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# LEBANON

## SOCIAL PROTECTION NOTE

**Main Report**

*October 12, 2001*

MIDDLE EAST AND NORTH AFRICA  
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## ACRONYMS AND ABBREVIATIONS

ACN	Agricultural Center of the North	MOD	Ministry of the Displaced
ARIL	The Lebanese Agricultural Research Institute	MOH	Ministry of Health
CAS	Central Administration of Statistics	MOI	Ministry of Interior
CDR	Council of Development and Reconstruction	MoSA	Ministry of Social Affairs
CPI	Consumer Price Index	NCD	National Committee for the Disabled
CRI	Consultation and Research Institute	NERP	National Emergency Rehabilitation Program
CSO	Civil Society Organization	NGO	Non-governmental organization
DC	Development Cooperation	NHO	National Health Organization
FS	Farming System	NSSF	National Social Security Fund
GP	Green Plan	PPP	Power Parity Prices
GCTU	General Confederation of Trade Unions	PSTN	Public Switched Telephone Network
HDI	Human Development Index	PWD	People with Disabilities
IDAL	The Investment Development Authority	SME	Small & Micro Enterprise
IFAD	International Fund for Agricultural Development	STC	Social Training Centre
ILO	International Labor Organization	UBN	Unsatisfied Basic Needs
LARI	The Lebanese Agricultural Research Institute, = ARIL	UN	United Nations
LBP	Lebanese Pounds	UNDP	United Nations Development Program
LCI	Living condition Index	UNESCO	United Nations Educational Scientific and Cultural Organization
LU	Labor Unit	UNFPA	United Nations Funds for Population Activities
LWC	Lebanese Women Council	UNICEF	United Nations Children's Fund
MEHR	Ministry of Electricity and Hydraulic Resources	USAID	United States Agency for International Development
MENA	Middle East and North Africa Region	WHO	World Health Organization
MOA	Ministry of Agriculture	YMCA	Young Men's Christian Association

The metric system is used throughout this note.

## ACKNOWLEDGEMENTS

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## EXECUTIVE SUMMARY

Lebanon—a small country with a per-capita income of about US\$4,000 and an estimated population of 4.1 million residents (including non-Lebanese residents)—is still recovering from its 15 year civil war (1975-90). The war played a significant role in lowering the standard of living for many, and it led to severe losses in human and physical capital. In addition about one fifth of the population was displaced by the war. The affected families experienced extensive hardship; their participation in economic activity declined, their standard of education fell, and half of them are not able to meet their basic needs now.

As a direct consequence of the war, some changes in the public safety net were introduced to deal with the new social problems, such as the creation of a Ministry for the Displaced and the National Committee for the Disabled. The overall safety net framework has positive elements, particularly the involvement of the private sector and NGOs in the delivery of social assistance programs. However, the number of beneficiaries of social assistance expenditures is small and not necessarily the neediest. Moreover, there is political interference in the funding of specific social programs or beneficiaries, which dilutes the social impact of public spending. Many social problems remain unresolved. These include improving service delivery in remote areas, addressing the need for a national health insurance scheme, and dealing with unemployment. Overall, Lebanon still lacks a well-defined public safety net strategy. Private transfers, on the other hand, play an important role in Lebanon, a role that needs to be preserved.

### Social Assistance

Social assistance is primarily the responsibility of the Ministry of Social Affairs (MOSA). It provides social assistance to orphans, the elderly, women, the homeless, handicapped, and other vulnerable groups. MOSA runs its activities directly through its own social development centers, or through social and health centers in collaboration with NGOs, or by funding independent NGOs to directly sponsor specific beneficiaries. Key areas of reform for the future include:

- *The need to enlarge the scope of social assistance and to improve its targeting.* Social assistance is small in scope (0.4 percent of GDP) and not necessarily targeted to the poor. About 500,000 people receive benefits from the different social assistance programs funded by MOSA. But not all of them are poor. There are regional differences in access, and political considerations also determine who benefits from assistance;
- *A strategy for social assistance with time-bound quantifiable objectives needs to be established.* There is a multiplicity of agents within and outside the government undertaking different assistance programs, with many instances of overlap and duplication, and budget constraints appear to drive strategy. Coverage, adequacy of benefit levels, leakage and efficient resource allocation should also be drivers of a coherent strategy;
- *Partnerships with NGOs have to be based on outcomes and monitoring of results.* Service delivery through NGOs requires consolidation, appropriate selection criteria and

effective monitoring of results. A large number of NGOs are involved with MOSA but without a clear framework. Outcomes should be monitored as part of the criteria to renew partnerships with individual NGOs;

- *Efficiency gains can yield important results in the short term.* These gains can be achieved by: (i) improving the quality of service of existing social development centers before expanding their number; (ii) indexing per diems for boarding and care for orphans, the elderly, disabled, and other vulnerable groups to the consumer price index; (iii) expanding the monitoring role of MOSA and establishing standards for services to the vulnerable in order to increase transparency and accountability; and (iv) expanding to other beneficiary groups the institutional arrangements of the National Committee for the Disabled with NGOs to consolidate their services.

### **Producer Subsidy Programs**

An important component of the income transfer system in Lebanon is producer subsidies to farmers. While these programs do not represent a high percentage of GDP, they are large in comparison to social assistance expenditures, do not reach the poor, and distort relative prices. The Government adopted long-term price subsidy programs for wheat, sugar beet and tobacco because of the difficult conditions facing the agricultural sector. These programs take the form of guaranteed fixed prices paid to producers, against an obligatory collection of local crops by importers. As in most other MENA countries, these programs have little impact on increasing productivity and usually result in distorting consumer market prices. In addition, their effect as income transfer programs is usually diluted because they do not target the poorest segments of the rural population. The cost of such subsidies is high and increasing as the production cost of subsidized producers is higher than international markets. These subsidies absorb a high share of public spending on social welfare. Some reallocation of these resources towards other social programs would result in better social protection outcomes.

### **Micro Finance Programs**

The Lebanese micro enterprise sector consists of two subgroups: (i) people doing micro economic income generating activities; and (ii) people operating micro or very small enterprises. The micro finance programs available to them can be grouped as “poverty lenders” and “very small business lenders” serving the two respective subgroups. In 1999 these two categories of programs had 10,000 active clients with an outstanding portfolio of US\$10 million. Fifty-two percent of the clients were female, and 56 percent of all borrowers lived in rural areas. Most of the “poverty lenders” are NGOs that run best practice programs and have clear plans for future expansion. In contrast, many of the “very small business lenders” appear to be operating financially unsustainable programs. Many of these programs are not well organized and do not have appropriate mechanisms for loan screening, monitoring and follow up. Many offer subsidized below market interest rates. Portfolio quality is poor with a high percentage of bad loans, loan write-offs and depletion of capital. In most cases, the main constraint to the growth of these programs is not the lack of funds for onlending, but the lack of capacity to deliver quality micro finance programs to a large number of clients.

However the Government should not attempt to regulate the micro finance sector as regulation is only needed when micro finance providers start offering deposit and savings services. This is not the case now, and the existing providers are not likely to do so in the future. But as some of the more successful providers grow in future, the Government may want to consider the creation of a non-bank, non-deposit, “legal form” for micro finance intermediaries. This would permit NGO’s to access commercial funds, including borrowing from banks, for on-lending to micro enterprises.

Micro finance programs in Lebanon could benefit from better coordination and cooperation with each other. An improved legal environment for the collection of bad loans would help improve the quality of portfolios.

### **Pensions**

The Lebanese retirement income system for private sector workers (excluding foreigners) consists only of an end of service lump sum indemnity payment. There are two major problems with this system. First, it is financed by employers contributions alone, and the benefit is calculated on the basis of the employee's final salary. The difference between the employers' accumulated contributions and the indemnity benefit has to be covered by the employer at the time the employee retires. This system is expensive to employers and induces many firms to hire foreign workers, or to hire workers on a non permanent basis. The second problem is that for workers the benefit provided by the lump sum payment is small. The maximum replacement rate equivalent provided by the system (for workers who have not changed employers) is around 40 percent of the last salary earned. The reform program under consideration by the Government proposes to replace this lump-sum benefit by a retirement system consisting of two pillars. The proposed reform includes:

- Expanding coverage to include the self-employed, rural and overseas Lebanese workers;
- Providing a new mechanism for long-term saving, to be used during periods of unemployment and for other uses;
- Improved risk sharing between Government, employers, fund managers and employees;
- Improved administration and fund management at the National Social Security Fund (NSSF); and
- Improving the regulatory and tax regime to encourage better prudential and fiduciary management of pension funds and life insurance, while deepening the domestic capital market.

The Ministry of Finance administers the civil and military services pensions system. There are currently about 135,000 active contributors and 45,000 retirees. Most participants are from the military service. In 1999, it is estimated that some LBP 800 billion (3 percent of GDP) was required to fund the pension obligations of this system. Key areas for reform include:

- Improving automation of data collection and methods for doing financial projections;
- Introducing portability between schemes as a way of enhancing labor mobility;
- Strengthening the long-term financial viability of the system; and
- Eliminating or reducing the inequities among different categories of civil servants caused by differing policies with respect to accumulation of service credits and to ad hoc indexing of pensions.



