

FRAMEWORK FOR A STRATEGY OF POVERTY ALLEVIATION IN LEBANON

[N.C.: This is not a strategy for poverty alleviation. This is a framework including elements of methodology and some analytical background for purpose of exercise.]

UNEDITED DRAFT

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Any strategy for poverty alleviation is necessarily as complex and as multidimensional as poverty itself. Such a strategy should consequently deal with both the causes and the effects of the phenomenon. Its components have always to be seen as interrelating and interactive, although being from different nature and applied at various levels.

A. Poverty Determinants in Lebanon:

Setting up an anti-poverty strategy for Lebanon needs a deep investigation of the determinants of poverty and the mechanisms that generate it. So one should look first on the size of the economy compared to the size of the population, and on the pattern of growth

of this economy, then the way the economic production is distributed among different individuals and groups. Poverty determinants are of two types: transient and structural.

Among the first type, war and its devastating effects are seen in the case of Lebanon as the main origin of poverty in the last twenty years, especially that some of these effects are still ongoing seven years after the return of peace. The devastating war led to a sharp decrease in production, productivity and real wages, to an increase of unemployment, and to the displacement of a large section of the population. The correlation between these results and the expansion of poverty is obvious.

The second set of determinants includes the characteristics, the advantages and disadvantages, and the disparities and discrepancies, that have traditionally marked the Lebanese economy and social fabric. In this regard, it is relevant to mention that:

Lebanon has always been a free market economy highly open to the outside. This has for long secured the country a lot of economic opportunities deriving mainly from foreign capital inflow and from the export of services. These opportunities added very often to the national income and contributed in the growth of the GDP, which is necessary for the well-being of the population at large, and notably the poor.

However, the country being highly relying on outside and in a highly volatile and unstable region, has made the economy vulnerable and the level of dependency abnormally high. Due to this and at several occasions, unrest at the regional level reflected negatively on the Lebanese economy and production.

If macro-economic growth is necessary for the over-all well-being of a country,

it is not sufficient neither for the reduction of inequalities nor for the alleviation of poverty. This is particularly true in Lebanon, since the continuous economic growth registered in several periods in the last half of a century was not enough for narrowing the gap between the level of development (both economic and human) of the central region of Lebanon (Beirut and parts of surrounding Mount-Lebanon mouhafazat) in one hand, and the rest of the country in another.

The absence of a social policy and redistribution measures created a worrying polarization in the distribution of income and in the ownership of assets and wealth.

The absence of basic planning and sectoral policies (mainly in agriculture and manufacturing) deepened the crisis of these sectors that initially derives from low productivity, the size of the enterprise, the lack of appropriate technologies, or the lack of investment. This has decreased the relative share of certain sectors of the GDP to abnormal levels and badly affected both the labor and the entrepreneurs within these sectors.

These determinants add to a traditionally weak presence of the state as a regulating agent of the economy.

B. The Post-war Government Socio-Economic Policies:

After the war, the government policies have actually stressed on:

Securing funds for a huge reconstruction plan including rehabilitation and upgrading of all sub-sectors of the physical infrastructure including electricity, telecommunications, water, waste water, solid waste, roads, ports and airports.

Achieving the over-all stabilization of the economy.

[A sound progress has been so far registered in the reconstruction scheme, and in monetary stabilization and control of inflation, but not in two other declared objectives: containing budget deficit, and curbing the fast growing public debt].

Adding to points i and ii, the government now speaks openly of three other dimensions [See the preamble of the 1997 government budget law]:

Human development, including health, education, vocational training, environment, housing, social security, basic needs and services for all citizens.

Economic and productive recovery, including securing new job opportunities, encouraging manufacturing and agriculture with special attention to small and medium enterprises (SME), and emphasizing the comparative advantages of Lebanon.

Rehabilitation of the public administration, including the renovation of the legal and organizational frames, simplification of the procedures, improvement of the relationship between civil servants and the citizens.

Addressing these last three issues reflects a growing governmental awareness of the necessity of complementing the rehabilitation of physical infrastructure by the rehabilitation of social infrastructure and Human development. It also constitutes a healthy reaction towards the lack of sustainability of certain policies, and towards the impossibility of achieving all the objectives of over-all stability through monetary tools only.

C. Towards a poverty alleviation strategy:

However, the above mentioned five points are a valid launching pad for an anti-poverty strategy. In the Lebanese context, this strategy should include the following steps:

Performing an analysis of the macro-economic policy that influences the creation, the distribution and the redistribution of wealth. Among these come mainly the reconstruction and the physical infrastructure schemes, the monetary policy, the expenditure and the fiscal policies, the labor policy, and the sectoral policies (agriculture, industry, tourism, etc...).

