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**House Foreign Affairs Subcommittee on the Middle East, North Africa,
and Global Counterterrorism**

July 29, 2021

**“Lebanon: Assessing Political Paralysis, Economic Crisis, and
Challenges for U.S. Policy”**

Chairman Deutsch, Ranking Member Wilson, distinguished Members of the Subcommittee, thank you for this opportunity to offer my thoughts on the unfolding economic and political crises in Lebanon, and their implications for U.S. policy.

The Urgency of Now: Lebanon is facing its most acute economic crisis since the famine crisis of World War I. Aggravated by the political stalemate, the economic crisis is escalating rapidly. It is the result of decades of corruption and mismanagement of public funds by a political class working in concert with financial and banking officials, including the governor of the central bank of Lebanon.

[In a fall 2020 report](#), the World Bank described Lebanon’s economic depression as “deliberate.” The economic crisis was compounded by multiple shocks throughout 2019 and 2020, including the October 2019 citizen uprising, the onset of Covid-19 in February 2020, and the August 2020 Beirut port explosion.

Today, more than half of Lebanon’s population is living in poverty. With the Lebanese pound having lost more than 90% of its value, Lebanese have seen their wages decline in value sharply with a corresponding reduction in purchasing power while the cost of food has soared by 700% over the last two years. According to an analysis by the American University of Beirut’s Lebanon Crisis Observatory, the prices of basic food items required by Lebanese families increased by more than 50% in the first half of July alone. The banking sector has collapsed with small depositors bearing the

brunt of losses. Banks have imposed unofficial capital controls restricting depositors' access to their savings.

Breakdown in Basic Services: The country is experiencing a multi-sectoral breakdown in the delivery of basic services, like water and power. [According to a recent UNICEF report](#), “more than four million people, including one million refugees, are at immediate risk of losing access to safe water in Lebanon.” Daily 20-hour-long state electricity outages are commonplace. People make up for the gaps in electricity supply by relying on private generator operators, but even these have been forced to reduce their supplies as diesel stocks across the country are running dangerously low.

The private hospitals' syndicate, which includes the majority of hospitals in Lebanon, said last week that if diesel stocks were not replenished, several hospitals might have to close their doors. This impending health disaster is unfolding at a time when Lebanon's Covid-19 numbers are again on the rise, with daily recorded cases exceeding levels not seen in weeks amid a worldwide concern about the highly contagious Delta variant. Medicines including antibiotics are in short supply. Some patients are resorting to reducing their daily dose of medicine because they cannot obtain new supplies from pharmacies. Hospitals are cancelling procedures due to shortages of essential supplies like contrast solution. Laboratories are running out of kits needed for blood tests. Patients are delaying going to health facilities because they cannot afford care.

Compounding these woes, health care providers, including doctors and nurses, are leaving the country in search of better salaries abroad, either in the Gulf, Europe, or the United States. The loss of human capital not only in the medical field, but also in the educational, business, and technological sectors will be hard to recover for decades to come.

Impact on Vulnerable Groups and Communities: This escalating crisis is having an outsized impact on the vulnerable segments of society, including women, children, and refugee communities.

Women were at a substantial disadvantage even before the economic downturn, and thus more vulnerable to the devastating effects of the economic crisis. Female unemployment is rising, domestic violence reports doubled in 2020, and the number of women killed because of domestic

violence is also increasing. A growing number of women and girls can no longer afford access to sanitary products due to a 500% increase in their price, forcing them to resort instead to newspapers, toilet paper, or old rags.

Lebanon is host to 1.2 million Syrian refugees in addition to hundreds of thousands of Palestinian and Iraqi refugees. [According to a survey released on July 1 by UNICEF](#), over 30% of children are going to bed hungry and skipping meals, 30% are not receiving the primary health care they need, 40% of children are from families where no one has work, and 77% are from families that do not receive any social assistance. The same survey found 77% of Lebanese households do not have enough food or enough money to buy food. In Syrian refugee households, the figure reaches 99%, up from 55% last year. Within the refugee community in Lebanon, women are the most food insecure and are more likely to not have legal residence or access to adequate shelter.

As a result, families are forced to resort to negative coping measures. Fifteen per cent of families stopped their children's education altogether because they can no longer afford to pay school fees. One in 10 children has been sent to work. Some families are marrying off their daughters as young as 13 or 14 years old. The longer children are out of school, the greater the possibility that they will experience violence, exploitation, or potential recruitment by extremist groups.