## Social Risk Management in Lebanon

The most important instrument for social risk management in Lebanon is the informal arrangements for risk coping, particularly through private income transfers from Lebanese living abroad. These transfers were estimated at US\$890 million in 1999, more than total export receipts for that year. Public arrangements for social risk management are concentrated on providing pension benefits to civil service retirees, and on providing social assistance, to a large extent through NGOs, to vulnerable groups. Market-based arrangements for social risk management are few, principally micro-finance and health insurance. Micro-finance programs reach a small number of people and not all programs are viable long-term, while health insurance is accessible to only half of the population.

From a social risk management perspective, the Lebanese social protection system relies strongly on informal arrangements and less so on market-based or public arrangements. And it gives more emphasis to risk coping, and to a lesser extent risk mitigation. Risk reduction measures and broader market-based arrangements for risk mitigation need to be developed to ensure a more comprehensive, more efficient and more effective system.

## INTRODUCTION

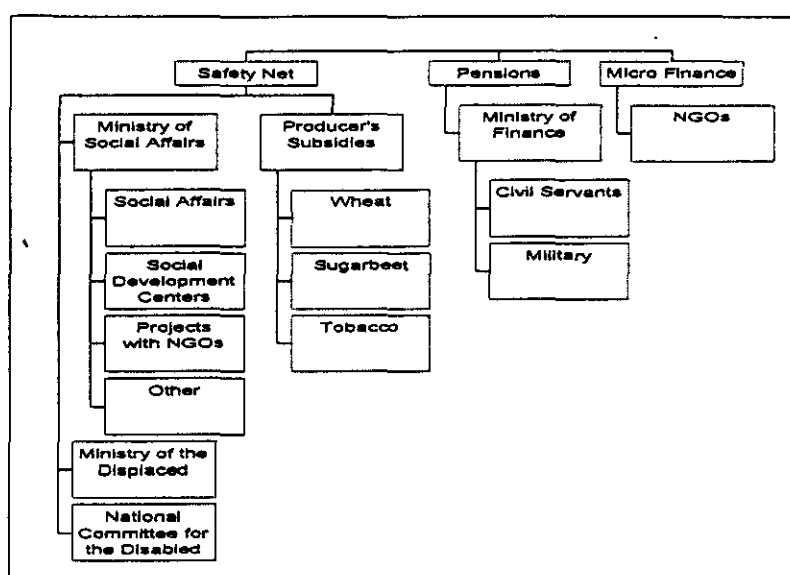
Living conditions greatly deteriorated in Lebanon as a result of the Civil war (1975-1990) when large human and productive resources were lost. Some 800,000 citizens, nearly one fifth of the population, were displaced and 170,000 housing units were damaged or destroyed. From the mid-1980s until 1992, rampant inflation eroded real incomes of the population. In recent years, inflation has stabilized but the lack of growth, which culminated in a sharp recession in 1999, exacerbated social stress. Although it is generally accepted that, as a consequence, living conditions have deteriorated in recent years, it remains difficult to assess the real impact of these events on poverty since there are no official estimates of poverty incidence nor a measure of a poverty line in Lebanon. Current non-official estimates of poverty incidence are based on indirect measures of poverty, or on households' total income unadjusted for family size, which result in less reliable estimates. A central immediate task faced by Lebanese policymakers is to establish a poverty line to allow the identification of the most vulnerable groups, and to track changes in poverty incidence over time. This is necessary for the design of a social safety net that is capable of assisting the most vulnerable groups.

Lebanon's public social safety net is small in scope and not necessarily targeted to the poor. The Government's large fiscal deficit—which reached 27 percent of GDP during the reconstruction period—does not allow for a large expansion of social programs. The delivery of welfare services to the population relies significantly on NGOs, while the Government plays an important role in financing selected social services. Figure 1 presents an overview of the various components of social protection in Lebanon. The basic block elements are the programs under the Ministry of Social Affairs (MOSA), the Ministry of the Displaced (MOD), the National Committee for the Disabled (NCD), producer's subsidies, pensions and micro-finance programs. In addition, health and education programs are briefly discussed. In 1998, total public social expenditures, excluding education and health, amounted to 4.5 percent of GDP, reaching an estimated 500 thousand beneficiaries,<sup>1</sup> compared to of an estimated 1.1 million people classified as being poor.

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<sup>1</sup> Of which not all are necessarily poor.

FIGURE 1: SOCIAL PROTECTION IN LEBANON



A breakdown of expenditures and beneficiaries is presented in Table 1. The Ministry of Social Affairs reached an estimated 400 thousand people<sup>2</sup> in 1998, which represented about one third of the poor, with a benefit equivalent to about US\$236 per beneficiary. When broken down in more detail, it is clear that the programs vary in terms of coverage and in the amount of benefits provided. For example, most of the beneficiaries were reached through the Social Development Centers, with very low unit costs (US\$37) compared to the social affairs programs (US\$1,741).

TABLE 1: EXPENDITURES AND BENEFICIARIES OF SOCIAL EXPENDITURES, 1998 (MILLION LBP)

<i>Social Expenditures</i>	<i>Budget</i>	<i>As a % GDP</i>	<i>Beneficiaries</i>	<i>As a % poor</i>	<i>Unit Cost US\$</i>
Social Assistance	167,134	0.68			
Ministry of Social Affairs	94,134	0.38	399,373	36.46	236
Social Affairs	62,034	0.25	35,612	3.25	1,741
Social Development Centers	11,930	0.05	320,000	29.21	37
Projects with NGOs	8,500	0.03	43,761	4.00	194
Other	11,670	0.05			
Ministry of the Displaced	9,000	0.04			
National Committee for the Disabled	64,000	0.26			
Producer Subsidies	138,000	0.56	56,486	5.16	2,443
Wheat	16,438	0.07	25,336	2.31	649
Sugar beet	39,281	0.16	1,150	0.10	34,157
Tobacco	82,281	0.33	30,000	2.74	2,742
Pensions					
Ministry of Finance	800,000	3.26	45,000		17,777
Total	1,105,134	4.50	500,859		2,206

Producer subsidies are expensive and not necessarily reaching the poor, particularly the subsidy for sugar beet producers. There are only over a thousand beneficiaries receiving the equivalent of US\$34,000 each. Similarly, tobacco subsidies reach US\$2,742 per beneficiary, many of which are not poor.

<sup>2</sup> To the extent that an individual receives more than one benefit, the effective number of persons who benefit from MOSA's programs may be smaller.

Pension benefits are paid annually to an estimated 45,000 individuals, who retired from the civil service, of which a large number are military personnel. The average pension benefit is estimated at US\$17,000.

As explained in the following sections of this note, public expenditures on social assistance do not necessarily reach the poorest segments of the population. In this context, an additional source of income among Lebanese families has been personal transfers, and in particular, transfers from Lebanese living and working abroad. Emigration has resulted in an inflow of additional income to households that plays a central role in the overall safety net. Household data show the large extent to which income transfers across families are common. Foreign remittances from abroad amounted to US\$850 million in 1999 (Banque du Liban), an amount greater than total exports (US\$784 million in the same year). The impact of these private transfers goes beyond the alleviation of poverty. It also has an impact in the labor market through a higher reservation wage among Lebanese workers, and longer spells of unemployment among the young.

## CHAPTER 1: THE SOCIO-ECONOMIC CONTEXT

1. *About one fifth of the population has been displaced because of the war.* Displacement was associated with large-scale destruction of villages, towns and homes. Ten years after the end of the war, many people are still displaced, in many cases illegally occupying other people's homes or living in very poor conditions. Productive assets were also destroyed and widespread neglect of agricultural land was prevalent in rural areas;
2. *Social problems became acute as a result.* Entire families abandoned their villages, their culture, and their social traditions to settle in urban dwellings, putting stress in their living conditions and social ties. Numerous families were confronted with the loss of the main bread-earner and the proliferation of war-related injuries of family members;
3. *Illiteracy is higher in certain regions, among women and older people.* School enrollment is high for boys and girls (95 percent for ages 5 to 9; 93 percent for ages 10 to 14). But the number of school dropouts after age 15 differs across regions. Sixteen percent of women are illiterate, compared to only 7 percent for men. In some communities illiteracy among women reaches 20 percent;
4. *Healthcare achievements also vary across regions.* Since the end of the war healthcare achievements have been significant. Lebanon is among the countries in transition with respect to the nature of diseases, where the importance of contagious diseases is diminishing, while those related to modern urban lifestyles are rising. However, infant mortality is more than two times higher in poorer regions than in Beirut. About half of the population is not covered by any insurance scheme;
5. *Growth in labor supply reflects shifts in the age composition of the population.* The rapid growth of the labor force is not only due to high population growth rates, estimated at 2.4 percent during 1970-1997, but more importantly to the increasing share of prime-age workers in the age structure of the population. While the share of children below age 14 declined from 43 percent of the resident population in 1970 to 28 percent in 1997, the prime age segment of the population (20-39 years age group) increased from 25 percent of residents in 1970 to 34 percent in 1997. This has resulted in high unemployment rates among the 20-24 year age cohort (17.8 percent), compared to a global national rate of 8.5 percent 1997;<sup>3</sup>
6. *Despite the decline in real wages, the inflow of unskilled foreign workers continues.* Real wages declined during the last decade. Although the minimum wage has essentially remained unchanged during the 1990's, the average real wage declined by a cumulative 30 percent. Nevertheless, the labor market in Lebanon is burdened by the continuous unregulated inflow of unskilled foreign labor, which has been progressing at the rate of 6.5 percent annually since 1992 (according to unofficial sources). There may be as many as 250 thousand unskilled workers from neighboring countries (some estimates are much higher);
7. *The reservation wage of Lebanese workers is high,* which explains the apparent paradox of high unemployment rates among younger Lebanese workers and the continuous inflow of foreign unskilled workers. Although data on unemployment spells is not available, many workers seem to be able to remain unemployed for long periods and nevertheless maintain a certain consumption level. By smoothing consumption, foreign remittances allow Lebanese workers to remain unemployed, preventing their reservation wage from adjusting downwards. During the 1990's per capita income grew faster than average wages;

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<sup>3</sup> CAS, Active Population, 1997.

