

*Interview with **Walid Sayegh**, economic and social policy specialist with UNICEF, Lebanon Country Office. His work is based around topics related to child poverty, inequality, and inclusive development, in addition to evidence generation for decision making in public financial management and social protection and assistance systems. Walid sat down with LCPS Senior Researcher Fadi Nicholas Nassar to set the tone for the subsequent interviews. His broad commentary below unpacks the underlying flaws in Lebanon's subsidy structure, its limited ability to protect vulnerable populations in the context of Lebanon's multiple crises, and the adjustments required to protect the basic rights of vulnerable households across the country.*

Considering that the purpose of a subsidy is ideally the protection of vulnerable households against inflation, the existing subsidy structure in Lebanon is flawed. Benefit analysis suggests that only 20 percent of its total value goes to the poorer half of the population. This is particularly tangible in the case of fuel—for transportation and power generation—of which an estimated 40 percent is consumed by the top 5 percent income group, and less than 10 percent by the bottom 40 percent. With fuel accounting for up to two thirds of the value of the subsidy, the inequity and inefficiency of the structure is a glaring flaw.

From an effectiveness perspective, inflation reached 145 percent year-on-year (February 2020) despite the scale of the subsidies, which are estimated to be around 3.6 billion US dollars annually. Here, it is worth noting that the official consumer price index (CPI) is weighted according to the spending patterns of average households, estimated long before the crisis. With the devaluation of the Lebanese lira, surge in unemployment, and the impact of Covid-19 on how households use their income, spending patterns today have changed substantially. According to recent field surveys by UNICEF and other humanitarian agencies, the poorest households in Lebanon now spend up to 70 percent of their income on food. Re-weighting the CPI accordingly suggests that inflation for more than half of the population in Lebanon who are now below the poverty line has exceeded 280 percent, almost double the official figure.

Finally, at the current rate of depletion of foreign currency reserves, the existing subsidy structure cannot be sustained much longer, yet the impact of abruptly lifting all subsidies will be severe. Increasing international prices of commodities, such as fuel, or the price of inputs that are needed to produce some goods, such as bread, are already affecting the price of consumer goods and draining the ability of poorer households to meet their basic needs.

UNICEF's analysis has shown that the recent increase in the price of the bread parcel, a staple good for all households—and more so for lower income groups—has reduced the purchasing power of the poorest by almost 3 times as much as it has for an average household. In that regard, and until comprehensive economic and financial reforms are carried out, and an expanded social assistance system is set up, the subsidy system needs to be adjusted for longevity, by maintaining subsidies on basic consumer goods, to ensure food security and access to vital medicines for the poorest and most vulnerable households.

Such an adjustment requires a clear analysis of the impact of lifting inefficient and inequitably distributed subsidies, to determine the pace at which they are rolled out, and a structured plan to put in place a national social assistance program at scale. As the Lebanese government attempts to quickly finalize and approve its social protection strategy after months of deliberations, its weak and limited system of social assistance needs rapid expansion to cover households facing specific lifecycle vulnerabilities. In such desperate economic times, Lebanon's total lack of any national social grants program, such as "child grants" or "disability allowances," are painfully evident. Such initiatives must be rapidly designed and implemented to protect the basic rights of vulnerable households across the country.