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By Sami Atallah and Sami Zoughaib
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Beyond Security Fixes

Toward a Sovereignty-Based Reform Pact in Lebanon

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Introduction

Lebanon entered a new political phase on Feb 3, 2025, when Joseph Aoun, the long-serving commander of the Lebanese Armed Forces, was elected president and immediately tasked Nawaf Salam with forming a government. Their appointments took place under the lingering shadow of the 2024 Israeli offensive—a seventy-day campaign that leveled villages in the South, devastated Beirut's periphery, and displaced hundreds of thousands before a fragile cease-fire on Nov 27, 2024. The truce did not bring stability. Near-daily Israeli drone strikes, overflights, and incursions continued into 2025, a constant reminder of Lebanon's compromised sovereignty. The sense of urgency for recovery was acute, but it collided with a sobering truth: the state remained mired in a six-year depression without enacting any of the reforms it had repeatedly promised to its citizens, international donors, or the IMF. Capital controls remained ad hoc, the banking sector insolvent, and basic public services in tatters. The experience underscored that crisis alone does not guarantee reform.

The persistence of paralysis is not accidental. It stems from structural constraints hardened over decades. Since the early 1990s, postwar governments embraced a growth model built on debt, real-estate speculation, and foreign-currency inflows. This model enriched bankers, contractors, and political patrons across sects, while hollowing out productive sectors and public institutions. Over time, this elite coalition fused with Hezbollah's security veto and the fragmented state apparatus, producing a multilayered barrier to redistribution, accountability, and institutional overhaul. Reform rhetoric was plentiful, but redistribution of costs and power was consistently avoided. This entrenched equilibrium is the baseline against which the postwar reform debate must be measured.

The events of August 2025 illustrate how the reform window has been widened by geopolitical pressure, but also how narrowly it has been defined. On Aug 5–6, the cabinet instructed the army to present a plan by year's end to confine all arms to six official security institutions. Hezbollah denounced the move as a "grave sin," and Shiʿa ministers walked out. At the same time, a U.S. envoy pushed a package tying phased disarmament steps to an Israeli withdrawal from five positions in the South and a Gulf-financed reconstruction zone. Yet the proposal met local resistance: on Aug 27, protests in Tyre and Khiam forced the envoy to curtail his visit. Four days later, Speaker Nabih Berri called for a national dialogue on Hezbollah's weapons, signaling a preference for consensual management of the issue rather than unilateral decisions. Meanwhile, the UN Security Council adopted Resolution 2790 (2025) on Aug 28, renewing UNIFIL's mandate but fixing an end date of Dec 31, 2026, while urging Israeli withdrawal and an expanded LAF role south of the Litani.

On the ground, incidents underlined both the volatility of the moment and the risks to the army itself. On Aug 25, the LAF reported seizing a large weapons cache in Akkar. Less than three weeks earlier, on Aug 9, six soldiers were killed while dismantling a depot in Tyre, the deadliest single-day loss for the army since the cease-fire. And on Feb 14, a UNIFIL convoy was attacked near Beirut airport, injuring the mission's outgoing deputy commander. These episodes show how security enforcement remains fragile and politically charged.

Taken together, these developments widened the reform window but did so almost entirely in a security-first direction. International support has become more conditional, but the conditions have narrowed to financial transparency and AML/CFT[1] compliance. Broader reforms—such as bank resolution,

1 AML/CFT refers to "Anti-Money Laundering and Countering the Financing of Terrorism." It encompasses the set of laws, regulations, and institutional measures designed to prevent illicit financial flows, detect suspicious transactions, and ensure that financial systems are not misused for laundering criminal proceeds or funding terrorist activities.

equitable loss-sharing, and judicial independence—remain side-lined. Domestically, Hezbollah has shifted from systemic veto player to situational blocker, willing to obstruct measures that cross its red lines but less able to impose blanket paralysis. Economic elites, meanwhile, practice tactical compliance: conceding on low-cost governance fixes like secrecy amendments or procurement rules in order to protect their core interests.

The result is a selective reform trajectory. It delivers procedural changes where donor and elite interests align but stops short of structural transformation. Lebanon risks repeating its familiar pattern: surface compliance, elite survival, and citizen exhaustion. Breaking out of this cycle requires a different anchor. The report argues for a sovereignty-based reform pact that ties external backing not only to disarmament benchmarks but also to equitable burden-sharing, progressive taxation, and credible cease-fire enforcement. Only by coupling security with redistribution can reform move beyond procedural fixes and become the foundation for institutional renewal.

1. Reform: Global Evolution and the Lebanese Experience

Across international and domestic policy arenas, reform is a term that commands near-universal endorsement—and yet, it often means radically different things to different actors. In Lebanon, where successive governments have pledged reform while resisting its consequences, unpacking what the term entails—historically, conceptually, and politically—is not just a semantic exercise. It is central to understanding how the country arrived at its current crisis, and what a credible reform agenda must now confront and overcome. This section traces the global evolution of reform discourse, analyzes how it has been adopted and reshaped in Lebanon's postwar context, and offers a working definition that will anchor this report's broader analysis.