8. *The growing supply of labor is not matched by an increase in labor demand.* Economic growth has faltered since 1994, when GDP growth reached 8 percent. Growth slowed down since then, and the Lebanese economy grew by 1 percent in 1999. A significant amount of investment in the post-war period went into real estate, creating an excess supply of housing in the upper income brackets, resulting in a crisis in the construction sector; and

9. *Exports' competitiveness deteriorated.* This was mainly induced by the prevalence of high domestic production costs in real estate, public utilities, transport and telecommunications, as well as high interest rates. Moreover, the continuous appreciation of the Lebanese pound against the dollar (since 1992) placed an upward pressure on domestic costs compared to foreign costs. The real effective exchange rate appreciated by 58 percent from 1993 to 1998. As a result, exports slowed down, further deteriorating the trade balance and reducing the potential of the export sector to contribute to employment and growth.

## I. Poverty and vulnerable groups

10. There are several poverty measures in Lebanon available through different studies, although there is no official poverty line. These different measures are based respectively on household income, an unsatisfied basic needs measure, and an asset score measure used as a proxy for welfare. Estimates of the extent of poverty vary from 7 to 30 percent of the population. These poverty measures are not exempt of problems. For example, the income-based measure of poverty uses total household income as opposed to per capita household income, resulting in an inaccurate poverty profile.

11. Basic infrastructure data (i.e., public water and sewerage systems) and education and employment status available in the 1997 Household's Living Conditions Survey, allow an assessment of living conditions at the district level. Using this information it is clear that there are large variations in access to basic services among districts. For example, close to 20 percent of Akkar's urban households have no connection to the public water network in contrast to only 3 percent of households in Beirut. Regarding certain essential public services such as sewerage systems, the Governorates of North and South Lebanon include some of the most deprived districts. Empirical studies in other countries find a strong correlation between poor living conditions as characterized by lack of access to basic services, and poverty incidence. Applying the same correlations in Lebanon, the highest poverty incidence may be found in the districts of Akkar, El-Hermel and Baalbek, followed by Bent-Jbayl, El-Meniye, Marj'ayun, and Sour, whereas the districts with the lowest poverty incidence may be Kesrwan and Beirut.

12. With the data available for the preparation of this note, it is not possible to address the questions of the extent of poverty and the characteristics of the poor. A poverty line and a detailed poverty profile would need to be prepared using the existing 1997 Household's Living Conditions Survey. Existing data and analysis however, point to evident regional disparities for some key indicators.

13. Sectoral and regional imbalances in Lebanon date back from the prewar era. Already at that time, about two thirds of Lebanon's industrial workers were concentrated in Beirut and its suburbs. Service and industrial activities were concentrated in the Beirut area and the development potential in the provinces was neglected, further stimulating migration to the already congested capital.<sup>4</sup>

14. Regional imbalances have changed over the past twenty years during which the province of North Lebanon has fallen to the bottom end of the development hierarchy. Although the South still lacks

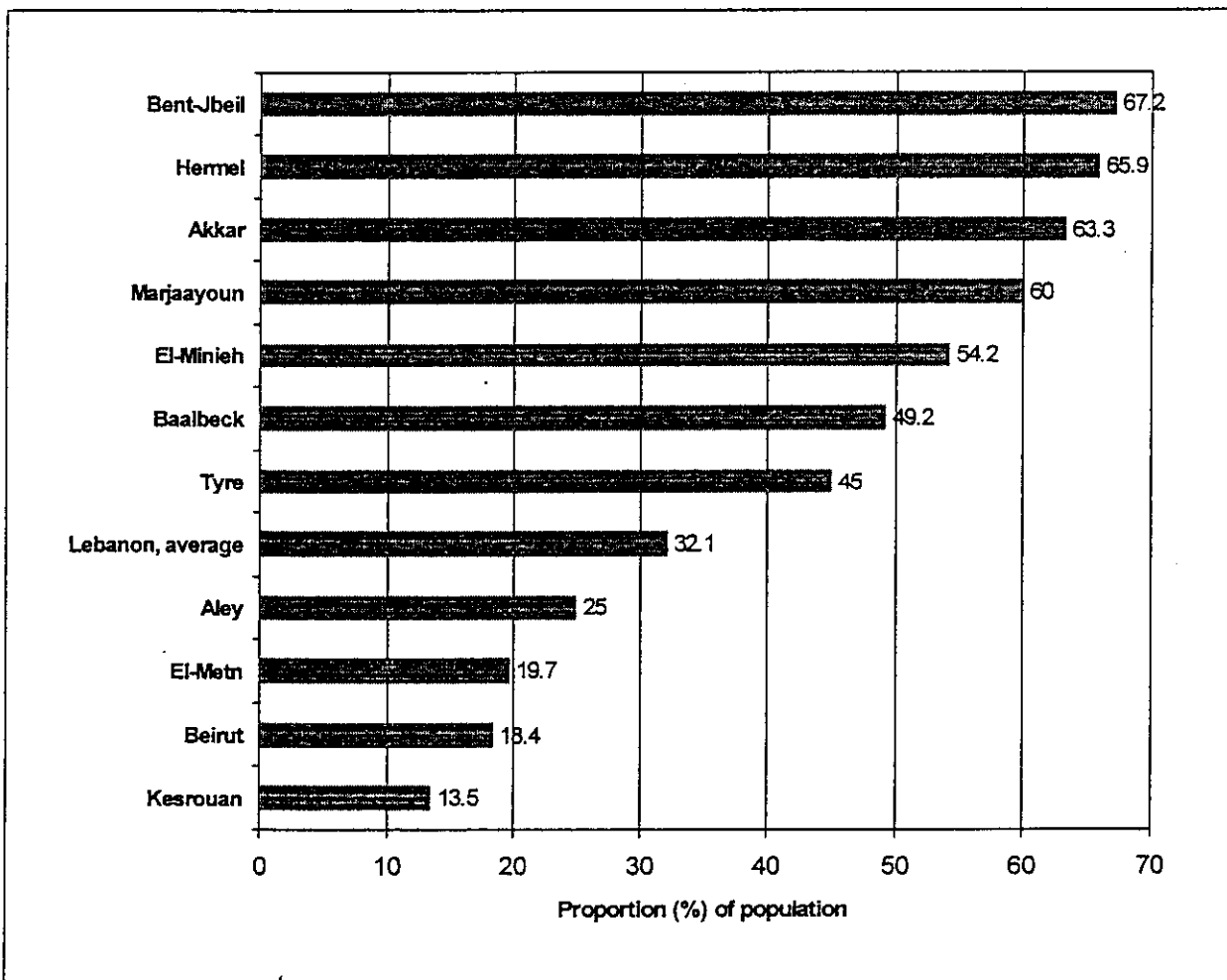
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<sup>4</sup> World Bank (1977).

basic services in many districts, its situation improved comparably to other regions due to an increased attention and the influx of aids, possibly linked to the increased political representation and power of the dominating religious group in the South.<sup>5</sup>

15. Lebanon is divided into 6 Governorates (muhafazat) and a total of 26 districts (cazas). A recent study published by the Lebanese Ministry of Social Affairs and the UNDP has calculated a living condition index (LCI) for all districts of Lebanon.<sup>6</sup> This LCI measures the degree of satisfaction of basic needs for households and individuals residing in Lebanon. It is a composite score from 11 indicators in the four fields of housing, water and sewerage, education, and income-related indicators. Results from this study suggest that the poorest districts in Lebanon are Hermel and Akkar in the North and Bent Jbayl and Marja'ayun in the South, followed by El Miniye and Baalbeck in the North and Tyre, Hasbayya, Nabatieh, Rachayya, and Jezzine in the South (Figure 2).

FIGURE 2: LIVING CONDITIONS INDEX IN LEBANON, PROPORTION (PERCENT) OF THE POPULATION IN SELECTED DISTRICTS WITH THE LOWEST AND THE HIGHEST SATISFACTION OF BASIC NEEDS



Source: The Government of the Lebanese Republic (1998).

<sup>5</sup> Harb El-Kak (2000).

<sup>6</sup> The Government of the Lebanese Republic (1998).

16. While this ranking is based on the *proportion* of households per district living under the threshold, the highest *absolute* numbers of the poor- with the exception of the district of Akkar which is also leading in this respect (12.5 percent of all individuals in Lebanon below threshold)- are found in strongly urbanized districts (Baabda: 11.8 percent, Tripoli: 8.2 percent, Baalbeck: 7.6 percent, Beirut: 7.2 percent, El-Metn: 6.3 percent, and Tyre: 5.7 percent). Table 2 shows some characteristics of the households in the seven poorest districts in comparison to the Lebanese average and the best-off district Kesrouan.

