# Social Protection Spending in Lebanon

## A deep dive into State Financing of Social Protection

### Budget Review Policy Brief

In partnership with: unicef for every child ILO

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Social Protection Spending

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# List of acronyms

| | |
|---|---|
| BDL | Banque du Liban (Central Bank) |
| BRD | Beyond and Development Group |
| EDL | Electricité du Liban |
| GFSM | Government Finance Statistics Manual of the International Monetary Fund |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| LBP | Lebanese Pound |
| MoF | Ministry of Finance |
| MoPH | Ministry of Public Health |
| MOSA | Ministry of Social Affairs |
| NSSF | National Social Security Fund |
| SDC | Social Development Center |
| SP | Social Protection |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations International Children's Emergency Fund |
| WB | World Bank |

# Acknowledgement

The policy brief was prepared by a team from the Institut des Finances Basil Fuleihan composed of Sabine Hatem (Senior Economist), Iskandar Boustany (Consultant and Budget Specialist, President of Financially Wise) and Abdo Daou (Consultant and Budget Analyst), under the supervision of Lamia Moubayed Bissat (President). Visuals were designed by Ms. Tonia Salameh.

The team conducted a third-party budget review on social protection financed by the Government of Lebanon through the State Budget. It analyzed spending composition, trends, and main sources of financing. The review was conducted between July and December 2020.

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# 1

# Background and Methodology

# Context: Lebanon's free-fall into poverty

*Rapidly and continuously deteriorating macroeconomic conditions, coupled to the COVID-19 pandemic and political crisis, are pushing the Lebanese population into dire poverty. The magnitude of these multiple crises requires from the country to quickly bolster its social protection coping mechanisms to safeguard growing vulnerable groups and avoid a potentially disastrous impact on the nation's well-being.*

The year 2020 has been particularly challenging for Lebanon. The country witnessed the collapse of its economy as well as of its financial sector. This was marked by the country's debt default in March 2020, the rapid depreciation of its national currency, the collapse of its fixed peg exchange-rate mechanism, an economic contraction of 24% (IMF) and third-digit inflation with a 120% CPI increase between August 2019 and August 2020 (Central Administration of Statistics), to which are added the repercussions of the global COVID-19 pandemic and related containment measures. Further to this, the 4th of August Port Explosion that left more than 200 casualties, 6,000 injured, and 300,000 homeless, has massively damaged Beirut's key trade and shipping hub as well as its neighboring residential, industrial, and business areas, thereby requiring substantial resources for reconstruction and humanitarian assistance.

These compounded crises have destroyed the livelihood of thousands of people who continue to suffer from electricity and water supply shortages, a waste management crisis, worsening social conditions and weak public finance management. As a consequence, more than 55% of the Lebanese population had fallen into poverty in 2020 (ESCWA, 2020), a number that s expected to further increase as a result of rising inflation and the absence of a proper policy response. This brought the total number of poor among the Lebanese population to 1.1 million and 2.7 million for the lower and the upper poverty lines respectively. It represented an increase of 1.3 million poor from the pre-COVID-19 and pre-explosion growth scenario for 2020 (ESCWA, 2020). In addition, Lebanon remains the host to the largest refugee per capita population in the world, who are also very badly hit by the crisis: by the end of 2020, poverty was expected to have increased by 56 p.p. among the Syrian refugees around the international poverty line and by 42 p.p. around the national poverty line, with assistance programs not being able to mitigate more than 3 p.p. of this increase (equivalent to 8%)(WB and UNHCR, 2020).

# Context: Fiscal outlook and exit scenarios

*Lebanon's compounded crisis requires a faster, more inclusive policy response that includes an upscaling of targeted social protection frameworks and programs, providing the conditions for a crisis exit scenario and countering for the looming loss of human development gains achieved in the past decades.*

The dire situation calls for a fast and inclusive policy response, notably in terms of social protection, to mitigate the loss of livelihood and growing risk of impoverishment. To this end, the Lebanese Government had engaged in talks with the IMF for a support program that would entail strict fiscal adjustment and austerity measures, a fair distribution of losses, economic stimulus packages and targeted social protection programs.

In its "Financial Recovery Plan" (April 2020), it had foreseen the expansion of social safety nets through yearly budget allocations amounting respectively to USD 1bn in 2020, USD 1.5bn in 2021, USD 1.3bn in 2022, USD 1bn in 2023 and USD 0.75bn in 2024. In its 2021 Budget Proposal, the Ministry of Finance has allocated LBP 150 billion to support the most vulnerable households. The WB also approved, in January 2021, a loan of USD 246 million destined to finance emergency cash transfers and access to social services to approximately 786,000 poor and vulnerable Lebanese reeling under the pressure of Lebanon's economic and COVID-19 crises and support the development of a comprehensive national social safety net system.

Amid marginal fiscal space, and with a fiscal deficit of more than USD 3 billion, a balance of payment crisis and the depletion of its FX reserves, the only way forward for Lebanon inevitably passes through a reallocation and reprioritization of existing social spending. This needs to start with an assessment of the financing, distribution and impact of current spending and would be later complemented by a prioritization exercise, informed by social indicators and a clear vision of the way forward.

# Purpose: Drive evidence-based policy decisions

*The Budget Spending Review is an evidence-based exercise that aims to inform policymaking by providing insights on the financing of social spending by the Government of Lebanon and recommendations to enhance its potential reallocation, targeting and performance.*

The present Budget Spending Review was conducted by the Institut des Finances Basil Fuleihan, in the context of the National Social Protection Strategy being developed by UNICEF, the ILO and Beyond Group, upon the request of the Ministry of Social Affairs.

It aims to:

1. Provide a basis for fiscal space analysis.
2. Provide evidence overview and analysis of the level of financing available through the Government Budget for social protection programmes at a disaggregated level and input for the costing of the New Social Protection Strategy.
3. Inform research work and policy-making on social protection that might affect the livelihoods of millions of people.

What is a Budget Spending Review?

The Budget Spending Review is a coordinated and in-depth analysis of baseline expenditures that helps:

1. Detect efficiency savings and opportunities for fiscal consolidation and value-for-money.
2. Streamline the reallocation of public expenditure or even the free-up of fiscal space.

It is an instrument of structural and selective expenditure-based consolidation and does not intend to assess the entire social protection system.

Social Protection Spending

# Scope: Analyze Government financing of social spending through its Budget

*The Budget Spending Review covered all allocations made under the State Budget to finance social protection services and programs, adopting a wide and comprehensive perspective for data collection and analysis that went beyond the traditional budget classification.*

In the present case, the Budget Spending Review focused solely on the government financing of social protection services in Lebanon through the State Budget. Direct financing from international organizations, NGOs, and other sources of financing were not included in the data collection and analysis.

The Budget Review tried to overcome existing budget classifications (administrative, functional and economic) to further reflect on how social protection policy is structured and funded. It mapped every line of spending dedicated to social protection with the aim of collecting evidence on the level of financing, of increasing the value delivered for each LBP spent, of informing adjustment or redesign strategies of the existing social protection framework in order to better target social benefits, of addressing Lebanon's socio-economic and fiscal realities, and of feeding in the costing of the new strategy.

Despite existing data gaps and limitations (that are detailed further ahead), findings provide a good indication on the main categories and trends of social protection spending, and evidence to draw policy recommendations at the policy, program and operational levels.

# Methodology – Data sources

*Budget data on social protection is fragmented, dispersed, and incomplete. In the absence of audited and publicly available government accounts, and in light of the lack of data, alternative approaches were combined. Data collection mostly relied on budgeted and spending data provided by the Ministry of Finance and partially by the NSSF. Some data gaps remained unfilled as no integrated financial system allows for easy data collection and aggregation.*

The Budget Spending Review mapped social spending made from budget allocations over the period between 2017 and 2020.

- Planned spending was extracted from the State budget laws of 2017, 2018, 2019 and 2020.
- Unaudited spending data for the years 2017-2019 was provided jointly by the Ministry of Finance's Macroeconomic Analysis and Studies department at the Budget Directorate, the Directorate of Public Accounting and the Directorate of Disbursement. This approach allowed to mitigate the absence of publicly available data on spending, as the latter is still pending the audit and approval of the Court of Accounts and Parliament.
- The NSSF provided its spending data for the period 2017-2019 but no access was granted to its budgeted data. Further details on how NSSF allocations were accounted for are provided later in this brief.
- As the study was conducted in 2020, no spending data was available for 2020.
- To allow for future comparisons and trends, annexed budgets were included in the dataset since they became an integral part of the budget as of 2021.

The full data set is available in Appendix 1.

Social Protection Spending

# Methodology – Definitions social protection programs and services

*For ease of reference and relevance, the classification of social protection pillars adopted under this Review was the same as the one retained for the National Social Protection Strategy and presented in the position paper on "Social Protection in Lebanon: Bridging the immediate response with long-term priorities" prepared by the UNICEF and ILO under the UN Joint Program on Social Protection and Beyond Group.*

- Social assistance is defined as non-contributory social protection which consists of cash and in-kind transfers, and subsidies.
- Employment related social protection including Social insurance relates to contributory social protection, funded by contributions paid by (or on behalf of) beneficiaries or taxpayers. As with other insurance mechanisms, the purpose of social insurance is to mitigate the impact of risks associated with unemployment, disability, sickness and old age.
- Financial access to social services is concerned with addressing cost barriers to the receipt of care, including user fees, out-of-pocket (OOP) payments, or other associated costs (e.g., financial access to healthcare and fees waivers, health insurance, financial access to education, etc.).
- Economic inclusion and labor activation encompasses labor regulations which aim to protect employees' rights to decent work, and active labor market policies which aim to promote labor-market entry and access to better employment, assist reemployment by improving job readiness, and improve matching of supply and demand in the labor market.
- Social welfare defines a non-contributory social protection which includes service interventions as well as the various outreach, case management and referral services that can support the complex needs of families. It also includes the development and support of a social workforce.

A list of programs included under each Pillar is provided in Appendix 2.

# Methodology – Assumptions

The below assumptions were made to facilitate the review and analysis:

- **Assumption 1: Government transfers to NSSF as an employer are accounted for under "Contributions", i.e., as a source of financing** and not as a Social Protection expenditure.

Government contributions to the NSSF were accounted as social contributions (as opposed to expenditure) paid by the State as an employer to finance End-of-service indemnities, family allowances and sickness and maternity care. To avoid double counting, these line items were removed from social protection benefits.

- Assumption 2: Budget allocations to the Civil Servants Cooperative and Mutual Funds are entirely accounted for as social protection expenditures.

Since it was only possible to record allocations transferred by the government to the Civil Servants Cooperative and Mutual Funds and not the benefits these institutions/funds pay to their constituents, available data was entirely accounted for as social protection expenditures.

- Assumption 3: Only fiscal subsidies were accounted for and analyzed in the scope of the budget review.

The Central Bank of Lebanon finances, from FX reserves, subsidies for imports of essential goods including energy, wheat, medicine and food. However, in the scope of this study, only fiscal subsidies, financed from the State budget, were accounted for and analyzed.

# Methodology – Limitations

*The complexity of the review and limitations stemmed from structural deficiencies in the budget, and in particular from the absence of programmatic information on specific sectoral spending and the unsystematic classification of expenditures.*

The Lebanese budget is a line-budget item that does not provide programmatic information on specific sectoral spending.

As well, the budget is not comprehensive and does not provide holistic access to all social protection spending data. Reporting on spending of several public institutions such as the NSSF does not follow the regular budget process and only net accounts are included in the state budget.

The budget classification is not systematic and many social protection expenditures are captured under hybrid line-items such as "transfers". In addition, some detailed data is not classified and can only be found in the explanations provided under the lowest level of economic classification, unclassified.

It is also important to note that the review could not look into the internal budgets of specific spending entities such as the Cooperative of Civil Servants and the various security forces.

Therefore, some data gaps remained unfilled: For instance, NSSF budgeted data was not accessible and only a partial targeting of all social protection programs financed through direct budget support by donors could be established.

Finally, the Budget Spending Review only covered the period 2017-2020, as prior to that, and for 10 years (2006-2016), Lebanon did not ratify any budget law.

# Methodology – Approach

The brief starts by analyzing spending on Social Protection in Lebanon according to the Social Protection Function, as recorded under the international standard classification provided by the International Monetary Fund in its Government Finance Statistics Manual (GFSM 2001) to account for spending on social protection and detailed in the following section.

However, a more in-depth analysis of collected data, guided by the definitions adopted for social protection programs and services in the newly proposed National Social Protection Strategy revealed that a considerable share of social protection is accounted for outside of the Social Protection Function.

Thus, in the second part of the analysis, the budget review goes beyond the "traditional" classification and maps all budget lines that finance social spending, notably every spending line which purpose is either social assistance, social insurance, financial access to services, economic inclusion and labor activation or social welfare, and provides a more comprehensive evaluation of the weight of Government financing of social protection.

An analysis is proposed in terms of spending by (1) Contingency, (2) Beneficiary Group, (3) Pillar, (4) Implementing Agency and (5) Source of financing.

Main findings are presented and discussed and inform the recommendations proposed in the last section to enhance the financing and fiscal aspects of social protection.

# What is the functional classification of budget?

*Budget classifications are essential for users to understand how the budget is structured and spent and for which purpose. The IMF's Government Finance Statistics Manual (GFSM 2001) provides a standard framework for budget classification adopted in most countries around the world. Through its functional classification, it organizes government activities according to their broad objectives or purposes. (e.g., education, social security, housing, etc.).*

Budget classification is a normative framework that determines the way the budget is recorded, presented and reported.

According to the IMF, a sound budget classification includes at least a classification of revenues as well as an administrative, economic, and functional classifications of expenditures:

1. The administrative classification identifies the entity that is responsible for managing concerned public funds, such as the ministry of social affairs or health or labor or affiliated public institutions such as the National Social Security Fund.
2. The economic classification identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending.
3. The functional classification categorizes expenditures according to the purposes and objectives for which they are intended. It is independent of the government's administrative or organizational structure.

The functional classification was used in the first part of the review to map spending on social protection in Lebanon.

Social Protection Spending

# Social Protection is a key function of Government spending and provides a straightforward estimation of social spending.

The first part of the analysis takes an in-depth look at the functional classification of the budget for social protection spending. This classification is especially useful in analyzing the allocation of resources among sectors and is used to produce historical trends.

The IMF GFSM-2001 identifies 10 main functions of Government spending among which Social Protection (referred to as Function 10). Within the social protection sector, we find 9 secondary functions:

- Sickness and disability
- Old age
- Survivors
- Family and children
- Unemployment
- Housing
- Social exclusion not elsewhere classified (n.e.c.)
- R&D Social protection
- Social Protection n.e.c. (detailed in the next page).

The main and secondary functions are pre-defined internationally for purposes of comparison.

Table 1: GFSM 2001 – Classification of Expense by Function of Government

| Total outlays | | | |
|---|---|---|---|
| 701 | General public services | 706 | Housing and community amenities |
| 7011 | Executive and legislative organs, financial and fiscal affairs, external affairs | 7061 | Housing development |
| 7012 | Foreign economic aid | 7062 | Community development |
| 7013 | General services | 7063 | Water supply |
| 7014 | Basic research | 7064 | Street lighting |
| 7015 | R&D[1] General public services | 7065 | R&D Housing and community amenities |
| 7016 | General public services n.e.c.[2] | 7066 | Housing and community amenities n.e.c. |
| 7017 | Public debt transactions | **707** | **Health** |
| 7018 | Transfers of a general character between different levels of government | 7071 | Medical products, appliances, and equipment |
| **702** | **Defense** | 7072 | Outpatient services |
| 7021 | Military defense | 7073 | Hospital services |
| 7022 | Civil defense | 7074 | Public health services |
| 7023 | Foreign military aid | 7075 | R&D Health |
| 7024 | R&D Defense | 7076 | Health n.e.c. |
| 7025 | Defense n.e.c. | **708** | **Recreation, culture, and religion** |
| **703** | **Public order and safety** | 7081 | Recreational and sporting services |
| 7031 | Police services | 7082 | Cultural services |
| 7032 | Fire protection services | 7083 | Broadcasting and publishing services |
| 7033 | Law courts | 7084 | Religious and other community services |
| 7034 | Prisons | 7085 | R&D Recreation, culture, and religion |
| 7035 | R&D Public order and safety | 7086 | Recreation, culture, and religion n.e.c. |
| 7036 | Public order and safety n.e.c. | **709** | **Education** |
| **704** | **Economic affairs** | 7091 | Pre-primary and primary education |
| 7041 | General economic, commercial, and labor affairs | 7092 | Secondary education |
| 7042 | Agriculture, forestry, fishing, and hunting | 7093 | Postsecondary nontertiary education |
| 7043 | Fuel and energy | 7094 | Tertiary education |
| 7044 | Mining, manufacturing, and construction | 7095 | Education not definable by level |
| 7045 | Transport | 7096 | Subsidiary services to education |
| 7046 | Communication | 7097 | R&D Education |
| 7047 | Other industries | 7098 | Education n.e.c. |
| 7048 | R&D Economic affairs | **710** | **Social protection** |
| 7049 | Economic affairs n.e.c. | 7101 | Sickness and disability |
| 705 | Environmental protection | 7102 | Old age |
| 7051 | Waste management | 7103 | Survivors |
| 7052 | Waste water management | 7104 | Family and children |
| 7053 | Pollution abatement | 7105 | Unemployment |
| 7054 | Protection of biodiversity and landscape | 7106 | Housing |
| 7055 | R&D Environmental protection | 7107 | Social exclusion n.e.c. |
| 7056 | Environmental protection n.e.c. | 7108 | R&D Social protection |
| | | 7109 | Social protection n.e.c. |

[1] R&D – Research and development.
[2] n.e.c. – not elsewhere classified.

[1] GFSM 2001 incorporates the Classification of the Functions of Government (COFOG) of the OECD and the UN

# What falls under Social Protection n.e.c.?

SP n.e.c. includes interalia:

- Complementary allowances for security forces.
- Government contributions to non-government organizations.
- Government contributions to security and mutual funds.
- Other government programs.

Table 2: Social Protection n.e.c. breakdown by line-item, Lebanon, 2019

| SP n.e.c. 2019 / billions of LBP | |
|---|---|
| Allowances for social expenditures for security forces | Government contributions to the Parliament employees' mutual funds |
| Caritas | Government contributions to the Shariah court judges' mutual funds |
| Contribution to associations dealing with delinquent minors | Government contributions to the teacher's funds |
| Contribution to Caritas | Imam Sadr Foundation |
| Contribution to fund the deficit of the General directorate of Cereals And Sugar beets | National program to support landmines and Cluster Munitions Casualties |
| Development programs | National support program for mine casualties |
| Foyer De L'amitié - Zahleh | Red in Circle Association |
| Government contributions to other mutual funds | School allowances for security forces |
| Government contributions to the civil servant's cooperative | Sickness and maternity pay for security forces |
| Government contributions to the judge's mutual funds | Social and health programs in collaboration with NGOs |
| Government contributions to the Lebanese University teachers' mutual funds | Social and health programs in collaboration with NGOs + Development programs |
| Government contributions to the legal assistants' mutual funds | Social Development centers |
| Government contributions to the MPs mutual funds | Social welfare programs |

2

# Findings of the Budget Review

# Macro-fiscal analysis of Social Protection spending as per the Functional Classification of Budget

HIGHLIGHTS:

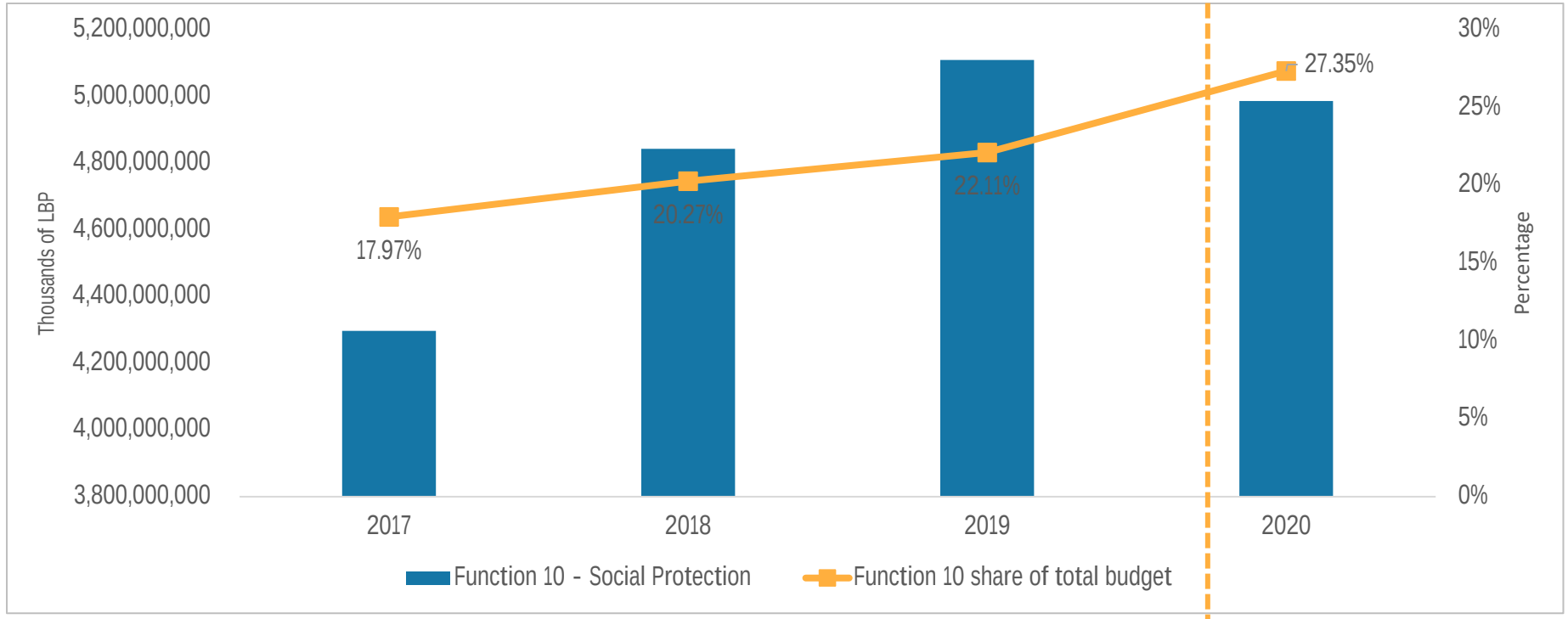
Lebanon spent, between 2017 and 2020, 5 to 6% of its GDP and 22% of its budget on Social Protection.

However, coverage remains far from being inclusive. The largest share goes to "Spending on Old Age" and finances, in particular, Retirement and End-of-Service Indemnities.

# Over 2017-2020, Lebanon spent on average 22% of its budget on social protection, according to the functional classification of budget.

Social protection as share of total budget grew by 10 p.p. between 2017 and 2020, mostly driven by two factors:
(1)- an increase in Pensions and End-of-Service expenditures, resulting from the new public sector salary scale law ratified in 2017.
(2)- Lebanon's sovereign debt default (in March 2020) and resulting decrease in spending on debt interests that has inflated the share of other functions, notably social protection, in the 2020 Budget.

Figure 1: Total budgeted expenses covering Social Protection (function 10)




The 2020 budget law witnessed a substantial cut on domestic interests, thus reducing overall budgeted expenses. The spending on the social protection function however, reached around 4.9 trillion LBP, leading to 5 p.p. over year increase in relative share.

Social Protection Spending

# It spent in the past 4 years the equivalent of 5 to 6% of its GDP on social protection

With the on-going crisis, it is important to note that despite the increase in the share of social protection in the 2020 budget, the share of social protection in the current GDP dropped, eaten up by inflation. This can be explained by the current GDP 's elasticity to prices compared to fiscal rigidity in spending.

It is important to note that Lebanon's reporting includes partial reporting on medical care (i.e., health) under the Social Protection Function, unlike other countries. However, for the year 2019, if we exclude the share of spending on medical care recorded under the "Social Protection" Function (eq. to 1.37% of GDP), overall spending on social protection excluding health drops to 4.08% of GDP but remains higher than the average in Arab States.