Impact on Security Conditions: The economic crisis is also impacting security conditions. Violent protests have already broken out in cities across the country. Security provision is starting to become fragmented and localized as people begin turning to local armed groups — be they militias or gangs — to provide security, reminiscent of the conditions that were prevalent during the 1975-1990 civil war.

The economic crisis is impacting the Lebanese security forces at a time when internal stability is increasingly threatened. Forces are being impacted operationally, as they lack the means to perform their duties due to budget cuts.

The morale in the ranks of the Lebanese Armed Forces (LAF) is at an all-time low. Earlier this year, in a departure from a long-standing tradition of military leaders not commenting publicly on politics, LAF commander Gen.

Joseph Aoun warned that like the rest of the population, soldiers are getting hungry and suffering as well. Increasingly, there are reports of desertions in the LAF ranks, primarily due to the sharp decline in their salaries, with many servicemen finding themselves unable to make ends meet. A private's monthly salary is now worth less than \$65 and that of a general in the army about \$300 (assuming an exchange rate of \$20,000 Lebanese lira/\$).

Political Paralysis: After nine months of trying to form a government, Lebanon's Prime-Minister designate Mr. Saad Hariri stepped down on July 15. Two-time former prime minister Mr. Najib Mikati was tapped on Monday to replace Mr. Hariri. It is not clear whether he will be able to reach a deal with the other political factions on a cabinet line-up, and more importantly, on developing a plan to stop the economic decline.

The "opposition" street consisting of civil society groups that took part in the October 2019 protest movement wants a cabinet of independent and competent experts endowed with executive powers to enact economic reforms that are necessary to secure the assistance of the international community, including the International Monetary Fund (IMF), the World Bank, and key countries like the U.S., France, the U.K., Saudi Arabia, Germany, the United Arab Emirates (UAE), and Kuwait in developing an emergency funding package to put the country's economy on a recovery path. These reforms are a necessary entry point to a long process of tackling decades-old problems with systemic corruption in the public sector and holding political and security leaders accountable for their mismanagement of public affairs.

If the new prime-minister designate succeeds in this task, the U.S., along with other allies and partners in the EU and the Arab region, should be ready to work with him/her and the new cabinet on mobilizing the support of the international community for Lebanon.

Where is Lebanon Heading? Three dynamics are looming:

- **A drawn-out economic crisis and political stalemate:** By unlocking the IMF's Special Drawing Rights (SDR) next month in the range of \$900 million, politicians believe they have bought themselves some time, probably until the 2022 elections. They are hoping this new source of international liquidity will provide a pathway

to stem the economic decline, at least temporarily. Without structural reforms, however, experts are concerned that these funds will simply provide a short-term solution to a long-term systemic problem and will most likely be subject to corruption.

Political leaders, opposition groups, and civil society activists are preparing for the parliamentary and municipal elections scheduled for mid-2022. The elections might offer a pathway for a new slate of independent candidates to enter parliament and become a force for reform and change in the country.

- **A displacement crisis in the making:** As the economic conditions deteriorate, more Lebanese and Syrian refugees currently residing in Lebanon will seek refuge in Europe. While we don't have official data on attempts to smuggle migrants to the island of Cyprus by boat, reports suggest they are increasing in number. Cyprus and Lebanon have been resorting to coercive measures to reverse this trend. For example, Cyprus pushed back 200 migrants and refugees arriving from Lebanon aboard boats without heeding their claims for asylum. Recently, Lebanon expelled Syrian refugees, including women and children, who were caught in these attempts and pushed back to Lebanon by Cyprus. According to Lebanese and Cypriot officials, the two governments have increased their coordination in their "fight against clandestine immigration." With time, incentives for seeking refuge in Europe among Lebanese and Syrian refugees alike will increase as more operators join the smuggling network to make money.
- **The specter of violence:** Increasingly, protests that were organized in different parts of the country have turned violent as demonstrators blocked roads over the deteriorating economic conditions and widespread electricity outages and attacked government buildings and banks. Fistfights in supermarkets and at gas stations over supplies have sometimes turned into gunfights, resulting in deaths. Lebanese officials from across the political spectrum have warned of an impending security breakdown, including explosions and politically-motivated assassinations. Mr. Lokman Slim, a long-time outspoken critic of Hizballah, was assassinated last February in a Hizballah-controlled part of Lebanon. There is an ongoing

investigation of the assassination, but there is little expectation that it will identify Mr. Slim's murderers.

