

Document of
THE WORLD BANK

**REPUBLIC OF LEBANON
POVERTY REVIEW**

Main Report

Draft
September 7, 2000

**MIDDLE EAST AND NORTH AFRICA
Human Development Group (MNSHD)**

Currency and Exchange Rate
US\$1.00 = LBP 1550

ACRONYMS AND ABBREVIATIONS

ARIL	Lebanese Agricultural Research Institute
BOP	Balance of Payments
CAS	Central Administration of Statistics
CDR	Council for Development and Reconstruction
CPI	Consumer Price Index
CRI	Consultation and Research Institute
DC	Development Cooperation
EU	European Union
GCTU	General Confederation of Trade Unions
GNP	Gross National Product
GP	Green Plan
HDI	Human Development Index
IDAL	Investment Development Authority of Lebanon
ILO	International Labor Office
LARI	Lebanese Agricultural Research Institute
LBP	Lebanese Pounds
LWC	Lebanese Women Council
MEHR	Ministry of Electricity and Hydraulic Resources
MENA	Middle East and North Africa Region
MOA	Ministry of Agriculture
MOI	Ministry of Interior
MOSA	Ministry of Social Affairs
NERP	National Emergency Rehabilitation Program
NGO	Non-Governmental Organization
NHO	National Health Organization
NSSF	National Social Security Fund
PPP	Power Parity Prices
PWD	People with Disabilities
SME	Small & Micro Enterprise
STC	Social Training Center
UBN	Unsatisfied Basic Needs
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organization
UNFPA	United Nations Funds for Population Activities
UNICEF	United Nations Children's Fund
UNWRA	United Nations Relief and Works Agency
USAID	United States Agency for International Development
WHO	World Health Organization
YMCA	Young Men's Christian Association

The metric system is used throughout this note.

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ATTACHMENT IV: MAPPING AND REVIEW OF LEBANESE NGOS, BY OMAR TRABOULSI

EXECUTIVE SUMMARY

This poverty note was initiated at the request of the Government seeking practical solutions to the poverty problems facing the country. The purpose of this note is to: (i) Document what we know about poverty in Lebanon; (ii) Review specific government policies and programs affecting the poor for the purpose of recommending new policy interventions and programs aimed at poverty reduction; and (iii) Identify the knowledge gaps to be addressed in future work. The idea was to take stock of recent poverty-related work and to synthesize existing data generated from official surveys, rather than to conduct new surveys. A participatory approach - that brings together all the stakeholders and lays the foundations for creating the necessary technical Government capacity to analyze and monitor poverty - was adopted. In this regard, stakeholders from the government, private sector, civil society, NGOs, donors and UN agencies were gathered to discuss the major issues covered by the report and their viewpoints were incorporated in the analysis and the conclusions of the report.

The report tried to answer four major questions: Who are the poor? Why are they poor from macroeconomic perspectives? What is being done to alleviate poverty in terms of spending and social programs? What more could be done to alleviate poverty?

- **Who are the poor?** Available data on poverty is not sufficient to identify exactly who are the poor and what is their profile. Despite the limitations set on the computation of poverty lines during the past period, it can be concluded that poverty is increasing mainly after 1998. This conclusion is strengthened by the slowdown in economic growth witnessed recently. An extrapolation of the urban upper poverty line, first computed in 1992, comes to US\$1,021 in 1997. The average household monthly income in urban areas during the same year is estimated at US\$1270, i.e., 32% higher than the poverty line. Meanwhile around 45.7% of households living in urban areas earn less than US\$800 per month and are thus considered poor.

	Lower urban poverty line (US\$)	Upper Poverty Line (US\$)	Average Monthly Household Income (US\$)	Average monthly household income as % of poverty line
1993	300	600		
1996 *		874	576-926	66-105%
1997**	535	1052	1270	120%
1997*		961	1270	132%
1999	592	1400	833	60%

Despite the improvements achieved in the provision of social services, several predicaments are still encountered in the social sectors in Lebanon. These are mostly related to achieving universal coverage for basic social services, as well as the quality of these services, in addition to the high cost incurred, which is mostly paid by the households.

- **Why are they poor?** Poverty in Lebanon is closely linked to the overall macroeconomic performance, as the prevailing economic recession is heavily affecting the levels of employment and living standards of the majority of the Lebanese population. In addition to the declining trends in growth rates, the structure of GDP was subject to huge distortions, where the share of interest income doubled during the past 8 years. This distortion, which accompanied the economic slowdown during the last few years, ended up in limiting job creation; while at

the same time accrued benefits to holders of capital at the expense of wage earners. The end-results were an increase in unemployment rates, particularly among young age groups, an increase in migration, and an aggravated, uneven distribution of income and resources among different social groups.

- **What is being done to alleviate poverty?** The Lebanese society – whether the state, institutions, or households –allocates more than 20 percent of its GDP for the social sectors (mainly health and education), a percentage among the highest in the world. The majority of spending allocated for the ministries concerned with the social sectors goes for wages and allowances, with an apparent oversupply in administrative staff (mainly in education). It is also not clear whether social protection and social assistance reaches the target groups within the society, due to the inadequacy and lack of eligibility and beneficiary selection criteria. Finally, political interference continues to lead to distortions and waste in public spending.

In addition to the social spending carried out by line ministries, few social interventions are carried out by the government. However, these interventions cannot be classified as social protection programs and seem far less developed than the programs adopted in most of other MENA countries. Most of these programs are producer subsidy programs (wheat, sugar beat, tobacco). The major deficiencies of the existing social interventions can be summarized by the lack of adequate targeting systems, the large leakage rates, the high budgetary costs, the multiplicity of agents and funds involved in social services, as well as the high degree of political interference in the process of transfers' allocation to the poor. These deficiencies raise the question of the sustainability of these programs and their ability to cope with the growing problem of poverty within the medium term.

- **What more could be done to alleviate poverty?** Several recommendations were made to address the key factors affecting the living conditions of the poor, mainly weak macroeconomic performance, inefficiency in public social spending and programs and lack of information on the detailed profiles of the poor. Also, priorities for targeting beneficiaries of social interventions should be clearly defined.

Administrative reform is a pre-requisite for any long-term growth oriented strategy. The inefficiency and ineffectiveness of public sector institutions is impeding the development of the private sector, which is placing a high cost on the economy.

Privatization should be speeded up, as any further delays would pose additional costs on the budget and would intensify the debt problem. Both, administrative reform and privatization, are critical strategies in the context of promoting economic competitiveness and growth. On the fiscal level, the unbalanced tax structure, which is contributing to widening the social gap, should be adjusted as it relies mainly on custom duties and other forms of indirect taxes, while a large part of domestic transactions, real estate gains, capital gains and wealth are not effectively subject to taxation. At the monetary level, a gradual decrease in interest rates is undoubtedly needed for a better investment and growth climate in the country.

Specific interventions should be carried out in the different social sectors, with an objective to optimize public spending. These interventions must focus on reducing public waste, improving the efficiency of public services, and ensuring accessibility and equity.

CHAPTER 1
INTRODUCTION AND BACKGROUND

General Introduction

Lebanon is a small country with a per-capita income of about US \$4000 and an estimated population of 4.1 million residents, including non-Lebanese residents (Palestinian refugees in camps). Before 1975, Lebanon witnessed a prosperous period, characterized by a strong economic performance. The devastating civil war that lasted for more than 15 years led to severe economic contraction, eroding the purchasing power and substantially lowering the living standards for vast segments of population. Though Lebanon's economic performance started to improve since the end of the war, the rate of economic growth began to slow down in recent years. Moreover, several macro-economic imbalances, such as high budget deficits and increasing public debt, surfaced as a result of several factors among which the government's reconstruction of basic infrastructures and services. Despite the lack of substantial statistical information, it is estimated that the prolonged decline in economic performance during the civil war resulted in a significant impoverishment of a considerable segment of the Lebanese society.

Insights on the concept of poverty

Poverty is a complex and multidimensional phenomenon that can be estimated using income and consumption, education and health, access to basic services such as sanitation and clean water, plus other dimensions of social welfare. Though it is widely acknowledged that poverty can not only be measured by income and expenditure data, real progress in going beyond purely economic indicators has been impeded by a lack of consensus on concepts and measurement tools. Therefore, poverty is conventionally measured by the income or expenditure level that can sustain a bare minimum standard of living. Within this context, people whose income or expenditure levels fall below that minimum threshold (often referred to as the poverty line) are considered to be poor. Poverty can be measured in absolute or relative terms. A country poverty profile is established for a rigorous poverty analysis and policy design; it is an analytical device for summarizing information on the sources of income, consumption patterns, economic activities and living conditions of the poor. Poverty profiles are constructed from a variety of data sources such as population census, household and/or community surveys.

Measuring Poverty

One of the key questions in the fight against poverty is "how do the policies we recommend financially affect the poor?" Answering this question requires an operational definition of poverty and its trends over time. As indicated above, definitions of poverty vary widely amongst countries and international organizations. Some analysts calculate minimum calorific requirement to define poverty line. The United Nations have favored composite indices that account for access to education and basic health services for measuring poverty and human development. In the end, poverty is relative and the choice of a method to calculate the poverty line is subjective. Yet, if we are to substantiate comparisons of poverty and its trends over time among countries, a common definition is needed.

Poverty overview in the MENA region¹

A number of comparative studies have been completed by the World Bank with an update of average poverty data using the widely popular measure of per-capita spending of \$1 and \$2 a day at 1990 purchasing power parity prices (PPP) as the common poverty line. Details of the results by region are summarized in Annex¹ (table 1 through 4). Though the absolute number of the poor has increased over the past decade in the MENA region, declining trends are observed relative to the total population, regardless of the chosen poverty line. Furthermore, these statistics indicate that income-based poverty in MENA is low compared to the rest of the developing world. However, the picture is basically reversed when it comes to “poverty of opportunity,” a notion close to the UN’s Human Development Index (HDI) that includes education and health indicators. In those areas, MENA lags behind the rest of the developing economies. Finally, the region suffers most from economic vulnerability (Annex¹ Table 5), large discrepancies in terms of educational opportunity for the poor (Annex¹ Table 6), and the lack of reliable information base to support effective policy design (Annex¹ Table 7).

An eclectic approach to poverty

For many developing countries, the above-mentioned standard approach can not be used due to the lack of up-to-date and comprehensive household information. In the case of Lebanon, information on poverty is very limited, though work has recently taken-off with contributions made by the Government, the World Bank and UNDP. At the aggregate level using income-based statistics, Lebanon compares well within the MENA region. In terms of real per-capita GNP growth, only Egypt has done better in the past five years with an average growth rate of 4 per cent as compared to Lebanon’s 3.7 per cent. Based on the World Bank’s Atlas method, Lebanon’s per-capita GNP was more than double the regional average, which stood at US \$1480 over the period 1994-98. When measured on the basis of international dollar, i.e., US dollar adjusted for differences in purchasing power, Lebanon’s per-capita GNP reached US \$5894, i.e. 60 per cent higher than the regional average. Unfortunately, these aggregate statistics do not uncover the real picture. Judicious use of partial data, such as micro surveys in various economic sectors, may provide additional, albeit rough, poverty estimates, which, in turn, may on the basis of ownership of productive assets and other social capital constitute a powerful diagnostic tool. However, these interim steps should not substitute for a more rigorous approach to studying poverty.

Scope and objectives

The Lebanese Government is seeking policy advice that could pave the way to finding practical solutions to the poverty problems facing the country. This work has been initiated at the request of the Government seeking practical solutions to the poverty problems facing the country. The purpose of this note is to (i) Document what we know about poverty in Lebanon; (ii) review specific government policies and programs affecting the poor for the purpose of recommending new policy interventions and programs aimed at poverty reduction; and (iii) Identify the knowledge gaps to be addressed in future work. A participatory approach-that brings together all the stakeholders and lays the foundations for creating the necessary technical Government capacity to analyze and monitor poverty - was adopted. In this regard, stakeholders from the government, private sector, NGOs and UN agencies were gathered to discuss the major issues covered by the report, and their view points were among the major guidelines in the preparation of the report.

¹ In the context of this report, MENA region covers Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria, Tunisia, and Yemen.

Without losing track of the long-term vision, the purpose of this assignment is to consider alternative options that the government can undertake almost immediately to minimize economic and social vulnerability and loss in income. The report consists of 5 chapters, after an introductory background on poverty and its dimensions, chapter two elaborates on the available measurements determining who are the poor, including poverty lines and household income, in addition to an assessment of health and education conditions in Lebanon. Chapter three attempts to assess the determinants of poverty from a macro-economic perspective, highlighting the recent growth and macro-economic development trends. Chapter four consists of a briefing on the public social expenditure (mainly on health, education and social welfare), in addition to governmental interventions targeting specific segments of the population, aiming, directly or indirectly, at alleviating poverty. Finally, chapter five draws relevant conclusions and policy recommendations that would be potentially adopted for improving socio-economic conditions of the population.

CHAPTER 2
LEBANON POVERTY REVIEW: WHO ARE THE POOR?

Measurement of poverty using UBN method and poverty lines

The dearth of accurate statistical data related to poverty determinants in Lebanon –such as poverty line, poverty gap and headcount index- renders the process of poverty measurement, and the determination of the characteristics of the poor and their profile, a relatively difficult task. Nevertheless, several attempts have been made during the past few years to quantify the prevalence of poverty in the country. The inaccuracy in assessing poverty was a major constraint to the creation, and adoption, of a national strategy for poverty eradication, limiting such a process to ad-hoc interventions both by governmental and non-governmental organization partially targeting specific areas and social groups. Given the fiscal constraints faced by the Lebanese government, the need for elaborating a national strategy for poverty eradication becomes more crucial. However, such a strategy, including well-defined objectives and targets, can not be elaborated in the absence of accurate national data relating to poverty and its determinants.

One of the basic achievements recorded in the context of poverty measurement during the past few years included the construction of national statistical databases relative to several socio-economic aspects. This has enabled the identification of social and regional disparities, mainly in issues related to income, accessibility to basic services and infrastructure. It has also assisted in identifying under-served areas and social groups.

I. Poverty Classification based on the Unsatisfied Basic Needs (UBN) method

An analysis of the Housing and Population Database using the “Unsatisfied Basic Needs” (UBN) method resulted in ranking the different Lebanese districts according to the degree of satisfaction of basic needs². Although this methodology provides an indicative value for describing social and regional disparities, it does not result in an accurate poverty classification of the population. This said methodology selected eleven indicators for classification of districts, grouped into the following four major fields:

- Housing and housing-related indicators;
- Access to water and sewerage;
- Education and education-related indicators; and
- Income-related indicators.

As illustrated in Table 2.1 below, the study revealed that around 32.1 percent of Lebanese households (and 35.2 percent of individuals) live below the satisfaction threshold.

TABLE 2.1- HOUSEHOLDS BELOW THE THRESHOLD LEVEL BASED ON THE LIVING CONDITIONS INDEX AND THE FOUR-FIELD INDICES (% OF HOUSEHOLDS)- 1998³

	% households
The National Living Conditions Index	32.1
Housing Index	17.6
Water and Sewerage Index	9.6
Education Index	23
Income Related Index	25.4

² Mapping of Living Conditions in Lebanon, Ministry of Social Affairs & United Nations Development Program (UNDP), 1998.

³ Ibid.

The classification of Lebanese districts based on the National Living Condition Index revealed that 14 districts are positioned below the satisfaction threshold, most of them located outside the districts of Beirut and Mount Lebanon. Bent-Jbeil was reported to have the lowest satisfaction level of basic needs, with 67.1 percent of households below the satisfaction level, followed by the districts of Hermel (65.9 percent of households), Akkar (63.3 percent of households), and Marjeyoun (60 percent of households). It is noted that these districts are characterized by the predominance of agricultural activities. Meanwhile, the district of Keserouan was reported to have the highest degree of satisfaction, with only 13.5 percent of households living below the satisfaction level.

II. Household Income vs. Estimated Poverty Line

1. Poverty line estimates prior to 1993⁴

The first post-war attempt for the computation of the poverty line was in the context of a study conducted in 1993 on the evolution of prices and wages for the period 1984-1992. The computation of the poverty line was based on the level of consumption of basic goods and services, taking into consideration the size of the household in addition to intra-household age and sex variations. Basic goods and services included foodstuff, housing, transportation, health and education; and food consumption was estimated based on the least-cost-diet. In the study, the household was considered as a basic unit for the computation of the poverty line.

The study estimated the level of the urban poverty line for a household composed of five members at US \$495 (1992).

Following the same methodology, the upper poverty line in rural areas was estimated at US \$377 in 1993⁵. Variations between urban and rural poverty lines account for auto-consumption, demographic household structure and price differentials.

In 1993⁶, an attempt to update the poverty line and compare it to household incomes was conducted. Subsequently, the lower and upper poverty lines were estimated at US \$300 and US \$600, respectively. The same study revealed that around 7.25 percent of households earned less than US \$200, whereas 28 percent of households earned less than US \$500.

2. Poverty line and household income⁷ (adjusted for 1996)

In the absence of official income-related data, an attempt to compare the household income with the level of poverty line was conducted in 1997⁸. Subsequently, the poverty line for 1996 was estimated at US \$874. In addition, income-related data derived from the above-mentioned surveys were adjusted using the wage adjustment rate in order to evaluate the level of household income in 1996. The results were as follows:

⁴ Evolution of Price and Wages: 1984-1992, Consultation & Research Institute (CRI), ILO and CGTU, 1993

⁵ Rapid Needs & Capacity Assessment Study, CRI - High Relief Committee - World Bank - UNDP, 1995

⁶ Poverty in Lebanon, Antoine Haddad, ESCWA, 1996

⁷ Assessment of Socio-economic Conditions in Lebanon, CRI and the World Bank, 1997

⁸ In this undertaking, several studies with income-related data were taken into consideration, especially mainly those resulting from the following studies:

The Labor Market Survey, UNDP, ILO and the National Employment Office, 1996;

The Female Labor Force in Lebanon, CRI and the Institute for Women studies in the Arab World, 1997;

The Industrial Census, GTZ, 1994;

TEAM-IAURIF-SOFRETU, Council for Development and Reconstruction, 1994

TABLE 2.2 ADJUSTED HOUSEHOLD INCOME (1996) (COMPARED TO THE ESTIMATED POVERTY LINE)⁹

Studies Selected	Adjusted household monthly income (US\$-1996)	% of estimated poverty line in 1996 (US\$874)
The labor market survey	710	81%
Female labor force in Lebanon		
Head of household	756	86%
Working female	576	66%
Household with working female	926	105%
The industrial census	698	80%
TEAM-IAURIF_SOFRETU	770	88%

3. *Poverty line: urban- rural comparison (1997)*

In 1997, a comprehensive field survey attempted to identify the poverty profile in Baalbeck-Hermel region, an under-served region of Lebanon was made¹⁰. The attempt resulted in determining a lower poverty line (estimated at US \$332 per month for an average household size of 5.26 members), and an upper poverty line (estimated at US \$652 per month for an average monthly size of 5.26 members). The head count index for this region was equivalent to 25.5 percent of households relative to the lower poverty line and 58 percent of households relative to the upper poverty line. The poverty gap for the Baalbeck-Hermel region amounted to 30.4 percent. In addition, the Lorenz curve illustrated that 20 percent of this region's income was controlled by 50 percent of the population, whereas 10 percent of the population controlled 30 percent of the income. The study also revealed that poor families are characterized by a larger number of family members and higher dependency ratios compared to non-poor families.

Assuming that the Baalbeck-Hermel region is representative of rural areas in Lebanon, and based on the results of the estimated poverty line for this region, a computation of the upper and lower poverty lines for urban areas could be done by applying the ratio of rural to urban poverty lines (estimated at around 62 percent). This will result in the following:

TABLE 2.3 ESTIMATED UPPER AND LOWER POVERTY LINES IN RURAL AND URBAN AREAS (1997)

	Upper poverty line (US\$)	Lower poverty line (US\$)
Poverty line in Baalbeck Hermel	652	332
Poverty line in urban areas	1052	535

As illustrated above, the upper poverty line for urban areas can be estimated at US \$1052 in 1997, (approximately LBP1.58 million). The average household income in urban areas was estimated at LBP1.9 million in 1997, i.e., 20 percent higher than the poverty line. The distribution of households based on income levels revealed that 60.4 percent of households earn less than LBP1.6 million, an estimation that can be used to give insights as to the size of poverty in the country.

4. *Extrapolation of the poverty line (1997)*

The extrapolation of the poverty line is a complex process since it is linked to several inter-related factors including demographic household structures, elasticity and consumption patterns. However, for simplification reasons, the poverty lines computed in 1992 and 1993 for urban and rural areas (see section a) can be updated using inflation rates, *cet. par.* as follows:

⁹ Ibid.

¹⁰ Poverty and Gender Profile in the Baalbeck-Hermel Region, CRI and UNDP, 1998

TABLE 2.4 EXTRAPOLATION OF POVERTY LINES IN URBAN AND RURAL AREAS (US\$)¹¹

Year	Urban Upper Poverty Line (US\$)	Rural Upper Poverty Line US\$	Inflation in US\$
1992	495		
1993	607	377	23%
1994	679	422	12%
1995	778	483	15%
1996	874	543	12%
1997	961	597	10%
1998	1,021	633	6%

Based on this extrapolation, the level of the poverty line reaches around US \$961 in 1997 (i.e., around LBP1.44 million). The average household income in urban areas - generated from both work and non-work activities- was estimated in 1997 at around US \$1270 (LBP1.9 million)¹², i.e., 32 percent higher than the level of the poverty line. The same statistics revealed that around 45.7 percent of households living in urban areas earned less than US \$800 (LBP1.2 million) in 1997, thus, considered as poor. However, all these results should be considered with caution because of the following facts:

- The phenomenon of under-declaration of household income is widespread in Lebanon. It should be noted that the aggregate household income in the country was estimated to represent 68 percent of the GDP in 1997; and
- The extrapolation of the poverty line using only the inflation rate can be misleading, since it does not account for changes in consumption patterns and expenditures covered by third party financing (health, education, etc.), in addition to other factors (house ownership, auto-consumption, etc.).

5. *Survival budget and household income (1999)*

A study covering 450 households in the different Lebanese regions was conducted by the General Confederation of Trade Unions (GCTU) in 1999. This study revealed that the average monthly household income is estimated at US \$833 (LBP1.25 million), and that 48 percent of households earn a monthly income less than LBP1 million. The same study indicated that 29.5 percent of households declared that their income declined in 1999 compared to 1998.

The study tried to evaluate the “survival budget” which includes the minimum requirement for caloric in-take, in addition to health, transportation and other expenses, and is implicitly equivalent to absolute or lower poverty line. Subsequently, the “survival budget” for a household is estimated at US \$592 (LBP888 thousand). In addition, the budget for “minimum living requirements,” that includes, in addition the survival budget, expenses related to housing, clothing and education, and is equivalent to the upper poverty line, was estimated at US \$1400 (LBP2.1 million) -including education expenses- and US \$866 (LBP1.3 million)- excluding education expenses.

Income & family budget

The prevailing unfavorable economic conditions have a direct effect on the income level of Lebanese households and their ability to spend and save. An analysis of pre and post war household surveys uncovers both a deterioration in income levels and an emerging phenomenon of large household budget deficits. That is, the monthly income level of a wide segment of

¹¹ Extrapolation by CRI using inflation rates in US\$

¹² Family Budget in Beirut and its Suburbs in 1997, Central Administration of Statistics

Lebanese households- mainly within the low and lower middle income categories- is insufficient to cover the basic needs.

I. Deteriorating incomes: The case of Beirut and its suburbs (1997)

National studies dealing with family budget analyze income patterns using three major indicators: average household income, average individual income, and average income per unit of consumption. In Beirut and its Suburbs, these indicators are estimated at LBP22.8 million per household per year, LBP7.2 million per unit of consumption per year, and LBP5.2 million per individual per year. Considerable differences are recorded for these indicators based on different income categories, as depicted in the following table:

TABLE 2.5 AVERAGE INCOME PER INCOME BRACKET IN BEIRUT & ITS SUBURBS-1997
(ANNUAL FIGURES IN THOUSAND LBP)¹³

	less than 6000	6000-9600	9600-14400	14400-19200	19200-28800	28800-38400	More than 38400	Total
Average household income	3,822	7,648	11,532	16,315	23,113	32,521	75,017	22,841
Average individual income	1,453	2,034	2,676	3,428	4,660	6,610	15,124	5,215
Average consumption unit income ¹ *	1,892	2,833	3,756	4,784	6,456	9,110	20,723	7,205

Meanwhile, the average income indicators in Beirut & Suburbs were estimated in 1966 as follows:

TABLE 2.6 AVERAGE INCOME PER INCOME BRACKET IN BEIRUT & SUBURBS-1966
(ANNUAL FIGURES IN LBP)¹⁴

	less than 6000	6001-12000	12001-18000	18001-24000	24001-30000	More than 30001	Total
Average household income	3,799	8,742	14,902	20,769	26,774	70,067	13,141
Average individual income	727	1,583	2,687	3,774	4,893	11,766	2,421
Average consumption unit income	1,099	2,330	3,907	5,477	7,025	17,179	3,587

Given the large change recorded in the value of the Lebanese pound between 1966 and 1997, a comparative analysis of income indicators illustrated in tables 2.5 and 2.6 above is not applicable. However, using the annual series of the Consumer Price Index during the period 1966-1997 as declared by official and semi-official sources, the 1966 LBP figures can be converted to 1997 LBP terms, and would reveal important conclusions regarding the changing patterns of household incomes¹⁵. It should be noted, however, that the validity of the available CPI figures in depicting the real price evolution is debatable given the absence of official household surveys during the war years. Therefore, any conclusions relating to changing household condition based on these figures should be treated with caution.

