

A Social Protection Emergency Response

A Bridge Toward a Comprehensive National Social Protection Plan

Expert Group Position paper

A group of experts convened on 21 January, 2020, to assess the social impact of the economic and financial crises, as well as their transmission channels, and to provide broad recommendations to mitigate its potential effects. The positions and recommendations of the group are presented in the following document.

Lebanon is facing a detrimental and multi-layered crisis threatening to undermine its entire political, economic, financial, fiscal, and social stance. Over the past decades, the government policies have culminated in unprecedented macro-economic, fiscal, and monetary downturns. The chronic twin deficit in the fiscal balance and balance of payment has turned into a sovereign debt crisis coupled with monetary and liquidity crises, and it is mutating into a severe economic contraction and potential meltdown. An exacerbating factor emerged as of February 2020, as Lebanon started to grapple with the containment of the COVID-19 pandemic and has gradually moved toward a national lockdown on 13 March. This has added additional strain on a failing economy, the already impoverished vulnerable groups, as well as on the poorly structured social protection and healthcare systems.

The spillover of the financial and health crises on the social landscape is substantial with bleak repercussions on the poor, near poor, and the middle class, given a starved social protection system which is underdeveloped, underfinanced, and suffering from multiple structural flaws. It is expected that the gap between those in immediate need of support and social protection, and the available resources and systems, will be unprecedented.

In the context of an ill-structured and fragmented social protection framework, there is an urgent need for an immediate and multi-schemed response framed within immediate short and medium tracks. This response shall be seen as a bridge toward a more comprehensive one with an overarching vision to develop the national social protection system.

1. Transmission channels of the crises: Who will be affected and how?

The implications of the economic, financial, and health crises are expected to be transmitted through several channels to affect the different segments of the Lebanese population, though at varying rate. The crises are expected to increase poverty and inequality, as well as unemployment and informality, and will cut income and further deteriorate basic social services:

- **Increase in poverty linked to significant loss in purchasing power:** Lebanon is characterized with durable inequality and persistent poverty pockets concentrated in peripheral areas. Today, the devaluation of the Lebanese pound against the US dollar is expected to result in a hyper-inflationary trend. Inflation started to significantly mount reaching a two-digit figure in December 2019 at around 10%¹ and higher rates are expected in 2020, which will result in

¹ The inflation might appear moderate in comparison with the currency devaluation level that exceeded 60% during December-February 2020. What is keeping inflation within control is the massive exchange rate subsidy followed by the central bank, providing importers of vital goods (fuel, wheat, and medicines) with preferential exchange rate of LBP 1,507/USD. However, this level of subsidy is not sustainable as it will result in fast depletion of foreign reserves of the central bank.

significant loss in the purchasing power of Lebanese households. As a consequence, more families are expected to drop below the national poverty line.

- **Increase in unemployment, underemployment, and informality of labor linked to economic recession and contraction:** Over the past years, the economy grew at a slow pace recording less than 1% of growth. As of the end of 2019, the economy significantly contracted as a direct result of loss of confidence and the withdrawal of productive investment. Businesses are likely to shut down or, at best, scale down their activities. The last quarter of 2019 witnessed significant cases of layoffs, salary reductions, a decrease of working hours, and deinformalizing contracts. Prior to the crisis, Lebanon's unemployment rates were already significantly high, particularly among the youth: According to the 2018-2019 Labor Force and Household Living Condition Survey, the country's unemployment rate was of 11.4%, and 23.3% among youth. The crisis will most likely cause unemployment and informality rates to spike.
- **Nominal income of Lebanese households will sharply decline in connection with the domestic economic recession and the reduced flow of remittances:** The monetary crisis and the various informal measures put in place to control outflow of capitals are likely to limit the transfer of remittances to Lebanon, considered as one of the major sources of income for the majority of the Lebanese. Also, the decline in nominal interest rates will slash another income that used to be significantly high before the crisis. Other sources will be affected such as pensions, real estate, life savings, and others.
- **Basic social services such as healthcare, education, and social assistance are likely to deteriorate given potential austerity measures:** Containing fiscal deficit will be the government's ultimate target to curb down the level of debt and ensure its long-term sustainability. For this, the government is expected to implement austerity measures, but their shape and magnitude are not clear yet. It is expected however that revenue measures will result in limited fiscal impact, given the economic stagnation and contraction. It is highly likely that the government will resort to strict contractionary policies to contain expenditures. As a consequence, social services such as healthcare, education, social assistance, and social protection will be severely affected when they are needed the most, which will exacerbate inequality, poverty, and vulnerability instead of coping with the imminent crisis.

2. Inherently weak social insurance and social protection systems with limited coverage, high inefficiencies, and questionable sustainability

While Lebanon is struggling to contain the financial, economic, and health crises, two questions pertaining to the national social policies should be raised: What are the social protection systems and policies that the country already has? And are these systems put in place strong and reliable enough to respond to the simultaneous crises?