Global Shifts: From Technocratic Fix to Political Process

The term reform has long held normative appeal in policy discourse, signifying purposeful change aimed at improving institutional or developmental outcomes. At its core, reform involves a recalibration of the formal and informal rules that govern collective life—rules that are rarely changed through neutral or linear processes, but rather through struggles over who holds power and who bears costs (North, 1990; Acemoglu, Johnson, & Robinson, 2005).

Yet the meaning of reform has shifted significantly across historical phases. In the 1980s and 1990s, it became closely associated with the neoliberal agenda promoted by international financial institutions: fiscal austerity, trade liberalization, privatization, and deregulation (Harvey, 2005). These measures were framed as technical fixes for inefficient, state-heavy economies and were often implemented through structural adjustment programs. However, by the early 2000s, this narrow understanding came under growing scrutiny. Critics highlighted the social costs of rapid liberalization—rising inequality, weakened public institutions, and growing volatility. Reform, they argued, had become a technocratic catch-all, often disconnected from local context or political accountability (Rodrik, 2006). Even within the IMF, economists acknowledged that some key neoliberal tools—such as fiscal consolidation and capital account liberalization—could in fact undermine long-term growth and exacerbate inequality (Ostry, Loungani, & Furceri, 2016).

In response, new approaches emerged that emphasized reform not as a fixed set of policy prescriptions, but as a contested and context-specific process. Feminist and human rights–based economists in particular argued that economic reform must be judged by its contribution to accountability, equity, and social justice—objectives not incidental to macroeconomic stability but central to the legitimacy and sustainability of reform itself (Balakrishnan, Heintz, & Elson, 2016). This expanded perspective, now increasingly reflected in international development frameworks, views reform as a political project as much as a technocratic one—requiring negotiation over distributional outcomes, institutional power, and the rebuilding of public trust.

Lebanon's Reform Record: Rhetoric Without Restructuring

Lebanon's engagement with the global reform agenda has mirrored broader international trends, but in ways that have often been selective, symbolic, and strategically deployed to serve entrenched interests. Since the early 1990s, successive Lebanese governments have adopted the language of reform—embracing terms like liberalization, modernization, and restructuring—without pursuing the institutional and distributive changes such rhetoric implies. Reform has served as a political tool: used to justify privatization initiatives, secure donor support, and appease international partners, yet rarely directed at reshaping the foundations of Lebanon's political economy.

In the aftermath of the civil war, the postwar reconstruction period framed reform as synonymous with liberal economic recovery. Under Prime Minister Rafik Hariri, reform was centered on attracting foreign investment, privatizing public assets, and opening markets. These policies were presented as essential steps toward restoring Lebanon's role in regional finance and commerce. In reality, they disproportionately benefited an alliance of banking, real estate, and political elites, while leaving public institutions under-resourced and structurally dependent on volatile capital inflows. The reconstruction strategy relied heavily on sovereign borrowing, high interest rates, and speculative property development, reinforcing a rentier model that deepened inequality and external vulnerability (Baumann, 2017).

By the early 2000s, Lebanon's reform narrative became increasingly tied to international donor conditionality. Through Paris I (2001), Paris II (2002), and Paris III (2007)—later branded as the CEDRE process—donors pledged concessional financing in exchange for commitments to reform public finance, restructure utilities, and enhance transparency. Yet actual implementation was limited. While technical documents and reform matrices proliferated, political elites avoided changes that threatened their access to rents or control over state institutions. A review of the Paris III agenda found that just 22% of proposed measures were executed, and only 14% required legislative change—highlighting the superficial nature of compliance (Atallah, Mahmalat, & Zoughaib, 2018).

In the following decade, reform narrowed to a series of technocratic adjustments. Governments adopted procedural tools such as public-private partnership laws, e-procurement platforms, and anti-corruption strategies, many of which were applauded in donor circles. However, these initiatives did little to confront Lebanon's deeper structural distortions—regressive taxation, unaccountable fiscal governance, and an uncompetitive, import-heavy economy. During this period, the Banque du Liban (BdL) became the central actor in maintaining a façade of macroeconomic stability. Its financial engineering operations—particularly the 2016 "Big Swap"—relied on creative monetary interventions that propped up bank profits and the currency peg, while masking the rapid deterioration of state solvency and foreign reserves (World Bank, 2016).

The financial collapse of 2019 marked a turning point. For the first time since the civil war, the economic model collapsed under its own weight. The government announced reform plans that echoed familiar promises—capital controls, banking sector restructuring, and progressive taxation—but failed to pass any foundational laws. Crisis management unfolded through central bank circulars and informal capital restrictions that lacked transparency or legal grounding. These measures shielded large depositors and politically connected actors while placing the burden of adjustment on ordinary citizens.

Over three decades, Lebanon's reform agenda has been repeatedly mobilized without confronting the foundations of elite power and state capture. The reform discourse has shifted—from liberalization to conditionality to technocratic fixes—but its outcomes have remained consistent: deepening fiscal fragility, rising inequality, and institutional erosion. The persistence of this pattern reflects a political economy in which reform is welcomed as a rhetorical commitment, yet resisted as a realignment of power and resources. Understanding this trajectory is essential for any effort to define what reform must now mean in Lebanon—and what it must break from to become credible and effective..