One dynamic that is starting to unfold and is important to watch is people turning to local armed groups, be it gangs and/or militias, to provide for their security.

Impact on Hizballah: In his message to Congress on July 20 on the continuation of the National Emergency with respect to Lebanon, President Joseph Biden wrote, "Iran's continuing arms transfer to Hizballah – which include increasingly sophisticated weapons systems – serve to undermine Lebanese sovereignty, contribute to political and economic instability in the region, and continue to constitute an usual and extraordinary threat to the national security and foreign policy of the United States." Adding to that, Hizballah has in the past made decisions about war and peace independent of the Lebanese government, dragging Lebanon into wars not of its choosing, including the 2006 war with Israel and the Syrian civil war.

The economic crisis has had a mixed impact on Hizballah. On one hand, it has forced a large portion of Lebanon's Shia who are poor, unskilled, unemployed, and do not have family members working abroad to help them financially to turn to Hizballah for financial assistance, thus strengthening its hold on the Shia community. In response to the economic crisis, Hizballah has rolled out a financial assistance and subsidy program targeting its supporters.

On the other hand, this increase in demand on Hizballah for financial assistance is coming at a time when its finances are under stress due to a number of factors:

- U.S. sanctions on Iran reduced the amount of funding Tehran could direct toward Hizballah. U.S. sanctions relief, if it were to take place in the future following a successful conclusion of the JCPOA negotiations in Vienna, will likely translate into Tehran stepping up its financial support for Hizballah.
- U.S. sanctions on Lebanese businessmen and business entities that either acted as fronts for Hizballah's financial operations and/or provided financial assistance to Hizballah.
- A reduction in financial support from Hizballah supporters working in Africa due to the Covid-19-related global economic slowdown and fear of U.S. sanctions.

- The lingering impact of Hizballah's involvement in the war in Syria, both in terms of ongoing financial support to the families of fighters who died there and ongoing treatment of the wounded.

The political paralysis has increased tensions inside the Hizballah-led axis in Lebanon, forcing its leaders to devote more time and political capital to mediating among their allies' often conflicting demands, especially on the issue of government formation. Further deterioration of the economic conditions will be laid at Hizballah's doorstep as the group is perceived as the defender of a corrupt status quo. The image that Hizballah spent years cultivating inside Lebanon as a clean, non-corrupt, and anti-establishment political group is no more.

The 2020 killing of Islamic Revolutionary Guard Corps-Quds Force commander Qassem Soleimani put an additional stressor on Hizballah's resources as the group has been asked by Tehran to play more of a regional coordinating role inside the Iran-funded militia network in the Middle East.

Hizballah's involvement in the Syrian civil war has made it more cautious in taking on Israel. Over the past years, Israel has regularly attacked Hizballah targets in Syria and Lebanon to stop the transfer of advanced weapons from Iran and Syria to Hizballah. These strikes have at times killed senior Hizballah and Iranian officials. Yet, Hizballah has been restrained in its response to the attacks.

An alarming dynamic is Hizballah's manufacturing of artillery rockets and precision-guided missiles (PGM) in missile production plants in both Lebanon and Syria. Hizballah has amassed a large arsenal of surface-to-surface missiles and rockets. With Iran's help, Hizballah is continually improving the accuracy and range of its arsenal. Some of the hundreds of Israeli attacks in the past years in Syria are related to Hizballah's PGM project. In the event of another Hizballah-Israel war, neutralizing Hizballah's rocket capabilities will present a significant challenge to the Israeli military and will likely result in substantial damage in both Israel and Lebanon.

Challenges and Implications for U.S. Policy: Help Lebanon Help Itself

Lebanon matters to the United States. However dysfunctional its democracy is, Lebanon remains one of the few Arab countries in the Middle

East with relatively strong civil liberties, a free media environment, a vibrant civil society, and multi-confessional co-existence. Through Hezbollah, Iran threatens U.S., Israel, and our Arab allies and partners' interests. While the rise of extremists group like al-Qaeda and ISIS has receded in Lebanon thanks to strong sustained efforts by the LAF, these gains could erode quickly amid a deteriorating economic crisis that provides recruitment opportunities for extremist groups. Russia is increasingly eyeing Lebanon as part of its expansionist strategy in the Mediterranean region. If we cede ground in Lebanon, Iran and Russia will quickly fill the vacuum.

