

## Why Lebanon faces a social catastrophe when subsidies are lifted

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BEIRUT: Cash-strapped Lebanon is hurtling toward ending commodity subsidies at the year's end and all signs point to an impending social catastrophe.

Medicine shortages, deadly explosions of illicit fuel stockpiles, panic buying and soaring crime rates have dominated headlines in recent weeks, foreboding the chaos to come.

Authorities have, however, created new systems to make welfare more transparent and win the trust and funding of donors, but infighting among the political elite threatens to leave Lebanon's flaccid social safety net critically underfunded.

### FROM BLANKET TO TARGETED SUBSIDIES

Ahead of the Central Bank's planned removal of subsidies on wheat, fuel and medicines, the IMF last week urged Lebanon to move toward a "targeted subsidy system."

This means shifting away from the current blanket approach to a means-tested welfare program that offers benefits to the poor and unemployed.

The hope is that a middle ground can be found between preserving Lebanon's critically low foreign currency reserves and protecting the poor from the astronomical price increases expected once subsidies are removed.

But with the economy due to contract by 25 percent in 2020, inflation rising at 120 percent and poverty having nearly doubled in a year to 55 percent, the pressures on that middle ground are more than Lebanon can handle alone.

"The price impacts will reach the middle class so we are going to need a much wider safety net, and that's going to cost a lot of money," one senior social protection source at an international development organization told The Daily Star.

The cost of such a safety net is estimated at around \$1.5 billion in 2021 alone, according to the now caretaker government's April rescue paper.

### WHERE'S THE MONEY?

That kind of funding can only feasibly come from two sources: the International Monetary Fund, or from reallocating waste within the state. Both channels require sweeping reforms that Lebanon's politicians have so far proven unwilling to make.

The sectarian ruling elite for decades has carved fiefdoms out of the country's institutions, offering state services and jobs in return for loyalty. These networks would be unravelled by reforms to downsize the bloated public sector, and address pillage and payroll padding.

It is perhaps unsurprising in this context that there is little detail about these measures in the rescue paper the caretaker government presented to the IMF in May to start negotiations on a requested \$10 billion bailout package.

When combined with an economy that relied on remittances and soaring levels of public debt to oil the wheels of patronage, the result of this system has been rampant inequality.

With a broadly regressive tax system and social expenditure constrained by debt servicing, the bottom half of Lebanon's population has been left with just 10 percent of total national income. The top one percent meanwhile receives approximately a quarter, according to economist Lydia Assouad

### RENTIER-TESTED AID

Many fear that external funding for an expanded welfare system would deepen the networks of loyalty and dependence that have propped up the sectarian elite for the last three decades.

"The lack of sound governance in Lebanon makes means testing quite problematic," Mohamad Faour, postdoctoral fellow in finance at University College Dublin said. "Rather than having a means tested subsidy, its going to be rentier-tested and based on partisan loyalties."

This appeared to be the case earlier in 2020 when now caretaker Prime Minister Hassan Diab was forced to aggressively scale back a cash-based COVID-19 relief package due to meddling with the aid distribution lists. He said at the time that the lists had been "booby trapped" to serve political ambitions.

In the end, the social protection source said that the Lebanese Army distributed handouts of LL400,000 to around 200,000 households, but that no report had been released detailing exactly where, how and to whom the funds were disbursed.

"The [aid distribution] experience we've been through in the past eight or nine months has been done through lists - for example from the Syndicate of Taxi Drivers, of people injured by landmines, of parents of public school children," Carole Alsharabati, professor of political science at Saint Joseph University said.

"These lists are circulating on USBs. We don't know how they are editing, cleaning, consolidating, filtering and following up on the data. And they are also not complimentary," she added.

### AID TRANSPARENCY

In response, authorities have made efforts to bring the different strands of Lebanon's patchwork welfare system together.

