 30 (2): 55–78. doi:10.1080/10630732.2022.2105587. [Link](#)

⁶³ Leenders, Reinoud. 2012. *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Cornell University Press.

⁶⁴ Chaaban, Jad. 2023. "They Still Got the Power: The Enduring Connections between Lebanon's Banking Sector and the Ruling Class." Economic Research Forum Working Paper No. 1678. [Link](#)

⁶⁵ Lebanon Economic Monitor, Fall 2022: Time for an Equitable Banking Resolution. [Link](#)

Turbulent regional environment

78. **This waiting game, even though it might benefit some players in the short run, comes at a high cost.** The breakdown of the regional consensus around Lebanon, which started around the second Gulf war, has deepened into a state of regional and international isolation.⁶⁶ In 2020, Saudi Arabia announced a ban on Lebanese exports to stop narcotraffic from Lebanon to the Kingdom. The ban illustrated the growing loss of trust in the ability of the Lebanese state to credibly control its borders. The regional isolation was compounded by a growing international isolation, especially following the failure of the French initiative,⁶⁷ leaving Lebanon waiting for a deal that does not seem to materialize. In May 2023, the isolation extended to the legal sphere, with the latest arrest warrants issued by both French and German authorities, coupled with the Interpol issuing a red notice for the outgoing governor of the central bank, Riad Salameh. Five money laundering and embezzlement European probes against the former governor and his brother have been ongoing for months.

79. **The eruption of violence around Lebanon's southern border since October 2023 is another indication that Lebanon lies on one of the region's active geopolitical fault lines.** The tremors in Lebanon have been more violent, volatile, and combustible than elsewhere in the region. The possibility of collapse into full-blown war cannot be categorically excluded, and while the specter of conflict has been more proximate since October of 2023, Lebanon's frontline exposure to regional turmoil more generally means that specter is never completely remote. Episodes of relative regional calm may have occasionally loosened its grip, but the overarching constraint of the turbulent regional environment continues to maintain a stranglehold on any prospects of sustained growth and prosperity.

80. **Lebanon's acute permeability to foreign political forces historically means that any internal agreement requires a regional consensus, one that does not seem to be materializing anytime soon.** It is not at all clear that any material support for a reform plan, with the requisite financial backing, would transpire from the gradual easing of regional tensions. More importantly, and as mentioned in chapter one, a financial bailout of the Lebanese system in crisis which in the past happened through international aid conferences (Paris I, II, and III) chaperoned by 'white knights', namely Gulf countries, is no longer on the table. Lebanon is no longer simply in need of cash injections, but of deep reforms that require more than timid regional goodwill.

81. **Far from lifting the overarching constraints identified in the 2016 SCD, the domestic political structure and the current regional climate have instead driven the country to a political crisis and an economic collapse.** The regional unwillingness to bail the system out has made the post-war political economic model crumble. Institutional paralysis, which gradually evolved from a looming risk and regular obstacle to decision-making in the pre-crisis period to a reality since 2019, now stifles any prospects of recovery and impedes the replacement of the defunct system with an alternative model of development. It is these overarching constraints that have led the economy into a 'deliberate depression' a year into the

⁶⁶ Geukjian, Ohannes. 2016. *Lebanon After the Syrian Withdrawal: External Intervention, Power-Sharing and Political Instability*. Routledge. [Link](#)

⁶⁷ The French initiative was launched by the French President Macron in the summer of 2020 following the Beirut port explosion and the ensuing resignation of Hassan Diab's cabinet. This initiative revolved around France mobilizing international aid for Lebanon following the Beirut port explosion, contingent on the formation of a technocratic cabinet and adopting and enacting reforms ([English article](#), [Arabic article](#)).

economic collapse,⁶⁸ a ‘great denial’ two years into it,⁶⁹ and a ‘normalization of the crisis’⁷⁰ that has served as a smokescreen for ‘buck passing’ and profiteering four years into economic atrophy.

82. The multipronged and structural crisis in Lebanon in the absence of a recovery pathway leaves behind an eviscerated state, a macroeconomy in shambles, with economic life dragged further down by the weight of nested sectoral constraints. The overarching constraints have perpetuated Lebanon’s long-standing development challenges, as macroeconomic stability has chronically been precarious, infrastructure progressively decaying, institutions and governance historically weak, the returns to human capital investments consistently higher with out-migration, and environmental risks compounding. But with the considerable added financial strain of the economic collapse, each of these long-festering pathologies has become a more binding nested constraint, further hindering the prospects of advancing the World Bank’s goals.

B. Nested Constraints

83. The remainder of this chapter presents the most critical constraints hindering progress toward the World Bank’s goals, but also challenging a sustainable recovery pathway. Lebanon is facing substantial and multipronged nested constraints across all sectors, which continue to challenge progress toward achievement of the World Bank’s goals. While tackling all nested constraints is crucial for Lebanon’s recovery prospects, and long-term and sustainable poverty reduction and economic growth, this chapter highlights the most critical constraints. The rationale for the prioritization of nested constraints is the following: (a) those constraints that if addressed will have the most meaningful and sustainable impact on Lebanon’s development prospects, (b) the role of the most critical constraints was also confirmed by the most recent analytical work, and (c) prioritized constraints were discussed at length with external counterparts and experts. The prioritized constraints include (a) macroeconomic instability, (b) financial de-development, (c) infrastructure and public utilities collapse, (d) collapsing governance and institutions, and (e) human capital losses. The annex to chapter 3 explains more concretely, and particularly in light of the financial crisis, the remaining nested constraints across all sectors and how they now bound the possibilities of achieving the World Bank’s goals.

1. Macroeconomic Instability

84. Lebanon’s post-war economy has been characterized by large and persistent twin current account and fiscal deficits, with frequent political and security shocks, which have had a detrimental impact on macroeconomic stability. To finance these imbalances, the country relied on debt and inflows of non-resident deposits and remittances. Further, the country’s overvalued exchange rate, import dependence, and production in mostly low value-added sectors contributed to a persistent trade deficit. Reliance on tourism made the economy especially sensitive to adverse political and security shocks. Monetary and fiscal policies created a nexus of sovereign-BdL-banking sector with deepening mutual balance sheet exposures. The fiscal side was burdened by rigid public spending and wasteful practices. Insufficient revenue mobilization and limited fiscal space hindered investment spending, leading to infrastructure deficiencies and inequalities. Public financial management (PFM) remained weak, with issues of revenue collection, expenditure management, fiscal transparency, and accountability. Donor financing prevented sovereign default but highlighted the lack of reform progress. BdL implemented

⁶⁸ Lebanon Economic Monitor, Fall 2020: The Deliberate Depression. [Link](#)

⁶⁹ World Bank. 2021. *Lebanon Economic Monitor, Fall 2021: The Great Denial*. [Link](#)

⁷⁰ World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

quasi-fiscal and financial engineering operations to prolong the precarious equilibrium, but these deepened the sovereign-BdL-banking sector nexus and weakened financial positions. The sudden stop of inflows in 2019 exposed both the fragility of the nexus—in which like the three legs of a stool, none of the actors could exit without making the whole system collapse—and the depth of the mutual exposure.⁷¹

85. **Lebanon was subject to numerous political and security shocks.** The country's post-civil war period was tumultuous on the security front and comprised numerous episodes of political deadlock, making it hard to establish an economic baseline. With two of the lifelines of the macroeconomic model (non-resident deposit inflows and tourism) especially sensitive to political and security volatility, the stability of the overall macroeconomic structure has been precarious for years, and while the effects of some of the shocks proved to be transitory, the frequency with which they happened ended up imposing a heavy toll on the economy.⁷²

86. **On the fiscal side, nominal rigidities in public spending severely curtailed fiscal space for decades.** The inertia in government expenditures was driven by (a) debt servicing costs, (b) personnel costs, and (c) transfers to Electricité du Liban (EdL).⁷³ A growing debt stock quickly led to an increase in interest payments. While interest payments and personnel costs accounted for the lion's share of public spending, transfers to EdL also constituted a significant fiscal drag and exemplified the wasteful public spending that plagued Lebanon's public finances.⁷⁴ The 2016 SCD estimates that over the period 1992–2016, transfers to EdL amounted to, cumulatively, 55.4 percent of GDP and 40 percent of the total debt stock. The fiscal burden of EdL continued to be tangible after 2016 with transfers to EdL standing at US\$1.3 billion in 2017 (2.5 percent of GDP) and US\$1.8 billion in 2018 (3.2 percent of GDP). Salary scale and cost-of-living adjustments for public servants were enacted in 2012 and 2017 ahead of parliamentary elections. Despite being paired with revenue measures, both adjustments did not ultimately prove to be budget neutral and worsened Lebanon's fiscal and debt dynamics.⁷⁵

⁷¹ This forced resilience of the system staved off the collapse but deepened the size of the loss: the large structural fiscal deficits required ever-growing capital inflows (mostly remittances) attracted by high dollar (or dollar equivalent at the time) interest rates offered by BdL and the banking system. Over time, however, this produced oversized balance sheets among these three actors (sovereign, BdL, banks)—broadly several times GDP, which placed each of these actors at the top of the global league in terms of balance sheet size or losses (for example, Lebanon's public debt consistently being among the highest in the world or Lebanon's banking system being among the largest in the world, in relation to the size of its economy).

⁷² For instance, capital flight following the assassination of PM Hariri in 2005 reversed quickly and the 2006 hostilities between Israel and Lebanon did not have a lasting impact (Gardner, E. H., and A. Schimmelpfennig. 2008. Lebanon-Weathering the Perfect Storms. [Link](#)) Lebanon also benefitted from a capital inflow in search of a safe haven following the 2008 financial crisis (Salti, Nisreen. 2013. "The Economic Cost of Political Instability." [Link](#))

⁷³ World Bank. 2016. *Lebanon - Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic, 2016*. [Link](#); World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#).

For instance, the 2016 Systematic Country Diagnostic qualifies the pension scheme as generous and unsustainable. The latter assessment is shared with the IMF (2016), whose analysis also highlights the inequities in Lebanon's pension system: Jarmuzek, M., and N. Nakhle. 2016. "Sustainability and Equity Challenges: Some Arithmetic on Lebanon's Pension System." International Monetary Fund.

In contrast, the wage bill is on par with (or lower than) comparators (World Bank 2022) and the share of public employment is lower than low- and middle-income country comparators such as Jordan, Cyprus, and Tunisia. [Link](#)

⁷⁴ The 2016 Systematic Country Diagnostic dubs EdL as the poster child of Lebanon's confessionally induced waste in public spending. (World Bank 2016; [Link](#)).

⁷⁵ World Bank. 2013. *Lebanon Economic Monitor, Spring 2013: Growing Tensions in a Resilient Economy*. [Link](#)

87. **Revenue mobilization did not keep up with expenditures, leaving the overall fiscal balance in a chronic deficit.** The Lebanese tax code has traditionally under-taxed the affluent, who have historically benefited from loopholes in capital gains and property taxation.⁷⁶ Further, the lump-sum tax regime that applies to business profits as well as to certain commercial activities and professions has led to distortions and inequities in the effective tax rates and a seepage in revenues.⁷⁷ Thus, both the composition of fiscal spending and the provenance of fiscal revenues have been increasingly regressive. Lebanon's tax revenues relative to GDP have been on a downward trend since 2011. The decline in tax revenues was broad based across the key tax categories.⁷⁸ Tax revenues relative to GDP have also been below regional comparators.⁷⁹ In contrast, non-tax revenues relative to GDP exhibited fluctuations due to irregular transfers of telecom revenues.⁸⁰ The revenue mobilization effort has not been sufficient to offset the soaring current and treasury expenditures. As a result, the overall fiscal balance has been in a chronic deficit despite the primary surpluses that were recorded over the period 2014–2017.

88. **The limited fiscal space left little room for investment spending.** Capital expenditures declined markedly in the post-reconstruction era and have amounted to less than 2 percent of GDP since 2001. As a result, the capital stock declined to less than 50 percent of GDP since 2010. As highlighted in the [2022 Public Finance Review](#), investment expenditures were not sufficient for maintenance and adequate service provision. The inadequate provision of public services in the electricity, transportation, health care, education, and water sectors forced households to substitute toward more expensive, and often less sustainable, private sector alternatives throughout the post-civil war period, further entrenching inequalities in socioeconomic standing. Insufficient capital expenditures also exacerbated Lebanon's long-standing and severe infrastructure deficiencies, thereby lowering total factor productivity and potential growth. Chronic underinvestment and inadequate provision of services have resulted in further nested constraints on the achievement of the World Bank's goals in each of the affected sectors. The implications of these are investigated in later subsections.

89. **PFM remains weak, with outdated and ineffective institutional arrangements for control and audit and a woefully deficient, or simply nonexistent, delivery of public services.** In the current crisis, recent staff attrition and absenteeism have only exacerbated the chronic problems of (a) a weak revenue administration, hindering collection; (b) a lack of fiscal discipline; (c) a lack of fiscal transparency; (d) weak public sector procurement capacity; and (e) a lack of accountability. Revenue collection has declined substantially, partly due to tax policy, but also due to weak revenue administration practices heightened by staff absenteeism. A chronic lack of fiscal discipline has led to an inefficient use of scarce public resources, reflected by weak practices in expenditure management and prevention of payment arrears. The result has been an ever-shrinking fiscal space, including for PFM operations, crucial for crisis response and management as well as for PFM reform. There is limited fiscal transparency, as fiscal data are not made available publicly nor used efficiently to inform fiscal decision-making. The executive is not held

⁷⁶ IMF (International Monetary Fund). 2023. *Lebanon: Technical Assistance on Putting Tax Policy Back on Track*. IMF Country Report No. 23/8, Washington, DC. [Link](#)

⁷⁷ IMF (International Monetary Fund). 2023. *Lebanon: Technical Assistance on Putting Tax Policy Back on Track*. IMF Country Report No. 23/8, Washington, DC. [Link](#)

⁷⁸ IMF. 2017. *Lebanon: Selected Issues*. [Link](#)

⁷⁹ IMF. 2017. *Lebanon: Selected Issues*. [Link](#). World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#).

⁸⁰ IMF. 2017. *Lebanon: Selected Issues*. [Link](#)

accountable for the management of public finances, as audit reports are delayed and therefore no basis for deliberating on public finances in the Parliament.⁸¹

90. **An overvalued exchange rate induced an overreliance on imports and created significant pressure on the external balance.** The overvalued exchange rate spurred an import-dependent consumption boom, creating a persistent trade deficit. The structural bottlenecks in electricity, infrastructure, and the business environment, coupled with the overvalued currency, adversely affected Lebanon's export competitiveness. The balance of payments position was also closely tied to the weaknesses in the fiscal stance,⁸² for example, through a significant oil import bill for EdL. The current account deficit widened steadily in the lead-up to the country's protracted financial crisis and increased the already sizeable external financing needs.

91. **Low value-added added sectors have dominated the economic landscape.** Economic activity by sector has been concentrated in wholesale and trade, real estate, public administration, financial services, and education. With the exception of the latter two sectors, economic activity was concentrated in low-productivity sectors, hampering growth in high-skilled employment.⁸³ The low-quality and often informal (and low-skill) jobs that have been created in some sectors (such as construction) have not been appealing to the Lebanese workforce.

92. **Lebanon has made limited progress in moving economic activity up the value chain.** Despite putting forth a number of economic visions and committing to a Capital Investment Plan (CIP) with the World Bank to obtain concessional financing, limited progress was achieved in realizing any of the plans. These visions comprised moving toward 'productive' and high value-added activities in technology, education, health care, financial services, and the knowledge/digital economy.⁸⁴ The unwillingness of successive governments to undertake reforms, such as those identified under the CIP,⁸⁵ coupled with grossly inadequate investments in infrastructure, hindered the development of sectors that create high value-added jobs.

93. **Lebanon averted sovereign default and full-blown fiscal crises due to donor financing.** Lebanon's unsustainable post-war fiscal and debt dynamics have brought it to the brink of default on a number of occasions. The concessional financing availed at the donor financing conferences, Paris I, II, and III, provided debt respite and fiscal 'breathing space'—albeit at the cost of heightened moral hazard—by allowing the outstanding high-yielding debt to be retired and thus lowering the sovereign's interest expenses.⁸⁶

⁸¹ The government has not made any tangible progress on PFM reforms in recent years despite technical assistance provided by the World Bank and other development partners. Even before the crisis, the government had limited commitment and ability to move forward with long-overdue PFM reforms.

⁸² World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#)

⁸³ World Bank. 2018. *Lebanon Economic Monitor, Fall 2018: De-Risking Lebanon.* [Link](#)

⁸⁴ For example, the October 20, 2017, National Economic Plan, the January 20, 2018, McKinsey and company plan and, more recently, the September 15, 2020, Government of Lebanon Economic plan.

⁸⁵ The priority reforms under the CIP are provided in the World Bank's "Priority Reforms for the Government of Lebanon" (2017). [Link](#)

⁸⁶ Saab. 2005. *Is Lebanon's Debt Sustainable? A Closer Look at Lebanon's Debt Dynamics.* School of Advanced and International Studies, Johns Hopkins University. [Link](#)

94. **The eruption of the Syrian conflict was a turning point for Lebanon’s fragile post-war development model.** The Syrian conflict which broke in March 2011 took a heavy toll on the Lebanese economy. Security and political spillovers from the Syrian conflict put Lebanon’s frail macro-financial model under significant pressure. Real GDP growth decelerated rapidly from an average of 5.7 percent between 2001 and 2010 to an average of 1.3 percent between 2011 and 2018. The tepid growth in the post-Syrian conflict period reflects security and political spillovers, the closure of the only trade route by land, a presidential vacuum for two and half years, and dampened exports of tourism services.

95. **Lebanon’s NFA position worsened gradually since 2011, making the country’s frail macro-financial model prone to a sudden stop.** Lebanon’s vulnerable macro-financial model was highly reliant on attracting debt-creating capital and financial inflows. Net FDI and other investments fell sharply after 2011, causing the change in the NFA to be negative for every year from 2011 to 2015.⁸⁷ The sharp decline in net FDI and other investments was accompanied by a slowdown in deposit growth. Deposit growth, the cornerstone of Lebanon’s post-crisis macro-financial model, slowed down markedly in 2015 and turned negative, net of interest accruals in 2018,⁸⁸ posing a serious challenge to the stability of the macro-financial model.⁸⁹ The country’s net international investment position, which deteriorated since the onset of the Syrian conflict, stood at –128 percent of GDP in 2018 while reserve adequacy metrics pointed to a shortfall amid increasing gross financing needs.⁹⁰ Lebanon’s external debt, largely financed by non-resident deposits, was deemed, on the eve of the crisis, to be unsustainable.⁹¹

96. **In its bid to shore up economic activity, BdL initiated quasi-fiscal operations in 2013.** These operations consisted of sizeable stimulus packages of subsidized interest loans that were made available mostly through reductions in banks’ reserve requirements. The banks then lent the funds at a subsidized interest rate. BdL provided, in total, four stimulus packages.⁹² Despite being touted as aiming to stimulate private sector investments in vital sectors and targeting small to medium enterprises, the real estate sector was, in effect, the largest recipient of subsidized interest loans.⁹³

97. **With the slowdown in deposit growth threatening Lebanon’s macro-financial stability, BdL embarked on ‘financial engineering’ operations in 2016.** These unconventional financial operations are swaps involving the Ministry of Finance (MoF), BdL, and commercial banks.⁹⁴ These swaps were refinancing schemes that extended the maturity of commercial banks’ placements with BdL⁹⁵ but exposed banks to illiquid certificates of deposits and generated carry losses for BdL. The final swap operation by BdL was conducted in July 2019.⁹⁶

⁸⁷ World Bank. 2018. *Lebanon Economic Monitor, Fall 2018: De-Risking Lebanon*. [Link](#)

⁸⁸ IMF. 2019. “Lebanon Article IV.” [Link](#)

⁸⁹ BdL’s net international reserve position, which is not published by the central bank, is estimated by Bank Audi (2021) to have turned negative in 2014. The latter report refers to 2014 as being an ‘inflection year’.

⁹⁰ IMF. 2019. “Lebanon Article IV.” [Link](#)

⁹¹ IMF. 2019. “Lebanon Article IV.” [Link](#)

⁹² Stimulus packages amounted to US\$1.46 billion, US\$0.92 billion, US\$0.99 billion, and US\$0.99 billion in 2013, 2014, 2015, and 2016, respectively.

⁹³ Banque du Liban. 2016. “Banque du Liban Stimulus Package 2016.” [Link](#)

⁹⁴ A detailed analysis of the financial engineering operations is offered in World Bank (2016) (World Bank. 2016. *Lebanon Economic Monitor, Fall 2016: The Big Swap: Dollars for Trust*. [Link](#)) and IMF (2017, 2019). The swaps were undertaken on six occasions since 2016.

⁹⁵ World Bank. 2018. *Lebanon Economic Monitor, Fall 2018: De-Risking Lebanon*. [Link](#)

⁹⁶ World Bank. 2019. *Lebanon—Cultural Heritage and Urban Development Project*. Independent Evaluation Group, Project Performance Assessment Report 140539. Washington, DC: World Bank. [Link](#)

98. **While financial engineering operations achieved BdL’s goals, they significantly deepened the mutual exposure in the nexus of the sovereign-BdL-banking sector.** BdL extended the viability of the exchange rate peg, attracting foreign deposits to meet Lebanon’s external financing needs, increasing its gross international reserves, as well as arresting and reversing the downward trend in the country’s NFA position.⁹⁷ However, these operations made the balance sheet of the banking sector even more inextricably linked to that of the sovereign (that is, the central bank and the government),⁹⁸ pushing the sector even further away from its traditional role of financial intermediary and principal financier of the economy. While the banking sector’s exposure to the sovereign had exceeded 50 percent since 2004, it increased considerably following the financial engineering operations and stood at 62 percent and 69 percent at end 2017 and in May 2019, respectively.⁹⁹

99. **In addition to deepening the sovereign-BdL-banking sector nexus and thereby exposing the country to serious macroeconomic risks, the swaps weakened BdL’s balance sheet and tightened financial conditions.** The additional negative consequences of BdL’s swaps were three-pronged: (a) the commercial banking sector’s foreign currency liquidity buffers with the non-resident financial sector were reduced, as banks repatriated funds from correspondent banks to benefit from the financial engineering operations; (b) these unorthodox operations weakened BdL’s balance sheet significantly by increasing BdL’s foreign exchange liabilities and its carry costs; and (c) they led to a discernable increase in interest rates, which stifled lending to the private sector. In summary, these operations accentuated fiscal dominance and the sovereign-BdL-banking sector feedback loop, two problematic attributes of Lebanon’s macro-financial landscape.¹⁰⁰

100. **Waning appetite for local and foreign currency denominated debt, coupled with deteriorating credit market indicators and credit downgrades, pointed to an impending default.** Financial and credit market conditions tightened considerably in 2018. Banks’ appetite for financing Lebanon’s fiscal deficit, which stood at 11 percent of GDP in 2018, decreased¹⁰¹ and, in view of the limited take-up, the May 2018 Eurobond issuance was underwritten by BdL.¹⁰² BdL, which had hitherto acted as a residual buyer of government debt, turned into the dominant buyer. In tandem, Lebanon’s emerging markets bond index (EMBI) and credit default swap (CDS) spreads increased markedly in 2018 and 2019, reflecting tighter credit conditions. The increasing risk premiums on Lebanese debt coupled with repeated credit rating downgrades in 2018 and 2019 mirrored Lebanon’s worsening credit conditions.¹⁰³

⁹⁷ IMF. 2017. *Lebanon: Selected Issues*. [Link](#). 2019. World Bank. 2016. *Lebanon Economic Monitor, Fall 2016: The Big Swap: Dollars for Trust*. [Link](#)

⁹⁸ Bank assets to GDP exceeded 400 percent whereas deposits to GDP were over 350 percent in 2017 and 2018. According to Moubayed and Zouein (2020; [Link](#)), the Lebanese banking sector placed, respectively, third and fourth globally in terms of the deposit base to GDP and banks’ assets to GDP in 2016. With the near absence of capital markets, the banking sector has been at the center of financial intermediation in Lebanon.

⁹⁹ IMF. 2019. “Lebanon Article IV.” [Link](#)

¹⁰⁰ The 2016 *Systematic Country Diagnostic* sheds light on the fiscal dominance and the crowding out of private sector investment.

¹⁰¹ IMF. 2017. *Lebanon: Selected Issues*. [Link](#)

¹⁰² IMF. 2019. “Lebanon Article IV.” [Link](#). In contrast, Lebanon faced no difficulties in issuing and placing Eurobonds in April 2016 and March 2017, which, according to the MoF, were oversubscribed (World Bank 2017; [Link](#))

¹⁰³ Declarations by the Minister of Finance concerning an impending debt restructuring in January 2019 contributed to a further deterioration in credit conditions. The forced resignation of PM Saad Hariri in 2017 may have had an effect on risk premiums because it occurred after financial conditions had started to deteriorate. See Hassan, and Panizza. 2019. “Understanding the Lebanese Financial Crisis.” *Financial Times*. [Link](#)

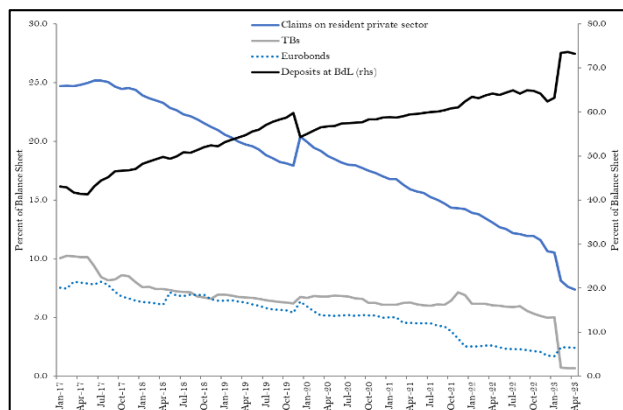
101. **The sudden stop of inflows in the fall of 2019 had devastating effects on the stability of the intertwined fiscal position, BdL, and commercial banking sector.** The policies pursued in the years before the crisis ultimately undermined BdL’s balance sheet, leading to significant and understated losses estimated to exceed US\$70 billion (see next section).¹⁰⁴

2. Financial de-development

102. **Prior to the crisis, the Lebanese financial system was dominated by an oversized banking sector (66 banks), which accounted for 97 percent of financial system assets, amounting to 450 percent of GDP at end-2018.** The large size of the banking sector was a red flag: for the banks to be shielded from shocks, vast resources would be needed to shore up capital. The banking sector was dominated by 10 banks that accounted for 90 percent of total system assets, with the five largest banks accounting for 60 percent of total assets in 2019–2020.

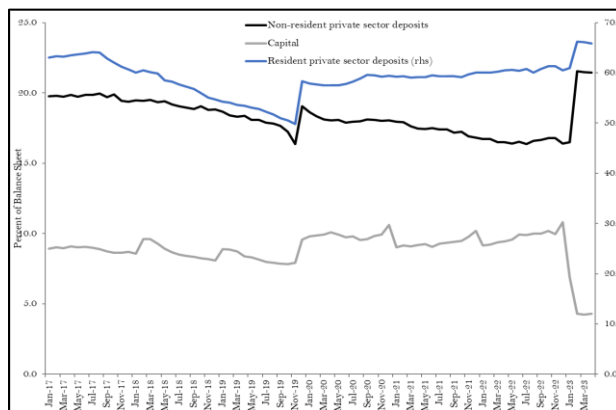
103. **Rather than diversifying their holdings, bank portfolios gradually increased the sector’s exposure to BdL and ultimately to the sovereign.** As of June 2016, holdings of government debt securities accounted for about 28 percent of banks’ assets, while deposits and excess reserves at BdL accounted for another 40 percent (Figure 17). Combined, these bank assets resulted in a total exposure to the sovereign of over six times the Tier 1 capital. Such exposure is highly risky when the debt-to-GDP ratio is at 140 percent of GDP, the highest of any emerging economy, and the medium-term current account and fiscal deficits are around 20 and 8–9 percent of GDP, respectively.

Figure 17. Banks’ assets as a percentage of their balance sheet



Source: BdL and World Bank staff calculations.

Figure 18. Banks’ liabilities as a percentage of their balance sheet



Source: BdL and World Bank staff calculations.

104. **Today the banking sector is effectively insolvent, illiquid, and nonfunctional, with losses estimated at over US\$70 billion.** As of September 2023, 75 percent of banking assets were held at BdL in the form of deposits and an additional 3 percent in government securities (treasury bills and Eurobonds) and claims on the public sector (Table 3). Due to a lack of resources, neither BdL nor the government can honor these claims, rendering the banking sector insolvent. Other assets included credit to the private sector, with non-performing loans (NPLs) of around 70 percent as of December 2022. In lieu of formal capital controls, and since they were unable to honor depositors’ withdrawal requests, banks have

¹⁰⁴ See Lebanon Economic Monitor, Fall 2022, Time for An Equitable Banking Resolution for further details. [Link](#)

imposed ad hoc rules on withdrawals with no accountability or oversight. Bank resident deposits decreased from US\$125 billion in 2019 (72 percent in foreign currencies) to US\$73 billion in September 2023 (96 percent in FX) (Figure 18). The local currency has depreciated by 98 percent since 2019, and depositors can only access their full deposits at the official exchange rate at a massive discount (see Box 2). The burden of the ongoing and largely unregulated adjustment in the financial sector has been borne by smaller depositors (see Table 5), with 2.5 million accounts below US\$200,000 estimated to have lost around US\$15 billion between 2019 and 2021. At the same time, the number of active borrowers decreased from 1.2 million to 0.3 million, with large and small borrowers reimbursing their loans in LBP at a highly discounted value.

Table 3. Commercial banks' balance sheet¹⁰⁵

| | Dec-20 | | Dec-21 | | Dec-22 | | Sep-23 | | | Dec-20 | | Dec-21 | | Dec-22 | | Sep-23 | |
|-----------------------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-------------------------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) |
| Assets | | | | | | | | | Liabilities | | | | | | | | |
| Deposits with BdL | 112 | | 112 | | 110 | | 84 | 0.9 | Due to BdL | 13 | | 13 | | 12 | | 11 | |
| Deposits with other central banks | | 0.6 | | 1.0 | | 0.8 | | | Resident deposits | 25 | 87 | 25 | 80 | 28 | 74 | 3.3 | 71 |
| Claims on resident customers | 13.1 | 19.0 | 10.9 | 14.0 | 9.1 | 8.9 | 0.8 | 6.8 | Non-resident customer deposits | 2.3 | 25 | 2.0 | 23 | 2.0 | 21 | 0.2 | 21 |
| Claims on non-resident customers | 1.6 | 7.3 | 1.2 | 6.2 | 0.7 | 5.5 | 0.0 | 5.5 | Non-resident financial sector liab. | | 6.6 | | 4.9 | | 4.3 | | 3.1 |
| Claims on public sector | 0.2 | | 0.2 | | 0.2 | | 0.0 | | Public sector liabilities | 5.5 | | 5.0 | | 4.7 | | 1.2 | |
| LBP Treasuries | 11.5 | | 12.1 | | 8.4 | | 0.8 | | Other liabilities | 3.6 | 0.2 | 4.9 | 0.2 | 4.0 | 0.0 | (2.2) | 0.0 |
| Lebanese Eurobonds | | 9.4 | | 4.4 | | 2.9 | | 2.6 | Capital | 19.7 | 0.3 | 17.4 | 0.4 | 17.9 | 0.4 | 4.7 | - |
| Other securities | | 2.1 | | 2.5 | | 3.3 | | 3.3 | | | | | | | | | |
| Other | 7.8 | 4.1 | 7.4 | 3.1 | 16.8 | 2.5 | 5.1 | 2.4 | | | | | | | | | |
| Total Assets | 188 | | 175 | | 169 | | 113 | | Total Liabilities | 188 | | 175 | | 169 | | 113 | |

Source: BdL and World Bank staff calculations.

Table 4. BdL balance sheet

| | Dec-20 | | Dec-21 | | Dec-22 | | Sep-23 | | | Dec-20 | | Dec-21 | | Dec-22 | | Sep-23 | |
|---|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|---------------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) | LBP (\$ bln) | \$ (\$ bln) |
| Gold | | 17 | | 17 | | 17 | | 17 | Currency in Circulation | 21 | | 30.4 | | 53.2 | | 4.1 | |
| Foreign Currencies | | 19 | | 14 | | 10 | | 9 | Financial Sector Deposits | 31 | 73.7 | 31.9 | 74.9 | 31.1 | 72.6 | 26.3 | 61.3 |
| Securities Portfolio | 40 | 5.7 | 40 | 5.7 | 37 | 7.7 | 1.7 | 7.7 | Public Sector Deposits | 4.5 | | 7.8 | | 12.8 | | 9.9 | |
| Loans to Local Private Sector | 15 | | 14 | | 12 | | 1.1 | | Valuation Adjustment | 12 | | 11.9 | | 12.7 | | - | |
| Assets from Exchange Operations of Financial In | 12 | | 12 | | 12 | | 1.2 | | Other Liabilities | | 3.5 | | 2.9 | | 3.8 | | 2.6 |
| Loans to Public Sector | - | | - | | - | | | 17 | Capital Accounts | - | 3.5 | - | 3.5 | - | 3.5 | - | 0.9 |
| Valuation Adjustment | - | | - | | - | | 43.4 | | | | | | | | | | |
| Other Assets | 41 | | 62 | | 94 | | 7.1 | | | | | | | | | | |
| Total Assets | 149 | | 163 | | 190 | | 105 | | Total Liabilities | 149 | | 163 | | 190 | | 105 | |

Source: BdL and World Bank staff calculations.

¹⁰⁵ The official exchange rates of (a) LBP 1,507.5 per US\$ until 2022, (b) LBP 15,000 per US\$ for September 2023 are used to report the figures in US dollar.

Table 5. Distribution of deposits shows how a few large depositors own most of the deposits in the banks

| Category of accounts (LBP, millions) | Number of accounts (%) | | Value of deposits (%) | |
|--------------------------------------|------------------------|-------------|-----------------------|-------------|
| | Dec 2019 | Dec 2021 | Dec 2019 | Dec 2021 |
| Less than 5 | 61.3 | 56.2 | 0.5 | 0.7 |
| 5–30 | 17.1 | 19.2 | 3.8 | 3.4 |
| 30–75 | 7.9 | 9.4 | 6.2 | 5.7 |
| 75–150 | 5.0 | 6.1 | 8.8 | 8.1 |
| 150–300 | 3.9 | 4.3 | 13.8 | 11.2 |
| Small depositors | 95.2 | 95.2 | 33.2 | 29.0 |
| 300–750 | 2.9 | 3.2 | 14.1 | 18.8 |
| 750–1,500 | 1.0 | 1.0 | 11.2 | 12.2 |
| 1,500–3,000 | 0.5 | 0.4 | 9.9 | 9.3 |
| 3,000–4,500 | 0.1 | 0.1 | 5.1 | 4.8 |
| 4,500–7,500 | 0.1 | 0.1 | 5.4 | 5.2 |
| 7,500–15,000 | 0.1 | 0.0 | 6.3 | 6.1 |
| 15,000–30,000 | 0.0 | 0.0 | 5.0 | 4.9 |
| 30,000–75,000 | 0.0 | 0.0 | 4.6 | 4.6 |
| 75,000–150,000 | 0.0 | 0.0 | 1.6 | 2.3 |
| More than 150,000 | 0.0 | 0.0 | 3.3 | 2.8 |
| Large depositors | 4.8 | 4.8 | 66.8 | 71.0 |
| Total | 100 | 100 | 100 | 100 |

Source: Al-Akhbar newspaper.¹⁰⁶

Box 2. Different valuations of the banking sector assets¹⁰⁷

A realistic valuation of the banking sector’s assets reiterates earlier inferences on the insolvency of the banking sector. It is worth noting that the majority of banking sector assets are defaulted sovereign and central bank securities, with the rest of the assets primarily including NPLs. In practice, as BdL and the government are unable to honor these claims, the banking sector’s assets with the sovereign and the central bank are inaccessible, rendering the banking sector insolvent. While the losses have not been formally recognized, and in the absence of a solvency law, for all practical purposes in the foreseeable future, the real value of these assets represents a very small fraction of their face value. Thus, solvency rather than liquidity is the principal reason for the banking sector’s inability to honor its obligations. The lack of an equitable distribution of losses and banking resolution has compounded the economic costs of the crisis. While local debates on solvency continue, banks remain dramatically constrained in terms of liquidity as they are able to fully honor neither depositors’ withdrawal requests (except in a very limited way in local currency and at a fraction of their value) nor finance the economy.