Toward a Meaningful Reform Framework

Against this backdrop, this report advances a definition of meaningful reform that breaks with Lebanon's legacy of elite-calibrated, donor-oriented adjustments. Reform, we argue, must be understood as a political and institutional reconfiguration that delivers progress across three interdependent dimensions:

- Accountability: Reforms must include enforceable oversight mechanisms, transparent decision-making, and regulatory or judicial bodies capable of investigating and sanctioning fiscal, monetary, and financial abuses.

- Equity: Reforms must address structural imbalances in the distribution of income, opportunity, and crisis burdens. This includes fair loss-allocation, progressive taxation, and restrictions on rent extraction and regulatory capture.

- Social Justice: Reforms must offer redress for past harms—whether through deposit recovery mechanisms, protection of savings, or guarantees of basic social rights—and rebuild public trust in state institutions.

This framework moves beyond compliance checklists and narrowly technocratic fixes. It insists that reform cannot be reduced to policy sequences or loan conditions but must contend with the deeper political economy of exclusion, capture, and impunity that has defined Lebanon's postwar governance. Only by embedding accountability, equity, and justice at the center of the reform agenda can Lebanon hope to exit its cycle of collapse and reconstruction and lay the foundations for a sustainable and inclusive state.

2. Framework: Crisis Windows, Veto Players, and External Anchors

To assess Lebanon's post-war reform trajectory, this report draws on three strands of comparative political economy theory—crisis windows, domestic veto players, and external anchors—that have each been used to explain when and how reform advances in politically fragmented or crisis-prone states. On their own, however, none of these theories fully captures the Lebanese case. The post-2019 period featured a severe economic collapse without reform, revealing the limits of crisis as a catalyst. Entrenched veto players blocked structural change, but their internal dynamics have shifted in uneven ways. External actors imposed reform conditions, but often lacked credibility, breadth, or enforcement.

Taken together, these variables offer a more complete explanation. Reform in Lebanon, we argue, depends not on any single factor but on the interaction between all three: a sufficiently disruptive crisis that shifts elite incentives, a configuration of veto players that allows rather than obstructs policy change, and credible external anchors that tie international support to meaningful domestic reform. The framework thus provides a lens for analyzing how the 2024 war reshaped Lebanon's political economy—and whether it created the conditions for genuine institutional transformation or merely enabled selective, externally-aligned adjustments.

Crisis Windows

Periods of acute disruption—whether financial collapse, violent conflict, or regime breakdown—can open temporary "windows of opportunity" during which established institutions and policy constraints are more malleable. Comparative scholars refer to these episodes as critical junctures: moments in which entrenched power structures weaken and previously blocked reforms become temporarily viable (Capoccia & Kelemen, 2007).

In economic crises, in particular, shocks raise the cost of inaction for political elites. As Gourevitch (1986) and Krueger (1993) have shown, the dislocation of established equilibria often forces ruling coalitions to consider paths they had long resisted—especially when public legitimacy, financial solvency, or geopolitical stability are at stake. Yet windows do not determine outcomes. They create a broader field of possibilities, but what follows depends on which actors mobilize, what coalitions are built, and how the agenda is shaped during the volatile aftermath.

Domestic Veto Players

In any political system, reform depends not only on policy design but on political permission. Following Tsebelis (2002), veto players are defined as actors whose agreement is required to change the status quo. These may include presidents, legislative majorities, coalition partners, constitutional courts, military factions, or—in more informal systems—armed groups and economic oligarchies.

The more veto players there are, and the more ideological distance between them, the harder it is to pass comprehensive reform. In fragmented systems like Lebanon's, where power is diffused across confessional groups, parliamentary blocs, cabinet portfolios, and extra-institutional actors (such as Hezbollah or banking elites), veto points multiply. Research shows that in such settings, even when reform coalitions form, they often converge around lowest-common-denominator policies that protect key rents (Haggard & Kaufman, 2018).

External Anchors

External actors—such as international financial institutions, bilateral donors, or security patrons—can act as reform anchors by tying valuable resources to specific conditions. These anchors function through conditionality: the promise of loans, grants, diplomatic recognition, or sanctions relief in exchange for policy changes.

But external leverage is not uniform. Its impact depends on:

- Credibility – whether international actors will follow through on promised rewards or penalties;
- Breadth – whether conditions are narrowly macroeconomic or include institutional and governance targets;
- nforcement – whether disbursements are phased and monitored or front-loaded and easily bypassed.

When anchors are narrowly defined or weakly enforced, domestic elites often engage in surface compliance—passing formal laws while evading meaningful implementation (Stubbs, Kentikelenis, & King, 2020). When incentives are strong, conditions broad, and enforcement consistent, external anchors can reshape the incentives facing veto players and tilt domestic outcomes.

Interplay: When Do Reforms Advance?

The three variables above rarely operate in isolation. Reform trajectories are shaped by their interplay—how shocks disrupt existing arrangements, how veto players reposition, and how external actors engage. A broad shock by itself does not guarantee reform; it only opens the door. Whether that opening leads to meaningful change depends on how fragmented or weakened political actors are in the aftermath, and whether international partners can enforce reform conditions that resonate with domestic coalitions. Conversely, even strong external anchors tend to be ineffective if veto players remain cohesive and resourceful or if the crisis window narrows too quickly.