Working with its allies and partners in Europe and the Arab region, the U.S. should mobilize humanitarian assistance to mitigate the impact of the economic crisis on people's lives. But our decision to assist the Lebanese to secure long-term economic support to put the country on a sustainable recovery path will depend primarily on the decisions they make.

The multifaceted crisis Lebanon faces today is the result of a decades-long culture of systemic corruption and impunity. Unless measures are introduced to end corruption and hold officials accountable for their "deliberate" mismanagement of public funds and their criminal negligence, as in the case of the August 2020 Beirut port blast, there will be no enduring solution to Lebanon's political and economic challenges.

U.S. engagement in Lebanon should focus on:

- **Mitigating Economic Hardships:** As the needs of the general population have increased dramatically amid a deteriorating economic crisis, the U.S., along with international partners, should lead a direct humanitarian assistance effort to scale up existing programs that provide basic services to Lebanese and refugee communities, including reliable access to safe food and water, as well as health care and education services.

Local and international NGOs and charities have stepped up to fill the vacuum left by the state. However, the dramatic decline in services and the worsening economic conditions are outpacing their capacities. There needs to be short-term and immediate aid in the form of cash handouts, distribution of food and medicine, and provision of medical care. Long-term solutions also need to be put in place for vulnerable Lebanese families and refugee groups that

promote sustainable solutions focusing on self-reliance and livelihood programs.

- **Leading International Engagement on Lebanon:** Working with France and Saudi Arabia, the U.S. can lead international engagement on Lebanon, including a concerted diplomatic effort toward the formation of a cabinet of independent and competent technocrats that can embark on the difficult task of negotiations with international financial institutions, such as the IMF, the World Bank, and country members of the 2018 Cedre conference, on the terms of a financing package that is conditional on significant reforms and austerity measures.

Despite the severity of the economic crisis, putting Lebanon on a sustainable economic recovery path is not an impossible task. With the right government in place and sustained attention and interest by the U.S., including Congress and senior administration officials, and countries like France, the U.K., Germany, Saudi Arabia, the UAE, and Kuwait, Lebanon can recover from these multiple crises.

The international community will need to come up with a new compact for Lebanon, including an improved model for distributing aid — one that bypasses Lebanese jurisdiction and through which all international contributions are channeled. This could take the form of an international authority that is staffed by independent Lebanese specialists and answers to a board with an international majority approved by donor states.

There are mixed experiences with international compacts that condition aid on performance. The Millennium Challenge Corporation (MCC) has been quite effective in changing the cost-benefit calculus of reform in partner countries by providing mechanisms for governments to communicate their achievements to their citizens, donors, and foreign investors, thereby encouraging additional aid and investment.

- **Assisting Lebanese to End Systemic Corruption and Promote Accountability:** A first step in the long road to ending corruption and promoting accountability in Lebanon is the establishment of an international fact-finding commission to investigate the Beirut port

blast of August 2020. The United States and France should lead an international effort to establish such a commission. Close to a year on from the blast, the Lebanese government's investigation has yet to produce results.

The international fact-finding commission would seek to explain the origins of the explosion and determine who was responsible for it. This commission should have a limited timeframe to conduct its investigation and should comprise Lebanese and international specialists and be led by a senior international figure. Last month, 53 Lebanese, regional, and international groups and individuals, as well as 62 survivors and families of the victims, signed a letter urging members states of the U.N. Human Rights Council to establish an investigative mission into last year's blast.

- **Maintaining Security Assistance to the LAF:** The LAF is today the only remaining national institution that enjoys the respect of a majority of Lebanon. For the most part, it has behaved professionally in dealing with protesters. U.S. support of the LAF has been instrumental in the LAF mitigating internal and external threats from non-state actors and in strengthening border security with Syria. In addition to maintaining U.S. assistance in military hardware and training, the LAF needs supplementary support for soldiers' families.

By engaging with allies and partners in Europe and the Middle East in mobilizing support for Lebanon, by demonstrating a sustained interest and commitment to support the Lebanese people in this unprecedented economic crisis, by making clear that a durable solution to Lebanon's political and economic instability falls primarily on the decisions Lebanese politicians and citizens make, and by preventing a vacuum that Russia and Iran will fill, we serve our own interests.

I thank Congress and the Subcommittee for focusing attention on U.S. interests in a stable and secure Middle East, including a peaceful and prosperous future for Lebanon.

The views expressed in this testimony are those of the author and not the Middle East Institute.