¹³ Ibid.

¹ * The consumption unit is introduced for the sake of identifying real consumption needs of a household based on the needs of its different age members. Each household has been assigned a number of units of consumption according to the following: one unit for the first adult, 0.7 units for each of the other adults, and 0.5 units for family members below the age of 15 years.

¹⁴ Family Budget 1966, Central Administration of Statistics,

¹⁵ CAS for the period 1966-1974, CRI for 1975-1997

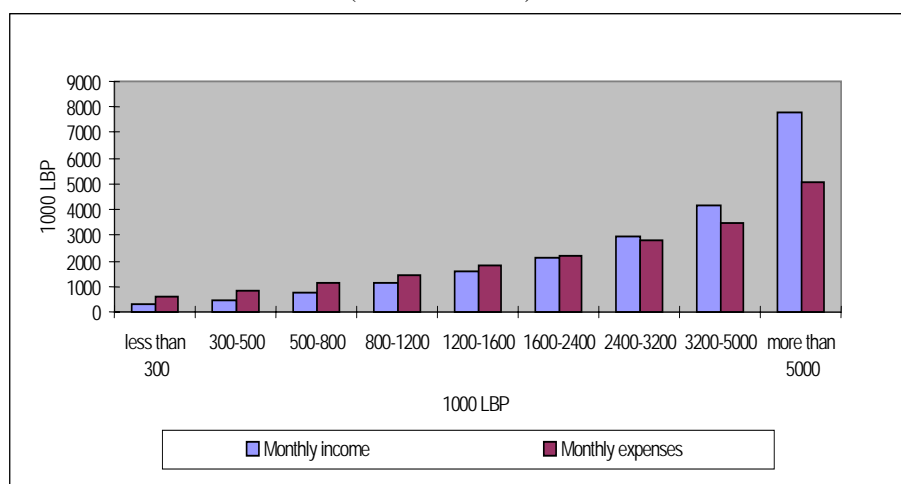
Taking into account the limitations cited above, the following can be deduced:

- The average yearly household income has declined by around 62 percent in 1997 compared to 1966;
- The average yearly individual income earned in 1997 is 53 percent below that earned in 1966;
- The average yearly income per unit of consumption has dropped by around 56 percent between 1966 and 1997; and
- The 1966 annual average household income, individual income and income per unit of consumption for the lowest income bracket are higher than the estimated averages for the fourth income bracket in 1997.

II. Rising budget imbalances

The most striking aspect noted in the analysis of Lebanese households' income and expenditure patterns is the large divergence between income and expenditure levels, particularly among low and middle-income categories. Average household expenditure is estimated at LBP1.665 million, against an income level of LBP1.54 million (1997). The distribution of income and expenditure among different income categories reveals that household earning below LBP2.4 million per month (representing 86 percent of total household in Lebanon) have budget imbalances, reaching more than 50 percent of expenditure for the lowest income category. Consequently, only 13 percent of households can, in reality, cover their needs and have savings from their income, whereas the remaining households are obliged to borrow (refer to Figure 2.2).

FIGURE 2.1 AVERAGE MONTHLY INCOME AND EXPENDITURE PER INCOME BRACKETS
(IN THOUSAND L.L.)-1997



This phenomenon of large household income-expenditure deficits is primarily attributed to the declining living standards resulting from the Lebanese civil war, as well as post-war national policies. Income-expenditure patterns of Lebanese households in Beirut and its Suburbs during 1966 did not reveal significant budget deficits among the various income categories. Only the lowest income category groups recorded budget deficits equivalent to 7 percent of total expenditure in 1966, compared to 56 percent for the same category in 1997. Furthermore, in

1966, all other income-groups were able to sustain balanced budgets, and higher income bracket households were even able to secure an average saving of 32 percent of their annual income, compared to only 5 percent surplus/saving recorded for the same income category in 1997.

TABLE 2.7 HOUSEHOLD BUDGET BY INCOME CATEGORIES- 1966 AND 1997¹⁶

Household Budget in Beirut and its Suburbs- 1966 (in LBP)							
	less than 6000	6001-12000	12001-18000	18001-24000	24001-30000	more than 30001	
Annual Income	3,799	8,742	14,902	20,769	26,774	70,067	
Annual Expenditure	4,086	8,681	14,777	20,768	26,540	47,897	
% difference	-7%	1%	1%	0%	1%	46%	
Household Budget in Beirut and its Suburbs- 1997 (thousands LBP)							
	less than 6000	6000-9600	9600-14400	14400-19200	19200-28800	28800-38400	more than 38400
Annual Income	3,822	7,648	11,532	16,315	23,113	32,521	75,017
Annual Expenditure	8,666	14,350	20,687	24,675	31,828	41,960	71,301
% difference	-56%	-47%	-44%	-34%	-27%	-22%	5%

It should be noted that the large disparities recorded between income and expenditure is partially justified by the tendency of some households to over-estimate their expenditures and under-declare their real income. Yet, this factor alone does not totally justify the above mentioned imbalances. Available income and expenditure indicators provide ample evidence on the depth of the social crisis currently dominating the country. The population movements that occurred during and after the war- to and from the capital- also contributed to shaping the income-expenditure patterns of Beirut residents.

Disparities in health and education

Indirect poverty measurement takes into account population access to basic social services, the expenditure incurred for securing these services, as well as their quality. Within this context, health and education services are the two major basic social services that should be equitably accessible to the population.

I. Education

Spending on education in Lebanon reaches around 9.3 percent of GDP¹⁷ in 1997, the majority of which is considered as private expenditures (5.6 percent of GDP). During recent years many improvements in educational indicators, mainly in terms of increased enrollment rates, decreased drop out, failure and repetition rates, and declined illiteracy rates were reported. However, despite this overall improvement disparities are still recorded between the different regions, income groups, and sectors of education. Moreover, the achievements in education do not justify the high level of recorded spending.

I. Education enrollment

Educational enrollment rates in general education are estimated at 78.3 percent for the population aged between 3 and 23 years (1998). Significant disparities are reported between the different age brackets, sectors of education (public, private and private free), regions, gender, and household socio-economic condition.

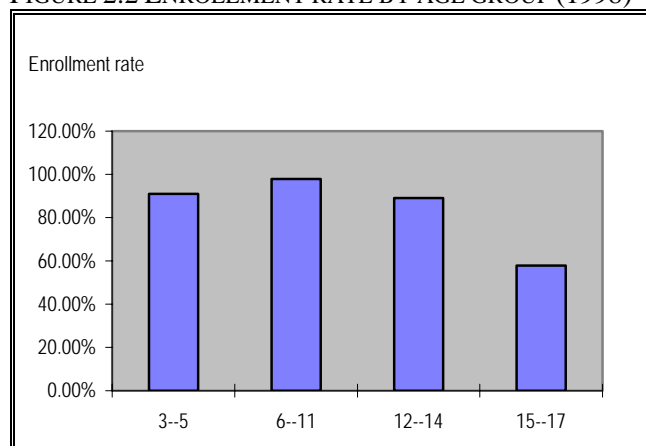
¹⁶ Family Budget Surveys, CAS, 1997 and 1966

¹⁷ Social sector public expenditure review, The World Bank, 1999

Gender disparities in education enrollment rates exist: female enrollment rates in general education amount to 81.8 percent compared to 74.9 percent for males. It is important to note that gender disparity in enrollment rates is insignificant for the elementary level (until the age of 12 years). The gender gap, favoring females, starts to widen at the age of 13 years.

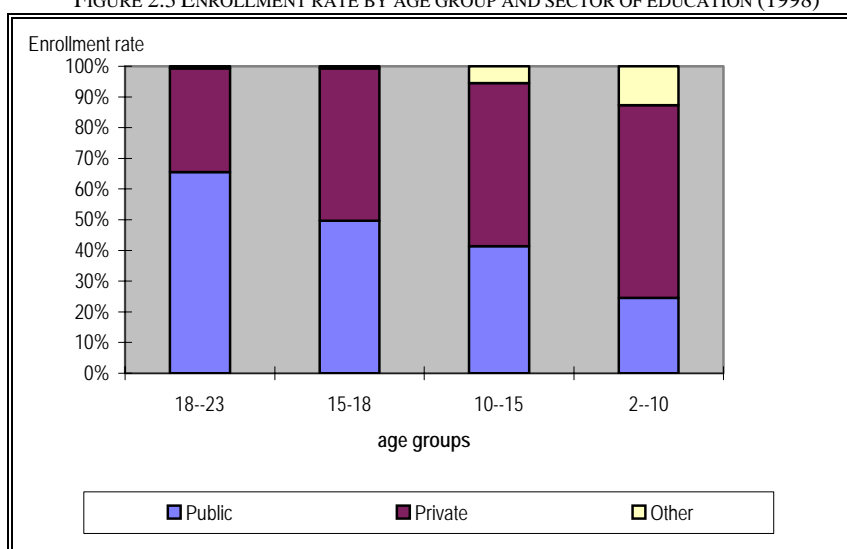
Similarly, as illustrated in Figure 2.2 enrollment rates vary among the different age groups. For instance, this rate peaks for the 6-11 year age group (97.8 percent), dropping to its lowest levels for the 15-17 year age groups (57.9 percent).

FIGURE 2.2 ENROLLMENT RATE BY AGE GROUP (1998)



The private educational sector (both private and semi-private institutions) attracts the majority of students in Lebanon accounting for 64.5 percent of total number of students in general education. Enrollment in the public educational sector increased for students older than 13 years, reaching 50.2 percent of total enrolled students for this age category (refer to Figure 2.3 below). It should be noted that low enrollment rate in public schooling in the 2-10 years age group is attributed to the relatively insignificant number of nursery and kindergarten schools in the public sector and the low quality of education in the public sector.

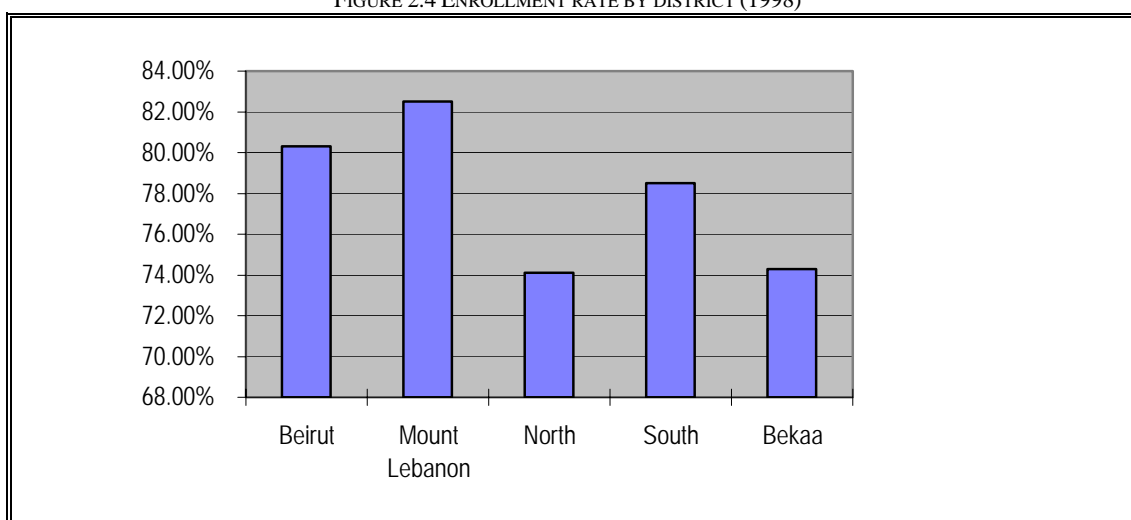
FIGURE 2.3 ENROLLMENT RATE BY AGE GROUP AND SECTOR OF EDUCATION (1998)¹⁸



Also, regional disparities in enrollment rates are recorded, where highest enrollment rates are found in the Mount Lebanon governorate, whereas lowest rates are recorded in Bekaa and North Lebanon districts (refer to Figure 2.4).

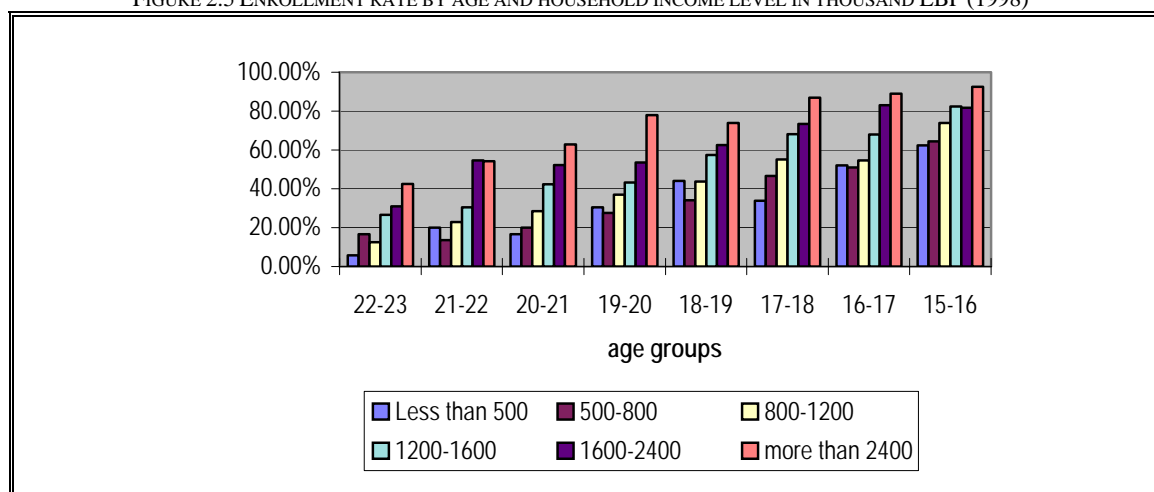
¹⁸ Ibid.

FIGURE 2.4 ENROLLMENT RATE BY DISTRICT (1998)¹⁹



Finally, educational enrollment rates are positively related to the level of household income, where enrollment rates increase with increasing income levels. These variations are particularly evident for age groups above 15 years (refer to Figure 2.5). Furthermore, as people get older than 16 years, higher variations in enrollment rates are witnessed among the different income categories.

FIGURE 2.5 ENROLLMENT RATE BY AGE AND HOUSEHOLD INCOME LEVEL IN THOUSAND LBP (1998)²⁰



2. Repetition

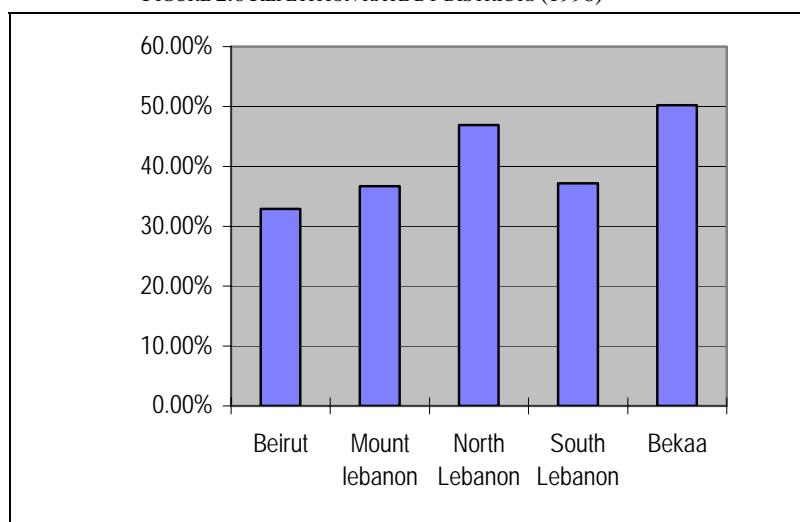
The overall repetition rate for students enrolled in general education is around 40.9 percent. This rate varies according to gender, educational level, sector of education (highest in public sector), regions and level of household income. Repetition rates are higher for males (43 percent and 38.9 percent for males and females, respectively). These rates also vary according to the educational level, peaking for intermediary grades (49.9 percent).

¹⁹ Ibid.

²⁰ Ibid.

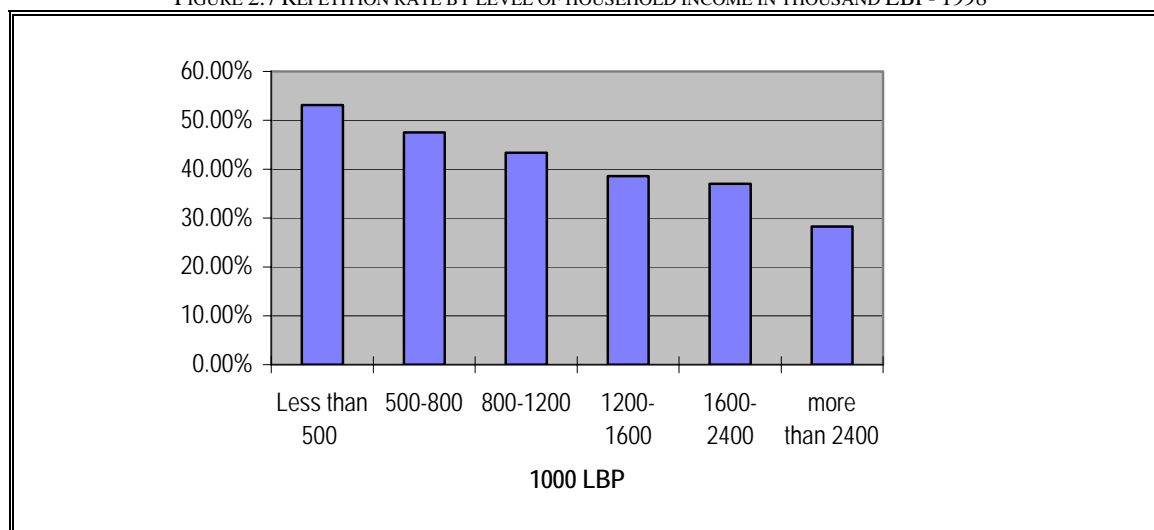
Furthermore, as illustrated in Figure 2.6, regional variations are noted, with the governorate of Bekaa having the highest repetition rates (50 percent), and Beirut having the lowest (32.9 percent).

FIGURE 2.6 REPETITION RATE BY DISTRICTS (1998)



Finally, repetition rates are negatively correlated to the level of household income, recording highest levels for households with a monthly income level below LBP 500 thousand.

FIGURE 2.7 REPETITION RATE BY LEVEL OF HOUSEHOLD INCOME IN THOUSAND LBP- 1998²¹



3. Failure

The overall failure rate in pre-university general education is estimated at 11.5 percent (scholastic year 1997-1998). As is the case for other education-related indicators, failure rates

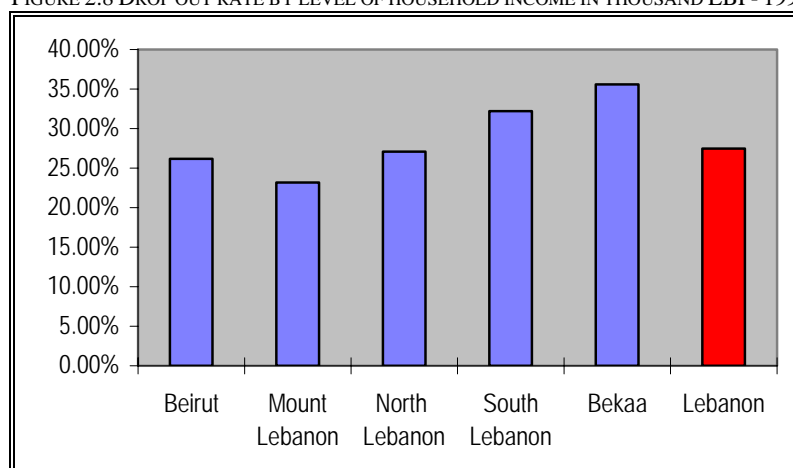
²¹ Ibid.

vary based on educational levels, gender, sector of education, regions and income level of households. Failure rates are higher for males (12.9 percent) than for females (10.2 percent).

4. *Drop out from general education*

School drop out rates increase starting from the fourth intermediate grade, with a rate equivalent to 27.5 percent from the general education system. Regional variations are eminent in this context with the district of the Bekaa having the highest drop out rates whereas Mount Lebanon records the lowest rates as illustrated in Figure 2.8 below:

FIGURE 2.8 DROP OUT RATE BY LEVEL OF HOUSEHOLD INCOME IN THOUSAND LBP- 1998



In general, drop out rates are higher in public schooling systems and for lower income households.

II. **Health**

Despite the huge size of the health bill estimated at around 9.2-10 percent of GDP in 1997²², the health care system in Lebanon continues to suffer from structural problems that directly affect the cost and accessibility of households to this service.

1. *Health indicators and prevalence of diseases*

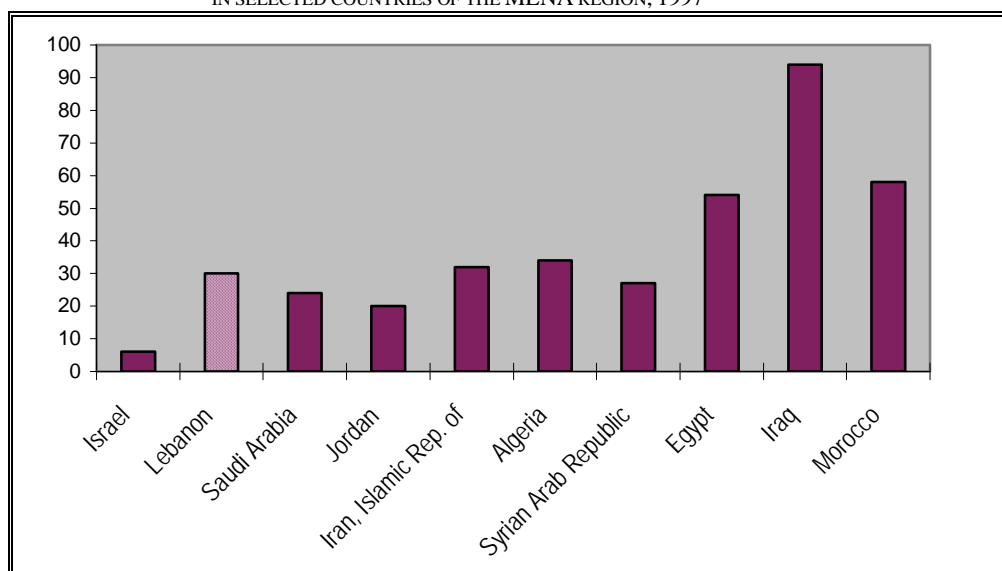
Infant mortality rate is estimated at 28 per 1000 live births, with considerable regional variations: 15.9/1000 in Beirut, compared to 51.5/1000 in North Lebanon and 35.9/1000 in Bekaa. Such regional disparities reveal the disadvantageous health conditions prevailing in some Lebanese regions, especially those which may be classified as rural (mainly North Lebanon, Bekaa and South Lebanon). Table 2.8 shows the major reproductive and child health indicators:

²² Public expenditure review of the social sector, Social & Economic Development Group- Middle east & North Africa Region, 1998.

TABLE 2. 8 - SELECTED DEMOGRAPHIC AND HEALTH INDICATORS (1996)

	Gender			Regions					
	National	Female	Male	Beirut	Mount Lebanon	North	South	Nabatieh	Bekaa
Life expectancy at Birth	71.3	72	69	74.5	73.5	68.5	73.1	70.6	69.5
Crude Birth rate	24.6								
Crude Death rate	7.4	6.9	7.9						
Reproductive Health									
Contraceptive Prevalence rate %	61								
Maternal Mortality Ratio per 100,000 live birth	104								
% women receiving health care during pregnancy	87			98.8	95.8	71	93.6	82	86.1
% births attended by trained personnel	89			93.9	95.7	75	97.6	86.5	90.8
Total fertility rate	3								
Child Health									
Infant mortality rate	28	27.6	28.6	15.9	22.4	51.5	35.2		35.9
Under Five mortality rate	32	31	33						
Immunization (% coverage) DPT	91.8	92.3	91.4	90.4	94.4	88.4	92.7	93.5	88.6
Immunization (%coverage) Measles	85.7								
Low birth weight	7.4			8.7	10.2	6	2.3	7.6	
Neonatal Mortality rate (0/00)	20	19.9	20.7						
Under-five deaths from diarrhea	1.3								

It is important to note that the Infant Mortality Rate in Lebanon, estimated to be around 28 per 1,000 live births, is much lower than the average rate of the Middle East and North Africa region (refer to Figure 2.9).

FIGURE 2.9 INFANT MORTALITY RATE (PER 1000 OF LIVE BIRTHS) IN SELECTED COUNTRIES OF THE MENA REGION, 1997²³

Life expectancy at birth is estimated at 71.3 years, with gender variations (72 years for females and 69 years for males). Regional disparities are significant in this regard with higher life expectancy rates recorded in Beirut (74.5 years) compared to other regions of the country such as North Lebanon (68.5 years).

²³ Human Development Report, United Nations Development Program, 1997.