Figure 2: Function 10-Social protection as share of current GDP

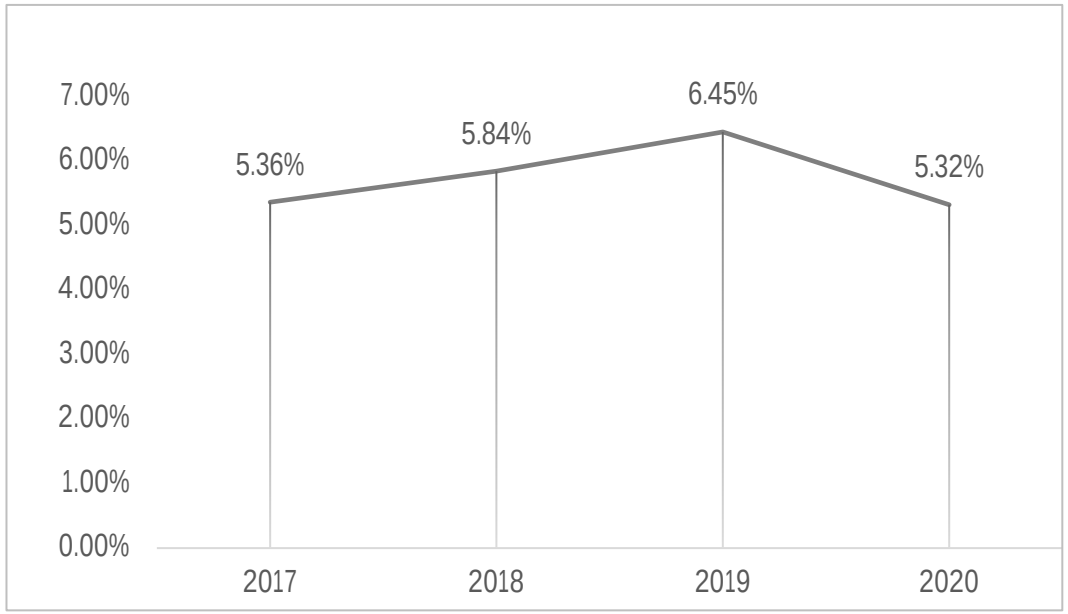
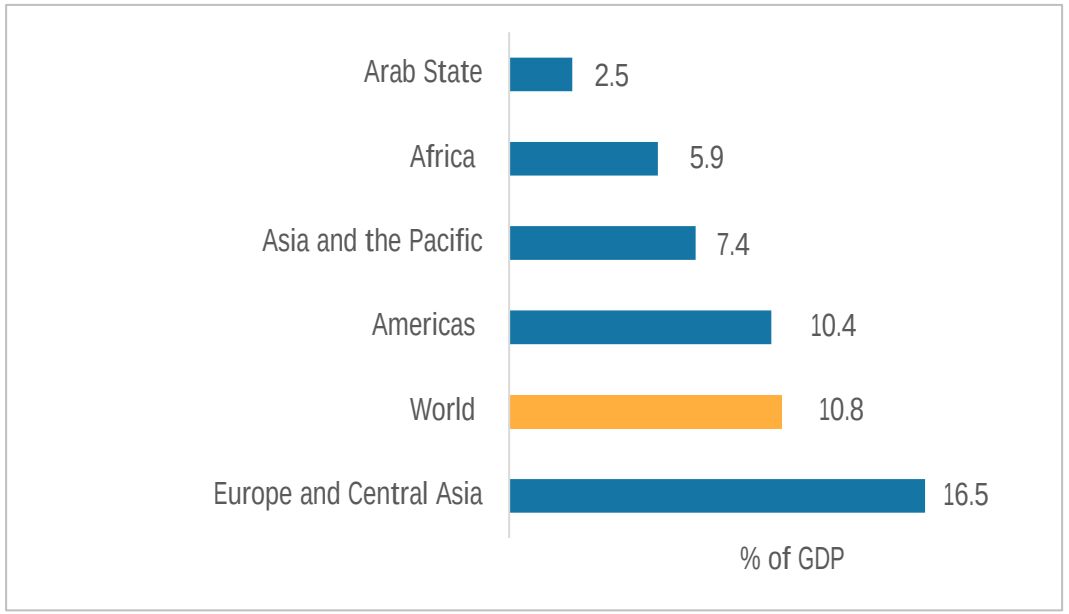



Figure 3: Public social protection expenditures, excluding health, selected regions (% of GDP) (2015)

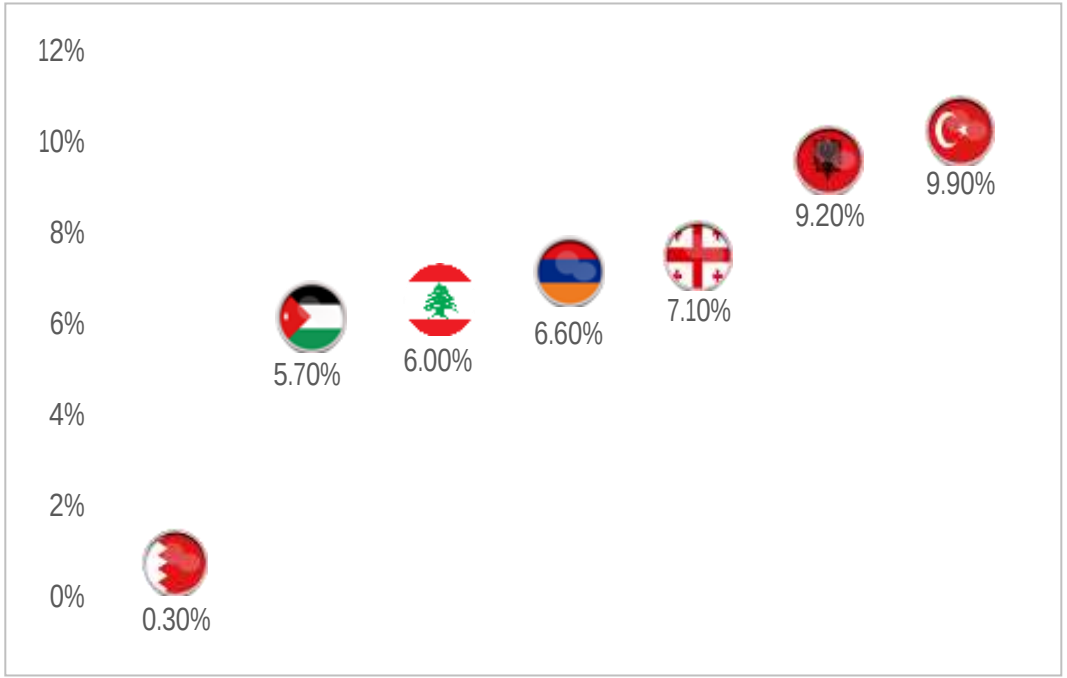



Reference 11

# Benchmarking Lebanon social protection spending with other lower-middle income countries and the Arab region

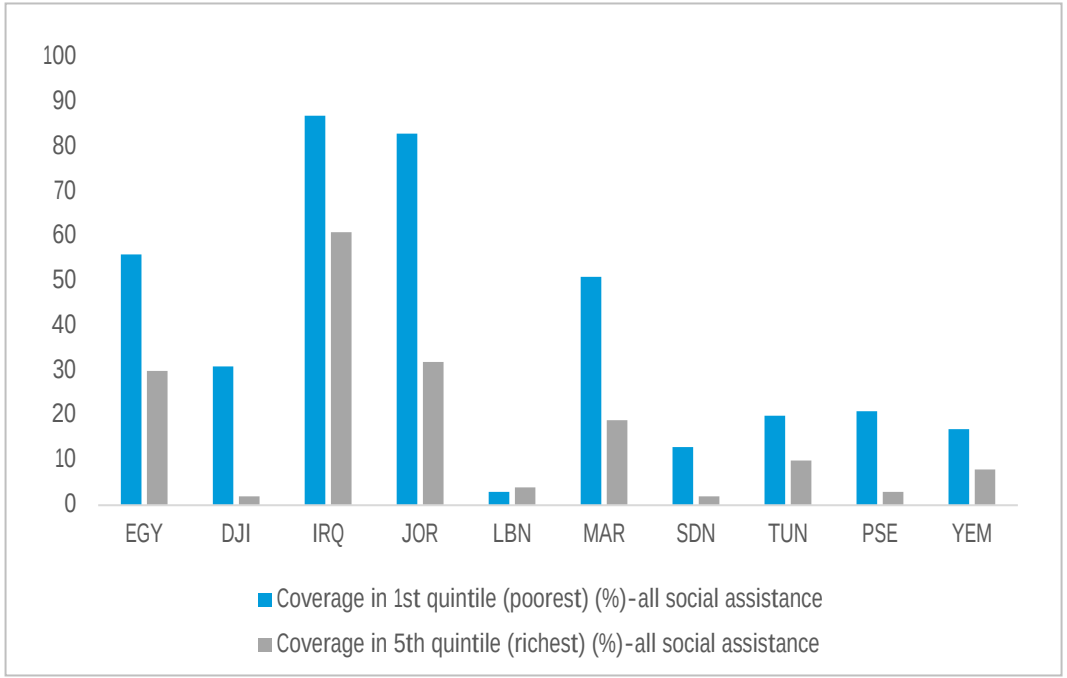
Lebanon spends relatively more on social protection than its Arab neighbors. However, it stands below the global spending of other lower middle-income countries. Moreover, Lebanon's social safety net is regressive and benefits the wealthy better than the poor, unlike most of its Arab neighbors.

Figure 4: Share of social protection expenditure (in % of GDP) in selected countries (2018)




Reference 11

Figure 5: Coverage of the poorest and richest quintiles by social safety nets, by country (in %) (World Bank, 2018)

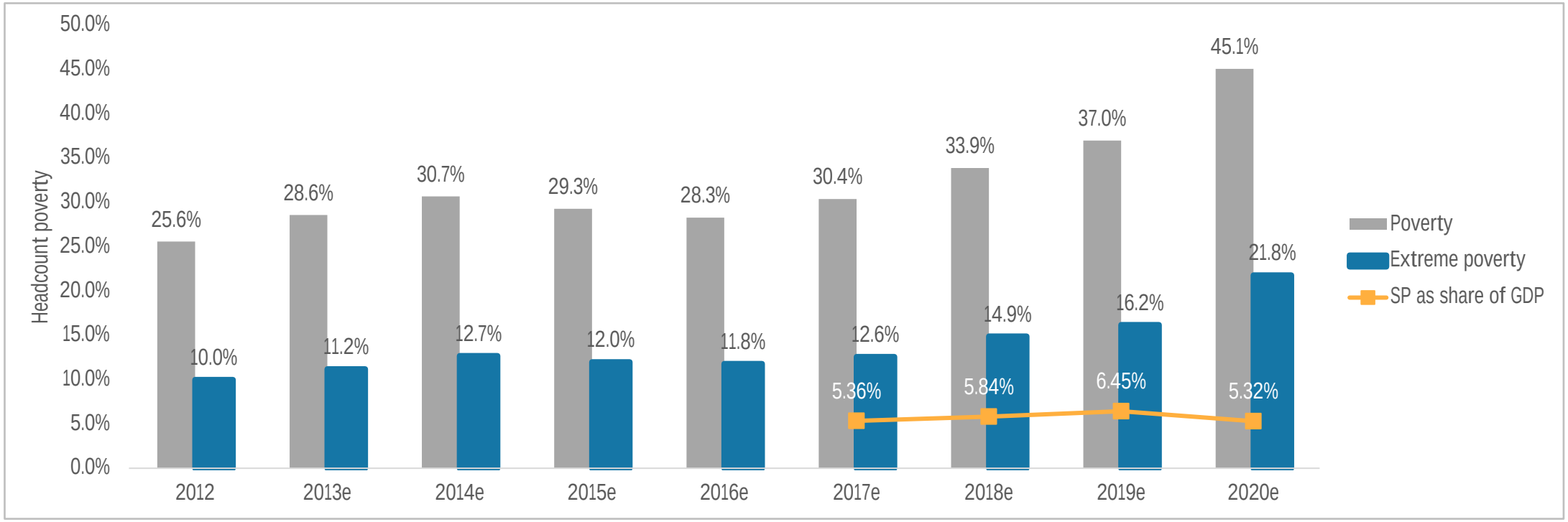



Reference 17

# In Lebanon, growth in social protection spending has not translated into poverty alleviation…

Though the poverty increase in Lebanon is a direct result of economic recession coupled with a series of external shocks (impact of the Syrian crisis, LBP depreciation, COVID-19 pandemic), spending on Social Protection was not able to protect the most vulnerable or to mitigate the increase in poverty rates, notably of extreme poverty.

Figure 6: Poverty and extreme Poverty Rates for the Lebanese population, 2012-2020* (World Bank, 2020)




*Poverty rates are all projected, as the latest survey conducted to measure poverty in Lebanon dates back to 2012.

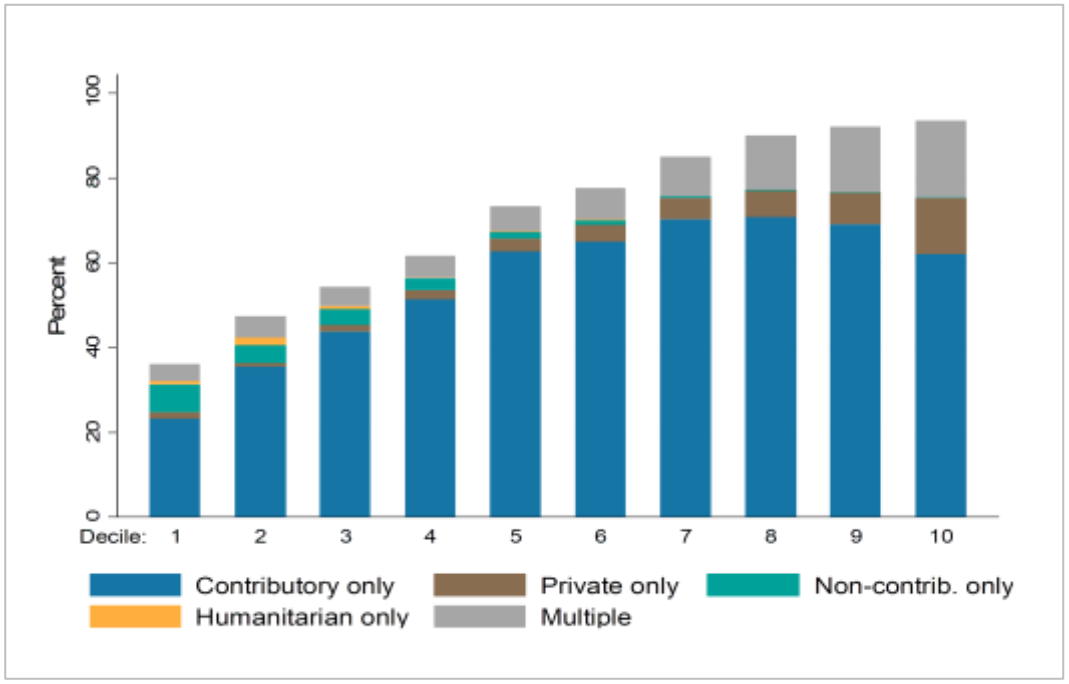
Social Protection Spending

# And coverage is still far from being fair and inclusive.

About a quarter of Lebanese citizens have no access to social protection. This limited coverage is resulting in an unequal and highly regressive social protection system, that is skewed towards formal and public sector workers and high-income households.

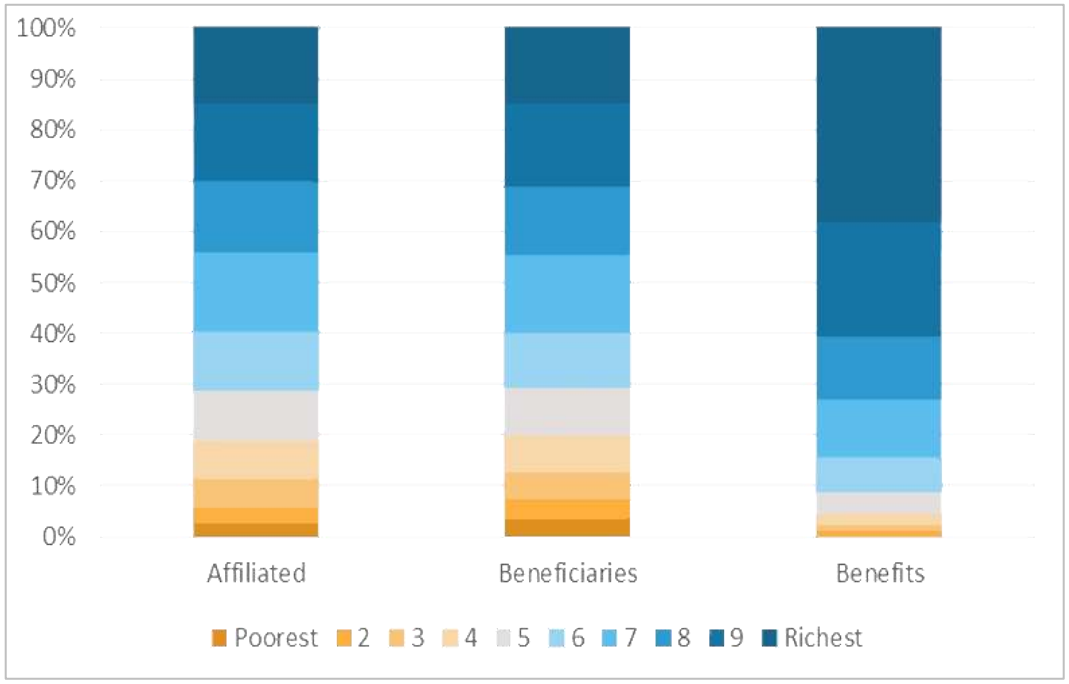
The predominance of contributory schemes means that poor and vulnerable groups are at high risk of remaining uncovered.

Figure 7: Social protection coverage by decile, Lebanese citizens (ILO, 2021)




Reference 7

Figure 8: Distribution of beneficiaries and benefits (Lebanese citizens only), by income decile (ILO, 2021)

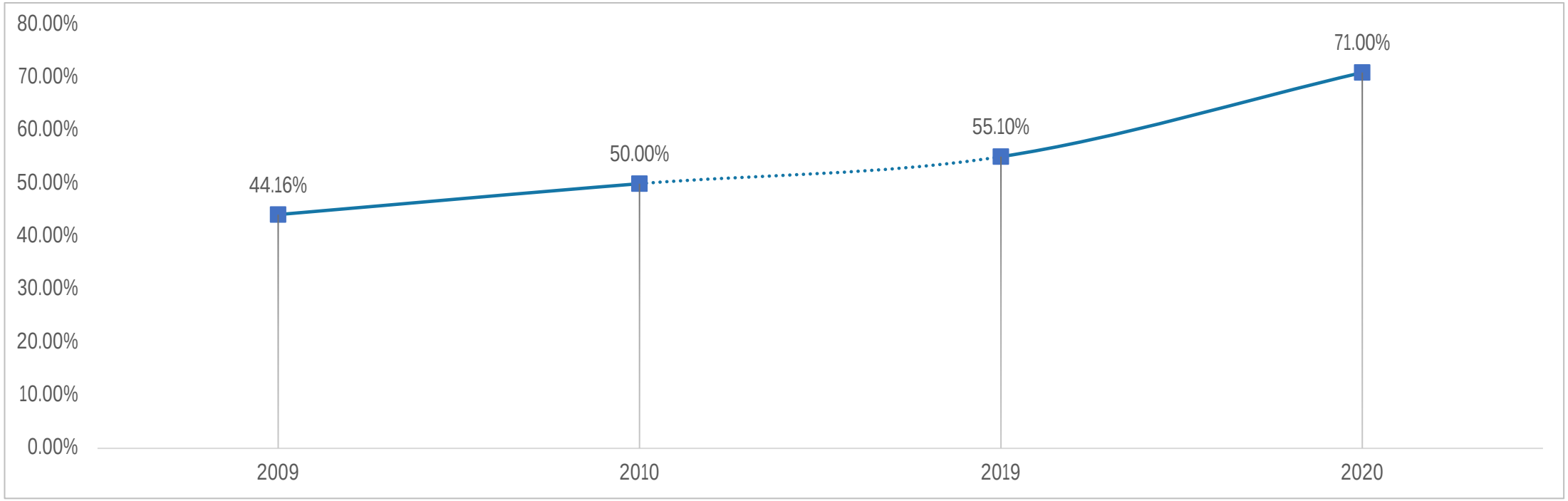



Reference 7

# More than 55% of the labor force works in the informal sector and does not benefit from any formal social protection scheme. This share is expected to reach 71% in 2020.

The share of informal employment has grown steadily over the last decade. This trend may have two implications for the design of future social protection schemes. The first is that employment programs should try to incentivize the transfer of employees from the informal to the formal sector. The other would be to foresee an expansion of the share of social insurance as coverage might need to further expand.

Figure 9: Share of informal sector in Lebanon (2009, 2010 – 2019,2020)

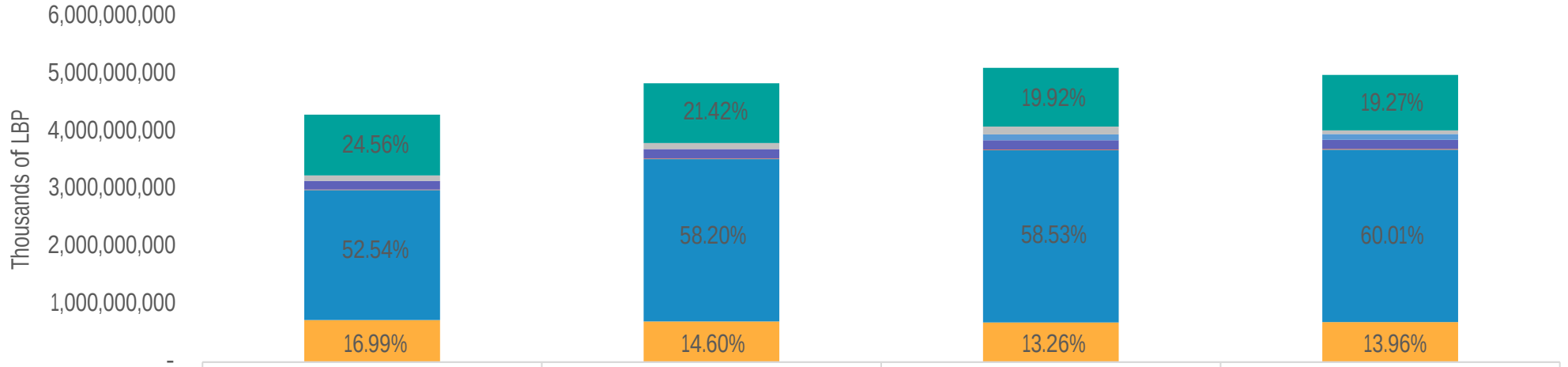



References 6, 9, 10 and 12

# "Spending on old age" in amount and share remains consistently the highest category of spending

Diving further into the expenditures, "spending on old age" in amount and share remains consistently the highest category of spending, driven by the share of retirement and end-of-service indemnities that eat up more than half of spending.

Figure 10: Functional classification – distribution of main functions under social protection




| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Social protection n.e.c. | 1,055,420,881.00 | 1,037,397,732.00 | 1,017,824,655.00 | 960,912,154.00 |
| R&D Social protection | 1,120,000.00 | 986,000.00 | 915,900.00 | 841,500.00 |
| Social exclusion | 93,584,158.00 | 106,041,545.00 | 136,998,095.00 | 63,958,308.00 |
| Housing | | | 100,000,000.00 | 100,000,000.00 |
| Family and children | 149,842,942.00 | 161,005,210.00 | 162,029,958.00 | 159,824,678.00 |
| Survivors | 8,910,000.00 | 11,572,000.00 | 12,372,000.00 | 12,372,000.00 |
| Old age | 2,257,819,000.00 | 2,818,643,846.00 | 2,990,522,098.00 | 2,992,425,808.00 |
| Sickness and disability | 730,269,000.00 | 707,141,080.00 | 688,630,964.00 | 695,976,553.00 |

Social Protection Spending

# And Lebanon's State protection system caters for the lucky few.

This scheme provides the elderly with protection and allocates up to 59% of spending on social protection to retirement and end-of-service indemnities. However, the system is highly skewed towards public sector workers.

Figure 11: Functional classification – major secondary functions

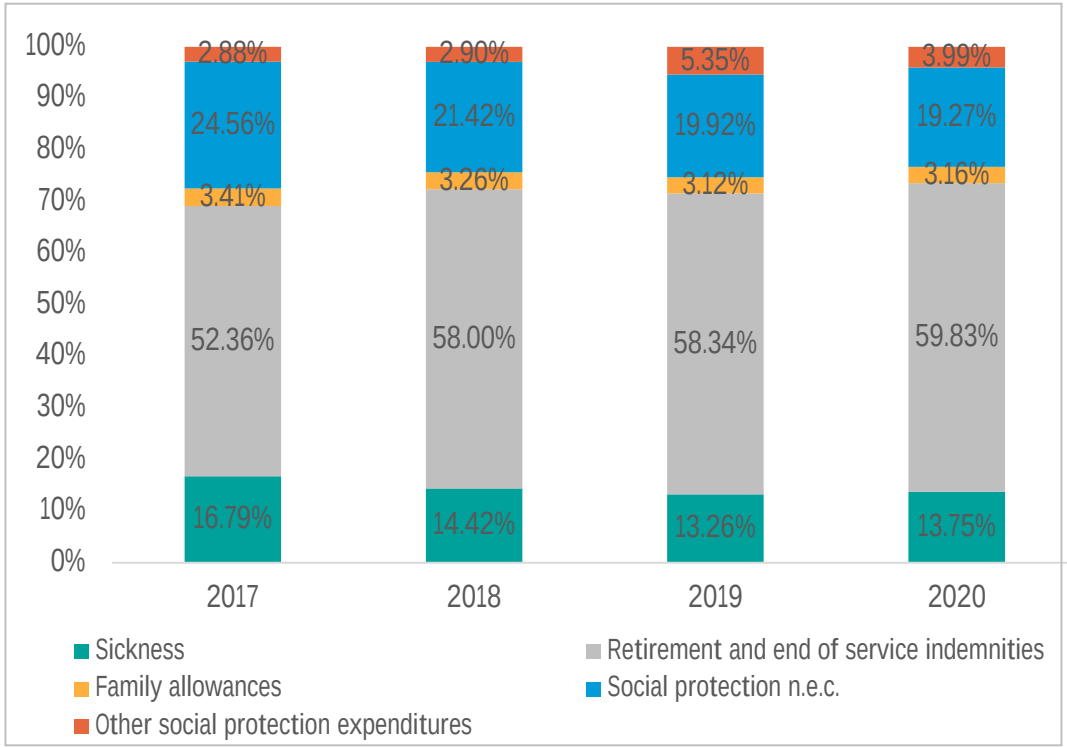
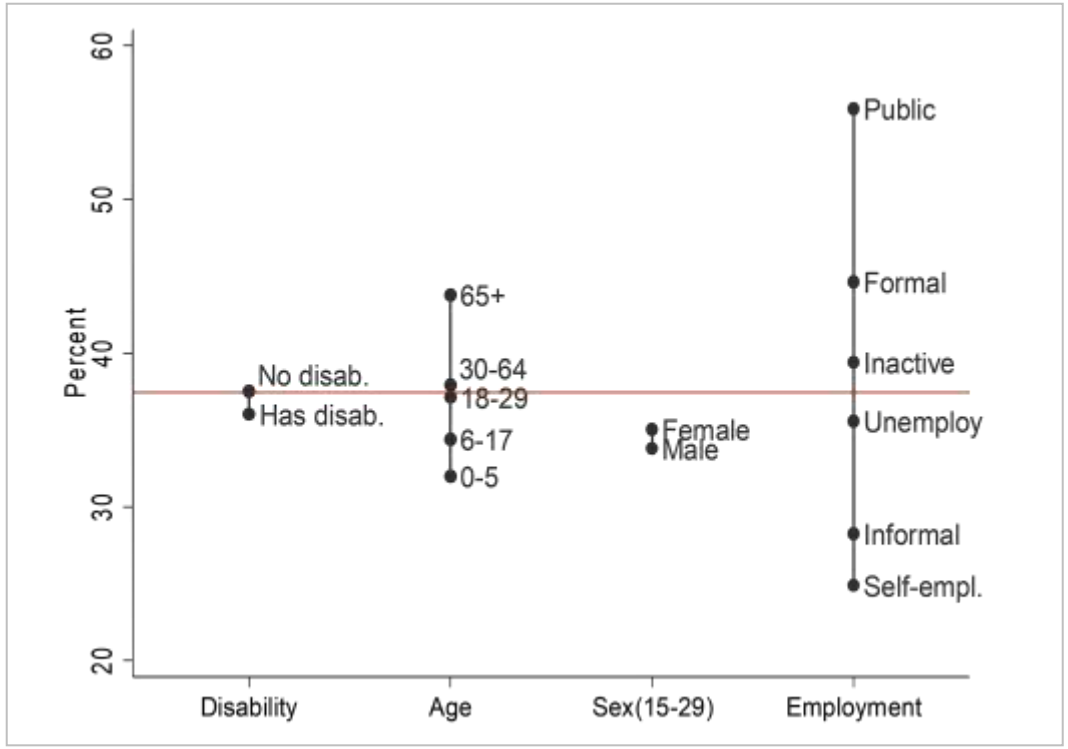



Figure 12: Proportion of Lebanese citizens receiving SP benefits, by selected individual characteristics (ILO, 2021)




Reference 7

# Expanding the analysis beyond the functional classification

HIGHLIGHTS:

More than 40% of spending on social protection is classified outside of the traditional functional classification adopted by country to report on their expenditures in a harmonized manner.