For this analysis, three valuations of the banking sector are presented based on officially available data, each offering a very different perspective:

1. The first valuation shows the banking sector based on the consolidated official financial statements provided by BdL at the officially pegged rate, which gives a *false sense of economic value*.
2. The second valuation factors in the depreciation of the LBP, which affects one-third of assets and therefore reduces the sector size, presenting a *partial and unreliable sense of economic value*.¹⁰⁸

¹⁰⁶ [Link](#)

¹⁰⁷ The analysis is based on data as of September 2023.

¹⁰⁸ The further depreciation of the LBP in 2023 only marginally affects the figures. given their relative weight and the fact that the exchange rate had already depreciated by 98 percent compared to the historically pegged rate in December 2022.

3. The third valuation adds to the second by discounting the remaining foreign currency denominated assets (deposits at BdL, Eurobonds, and loan portfolio) to their estimated current value, presenting a *more reliable economic value based on current market reality*.

The banking sector's actual economic value probably falls somewhere between valuations 2 and 3, with a higher likelihood of leaning toward valuation 3 and implying a real negative net value of the sector as a whole.

Table 6. Valuations of banking sector assets

| | Valuation 1 'False Reality' (official exchange rate) | | Valuation 2 'Market Exchange Rate Reality' | Valuation 3 'Market Asset Value Reality' |
|---|--|--------------------------------------|--|--|
| | Dec. 2022 | Sept. 2023 | Sept. 2023 | Sept. 2023 |
| US\$1 = | 1,507.5 | 15,000 | 90,000 | 90,000 |
| Discount applied to assets | — | — | — | -70% to -90% |
| Total assets | US\$169 billion | US\$113 billion | US\$100 billion | US\$21 billion |
| Total assets/GDP | 8.1× | 6.2× | 5.5× | 1.2× |
| Capital adequacy ratio | Slightly below minimum Manageable | Slightly below minimum Manageable | Below minimum to nil Hardly manageable to insolvent | Negative Deeply insolvent |
| Liquidity (constrained in reality) | Falsely appears sufficient | Falsely appears sufficient | Falsely appears sufficient | Insufficient |
| Equity or economic capital ^a (net value of the sector) | US\$18 billion | US\$4.7 billion | US\$2.7 billion | US\$ -76 billion |

a. Economic capital is the terminology utilized when all assets and liabilities are fairly valued.

1. **Valuation 1 - 'False Reality': A banking sector decreasing in size with nominally healthy financial indicators, far removed from market reality as it ignores the impact of the market exchange rate and market value of assets.** According to the consolidated balance sheet provided by BdL, Lebanese banks held the equivalent of US\$113 billion (LBP 1,690,344 billion) in assets at the end of September 2023, 6.2 times the nominal GDP. This is a 55 percent decrease compared to 2018, while total assets stood at US\$249 billion and also represented 4.6 times GDP. Until December 2022, this decrease was primarily driven by (a) a rapid deleveraging of the economy, lending to the private sector having dropped by US\$34 billion¹⁰⁹ (of which US\$22 billion foreign currency denominated loans reimbursed in LBP at a fraction of their value); (b) the decrease in deposits commercial banks hold at BdL (US\$ -21 billion); and (c) a fire sale of T-bills and Eurobonds (US\$21 billion sold). In February 2023, the devaluation of the official LBP/US\$ rate from 1,507 to 15,000 generated additional nominal losses (US\$43 billion). In this valuation, banks falsely appear to have positive equity, some manageable capital needs, and sufficient liquidity given the level of supposedly liquid assets they hold (deposits at the central bank, T-bills, Eurobonds), which under normal circumstance banks

¹⁰⁹ From US\$52 billion to US\$18 billion, respectively 21 percent to 11 percent of total assets at the official exchange rate. Borrowers who were able to do so promptly reimbursed their loans since it was possible to settle foreign exchange denominated loans in their LBP equivalent at the official rate. US\$ denominated loans have been paid back either in LBP or in US\$ cheques that have been trading at a diminishing fraction of their face value over time. The largest 2,500 enterprises have reimbursed 53 percent of the foreign currency denominated loans at such discounted value. In valuation 3, losses from these enterprises' discounted loan reimbursement represent more than one-third of the total estimated sector losses of US\$76 billion.

could sell to honor depositors' withdrawal requests. However, this is not possible in the local context where these assets remain frozen and inaccessible due to lack of funds at both BdL and fiscal authorities.

2. **Valuation 2 - 'Market Exchange Rate Reality': A banking sector with poor financial indicators, which is not an accurate depiction of market reality as it does not consider the estimated current market value of remaining assets (that is, deposits at BdL, Eurobonds, and foreign currency loans that have a high NPL).** Using the LBP market rate, the sector assets nominally stand at US\$100 billion (a 60 percent decrease compared to 2018).¹¹⁰ In this valuation, banks have lost one-third of their assets/liabilities due to the depreciation and they still represent 5.5 times the current GDP given the shrinking of the economy. Their equity, which peaked at US\$20 billion in 2018 (11 percent of total deposits), has plummeted to somewhere between US\$2.7 billion and US\$1.2 billion in 2023.¹¹¹ With this level of nominal equity, banks' capital adequacy is insufficient to operate normally.¹¹² Given that this valuation does not consider the current value of other assets, it is not a realistic depiction of current market reality.
3. **Valuation 3 - 'Market Asset Value Reality': A dramatically reduced and constrained banking sector with highly degraded financial indicators.** Should assets be discounted at their present liquidation value, the sector size would be less than US\$22 billion, roughly equivalent to current GDP. The difference with valuation 2 lies in the recognition of either the unavailability or loss of value of some assets: (a) only a small fraction of banks' deposits at BdL, which currently stand at US\$75 billion (76 percent of the assets as adjusted in valuation 2), could theoretically be returned (that is, not more than US\$5.4 billion considering the current level of foreign exchange reserves and the need to secure a few months of basic imports—hence a discount of up to 93 percent);¹¹³ (b) NPLs on the foreign currency denominated portfolio have increased to 70 percent (hence a discount of 70 percent); and (c) given the government default, the government debt value has been decreased further (Eurobonds are trading at less than 6 percent of their face value, hence a discount of up to 94 percent). Such inaccessibility and/or losses on assets dramatically decrease banks' net worth, making most of them deeply insolvent. In addition, as the sovereign assets which are usually considered most liquid are in practice frozen (largely due to unrecognized losses), the sector is unable to pay out foreign currency deposits, requiring restrictions on deposit withdrawals and resulting in a virtual standstill when it comes to financing for the economy.

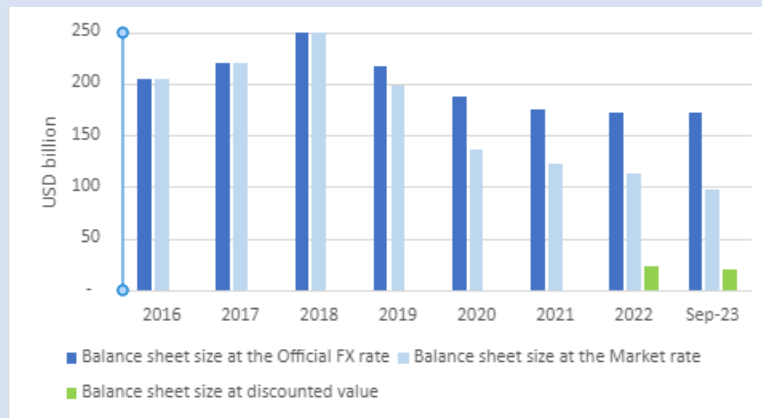
¹¹⁰ The currency of banks' deposits at BdL (75 percent of assets in September 2023) and cash in vault (0.4 percent of assets in 2022) is not disclosed. Assumption has been made that 90 percent of the assets held at the BdL are in other currencies than LBP and that 50 percent of cash in vault is in US dollar, mirroring some of the largest banks' audited statements for 2021–2022.

¹¹¹ In absence of details on the currency in which the equity is labeled, the analysis initially conservatively assumes that it is 90 percent in LBP, as international standards require it to be in local currency. Starting 1998, BdL has, however, allowed Lebanese banks to consider up to 60 percent of their equity in foreign currency, reducing the LBP devaluation impact on their latest audited accounts. Should 50 percent of the equity be in US\$, as some banks showcase, the equity would be US\$2.7 billion and would cover up to 9 percent of deposits. Banks would, however, remain undercapitalized as per international standards.

¹¹² In 2019, BdL requested banks to increase their common equity tier 1 by 20 percent in foreign currency, as per Intermediate Circular 532 on Capital Adequacy Regulatory Framework for Banks Operating in Lebanon and related Basic Decision 13129 of November 4, 2019.

¹¹³ As per note 83 above, in the absence of clarity on the currency composition of these deposits, the assumption is that 90 percent of commercial banks deposits with BdL are in foreign currency, based on publicly available commercial banks financial statements.

Figure 19. Evolution of total balance sheet by date and exchange rate



Source: World Bank staff calculation based on Bdl data.

105. **The banking sector, traditionally at the center of financial intermediation in the country, is incapable of performing its lending and deposit-taking activities.** With the limited role of capital markets in the financial landscape, Lebanon’s large banking sector was the principal source of credit for the private and public sectors. Action on a comprehensive bank restructuring agenda, including resolution measures, has halted amid private actors’ opposition to an equitable banking resolution under which losses are realized and distributed up front, in line with the hierarchy of creditors.

106. **Disruptions in financial intermediation deprive the private sector from credit and have multiplier effects that deepen economic contractions.** The availability of credit underpins economic growth. Indeed, a sizeable literature on the banking-growth nexus uncovers a positive association between financial intermediation and economic growth.¹¹⁴ Moreover, banking crises are associated with large declines in output due to reductions in consumption and investment by bank-dependent borrowers.¹¹⁵ Credit to the private sector in Lebanon amounted to around 100 percent of GDP since 2015 and hovered around this level in the lead-up to the financial crisis.

107. **According to the World Bank’s 2019 Enterprise Survey—conducted with formally registered firms at the beginning of the crisis and thus not fully capturing its impact given the nonfunctional banking sector—nearly 50 percent of firms identified access to finance as a major constraint.** While almost all the firms surveyed (94 percent) had bank accounts, the large majority (74 percent) still relied

¹¹⁴ Beck and Levine (2004) provide evidence that bank development affects economic growth (Beck, T., and R. Levine. 2004. “Stock Markets, Banks, and Growth: Panel Evidence.” *Journal of Banking and Finance* 28 (3): 423–442 [Link](#)). Beck, Levine, and Loayza (2000) propound that financial intermediaries exert an impact on economic growth via their positive effect on total factor productivity rather than through an accumulation of physical capital (Beck, T., R. Levine, and N. Loayza. 2000. “Finance and the Sources of Growth.” *Journal of Financial Economics* 58 (1–2): 2611–300 [Link](#)). Levine, Loayza, and Beck (2000) offer compelling evidence that financial intermediary development positively affects growth (Levine, R., N. Loayza, and T. Beck. 2000. “Financial Intermediation and Growth: Causality and Causes.” *Journal of Monetary Economics* 46 (1): 31–77. [Link](#)). The empirical evidence on the channels through which financial development and intermediation affect growth is discussed in Beck, Levine, and Loayza (2000). Consistent with the latter studies, Peia and Roszbach (2015) find evidence of bidirectional causality, in a time series context, between banking sector development and economic growth (Peia, O., and K. Roszbach. 2015. “Finance and Growth: Time Series Evidence on Causality.” *Journal of Financial Stability* 19: 105–118. [Link](#)).

¹¹⁵ Dell’Ariccia, G., C. Ferreira, N. Jenkinson, L. Laeven, A. Martin, C. Minoiu, and A. Popov. 2018. “Managing the Sovereign-Bank Nexus.” ECB Working Paper No. 2177. [Link](#). Estimates of the medium-term effect of banking crises are offered in Abiad et al. 2014 (Abiad, A., R. Balakrishnan, P. K. Brooks, D. Leigh, and I. Tytell. 2014. “What’s the Damage? Medium-Term Output Dynamics after Financial Crises.” In *Financial Crises: Causes, Consequences, and Policy Responses*, edited by Stijn Claessens, M. Ayhan Kose, Luc Laeven, and Fabian Valencia. Washington DC: International Monetary Fund. [Link](#)).

on internal finance for investment. About 87 percent of loans required collateral with a value reaching 173 percent of the loan amount. The lack of access to credit and financial services makes it difficult for businesses to buffer themselves against risk, invest, and grow, and this has had a negative impact on economic growth and job creation. The private sector's need for credit implies that the post-crisis financing constraints it faces are severe. These are further discussed in the annex to this chapter under the nested constraint of a curtailed business environment.

108. **The crisis has substantially reversed earlier progress in the financial sector, resulting in a massive reduction in access and usage of financial services.** According to the 2021 Global Findex, only 21 percent of adults in Lebanon have an account (including mobile money), down from 45 percent in 2017.¹¹⁶ By comparison, the average for the Middle East and North Africa (MENA) region, which ranks last among the global regions, stood at 53 percent, while the world average was 76 percent. The use of digital payments has also seen a sharp decline, with the number of adults making a digital payment dropping from 27 percent in 2017 to 5.7 percent in 2021 as per the Global Findex. Mirroring these figures, based on the BdL data, in 2019–2022Q3, there was a 21 percent decrease in the number of electronic payment machines, 73 percent decrease in resident credit cards, and 14 percent decrease in total number of resident payment cards.

109. **With the banking system paralyzed, Lebanon has become a primarily dollarized cash-based economy with increasing use of cash and other alternatives to banks to conduct financial operations.** Money transfer operators are now a primary method for sending and receiving remittances, local transfers including social cash transfers, and paying wages. As the economy divests from the banking sector, the World Bank estimates that the size of the cash economy has more than doubled between 2020 and 2022, and today accounts for close to 46 percent of GDP or US\$9.86 billion.¹¹⁷

110. **The prevalence of cash transactions significantly heightens the risk of money laundering, increases informality, and creates space for further tax evasion.** An increasing reliance on cash transactions threatens to completely reverse the progress that Lebanon made toward enhancing its financial integrity by instituting robust anti-money laundering controls in its commercial banking sector¹¹⁸ before the current crisis.¹¹⁹ Cash economies make it easier to conceal the source of funds for illicit and illegal activities. Cash economies also incentivize informality by small and micro businesses, lower productivity due to the absence of economies of scale, and will likely compound long-standing weaknesses in Lebanon's tax code as they pertain to property, capital gains, and income taxes.¹²⁰ Cash transactions exacerbate the distortions in the lump-sum regime for business profits and facilitate tax evasion. This, in turn, erodes the tax base and diminishes tax buoyancy, effort, and compliance. In June 2021, BdL authorized electronic wallet services in both LBP and US dollar. To date, there does not yet appear to be sufficient traction. Regaining trust in formal financial services will be a challenge for mass market providers going forward. The constraints on the non-banking financial sector, including digital finance, are detailed further in the annex to this chapter.

¹¹⁶ BdL's survey of resident citizens showed a 58 percent account ownership in 2018.

¹¹⁷ World Bank. 2023. *Lebanon Economic Monitor, Spring 2023: The Normalization of Crisis Is No Road for Stabilization*. [Link](#)

¹¹⁸ IMF. 2017. *Lebanon: Selected Issues* [Link](#)

¹¹⁹ IMF. 2017. *Lebanon: Financial System Stability Assessment*. IMF Country Report No. 17/21, Washington, DC. [Link](#)

¹²⁰ IMF. 2023. *Lebanon: Technical Assistance on Putting Tax Policy Back on Track*. IMF Country Report No. 23/8, Washington, DC. [Link](#)

111. **The crisis has likely exacerbated illicit flows, defined as cross-border capital movements for concealing illegal activities and evading taxes,¹²¹ further depriving the country of urgently needed resources.¹²²** The increased smuggling of subsidized fuel, medicines, and food from Lebanon to crisis-ridden and internationally sanctioned Syria in the first few years of the crisis left much of the population deprived of basic goods and hostage to exuberant price hikes. The rise in illicit trade has created a class of powerful profiteers and contrabandists accumulating large profits at the expense of impoverished communities.¹²³

3. Infrastructure and public utilities: Collapse and decay

112. **The mobilization of the state apparatus for the ends of extraction and diversion of resources has substantially compromised the quality of infrastructure.** During years of large inflows, the business elite was able to secure big infrastructure contracts and benefit from capital spending with little oversight on the efficiency of the tenders, the transparency of the contracts, the quality of service delivery, or the cost-effectiveness of the projects.¹²⁴ As fiscal space gradually narrowed, lower budgets for capital expenditures have meant no investment in the renewal, upkeep, or upgrade of infrastructure. The net result is an infrastructure of low quality but with an inflated price tag and a poor maintenance record, resulting in Lebanon ranking 89 of 141 on the quality of infrastructure score in the Global Competitiveness Index for 2019 (Figure 20). This deficiency in the provision of public services extends to all infrastructural sectors including electricity, roads, water, sanitation, solid waste management (SWM), wastewater management, and affordable housing. Even before the crisis, Lebanon was losing ground, as its ranking in the Global Competitiveness Index dropped from 80 in 2018 to 88 in 2019.

113. **Lebanon's municipalities lack planning capacities for urban sectors such as municipal services, housing, roads, and public facilities.** Currently, each urban sector is addressed individually using a costly reactive approach, instead of a proactive integrated one. In the absence of integrative planning, public and urban service provision is fragmented and unplanned, resulting in poor quality and inadequate services, waste, and insufficient protection against cross-cutting risks such as exposure to floods and earthquakes.

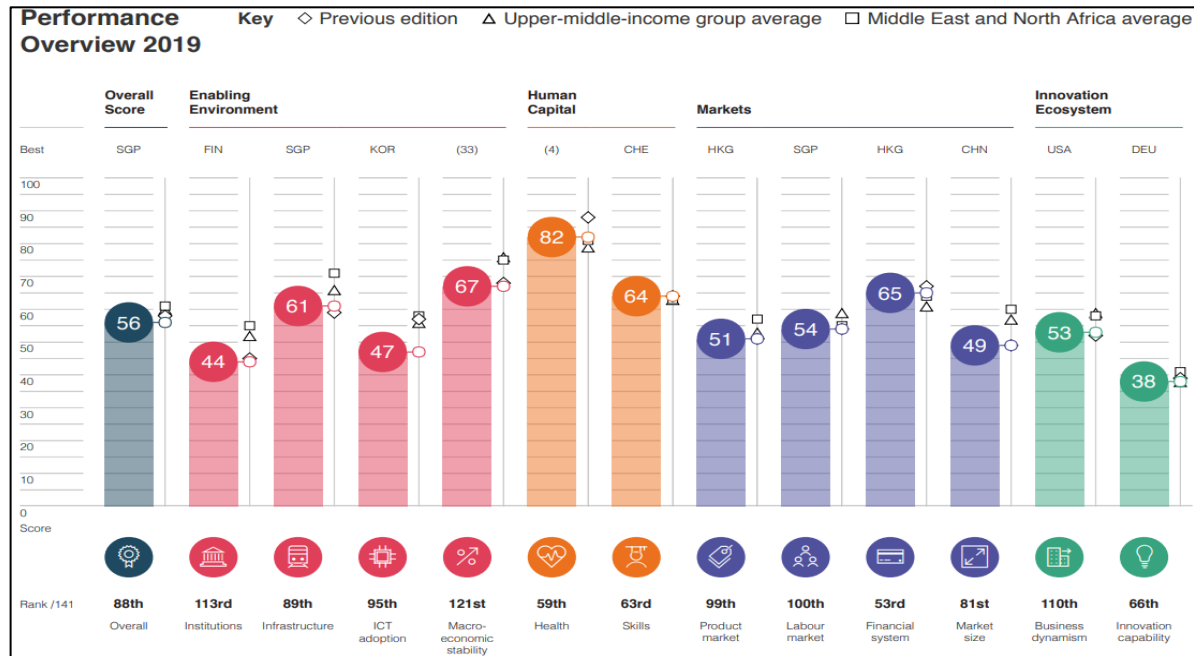
¹²¹ Herkenrath, Marc. 2014. "Illicit Financial Flows and Their Developmental Impacts: An Overview." *International Development Policy | Revue internationale de politique de développement*. [Link](#)

¹²² Daher, Joseph, Nizar Ahmad, and Salwan Taha. 2022. "Smuggling between Syria and Lebanon, and from Syria to Jordan: The Evolution and Delegation of a Practice." Policy Briefs, 2022/32, Middle East Directions (MED), Wartime and Post-Conflict in Syria. [Link](#)

¹²³ World Bank. 2023. *Syria Economic Monitor: Syria's Economy in Ruins After a Decade-long War (English)*. Washington, D.C. : World Bank Group. [Link](#)

¹²⁴ Mahmalat, and Maktabi. 2022. "Cartels in Infrastructure Procurement: Evidence from Lebanon." The Policy Initiative. [Link](#)

Figure 20. Lebanon's performance on the Global Competitiveness Index in 2019



Source: World Economic Forum, The Global Competitiveness Report 2019.

Electricity sector collapse

114. **As of 2020, the cumulative deficit caused by the electricity sector was approximately US\$40 billion.**¹²⁵ At the heart of this imbalance is EdL's high operating costs, predominantly in US dollars and subject to market fluctuations, and its low revenues, collected in LBP and based on retail tariffs that did not change between 1994 and 2023. The ever-growing gap between operating costs and revenues is the result of (a) poor physical infrastructure, which entails technical losses in transmission and distribution; (b) a suboptimal use of existing capital, which could be upgraded to run on gas but is instead powered with more polluting, less efficient, and pricier diesel and heavy fuel oils; and (c) deficient financial capacity, with rampant theft along the distribution network, poor revenue collection, and non-advantageous pricing schemes on both the input and output sides.

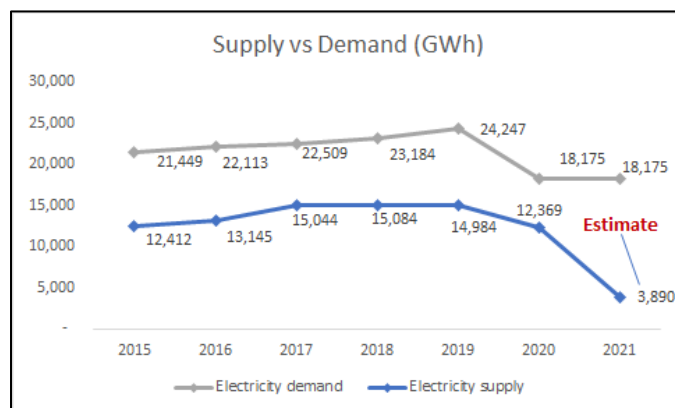
115. **While costs increased significantly from US\$1.4 billion in 2016 to US\$2.3 billion in 2019, due to rising oil prices on the global market, revenues stagnated at US\$1 billion.** When collection losses are considered, EdL's annual cash deficit was even larger, totaling US\$944 million to US\$1.5 billion during 2016–2019. These losses accounted for a staggering 38–56 percent of total energy generated. As a result, the power supplied by EdL has always fallen short of demand (Figure 21). Even before the crisis, 32 percent of firms surveyed in the World Bank Enterprise Survey (WBES) of 2019 cited electricity shortages as a major obstacle to their operations.

116. **Since the beginning of the economic collapse, EdL's already strained financial and operational situation has only been further exacerbated.** EdL's generation fell by an estimated 17 percent year-on-year in 2020 compared to 2019, causing widespread electricity blackouts (Figure 21). Since the long-term

¹²⁵ World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#)

fuel supply contract with Sonatrach expired at the end of 2020,¹²⁶ the Ministry of Energy and Water resorted to buying fuel on the spot market. From mid-2021, with EdL’s inability to secure FX to maintain a steady inflow of imported fuel, supply has dwindled to an average of 2–3 hours per day. In the same year, Lebanon reached an agreement with Iraq to provide fuel, through a swap arrangement with a private sector company that now represents the only source of fuel for power generation.

Figure 21. Supply-demand gap of EdL electricity services



Sources: EdL data (2015–2020) and World Bank estimates for 2021.

117. **By the second half of 2022, grid service averaged 0–1 hour of power per day, with major negative spillovers on poverty, the economy, the environment, and recovery prospects of Lebanon.** Power outages have disrupted the delivery of basic services, such as telecommunications, water, and sanitation services. One result of these disruptions is the cholera outbreak in 2022.¹²⁷ The power shortage has also meant that most state and public offices and establishments have only been able to operate on a heavily disrupted schedule. Beyond a crisis of energy, these disruptions have affected people’s ability to secure their daily needs and businesses’ ability to operate, even when they have procured alternative sources of electricity.

118. **Having reached almost complete collapse, EdL initiated an ‘emergency plan’ at the end of 2022 that aimed to increase tariff to cost recovery levels and restore supply to 8–10 hours while reducing network losses.** The Council of Ministers raised the tariff of EdL to 27 cents per KWh, up from an effective 0.2–0.3 cents per KWh in 2022. The change in tariffs, however, involved an equally dramatic rise in the subscription fee, which, in the absence of more hours of provision governed by a pricing scheme tiered to consumption, means that the new tariff is alarmingly regressive for now. The success of the plan was predicated on EdL obtaining working capital of US\$600 million from BdL to secure its first batch of fuel purchases and shortening its protracted billing cycle (with more than a year lag between consumption and bill issuance). In early 2023, the amount it was able to secure was only US\$300 million. Implementation of this plan started in February 2023, with the daily power supply raised to 4 hours. A campaign to remove illegal connections and reduce losses has started in the Beirut area, with the aim to expand it to all Lebanese territories with the help of the security and armed forces.

¹²⁶ Sonatrach is an Algerian state energy firm that entered into a fuel supply contract with the Lebanese government in 2005, supplying fuel to Lebanon until December 2020 when the contract terminated.

¹²⁷ Soubra, Ghida. 2022. “Cholera Outbreak and WEF Nexus Frameworks in Lebanon.” [Article](#).

119. **As a consequence of the interruption of state-provided electricity, most of the demand is now met by unregulated, costly, and polluting diesel generators.** By filling the chronic deficit in EdL power generation over decades, generator owners have become a parallel sector with growing market power and very poor regulation. With the severe curtailment of EdL's generation since 2020, this 'private' solution to a collective problem, in an industry with serious scale economies and no environmental oversight and a heavily concentrated fuel import sector, has created a 'generator economy' and associated fuel supply chain, each concentrating entrenched vested interests. Generator owners have operated as effective monopolies within their territories and as a cartel across them. The removal of fuel subsidies and the informal suppliers' predatory behavior have meant that the price of subscriptions to generators has shot up.

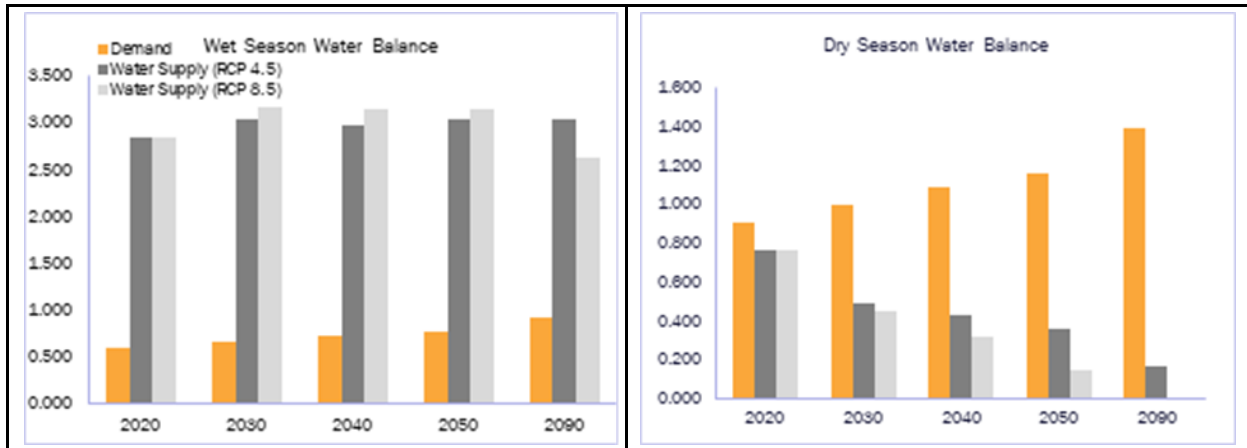
120. **The lack of affordable and reliable supply has also accelerated the transition to stand-alone renewable energy sources, albeit in the absence of any legal framework to regulate this parallel power generation.** Renewable energy penetration had begun increasing in Lebanon since 2010, driven by financing facilities introduced the same year. The use of photovoltaic (PV) systems, including energy storage battery systems, has accelerated in response to demand. Total installed capacity of off-grid PV-based systems reached 870 MWp in 2022 (according to the Lebanese Center for Energy Conservation), up from 100 MWp in 2020. However, these solutions are not grid connected yet and are restricted to an affluent minority, especially since the preferential financing stopped in 2019. A law on distributed renewable energy (DRE), which would set the stage for net metering at individual, building, and community levels, was ratified by Parliament on December 14, 2023. The law now requires operationalization through secondary legislation (such as decision decrees). In addition, implementing the provisions of the law would also require EdL to restore reliable grid services.

Water sector

121. **The water sector faces significant governance challenges and poor financial and operational management, impeding the effective delivery of sustainable water services.** Overlapping mandates across institutions and complex regulations have resulted in an institutional structure with poor accountability and low transparency. With weak coordination across all responsible bodies, inadequate data, poor planning, and poor cost recovery, the delivery of water services is gravely insufficient: more than 70 percent of the population face a critical shortage of water services and an increasing cost of supply from private providers with no quality control. Tariffs fall short of operating costs and maintenance needs, while the share of non-revenue water (NRW) remains high. The crisis has exacerbated the situation by thwarting any new investment in basic service delivery and the storage capacity needed to meet demand in the immediate term and build resilience to climate change in the longer term.

122. **In the face of climate change, Lebanon is projected to encounter a significant reduction in water availability by 2040, with estimates ranging from 5.7 to 9 percent.** Although precipitation in Lebanon is among the highest in the MENA region, and although annual average water resources still exceed demand, water availability is not consistent across the year. The wet season from November to May accounts for nearly 70 percent of annual precipitation, leaving a significant gap in demand and availability of water during the dry season. The sector is in need of more accurate data, but current projections suggest that this gap is expected to grow and that due to climate change, there may be a reduction of up to 50 percent in the availability of water during dry seasons by 2040 (Figure 22).

Figure 22. Lebanon’s water balance during wet and dry seasons



Source: Lebanon Country Climate and Development Report (CCDR) modelling.

Wastewater management

123. **The wastewater sector is currently facing various challenges at multiple levels and a serious budget deficit, which became alarming with the depreciation of the Lebanese pound.** Lebanon’s expenditure on the water and wastewater sector over the past 30 years, around US\$4 billion, has been insufficient to meet growing water need and wastewater generation.¹²⁸

124. **Most of the wastewater management infrastructure remains nonoperational and only 5–6 percent of wastewater is treated at sufficient levels.** While the existing 75 wastewater treatment plants (WWTPs) would be sufficient to treat 44–53 percent of the total volume of generated wastewater,¹²⁹ most are idle or operating to provide only primary treatment. This is the case for the largest operating WWTPs (Saida, Ghadir, and Tripoli)—their insufficient treatment contributing to extensive pollution of the sea, surface, and ground water sources.¹³⁰

Solid waste management

125. **Despite the solid waste crisis and the public turmoil that it provoked in 2015, the sector remained largely unchanged until the financial crisis in 2019 and continues to suffer from a lack of transparency, efficiency, and financial sustainability to this day.** The crisis has led to a severe deterioration in the level of services along the full waste chain, causing imminent environmental hazard, with major impacts on public health, food safety and food security, social stability, and economic development at large.

126. **The main challenge facing the waste sector is the current shortfall in operational funding.** Although waste generation has dropped from around 7,300 tons per day in 2018 to around 5,600 tons per day in 2022 due to the financial crisis,¹³¹ only 8 percent of the generated waste is treated, which significantly increases the amount of waste that ends up in disposal sites. Analysis by the World Bank has

¹²⁸ Gharios, G., and N. Farajalla. 2020. *Investment Plans in the Water Management Structure of a Post-War Country: The Case of Lebanon Challenges*. Issam Fares Institute for Public Policy and International Affairs, Beirut, Lebanon. [Link](#)

¹²⁹ National Water Sector Strategy of 2020 estimated the total wastewater generation rate to be 275–328 Mm³ per year.

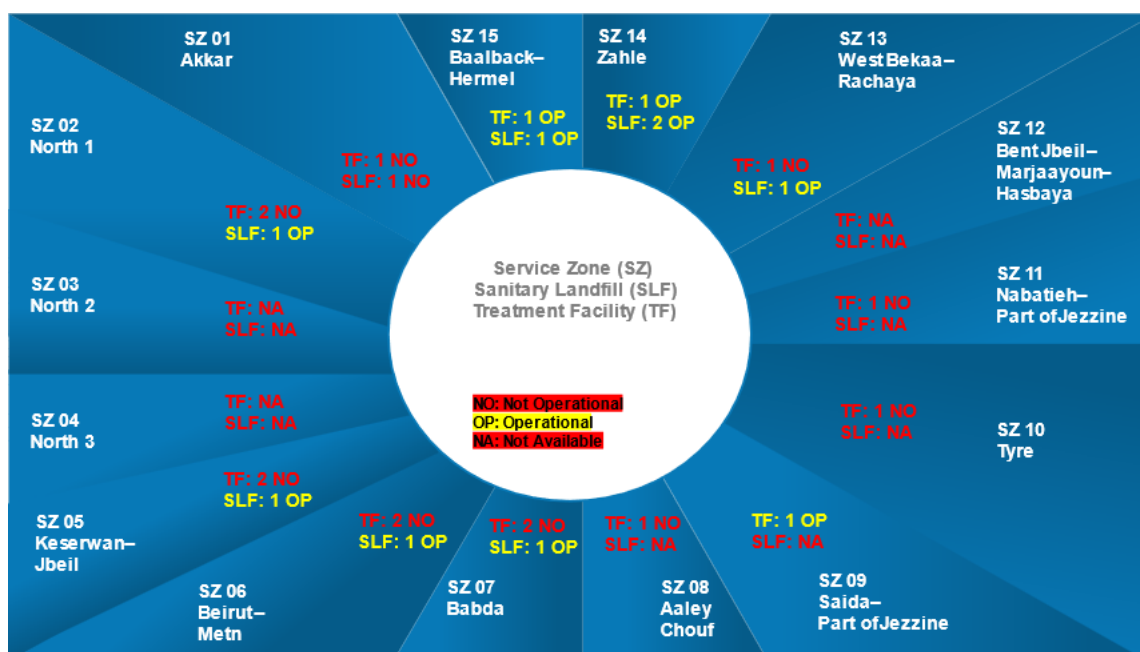
¹³⁰ MoEW. 2020. “Updated National Water Sector Strategy.” [Link](#)

¹³¹ Figures are based on the MoE strategic approach presented at the Council of Ministers on February 23, 2022.

shown that Lebanon has an available treatment capacity of 6,440 tons per day, which could cover the current rate of waste generation; however, facilities are operating at a capacity of only 440 tons per day.¹³²

127. **The waste treatment infrastructure is collapsing and open burning and dumping of waste are pushing the country to the verge of a public health crisis unless urgent and strategic interventions are advanced to ensure that basic services can be maintained or restored.** While around 77 percent of the total quantity of waste generated was disposed of in sanitary landfills (SLFs) and open dumps in 2018, the current trends show that around 99 percent of the total waste generated ends up in SLFs or open dumps. Moreover, the rate of open dumping has increased from 22 percent in 2018 to 42 percent in 2022. It is also noted that some service zones have no treatment facilities or SLFs (see Figure 23), and as a result, all the waste in these areas ends up in open dumps and is subject to open burning.¹³³

Figure 23. Disposal of solid waste in Lebanon, by Caza



Source: World Bank. 2023. *Lebanon’s Solid Waste Roadmap for 2023–2026*.

128. **Although the main mandate for SWM lies with the Ministry of Environment (MoE) at the central level and with local authorities at the regional level, SWM has been crippled by a lack of coordination across various bodies, further weakening the sector.** The main legal framework for solid waste governance is Law 80 of 2018 on Integrated Solid Waste Management (ISWM), which introduces main guiding principles, but the related application decrees and decisions have not all been drafted, endorsed, or implemented. The World Bank’s support to the sector has led to the development of a ‘Solid Waste Roadmap for Sector Reform and Priority Interventions in 2023–2026’,¹³⁴ which identifies financial sustainability of operations among the top priorities to avoid a complete collapse of the sector. The government is currently working on the promulgation of a solid waste cost recovery law that enables

¹³² World Bank. 2023. “Lebanon Solid Waste Roadmap 2023-2026.”

¹³³ These include the solid waste service zones of Akkar, North 2 and 3 (Zgharta-Bcharre, Koura-Batroun), Aaley-Chouf, Tyre, Nabatieh, and BintJbeil-Marjaayoun-Hasbaya.