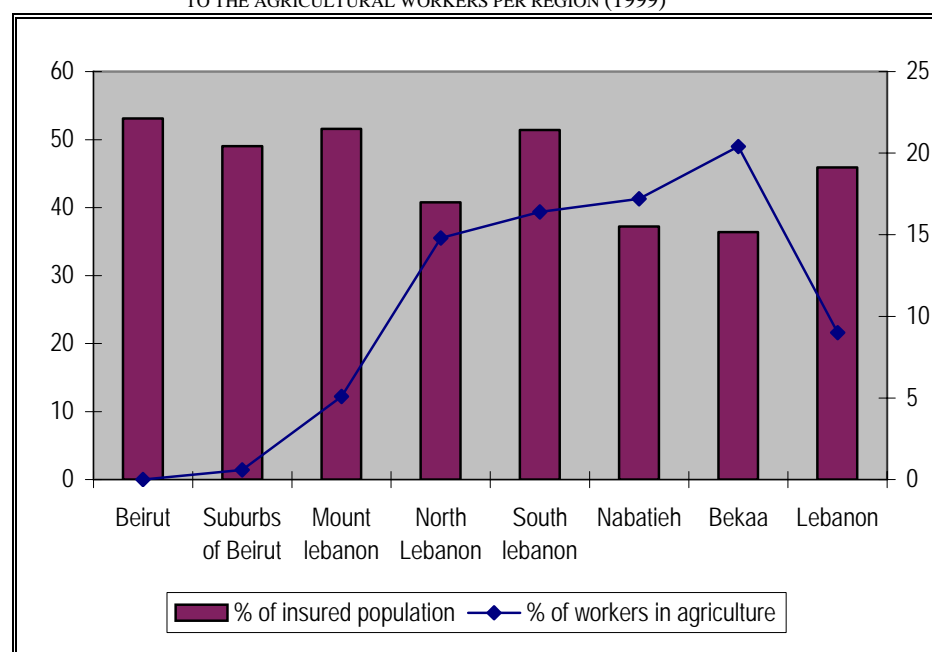
Around 68.8 percent of the population declare that they have health problems, varying within different age groups. For instance, around 87.3 percent of the population aged above 60 years declare that they have health problems, and this rate is higher for females than for males²⁴. The percentage of the population affected by chronic diseases is relatively high, estimated at 8.8 percent of the total population. This rate varies among the different age groups, reaching 35.3 percent for those older than 60 years²⁵.

2. Insurance coverage

Recent statistics (1999) reveal that around 45.9 percent of the Lebanese resident population are covered by different types of medical insurance (with the exception of the schemes of the Ministry of Health). However, variations in medical insurance coverage exist based on several factors, including regions, gender, age and income levels.

Within regional variations in health insurance coverage, the districts of Bekaa, Nabatieh and North Lebanon record the lowest percentage of medically insured households. It is noted that the lowest coverage is associated with the pre-dominant presence of workers in the agricultural sector, most of whom are not covered by any medical insurance scheme (refer to Figure 2.10 below).

FIGURE 2.10 PERCENTAGE OF MEDICALLY INSURED HOUSEHOLDS COMPARED TO THE AGRICULTURAL WORKERS PER REGION (1999)²⁶



Within the above context, it is important to note the following two exceptions related to geographic variations in the health insurance coverage:

- In the district of South Lebanon, insurance schemes include health services provided by Hizbollah, UNRWA, and hospitals inside the formerly Israeli occupied territories (around 21.8 percent of households). However, these

²⁴ Source: Health Survey, CAS and WHO, 1999-2000

²⁵ Ibid.

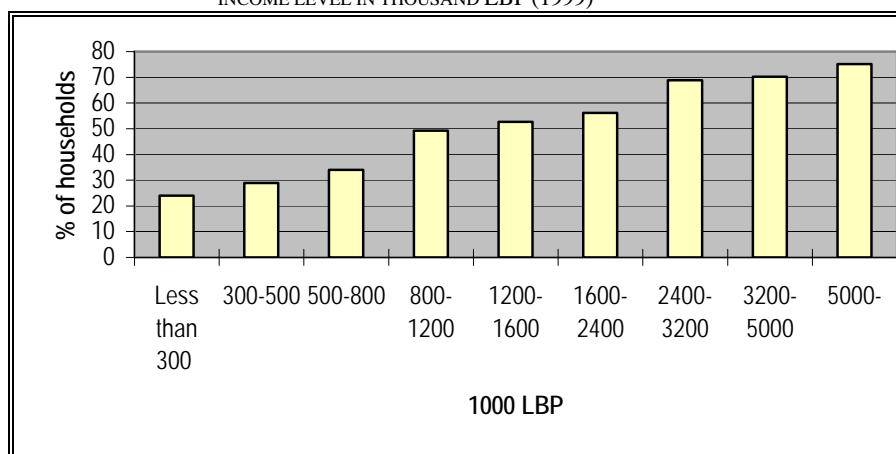
²⁶ Health Survey, CAS and WHO, 1999-2000

allowances are not sustainable and are partially associated with the security situation in southern Lebanon.

- In the district of North Lebanon, the high share of public sector employees (accounting for 22.5 percent of total public sector employees) contribute to increasing health insurance coverage of households.

As illustrated in Figure 2.11 below, health insurance coverage and household income levels are positively correlated: the higher the household income, the higher the coverage by health insurance schemes.

FIGURE 2.11 PERCENTAGE OF MEDICALLY INSURED HOUSEHOLDS BY HOUSEHOLD INCOME LEVEL IN THOUSAND LBP (1999)²⁷



The National Social Security Fund accounts for the highest percentage of medically covered individuals, estimated at 17.7 percent of total resident households, with notable regional disparities (10.2 percent of households in Nabatieh district, compared to 23.8 percent of households in Beirut).

3. Health care cost

Based on the recent released statistics related to the structure of family expenditure, around 8.6 percent of the family budget is allocated to health expenditures in 1997 as illustrated in Table 2.9 below:

TABLE 2.9 BREAKDOWN OF HOUSEHOLD SPENDING ON HEALTH CARE SERVICES, 1997²⁸

	Average bill/year '000 LBP	% households concerned	Total spending '000 LBP	Total spending '000 US\$
Private Insurance	1719	14.80	214,132,729	142,755
Hospitalization	1167	28.80	282,884,273	188,590
Drugs	556	83.00	388,417,102	258,945
Medical consulting	358	73.50	221,470,469	147,647
Labs and radiology	249	45.90	96,196,106	64,131
Treatment	520	7.70	33,700,747	22,467
Dentist	705	29.70	176,234,539	117,490
Total			1,413,035,965	942,024
Total excluding Insurance			1,198,903,236	799,269

²⁷ Health Survey, CAS and WHO, 1999-2000.

²⁸ Living Conditions of the Lebanese Population in 1997, op. cit.

Conclusion

Available data on poverty is not sufficient to identify exactly who are the poor and what is their profile. Despite the limitations set on the computation of poverty lines during the past period, it can be concluded that poverty is increasing mainly after 1998. This conclusion could be strengthened with several observations, mainly the remarkable slowdown in economic growth that affected the country as a whole and mainly the poor. Also, the period 1996-1999 witnessed a retreat in real household incomes. It is reported that no wage corrections were noted in the private sectors during this period, despite a cumulative inflation rate estimated at 23 percent in LBP (32 percent in USD) over this period.

Table 2.10 provides a summary of the evolution of the urban poverty line between 1993 and 1999:

TABLE 2.10 URBAN POVERTY LINES IN SELECTED YEARS AND COMPARISONS
WITH AVERAGE HOUSEHOLD INCOME

	Lower urban poverty line (US\$)	Upper Poverty Line (US\$)	Average Monthly Household Income (US\$)	Average Monthly Household Income as % of poverty line
1993	300	600		
1996 *		874	576-926	66-105%
1997**	535	1052	1270	120%
1997*		961	1270	132%
1999	592	1400	833	60%

* Extrapolated using US\$ inflation rate

** Applying an urban rural ratio (given the poverty line for Baalbeck Hermel area as rural poverty line)

As illustrated in the mapping of living conditions in Lebanon and other social indicators, poverty in Lebanon can be thought of as a rural phenomenon. However, the huge urbanization witnessed during the last three decades, induced by a massive migration of households from peripheral areas to the cities (either due to the war conditions or looking for better living conditions) led to accentuating urban poverty. Residents of urban areas largely depend on employment as a main source of income, however, income in rural areas is generated by variety of sources. The prevailing economic slowdown is affecting employment generation, and consequently contributing to increasing urban poverty. Also, the unregulated inflow of unskilled foreign labor is contributing to keeping wages very low, and hence affecting the level of income of the residents.

Despite the improvements achieved in the provision of social services, several predicaments are still encountered in the social sectors in Lebanon. These predicaments are mostly related to achieving universal coverage for basic social services. Although enrollment rates for primary students are high, structural problems are still facing the public educational sector, mainly in relation to the efficiency and quality of the public schooling, accessibility by the different regions and social classes, as well as the high cost incurred.

Regarding health, there is an inequity in accessing preventive and curative health care services among the different Lebanese regions, illustrated through the huge regional disparities in child and reproductive health indicators. Also, insurance coverage is still limited to certain segments of population (concentrated in specific regions and income groups).

CHAPTER 3
LEBANON POVERTY REVIEW:
MACRO-ECONOMIC DETERMINANTS OF POVERTY

The Lebanese civil strife played a significant role in deepening the extent of poverty in Lebanon. The hyperinflation witnessed by the economy led to a decline in the purchasing power of the national currency, coupled with a decreasing trend in GDP growth, throughout the war period. In addition, post war Lebanon was marked by the absence of national well-defined social policies to address the deterioration in the living standards of the population. Rather, social development was assumed to be a spontaneous bi-product of the reconstruction process and economic growth. Unfortunately, neither did the government plans achieve the planned economic goals, nor did the social conditions witness any improvement in light of unfavorable macro-economic conditions.

The prevalence and depth of poverty in Lebanon is affected, to a large extent, not only by the consequences of the war, but also by the economic policies and post-war trends. It is, thus, important to analyze poverty within the broader macro-economic context of the country. This chapter focuses on the major macro-economic determinants of poverty, and is divided into three main parts:

- The first part presents an in-depth analysis of the prevailing current economic conditions and their impact on poverty in the country;
- The second part elaborates on the imbalances in the labor market and wage trends and their direct link to the living conditions of the population;
- The third part presents the inequalities exhibited in the prevailing socio-economic system in relation to government taxation and debt policies.

Growth Trends in the 90's: Vulnerability of the Poor

Economic growth is one of the major determinants of the poverty status of the population. Two main aspects of economic growth are relevant when addressing the social dimension of the economic system: economic growth trends, and the internal structure of that growth, particularly from the income side.

Theoretically, economic growth and poverty are not mutually interdependent. That is, while a decline in economic growth leads to an increase in poverty, a rise in economic growth might not automatically lead to a decline in poverty, as the structure and quality of growth may result in accumulating benefits to some privileged segments of the society, rather than resulting in equitable growth benefiting middle and low income groups.

The economic boom in post-war Lebanon was coupled with a relative change in the structure of the economy, which resulted in deepening the social inequalities that emerged during the war years. This situation was aggravated starting from the mid 1990's as an economic recession dominated the economy, posing serious threats to the social well-being of the Lebanese and resulting in the impoverishment of a large group of the population. The current economic slowdown can be attributed to several factors including war consequences and post-war government economic policies.

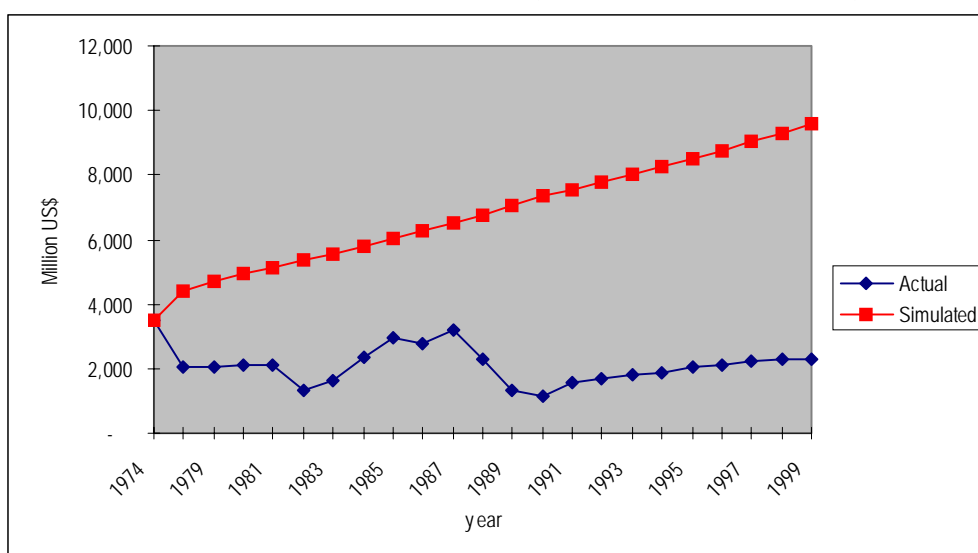
I. Economic Slowdown

As a result of several inter-related domestic and foreign factors, the economic role played by Lebanon in the region prior to the civil war witnessed structural changes during the last decades. The destructive effects of the war, coupled with rapid economic development of neighboring Arab markets, weakened Lebanon's traditional comparative advantage in being an intermediary between Arab and developed Industrialized countries. The openness of regional markets and the development of communication networks accelerated the process of economic liberalization in many of the neighboring Arab countries (Egypt in the beginning of 1970's, Iraq in the 1980's, and Syria in the early 1990's).

1. The War Effects

While neighboring countries maintained a steady economic growth pattern during the 1970's and 1980's, the Lebanese economy underwent major losses both in terms of physical infrastructure and human capital, leading to a sharp decline in the growth rate of real activity. Comparing actual GDP growth (1974-1990) to potentially simulated GDP growth pattern (that would have prevailed under normal conditions) one can make a striking illustration of the disastrous effects of the war (refer to Figure 3.1).

FIGURE 3.1 ACTUAL VS. SIMULATED GDP (REAL FIGURES IN 1974 US\$ PRICES)²⁹



In the early 1990's, after the cessation of the conflict, the Lebanese government attempted to restore the country's pre-war image and adapt Lebanon's role to the changing regional environment, through launching an ambitious reconstruction and development plan for national recovery. The plan started with the adoption of The National Emergency Rehabilitation Program (NERP) in 1992, which was later expanded into a ten-year plan known as Horizon 2000 for Development and Reconstruction.

²⁹ The simulated figure assumes a normal continuous GDP growth trend, recording real rates ranging between 6 percent during mid 1970's, 4 percent in the 1980's and 3 percent during the 1990's.

2. *Reconstruction as a Weak Driver of Growth*

The Horizon 2000 program was subject to several subsequent adjustments, with the final projected public investment reaching US \$17.8 billion in 1995 values, assuming that private sector investment would be twice that of the public sector.

The objectives of the plan can be partially examined through the sectoral and geographic distribution of planned expenditures as shown in Tables 3.1 and 3.2 below:

TABLE 3.1 SECTORAL DISTRIBUTION OF PLANNED EXPENDITURES- 1995-2007³⁰

Sector	Share
Physical infrastructure (electricity, communications, roads and highways)	37%
Social infrastructure (education, youth and sports, vocational and technical training, higher education, health, social affairs, housing, displaced)	25%
Socio-economic services (water, solid wastes, environment, public transport and railways)	22%
Productive sectors (agriculture and irrigation, industry and petroleum, airport, port, free zones, tourism, private sector services)	8%
Government apparatus (government buildings, security forces, information and public administration)	8%

TABLE 3.2 GEOGRAPHIC DISTRIBUTION OF PLANNED EXPENDITURES- 1995-2007³¹

Governorate/ region	Share
Beirut	14%
Beirut Suburbs	20%
Mount Lebanon	15%
North Lebanon	18%
Nabatieh	8%
South Lebanon	11%
Bekaa	14%

During the period 1992-1998, several notable achievements were recorded in the reconstruction process, mainly in the physical infrastructure sector which captured around 50 percent of the total actual spending during that period, against a projected share of 37 percent in the Plan. Meanwhile, the share of social infrastructure recorded during the same period only 12 percent of the total actual spending, against a forecasted share of 25 percent during that period.

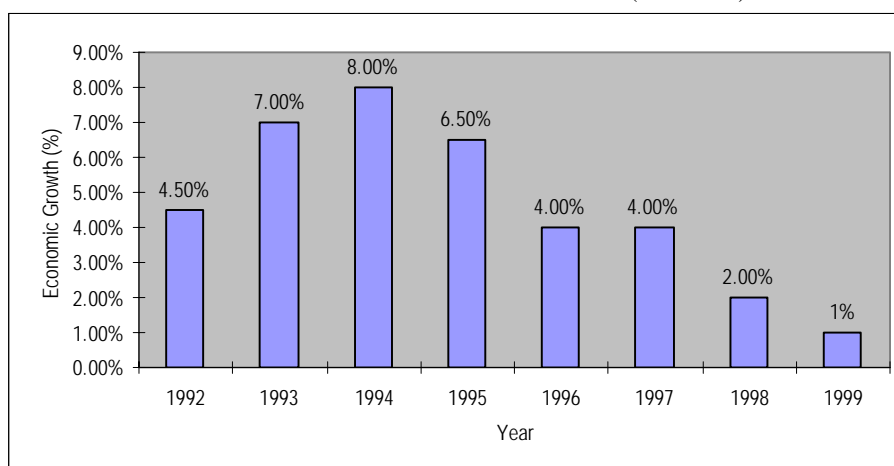
Although the Plan acknowledged the importance of social issues, spending was skewed in favor of physical infrastructure at the expense of social infrastructure. Furthermore, no specific sectoral objectives and targets were included in the Plan (covering basic social issues such as wage policy, social insurance policy, labor policy, housing policy, etc.).

While the ultimate objective of the reconstruction Plan was to promote domestic economic growth, the results showed that actual growth was far below projected rates. Relative stagnation was recorded starting from the end of 1995, followed by a slow-down in 1998-99 (refer to Figure 3.2 below). Evidently, these worsened the conditions for employment and national income levels (refer to Annex 3.1)

³⁰ Council for Development & Reconstruction, Horizon 2000, Beirut 1995.

³¹ Ibid.

FIGURE 3.2 REAL OFFICIAL ECONOMIC GROWTH (1992-1999)



Despite the achievements recorded in the rehabilitation of basic infrastructure, the Plan suffered from several operational, economic and institutional bottlenecks, which impeded the attainment of the projected growth rate.

Reconstruction efforts emphasized restoring Lebanon's traditional role in the region without taking into consideration the political and economic changes that occurred in neighboring markets throughout the years of the Lebanese war. Following the assumption that the provision of basic physical infrastructure would be the main stimulant for investment and economic development, most of the reconstruction activities- both public and private- were limited to the real estate and physical infrastructure sector, aiming at attracting capital inflows to the country. This led to a boom in the real estate sector in mid 1990's. Unfortunately, the excessive supply of real estate units was not matched by a proportional demand, which resulted in a crisis in the construction sector, evidenced through the declining demand for construction permits and cement deliveries. This constituted one of the key factors behind the slowdown recorded in GDP growth since the end of 1995.

This pattern of private and public capital spending was neither sectorally diversified nor integrated into the domestic economic activity: it did not promote local employment generation. Rather, the major part of this spending flew out of the country, in the form of foreign workers' wages and costs incurred for import of machinery and equipment, thus depriving the local economy from the internal multiplier effects of development projects.

3. *The Conflicting Objectives of Stabilization and Growth*

Beside the reconstruction strategy, post-war governments pursued monetary stabilization policies aiming at curbing inflation rates and building confidence in the national currency. These policies, which basically employed a mechanism of high interest rates and money supply control (mainly in LBP), were successful in providing the required financial stability, and resulted in a decline in inflation rates, which dropped from around 100 percent in 1992 to less than 1 percent in 1999.

Yet, the economic and social costs of these policies were relatively high, as they conflicted with the objective of promoting growth and employment, mainly because of high interest rates. That is, the high cost of capital discouraged private borrowing for productive

investment and led to a flow of domestic and foreign capital into the high-profit government treasury bills rather than towards productive employment-generating activities.

Beside its negative impact on the rate of private investment, high interest rates placed a heavy burden on the public budget as it entailed a magnification of the domestic public debt bill, and conflicted with the objective of controlling public deficit and indebtedness. It is important to note, in this regard, that the large expansion of public spending during the last few years was mostly allocated to non-productive items, namely debt servicing and public sector wages, rather than to productive investment activities. Thus, the public sector, assumed to undertake the role of the private sector as a driver of economic growth, neither activated the economy nor generated new employment opportunities (refer to Table 3.3)

TABLE 3.3 EVOLUTION OF PUBLIC AND PRIVATE INVESTMENT 1993-1998 (BILLION LBP)³²

	1993	1994	1995	1996	1997	1998
Government ³³	446	1,423	1,695	1,797	2,174	2,157
Foreign financed (CDR)	52	175	486	507	500	479
Total public	498	1,598	2,181	2,304	2,674	2,636
Public invest./GDP	4%	11%	12%	11%	12%	11%
Private investment	3,372	3,535	4,237	4,430	4,118	3,701
Private invest./GDP	26%	24%	24%	22%	18%	15%
Total public & private investment	3,870	5,133	6,418	6,734	6,792	6,337
Total investment/GDP	29%	34%	36%	33%	29%	26%

Accordingly, despite some achievements realized through the dual government strategy of reconstruction and financial stabilization, the process of sustainable economic development was not achieved and the related prospects for poverty reduction were not maintained.

4. *Dominance of Consumption over Production*

The post-war period in Lebanon was marked by an expansionary consumption trend, as current spending - both private and public-outpaced the production capacity of the local economy. With limited available domestic resources, increased expenditure was continuously covered by foreign inflows, which imposed a heavy burden on the economy in terms of debt servicing.

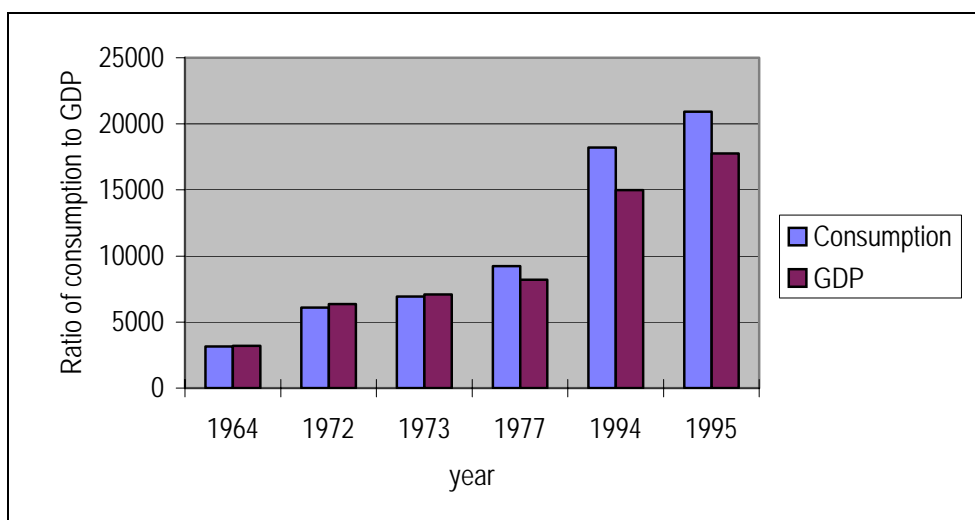
The excessive spending phenomenon can be revealed through the ratio of national consumption to GDP, which exceeded 100 percent in 1994 and 1995 (refer to Figure 3.3). Within this context, the World Bank statistics classified Lebanon in the 138th rank among 140 countries, as per the ratio of consumption to GDP³⁴. Needless to say, this has serious implications on the performance of the economy as high consumption limits the opportunities for savings and investment, affecting the growth potential of the economy.

³² Development Cooperation Report, United Nation Development Program (UNDP), 1999.

³³ The figures regarding government investment sounds high and might include extra-budgetary spending such as treasury payments for contractors and other dues.

³⁴ The Government 5-year Plan for Economic and Fiscal Reform, Ministry of Finance, 1999.

FIGURE 3.3 RATIO OF NATIONAL CONSUMPTION TO GDP IN SELECTED YEARS (IN BILLION OF LBP)



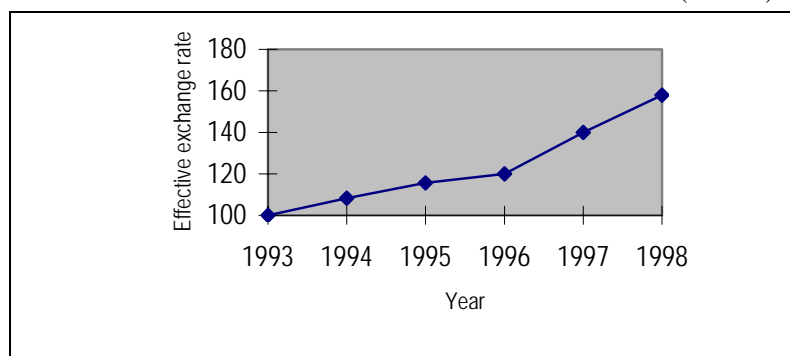
Given the short-term nature of foreign capital inflows and their sensitivity to domestic or regional downturn, the reliance on foreign debt to cover local consumption needs is not sustainable. Within this context, the surplus that was recorded in the balance of payment in recent years may not necessarily be a positive indicator. This surplus hides large trade and current account deficits, with the latter reaching around 25 percent of GDP. The BOP surplus reflects an inflow of hot money attracted by high interest rates, rather than foreign direct investment conducive of economic growth. The un-sustainable nature of such a situation in the long run is critical and should be addressed in the context of socio-economic adjustment (refer to Annex 3.2)

5. *Deterioration of Lebanon's Competitiveness*

In addition to the controversial impact of government post-war strategies on economic growth, the Lebanese economy suffered from inherent structural constraints that led to the deterioration of its competitiveness. This was mainly induced by the prevalence of high domestic production costs in the different economic sectors, which prevented the development of investment and subsequent improvement in employment and living conditions.