Crisis Window	Veto-Player Configuration	External Conditionality	Likely Reform Outcome
Broad shock (e.g., financial collapse, war)	Concentrated or temporarily weakened	Narrow and technical	Selective reform – transparency upgrades, procedural laws, elite-preserving adjustments
Broad shock	Fragmented but shifting coalitions	Broad and enforced	Structural reform – redistribution, institutional overhaul, deep regulatory change
Narrow or closing window	Cohesive and well-resourced veto bloc	Weak or inconsistent	Reform fatigue or reversal – symbolic laws, stalled implementation, policy drift

Cross-regional studies affirm this dynamic. Latin America's debt reforms, Central Europe's EU-aligned transformations, and parts of post-crisis East Asia show that deep reform requires alignment: a shock that destabilizes existing bargains, a window where elites are repositioning, and an anchor that links international incentives to domestic coalitions (Haggard & Webb, 1994; Campos & Nugent, 2003).

3. How Lebanon's Political Economy Blocked Reform (2019–2024)

Lebanon's post-2019 financial collapse created an extraordinary crisis window. The banking sector was insolvent, the currency collapsed, and millions of citizens lost access to their savings. International experience suggests that such large-scale breakdowns typically trigger deep restructuring. In Lebanon, however, the entrenched political economy neutralized the moment. No structural reforms were enacted; instead, crisis management unfolded through ad hoc decrees, central bank circulars, and opaque capital restrictions. To understand why, we must examine how domestic veto players—the financial elite and Hezbollah—combined with weak international enforcement to preserve the status quo.

Domestic Veto Players

a. Financial Elites: Guardians of the Rentier Order
Lebanon's financial elite forms a cross-sectarian coalition of commercial bankers, politically connected contractors, real-estate developers, and import monopolists. Their influence reaches deep into parliament and ministerial portfolios, ensuring that fiscal and monetary policy consistently prioritizes rent extraction over redistribution (LCPS, 2021). The financial collapse of 2019 should have compelled these actors to absorb a share of losses, but their veto power ensured otherwise.

When the Diab government released its recovery plan in April 2020, it estimated financial system losses at over $83 billion and proposed that banks and large depositors absorb a significant share. The Association of Banks in Lebanon (ABL) immediately mobilized against the plan, arguing that it was "dangerous" and destabilizing (Maktabi, Zoughaib, & Atallah, 2022). Through lobbying and parliamentary alliances, ABL diluted the plan, shifting the burden onto public assets and the balance sheet of the Banque du Liban (BdL). In 2022, the ABL escalated resistance, calling instead for the liquidation of state assets and even Lebanon's gold reserves to protect bank equity (Gebeily, 2022). This revealed the elite strategy: privatize gains, socialize losses.

Their resistance was not confined to economic policymaking. Economic elites also used legal and reputational instruments to neutralize scrutiny. During debates over amendments to the banking secrecy law, journalists and civil society groups who exposed illicit capital transfers abroad faced a wave of lawsuits and defamation complaints (Legal Agenda, 2023; Human Rights Watch, 2024). These lawsuits were designed less to win in court and more to intimidate and silence dissent.

This pattern illustrates a classic feature of rentier political economies: elites can simultaneously occupy formal political office, dominate financial institutions, and mobilize legal repression to resist structural reform. By shielding shareholders and large depositors while offloading costs onto the public, Lebanon's financial elite ensured that a once-in-a-generation crisis produced no meaningful redistribution of losses. The outcome was not simply policy drift but a deliberate preservation of the rentier order (Maktabi, Zoughaib, & Atallah, 2022).

b. Hezbollah: Stability as Strategic Imperative

Hezbollah's role in obstructing reform during the 2019–2024 period was driven less by direct financial interest than by its overarching imperative to preserve regime stability and political continuity. As Lebanon's most powerful military-political actor, the party possessed the leverage to shape economic policy debates indirectly—by setting red lines for its allies and enforcing political discipline across government coalitions. This meant that reforms with redistributive implications, or those perceived as socially destabilizing, were consistently blocked or diluted.

Hezbollah played a pivotal role in stalling the forensic audit of the Banque du Liban (BdL), which was widely seen as a critical step for accountability and IMF engagement. The party objected to the initial selection of Kroll Associates, citing alleged "security concerns" related to the firm's foreign ties. The government eventually appointed Alvarez & Marsal, but the audit stalled for over a year due to BdL's lack of cooperation and political cover (Azhari, 2020; Houssari, 2020). By narrowing the scope of oversight, Hezbollah helped shield the central bank and political elites from scrutiny at a decisive moment.

During negotiations with the IMF, Hezbollah consistently opposed measures that it believed would undermine its social base. These included cuts to subsidies, depositor haircuts, and bank recapitalization mechanisms that would shift costs onto politically sensitive constituencies. As Wimmen (2020) notes, Hezbollah's stance effectively narrowed the reform agenda to technocratic fixes, excluding redistributive or politically costly measures. The consequence was a form of "negative selectivity": reforms that could deliver equity or accountability were vetoed, while symbolic or procedural measures were allowed to move forward.

