

*Interview by LCPS Senior Researcher Fadi Nicholas Nassar with **Lea Bou Khater** and **Rania Eghnatios**, Technical Social Protection Officers at the International Labor Organization (ILO) Regional Office for Arab States. The interview draws attention to the social aspects of the economic and financial crises in Lebanon, in light of the looming possibility of lifting subsidies in the country. It concludes by proposing crisis-sensitive policy measures and reforms to the existing model.*

Lebanon is facing an unprecedented economic and financial crisis. What are the impacts of this crisis on the social level?

The economic and financial crisis have led to an increase in poverty, food insecurity, unemployment, underemployment, informality, and migration. Forthcoming analysis conducted by the International Labor Organization (ILO) and the Central Administration of Statistics (CAS), using household income data from the “Labor Force and Living Conditions Survey 2018/19” and macro-economic projections by CAS, the Central Bank, World Bank, and IMF, shows that almost three quarters (74%) of the Lebanese population were projected to have become income vulnerable (living below LBP 706,000 per month) in 2020. The results also show that the crisis has disproportionately affected those that were already vulnerable prior to the crisis, including the disabled, the elderly, and the unemployed.

One of the challenges is that despite plenty of anecdotal evidence on deteriorating social indicators, we lack statistically representative information on the level of impact of the crises on employment, income, health, and education for different population groups. The crisis has radically changed the landscape of poverty and vulnerability in Lebanon—for example, the extent to which households have access to savings, income, or remittances in hard currency makes a big difference in their living standards in the current context—but we lack statistical tools to understand such changes. We also lack indispensable information on coping strategies adopted by households to mitigate such impact. Several efforts are ongoing to fill this evidence gap—on the ILO side, a follow-up to the recent “Labor Force and Living Conditions Survey” and a national survey of vulnerable and informal work are underway.

In such an environment, what social impact would lifting subsidies have?

While the current universal subsidies are expensive and in some cases regressive, they constitute the backbone of social spending in Lebanon. Their removal will lead to significant deterioration of living standards of the poor, near poor, and middle class, unless comprehensive, adequate, and permanent social protection guarantees are put in place. De-subsidization will bring an additional increase in poverty and economic vulnerability across all income groups, given that the purchasing power of most household is already starved due to inflation. Subsidy removal will also significantly jeopardize food security in light of the fact that most food staples are imported without a local equivalent.

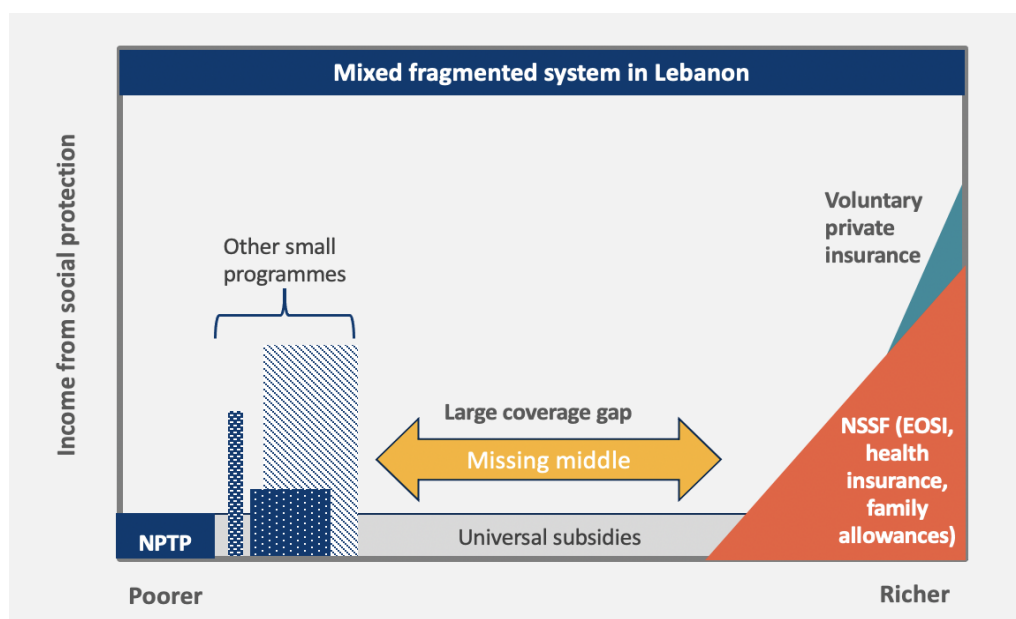
The removal of drug subsidies will increase the cost of healthcare, including in-patient and out-patient care costs. The entire health insurance system is at a risk. The National Social Security Fund (NSSF) health branch is already one of the most exposed institutions to inflation risks: Its revenues are based on non-adjusted LBP wages, while its expenditures will surge with the increase in the price of drugs and medical supplies. Subsidy removal will be an additional strain on household expenditure, which may lead to coping strategies that are already emerging, such as: foregoing healthcare, the migration of students from private to public education, and dropping out of school altogether. On the production side, businesses will be severely disrupted—especially those whose production model is mostly reliant on subsidized goods, such as the transportation sector—and the effects of economic supply may be widespread.