Lebanon has a fragmented social protection program that relies on ad hoc interventions which lacks universal coverage, suffers great inefficiencies, and leaves a significant segment of the population largely unprotected. The major systems and policies operating in the country encompass the following:

The National Social Security Fund (NSSF) is the main institution providing social insurance to a limited segment of the Lebanese population: The services provided by the NSSF are limited to health insurance, family allowances, and end-of-service indemnities. Unemployment insurance, as well as insurance for disability and work accidents are excluded from social protection mechanisms,

even though they are stipulated in the NSSF's law of establishment. The fund restricts the coverage of its services to workers formally employed in the private sector, who represent significantly less than 50% of the Lebanese labor force. In addition to limited coverage, the NSSF suffers structural weaknesses limiting its capability to provide the appropriate care mainly for the elderly, as it does not provide a proper retirement and pension scheme. Upon retirement, contributors get an end-of-service lump sum, which leaves them unprotected. The system's numerous structural problems makes it an inefficient policy instrument for social protection.

The government's pension system covering a fraction of public sector employees is marred with inequality as well as limited quality and quantity:² This pension covers the civil servants and security forces employed by the government, representing around 10% of the total labor force. The system's cost reached around 3.5% of the GDP in 2019, which is significantly high in international standards, and is inequitable, providing different levels of benefits to its contributors. The system is also fiscally unsustainable, as contributions collected to fund the system fall short of covering its liabilities, and it relies heavily on taxpayers' money to fund its structural deficit.

Lebanon developed the National Poverty Targeting Program (NPTP) based on a proxy-means testing (PMT) approach. The program's database currently has around 150,000 households who applied to it, of which 43,000 are Hayat card holders—the card distributed by the Ministry of Social Affairs—and benefit from a limited number of social safety services provided through the program: i) E-cards to buy food for around 15,000 households (as of February 2020), considered as the poorest among NPTP applicants; ii) exemption from paying for health services provided by the Ministry of Public Health (this includes hospitals and primary healthcare centers); and iii) transfers to cover registration in public schools (general education as well as technical and vocational education and trainings). The NPTP is a stand-alone program and is not embedded yet in a national social protection framework, hindering its effectiveness and impact. It also suffers from structural problems regarding its design, implementation, financial efficiency and sustainability, and the package of its benefits remains modest and might fall short of properly responding to poverty in Lebanon. However, in the absence of any other measures, the NPTP—with minor fixes to improve its efficiency—can be used as a platform to identify the poorest and provide them with social assistance programs.

3. Strengthening social protection to effectively respond to the crisis and lay the foundations for a comprehensive national social protection strategy:

As a result of the economic and financial crises, and to mitigate their effect, some households might adopt negative coping mechanisms. For instance, some might push school-aged children to drop out of school and work instead, to compensate for the loss of income and to contain expenses. Households might also alter their spending priorities, which would affect the quality and quantity of their food baskets, their health expenditures, and their spending on other essential consumption categories. Such coping mechanisms may generate long term negative imbalances that become hard to reverse, such as unskilled labor, low level of education, malnutrition, and migration, among others.

The government is urged to act proactively and immediately to address the long-lasting structural limitations of the social protection system in place. For it, it should **lay the foundations for an integrated universal approach in providing social assistance and urgently cater for the needs of all.**

² The system excludes a significant portion of the public sector employees such as employees of public enterprises, contracted employees, and other forms of informal employment.

Recommended immediate measures include:

- **Review and improve the NPTP to respond more effectively to the impact of the economic, financial, and health crises.** In order to urgently assist vulnerable groups and alleviate poverty, the NPTP database can be used as a first reference of households in need. However, NPTP should not be adopted as the only poverty mitigation plan but instead should be considered as one component embedded in an overall response plan. Moreover, the benefits of NPTP should be rendered more relevant to the most urgent needs of households emerging from the economic and health crises (e.g. cash transfer and food vouchers). Scaling up the services provided through the NPTP is expected to reach the most vulnerable population, that are assumed to drastically increase in number as a result of the crises. The government should resort to this option as an immediate reaction to proactively deter any potential household tendencies to resort to negative coping mechanism.
- **Prioritize the provision of social assistance to vulnerable groups.** It is imperative to expand coverage of social assistance first through the short-term use of targeting measures including categorical targeting (such as women headed households, the elderly, and persons with special needs) and complementing the NPTP with transfers that more explicitly address lifecycle vulnerabilities with higher social or political acceptability (e.g. child grant, disability grant, and old age pension). The categorical targeting would require strengthening the governance structure and ensure transparent and standard procedures to be developed and implemented by the Ministry of Social Affairs (MoSA) and other development partners.
- **Ensure that basic services are financially accessible to all, including primary and secondary education, technical and vocational education as well as basic healthcare:** As mentioned earlier, households might opt to negative coping mechanisms triggered by the loss of income. Dropout is the first coping mechanism used by households as it is considered a win-win scenario (reduction of education expenditure and generation of additional income through the child's work). Incentives should be provided to parents to keep children at school and to maintain their access to health services, such as conditional cash transfers.
- **Activate labor market policies and introduce incentives to create employment.** Government policies should be geared toward limiting the impact of salary-cuts and unemployment on the livelihoods of individuals and their dependents. Measures can include establishing a sustainable mechanism for indexation of wages to account for inflation, and a simplified scheme for the distribution of semi-universal basic income. The value of end of service indemnities and pensions should be immediately protected against the decreasing value of the national currency. The government should also develop and enforce the regulations to protect decent employment and encourage formalization.