Hezbollah's behavior underscores how a security actor can act as an informal veto player in economic reform, even when it does not have direct material stakes in the outcome. By prioritizing political stability and regime continuity, Hezbollah effectively blocked redistributive reforms that threatened to destabilize its support base, thereby reinforcing the broader pattern of elite resistance and institutional paralysis (Wimmen, 2020; Heller & Zoughaib, 2023).

External Anchors: Conditionality Without Leverage

International actors played a limited and ultimately ineffective role in enabling reform between 2019 and 2024. In principle, this period offered donors and international financial institutions (IFIs) significant leverage: Lebanon's government had defaulted on its Eurobond obligations, foreign reserves were collapsing, and access to global markets depended on external support. Yet despite this leverage, conditionality remained narrow, weakly enforced, and easily circumvented.

The clearest example was the April 2022 IMF Staff-Level Agreement (SLA). The SLA included a set of prior actions that were widely seen as prerequisites for stabilization: restructuring the banking sector, passing a capital control law, and undertaking fiscal reforms (IMF, 2022). However, nearly all of these measures were either delayed, watered down, or sidestepped. Crucially, the IMF did not withhold engagement even when prior actions were ignored. No disbursements were released, but talks continued, signaling to Lebanese elites that international partners would not impose strict enforcement (Wimmen, 2021). This eroded the credibility of the SLA as a reform anchor.

Other international initiatives were even weaker. France's 2020 post-Beirut donor initiative, launched after the port explosion, produced pledges of financial assistance but offered no binding enforcement mechanisms. Disbursements were modest, fragmented across sectors, and not linked to measurable benchmarks. In practice, this meant that Lebanese elites could maintain donor engagement by enacting minor procedural changes—such as symbolic amendments to the banking secrecy law—while avoiding deeper restructuring of the financial system (Zoughaib & Heller, 2023).

Donor fragmentation compounded the problem. While the IMF pressed for systemic reforms, bilateral donors often prioritized short-term humanitarian stabilization or geopolitical considerations, sending mixed signals to Lebanese policymakers. As Wimmen (2021) notes, international stakeholders ultimately privileged institutional continuity—avoiding state collapse—over enforcement of politically costly reforms. This created a form of "soft conditionality": enough oversight to maintain dialogue, but insufficient to compel compliance.

For international policymakers, Lebanon's experience illustrates the limits of external anchoring when credibility, breadth, and enforcement are weak. Conditionality was narrowly defined around technical measures, inconsistently applied across donor frameworks, and unenforced when veto players resisted. The result was surface compliance without structural change. For Lebanon, this meant that even one of the most severe economic collapses in modern history produced little external leverage for reform. For donors, the lesson is equally clear: without credible enforcement, conditionality risks reinforcing elite survival strategies rather than enabling systemic transformation (Stubbs, Kentikelenis, & King, 2020; Wimmen, 2021; Zoughaib & Heller, 2023).

A Closed Window, a Preserved Order

Between 2019 and 2024, Lebanon endured one of the most severe peacetime economic collapses in modern history: GDP contracted by more than 40 percent, inflation reached triple digits, and over half of the population fell into poverty. Yet despite this devastation, the political economy that produced the collapse remained intact.

Three forces combined to neutralize reform. Financial elites mobilized parliament, lobbying, and the courts to shield themselves from loss allocation, ensuring that costs were shifted onto the public balance sheet. Hezbollah, while less directly tied to banking interests, vetoed any redistributive reform that might destabilize its social base, narrowing the agenda to technical fixes. International actors, for their part, diluted conditionality, prioritizing institutional stability and humanitarian continuity over enforcement. As a result, even the 2022 IMF Staff-Level Agreement, with its clear prior actions, became little more than a reference point rather than a binding roadmap.

The outcome was not drift, but deliberate preservation: symbolic amendments to banking secrecy, informal capital controls, and endless negotiations that sustained elite survival while eroding citizen trust. Lebanon's experience confirms that crisis alone is not sufficient to produce reform. When domestic veto players remain entrenched and external anchors fail to enforce, reform collapses into symbolism and paralysis.

In fragmented political systems like Lebanon's, crisis creates opportunity only if domestic veto players are weakened and external anchors apply consistent, credible, and enforceable pressure. Otherwise, collapse merely reinforces elite dominance. This preserved order held until the 2024 war, which significantly altered the balance of power—but not the underlying logic of veto and accommodation.

4. What Has Changed? Lebanon's Political Economy After the 2024 War

Lebanon's paralysis during the prolonged economic collapse from 2019 through 2024 demonstrated how even a large-scale economic crisis window can be neutralized by powerful domestic veto actors and weak or inconsistent external conditionalities. Although the 2024 war between Israel and Hezbollah did not fundamentally eradicate these constraints, it significantly altered their alignment and intensity in ways that the theoretical model identifies as conducive to selective, albeit limited, reform progress.

