

Policy Input Note to the United Nations Special Rapporteur on Extreme Poverty and Human Rights, Olivier De Schutter

Institut des Finances Basil Fuleihan

October 2021

The present note provides input by the **Institut des Finances Basil Fuleihan**¹, in view of the visit to Lebanon of the United Nations Special Rapporteur on extreme poverty and human rights, Olivier De Schutter, scheduled for November 2021.

The present policy input focuses on:

- The impacts of poverty on economic and social rights, notably social security.
- The potential of and challenges facing the existing social protection system to address poverty, inequality, and social exclusion.
- The impacts of the Lebanese political and governance system on the capacity of the State to alleviate poverty without discrimination.
- The role of fiscal spending, public finance management, and tax policy in relation to poverty.
- The role of international financial institutions.

Inputs are based on two studies conducted by the Institut des Finances, with their partners:

1. [Social Protection Spending in Lebanon: A deep dive into State Financing of Social Protection](#) (2021)
2. Lebanon in crisis – A review of the Government’s Social Response and A Proposal for the Way Forward (2021 – Not published yet).

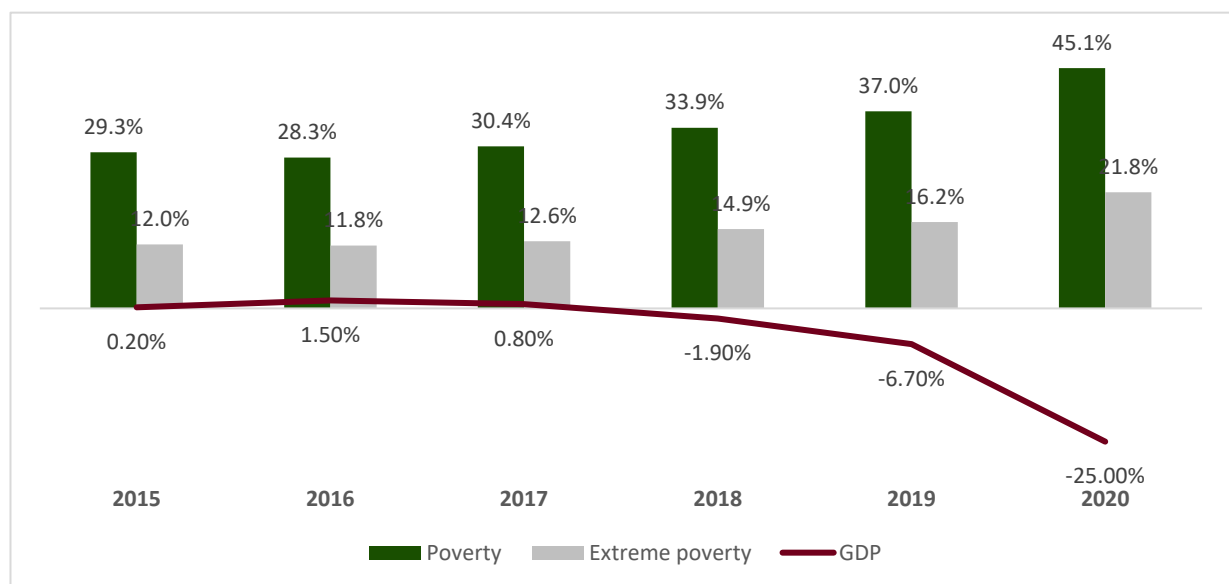
Both studies are provided in attachment.

¹ The Institut des Finances Basil Fuleihan is a public autonomous agency operating under the tutelage of the Minister of Finance. It is a center of excellence in public financial management, providing policy advice and capacity development services, and working in partnership with more than 100 organizations in Lebanon and abroad.

A. Overview

1. Lebanon's multifold crisis, the repercussions of the COVID-19 pandemic and the disaster caused by the double explosion of the Port of Beirut on August 4, 2020, have led more than 75% of the Lebanese people to fall underneath the poverty line. This share reaches 82% when we look at multidimensional poverty.
2. Triggered by decades of economic, financial, and fiscal policy mismanagement as well as by recurrent conflicts, the crisis' repercussions were exacerbated by inadequate social protection systems and overall policy inaction.
3. The unprecedented economic contraction and plummeting FX reserves have triggered a triple-digit inflation, in addition to the recent disorderly removal of subsidies. Most of the population is struggling to acquire basic goods and services (Figure 1).