# Expanding the base for analysis.

*A significant amount of spending is not categorized under the "social protection" functional classification but could be captured in the scope of this study as social spending.*

A more thorough inspection of the budget revealed that a considerable share of social protection is accounted for outside of Function 10 – Social Protection.

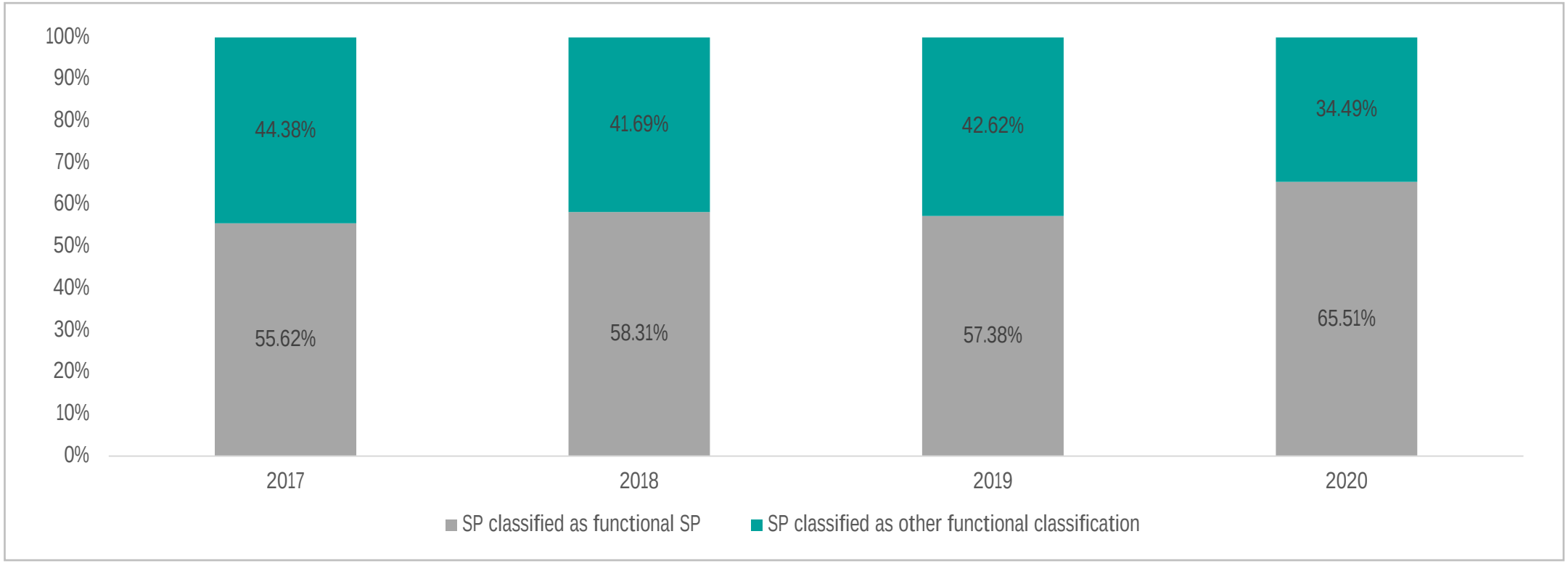
Thus, the budget review went beyond the "traditional" classification and mapped all budget lines that financed any kind of social spending, notably every spending line which purpose was either social assistance, social insurance, financial access to services, economic inclusion and labor activation or social welfare.

The following analysis of key findings is based on this wide mapping and data collection that provides a more comprehensive outlook and approach to Government's social spending in Lebanon.

# More than 40% of social protection spending is classified outside of the Social Protection Function (Function 10)

The drop to 34.5% in 2020 needs to be analyzed in relative terms. The economic contraction and shrinking fiscal space have added pressure on the budget and constrained the Government to prioritize compulsory spending such as pensions. Given their weight in the Social Protection function, that share relatively grew against the share of Social Protection spending found elsewhere in the budget.

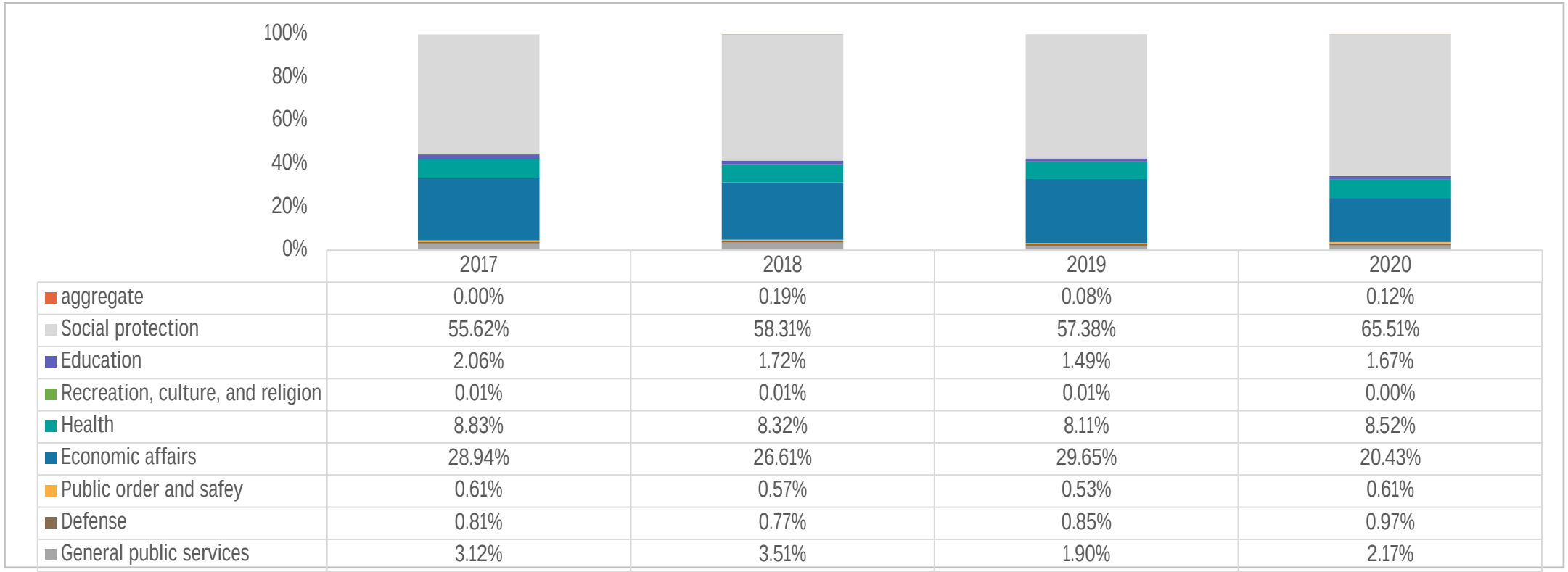
Figure 13: Social protection spending classified outside function 10



# Where can we identify other spending on social protection in the budget?

55-65% of SP expenses are classified under the Social Protection function, while 27% can be found under the Economic affairs function (composed mainly of transfers to EDL) and about 8% under the health function.

Figure 14: Evolution of budgeted SP expenses per functions (functions as share of total SP)



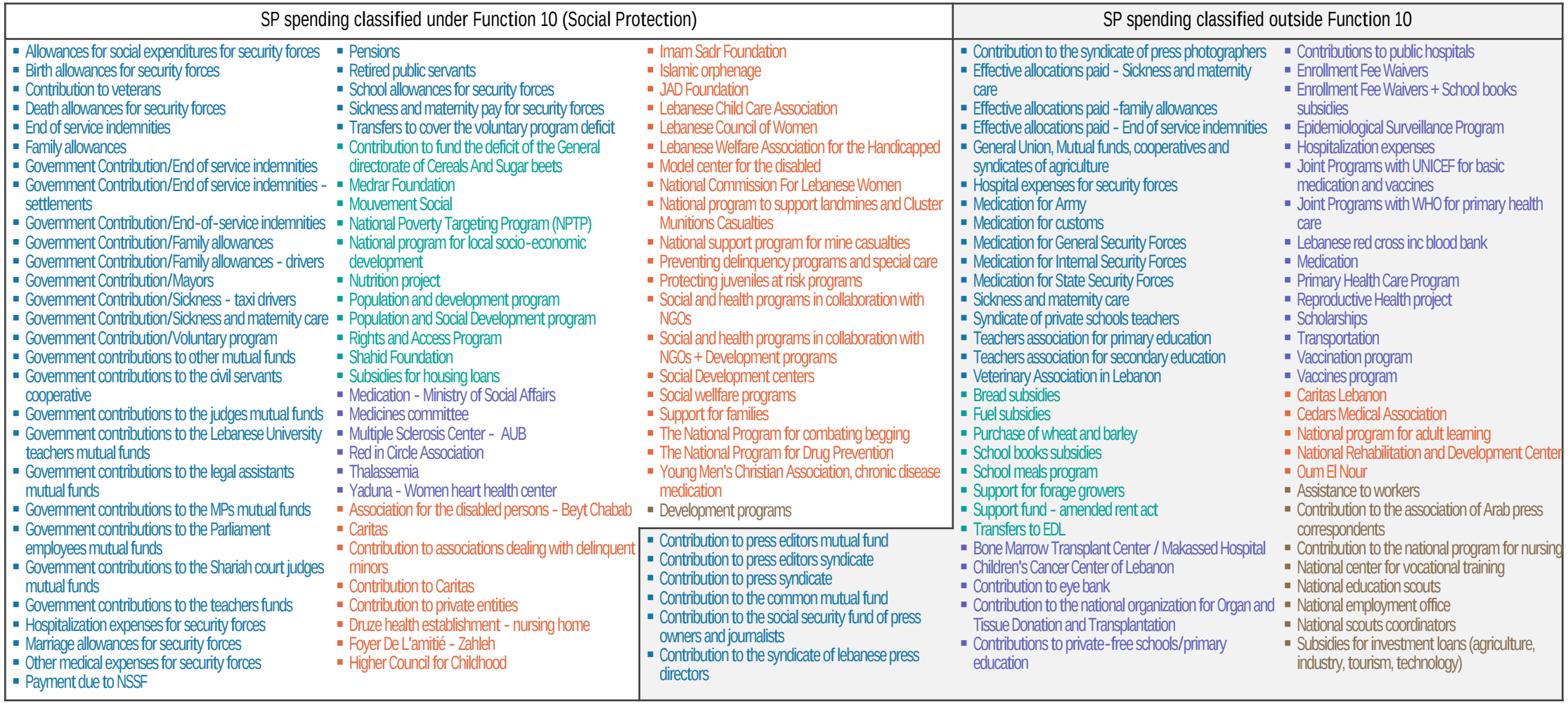

| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| aggregate | 0.00% | 0.19% | 0.08% | 0.12% |
| Social protection | 55.62% | 58.31% | 57.38% | 65.51% |
| Education | 2.06% | 1.72% | 1.49% | 1.67% |
| Recreation, culture, and religion | 0.01% | 0.01% | 0.01% | 0.00% |
| Health | 8.83% | 8.32% | 8.11% | 8.52% |
| Economic affairs | 28.94% | 26.61% | 29.65% | 20.43% |
| Public order and safey | 0.61% | 0.57% | 0.53% | 0.61% |
| Defense | 0.81% | 0.77% | 0.85% | 0.97% |
| General public services | 3.12% | 3.51% | 1.90% | 2.17% |

*Prior to 2018, transfers to EDL were classified under economic affairs. As of 2018, they were accounted for as a treasury advance, but for consistency, we have integrated them under economic affairs for 2018-2020.

Social Protection Spending

# Overall Social Protection spending was re-classified under the 5 Strategy pillars

Figure 15: Reclassification of social protection spending identified under and outside Function 10 into the five pillars



# Macro-fiscal analysis- Social Protection spending as per a wider definition

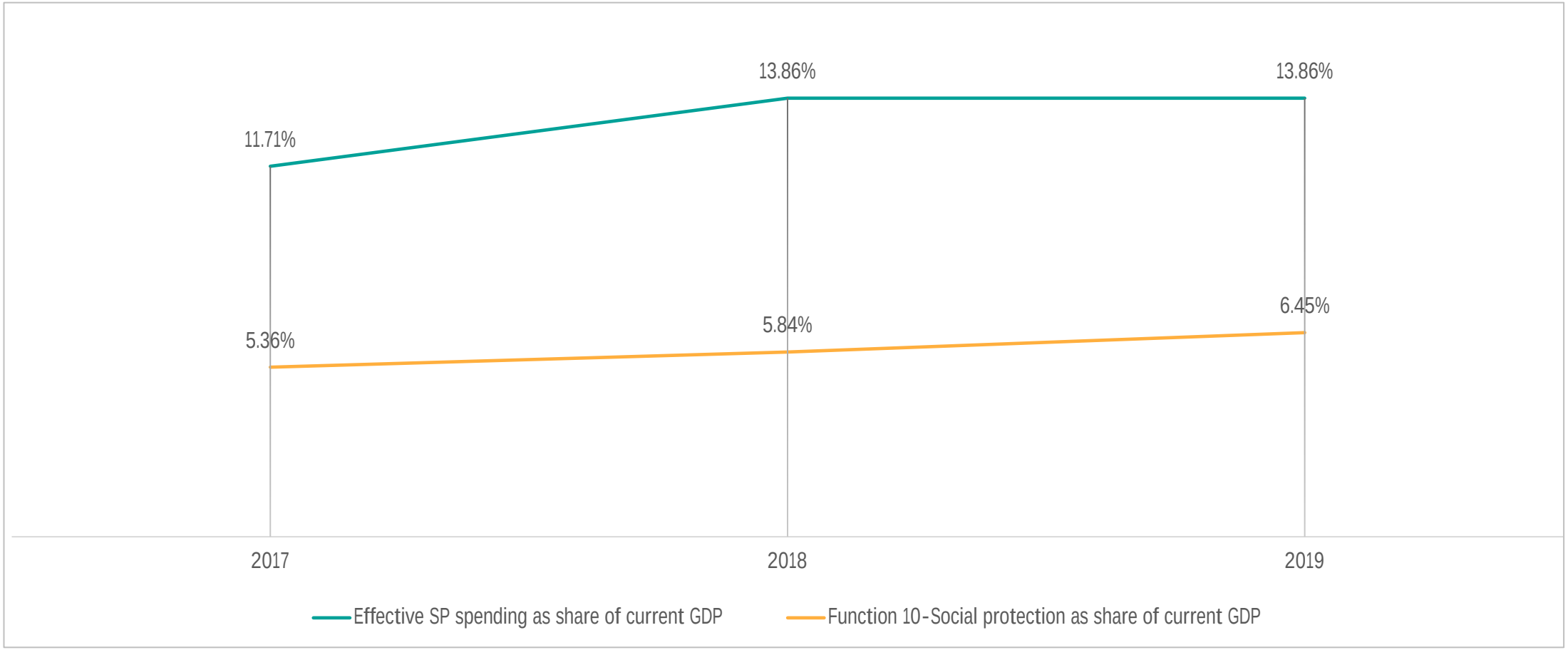
HIGHLIGHTS:

When the scope of analysis is expanded beyond the functional classification to include all types of spending providing social protection to citizens, Lebanon's spending on social protection between 2017 and 2020 reaches 13,86% of GDP and 30% of public expenditures*.

* Spending includes all Government expenditure made for the purpose of providing social assistance, social insurance, financial access to social services, economic inclusion and labor activation, and social welfare, as defined under the new Social Protection Strategy being developed for Lebanon. This share is not comparable with the shares reported internationally, that usually abide by the functional classification presented in the previous section.

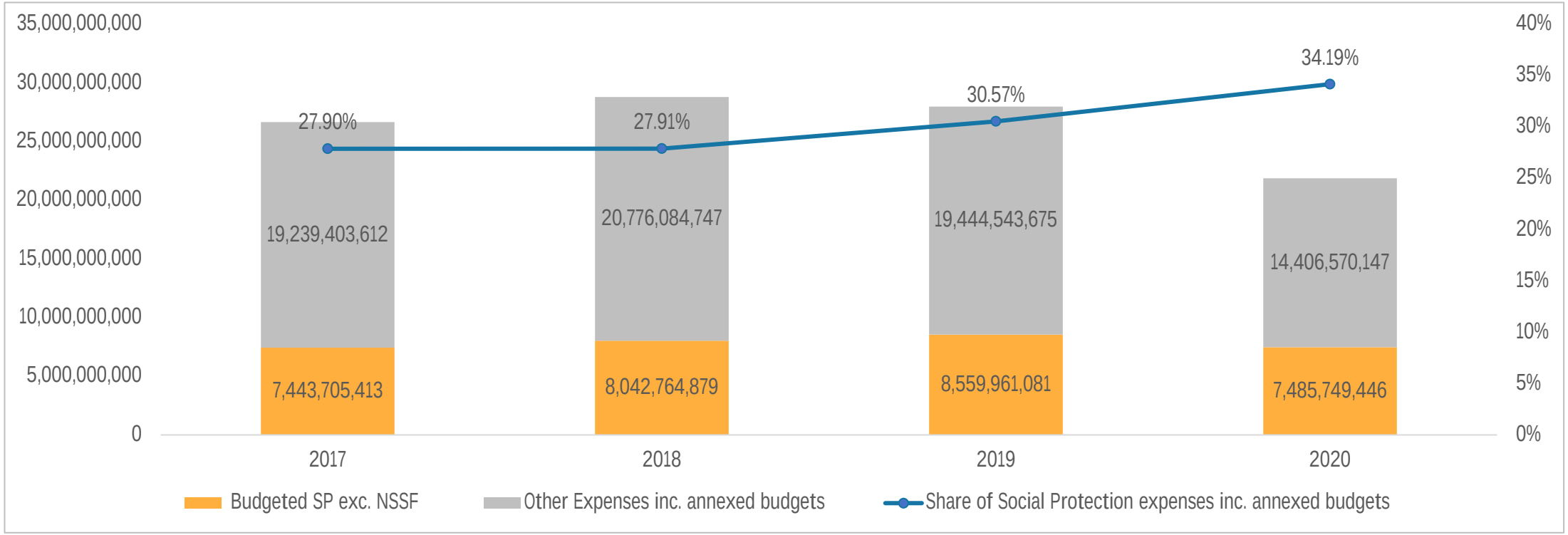
# Social Protection spending as share of GDP doubles when we expand the analysis, reaching 13.86% of GDP in 2019 compared to 6.45%.

Figure 16: Effective SP spending as share of current GDP



# With the wider definition, social protection spending reaches on average 30% of expenditures v/s 22% under the functional classification, over the same period of time.

Figure 17: Evolution of budgeted SP expenses as share of total budgeted expenses incl. annexed budgets* (thousands of LBP)




*Annexed budgets were designed to take into account the special conditions applying to some public institutions of a commercial nature, that enjoy financial autonomy but that were not granted an autonomous status. They were presented separately in Budget proposals and laws. Since they were merged within the budget as of 2021, they were integrated in our dataset and analysis to allow for future comparisons and trends.

# Analysis of Social Protection spending by contingency

HIGHLIGHTS:

The by-contingency analysis confirms that the largest share of social protection spending goes to Old Age and Survivors, notably those in the public sector, and that Poor and Vulnerable Groups are the least benefiting from social protection schemes.

Social Protection Spending

# In line with preliminary findings, the contingency/risk analysis confirms that the largest share of spending is on Old Age and Survivors.

When social protection expenditures are analyzed across the lifecycle, the largest share of spending goes to Old Age and Survivors, followed by well-being* and medical care, with very few discrepancies between budgeted and planned amounts. Maternity, Unemployment and Disability get the least share of spending.

Figure 18: Cumulative SP spending by social risk between 2017-2019 (thousands of LBP) - excluding NSSF budget


*Well-being includes spending aimed to improve livelihoods and guarantee access to essential goods and services, such as subsidies, cash transfers and welfare programs.

# Two-third of spending on Old Age and Survivors benefit the public sector.

Figure 19: SP spending on old ages (thousands of LBP) - including NSSF budget

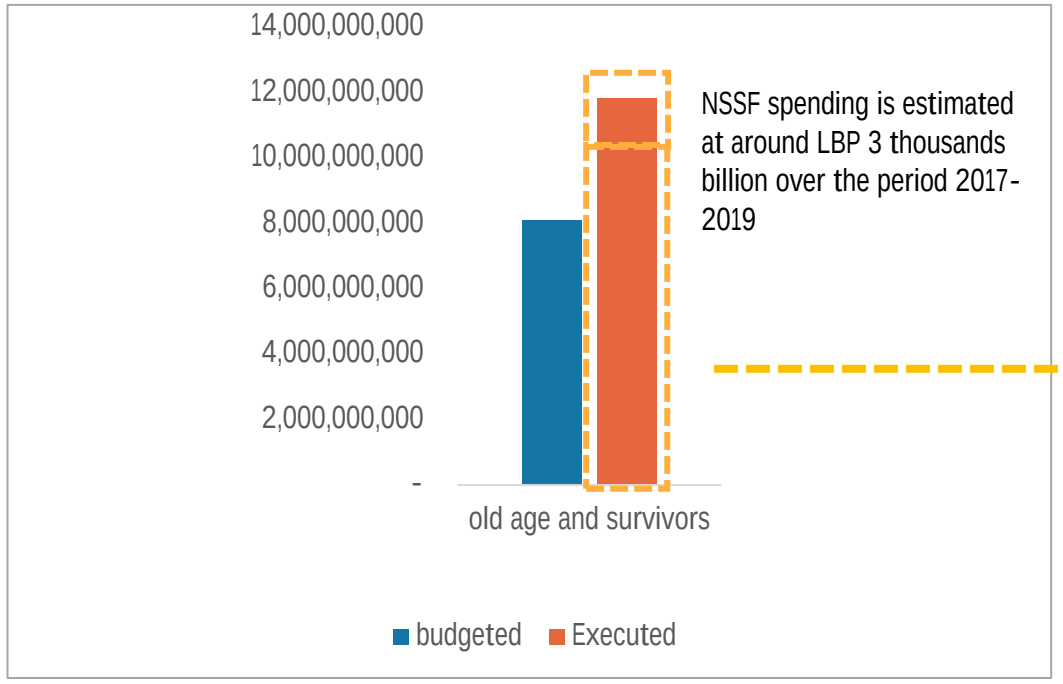
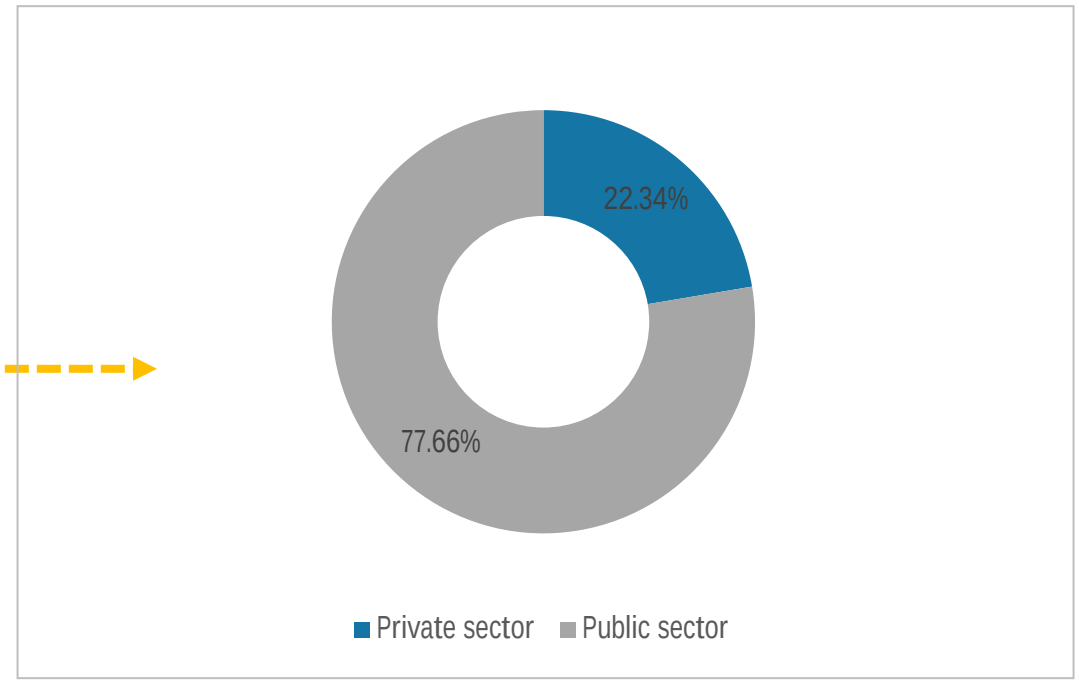



Figure 20: SP spending on old ages per beneficiary group



# Spending on wellbeing is inflated by fuel subsidies that profit to a large share of the population but are highly regressive.