High local production costs are basically manifested in the costs of real estate, energy, interest rates, and tariffs of some public utilities and services, such as custom duties, electricity, fuel, telephone, transport and telecommunications.

FIGURE 3.4 EVOLUTION OF REAL EFFECTIVE EXCHANGE RATE INDEX (1993-98)



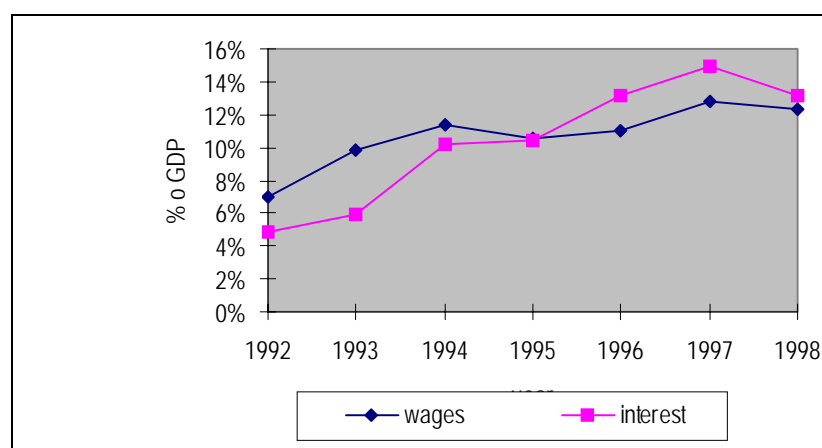
In addition, the continuous appreciation of the Lebanese pound against the dollar (since 1992) placed an upward pressure on domestic costs compared to foreign costs. The final outcome was a rise in the real effective exchange rate of the Lebanese pound (the ratio of the average price of the Lebanese output basket to the price of foreign output basket) from 100 in 1993 to around 158 in 1998³⁵ (refer to Figure 3.4). This means, in effect, that the prices of Lebanon's goods and services rose by around 58 percent relative to foreign goods and services. Accordingly, a slowdown in the export of domestic goods was recorded, while the competitiveness of some local products declined, resulting in further deterioration in the balance of trade.

II. Distortion of GDP Structure

Beside the slowdown in the rate of economic growth, the GDP witnessed several changes in its internal structure; i.e. in the relative shares of its three major income components: interest, wages and profits.

High interest rates underlie most of the economic and social distortions currently being witnessed. As previously stated, high local interest rates- both in LBP and US\$- continue to force private productive investment out of the local economy, channeling most domestic and foreign resources towards idle investment in interest-bearing assets. Consequently, the interest component of the national revenue is increasing at the expense of the productive capital.

FIGURE 3.5 EVOLUTION OF PUBLIC SECTOR WAGES & INTEREST EXPENDITURES AS A % OF GDP (92-98)



³⁵ Ibid.

One illustration of the above is the continuous rise in the ratio of the debt service bill to GDP, at the expense of the public wage bill. As illustrated in Figure 3.5, the share of public debt interest of total national income was higher than the share of public wages, indicating that more national resources are allocated to bondholders- who represent high-income groups of the society- at the expense of wage earners (middle and low-income groups).

In addition, the total interest paid to money-holders, including interest on treasury bills and banks' deposits and savings, is estimated to have grown from around 10.8 percent of GDP in 1992 to 22.7 percent in 1998. It is noteworthy that this level is higher than most middle and high-income economies (estimated to reach 11 percent and 7 percent in middle income and high-income economies, respectively)³⁶.

Theoretically, this growth in the interest component of the GDP occurred at the expense of its other components, namely wages and profits, which are assumed to have a more productive and employment-creation role. Consequently, the dominance of the financial base over the real economic base contributed to slowing down economic growth and limiting job creation, while at the same time accruing benefits to holders of capital at the expense of wage earners.

Employment & Wage Conditions within the Economic Crisis

Employment and poverty are inter-linked, as employment represents the main source of livelihood for asset-less workers whose main source of income is employment. Hence, unemployment forces low-income households below the poverty line.

I. High Labor Market Disequilibrium

The labor market in Lebanon currently faces structural imbalances, as a result of economic slowdown and demographic transitions. Both factors increase unemployment rates, thus aggravating the poverty conditions of the population.

On the demographic side, the Lebanese resident population, estimated at 4 million in 1997, recorded an average annual growth of 2.4 percent (1970-1997). However, within the context of poverty in Lebanon, it is not the rate of population growth, but more importantly the changing age structure of the resident population and subsequently the size of the active population, that are of importance here.

The Lebanese population is becoming an aging population, with a declining percentage of children below the age of 14 years (estimated at 28 percent of the resident population in 1997, compared to 43 percent in 1970). Similarly, the youth segment of the population (20-39 year age group) increased from 25 percent of residents in 1970 to 34 percent in 1997. The rapid growing supply of labor stressed the labor market and resulted in high unemployment rates among the youth (unemployment rates for 20-24 year age groups is estimated at 17.8 percent, compared to a global national rate of 8.5 percent 1997)³⁷.

Lebanon has outpaced most of the MENA countries throughout the period 1980-1997 in labor supply growth, where the annual growth rate of the labor force averaged at 3 percent. A decline in fertility rates is evident in the country, compared to countries of the region.

³⁶ Ibid.

³⁷ Active Population, CAS 1997

Accordingly, the pressure of the rapidly growing labor supply in Lebanon is expected to decline on the long term, to reach 2.5 percent in the coming ten years, against a much higher expected labor growth rates within most of the MENA countries³⁸ over the same period.

Economically, the increasing labor supply is not being matched by an increase in labor demand. During the last two years, several enterprises faced substantial financial problems, leading to downsizing and workers' lay-off. According to recent statistics released by the National Social Security Fund, around 6297 employees have asked for early end-of-service indemnity during 1999. Lay-off cases were mainly witnessed in the industrial (textile, clothes and shoes), tourism, and construction sectors, in addition to commercial activities. It should be noted that the above statistics do not take into consideration employment in the "parallel" informal sector, which is a growing employment sector in Lebanon. Evidently, such growing unemployment problems contribute to the impoverishment of large segments of the Lebanese population. In addition, the shortage of job opportunities continues to accentuate the phenomena of migration and immigration, particularly among young age groups. Recent statistics revealed an increasing trend in the average annual departing passengers, rising from an average of 50 thousand in 1992 to 100 thousand in 1995, 150 thousand in 1998 and 270 thousand in 1999. These massive immigration waves are expected to lead to the loss of a significant share of the country's potential output and human resource base.

On the other hand, the labor market in Lebanon is burdened by the continuous large inflow of foreign labor, which, according to unofficial resources, has been progressing at the rate of 6.5 percent annually since 1992³⁹. Syria recently recognized that around 250 thousand Syrians work in Lebanon. Foreign labor poses serious threats to the demand for local labor, especially since foreign labor is mostly unskilled and much cheaper, both in terms of salaries and social benefits. The large supply of low-cost foreign labor also places, along with other factors, a downward pressure on domestic wage levels, particularly on the minimum wage rate and inferior wage brackets.

II. Unmatched Evolution of Wages & Living Costs

The issue of wages lies at the center of the social crisis and the poverty problem in Lebanon. Hyperinflation during 1970-1990 imposed large losses on the purchasing power of the national currency, which were not compensated for by wage adjustments affected after the war. It should be noted, however, that since the end of 1996, and despite the increasing inflation rate recorded during the past three years, no wage adjustment has been made for workers in the private sector.

I. Minimum Wage

Despite the fact that a minimal proportion of the labor force are paid the minimum wage level, the evolution of this level throughout the last decade assists in the analysis of the government wage policy.

The evolution of the minimum wage declared by the government, both in nominal and real terms (LBP and US\$), is illustrated in Table 3.4 and Figure 3.6 below.

³⁸ ERF, Economic Trends in the MENA region, 2000

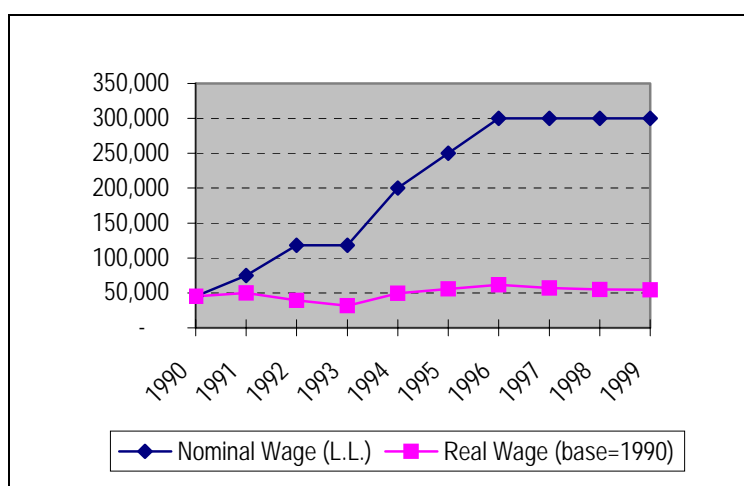
³⁹ Maroun Ibrahim, La Question des Classes Moyennes au Liban.

TABLE 3.4. EVOLUTION OF MINIMUM WAGE (1990-1998)⁴⁰

	Current Price LBP	Current price US\$	Constant Price LBP	Constant Prices US\$
1990	45,000	64	45,000	64
1991	75,000	81	49,885	71
1992	118,000	69	39,288	56
1993	118,000	68	31,510	45
1994	200,000	119	49,488	71
1995	250,000	154	55,941	80
1996	300,000	191	61,658	88
1997	300,000	195	57,218	82
1998	300,000	198	54,728	78
1999	300,000	198	54,597	78

In the absence of a well-defined wage policy, the real minimum wage witnessed a significant decline, reaching 37 percent throughout 1991-93, during which the cumulative inflation rate (in LBP) amounted to around 274 percent. Meanwhile, a slight drop was registered in the purchasing power over the period 1995-99, as the inflation rate was relatively controlled.

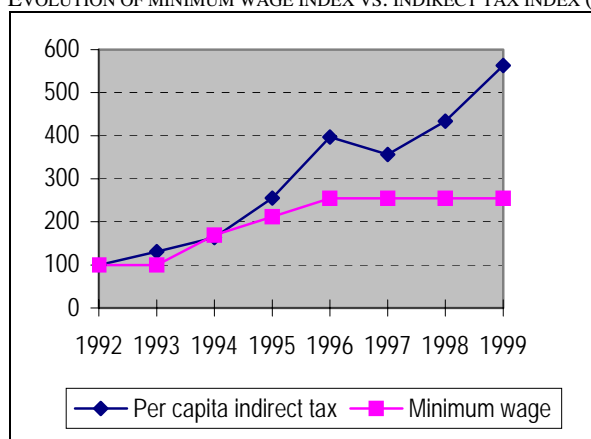
FIGURE 3.6 EVOLUTION OF NOMINAL AND REAL MINIMUM WAGE (1990-99)



Furthermore, it is important to highlight the heavy cost levied on wage earners through the consistent increase in indirect tax rates. Lebanon's post-war period was marked by a heavy reliance on indirect taxation as a means to correct fiscal imbalances, overlooking the regressive nature of such taxation and their negative impact, particularly on low-income segments of the population. The comparison of the evolution of the minimum wage level and indirect taxes per capita- calculated as indices with 1992 as base period reveals a divergence between the two indicators, with the indirect tax indicator growing at a much higher pace than the official minimum wage level (refer to Figure 3.7).

⁴⁰ Minimum wages adjustment decrees, and Consumer Price Index (CRI).

FIGURE 3.7 EVOLUTION OF MINIMUM WAGE INDEX VS. INDIRECT TAX INDEX (1992-99)



2. Average Wage

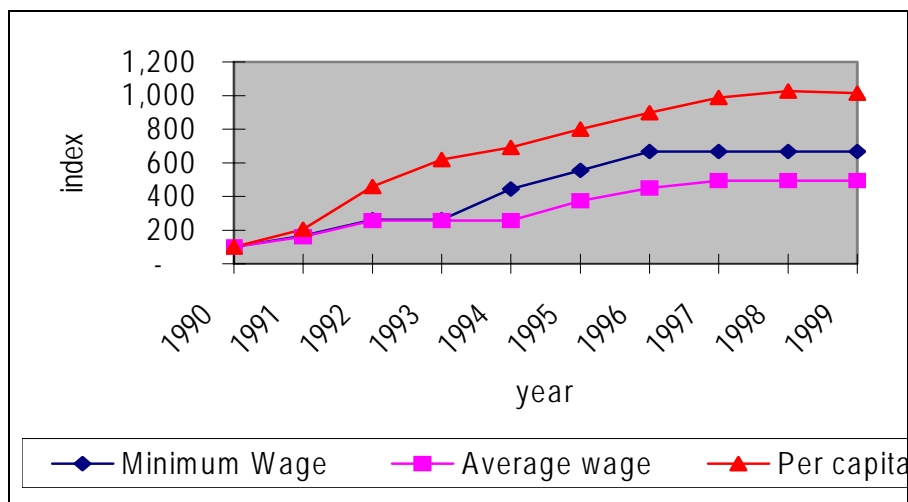
Whereas the minimum wage declared by the government is LBP300 thousand, recent statistics indicate that the average basic monthly salary earned by Lebanese workers amounts to LBP689 thousand (1997), i.e. 2.3 times the minimum wage. The average national wage varies between LBP444 thousand for seasonal workers and LBP769 thousand for permanent salaried workers.

Significant disparities are recorded in wage levels based on several variables, including gender and geographic area. For instance, males earn wages that are, on average, 28 percent higher than females. In addition, average wage levels are highest in Beirut, followed by Mount-Lebanon, whereas they are lowest in South Lebanon (with an average 1.8 time)⁴¹.

The dearth of national sequential data does not allow for tracing the evolution of the average wage over time. Yet, by using the 1997 estimated average wage as basis, figures of preceding years can be back-tracked by applying the corresponding official adjustments decreed by the government for different income brackets. This simulation allows the comparison of the evolution of the three main national income indicators: per capita income, minimum wage, and average national wage. Figure 3.8 below shows that the per capita income trend is the highest, while that of average wage is the lowest. The gap between minimum and average wage trends is justified by the fact that the decreed adjustments are applied fully to the minimum wage, and only partially to the average wage according to the different brackets. On the other hand, the large divergence between average wage trend and per capita income trend confirms our earlier conclusion about the unbalanced GDP growth. That is, throughout the last decade the other components of GDP (profit, rent, and interest) have witnessed higher growth rates than the wage component, which means that the income of capital and asset holders have grown at a faster pace than the income of wage earners.

⁴¹ Living Conditions of Lebanese Households, CAS 1997

FIGURE 3.8 EVOLUTION OF MINIMUM WAGE, AVERAGE WAGE AND PER CAPITA INCOME (1990=100)



Inequitable Ownership of Assets and Distribution of Income

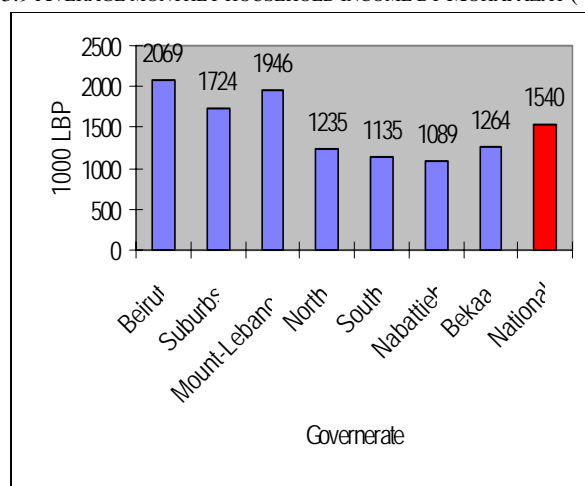
One of the major characteristics of the current socio-economic system is the prevailing wide inequality among different social groups, in income and wealth, as well as the accessibility to basic financial resources.

I. Large income and wealth disparities

The results of recent studies show high disparities in the distribution of income in the country. It is widely believed that the government taxation and indebtedness policies played an important role in accentuating the prevailing income and wealth disparities.

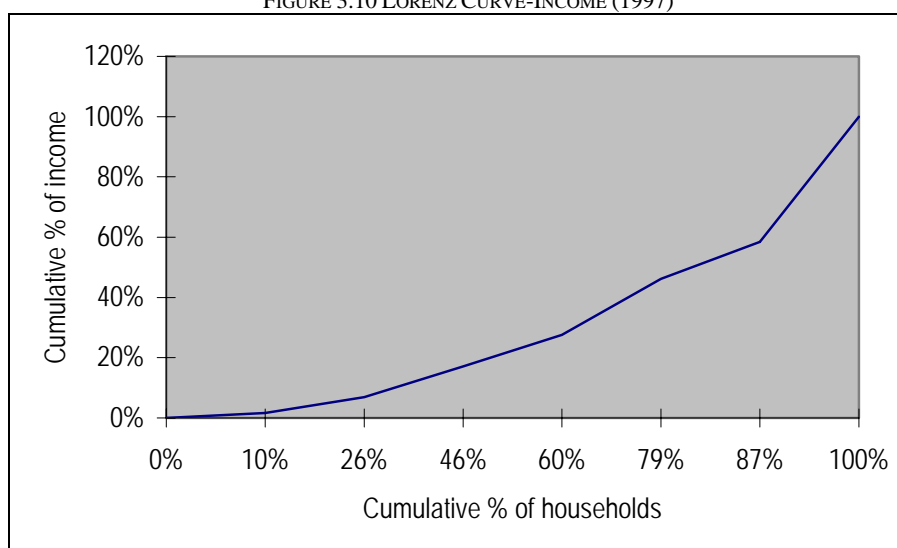
Geographically, significant disparities are recorded in the level of household income, with monthly incomes ranging from LBP1,089 million in Nabatieh to LBP2,069 million in Beirut. This reflects unbalanced regional development in the country, where the capital Beirut absorbs the majority of employment opportunities at the expense of other regions (refer to Figure 3.9).

FIGURE 3.9 AVERAGE MONTHLY HOUSEHOLD INCOME BY MOHAFAZAT ('000LBP)



On the other hand, the distribution of households among different income brackets reveals that the lowest 40 percent of households earn only 15.5 percent of total income, whereas the upper 3 percent of households earn around 15.7 percent of total income (Figure 3.10). The extent of income disparity can be illustrated more thoroughly through the Lorenz curve that contrasts the actual patterns of inequality with the patterns of absolute equality. A related indicator is the Gini coefficient that quantifies the degree of inequality in household income. This coefficient is estimated at 0.435 in Lebanon, against a value of 0 showing absolute equality and a value of 1 showing absolute inequality⁴² (refer to Figure 3.10).

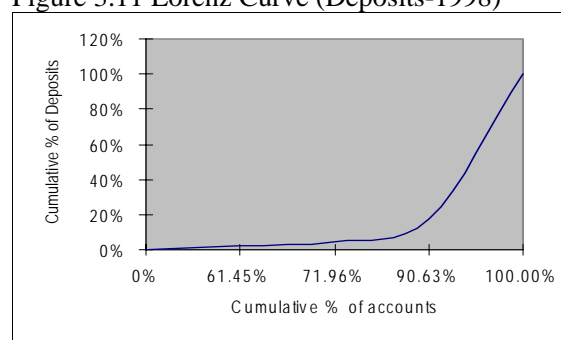
FIGURE 3.10 LORENZ CURVE-INCOME (1997)



The distribution of banks' deposits is another major indicator of the extent of wealth concentration within the economy.

Based on the 1998 statistics of the Bankers' Association, the distribution of deposits and accounts based on different income brackets reveals high inequalities in the concentration of wealth: 69 percent of total depositors have only 2 percent of total deposits, whereas 2 percent of depositors represent around 59 percent of total amount of deposits. This concentration can be reflected through the simulated Lorenz curve as illustrated in Figure 3.11.

Figure 3.11 Lorenz Curve (Deposits-1998)



In addition, the geographic distribution of deposits confirms unbalanced regional development in the country, where 96 percent of total deposits are concentrated in Beirut and Mount-Lebanon.

⁴² Ibid.

II. Uneven Accessibility to Financial Resources

The uneven accessibility of the Lebanese population to financial resources, including credit facilities, is a major obstacle to sustainable social development.

According to the statistics of the Centrale des Risques published by the Central Bank in 1998, 1 percent of beneficiaries control 50 percent of total credit, whereas 49 percent of borrowers access 2 percent only of the total volume of resources⁴³ (refer to Figure 3.12). Such limited and inequitable access to financial resources restricts access to economic opportunities for a wide range of the population, affecting in turn employment prospects and living standards.

Furthermore, the geographic distribution of credits reaffirms the concentration of wealth and employment in Beirut and Mount-Lebanon (90 percent), depriving rural regions from investment opportunities and employment promotion.

On the sectoral level, and as illustrated in Figure 3.13, the comparison of the structure of banking credits between 1973 and 1998 reveals a relative decline in the shares of agricultural and industrial credit, against a considerable increase in the share of credit for the construction sector.

This reflects, once again, the high emphasis placed on reconstruction during the post-war era, at the expense of productive economic sectors, which represent the major source of income for low and middle-income groups.

FIGURE 3.12 LORENZ CURVE-CREDITS (1998)

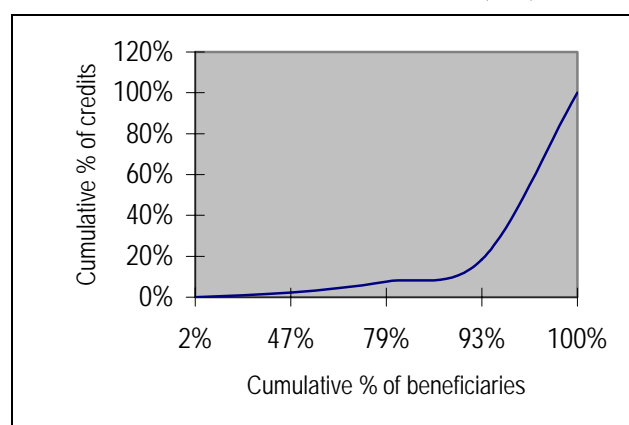
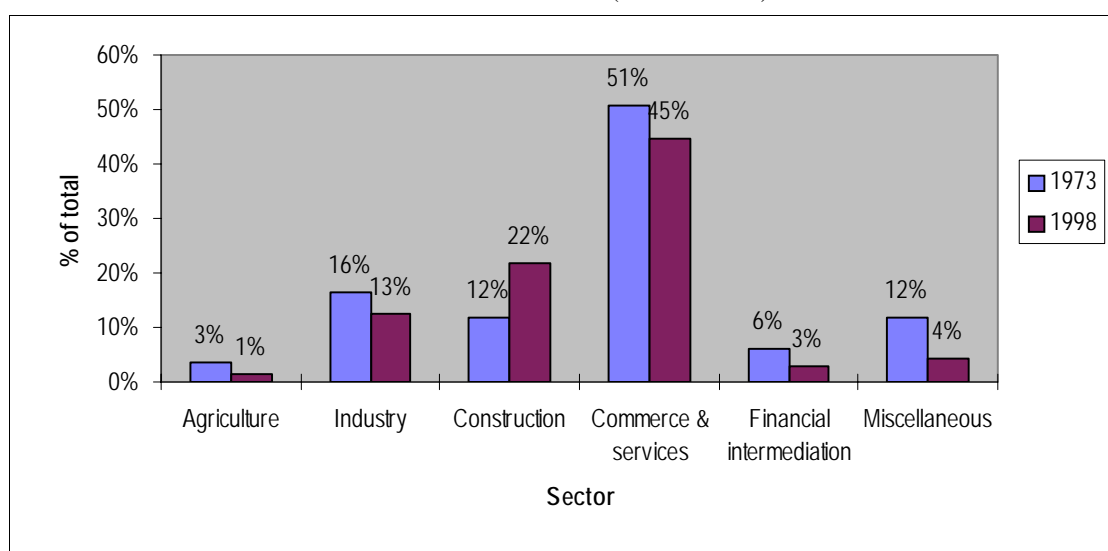


FIGURE 3.13 SECTORAL DISTRIBUTION OF LOANS (1973 AND 1998)

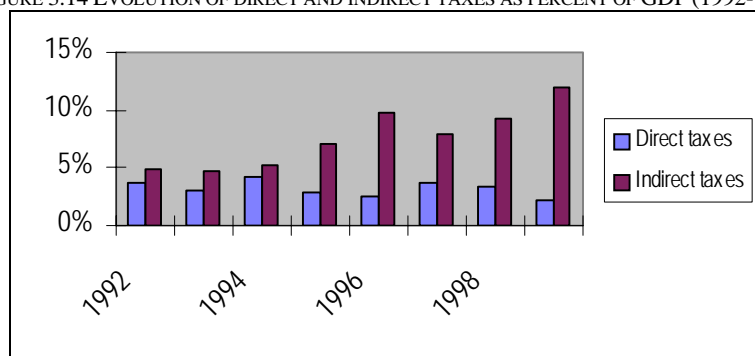


⁴³ Central Bank, Quarterly Reports 1997, 1998.