Figure 1: Evolution of GDP v/s poverty rate (in %)

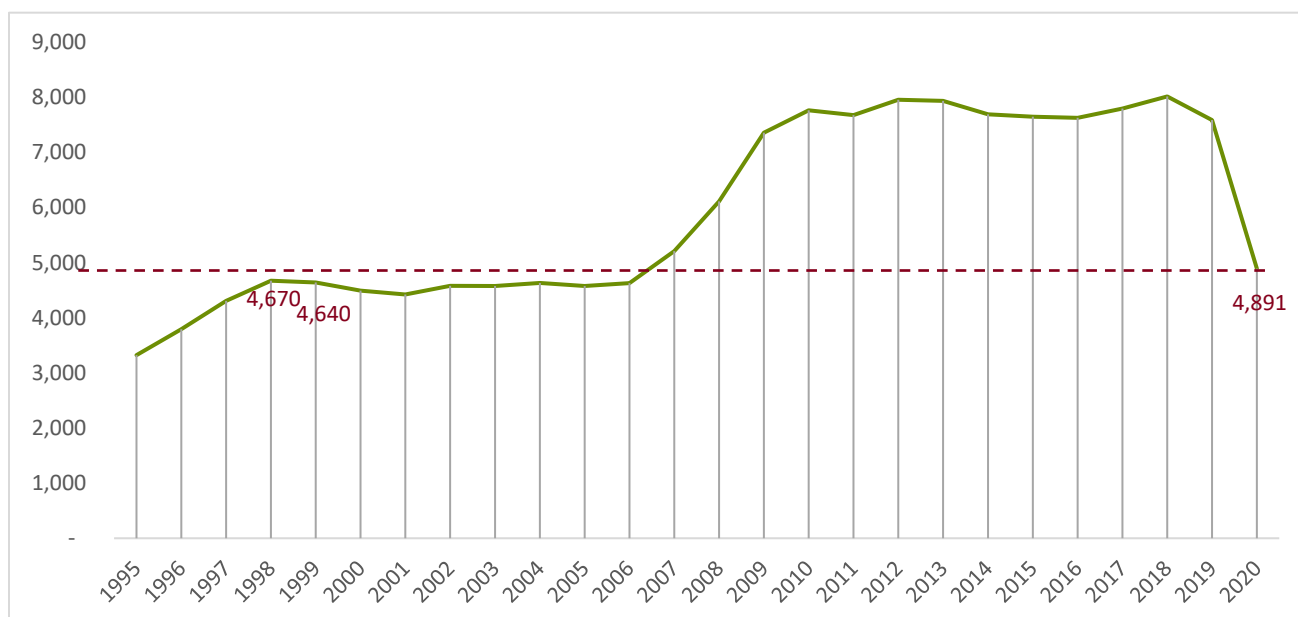


Data Sources:
- World Bank, 2020
- IMF (2021), WEO

4. **The burden of the crisis is disproportionately being borne by the poor and middle classes:** While around 55% of the total national income is captured by 10% of the population,² unemployment is estimated at 40%, while one in five workers have lost their jobs since October 2019.
5. Estimated GDP per capita (by the end of 2020) has tanked, reverting to its level in the mid-90s (Figure 2). **The rapid erosion of real income is pushing the highly skilled workforce to emigrate, and depriving Lebanon of one of its more valuable resources for recovery: its talent base.**
6. The **socioeconomic collapse was further accelerated by a crippled social protection system.**

² 25% of the said income being in the hands of 1% alone.

Figure 2: GDP per capita, current USD



Reference: World Bank Database

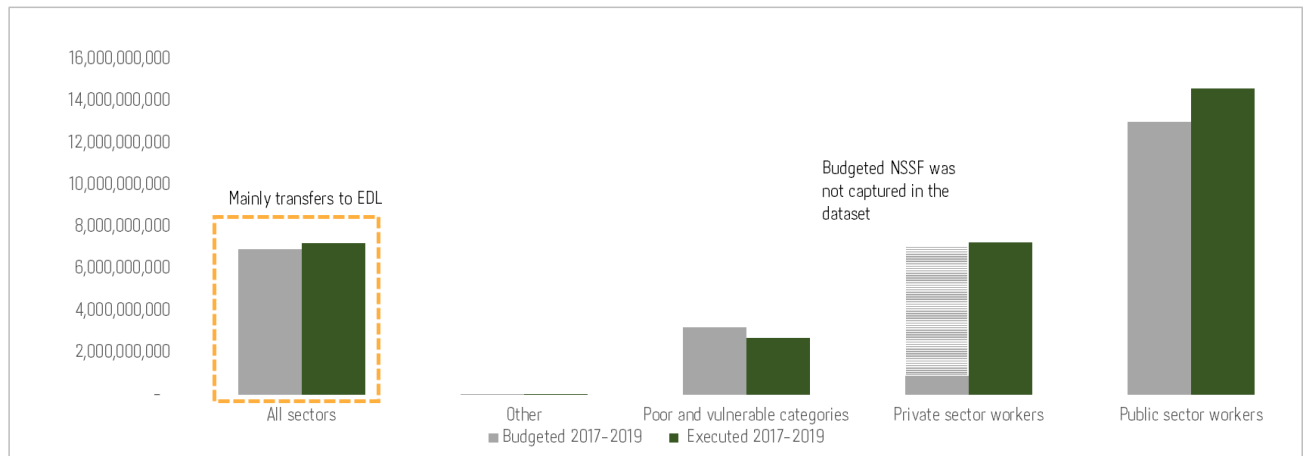
B. Lebanon's System of Social Protection: Findings of the 2017-2020 Budget Spending Review

