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Abstract

Lebanon can no longer ‘pull a rabbit out of the hat’. The protests of October 2019 exposed enormous underlying fragilities. The events expedited a financial, economic, security and social crisis given the country’s unsustainable [debt dynamics](#), coupled with obsolete policies and underdeveloped institutional and regulatory frameworks.

However, this paper aims to shed light on the prime recovery ingredient that Lebanon keeps foregoing: “Governance”. Lebanon lacks the pillars of governance explored in this paper. When scrutinized under the ‘governance spectrum’, Lebanon’s multi-faceted crisis brings to the table a much more solid and sustainable plan to recovery that adopts ‘good governance’ as the main mechanism to drive reform and recovery plans.

Lebanese people have lost trust in their government. The crisis is one of “Governance” first and foremost. Underlying Lebanon’s litany of economic, political, financial, currency, social and development woes which starkly erupted since October 2019, lay a “Crisis of Governance”. Evidently, people who:

- Continuously need to protest,
- Desperately exchange LBP for US dollars at sky-high rates,
- Struggle daily to put food on the table and to make ends meet as their wellbeing is being eroded, are citizens who have lost trust in their government.

Their confidence in the ability of the public and private sectors to contribute to an urgent recovery has clearly worn out. Furthermore, citizens stopped trusting the facts given to them by the elites, which albeit creates havoc. In fact, Lebanon ranked 137th/180 and scored 28/100 on the Corruption

Perception Index (CPI)¹ in 2019. In comparison, Denmark and New Zealand had top scores of 88 and 87, respectively. The bottom countries were Somalia, Syria and South Sudan with scores of 10, 13 and 13, respectively.

Consequently, Lebanese citizens and the private sector will not accept any additional cost or painful reforms. Without a clear mechanism to hold the government or elites accountable for their actions/decisions such that the process makes rulers accountable to the ruled, citizens will not regain trust in their institutions or their leaders. Citizens are more awake, aware and therefore more demanding. Today, they expect their country to move towards more “participatory modes” of exercising power so that they can have a voice or contribute within a regulated, transparent and efficient process to decisions affecting their livelihoods.

A governance framework, as defined by leading international institutions, is the best shot at enabling the nation to succeed at ‘committing’ to needed reforms. Governance is the mechanism that brings the State, civic society institutions, and citizens together to jointly make decisions about policies and ways forward that are mandatory for recovery out of a crisis.

“Governance arrangements [must also] be protected by a broader system of law and legitimate authority [...]” (Schmitter, 1997) that organizes the use of authority, which is the basis of granting elites the “legitimacy” to act. Notably, the World Bank (1994) defines governance as, *“the manner in which power is exercised in the management of a country's economic and social resources for development”*. In turn, governance as per the International Monetary Fund (IMF) is a broad spectrum that covers *“all aspects of how a country is governed, including its economic policies, regulatory framework, and adherence to the rule of law”*. Accordingly, the IMF concludes that poor governance fosters corruption, undermines public trust in the government and hampers economic development.

Governance is also vital post-crisis, and thus for a Lebanese recovery. After a crisis erupts, Andrew Crockett explains (2009) that policy-makers or governments tend to think *“more regulation”* is needed. But the truth is that the country often needs *“better regulation”* i.e. a *“regime that can readily identify emerging [...] vulnerabilities and strengthen incentives for prudent behavior”*, albeit showing a better-targeted employment of power in the hands of regulators. In effect, the Lebanese crisis erupted since October 2019 continues to reveal weaknesses. Solutions for these last are available, but there is no implementation or willpower to attempt to resolve these woes largely because the country's framework of operation – absent governance- lacks “incentives” to encourage prudent behavior via effective institutions and judiciary and/or clear accountability among national stakeholders.

The absence of governance, as observed in Lebanon, broadens the tradeoff of policy actions and weakens government credibility. Recent Lebanese protests were triggered by media outlets

¹ The index ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople, by using a scale of zero to 100 where zero is highly corrupt and 100 is very clean. (<https://www.transparency.org/en/countries/lebanon>)

presenting different figures for the same public parameter. Since the October 2019 protests erupted, various (social) media sources extensively analyzed and published figures, viewpoints, on the deterioration of the Lebanese crisis on the monetary, fiscal, external fronts, and so forth. However, it seems that no two figures of the same component are alike, even though they designate/tackle the same (usually public) account. As a result, a decision taken on one front (say, financial, judiciary or regulatory) has led to a disastrous domino-effect on other fronts (example: fiscal, social, economic). This leaves the citizen and all other players perplexed - at a loss of the “truth”, wondering *what do the books really say?*

Nonetheless, this data gap across the media coupled with multiple factors, unveil Lebanon’s severe “governance crisis”. Coupled with the recent civic protests, the disruption of the long-lived status quo and the ongoing free fall of the economy, the media contradictions on national figures which can serve as a base for reform – all signal a “governance crisis” erupted in Lebanon. This crisis is more prominent than the multi-faceted economic woes. In fact, expert on global governance Ngaire Woods actually explains that 21st century “echo chambers” or contradictions created by the media in a certain country or economic unit usually serve strategic purposes of the elite and/or of foreign states’ interest in that country.