III. The role of taxation and debt policies

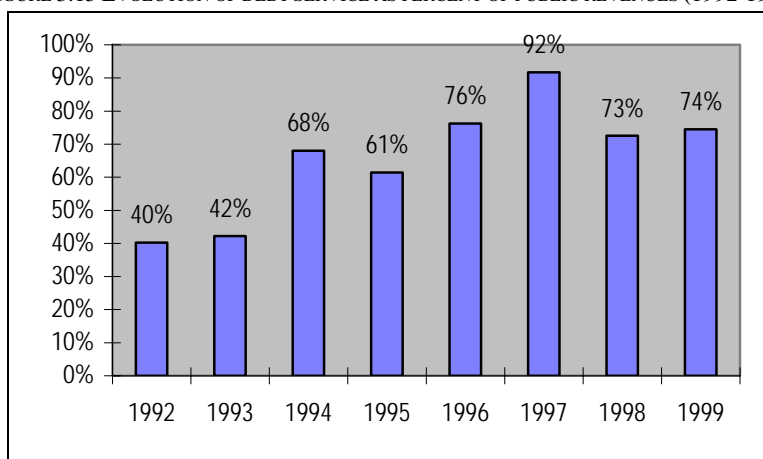
The role of the government fiscal policy- namely taxation and indebtedness tools- should be emphasized in the context of analyzing the social inequalities of the Lebanese population. As previously stated, a high emphasis is placed on indirect regressive taxes, increasing the burden on low and middle-income classes. In fact, the structure of the Lebanese households' expenditure by income bracket reveals that low-income categories spend a higher proportion of their budget on goods (foodstuffs, clothing and personal care) than high-income households, who spend more on services (such as education and leisure). Since the consumption of services is not subject to taxation, the tax burden lies primarily on low-income categories- compared to their level of income (refer to Figure 3.14).

FIGURE 3.14 EVOLUTION OF DIRECT AND INDIRECT TAXES AS PERCENT OF GDP (1992-1999)



It is to be noted, however, that the current Lebanese government is aware of the problems of the existing taxation system. In this regard, a more progressive direct tax system was introduced in 1999, which adopted higher exemption ceilings for families with three and more children. In addition, the Ministry of Finance is currently preparing to introduce the Value-Added-Tax, which would be imposed, not only on goods, but also on a variety of services, in order to gradually substitute for custom duties.

FIGURE 3.15 EVOLUTION OF DEBT SERVICE AS PERCENT OF PUBLIC REVENUES (1992-1999)



In addition to tax effects, the government debt policy has made its own contribution to widening income disparities among the different social groups. With a growing ratio of debt service to public revenues, and given that bondholders are exempted from taxes while low and middle income groups represent the majority of tax-payers, the government debt entailed a

channeling of national income away from taxpayers towards bondholders who represent wealthy and advantaged classes (Figure 3.15).

In conclusion, it can be said that poverty is closely linked to the overall macro-economic performance of the country. The sluggish economic growth and the uneven distribution of income are among the key factors behind the poverty increase and deterioration of living conditions witnessed by the country. Thus, addressing the economic and fiscal imbalances in the medium term will be a major prerequisite for a sustainable poverty reduction strategy. Unless coupled with structural economic reform, any social policy would not have lasting effects on improving the living conditions of the poor.

CHAPTER 4

SOCIAL SPENDING AND PROGRAMS

The following chapter covers the undertakings of the current Lebanese Government in the context of poverty alleviation. In the absence of a well-defined comprehensive social strategy in Lebanon, several public and semi-public institutions initiated interventions aiming at poverty reduction, both directly and indirectly. The chapter has two main sections. The first section analyzes government social spending in the areas of health, education and social welfare. The second section analyzes some specific social-protection programs adopted by governmental and non-governmental organizations, including subsidy programs, pension systems, micro-finance programs, and others.

Social Spending

The detailed analysis of social spending requires a definition of the scope of social services. The 20/20 initiative⁴⁴ defines basic social services as basic health, including reproductive health services and nutrition, basic education, and low-cost water and sanitation⁴⁵. Resource allocation to these services is assumed to measure government efforts to achieve a universal coverage of basic social services.

Two major studies, aiming at evaluating government spending on basic social services, were recently conducted in Lebanon:

- The analysis of the government budget based on the 20/20 initiative jointly undertaken by UNDP and the Ministry of Finance. This study analyzes government spending, through the different governmental bodies, on health, education and social welfare; and
- The review of public social spending conducted by the World Bank, covering the three sectors of education, health and social welfare. This analysis includes, in addition to public expenditure on these services, the spending carried out by the private sector as out-of-pocket spending.

Adequate sufficient public spending on social services in Lebanon is currently threatened by various factors mostly related to the macro-economic and fiscal constraints. The slowdown in economic growth and its distorted structure may aggravate the poverty phenomenon in the country, consequently calling for increased resource allocation to insure the accessibility of the poor to basic social services. Meanwhile, the burdens of debt and deficit places pressure on the government to shrink its budget, thus reducing resource allocation earmarked for social and economic development.

During the past decade, public spending, and government extra-budgetary expenditure, on social services, including education, health and social welfare recorded nominal increase. However, this increase does not necessarily reflect a more efficient and equitable allocation of resources. Wages, and wage-related expenses, still absorb the majority of resources allocated for the various ministries, especially line ministries directly involved in social issues. In addition, whereas over-staffing is still reported in most governmental bodies in the absence of serious administrative reform programs. Furthermore, given the prevailing fiscal conditions, targeting

⁴⁴ The 20/20 initiative calls for the allocation of an average 20 percent of the public budget in developing countries, and 20 percent of official development assistance, to basic social service.

⁴⁵ Implementing the 20/20 initiative: Achieving universal access to basic social services, UNDP, UNESCO, UNFPA, UNICEF, WHO and the World Bank, 1998.

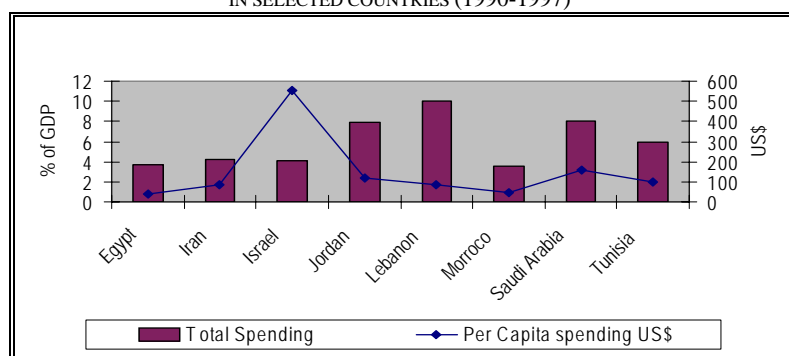
the poor through the initiation of specific projects with well-defined criteria for beneficiary selection is a necessary to minimize waste of resources and to reduce fiscal burdens. This calls for adopting national strategies in different social sectors, and devising a national plan to identify the profile of the poor, including their number, location and characteristics.

In addition to the spending allocated in the government budget, social sectors were accounted for by the different rehabilitation and reconstruction plans that were launched by the government during the post-war era.

I. Health

Spending on health is carried out by several governmental bodies, each responsible for a specific segment of the population. These bodies include the Ministries of Public Health and Social Affairs, the National Social Security Fund, the armed forces, Civil Servant Cooperatives, and Mutual Funds. Figures on the total public spending on health vary according to the definition adopted for health services. Spending on health in Lebanon as percentage of GDP (1990-97) is estimated at 10 percent, one of the highest rates in the world, against a relatively low level of per capita spending⁴⁶ (refer to Figure 4.1).

FIGURE 4.1 SPENDING ON HEALTH AS PERCENTAGE OF GDP AND PER CAPITA SPENDING IN US\$ IN SELECTED COUNTRIES (1990-1997)⁴⁷



3. Total government spending on health

Table 4.1 illustrates the total government spending on various health-related issues (as per the economic classification of the General budget) as follows:

TABLE 4.1 CATEGORIZATION OF GOVERNMENT SPENDING ON SERVICE DELIVERY (1,000,000 LBP)⁴⁸

	1997	1998	1999	2000
Mutual funds (1)	8,836	8,235	6,685	9,435
National Social Security Fund (2)	20		60	62
Civil Servant Cooperative (3)	40,500	40,500	40,500	45,000
Maternity and medical allowances	12,940	14,140	13,740	14,746
Hospitalization allowances	66,650	70,445	71,120	73,350
Other medical allowances	0	716	600	1,675
Hospitalization in the private sector	95,500	184,570	180,590	205,840
Total	224,446	318,606	313,295	350,108

⁴⁶ The World Development Indicators, The World Bank, 1999.

⁴⁷ Ibid.

⁴⁸ Ratified budgets in the respective years, Ministry of Finance.

(1): estimated at 50% of total budget allocation for this agency.

(2) In 1999 and 2000, the contribution of the government was included in the budget for the Ministry of Labor.

(3) Estimated at 50% of total budget allocation for this agency.

Preliminary findings of budget analysis based on the 20/20 initiative reveal that public spending on “basic health services” by different governmental bodies is estimated at LBP 65.9 billion (1999), of which the contribution of the Ministry of Health is estimated at 42 percent. Table 4.2 depicts recent figures on accrual spending on health by the different financing agencies as follows:

TABLE 4.2 ACCRUAL SPENDING IN 1998 (1000,000 LBP)⁴⁹

	MOH	NSSF *	Army	ISF	CSC
Salaries & wages	15,600	40,000	13,275	1,898	1,934
Drugs	21,150	47,541	13,200	5,236	16,413
Hospitalization and special programs	208,300	149,867	54,643	32,225	26,687
Other expenses	33,426			350	
Total	278,476	237,408	81,118	39,709	45,034

4. *Ministry of Health spending*

The Ministry of Health is a major contributor to health financing, with a total share of 50 percent of total public spending on health (1998)⁵⁰. The beneficiaries of medical services provided by the Ministry of Health are not pre-selected based on well-defined criteria. The main target groups, estimated at 126 thousand medical cases in 1997, include segments of the population who are not covered by any insurance scheme⁵¹. The Ministry introduced the health card in 1998 that permits individuals with no medical insurance to have access to a limited number of public hospitals. However, this card only reduces bureaucratic procedures. The majority of spending carried out by the Ministry of Health, estimated to constitute 60-75 percent of the Ministry’s budget, is channeled through private hospitals.

TABLE 4.3 BUDGET OF THE MINISTRY OF HEALTH

	1997	1998	1999	2000
Wages and allowances	19,116	19,886	21,114	21,747
Transfers (medications and contribution to NGO' s)	11,768	21,178	13,618	12,768
Hospitalization in private sector	97,176	184,000	182,006	207,231
Equipment, construction and maintenance	3,070	8,336	5,271	2,335
Other expenses	28,516	27,879	29,278	30,308
Total	159,646	261,279	251,287	274,389

It is important to note that actual expenditures for hospitalization in the private sector are always much higher than budgeted figures due to the difficulty in forecasting expenses, and the inadequate measures to control spending. During the past few years, and due to the high budgetary deficits, the government was not able to pay its contribution to private hospitals, which limited the accessibility of the population to these hospitals.

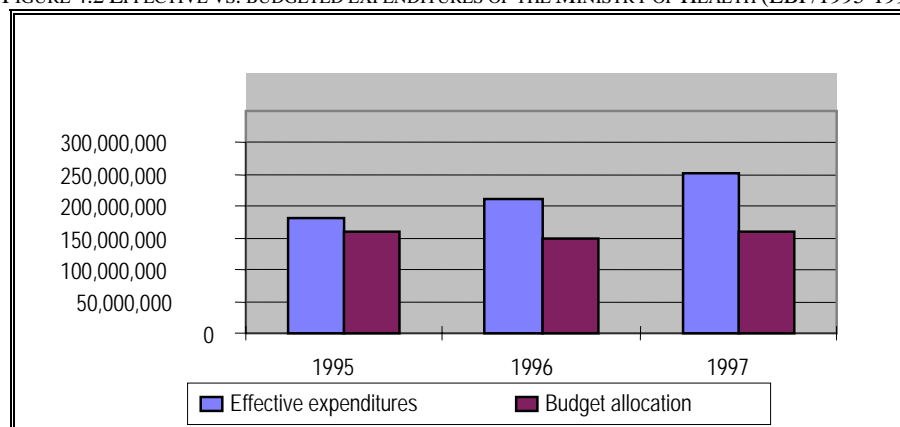
⁴⁹ Health National Accounts, Ministry Of Health, 1999.

* Around 25% of NSSF medical contribution is estimated to be covered by the government.

⁵⁰ Impact of Health Cost on the right to health care, UNICEF & CRI, 1999.

⁵¹ Ibid

FIGURE 4.2 EFFECTIVE VS. BUDGETED EXPENDITURES OF THE MINISTRY OF HEALTH (LBP/1995-1997)



5. *National Social Security Fund*

The second major health-financing agency is the National Social Security Fund (NSSF), for which the government contribution is supposed to represent 25 percent of the total annual health expenditure of NSSF. Expenditures incurred by NSSF for health issues were estimated at LBP 237.4 billion in 1998, of which LBP 40 billion are administrative overhead costs⁵². Government contribution to NSSF reached around LBP126 billion during the same year. The accumulated government contribution due to NSSF is estimated at LBP480 billion (as at the end of 1999).

6. *Capital Spending*

Government spending on health also includes spending on public health infrastructure, estimated at US\$47.9 million during the period 1992-1999⁵³. This spending covers, in addition to rehabilitation and reconstruction of new hospitals and health care centers, health sector policy studies and technical assistance provided to the Ministry of Health. By the end of 1999, the government completed the construction of 15 health centers and 6 hospitals (offering 345 beds). Currently, the government is completing the physical rehabilitation works for 13 health care centers and 7 hospitals (rehabilitation, construction and extension). Total spending on health care infrastructure is estimated at around US\$ 145.9 million (as at the end of 1999).

II. **Education**

1. *General Education*

Lebanon spends a high percentage of its GDP on education (9.3 percent in 1997-98), noting that the majority of this spending is incurred by the private sector (60 percent of total spending on education)⁵⁴. Public spending on education is incurred by several governmental bodies, including the Ministries of National Education, Youth and Sports, Culture and Higher Education, Vocational and Technical Education, and Social Affairs, in addition to the costs of school allowances allocated by Ministries and public agencies to their staff members (army, Civil Servant Cooperatives, Mutual Funds, etc.).

The preliminary findings of the budget analysis based on the 20/20 initiatives reveals that total spending on education reached LBP 952 billion in 1998, i.e., 2.9 times its level in 1993.

⁵² Health National Accounts, Ministry of Health, 2000.

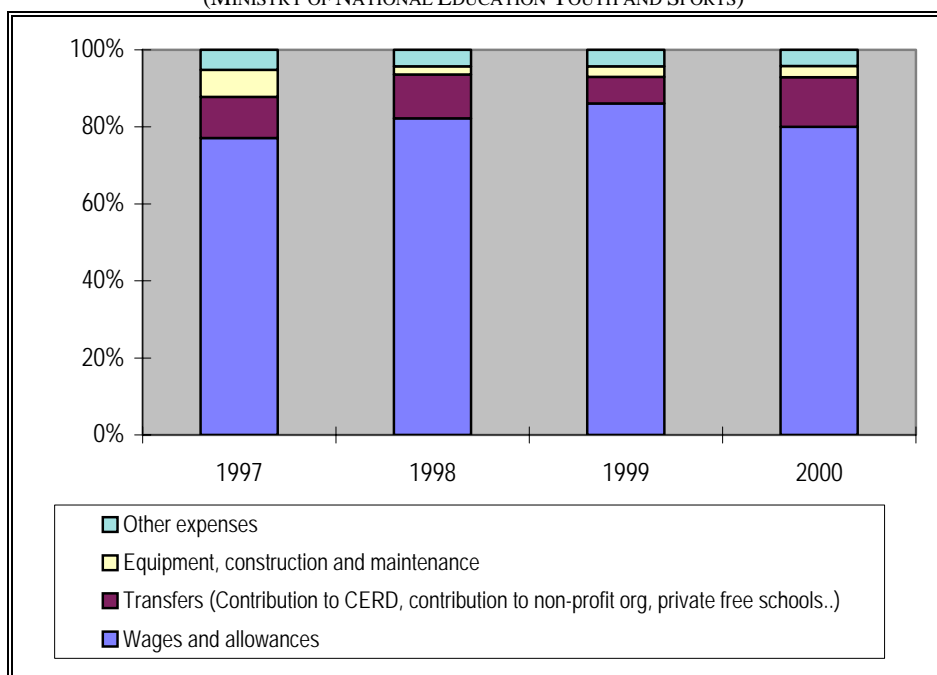
⁵³ CDR progress report, March 2000.

⁵⁴ Social sectors public expenditure review, The World Bank, 1999.

TABLE 4.4 PUBLIC SPENDING ON EDUCATION BY DIFFERENT PUBLIC AGENCIES (BILLION LBP)⁵⁵

	1993	1994	1995	1996	1997	1998
Ministry of National Education, Sports & Youth	178.3	233.8	321.6	314.4	387.9	455.6
Ministry of Vocational & Technical Education	13.6	25.2	40	32.7	39.9	32.7
Ministry of Culture & Higher Education	55	62.7	95.8	52.3	144.1	186.4
Ministry of Social Affairs	16.3	22.5	29.6	38.5	41.2	41.1
Civil Servant Cooperatives	21.6	38.2	56.7	49.2	45.2	43.9
Schools allowances	13.4	16.6	29	35.5	71.2	90
Council for Development and Reconstruction		84.8	69.5	31.6	117.5	50
Council of the south	6.6	21	27.2	11.4	16	11.2
Mutual Funds	3.1	4.6	7.1	5.7	8.5	8.3
Educational inspection	0.7	1.4	1.6	1.6	1.8	2.5
Pensions for teachers	14.2	16.8	19.1	22.1	26	30.3
Total	322.8	527.6	697.2	595	899.3	952

The main three ministries responsible for issues related to education, particularly the Ministry of National Education and the Ministry of Youth and Sports witnessed an increase in their budgets during the past decade. Still, wages and staff related expenses absorb the majority of these ministries' budget. For example, as illustrated in Figure 4.3 below, wages and wage related expenses represented 86 percent of the total budget of the Ministry of National Education, Youth and Sports in 1999.

FIGURE 4.3 BUDGET BREAKDOWN PER COMPONENT
(MINISTRY OF NATIONAL EDUCATION YOUTH AND SPORTS)

There is an over-supply of public school teachers in Lebanon, with an estimated student teacher ratio of 9 in the public sector, compared to 13 and 20 in the private sector and private free of charge sector, respectively (1997-1998)⁵⁶. The majority of public sector teachers have been in

⁵⁵ Preliminary findings of the analysis of the Budget according to the 20/20 initiatives, 1999-2000

⁵⁶ Annual Statistical Bulletin for the scholastic year 1997-1998, National Center for Educational Research and Development

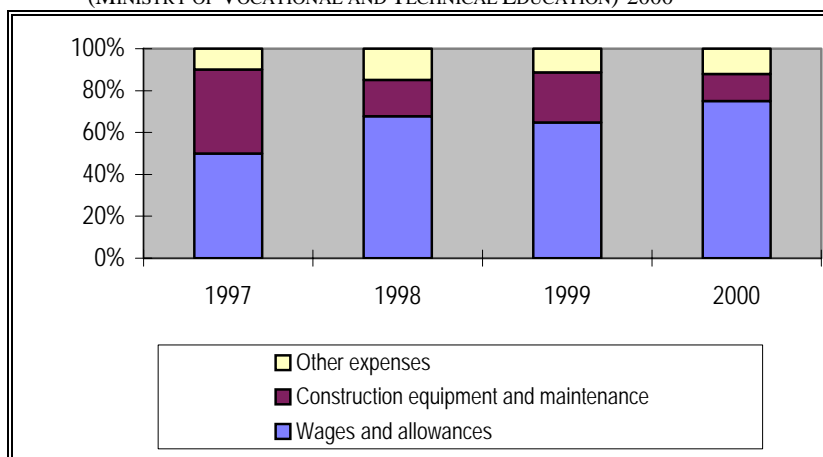
service for more than 20 years (48.64 percent of total number of public sector teachers)⁵⁷. This results in increasing the average salary per teacher, consequently increasing total wages. It also affects the quality of education, especially that upgrading teachers' skills is not a common procedure in Lebanon, although the majority of teachers have a secondary level of education or less⁵⁸ (54.17 percent).

Despite the relatively high level of expenditure on education, the public educational system still shows some inefficiency in outcomes. It is important to note that Lebanon does not apply compulsory free education. The total costs (investment and operational) to be incurred by the government for establishing compulsory free education will vary between US\$90 million and US\$ 2 billion. This variation in costs depends on different alternatives, which may be adopted by the government, including age group coverage, standards for adjusting the existing specifications of public schooling, and alternatives of integrating students of private free education into public schooling.

2. Technical education

The number of public technical schools is limited to 34 institutions, compared to 319 private technical schools (1997-98). Public vocational and technical schools absorb around 24.5 percent of the total number of students enrolled in vocational and technical education. The total budget allocated for the Ministry of Vocational and Technical Education reaches LBP44.2 billion in the year 2000, of which 75 percent are allocated for wages and wage related allowances (refer to Figure 3.4). Unlike general education, students/teacher ratio in public education (amounting to 22.4) is much higher than that in private institutions (10.9).

FIGURE 4.4 BUDGET BREAKDOWN PER COMPONENT
(MINISTRY OF VOCATIONAL AND TECHNICAL EDUCATION)-2000



Private spending on public technical schooling seems higher than spending on private schooling. For instance, the average parent spending per student in private technical schooling was estimated at LBP 2.229 million in 1997/98⁵⁹, whereas the average cost per student in public schooling (both parents and government spending) was estimated at around LBP2.423 million (LBP769 thousand by parents and LBP1.654 million by the government, including wages and recurrent costs for the year 1998).

⁵⁷ Ibid.

⁵⁸ Ibid.

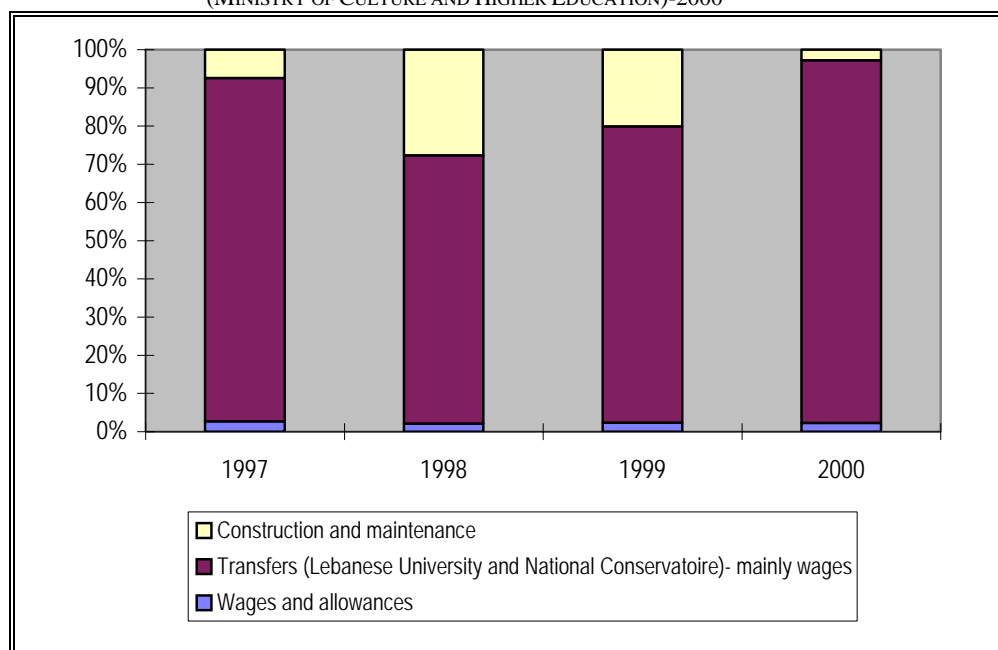
⁵⁹ Preliminary findings of the analysis of the budget according to the 20/20 initiatives, 1999-2000.

Despite the apparently high cost of public technical schooling, the government is still planning to extend and construct vocational and technical schools. In addition to the Bir Hassan technical complex, which is about to be completed, 4 technical schools will be extended and an additional 40 schools are planned to be constructed and equipped⁶⁰.

3. *Higher education*

Government spending on higher education is carried out through the Ministry of Culture and Higher Education, with a total budget reaching LBP 165.5 billion in the year 2000. As illustrated in Figure 4.5, a significant portion of the Ministry's budget is allocated for wages, mainly for the Lebanese University and the National Conservatoire, in addition to the budget allocations for the construction of the Lebanese University campus and sports stadiums.

FIGURE 4.5 BUDGET BREAKDOWN PER COMPONENT
(MINISTRY OF CULTURE AND HIGHER EDUCATION)-2000



The Lebanese University serves around 60 percent of higher education students at an annual average cost of LBP851, 000 per student (tuition fees and education-related expenses spent by households), compared to LBP7.556 million in private sector universities⁶¹. The current cost per student that is incurred by the Lebanese society (both government and parent spending) for public higher education reaches LBP 3.2 million annually when including the costs incurred by the Ministry for wages of university professors (reaching LBP123.8 billion in 1998).