¹³⁴ World Bank. 2023. “Lebanon Solid Waste Roadmap 2023-2026.”

municipalities to cover part of their operational costs. In the meantime, some municipalities have started informally applying local fees for SWM. Most municipalities spend more than 75 percent of their municipal budgets to collect and dispose of waste, and in some cases, municipalities are facing a large deficit due to SWM costs, which significantly affects their role in local development and their ability to provide other municipal services.

Transportation

129. **Lebanon’s transport sector has long suffered from weak institutional capacity, a lack of a comprehensive vision for the sector, and poor planning.** One of the reasons that the sector is poorly regulated and managed is that it falls within the authority of a multitude of institutions.¹³⁵ The delegation of responsibilities among these players is ambiguous, the separation of powers is unclear, even within each of these institutions, and accountability is nonexistent. Increased reliance on road travel is also the result of uncontrolled urban sprawl, which itself is a consequence of the absence of a national vision or strategy for housing.¹³⁶ Poor urban planning and the failure to adopt a holistic approach that recognizes that transport is intimately linked to a number of other infrastructural sectors and public services means that none of the problems that any of these sectors face is properly addressed. Instead, the customary fragmented and uncoordinated response produces policies that are reactive rather than proactive, unnecessarily costly, and inherently ineffective since they tackle problems in a single sector rather than also addressing cross-sectoral causes.

130. **Technical capacity has been lacking, budgeting inadequate, and sector data on the use and demand for transport services unavailable.** In addition to the lack of data, the sector has had limited human resources, particularly since the start of the economic and financial crises, with rising absenteeism among public sector employees due to the increase in commuting costs. Public transport vehicles (buses, minivans, and service taxis) are largely owned and operated by individuals, many of whom operate using duplicated/cloned red license plates or private vehicle license plates. Public transport services are unorganized, unreliable, unsafe, particularly for women, and inaccessible, particularly for people with limited mobility; the fleet is largely old, polluting, and in poor condition; and the infrastructure and facilities are limited and in dire condition as well. Public transport services do not operate on specific schedule and do not pick up and drop off passengers at specific locations. The Arab Barometer of 2021 revealed that 47 percent of women find the lack of transport to be a barrier to participate in the labor force.¹³⁷ Overall, the existence of informal public transport services could indicate that public transport demand is higher than what vehicles with formal red license plates can supply; however, the lack of recent demand data makes this difficult to confirm.

131. **The dramatic rise in the cost of public transport, when scaled to the minimum wage of LBP 2 million,¹³⁸ is alarming as increases in transport costs are regressive and cost is one of the main barriers to the use of public transport.** Transportation costs witnessed an average 324 percent increase in 2021. The nominal price of gasoline and diesel in local currency increased by a factor of 42–63 between January

¹³⁵ These include the Ministry of Public Works and Transport (MPWT), the Ministry of Interior and Municipalities (MIM), the Directorate General of Land and Maritime Transport (DGLMT), the Railways and Public Transport Authority (RPTA), the National Road Safety Council, and the Council for Development and Reconstruction (CDR).

¹³⁶ See the annex to this chapter for an analysis of the housing sector.

¹³⁷ Female labor force participation was at 25.7 percent in 2021.

¹³⁸ The minimum wage is still officially LBP 675,000 but a living allowance was provided by virtue of Decree 9129/2022 signed by the President of the Republic on May 12, 2022, increasing the total to around LBP 2,000,000.

2021 and February 2023.¹³⁹ Vehicle maintenance costs have also increased in local currency as spare parts are often imported and priced in US dollars. There is insufficient recent data on motorized travel, but various studies estimate the modal share of private vehicles pre-crisis to be around 68–81 percent of all motorized trips, with car ownership at one car per four individuals. Since the crisis, almost 75 percent of the Lebanese population has cut down on mobility and close to 60 percent has refrained from using their own cars and now use alternative means of transport.¹⁴⁰ The increase in transport costs makes a functional, reliable, and efficient public transport system a high priority.

132. Limited financial resources and insufficient investment in recent years have reduced the government’s capacity to undertake the maintenance of weak and rapidly decaying assets. This has resulted in increased wear and tear of the roads and bridges, costlier repairs, and heightened road safety risks. According to the World Economic Forum (WEF) report, road quality in Lebanon is particularly bad, ranking 127 out of 141. Lebanon’s poor road safety record¹⁴¹ represents a major drain on the economy and is the result of poor road infrastructure quality but also weak road safety management, poor driving, and a lack of enforcement.

133. The economic crisis and the Port of Beirut (PoB) explosion have exposed the port sector’s institutional weaknesses and inability to predict and respond to risk. There is currently no real port authority in Lebanon and the PoB has been under the management of a temporary administrative committee for the past 30 years amid a legal vacuum; various state bodies also have overlapping mandates over customs and security at the port. The explosion caused damage to the transport sector estimated at US\$280–345 million.¹⁴² Long-overdue institutional and legislative customs reforms also hinder Lebanese ports’ operational efficiency and increase the cost of international trade, which, in a country with as large an external sector, compounds into a large efficiency loss. The slow recovery of the PoB is intensifying the burden on the Lebanese economy, while opportunity costs are high given the recent port developments and increased competition in the Eastern Mediterranean region and globally.

Low climate adaptive capacity

134. Lebanon is both highly exposed to climate change and poorly prepared to face it.¹⁴³ Climate change in Lebanon will likely result in warmer temperature, a higher frequency of extreme weather events, and greater variability in rainfall. This will lead to a decrease in water availability, more surface runoff, and a higher risk of exposure to hazardous weather events including floods, erosion, droughts, winds, and overheating. Unless serious measures are taken to mitigate these risks, they will impose significant health and material costs. Yet Lebanon lags in climate preparedness because of low adaptive capacity. Compared to other MENA countries, Lebanon ranked 161 out of 192 countries in terms of

¹³⁹ The price of 20 liters of Gasoline 95 and diesel jumped from approximately LBP 28,000 in January 2021 to LBP 1,172,000 in February 2023, and from about LBP 19,000 to LBP 1,189,000, in February 2023, respectively.

¹⁴⁰ Konrad Adenauer Stiftung. 2021. “Study of Perceptions and Attitudes of Lebanese Citizens Toward the Economic, Social and Political Situation in Lebanon. Statistics Lebanon LTD.” [Link](#)

¹⁴¹ It is believed that road crashes are largely underreported due to the absence of an adequate national road crash data system. The Internal Security Forces reported 576 road crash fatalities in Lebanon in 2015 (78 percent male, 22 percent female), while the World Health Organization (WHO) estimated road crash fatalities to be 1,090 in 2016 (WHO. 2018. *Global Status Report on Road Safety*. [Link](#)). The Institute of Health Metrics and Evaluation reports 455 annual road accident deaths in 2019 ([Link](#)), while Abou EL Joud (2023) reports an average of 519 deaths per year between 2007 and 2022 ([Link](#)).

¹⁴² World Bank. 2020. “Beirut Rapid Damage and Needs Assessment.” [Link](#)

¹⁴³ A full analysis of the risk of climate change and of the economic costs of inaction is provided in the CCDR.

readiness to face climate change according to the Notre Dame Global Adaptation Initiative (ND-GAIN) and is ahead of only Yemen of all MENA countries.

135. **Lebanon's low adaptive capacity is a result of an inadequate and crumbling infrastructure, weak institutions, poor planning capacity, and a lack of political prioritization of climate preparedness.** The ongoing economic crisis has further eroded available resources and capital, whether human, physical or natural. As described earlier, the crisis has severely curtailed the operation of the facilities, already inadequate, in place for wastewater treatment and solid waste treatment.

136. **The human and material costs of rising temperatures, depleted water availability, extreme weather events from climate change are substantial.** Insufficient water availability during dry months is already imposing large costs on the health and well-being of households, agricultural yield, and the productive economy more generally. With higher rainfall variability, the availability of water is further compromised, so the risk of illness is compounded, but agricultural productivity also suffers from runoffs and erosion. The tourism industry is also affected by extreme weather events, including from the risk of floods and forest fires.

4. Public sector festering pathologies: Collapsing governance and institutions, hollowed-out state *Civil service*

137. **Structural inefficiencies have long plagued the civil service corps in Lebanon.** Non-competency-based hiring and promotion, lack of personnel performance management and skills-based training, high spending on compensation for certain sectors and grades, and inadequate workforce planning by central agencies have collectively produced gaps in the government's management of its fiscal and human resources, which have only been made worst in the present crisis.

138. **A costly symptom of the inertia and a serious obstacle to reforms is the absence of reliable and comprehensive data on the size of the public workforce and its breakdown by grade, type of contract, and salary.** Public sector employment has long been one of the sites in which the clientelistic bargain that has undergirded much of the political process is played out. Its size, distribution, and composition, if systematically tracked, would likely reflect the outcome of decades of corrupt rule in which public employment has been used for maintaining sectarian balance and cultivating patron-client relationships, while further fragmenting the state. Instead, the data available are typically anecdotal and based on loose aggregations with no possibility of checking accuracy. Such anecdotal estimates suggest that before the crisis, the civilian public administration counted 25,000 staff members, while 20,000 worked at state-owned and public institutions and another 20,000 in municipalities. The security forces employed 120,000, while the public education sector counted around 55,000 employees. Spending on wages and pensions amounted to 40 percent of the state budget. Until a database tracking both filled and vacant posts is created and maintained, however, the task of identifying existing competencies, needed skills, and areas of overstaffing and understaffing remains challenging. With the current woefully inadequate IT systems, which are not integrated across human resources and payroll, devising plans for a more efficient allocation of spending on public workforce compensation is all but impossible.

139. **The crisis has contributed to significant levels of staff attrition and absenteeism in the public sector, severely curtailing government functions and service delivery and further cementing institutional paralysis.** The rapid erosion of public sector salaries has meant that the civil service staff is barely able to afford basic day-to-day necessities, let alone cover fuel costs to commute to work. As a

result, a significant number of staff have quit, leaving a critical skills gap in the public sector. For staff that remain, there are high absenteeism rates, with a majority only coming into the office one day of the week. This has had a severe impact on core government operations and service delivery. Particularly hard hit is the government's spending and revenue work. Staff strength at the MoF is reported to have been seriously depleted, with 2 of 7 pre-crisis positions in the macro-fiscal department still filled, only 9 remaining staff members in the budget department, only half in the value added tax (VAT) unit, 120 in treasury with only 6 in cash management. There are also critical shortages among teachers and health care staff as well as in all other service delivery sectors.

140. **Government efforts to increase salary levels and preserve core functions have not been successful in incentivizing staff retention and attendance.** The government previously offered a tripling of basic salary as an allowance top-up to all public sector staff. Recently, this was updated to a further quadrupling of basic salaries for civilian staff, which now stand at sevenfold their pre-crisis pay. However, neither of these actions has been sufficient to offset the loss of purchasing power that staff have suffered, and the public sector continues to face attrition and absenteeism across all levels and grades. In the absence of a comprehensive salary adjustment mechanism from the top, many ministries have resorted to individual measures to support staff retention by seeking donor support. For instance, to adjust salaries while limiting absenteeism, the education sector benefited from a teacher salary top-up scheme in 2022, linked to presence on the job. Other ministries have similarly benefited from travel per diems and allowances offered by donors as part of wider technical engagements. This has contributed to wide-scale fragmentation and lack of cohesion in the compensation schemes of public sector staff as well as increased levels of staff demotivation due to the perception of pay inequity. The full scale and severity of the hollowing out of the state remains unknown as the government does not have an up-to-date database of baseline pre-crisis staff or the profiles of the staff that have left and those that remain. Even if the staffing and retention crises are addressed today, the backlog of activities means it will take a long while for operations to return to normal.

Digitalization

141. **Digital service delivery suffers from fragmentation, inefficiency, and interagency conflicts due to the lack of a suitable technological architecture and limited coordination at the political and technical levels to ensure alignment and buy-in.** The lack of foundational digital public infrastructure (DPI)¹⁴⁴ means the government is unable to deliver services digitally. In particular, Lebanon's weak national ID system, which lacks verifiable digital ID functionality to enable online use cases, makes it difficult for sectoral ministries to identify beneficiaries reliably, leading to fraud and corruption and reducing the accessibility of essential services. The lack of trusted data-sharing platforms further compounds the government's inability to deliver services efficiently, complicating routine operations such as eligibility checks for targeted social assistance services, due to the lack of trusted authoritative data sources available for verification.

142. **People's personal data managed by the government are at acute risk of cyberattacks, privacy breaches, and catastrophic loss due to a critical lack of secure data hosting capacity.** Poorly coordinated past investments in servers and other IT infrastructure by individual ministries have led to inefficient

¹⁴⁴ DPI refers to digital ID, payment, and data exchange capabilities that are fundamental to enabling service delivery at scale and supporting innovation in the digital economy. DPI provides re and foundational digital platforms that allow public and private sector service providers to build and innovate their products and services.

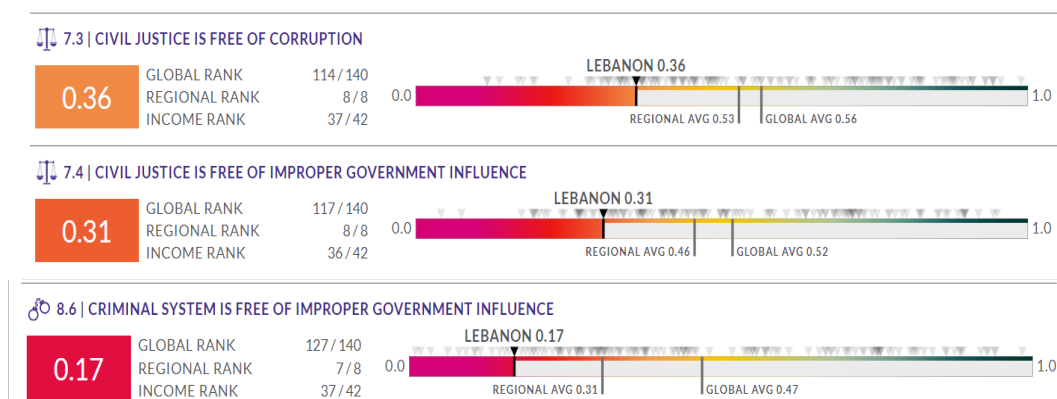
allocation of resources and haphazard growth. The crisis has led to further degradation of this infrastructure and increased security vulnerabilities due to the attrition of key staff and lapses in essential system maintenance. Most governmental data centers are rudimentary and fragmented, and the only backups are often on paper files, leading many ministries to improvise ad hoc backups as resources allow. The lack of a strategic approach to hosting governmental data has resulted in missed opportunities and a widening gap with comparable countries in the region. The low adoption of cloud technologies hampers cost-effective, scalable solutions, translating into missed opportunities for cloud market development and constraints to scaling of digital transformation.

143. **The operational risks in the digital sector include the inability to maintain existing governmental IT systems, retain staff, and protect equipment from theft.** In the absence of urgent IT hardware upgrades, the acquisition of new software licenses, adequate data hosting, and efficient digitalization, the services offered to citizens and residents are at risk of coming to a complete standstill.

Judicial system

144. **Lebanon’s judiciary continues to face integrity and independence challenges.** Judicial oversight is limited, and political interference in the judiciary continues unabated (Figure 24). The civil justice system ranks 117 and the criminal justice system ranks 127 out of 140 countries for improper government influence in the justice system, while the civil justice system scores well below the regional and global averages for corruption. The judiciary remains subject to executive authority in key areas such as appointment, promotion, and transfer of judges. The allocation of senior judicial positions is subordinated to sectarian quotas. The institutional deadlock has meant that for several years 6 of the 10 positions in the Cassation Court chambers were vacant.

Figure 24. Lebanon’s Rule of Law Index 2022



Source: World Justice Project.¹⁴⁵

145. **The justice system was already inefficient before the crisis and has now become cripplingly slow.**¹⁴⁶ It still relies on a paper-based management system and is plagued by the length of proceedings, the high rate of pending cases, the high number of appeals, and the insufficient number of judges allocated to courts. The system’s performance was further affected by the COVID-19 pandemic. In

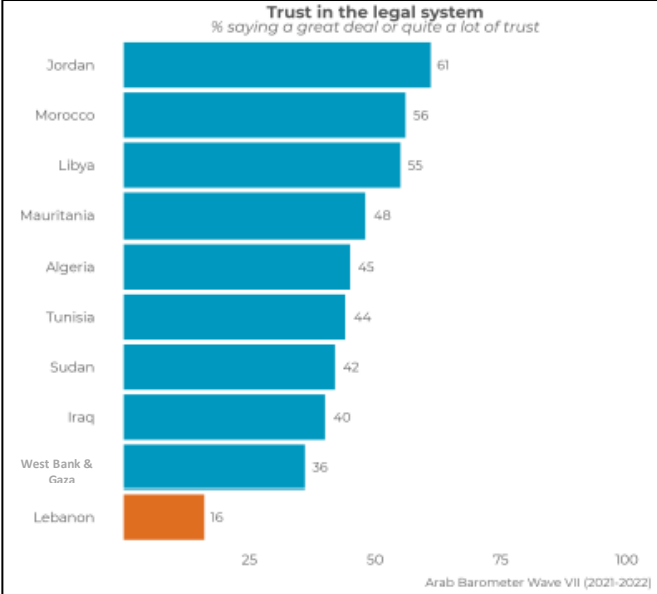
¹⁴⁵ [Link](#)

¹⁴⁶ Lebanon’s civil and administrative justice systems rank 102 and 113 respectively out of 140 countries for the unreasonable delays in the courts. World Justice Project. 2022. *Lebanon Country Report*. [Link](#)

addition, a significant number of judges and judicial staff went on strike from late summer 2022 until January 2023 to protest low pay due to the financial crisis. Even after the end of the strike, the backlog of cases continues to grow, as judicial staff are only working one day per week. The judiciary lacks financial independence and operates with severe financial and human resource shortages and a lack of systematic capacity building.

146. **It is not surprising that Lebanese citizens have nearly lost all trust in the legal system**, according to Wave VII of the Arab Barometer Survey (Figure 25). Only 16 percent of Lebanese have a great deal or a lot of trust in the legal system, a full 20 percentage points below the next worst jurisdiction in the region.

Figure 25. Trust in the legal system in the Arab region



Source: Arab Barometer Wave VII (2021–2022).¹⁴⁷

147. **There has been little progress in improving the independence of the judiciary or the efficient delivery of justice services.** A law on the independence of the judiciary has been stalled in Parliament for a number of years even after the Venice Commission¹⁴⁸ provided a set of detailed comments on how to improve the initial draft. A parallel law on the independence of the State Council or administrative justice system is suffering the same fate. Despite the existence of institutions for judicial self-governance, in reality, crucial, comprehensive governance and justice reforms to establish a properly functioning and trustworthy judiciary remain outstanding.

¹⁴⁷ [Link](#)

¹⁴⁸ Officially called European Commission for Democracy through Law, the Venice Commission is an advisory body of the Council of Europe, composed of independent experts in the field of constitutional law.

5. Human capital losses that linger: Inequality, divestment, and flight

148. **Lebanon’s Human Capital Index (HCI) is 0.52, meaning a child born in Lebanon will only be 52 percent as productive when s/he grows up as s/he could be if s/he enjoyed complete education and full health.** However, the HCI was calculated using data from 2020, which means it does not capture the deterioration in human capital due to the compounded crises of recent years. For instance, Lebanon witnessed the biggest drop in Human Development Index (HDI) of any country in the world between 2019 and 2021, dipping below any past year on record, and below the world average HDI for the first time.¹⁴⁹

Social protection

Pre-crisis inadequacy

149. **The social protection system in Lebanon has historically suffered from the absence of a plan and strategy for adequate and comprehensive protection for those in need.** By definition, social programs include social assistance, labor market programs, and social insurance. Despite government spending on social protection reaching 6 percent of GDP in 2019,¹⁵⁰ the bulk of it—93 percent—was on social insurance, compared to only 4 percent on social assistance. Spending on social assistance specifically has been consistently low and does not meet the needs of the poor and vulnerable: only 13 percent of social assistance spending was targeted to those in need in 2020, while 87 percent took the form of generalized government spending. Labor market programs have historically been insufficient, fragmented, and inefficient, with limited impact on employment.

Crisis: Emergency expansions

150. **In response to the increase in poverty and vulnerability in the current crisis, the government has made some effort to strengthen and expand its social safety net program while also approving a new social protection strategy.** The government has expanded the coverage of the donor-funded National Poverty Targeting Program (NPTP) and launched the World Bank-supported Emergency Social Safety Net Project (ESSNP), both of which target support to the extreme poor in Lebanon (estimated at around 22.5 percent of the population before the completion of the LHS).¹⁵¹ In parallel, the government established a fully digitized national social registry (DAEM) that enabled a rapid, effective, and efficient delivery of social assistance to those in need.

151. **In addition to targeting the most vulnerable with cash assistance, ESSNP’s objectives are to keep public school children ages 13–18 enrolled.** ESSNP also provides access to social services. More importantly, the project aims to build a sustainable national social safety net system in Lebanon. To date, the project managed to register 45 percent of the Lebanese population and provided cash transfers to 93,000 beneficiaries. Results from post distribution monitoring (PDM) indicate that the program has been successful at targeting vulnerable groups, particularly female-headed households. PDM results also indicate that ESSNP cash transfers are playing a major role in reaching beneficiaries most at risk of depleting human capital: three out of four beneficiary households had reported reducing health or

¹⁴⁹ United Nations Development Programme. 2022. “Human Development Report 2021-22.” [Link](#)

¹⁵⁰ World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#)

¹⁵¹ NPTP and the ESSNP together cover around 17 percent of the Lebanese in extreme poverty. NPTP only covered 1.5 percent of the Lebanese population before the crisis, but has been scaled up from 15,000 in 2019 to 74,790 beneficiary households in March 2023 with monthly benefits of approximately US\$126 per household. ESSNP was introduced in 2021 with 18,000 beneficiary households and aims to expand to 160,000 households.

education expenses, withdrawing children from school, or selling productive assets during the crises, to buy food (90 percent) or cover health expenses (52 percent).

152. **Lebanon’s pension arrangements continue to be a large and growing financial burden on national finances and therefore on taxpayers.** Their total cost represents around 3 percent of GDP but only around 2 percent of the population is currently benefiting from it. The drain on public resources from paying retirement incomes has crowded out support for other important policy programs. The recently approved social security law introduces a new pension scheme for private sector workers and fundamentally reshapes the National Social Security Fund (NSSF). The system will require at least two years to be implemented and resources for its sustainable financing also hinge on the success of the rollout (see chapter 4).

153. **The government has developed and endorsed a new National Social Protection Strategy (NSPS), which outlines a comprehensive and holistic vision for social protection.** The strategy covers social assistance, social insurance, social welfare, financial access to basic services, and economic inclusion and labor activation. The success of the NSPS implementation depends largely on the availability of funding (in the form of both donor financing and government budget financing). Both limited fiscal space and lack of donor appetite severely undermine the ability to successfully and comprehensively implement the strategy.

Health

Pre-crisis inequality

154. **Health expenditure has been inefficient, regressive, and wasteful.** In 2018, Lebanon spent 8.3 percent of its GDP on health, a figure that is higher than other comparable MENA countries. Health expenditures per capita increased over the last decade from US\$515 in 2009 to US\$686 in 2018, representing 6.99 percent and 8.35 percent of GDP, respectively. Private expenditure constitutes the bulk of health spending in Lebanon. In 2017, more than half (53.4 percent) of the total health expenditure (THE) was financed by households, including through out-of-pocket (OOP) and private health insurance premiums. The level of OOP is significantly higher than the level observed.¹⁵² Pharmaceutical spending is a large driver of the high health care costs at 45 percent of total health expenditures, 53 percent of OOP expenditures, and 3.5 percent of GDP (2019)—one of the highest rates in the region. Drug prices were historically high because a Lebanese Drug Agency law was passed only in 2021. Before this, the system suffered from an absence of any price-setting mechanism for prescription drugs (the Ministry of Public Health’s [MoPH] price setting has been defined by brands, not molecules), a reliance on imported (95 percent of need) and branded drugs, and an absence of criteria based on health technology assessment.

155. **Health care arrangements in the country remain fragmented.** A diverse range of providers, insurance coverage schemes, and stakeholders constitute the health system in Lebanon, with a strong participation of the private sector. The main government-sponsored insurance provider has been the NSSF for the formal sector, Insurance for Security Forces, and the Cooperative of the Civil Servants for public sector employees. In addition, private insurance and privately held mutual funds offer supplementary coverage with varied pool sizes and benefit packages. The private sector insurance plans are considered unaffordable for most of the population and regressive overall. Before the crisis, 51 percent of the

¹⁵² Public funding (46.6 percent of total expenditure) includes treasury and social contributions to social security as well as public mutual funds and external donors’ contributions.

population reported some form of health insurance. For those uninsured, MoPH has acted in practice as an insurer of last resort, using over 73 percent of its budget to subsidize hospital costs billed by contracted private (63 percent) and public (37 percent) providers. Finally, the UNHCR, through its network of providers and partners, offers coverage of specific primary care and hospital care interventions for Syrian refugees and other persons of concern under its legal protection, with a coverage of 969,641 people (2018). This fragmentation has restricted the stewardship role of MoPH in the sector, as each guarantor is governed by the sector it covers, limiting institutional coordination.

156. **Primary health care (PHC) services are funded mainly by international donors, provided primarily through private facilities with support from nongovernmental organizations (NGOs).** MoPH has been supporting a network of primary health care centers (PHCCs) by providing in-kind support (essential medicines, vaccines, training, and so on) and capacity building. MoPH also monitors standards for services provided by PHCCs in the network, for effectiveness, safety, care integration, minimal skills, and information. However, regulation for actors outside the PHCC network has been less rigorous. While patient satisfaction in PHC has been reportedly high, the current and overwhelming demand for services may affect this perception.

157. **Lebanon’s approach to health care has traditionally been skewed toward curative care.** The coverage of major government-sponsored services (NSSF, Army, and MoPH) has been centered on hospitalization and specialized care, typically at private facilities, while routine, primary, or prevention services were not covered sufficiently (or at all). Public spending on health care is therefore ineffective, too large, and regressive. Hospital and other higher-level services are disjointed from the other actors of the system, blocking any possibility of continuum of care across all levels. Access is usually geared toward specialized services and hospital emergency services, which has created inequality in access to services; typically, the most vulnerable Lebanese and foreigners seek health care offered by non-profit organizations, with limited services and variable quality, while better-off populations use secondary and tertiary care covered by private insurance and the NSSF.

Crisis: Forced divestment

158. **The government’s capacity to provide financial support for health has been reduced to a minimal level.** MoPH has seen its health budget slashed from US\$485.9 million in 2018 (or 8 percent of GDP) to less than US\$37 million in 2022 (2 percent of GDP). Previously MoPH used to subsidize up to 90 percent of hospital fees for around 50 percent of the Lebanese population but currently the share covered by MoPH has dropped to less than 10 percent, with the rest covered by the patient. Government subsidies for most medicines were scrapped. According to the Lebanon displacement country brief (March 2022),¹⁵³ refugees have also affected Lebanon’s health system through increased demand for health care services. A key consequence of the weakening of the public sector is the lack of relevant, timely, and disaggregated health statistics to inform strategic decision-making.

¹⁵³ UNICEF, UNHCR, and WFP. 2021. “Vulnerability Assessment of Syrian Refugees in Lebanon, 2021.” [Link](#)

159. **Among the losses that linger are those in public health infrastructure and inputs that the government is still in no position to recover today.** The PoB explosion in 2020 damaged 292 of the country's 813 health facilities with damages valued at US\$95–1,115 million. The health workforce has seen an exodus of highly qualified health personnel because of the crisis. The WHO estimates that at least 30–40 percent of medical doctors and nurses have left the country either permanently or temporarily.

160. **The compounded crises have further deepened the gap in coverage and access to essential health services.** The share of households deprived from health care increased from 9 percent in 2019 to 33 percent in 2021, and it is estimated that this share has grown larger since. As mentioned in chapter 2, health is the most common dimension of deprivation among households that are multidimensionally poor. The deterioration of socioeconomic conditions has contributed to the reappearance of public health threats not seen in a long time, such as the cholera outbreak in 2022, reporting up to 8,000 confirmed and suspected cases and 23 deaths.¹⁵⁴ Imports of pharmaceuticals fell by 60 percent and of medical supplies by 80 percent. Many hospitals and health care centers have increased prices or prioritized cash-paying patients, creating additional financial barriers for vulnerable populations. Hospitalizations have decreased by 50 percent, particularly for surgeries, and the average hospitalization days per month decreased by 25 percent.

161. **Worsening food insecurity is taking a heavy toll on health and human development outcomes, and Lebanon is increasingly affected by the double burden of malnutrition.** As documented in chapter 2, food insecurity is on the rise. Food prices have risen substantially faster than the general price level,¹⁵⁵ exacerbating food insecurity in the country. Thus, 16.5 percent of children under five were affected by stunting in 2021. According to HRW, among the bottom four quintiles, nearly 20 percent of households reported running out of food.¹⁵⁶ The Gallup survey shows that the share of adults who report lacking money for food has gone from 14 percent in 2018 to 45 percent in 2020 and 53 percent in 2021.¹⁵⁷ The Arab Barometer Wave VII survey in 2021 finds that 48 percent of Lebanese households report having run out of food and money to buy more food, while 63 percent worry about food running out before they can afford to buy more.¹⁵⁸ UNICEF reports that 23 percent of children have gone to bed hungry in the three months before the survey and 70 percent of households buy food on credit. The number of children who had to skip a meal rose to 53 percent in October 2021, up from 37 percent six months prior.¹⁵⁹ These findings are quite alarming as, even if food inflation slows down, the World Bank Economic Update for the Middle East and North Africa (April 2023) shows that even temporary food price inflation can increase food insecurity with long-term, irreversible damage, affecting children the most.¹⁶⁰ At the same time, according to the Food and Agriculture Organization of the United Nations (FAO), obesity has been rising in both rural and urban areas even before the recent crisis and affected 32 percent of adults in 2020, due to changes in dietary patterns.¹⁶¹

¹⁵⁴ WHO. 2023. "MOPH Health Brief." October 13, 2023.

¹⁵⁵ While average annual inflation almost doubled over 2020 to 155 percent in 2021 and then rose further to 171 percent in 2022, food inflation climbed by 254 percent, 311 percent, and 240 percent in 2020, 2021 and 2022, respectively.

¹⁵⁶ [Link](#)

¹⁵⁷ [Link](#)

¹⁵⁸ [Link](#)

¹⁵⁹ UNICEF. 2022. *A Worsening Health Crisis for Children, the Consequences of the Failing Health System Has Immediate and Long-Term Impacts on Children.* [Link](#)

¹⁶⁰ World Bank. 2023. *Altered Destinies. Middle East and North Africa Economic Update.* [Link](#)

¹⁶¹ [Link](#)

162. **As a result of the crisis, PHCCs have become the main point of access to health services.** The demand for services in PHCCs rose steeply by 73 percent from 2020 to 2021, without a corresponding increase in funding. As the share of employment reported as informal has increased from 35 percent in 2018 to 48.3 percent in 2022, people who have lost health insurance are flocking to PHCCs. In addition, Syrian refugees accounted for at least 35 percent of the PHCC beneficiaries. By the second quarter of 2023, 57 percent of PHCC consultations were from Lebanese health care users, and 43 percent were Syrian.¹⁶² In 2021, MoPH established the donor-funded Long-Term Primary Care Subsidized Protocol (LPSP) which provides vulnerable populations with PHC-based packages that include prevention, maternal and child health, care for noncommunicable diseases and communicable diseases, disability care, and psychosocial support. This package is funded through international aid and implemented in a limited number of NGO-supported PHCCs.

Education

Pre-crisis inequality

163. **Lebanon’s education sector is characterized by multiple parallel modes of provision, including public, free private, and fee-based private schools, functioning independently from each other.** In 2018, around 59 percent of students were enrolled in private schools (excluding United Nations Relief and Works Agency for Palestine Refugees in the Near East, which represents 1.5 percent of schools and 3 percent of students); in 2020, this proportion decreased to 54 percent. With the onset of the economic crisis in 2019–2020, many private school Lebanese students began transitioning to public schools as families were no longer able to pay tuition fees at private schools.

164. **Households carry the biggest burden of education costs.** The GoL spends US\$1.2 billion on education and households an additional US\$1.5 billion. The proportionately high private expenditure on education effectively leads to large inequities, and educational success is largely a function of socioeconomic background.¹⁶³ In addition, public spending levels are insufficient by international comparison.¹⁶⁴ Government expenditure on education has decreased from 2 percent of GDP in 2019 to 1.8 percent in 2020.¹⁶⁵ The share of total government expenditure that went toward public education went down from US\$1.08 billion in 2015 to US\$349 million in 2020 (from 6 percent to 9.4 percent of GDP in 2020) ([Figure 26](#)); however, by 2022 it had dropped back to 7.5 percent of GDP.

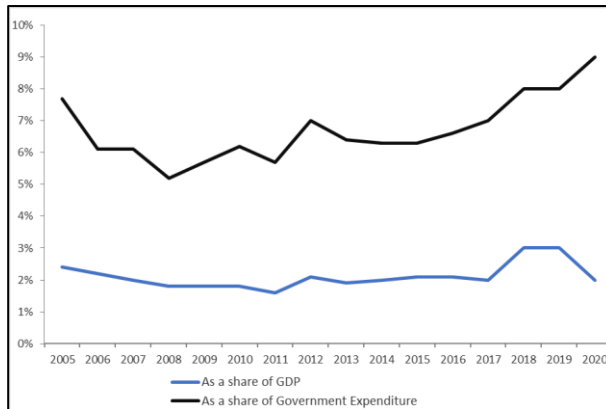
¹⁶² UNHCR ([Link](#)).

¹⁶³ World Bank. 2017. *Lebanon Education Public Expenditure Review*. [Link](#)

¹⁶⁴ The Education 2030 Incheon Declaration calls for countries to spend between 4 percent and 6 percent of their GDP or at least 15 percent of total public expenditure on education.

¹⁶⁵ World Bank. 2017. *Lebanon Education Public Expenditure Review*. [Link](#)

Figure 26. Education financing as a share of expenditure and GDP over time

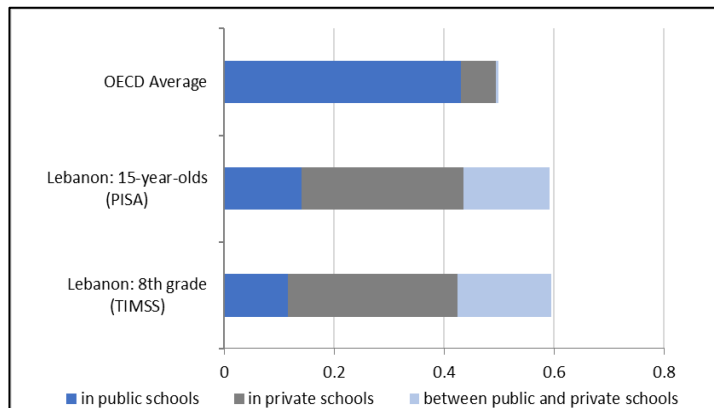


Source: World Bank staff based on Ministry of Education and Higher Education data, Edstats, IMF, and MoF.

165. **Inadequate and fragmented data systems have resulted in poor accountability and a limited possibility for planning.** Data are currently limited to the school level within the public sector, meaning valid and reliable education sector data are not accessible to policy makers and other stakeholders. Furthermore, the lack of a unified data system and lack of policies and procedures linked to transparency underly the issues causing mistrust within the sector, such as the ongoing allegations of fraud and corruption within the sector.

166. The combination of insufficient financing, large private provision, and inadequate monitoring and supervision of quality may explain why Lebanon is one of the countries with highest socioeconomic school segregation (among countries participating in Trends in International Mathematics and Science Study [TIMSS] and the Programme for International Student Assessment [PISA]); disruptions to public schooling over the past four years have only exacerbated this gap (Figure 27).

Figure 27. Segregation decomposition for the 1st and the 5th decile of socioeconomic background



Source: World Bank based on TMSS 2019 and PISA 2018 data. Socioeconomic segregation is measured in Hutchens decomposition index for segregation of low-ESCS students. Segregation takes values from 0 (no segregation) to 1 (full segregation).

167. **Higher education financing is structurally suboptimal.** Approximately 20 percent of the MEHE budget is allocated to the Lebanese University, which enrolls only 36 percent of the higher education population in the country. Financing at the Lebanese University is input based (by student), rather than performance based. A large share of LU budget goes toward salary payments, leaving little funding (less than 1 percent) for research and development that could improve the quality of education and academic output and provide better learning resources for students. Institutionally, the university is limited in the possibilities of revenue-generating activities.