TABLE 2: CHARACTERISTICS OF THE SEVEN MOST DEPRIVED CAZAS, COMPARED TO THE LEAST DEPRIVED CAZA (KESROUAN) AND THE NATIONAL AVERAGE: SELECTED INDICATORS

<i>District</i>	<i>Household Size</i>	<i>Average number of persons per room</i>	<i>School enrollment ratio (6-12 years and above), (Percent)</i>	<i>Illiteracy rate (10 years and above), (percent)</i>	<i>Age-dependency rate (Percent)</i>
Akkar	6.0	1.4	83.5	30.5	86.6
El-Miniye	5.7	1.5	85.0	24.8	70.5
Marja'aoun	4.5	1.3	90.1	23.6	67.5
El-Hermel	5.8	1.8	86.7	23.2	68.8
Bent Jbayl	4.8	1.3	91.4	19.6	71.3
Baalbeck	5.3	1.5	90.7	18.3	68.9
Tyre	5.1	1.4	89.2	16.6	67.1
Lebanon, average	4.7	1.3	88.9	13.6	56.8
Kesrouan	4.0	0.9	90.1	7.9	43.7

Source: The Government of the Lebanese Republic, 1998.

## II. The UNDP Human Development Index

17. The Human Development Index (HDI), developed by UNDP, attempts to measure the status of human development and make it comparable across countries. In addition to other development indicators which are primarily based on the gross national or domestic products (GNP, GDP) and their per-capita ratios, the HDI is a composite of longevity, measured by life expectancy, knowledge, measured by adult literacy and enrollment rates, and standard of living, measured by the real GDP per capita adjusted for the local cost of living (purchasing power parity). At the global level, Lebanon occupied rank 66 out of 174 countries in respect to this human development index in 1998. The country is located at the top end of the medium performance countries and even before Saudi Arabia (Table 3).

18. Although still behind Israel, Cyprus, Bahrain, United Arab Emirates, Kuwait, and Libyan Arab Jamahiriya, Lebanon has overtaken countries like Jordan, Tunisia, Turkey, and Syria within only two years.

19. Lebanon has a better performance in terms of its human development as measured by the HDI and related indicators than many of its Arab neighbors. Its literacy rate is even among the highest in the world.

20. However, national average HDIs conceal much in countries of great inequality, for example with respect to geographical region, religious or ethnic group etc. Disaggregated indices should be sought where data is available.



TABLE 3: HUMAN DEVELOPMENT INDEX 1998 IN SELECTED COUNTRIES

<i>HDI rank</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
1 Canada	79	99	100	21916	6231	0.960	10
2 France	79	99	89	21176	6229	0.946	12
22 Israel	78	95	75	16699	6195	0.913	6
66 Lebanon	69	92	75	4977	4977	0.796	7
70 Saudi Arabia	71	63	57	8516	6091	0.778	-24
71 Oman	70	59	60	9383	6106	0.771	-27
81 Syrian Arab Republic	68	71	62	5374	5374	0.749	-10
82 Algeria	68	62	66	5618	5618	0.746	-17
83 Tunisia	69	67	69	5261	5261	0.744	-11
87 Jordan	69	87	66	4187	4187	0.729	-6
112 Egypt	65	51	69	3829	3829	0.612	-20
151 Yemen	57	38	49	856	856	0.356	12
174 Sierra Leone	35	31	30	625	625	0.185	-3
All developing countries	62	70	57	3068	3068	0.586	-
Least developed countries	51	49	36	1008	1008	0.344	-
Industrial countries	74	99	83	16337	6194	0.911	-
World	64	78	62	5990	5990	0.772	-

Note: 1) Life expectancy at birth (years), 1995; 2) Adult literacy rate (percent), 1995; 3) Combined first-, second- and third-level gross enrolment ratio (percent), 1995; 4) Real GDP per capita (PPP in US\$); 5) Adjusted real GDP per capita (PPP in US\$), 6) Human development index (HDI) value, 7) Real GDP per capita (PPP in US\$) rank minus HDI rank.

Source: UNDP (1998).

## CHAPTER 2: THE SOCIAL PROTECTION SYSTEM

21. Lebanon still lacks a well-defined safety net strategy. While it is clear that the profile and depth of poverty have changed after the war, no major changes in the public safety net were introduced, with the exception of creating a Ministry for the Displaced. The overall safety net framework involves the private sector and NGOs—which helps contain public outlays in service delivery. However, the lack of rigor in the design and implementation of these programs is a source of inefficiency leading to high and unsustainable costs, creating unnecessary trade-offs in providing a comprehensive safety net. Private safety nets play a dominant role in Lebanon. This role needs to be preserved—the public safety net needs remain complementary rather than substitute to the private safety net.

### III. Social Assistance

22. Social assistance in Lebanon is primarily the responsibility of the Ministry of Social Affairs (MOSA) that provides social assistance to orphans, elderly, women, homeless, handicapped and other social vulnerable groups. The budget of the MOSA is indicative of the role it plays—23 percent of total public expenditures were allocated to the MOSA in 1997. The MOSA funds three major types of activities (Table 4): (i) NGO service delivery to the most vulnerable groups (i.e., orphans, disabled, and elderly); (ii) Social Development Centers (SDCs); and (iii) social and health centers run in partnership with NGOs. The three largest categories of spending (including central administration) are financing non-profit organizations to aid orphans, elderly, and social cases (66 percent of the budget), social development centers (13 percent), and the social and health projects with associations (9 percent); other expenses cover various funds and community projects (Table 5). The ministry is considering expanding its network of SDCs and health centers to directly provide literacy, training, and health care services to the poor.

TABLE 4: DISTRIBUTION OF MOSA'S ACTIVITIES, 1998

<i>Social Affairs</i>	
<i>Beneficiary Group</i>	<i>No. Of Beneficiaries</i>
<i>Total</i>	35,612
Orphans and Social Cases	24,546
Advanced Training	5,286
Level 1 Technical Training	3,797
Infants	1,268
Elderly	645
Delinquents and high risk cases	70
<i>Social Development Centers</i>	
<i>Type of Center</i>	<i>No. Of Centers</i>
<i>Total</i>	292
Main	86
Branches	206
<i>Social and Health Projects with NGOs</i>	
<i>Type of Project</i>	<i>No. Of Projects</i>
<i>Total</i>	251
Social and Health Centers	161
Social Services	32
Day Care	33
Miscellaneous Services	25

Source: Ministry of Social Affairs.

TABLE 5: DISAGGREGATED RECURRENT BUDGET OF MOSA, 1998

	<i>Amount (In LL million)</i>	<i>Share of Budget (In percent)</i>
Grand Total	94,134	100.0
Central Administration	2,179	2.3
Transfers	91,950	97.7
Financing of non-profit organizations (Aid to orphans, elderly, social cases)	62,034	65.9
Social development centers and branches	11,930	12.7
Social and health projects with associations	8,500	9.0
Allocation for social training centers	2,000	2.1
Development of training programs of protection, and training of delinquents	1,000	1.1
Funds for insuring the rights of the handicapped	1,000	1.1
Nutrition/food programs	1,000	1.1
Funds for volunteer camps	800	0.8
Labor Unions	630	0.7
Funds for model health and social centers	600	0.6
Funds for joint project with UNFPA	563	0.6
Investment in artisan house	500	0.5
Funds for special events in Lebanon	430	0.5
Community for adult illiteracy campaign	300	0.3
Project to support families	200	0.2
Funds for handicapped centers	100	0.1
Contributions to projects in the development media and communications with the citizens	100	0.1
Investment in center for carpet making	150	0.2
Funds for projects of development and services	94	0.1
Membership fees to national and international org.	20	0.0

Source: Ministry of Finance.

23. Through its transfers to non-governmental social care associations, MOSA currently funds the care of about 30,000 persons. The relation between MOSA and these associations is not one of funding but of directly sponsoring specific beneficiaries—these exist and operate independently of MOSA; MOSA just uses their service. The needy apply for aid directly to MOSA and not to the associations. After the Ministry decides on the applicants to be sponsored, it reserves places in the relevant social care associations with which it has a contract and cover the expenses. The social care associations that have contract with MOSA amounted to 189 in 1998 and 244 in 1999. These associations provide social assistance to special groups such as the elderly, orphan, childcare, drug addicts and deviants; they also provide vocational training.