4. *Total Spending on Education*

The total cost for education incurred by the Lebanese society (both parents and government current spending) is estimated at LBP2300 billion, excluding the investment costs incurred by the government for educational infrastructure (refer to Table 4.5).

⁶⁰ CDR progress Report, March 2000.

⁶¹ Living Conditions of the Lebanese Households in 1997, Central Administration of Statistics, 1998.

TABLE 4.5 TOTAL SPENDING (HOUSEHOLD AND GOVERNMENT) ON EDUCATION (1997/98) 1,000,000 LBP⁶²

	Public			Private			Private free			Total Cost of education
	# of students	Average Cost/student	Total Cost	# of students	Average Cost/student	Total cost	# of students	Average Cost/student	Total Cost	
General Education	302,266	1.904	575,514	468,334	2.274	1,064,992	106,730	0.811	86,558	
VTE	16,284	2.423	39,456	50,056	2.229	111,575				
Higher Education	51,661	3.2	165,315	35,669	7.556	269,515				
			780,286			1,446,081			86,558	2,312,925

III. Social welfare

1. Ministry of Social Affairs

Social welfare and social assistance are primarily the responsibility of the Ministry of Social Affairs that provides social assistance to orphans, elderly, women, homeless, handicapped and other social vulnerable groups. These services are provided through the community development centers of the Ministry spread all over the Lebanese regions, and through Lebanese non-governmental organizations contracted by the Ministry.

The majority of spending of the Ministry of Social Affairs is channeled to social assistance estimated at LBP51.8 billion in 1998, constituting 55.1 percent of the total budget of the Ministry. The total cases registered with the Ministry amounted to 34.7 thousand in 1999. Meanwhile, spending on the disabled reached LBP10.2 billion in 1998. The Ministry introduced, in 1996, the "disability card" which enables its holder to benefit from full health coverage, on behalf of the Ministry of Health. Around 19,100 cards were issued (as at the end of 1998).

TABLE 4.6 EVOLUTION OF THE BUDGET OF THE MINISTRY OF SOCIAL AFFAIRS (1,000,000 LBP)

	1997	1998	1999	2000
Wages and allowances	1,259	1,371	2,107	2,026
Transfers	92,065	91,930	65,526	89,553
Other Expenses	1,189	1,081	783	940
Total Budget	94,513	94,382	68,416	92,519

2. Ministry of Displaced

Another contributor to social welfare and social assistance in Lebanon is the Ministry of Displaced, which is primarily responsible for securing the return of the displaced population to their original villages and towns. During the period 1993- January 1999, LBP1.2 billion (more than US\$ 750 million) were spent on the issue of displacement⁶³. The distribution of spending on different tasks reveals that the bulk of spending was incurred for evacuation and dislodging, a task which absorbed more than 61 percent of the resources allocated for the return of the displaced during that period.

Meanwhile, spending on social assistance, consolidation and compensation for victims was estimated at 0.6 percent of total allocated budget resources. This spending covered around 108,507 beneficiaries, distributed among the different Lebanese regions. It should be noted that the number of potential beneficiaries was estimated at 70,726 families (or more than 330,000

⁶² Source: Compulsory free education, CRI, 1999.

Analysis of the budget according to the 20/20 initiatives.
Annual Statistical bulletins for the scholastic year 1997/1998.

⁶³ Statistical report published by the Autonomous Fund for Displaced, 1999.

individuals) in 1996⁶⁴. Consequently, only one-third of the displaced was targeted during the past 5 years. The Ministry of Displaced is currently preparing a plan to complete the return process, using new criteria for beneficiary selection. The plan is estimated to last for 36 months (estimated to end in 2001) with a total cost of LBP 2.456 billion.

3. *Conclusion*

The problem does not lie in the level of social spending in Lebanon. In fact, the Lebanese societies – whether the state, institutions, or households – allocates more than 20 percent of its GDP for social-related sectors, a percentage among the highest in the world. However, despite this high level of spending, Lebanon is not yet able to insure complete, equitable and efficient population access to basic social services, especially for health and education. Furthermore, it is not clear whether social protection and social assistance reaches the target groups within the society, due to the inadequacy and lack of eligibility and beneficiary selection criteria. Finally, political interference continues to lead to distortions and waste in public spending.

Social Programs

Lebanon still lacks a clear definition of poverty-reduction programs targeting the poor. In the context of other MENA countries, the major social programs deemed to provide social safety nets for the poor include subsidy programs (food subsidies, producer subsidies), cash assistance programs, micro-finance programs, social funds, pensions and active labor market policies (training, unemployment insurance, job search assistance).

This section tries to identify the existing social programs in Lebanon in light of those defined in other countries of the MENA regions. An attempt is made to analyze, whenever possible, the following variables: budgetary cost, population affected, overall impact and leakage. Yet, several limitations are encountered during the course of this analysis, the most important of which are:

- The shortage of data does not allow for conducting a quantitative assessment of the poverty impact of some programs. In particular, the profiles of the end beneficiaries of some social interventions cannot be easily identified, effectively complicating the estimation of existing leakage; and
- Some of the programs are still projects in the preliminary assessment phases, thus their impact on poverty cannot be detected yet.

I. Producer Subsidy Programs

Given the critical conditions of the Lebanese agricultural producers, the Lebanese government has adopted long-term price subsidiary programs for some products, namely wheat, sugar beet and tobacco. These programs take the form of guaranteed fixed prices paid to producers, against an obligatory collection of local crops by importers. As is the case in most of the other MENA countries, these programs have little impact on increasing productivity and usually result in distorting consumer market prices. In addition, their effect as income transfer programs is usually diluted because they do not target the poorest segments of the rural population.

⁶⁴ The return of the Displaced in Lebanon, Ministry of the Displaced, 1996

I. *Wheat Subsidy*

The wheat subsidy program is managed by the Office of Cereals and Sugar beet in the Ministry of Economy and Trade. It consists of a program where the local wheat farmers are paid a fixed price of LBP400/kg. The government then sells local wheat to millers at an average price of LBP450/kg. Millers are obliged to purchase 25 percent of their local needs from the government, in order to obtain a license to import the remaining 75 percent.

i. Population affected

The direct beneficiaries from the current wheat subsidy program are estimated by the Ministry of Agriculture at 25,336 farmers, representing around 13 percent of total farmers in Lebanon. These farmers are mainly concentrated in the Bekaa and South-Lebanon regions.

ii. Budgetary Cost

Domestic wheat production has increased from around 24 thousand tons in 1997 to 38 thousand tons in 1999. With a fixed government purchase price of LBP400 thousand per ton. The total budget amount for wheat subsidy during the last three years is illustrated in the table below:

TABLE 4.7 - WHEAT SUBSIDY (1997-99)⁶⁵

	Million L.L.	Million \$	% of GDP
1997	9,752	6.47	0.04%
1998	11,657	7.73	0.05%
1999	15,277	10.13	0.06%

iii. Overall Impact

The wheat subsidy program has a positive impact on the welfare of farmers, who receive LBP400/kg against an average production cost of LBP289/Kg, which is equivalent to a net income transfer of LBP111/Kg. This price guarantee represents an assured income source for wheat farmers who have difficulty in marketing their crops.

The distribution of farmers according to the size of the farm reveals that around 82 percent are small-scale farmers who grow wheat on areas smaller than 4 hectares (refer to Table 4.8).

TABLE 4.8 DISTRIBUTION OF WHEAT FARMERS BY SIZE OF FARM⁶⁶

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

On the other hand, despite the positive impact on farmers, the wheat policy entails a negative impact on flour millers and an increased consumer cost of flour and flour products. To illustrate, the average international wheat price for import by millers is around US\$150/ton, compared to a local price of US\$300/ton. Given that millers are obliged to purchase 25 percent

⁶⁵ Ministry of Economy and Trade

⁶⁶ Ministry of Agriculture

of their needs from local producers, the average price they pay for every ton of wheat is around US \$187.5, which is 25 percent higher than the international market prices.

Leakage can be assumed to be moderate in the case of wheat subsidy, given that the majority of beneficiaries are small farmers.

2. *Sugar beet Subsidy*

The sugar beet subsidy program is managed by the Office of Cereals and Sugar beet in the Ministry of Economy and Trade. Amount to be paid to farmers depends on the sugar content of the products. In 1999, the average price paid by the Ministry amounted to LBP120, 000/ton (US\$80/ton, compared to US\$32-38/ton in Morocco), for a sugar content slightly exceeding 15 percent. Unlike wheat, where local production is not sufficient to cover consumption needs, the government tries to limit the production of sugar beet through an area quota.

In addition to the payment for sugar beet farmers, government also contracts a sugar plant to process the sugar beet into sugar, paying an average fee of US \$20-25 per ton (equivalent to the average fees paid in Morocco for example). Sugar importers are required to purchase 30 percent of their needs from the domestic market at an average price of US \$500/ton in order to obtain a license to import the remaining 70 percent.

i. Population affected

The direct beneficiaries from the sugar beet subsidy in 2000 are limited to 1400 farmers representing less than 1 percent of total farmers in Lebanon. In 1998 this number was estimated at 1150 farmers.

ii. Budgetary Cost

Government sugar subsidy in 1999 consisted of US \$22.3 million for sugar beet production and US \$0.77 million for sugar production. Thus, the total budget amount for sugar subsidy is around US \$23 million, representing 0.14 percent of GDP.

iii. Overall Impact

The sugar beet subsidy program represents a guaranteed source of income for sugar beet farmers, as well as for owners and workers in sugar factories. However, the net income transfer for beneficiaries is limited, as the average sugar beet production cost ranges between US \$60 and US \$75 per ton, while the average sugar processing cost is around US \$25 per ton. In addition, the total number of sugar beet farmers who benefit from the subsidy is small, and most of these farmers are large-scale farmers (70 percent), as is shown in the table below.

TABLE 4.9 DISTRIBUTION OF SUGAR BEET FARMERS BY FARM AREA⁶⁷

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

⁶⁷ Ministry of Agriculture

It should be noted that the land rent represents a considerable component of the overall sugar beet production cost, particularly that 53.1 percent of cultivated area is rented, compared to a national average percentage of 21.7 percent and a wheat average percentage of 32 percent⁶⁸. On the other hand, the sugar beet subsidy program has a negative impact on importers and consumer prices. To illustrate, the average sugar import price in 1999 is US \$259/ton, compared to a local price of US \$500/ton. Given that importers are obliged to purchase 30 percent of their needs from the local market, the average price they pay is around US \$331/ton, which is 28 percent higher than the international market prices.

iv. **Leakage:**

In the absence of clear eligibility criteria, richer farmers might be benefiting more than the poorer farmers, as is revealed through the distribution of beneficiaries by size of their farm.

3. ***Tobacco subsidy***

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

i. **Population affected**

The direct beneficiaries from the tobacco subsidy program are estimated at around 30 thousand farmers, representing around 15 percent of total farmers in Lebanon. Around 50 percent of the beneficiaries are in South Lebanon, while the remaining are distributed between Bekaa and North-Lebanon⁶⁹.

ii. **Budgetary Cost**

The total subsidy budget has dramatically increased since 1993 as is indicated in the table below. This increase mainly resulted from an increase in the volume of production as well as the successive increase in the prices of local tobacco.

TABLE 4.10 TOBACCO SUBSIDY (1993-98)⁷⁰

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

⁶⁸ Ministry of Agriculture, Agricultural Census 1998

⁶⁹ Socio-economic development plan for South-Lebanon, UNDP

⁷⁰ Ibid.

iii. Overall Impact

There is no doubt that the tobacco subsidy program presents a major source of income for many families, particularly in the marginal areas of former occupied zone, where around 8000 tobacco farmers reside, covering a total cultivated area of 3000 hectares and producing more than 3000 tons per year. The distribution of these farmers and their corresponding subsidies by Caza are provided in the following table:

TABLE 4.11 TOBACCO SUBSIDY IN OCCUPIED ZONES- 1997⁷¹

Caza	Area (Ha)	Farmers	Production	Subsidy (1000L.L.)	Subsidy (\$)
Bent-Jbeil	1,249	3225	1347374	16,168,488	10,778,992
Tyr	228	639	245566	2,946,792	1,964,528
Marjayoun	458	1228	475672	5,708,064	3,805,376
Jezzine	14	49	10115	121,380	80,920
Borders	1,047	2790	1109820	13,317,840	8,878,560
Total	2,996	7,931	3,188,547	38,262,564	25,508,376

Accordingly, the average gross subsidy per farmer is estimated at around US \$3216 per year, ranging from US \$3342 in Bent-Jbeil to US \$1651 in Jezzine. Significant disparities in production costs are also recorded among the different farmers. The main factors affecting farmers' costs include ownership of land and equipment, the location of land, and transport means. The average production cost is estimated to range between US \$1000 and US \$4000 per hectare, depending on the above conditions⁷². Thus, for a farmer growing tobacco on an area of 0.37 hectare, the average annual net subsidy per farmer would range between US \$1705 and US \$2839. The average gross and net subsidies per farmer in each Caza of the former occupied zone are illustrated in the table below.

TABLE 4.12 AVERAGE SUBSIDY AMOUNT PER FARMER IN OCCUPIED ZONES (\$)

	Average gross subsidy	Average net subsidy	
		cost=\$1000 / ha	cost=\$4000 / ha
Bent-Jbeil	3,342	2,955	1,793
Tyr	3,074	2,718	1,648
Marjayoun	3,099	2,726	1,607
Jezzine	1,651	1,376	549
Borders	3,182	2,807	1,681
Total	3,216	2,839	1,705

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

⁷¹ Ibid.

⁷² The Occupied Lebanese Zone, Jaber Munzir

iv. Leakage

The leakage of tobacco subsidy is believed to be relatively large, given the absence of clear eligibility criteria for license provision, and the political backup of some specific categories of farmers.

II. **Loan Subsidy Program**

The Central Bank issued in April 1997 a decree related to interest rate subsidy on loans provided for agricultural, industrial and tourism sectors. The program consists of providing around 5 percent subsidy for loans exceeding LBP50 million, over a repayment period ranging between 5 and 7 years. The lending banks are assigned the responsibility at monitoring the usage of the subsidized loans. The main aim of the program is to provide incentives for private investment in the productive sectors as part of the overall economic and employment development plan for the country.

As of the date of application of that decree, the total subsidized outstanding loans in US\$ amount to the following:

TABLE 4.13 SUBSIDIZED LOANS IN US\$⁷³

	1997		1998		1999 (September)	
	Million US\$	% of total	Million US\$	% of total	Million US\$	% of total
Industry	24.4	68%	75.8	66%	108.6	65%
Tourism	4.7	13%	27.6	24%	45.6	27%
Agriculture	6.9	19%	10.9	10%	12	7%
Total	36	100%	114.3	100%	166.2	100%

As implied by the above table, subsidized loans recorded a rapid increase in the past two years, with industrial loans capturing the highest share. Yet, it can be noticed that the growth of agricultural loans was minor, and their share has even declined compared to 1997, while the share of tourism loans has increased throughout the same period.

Although the loan subsidy program does not directly target the poor population, it plays a role in the poverty reduction process as it contributes to employment generation in the main productive sectors of the economy. However, the total amount of subsidized loans is still limited, as it represents only 1.4 percent of total outstanding loans in foreign currencies, and the exact impact of these loans on employment and poverty status cannot be quantified, as the shortage of data does not allow to identify the end-beneficiaries of any of the subsidized loans.

III. **Pension System Plan**

The current national social security system in Lebanon is characterized by the multiplicity of institutions, including the National Social Security Fund (NSSF), the Civil Servant's cooperative, insurance schemes for security forces, private insurance companies and schemes covering specific professional sectors.

The NSSF is the principal social security institution. It was established in 1966 for insuring private sector employees, and it offers the following three main services: sickness and maternity insurance, family allowances, and end-of-service indemnity. As recognized by the Government, the existing system suffers from major deficiencies, the most important of which are:

⁷³ Central Bank Quarterly Reports, 1998-99

- The extent of coverage relative to the size of the labor force is low: by comparing the numbers of NSSF registered employees and institutions for 1998 with the results of the census of establishments conducted by CAS in 1997, the ratio of coverage of institutions is estimated at around 16 percent, while that of employees is around 46.6 percent;
- The current system imposes high fees on employers, which amount in total to 38.5 percent of the gross wage of the employee (basic salary and other benefits). This cost represents additional taxes for employers and creates incentives for evasion and under-declaration of actual wages. In addition to these regular fees, the employer is entitled to pay settlement amounts in order to cover the shortfall resulting from inflation. This shortfall might reach 80 percent of the accumulated amounts in the case of old employees;
- The current system provides minimal benefits to retirees: the retiree receives a lump-sum end-of-service indemnity- instead of an annual retirement income- which in some cases is not sufficient to cover the expenses of the retiree and his family for at least one year. In 1999, the average end-of-service indemnity paid by NSSF amounted to around LBP13.3 million per employee; and
- Retirees are deprived from the benefits of sickness insurance at a time they need it the most because of their old age.

Given the inefficiency of the current system, the Lebanese authorities are proposing a new pension system aiming at:

- The provision of a more adequate retirement income for retirees, which will be of particular importance for low-income people and their families; and
- The provision of health allowances for retirees and their families.

The Council of Ministers has lately signed the new law related to the second pillar of the new proposed system, while efforts are being currently undertaken to prepare for the legislation of the proposed overall pension system. The signed law- which still needs to be approved by the parliament- indicates that every Lebanese retiree who has reached the age of 64 years has the right to benefit from NSSF health allowances, provided he is not insured by any other public or private entity. The proposed health insurance is assumed to cover ambulatory care, laboratory and radiology tests as well as hospitalization. The NSSF is assumed to finance 80 percent of health care costs and 90 percent of hospitalization costs, the rest being born by the beneficiaries themselves.

IV. Micro-Finance Programs

The provision of micro-finance services in Lebanon is primarily run by non-governmental organizations (NGOs) and few local banks. Currently, around 18 micro-finance programs are operating in Lebanon, serving a total of 11000 clients (1999). The corresponding total loan outstanding portfolio is about US \$10.7 million, with an average loan per client ranging between US \$800 and US \$1000. Around 52 percent of clients are females, and 56 percent of borrowers live in rural areas. The largest providers of micro-credit in terms of the number of active clients are the individual lending program of Caritas, the UNDP Baalbeck-Hermel

program, and Al Majmoua program. The three programs serve more than 66 percent of all the active clients⁷⁴.

Micro-finance programs can be grouped into 2 broad categories as per their target groups: programs targeting people running micro-economic activities (named poverty lending programs), and those targeting small and micro-enterprises. The first category explicitly addresses the poor population, particularly women.

The total number of households running micro-economic activities in Lebanon is estimated at around 200,000. Out of these households, poverty-lending programs serve around 4500 clients (end 1999), compared to 3839 clients in 1997. Around 95 percent of total clients are females, while 61 percent live in urban areas. There are 5 micro-finance programs in this category, with a total loan portfolio in 1999 amounting to around US \$2 million, and maximum average loan size of \$500 per client.

On the other hand, micro-finance programs targeting small businesses served around 6330 clients in 1999 (against 5396 in 1997), out of a total estimated number of 300,000 micro and small businesses. Only 16 percent of total clients are females, and the majority of the total beneficiaries (68 percent) live in rural areas. The total number of these programs is 13, and their total outstanding loan portfolio is US\$8.6 million, with an average balance of US\$1358 per client.

The objectives of micro-finance are poverty reduction and empowerment for specific segments of population (women, residents in rural areas...). Despite the fact that micro-finance activities play a decisive role in providing the poor with access to flexible and, sometimes, cheap credit services, several risks that might render micro-finance activities somehow inefficient are encountered. These risks usually have to do with the goals and objectives of micro-finance institutions, mainly whether their activities are aiming at reducing poverty, fostering economic growth or empowering marginalized groups.

There is no doubt that micro-finance programs in Lebanon provide a social safety net for low-income families, and help in retaining existing jobs of small and micro-enterprises. However, the number of beneficiaries is still very limited, and there is a need to increase delivery in order to reach a wider segment of the poor population. In addition, an effective monitoring system should be established in order to control the use of funds and limit the risk of bad lending. In this regard, the issue of the sustainability of the existing programs is raised, both on the institutional and financial levels. That is, the current legal forms of these programs (NGOs & foundations) limit their potential for growth and their ability to serve the poor within the medium-term.

The proposed retirees' health insurance plan is expected to alleviate the health cost burden on low-income households. However, under its proposed form, the efficiency of the program in targeting needy groups is questionable, given the high cost that would be imposed on the government on one hand, and the large leakage that is expected to prevail on the other hand, particularly that the program targets a very wide range of the Lebanese population, with no targeting criteria.

⁷⁴ The Lebanese micro-finance industry: status and challenges, a technical note by the World Bank, June 2000

V. Conclusion

Social interventions as analyzed above cannot be classified as social protection programs in the real sense, and seem far less developed than the programs adopted in most of other MENA countries.

The major deficiencies of the existing social interventions can be summarized by the lack of adequate targeting systems, the large leakage rates, the high budgetary costs, the multiplicity of the agents, as well as the high degree of political interference in the process of transfers' allocation to the poor. These deficiencies raise the question of the sustainability of these programs and their ability to cope with the growing problem of poverty within the medium term.

The development of efficient targeting mechanisms of any current or planned program should be prioritized, as this would greatly help in limiting the leakage and the cost burden on government. However, it is to be noted that the improvement of targeting requires first a detailed assessment of the poverty profile in the country, which is so far lacking. That is, a better grasp of the poverty situation by the responsible authorities is highly needed, prior to the design of any poverty-alleviation strategy.

CHAPTER 5
LEBANON POVERTY REVIEW: POLICY RECOMMENDATIONS

The analysis of poverty and the role of the government in poverty reduction reveal several impediments to sustainable social development in the country. The key factors affecting the living conditions of the poor can include the weak macro-economic performance and the inefficiency of public social spending and programs. Several shortfalls are also revealed on the level of information regarding the detailed profiles of the poor.

Immediate reforms are urgently needed in order to control the growing problem of poverty and the declining living standards. Reforms should start with the identification of the poor and the construction of their socio-economic profile in order to ensure adequate targeting of any poverty reduction policy. Macro-economic adjustment is to be prioritized, being a major prerequisite for any effective social policy. Administrative and institutional problems should also be addressed, mainly in the sectors of education, health and social welfare.

General recommendations

Despite the different surveys conducted during recent years to evaluate the living conditions of the Lebanese population, the country still lacks some basic information on national levels of absolute and relative poverty, as well as on the trends recorded in the living standards of the population. The data made available through the different surveys provides insights regarding the level and distribution of income, the accessibility to basic services and some other indicators that could be used for an approximate indirect evaluation of the incidence of poverty in Lebanon.

The main measurements used to evaluate poverty such as poverty line, head count index, poverty gap and severity of poverty have not been traced in Lebanon. One attempt was made in the context of evaluating the incidence of poverty in the region of Baalbeck-Hermel. Also, some other preliminary, though indicative, attempts were made to arrive at an estimate of the poverty line, however they did not take into consideration the different factors that affect the level of this poverty line (demographic factors, auto-consumption, structure of spending, housing ownership, elasticity, third-party finance for health and education, etc.). Hence, the accurate measurement of the incidence of poverty and the profile of the poor in Lebanon could not be achieved at this stage.

One of the serious attempts aiming at measuring poverty is the project on “improving the living conditions of the poor.” This project was launched in 1998 by the Council for Development and Reconstruction, Ministry of Social Affairs and UNDP. This project will comprise several action plans, including the implementation of pilot projects in one of the poorest areas in Lebanon. In the context of the same project, a national multipurpose survey will be conducted aiming at estimating the poverty line (on both income/expenditure and UBN basis).

Given the difficulty in determining the profile of the poor, it is relatively hard to target these segments of the population via specific interventions aiming at alleviating poverty and improving living standards.

Basic measures should be taken to improve the information base on the incidence and trends of poverty, as well as on the macro-economic aggregates. Data should be available on the following:

- **National accounts:** Lebanon lacks reliable statistics relating to national accounts, mainly as to the structure of the gross domestic product and its evolution. The availability of accurate data in this context will permit the identification of the correlation between growth and poverty, and consequently the extent to which the poor are benefiting from economic growth. It will also permit the identification of any distortion in the distribution of resources among the different social classes and economic sectors.
- **Poverty indicators:** In order to accurately evaluate the incidence of poverty and the characteristics of the poor, an evaluation of the poverty line, head count index, poverty gap and severity of poverty is inevitable. The characteristics to be identified include the geographic distribution of the poor, noting that the overall classification of poverty per region has been recently addressed and the different Lebanese districts were classified, according to the UBN method. However, the profile of the poor within each of these districts is still missing. Consequently the types of interventions to be made, as well as the groups to be targeted need to be more specified. The on-going multi-purpose survey is of great importance to provide accurate data in this regard.
- **Fiscal and juridical amendments:** Fiscal and juridical amendments should be made to make sure that the poor are adequately addressed by social policies and to allow for a better setting of priorities, mainly regarding access to public social goods and services.
- **Population census:** Although this project is of less priority in the short term, a population census is of ultimate importance especially that the figures on the size of resident population and their regional distribution are based on sample surveys, and discrepancies are encountered among the different statistical sources. This census would be used for several purposes including demographic, economic, fiscal uses, sampling bases, etc.
- **Coordination of national statistics with a central role for the Central Administration of Statistics:** Several national surveys on demographic, social and economic conditions have been implemented in the recent years resulting in a relatively rich information base. However, some of these surveys (implemented by different parties) came out with contradictory results (population size, GDP structure, and income levels...). It is thus important to reconcile available statistical information to arrive at a solid base for statistical data in the country.