Crisis: Forced divestment

168. **Enrollment has dropped by 5.33 percent in 2022–2023 from the previous year.**¹⁶⁶ According to the UNHCR, approximately 300,000 refugee children in Lebanon (48 percent of total migrant children 18 years or younger) were not enrolled in formal or informal education in 2020–2021 (Table 7). Approximately 45 percent of school dropouts in Lebanon are students from difficult social and economic backgrounds.¹⁶⁷ School dropouts will likely rise as families struggle to cover education costs.¹⁶⁸ In a 2021 study conducted by World Vision, 10.8 percent of the households surveyed reported having at least one child age 3 to 18 years engaged in child labor. This is especially common for boys.¹⁶⁹

Table 7. Enrollment by school year and shift

| Type of school | 2018–2019 | 2019–2020 | 2020–2021 | 2021–2022 | 2022–2023 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Private schools | 564,446 (54%) | 558,068 (53%) | 514,988 (49%) | 567,965 (54%) | 611,385 (57%) |
| <i>Lebanese</i> | 510,317 | 501,732 | 461,519 | 492,826 | 521,883 |
| <i>Non-Lebanese</i> | 54,129 | 56,336 | 53,469 | 75,139 | 89,502 |
| Public schools | 485,412 (46%) | 491,215 (47%) | 535,361 (46%) | 488,143 (41%) | 462,117 (43%) |
| <i>First shift</i> | 332,126 (68%) | 342,303 (69%) | 384,741 (72%) | 336,301 (69%) | 302,099 (65%) |
| <i>Second shift^a</i> | 153,286 (32%) | 148,912 (31%) | 150,620 (28%) | 151,842 (31%) | 160,018 (35%) |
| Total | 1,049,858 | 1,049,283 | 1,050,349 | 1,056,108 | 1,073,502 |

Source: a. UNICEF and MEHE, and SIMS for the second shift public school enrollment only.

169. **Public school students have therefore experienced serious disruptions in their schooling for four consecutive years because of COVID-19, an increase in education costs, a reduced academic calendar, and teacher strikes.** Power cuts, limited access to the internet, and unavailability of electronic devices were barriers to schooling during the pandemic. In addition, children dropped out of school for not being able to afford the cost of education materials and transportation and for needing to work to support their families.¹⁷⁰ Even for those in school, attendance rates in the afternoon shift dropped from previous years.¹⁷¹ Public school teachers were on strike for most of the 2022–2023 school year to protest the erosion of their salaries and benefits as a result of the macroeconomic crisis. Both morning and afternoon

¹⁶⁶ Based on CERD data and SIMS data.

¹⁶⁷ Lebanon Education Sector. 2021. *Impact of Economic Crisis and COVID 19 on Education in Lebanon Secondary Data Review Report*.

¹⁶⁸ UNESCWA. 2021. “Multidimensional Poverty in Lebanon (2019–2021): Painful Reality and Uncertain Prospects.” [Link](#)

¹⁶⁹ World Vision. 2021. “Caregiver Perceptions and their Influence on Child Education and Labor Across Different Areas in Lebanon.” [Link](#)

¹⁷⁰ Shuayb, M., and M. Hammoud. 2021. “The Protracted Reality of Syrian Children in Lebanon: Why Go to School with no Prospects?” Center for Lebanese Studies. [Link](#)

¹⁷¹ UNICEF, UNHCR, and WFP. 2021. “Vulnerability Assessment of Syrian Refugees in Lebanon, 2021.” [Link](#)

shifts (for non-Lebanese students) of public schools were closed for 10 weeks during this academic year. These disruptions are only further exacerbating the inequality in the intensity and quality of human capital investments between public and private school children.

170. **The resulting learning loss is estimated to push learning levels in Lebanon down to some of the lowest in the MENA region.** Using a learning loss simulation model developed during COVID-19, the estimated losses are 1.0–1.2 learning-adjusted years of schooling (LAYS) due to pandemic-related closures and an additional 0.8–1.0 LAYS due to strikes. They put the learning levels at 4.1–4.5 LAYS, on par with pre-pandemic levels in Yemen (4.2) and Iraq (4.0) and down from 6.3 LAYS in 2020, close to the level in Morocco. In April–May 2022, data from an Early Grade Reading Assessment (EGRA) administered in 87 public schools targeted by the Quality Instruction Toward Access and Basic education Improvement (QITABI) program showed that only 2.8 percent of grade 2 students had intermediate level or above reading comprehension compared to 11 percent in 2018.¹⁷²

171. **These learning losses translate into earning losses throughout the students’ working lives estimated at 6.5–7.8 percent in future earnings.** An individual student can expect to lose between US\$2,125 and US\$2,482 over the course of his/her working life, which would translate into US\$400–500 million in losses to the Lebanese economy in the coming decades. Learning losses will continue to accumulate if the resources are not availed to retain quality teachers and to complete the curriculum review.¹⁷³ The widening quality gap between public and private education, through its effects on job prospects and earnings, means the disparities between rich and poor are transmitted to the next generation.

172. **Civil servant teacher salaries by the end of 2022 are less than 3 percent than that in 2019.** A teacher’s basic salary, which was equivalent to US\$1,100 in 2019 was worth approximately US\$18.6 in January 2024 and is further losing value with the depreciation in the value of the currency. In addition to the multiple strikes among public school teachers, this depreciation in earnings has pushed many teachers to leave the profession. Between the school years 2018–2019 and 2022–2023, the teachers’ body decreased by 18.6 percent. It is expected that more teachers have left the sector since and that teachers are continuing to leave the sector. Contractual teachers too have seen a precipitous decline in their pay, as their basic remuneration went from around US\$13 per hour to around US\$1 per hour.

¹⁷² QITABI. 2018. *QITABI 2 Learning Recovery Study Report*. [Link](#). QITABI. 2022. *QITABI 2 Literacy and Numeracy Baseline Report*. [Link](#). Importantly, the 2022 QITABI study was administered remotely by phone, while the 2018 study was administered in person, thus limiting data comparability across the two rounds.

¹⁷³ World Bank. 2023. *Another Lost Year: Estimating the Educational and Economic Costs of Lebanon’s Public School Closures in 2022-23*. [Link](#)

Table 8. Distribution of teachers by type of school

| Teachers per school type | 2018–2019 | 2019–2020 | 2020–2021 | 2021–2022 | 2022–2023 | % change 2023/2018 ^a |
|---------------------------------|----------------|----------------|----------------|---------------------|---------------|---------------------------------|
| Fee-based private | 51,377 | 51,215 | 45,310 | 44,727 | 47,054 | -8.4 |
| Free private | 7,703 | 7,468 | 6,456 | 6,542 | 6,359 | -17.5 |
| Public school | 50,573 | 49,234 | 47,611 | 50,591 | 47,733 | -5.6 |
| Public school shift 1 | 41,792 | 40,796 | 39,516 | 37,139 | 35,910 | -14.1 |
| Public school shift 2 | 8,781 | 8,438 | 8,095 | 13,452 ^b | 11,823 | 34.6 |
| | | | | | | |
| UNRWA | 1,622 | 1,658 | 1,626 | 1,652 | 1,655 | 2.0 |
| Total number of teachers | 111,275 | 109,575 | 101,003 | 103,512 | 90,596 | -18.6 |

Source: CERD Statistical Bulletin (Multiple years), RACE II (September 2019).

Note: a. Changes reported for 2023/2018, except for public school shifts 1 and 2, which is reported for 2021/2018.

b. SIMS data as of May 31, 2022.

173. **Because of the civil service hiring freeze since 2017, retiring civil servant teachers have only been replaced by contractual teachers, recruited with less scrutiny and poorer training, and financed more regressively and unsustainably.** Approximately 70 percent (41,000 out of 60,000) of public school staff are contractual, 25,000 funded by the GoL, working morning shifts for Lebanese children and 16,000 funded by donors, working afternoon shifts for refugee children. Additionally, with the increased rate of teacher exodus, public schools are resorting to the hiring of contractual teachers on ad hoc unsustainable financing resources, such as school funds, parents' funds, and municipality financing. This fragmentation of the teaching force leads to inefficiencies in teacher utilization, inequalities in teacher quality, and disparities in teacher pay, brewing discontent among the different categories of teachers. For example, in the wage bill passed in 2017, there was an increase in the salaries for civil servant teachers but not for contractual teachers.

174. **The Lebanese University is heavily reliant on government funding (94 percent of its financing in 2020), which makes the institution more susceptible to fiscal and economic challenges.** As a result of the economic crisis, the value of the university's budget dropped from US\$243 million per year before 2019 to US\$14 million per year in 2022.¹⁷⁴ The salaries of faculty and staff have drastically lost value and are still not protected from the risk of further currency depreciation. Historical reliance on part-time faculty and the current imperative for even full-time faculty to engage in work outside the university further depress the quality of education. The Lebanese University, like the education sector at large, has also lost faculty members. The number of tenured faculty members decreased by 22 percent from 2,461 in 2013–2014 to 1,910 in 2019–2020, whereas the number of part-time faculty members increased by 16 percent from 3,699 in 2013–2014 to 4,296 in 2019–2020. The crisis has also crippled the university's capacity to cover its operational costs that are critical for ensuring quality education provision. Additionally, enrollment has dropped drastically from 81,116 in 2018–2019 to 58,894 in 2023–2024, with an even more alarming reduction in the number of graduating students (from 15,357 to 8,733).

¹⁷⁴ World Bank. 2022. *Lebanon - Public Finance Review: Ponzi Finance?* [Link](#)

IV. CHAPTER 4: LEBANON'S OPPORTUNITIES: POLICY PRIORITIES AND HIGH-LEVEL OUTCOMES

175. **Given the most critical nested constraints identified in chapter 3, four high-level outcomes (HLOs) are proposed to move Lebanon toward the achievement of the goals of poverty eradication and boosting shared prosperity: HLO1: restored macroeconomic and financial stability** to foster economic growth and arrest the erosion in living standards and purchasing power; **HLO2: improved access and accountability in the provision of basic public functions through better governance** to recover essential services and reduce inequality in access; **HLO3: improved public utilities** to enable the population to meet their basic needs, improve their standard of living, and build household resilience to climate change related shocks; and **HLO4: improved and more equitable human capital**. Several priorities across various sectors are mapped to each of these HLOs.

176. **Corresponding to the constraints discussed in chapter 3, this chapter identifies 11 possible policy priority areas grounded in their potential to contribute to achieving the four HLOs.** In line with the prioritization of critical constraints in chapter 3, the country's priorities were assessed based on their potential impact on the World Bank's goals and prospective recovery pathway, confirmation of their key role through the knowledge/analytical work developed, and consultations with external partners and experts. Priority goals toward achieving HLO1 of macroeconomic and financial stability are (1) financial sector reform and banking sector restructuring to recover a functional financial market, (2) fiscal reform and debt restructuring for fiscal sustainability, and (3) recovering fiscal space through revenue mobilization and fiscal consolidation. Priority goals toward achieving HLO2 of a more functional public sector are (1) improving public sector human capital through civil service reform and (2) investing in DPI for more transparent, efficient, and accessible digitalized services. Priorities for advancing HLO3 of improved public utilities are (1) transitioning toward cleaner fuels for energy and shifting toward renewables; (2) reforming transportation to a low-carbon, sustainable, and safer sector; and (3) improving storage and operations in the water and wastewater treatment sectors. Priorities to achieve improved and more equitable human capital under HLO4 are (1) expanding social protection; (2) improving PHC access, coverage, and services; and (3) reforming human capital, management, and operations in the education sector for better access and quality.

177. **As identified in chapter 1, the two overarching constraints are the current pillars of the ever-evolving interplay of a domestic political structure and regional and foreign forces, to which Lebanon has historically been disproportionately susceptible.** However, this domestic structure and these regional forces are in perpetual motion and so is, as a consequence, their interplay. While the overarching constraints at this particular juncture have provoked, then prolonged, the economic crisis, they too are in flux and may evolve in different directions. Given the high uncertainty that plagues the domestic and regional landscape, and more than four years of deliberate delay in crisis resolution, we consider two scenarios of how the overarching constraints identified will develop over the coming five years or remain bottlenecks hindering any prospective recovery path.

178. **The muddling through scenario (that is, status quo) is predicated on the interaction between the domestic political structure and the geopolitical landscape remaining unfavorable and the overarching constraints still limiting, if not completely hindering, the prospects of the World Bank's goals.** In this scenario, the political economic model that has been in place since the end of the civil war is substantially diminished but is still not replaced. The flows on which the business elite preys are severely

atrophied and the channels and tools for predation are updated, but the dependence on inflows, the low level of productivity, and the degree of inequality all worsen.

179. **The recovery scenario assumes that the movements in the domestic political structure and the regional political climate result in a resolution to the crisis that makes decision-making possible.** The space created for decision-making lifts, at least partially, the overarching constraint of institutional paralysis, and therefore allows some measures to be adopted that also loosen the grip of some of the nested constraints.¹⁷⁵

180. **The scenarios imply different policy possibility frontiers,¹⁷⁶ so action items to address priorities under each HLO are developed separately by scenario.** For each priority, actions proposed under the muddle through scenario pave the way for the more ambitious interventions proposed under the recovery scenario. [Table 9](#) provides an illustration of mapping the priorities to the HLOs and the consequent suggested policy actions under each scenario.

¹⁷⁵ It is beyond the scope of this diagnostic to describe the kind of political developments that would bring about either scenario. Instead, the scenarios are posited and provide the basis for analyzing avenues for lifting the nested constraints.

¹⁷⁶ For a more detailed characterization of the possibility constraints in the muddling through scenario, please refer to the annex to chapter 4.

Table 9. High-Level Outcomes

| HLOs | Priorities | Priority policy choices | |
|---|--|---|---|
| | | Muddling through scenario | Recovery scenario |
| Restored macroeconomic and financial stability and private sector support | Restructure the banking sector to recover a functional financial market | Unifying and stabilizing the exchange rate | Comprehensive regulatory, structural, and prudential reform of the banking sector and the central bank |
| | Develop the non-banking financial sector and expand access to credit for private sector support | Fostering growth in sectors of promise | Non-banking financial market development and expansion of access to credit |
| | Fiscal reform and consolidation | Emergency measures for domestic revenue mobilization | Fiscal consolidation and reform: debt sustainability, public finance management, and tax reform |
| Improved delivery and accountability in provision of basic public services to reduce inequality in access | Preserve public sector human capital through civil service reform | Full-fledged assessment of the public sector workforce and functions, identification of essential services, basic salary adjustment, digitalization of an integrated human resource payroll database of public sector employees | Reform recruitment, retention, promotion, and benefit packages to map competencies and link public human resource management to need, merit, and performance |
| | Install a DPI for more transparent, efficient, and accessible digitalized services | Transition to new, DPI-enabled architecture to promote scalability and trust in digitalized service delivery, leverage DPI to digitalize high-priority services | Implement the 2020–2030 National Digital Transformation Strategy and associated legal and institutional reforms that are required to improve the trust environment and enable digital transformation sustainably and at scale. Achieve universal access to trusted, user-centric, end-to-end digitalized services |
| Improve public utilities to secure basic needs, improve standards of living, and build resilience to shocks from climate change | Build resilient and low-carbon transport through formalizing and consolidating service and improving safety and sustainability | Livelihood assessment of current operators, global positioning systems (GPS) fitting for better user experience, and Roads and Employment Project (REP) | Coordinating enforcement across ministries for safety and revenue generation, changing behaviors through infrastructure for alternatives to motorized travel |
| | | Structural reforms at PoB | Digital outfitting of PoB |
| | Transition to cleaner energy across utilities | Operational and financial upgrades to EdL, | Green transition and private capital mobilization for renewable energy adoption |

| HLOs | Priorities | Priority policy choices | |
|--|--|--|--|
| | | Muddling through scenario | Recovery scenario |
| | and adapt regulatory frameworks | solarization to power other utilities | |
| | Upgrade management and operations in the water, wastewater, and solid waste sectors | Water: expand water storage, solarize pumping and distribution | Improve water distribution efficiency and reduce NRW |
| | | Wastewater: solarize power, update operation and maintenance (O&M) budget | |
| | | Solid waste: invest in critical capital upgrades and update O&M budget | Adopt a circular economy approach to SWM |
| Improved and more equitable human capital | Expand access, form of support, and scope of social protection by building on existing modalities | Expand existing efficient modalities of support for more effective multidimensional support | Expand coverage, link social protection to social services, reform old-age pension |
| | Prioritize primary care, improve access and coverage | Invest in PHC, revise price lists and coverage rules, and expand digitalization | Universal health coverage (UHC) centered on PHC, pharmaceutical roadmap, and health system strengthening interventions |
| | Expanded access to quality education through operational, human capital and information systems reforms | Adjust salaries, improve resource utilization, digitalize the sector, and implement newly developed frameworks | Reform sector PFM for better sector planning and for improved quality of school education, enhance governance of the Lebanese University |

HLO1: Restored macroeconomic and financial stability and private sector support

Priority 1: Banking sector restructuring to recover a functional financial market

Muddling through: Unifying and stabilizing the exchange rate

181. **In the absence of any serious escalation in the security situation, the stable inflow of remittances and tourism receipts opens the possibility for clearer projections of external positions.** The removal of subsidies and convergence of the multiple exchange rates with the market rate¹⁷⁷ will moderate the rate of decrease in foreign currency reserves at BdL.¹⁷⁸ The receipts from tourism services will also provide Lebanon with much-needed foreign currency inflows. Inflation, with the high exchange rate pass-through, which is driven to a large extent by the exchange rate depreciation, can be expected to gradually revert to the mean once the exchange rate is more stable. Unifying the exchange rate closes opportunities for arbitrage, reins in inflation, and therefore has the potential to drive sentiment and allow better financial planning. More importantly, in the immediate run, it will halt the regressive inflationary adjustment that is currently borne by the poorest and most vulnerable segments of society.

Recovery: Comprehensive regulatory, structural, and prudential reform of the banking sector and the central bank

182. **Reforms include the rehabilitation of the central bank, the restructuring of the banking sector, a fair distribution of losses, the introduction of a single market-determined exchange rate, and the restoration of a sound macro-prudential framework.** The recognition of losses includes resolution measures and exit of nonviable banks and a recapitalization of viable banks based on an independent asset quality review. The rehabilitation of BdL includes restoring its function as a financial safety net,¹⁷⁹ a banking supervisory body, and a monetary authority. A strengthened licensing and regulatory framework would allow the entry of new banks, including reputable international banks to the sector. These comprehensive reforms will gradually restore the functions of a banking sector and a financial intermediary and a creditor of job- and growth-creating sectors.

183. **Table 10 lays out in detail the necessary macro-financial reforms that are to be gradually adopted to restore macro-financial stability.** The reforms are divided across two pillars: (1) a new and credible exchange rate and monetary framework and (2) a comprehensive financial sector restructuring.

¹⁷⁷ The exception is the exchange rate applied to dollar deposits, which, until a restructuring of the banking system is effected, remains well below market rate. But unlike the other BdL-created rates, the bank exchange rate does not require BdL reserves to be maintained, as it applies only to the sale of US dollar.

¹⁷⁸ Carril-Caccia, and Pavlova. 2008. "Foreign Direct Investment and Its Drivers: A Global and EU perspective." ECB Economic Bulletin, Issue 4/2018 examine the drivers of foreign direct investment. [Link](#)

¹⁷⁹ Prudential regulation, supervision, resolution, lender of last resort and deposit insurance.

Table 10. Macro-financial reforms to be adopted to restore macroeconomic and financial stability

| Comprehensive stabilization plan pillars | Expected outcome |
|--|--|
| <i>I. Exchange rate and monetary policy</i> | |
| <p>New exchange rate and monetary framework: Gradual free floating of the exchange rate, unified exchange rate, and new monetary policy with clear objectives of reducing inflation.</p> <p>Adoption of formal capital controls</p> <p>Full assessment of the financial position of BdL</p> | 1. Preservation of BdL’s remaining usable FX reserves |
| | 2. Correction of real exchange rate misalignment |
| | 3. Current account deficit on a structurally sustainable path |
| | <p>4. Medium-term improvement of competitiveness boosts production and exports</p> <p>Limited capital outflows, better maintenance of foreign currency reserves to defend the exchange rate, and preservation of central bank assets</p> |
| <p>Restoring BdL capital and ensuring the ability to conduct effective monetary policy</p> | |
| <i>II. Financial sector comprehensive restructuring</i> | |
| <p>Adoption and implementation of a bank restructuring strategy that (a) addresses up front the balance sheet impairments and financial losses, (b) restores liquidity, and (c) adheres to sound global practices of bail-in solutions based on a hierarchy of creditors (starting with banks’ shareholders);</p> | Informing action toward restoration of banking sector solvency that is pivotal for recovery and sustainable economic growth, including development of an effective bank resolution framework |
| | Ensuring protection of remaining small and medium deposits to limit growing inequality |
| <p>Externally assisted bank-by-bank evaluation of banks to inform banking sector restructuring, including resolution measures</p> | Identifying financial losses per bank to support mergers, acquisitions, and liquidations |
| <p>Comprehensive restructuring of the banking sector, including resolution measures</p> | Recapitalizing the banks deemed viable based on independent international asset quality reviews and valuation following rigorous methodologies and standards and exit of nonviable institutions |
| <p>Rehabilitation of the financial safety net</p> | Reform of prudential regulation, supervision, resolution, lender of last resort, and deposit insurance functions |
| <p>Reform of BdL and Banking Control Commission of Lebanon (BCCL)</p> | Restoration of financial stability and integrity to rebuild confidence, regain solvency, and resume the offering of financial services |

Priority 2: Non-banking Financial sector development and expansion of access to credit for private sector support

Muddling through: Fostering growth in sectors of promise

184. **Amid an ecosystem adverse for business growth and job creation, some sectors have shown resilience to the crises and promise of solid growth prospects.** Until the financial intermediation role of the banking sector is recovered, there is a need for a more focused approach on sectors of promise. A recent World Bank assessment identified four high-growth potential sectors in Lebanon, despite the ongoing crises. The four sectors are (a) information and communication technologies (ICTs), (b) tourism, (c) pharmaceuticals and chemicals, and (c) agri-food. These four growing sectors are facing the same challenges that all of the business environment is subjected to, including inadequate infrastructure and public services, a poor governance and regulatory framework, a lack of access to finance, political instability, reduced purchasing power, and a massive brain drain leading to lack of available talent.¹⁸⁰ However, each has found avenues for growth and, with it, for job creation. Some indicators of these sectors' promise are provided in [Table 11](#).

185. **The agri-food system holds unrealized potential for export growth and job creation.** According to the [International Trade Center](#), only about 40 percent of the export potential in the fruit and vegetables sector has been met, with market opportunities identified primarily in the neighboring countries (for example, Egypt, Jordan, Iraq, and the Gulf Cooperation Council states). Horticulture is already [labor intensive](#) relative to other agricultural sectors, but the food system extends beyond the primary production to include activities along the value chains, such as processing, transportation, or auxiliary services. Tapping Lebanon's unmet potential in the agri-food sector would have positive multiplier effects for both jobs and growth. However, Lebanon needs to first overcome key [challenges](#) affecting its food system, such as substantial inequality and fragmentation in its land ownership and use, concentration of power along supply chains, informality, weak food safety and phytosanitary regulations, and unsustainable land use and management practices.

¹⁸⁰ The challenges faced by the business sector are detailed in the annex to Chapter 3.

Table 11. Four sectors of promise¹⁸¹

| Sector \ Indicator | ICT | Tourism | Pharmaceuticals and chemicals | Agri-food |
|------------------------|---|--|--|---|
| Competitiveness | 23% of exports ^a | 26.6% of exports ^a | 30–60% cheaper than imports ^b | 21% increase in exports 2018–2022 |
| Expansion | % firms planning expansion: 94% | New restaurants, cafes, nightclubs: 200 ^c Visitors in 2023: 2.2 million ^d | % firms planning expansion: >50% | % firms planning expansion: 71.4% (local) and 66.7% (international) ¹⁸² |
| Job creation | Employment growth (2018–2022): 6.7% % firms currently recruiting: 79% Average size of recruitment: 6 employees % highly skilled: 77% | % firms currently recruiting: 76.2% | % firms currently recruiting: 50% % highly skilled: >50% | % firms currently recruiting: ¹⁸³ 71% Average size of recruitment: 3 employees. % highly skilled: 47% |

Sources: a. ATLAS of economic complexity, 2020; b. L’Orient le Jour; c. Syndicate of Owners of Restaurants, Cafés, Night-Clubs & Pastries; d. The National News.

Recovery: Non-banking financial market development and expansion of access to credit

186. **Even before the crisis, insufficient access to credit constituted a binding constraint on business growth and job creation in the private sector.** Findings from successive World Bank Enterprise Surveys show that most formal private businesses are banked, yet they rarely ever resort to the banking sector for credit and instead seek financing from family or private connections. At the same time, most businesses also report being credit constrained. The steering of the private sector toward high value-added production and job creating growth necessitates the development of financing facilities for businesses that can provide the financial and prudential support needed for sectors to flourish. A financial ecosystem that allows space and longevity for business initiatives in sectors with growth multiplier effects can create positive spillovers to other sectors.

187. **Once the foundational financial intermediation functions of the banking sector are restored and other key macro-financial reforms are implemented to recover trust, the strategy for the development of a ‘new’ financial sector is needed.** This would merit conducting a fresh financial sector assessment to inform the medium- and longer-term financial sector reform agenda and to help draw a vision of a new,

¹⁸¹ Data retrieved through 88 surveyed companies (22 companies per sector), 11 key informants interviews with top management/CEO (three companies per sector), and four roundtable discussion with key stakeholders (one per sector).

¹⁸² According to the [International Trade Center](#), only about 40 percent of the export potential in the fruit and vegetables sector has been met, with market opportunities identified primarily in the neighboring countries (for example, Egypt, Jordan, Iraq, the Gulf Cooperation Council states).

¹⁸³ Horticulture is already [labor intensive](#) relative to other agricultural sectors, but the food system extends beyond the primary production to include activities along the value chains, such as processing, transportation, or auxiliary services. As such, tapping Lebanon’s unmet potential in the agri-food sector would have positive multiplier effects for both jobs and growth.

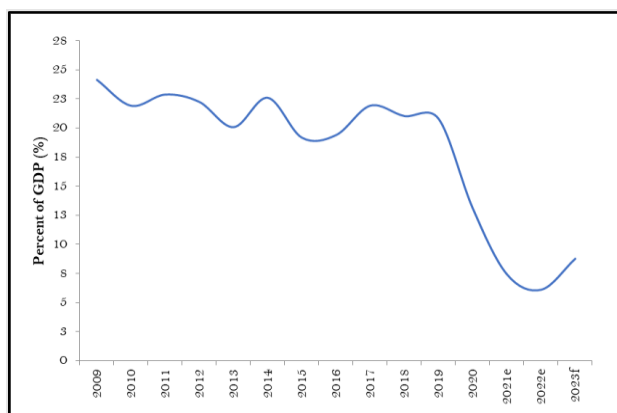
likely smaller, but more resilient and effective financial sector in Lebanon, with a more vigorous component outside of banking.

Priority 3: Fiscal reform and consolidation

Muddling through: Emergency Measures for Domestic Revenue Mobilization

188. **A vigorous effort at domestic revenue mobilization can provide seed resources to implement emergency measures to maintain minimal BdL function and basic public services.** A precondition for the feasibility of any measure to sustain financial survival or public services lies in the state's ability to raise revenues. The share of revenues in GDP was already well below regional averages before 2019 and has all but collapsed since (Figure 28). The announcement by the interim governor of BdL in August 2023 that BdL would no longer use its foreign exchange reserves to finance state spending makes revenue mobilization all the more pressing for the preservation of state services.

Figure 28. Crisis-driven decrease in revenues (as a percentage of GDP)



Sources: MoF and World Bank staff calculations.

189. **Since an overhaul of the tax system, while warranted, is not likely in a muddling through scenario, realistic and quick measures can be adopted to improve receipts in the short run.** The focus in the proposed changes is on identifying opportunities for expanding the tax base that would be (a) easy to execute, (b) effective at raising revenues, and (c) progressive and with limited impact on the most deprived. All the proposed amendments involve eliminating exemptions that are narrow in many cases and therefore administratively easier to annul without having to expand the existing tax infrastructure and manpower. Furthermore, most of these exemptions are distorting, so their elimination would also serve to correct inefficiencies in the current tax structure, paving the way for deeper reforms in the future.

190. **Quick corrections to tax valuations can boost revenues in the short run.** The effort to correct exchange rate related mis-valuations in customs, excises, and the VAT has started but should be more systematic and comprehensive. Corrections have been made in various sectors, but a readjustment of all rates, schedules, and fees to reflect the new reality, and to keep up with inflation, is expected to increase revenues in the immediate run and reduce fiscal distortions and leaks. Adjustments to capital gains and property taxes and the taxing of illegal maritime properties will also generate quick receipts while initiating the process of reducing the tax regime's favorable treatment of the politically connected business elite.

191. **Sectors and activities that benefit from VAT exemptions based on the output they produce should not simultaneously benefit from exemptions on the inputs they use in production.** Best practice in VAT administration is to exempt products but not the entire chain of production, particularly as these inputs can be resold to processes of production of non-exempt goods.

192. **The exemption of real estate sales from VAT should be revisited.** The first-time sale of a new apartment should be subject to VAT. In addition to raising tax revenue, the expansion of the VAT to the sale of new apartments may also correct some of the distortions in the housing market described in the annex to chapter 3 and shift demand toward existing units. The burden of this tax change would also likely not fall on households in the lowest quintiles of socioeconomic standing.

193. **Current exemptions to taxable income for individuals and corporations are also typically regressive.** The exemption of dividend income to individuals from holdings or offshore companies should be removed, as should the exemption on capital gains from the sale of shares. Similarly, corporate capital gains should be included in corporate income for tax purposes.

194. **Finally, the pricing of tobacco products since the beginning of the crisis has effectively eroded pre-crisis tax revenues by reducing the price markup over costs.** Taxes on tobacco achieve the dual objective of raising revenues while reducing the health costs associated with smoking. When total savings are considered, the incidence of an increase in the tax on tobacco was shown to not be regressive.¹⁸⁴

195. **There is also a need to adjust non-tax revenues, and many state-owned institutions have started updating their tariffs and usage fees.** Fees and tariffs for many government-provided services have not caught up with the hyperinflation and imperatively need to be adjusted. Some state-owned enterprises have started to update their tariffs and user fees, as will be detailed below in the case of electricity and telecommunications.

Recovery: Fiscal consolidation and reform - debt sustainability, public finance management, and tax reform

196. **In a recovery scenario, deeper macroeconomic reforms are warranted across three pillars: (1) medium-term fiscal strategy to restore debt sustainability, (2) fiscal reform, and (3) tax reform.** A description of some of the measures under each pillar and the expected outcomes from these measures are provided in [Table 12](#).

¹⁸⁴ Salti, Nisreen, Elizabeth Brouwer, and Stéphane Verguet. 2016. "The Health, Financial and Distributional Consequences of Increases in the Tobacco Excise Tax among Smokers in Lebanon." *Social Science & Medicine* 170: 161–169. [Link](#)

Table 12. Macro-fiscal reforms to be adopted to restore fiscal space and sustainability

| Comprehensive macroeconomic recovery plan pillars | Expected outcome |
|--|---|
| I. Public debt sustainability | |
| Implementation of a Public Debt Restructuring Strategy (for both domestic debt - treasury bills) and foreign debt (Eurobonds, which requires negotiations with foreign investors) | Restoring debt sustainability and rebuilding credibility |
| | Recovering access to international financial markets in the medium term |
| II. Fiscal reform | |
| Timely ratification of government budgets with immediate corrective revenue and spending measures | <p>A. Preservation of government revenues to provide basic public services, through correct valuation of exchange rate in all revenue components and tax valuations</p> <p>B. Preservation of public sector human capital through provision of immediate and sustainable financial support to crucial civil servants</p> |
| Medium-term fiscal strategy: Fiscal consolidation plan | <p>Equitable economic adjustment and burden sharing (creation of fiscal space for additional social and infrastructure spending while ensuring fiscal sustainability)</p> <p>Improving efficiency and effectiveness of public expenditure and identifying possible avenues for spending prioritization and streamlining</p> |
| <p>Expenditures side medium-term reforms</p> <ol style="list-style-type: none"> Public sector census to target wage bill consolidation Pension reform Tackling of NSSF arrears Reform of transfers to state-owned enterprises Creation of fiscal space for social safety nets Support to public procurement system reform | <ul style="list-style-type: none"> Potential savings identified through public sector reform, consistent with the effective delivery of public services Complete review of pension and retirement schemes for civil servants and private employees Public procurement planning integrated in budget preparation¹⁸⁵ Public procurement professionalization framework and capacity-building strategy implemented Public procurement complaint authority created and made operational Public Procurement Authority (PPA) board formed and operationalized Digital procurement platform established |
| II. Tax reform | |
| <p>Revenues side medium-term reforms</p> <ol style="list-style-type: none"> Reforming personal and corporate income tax Broadening tax base | Moving toward a progressive tax system that generates more government revenue while offsetting income and wealth inequality |

¹⁸⁵ A more detailed description of the needed reforms for public procurement is provided in the annex to chapter 4.

| Comprehensive macroeconomic recovery plan pillars | Expected outcome |
|--|------------------|
| c. Abolishing regressive tax exemptions (including property taxation) d. Improving tax collection (automating declarations and payments) e. Devising payment plans for large arrears f. Instituting tax audits on large debtors | |

HLO2: Improved delivery and accountability in provision of basic public services to reduce inequality in access to public services

Priority 1: Preservation of public sector human capital through civil service reform

Muddling through: Full-fledged assessment of the public sector workforce

197. **Even without macroeconomic stabilization and deep reforms, the government urgently needs to develop an emergency action plan to address staffing gaps in the public sector and avert a wide-scale collapse in functions.** This will require an identification of critical functions that need to be maintained and the development of an incentive scheme of wage top-ups, along with a fiscal plan to support it, to retain staff needed to keep basic workflows going. In the absence of any comprehensive, up-to-date and system-wide records of public sector employees, and with a history of mismatch between the public sector workforce and staffing needs, the task of identifying the most critical functions imperatively starts with a survey of the current workforce. The immediate implementation of an up-to-date inventory of functions and a mapping of public sector staff in the civil service as well as in state-owned institutions is therefore a crucial first step in devising an emergency action plan. The survey would then pave the way for adjustments in the salary scale and grading structure in the short run and an upgrade of the IT system to update and integrate human resources and payroll databases in the medium term.

198. **A comprehensive survey of the public workforce is a crucial first step for the design of an effective emergency plan.** Full mappings of the functions and vacancies—the workforce that is still active, staff that are absent but still on the payroll, and the functionaries that have left the service—the type of contract, the compensations schemes in the civil service and state-owned institutions are key to identifying the critical functions, the relevant workflows, the available manpower, and the staffing needs toward devising an emergency action plan. The survey results would also inform the design of a fiscal package to support the emergency compensation adjustments needed to maintain indispensable administrative services and functions.

199. **Surveying public sector employees also signals accountability and transparency.** Any comprehensive public sector reforms in the future will come up against a deep-rooted and widespread mistrust of government. A public sector survey has the added value of signaling a sense of both responsibility and competence in designing reforms based on relevant and recent data. The creation of an integrated human resource-payroll database of public sector employees lends more credibility to the effectiveness of salary scale and grading structure reforms, as it also makes possible the tracking and auditing of the system.

Recovery: Reform recruitment, retention, promotion, and benefit packages to map competencies and link public human resource management to need, merit, and performance

200. **Reforms needed in the general human resource practices in the public sector pertain to recruitment, retention, promotion, and benefits.** The emergency interventions to survey, preserve, and streamline the civil service described in the muddling through scenario represent the minimum needed to avert a complete collapse of basic state functions and services. The macroeconomic stability assumed in a recovery scenario makes possible wider and deeper reforms of the civil service beyond the basic exercises of stock-taking and the preservation of emergency services.

201. **The survey of the public workforce would provide the basis for adjustments needed for restoring all public services and the foundation for more comprehensive reforms.** The survey provides the data needed to map the available competencies onto needs, to better optimize recruitment and retention. It also provides a basis for revamping the grading structure and devising a plan for a fiscally sustainable public compensation scheme. None of these can be achieved without building a mainframe that integrates human resource data on the public workforce with data on payroll and benefits. This integrated database makes possible projections and simulation exercises for fiscal sustainability.

202. **A database that integrates human resources with payroll and benefits ensures public workforce policies are no longer divorced from PFM considerations.** The feasibility of any civil service reform hinges on its fiscal footprint. Thus, an integral component of the reform is designing a fiscal package to support it. Similarly, the proposed adjustments to the salary scale and revisions of the grading structure require an analysis of their fiscal sustainability. The integrated database makes possible a mapping of the impact of civil service policies on public finance. This has the added benefit of providing a more rigorous basis for the public wage bill, an entry that in previous budget proposals has accounted for 40 percent of the total budget.