Figure 21: SP spending on Wellbeing (thousands of LBP)

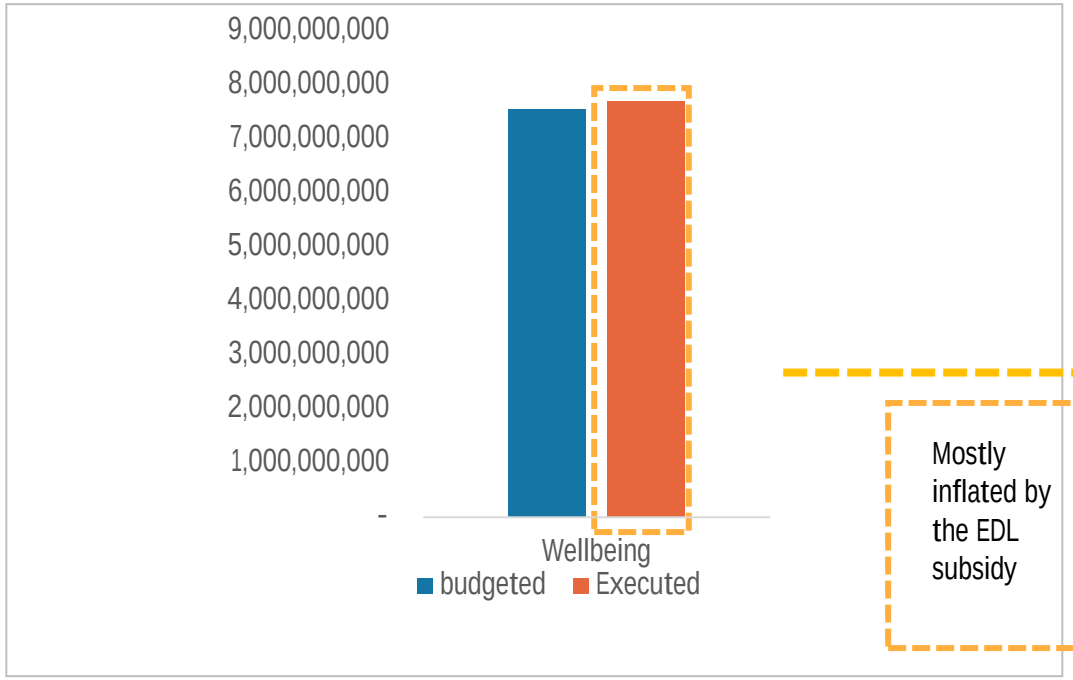
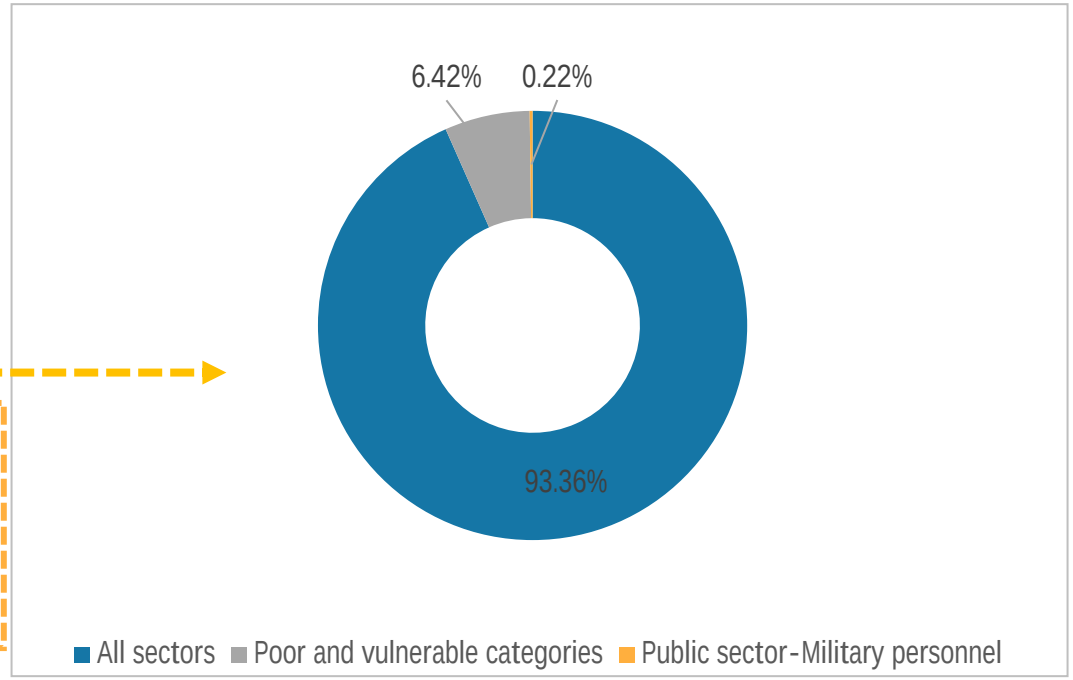



Figure 22: SP spending on Wellbeing per beneficiary group



# Spending on medical care is mostly directed at private sector workers (35.3%) and military personnel (33.6%).

However, in numbers, spending on medical per capita is higher for military personnel since private sector workers outnumber military personnel.

Figure 23: SP spending on Medical care (thousands of LBP)

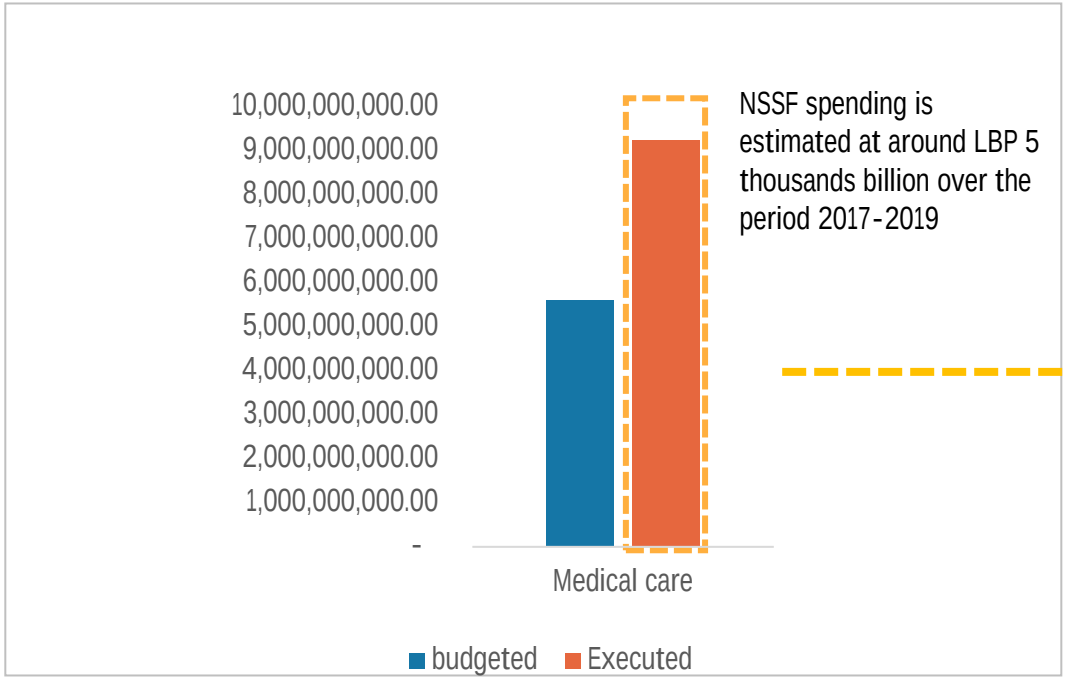
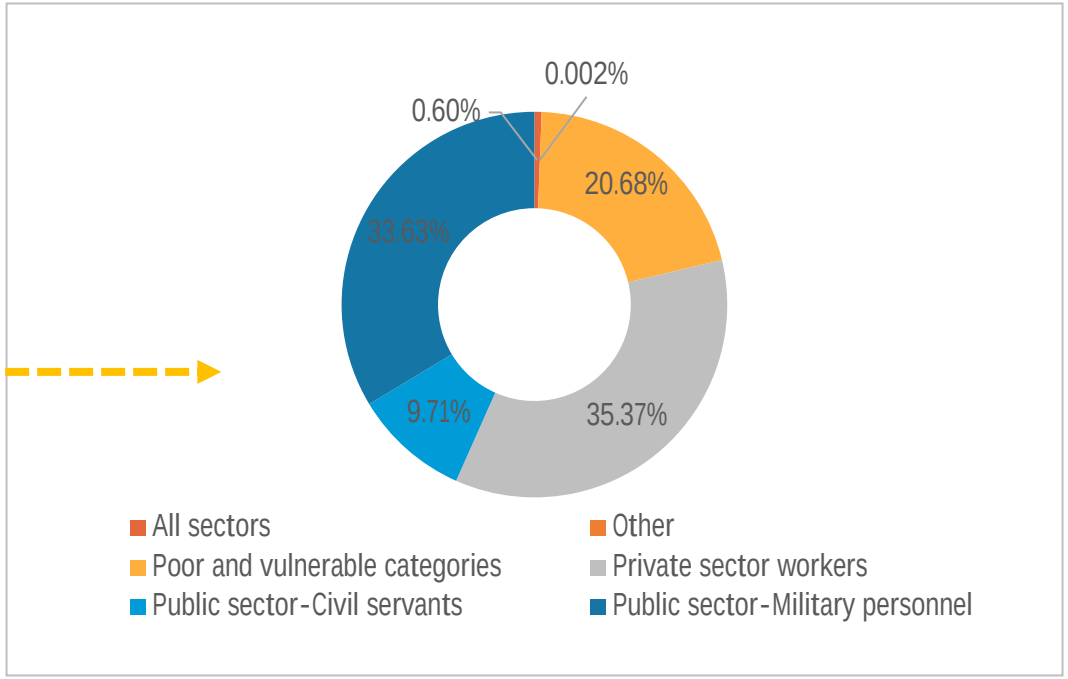



Figure 24: SP spending on Medical care per beneficiary group



# Analysis of Social Protection spending by beneficiary group

HIGHLIGHTS:

Social protection spending is skewed towards public sector beneficiaries, who benefit from more than 45% of allocations while poor and vulnerable groups suffer from recurrent underspending.

Within the public sector, social spending is skewed towards spending on military personnel (32.9% of total spending on the public sector) v/s civil personnel (12.8%).

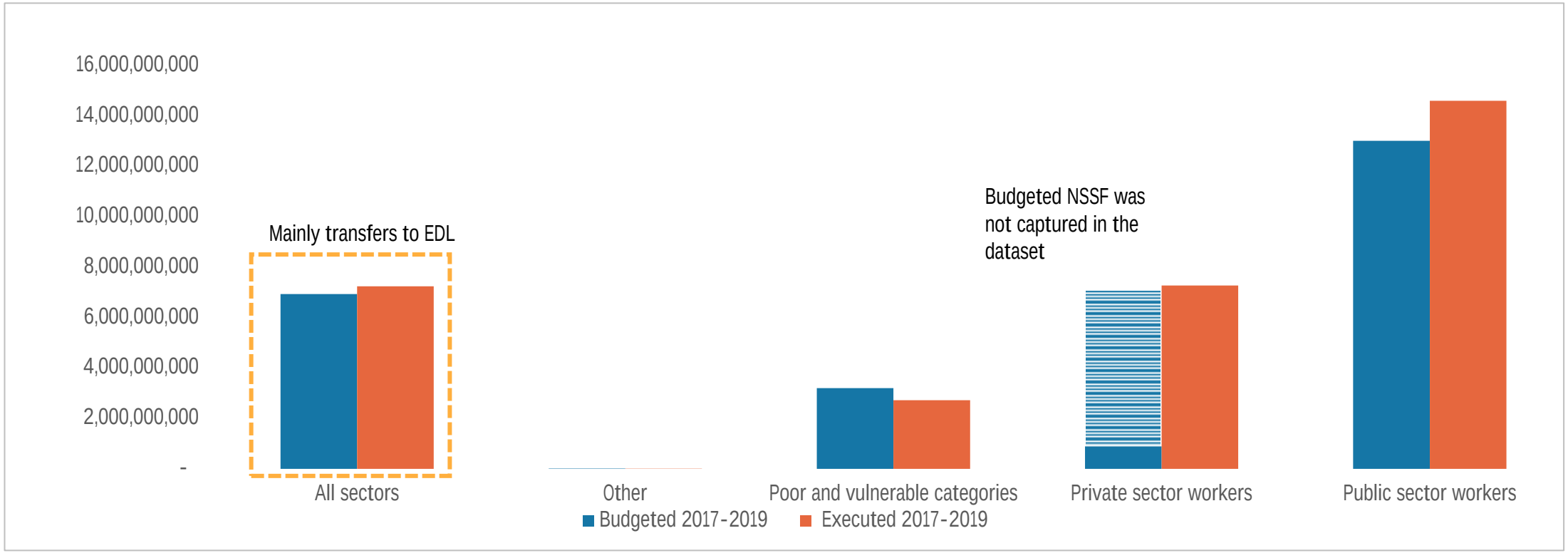
Poor and vulnerable groups benefit mostly from Social Protection spending by the Ministry of Public Health.

Direct support to private sector workers comes in the form of contributions to syndicates and professional associations to partly finance retirement and pensions schemes. These professional associations have taken the form of NGOs and do not cover all sectors.

Fuel subsidies benefit everyone but are highly regressive.

# The analysis in terms of primary beneficiary groups confirms that social protection spending benefits massively to public sector employees (45.9%), to a much larger extent than private sector employees (22.8%).

Figure 25: Spending gap by beneficiary groups (thousands of LBP) – 2017-2019)

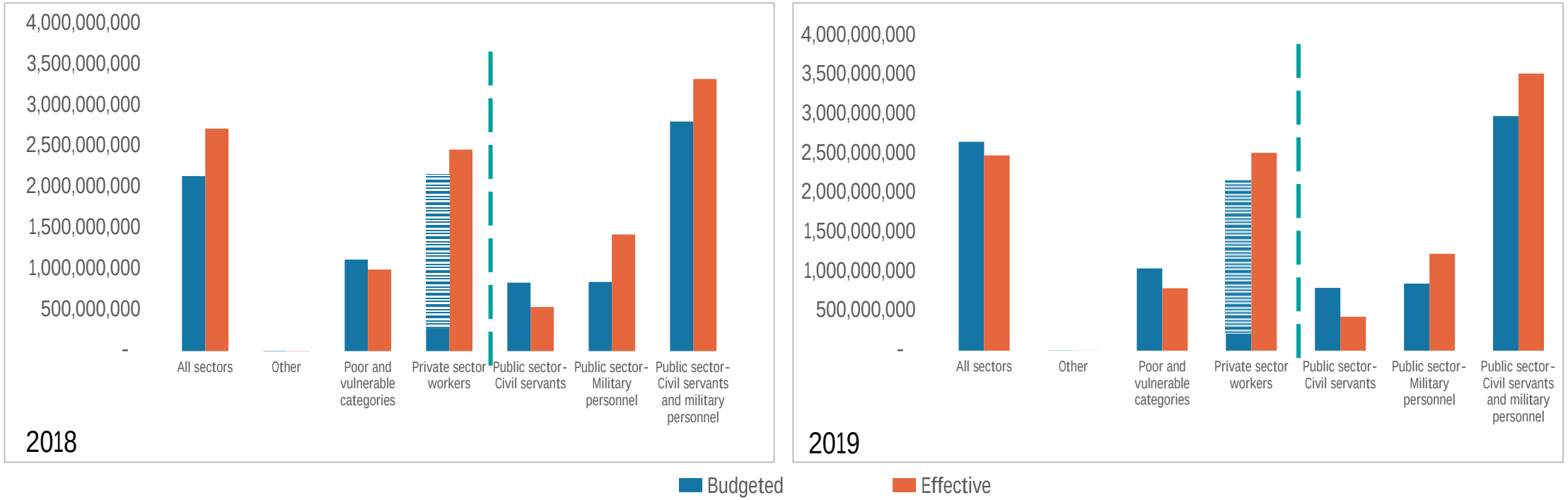


Social Protection Spending

# Poor budget planning practices stand out, characterized by overspending in the public sector and underspending on social protection to poor and vulnerable groups.

Spending by beneficiary groups points out to weak budget planning practices that result from an overall lack of accurate planning and limited delivery capacity.
It is also worth to mention that the overspending on private sector workers is probably less meaningful and is partly due to the absence of data on NSSF's budgeted spending.

Figure 26: SP spending by beneficiary group (thousands of LBP)



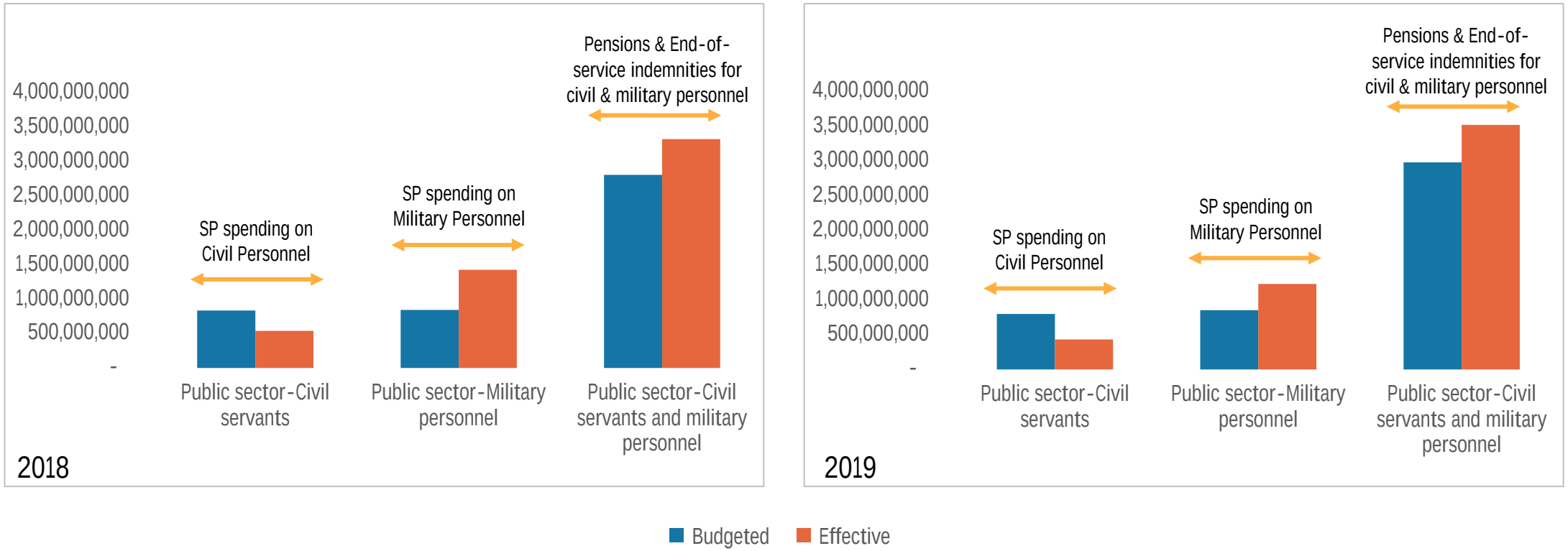

* *The last column refers to the pension and end-of-service indemnities paid to both military and civil service personnel and that comes as one aggregated budget line within the budget.*

# Public Sector

# Within the public sector, social spending is skewed towards spending on military personnel v/s civil personnel.

Further investigation is needed to understand if the higher spending on military personnel stems from a higher number of employees or from larger benefits offered to the military.

Figure 27: SP spending by beneficiary group – all public sector groups (thousands of LBP)



# Despite substantive spending on pensions and end-of-service indemnities, a large share of government employees are still left outside the official protection scheme.

Only retired civil servants on permanent employment regimes benefit from State provided social protection for the elderly. This does not include other categories of personnel enrolled in government such as daily workers and service providers.
In addition, effective spending on pensions and end-of-service indemnities exceeds initial budgeted amounts on a recurrent basis. In 2019, related expenses represented 36.1% of total personnel costs or 4.7% of GDP, which is significantly high by international standards, making it fiscally unsustainable.

Figure 28: SP spending by beneficiary group – Public sector civil servants and military personnel (thousands of LBP)

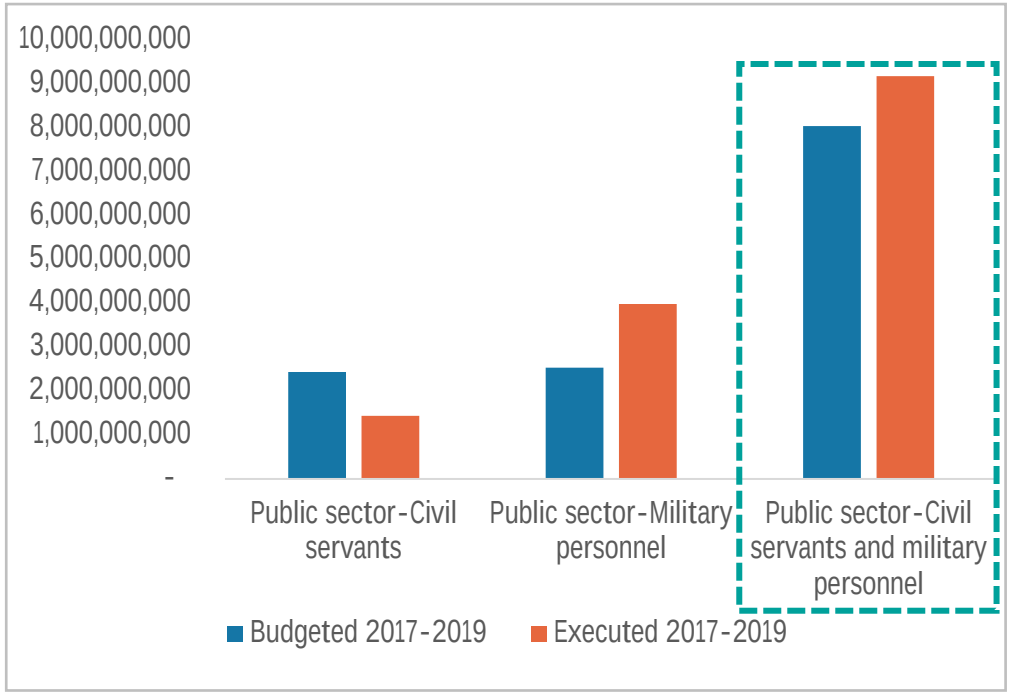
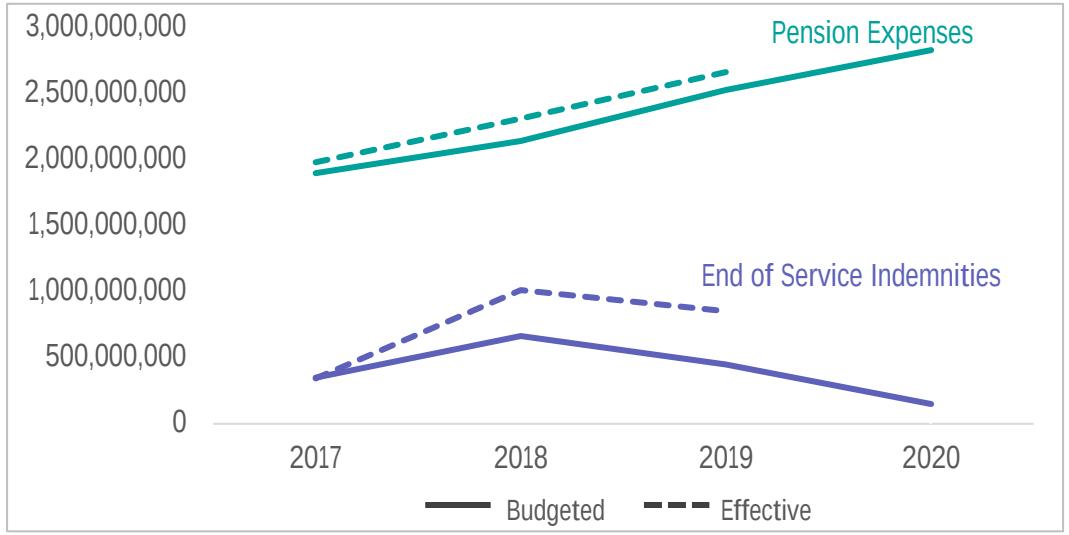



Figure 29: Evolution of spending on pensions and end of service indemnities (thousands of LBP)




| Aggregated allocations (2017-2019) | Budgeted | Executed |
|---|---|---|
| End of service indemnities | 1,465,400,000 | 2,211,385,336 |
| Pensions | 6,574,643,966 | 6,964,482,516 |

# 32,9% of social protection spending benefit military personnel. Its largest share finances their pensions scheme, followed by hospital expenses, hospitalization and school allowances

The military personnel's exclusive share of total effective SP spending over the period 2017-2019 is of 12.51% (excl. retirement and end-of-service indemnities).
Adding its share of pensions and end-of-year indemnities (71% according to WB, 2018), SP spending on military personnel reaches 32.9% of total SP spending.