The Interministerial Platform for Assessment, Coordination and Tracking (Impact), a digital application with oversight from Central Inspection, is one initiative spearheading these efforts.

Alsharabati, who also leads on Impact's design and development, explained that instead of the current fragmented approach, Impact creates a live, centralised database.

The system works on municipalities calling upon residents to register their needs with local mukhtars. These local representatives are trained to enter applicants' data into Impact under the supervision of district administrators and local governors. The data is then audited by Central Inspection, which has teams calling a random selection of the applicants to verify their information and eligibility. According to Impact's public dashboard, 468,323 "vulnerable households" have submitted aid request forms to the Social Affairs Ministry through this new mechanism, paving the way for Lebanon to roll out a wider and more targeted safety net as poverty rises. "Through this system, we can select criteria, filter [the data] and then the distribution [via the Army] will be based on that," Alsharabati said. "There is full transparency about who is getting what, who is selected or not, where the lists are and so forth."

### **COLLABORATING TO COUNTER CORRUPTION**

While Alsharabati said that during distribution the Army would confirm each beneficiary's identity and location to prevent duplication, the social protection source said that to reach "the gold standard," individuals should fill the request forms in for themselves.

"We have some doubts about the database only in the sense that maybe it was a mayor that filled in the application and maybe that mayor was biased," she said, suggesting that inclusion and exclusion in the database was not completely immune to political manipulation.

Bringing as many relevant partners into the process was one way that Alsharabati proposed such manipulation could be discouraged and detected.

"Impact can be a key platform but it must work in collaboration with other relevant institutions," she said. She explained that there is ongoing cooperation with the Central Administration of Statistics and local Social Development Centers to validate the data.

The National Poverty Targeting Program, Lebanon's only government-run initiative offering welfare to people unable to meet their basic food needs, is also enhancing Impact's data. A source who works on the program told The Daily Star that NPTP staff are "dipping into" the database, using it as a launch pad to conduct in-person verification interviews with the growing number of "extreme poor" and bring them under its coverage.

### **FIRE-WALLING THE STATE**

With calls growing for donor aid to be diverted away from corrupt official bodies in the aftermath of the deadly Aug. 4 port explosion, these efforts take on additional significance. Past experiences globally show that sidelining the state over corruption has often led to the further entrenchment of communities and a poorly planned and implemented aid response.

"The regime of five or six zaeems [sectarian leaders] has hijacked the state, short circuiting the laws, rules and systems so that things are driven by clientelism," Alsharabati said. "Now the international community wants to put the state aside and build alternative mechanisms. It will be an economy of chaos."

"We need to build institutions that are insulated from regime interference, with efficient and effective processes, codes of conducts and strategies that can really run the whole country properly ... This is the time when we must support them, build them and help them make the transition to reform," she added.

### **BLOCKED FINANCE**

But while the groundwork is underway to create an expanded safety net that can withstand international scrutiny, those same sectarian leaders and their allies are blocking the needed finance.

Bailout negotiations with the IMF quickly stalled after politicians aligned with the banking sector questioned the government's estimated financial sector losses. The resignation of now caretaker Prime Minister Hassan Diab over the Beirut blast then sucked Lebanon into a political vacuum that has so far lasted more than 11 weeks, with politicians preferring to horse trade over the shape of the next government than work on any reforms.

Faour cautioned that in the absence of any progress and external funding, politicians may simply choose the short-sighted option of printing more money as a substitute.

"You cannot talk about subsidies without talking about fiscal and monetary reform, and you cannot talk about fiscal or monetary reform without talking about institutional and governance reform," he said.

"Means tested subsidies will likely be rooted through the government's budget. But if you assume an extremely optimistic, unrealistic scenario in which the fiscal deficit and exchange rate are constant, introducing that extra \$1.5 billion expenditure would widen our deficit by about 25 percent.

"This means that we are talking about printing more money -- and that means imposing an inflation tax on the population, which is regressive across the board."