Priority 2: Installing a Digital Public Infrastructure (DPI) for more transparent, efficient, and accessible digitalized services

Muddling through: Transition to a new DPI-enabled architecture to promote scalability and trust in digitalized service delivery, leverage DPI to digitalize high-priority services

203. **An immediate priority is to define and implement a national data hosting and cloud strategy that includes disaster resilience elements and to use it to address the government’s crumbling IT infrastructure in a cost-effective and sustainable manner, while leveraging private capital and developing local data hosting markets.** The strategy should include short-term emergency measures to address the current crisis as well as longer-term data hosting and cloud elements that will be required to enable the 2020–2030 National Digital Transformation Strategy,¹⁸⁶ leveraging the private sector as needed. For example, international good practice models could be leveraged to allow low-cost commercial cloud solutions to be deployed for a subset of less-sensitive government data, while simultaneously building the government’s capacity to host critical and sensitive national data on suitably secure infrastructure. The state-owned fixed telecom operator, Ogero, already securely hosts data related to several ministerial programs¹⁸⁷ in a cloud environment built on a secure data center located within Lebanon. It could potentially expand its cloud capacity to accommodate additional governmental data,

¹⁸⁶ [Link](#)

¹⁸⁷ These include the MoPH’s COVID-19 vaccination program, and the Ministry of Social Affairs’ ESSNP.

provided there is suitable demand from the government. A strategic whole-of-government approach to cloud migration could provide the demand necessary to incentivize such market development and mobilize private capital.

204. **Putting in place reusable and extensible DPI building blocks—such as trusted digital ID, digital payments, and data-sharing platforms—could improve service delivery by allowing secure interoperability between governmental agencies and the private sector.** Lebanon’s fragmented digital government should be transitioned to a standards-based, whole-of-government architecture composed of modular elements that provide for interoperability across government and scalability of digital government to new use cases. Leveraging DPI will further enhance scalability and security by preventing duplicative investments in the core systems needed to ensure trust. Common standards applied across government will improve the adoption of these DPI elements and promote transparency, accountability, security, reuse of data and systems across sectors, and increased trust in government as well as the digital economy. This architecture should be supported by strong identity verification and permission requirements that are satisfied by digital identity and digital signature services.

205. **The digitalization of sectoral services should be user centric, starting with high-priority ones** (for example, health and education) that are widely in demand and have the potential to accelerate recovery and increase resilience to future shocks. This could begin once the data hosting arrangements and DPI-enabled digital government architecture are in place. In addition, high-impact services that are currently delivered on paper or in person due to perceived high risk or sensitivity could be targets for digitalization, to leverage the improvements to the overall digital trust environment with DPI implementation. Specific attention should be devoted to supporting change management on the government’s side and awareness raising on the user’s side to ensure the uptake of digitalized services.

Recovery: Implementation of the 2020–2030 National Digital Transformation Strategy and associated legal and institutional reforms

206. **The implementation of the 2020–2030 National Digital Transformation Strategy is of paramount importance,** and it should aim to maximize the use of existing digital assets (platforms, data, and systems) and facilitate their modularization, standardization, and integration into the next-generation government enterprise architecture. Under the recovery scenario, it is important to build sectoral ministries’ capacity to effectively implement digitalized services and exercise control and ownership of the services they administer. It is also urgent to mitigate the challenging environment spurred by the near collapse of multiple economic sectors and to develop an agile and focused Digital Transformation Strategy implementation roadmap as well as actionable and prioritized goals that could generate quick wins. A strategic approach is needed to avoid perpetuating the current unscalable, unsustainable, and insecure fragmented approach.

207. **While Lebanon has enacted several legal texts that govern issues related to digitalization, the legal framework is still incomplete or outdated in areas necessary to enable safe and trusted digital transformation.** Legal texts that should be prioritized include electronic signature, data protection, cybersecurity, cybercrime, and unique identification. The reformed legal framework should aim to put digitalization on a sustainable footing through good practice institutional models that give adequate authority to the key digital ministries and agencies to ensure strategic coherence of the digital transformation agenda and avoid perpetuating the cycle of past fragmented approaches.

208. **Under this scenario, considerable investments are needed to achieve the end-to-end digitalization of sectoral services at scale and provide the trust environment needed to support the reform agenda.** To ensure trust and user centricity, digitalization should abide by the principles of privacy by design,¹⁸⁸ data minimization,¹⁸⁹ data audit logging,¹⁹⁰ and people-centric digital identification. In addition, it should be coupled with skills training for public servants and end users nationwide on the usage of digitalized services and DPI.

HLO3: Improve public utilities to secure basic needs, improve standards of living, and build resilience to shocks from climate change

209. **While the focus is on restoring basic needs and preparing for economic recovery, sustainability and resilience to climate shocks remain guiding principles for the policies proposed under each priority.** The priorities identified for this HLO are in line with the recommended interventions under the muddling through and recovery scenarios of the CCDR, shown in [Table 13](#) below.

Box 3. Recommended interventions under muddling through and recovery scenarios in the CCDR

The Lebanon CCDR aligns the country's short-term recovery needs with the charting of a low-carbon and resilient long-term development. The report's findings are underlined by two macroeconomic baseline scenarios: (a) the business as usual 'muddling through' scenario and (b) a broad reforms-based 'recovery' scenario—both of which are also used in this SCD.

Lebanon's CCDR has six key messages: (a) eroding low adaptive capacity leads to the country being among the least prepared to face climate change; (b) lack of a climate-responsive development action has a high cost; (c) targeted mitigatory climate action by decarbonizing Lebanon's power sector reduces economic costs, lowers emissions, and improves macro-fiscal outcomes, supporting the 'recovery' scenario; (d) improving Lebanon's adaptive capacity to climate shocks depends on how quickly it recovers and invests in adaptation measures; (e) critical and no-regret investments can be advanced without a macro-fiscal trade-off, while lagging reforms' implementation is detrimental to Lebanon's recovery; and (f) empowering Lebanon's private sector, improving governance, and the adoption of a 'whole-of-society' approach to climate change are critical for Lebanon's green recovery efforts.

[Table 13](#) provides a summary of the measures recommended by the CCDR in response to the highlighted development and climate needs.

Aligning Lebanon's recovery with cost-effective climate action between 2024 and 2030 requires Lebanon to invest an estimated US\$7.6 billion in the four key sectors covered in the CCDR (energy, water, transport, and solid waste) ([Table 13](#)).

In the short term (2024–2026), and under any scenario, Lebanon needs critical investments in key service and growth providing sectors with a financing envelop of US\$770 million. This critical investment package would yield a sustained, albeit small, increase in real GDP relative to the 'muddling through', without placing debt on an unsustainable footing.

¹⁸⁸ A design approach that integrates data protection measures directly into the design and operation of digital systems and processes.

¹⁸⁹ Sharing data only when there is a clear purpose, and where possible, using derived attributes such as confirmation of being over a certain age rather than a full date of birth.

¹⁹⁰ Implementation of detailed logs that record every access or retrieval of user data.

Personal data are shared only when explicit consent has been granted by the individual.

Table 13. Lebanon CCDR recommended policies and interventions

| | | HIGH IMPACT AND RECOVERY-DRIVING INVESTMENTS (2024-2030) | |
|------|---------------------|---|---|
| High | Development Urgency | Urgent interventions with low tradeoffs <ul style="list-style-type: none"> Expand capacity of cleaner and affordable renewable energy sources and switch from liquid fuel to natural gas Increase water sector resilience by rehabilitating/expand water supply network, reducing non-revenue water, water supply reservoir, treatment plants, sewerage networks, rehabilitation of irrigation canals Promote solid waste sector sustainability by rehabilitate existing treatment facilities (sorting and composting plants), building new ones in case they do not exist, and investing in building and equipping sanitary landfills Enhance access and sustainability of transport by focusing on public transport service delivery and electrification, and ensuring climate resilience of roads and ports | Cost (US\$ million) |
| | | | Energy: 4000 |
| | | | Water: 1800 |
| | | | Solid waste: 200 |
| | | | Transport: 1580 |
| Low | Development Urgency | LONG TERM MEASURES (BEYOND 2030) | MEDIUM-TERM MEASURES |
| | | Long-term interventions to keep in mind <ul style="list-style-type: none"> Adopt climate policies to further reduce emissions intensity on track for net zero trajectory, as the tradeoff between development and climate would arise by mid 2030s Adoption of a nation-wide circular economy approach Implement Landfill Gas recovery systems to further reduce GHG emissions in designated SW sites Scope innovative technologies to improve wastewater treatment while promoting energy efficiency Promote climate action in health and education services and foster innovation Implement the Integrated Hydrological Information System Meteorological and hydrometric network expansion and improvement | Less urgent, but highly beneficial interventions <ul style="list-style-type: none"> Promote climate-smart and sustainable ecotourism Establish a funding mechanism with a dedicated revenue stream to support road network maintenance works Plan for Just Transition in collaboration with non-government stakeholders Adopt green procurement principles Formalize and consolidate public transport providers Adoption of a national composting strategy to reduce the amount of organic waste sent to landfills develop a sustainable financing model for disaster monitoring and management |

Source: Lebanon CCDR.

Priority 1: Transition to cleaner energy across utilities and adapt regulatory framework

Muddling through: Operational and financial upgrades to EdL, solarization to power other utilities

210. **EdL’s emergency plan came into effect in 2023, resulting in a modest improvement in electricity supply.** The improvement in electricity supply is attributed to (a) the implementation of a new tariff structure; (b) a gradual push for better and more frequent collection, although efforts to streamline billing cycles have not yet fully delivered material improvement; (c) a crackdown on distribution losses; and (d) increase in funding. The signing of agreements to secure more fuel and US\$300 million public funding for additional fuel purchases has provided initial resources to improve provision until the other measures start to yield more returns. As the marginally improved provision since the implementation of the emergency plan suggests, even in the absence of more comprehensive reforms, there are a few immediate steps that can produce quick wins, while also enhancing the prospects of a sector-wide recovery and an energy transition in the future.

211. **The most pressing technical upgrades at EdL** include a national control center for efficient dispatch to manage a grid with high penetration of variable renewable energy, advanced metering infrastructure, commercial and corporate resource management systems, more up-to-date accounting software, and an IT upgrade. Internal processes are outdated and inefficient and manpower has been significantly reduced. While a consumer-led transition to renewable energy is taking place, EdL needs to restore a functional grid and requires an infrastructural upgrade to accommodate new variable renewable energy generation.

212. **Transition to solar energy for basic services promises immediate benefits in cost savings, service delivery, and environmental gains.** Power needed for water pumping, wastewater management and treatment, and telecom (detailed below) can be solarized to reduce the energy bill associated with these services, reduce dependence on imported fuel, and reduce emissions, while ensuring continued provision.

213. **Even with the updated tariffs, cost recovery still needs to be improved since in the absence of macroeconomic stabilization, rapid inflation means LBP billing still exposes EdL to some currency risk.** Shorter billing and collection cycles may mitigate some of this risk. The new tariffs introduced with the emergency plan have substantially increased the base meter subscription fee, which will have adverse distributional effects until it can be amortized by higher provision. The burden on the end user is currently quite heavy, as in addition to bearing the high cost of diesel and heavy fuel oils, and the extremely heavy network losses (40–50 percent), power supply from the grid is still not sufficient to spare users from the need for alternative suppliers. In addition to improving EdL provision, switching fuel, which is at the core of any eventual utility-scale transition, would improve cost recovery and reduce the burden on the end user. These cost recovery measures, coupled with improved financial transparency (EDL’s long-awaited financial audit) and payment predictability (with a cash waterfall mechanism), may also hold the promise of attracting investment.

214. **While the DRE law has been recently approved by Parliament, several relevant pieces of legislation are still pending parliamentary approval;** legislative expediency is key at this juncture. Law 462, dated 2002, governing the electricity sector and establishing a regulatory authority needs to be implemented. The ratified DRE Law provides the legal framework to regulate private decentralized generation solutions that would allow the rapidly increasing grid-connected renewable energy sources (of up to 1,000 MW) to benefit from net metering with EdL. Yet, translating the ratified law into reality requires not only secondary legislation but also EdL to regain functionality in operating the grid with a minimum level of supply. The Energy Conservation Law and a number of secondary legislations necessary for large-scale transition are also still pending parliamentary approval.

Recovery: Green transition and private capital mobilization for renewable energy adoption

215. **The recovery scenario for public utilities is an opportunity to embark on measures that align with sustainability and climate needs, so that a green transition is supported in these vital sectors.** Reforms toward climate-smart and green recovery can be achieved within a larger context of a ‘Green Transition Policy Dialogue’, as detailed in the CCDR, in which cross-sector synergies and trade-offs can be explored and capitalized on and analytical and assessment support can be provided. The CCDR recommended investments of US\$7.58 billion to launch such a transition in these sectors.¹⁹¹

216. **Energy recovery and transition can build on existing renewable energy uptake and gradually gain speed and scale by using the private capital mobilization that macro-fiscal stabilization will unlock.** Macro-fiscal stabilization, coupled with EdL’s improved financial stance and an effective regulatory framework, would allow private capital mobilization for utility-scale renewable energy independent power producers identified through least-cost planning, and procured through a structured and standardized competitive process, to increase available supply, in line with the goals of the Paris agreement. Switching EdL’s generation assets from liquid fuel to cheaper and cleaner natural gas, through

¹⁹¹ World Bank. 2024. *Lebanon Country Climate and Development Report*. [Link](#)

pipeline gas or liquefied natural gas imports, would support the grid to supply 24/7 electricity with maximized contribution from renewable energy.¹⁹²

Priority 2: Upgrade management and operations in the water, wastewater, and solid waste sectors

Muddling through: Improve storage, solarize power, invest in critical capital upgrades, and update O&M budgets

217. **A critical investment for the water sector would be in increasing storage capacity and transition to solar energy to power distribution.** This would help improve service in the immediate run but also serve to better manage water resources and reduce the availability gaps during dry months. Installing PV panels to power water pumping and distribution stations, creating irrigation canals, and increasing supply by gravity are measures that promise to improve service delivery while eventually reducing cost. Other efficiency improvements include reducing NRW.

218. **The wastewater management sector underperforms because of a combination of financial, technical, and institutional challenges but some challenges stand out as particularly urgent to address.** The structural reforms needed to correct the institutional deficiency and infrastructural weaknesses in the water sector were identified in the ‘Recovery roadmap of the water sector’.¹⁹³ The budget for O&M of WWTPs has not been adjusted to reflect the real cost of O&M, leading to frequent interruptions in service. Solarizing the power needed to operate the water distribution network and the WWTPs would go a long way to reducing the energy cost of the sector. The budget could then be channeled to update the organizational structure and to hire and train sufficient personnel for wastewater O&M by the regional water establishments.¹⁹⁴ The functioning of treatment systems and quality of the treated effluents are compromised by stormwater loads during periods of heavy rain as well as by water pollution from surrounding catchment areas. Thus, in addition to updating O&M budgets to reflect the new macroeconomic reality, the infrastructure requires an upgrade to keep up with current needs and uses.

219. **Urgent investments in the solid waste sector are needed to optimize operations and prevent further deterioration of solid waste infrastructure.** Infrastructural and capital investments are one of the three pillars identified in the Solid Waste Roadmap for 2023–2026, which builds upon ongoing efforts by the World Bank and other donors to support the sector, in close coordination with MoE. The other two pillars are (a) strengthening the sector governance through priority reform measure and (b) interventions to advance circular economy concepts through waste diversion and 3Rs (reduce, reuse and recycle) approaches. The structural reforms needed to respond to the institutional weakness and financial sustainability of the waste sector were identified in the roadmap and efforts are under way to respond to priority needs.¹⁹⁵ The draft cost recovery law, enabling municipalities to collect solid waste service fees, has been approved by the Council of Ministers in December 2023 and is now being discussed at the Parliament for its eventual approval. Another key development is the approval by the Council of Ministers

¹⁹² World Bank. 2024. *Lebanon Country Climate and Development Report*. [Link](#)

¹⁹³ With the support of the Agence Française de Développement (AFD), the MoEW developed in 2022 the ‘recovery roadmap of the water sector’, which identified priority directions for reforming the sector and relies on four complementary axes (1) immediate and progressive financial measures achieved through a gradual tariff increase, (2) performance optimization to increase cost recovery achieved through technical and commercial improvements, (3) institutional and legal reforms achieved through implementation of a set of corrective measures including new organizational structures at regional water establishments, and (4) political support.

¹⁹⁴ As stipulated in the Water Code Law 77/2018 and amended through Law 192/2020.

¹⁹⁵ World Bank. 2023. “Lebanon Solid Waste Roadmap 2023-2026.”

of the SWM authority, which will enable MoE to regulate the sector.¹⁹⁶ These important reform products will support the sustainable functioning of treatment systems ensuring adequate O&M budgets to reflect the new macroeconomic reality.

Recovery: Improve water distribution efficiency, reduce non-revenue water, and adopt a circular economy approach to SWM

220. A recovery scenario allows for more ambitious interventions to improve water efficiency (Figure 29). This includes a vigorous building effort of more surface water storage reservoirs and an improvement of the management of natural storage, particularly groundwater resources, to extend water availability through the dry seasons. The shortages in water are projected to become more acute with the shrinking snow cover as a result of climate change. The 2020 National Water Sector Strategy describes a large-scale plan to nearly double built storage capacity to 0.409 billion cubic meters to meet growing demand for drinking water, irrigation, and hydropower. Furthermore, households with current shortages are concentrated around Beirut, so infrastructure to transfer water to highest demand areas is also needed. A plan to increase water supply to the Greater Beirut area has already been drafted and involves the construction of additional water storage capacity as well as the reduction in NRW through infrastructural maintenance and more systematic billing and collection. It is estimated that if implemented, the plan would provide the Greater Beirut area with an additional 240 million cubic meters of water per year.

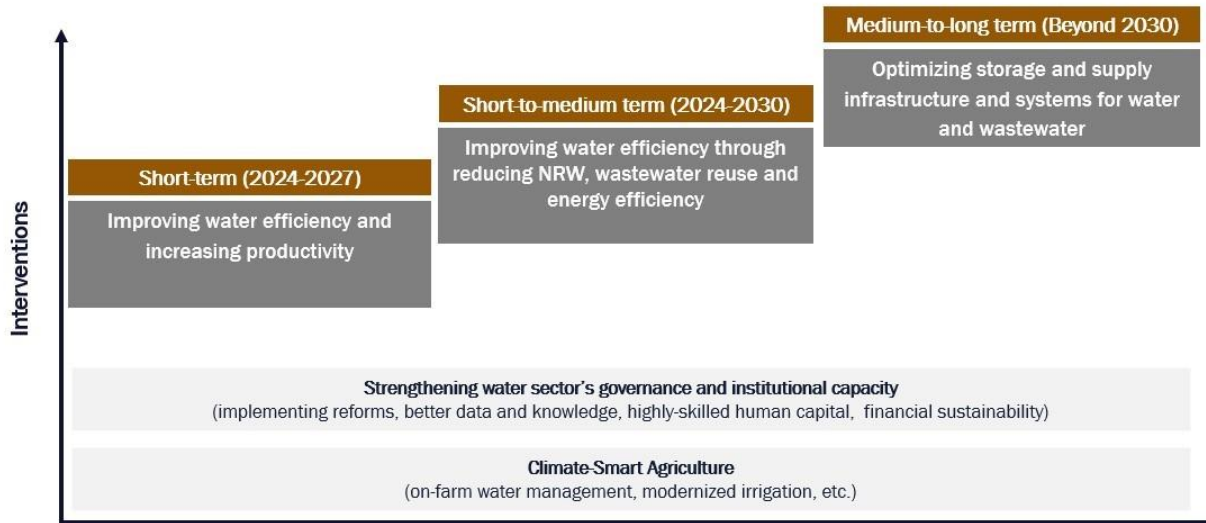
221. Addressing losses from NRW requires an NRW Reduction Roadmap. Current data on water remain limited, a proper assessment of the size and location of losses is lacking, and an infrastructure to monitor flows and interruptions is nonexistent. In addition to reducing losses, such a plan makes a more granular mapping of water needs possible, which opens the door for a more efficient use of water resources according to a need-based allocation strategy. Better data on water will also improve resilience to climate change, which is expected to have significant and complex implications for groundwater recharge.

222. Increasing the productivity of water use, particularly in the agriculture sector, will also improve resilience of the water sector in the face of climate change. Current irrigation practice is inefficient, with heavy reliance on basin and furrow irrigation leading to large water losses. Modernizing irrigation systems, using more efficient pressurized irrigation, reduces water losses, can be powered through renewable energy, promises more resilience to climate change, and may build resilience into food systems.

223. Water security requires financial sustainability and organizational efficiency. The current institutional capacity and financial management at water establishments are inadequate and necessitate a review of guidelines, processes, monitoring, and reporting. Some of the best practices for the management of water authorities are embedded in the World Bank funded Greater Beirut Water Supply Project and can be extended to other water establishments. These include internal management workflows on monitoring, recordkeeping, billing, and collection, as well as data and knowledge management for more optimized operations. But they also include extending the information system to encompass hydrological data, with a monitoring of water quality, and a tracking of wells and abstraction activity. The Ministry of Energy and Water (MoEW) has started work on an Integrated Hydrological Information System that promises to confer long-term resilience and a holistic approach to water management.

¹⁹⁶ As stipulated in the ISWM Law 80/2018.

Figure 29. Pathway toward a climate resilient recovery of Lebanon’s water sector



224. **Adopting the principles of ISWM (including the adoption of needed reforms as well as a circular economy approach) will help respond to sector challenges while reducing greenhouse gas (GHG) emissions.** MoE prepared a Roadmap for the Solid Waste Sector for 2023–2026, identifying priority reforms and intervention for the recovery of the sector. The roadmap builds upon ongoing initiatives and provides required guidance for ensuring a sustainable recovery of the sector which can be achieved through strengthening the capacity of central government and local authorities in managing the sector, establishing a basis for cost recovery and adequate public financing for operational costs, and adopting climate-smart technologies (including closing open dumpsites, increasing composting rates and reactivating methane recovery operations, and revisiting planned waste-to-energy options). The choice of technology should be informed by a life cycle assessment of the potential for GHG mitigation on a per ton of input basis.

Priority 3: Building resilient and low-carbon transport through formalizing and consolidating service and improving safety and sustainability

Muddling through: Data collection, GPS outfitting, and implementation of funded transport projects, improvement of PoB governance

225. **Public transport data collection is key for proper planning.** In the immediate term, there is an urgent need for recent and reliable data to update the transport demand and assignment indentation models and better define the interventions needed in a way that effectively balances demand and supply. On the supply side, it is of utmost importance to understand the organization of the existing informal sector and to conduct a livelihood assessment of current bus and minivan operators, drivers, and small owners to understand existing operators’ business models and the impact of the crises on their livelihoods. The livelihood assessment would also help inform the negotiations with owners and drivers and identify measures to mitigate any adverse impact on them of potential public transport reforms (namely, formalization and consolidation). On the demand side, it is necessary to understand how people are moving, what their origin points and destinations are, what the current modal share is, how many

people are using the formal and informal public transport systems, how much people are spending daily on their commuting trips, and how much they would be willing and able to pay for improved services.¹⁹⁷

226. **In the immediate term, one action to improve public transport user’s experience is to provide them with real-time and quality information on the existing system.** Information collected through GPS could be centralized through user-friendly smart phone applications to inform users in real time about bus arrival times, current bus locations, and so on to allow better journey planning. This solution is inexpensive and quick to implement and would encourage the use of public transport.

227. **In light of the limited financial resources in the sector, it is key to maintain good progress on projects and activities for which financing has already been secured.** This involves maintaining good progress under the World Bank-financed REP, particularly on the rehabilitation and maintenance works contracts and on the preparation of a road safety program as these activities are key to creating much-needed jobs, enhancing transport connectivity, and improving road safety. However, the REP is not enough to meet all road rehabilitation and maintenance needs at the national level, and the MPWT should earmark resources where possible to ensure the sustainability of road asset investments and avoid further road deterioration that causes road safety hazards.

228. **The PoB explosion was a wake-up call to profound change, starting with the urgent implementation of long-standing structural reforms ahead of the physical reconstruction of a modern, efficient, and transparent PoB.** A crucial prerequisite to the rebuilding of PoB is the establishment of a robust institutional framework for the port sector that would restore the trust of the Lebanese society and the private sector.

Recovery: Enforcement for safety and revenue generation, infrastructure for alternatives to motorized travel, digitalization of PoB

229. **There is a need for a robust governance structure at various levels in the transport sector, with a clear delineation between policy setting, regulation, and commercial operations, to secure revenues and guarantee public order.** This entails implementing an appropriate legal and regulatory framework to enable private sector participation, ensure fair competition, and avoid or control monopolies. The successful delivery of this mission requires compliance with two straightforward principles: (a) the clear separation of regulatory functions from commercial activities and (b) the definition of relationships in explicit contractual arrangements with private operators. This particularly applies to the port and public transport subsectors.

230. **Public transport remains a major investment target for the government;** however, the implementation of structural and sectoral reforms is critical to restore the trust of the private sector, unlock investments, and implement modern and strategic systems and infrastructure. The transformation of the sector starts with an institutional reform clearly assigning the regulation of the public transport sector and policy making to a Public Transport Authority at the MPWT. It is recommended that the MPWT also be in charge of public transport licensing—currently handled by MIM—as well as enforcement through a Public Transport Police, particularly for license control. The MPWT should establish procedures needed to obtain red license plates in a way that avoids cloning and sets a realistic cap for the number of licenses (or lifts the cap if necessary), based on actual demand. The MPWT should also coordinate with MIM to implement enforcement measures and ensure red license plate control and compliance with

¹⁹⁷ World Bank. Forthcoming. “Lebanon Public Transport Diagnostic and Recommendations.”

traffic regulations and policies using technology tools. To sustainably finance the reformed public transport sector, a public transport fund should be created and could initially be fed through traffic violation fines, parking taxes, and the like.

231. **Once the public transport institutional framework is in place, enhancing the existing system would involve formalizing and consolidating small public transport operators to organize the system and ensure satisfactory quality of service.** The consolidation would involve the creation of new larger enterprises or joint ventures in which existing individual public transport owners and drivers could take part. The MPWT would assign bus corridors to the new consolidated operators through competitively awarded contracts. Companies would have exclusivity of corridor (and enforcement carried out by MIM would be key to guaranteeing this exclusivity). The MPWT would then monitor and evaluate the companies' performance and quality of services through key performance indicators. The transition to a formal and consolidated system would require negotiating with small individual operators, through a participatory process based on the findings and recommendations of the livelihood assessment. The creation of a new public transport system is an opportunity to consider gender differences and the needs of the most vulnerable, starting with accessible and gender-sensitive transport infrastructure and fleet. It will also rely on investments in infrastructure such as stations, depots, and pedestrian access infrastructure. As the public transport system formalizes, a scrapping program will also be required to avoid old buses and minivans competing against new public transport vehicles.

232. **The current economic crisis should be an opportunity to change travel behavior and favor non-motorized transport.** This requires the provision of safe and well-developed walking and cycling networks, particularly as feeders of public transport. Infrastructural adjustments include reclaiming sidewalks invaded by vehicles through enforcement, removing obstructions from sidewalks, investing in ramps and improved sidewalks, and ensuring safe at-level crossings for pedestrians.

233. **One of the key recovery objectives is to reduce the number of road crashes and fatalities and vehicle operating costs (for light vehicles and trucks) and secure the sustainability of road investments.** To achieve this objective, it is key to implement a Road Asset Management System (RAMS) and ensure its regular update. The implementation of the RAMS will allow the maintenance and rehabilitation of the most critical road assets by priority, enhancing MPWT's road management capabilities and allowing a standard approach to the multi-year planning, programming, and budgeting of road maintenance activities. It is also essential to adopt and implement a Road Safety Program to allow better traffic and road infrastructure safety management, through enforcement and the implementation of the National Road Safety Masterplan and related Safe Systems Projects. This will reduce the costs of road crash fatalities and injuries, which was estimated at 5.4 percent of GDP in 2016.¹⁹⁸

234. **The digital transformation of the Lebanese port sector is key and is contingent on the implementation of reforms, including the long-overdue institutional and legislative customs reforms.** Beyond hard and soft digital infrastructure (that is Maritime Single Window, National Single Window, and Port Community System), there is a need to develop the appropriate institutional and legislative framework to support trade facilitation, improved border compliance, and adequate national digital infrastructure. Digital provisions have already been incorporated into the Port Sector Law to be enacted; however, additional measures include (a) updating and adopting the new Customs Law and (b)

¹⁹⁸ World Bank Global Road Safety Facility. Road Safety Country Profile. Lebanon. [Link](#)

restructuring the customs administration into a ‘one head one body’ organization. Capacity building in the public and private sector would also be necessary. Port digitalization will be beneficial for the Lebanese trade and economy as it will help fight corrupt practices, reduce trade costs and bureaucracy, enhance safety and security, reach high levels of service efficiency, increase supply chain predictability, improve regulatory oversight and policy decision-making, and optimize the sizing of PoB. It will also comfort private port operators and the logistics industry players which plan to invest and operate in the Lebanese port sector. The funding of port digital solutions could be incorporated into the financing packages for the PoB reconstruction.¹⁹⁹

HLO 4: Improved and more equitable human capital

Priority 1: Expand access, form of support, and scope of social protection by building on existing modalities

Muddling through: Expand existing modalities of support for more effective multidimensional support

235. **The government should expand the Social Protection Information System (SPIS) launched through the DAEM social registry.** The DAEM platform²⁰⁰ administers the World Bank-financed ESSNP,²⁰¹ which has helped in building the foundations of an adaptive social protective system. DAEM is the most comprehensive social registry in the country, with 45 percent of the Lebanese population currently registered on the platform. With this initial investment already under way, and the platform designed to allow the integration of multiple programs into the same gateway, NPTP should be folded into the DAEM platform. In particular, the digitization of NPTP on DAEM from the current paper-based application process is both timely and cost-effective. This would also be an opportunity to update vulnerability characteristics based on more recent survey data and systematize future updates.

Recovery: Expand coverage, link to social services, and reform old-age pensions

236. **Through expanding ESSNP beneficiaries, building the DAEM registry, and devising a comprehensive social protection strategy, Lebanon has set the foundations for a more coherent and comprehensive social protection system.** The recently developed NSPS outlines the government’s vision and commitment toward providing safety nets for the poorest and most vulnerable. The strategy is centered around key aspects including coverage of current programs, adequacy of benefits across the life cycle, governance and institutional capacity of relevant agencies, financing, accountability, and transparency. Nonetheless, crucial measures pertaining to governance and sustainable financing are necessary to ensure the gradual implementation of reformed social protection schemes.

237. **Priorities of social protection under a recovery scenario include (a) expanding coverage while prioritizing the poor and vulnerable, (b) linking cash transfers and social assistance programs with social services to address multidimensional poverty, and (c) adding food security and nutrition to its objectives.** Social assistance coverage of all the poor in Lebanon requires significant resources. Fiscal consolidation within a comprehensive macroeconomic framework will ensure that adequate fiscal space

¹⁹⁹ World Bank, and Agence Française de Développement. 2021. *Reforming and Rebuilding Lebanon’s Port Sector Part II: Policies and Solutions for Digitalizing the Port of Beirut*. [Link](#)

²⁰⁰ By January 31, 2022, around 583,000 households had registered on DAEM. To date, around 80,000 households have been found eligible (under the extreme poverty score) and all received cash transfers for 13 months, retroactively paid where applicable from January 2022.

²⁰¹ ESSNP is a three-year US\$246 million loan-financed program that seeks to arrest the increase in extreme poverty through the provision of cash transfers, like NPTP. ESSNP has an additional objective of limiting school dropout rates for 13- to 18-year-old children enrolled in public schools through granting beneficiaries access to social services.

is secured for efficient and targeted public spending on social assistance. Databases of service ministries, such as the ministries of health, education, and labor can be readily linked to the DAEM registry for the identification of beneficiaries in various programs. Such expansions in the form of health, education, and labor programs and housing support packages promise to (a) create synergies across all social protection programs and reduce duplication, (b) standardize the implementation process, (c) increase program performance, and (d) decrease service delivery cost. One critical area that could benefit from such cross-sectoral linking across the health and livelihood arms of social protection interventions is food insecurity, with its long-term impact on physical and mental health.

238. A national pension system that provides all workers with adequate coverage is at the core of a comprehensive social security system. In December 2023, with the support of the International Labour Organization (ILO), the Parliament of Lebanon passed a law that establishes a comprehensive pension system for private sector workers (for the first time) and fundamentally reshapes the governance of the NSSF. Implementation could be an opportunity for the government to consider the needed reform of the pension system for public sector employees as well as a holistic approach to income security policies for the elderly in Lebanon. In addition, in light of an aging population, the government needs to implement parametric reform measures to address challenges of affordability, inequity, incentives, and adequacy of the current public pension schemes. Given the fact that pension costs represent an increasing share of the general budget, adopting reforms promises to free up more resources for other important policy programs.

Priority 2: Prioritize primary care, improve access and coverage

Muddling through: Invest in PHC, revise price lists and coverage rules, and expand digitalization

239. Even without comprehensive reforms, it is essential that the resources needed to maintain basic health services be secured. With the drastic reduction in coverage by the NSSF, the crisis has led to a sharp rise in OOP health payments, more reliance on private insurance for those that can afford it, and the inability to access health services for those who can no longer afford them. Spending on PHC is more cost-effective, has a broader beneficiary base, and is more sustainable than other public spending on health. Within the tight fiscal space in which the ministry operates, allocating 30 percent of the total ministry's budget to PHC would contribute to both maintaining public health and reducing the need for spending on secondary and tertiary health care in the future. It would also constitute a corrective progressive measure in the face of the rapidly increasing inequality.

240. Limited fiscal space and rising inequality also make imperative the coordinated inclusion of health care services in emergency social protection programs, as indicated earlier. Breadth and depth of social protection programs in Lebanon have so far been insufficient in providing integrated health care support. As mentioned under Priority 1, going forward, emergency social protection programs should include subsidized packages of essential health services beyond PHC. Indeed, under the Lebanon Health Resilience Project, the poorest ESSNP beneficiaries will be targeted using the DAEM social registry to be enrolled in a capitation-based PHC program, offering a comprehensive package of PHC services.

241. A comprehensive revision of pricing lists, admission criteria, and specialist referrals for outpatient and inpatient services is needed to improve cost-effectiveness. It would also be an opportunity to revise pay scales and remuneration packages for health care workers to reverse the loss of human capital in the health field. A review of provider payment mechanisms for hospital services by

public health guarantors (MoPH, NSSF, civil servants cooperative mutual fund, security personnel insurance schemes, and so on) is warranted. Revisiting the minimum service package at hospitals would also rationalize spending. Setting up a third-party monitoring mechanism for verification would limit leakage and abuse of the coverage rules. Periodic audits of hospital and PHC facilities can help curb the tendency to over-prescribe that burdened the system in the past.

242. **A digitalization of the public health sector and the upgrade and integration of the Health Management Information System would enhance delivery in multiple ways.** A digitalization solution will include infrastructural, technical, institutional, legal, and administrative upgrades. However, it will also unlock substantial potential for wider and better delivery of health services. Besides opening the door for telehealth, digitalization enhancements would also strengthen the continuum of care through more seamless referrals and lower administrative burdens. One such expansion would be for the adoption of MediTrack to include more medications for better oversight of the pharmaceuticals market and closer control of use. Patient-, condition-, and facility-level data allow better tracking, monitoring, management, policy and programming, and responsiveness. In addition, the deployment of DPI such as digital ID and secure data sharing would increase trust in digital health transactions, improve quality of care, and help protect sensitive health data.

Recovery: Universal health coverage centered on PHC, pharmaceutical roadmap, and health system strengthening interventions

243. **MoPH launched a National Health Strategy - Vision 2030 in 2023 that lays out goals to reach UHC with a strong emphasis on prevention and PHC.** The main strategic areas of intervention are UHC, healthier living, emergency preparedness, governance, and digitalization. Implementation of the strategy is predicated on the stability afforded by the recovery scenario but also on reforms to increase efficiency for current service arrangements and mobilize additional resources for health, including from specific tax revenues.

244. **The move to a person-centered model of care, with focus on PHC, requires coordination with all development partners and stakeholders.** Major changes are required to raise the profile and quality of PHCCs, positioning them at the center of the health system. In this line, MoPH has set a goal of carving out funds from its current hospitalization budget to reallocate to PHCCs to enable a more sustainable financing scheme for PHC in the medium to long term. Returns to investing in PHC may be especially high in developing the e-Health sector. Other needed developments are mechanisms of identification of beneficiaries, methods of enrollment, selection of PHCCs, integration with higher complexity services (hospitalization, emergency, and outpatient), continuum of care, the development of an explicit and comprehensive benefit plan, service package, provider payment mechanisms, monitoring, and auditing arrangements.