Woods’ contribution on governance crises was also observed post-2008 within Eurozone economies. Citizens of leading capitals in the Eurozone lost trust in their governments following the 2008 global financial crisis (GFC). Citizens of Hungary, Italy, Spain and the UK demanded the attention of their Brussel-based powers as their respective governments held *referendums* for the first time in the history of democratic states. Europeans also demanded more participation in national decision-making as the elections in France, Germany, Austria, in the past four years were swayed towards unprecedented “populist candidates”. By the same token, the Lebanese for the past 9 months have been striving to limit the government power they grew to distrust, at such an unprecedented magnitude, demanding to have a voice in policy-making.

Lebanon is in fact facing multiple factors that further signal weak governance. It would be incomplete to assume that the creation of serious media “echo chambers” carrying data discrepancies – alone - signal a governance crisis. A number of key factors corroborate that the deterioration of the Lebanese Crisis is not merely economic, social and financial. The crisis’ underlying components are governance factors foregone in the Lebanese model:

1. Market Competition:

Healthy competition in the market is almost absent, like in Lebanon’s Telecom services for example, among small local manufacturing firms which are submerged either by large conglomerates, similar (and often cheaper) imported goods, or both these. The absence of competition therefore disables the State from “building efficient markets”, providing basic services and ensuring social cohesion.

2. Civil Society:

State agencies are unsuccessful in “offloading” a part of their responsibilities, to not-for-profit organizations and civil society² organizations. Nevertheless, we must clarify an important point that reflects the Lebanese reality i.e. the absence of an effective, engaged civil community capable of objectively reflecting the population’s will and the betterment of wellbeing, as per the following definition:

“The mere physical presence of a set of intermediary organizations is necessary, but not sufficient evidence for the existence of a civil society since these units can be manipulated by public or private actors. [They can also] be mere façades masking actions by social groups intended to usurp power from legitimate state authorities or to exert domination over other social groups in ‘uncivil’ ways.” (Schmitter, 1997)

3. Effectiveness of institutions:

Effective institutions in a sovereign propagate needed market information in “symmetrical” ways. Consequently, their influence on national level starts to enforce proper State decisions. During crises or market failures, like Lebanon’s today, information tends to be incomplete and missing, which deteriorates the quality of decisions taken by the ruling class and simultaneously confuses the people. However, when institutions are “effective”, they help dissipate needed market information in a symmetrical manner to all the stakeholders, while decision-making by the elites becomes more efficient and timely.

In fact, institutional, judiciary and regulatory frameworks are essential support for a State’s functions. While a key function of the State, as per the IMF (2018) is to “[...] promote private investment opportunities and minimize [...] fraud, [...] the strength and resilience of a country’s [...] regulatory and institutional frameworks are crucial [...] to strike] a balance between encouraging private sector involvement and promoting public good.” By the same token, opaque regulatory frameworks allow “public officials to exploit discretionary authority, [in return for] exemption from existing regulations [...] resulting in discriminatory treatment [...]”.

In addition, proper governance requires change in the executive, judicial and legislative branches of a government. That said, the Lebanese government requires immediate and prompt development of its judicial and legislative branches. Without a framework of clear laws and efficient institutions, the country has no chance of nurturing the needed ‘stability’ and ‘predictability’ which help create an economic environment where businesses can assess risk and where the society’s ‘more vulnerable groups’ are supported by poverty-alleviation strategies.

4. The Rule of Law:

² **Civil society** is defined as, “a set or system of self-organized intermediary groups that: (1) are relatively independent of [...] public authorities and private units; [...] (2) are capable of [...] taking collective actions [in pursuit] of their interests or passions; (3) do not seek to replace [...] state agents or private [...] producers [...]; (4) [...] act within pre-established rules of a “civil” i.e. mutually respectful, nature”. (Schmitter, P., 1997)

The rule of law, a core component of governance, is weak in Lebanon. This disrupts the proper delegation of authority/power. In a nutshell, the rule of law insists that the government operates within a regulatory framework where sets of rules are clear and defined. Such a legal system renders the government “accountable”, through law, when citizens or whistleblowers question the actions of the elites.