24. The National Committee for the Disabled and the Ministry of the Displaced have been put in place to deal with social consequences of the war. The Ministry of the Displaced is necessary to ensure that people displaced during the war can return to their homes, but its funds are not targeted to the needy. Another contributor to social welfare and social assistance in Lebanon is the Ministry of Displaced, which is primarily responsible for securing the return of the displaced population to their original villages and towns. During the period 1993-1999, LBP1.2 billion (more than US\$750 thousand) were spent on the issue of displacement.<sup>7</sup> The bulk of spending was incurred for evacuation and dislodging of illegally occupied houses, absorbing more than 61 percent of the resources allocated for the return of the displaced during that period. Spending on social assistance, consolidation, and compensation for victims was estimated at 0.6 percent of total allocated budget resources. This spending covered

<sup>7</sup> Statistical report published by the Autonomous Fund for Displaced, 1999.

around 108,507 beneficiaries and was distributed among the different Lebanese regions. This is only one third of the 330,000 individuals (70,726 families) that the Ministry identified as potential beneficiaries in 1996.<sup>8</sup>

25. In addition to the displaced, the Government has established the National Committee for the Disabled in 1993 in response to the needs of the disabled in Lebanon (Box 1). Finally, another post-war de facto safety net is employment in the Government and army. After the war, the Government and army have absorbed a large number of "militia" people (who used to belong to dismantled armed parties). Although this has probably attenuated the social crisis that these people, who have little skill and a responsibility to feed a family, would have faced, this solution is not sustainable as it is putting a strain on the budget and is not efficient in the medium term. Special training programs could be introduced to these people as part of an overall retrenchment project for the government.

#### BOX 1: DEALING WITH THE WAR CONSEQUENCES—THE NATIONAL COMMITTEE FOR THE DISABLED

The National Committee for the Disabled (NCD) constitutes an important organizational achievement as exemplified by its accomplishments, its mandate, and its productive engagement of Government, NGOs, and beneficiaries. The NCD—a semi-public body—was established by Law No. 243 in July 1993 as a response to the needs of the disabled in Lebanon. The mission of the Committee is to define a policy in favor of the disabled and to guide and monitor the execution of that policy by the Ministry of Social Affairs. It is the ultimate reference within the Lebanese Government to all affairs related to the disabled.

The Committee consists of 13 members: 5 government representatives from the Ministry of Social Affairs, 4 disabled persons representing four types of impairments (motor, mental, hearing, and visual), and 4 institutions (NGOs) representing each type of impairment. To date all members of the Committee have been appointed by the chairman, the Minister of Social Affairs, for an initial period of 3 years. The Committee is seeking to amend the law to allow for the election of the non-governmental members.

Through the Rights and Access Project, the Committee seeks to serve all disabled Lebanese regardless of their social, political, or religious affiliation. The project's overall objective is to integrate the disabled into the society. In order to achieve this, the steps involved are identifying the rights of the disabled, facilitating access to these rights, and by transforming the relationship between the disabled and the private sector (institutions and individuals) as well as the public sector. This latter point would require shifting from a relationship based on "belonging" to a group to a relationship based on "rights". This is to be achieved through a variety of measures including the promulgation of specific laws and decrees; issuing disability cards; and through an inquiry into the specialized institutions providing services to the disabled. Initially the project would address only severe and obvious impairments, while less severe disabilities would be included at a later stage.

The Ministry of Social Affairs is responsible for executing the project through a three member Executive Committee which includes the Director General of the Ministry, the Director of the Social Services Unit of the Ministry, and a representative of an NGO working with the disabled and also a member of the National Committee. Members of the Executive Committee of the project, jointly or individually, are empowered and responsible for initiating all preliminary studies; seeking financial support; selecting the appropriate centers to execute the activities and buying the necessary equipment; and recruiting specialized staff.

At the operational level the project is carried out by specialized committees dealing with the legal, medical, research, and budgetary aspects of the project. To date, the project has been able to operationalize five centers where various activities are carried out simultaneously such as orientation for the disabled and their families, entering and updating data, and issuing disability cards. The disability cards cover the total costs of the holders: (i) medical treatment and medication; (ii) disability assistance and equipment; (iii) hospitalization and surgery; and (iv) specialized care. At the same time, researchers were able to publish a book listing all institutions working with and for the disabled according to geographical location, alphabetical order, types of aid programs, and types of disability. This is the first publication, which provides a comprehensive overview of almost all NGOs working to help the disabled in Lebanon.

Source: World Bank, Social Public Expenditure Review, 2000.

<sup>8</sup> Ministry of the Displaced, The return of the Displaced in Lebanon, 1996.

1. Issues

26. *Transfers through NGOs are effective but they are regionally unbalanced.* Although providing transfers via specialized NGOs increases the efficiency of service delivery, these NGOs need to be involved in the identification of the needy and in the decision to help them since they are better placed than the Ministry to do so. Moreover, the distribution of beneficiaries across regions is not balanced—while 10 percent of the poor are covered by such transfers in Beirut, this share is less than 2 percent in Nabatieh and North Lebanon (Table 6). The third largest category receiving funding from MOSA are the social services projects undertaken jointly with NGOs, of which 74 percent are social and health projects (the rest including child, family, handicapped, and elderly care). In these projects, MOSA provides 70 percent of the budget while the NGO provides the remaining 30 percent of which only 10 percent must be in cash. In end 1997, there were 251 projects funded through 177 different NGOs; their number reached 262 in 1999. Though projects receive funding for only one year irrespective of the length of the project, most are more or less automatically renewed every year. Moreover, these projects could be better balanced regionally—while the number of social and health centers is 4 per 10,000 poor in South Lebanon, it is only 1.4 in the Bekaa and 1.6 in North Lebanon (Table 7).

TABLE 6: REGIONAL BIAS IN BENEFICIARIES ALLOCATION THROUGH NGOS

Governorate	Population	Population with low satisfaction of basic needs (poor)		Beneficiaries of Social assistance	
		Share in Governorate	Total	Total	Share in poor
Beirut	407403	19.2	78221	8211	10.50
Mount Lebanon	1145458	26.0	297819	16608	5.58
North Lebanon	670609	48.9	327928	5555	1.69
South Lebanon	283057	39.0	110392	6621	6.00
Bekaa	399890	43.8	175152	4934	2.82
Nabatieh	205411	51.4	105581	1832	1.74
All Lebanon	3111828	35.2	1095363	43761	4.00

Source: *Mapping of Living Conditions*, MOSA-UNDP, 1998; and *MOSA annual report*, 1999.

Note: The population with low satisfaction of basic needs is based on the 1996 Population and Housing Survey; data for the beneficiaries of social assistance is for 1999.

TABLE 7: SOCIAL AND HEALTH CENTERS COULD BE BETTER BALANCED REGIONALLY

Governorates	Population with low satisfaction of basic needs (poor)		Number of social and health centers	
	Share of Governorate in total	Total	Total	Per 10,000 poor
Beirut	7.14	78221	28	3.58
Mount Lebanon	27.19	297819	86	2.89
North Lebanon	29.94	327928	51	1.56
South Lebanon	10.08	110392	45	4.08
Bekaa	15.99	175152	25	1.43
Nabatieh	9.64	105581	27	2.56
All Lebanon	100.00	1095363	262	2.39

Source: *Mapping of Living Conditions*, MOSA-UNDP, 1998; and *MOSA annual report*, 1999.

Note: The population with low satisfaction of basic needs is based on the 1996 Population and Housing Survey; data for the beneficiaries of social assistance is for 1999.

27. *The network of social development centers play an important role but they are under-funded and biased towards healthcare.* Social development centers (including branches) represent the second largest category of funding—they receive about LBP 12 billion a year in budget. This amount funds the recurrent costs of the 292 centers—including wages and benefits of administrative and technical

staff, medicines, training material, utilities, and transportation. An estimated 800 persons are employed full-time at the centers, though according to MOSA, the centers should have a total of 3,400 permanent administrative staff to be fully operational, in addition to several hundred technical staff (such as doctors, trainers, and daycare teachers). At present, MOSA estimates that less than 33 percent of SDCs are functioning at full capacity. The services provided by the social development centers include health, education, social training, and social studies. Health accounts for the lion's share of all these services—while the total number of beneficiaries from social development centers reached 376,857 in 1999, 71 percent benefited from health services. It is not clear, however, how the health responsibility of these social development centers overlaps with that of the public health centers of the Ministry of Health.

28. *The social and health centers must improve targeting to reach the most vulnerable.* The social development centers and the social and health centers rely on self and regional targeting; but targeting of transfers via NGOs is often a political issue. The social development and the social and health centers provide free services to any person who wants them, with no selection criteria. There is self-targeting because the services provided are not of good quality, and thus only those who cannot afford better care would visit these centers. Moreover, there is regional targeting since these centers are, to a large extent, located in poor areas. In the case of transfers through NGOs, however, selection of applications is often politicized and is thus not necessarily well targeted to the most needy. Finally, MOSA also has a special division for the handicapped. The Ministry introduced, in 1996, the "disability card" which enables its holder to benefit from full health coverage, on behalf of the Ministry of Health. Around 19,100 cards were issued by the end of 1998; this number rose to 23,693 by the end of 1999.

## 2. Options for reform

29. *Partnerships with NGOs have to be based on outcomes and monitoring of results.* The approach followed by MOSA to reach the vulnerable via NGOs is an efficient move, since NGOs are less biased and are better placed to reach the poor and understand their needs. However, the use of NGOs requires consolidation, appropriate selection criteria, and effective monitoring of results. Too many NGOs are involved with the Ministry with no clear framework for action. It is crucial that MOSA follows up on outcomes and that this serves as part of the criteria for renewal of partnership with the NGO.

30. *A strategy for social assistance with time-bound quantifiable objectives needs to be established.* The safety net seems to follow the basic principle of providing the poor who can work with productive tools (health and education) while concentrating transfers to those who cannot work. Although this is the appropriate approach, which has been followed in other countries, it is not clear that in the case of Lebanon this is part of an overall, well-defined strategy. Rather, there seems to be a groping in doing things right, while it is really budget constraints that are limiting transfers. There are many agents within the government undertaking different programs with no consolidation or common vision.