Figure 30: SP spending by beneficiary group – military personnel (thousands of LBP)

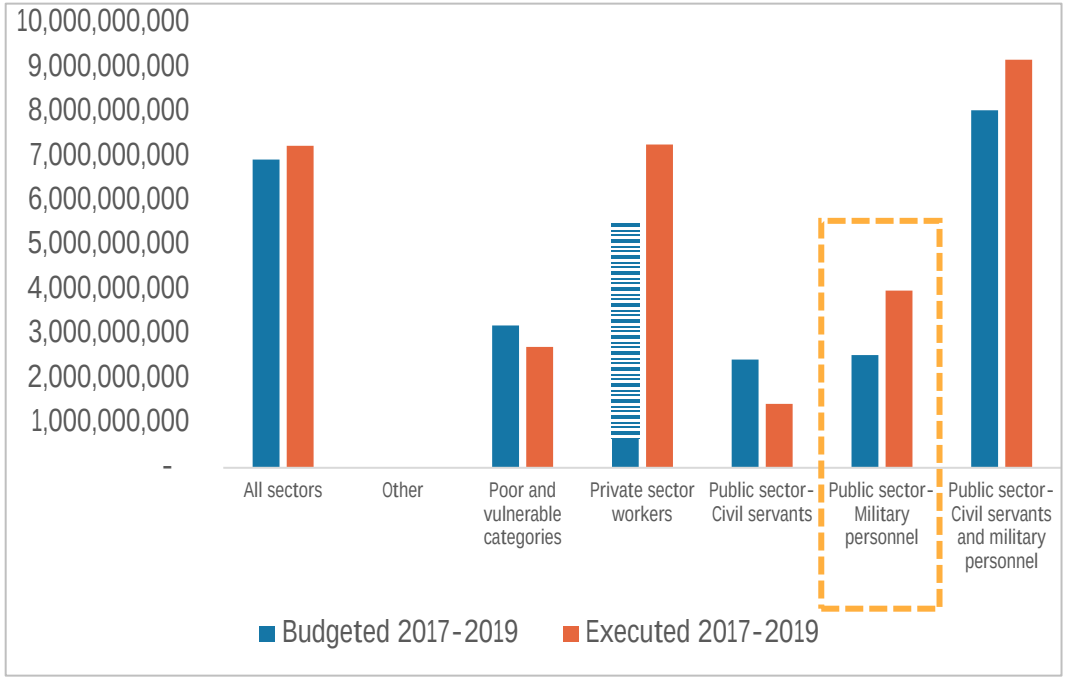



Table 3: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

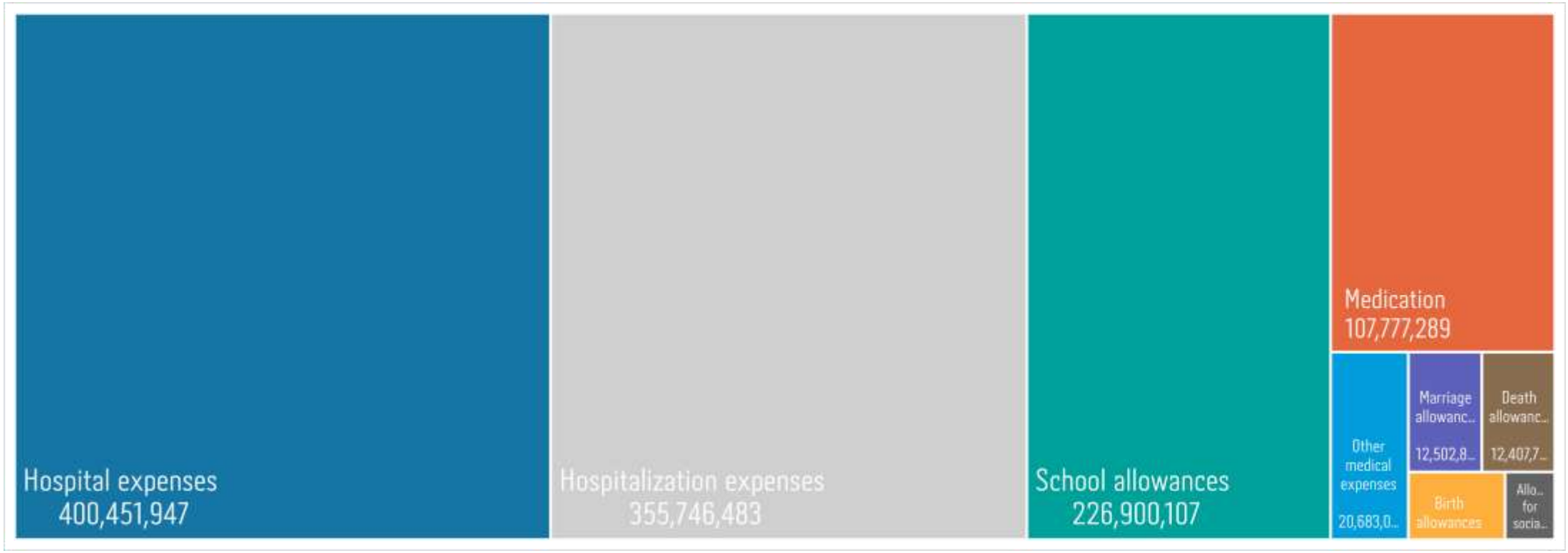
| Public sector-Military personnel | Budgeted | Executed |
|---|---|---|
| Hospital expenses for security forces | 15,140,000 | 1,263,462,335 |
| Hospitalization expenses for security forces | 1,002,940,000 | 1,239,166,381 |
| School allowances for security forces | 761,679,148 | 769,243,190 |
| Sickness and maternity pay for security forces | 244,160,000 | 223,324,065 |
| Medication for Army | 194,850,000 | 192,011,305 |
| Other | 136,993,083 | 132,793,557 |
| Medication for Internal Security Forces | 113,850,000 | 99,931,878 |
| Other medical expenses for security forces | 66,022,000 | 64,403,649 |
| Total | 2,535,634,231 | 3,984,336,360 |

Hospital expenses are largely underestimated in the budget law, creating a substantive planning gap among this beneficiary group.

# A dive into social benefits of military personnel

The below provides an overview of executed social insurance expenses for military personnel, excluding Retirement & End of Service Indemnities and sickness and maternity for the year 2019.

Figure 31: Other social benefits to security forces (thousands of LBP)



Social Protection Spending

# A large amount of government spending on drugs (36%) goes as well to the military

While the MoPH spends a considerable budget on drugs for chronic diseases and cancer, providing access to medication to the most vulnerable, a substantive portion of spending on medication goes to security services and armed forces.

Table 4: Spending on drugs by Government agency

| Effective budget – thousands of LBP | 2017 | 2018 | 2019 |
|---|---|---|---|
| Ministry of Agriculture | 1,794,000,000 | 838,092,000 | - |
| Administrative and technical services | 1,794,000,000 | 838,092,000 | - |
| Ministry of Finance | 1,459,688,000 | 1,999,742,000 | 2,499,302,000 |
| Customs Administration | 1,459,688,000 | 1,999,742,000 | 2,499,302,000 |
| Ministry of Interior and Municipalities | 30,044,352,000 | 40,424,465,000 | 40,029,502,000 |
| Directorate General of Internal Security Forces and prisons | 26,423,075,000 | 35,257,256,000 | 38,251,547,000 |
| Directorate General of General Security | 3,621,277,000 | 5,167,209,000 | 1,777,955,000 |
| Directorate General of Internal Security Forces and prisons | | | |
| Ministry of National Defense | 55,676,134,000 | 73,332,721,000 | 63,002,450,000 |
| Army | 55,676,134,000 | 73,332,721,000 | 63,002,450,000 |
| Ministry of Public Health | 195,584,569,000 | 232,809,061,000 | 184,231,244,000 |
| General Directorate of Public Health | 195,584,569,000 | 232,809,061,000 | 184,231,244,000 |
| Ministry of Social Affairs | - | - | - |
| General Directorate of Social Affairs | - | - | - |
| Presidency of the Council of Ministers | 1,980,135,000 | 2,423,756,000 | 2,246,035,000 |
| General Directorate of State Security | 1,980,135,000 | 2,423,756,000 | 2,246,035,000 |

# 12.8% of social spending benefits civil personnel, including education personnel.

Civil personnel's exclusive share of total effective SP spending over the period 2017-2019 is 4.52%. It mostly finances the Sickness and Maternity branch of the NSSF and the Civil Servants' Cooperative, providing for pensions scheme, hospitalization and school allowances.
After adding the share of pensions and end-of-year indemnities (29% according to WB, 2018), social protection spending for civil personnel reaches 12.8% of total SP spending.

Figure 32: SP spending by beneficiary group – civil servants (thousands of LBP)

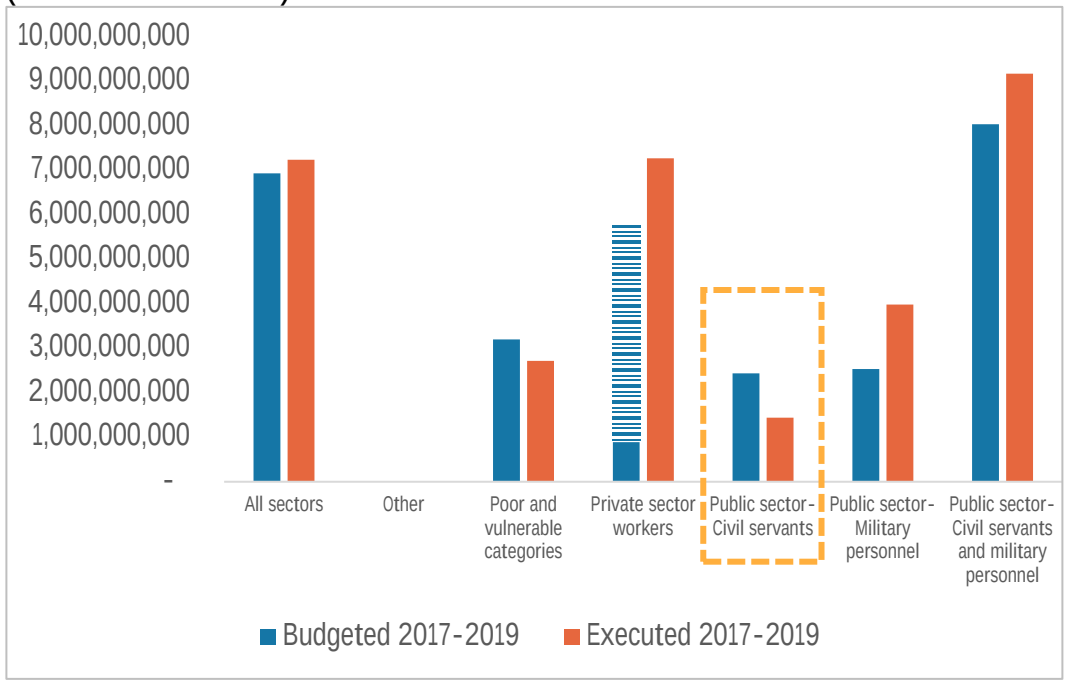


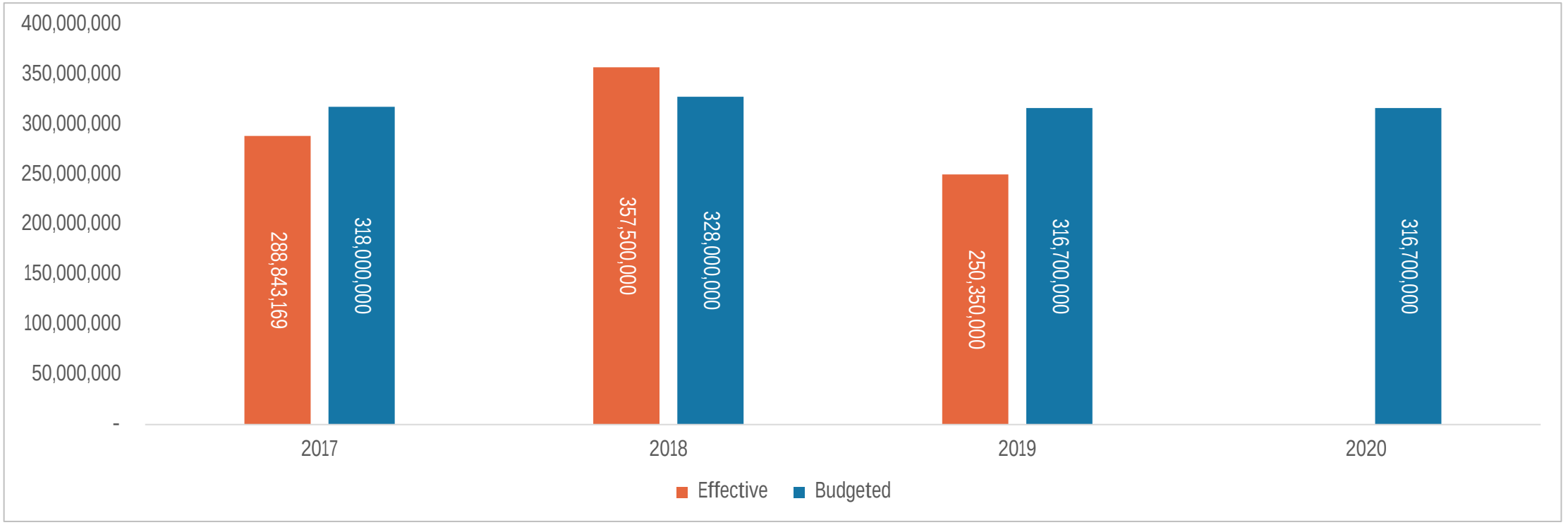

Table 5: Beneficiary group breakdown by programs excl. pensions– sum of 2017,2018,2019 (thousands of LBP)

| Public sector-Civil servants | Budgeted | Executed |
|---|---|---|
| Government contributions to the civil servant's cooperative | 962,700,000 | 896,693,169 |
| Government Contribution/Sickness and maternity care | 792,171,431 | - |
| Family allowances | 371,038,958 | 329,437,065 |
| Government contributions to the Lebanese University teachers' mutual funds | 102,950,000 | 98,866,280 |
| Others | 79,320,144 | 62,510,399 |
| Government Contribution/Family allowances | 44,378,035 | 10,464,811 |
| Government Contribution/End of service indemnities | 42,350,695 | - |
| Government contributions to the MPs mutual funds | 41,950,000 | 41,950,000 |
| Total | 2,436,859,263 | 1,439,921,724 |

# An overview of Government's contributions to the Civil Servants' Cooperative

The Civil Servants' Cooperative is a health fund that insurance against work-related accidents and sickness, as well as marriage, birth and education benefits in addition to a wide array of social services for civil personnel in the public sector (it excludes contractual and wage earners of the public sector, staff of autonomous public institutions, teachers in public schools) and their families/dependents. It is financed on the Government budget, through a 6% deduction of civil servants' payroll.

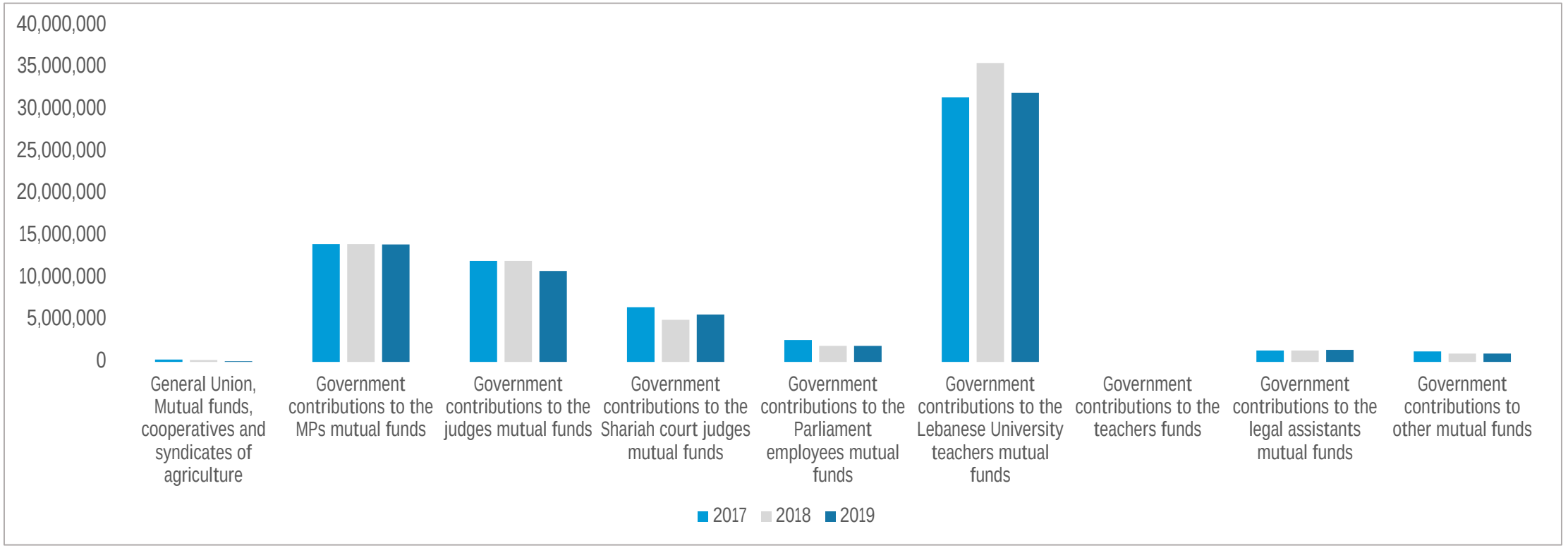
**Figure 33: Government contribution to civil servants' cooperative** (thousands of LBP)



# As well, judges, public sector teachers and Parliament staff are the main categories benefiting from Government transfers to their respective mutual funds to finance social benefits.

The Lebanese University teachers' mutual fund gets the lion's share of government's contributions, providing social benefits to about 2,000 full-time professors.

Figure 34: Government contribution to other mutual funds - Effective spending (thousands of LBP)



# Private Sector

# Support to private sector workers comes in the form of contributions to syndicates and professional associations.

These allocations finance sickness, retirement and pensions schemes.
Other support comes in the form of subsidies, notably for investment loans and on wheat and barley.

Figure 35: SP spending by beneficiary group – private sector workers (thousands of LBP)

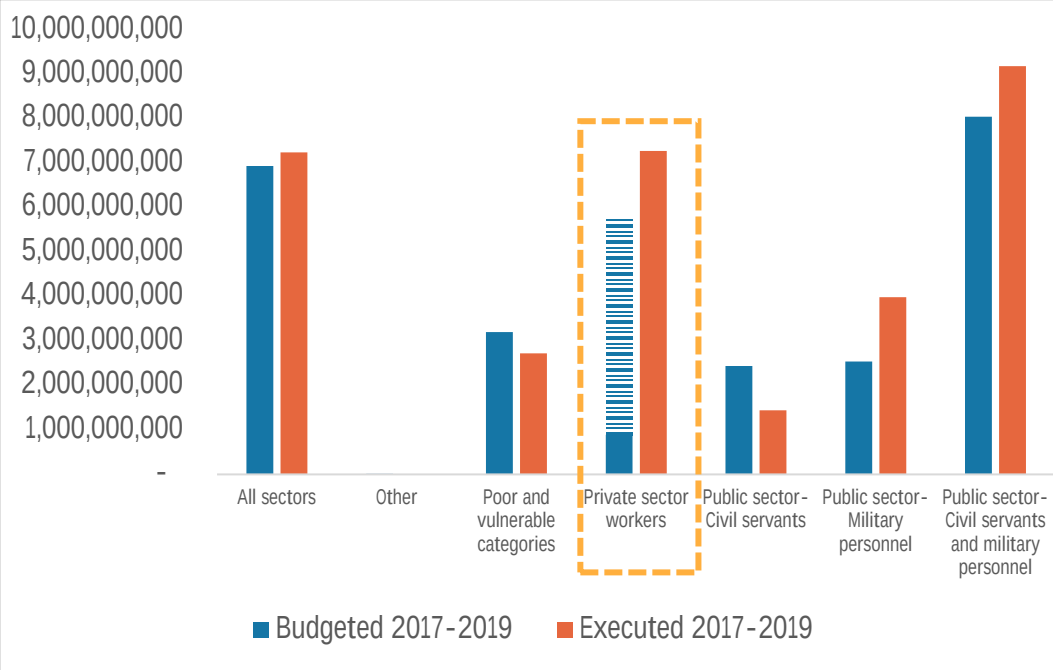


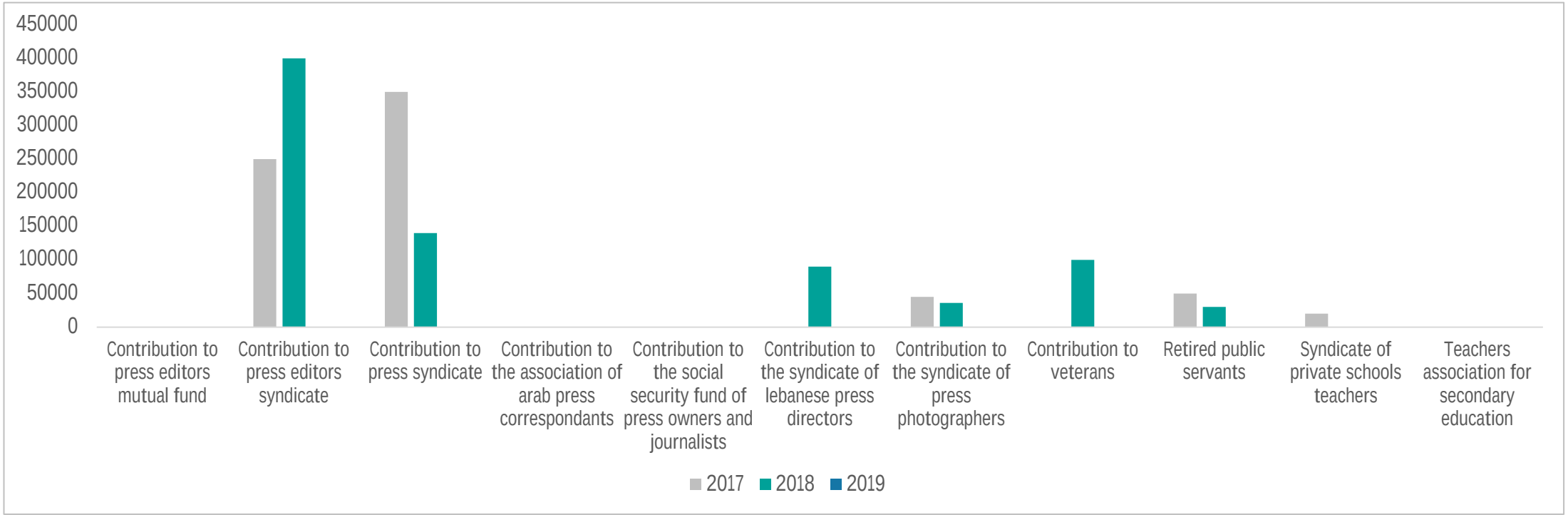

Table 6: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

| Private sector workers | Budgeted | Executed |
|---|---|---|
| Effective allocations paid - Sickness and maternity care | N/A | 3,266,183,000 |
| Effective allocations paid - End of service indemnities | N/A | 2,639,778,000 |
| Effective allocations paid -family allowances | N/A | 960,749,000 |
| Subsidies for investment loans (agriculture, industry, tourism, technology) | 510,000,000 | 393,027,064 |
| National employment office | 10,913,086 | 7,438,456 |
| National center for vocational training | 1,886,000 | 1,400,000 |
| Other | 65,233,540 | 785,500 |
| Contribution to press editor's syndicate | 1,224,000 | 650,000 |
| Contribution to press syndicate | 506,800 | 490,000 |
| Contribution to the common mutual fund | 481,250 | 431,250 |
| Support for forage growers | 24,670,000 | 39,527 |
| Government Contribution/Sickness - taxi drivers | 109,957,500 | - |
| Payment due to NSSF | 45,000,000 | - |
| Transfers to cover the voluntary program deficit | 25,000,000 | - |
| Purchase of wheat and barley | 94,980,000 | - |
| Total | 889,852,176 | 7,270,971,797 |

# Government's contribution to these mutual funds take the form of yearly allocations to professional associations registered as NGOs, and in particular to the press.

These allocations are captured under the economic classification 14.2.1 that corresponds to transfers to non-governmental organizations.

Figure 35: Government contributions to other entities – Effective spending (thousands of LBP)



# Poor and vulnerable groups

# More than 68% of SP spending targeting poor and vulnerable categories is provided by the ministry of public health while only 20% is provided by the ministry of social affairs.