According to the United Nations, the rule of law “[...] *requires measures to ensure adherence to the principles of supremacy of the law, equality before the law, accountability to the law, fairness in the application of the law, separation of powers, participation in decision-making, legal certainty, avoidance of arbitrariness, and procedural and legal transparency.*” Therefore, the rule of law in any sovereign makes every stakeholder “below” i.e. compliant to and judged by the regulatory framework and clearly-stated laws, thereby holding them accountable as it empowers national and institutional transparency.

However, Lebanon suffers from the inappropriateness of some laws, weak enforcement of regulations and/or arbitrariness of discretionary power. Such indications question the transparency of decision-makers’ actions, statements and motives. Moreover, Lebanon’s conflict-resolution mechanisms - or the few formal ones that are in place - may not always be based on binding decisions of an independent judiciary. The country also clearly suffers from slowness in procedures, subservience of judges, inefficient court administration, all of which have been witnessed in the national developments from October 2019 to-date, albeit fostering more corruption, intensified rioting and further economic deterioration.

These indications have been observed in Lebanon for decades and have re-emerged to the forefront since October 2019 to-date. In their turn, international institutions, namely the IMF, sound the alarm on the need to improve governance and fight the severe corruption across the country’s sectors. Moreover, the World Bank (1994) actually classifies the above national indications explored in this study as factors that “*greatly hinder development, discourage and distort trade and investment, raise transaction costs and foster corruption.*”

Final Thoughts

Lebanon must begin setting the floorplan for a framework of holistic governance in order to get any “reforms” done. Khemani (2017) at the World Bank defines *reform* as, “*changes in government policies or institutional rules because status quo policies and institutions are not working well [...].*” She adds that reforms are “*alternative policies and institutions*” that can better achieve the economic goals set for the sovereign. That is, even if we adopt a dramatic austerity agenda in Lebanon - with or without the IMF or other potential lenders - the implementation of reforms will depend on reducing corruption within a framework of governance that equips the country and decision-makers with:

- a) **Transparency** (codes) in disclosures, public schemes and private procedures;
- b) **Accountability** of assigned leaders, business men, public officers and the community;

- c) **Surveillance and monitoring**, via effective entities and institutions.
- d) **Rules governing relationships** among Stakeholders of a State i.e. authorities, citizens, businesses, institutional entities for equitable burden sharing, best advocated by international sovereign debt expert Lee Buchheit.
- e) **Proper leadership and election of the authority** that can help “legitimize” proper actions and mechanisms.
- f) **Continuity** of all the above practices over the years and across changing legislations, cabinets, parliaments, presidents and reigns.

“The efficacy of governance as a mechanism depends on its symbiotic relation to both state and market” (Schmitter, 1997). Governance is not a stand-alone concept or mechanism; it is rather engrained in the simultaneous processes at play in the country. *“Governance can supplement and [...]improve the performance of public agencies and private firms by lowering their decisional burdens and correcting for their unacceptable distributions, but it can never replace or even displace them.”* However, being an underdeveloped country, Lebanon is not accustomed to publishing information about public policy or encouraging public participation and taking government business to the open. This is where we can call upon the help and support of the World Bank in this respect, alongside the internal enforcement and reform of the civil society.

The crisis in Lebanon is severe, but it has a multitude of technical solutions which necessitate governance. All measures for a possible recovery will be painful, to all stakeholders: State, Private sector, Citizens. However, the most serious setback for any Lebanese recovery is the country’s inability to embark on the path of myriad solutions available, due to the lack of governance. Good governance plays a crucial role in national processes. It boosts productivity, enforces sustainable growth, spurs “trust” in the community and broadens the opportunity to share the benefits of economic growth with the majority, as they accept austerity measures for the greater good and for promises that they know can be protected by existing regulatory and institutional frameworks.

The voices of experts and of the affected go to deaf ears, as bureaucracy builds walls around the government. At such a critical time, Lebanon’s crisis fronts are all emerging together which makes teamwork, power delegation and effective collaboration among the current 20 ministerial suitcases and functions elemental. Negotiations with the IMF, the private sector and all other stakeholders of the current crisis are too slow mainly because the leadership of founded committees and the delegation of authority among the stakeholders is unsystematic, too vague and therefore largely inefficient as decisions or actions come “too late”.

In closing, the crux of the governance issue is that it improves the quality and quantity of economic growth. More importantly, higher growth in its turn leads to greater demand for enhanced institutional performance and thus, better governance.

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