245. **MoPH should develop a pharmaceutical roadmap to rationalize the import, production, distribution, and use of medication.** It has adopted cost-containment measures such as the MediTrack application to control the distribution and use of high-cost medications and there is potential for other such measures. A roadmap would adopt a sector-wide perspective to also incentivize national producers of medicines to help fill the gap caused by the reduction in imports.

246. **System strengthening interventions, such as digitalization, accreditation, auditing, and a cost accounting system, would bolster the oversight and regulatory role of MoPH.** The approval of the

ambitious reform agenda would require a strong political alignment, as implementation of the plan requires significant resources and many of the reforms will involve changes in law and would potentially affect private interests.

Priority 3: Expanded access to quality education through operational, human capital and information systems reforms

Muddling through: Adjust salaries, improve resource utilization, digitalize the sector, and implement newly developed frameworks

247. **In the absence of a macroeconomic stabilization plan, keeping schools open for both Lebanese and non-Lebanese children will remain a top priority.** This entails improving the pay of teachers and other staff, through both the GoL budget and donor support. The GoL's official response to the crisis in teacher salaries has been the adoption of a series of ad hoc allowances and social assistance packages, supported by both the national budget and international aid.²⁰² However, these allowances have consistently been slow and insufficient, and this policy of reactive financial band aids is not sustainable. There is also a serious risk that the flow of donor aid may weaken due to donor fatigue and slow reform. Political will is needed to prioritize education before more losses accrue to human capital.

248. **A more efficient utilization of resources would involve adjusting the student-teacher ratio as well as consolidating underutilized schools.** The student-teacher ratio for basic education in public schools Lebanon was 10.7.²⁰³ MEHE should embark on a teacher census to obtain a more accurate picture of teacher deployment and utilization by type of contract, grade, and credentials to inform efficiency-related reforms, which should include improvements in policies and practices related to hiring, allocation, and teachers' working hours. This needs to be accompanied by an adjustment of the education wage bill to make it a sustainable budget item while also providing teachers with predictable and livable wages. Resources can be better utilized if schools operating at low capacity are identified and consolidated to reduce operating costs. One strategy would be to divest from rented premises and invest in upgrading schools in publicly owned buildings. Expanding the number of public schools fitted with PV panels and solar energy systems would also reduce operating costs, particularly with rising energy prices.

249. **Even in a muddling through scenario, there are opportunities for learning-related pushes,** particularly related to learning recovery. Due to the disruptions in the past few academic years, especially in public schools, [learning recovery](#) is now of paramount importance. This can be facilitated by streamlining the curriculum so that it prioritizes acquisition of the most fundamental knowledge and skills, delivering additional instruction time outside of school hours, and targeting low-performing schools that were especially affected by closures or with uneven access to remote learning. Learning recovery can also be integrated into the new curriculum that is now being developed to ensure that such efforts become institutionalized.

²⁰² In 2021, the GoL introduced transport allowances and a social assistance package equivalent to half a month's salary. In 2022, the top-up included a full additional yearly salary. In addition, MEHE repurposed US\$37 million of World Bank S2R2 grant funds toward a [Teacher Incentive Program](#) for the 2021–2022 academic year, providing up to US\$90 a month to school staff who performed a minimum of 90 percent of their scheduled duties.

²⁰³ Hamid, Abdul, and Mohamed Yassine. 2020. *Political Economy of Education in Lebanon*. Washington, DC: World Bank. [Link](#). This ratio may have adjusted slightly with the civil service hiring freeze, the high proportion of civil servants eligible for retirement, and the ongoing teacher exodus. However, recent years have also seen the hiring of contractual teachers, with far less quality control.

250. **As is the case for the public workforce, digitalization and improvement of the management information systems in the education sector would allow for other efficiency-related pushes.** Upgrading the education sector IT is feasible within the current context and should be a high priority for the benefit of a future recovery scenario. The current information system only comprises data on students and teachers. An Education Management Information System that also encompasses data on administration, human resources, facilities, financials, material resources, and learning can provide more complete, up-to-date, and accurate data. MEHE also has service responsibilities to citizens that would benefit from digitalization, diploma authentication, and recognition, for example, by leveraging DPI such as digital ID, e-signature, and secure data sharing. In the short term, this would pave the way for a more efficient and sustainable use of resources. It would also make possible tracking of outcomes to identify learning-related pushes in the short term, monitor and analyze data on school dropout rates, and better evaluate the overall system's ability to deliver in the medium and long terms. Making public some of these tracked outcomes would contribute to increasing public pressure and demand for quality services and would improve sector transparency.

251. **Despite the crisis, MEHE developed several quality enhancing frameworks in 2021–2022, and key to reaping the returns from these efforts is securing the resources to implement them.** These include the first full curriculum revision since 1996 and the development of teacher performance standards and a Teacher Competency Framework. The Curriculum Framework reviewed competencies, knowledge fields, learning materials, teaching methods, learning strategies, learning assessment, classroom activities, and educational technology. It also suggests mechanisms for implementing the curriculum, including providing guidance, building capacity, allocating the necessary resources, securing legal and administrative support for all education workers in Lebanon, and achieving quality assurance.²⁰⁴ The Teacher Competency Framework aims at improving the quality of instruction and systematizing recruitment, retention, and promotion, thereby contributing to a better governance of the teaching corp. The framework sets standards for teacher professional development and management as well as a classroom observation tool (benchmarked against an international standards) to be used within a new coaching model targeted at improving teacher performance. For both frameworks and to reap the benefits of the effort it took to develop them, more resources are needed to finalize the revisions and implement the new standards and practices.

Recovery: Reform sector PFM for better sector planning and for improved quality of school education and enhance governance of the Lebanese University

252. **A recovery scenario would provide the opportunity to pursue more effective PFM practices within the sector, in addition to the reforms proposed in the status quo scenario** (Figure 30). Beyond the urgent steps for more efficient teacher utilization, school consolidation/merging, and better data systems proposed in the muddling through scenario, macroeconomic stability would allow for better sector planning, budgeting, including the consolidation of the various sources of funding for the public education sector, and monitoring of expenditure at all levels of the education system.

253. **Interventions to enhance the quality of education can be financed by the resources freed up by improved financial management.** Key interventions include improving public school teacher remuneration and benefits to attract better teachers and enhancing teacher training, particularly in line

²⁰⁴ The Curriculum Framework was endorsed by the Curriculum Higher Committee in November 2022, and curriculum development has involved a wide range of stakeholders and undergone multiple revisions.

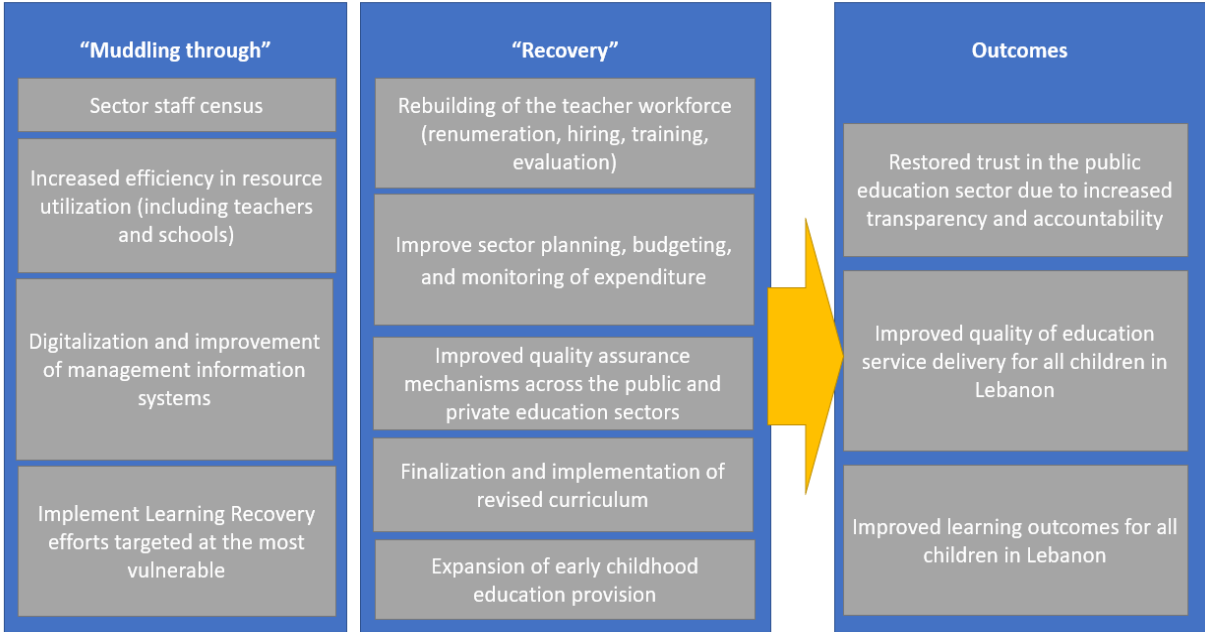
with the revised curriculum and the crisis-related learning recovery efforts. MEHE’s monitoring system should also include private education providers, to ensure quality assurance for private education. In addition to ensuring a standard of quality, enhanced monitoring will inform the planning process for the sector as a whole and therefore result in sector-wide improvements in efficiency and resource allocation.

254. **Efforts to improve access by targeting the most vulnerable can be scaled up in the recovery scenario.** Beyond simple learning recovery, tackling school dropouts by identifying the most vulnerable households and encouraging retention would improve human capital in the long run. Expanding public early childhood education to the poorest also promises high returns.

255. **The recovery scenario is an opportunity to implement reforms in the governance, financing, and offerings of the Lebanese University.** Improved governance practices that introduce accountability and transparency at the university through autonomous institutional leadership is key for transitioning the university to a world-class institution of higher education. The move from a norms-based approach to financing to a results-based scheme which links funding to successful outcomes promises to improve performance and quality. Deepening the links between the Lebanese University and the private sector is essential for developing a national qualifications framework to identify labor market needs, both locally and regionally, and reflect them in the university’s offerings.

256. **The transition of the productive economy from low to high value-added activities relies on the availability of qualified human capital to power these activities.** The cornerstone of providing such a pool of human capital is an effective education sector that is at once adapted to the needs of the productive economy and offers a high-value-added process itself for regional human capital needs.

Figure 30. Education sector interventions under each scenario



Source: World Bank staff.

ANNEX TO CHAPTER 1

Annex 1.A

Institutional paralysis reinforced by regional turbulence: Historical background

1. **The current intertwined constraints form the most recent inflections of Lebanon’s historical determinants.** Over its history, Lebanon has witnessed different inflections along these two axes, which have resulted in different political economic realities. The confessional rules of the game did not result in the same institutional composition or economic outcomes nor did the external environment play the same role over the last few decades. The next part traces the past trajectory along these two axes to provide a historical background to the current inflections of the internal/external dynamics plaguing Lebanon’s path toward recovery.

1. Pre-Ta’if moment: The roads of paralysis

2. **The state has historically been weak in Lebanon, a characteristic that set Lebanon apart from the regional trend toward state centralization and authoritarian regimes.**²⁰⁵ Confessional governance, coupled with an imperfect liberal ethos, led to a state that was regularly contested, its boundaries constantly under dispute, and its legitimacy questioned by various local and regional political actors.²⁰⁶ Following the Ta’if agreement (1989) and the constitutional reforms that ended the civil war, the basic functioning of state institutions became dependent on an elusive and shifting political and sectarian consensus.²⁰⁷ This institutional setup, with its accompanying political praxis, made institutional paralysis one of the possible outcomes of the constant negotiations between political players and gradually after 2005, the most probable one.

3. **The possibility of a systemic paralysis of the political system was always present in the consociational nature of the Lebanese system, even though it took different forms at different points in history.** Before the Ta’if accord, which introduced major changes in the constitution mirroring the underlying political and demographic changes, Lebanon operated as a presidential democracy, based on the French model. The first constitution enshrined in practice a consociational, albeit unequal, distribution of political power vesting executive power in the hands of the Maronite President who had, among other prerogatives, the power to propose laws, annul the Parliament, appoint the Prime Minister, and sign decrees. The subsumption of the consociational imperative of representation by the executive power of the President was the hallmark of the political system until the end of the civil war.

4. **The presence of a strong executive allowed the system to remain stable and relatively functional until the civil war.** It was during this period, and especially during the Presidency of Fouad Chehab (1958–1964), that Lebanon witnessed the emergence of its main state institutions and the extension of state provisions of public services.²⁰⁸ This did not deny the presence, and even development, of patron-client networks and rent-seeking behaviors or the extension of the reach of security services in

²⁰⁵ el-Khazen, Farid. 2000. *The Breakdown of the State in Lebanon, 1967-1976*. Harvard University Press. [Link](#)

²⁰⁶ Migdal, Joel S. 1988. *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World*. Princeton University Press. [Link](#)

²⁰⁷ Debié, Franck, and Pieter Danuta. 2003. *La Paix et la Crise: Le Liban Reconstitué?* Presses Universitaires de France. [Link](#)

²⁰⁸ Safieddine, Hicham. 2019. *Banking on the State: The Financial Foundations of Lebanon*. Stanford University Press. [Link](#)

politics. These tendencies toward state capture existed alongside a process of state building and extension, often clashing with it or heavily influencing its outcome.

5. **For many, the strong executive was perceived as providing the institutional basis for the Maronite domination over the political system.**²⁰⁹ Gradually, the contestation to the executive power of the state took on a sectarian dimension, often spurred by turbulent regional developments, namely the appeal of Arab nationalism in the 1950s. The ‘reform’ of the Lebanese system toward a more equitable sectarian allocation of political power became a recurring demand of a growing opposition. The transformation of the domestic conflict into a sectarian zero-sum game found, in a conducive regional environment, its denouement through violence.

2. The post-war regime: Institutionalizing paralysis

6. **The war created a new reality that continues to mark Lebanon for many decades after the conflict itself ended.** The inability to reform the system led to the de facto division of the country into sectarian regions ruled by political parties, some of them developing their own central administration to manage the lives of their populations.²¹⁰ The contestation of the central state, often violent, was replaced by its fragmentation, shifting political power from the remnants of centralized institutions to the militia leaders. With the demise of the centralized state, the provision of services was handled by the emergence of a plethora of non-state actors that filled the vacuum. These non-state actors were a collection of NGOs, religious organizations, the ‘civilian branch’ of militias or local actors, often backed by notables. This network of non-state organizations, often mistaken for ‘civil society’, further severed citizens’ material attachments to the centralized state. By the end of the civil war, Lebanon had lost any claims to unified statehood, having two governments, a divided army, and no functioning centralized administration.

7. **The war witnessed the gradual rise of Syria as the main powerbroker in Lebanon.** Starting from the mid-1980s, Syrian intervention in Lebanon intensified, bringing a growing number of political players under its control, often after bouts of violence.²¹¹ And after the long and protracted ‘war of liberation’ launched by Michel Aoun, the Christian regions too fell under Syria’s control, a control that was solidified with the forced exile of Aoun and later arrest of Samir Geagea. By establishing its military control over the country, the Syrian regime emerged as the main powerbroker in Lebanon, a fact that lasted until the departure of the Syrian army in 2005.

8. **The war ended with the exhaustion of most contending parties and the dominance of the Syrian regime.** An agreement was reached in 1989, known as the Ta’if agreement, thought to appease the fears of some while giving in to some of the demands to reform the present and enshrining Syrian control over the Lebanese polity.²¹² **The agreement was thought to be a ‘grand bargain’,** one that would ensure the adhesion of most contending parties to the post-war process of state building, backed by an external powerbroker, Syria. The agreement was translated into a series of constitutional reforms in November 1989, altering the nature of the constitution and the political system, away from a presidential system toward a consensual one.

²⁰⁹ Trablusi, Fawwaz. 2007. *A History of Modern Lebanon*. Pluto Press. [Link](#)

²¹⁰ Picard, Elizabeth. 2002. *Lebanon, a Shattered Country: Myths and Realities of the Wars in Lebanon*. Holmes & Meier. [Link](#)

²¹¹ Picard, Elizabeth. 2016. *Liban-Syrie intimes étrangers: Un siècle d’interactions sociopolitiques*. Sindbad Actes Sud. [Link](#)

²¹² Salam, Nawaf. 2003. “Ta’if Revisited.” In *Lebanon in Limbo: Postwar Society and State in an Uncertain Regional Environment*, edited by Theodor Hanf and Nawaf Salam. Nomos Verlagsgesellschaft. [Link](#)

9. **The ‘second constitution’ greatly weakened the power of the presidency, transferring executive power to the council of government, itself ruled by consensus.** In addition, the power of the Prime Minister was strengthened compared to the President, while the Parliament was shielded from the threat of being annulled by the President. The Speaker of Parliament also gained in power, now controlling the agenda and hence the power to block any laws. Similarly, ministers gained in veto power, with their signatures becoming mandatory for the passing of laws. In other words, to fight the centrifugal forces of the Lebanese system, especially after the fragmentation of the country during the civil war, the constitutional reforms provided most political representatives in the state with the capacity to veto decisions. The Ta’if agreement created a conditional state, one constantly subject to the elusive negotiations among the main contending parties.

10. **The ‘Ta’if Republic’ was not just a series of constitutional reforms, but it developed its own modus operandi, based on the institutional fragmentation of the system into fiefdoms protected by a series of vetoes and counter-vetoes.**²¹³ A parallel system of governance based on extra-institutional negotiation became a constant feature of Lebanon’s political life, increasing the transaction costs of any decision while emptying political institution from any coherent power. Beneath the formal unity of the state was a series of contending institutions, each ‘belonging’ to a political player vying for a bigger share of the pie. This was not simply an institutional mistake. It was perceived as the necessary cost to ensure social peace, the price to pay to secure the adhesion of all contending parties to the fragile peace.²¹⁴ In other words, **the Ta’if agreement created a dislocated state**, one lacking cohesion between its various components.

11. **Syria, the regional powerbroker that dominated political life in Lebanon, brought the system together, through coercion, and provided an arbiter for the never-ending negotiations of the post-war political system.** It was the overbearing presence of that actor, with its various security organizations, that set the limits for any domestic disagreement, intervening in the minutest details of public policy or public life. The previous power of the President of the Republic, which gave the system some continuity, was replaced by Syria, backed by a regional and international alliance. From managing electoral alliances to engineering the formation of government and intervening in the allocation of contracts, the role of Syrian officials was paramount to the functioning of post-war Lebanon, mitigating the systemic trend toward paralysis or fragmentation.²¹⁵

12. **Even though peace was secured for more than a decade, this system came at a high cost in terms of corruption and rent-seeking market distortions.**²¹⁶ The reconstruction program quickly became unsustainable as it was largely financed by public debt, leading to a growing budget deficit.²¹⁷ Economic growth was unequal and whatever development of state institutions took place was mitigated by the systemic corruption and mismanagement of these institutions. Elite capture in public procurement contracts and corruption and squandering of public resources, under the guise of confessionism, reached its climax during that period, with the state becoming the locus for most lucrative rents, to the detriment of productivity, balanced growth, equity, and environmental sustainability (Box 4). Through the

²¹³ Dibeh, Ghassan. 2005. “The Political Economy of Postwar Reconstruction in Lebanon.” UNU-WIDER, Research Paper No. 2005/44. [Link](#)

²¹⁴ Arsan, Andrew. 2018. *Lebanon: A Country in Fragments*. Hurst. [Link](#)

²¹⁵ Osoegawa, Taku. 2013. *Syria and Lebanon: International Relations and Diplomacy in the Middle East*. I.B. Taurus. [Link](#)

²¹⁶ Leenders, Reinoud. 2012. *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Cornell University Press. [Link](#)

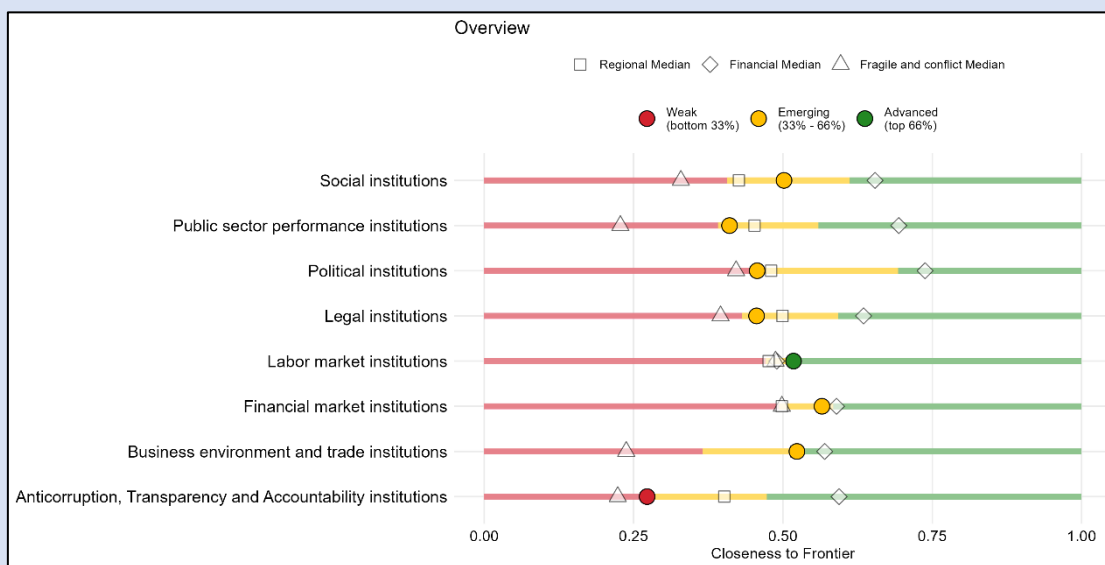
²¹⁷ Gaspard, Toufic. 2004. *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-faire*. Brill. [Link](#)

patronage channels structured around highly managed elections, a small share of these rents was redistributed to secure a temporary allegiance from the various constituencies.

Box 4. CLIAR findings

The World Bank Country-Level Institutional Assessment and Review (CLIAR) framework²¹⁸ assesses the quality of institutional arrangements in Lebanon against a set of comparator countries, on the basis of 85 available indicators grouped into eight institutional clusters: political institutions; social institutions; anti-corruption, transparency and accountability institutions; public sector institutions; justice institutions; business environment and trade institutions; labor market institutions; and financial market institutions. Of the eight institutional families, Lebanon is comparatively weakest on anti-corruption, transparency, and accountability institutions, ranking in the bottom third of performers on 9 of the 13 indicators. However, the overarching constraint of institutional paralysis shows up eminently in the fact that of the 85 indicators included in the framework, Lebanon consistently underperforms on *all indicators* related to the state, the public sector, and the power and performance of the political elite. Thus, of all justice institutions, Lebanon ranks lowest on judicial independence, settling disputes, and the ability to challenge regulations. On public sector institutions, Lebanon performs poorly on regulatory governance, regulatory enforcement, and the efficient use of assets. Lebanon is in the bottom third of countries on regulation for renewable energy and efficient energy. On business and trade institutions, Lebanon lags behind on the effectiveness of antimonopoly policy and the burden of customs procedures. On social institutions, the score on trust in politicians is one of the lowest among all the comparator countries.

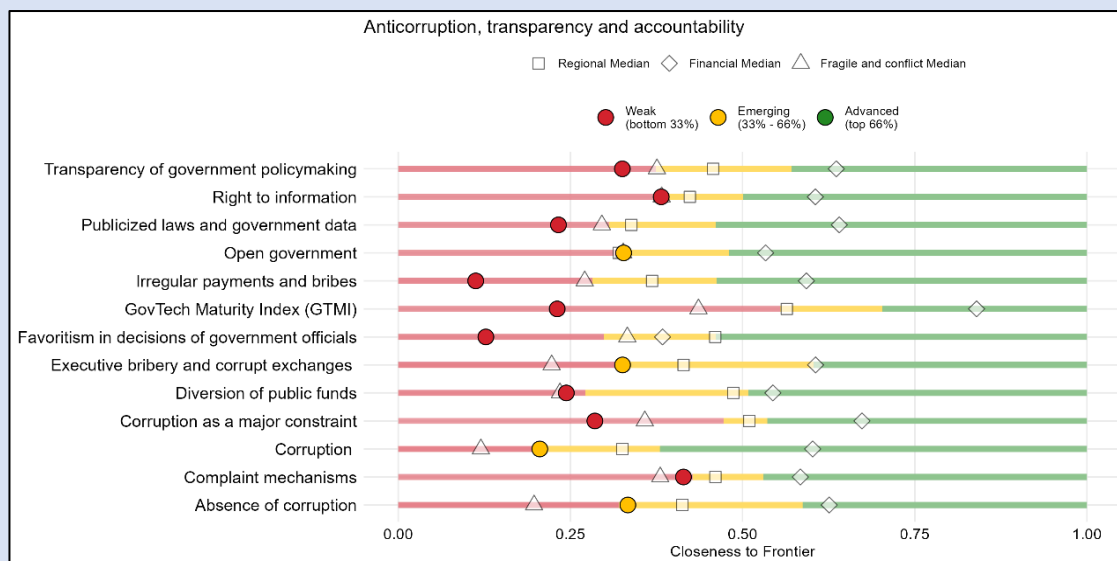
Figure 31. Lebanon CLIAR overview, compared to three groups of countries



Source: World Bank CLIAR.

²¹⁸ The methodology of the CLIAR framework is explained in Annex 1.B. Regional comparators include Egypt, Morocco, Iraq (also coded as conflict), Jordan, Algeria, Tunisia. Financially fragile countries include Argentina, Greece, Ireland, Iceland, Cyprus Mexico, Chile, Venezuela, and Uruguay. Conflict-affected countries include Afghanistan, Iraq (also coded as regional), Libya, Syria, and Yemen.

Figure 32. Anti-corruption, transparency, and accountability in Lebanon, compared to three groups of countries



Source: World Bank CLIAR.

3. The Breakdown: 2005–2016

13. **The first crack in the post-war system started with the breakdown of the regional and international consensus, spurred by the Iraq war.** The growing tension between the United States and the Gulf countries on one side and Syria on the other provided the space for the emergence of a growing Lebanese opposition to the overbearing role of Syria in Lebanon. The internal contestation quickly turned violent, with a string of assassinations, most prominently that of late Prime Minister Rafik Hariri, before turning into outbreaks of violent conflict with clear sectarian undertones. The 2006 hostilities between Israel and Lebanon added to the already boiling domestic tensions. The polarization between the two main political alliances, the ‘March 14 bloc’ opposed to Syria and the ‘March 8 bloc’ aligned with Syria and under the leadership of Hezbollah, dominated political life and ended in a bloody bout of violence in 2008. Following Hezbollah’s show of force, a new agreement was reached, the ‘Doha Accord’, which formalized certain practices pertaining to the power-sharing system leading to a generalized state of paralysis.²¹⁹

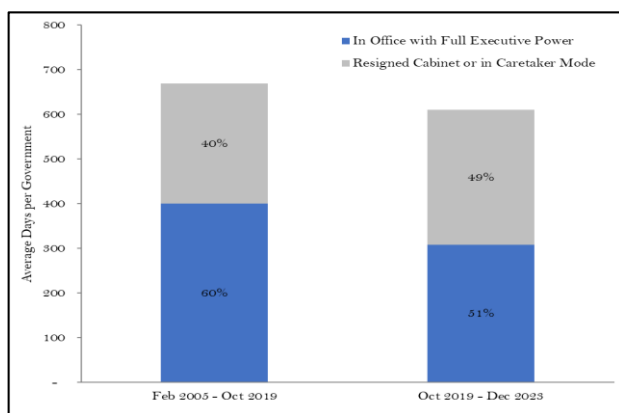
14. **The inability of any of the contending parties to rule on its own, coupled with the absence of a powerbroker, led to the systematic use of all the potential tools for paralysis included in the Ta’if agreement,** sometimes even the innovation of new ones. Blocking voting minorities, blocking thirds, quorums, a network of vetoes and counter-vetoes as well as other mechanisms were implemented to ensure that no decision would be taken without the consensus of all players. As a result, delays in electing a president or forming a government became the norm, as is currently the case (Figure 33 and Figure 34). Governments in charge were often caretaker governments. The Parliament was regularly paralyzed, due to the absence of a quorum. Major governmental decisions were subjected to the same lengthy process of negotiations, greatly hampering the basic functioning of the government. In the absence of a regional powerbroker and with no perceived costs to the local players in choosing the path of paralysis, none of

²¹⁹ Geukjian, Ohannes. 2016. *Lebanon after the Syrian Withdrawal: External Intervention, Power-Sharing and Political Instability*. Routledge. [Link](#)

them had a real incentive to compromise. The deteriorating economic situation and the growing Syrian conflict with its spillover in terms of refugees did not push the political players to attempt to reach a consensus. Instead, the paralysis transformed most state institutions into battlefields of political contestation, rendering them dysfunctional and fully dependent on the underlying sectarian consensus.²²⁰

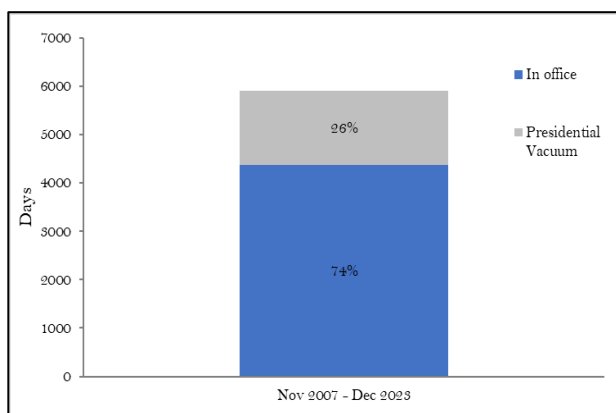
15. **Even though the risk of violent spillovers from the neighboring Syrian conflict seems to have receded, the presence of Syrian refugees continues to pose a humanitarian challenge, especially in the absence of any cohesive plan for managing their basic needs.** Instead, the ruling elites have instrumentalized their presence by attempting to scapegoat them and hold them responsible for the economic crisis. The relationship with the host communities has deteriorated, and growing reports of forced repatriation are emerging (see chapter 3).

Figure 33. Government mode: Full executive power vs. caretaker or resigned, since February 2005



Source: World Bank staff estimates.

Figure 34. Presidential vacuum since 2007



Source: World Bank staff estimates.

4. The Crisis: 2016–Present

16. **The long-awaited election of a president, namely Michel Aoun, in 2016, came after lengthy and protracted negotiations between the various contending parties, with Saad Hariri endorsing him in what seemed to be a deal that would break the state of paralysis.** For a few months, it appeared that the post-war system managed to survive its crisis, generating a consensus among the representatives of three sects, grounded in a new distribution of rents. Nevertheless, the hope of the political elites was short-lived. Political divisions quickly emerged to the forefront, especially between the Speaker of Parliament and the President of the Republic. Prime Minister Hariri gradually lost his stature as the Sunni representative. And the unified Christian front which brought Aoun to the presidency collapsed under the weight of the internal competition between different Christian factions. But the deadly blow came from the financial sector. Starting as early as 2015, the signs were becoming clear that the economic system was on the verge of collapse if no urgent reforms were undertaken. Early in the summer of 2019, the first signs of the BdL’s inability to maintain the currency peg at LBP 1,507 per US\$ started to be felt. The policy of the peg, one of the pillars of the post-war economic model, was starting to collapse.

²²⁰ Baumann, Hannes. 2023. “Bringing the State and Political Economy Back In: Consociationalism and Crisis in Lebanon”. *Nationalism and Ethnic Politics* 30 (1): 85–102. [Link](#)

17. **A popular uprising erupted in October 2019** opposing the political regime, with disparate demands, illustrating the many social, economic, political, and even cultural grievances that the regime had accumulated over the years.²²¹ It signaled the delegitimization of the political elites and threw the political system in disarray. The uprising was repressed a few months after it started and lost its momentum with the onset of the global COVID epidemic and its subsequent confinement policies. A few months later, in August 2020, an explosion of disastrous magnitude took place in the PoB, killing hundreds and destroying thousands of homes and large parts of the capital city. The explosion was the result of a large amount of ammonium nitrate, left to rot in the port. The cause of the initial fire is still unknown and the legal responsibilities still undetermined due to the political obstruction of the judicial investigation. The popular anger against the political elites reached its climax when it became clear that their incompetence had become deadly.

18. **Lebanese citizens went to the polls for the first time in the parliamentary elections of May 2022 since the October revolution, the unprecedented socioeconomic and financial crisis, and the Beirut port explosion.** Change through elections, however, remained elusive as the results of the elections all but solidified the elites' ability to maintain their hold on power despite total collapse, bankruptcy, anger, dysfunction, and state evisceration. The map of the new Parliament reveals fragmented blocs and seats, challenging the ability to form a stable majority and minority. A Parliament with a mosaic of representation with no clear majority, the challenge of agreeing on a new prime minister designate and power distribution of a new government, and a new president all bode an all too familiar state of political paralysis. Indeed, following the end of the mandate of President Aoun in October 2022, the main political players failed to reach a consensus, leaving the presidency vacant until the writing of this report. The vacancy has shed constitutional doubt on the caretaker government, while blocking the normal operations of the Parliament needed to adopt critical reforms. The political deadlock has continued to plague the implementation of any coherent reforms package, while the negotiations with the IMF are still pending.

19. **In October 2022, a historic agreement was reached between Lebanon and Israel, negotiated through the United States, to delimit their maritime borders, nonetheless the agreement does not guarantee stability on the security front with Israel.** In fact, starting in October 2023, the conflict in the Middle East and its spillover into Lebanon, as military confrontation at the Southern border intensifies, serves as a constant reminder of the endemic risk of conflict, even as its manifestations and ramifications on Lebanon continue to evolve. Regional turbulence, through its multiple manifestations, whether through the risk of conflict and regional conflict spillovers (overarching constraint II) or the impact of evolving regional dynamics on the political domestic landscape, only reinforces institutional paralysis (overarching constraint I) and the inclination to wait for an amelioration of the international climate around Lebanon.

20. **The cost of delaying reforms, however painful, increases with time, adding its own set of obstacles to any recovery plan.** The collective, even if not coordinated, decision by the political ruling elites to delay any agreement or serious negotiation over four years into the crisis has only compounded the cost of the financial crisis, probably with irreversible damage. This is not simply the result of incompetency or an absence of consensus but also of vested interests, which have found more rents to extract in the persistence of crisis than in its ending, even if these gains are short-lived and come at an

²²¹ Karam, Jeffrey, and Rima Majid. 2022. *The Lebanon Uprising of 2019: Voices from the Revolution*. Bloomsbury. [Link](#)

immense humanitarian cost. In view of such delays, Lebanon is not simply facing a grave financial and economic crisis but a political one that might irreversibly transform its society.

Annex 1.B

CLIAR methodology

21. **The World Bank CLIAR framework was used to assess the quality of institutional arrangements in Lebanon against a set of comparator countries.** This exercise generates the empirical evidence needed to map out the country's institutional profile and identifies its institutional strengths and weaknesses. The main advantage of the benchmarking analysis is that it offers a standardized, transparent, and replicable approach to identify key institutional areas where the performance may be deficient relative to that of comparator countries. This provides a robust empirical base to guide the selection of a subset of issues related to the identified gaps that can be subject to in-depth investigation.

22. **The benchmarking exercise clusters an array of well-established institutional indicators into nine institutional families (when data are available).** The categorization process does not fall within a set theoretical framework. The categorization attempts to balance aggregation and narrowness, where the categories have to be broad enough to comprehensively capture the main indicators and policy spaces but also focused enough to guide an in-depth qualitative analysis as well as a productive dialogue in the country. The proposed categories are based on an effort to balance this trade-off and capture key functions that different institutions perform: Anti-corruption, transparency, and accountability; Business environment and trade; Financial market; Labor market; Justice; Political; Public sector; Social; and SOE corporate governance. The institutional benchmarking uses more than 80 indicators collected from a variety of data sources to provide a snapshot of governance and institutions according to the latest available international indicators, as of 2020.

Institutional families

23. **The benchmarking exercise employs the ‘closeness to frontier’ (CTF) methodology to standardize and compare a wide range of institutional indicators.** The CTF methodology facilitates the assessment of a country's performance across institutional indicators by comparing it with the ‘global frontier’, which corresponds to the world's best performer. For each indicator, a country's performance y is rescaled on a 0–1 scale using a linear transformation $\frac{(worst - y)}{(worst - frontier)}$, where 1 represents the best performer and 0 the worst performer. The higher the score, the closer a country is to the best performer and the lower the score, the closer a country is to the worst performer. The best and worst performers are identified using available data from the global sample (that is, considering all countries for which data are available) across the last five years. In the case of Lebanon, we use indicators for 2014–2020 (or a shorter period if data are not available). Next, for each institutional category, the CTF scores obtained for each indicator are aggregated through simple averaging into one overall CTF score. This captures the overall performance for a category relative to the ‘global frontier’. Performance across the indicators will help identify priority areas for institutional strengthening.