What alternatives to the existing subsidy model or reform measures are best suited for such a crisis environment?

Provisional measures, such as short-term emergency programs targeting the extremely poor, are simply not enough. The current crisis offers a real chance to shift the thinking on social protection from the present fragmented sectarian approach to a rights-based approach. To meet the deep-seated crisis, Lebanon ought to invest in an inclusive social protection system that provides immediate relief, trigger a faster recovery, and lay the foundation for a stronger economy and society. Amidst this crisis environment, Lebanon must prioritize investment in a social protection floor. Social protection floors are nationally defined sets of basic social security guarantees that ensure access to essential healthcare and basic income security across the life cycle.

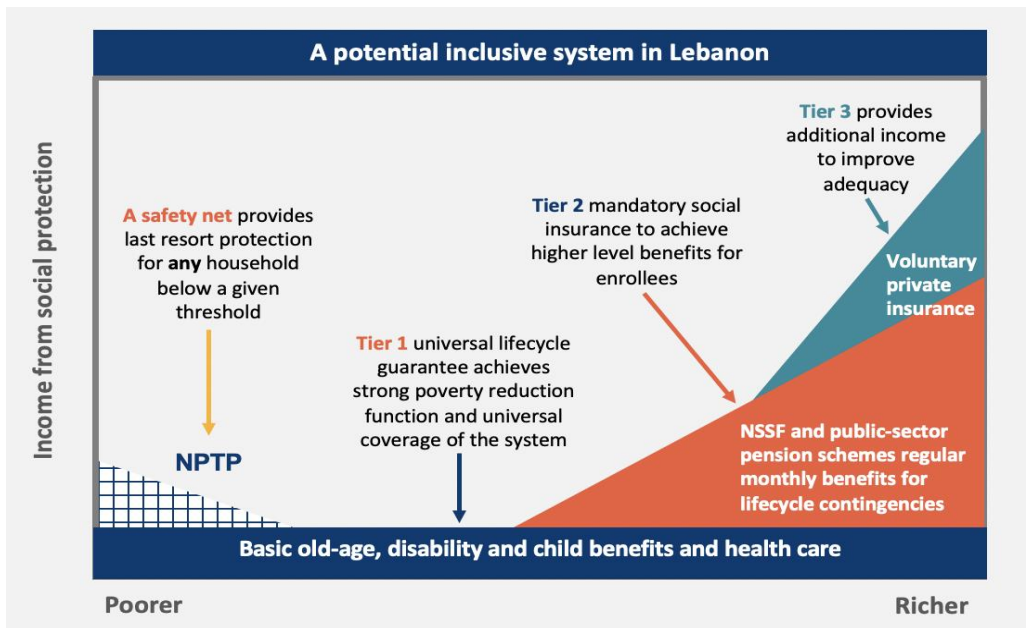
According to the new ILO-UNICEF report, "[Towards a Social Protection Floor for Lebanon](#)," a short-term partial reallocation of resources from price subsidies would create sufficient fiscal space to implement tax-financed lifecycle benefits—otherwise known as social grants—such as child and disability benefits and old-age social pensions, which are completely absent in Lebanon. Based on the report's simulations and cost estimates, reallocating just one quarter to one third of resources currently spent on subsidies towards social protection would provide solid foundations for the social protection floor Lebanon desperately needs. In the medium to long term, increasing revenue from progressive taxation and reallocating public expenditures within and outside the social protection sector will allow for the financing of a social protection floor on a permanent basis.

At the same time, there is a need for complementary reforms to the social insurance system that currently covers only 53% of the population (ILO/CAS, 2018), in particular the National Social Security Fund (NSSF). This will involve needed reforms to the End-of-Service Indemnity (EOSI) branch to move toward payment of regular and predictable monthly pensions, improving the adequacy of benefits, extending coverage, and introducing an unemployment insurance scheme to provide short-term income security for the large and growing number of unemployed. Today, a large segment of the population, which is informally employed and/or not deemed poor enough to qualify for last-resort benefits like the National Poverty Targeting Program (NPTP), is in the "missing middle," and lacks any access to social protection.



Source: ILO and UNICEF (2021), *Towards a Social Protection Floor for Lebanon*, Policy options and costs for core life-cycle social grants, Policy Note, Beirut.

A social protection floor providing basic income security to those who need it can form the core building block of the system, and would go a long way towards addressing a wide range of vulnerabilities.



Source: ILO and UNICEF (2021), Towards a Social Protection Floor for Lebanon, Policy options and costs for core life-cycle social grants, Policy Note, Beirut.

Do you have any additional comments or reflections you would like to share?

Recognizing that all residents currently benefit from the universal subsidies, one key concern should be that all residents are protected, and effective mechanisms of income support are also provided to non-Lebanese.