Figure 37: SP spending by beneficiary group – poor and vulnerable categories (thousands of LBP)

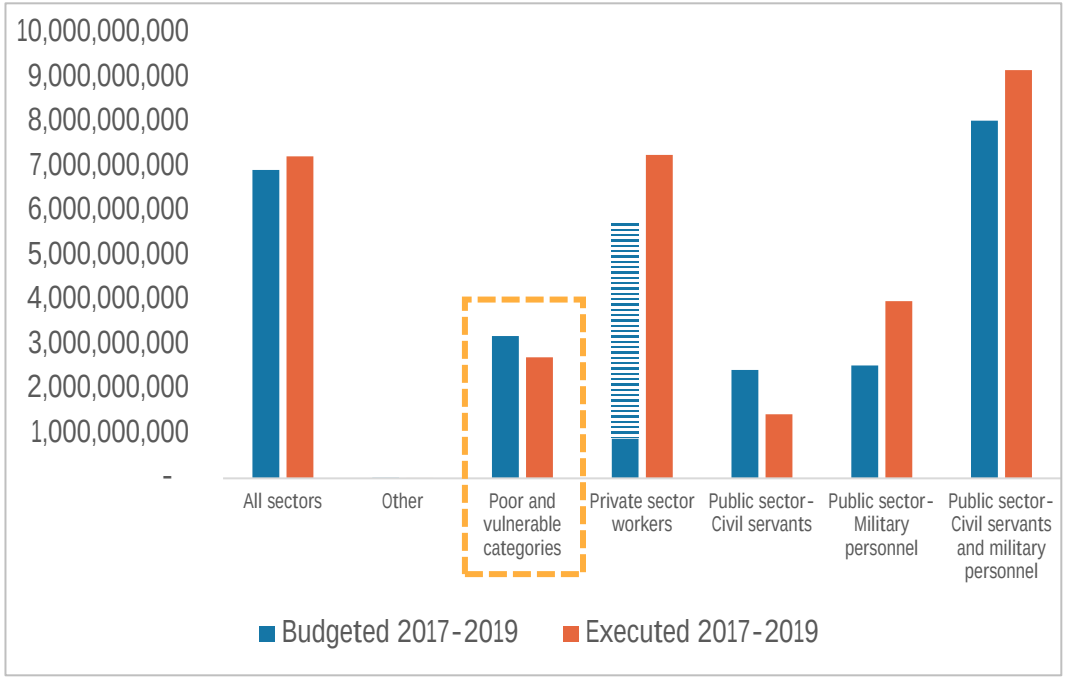



Table 7: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

| Poor and vulnerable categories | Budgeted | Executed |
|---|---|---|
| Hospitalization expenses | 1,405,000,000 | 1,248,997,372 |
| Medication | 470,050,000 | 612,624,874 |
| Social welfare programs | 450,000,000 | 377,068,050 |
| Contributions to private-free schools/primary education | 305,000,000 | 179,876,253 |
| Support fund - amended rent act | 160,132,000 | - |
| Enrollment Fee Waivers | 105,000,000 | |
| Social Development centers | 81,500,000 | 65,657,324 |
| Other | 73,321,900 | 113,167,405 |
| Contributions to public hospitals | 39,700,000 | 43,300,000 |
| Social and health programs in collaboration with NGOs | 26,000,000 | |
| Rights and Access Program | 23,900,000 | 24,005,981 |
| School meals program | 22,000,095 | 8,339,306 |
| Young Men's Christian Association, chronic disease medication | 20,300,000 | - |
| National Poverty Targeting Program (NPTP) | 18,000,000 | 20,490,000 |
| Social and health programs in collaboration with NGOs + Development programs | | 26,652,852 |
| Total | 3,199,903,995 | 2,720,179,417 |

# All sectors

# Transfers to EDL (eq. to fuel subsidies) benefit to the entire population but are highly regressive and fiscally unsustainable.

Higher-income earners are more likely to consume more fuel, and thus profit more from the subsidy. In 2015, by income, the poorest 20% of the population were already estimated to receive only 6% of the subsidy, while the richest 20% received 55 % (Ministry of Environment & UNDP, 2015).
In addition, Lebanon remains one of the highest spender on energy subsidies among oil-importers in the region, and one of the very few that haven't initiated subsidy reform yet.

Figure 38: SP spending by beneficiary group – all sectors (thousands of LBP)

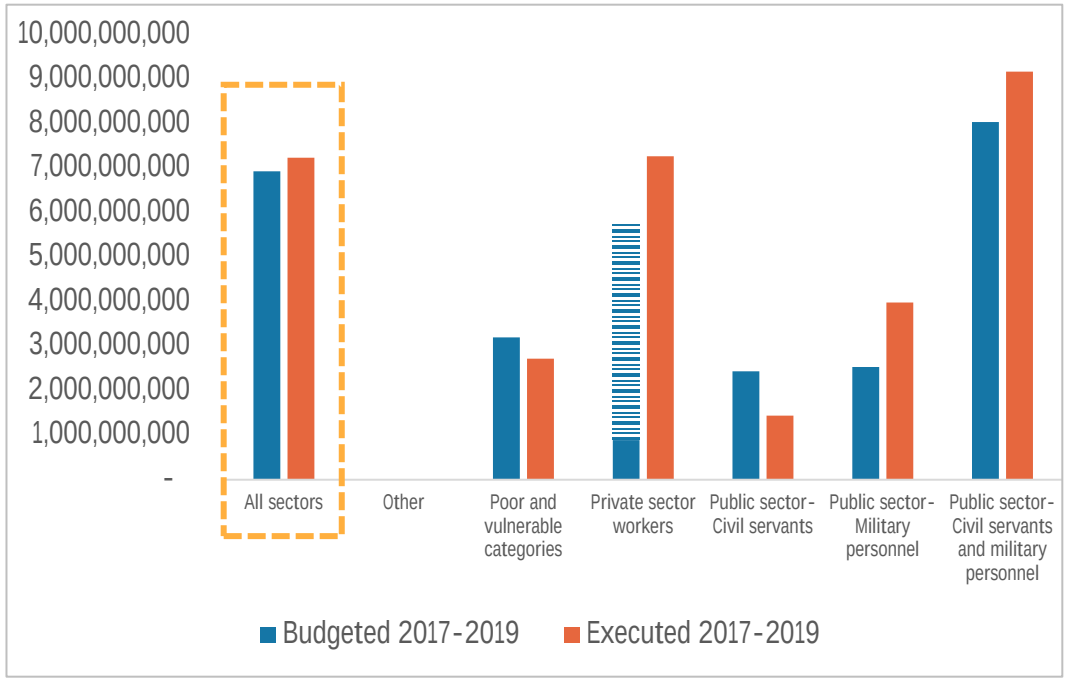



Table 8: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

| All sectors | Budgeted | Executed |
|---|---|---|
| Transfers to EDL | 6,700,000,000 | 6,983,384,945 |
| Subsidies for housing loans | 100,000,000 | 200,000,000 |
| Contribution to fund the deficit of the General directorate of Cereals And Sugar beets | 40,781,091 | - |
| Lebanese red cross inc. blood bank | 39,827,845 | 24,231,136 |
| Other | 37,847,350 | 12,281,707 |
| Joint Programs with UNICEF for basic medication and vaccines | 15,197,500 | 19,597,500 |
| Total | 6,933,653,786 | 7,239,495,288 |

# Other

# Social spending to other entities finances mainly mutual funds as well as the operations of national commissions and councils serving **"social"** goals notably the National Commission for Lebanese Women and the Higher Council for Childhood.

Figure 39: SP spending by beneficiary group – other (thousands of LBP)

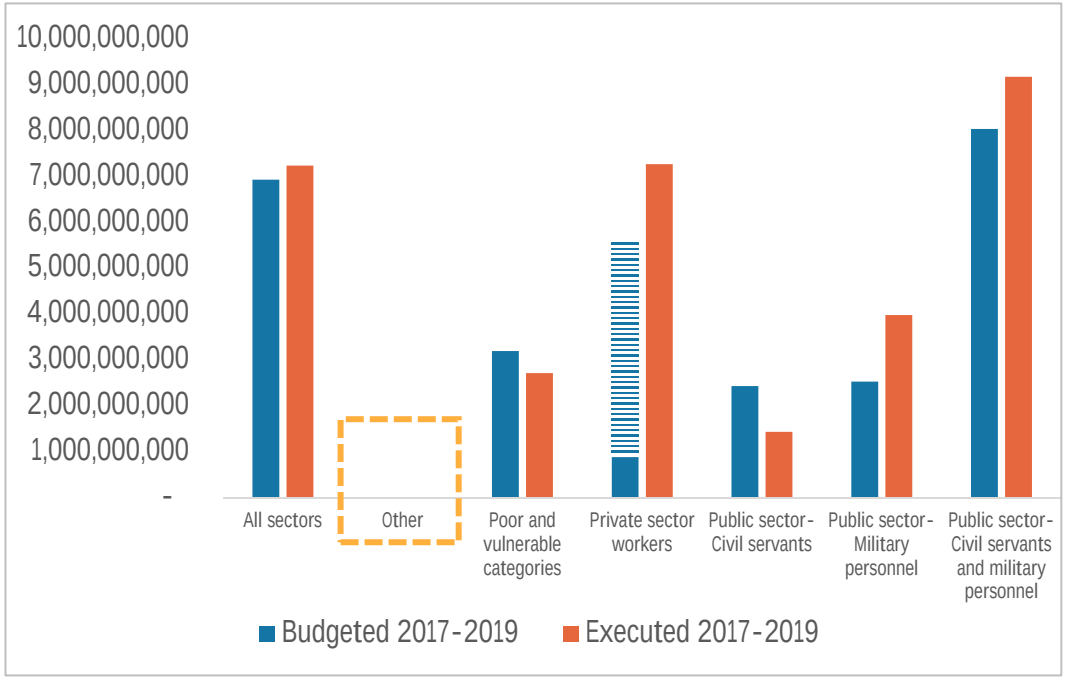



Table 9: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

| Other | Budgeted | Executed |
|---|---|---|
| Government contributions to other mutual funds | 4,150,000 | 3,250,000 |
| National Commission For Lebanese Women | 2,215,256 | 2,400,880 |
| Higher Council for Childhood | 2,030,000 | 2,096,276 |
| Contribution to private entities | 1,120,000 | - |
| Medicines committee | 540,000 | 171,568 |
| Lebanese Council of Women | 252,000 | 140,000 |
| National education scouts | 75,600 | 30,000 |
| National scouts' coordinators | 75,600 | 30,000 |
| Veterinary Association in Lebanon | 25,500 | 10,000 |
| Total | 10,483,956 | 8,128,724 |

# By-pillar analysis of Social Protection spending

HIGHLIGHTS:

Among the five pillars analyzed, Social Insurance gets the largest share of spending, varying between 53% and 63%.

Under Social Assistance, subsidies absorb more than 90% of spending, leaving minimal no room for other effective assistance programs such as the expansion of social safety nets.

Financial access to services privileges access to health rather than to education.

Social welfare records systematic underspending, notably in the Government programs and transfers to SDCs.

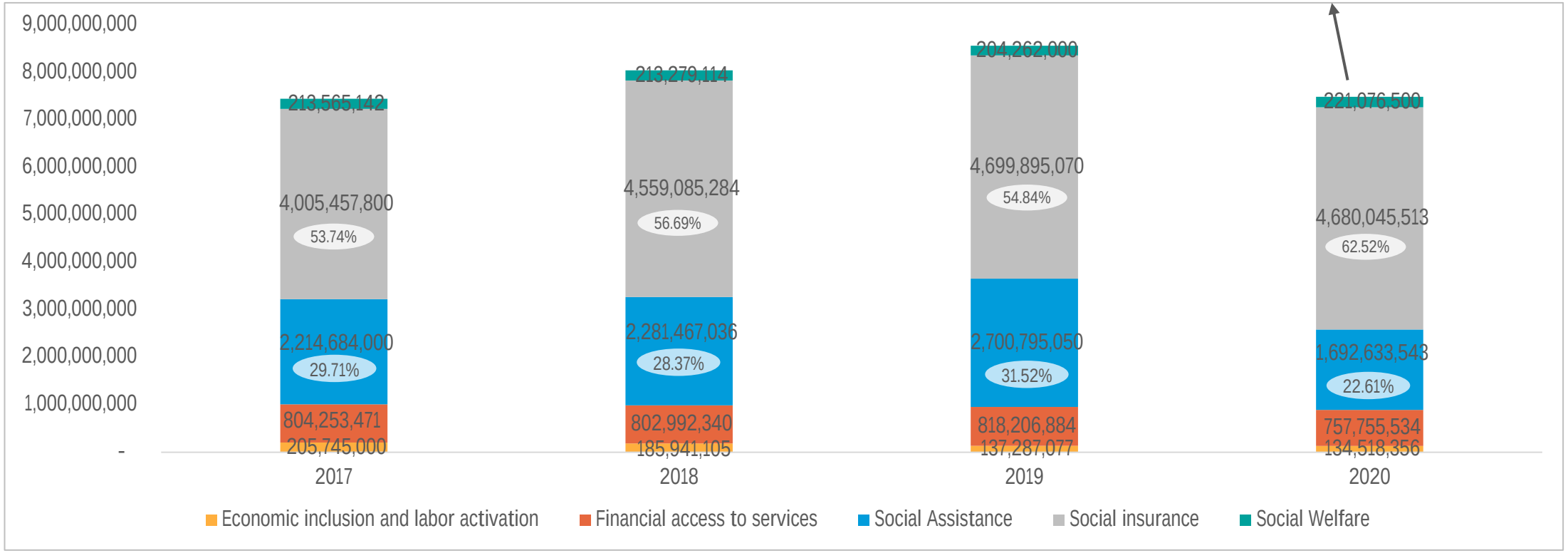
Spending on Labor Market Policies finances operations costs rather than effective employment and job activation programs.

# A closer look at the five pillars reveal that the largest share of social spending goes to social insurance (varying between 53% to 63%).

It is to be noted that : (1)- social insurance is underestimated as only NSSF executed data was made available; (2)- social assistance is inflated because of the share of fuel subsidies; and (3)- the 8-point expected decrease in social assistance in 2020 corresponds to EDL's subsidy cut of 1,000 billion LBP.

Figure 40: Evolution of main pillars by budgeted appropriations (thousands of LBP)

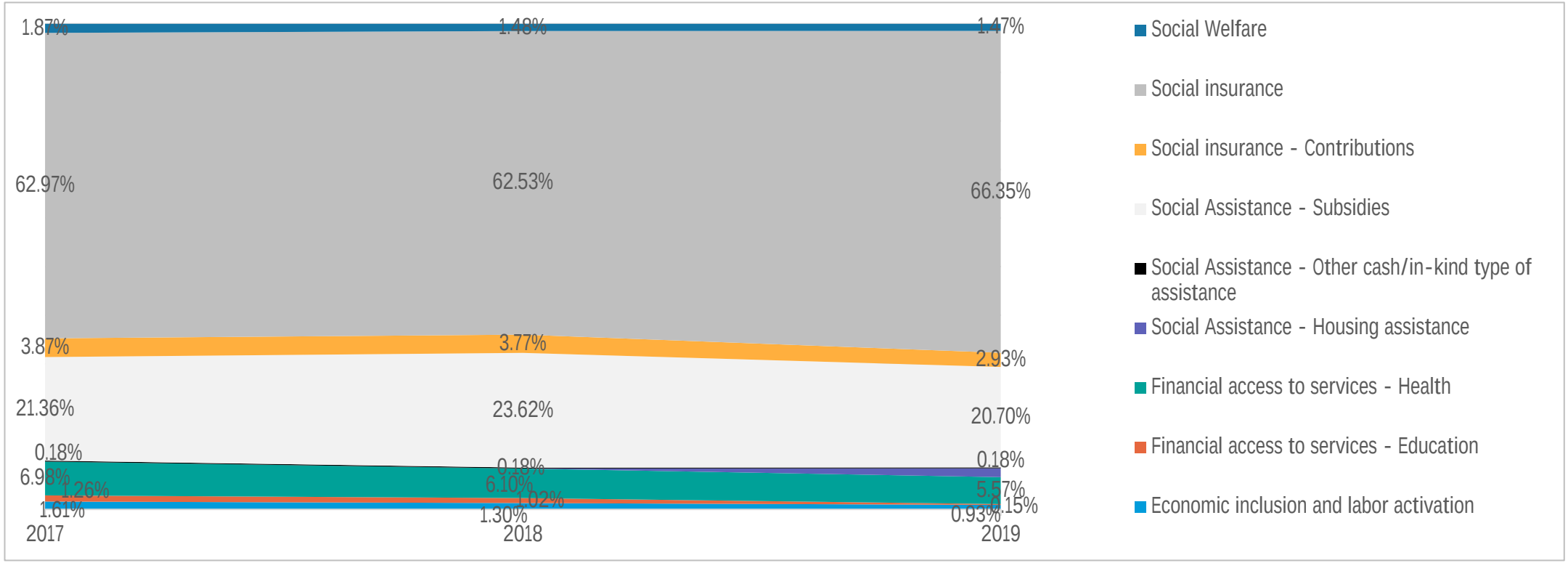
* Budgeted expenses of NSSF are not included in this chart / relevant data could not be collected



# Subsidies, driven by fuel subsidies, compose the largest share of social assistance spending (varying between 16% to 24% of spending).

The analysis of other sub-pillars points to a higher spending on Health than on Education under financial access to services. It also reveals that social welfare and economic inclusion, and labor activation programs receive minimal allocations. Their aggregate share does not exceed 8% of overall social protection spending.

Figure 41: Evolution of disaggregated pillars by effective appropriations (thousands of LBP)



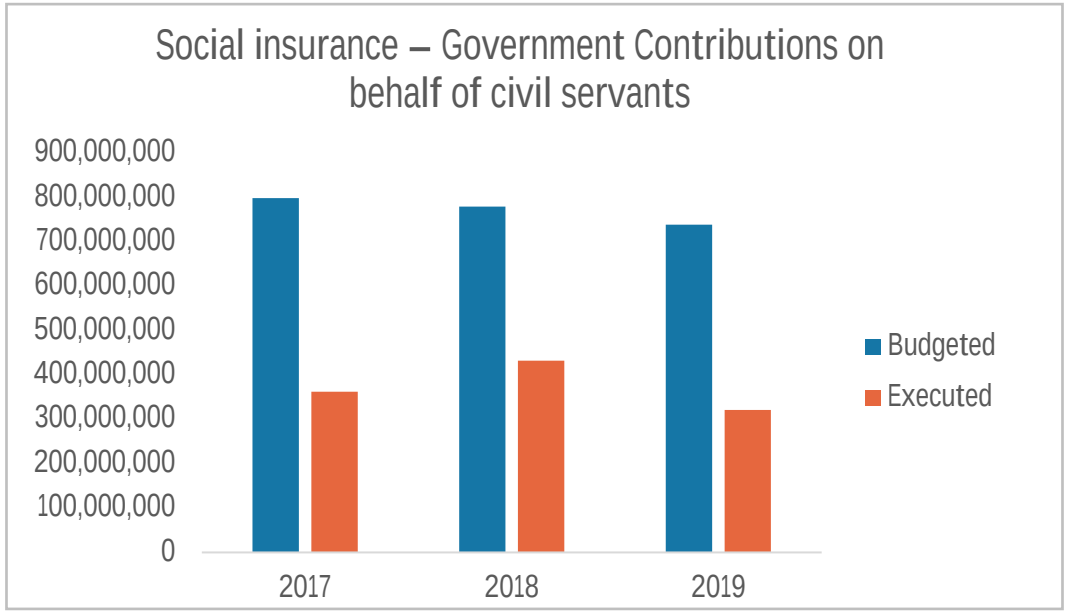
# Pillar 1 – Employment related social protection including Social Insurance

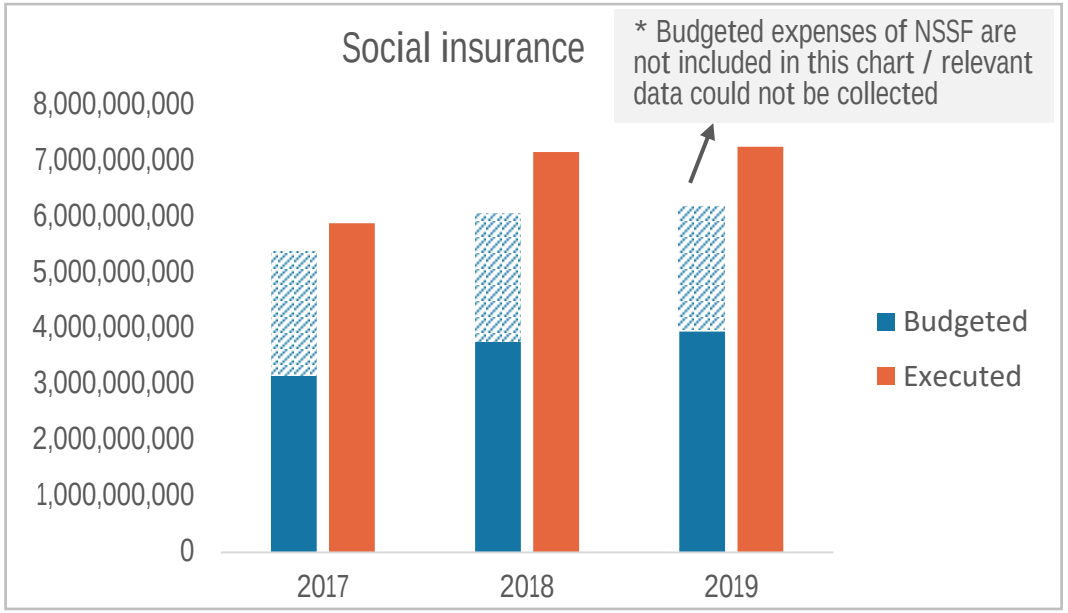
*Employment related social protection including Social insurance relates to contributory social protection, funded by contributions paid by (or on behalf of) beneficiaries or taxpayers. As with other insurance mechanisms, the purpose of social insurance is to mitigate the impact of risks associated to unemployment, disability, sickness and old age.*

# There is a substantive financial gap between budgeted and effective spending on social insurance that is further compromising an already fragile NSSF financial position.

The recurrent failure of public institutions* to settle their "employer's" dues to NSSF (under its 3 branches) – and as shown in the contributions' graph below - is creating a substantive financial gap between budgeted and effective spending on social insurance. However, these findings need to be further investigated with a more thorough analysis of the NSSF budget.

Figure 42: Spending gap by disaggregated pillars – Social Insurance (thousands of LBP)




* Civil servants working in most of public institutions are enrolled in the NSSF scheme and not in the Civil Servants' Cooperative.

# Pillar 2 – Social Assistance

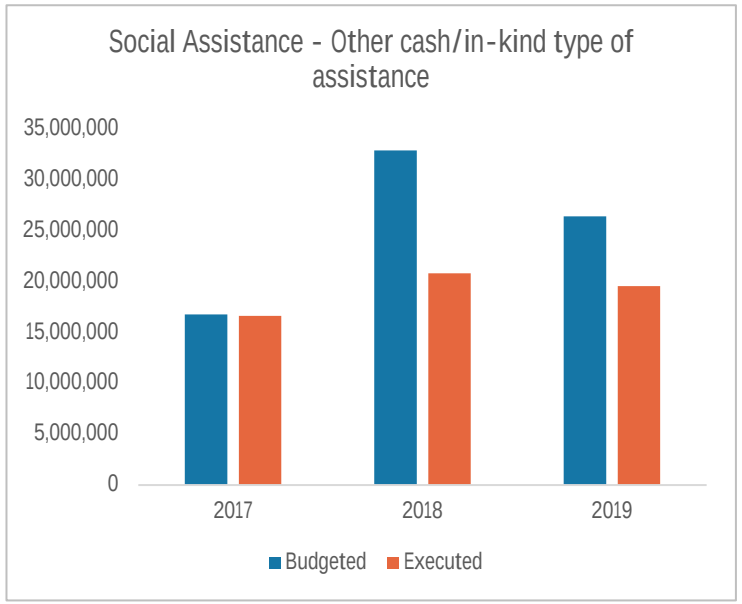
*Social assistance is defined as non-contributory social protection which consists of cash and in-kind transfers, and subsidies.*

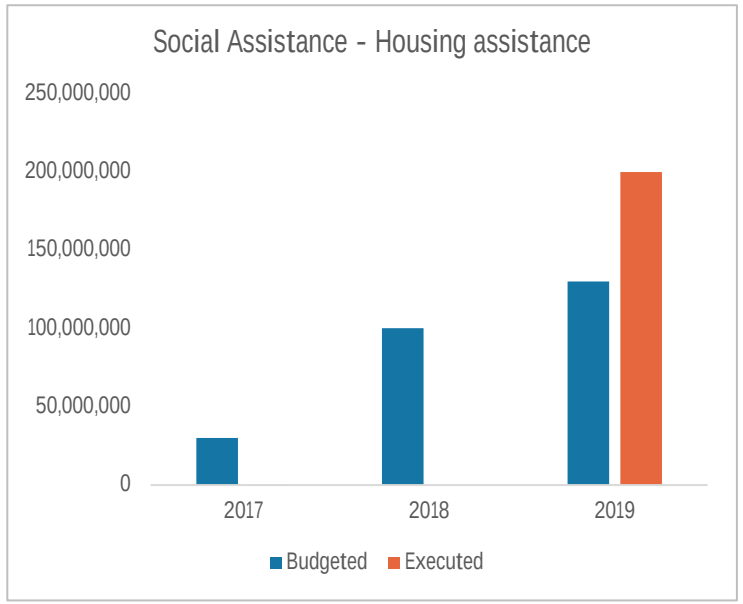
Social Protection Spending

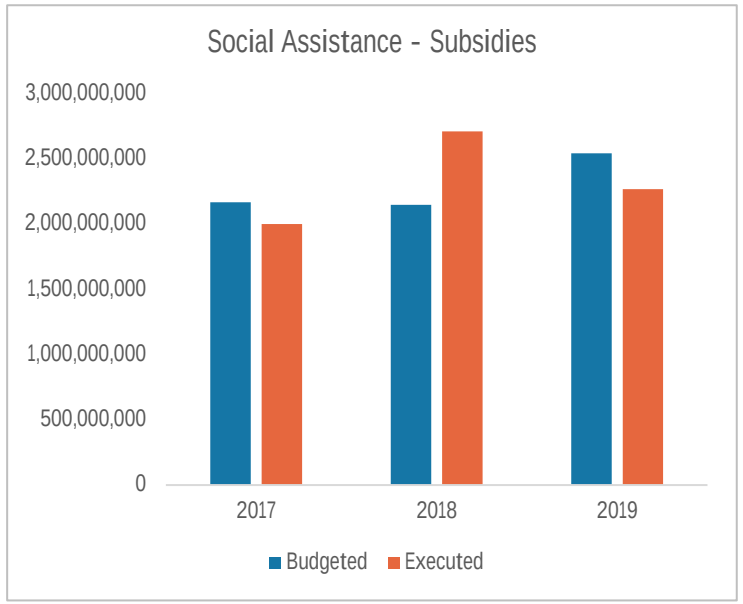
# Subsidies absorb more than 90% of the social assistance budget, leaving no room for other effective assistance programs such as the expansion of social safety nets.