24. **Relative institutional weaknesses and strengths are defined based on the percentile in which the specific indicator belongs, relative to the set of comparator countries.** Traffic light coloring indicates where the largest institutional gaps exist relative to the comparator countries, based on the following categories: 'weak institution' (bottom 33 percent—red), 'emerging institution' (33–66 percent—yellow), and 'advanced institution' (top 66 percent—green). For Lebanon, the comparator countries were divided into three groups: (a) regional; (b) fragility, conflict, and violence; and (c) countries that have gone through similar financial crises. The chosen set of comparator countries include Afghanistan, Algeria, Argentina, Chile, Cyprus, Egypt, Greece, Iceland, India, Iraq, Jordan, Libya, Mexico, Morocco, Syria, Tunisia, Uruguay, Venezuela, and Yemen.

ANNEX TO CHAPTER 3

Nested constraint 2: Financial de-development

Other financial sectors

25. **Sustained use of payments and digital financial services will require renewed trust in the formal financial sector.** The payments infrastructure, reasonably developed before the crisis, is underutilized. Electronic wallet (e-money) services were authorized in 2021 and several licensed non-bank payments providers now operate in the market, paving the way for future innovation. Gaining traction will, however, need trust in the financial sector to be restored, itself strongly related to the banking sector crisis resolution, as well as deliberate policy measures to facilitate a move away from cash. Improvements to the ID ecosystem would allow for a smooth remote and secured onboarding process, especially for low-value accounts. Other barriers to widespread adoption of digital financial services include the absence of same-day delivery for electronic payments and the lack of market-wide effective coordination on interoperability. The third component of the national payment system, built to facilitate online real-time payments to all civil servants, is ready to go live but hampered by the lack of resources at the MoF, which also undermines efforts to digitalize tax payments.

26. **The microfinance sector is also in crisis and the vulnerable segments it typically serves are being pushed further into the margins of the financial system.** The largest best practice microfinance institutions, making up over 95 percent of the market, have an outstanding balance of up to US\$80 million in hard currency owed to foreign investors, which they are unable to repay given their currency losses, be it on their loan portfolio or on deposits held at local banks (estimated at around US\$45 million at the early days of the crisis). Before the crisis, after several years of steady growth, the sector counted a dozen specialized institutions serving around 150,000 borrowers with an aggregate portfolio of US\$220 million. The sector has now shrunk to one-third of its 2019 reach, when it served 10–15 percent of Lebanese households, and a dwarfed portfolio valuation (US\$6 million at the market rate). A survey of microfinance borrowers over 2019–2020 showed that their situation had dramatically deteriorated, with half being out of work or with less stable income and those with an active business witnessing a massive decrease in sales. In 2023, demand for US dollar loans picked up and some of the institutions started lending in US dollar again, reporting a new portfolio that is healthy and of high quality. However, institutions remain liquidity constrained and unable to serve the actual demand stemming from either their historical low-income client base, for whom they were a main source of finance, or from new client, who have lost access to bank loans.

27. **The insurance sector in Lebanon was small, fragmented, conservative, and underdeveloped in the pre-crisis period and has only atrophied since.** The sector has been fragmented with low profitability and solvency. Most companies are family owned, with limited financial flexibility, little capacity to innovate, penetrate, and build financial resilience. Only a small number of companies are members of significant global insurance groups. Total premium has been on a downward trend, dropping from more than 2 percent of GDP in 2019 to 1 percent in 2021. Poor claims experience, civil disruption, the COVID-19 pandemic, and deteriorating asset values associated with the economic crisis have all eroded the viability of the insurance sector. The sector is also governed by an outdated legal framework. The legislation has limited flexibility to allow modernization of the insurance oversight system to better reflect market needs and is in need of a comprehensive review. There is room to significantly optimize governance of the Insurance Control Commission (ICC), the official watchdog that is mandated with

safeguarding the interests of policyholders. The Insurance Law should be updated and amended following a consultative approach, including a review against international good practices, sector realities, and opportunities. The institutional architecture should be reviewed and an independent and sustainable funding model set up. This should include measures to enforce independence, transparency, and accountability of the ICC, and to expand its power to set rules, and its mandate to include market development.

Nested constraint 3: Infrastructure and public utilities

1. Telecommunications

28. **Although the telecommunications infrastructure was able to withstand increased internet usage during the pandemic without major disruptions, the sector faces serious financial and operational risks today.** The telecom sector's overall revenues, previously a major source of fiscal receipt, have been declining steeply for both fixed line and mobile services, while costs have been increasing, leading to an extreme reduction in overall fiscal contributions. The rates were corrected in the summer of 2022, but a progressive and sustainable pricing structure is needed. The increase in costs is mostly driven by the rise of the price of fuel, which went from around 7 percent of the telecom sector's budget in 2019 to more than 65 percent in 2022.²²² The port explosion also inflicted infrastructural damage on the telecom sector estimated at US\$9 million.²²³

2. Land, housing, and urban amenities

29. **Since 1960, Lebanon has experienced rapid urbanization coupled with substantial land consumption.** During the last decades, the country has undergone a spatial transition witnessing rapid urban growth, with the rate of urbanization attenuating since the second half of the 1990s to reach an urbanization rate of 89 percent in 2021²²⁴ (Figure 35). Urban development in Lebanon occurred without a clear strategy or planning, leading to fragmented and sprawling development. The country's pattern of urban expansion shows that cities are now spread over a land area several times larger than the one they occupied 30 years ago; over the past three decades, Lebanon's 10 most populous cities have grown significantly, covering an additional 100 km² of land.²²⁵

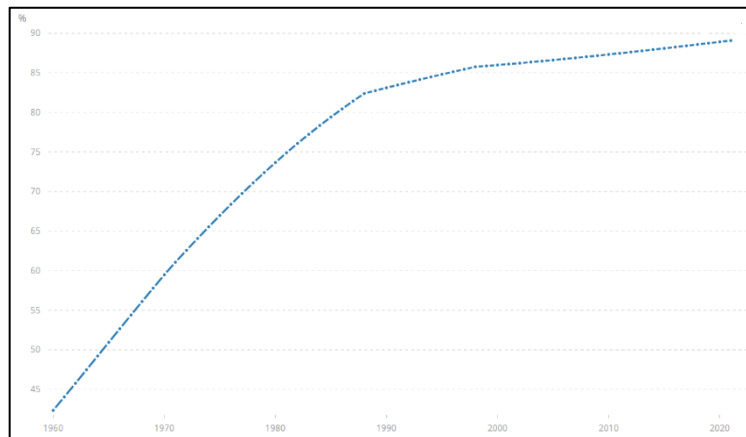
²²² According to Johnny Corm, Minister of Telecom

²²³ World Bank estimates, based on data provided by the Ministry of Telecom, Ogero, Alfa, and Touch.

²²⁴ [Link](#)

²²⁵ Un-Habitat, and ESCWA. 2021. "State Of The Lebanese Cities Governing Sustainable Cities Beyond Municipal Boundaries." [Link](#)

Figure 35. Lebanon's urban population (% of total population)



Source: World Bank.²²⁶

30. **Lebanese municipalities lack the capacity and resources to cope with rapid urbanization, with impacts accruing disproportionately on the most vulnerable communities and households.** Major cities are rapidly shifting from a concentric hub-and-spoke urban form to a polycentric one, resulting in costly urban mobility challenges, environmental degradation, and unsustainable urban growth patterns over the long term. Due to a weakened economy and limited FDI and domestic direct investment (DDI), Lebanon's municipalities lack the necessary financial resources to address resident service requirements. In the absence of adequate urban planning, Lebanese cities face multifaceted urban challenges such as overcrowding; urban sprawl; poor, insufficient, or lacking public services; a proliferation of informal housing on city outskirts; and a vulnerability of built heritage. While businesses follow or even move ahead of urbanization, public services such as electricity, waste management, roads, water, sanitation, and public transport lag. Lebanon's built heritage, which attracts global and regional tourism, is located in cities that lack the mandate, institutional capacity, and financing to oversee its management and upkeep. Its cultural sites, including its historic urban cores, have been damaged by earthquakes, civil war, and aerial bombardments.²²⁷

31. **Despite its potential to contribute to economic growth, there is a lack of transparency in the operation of Lebanon's land and property markets.** Investments in the real estate sector, including land and buildings, are perceived as among the country's most lucrative, with a construction boom in the high-end residential market, at least until the current economic crisis. However, land ownership continues to be riddled with problems, including incomplete overall registration of lands and properties, overly prescribed and complex land administration processes, and weak institutional arrangements and governance (Box 5). While Lebanon's approximately 61,000 state private lands are registered in the country's land registry, their designation (that is, the institution recorded as the owner/custodian of the land) is not standardized. Land surveying in Lebanon is incomplete, and there is little integration of maps across government institutions. Approximately 65 percent of Lebanon's territory is covered by large-scale cadastral mapping, around 6,900 cadastral map sheets that have been digitized and vectorized and are

²²⁶ [Link](#)

²²⁷ World Bank. 2019. *Lebanon—Cultural Heritage and Urban Development Project*. Independent Evaluation Group, Project Performance Assessment Report 140539. Washington, DC: World Bank. [Link](#)

maintained by the General Directorate for Land Registry and Cadaster (GDLRC). Urban maps, plans, and municipal geographic information system, maintained by local authorities in planning bodies, are poorly integrated with cadastral maps (Box 5).

Box 5. Housing sector in Lebanon

Lebanon has long suffered from entrenched deficits in housing, infrastructure, and basic urban services and weak governance underlying these public policy areas, with impacts accruing disproportionately to the most vulnerable communities and households. These deficits have been both highlighted and exacerbated by compounding crises affecting the country particularly since 2019. The Beirut port explosion with the catastrophic damage it caused to the residents of the capital city as well as its built fabric and economic, social, and cultural systems constituted a further shock.

No specialized institutional body exists to govern the housing sector in Lebanon. The country also lacks a national strategy on housing. The urban and land policies that are in place have favored private real estate development which, combined with weak urban planning and poor infrastructure and urban service provision, has led to increased inequality in access to adequate housing.²²⁸ Regulation incentivizes homeownership over other forms of tenure arrangements. But with no policy on public housing,²²⁹ and no regard for affordability for low-income and vulnerable groups,²³⁰ a few poorly regulated private actors have come to effectively run much of the housing sector.

The resulting housing sector is dominated by real estate speculation, particularly in the more lucrative high-end housing market, in which a handful of actors wield inordinate market power. Land prices in Beirut increased an exorbitant 600 percent from 2003 to 2013, while real estate prices increased by 200 percent.²³¹ Provision of housing has therefore catered almost only for high- and middle-income households. With an oversupply of high-income housing and an underserved low-income residential market, a large and increasing share of Beirut's residents are suffering from a lack of affordable and adequate housing. The residential rental market has also felt the impact of the increasing gap between supply and demand. About 23 percent of housing units developed between 1996 and 2018 are unoccupied, and one out of two apartments in the high-end market is vacant.²³² Nationally, 61 percent of the urban population is estimated to live in informal settlements,²³³ and up to 34 percent of Lebanese households (and 57 percent of the non-Lebanese) are overcrowded.²³⁴ Up to 20 percent of Syrian refugees live in non-permanent structures.²³⁵ A holistic national housing strategy that addresses both renters and owners, with a focus on improving access to affordable, adequate housing is an urgent yet complex priority.²³⁶

²²⁸ UNDP. 2020. "Leave No One Behind for an Inclusive and Just recovery Process in Post-Blast Beirut." [Link](#); UN-Habitat. 2011. "Lebanon Urban Profile." [Link](#)

²²⁹ Since its independence in 1942, the Lebanese state has rarely engaged in the production of public housing or introduced measures to protect or secure affordable housing for low-income groups such as property regularization and neighborhood upgrading.

²³⁰ Marot. 2014. "Jadaliyya - The End of Rent Control in Lebanon: Another Boost to the 'Growth Machine?'" [Link](#)

²³¹ InfoPro. 2014. "Business Opportunities in Lebanon – Year XI. Real Estate in Greater Beirut [Database]."

²³² World Bank. 2023. "Land Matters: Can Better Governance and Management of Scarcity Prevent a Looming Crisis in the Middle East and North Africa?" [Link](#)

²³³ ESCWA. 2021. "Lebanon SDG Monitor." [Link](#)

²³⁴ UN-Habitat, and UNICEF 2020. "Lebanon Neighbourhood Profiles." [Link](#)

²³⁵ World Bank. 2022. "Mashreq Displacement Response Framework – MDRF."

²³⁶ Un-Habitat, and ESCWA. 2021. "State of the Lebanese Cities, 2021." [Link](#)

Box 6. Land laws and administration

Existing land laws are generally outdated and disconnected from current contexts. A legal pluralism dating from Ottoman, mandate, and post-independence times governs land tenure, administration, and management and produces outdated land tenure categories, poorly adapted to current needs and contexts. Unrecognized customary regimes result in overlapping legislation in some cases and legislation gaps in others, making enforcement difficult and the determination of rights complex.

The land registry system has suffered from poor upkeep. The lack of resources (human, financial, and technical) required for the upkeep of key registries has become a major impediment to creating an environment for sound government decision-making and safe business development. Until the registry system is upgraded, technically and functionally, records will remain at risk of loss, costly to maintain, and prone to inaccuracy and corruption.

The lack of good quality data imposes serious costs on private sector development as well as long-term recovery plans. Legal ambiguity and poor recordkeeping have hindered investment and business activity. Policy and analysis have also come to rely increasingly on unofficial data (for example, data produced by the Beirut Urban Lab at the American University of Beirut) since it is more up-to-date and of higher quality than official data. However, without any official recognition of the data, plans and strategies based on such analyses lack legal backing.

The absenteeism of civil servants, the absence of good governance, and the current parliamentary paralysis have meant that required legal reforms are halted. Reforms of the legal framework are needed to digitize information systems and unify codes and legal regimes over land and property. This includes the land information system maintained by the GDLRC that records land and property ownership/use but also other key registries such as the business, address, and civil registries, which are also significantly out of date.

32. **The occupation of risk-prone areas with poorly serviced infrastructure for drainage and sewage and unsound residential units makes cities vulnerable to shocks such as floods and earthquakes.** With urban sprawl, the carrying capacity of drains falls short of needs. In Beirut, surface water runoff and heavy rainfall are recurring problems. The city's hilly terrain and poor drainage infrastructure exacerbate this issue, as water accumulates in lower levels and impervious areas. The World Bank (2020) estimated that an urban flood with a recurrence interval of two years (depth ranges from 0.13 m to 0.36 m) could potentially affect a population of 109,539 in Beirut. Due to urbanization in risk-prone areas, coastal cities are susceptible to flooding as a result of extreme coastal erosion. In Beirut, a coastal flood with a recurrence interval of 10 years can lead to potentially significant damages, including 170 buildings, 6.7 km of roads, and 3 km of sidewalks. The country also faces potential severe earthquakes and subsequent tsunami threats since the territory includes active fault lines. This places around 50 percent of residential buildings in some of the most disadvantaged neighborhoods at risk of collapse.²³⁷

33. **Climate change is exacerbating the vulnerability to climate shocks.** Given that Lebanon's four largest cities (Beirut, Saida, Tripoli, and Tyre) are located along the coastline and contribute more than 74 percent of GDP, damage from climate change is expected to cost US\$140 million in losses by 2040.²³⁸ The changing patterns of precipitation, rising sea levels, and increasing frequency and intensity of storms are causing coastal settlements and buildings to be inundated, disrupting the operation of Beirut airport and

²³⁷ Bassil, G. 2012. "National Water Sector Strategy: a Right for Every Citizen, a Resource for the Whole Country." [Link](#)

²³⁸ USAID. 2016. "Climate Risk Profile Lebanon." [Link](#)

damaging transport infrastructure, water networks, and wastewater networks along the coast.²³⁹ Beirut will see 50 more days with temperatures exceeding 35°C and 34 more nights with temperatures exceeding 25°C.²⁴⁰ Climate change will also affect Lebanon’s cultural heritage: in a study focusing on the United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites located around the Mediterranean Sea, Tyre was found to be at the highest risk of erosion out of 49 sites, due to its location directly on the coastline, its sandy material, and a mean wave height of 0.7 m.²⁴¹

Nested constraint 4: Public sector: Festering pathologies

1. Powerless regional administration

34. **Lebanon’s administrative structure has produced a municipal sector with weak governance and inadequate capacity.** Lebanon is divided into more municipalities²⁴² relative to its geographic size and number of residents than many economies in the region: it has three times as many municipalities as Tunisia, even though it is roughly 16 times smaller in area and 25 times as many municipalities as Cyprus, which is of comparable size. Most municipalities are small and lack qualified manpower, with 70 percent of them hosting a registered population of less than 4,000.

35. **The available financing instruments for municipal investments are limited, hindering municipalities’ ability to respond to urban and local infrastructural needs.** Capital spending by municipalities is being curtailed along with a hiring freeze and retrenchment of municipal employees. This leaves municipalities seeking to undertake multi-year economically viable municipal investments in critical urban services with limited sources of financing. Even daily operations, maintenance, and rehabilitation of existing investments and assets have become a challenge.

36. This financial resource gap stems primarily from the following factors:

- **Most local governments have weak own source revenue and low collection rates, inadequate capacity, and no incentives to enhance revenues at a local level.**²⁴³ Instead they rely primarily on intergovernmental fiscal transfers from the Independent Municipal Fund (ImF), in which collected taxes and fees are pooled and then distributed by MIM. These transfers are heavily dependent on the country’s economic performance and therefore are quite volatile, and in recent years, woefully inadequate (Figure 36). The inadequacy and unpredictability of municipal transfers is compounded by a lack of transparency and

²³⁹ Averaged across the Mediterranean Basin, mean sea level has risen by 1.4 mm per year during the twentieth century and has accelerated to 2.8 mm per year recently (1993–2018) (high confidence) mostly due to global ocean and icesheet dynamics.

²⁴⁰ Economic Costs to Lebanon from Climate Change: A First Look. [Link](#)

²⁴¹ Reimann, L., A. T. Vafeidis, S. Brown, S. et al. 2018. “Mediterranean UNESCO World Heritage at Risk from Coastal Flooding and Erosion Due to Sea-Level Rise.” *Nat Commun* 9: 4161. [Link](#)

²⁴² Lebanon has a three-tier administrative structure, with a dual system of governance. The nine governorates (*mouhafazat*) have regional authority and are further divided into 26 districts (*caza*). The decentralized authorities at local level include more than 1,100 municipalities (*baladiyahat*) and some 53 unions of municipalities, which comprise two-thirds of all municipalities as members. A union of municipalities has between 3 and 53 member municipalities with an average of 14 municipalities. Half of the unions have less than 10-member municipalities and another half are not contiguous, which hinders their ability to take on any spatial and regional development planning role.

²⁴³ Municipal Finance Capacity Assessment Report (June 2019), carried out to inform MIP preparation, indicates a local tax realization rate ranging between 21 percent and 55 percent of potential local tax revenue and minimal to no existing asset management plans in place.

independence of the ImF,²⁴⁴ which creates a further wedge between municipal financing and the need for municipal services (Figure 37).

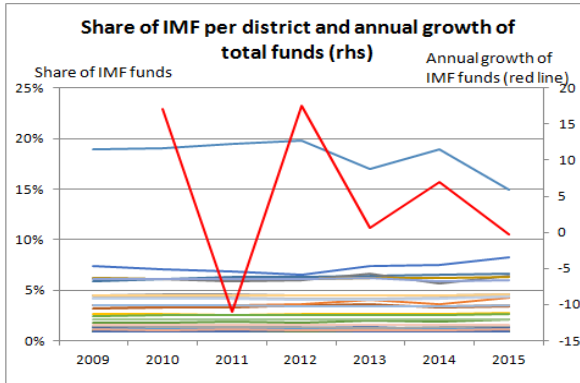
- **Local governments have limited access to commercial debt financing.** While Municipal Law 118²⁴⁵ allows local governments to borrow, Law No. 5 (1989) stipulates that any loans or guarantees to municipalities require prior passage of a law in the Parliament. In addition, high transaction costs make it almost impossible to access credit, particularly for smaller municipalities.
- **Only a small proportion of centrally collected taxes are transferred on to local governments.** A growing share is devoted to central government agencies that implement projects on behalf of local governments. As a result, the share of local government spending in total public expenditures is only 6 percent. Transfers to local governments constitute only 0.4 percent of GDP, a low share compared to other countries (1.5 percent in Tunisia and 3 percent in Morocco in 2014).
- **Sluggish growth and limited FDI and DDI have reduced the size of the ImF.** This has led to a sharp erosion of public services across all key sectors, both in terms of access and of quality. Municipalities lacked the necessary financial resources to meet the municipal service requirements of residents even before the influx of displaced Syrians imposed new demands on municipal services and budgets and well before the economic crisis.
- **The influx of displaced Syrians further increased the burden on local governments for municipal service delivery.** Local governments face greater demand for services, especially in those communities accommodating a large share of displaced persons. Host communities in secondary cities in the North, Beqaa, and South have absorbed most of this inflow, as 72 percent of displaced Syrians are registered outside Beirut.²⁴⁶ Yet, secondary cities in Lebanon were already home to the most vulnerable Lebanese. With 70 percent of refugees living below the poverty line even before the economic crisis, secondary cities have become sites of persistent and increasing social and economic inequalities, reflected in higher poverty and unemployment rates.

²⁴⁴ See Salti, and Chaaban. 2012. "The Political Economy of Attracting Public funds: The Case of Lebanon." *International Journal of Development and Conflict* 2 (1): 1250001. [Link](#)

²⁴⁵ Decree Law No. 118 dated June 30, 1977.

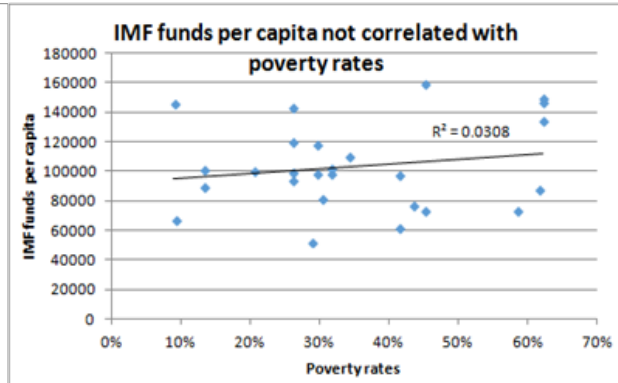
²⁴⁶ UNHCR data as of September 30, 2023. [Link](#)

Figure 36. IMF per district and annual growth of total funds



Source: MIM and CAS.

Figure 37. Intergovernmental fiscal transfers distribution and correlation with poverty rates



Source: MIM and CAS.

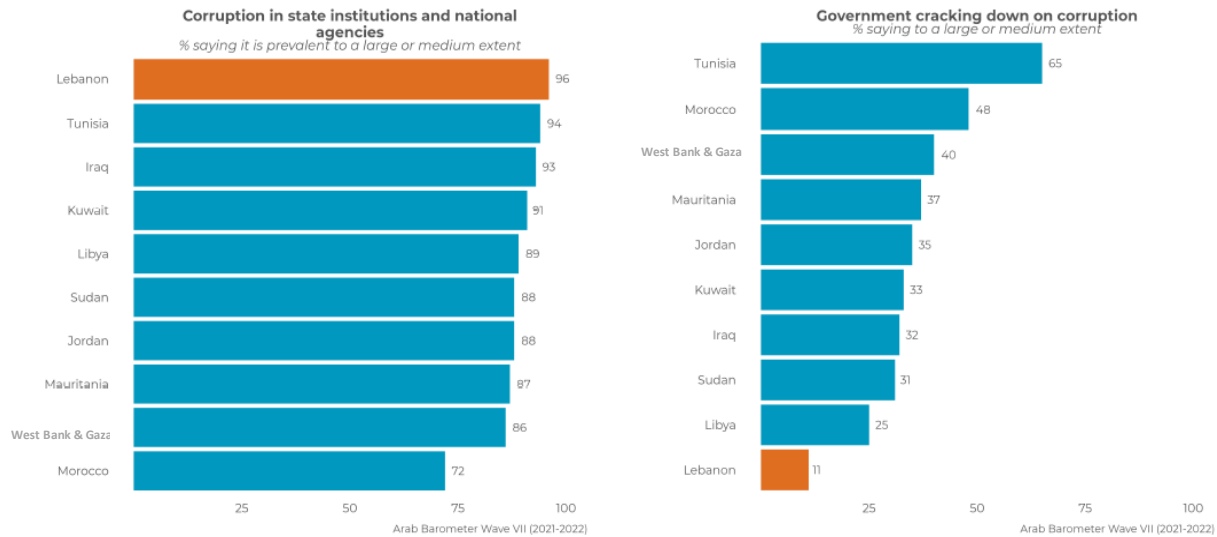
2. Anti-corruption, transparency, accountability

37. **The active fueling of sectarian identification on one hand and the use of inter-elite bargains as a means of building consensus on the other have greatly weakened administrative structures and made corruption more systemic, while absolving the political elite of any accountability.**²⁴⁷ The continued impunity is most evident in the complete lack of accountability for the disastrous Beirut port explosion. It is unsurprising to find that Lebanese citizens have the lowest levels of satisfaction with the overall performance of their government in the MENA region based on Wave VII of the Arab Barometer survey.²⁴⁸ As the charts below show (Figure 38), Lebanon is the country where the share of citizens who find corruption to be rampant is highest in the region. The Lebanese are also the least likely to feel that the government is effective in fighting corruption across the MENA region.

²⁴⁷ Massing, Stephan, and Mahmalat, Mounir. 2022. "Lebanon Risk and Resilience Assessment." World Bank Group, Washington, DC. [Link](#); Gebara, Khalil. 2023. *Understanding the Politics of Anti-Corruption in Lebanon*. Euromesco Policy Brief No. 131. [Link](#)

²⁴⁸ Arab Barometer Wave VII, Lebanon Report, pp. 10–11 (September 2022). Only 5 percent of Lebanese citizens were satisfied or completely satisfied with their government's performance. This is less than one-quarter the satisfaction of the next lowest country in Wave VII, Sudan (at 27 percent satisfied).

Figure 38. Corruption and government cracking down on it, in Lebanon and other Arab countries



Source: Arab Barometer Wave VII (2021–2022).

38. **Lebanon’s institutions for accountability, such as the Court of Accounts, Central Inspection, and Civil Service Board, have been unable to fully implement their mandates** due to outdated legislation, lack of sufficient funding and staff, and, most importantly, extensive political and sectarian interference in their operations. As a result, Lebanon’s fiscal statements have gone unaudited for long periods, the audits and inspections of the public administration have been incomplete, while the civil service has grown through the irregular hiring of contractors ‘off the books’.

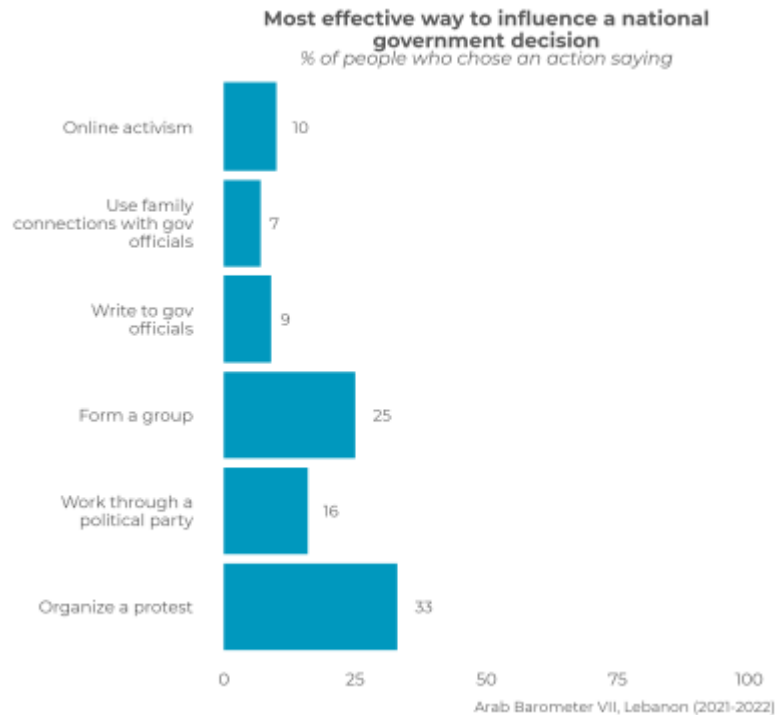
39. **While sectarian power sharing has always slowed down policy making and decisions, the lead-up to the current paralysis has seen a declining rate of formal adoption of laws and regulations.**²⁴⁹ As one commentator has noted, “the Lebanese political elite has perfected the art of not governing.”²⁵⁰ The ongoing political stalemate and resulting decline in economic and social conditions in the country have stripped Lebanese citizens of any hope of influencing government decisions. Nearly one-third of citizens say their actions would have no impact on government decisions, the highest level in the region.²⁵¹ Of those citizens who believe that their actions can affect government decisions, going outside the political process to protest is believed to be the most effective way (Figure 39).

²⁴⁹ Mahamalat, Mounir. 2023. “The Grand Waiting Game: Why Lebanon’s Elites Postpone Compromise.” Economic Research Forum 1224, February 14, 2023. [Link](#)

²⁵⁰ Gebara, Khalil, Understanding the Politics of Anti-Corruption in Lebanon, Euromesco Policy Brief No 131 ([Link](#)) citing Parriera, Christina. 2019. *The Art of Not Governing: How Lebanon’s Rules Got Away with Doing So Little For So Long*. Synaps. [Link](#)

²⁵¹ Arab Barometer, Wave VII, Lebanon Country Report at p. 19.

Figure 39. For Lebanese, organizing a protest is the most effective way to influence a national government decision



Source: Arab Barometer VII.

40. **Even though some of the legislation for transparency and accountability was passed, without the political will to implement it, the new legislation largely remains dormant.** Anti-corruption laws that had been pending in Parliament for decades were passed over the last few years; however, the requisite bylaws, secondary legislation, funding, and staffing are still lacking. The Access to Information Law (2017), the Whistle-Blower Protection Law (2018), the National Anti-Corruption Institution Law (2020), and a new Public Procurement Law (2021) all create the de jure basis for improving the transparent and accountable operation of Lebanon’s public sector. In 2020, the Cabinet endorsed Lebanon’s first-ever National Anti-Corruption Strategy 2020–2025, which provides a roadmap to achieve three key objectives in combating corruption in Lebanon: enhancing transparency, activating accountability, and ending impunity. Despite this progress, major breakthroughs in combating corruption and improving accountability and transparency remain elusive. These require stronger support and more consistent engagement by political actors and government institutions, along with civil society, the private sector, and the international community.

Nested constraint 5: Human capital losses that linger

Education

41. The overstaffing of teaching staff is partly the result of a fragmentation of the teaching force as well as poor accountability and monitoring: teachers with fixed-term contracts (civil servants) spend 10 to 15 hours on teaching tasks on average²⁵² compared with international benchmarks of 20 hours.²⁵³
42. **Schooling outcomes in general are highly unequal among economic groups.** Only half of the 18-year-olds from the lowest economic quantiles complete school.²⁵⁴ The PISA 2018 results revealed that there are a few high-performing schools and many low-performing schools.²⁵⁵ Results from PISA 2019 show that the reading score of the highest performing schools is the equivalent of 6 to 7.5 years of education ahead of the lowest performing schools.
43. **Despite the lack of resources in the public education sector, a considerable amount of public funds is spent on private education in the form of educational allowances to civil servants.** More than US\$250 million a year is spent on subsidies to private schools in the form of allowances to civil servants to send their children to private schools.²⁵⁶ This practice of non-merit-based support has effectively exacerbated inequities in the education sector. In addition to civil servant allowances, non-merit-based subsidized support is also provided to some private schools, known as free private schools, which receive US\$60 million in public funds annually.
44. **Each of the three modes of provision (public, free private, and fee private) also has various financing schemes, further fragmenting the sector and widening disparities, with public funds used in the financing of all three forms of provision.** Each class of education provider has its own financing scheme comprising public spending (in the form of government finance or educational allowances), private tuition contributions, and at times targeted support by international donors. The result is that the education of some students in private schools is partially borne by the state, whether the school is a free or a paying private school.
45. **In reading, the average PISA 2018 score of Lebanese was 134 points below the OECD average of 487 (Figure 40).** In mathematics, Lebanon also falls below the OECD average by about 1 standard deviation, equivalent to about 3–4 years of education (Figure 41). In science, Lebanon falls below the OECD average by four years or more (Figure 42).

²⁵² World Bank. 2017. *Lebanon Education Public Expenditure Review*. [Link](#)

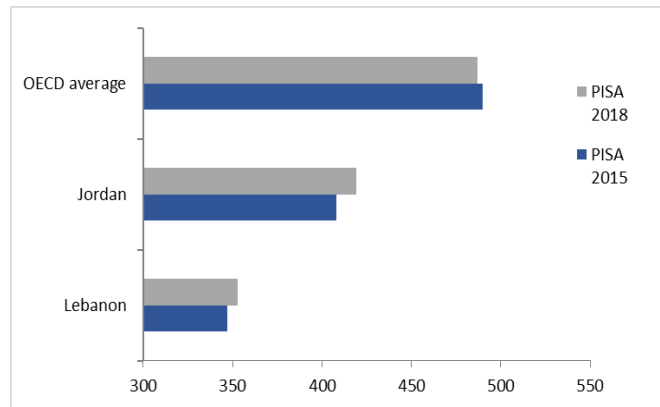
²⁵³ OECD. 2020. "Education at a Glance 2020: OECD Indicators." OECD Publishing, Paris. [Link](#)

²⁵⁴ CAS (Lebanon Central Administration of Statistics), ILO (International Labour Organization), and EU (European Union). 2020. "Labour Force and Household Living Conditions Survey 2018–2019." [Link](#)

²⁵⁵ Gajderowicz, T., and M. Jakubowski. 2021. "Jordan and Lebanon Performance in International Student Assessments." [Link](#)

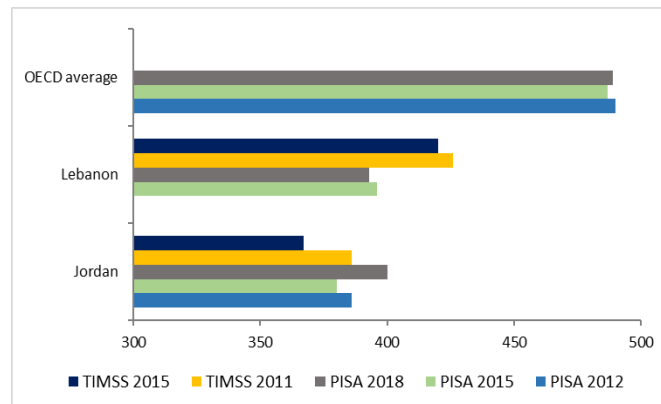
²⁵⁶ World Bank. 2017. *Lebanon Education Public Expenditure Review*. [Link](#)

Figure 40. Lebanon PISA scores in reading



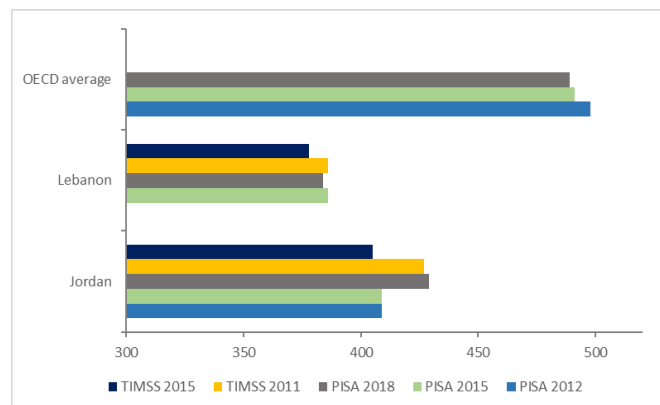
Source: Original figure based on OECD PISA.

Figure 41. Lebanon PISA scores in mathematics



Source: Original figure based on OECD PISA and TIMSS.

Figure 42. Lebanon PISA scores in science



Source: Original figure based on OECD PISA and TIMSS.