Crisis Window: Expanded by a Geopolitical Premium

The crisis window following the 2024 conflict expanded significantly—not primarily due to worsening macroeconomic indicators, which were already catastrophic—but due to the introduction of a geopolitical premium. Before the war, Lebanon's political-economic elites navigated a severe economic collapse without substantial structural concessions, because the immediate opportunity costs of inaction remained largely confined to domestic economic consequences. However, the war introduced a critical new variable: international actors explicitly framing Lebanon's economic crisis within broader regional security concerns, specifically targeting the containment of Hezbollah's military and political autonomy.

Consequently, the geopolitical stakes of reform escalated markedly. The international community positioned post-war reconstruction assistance and financial stabilization packages as part of a larger strategic effort to reshape Lebanon's internal security architecture. For Lebanese elites, therefore, the opportunity cost of reform inaction expanded beyond mere economic deterioration to encompass losing an internationally-backed chance to curb Hezbollah's residual influence. In short, the post-war crisis window widened significantly, driven primarily by intensified geopolitical pressures rather than domestic economic conditions alone.

Domestic Veto Players: Re-weighted, but Not Removed

The second shift identified by the analytical framework concerns Lebanon's configuration of domestic veto players, which was recalibrated, though not eliminated, by the war.

1. Hezbollah's Shift from Systemic to Situational Veto: Prior to 2024, Hezbollah functioned as the central veto player within Lebanon's political economy, exercising systemic power to block reforms that threatened its interests. The war, however, significantly weakened Hezbollah both militarily and financially—through battlefield casualties, substantial losses of senior commanders, damage to its military infrastructure, and the disruption of its external funding channels. As a result, Hezbollah's veto power shifted from being systemic to situational: while the organization retains sufficient residual power to obstruct reforms directly threatening its core political and military interests, it can no longer guarantee political-economic stalemate at will. Hezbollah's weakened state creates selective openings for reforms that align with external security demands, particularly those aimed at financial transparency and state authority, even if it continues to resist deeper structural transformations.

2. In the wake of the 2024 war, Lebanon's cross-sectarian rentier elite—commercial banks, import cartels, real-estate developers, and party-linked conglomerates—has shifted from aggressive obstruction to tactical compliance. Crippling insolvency and the threat of exclusion from IMF, EU, and Gulf reconstruction funds have weakened its hand. To retain access to foreign liquidity, this bloc now permits low-cost governance measures, bank-secrecy amendments, AML/CFT upgrades, public-procurement rules—to move forward. Yet whenever reforms threaten the distribution of crisis losses or

expose illicit gains—shareholder bail-ins, progressive taxes, a robust bank-resolution law—the same actors reactivate confessional networks and legal road-blocks. Their post-war stance is therefore defensive and reversible: concede surface transparency to avoid sanctions, while safeguarding the rent system that underpins Lebanon's sectarian political economy.

3. Emergence of a State-Centric Reform Coalition: Into the space created by Hezbollah's weakening and the economic and sectarian elites' defensive retreat emerged a new political coalition under President Joseph Aoun and Prime Minister Nawaf Salam, institutionally anchored by the Lebanese Armed Forces. This coalition enjoys a unique degree of formal legitimacy and cross-sectarian political support, enabling it to selectively advance reforms aligned explicitly with external geopolitical priorities. However, despite these advantages, this state-centric bloc does not yet control key distributional levers or power centers dominated by traditional elite networks. This reality limits its ability to pursue comprehensive structural changes, constraining it primarily to incremental progress on reforms explicitly linked to external security conditions.

External Anchors: Narrower Focus, Stronger Enforcement

Since late summer 2025, external leverage has consolidated around a bundled arms–finance deal. Washington's envoy has promoted a roadmap that pairs phased disarmament steps with Israeli pullback from five positions, plus a Gulf-financed economic zone in South Lebanon to absorb ex-combatants. Enforcement credibility has been raised by complementary financial-surveillance moves: Parliament's banking-secrecy amendments (passed in April), Banque du Liban's ban on dealings with al-Qard al-Hassan (issued July 15), and continued FATF/EU listings that constrain correspondent banking.

This securitized conditionality accelerates traceability and compliance but still sidelines redistribution. IMF-relevant files—bank resolution, loss allocation, progressive taxation—lag, even as donors applaud AML/CFT progress. The risk identified above persists: procedural upgrades without structural change.

This arms–finance bundling has made conditionality more credible and enforceable. Lebanese elites, cut off from liquidity, urgently require access to reconstruction finance and global banking channels. The costs of non-compliance—sanctions, frozen aid, exclusion from clearing systems—are immediate. The rapid passage of banking secrecy amendments, after years of deadlock, showed how quickly elites concede when external actors tie financing to financial surveillance measures.

Yet securitized conditionality narrows the reform agenda. It accelerates compliance in areas that serve external security priorities, but it sidelines the redistributive reforms Lebanon's recovery actually requires: equitable loss-sharing, judicial independence, depositor protection, and social rights. Domestically, this framing provokes backlash. Hezbollah branded the arms decision a "grave sin," its allies walked out of cabinet, and protests in the South forced a U.S. envoy to curtail his visit. For many Lebanese, the external agenda looks less like a path to recovery and more like a maximum-pressure campaign aligned with Israeli objectives, with little connection to citizens' demands for justice or relief.