Originally considered as an instrument for reducing or mitigating poverty by improving access to basic goods and stabilizing prices, subsidies reform has become long due. Different types of subsidies benefit the Lebanese population, but many are financed though the monetary policy (by BDL) and fall outside the scope of this budget review. Other social assistance programs were budgeted but never effectively disbursed, such as housing assistance. Initially foreseen to support the amended rent act (2017), it was only activated in 2019 to cover for the housing loan program re-initiated as fiscal subsidy, following decades of monetary support to housing.

Figure 43: Spending gap by disaggregated pillars – Social Assistance (thousands of LBP)



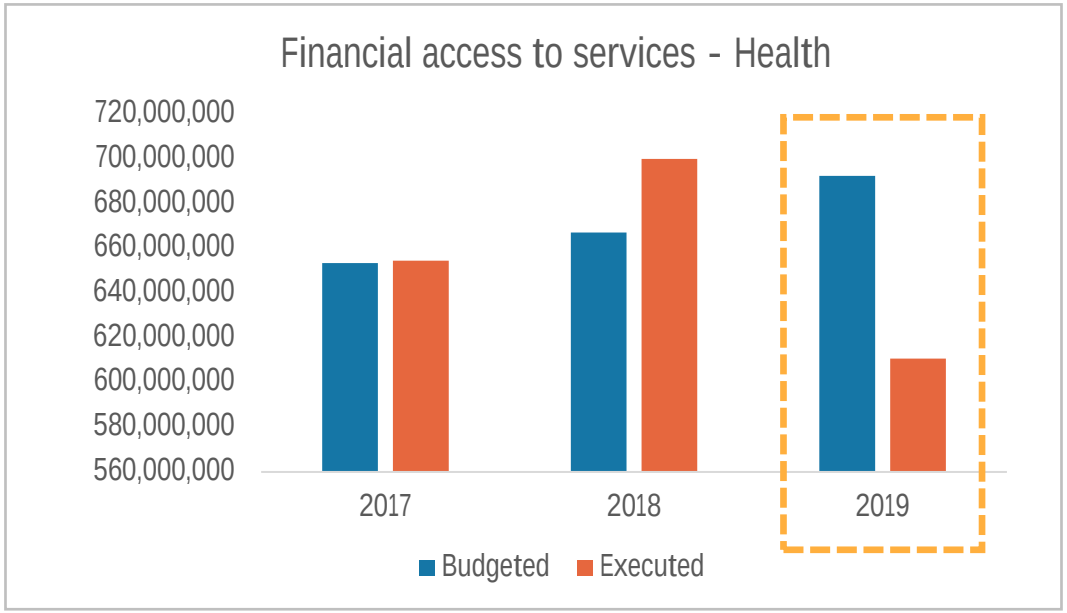
# Pillar 3 – Financial Access to services

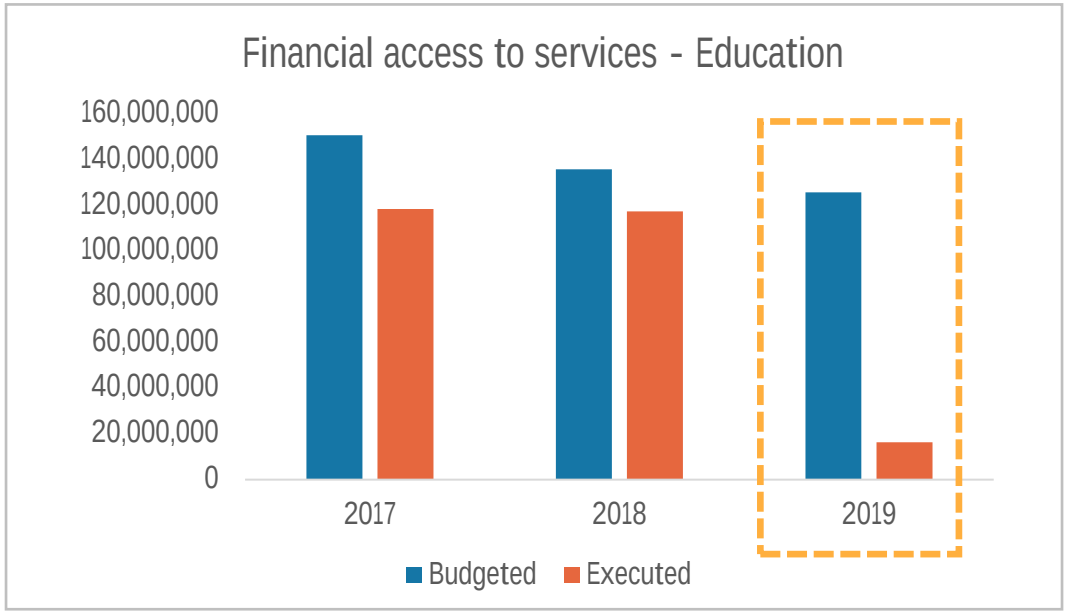
*Financial access to social services is concerned with addressing cost barriers to the receipt of care, including user fees, out-of-pocket (OOP) payments, or other associated costs (e.g. financial access to healthcare and fees waivers, health insurance, financial access to education, etc.)*

# Lebanon spent on average four to five times more on financial access to health than on financial access to education.

The drastic drop in effective spending in 2019 is the result of growing pressure on the State's fiscal resources, trickling from the looming economic and financial crisis: In the Health sector, hospitalization expenses were reduced by around 80 billion LBP, while in the education sector, the government halted its contribution to the private-free schools/primary education. This comes on top of the significant share of spending on healthcare covered under social insurance.

Figure 44: Spending gap by disaggregated pillars – Financial Access to Services (thousands of LBP)



# Pillar 4– Social Welfare

*Social welfare defines a non-contributory social protection which includes service interventions as well as the various outreach, case management and referral services that can support the complex needs of families. It also includes the development and support of a social workforce.*

# Social welfare records systematic underspending, notably in the Government programs and transfers to SDCs.

Despite the wide geographic spread of MOSA through the SDCs, social welfare witnesses systematic underspending that seems to result from institutional and operational inefficiencies and capacity gaps.

Figure 45: Spending gap by disaggregated pillars – Social Welfare (thousands of LBP)

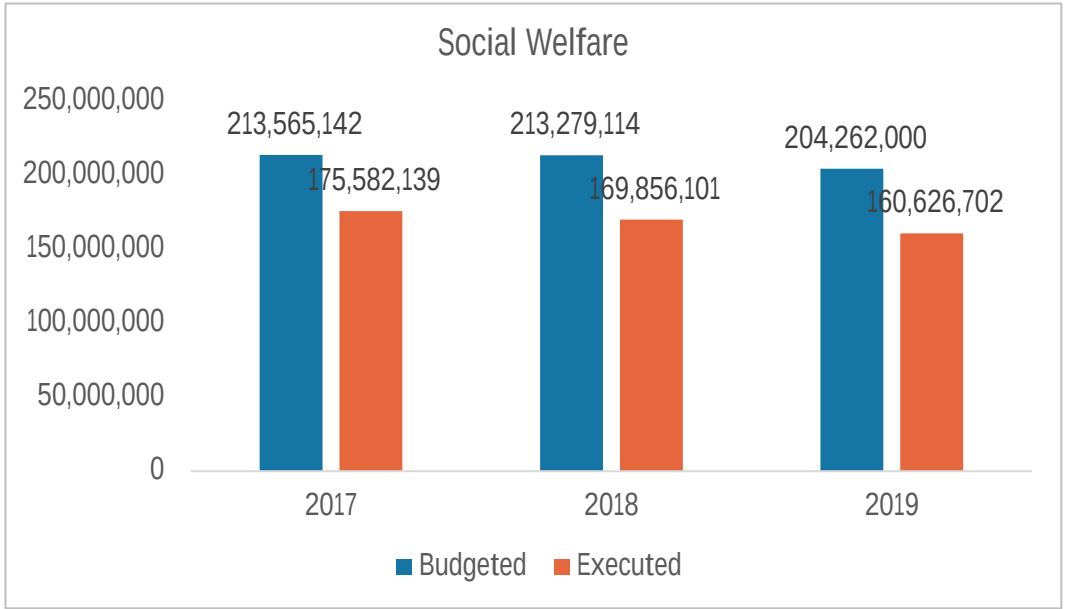



Table 10: Social welfare spending gap by implementing agency - 2019-(thousands of LBP)

| Implementing agency | Budgeted | Executed |
|---|---|---|
| NGOs | 169,774,000.00 | 147,482,546.00 |
| Government programs | 33,171,000.00 *Incl. 31,500,000 of transfers to SDCs* | 12,369,156.00 *Incl. 11,401,114 of transfers to SDCs* |
| Private entities | 1,317,000.00 | 775,000.00 |
| TOTAL | 204,262,000.00 | 160,626,702.00 |

# Pillar 5– Economic inclusion and labor activation

*Economic inclusion and labor activation encompasses labor regulations which aim to protect employees' rights to decent work, and active labor market policies which aim to promote labor-market entry and access to better employment, assist reemployment by improving job readiness, and improve matching of supply and demand in the labor market.*

# There is no unemployment protection program.

Lebanon does not have a typical unemployment protection program. Existing expenditure on economic inclusion and labor activation mostly finances the operations of the National Employment Office, in addition to scattered and small-scale labor market training programs.
In terms of labor activation programs, subsidies for investment loans in agriculture, industry, tourism and technology have recorded a major set-back of approximately LBP 30 billion that could have been used to support key economic sectors during the crisis.

Figure 46: Spending gap by disaggregated pillars (thousands of LBP)

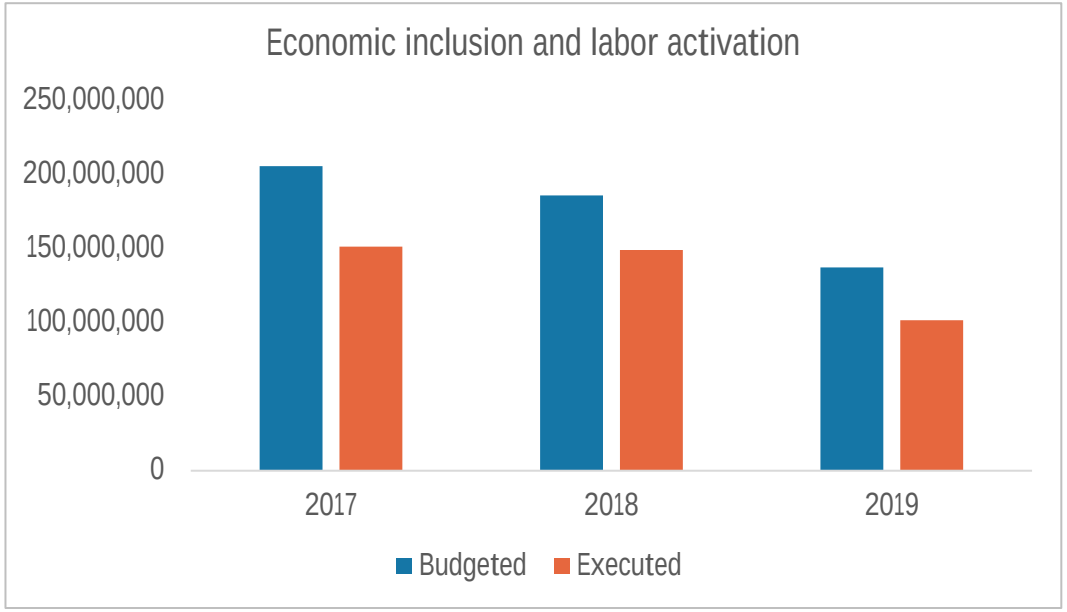



Table 11: Economic inclusion and labor activation breakdown by program (thousands of LBP)

| | Budgeted-2019 | Executed-2019 |
|---|---|---|
| Assistance to workers | 15,000.00 | - |
| Contribution to the association of Arab press correspondents | 1,296.00 | |
| Contribution to the national program for nursing | - | - |
| Development programs | 1,800,000.00 | |
| National center for vocational training | 486,000.00 | 600,000.00 |
| National education scouts | 21,600.00 | - |
| National employment office | 4,941,581.00 | 1,000,000.00 |
| National program for local socio-economic development | | |
| National scouts' coordinators | 21,600.00 | - |
| Subsidies for investment loans (agriculture, industry, tourism, technology) | 130,000,000.00 | 100,031,490.00 |

# Analysis of Social Protection spending by Implementing agency

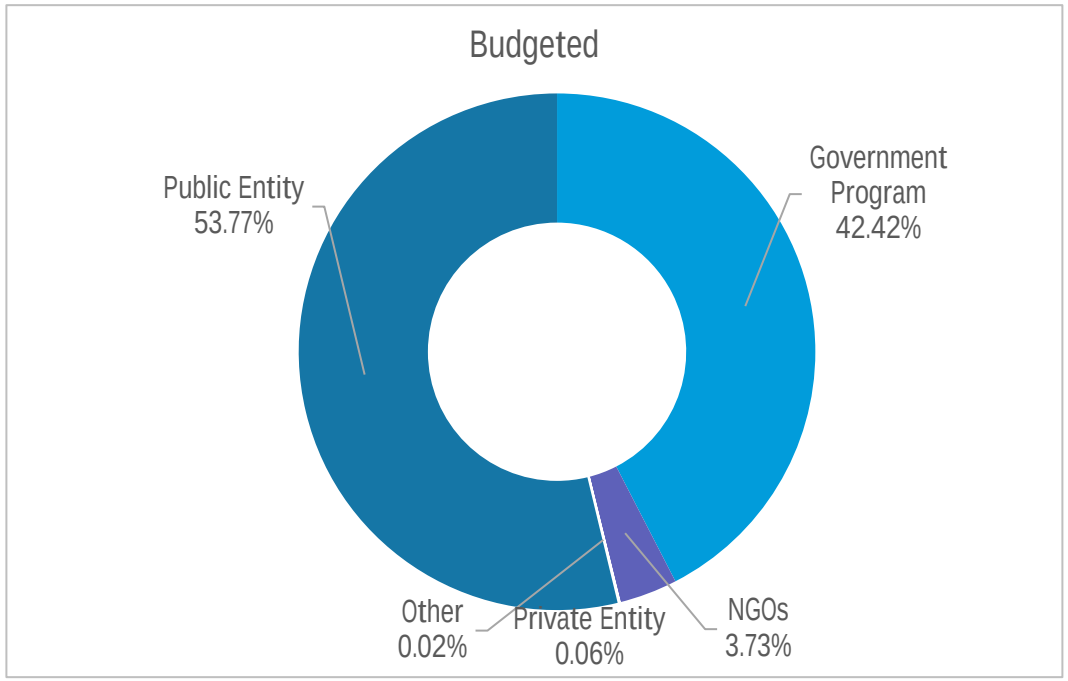
HIGHLIGHTS:

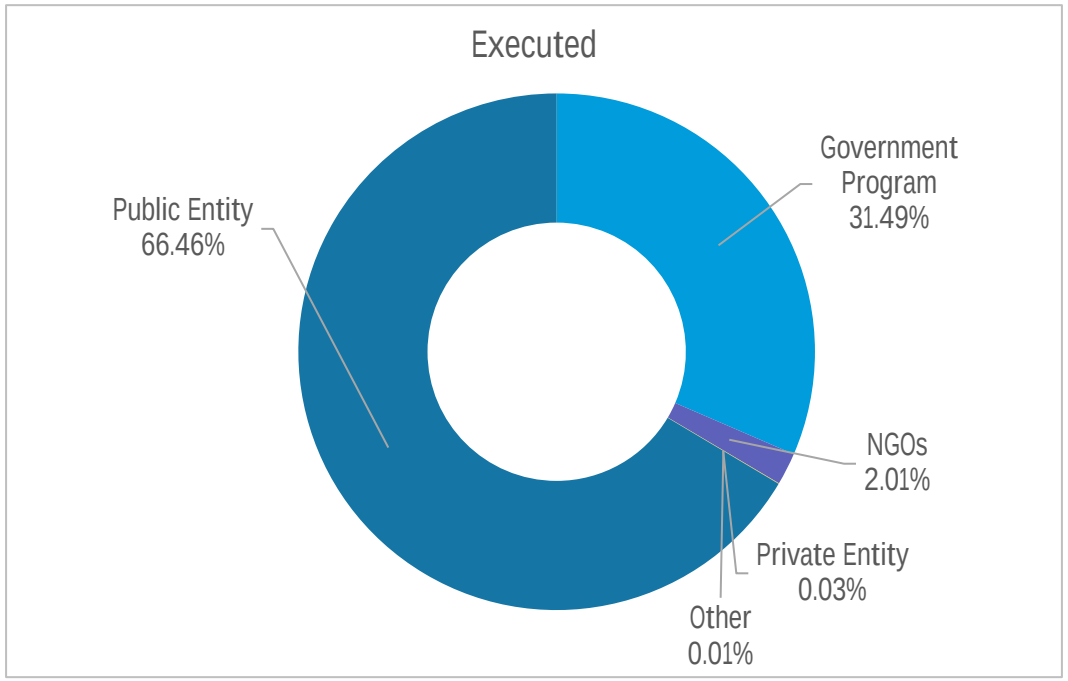
The Ministry of Public Health is the higher spender of social spending with a share of 6.29% v/s the Ministry of Social Affairs' share of 2.24%.

# Who provides social protection services in Lebanon?

2/3 of Social Protection spending is directly implemented by a public institution (financed by public revenues) whereas 32% is implemented as Government programs rolled-out in partnership with a donor or international organization. A minimal share of 2% is directly disbursed to NGOs and funded by the Government.

Figure 47: SP breakdown by implementing agency – Average share of 2017,2018,2019



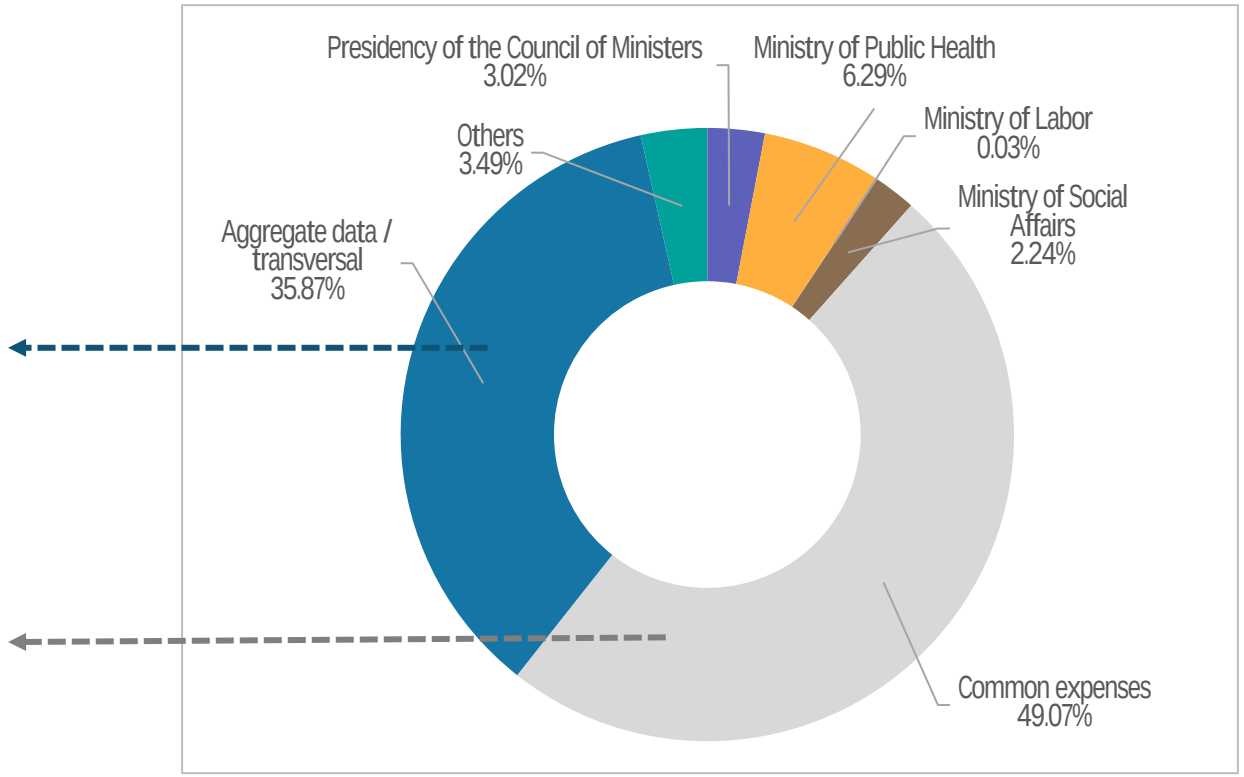



# The Ministry of Public Health is the largest spender of Social Protection services (outside cross-cutting spending such as social insurance and fuel subsidies), and not the Ministry of Social Affairs.

Figure 48: Appropriation share by line ministries –Average share of effective spending over 4 years

This share is composed of Social insurance expenses (mainly government contributions and social benefits). These expenses are incurred across all line ministries. For the purpose of this study, they were aggregated and isolated into one category so that their weight does not influence the ministries' share of SP spending.

This share is mainly composed of:
*Pensions and transfers to EDL.
*Transfers to EDL where budgeted prior to 2018. For ease of data manipulation, the same administrative classification was used for the years 2018-2019 and 2020



# Analysis of Social Protection spending by Source of Financing

HIGHLIGHTS:

More than half (±57%) of social spending is financed from the regular budget while about 25% is financed in the form of Treasury advances and around 20% from social contributions.

Donor financing is hardly detectable in the State budget and finances predominantly financial access to health services and cash transfer programs.

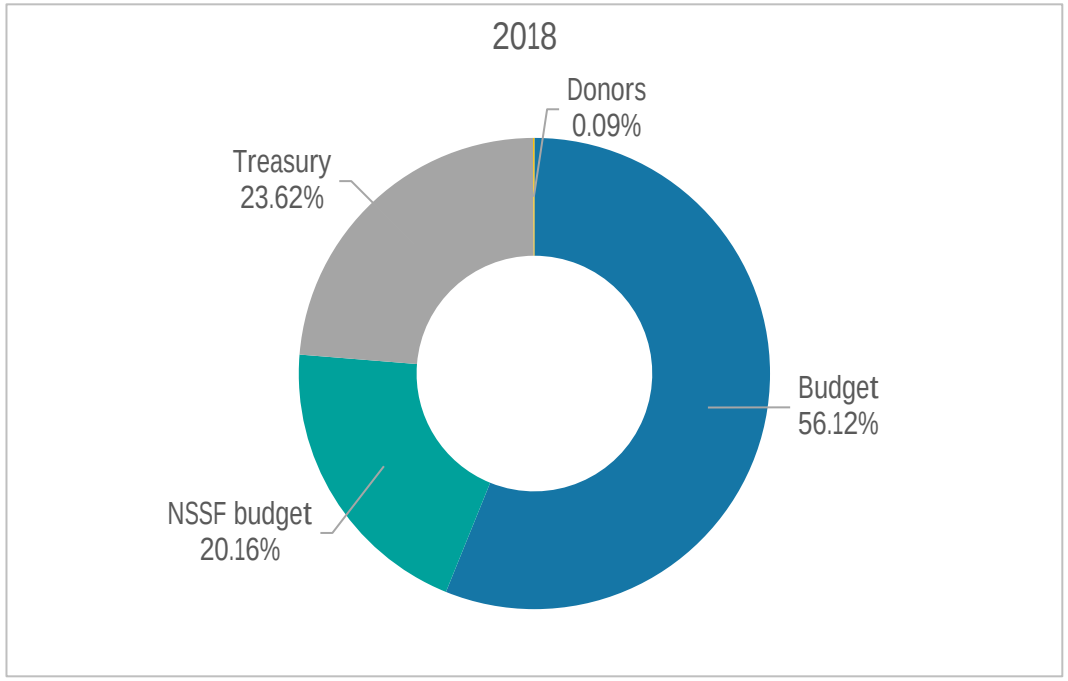
Financing gaps are recurrent and indicate weak planning capacities.