7. The Budget Spending Review conducted over the 2017-2020 period showcases the extent to which Lebanon's social protection scheme is regressive and unsustainable.
8. **Decades of investments in social protection, reaching around 13.8% of its GDP and 30% of public expenditure over the period 2017-2020** have only benefited a fraction of the population.
9. Though this share remains higher than neighboring Arab countries, **it has not translated into the creation of a social safety nets, but in an upward redistribution of State finances.**³ Coverage is among the lowest and most inequitable.
10. ILO data suggests that around **25% of the working population**, of which 55% works on the informal sector, **is not covered by any social protection scheme.**
11. **In terms of benefits, people in the lower five income deciles benefit from less than 15% of social protection services while the 20th richest percentile of the population reaps around 60% of social benefits. Gaps in protection affect the most vulnerable groups, particularly children and persons with disabilities.** (International Labor Organization, 2021)
12. To put the above figures into perspective, **social assistance spending** (excluding fuel subsidies) coordinated by the central government **does not exceed 2% of total public expenditure** during the period 2017-2020, while **social insurance spending** (mostly on pension schemes) **reaches more than 65% of total expenditures.**
13. **The primary beneficiaries of social protection spending are public sector employees and retirees**, absorbing 46% of the said spending, against a share of 22.8% for the private

³ According to the ILO, people in the 20th richest percentile reap around 60% of the country's social protection benefits. (International Labor Organization, 2021)

sector (Figure 3). But despite this substantive spending on pensions and end-of-service indemnities, a large share of government employees are still left outside the official protection scheme. Only retired civil servants on permanent employment regimes benefit from State provided social protection. This does not include other categories of personnel enrolled in government such as daily workers and service providers.

Figure 3: Social Protection spending gap by beneficiary groups (in thousands of LBP) – 2017-2019



14. As well, spending within the public sector is largely skewed towards the military and security forces that alone absorb 1/3 of the State’s social protection spending directed at the public sector.
15. In terms of financing, **less than a quarter is financed from social contribution**, while the major share of financing comes through general tax revenue (which is regressive).

C. The Government of Lebanon’s Piecemeal Policy Response

16. Though Lebanon’s crisis required a timely and inclusive policy response that included upscaling the social protection system, unfortunately, **the policy response was slow, scattered, and focused predominantly on one single type of assistance: cash transfers.**
17. Despite the severity of the crisis, the Government’s response was both piecemeal and focused on the short-term. The *Financial Recovery Plan* (April 2020), which included pensions reform and an equitable distribution of losses, had foreseen yearly budget allocations amounting to USD 0.75bn-1.5bn yearly until 2024 for the expansion of social safety nets.⁴ (Government of Lebanon , 2020). None of these measures have been implemented to date.
18. **Multiple projects were subsequently proposed but all suffered from weak planning and forecasting, overlapping scopes, unclear targeting, and unsustainable or ambiguous financing.** The various scenarios are presented in the Policy brief: *Lebanon in crisis – A review of the Government’s Social Response and A Proposal for the Way Forward*.
19. Though a ration card assistance program was finally approved in Parliament in September 2021, the Government’s response continues to offer a piecemeal anchored in the short-run. Instead of engaging in bold reforms that could undoubtedly antagonize the elite that profits most of this regressive redistribution scheme, it has instead resorted to “band-aid” solutions that only offer a temporary palliative solution to a larger and much structural system deficiency: The absence of a fair and inclusive protection system that is recognized as “costly, regressive and benefiting the lucky few” (Institut des Finances Basil Fuleihan, 2021).

⁴ In its 2021 Budget Proposal, the Ministry of Finance allocated LBP 150 billion to support the most vulnerable households.