The net effect is a selective reform equilibrium. Arms benchmarks and financial transparency measures advance quickly under pressure, while systemic reforms that would reallocate power and resources remain blocked. Unless international support is broadened to bundle security and financial surveillance milestones with redistributive reforms, Lebanon risks repeating its pattern: procedural compliance that satisfies external patrons but leaves its structural crisis intact.

Selective Reform Amid Structural Persistence

Lebanon's post-war trajectory is best understood as one of selective reform rather than systemic change. The political-economic order that drove the pre-war collapse has not been dismantled; it has adapted. Under strong international pressure, elites have permitted reforms with low distributive costs and immediate security payoffs—chiefly financial transparency measures, procurement rules, and AML/CFT compliance. These initiatives are highly visible to donors and relatively easy to implement, which makes them useful signals of cooperation without demanding real power shifts.

Yet this selectivity underscores the resilience of Lebanon's rentier order. Measures that touch the core of wealth distribution—bank resolution, loss allocation, progressive taxation, judicial independence—remain blocked. When reforms threaten to redistribute costs upward or expose entrenched patronage networks, veto players reactivate confessional and institutional defenses. In effect, the system has learned to concede on surface-level governance issues to preserve its deeper structures of capture.

The implications are stark. Citizens continue to absorb the costs of crisis through inflation, deposit erosion, and service collapse, while elites trade minor reforms for access to reconstruction funds and financial relief. For external actors, this means that technical compliance is not synonymous with structural progress: donor leverage can produce formal laws and procedural upgrades but rarely shifts the underlying political economy.

Lebanon's reform trajectory thus remains paradoxical. The gates of the system now open more easily than before—but only to reforms that leave the architecture of inequality and unaccountability untouched. The result is a hybrid order: one that projects responsiveness through selective reforms, yet persists in its structural foundations. This persistence is the central challenge for any effort to move from recovery management toward genuine transformation.

Navigating Between Two Models and Charting a Third Way Forward

Lebanon's post-war political economy currently stands at a crossroads between two contrasting reform trajectories, exemplified by recent policy decisions: the amendment of the banking secrecy law and the appointment of Karim Soueid as Governor of the Banque du Liban (BdL).

The banking secrecy model represents an alignment between domestic reform constituencies and international pressure. Under intense global scrutiny and the threat of isolation, Lebanon's banking sector conceded critical transparency reforms. This model illustrates how domestic reformists, when empowered by strong external anchors, can achieve targeted yet meaningful institutional changes, particularly around transparency and accountability.

Conversely, the Karim Soueid model symbolizes a reform pathway primarily driven by external geopolitical priorities rather than genuine economic restructuring. Soueid's appointment, despite his deep alignment with traditional banking interests opposed to fundamental restructuring, signals a reform pattern emphasizing anti-Hezbollah credentials and security-oriented measures at the expense of structural economic change. Such reforms often serve elite interests, perpetuating existing inequalities and limiting broader transformation.

Navigating the Impasse: The Need for a Third Path

To move beyond this impasse, Lebanon requires a third reform pathway—one rooted in sovereignty restoration, domestic ownership, and sequenced institutional change. This path does not reject external leverage but seeks to realign it toward redistributive and equity-based outcomes. At its core lies a recognition that rebuilding a legitimate and capable state—one that can govern, tax, protect, and deliver—requires confronting the interdependence between security and socioeconomic reform. In this sense, the paper deliberately situates sovereignty within a framework of social justice and institutional accountability. It builds on the idea of 'sovereignty from below,' where legitimacy is reconstructed through equitable burden-sharing and protection of rights. This approach complements a parallel analysis focused on 'crude sovereignty'—the rebuilding of Lebanon's security apparatus and state coercive capacity. Together, the two perspectives underscore that durable sovereignty requires both dimensions: a capable security sector and a renewed social contract that restores trust between citizens and the state.

Ending Israeli Violations: A Prerequisite for Reform Credibility
Since the November 27, 2024 truce, Israel has continued near-daily strikes in South Lebanon, with heavy bombardment documented May 8, 2025, and an August 28 drone incident that killed LAF personnel during inspection. The LAF also suffered six fatalities on August 9 while clearing a weapons depot near Tyre. These episodes erode state security credibility and fortify claims for a non-state "resistance" mandate.

UNSCR 2790 (August 28, 2025) re-centers the legal baseline: Israeli withdrawal from five positions, full respect of the Blue Line, and scaled-up LAF deployment south of the Litani, with UNIFIL drawdown by end-2026. Linking external support to verifiable reductions in ceasefire violations—while resourcing LAF deployment—is necessary to widen domestic space for reform.

To enable a viable postwar reform agenda, international actors—particularly the United States, France, Gulf states, and the United Nations Security Council—must take concrete steps to deter Israeli violations.

This is not a precondition to reform. But without external enforcement of Lebanese sovereignty, the domestic political space required for reform will continue to shrink. Ending the ceasefire violations is therefore a necessary step to stabilize the reform context, restore public confidence, and disarm the narratives that perpetuate exceptionalism and veto politics.