Macro-economic Recommendations

There is no doubt that the country needs structural economic reform. Sustainable growth is highly needed in order to permit employment generation and improvement in living conditions. Furthermore, public investment in basic social sectors is more affordable by a growing rather than a stagnating economy.

Yet, growth promotion is a long-term process, which requires a serious consolidation of national efforts on a multi-level basis. Growth-oriented reform should tackle political, administrative, institutional as well as fiscal and monetary issues.

A key issue to be addressed in the context of macro-economic reform is the need to set an institutional mechanism for coordinating the various economic, fiscal and financial studies and plans, whether set by official or semi-official sources.

I. Administrative measures

Administrative reform is a pre-requisite for any long-term growth oriented strategy. The inefficiency and ineffectiveness of public sector institutions are impeding the private sector development placing high cost burdens on the economy. Reform should start by removing some of the ineffective and time-consuming administrative procedures that are requested by private investors. For instance, there is a common agreement among importers and exporters on the need to decrease export fees, custom fees on imported raw material and intermediary products, as well as inventory clearance costs on port. Such small measures would greatly enhance the competitiveness of the private sector.

In this regard, The Investment Development Authority (IDAL) has lately made an attempt to reduce some of the bureaucratic procedures of investors through "One stop-shop," yet the results of this endeavor did not materialize.

The most critical step to be conducted by the government in the context of administrative reform is to proceed with the privatization process. Privatization would not only alleviate public administrative burdens, but will have notable positive effects on the treasury and the overall economic performance of the country.

II. Privatization

Privatization in Lebanon ought to be speeded up, as any further delay would pose additional costs on the budget and would intensify the debt problem. As estimated by the 5-Year Plan for Economic and Fiscal Reform, each billion of \$'s resulting from the sale of public assets used in repaying part of public debt principal, can lead to a decrease in debt service spending amounting to \$140 million per year. This implies that the sooner the privatization process starts, the more the government can benefit in terms of debt reduction and improvement of fiscal situation.

In addition to the fiscal benefits, privatization would greatly enhance the efficiency and competitiveness of concerned institutions, thus leading to a potential decrease in some of the high domestic costs, such as the cost of power generation, telecommunication, and transport. A successful privatization process would also be coupled with a development in local capital markets and improvement in the growth prospects of the country.

Privatization will inevitably entail some immediate social costs in terms of labor lay-offs from the privatized public entities. Yet, the long-term sustainable economic and social benefits would certainly outweigh the short-term costs. Unless such drastic strategies are undertaken, any short-term measures to address the prevailing problems would present temporary solutions without any sustainable effect on the socio-economic development of the country.

III. Promoting Economic Competitiveness

Administrative reform and privatization are critical strategies in the context of promoting economic competitiveness and growth.

Currently, the issue of restoring the competitiveness of the Lebanese economy is gaining increasing importance by the national authorities. Two recent official studies have stressed the

immediate need to improve the performance of the productive economic sectors: the 5-Year Plan for Economic and Fiscal Reform prepared by the Ministry of Finance in 1999, and the 5-Year Development Plan prepared by CDR in 2000. Both plans acknowledged the need to join efforts between the public and the private sector, in order to remove some of the structural obstacles impeding the development of economic sectors.

Growth should be mainly promoted in the productive labor-intensive sectors that have the potential for large labor absorption. Well-oriented agricultural and industrial strategies should be devised, with emphasis on strengthening the inter-linkages between the two sectors. The development of agro-food industry through the introduction of new technologies would be of particular importance in providing high value-added to the economy and creating thousands of job opportunities.

It is to be noted that the 5-Year Development Plan of CDR recommended the establishment of a fund to support the competitiveness of economic sectors. The purpose of the fund is to promote projects that are specifically related to competitiveness and growth issues; i.e. the main drivers of the Lebanese economy. The budget of the proposed fund is estimated at \$25 million, to be financed through grants and loans from international organizations. The fund would be managed by a board of ministers and businessmen representing the various economic sectors, including tourism, transport, agro-food industry, advertising, etc.

IV. Adjusting the Taxation System

On the fiscal level, the unbalanced tax structure should be adjusted, as it relies mainly on custom duties and other forms of indirect taxes, while a large part of domestic transactions, real estate gains, capital gains and wealth are not effectively subject to taxation.

The current government has acknowledged the inequity of the existing tax system. Several measures were recently undertaken to increase the share of direct taxes including the increases in tax rates on individual income, corporate profits and dividends. As an attempt to alleviate the burden of new tax rates on low and middle-income families, the progressivity of the adjusted taxes was slightly increased, and the tax-exemption ceiling for families with three and more children was raised. In parallel to direct tax adjustments, custom duties on some luxury items were increased, namely tobacco products, alcoholic beverages, cosmetics, jewelry and others.

However, the government's attempt to adjust the tax structure did not yield substantial benefits, as the prevailing economic slowdown on one hand, and tax evasion on the other hand, did not allow for the expected increase in revenues from direct taxes. Projected custom duties' revenues could not be materialized in light of the prevailing shrinking consumption, particularly imports.

With the government need to increase its revenues, the expansion of the tax base through the improvement of tax collection procedures should be emphasized. That is, the tax system reform should start at the level of administration in order to strengthen the tax base and prepare a framework for the introduction of a more complex form of wealth and income taxes.

The resort to raising indirect tax rates should be limited, as the revenues realized from such increases are small relative to the social cost they entail. In this regard, the government can increase its non-tax revenues through collecting fines and penalties on unauthorized and unlicensed construction and other tangible entities. Of particular importance are the fines that

could be extracted from illegal coastal property like beach resorts. These fines can be a great source of revenue for the government in the short term.

The most crucial reform to be undertaken is to tax the major sources of wealth in the country, namely interest and property income. The introduction of such tax measures- if well administered- can provide considerable revenues to the treasury, while ensuring a more equitable distribution of tax burden among different social groups.

The government proposal to introduce a tax rate on interest and on real estate appreciation was subject to severe opposition in the discussions of the 1999 budget. Yet, with the growing debt problem, and the high ceiling that indirect taxes have reached, there is a need to reconsider these kinds of measures.

V. Reducing Interest Rates Burden

High prevailing interest rates are behind most of the fiscal and economic distortions currently being witnessed, namely high debt burden, slow private investment, and unbalanced structure of GDP. It is noteworthy that the problem of interest rates was much more intense in the last few years, compared to the war period. This is mainly attributed to the increasing trend of real interest rates, despite some decline recorded lately in nominal rates. Increasing real interest rates resulted mainly from the continuous decline in the rate of consumer price inflation, which fell below 1 percent during 1999 and is currently maintaining its decreasing trend.

TABLE 5.1 - REAL INTEREST RATES ON LEBANESE TREASURY BILLS (1990-1999)

	3 months TB's	6 months TB's	12 months TB's	24 months TB's
1990	-29.60%	-27.60%	-25.96%	-
1991	-24.04%	-22.87%	-21.11%	-19.62%
1992	-43.64%	-43.30%	-41.25%	-37.68%
1993	-6.56%	-5.44%	-5.83%	-1.59%
1994	4.75%	5.46%	4.56%	6.80%
1995	4.36%	4.77%	4.40%	10.47%
1996	4.53%	5.58%	5.21%	9.83%
1997	4.57%	4.92%	5.05%	7.72%
1998	6.58%	7.50%	8.02%	10.97%
1999	10.61%	11.16%	11.57%	13.87%

A gradual decrease in interest rates is undoubtedly needed for a better investment and growth climate in the country. Yet, the issue of interest rates should be treated cautiously, as a drastic cut in L.B.P. rates can jeopardize the financial stability that the economic authorities have long sought to achieve. The decline in interest rates is not a decision that can be easily implemented, as interest rates are determined by a set of political, economic, financial, and psychological factors. Eventually, a decline in L.B.P. interest rates is highly dependent on the ability of the government to regain domestic and international confidence by achieving economic and fiscal reform.

Specific-sector recommendations

I. Education

The discrepancy between the outcomes of the educational system and the cost incurred by the Lebanese society on education calls for revising the existing education policies. Lebanon might not have the problems encountered in other countries in the region such as low enrollment

rates in basic education, gender disparities in enrollment, or urban-rural disparities. However, the problem lies in the high educational bill that the Lebanese household has to pay. Universal access to basic education is ensured in Lebanon, with no significant regional or gender disparities. Most of the enrollment in basic education in Lebanon is absorbed by the high cost educational private sector.

The problem of education in fact lies in the inefficiency of the public schooling system, mainly in basic educational levels (primary). Several urgent measures should be under-taken to improve the efficiency of the public education system and to insure accessibility of low-income groups to a better quality of education:

- i) Improving efficiency and lowering cost: this could be achieved by enhancing the qualifications of teaching staff, knowing that the Lebanese public education sector is showing an oversupply of staff. Given the current political influences and the social crisis that might result from laying off teachers, the government will not be able to reduce the number of teachers in the public system. However, several measures could be taken in this regard, including:
 - Avoiding contracting new staff (as well as renewal of existing contracts) except in fields where there is extreme deficiency in skills and where the need arises for new staff; and
 - Offering attractive separation packages to teachers who work in overstaffed schools.
- ii) Imposing compulsory free education mainly for the primary level of education, and arrive at an optimal cost for integrating out-of-school students into the educational system. Parallel to imposing the compulsory free educational system, the following measures should be taken:
 - Lowering the cost incurred by parents: this could be achieved lowering (or canceling) the entry fees and by adopting the system of revolving educational books for public sector schooling, and improving public transport network; and
 - Reconsidering the subsidies that the government is allocating for private-free schooling system and evaluate the cost-effectiveness of integrating students enrolled in private free schools into a more efficient public educational system.
- iii) Improving equipment and supplies in public schools in parallel to the new curricula adopted by the government.
- iv) Changing the image of the public schooling system that is currently seen as associated with the poor by introducing new extra-curricular activities (recreational activities, sports).
- v) Creating disincentives for civil servants sending their kids to private schools by minimizing the educational allowances, most of which are channeled to financing education in private schools.

- vi) Providing incentives to minimize drop out rates in specific regions in Lebanon where these rates are relatively high by lowering tuition fees, offering free or subsidized books, and similar measures.
- vii) Providing schools with a certain degree of autonomy, mainly in administrative and financial management and decision-making.
- viii) Reconsidering the distribution of schools and regroup schools with low number of students in order to minimize rent cost and other overhead costs.
- ix) Reassessing the conditions of the public vocational and technical educational system in Lebanon, mainly for its high per unit cost, compared to the private sector and introduce monitoring tools to follow up the graduates of the vocational and technical education system to insure the efficiency of the current system (mainly the dual system). It is also imperative to identify the market demand for the output of this system.

II. Health

The improvement in health indicators was coupled with an unjustifiable increase in the total health care bill in Lebanon that reached 10% of GDP. Several immediate measures should be taken to arrive at better cost-effective health service delivery in Lebanon:

- i) Insure equity in accessing primary and curative health care services among the different Lebanese regions to minimize disparities mainly regarding infant mortality.
- ii) Attempt at increasing insurance coverage through a well-studied health coverage scheme (through NSSF) and defining eligibility criteria for beneficiaries of the Ministry of Health that should take into consideration income levels.
- iii) Minimize the multiplicity of the health care system which is resulting in a redundancy at the level of administrative staff responsible for health care systems, and consequently in huge waste of resources. Specifically, the problem arises in the health care financing agencies, having a notable proportion of expenditures allocated for administration and staffing. In order to contain cost, it is recommended to have one health financing agent (such as the National Social Security Fund), under the supervision of one regulatory ministry (as the Ministry of Health), and to establish a high level committee at the Ministry of Health that will coordinate and supervise this effort.
- iv) The drug bill has dramatically increased in the last few years, representing around 25.6% of total health expenditure in 1998, which is a very high rate according to international standards; noting that Lebanon imports around 6,150 drug types annually, the highest number among Arab countries. The proliferation of drug types, coupled with the over-use and the inappropriate use of these drugs, is significantly contributing to the magnification of the annual health bill in Lebanon. In this context, it is recommended to undertake some reforms including:
 - Limiting the number of drugs that can be imported by adopting essential drugs list, such as the list developed by the National Health Organization in 1993, noting that NHO has specified 290 essential generics that are needed

for Lebanon. The NSSF, after being restructured, or the National Office of Drugs can be activated in this regard, mainly as a regulator of the market, as well as an importing party competing with other drug importers;

- Controlling and monitoring the quality, specifications and prices of all imported drugs; and
- Encouraging domestic drug production within an effective regulatory framework.

v) Identify the role of the government within the sophisticated health care system. The Ministry of Health- being the main government agency in this regard- is investing in the health market by providing additional hospital beds and health centers, whereas statistics reveal that the market is almost over-saturated, except for some specific geographic areas. The government should exercise a regulatory role in controlling the private sector in terms of quality and pricing of health services and insuring equitable access to these services. The health care market ceased, to large extent, to be a basic social service with the right of every citizen to have access to health care. It is currently driven by the forces of supply and demand, mainly in terms of health services pricing against the quality of services provided. The problem is further accentuated by the relative weakness of the preventive health care, which is attributing to raising demand for health services, and hence affecting the trend of pricing of these services, and consequently the overall bill.

III. Social welfare and social assistance programs

- i) Due to the fiscal constraints the government is facing, spending on social welfare should be channeled adequately to target the poorest of the poor. This requires the elaboration of a set of criteria to identify the beneficiaries of the social welfare services to avoid waste of resources. Also, since most of these services are usually contracted to NGOs, the concerned ministry had to monitor the implementation of the contracted services.
- ii) Several social assistance programs (mainly subsidy programs) are being offered by the government having an indirect objective at enhancing the living standards of poor, mainly those working in agriculture. However, the impact of these programs could not be identified due to the lack of the adequate monitoring tools.
- iii) The government should accelerate the implementation of the new pension scheme and amend it adequately to cover specific segments of population, with affordable cost.

ANNEX I
REGIONAL AND INTERNATIONAL INDICATORS

Table 1: Population living on less than \$1 per day headcount index in developing and transitional economic, selected years, 1987-1998

<i>REGION</i>	Population covered by at least one survey (percent)	Number of people living on less than 1\$ a day (millions)				
		1987	1990	1993	1996	1998(est.)
East Asia and the Pacific (excluding China)	90.8	417.5	452.4	431.9	265.1	278.3
	71.1	114.1	92.0	83.5	55.1	65.1
Eastern Europe and Central Asia	81.7	1.1	7.1	18.3	23.8	24.0
Latin America and the Caribbean	88.0	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	52.5	9.3	5.7	5.0	5.0	5.5
South Asia	97.9	474.4	495.1	505.1	531.7	522.0
Sub-Saharan Africa	72.9	217.2	242.3	273.3	289.0	290.9
Total	88.1	1183.2	1276.4	1304.3	1190.6	1198.9
(excluding China)	84.2	879.8	915.9	955.9	980.5	985.7

Table 2: Percentage of people living under US\$1 a day is very small in MENA

Region	Population covered by at least one survey (percent)	Headcount index (percent of poor in population)				
		1987	1990	1993	1996	1998(est.)
East Asia and the Pacific	90.8	26.6	27.6	25.2	14.9	15.3
(excluding China)	71.1	23.9	18.5	15.9	10.0	11.3
Eastern Europe and Central Asia	81.7	0.2	1.6	4.0	5.1	5.1
Latin America and the Caribbean	88.0	15.3	16.8	15.3	15.6	15.6
Middle East and North Africa	52.5	4.3	2.4	1.9	1.8	1.9
South Asia	97.9	44.9	44.0	42.4	42.3	40.0
Sub-Saharan Africa	72.9	46.6	47.7	49.7	48.5	46.3
Total	88.1	28.3	29.0	28.1	24.5	24.0
(excluding China)	84.2	28.5	28.1	27.7	27.0	26.2

Table 3: Number of people living under \$2 a day

Region	Population covered by at least one survey (percent)	Number of people living on less than \$2 a day (millions)				
		1987	1990	1993	1996	1998(est.)
East Asia and the Pacific (excluding China)	90.8	1052.3	1084.4	1035.8	863.9	892.2
	71.1	299.9	284.9	271.6	236.3	260.1
Eastern Europe and Central Asia	81.7	16.3	43.8	79.4	92.7	92.9
Latin America and the Caribbean	88.0	147.6	167.2	162.2	179.8	182.9
Middle East and North Africa	52.5	65.1	58.7	61.7	60.6	62.4
South Asia	97.9	911.0	976.0	1017.8	1069.5	1095.9
Sub-Saharan Africa	72.9	356.6	388.2	427.8	457.7	474.8
Total	88.1	2549.0	2718.4	2784.8	2724.1	2801.0
(excluding China)	84.2	1796.6	1918.8	2020.5	2096.5	2168.9

Table 4: Percentage of people living under \$2 a day

Region	Population covered by at least one survey (percent)	Headcount index (percent)				
		1987	1990	1993	1996	1998(est.)
East Asia and the Pacific	90.8	67.0	66.1	60.5	48.6	49.1
(excluding China)	71.1	62.9	57.3	51.6	42.8	45.0
Eastern Europe and Central Asia	81.7	3.6	9.6	17.2	19.9	19.9
Latin America and the Caribbean	88.0	35.5	38.1	35.1	37.0	36.4
Middle East and North Africa	52.5	30.0	24.8	24.1	22.2	21.9
South Asia	97.9	86.3	86.8	85.4	85.0	84.0
Sub-Saharan Africa	72.9	76.5	76.4	77.8	76.9	75.6
Total	88.1	61.0	61.7	60.1	56.1	56.0
(excluding China)	84.2	58.2	58.8	58.6	57.7	57.6

Table 5: Outlook for poverty reduction

Region	Number of people living below \$2 per day			Headcount index (percent)		
	1998 (est.)	2008 Scenario A	2008 Scenario B	1998 (est.)	2008 Scenario A	2008 Scenario B
East Asia and the Pacific	892.2	632.0	482.7	49.1	31.8	24.3
(excluding China)	260.1	218.3	169.8	45.0	34.5	26.8
Eastern Europe and Central Asia	92.9	100.8	46.3	19.9	21.2	9.7
Latin America and the Caribbean	182.9	227.3	183.9	36.4	39.8	32.2
Middle East and North Africa	62.4	74.7	47.8	21.9	21.7	13.9
South Asia	1095.9	1083.0	945.4	84.0	72.2	63.0
Sub-Saharan Africa	474.8	604.2	568.0	75.6	76.6	72.0
Total	2801.0	2721.9	2274.1	56.0	48.0	40.1
(excluding China)	2168.9	2308.2	1961.2	57.6	53.5	45.5

DIFFERENCES IN OPPORTUNITIES RICH POOR GAP

Table 6: Percentage of poor 6-14 year olds in School

Country	Year	Poor 6-14 in school (%)	Rich 6-14 in school (%)	Rich poor gap	Country	Year	Poor 6-14 in school (%)	Rich 6-14 in school (%)	Rich poor gap
Western Africa					East Asia				
Senegal	1992-93	14.1	65.6	51.5	Philippines	1993	70	86.3	16.3
Ghana	1993	69.3	90.8	21.5	Indonesia	1997	80.5	95	14.5
Eastern Africa					South America				
Madagascar	1997	46.8	90	43.2	Colombia	1995	80.9	97.6	16.7
Malawi	1996	87	93.3	6.3	Peru	1996	85.8	94.6	8.8
North Africa					Central America & the Caribbean				
Morocco	1992	26.7	89.5	62.8	Guatemala	1995	46.4	90.8	44.4
Egypt	1995-96	67.6	95.5	27.9	Dominican Rep.	1996	88.7	97.8	9.1
South Asia					Europe & Central Asia				
Pakistan	1990-91	36.6	85.6	49	Turkey	1993	61	80.1	19.1
Bangladesh	1996-97	66.8	83.4	16.6	Uzbekistan	1996	80.2	81.1	0.9

Source: Deon Filmer (1999), "the Structure of Social Disadvantage in Education: Gender and Wealth."

Table 7: Data availability by World Bank administrative region

Share of population covered by...	Africa (Sub-Saharan) (%)	East Asia & Pacific (%)	Eastern Europe & Central Asia (%)	Latin America & the Caribbean (%)	Middle East & North Africa (%)
...at least one survey with data on consumption and/or income	95	99	93	98	77
...comparable data for at least two points in time	45	96	82	96	45
...open access to data	21	26	51	10	7
Total number of countries	39	15	28	22	15

Table 8: Projects with good evaluation plans Fiscal 1998 & 1999 investments projects with either good evaluation plans or the potential for good evaluation (share of projects)

Regions/Sectors	Share of projects (%)	
	Fiscal 1998	Fiscal 1999
Africa	36	42
East Asia & Pacific	58	49
Eastern Europe & Central Asia	17	36
Latin America & Caribbean	46	62
Middle East & North Africa	22	44
South Asia	42	43
Agriculture & Environment	42	42
Infrastructure	34	35
Social Sectors (education, health, nutrition, etc.)	44	70
Social Protection (pensions, safety nets, etc.)	9	54
Others	32	33
Total	37	46

ANNEX 2
REVIEW OF SURVEYS AND STUDIES

. **National and regional surveys**

I. Family budget in Greater Beirut in 1997 (February 1999)

The family budget in Greater Beirut was carried out by the Central Administration of Statistics in 1997-98. The study was conducted to assess the structure and patterns of consumption in general, and in particular to extract the necessary weights for the computation of the Consumer Price Index. Also, among the important results of this study is the estimation of the evolution of consumption of the various items in light of income variation.

The survey covered 3,953 housing units, randomly selected from the housing database⁷⁵ that provides a comprehensive list of housing units in the different Lebanese areas. The survey covered administrative Beirut and the neighboring suburbs. The households were addressed through two main questionnaires:

1. General living conditions of the household which is used to collect data on:
 - Structure of the household and the characteristics of the household members;
 - Economic conditions for economically active members;
 - Total annual spending on the major items, such as housing, health, tuition fees and transport; and
 - Total annual income generated by the different sources, including income from work (principal and secondary occupation) and from other sources (retirement pension, interests, rent financial aids...).
2. Detailed regular expenses, which include:
 - Foodstuff expenses;
 - Clothing expenses;
 - Durable goods;
 - Transport expenses; and
 - Entertainment expenses.

Among the main results of this survey:

➤ **Socio-economic conditions of the households:**

- The average number of household members is around 4.76, against 5.43 in 1966;
- Around 17% of household are headed by female;
- Male/female ratio is estimated at 97.1%, which is almost the same rate recorded in 1966;
- The age structure of resident has changed drastically since 1966, noting that below-14 age groups constitute 22.9% in 1997, against 38.12% in 1966;

⁷⁵ Census of building and establishment, Central Administration of Statistics, 1996-1997

- The global rate of economic activity in Beirut and its adjacent suburbs is estimated at 39.5%, against 34% for the whole country⁷⁶;
- Around 62.1% of workers are wage earners, 7.1% are employers and 17.4% are self-employed;
- Around 33.5% of surveyed workers work in the sector of services, meanwhile 24.8% work in industry, construction and handicrafts, and 23.4% work in trade; and
- The annual income of the surveyed households is estimated at LL 22.84 million, which is higher than the national average estimated at LL 18.84 million⁷⁷.

➤ Consumption Patterns of households:

- The average annual spending of households living in Beirut and its adjacent suburbs is estimated at LL 29.333 million, i.e., 28.4% higher than the declared annual income. This difference is attributed to the fact that households tend to under-declare their level of income, in addition to the existence of several goods and services that are made available to the households free-for-charge whose financial values was included in the expenses but not accounted for in the revenues;
- The household in Beirut and the adjacent suburbs spend around 24.8% of their budget on foodstuff on the average. However, this rate varies significantly according to the income level, amounting to 41.9% for households earning less than 6 million, and merely 15.7% for households earning more than 38.4 million;
- Spending on the different consumption categories was as follows for the different levels of income:

TABLE 1 - ALLOCATION OF SPENDING TO THE DIFFERENT CONSUMPTION CATEGORIES
BY LEVEL OF INCOME (1000 LL)

Spending Categories	Less than 6000	6000-9600	9600-14400	14400-19200	19200-28800	28800-38400	More than 38400	Total
Foodstuff	41.9	36.7	30.8	31.1	25.5	21.2	15.7	24.8
Clothing & Shoes	4.8	4.4	5.7	5.9	6.6	6.9	6.7	6.2
Housing	14.4	13.2	17.5	11.8	15	15.2	16.8	15.4
Durable consumer goods	6	7	6.7	5.7	6.3	6.4	6.7	6.5
Health	13.2	10	8.3	8.3	7.7	6.2	4.8	7.1
Transport and telecommunication	5.9	11	11.1	14	14.2	15.8	17.3	14.4
Education	6.3	9.5	10.8	11.4	11.4	13	11.4	11.2
Recreation & entertainment	1.4	1.8	2.4	3.5	3.5	5	10	5.3
Other goods & Services	6.1	6.3	6.7	8.3	9.9	10.2	10.6	9.1
Total	100	100	100	100	100	100	100	100

II. Living conditions of the Lebanese Households in 1997 (February 1998)

The Living conditions of the Lebanese household is a multi-purpose survey that highlighted the demographic, social and economic conditions of the resident households in

⁷⁶ Living conditions of the Lebanese Households in 1997, Central Administration of Statistics, 1998

⁷⁷ Ibid.