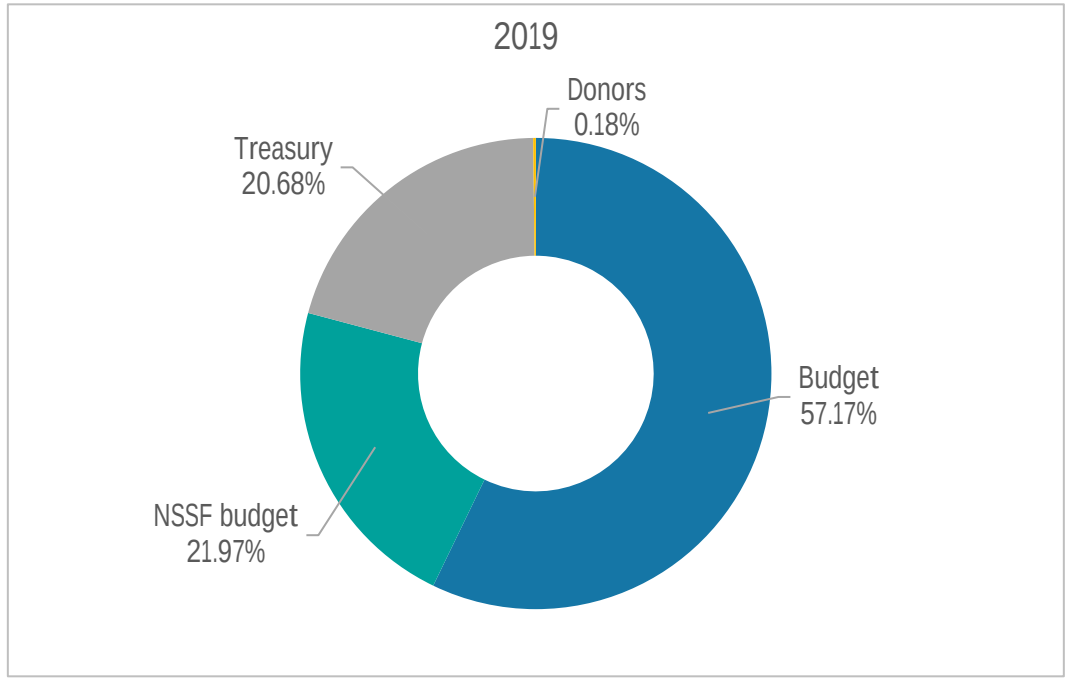
# Most of the SP expenditure is financed through government revenues

More than half (±57%) of social spending is financed from the regular budget while a quarter is financed in the form of Treasury advances – that were never reimbursed by the benefiting institution.

Most of this spending is financed from revenues that are themselves collected through consumption taxes, such as value added tax (18% in 2019), telecom tax (12%), customs duties, excises on fuel, etc. This means that the whole of society finances social protection – with the poor contributing relatively more than the others: Redistribution remains low.

Figure 49: Effective Social Protection spending by source of financing (percentage share)



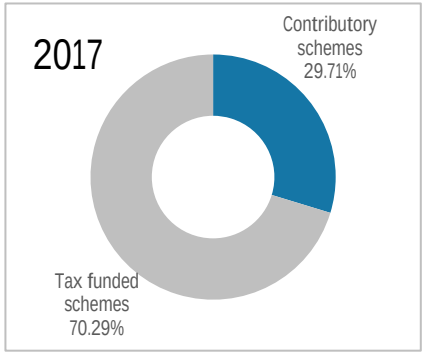



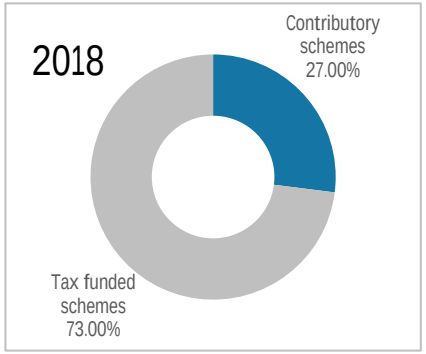
# A closer look at the contributory v/s tax funded schemes

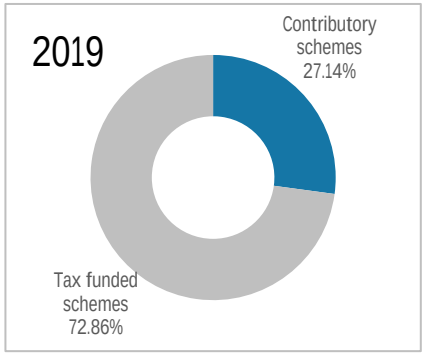
Around 27 to 29% of social protection is financed through contributions that consist of the Government's payments of its due as an "employer" to the NSSF* and to the Civil Servants' Cooperative, in addition to its contribution to the various Mutual Funds. These contributions can be assimilated to social insurance subsidies for public sector workers.

Table 12: Contribution schemes - (thousands of LBP)

| Effective spending | 2017 | 2018 | 2019 |
|---|---|---|---|
| Contributory schemes | 2,788,226,618 | 3,100,385,000 | 2,978,045,000 |
| NSSF | 2,141,414,000 | 2,314,625,000 | 2,410,671,000 |
| Government contributions to the civil servant's cooperative | 288,843,169 | 357,500,000 | 250,350,000 |
| Government contributions to other mutual funds (MF) | 1,250,000 | 1,000,000 | 1,000,000 |
| Government contributions to the civil servant's cooperative | 288,843,169 | 357,500,000 | 250,350,000 |
| Government contributions to the judges' MF | 12,000,000 | 12,000,000 | 10,800,000 |
| Government contributions to the LU teachers' MF | 31,416,280 | 35,500,000 | 31,950,000 |
| Government contributions to the legal assistants' MF | 1,360,000 | 1,360,000 | 1,440,000 |
| Government contributions to the MPs MF | 14,000,000 | 14,000,000 | 13,950,000 |
| Government contributions to the Parliament employees' MF | 2,600,000 | 1,900,000 | 1,900,000 |
| Government contributions to the Shariah court judges' MF | 6,500,000 | 5,000,000 | |
| Tax funded schemes | 6,595,740,602 | 8,381,262,805 | 7,995,241,136 |
| Total | 9,383,967,220 | 11,481,647,805 | 10,973,286,136 |




*These figures do not capture private sector contributions into NSSF and mutual funds.

# About donor financing

It is suspected that the donor share in financing social spending is higher than 0.18%. However, it is either directly spent from outside the budget or integrated in the budget without being earmarked as external financing. Main programs identified in the budget and financed by donors include cash transfers and financial access to health services.

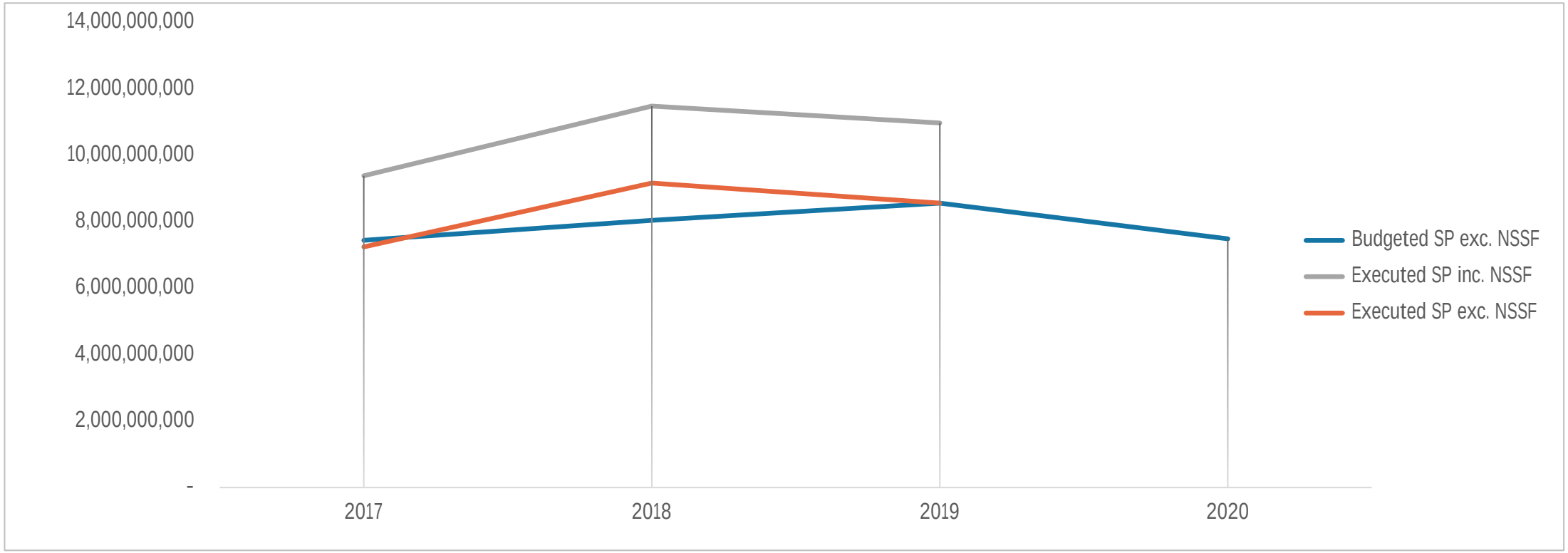
Table 13: Beneficiary group breakdown by programs – sum of 2017, 2018, 2019 (thousands of LBP)

| | Programs funded by donor (thousands of LBP) | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Financial access to services - health | Joint Programs with UNICEF for basic medication and vaccines | 9,798,750.00 | - | 9,798,750.00 |
| Social assistance - other cash/in-kind type of assistance | Joint Programs with WHO for primary health care | 3,350,050.00 | 7,346.00 | 500,000.00 |
| | National Poverty Targeting Program (NPTP) | 8,490,000.00 | 6,000,000.00 | 6,000,000.00 |
| | School meals program | | 4,842,940.50 | 3,496,365.00 |
| | Grand Total | 21,638,800.00 | 10,850,286.50 | 19,795,115.00 |

# Financing gaps are recurrent and indicate a lack of good planning capacities

Financing gaps provide a signal of poor public sector financial management to donors, creditors and key stakeholders. Forecasting errors are inevitable, but recurrent deficits and unreliable planning raise questions about whether the errors from the budgeting process arise from unforeseen events or indicate flaws in the forecasting model used by policy-makers.

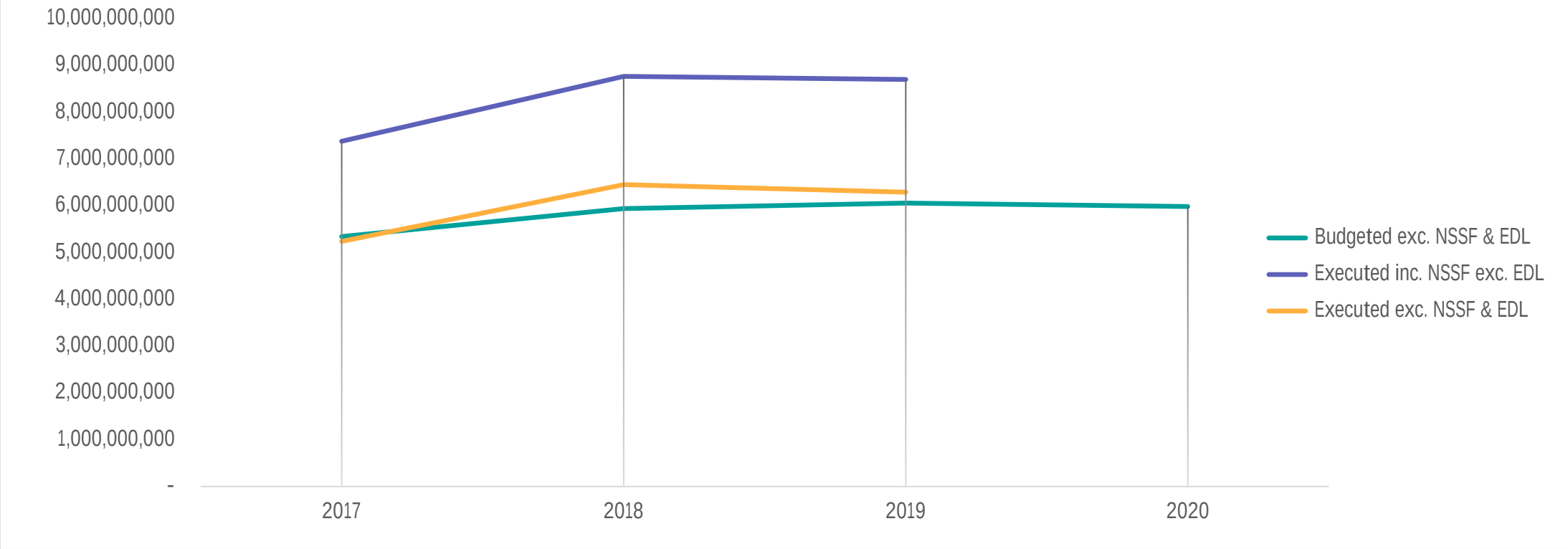
Figure 50: Evolution of SP total expenses in thousands of LBP



# Financing gaps are recurrent and indicate a lack of good planning capacities

Even if we remove transfers to EDL, the financing gap remains substantial.

Figure 51: Evolution of SP total expenses excluding Transfers to EDL (thousands of LBP)



3

# Summary of findings

# Key findings

In Figures:

- Lebanon spends around 13.8% of its GDP and 30% of its public expenditures on SP.
- Lebanon's SP spending is higher than neighboring Arab countries but lower than similar middle income countries. However, coverage is among the lowest and most inequitable.
- Social spending is scattered across several functions: 55-65% are classified under the Social Protection function (Function 10), while 27% can be found under the Economic affairs function (Function 4) and about 8% under the Health function (Function 7).
- The largest share of social spending goes to social insurance (53-63% of social expenditures) and mostly on spending on Old Age. This share is believed to be under-evaluated as the NSSF budget was only made partially available for this study.
- The MoPH is the higher spender of social spending with a share of 6.29% v/s MOSA's share of 2.24%. More than 68% of SP spending targeting poor and vulnerable categories is provided by the ministry of public health while only 20% is provided by the ministry of social affairs.
- Currently, spending on old age is largely skewed towards the public sector (totalizing 77.66% of social protection spending v/s 22.3% for the private sector), and notably military personnel.
- Around 32.9% of SP spending benefits to military personnel, in the form of pensions and end-of-year indemnities, hospitalization and school allowances. Around 12.8% goes to civil and education personnel.

# Key findings

**On programs' effectiveness:**

- The discrepancies in spending and the absence of a strategy for social protection, are few of the main reasons behind the poor effectiveness of social protection in addressing and reducing poverty and inequality in Lebanon.
- Fuel subsidies are draining the government's budget and crowding out social spending. In 2019, Lebanon spent almost 4 times more on fuel subsidies than on social spending on health and 138 times more than on social spending on education. Subsides absorb more than 90% of the social assistance budget, leaving no room for other effective assistance programs such as the expansion of social safety nets.
- The mix of fiscal and monetary subsidies makes their reform more complex though it has become inevitable.
- Social welfare spending witnesses systematic underspending that seems to result from institutional and operational inefficiencies and capacity gaps at MOSA.
- The small budget allocated to economic inclusion and labor activation is not allocated and used in ways that can effectively improve access to employment and job readiness while unemployment is on a rising curve.
- Direct support to private sector workers comes in the form of contributions to syndicates and professional associations to partly finance retirement and pensions schemes. However, these professional associations have taken the form of NGOs to be able to benefit from government support and do not cover all sectors.

# Key findings

On financing:

- Around two-third of Social Protection spending is directly implemented by a public institution (financed by public revenues) whereas 32% is implemented as Government programs financed jointly on public revenue and donor-funding. A minimal share of 2% is directly disbursed to NGOs and funded by the Government.
- Only less than a quarter is financed from social contribution, while the major share of financing comes through general tax revenue (which is regressive).
- The Donor financing share that was captured through the budget is minimal (less than 1% of social spending). This share is suspected to be higher. In the current budget structure, all grants are aggregated under a single budget revenue line (295) and no further details are published. The share captured mainly provides for cash transfers and financial access to health services.
- Financing gaps are recurrent and indicate a lack of good planning capacities. For instance:
  - Overspending in SP targeting the military reaches 57%.
  - Overspending in SP covering pension schemes reaches 14%.
  - Systematic underspending on economic inclusion and labor activation ranges between 20 and 25%.

# 4

# Conclusions and Recommendations

# Recommendations

As economic and social indicators are seriously deteriorating in Lebanon, and the national currency is under the pressure of devaluation, it remains essential to protect existing social spending and attempt to maximize its impact.

The situation in the country is further compounded by the outbreak of the COVID-19 pandemic and subsequent lockdown measures which pose a serious threat to Lebanon's social protection, access to basic social services and economy, particularly affecting the poor and the vulnerable.

The following recommendations address both the policy and operational levels, within the fiscal framework. They rely on the findings of this Budget Review and are motivated by concerns of relevance, coherence, efficiency, value-for-money and sustainability. They don't intend to address the whole social protection sector as a new Strategy is being devised but rather to inform its fiscal aspects. They are divided into short-term and medium-term actions.

They aim to consolidate social spending in order to enhance and potentially expand existing protection schemes. Further investigation on their feasibility might be needed as well as wide consultation on their possible long-term impact.

They shall be analyzed in complementarity with other recommendations aiming to reform social protection schemes.

# Recommendations over the short-term

At the Policy level:

- Create fiscal space through a thorough and comprehensive Government Spending Review that would allow to identify potential areas of savings and spending reallocation.
- As social spending is massively financed from Government, and as revenues projections are highly volatile, it is advisable to seek a significant mix in the financing structure of social protection, in particular for emergency social protection spending as economic and social conditions are deteriorating fast.

At Program level:

- Fuel subsidies reform has become inevitable and will probably create both social distress and a fiscal space that will need to be reallocated in the most effective way possible.
- The preparation and publication of reports on social expenditure outturns would be a very useful tool for program planning, monitoring and evaluation.

At the Operational level:

- Enhance fiscal discipline and budget preparation through the:
  1. Upgrade of budget planning practices to reduce the gap between budgeted and effective expenses.
  2. Reduction of fragmentation and enhanced budget comprehensiveness by integrating detailed NSSF budgeted contributions and allocations in the budget proposal and law and by unifying procedures for the various funds that currently apply separate rules as set out in their respective legislation.

# Recommendations over the medium-term (1)

At the Policy level:

- Overall expenditures on social protection can be better balanced across beneficiary groups, and investment enhanced for the poor and vulnerable across all contingencies and life-cycle stages.
- The financial sustainability of social protection scheme for civil servants across civil and military personnel could be enhanced and inequities reduced through achieving a better balance in the allocation of government financing between social security for public sector workers on one hand and needed investment for the enhancement of social protection standards for vulnerable groups and segments in society.
- Strengthening progressivity in personal income tax could compensate for increasing inequality in the taxation scheme. As VAT is more elastic to the current price hike, the share of indirect taxes is expected to drastically increase (in both absolute and relative values) on the short and medium term. Given all fiscal constraints (including limitations related to classic financing instruments such as debt), the government's most obvious alternative might be to rely on leveraging more taxes of regressive nature to finance increasing social needs. A first step in that direction was the publication of the Ministry of Finance circular No. 114/S1 dated 15 January 2021 that requires from all business entities to issue their invoices in LBP.
- If pensions reform is to be envisaged, protection for the elderly will need to encourage a mix of contributory participation (including contribution subsidies) and social assistance (i.e. a social pension).
- A better identification and performance of social spending would pass by budget modernization, and when ministries would start to prepare their budget on a program basis.
- Embedding spending reviews into the budgetary process and have its results and conclusions reflected in budget preparation would help increase accountability and ensure more transparency and inclusiveness of budgeting. On the long run, spending reviews could become a permanent feature of budget planning and execution.

# Recommendations over the medium-term (2)

## At Program level:

- The reallocation of funds within the jobs and labor market activation programs need to further encourage labor demand, improve productivity, improve formalization, improve the skills of workers, and support better matching of individuals to suitable jobs, amid rising unemployment.

## At the Operational level:

- The set-up and operation of an integrated financial information management system at MOSA and other social protection entities is critical to track social spending, reduce misallocations and misuse and allow for data-driven decision making at the level of the Government and of donors.
- Develop a social protection "portfolio" of interventions to be prioritized in the budget allocation process. This would require: (i) establishing coordinating procedures, determining priorities, consolidating and providing information to the Ministry of Finance; (ii) building capacity within the Ministry of Finance and train staff on social protection; (iii) sensitizing ministries to report back on actual spending in-year; and (iv) building capacity on data recording and reporting at different levels to ensure that institutions know how to capture social protection information and report it to be included in the national budget.

# 5

# Appendixes

# Appendix 1

A comprehensive data set of public expenditures financed from the Budget on Social Protection for the period from 2017 till 2020 has been compiled for this report and is available.

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar I: Employment related social protection including Social Insurance | Social Insurance | Allowances for social expenditures for security forces<br>Birth allowances for security forces<br>Death allowances for security forces<br>Effective allocations paid - Sickness and maternity care<br>Effective allocations paid -family allowances<br>Effective allocations paid - End of service indemnities<br>End of service indemnities<br>Family allowances<br>Hospital expenses for security forces<br>Hospitalization expenses for security forces<br>Marriage allowances for security forces<br>Medication for Army<br>Medication for customs<br>Medication for General Security Forces<br>Medication for Internal Security Forces<br>Medication for State Security Forces<br>Other medical expenses for security forces<br>Pensions<br>Retired public servants<br>School allowances for security forces<br>Sickness and maternity care<br>Sickness and maternity pay for security forces |

Social Protection Spending

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar I: Employment related social protection including Social Insurance | Contribution | Contribution to press editors' mutual fund<br>Contribution to press editors' syndicate<br>Contribution to press syndicate<br>Contribution to the association of Arab press correspondents<br>Contribution to the common mutual fund<br>Contribution to the social security fund of press owners and journalists<br>Contribution to the syndicate of Lebanese press directors<br>Contribution to the syndicate of press photographers<br>Contribution to veterans<br>General Union, Mutual funds, cooperatives and syndicates of agriculture<br>Government Contribution/End of service indemnities<br>Government Contribution/End of service indemnities - settlements<br>Government Contribution/End-of-service indemnities<br>Government Contribution/Family allowances<br>Government Contribution/Family allowances - drivers<br>Government Contribution/Mayors<br>Government Contribution/Sickness - taxi drivers<br>Government Contribution/Sickness and maternity care<br>Government Contribution/Voluntary program<br>Government contributions to other mutual funds<br>Government contributions to the civil servant's cooperative<br>Government contributions to the judge's mutual funds<br>Government contributions to the Lebanese University teachers' mutual funds<br>Government contributions to the legal assistants' mutual funds<br>Government contributions to the MPs mutual funds<br>Government contributions to the Parliament employees' mutual funds<br>Government contributions to the Shariah court judges' mutual funds<br>Government contributions to the teachers' funds<br>Payment due to NSSF<br>Syndicate of private schools' teachers<br>Teachers' association for primary education<br>Teachers' association for secondary education<br>Transfers to cover the voluntary program deficit<br>Veterinary Association in Lebanon |

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar II: Social Assistance | Housing Assistance | Population and Social Development program<br>Subsidies for housing loans<br>Support fund - amended rent act |
| | Subsidies | Bread subsidies<br>Contribution to fund the deficit of the General directorate of Cereals And Sugar beets<br>Fuel subsidies<br>Purchase of wheat and barley<br>Support for forage growers<br>Transfers to EDL |
| | Other cash/in-kind type of assistance | Contribution to private entities<br>Medrar Foundation<br>Mouvement Social<br>National Poverty Targeting Program (NPTP)<br>National program for local socio-economic development<br>Nutrition project<br>Rights and Access Program<br>School books subsidies<br>School meals program<br>Shahid Foundation |

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar III: Financial access to services | Health | Bone Marrow Transplant Center / Makassed Hospital<br>Children's Cancer Center of Lebanon<br>Contribution to eye bank<br>Contribution to the national organization for Organ and Tissue Donation and Transplantation<br>Contributions to public hospitals<br>Epidemiological Surveillance Program<br>Hospitalization expenses<br>Joint Programs with UNICEF for basic medication and vaccines<br>Joint Programs with WHO for primary health care<br>Lebanese red cross inc blood bank<br>Medication<br>Medication - Ministry of Social Affairs<br>Medicines committee<br>Multiple Sclerosis Center - AUB<br>Primary Health Care Program<br>Red in Circle Association<br>Reproductive Health project<br>Thalassemia<br>Vaccination program<br>Vaccines program<br>Yaduna - Women heart health center |
| | Education | Contributions to private-free schools/primary education<br>Enrollment Fee Waivers<br>Enrollment Fee Waivers + School books subsidies<br>Scholarships<br>Transportation |

Social Protection Spending

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar IV: Social Welfare | Social Welfare | Association for the disabled persons - Beyt Chabab<br>Caritas<br>Caritas Lebanon<br>Cedars Medical Association<br>Contribution to associations dealing with delinquent minors<br>Contribution to Caritas<br>Contribution to private entities<br>Druze health establishment - nursing home<br>Foyer De L'amitié - Zahleh<br>Higher Council for Childhood<br>Imam Sadr Foundation<br>Islamic orphenage<br>JAD Foundation<br>Lebanese Child Care Association<br>Lebanese Council of Women<br>Lebanese Welfare Association for the Handicapped<br>Model center for the disabled<br>National Commission For Lebanese Women<br>National program for adult learning<br>National program to support landmines and Cluster Munitions Casualties<br>National Rehabilitation and Development Center<br>Oum El Nour<br>Preventing delinquency programs and special care<br>Protecting juveniles at risk programs<br>Social and health programs in collaboration with NGOs<br>Social and health programs in collaboration with NGOs + Development programs<br>Social Development centers<br>Social wellfare programs<br>Support for families<br>The National Program for combating begging<br>The National Program for Drug Prevention<br>Young Men's Christian Association, chronic disease medication |
| | Other cash/in-kind type of assistance | National support program for mine casualties |

# Appendix 2: Programs included under each Pillar

| Pillar | Sub Pillar | Program |
|---|---|---|
| Pillar V: Economic inclusion and labor activation | Economic inclusion and labor activation | Assistance to workers<br>Contribution to the association of Arab press correspondents<br>Contribution to the national program for nursing<br>Development programs<br>National center for vocational training<br>National education scouts<br>National employment office<br>National program for local socio-economic development<br>National scouts' coordinators<br>Subsidies for investment loans (agriculture, industry, tourism, technology) |

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