20. The allocation of conditional and targeted cash transfers is contingent on the existence of a data collection and management system that currently does not exist. No clear protocol currently addresses issues related to data incoherence, redundancy and update in any of the monitoring mechanisms that have been established to operationalize the existing databases of potential beneficiaries.
21. Targeting mechanisms also require extensive revision as they underprioritize some vulnerable groups.
22. Financing remains unclear and proposed sources are till date unsustainable.
23. In the wake of upcoming elections, further deficiencies and in particular the sub-optimal distribution of cash transfers raises questions pertaining to potential benefits that could be reaped by the ruling elite in the process of distribution, aid instrumentalization by political parties, and weak oversight capacities. **Since public resources have been spent haphazardly by the political class, cash transfers offer the ruling elite a leeway to safeguard their political “capital” by allocating aid to calm growing discontent and finance their patronage and clientelist structures.**

D. Reforming the Current System: Expanding the State’s Resources

24. The problem is consequently twofold: Lebanon’s costly, regressive and deficient social protection system on one hand, and piecemeal short-term policy measures on the other that are not able to provide vulnerable communities with the means to get out of poverty.
25. **At the fiscal level, reforming the existing system should prioritize the reduction of costs and the redirecting of inefficiently allocated resources towards current social priorities.**
26. **On the short-term, a further identification and quantification of needs is required, alongside a comprehensive reform of fuel subsidies.** The latter would free up much-needed public funds that could be directed towards more universal coverage policies as will be discussed later.
27. **Budgetary practices would also require imminent reform to reduce the gap between programmed spending and actual spending, and to put an end to budget fragmentation.**
28. On the medium and long term, bold strategies that will inevitably upset the existing order of things are required and will necessitate both strong political will and the support of the international community. This includes, above all else, to establish a more inclusive social protection model based on the principle of universality and social rights.
29. Reforming social spending would need to be **accompanied by a progressive income tax** to restore equilibrium within tax revenue and reduce inequalities.
30. This expanded pool of revenues could be directed towards new universal programs but also towards programs that would be financed by a mix of contributory and non-contributory financing (unemployment benefits, invalidity, maternity, a universal retirement plan, revitalization of the labor market).

E. Proposed Alternative: The instauration of a Universal Basic Income (UBI)

31. In Lebanon, **a UBI system** would contribute to reducing the influence of informal networks and act as a lever for socioeconomic development and for political transformation. (Haagh & Rohregger, 2019). It **could provide a solution that is fair, shielded from elite capture and**

corruption, and that would incorporate “human-rights by design” and “privacy by design” elements. Moreover, it would help reduce poverty on the short term.

32. Considering the institutional weaknesses leading to the State’s weak response, the design and roll-out of a Full UBI system is deemed the most feasible, in complementarity with existing social security schemes while paving the way for their restructuring and potential replacement by a Partial Basic Income Model (PBI) on the long run.

33. **Simple scenario modeling points out that a full UBI covering the overall Lebanese population would cost the State between 9% and 13% of its current GDP.** The annual costs of both options considered varied between USD 2.92 and 4.13 billion, which remains drastically inferior to the cost of subsidies, reported to amount to approximately USD 5.28 billion annually. **On the longer run** however, rolling-out a targeted UBI in the framework of a revised social protection strategy and set of services would allow the government to **reduce UBI’s share to 4% of GDP.**

34. Key requirements for success include:

- a. Envision a system that provides **universal support** (Full UBI) as universality is simpler to manage and to administer.
- b. Establish a **digital platform** to operate the roll-out of the UBI and set-up a digital beneficiary registry to counter “ghost beneficiaries”.
- c. Privilege the disbursement of a UBI in USD (at least for a limited period of time) to protect the purchasing power of beneficiaries and until the exchange rate is stabilized.
- d. Operate monthly transfers through digital payments.
- e. Privilege a **mixed financing model** that can be funded through (1) the full crunching and termination of regressive subsidies notably on fuel, (2) the reallocation of state expenditures from unproductive sectors and (3) Official Development Assistance and Humanitarian aid.
- f. **Form a Social Protection Authority** (SPA) entrusted with designing and rolling-out the UBI, and invite Civil Society representatives and private sector to form an independent oversight body to scrutinize, monitor and guide the work of the SPA.
- g. **Foresee a public oversight role** by the Central Inspection that has established itself as a capable and digitally enabled oversight body (building on the success of the role of Central Inspection in monitoring the Covid-19 vaccine on the COVAX platform and its roll-out of the IMPACT Inter-ministerial and Intermunicipal platform).
- h. **Embed the design of the UBI in a set of complementary reforms** that can come gradually including, tax and budget reforms, sectoral reforms and a total reshuffling of the social protection framework towards more fairness and inclusiveness and in ways that would support labor formalization and contribute to the rebuilding of fairer contributory systems.