31. *Spending on social transfers must be increased.* Current levels of expenditures on social transfers is too little, covers only few people, and is regionally unbalanced. As seen above, only an average of 4 percent of the poor receive transfers. Some regions are clearly better served—transfers through NGOs reach 10 percent of the poor in Beirut but only 1.6 percent of the poor in North Lebanon. This regional imbalance was also observed in social and health centers, where they cover a very small share of the poor.

32. *Targeting of beneficiaries must be freed from political considerations.* There are no well-defined criteria for beneficiary selection, which are necessary to minimize waste of resources and

reduce fiscal burdens. This creates large leakage rates and allows a high degree of political interference in the transfer process to the poor.

33. *Efficiency gains can yield important results in the short-term.* These gains can be achieved by: (i) improving the quality of service of existing social development centers before expanding their number; (ii) indexing per diems for boarding and care for orphans, elderly, disabled, and other vulnerable groups to the consumer price index; (iii) expanding the monitoring role of MOSA and establishing standards for services to the vulnerable in order to increase transparency and accountability; and (iv) expanding to other beneficiary groups the institutional arrangements of the National Committee for the Disabled with NGOs to consolidate their services.

#### IV. Producer subsidy programs

34. Given the critical conditions of the Lebanese agricultural producers, the Lebanese government has adopted long-term price subsidy programs for some products, namely wheat, sugar beet and tobacco. These programs take the form of guaranteed fixed prices paid to producers, against an obligatory collection of local crops by importers. Similar to most of the other MENA countries, these programs have little impact on increasing productivity and usually result in distorting consumer market prices. In addition, their effect as income transfer programs is usually diluted because they do not target the poorest segments of the rural population. What is more worrisome in the case of Lebanon is that these subsidies absorb a higher share of the budget than the whole Ministry of Social Affairs (Table 8).

TABLE 8: GOVERNMENT RECURRENT EXPENDITURES IN SOCIAL WELFARE  
(CURRENT LBP BILLION)

<i>Social Welfare</i>	1992	1993	1994	1995	1996	1997	1998
Ministry of Social Affairs		38	52	68	88	95	94
Ministry of the Displaced		4	6	7	6	7	9
Grains and Sugar Beet Office	69	113	103	107	96	177	138
Central Fund for the Displaced						64	
Council for the South						605	

Source: Ministry of Finance.

#### 3. Wheat Subsidy Program

35. *The wheat subsidy is well targeted but it is costly to the government, to the millers, and to the consumers.* The program is managed by the Office of Cereals and Sugar beet in the Ministry of Economy and Trade. It consists of a program where the local wheat farmers are paid a fixed price of LBP400/kg. The government then sells local wheat to millers at an average price of LBP450/kg. Millers are obliged to purchase 25 percent of their local needs from the government, in order to obtain a license to import the remaining 75 percent. The direct beneficiaries from the current wheat subsidy program are estimated by the Ministry of Agriculture at 25,336 farmers, representing around 13 percent of total farmers in Lebanon. With a fixed government purchase price of LBP400 thousand per ton and a rise in domestic wheat production—from around 24 thousand tons in 1997 to 38 thousand tons in 1999—the wheat subsidy has increased (Table 9).

TABLE 9: THE RISING COST OF WHEAT SUBSIDY

<i>Years</i>	<i>Million LBP</i>	<i>Million US\$</i>	<i>% Of GDP</i>
1997	9,752	6.47	0.04
1998	11,657	7.73	0.05
1999	15,277	10.13	0.06

Source: Ministry of Agriculture.

36. The wheat subsidy program has a positive impact on the welfare of farmers, who receive LBP400/kg against an average production cost of LBP289/Kg, equivalent to a net income transfer of LBP111/Kg. This price guarantee represents an assured income source for wheat farmers who have difficulty in marketing their crops. Given that beneficiaries of this subsidy are mainly concentrated in the Bekaa and South-Lebanon regions, which are among the poorest regions, and that around 80 percent of wheat farmers are small-scale farmers with farms less than 4 ha, the subsidy is likely well targeted (Table 10).

TABLE 10: DISTRIBUTION OF WHEAT BENEFICIARY FARMERS BY FARM SIZE

<i>Size class (Ha)</i>	<i># Of farmers</i>	<i>% Of farmers</i>
Less than 0.5	3,796	15
0.5-1	5,167	20
1-2	6,712	26
2-4	5,119	20
4-10	3,155	12
10-20	834	3
Greater than 20	553	2
Total	25,336	100

Source: Ministry of Agriculture.

37. The wheat policy entails a negative impact on flour millers and an increased consumer cost of flour and flour products. The average international wheat price for import by millers is around US\$150/ton, compared to a local price of US\$300/ton. Given that millers are obliged to purchase 25 percent of their needs from local producers, the average price they pay for every ton of wheat is around US\$187.5, which is 25 percent higher than the international market prices. If millers are also poor people, or near poor, the wheat subsidy ends up helping wheat farmers at the expense of millers. Also, given that wheat is major food expenditure for the poor, the high cost of wheat caused by this subsidy policy is negatively affecting the well being of the poor.

#### 4. Sugar beet Subsidy Program

38. *The sugar beet subsidy is costly and benefits very few and non-needy farmers.* The sugar beet subsidy program is managed by the Office of Cereals and Sugar beet in the Ministry of Economy and Trade. The amount paid to farmers depends on the sugar content of the products. In 1999, the average price paid by the Ministry amounted to LBP120, 000/ton (US\$80/ton, compared to US\$32-38/ton in Morocco), for a sugar content slightly exceeding 15 percent. Unlike wheat, where local production is not sufficient to cover consumption needs, the government tries to limit the production of sugar beet through an area quota. In addition to the payment to sugar beet farmers, the government also contracts a sugar plant to process the sugar beet into sugar, paying an average fee of US\$20-25 per ton (equivalent to the average fees paid in Morocco for example). Sugar importers are required to purchase 30 percent of their needs from the domestic market at an average price of US\$500/ton in order to obtain a license to import the remaining 70 percent.

39. The direct beneficiaries from the sugar beet subsidy were limited to 1400 farmers in 2000, representing less than 1 percent of total farmers in Lebanon; they were estimated at 1150 farmers in



1998. The sugar subsidy in 1999 amounted to US\$22.3 million for sugar beet production and US\$0.77 million for sugar production—a total for sugar subsidy of around US\$23 million, representing 0.14 percent of GDP. The sugar beet subsidy program represents a guaranteed source of income for sugar beet farmers, as well as for owners and workers in sugar factories. However, the net income transfer for beneficiaries is limited, as the average sugar beet production cost ranges between US\$60 and US\$75 per ton, while the average sugar processing cost is around US\$25 per ton. In addition, the total number of sugar beet farmers who benefit from the subsidy is small, and most of these farmers—70 percent—are large-scale farmers (Table 11). In the absence of clear eligibility criteria, richer farmers might be benefiting more than the poorer farmers.

TABLE 11: DISTRIBUTION OF SUGARBEET BENEFICIARY FARMERS BY FARM SIZE

<i>Size class (Ha)</i>	<i># Of farmers</i>	<i>% Of farmers</i>
Less than 0.5	12	1
0.5-1	39	3
1-2	128	11
2-4	171	15
4-10	335	29
10-20	212	18
Greater than 20	253	22
Total	1,150	100

Source: Ministry of Agriculture.

40. The sugar beet subsidy program has a negative impact on importers and consumer prices. The average sugar import price was US\$259/ton in 1999, compared to a local price of US\$500/ton. Given that importers are obliged to purchase 30 percent of their needs from the local market, the average price they pay is around US\$331/ton, which is 28 percent higher than the international market prices. This, in turn, affects consumers. Similar to wheat, sugar typically accounts for a large share of the poor's expenditure. The subsidy is thus regressive.

## 5. Tobacco Subsidy Program

41. *The tobacco subsidy is very costly and entails leakages to non-poor.* The tobacco subsidy is managed by the Regie Company, the public monopoly responsible for regulating the tobacco industry in Lebanon. The subsidy program consists of paying an average of LBP 12000/kg to local tobacco farmers, i.e., around 4 times more than international prices. The Regie then sells local tobacco and locally manufactured cigarettes to importers, in amounts proportional to their annual dollar value of imports. The average price at which Regie sells local tobacco is around US\$5.5/kg, while the average sale price of local cigarettes is around US\$150/case. In addition to the annual contribution, any foreign company willing to operate in Lebanon is requested to buy at one time 450 cases of local cigarettes in order to get a license.

42. The direct beneficiaries from the tobacco subsidy program are estimated at around 30 thousand farmers, representing around 15 percent of total farmers in Lebanon. Around 50 percent of the beneficiaries are in South Lebanon, while the remaining are distributed between Bekaa and North-Lebanon. The total subsidy budget has dramatically increased since 1993, mainly as a result of an increase in the volume of production as well as the successive increase in the price of local tobacco (Table 12).

TABLE 12: THE RISING COST OF THE TOBACCO SUBSIDY

Years	Subsidy (Million US\$)	% Of GDP
1993	3.648	0.05
1994	3.169	0.03
1995	9.166	0.08
1996	21.22	0.16
1997	34.24	0.23
1998	45-50	0.28-0.31

Source: Socio-economic Development Plan for South Lebanon, UNDP.