Upgrading Conditionality: From Procedural to Institutional Anchoring

The reform mandate in Lebanon has long suffered from shallow and fragmented external conditionality. Past donor frameworks—whether through CEDRE, the IMF, or bilateral engagements, have focused overwhelmingly on procedural transparency: passing banking secrecy amendments, adopting procurement platforms, or meeting AML/CFT benchmarks. While these actions have yielded some legal progress, they have not altered the underlying political economy. Procedural reforms alone have neither redistributed losses nor restored public trust in state institutions.

To enable durable reform, Lebanon requires a shift from narrow technical compliance to institutional anchoring—one that supports the state's capacity to implement and enforce its own agenda. This transformation is only possible if external conditionality is realigned with a nationally owned Reform Pact.

A credible Reform Pact—negotiated through a national forum and centered on crisis loss distribution, tax reform, and public service restoration—can provide international partners with a concrete framework through which to align their support. Rather than tying funds to fragmented indicators or isolated legislative acts, donor disbursements should be sequenced against the Pact's milestones.

In this model, conditionality becomes a tool for institutional activation, not a substitute for it. Instead of rewarding paperwork and checklists, it backs systems that can deliver results—budget offices that can monitor implementation, agencies that can enforce procurement laws, courts that can adjudicate accountability.

Moreover, anchoring conditionality to a reform pact enhances its legitimacy. It connects external expectations to domestic consensus and shifts the optics of reform from donor pressure to national policy. In doing so, it strengthens the political hand of the reformist camp, gives direction to public debate, and increases the likelihood that reforms will be sustained across electoral cycles.

By investing in institutions—not just procedures—external actors can help Lebanon move from crisis containment to state reconstruction. And by linking their support to a nationally negotiated pact, they reinforce reform not as foreign imposition, but as a collective recovery project.

Sequencing Reform for Legitimacy and Delivery

In Lebanon's post-war political environment, reform cannot begin with abstract blueprints or maximalist agendas. It must begin with actions that are visible, feasible, and politically meaningful—the kinds of state interventions that re-establish a public presence and demonstrate that government institutions can function after years of paralysis and collapse. Sequencing matters not only for administrative viability, but for rebuilding political legitimacy and widening the reformist coalition beyond elite circles.

The first phase of reform should focus on low-hanging, high-credibility interventions that demonstrate a break with prior inaction. These include:

→ Implementing existing laws, particularly those already passed under donor pressure—such as banking secrecy amendments, e-procurement legislation, and AML/CFT regulations. The priority is not legal passage, but institutional execution: budget allocations for enforcement, recruitment of specialized staff, and public communication of outcomes.

→ Reactivating dormant oversight institutions, including the Anti-Corruption Commission and the Court of Audit. These bodies exist on paper but remain functionally paralyzed due to understaffing, limited mandates, or political interference. Restoring their operational independence—through protective legislation, hiring authority, and secure funding—would send a powerful signal that reform is no longer rhetorical.

→ Launching early-phase reconstruction, even in the absence of full-scale international disbursements. This includes basic but highly visible projects such as rubble removal, housing damage assessments, short-term shelter repairs, and public infrastructure mapping. These efforts reestablish state coordination in communities deeply affected by war and can often proceed using local resources or modest reprogrammed funds.

- Digitizing citizen-facing services, especially those that facilitate daily interaction with the state—such as tax filing, business registration, licensing, land registry access, and court procedures. These measures reduce corruption, streamline transactions, and demonstrate that the state can provide functional, depersonalized services beyond clientelist intermediaries.

- Make the arms file visible but safe. Publish monthly LAF dashboards on weapons seizures and camp handovers, with geo-tagged counts and safe-clearance metrics to avoid more Wadi Zibqin-type fatalities.

- Codify convoy protocols. With UNIFIL's mandated drawdown ahead, adopt joint LAF-UNIFIL convoy security SOPs, community liaison hotlines, and rapid investigation triggers for attacks on peacekeepers, keyed to UNSCR 2790 reporting.

- Bundle security with equity. Tie any U.S./Gulf disarmament financing to measurable equitable loss-sharing milestones (bank resolution, deposit recovery tiers), not only AML/CFT, to avoid the "procedures without redistribution" trap.

None of these actions require reform or political consensus across all factions. But they do require clear mandates, operational budgets, and insulation from sabotage. Critically, they must be embedded in a broader narrative that ties technocratic delivery to a vision of state revival, not just donor appeasement.

In a political context still shaped by distrust and fatigue, the goal is not to rush systemic transformation, but to demonstrate that reform is not a slogan—it is a set of state actions that can be seen, felt, and measured. By sequencing early wins around service delivery, transparency, and administrative presence, the reformist camp can build momentum from the ground up, establish credibility, and begin shifting expectations about what is possible.

Taken together, these interventions constitute the entry point of a pathway toward structural reform. They are not meant as isolated fixes, but as the first steps that re-establish state presence, restore minimal trust, and create enforcement capacity. When coupled with a Reform Pact that anchors equitable loss-sharing, progressive fiscal measures, and genuine institutional accountability, they can unlock the deeper restructuring Lebanon needs. In this sense, the interventions outlined here are not a substitute for systemic change—they are the political and institutional footholds that make such change possible.

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