Lebanon. The sample surveyed was selected from the database of housing units⁷⁸, excluding secondary houses. The basic sample consisted of 20432 houses, of which 16330 households completed the questionnaire, distributed among the different Lebanese Mohafazats.

The study resulted in determining the living conditions of the Lebanese household, mainly as to:

➤ **Demographic characteristics:**

- The resident population was estimated at around 4 million, of which 7.5% are non-Lebanese (including Palestinian in the camps). Around 32.5% of population are residing in Beirut and its suburbs;
- The average family size is estimated at 4.8 persons, noting that this average varies among the Lebanese Mohafazats reaching a maximum of 5.5 in North Lebanon and a minimum of 4.3 in Beirut;
- The female-headed households constitute 12.5% of total households, noting that the majority of these head of households are widowed; and
- The age structure of the population witnessed a considerable change as compared to the 70's, noting that the under -20 population is constituting now 38.9% of total residents, against around 50% in 1970.

➤ **Socio-economic Characteristics of Lebanese residents:**

- Total active population is estimated at 1.36 million, i.e., the global rate of activity is around 34%, ranging between 30% in Nabatieh and 40% in Beirut;
- The full-time education ratio reaches 30.3% in 1997;
- The illiteracy rate witnessed a considerable decline as compared to the 1970 (31.8%), reaching in 1997 around 11.6%, with a noticed gender disparities, noting that illiteracy rate for female is estimated at 16%, against 7.2% for male;
- The university graduates and students (above 20 years old) constitute 13.9% of total population, with slight gender disparities and considerable regional disparities;
- Unemployment rate is estimated at 8.5%, noting that this rate is very high for the age groups 15-20 (28.6%) and 20-24 (17.8%);
- The sectors of services and trade absorb the majority of workers (around 64%), while workers in agriculture do not exceed 9.3% of total workers; and
- Wage earners constitute the majority of workers (64%), meanwhile independent workers constitute 26% of total labor force.

➤ **Housing characteristics:**

- More than 50 % of the housing units have a space of 120 m²;

⁷⁸ Census of building and establishment, op. cit.

- Around 32.4% of households reside in normal density conditions, while 24.1% of households live in high density conditions;
- The majority of houses are owned by their residents (68.3%) while only 20.6 % of households are renting their houses. In Beirut, rent is adopted by around 48.4% of households;
- Among house owners, 35.3% have their property through inheritance, while 17.1% acquire their property through loans;
- The majority of houses are connected to water networks (79.9%);
- Around 58.8% of housing units are not connected to any public sanitation network;
- Around 40.8% of households express their wish to relocate but they are not financially able to; and
- Around 20.4% of households, who are renting houses, pay an annual rent of LL 1.617 million.

➤ **Transportation conditions and expenses:**

- Around 62.4% of households own one car;
- Most of cars owned by households were bought after 1990;
- Only 12.7% of cars are considered as newly made (after 1990);
- Around 50% of cars are insured, of which 50% are insured against others; and
- Around 76.7% of households never use public transportation

➤ **Education and tuition fees:**

- Total number of enrolled students is estimated at 1.236 million;
- Around 41.4% of households have no enrolled children;
- Around 34.9% of student are enrolled in public schools (including vocational schools);
- Enrollment in public schools is relatively low in primary grades (31.9%) and increase in secondary grades to 42.5% and in university to 50.4%;
- The average annual cost of schooling (paid by household as tuition fees) in public schooling is estimated at LL 147 000 per student. Meanwhile, the average annual cost of schooling in private sector (for tuition fees) is LL 1.817 million per student;
- The schooling annual miscellaneous expenses (books, transport...) are estimated at LL 274000 in public sector and LL 446000 in private sector; and
- Around 19.2% of students have access to financial aids.

➤ **Health care:**

- Around 42% of resident individuals have access to health insurance, whether in National Social Security Fund, private insurance or other insurance agencies. Regional disparities are considerable in this regard;
- Around 12.6% of households benefited from the health allowances provided by the Ministry of Health;
- Around 11% of resident population were hospitalized in 1997;
- The average duration of stay in hospital varies between 4 and 9 days;
- The average annual medical consultation is estimated at 2.4 times per resident;
- Only 26.2% of households resort to dispensaries for health care, and considerable regional disparities are noted in this context;
- The average annual hospitalization expenses is estimated at LL 1.167 million per household; and
- Around 16.6% of households have at least one patient that could not be treated, mainly for financial reasons.

➤ **Income and sources of income:**

- Total household incomes vary between LL 15,200 billion and LL 15,900 billion during the period July 1996 and June 1997, from the different potential sources of income;
- Income generated by main occupations of workers is estimated at LL 10.51 million per worker (excluding familial aids and trainees). Regional variations are noted in this context with Beirut having the highest average and North Lebanon having the lowest;
- Average working members per household is around 1.4;
- Income generated by non-work activities are mostly resulting from interests on deposits (24.9%) and treasury bills, transfers, sale of assets, rent, agriculture and retirement pensions;
- Total income generated by these activities was estimated in 1997 at LL 3.239 million, constituting less than 18% of average household income;
- The distribution of households according to their level of income reveals that around 61% of households earn less than 1.2 million per month;
- The contribution of the different economic activities to the average income varies according to the levels of incomes. For instance, Agricultural contribution to the average income is estimated at 4%, however the share rises to 14.5% for lower income levels. The same variation applies while measuring the contribution of incomes generated by public sector and transfers from abroad; and

- Gini coefficient, used to measure equality or inequality in the distribution of income, is estimated at 0.435 for Lebanon, with notable regional variations.

➤ **Household budget:**

- Total household annual spending is evaluated at LL 19.858 million, with significant disparities when considering the level of household income and the different Lebanese regions;
- Spending on foodstuff absorbs the highest share of family budget (33.9% on the average). This share rises for households with low-income levels and declines for households with high-income levels;
- A notable distortion in family budget is noted for households with limited income levels and opportunities for saving are not possible except for household with level of monthly income higher than LL 2.4 million, even after accounting for in-kind income (scholarships and auto-consumption). Auto-consumption was estimated on the average at LL 125 thousand annually, and average annual scholarships reach on the average LL 284 thousand;
- Around 14.9% of households secured loans for different purposes. The average loan amount is estimated at LL 7.503 million.

III. Household Survey - Health care and insurance coverage (1999)

The survey covered 6544 households in the different Lebanese regions. In addition to the general demographic and socio-economic aspects addressed, the survey focused on collecting data related to the health conditions of the resident households.

➤ **Demographic and socio-economic Characteristics:**

- The average family size is estimated at 5 persons, noting that this average varies among the Lebanese Mohafazats reaching a maximum of 5.8 in Bekaa and a minimum of 4.4 in Beirut;
- The age structure of the population reveals that the under -20 population is constituting 38.6% of total residents;
- The global rate of activity is around 32.6%, ranging between 47% for male and 15% for female;
- Of the surveyed individuals, 8.5% have achieved university studies, meanwhile 12% are illiterate and 11% can only read and write;
- Around 65.3% of households have a monthly income level of less than LL 1.2 million (Health status of residents);
- Around 46% of population are covered by insurance schemes, with significant regional disparities with the highest percentage of insured population in Beirut (53.1% of residents) and the least percentage in Bekaa (36.4%);

- The insurance coverage increases with income level, with only 24% of individuals living in households earning less than LL 300 thousand being insured. Meanwhile 75.1% of individuals living in households earning more than LL 5 million are covered by insurance schemes;
- Of total population, 17.7% are covered by the National Social Security Fund (NSSF), 4.5% by the Civil Servants Cooperative (CSC), 8.1% by the armed forces, 8.4% by private insurance and the remaining by other types of insurance schemes. Significant regional disparities are recorded in the number of beneficiaries of each of these insuring agencies;
- Around 68.8% of population are reported to have health problems, of which only 24.6% received ambulatory care;
- Around 12% of the Lebanese population are reported to be inpatients every year. This rate is higher in some Lebanese regions, mainly in Bekaa and North Lebanon; and
- Only 16% of the Lebanese households received dental care during three months period. This rate varies across regions, with the highest in Mount Lebanon and the lowest in Beirut. It also varies according to the income level of households.

IV. Compulsory Free Education (1999)

This survey was conducted to evaluate the quality of pre-university general education in 1998, mainly as to the levels of drop out, failure and retardation. It also aims at assessing the capacity of the current public schools and the cost of schooling in both public and private sectors. The quality of education was assessed in relation to several variables mainly the socio-economic conditions of households. The survey covered 7000 households in the different Lebanese regions, of which 6300 households completed the questionnaire. Also, the survey covered 200 public schools. The data collected through this survey focused on the following:

- Demographic and socio-economic conditions of the resident households;
- The historic school records of pupils who are currently or previously enrolled (which are aged between 3 and 23 years); and
- The general conditions of public schools (building, staff, and equipment...).

The main results derived from this survey are the following:

- The enrollment rate is estimated at 78.3% for the population aged between 3 and 23 years old. Significant disparities are reported mainly when considering age brackets, sector of education (public, private and private free), regions, gender, as well as socio-economic conditions of households;
- Retardation rate for students enrolled in general education is around 40.9%. This rate varies according to gender (highest for male), educational level (highest in intermediary level), sector of education (highest in public sector), regions (highest in Bekaa and lowest in Beirut), socio-economic conditions of households, level of income (highest for lowest level of income);

- The failure rate in pre-university general education is estimated at 11.5% in the scholastic year 1997-1998. This rate varies according to educational levels (highest in intermediary level), gender (highest for male), sector of education (highest for public), regions (highest in Bekaa and lowest in Mount Lebanon) socio-economic conditions of households;
- The drop out rate increases starting the fourth primary grade, where it reaches 7.3% and declines thereafter till reaching 4.3% in the first and second secondary grades. Around 20% of students in fourth intermediary grade drops out to vocational and technical education. In general drop out rates are higher in public schooling. Also, drop out rates are higher for lower income households. Considering regional variations, Bekaa has the highest number of dropping out students, while Mount Lebanon has the lowest;
- The spending of society on general education is estimated at LL 1.98 million per pupil, including spending of parents as well as spending accounted for in government budget. The spending level per students varies according to different variables. For instance, in private sector the average cost of education per student is estimated at LL 2.274 million, meanwhile it drops to 1.9 million in the public sector; and
- The investment and current cost to be incurred by the government in order to establish compulsory free education will vary according to different variables from a minimum of around USD 90 million to a maximum of USD 2 billion. This variation in cost is attributed to the different options the government will have, mainly regarding the age groups to be covered by compulsory free education, the standards that will be adopted in adjusting the existing capacity of public schooling, in addition to the alternative of providing extra capacity for students shifting from private free education to public schooling.

V. Female Labor Force (1998)

This survey was conducted to provide a profile of working women in Lebanon, to highlight their working conditions, and to shed light on the cultural and social problems facing the work of female in Lebanon. The survey covered 2464 households having at least one working woman in the different Lebanese regions. Also, the survey addressed employers of working women through a sample of 480 enterprises employing at least one working woman.

The study reveals that that the majority of working women is concentrated in households with a monthly income ranging between LL 500,000 and LL 1 million. About 50 percent of female workers earn monthly salaries ranging between LL 300,000 and LL 500,000. Only 11percent earn more than LL 1 million per month.

VI. Labor Market - Survey of households (1997)

This survey was conducted to assess the characteristics of unemployed population. The survey covered 4019 individuals that were detected to be unemployed during the housing and population database survey.

The main results of the study were the following:

- Around 30% of the surveyed individuals were discovered to have found a new employment;
- The majority of surveyed are male (76.3%);
- Around 63.4% of surveyed individuals are below 30;
- The average duration of unemployment is 11 months and 10 days; and
- The improvement in wages in the post-unemployment stage, compared to the pre-unemployment stage is almost insignificant (an average increase in nominal terms from LL 448.5 thousand in 1995 to LL 502.6 thousand in 1997).

VII. Housing & Population Database Survey (1995-96)

The main results and findings of this survey are as follows:

➤ Demographic characteristics:

- Total resident population in Lebanon was estimated at 3.1 million, with a total household number of 660 thousand. It was noted that Mount Lebanon has the highest population number with a rate of 36.8%, followed by North Lebanon (21.6%), Beirut (13.1%), South Lebanon (15.9%), and Bekaa (12.9%);
- The average family members of a household was estimated at 4.7 at the national level, and varying from 4.1 in Beirut to 5.3 in North Lebanon;
- The study shows that around 85.8% of Lebanese household are headed by a male, while 14.2% are headed by female. It is worth noting that the household headed by female are the potential groups that would suffer from poverty phenomenon;
- The households having 5 members constituted 18.36% of total Lebanese household. It was remarked that the households having 7 and more members represent 18.04% of the total households;
- The population of age less than 14 years represents 29.2%, while those aged from 15 to 64 years constituted 63.8%, while those aged more than 64 years represents 6.9%; and
- Total number of migrants, since July 1st, 1993, amounted to 23501. It is noted that this number for 1993 was 4620, and increased to 7048 in 1994, i.e., by 52%, and to 10470 in 1995, increasing by 48.5%. Around 62% of migrants left the country seeking work (of whom 41% migrate to the Arab Gulf Countries), while 20% left to proceed in their studies. Also, the highest percentage of migrants (33.6%) has high educational level (University and more).

➤ Housing Characteristics:

- Around 68.2% of households live in houses of less than 140 m² of space;

- Around 62.8% of households own their houses;
- The average annual rent is estimated at L.L.1.097 million;
- The average spending of the Lebanese household on common services is estimated at LL432 thousand;
- Around 79.6% of households are connected to public water network;
- 60.6% of households are connected to non-filtered drinking water system;
- 59.5% of households are connected to public sewage system;
- The average telephone line per 100 inhabitants is estimated at 9; and
- The average car per 100 inhabitants is estimated at 7.

➤ **Education conditions:**

- The enrollment rate is estimated at (to complete); and
- The illiteracy rate in Lebanon is estimated at 13.6%. For male, this rate is estimated at 9.2%, while for female this rate is 17.8%.

➤ **Health conditions:**

- The total number of handicapped is estimated at 298,666; and
- The average number of live births is 3.4 per woman. This number depends on the educational level of woman.

➤ **Socio-economic characteristics:**

- The global rate of activity is estimated at (to complete) ;
- Unemployment rate is estimated at 7.6%;
- Around 66% of the Lebanese labor force are wage earners;
- 83.6% of Lebanese labor force have permanent jobs; and
- 82.9% of labor force are in the private sector.

• **Selected Studies on Poverty in Lebanon**

I. Mapping of Living Conditions (1998)

Based on the data provided through the housing and population survey (1996), a mapping of the living conditions was developed on Caza basis, classifying households and individuals into four categories depending on the degree of satisfaction of basic needs using “Unsatisfied Basic Needs” (UBN) method. This adopted measurement, however, has a general indicative value with respect to describing social/regional disparities, nevertheless it does not lead to an exact social classification in the country. Furthermore, in the absence of income and expenditure data, this ranking selected eleven indicators grouped into four major fields (housing and related indicators; water and sewage; education and related indicators; and income-related indicators).

Based on this classification, it was found out that around 32.1 percent of households (and 35.2 percent of individuals) are living below the satisfaction threshold.

Table 2 - Households falling below the Threshold according to the living conditions index and the four-field indices (% of households)

	% of households
The Living Condition Index	32.1

Housing Index	17.6
Water & Sewage	9.6
Education	23
Income related index	25.4

The classification of the Lebanese cazas according to their location with respect to the National Living Condition Index reveals that around 14 cazas are positioned below this index, most of them lie outside the mohafazats of Beirut and Mount Lebanon. Bent-Jbeil was reported to have the lowest level of needs satisfaction, with 67.1 % of households living below the threshold of the index of basic needs satisfaction, followed by the cazas of Hermel (65.9%), Akkar (63.3%), and Marjaayoun (60%). Meanwhile, the caza of Keserouan was reported to have the highest degree of satisfaction, with only 13.5% of the households living below the threshold of the index.

Based on these findings, the report recommended two broad types of interventions: a) the first type is directed at dealing with the consequences of deprivation rather than with its causes. These interventions target either socially weak or vulnerable persons (handicapped, female-headed households, orphans...), or specific and well-defined region/district that is particularly deprived. The second type of intervention is of preventive nature, which takes place at the level of macro-economic and social policy formulation. It basically consists of underrating anti-poverty actions that include economic and social legislation, sector policies including wages and prices, and integrated economic and social programs such as rural development and re-settlement.

II. WSSD+5 Progress Report (1999-2000)

This report was prepared to reflect the progress made by the Lebanese government and society as to implementing the main recommendation of the World Summit for Social Development (Copenhagen, 1995). The three main recommendations of concern are Poverty eradication, promoting employment and achieving social integration.

The report goes into details regarding the implications of the macro-economic development upon social conditions. A quick analysis of government spending on social services reveals that spending as a percent of total budget relatively increased, however the efficiency and equity of this spending are still controversial, mainly in light of the absence of reliable and efficient monitoring tools. The reports concluded that the major drawbacks of the simultaneous implementation of the fiscal and monetary policies - as adopted- resulted mainly in:

- Relative decline in disposable income;
- Further imbalances in the distribution of income;
- Uneven accessibility to basic infrastructure and social services; and
- The slowdown in employment generation activities.

In the context of poverty eradication, the main achievement of the government is the provision of the relevant national data considered as a basis for measuring socio-economic conditions and extent of poverty. Also, specific developmental interventions were implemented (some of which are on-going) aiming at enhancing the living conditions of specific groups (displaced, farmers, rural areas...) and in specific regions (Baalbeck-Hermel, South...). Poverty eradication in Lebanon is still constrained by the absence of a comprehensive national plan that

would identify under-served areas and social groups, and that would assist devising strategies to assess needs and attain sustainable development, with minimum waste of resources.

Several predicaments are still facing employment promotion in Lebanon, some of which are structural, and some are induced by the overall economic performance. The employment promotion in Lebanon is particularly affected by the slowdown in private sector investment, the lack of financial resource available for upgrading of technologies, the competition with foreign cheap labor, the match between labor market supply and demand, in addition to the problem related to the level of wage.

Also, great efforts were made by the government to achieve social integration for the specific groups considered by the report (displaced, occupied zones, detainees in Israeli prisons, women and youth), however, this process is still constrained by several predicaments mainly the fiscal difficulties the government is going through.

III. The Geography of Poverty (1998)

This note aims to contribute to the on-going work on poverty in Lebanon based on the population and Housing Database Survey (1995-96) and on available results from the 1997 survey on the Living Conditions of The Lebanese Households. As an interim step to a more rigorous study of poverty based on the results of a household income and expenditure survey- which should become available soon and help establish a detailed poverty profile- this note relies on access to basic infrastructure (i.e., public water and sewage systems) and education and employment status to assess living conditions at the district level. The findings on the geographical distribution of basic service and poverty can be used by policy-makers to improve upon the efficiency of public expenditures by better targeting the more vulnerable segments of the Lebanese society. However, these findings also indicate the limitations of the available data which do not allow the determination the extent and depth of poverty in Lebanon. Analysis of the data reveals three important points:

- Disparities in access to basic services among districts: for example, close to 20 percent of Akkar's urban households have no connection to the public water network in contrast to only 3 percent in Beirut.
- Certain essential public services such as sewage systems are in severe shortage: this may indicate a need for re-prioritization of public infrastructure expenditures. Moreover, the governorates of North and South Lebanon include some of the most "basic services deprived" districts of the country.
- The districts of Akkar, El-Hermel and Baalbeck may have the highest incidence of poverty: this finding is derived by using information from other countries and applying the results to Lebanon. Empirical studies in other countries (e.g., Egypt, Jordan, and Latin America) find a strong correlation between the number of poor and poor living conditions as characterized by lack of access to basic service.

IV. A Profile of Sustainable Human Development in Lebanon (1997)

This report was published by the United Nations Development Programme (UNDP-Beirut) in January 1997. This report aims at operationalizing sustainable human development through raising awareness and promoting a process of policy dialogue and action towards building broad national consensus on a strategy and approach to development that is people-centered and sustainable over time. A major obstacle that permeated that the entire process of preparing this report was the paucity of data and low reliability of statistics and other information, including anecdotal. Using a composite indicator of development (the Human Development Index or HDI), the authors rank Lebanon in the middle of the medium human development category. A salient conclusion of the report is the endorsement of and strong support of the idea to establish new and effective mechanisms to promote dialogue between the Government, the private sector and representatives of civil society towards a social contract for sustainable human development.

Assessment of socio-economic conditions in Lebanon

The main objectives of the study were three-fold:

- collect information and data on socio-economic conditions;
- review and analyze studies that have been recently completed; and
- Make an initial assessment of socio-economic conditions based on these materials.

Due to the dearth of reliable and accurate information, the available studies on poverty were systematically reviewed and divided into two categories. The first concerns studies based on “direct poverty indicators” where poverty results, however partial, were analyzed in relation to income and expenditures. The second case pertains to “indirect poverty indicators” dealing with access to social services such as education, health, housing, and employment. Despite the wealth of studies and estimate, the authors concluded that available data was insufficient to calculate internationally acceptable poverty indicators such as headcount index, poverty gap, etc.

Despite the absence of nationally representative data concerning real income-expenditure patterns, the report attempted through available data on income -mainly wages- from different sources at assessing the current level of household incomes, and to compare it with poverty line.

ANNEX 3

THE DEFLATOR ANALYSIS AND THE CORRECTION OF REAL GDP GROWTH

Official real GDP growth in Lebanon has been calculated by deflating the nominal GDP figure with the Consumer Price Index (CPI). The CPI is not the best estimate of GDP deflator in a country where the Current Account Ratio to GDP is very high, and where the structures of consumption and production are different. Accordingly, a correction should be made by weighting the partial indexes of internal prices based on the structure of value added, instead of the structure of the consumer basket which includes a large imported component. The new deflator calculation is based on the partial price indexes- as computed by CRI- and on the results of National Accounts published by the Central Administration of Statistics.

The results of the correction are illustrated in the following table:

Annual rates	1993	1994	1995	1996	1997	1998
Officially announced growth	7,0%	8,0%	6,5%	4,0%	4,0%	3,0%
Consumer Price Index (CPI)	24,7%	7,9%	10,6%	8,9%	7,7%	4,6%
Calculated growth with the CPI as deflator	10,7%	8,1%	6,5%	4,0%	4,0%	2,5%
Inflation with structure effect	37,9%	10,7%	14,5%	8,0%	12,3%	5,4%
Corrected growth	0,1%	5,3%	2,9%	4,9%	-0,2%	1,6%
Corrected growth without public sector	-1,7%	5,2%	2,5%	3,7%	-0,9%	1,2%

Thus, it can be concluded that the rates of economic growth during the 90's were lower than officially stated, which confirms the severity of the socio-economic crisis. This conclusion sheds light on the urgent need for an economic reform strategy, as a prerequisite for the poverty alleviation process in the country.

ANNEX 3.1
THE EFFECTS OF TRANSFERS

During the period 1993-1998, the claims on the private sector of the commercial banks were multiplied by three and the claims on the public sector rose five times, while the total deposits of the Lebanese Banking sector grew by 265% in U.S. Dollar. The economic growth during the same period fails to explain such a rise in the banks' claims and deposits. The growth of deposits can only be explained by huge transfers of funds from abroad. The redistribution of these funds as loans to both private and public sectors increased the consumption, and produced a marginal effect on the real GDP growth. This phenomenon allowed revenues to reach levels highly mismatching with domestic production.

ANNEX 3.2
MAJOR MACRO-ECONOMIC INDICATORS (1992-1999)

	1992	1993	1994	1995	1996	1997	1998	1999
Nominal Gross Domestic Product (Billion LL)	9499	13122	14992	17775	20417	23034	24509	24754
Real Growth in Gross domestic Product	4.5%	7.0 %	8.0%	6.5%	4.0%	4.0%	2.0%	1.0%
Exchange rate of US\$ vs. LL	1838	1711	1647	1596	1552	1528	1508	1507.5
Annual Inflation Rates	120.01%	29.04%	8.23%	10.28%	8.88%	7.76%	4.45%	0.24%
Foreign Trade								
Exports (Million \$)	559.7	452	572.7	822.6	1017.9	642.4	716	678
Imports (Million \$)	4202.3	4821.4	5990.4	7266.8	7558.7	7456.6	7058	6206
Balance of trade (Million \$)	-3642.6	-4369.4	-5417.7	-6444.2	-6540.8	-6814.2	-6342	-5528
Balance of Payment (Million \$)	53.68	1169.5	1130.5	257.1	786.69	419.8	-487.6	628
Fiscal Balance								
Public Revenues (billion LL)	1138	1855	2241	3033	3533	3752	4430	4866
Public Expenditure (Billion LL)	2181.1	3017	5204	5856	7225	9161	7816	8452
Of which debt service (Billion LL)	458.7	784	1525	1862	2693	3440.42	3214	3624
Deficit (Billion LL)	1043.1	1162	2963	2823	3692	5408.66	3386	3586
Deficit as % of expenditures	48%	39%	57%	48%	51%	59%	43%	42%
Deficit as % of GDP	11%	9%	19%	16%	18%	24%	13%	14%
Public Debt								
Internal Public Debt (Billion LL)	4178	5804	9348	11997	17229	19787.1	21235.5	25490
External Public Debt (Billion LL)	473	560	1271	2082	2960.5	3718.3	6299.2	8316
Gross Public Debt (billion LL)	4651	6364	10619	14079	20189.5	23505.4	27534.7	33806