43. The tobacco subsidy program presents a major source of income for many families, particularly in the marginal areas of former occupied zone, where around 8,000 tobacco farmers reside, covering a total cultivated area of 3,000 hectares and producing more than 3,000 tons per year. The average gross subsidy per farmer is estimated at around US\$3,216 per year, ranging from US\$3,342 in Bent-Jbeil to US\$1,651 in Jezzine (Table 13). Significant disparities in production costs are also recorded among different farmers. The main factors affecting farmers' costs include ownership of land and equipment, the location of land, and transport means.<sup>9</sup> Thus, the average production cost is estimated to range between US\$1,000 and US\$4,000 per hectare. For a farmer growing tobacco on an area of 0.37 hectare, the average annual net subsidy per farmer would range between US\$1,705 and US\$2,839.

TABLE 13: TOBACCO SUBSIDY IN FORMER OCCUPIED ZONES, 1997

District	Area (Ha)	Farmers	Production (tons)	Subsidy (million LBP)	Subsidy (million US\$)	Average gross subsidy (US\$)	Average net subsidy	
							Cost= US\$1,000/ ha	Cost= US\$4,000/ ha
Bent-Jbeil	1,249	3225	1,347	16,168	10.8	3,342	2,955	1,793
Tyre	228	639	245	2,946	2.0	3,074	2,718	1,648
Marjayoun	458	1228	476	5,708	3.8	3,099	2,726	1,607
Jezzine	14	49	10	121	0.8	1,651	1,376	549
Borders	1,047	2790	1,109	13,317	8.9	3,182	2,807	1,681
Total	2,996	7,931	3,188	38,262	25.5	3,216	2,839	1,705

Source: Socio-economic development plan for South-Lebanon, UNDP.

Note: Net subsidy is gross subsidy net of cost, which varies between US\$1,000 and US\$4,000 per ha.

44. The role of the tobacco subsidy program in providing equitable income transfers to the poorest segments of the society is questionable, as implied by the large divergence recorded between the different categories of farmers. The leakage of tobacco subsidy is believed to be relatively large, given the absence of clear eligibility criteria for license provision and the political interference in the process of license distribution to farmers. In addition, the cost of this program is relatively high and cannot be sustained, given that the economic yields of tobacco cultivation are very low. In this regard, the HRC-UNDP regional development program for South Lebanon recommends the substitution of tobacco cultivation by alternative more productive crops, while compensating the tobacco farmers for switching to other types of agricultural activities.

<sup>9</sup> The Occupied Lebanese Zone, Jaber Munzir.

## V. Micro Finance

45. The micro enterprise sector in Lebanon is not like the typical micro enterprise sector in developing countries. The Lebanese micro enterprise sector can be segmented in two categories: (i) people running micro economic *activities*; and (ii) people running micro or very small *enterprises*.

46. *Micro Economic Activities* are run by the poor and poorest, often women. They complement the household income but the main source of household income is usually wage income from (male) members of the household. However, more than anecdotal evidence suggests that – given the depressed economy resulting in layoffs – the income from the micro activity is becoming the main source of income for more and more households. There are an estimated 200,000 households in Lebanon that have micro economic activities.

47. People who manage this type of micro activity are the typical clients of micro finance programs as we know them from around the world. They usually need very short-term working capital loans and are able and willing to pay relatively high interest rates that are needed to cover the costs of the providers of micro finance. Although many in Lebanon argue that the typical micro credit loan sizes of US\$200 or US\$500 are not appropriate for Lebanon, the success and growth of the programs offering these loans, proves that there is a sizable (and growing) demand for this type of loans.

48. The provision of micro finance services to this target group will not solve Lebanon's economic or unemployment problems. Rather, the provision of micro finance services to this target group should be seen as contributing to a social safety net. The income of the micro economic activity can be considered as a buffer that the poor use against unexpected shocks i.e., as a means to reduce vulnerability. While the provision of micro finance services does not necessarily result in a sustained increase in household income, it contributes to a decrease in the household's vulnerability to shocks and it helps build assets. *To say it simply: it may not help the poor getting out of poverty, but it will help the poor from becoming more poor.*

49. *Micro and Very Small Enterprises* are usually the only source of income of the household of the entrepreneur. The majority of these businesses either employ no people (self employed such as plumbers, electricians or repair-men) or employ one or two people. The majority of them does not grow. The sector is highly turbulent with individual businesses starting and disappearing. The sector as a whole however offers relatively stable employment and income opportunities. The sector appears to be growing because of the many new entrants: laid-off, often low skilled, workers who are starting their own business. Many of these new entrants however may not be good entrepreneurs and would be better off working for somebody else. There are an estimated 300,000 micro and very small businesses in Lebanon, with the majority being self-employed.

50. The "typical" micro loans as described above are not attractive for these enterprises. Rather they need medium term investment capital, albeit also in low size ranges (US\$1,000- US\$5,000). Only those in trade and services also demand working capital loans. *Providing these financial services to these businesses will result in job retention rather than job creation.*

51. The 19 Lebanese micro finance programs mirror the segmentation of the micro enterprise sector as described above, and can be split in two categories: (i) the "Poverty Lenders; and (ii) the Very Small Business Lenders. These two categories together had year-end 1999 over 10,000 active clients and a total loan portfolio outstanding of over US\$10 million. Fifty-two percent of the clients were female, and 56 percent of all borrowers lived in rural areas. The micro finance industry in Lebanon has only grown with 17 percent since year-end 1997 while other countries in the region saw growth rates of up to 400 percent. Quoted reasons for the limited growth of the industry were: (i) the general economic

depression; (ii) the lack of institutional capacity of many programs (especially among the very small business programs) to effectively and efficiently increase their outreach; (iii) the lack of “bankable” enterprises, especially among the very small enterprises and in only a few cases; and (iv) lack of funds for on-lending.

52. The Poverty Lenders are very similar to the “typical” micro finance programs, providing very small working capital loans of up to US\$500 to the poor. Lebanon has five Poverty Lending programs. Together they had year-end 1999 about 4,500 active clients and an outstanding portfolio of about US\$2 million. Not surprisingly, 95 percent of their clients were female: women around the world are among the poorest. The majority of clients lives in urban areas.

53. The future of the Poverty Programs appears quite promising. Three of the five programs—together serving over 90 percent of all active clients in this segment—are capable organizations that implement best practices and that have a clear vision for the future. The five providers together are expected to reach over 18,000 active clients five years from now.

54. What makes the micro finance industry in Lebanon different from the industry in many other countries, is the large presence of many “non-traditional” micro finance lenders: the Very Small Business lenders. The majority of them provide medium term loans (2 to 3 years maturity) to very small businesses or self-employed. They also combine the provision of loans with the provision of business development services (BDS) such as training and technical assistance. These programs offer loan sizes that are a bit larger than the traditional micro loans but surprisingly not that much larger. While the average outstanding balance of the clients of the Poverty programs was US\$454, the average outstanding loan balance of the clients of the very small business programs was only US\$1,358! There are today in Lebanon over 12 providers of very small business loans. Together they had year-end 1999 6,330 active clients and an outstanding loan portfolio of about US\$8.6 million. The majority of clients was male and lived in rural areas.

55. The future of the Very Small Business Programs appears however rather bleak. Many of these programs are not well organized, and do not have appropriate systems for loan screening, monitoring and follow up. Many charge subsidized interest rates compared to market rates. Even more worrisome is that the providers of Very Small Business loans have no clear vision for the future. If we exclude one provider, the only one among the 12 that offers working capital loans but targeted to the entrepreneurial poor through the formal banking system, the number of active clients in this segment may actually go down because of bad loan portfolio quality, loan write-offs and depletion of capital. With the exception of two programs, the main constraint to the growth of these programs is not the lack of funds for on-lending but the lack of capacity to deliver micro finance to a high number of clients.

56. To summarize, the provision of micro finance to people running micro economic *activities*, provides the household with a social safety net, creating a buffer against falling into deeper poverty. The provision of micro finance services to micro and very small *enterprises*, mainly contributes to job retention rather than job creation. The provision of micro finance services to both groups is important but will not help solve Lebanon’s unemployment and economic problems. Addressing the issues faced by the Lebanese SME sector (small and medium enterprises with between 5 to 100 employees) would contribute to job creation and economic growth.

57. The Government of Lebanon is advised *not* to regulate the micro finance sector. Regulation is only needed when the micro finance providers would take deposits and savings i.e., other people’s money. None of the current NGO programs is likely to do so. However, for those programs that are expected to grow in the coming years, the legal form NGO will become an impediment to accessing commercial funds such as borrowing from banks for on-lending to the micro enterprises. The

Government may wish to create a non-bank, non-deposit taking legal form for micro finance intermediaries.

58. Micro finance programs in Lebanon could benefit from better coordination and cooperation with each other. This cooperation could include the exchange of information on "bad borrowers," the setting of minimum industry performance standards, and over time, the establishment of a credit-rating agency set up as a private sector venture but owned by all the programs. The micro finance industry is advised to take the lead in sharing of information and cooperation and not wait for the Government to do so.

