

Lara Feghaly is a public policy consultant at Beyond Group, where she has been leading the process of developing a National Social Protection Strategy for Lebanon in collaboration with the Lebanese Ministry of Social Affairs, UNICEF, and the International Labor Organization (ILO). In an interview with LCPS Senior Researcher Fadi Nicholas Nassar, she contextualizes the shortcomings of the country's subsidy structure and the consequent gaps in social protection and social assistance. Going a step further, the interview proposes progressive measures that can be taken to respond to the country's structural challenges.

Lebanon is facing an unprecedented economic and financial crisis. Within this context of fragility and a rapidly declining purchasing power, does the existing subsidy model offer sufficient or sustainable social protection?

There is no doubt that the existing subsidy model is fundamentally flawed as it is neither sufficient nor sustainable, which suggests that imminent reform is required.

The first obvious shortcoming of the current subsidy scheme is that it is very expensive, as it has been depleting the Central Bank's foreign exchange reserves, which have reached alarmingly low levels. Since the government already struggles with longstanding budget deficits and trade deficits, spending on subsidies has the twofold effect of putting increasing pressure on the exchange rate and limiting the fiscal space for social spending.

Also, subsidies as they stand today are highly regressive, meaning that they disproportionately benefit wealthier consumers (and in many cases, merchants and intermediaries who stockpile or smuggle essential goods) rather than the most vulnerable groups that need them most.

While universal schemes are in principle good in avoiding elite capture, it would be better to design a transition strategy which channels resources away from the existing subsidy model and provides an alternative one for the Lebanese people, which includes a combination of the following: 1) Short-term compensation schemes to address the inflationary effect of lifting subsidies, protect household purchasing power, and insure income security for the poorest and most vulnerable, and 2) Long-term investments in permanent and inclusive social protection programs (such as universal healthcare, livelihoods/employment programs, etc.).

What measures can be taken to address the gaps in social assistance and social protection, especially in such a fragile context?

First, we need to move away from patchwork policies and programs that, at best, provide a temporary band-aid for our problems as a country, and at worst, fuel more clientelism and corruption.

The gap in social assistance coverage is real, and it does indeed need to be filled, but simply implementing a targeted cash transfer program in the current context will not be enough to address poverty in Lebanon. Our problems are structural, therefore they require deep-rooted reforms which facilitate redistribution and reduce inequalities.

Where do we start, given such a fragile context? There is no painless route to reform, and we need to start with the right principles in mind as we redesign the social protection system in the country according to a comprehensive, national strategy/policy framework, making it rights-based, inclusive, shock-responsive, and sustainable. We will have to progressively realize this vision, and in order to do this, some concrete measures are required:

- a. Reallocate public spending towards ensuring universal financial access to healthcare and education.
- b. Implement long-overdue reforms in the social security system by: recapitalizing the National Social Security Fund (NSSF), which is suffering from massive deficits; harmonizing social

insurance benefits among the six fragmented employment-based schemes; extending coverage of social insurance to include more vulnerable workers (such as agricultural workers, self-employed workers, etc.); and expanding the range of benefits to include unemployment insurance and others.

- c. Scale-up social assistance and introduce core lifecycle benefits, such as child and disability benefits and old-age social pensions. These can be complemented with poverty-targeting programs, but with the clear precondition that the targeting mechanisms are transparent and effective.
- d. Introduce measures to activate the labor market, such as public works programs, cash-flow and investment support for the private sector, and fiscal incentives for small businesses in key productive sectors that can contribute to a wage-led recovery.

What are the ripple effects of not implementing any changes to the existing models of social assistance and protection in Lebanon?

We're already seeing the ripple effects of a failed model for social protection:

- a. The *absence of a comprehensive policy framework* implies uncoordinated and fragmented programs that operate in silos, which in turn means that people (often the most vulnerable) are going to be excluded from the system. For example, health services are not integrated, and are provided through multiple channels (Social Development Centers, contracted NGOs with the Ministry of Social Affairs, Primary Healthcare Centers, and contracted NGOs with the Ministry of Public Health), leading to inefficiency and low cost-effectiveness.
- b. The *limited coverage and shock-responsiveness of social protection schemes* means that people are highly exposed to different lifecycle risks (such as illness, unemployment, disability, old age, etc.), as evidenced by the sharp increase in poverty rates following the economic crisis, COVID-19 pandemic, and the tragic Beirut blast. We can learn from the experiences of many countries around the world that have introduced or expanded social protection programs in response to COVID-19, with the most widely used measures being cash transfers, wage subsidies, subsidized sick leave, and various forms of subsidized social security contributions and unemployment insurance. While other countries have been quick to adapt, the Lebanese social protection system was not well equipped to handle such a shock, providing only a few disbursements of cash transfers (LBP 400,000) to a limited number of households.
- c. The *progressive weakening of the government's institutional capacity for social services provision* means that the quality of essential public services is compromised, and that the state cannot effectively fulfill its mandate for social protection. This leaves civil society to fill in the gaps left by the state, and while there are many CSOs that are doing great work in this regard, "outsourcing" social protection can backfire, especially in the Lebanese context where this can drive further clientelism and corruption. For example, a majority of the Ministry of Public Health's spending goes to private hospitals (~80%), and likewise, the largest share of the Ministry of Social Affairs' annual budget (~72%) is directed towards the provision of services through NGOs and welfare institutions.
- d. Declining foreign currency reserves, limited space in the public budget, and the lack of financial reforms imply that there are few resources that can be invested in social programs, which perpetuates the vicious cycle we are in now.

In short, poverty, unemployment, and income insecurity are all going to be inevitable byproducts of doing business as usual, because the absence of a comprehensive universal social protection system will continuously widen inequalities and limit the potential for inclusive human-centered growth and development.

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

One of the biggest concerns today is securing financial resources for social protection, and in essence, this issue touches on two key questions: 1) Who pays the price for reform? and 2) How do they pay for it?

Here it is important to note that financing for social protection spending does not need to come at the expense of the people. Instead:

1. *Financial reforms can be implemented to reduce wastage in public spending.* Some reforms which can free up financing for social spending, besides lifting subsidies, include rethinking the taxation system, implementing customs reform, redesigning the electricity sector, among others.
2. *Economic restructuring can be implemented to increase productivity.* This means enacting reforms that enable the transition from a rentier-based economy into a productive one, such as providing tax incentives for the agricultural and industrial sectors and supporting local production rather than subsidizing imports (directly or indirectly).
3. *A financial plan can be put in place to increase liquidity and stabilize the exchange rate.* This includes restructuring the banking system to reinstate trust and rebalancing the government budget, among other initiatives.

So, resources are in fact not that scarce, they are just misused and wasted, which is why it is worth reflecting on where public spending can be reallocated to ensure more social justice and solidarity.