Recommended measures on the short and medium term should aim to:

- **Develop and approve a National Social Protection Strategy with a detailed action plan:** The strategy should have as a core aspect to strengthen the social protection system in Lebanon and to identify the roles and responsibilities of the different actors. The strategy should be developed in conformity with the following principles: i) Social protection is a right for every individual and should not exclude any segment of the population; ii) social protection should be sustainable and should rely on the government's own resources, institutions, and policies; and iii) social protection plans and strategies should be prepared in participation with the widest segment of society including syndicates, civil society organizations, private sector, social and political activists, in addition to the relevant governmental agencies.
- **Strengthen the role of the Ministry of Social Affairs.** The role of MoSA during this crisis is of critical importance, as the mandate of the ministry is to address all kinds of vulnerabilities. The role of MoSA should be strengthened in the provision, training, and regulation of social welfare workforce and to streamline multiple, overlapping programs that suffer from high costs and inefficiencies. The role and services of Social Development Centers (SDCs) should be revised to ensure adequate and qualified capacity for delivery of programs. The ministry has yet to set a clear policy and to establish well-defined procedures for contracting and monitoring the performance of NGOs.
- **Promote the integration of social assistance, social welfare, and financial access to social services** in order to create a more holistic approach, ensuring that households can access case management and referral according to their individual needs.
- **Reform social insurance and improve its coverage, efficiency, and effectiveness and ensure financial sustainability.** The cornerstone of such reform is to transfer the end-of-service indemnity into a pension system. The related draft law currently being discussed in parliament is of utmost priority to be voted and put into implementation. This will support providing the elderly with a decent pension income upon retirement. The parameters of the public sector pension system should be reconsidered to ensure that the system is equitable and fiscally sustainable. Social insurance reform should look into establishing a sustainable mechanism for indexation of social insurance benefits to account for inflation and preserve people's purchasing power.
- **Introduce a mechanism for extension of coverage of the NSSF** to categories of workers currently unprotected, including the self-employed, part-time workers, those in the informal economy, and migrant workers. Improving the services of the NSSF, however, should be coupled with serious and immediate reform efforts of its governance structure mainly to build and develop the institutional and human capacity of the institution and to protect its assets against any emerging risks.

These measures require the creation a fiscal space to be used for strengthening the social protection system and social safety nets. The creation of a fiscal space might seem difficult given the macro-economic slowdown which sets a de facto cap on the level of revenues expected to be collected:

- First, the deficit reduction will ultimately rely on the debt restructuring strategy adopted by the government, which will potentially reduce the interest payment.
- The second expenditure item that will be targeted is the electricity bill that will highly depend on the reform plan of the power sector and how it will contribute to deficit containment.
- The third important item is the public pension which has large room of efficiency saving.

However, all three main sources are still uncertain and need to be closely analyzed to estimate the level of fiscal saving that can be generated, and whether part of this potential saving can be channeled to fund the social protection response.

List of signatories (By alphabetical order)

| Name | Title |
|-----------------------|--|
| Abla Mehio Sibai | Founding Director, Center for Studies on Aging |
| Elie Mekhael | Professor at the Lebanese University |
| Jamilé Khoury | Associate Professor in the Lebanese School of Social Work at Saint Joseph University |
| Kanj Hamadeh | Assistant Professor of Agricultural Economics at AUB, Partner at Economic Development Solutions (EDS) |
| Kawthar Dara | Public Financial Management Advisor |
| Layal Sakr | Attorney and Partner at Beyond Reform and Development |
| Lea Bou Khater | Social Development Specialist at Consultation and Research Institute (CRI) |
| Marie-Noëlle AbiYaghi | Director of Lebanon support and researcher |
| Maya Abi Chahine | Program Manager of the University for Seniors at AUB |
| Nada Ozeir | National Coordinator of Employment, Lebanese Union of People with Disabilities |
| Nasser Yassin | Associate Professor and Interim Director of the Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut |
| Rachel Saliba | Operations Manager at the Center for Lebanese Studies |
| Sally Abi Khalil | Country Director in Lebanon for Oxfam |
| Sami Atallah | Executive Director of the Lebanese Center for Policy Studies (LCPS) |
| Sami Zoughaib | Public Policy Researcher at the Lebanese Center for Policy Studies (LCPS) |
| Sylvana Lakkis | President/CEO of the Lebanese Physical Handicapped Union (LPHU), Regional Representative of Disabled People International (DPI) |
| Zahra Bazzi | Program Manager at Arab NGO Network for Development (ANND) |
| Ziad Abdel Samad | Director of Arab NGO Network for Development (ANND) |