59. An improved legal environment for the collection of bad loans will not only help the micro finance industry but the financial sector as a whole. To quote a participant in the workshop: "whoever you are, to whom-ever you owe, whether US\$500 or US\$500,000, you have to repay!"

60. While the Poverty Lenders face a relatively rosy future, the need for capacity development of the Very Small Business Lenders is urgent. In this context, it is worrisome that the planned for EU Social Economic Development Fund has ample funds available for on-lending but very limited funds for capacity development. The Government is advised to re-allocate some of the EU funds for on-lending to not only capacity building of the programs offering finance to very small businesses but also to develop the capacity of the very small businesses themselves. Best Practices show that it is best to separate the provision of so-called small business development services from the provision of credit. Also, the most effective manner to develop the capacity of the small businesses is not do so directly (one-on-one) but through the development of the capacity of Business Development Services (BDS) providers such as accountants, chambers of commerce, and sub-sector business associations.

## **VI. Old-Age Security**

### **6. Private Sector Workers**

61. The Lebanese retirement income system for private sector workers consists only of an end-of-service lump sum indemnity payment. This is a full mandatory system administered by the National Social Security Fund (NSSF), which includes pensions, health insurance and family allowances. Contributions to the mandatory pension system fall entirely upon the employers, posing a significant burden on employers upon an employee's retirement whose benefit is determined as a lump sum payment based on the final month's salary. All industrial and commercial employers are mandated to contribute 8.5 percent of payroll for full time Lebanese employees. Payment is made to the NSSF who tracks payments made on behalf of employees.

62. Upon retirement (at age 64, or at any age after 20 years of service), a lump-sum payment is made to the employee based on the last month's salary (or the average monthly salary of the last year of employment, if larger), multiplied by the years of service. Before paying the benefit, the NSSF reviews the accumulated amount contributed by the employer over the employee's working life, without accruing any interest, and subtracts it from the indemnity to which the worker is entitled. Any shortage must then be remitted to the NSSF by the employer, before the benefit is paid by NSSF to the worker.

63. For a worker who reaches retirement age, and has worked for more than one employer, the total benefit received is small. Assuming an additional life span of 10 years after retirement and a return on investment of 5 percent, a 10-year annuity created with the lump sum payment would produce an annual replacement rate of only 20 percent of the last year's salary. If the return on investment

increases to 10 percent, a 10-year annuity would yield a replacement rate of 26 percent of the last year's salary.

64. Employers have responded to these expensive arrangements by paying part of salaries off the books, or by hiring employees as consultants, to avoid payments to the NSSF. There is also a disincentive to hire Lebanese workers to avoid the high costs of employment. Key issues of the current pension system include:

- ***Inadequate retirement benefits.*** Under the current system, the maximum total retirement benefits for individuals who have been in the system for 40 years under the same employer is about 42 percent of pre-retirement income. The amount is lower for those who worked for more than one employer during their careers.<sup>10</sup> This is rather low by international standards, particularly since no health insurance is provided to retirees. In addition, premature distribution of account balances could occur with 20 years of contributions (without penalty) or less (with penalties), which could further deplete benefits at old age and create a burden that the Lebanese economy is unlikely to be able to support in the long run.
- ***Inadequate portability and equity.*** Workers who change employers part way through their careers lose retirement protection to which they would otherwise be entitled from the employer they are leaving. This is particularly true for low-wage earners. In addition, mobility between public and private sector employment is costly to workers. Moreover, it discriminates against private sector workers, since only those in the civil service system are covered by a retirement pension scheme. The current scheme also harms the economy by discouraging job mobility and produces benefit inequities among similar workers.
- ***Inadequate distribution of risks and responsibilities.*** While the program risks are entirely borne by employers during the accumulation period, the National Social Security Fund (NSSF) and not employers is responsible for managing the program. This arrangement is a recipe for moral hazard behavior on the part of the administrator. Furthermore, a lump sum payment places the risk of retirement income entirely on the retiree, and any misfortune in investing it would leave the elderly unprotected. This is most likely to be the case with unsophisticated low-wage earners.
- ***Inadequate funding requirements.*** Since employers are not required to set aside funds to finance their residual liabilities, workers from employers that go out of business are left with no protection on this portion of the plan.
- ***The National Social Security Fund (NSSF) contingent liabilities.*** If employers do not pay their part of the end-of-service indemnity in 30 days, by law, NSSF must pay it and initiates legal actions to collect from employers.
- ***Inadequate coverage.*** The system does not cover the self-employed, overseas Lebanese, or rural workers. In addition, it creates disincentives for their participation.
- ***Inadequate assistance during periods of unemployment.*** Workers can withdraw their balances upon leaving employment, but with increasing penalties the shorter the period of contribution; and

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<sup>10</sup> According to recent data, most pensioners are, in fact, retiring with 15-20 years of service, which implies that the annuitized replacement rate would be only on the order of 13 percent.

- *Lack of assistance to satisfy other costly needs.* Retirement is a period of hardship in Lebanon due to the inadequacy of existing retirement benefits to help finance other costly expenses.

## 7. Options for reform

65. The Government of Lebanon is launching a coordinated program of reform of its end-of-service indemnity and contractual savings institutions in order to: (a) ensure a more adequate, equitable, and fiscally sound source of retirement and unemployment income; (b) expand the role of long-term savings; (c) improve labor mobility; and (d) improve the overall environment for economic growth.

66. Major elements of the reform program include:

- Replacing the current end-of-service indemnity borne by employers with a two-pillar retirement income system;
- Expanding coverage of the system to include the self-employed, rural, and overseas Lebanese workers;
- Providing a new mechanism for long-term saving, to be used during periods of unemployment and other uses;
- Sharing the risk of the system between Government, employers, fund managers and employees;
- Improving administration and fund management at the National Social Security Fund (NSSF); and
- Improving the regulatory and tax framework for the sound management of pension funds and life insurance while furthering economic growth.

## 8. Civil Service workers

67. The Pensions Department in the Ministry of Finance administers the civil and military service pension system. There are currently about 135,000 active contributors and 45,000 retirees. Most members of the scheme are from the defense services. This scheme is contributory, based on defined benefit principles. Pension contributions from members are collected by the Ministry of Finance and form a component of general Government revenues. Pension expenditures on retirees are a charge on the Government budget and are based on estimates provided by the Pensions Department. For 1999, it is estimated that some LBP 800 billion was required to discharge the pension obligations of civil servants. This amounts to some 3 percent of estimated GDP and almost 10 percent of total Government expenditures. Contributors pay 8 percent of their gross basic wages plus the first salary upon joining the civil service, and these funds are transferred in their entirety to the Government to add to its revenue base.

68. Further, marginal salary increases are also transferred to the Government in their entirety. This makes the effective contribution rate slightly higher than 8 percent of gross wages, and de facto makes net salary increases lower than they seem. Members are eligible to retire after 18-25 years of service, depending on their profession. Some defense personnel with high-risk jobs are eligible to retire

earlier. Benefits are tax-exempt and based on the last salary of the individual and years of service. There is no prescribed retirement age, and pensions are paid even if individuals retire and seek employment elsewhere. Individuals opting to retire choose between receiving a lump sum or an annual pension. Only about 25-30 percent of retirees opt for the lump sum, which suggests that this option is less favorable than a regular pension. For those with more than 40 years of credited service, the entitlements are paid in the form of a lump sum. Indexing of benefits is linked to the growth of minimum salary bands and appears to be adjusted on an ad hoc basis every few years. Important issues are:

- *Inadequate information and lack of reliable financial projections.* Given the extremely poor data and information systems available, forecasting pension expenditures and revenues is difficult;
- *Lack of portability.* Since pension entitlements are not portable and civil service wages are generally low, there is no incentive for labor market mobility (both in and out of the civil service);
- *Generous plan.* On average, a person accrues about 2 percent of wages per year of service. This is far higher than international standards, where the average is about 1.25-1.4 percent per year of service; and
- *Inequitable treatment.* The system may be inequitable in the sense that the defense services benefit disproportionately more than teachers and judges because they are given very generous length of service credits (3 years per year of service during the war). Further, ad hoc indexation implies that certain groups benefit more than others depending on their profession and salary bands.

## 9. Suggestions for reform

69. Reforming civil service pensions is a fairly complicated exercise that invariably involves adjusting the Government's human resource policies. It is suggested that the Government devote serious attention in the immediate term to making the pension system portable and financially viable.

70. *Advantages of the new arrangements.* Reforming the civil and military services pension system will improve the management of the Government budget, hence macroeconomic policy. At the same time, it will ensure the long-term financial viability of the plan, while removing impediments for labor mobility. Furthermore, with improved prospects for the peace process, the generosity of the military pension system will need to be corrected to make it more compatible with civilian jobs, to induce a more efficient allocation of human capital in support of economic growth.

## VII. Social Risk Management in Lebanon

71. The social risk management (SRM) framework developed by the World Bank (2001) when applied to Lebanon helps identify the strong and weak characteristics of the existing social protection scheme.

72. In terms of public resources, measures for risk mitigation are a key, although unbalanced, element of SRM in Lebanon. Pension outlays for civil servants represent 72 percent of public expenditures for social protection (excluding education and health expenditures), benefiting 45,000 people. The rest, 28 percent, is used to finance essentially risk coping measures (MOSA and NGOs) reaching an estimated