Nested constraint 6: Curtailed business environment

46. **Lebanese firms were struggling and underperforming well before October 2019, and multiple cross-cutting constraints on the business environment contributed to their chronic underperformance.** According to the 2019 WBES,²⁵⁷ the private sector's performance was weak and firms had started downsizing and reducing the number of employees even before the crisis. Firm productivity has been declining since 2013. Average sales per worker fell in 2019 from US\$159,000 in 2013 to US\$95,000. Between 2016 and 2019, firms' real sales dropped by 11.1 percent and total employment dropped by 3.6 percent annually. In addition to the weak macroeconomic conditions, political instability, poor access to finance, weak governance and corruption, inadequate supply of infrastructure, lack of pro-competition regulations and enforcement, a weak investment framework, and high regulatory burden are among the top constraints that hinder private sector development. These constraints were significantly exacerbated by the crisis.

47. **Over four years into these multiple crises, the private sector across all sectors is still struggling to recover and its buffers are being exhausted.** The crises significantly affected firm productivity and revenue generation and led to substantial layoffs and closures. According to a rapid firm-level survey conducted by the World Bank in November 2021, the formal private sector continues to suffer on all indicators of business health: closures (22 percent of formal firms were confirmed or assumed permanently closed since October 2019), low capacity utilization (average capacity utilization is 45 percent), large decreases in sales (60 percent of firms continue to experience sales decreases by more than 50 percent), and downsizing (64 percent of formal firms have seen a net job reduction, the average reduction is of 27 percent). Two years later, the situation cannot be expected to have improved much, given the continuing deterioration in the economic situation.

1. Access to finance

48. **Access to finance remains one of the most serious challenges for the private sector and threatens its sustainability.** With the insolvency of banks since the crisis, access to finance has severely deteriorated. This includes access to trade finance that firms need to import both final and intermediary goods. Opened letters of credit in 2022 dropped by 95 percent compared to 2019. In addition, terms of trade with international and local suppliers are changing constantly, limiting the use of credit and moving into cash-only transactions. The financial collapse has also affected firms' access to liquidity as well as their ability to engage in any financial planning. According to a rapid firm survey implemented by the World Bank in November 2021, 75 percent of firms reported a decrease in liquidity at least once between October 2020 and October 2021, 65 percent of firms did not have any access to finance, and the share of firms that relied on banks or financial institutions to finance their liquidity shortfalls dropped to 2 percent by October 2021.

49. **The drying up of entrepreneurship financing severely affects the start-up market, putting a dent on one of the drivers of future growth and jobs.** Before the crisis, Lebanon's equity funding landscape evolved significantly, BdL's Circular 331 provided interest-free loans and a guarantee of up to 75 percent for banks' investments in start-ups and in venture capital (VC) funds. As a result, more than 13 VCs were established between 2015 and 2020 with a total investment between US\$350 million and US\$400 million.

²⁵⁷ World Bank Enterprise Survey: Business owners and top managers in 532 firms were interviewed from May 2019 through April 2020 ([Link](#)).

However, since the beginning of the crisis in 2019, the VC industry has faced a serious liquidity shortage and has been unable to raise capital due to the suspension of Circular 331, a lack of liquidity at commercial banks, and a lack of appetite from international investors to invest in Lebanon given the current conditions. Innovative start-ups and small and medium enterprises (SMEs) are facing serious risks of bankruptcy and closure. As a result, many start-ups are relocating or expanding outside of Lebanon, particularly in the Gulf Cooperation Council for survival.

2. Infrastructure

50. **Inadequate supply of infrastructure, particularly the serious shortage in electricity, is a critical barrier to private sector development.** Even before the crisis and the collapse of public services, access to electricity was cited as a major obstacle by 32 percent of firms, according to the 2019 WBES. According to anecdotal evidence, business spending on energy bills and fuel constitutes between 25 percent and 35 percent of revenues. While renewable energy could be an alternative solution for businesses and help reduce their cost eventually and ensure a supply of electricity, it remains an alternative with high fixed costs, and many businesses do not have the means to invest in it. Other critical economic infrastructure— notably the telecommunications networks—is also perceived as a major impediment to business operation in Lebanon. Lebanon ranks 95 out of 141 countries in ICT adoption according to the 2019 Global Competitiveness Index. Lebanon has one of the lowest speeds for fixed broadband according to the Speedtest global index which ranked Lebanon 166 out of 177 countries in January 2023. The crisis has only led to a severe deterioration in already weak infrastructure.

3. Governance

51. **Weak public sector governance and capacity challenges are a major obstacle to the private sector.** The combination of governance weaknesses, inadequate legal frameworks, and insufficient capacity creates an ecosystem in which business growth is severely stunted. According to the 2019 WBES results, political instability and corruption are cited among the top three constraints for business operations in Lebanon: 77 percent of firms identify corruption as a major constraint, 22 percent of firms experienced at least one bribe payment request, 56 percent of firms in Lebanon expect to have to give gifts to get a construction permit, all significantly higher than regional and global averages. According to the 2019 Global Competitiveness Index, Lebanon ranks 113 out of 141 countries in terms of quality of public institutions. Transparency International’s Corruption Perception Index ranked Lebanon 150 out of 180 countries in 2022, indicating endemic corruption in the country’s public sector. In what follows, various aspects of these governance and regulatory challenges are described in turn.

4. Competition

52. **Lebanon's economic landscape is marked by a small, highly concentrated economy with pervasive anti-competitive practices in key markets.** State monopolies control strategic sectors, while other basic industries (such as steel, cement, fossil fuels, and drugs) exhibit oligopolistic tendencies and are prone to anti-competitive practices.²⁵⁸ Legal and administrative barriers limit competition in local markets, leading to high rents that impede sectoral growth and job creation. This has persisted over time, demonstrating deeply entrenched market power and concentration.

²⁵⁸ Wood, Boswall, and Minkara. 2020. “Unfair Game: Lebanon’s Rigged Markets Are Killing Competition.” [Link](#)

53. **Combatting market imbalances through strategic implementation of competition policies in Lebanon holds the potential to boost GDP by 2 to 3 percent and improve employment opportunities.**

The economy of Lebanon would benefit from addressing resource misallocation due to market power and anti-competitive practices. Competition policies foster innovation, investment, and market entry while enabling capital mobility by reducing rent seeking. Furthermore, heightened economic activity and a competitive business environment drive demand for skilled labor, promoting job growth.

5. Investment framework

54. **The investment framework, designed to attract greater FDI, is inefficient.** Before the crisis, FDI inflows were on a sharp decline and concentrated in a narrow set of sectors with little contribution to economic growth and job creation. The crisis has only accelerated the decline from US\$2.7 billion in 2018 to US\$0.3 billion in 2021. An analysis of the Investment Law has highlighted multiple issues. It is (a) incomplete in terms of investor rights and protection guarantees, (b) provides for an inflexible and insufficient institutional setup for investment promotion and attraction, and (c) offers a seemingly generous but untested incentive scheme. Moreover, the institutional framework for investment attraction and retention needs strengthening. Investment Development Authority of Lebanon (IDAL), as the key implementing agency of Lebanon's investment policy, has been left without an adequate budget and staff, and thus rendered largely dysfunctional.

6. Regulatory framework

55. **An outdated regulatory framework adds to the complexity of the environment, severely impacting SMEs and entrepreneurs.** Furthermore, it is a deterrent to formalization, which hampers growth and the creation of decent jobs but also reduces government revenues and private sector contributions to social protection schemes. An archaic legal and regulatory framework, heavy bureaucracy in navigating administrative processes, discretion in interpretation of regulatory requirements, and capture are among the key constraints faced by the private sector and result in high transaction costs and loss in competitiveness. The Code of Commerce, for instance, is an 80-year-old piece of legislation, which was only partially modified by Law No. 126 of 29/03/2019, in an effort to meet local requirements and international standards. It still falls short of any modern regulatory framework for current business needs and remains misaligned with recognized good practices. Regulatory practices governing business exit and voluntary liquidation include low judicial capacity, hurdles to business closures, and an inability to resort to rescue proceedings. Box 7 provides a snapshot of the regulatory constraints faced by a typical business.

Box 7. Snapshot on key regulatory constraints

Registering a business: Registering a business is time-consuming and requires several steps with no option for an e-registration process. Financial requirements in the form of paid-in capital, registration fees, and the mandatory use of notaries and lawyers make the requirements cumbersome and costly, particularly for micro, small and medium enterprises (MSMEs). Opening a new bank account is also severely restricted, pushing many start-ups to operate informally and without incorporating.

Licensing and permitting: Certain industries require businesses to obtain a license/permit to register (for example, insurance, financial institution). In other industries, various licenses/permits are required for certain activities. The issuance of such licenses/permits involves multiple agencies and ministries, which creates unnecessary hurdles for businesses.²⁵⁹

Labor (hiring and firing): Labor and ancillary laws place cumbersome obligations on employers which include (a) the obligation to withhold, declare, and pay Personal Income Tax (PIT) on behalf of its employees; (b) the obligation to declare and manually submit forms to the NSSF; (c) high social security contributions (particularly for start-ups); (d) no flexibility in employing non-full-time employees; (e) expensive firing regulations; and (f) work permits for foreign labor with discretionary issuance. E-government services are entirely absent. Also, absent are quality training to improve workers' job prospects and accessible and well-disseminated information on jobs.

Taxation: The tax payment and inspection process is burdensome. Twenty payments are mandated per year, which require 181 hours. A VAT refund requires more than 43 weeks to obtain. While tax authorities are required to publish tax compliance requirements on the MoF web page, the information is complex and not easily understandable. The current policy of the GoL to continuously grant extensions and exemptions on penalties has led to variability in compliance. GoL's failure to appoint members to the Objections Committee has meant that the committee is not functional. The current tax and tariffs regime in Lebanon makes no differentiation for start-ups, or smaller firms, thus imposing a heavy burden on entrepreneurs starting new businesses and further deterring owners from formalizing their business.

Intellectual property rights: Lebanon's nascent intellectual property framework with regard to patents is still inadequate for innovation and the development of new technologies, further anchoring the economy in traditional industries. The Ministry of Economy and Trade has adopted a deposit system and relies on competition to object to any deposited patent. However, this system significantly reduces the application worthiness and puts the burden on an even more limited judicial system, incapable of resolving such disputes.

Trade and access to international markets: Cumbersome processes and procedures, requirements for submission of redundant documents, poor coordination across control agencies, a low level of customs automation, and excessive inspections of cargo constitute some of the major challenges to trading across borders. The DB 2020 Trading Across Borders indicator ranks Lebanon 153 out of 190 countries. Before the port explosion, it took on average 144 hours to comply with export requirements (US\$480) and 348 hours for import (US\$790).

Contract enforcement: Faced with an ever-increasing load of cases, administering justice in a reasonable period is a big challenge. As captured by indicators on alternative dispute resolution, case management, court automation, and court structure and proceedings, Lebanon has had a virtually nonexistent case management process or court automation. There are also concerns regarding the impartiality, independence, and efficiency of the judiciary.

Business insolvency: Lebanon ranks 151 out of 190 countries in its framework for resolving insolvency according to the DB2020 rankings, due to an outdated legal framework that is misaligned with recognized good practices and that lacks the provisions needed for a dynamic private sector and effective debt recovery. A draft insolvency law was prepared with the technical assistance from the International Finance Corporation (IFC) and awaits final parliamentary approval.

²⁵⁹ It takes 22 procedures, 276 days, and costs 7.7 percent (of a warehouse value) to obtain a construction permit. This is partly due to the absence of reform, improvements, and innovations in construction permitting processes and protocols.

7. Informality

56. **Lebanon has a large informal sector that employs almost half of the workforce and has an estimated size equivalent to 31 percent of its GDP.**²⁶⁰ Rigid labor market regulations, an excessive regulatory burden, low quality of institutions and governance—including political uncertainty—and an excessive tax burden increase the costs of operating in the formal economy and provide strong incentives for workers and firms to operate informally.²⁶¹ This is leading to a loss of much-needed revenues for the government, has a negative impact on formal firms, creates poorer working conditions and less job security, and represents a missed opportunity for boosting private sector dynamism. The size of the informal economy is similar to that of Tunisia and is close to that of Jordan (26 percent of GDP) and Egypt and Syria (34 percent of GDP). The large influx of displaced Syrians following the Syrian crisis has also resulted in a spike of informal activity, with the Mashreq Displacement Response Framework documenting 92 percent informality among Syrian refugees in 2018.²⁶²

8. Elite capture

57. **Many of the distortions in the business environment are the result of elite capture, cronyism, and privilege seeking.** Politically connected firms have a prevailing presence in some of the major economic sectors in the country.²⁶³ Chaaban finds that 18 out of 20 largest banks have major shareholders linked to political elites and 43 percent of assets in the sector are associated with people in political office.²⁶⁴ He also shows that ‘crony capital’ within the banking sector affects the quality of banks’ loans and their exposure to public debt. Diwan and Haidar (2021) find that politically connected firms create more jobs than unconnected firms but reduce overall job creation in their sectors. They also find that politically connected firms tend to expand around elections.²⁶⁵

58. **A study on the extent to which policy making is privilege resistant in several areas relevant for private sector investors finds that Lebanon scores particularly poorly in business regulation** (that is, business registration, construction permits, and tax inspections).²⁶⁶ While the MENA region scores below world averages on most indicators, Lebanon scores well below the MENA region on the indicator for privilege-resistant policy for business regulation, land allocation, and public procurement (Figure 43).

²⁶⁰ [Link](#)

ILO. 2021. “Mounting Challenges Have Dire Effect on Lebanon’s Most Vulnerable Workers”. [Link](#)

²⁶¹ ILO 2021

²⁶² CARE International. 2018. “Syrian Refugees in Lebanon Eight Years On: What Works and Why That Matters for the Future.”

[Link](#)

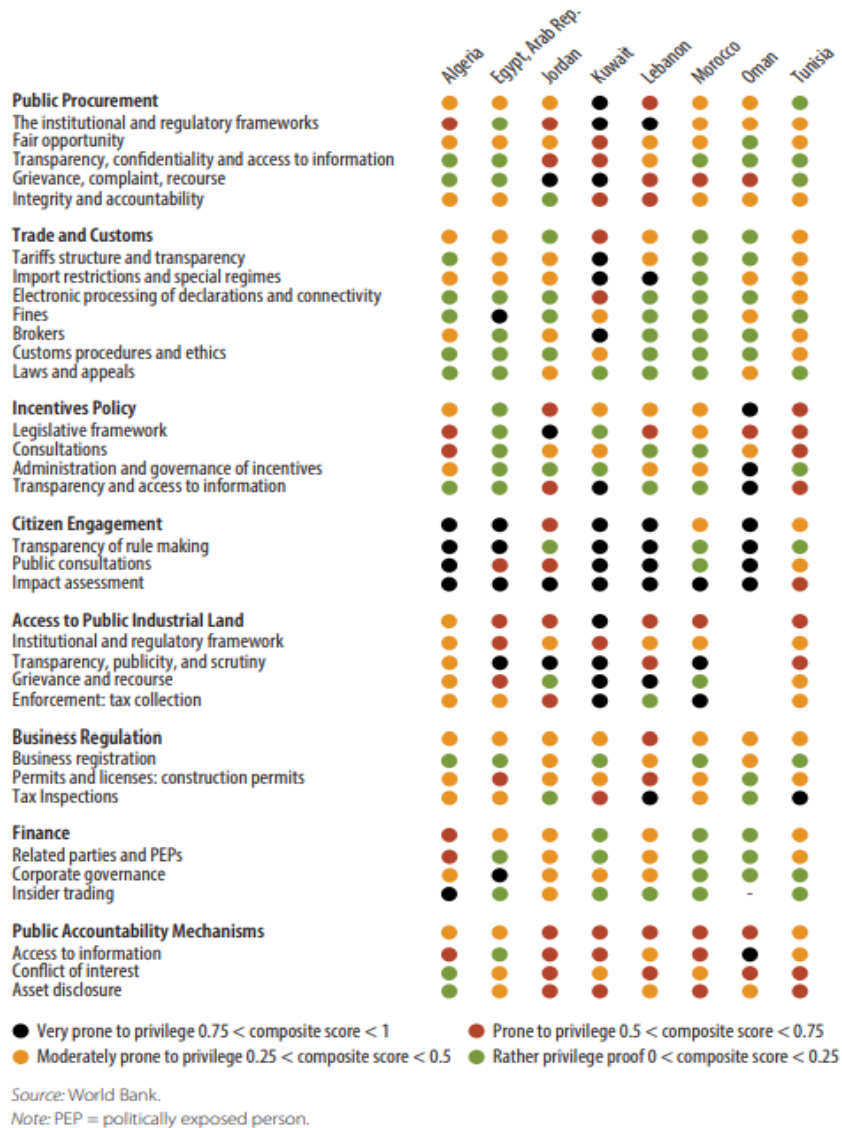
²⁶³ Mahmalat, and Maktabi. 2022. “Cartels in Infrastructure Procurement: Evidence from Lebanon.” The Policy Initiative. [Link](#)

²⁶⁴ Chaaban, Jad. 2016. “I’ve Got the Power: Mapping Connections Between Lebanon’s Banking Sector and the Ruling Class.” Working Paper No. 1059, The Economic Research Forum, Egypt. [Link](#); Chaaban, Jad. 2023. “They Still Got the Power: The Enduring Connections between Lebanon’s Banking Sector and the Ruling Class.” Economic Research Forum Working Paper No. 1678. [Link](#)

²⁶⁵ Diwan, Ishac, and Jamal Ibrahim Haidar. 2021. “Political Connections Reduce Job Creation: Firm-Level Evidence from Lebanon.” *Journal of Development Studies* 57 (8): 1373–1396. [Link](#)

²⁶⁶ Mahmood, and Ali Slimane. 2018. “Privilege-Resistant Policies in the Middle East and North Africa: Measurement and Operational Implications.” World Bank. [Link](#)

Figure 43. Areas prone to elite capture in Lebanon and regional comparators



Source: World Bank 2018.

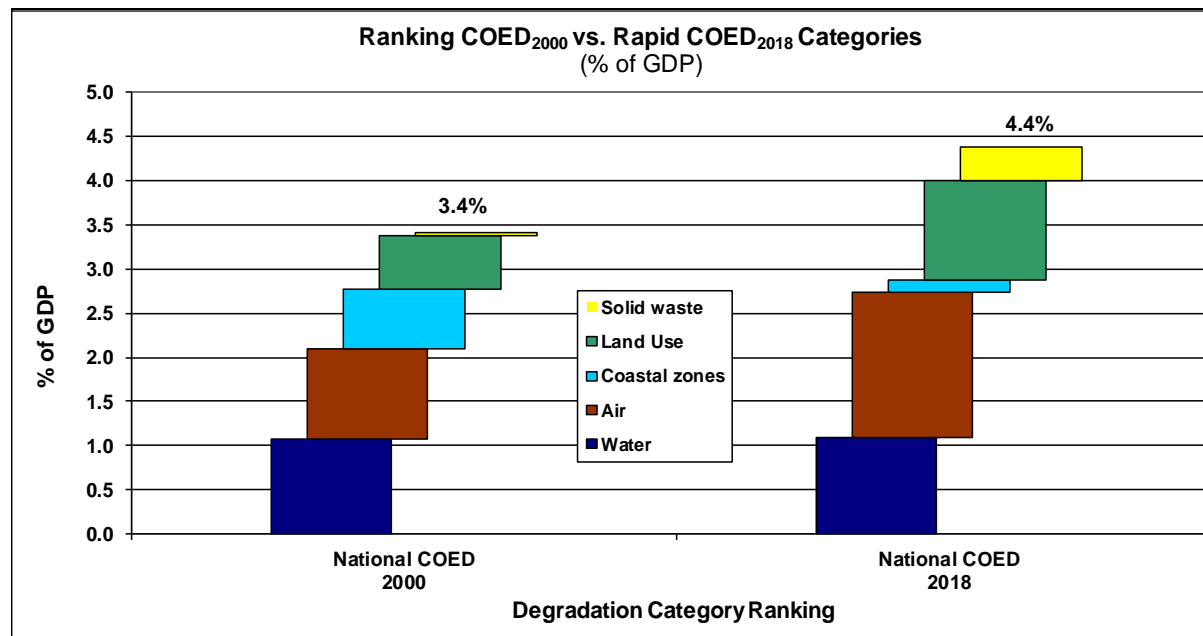
Nested constraint 7: Environment degradation and unpreparedness

59. A lower bound estimate for the cost of environmental degradation (COED) was 4.4 percent of GDP in 2018, equivalent to about US\$2.35 billion.²⁶⁷ The estimate spans five broad categories of costs but is conservative in the types of impacts included. The COED is organized as (a) the health effects of ambient air pollution from transport, industry, communal/individual power generator emissions, and the open burning of solid waste; (b) water-borne diseases associated with poor water and sanitation resulting from inadequate wastewater and solid waste management, in addition to untreated industrial wastewater, agricultural runoff, waste leachate, oil spills, vessel sewage, and illegal discharge; (c) land,

²⁶⁷ Rapid Cost of Environmental Degradation analysis conducted by the Ministry of the Environment with the support of UNDP.

range, and forest degradation from poorly regulated active and passive quarries; (d) inadequate SWM and disposal; and (e) coastal zone degradation.²⁶⁸ These preliminary estimates are presented in Figure 44 as percentages of GDP based on the COED findings from 2000 and 2018.

Figure 44: COED 2000 vs. Rapid COED 2018 - Mean estimate



Source: MOE. 2019. "Rapid COED."

60. The population of displaced Syrians has had a large environmental impact. Until more recent data are available, the main findings of MoE 2014 assessment²⁶⁹ reported in the 2016 SCD of the environmental impact of the Syrian crisis can be summarized as follows:

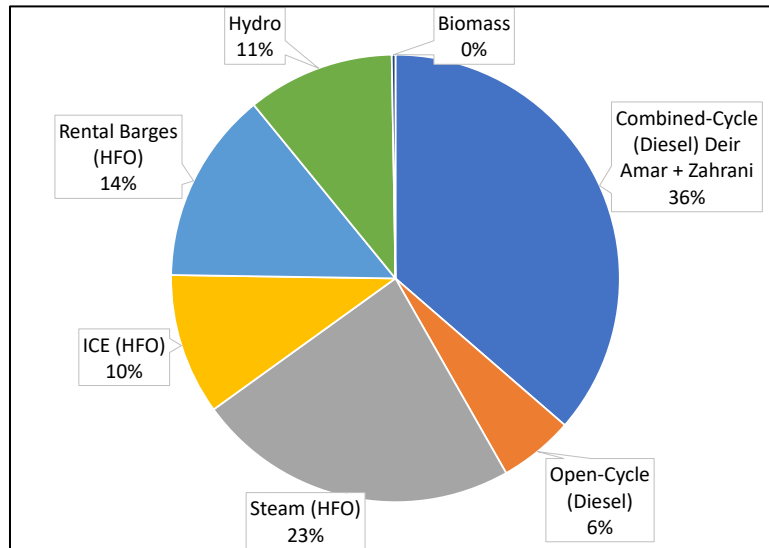
- An overall increase of 20 percent of emissions
- A yearly increase of 8–14 percent of wastewater
- A yearly increase of 15 percent of solid waste
- The impact of informal settlements because of (a) the conversion of agricultural land into residential areas with an increasing trend of displaced populations living in settlements and (b) the contamination of land and water resources due to a lack of proper sanitation
- The increase of population density of urban and rural areas due to the influx of displaced Syrians has aggravated the impact on land resources and accelerated haphazard construction.

61. **The energy sector is the largest contributor to Lebanon’s GHG emissions at 62 percent of total emissions.** The energy mix for power generation is heavily reliant on expensive and highly polluting heavy fuel oils and diesel (close to 89 percent as shown in Figure 45).

²⁶⁸ The estimated cost of coastal zone degradation fails to capture the real cost of coastal artificialization, land reclamation, infringements on the public maritime domain, fisheries, tourism mismanagement, cultural asset obliteration, privatization of amenities and coastal landfills, and their impact on the coastal ecosystem.

²⁶⁹ MoE/EU/UNDP, 2014, Lebanon Environmental Assessment of the Syrian Conflict and Priority Interventions. [Link](#)

Figure 45. EdL's electricity generation mix



Source: EdL data, 2020.

62. **Emissions from road-based transport have shown consistent growth over the past two decades, despite the recent economic shocks.** Transport, including international civil aviation, represents 25.5 percent of the country's carbon emissions; it is the second largest contributor after energy.²⁷⁰ The carbon footprint of Lebanon's transport sector is expected to continue growing in the absence of structural changes in passenger and freight transport. The introduction of electric mobility (e-mobility) could be one such change; however, any plan to electrify mobility in Lebanon is up against multiple challenges, the most fundamental of which is the insufficient supply of electricity and the composition of the energy mix. Other inherent challenges associated with e-mobility development include high up-front costs—especially related to batteries, a lack of charging infrastructure, and poor prospects of investment in such fixed capital in the nearly collapsed macro-fiscal situation. There is therefore a need for a sustainable transport alternative that is also affordable in the medium term.

63. **In 2020, MoE published an update of the 2010 State of the Environment Report (SoER).**²⁷¹ The 2020 SoER noted the progress made during the last decade on advancing sectoral strategies, national plans and programs, draft laws, and proposed regulations across various sectors.²⁷² In this context, the World Bank's support for a sustainable and green transition path for Lebanon has been initiated through various analytical tools, including the CCDR and the 'Green Transition Policy Dialogue'. The World Bank can also support additional analytics including (a) conducting a Country Environmental Assessment and COED in FY24, (b) implementing the findings of the CCDR in the identified sectors, (c) continuing the Green Transition Policy Dialogue to integrate it in any future IMF plan; and (d) aligning future investments with the planned vision for sustainable and green transition.

²⁷⁰ IEA, Global energy-related CO₂ emissions by sector, IEA, Paris ([Link](#)).

²⁷¹ This report was written jointly with UNDP, UNICEF, and UNHCR. MoE/UNDP/UNICEF/UNHCR. 2022. "Lebanon State of the Environment and Future Outlook: SoER 2020." [Link](#)

²⁷² These sectors include Environmental Governance, Water Resources, Air Quality, Ecosystems, Land Resources, Solid Waste, Climate Change and Energy, and Chemical Management.

ANNEX TO CHAPTER 4

Annex 4.A

Characterizing the muddling through scenario

1. Macro-fiscal landscape

64. **The muddling through scenario is predicated on the extension of the status quo, in the context of inadequate macro-fiscal reforms.** The absence of a comprehensive recovery strategy leaves little room for the stabilization of the economy, adversely affecting potential GDP in the short and medium terms, amid continuing depletion in physical and human capital. The long delay without a comprehensive, adequate, and equitable recovery plan dampens the available policy options, as resources vital to economic recovery are eroded. The resulting anemic growth and widening inequality further exacerbate poverty rates.

65. **Under this scenario, the depletion of human and physical capital will weigh down on real GDP growth prospects over the next five years.** The traditional drivers of growth—the services sector and particularly travel services—together with private consumption, supported by an increased dollarization in salaries and remittances, will undermine real GDP growth levels, bringing about anemic growth at best. Anemic economic growth reflects the economy’s diminished productive capacity. Moreover, total factor productivity is not projected to grow due to insufficient investment in human and physical capital amid limited fiscal space, inadequate technological progress and innovation, a lack of economic complexity, and inadequate public service provision in fundamental sectors such as electricity, telecommunications, and transport.²⁷³

66. **The muddling through scenario assumes that the lack of reforms will continue to adversely affect Lebanon’s fiscal stance.** In the absence of comprehensive macro-fiscal reforms, ad hoc revenue measures (for example, adjustments to the customs duties, income tax, government fees, and the exchange rate used for collecting EdL and telecom tariffs) will lead to a gradual, albeit modest, improvement in fiscal revenues. Despite the pick-up in fiscal revenues, the overall budget is projected to remain in deficit.

67. **Lebanon’s weak external position is expected to persist amid a continuing dependence on imports and a less than commensurate increase in exports.** Lebanon remains unable to reap the full benefits of a weaker exchange rate to enhance external competitiveness. In fact, export dynamism continues to be hampered by (a) the limited complexity in the export basket that is brought about by slow technological diffusion; (b) low economic complexity as the country fails to move economic activity up the value chain; (c) unfavorable macroeconomic and institutional conditions; (d) a weak business environment due to an inefficient bureaucracy, poor infrastructure, and lack of public service provision; and (e) a bank-centered financial system, in which banks are incapable of lending.²⁷⁴ Indeed, the insolvent banking sector will significantly compound the challenges of accessing finance for exporters. A continuing reliance on imports for consumption implies that the current account deficit will persist, and the

²⁷³ The weak institutional setup and inefficient government are also impediments to productivity. An analysis of global productivity growth is offered in Chapter 2 of ‘Global Productivity: Trends, Drivers, and Policies’ (World Bank 2020). [Link](#)

²⁷⁴ A detailed analysis of the lack of external lift in Lebanon is provided in the special focus entitled ‘Searching for an External Lift in the Deliberate Depression’ of Fall 2021 Lebanon Economic Monitor. [Link](#)

contribution to growth of consumption expenditures that are increasingly remittance financed will remain limited.

*2. Banking and financial sectors*²⁷⁵

68. **In absence of any reform, as both customers and investors have lost confidence in the Lebanese banks and in BdL, banks are highly unlikely to attract new deposits or new debt, which will prevent them from intermediating funds to finance the real economy.** A severely constrained and unviable banking sector could nominally continue operating but is expected to decrease in size as smaller banks are practically forced to cease operations while larger bank revenue streams decrease. With a dominance of a dollarized cash-based economy, medium- and long-term investments necessary for growth and job creation opportunities will not be financed (for example, energy, infrastructure, and industry), while money laundering risks will continue to increase.

69. **The muddling through scenario assumes that a banking sector restructuring, including resolution measures, remains unattainable in the next five years.** The impossible standstill continues with the stabilization of total assets at their nominal value, inaccessible foreign currency deposits, a lack of credit, and bleak prospects for the recapitalization and restoration of formal banking services. This reality underpins a massive loss of opportunities in investment, trading, and the business environment, with substantive negative impact on recovery and growth prospects. Dramatically constrained unviable banks would continue with nominal operations while being subject to the same constraints without the ability to mobilize new deposits, debt, or engage in lending. The banking sector would continue to shrink. With small depositors progressively exhausting their funds at a massive loss, the rate of reduction in foreign currency deposits is expected to slow down. Yet, even at the current level of deposit outflow to date (~US\$8 billion per year over the past three years, withdrawn by clients at up to 85 percent haircut), it would take over a decade to discount the remaining deposits to compensate for the assets lost. With such a dysfunctional banking sector and a sovereign in default, Lebanon would only be able to rely on external financing for growth (for example, foreign direct investments) but such prospects are highly unlikely in the absence of a functional banking sector.

70. **With a dollarized cash-based economy stabilizing, medium- and long-term investments necessary to create growth and employment will not be financed,** and money laundering risks will increase. Based on the conservative assumption that banks finance 50 percent of GDP, this scenario also means that financing in the approximate amount of US\$9.1 billion (half of current GDP) could be lost to the economy annually, also translating into a loss of close to US\$0.29 billion per year for the banking sector, excluding non-interest income (for example, fees, commission).²⁷⁶

²⁷⁵ The scenario analysis of the banking and financial sectors (muddling through and recovery) is informed by the valuation of the banking sector assets put forth in Box 2. The objective of the scenario analysis is to provide two high-level scenarios aimed at illustrating the broad state of banking sector: (a) in the absence of reform, that is, the muddling through scenario and (b) in the context of comprehensive restructuring, including resolution measures and restoration of macro-financial stability. The presented scenarios are based on officially available data, analytical assumptions, high-level estimates, and crude calculations. They aim to paint a broad-brush picture of the state of the sector and should be relied upon solely within these constraints.

²⁷⁶ The reference to 'half of GDP' credit to private sector is consistent with the peer countries average used for this exercise (Syria, Jordan, Yemen, Tunisia, Morocco, Libya, Algeria, Egypt, Djibouti, and Iran). The banking intermediation margin is estimated using the 2023 GDP, to which is applied the latest net interest margin rate available of around 3.2 percent in 2020.

Characterizing the recovery scenario

71. **The recovery scenario assumes that adequate macro-fiscal reforms are adopted, paving the way for the gradual lifting of binding constraints to economic growth.** The adoption and implementation of key reforms bring about macroeconomic and financial stability that facilitates much-needed investment to kick-start recovery across various sectors. In this scenario, macro-fiscal stability makes possible the loosening of some of the constraints, and the country implements reforms that include the emergency measures and fixes described in the muddling through scenario but go well beyond them in scope and span.

72. **Solvency of the banking sector is assumed to be gradually restored in the next five years, while a sovereign debt restructuring is completed in the medium term.** As a result, the financing constraints are less binding and the banking sector gradually resumes its financial intermediation role, making credit available again for the private sector. Moreover, the successful restructuring of sovereign debt results in an improvement in the country's sovereign credit rating and allows it to tap into international financial markets again. Capital and financial inflows begin trickling back into the economy, providing scope for private and public investment.

73. **The economy will continue to be services oriented, and travel services and the services sector in general will remain the main pillars for growth.** Moreover, a niche agricultural sector with regional and global value chains; a transition from low to high value-added activities in agriculture, tourism, industry, health care, and education; a greater integration in the knowledge economy; and a digitalization of government services will all bolster economic growth.

74. **Fiscal consolidation efforts will create fiscal space as well as room for social spending.** On the revenue side, tax reforms should span the tax code, tax rates, and operational reforms to reporting and collection. A more progressive and equitable tax code can correct current distortions and inequities in the tax regime, reverse the alarming rates of inequality, and reduce the favorable treatment of the concentrated and politically connected business interests. On the fiscal side, the elimination of transfers to EdL and lower interest expenses following debt restructuring will largely reduce the long-standing budget rigidities. Fiscal consolidation will create space for increased social spending to help the most vulnerable while also raising the historically low capital expenditures. The latter allows for rebuilding the dilapidated infrastructure, which will boost growth and potential GDP while alleviating the cost borne by the public from to the erosion of public services.

75. **On the monetary side, an appreciation in the exchange rate is expected to reduce inflation.** Inflows of capital following a successful debt restructuring are expected to lead to an appreciation in the real exchange rate. Inflation will continue to be in the double digits but will revert to the mean more quickly than under the muddling through scenario because of the exchange rate appreciation on prices as well as a decrease in currency in circulation from tight monetary policy.

76. **The long-standing current account deficit is expected to narrow due to improved external competitiveness.** The resumption of lending activities by the banking sector will gradually alleviate the impediments to accessing finance for exporters. Further, a gradual amelioration in electricity provision will give impetus to export competitiveness by lowering input costs. Export dynamism will also benefit from lower labor costs, an exchange rate that is more competitive than the pre-crisis currency peg, and

an enhanced complexity of the export basket. The current account deficit is, consequently, projected to narrow over the period 2024 to 2028.

Annex 4.B

HLO1: Restored macroeconomic and financial stability and private sector support

Priority 3: Fiscal reform and consolidation

Recovery: Debt sustainability, public finance management, procurement, and tax reform

Public Procurement

77. **Public procurement is one of the main cross-sectoral reforms that the GoL has committed to as one of the pillars of the National Anti-Corruption Strategy.** Following the country procurement assessment led by the World Bank using Methodology for Assessing Procurement Systems (MAPSII), the new Public Procurement Law was voted in 2021 and a National Public Procurement Reform Strategy (NPPRS) and Action Plan were approved by the Council of Ministers. In a challenging political environment, the PPA was also established. Capacity building on Public Procurement Law has reached around 2,000 civil servants and training modules are being developed and pools of trainers formed. However, a rollback of the reform in April 2023 risks undermining the independence of the PPA, promoting elite capture and compromising transparency, access to information, and fair competition. Institutionalizing the public procurement reform as envisioned by the NPPRS should continue with support from the international community and civil society.

78. **Risk on the supply chain from a failing banking sector.** Limited access to credit lines creates constraints for the private sector, in particular for SMEs to obtain bank securities. This limits their participation in public procurement. Fluctuation in the exchange rate is distorting the market while leading to unbalanced risks in bidding and executing contracts.

79. **The creation of an effective electronic procurement system will further institutionalize procurement reforms.** The World Bank supported the drafting of e-procurement strategy in 2022 after taking stock of existing platforms that could be further developed and consolidated into an e-procurement platform. The PPL lays down key requirements of an e-procurement system: it should be centralized, owned by the state, and upgradable and adaptable from within. It also should be user friendly, simple, and straightforward; easy to manipulate; and accessible to all procuring entities and procurement stakeholders for regular use, in the Arabic and English languages. The introduction of e-procurement should be phased to provide for orderly training and rollout linked with the capacity of the PPA, procurement entities, and private sector institutions.

80. **Securing the needed financial and human resources for the implementation of the reform agenda will be essential.** Institutionally, the public procurement complaint authority should be established to ensure independent and timely resolution of procurement complaints and the PPA's board should be formed. Legislatively, implementation decrees should be issued and standard procurement document ratified.