Reviewing the social policy, especially that pertaining to human development in fields like education, health, housing, social security and safety nets.

Evaluating poverty or the impoverishing effect of war on specific social groups like the displaced people, the residents of the more affected regions, the disabled, the widows and orphans, young people at large and women at large.

Designing a series of interventions that directly or indirectly alleviate poverty, to be performed at the macro-economic or macro-social scale or relevant to each sector or target-group. This should include an assessment of the cost, the expected outcome, and the side effects of each intervention, its interference with other interventions, and a division of tasks between the government and the civil society at both the national and communal levels.

Establishing a time frame and a space frame for each intervention or group of interventions, taking into consideration its emergency degree, its priority level, its cost and burdens, and the availability of resources.

D- Preliminary Analysis of Economic

Policy

1- Monetary policy

At the macro-economic level, a preliminary analysis of the monetary policy shows a relatively high interest rate, although this rate has gradually decreased during the last 15 months, and a stable exchange rate with a slight improvement. Despite the benefits of this policy regarding the curbing of the inflation, gradual dedollarization of deposits (and of the economy at large) and attraction of non-resident capitals, it is due to observe that it contributes to the following:

Deprivation of the private sector of necessary funds for capital investment, resulting from the government absorbing most of the available resources in the banking system through the emission of high interest treasury bonds ("crowding-out" effect). This obviously slows down growth and creation of new jobs, that affects mainly the poor, the unemployed and the newcomers to the labor market.

Increasing the "rentist" component within the national revenue (composed mainly of high return on deposits and treasury bonds). These unearned incomes have a negative effect on the poor, since they increase the public debt, the debt service, the budget deficit, and consequently the taxes. High interest rates usually lead to an indirect transfer of income from poor to rich.

An over-valued currency does not encourage exports from agriculture and manufacturing, and reduces the competitiveness of tourism and other services. So it tends to reduce production and growth, that affects mainly the poor through reducing job opportunities.

[In general, there is interaction between

the three variables: the interest rate, the exchange rate and real wages. Normally and at medium and long runs, high interest rates and over-valued currency tend to decrease real wages and exacerbate poverty and inequality of incomes, although wage earners may at short run take advantage of reduced prices of imported goods, which are substantive in the expenditure basket of the Lebanese.]

2- Public expenditure and fiscal policy

Public expenditure and fiscal policy are also macro-economic issues with effect on poverty and distribution of income. The government expenditure breaks down into three main items: current expenditure, investment or capital expenditure, and debt servicing. The third item is currently consuming more than one third of the total expenditure. It has grown so far mainly because of very high interest rate and the heavy debts contracted during the last five years to finance both current expenses and the reconstruction plan. Although this plan is a primary necessity for normalization of the situation in the country, some of its most expensive components (certain roads, the enlargement size of the airport, the sports stadium, etc..) will not have short-term or mid-term effect on the enhancement of production, neither on the well-being of the poor. Furthermore, the labor-intensive components of the reconstruction plan benefit in a sizable amount to foreign workers.

[In this respect, it is recommendable to make a revision of the magnitude and scheduling of the reconstruction plan and its components taking into consideration the social return of each project, the potential beneficiaries and the burdens.]

Growing expenditure is not met by equally growing revenues, and these are

increasingly relying on indirect taxes (customs and duties) rather than on income tax (on salaries and company profits) which was recently revised down to less than 10%. This measure was initially taken to attract foreign investment and to improve collectiveness, but no evaluation has been done so far regarding these two objectives, while it is widely admitted that increasing indirect taxes hit the poor and low income earners more than the rest of the population.

[Regarding fiscal policy, there should be more attention paid to:

control the growth of public debt at a first stage, than reducing it at a second stage,

work to achieving a sustainable ratio between expenditure and revenues,

reallocation of expenditures towards a more reasonable break down between economic and social sectors, make sure that economic spending be beneficial to the poor, the social spending more efficient and with a higher return, and the over-all spending waste-free.

restructuring the tax burden to reach a fairer balance between indirect and direct taxes.]

3- Labor policy

Lebanon lacks a comprehensive and integrated labor policy. The labor law is highly restrictive towards foreign workers, but it is breached on a wide scale especially by enterprises or individuals hiring less expensive foreign workers, mainly in agriculture, building and house service. The presence of foreign workers in some sectors has contributed to the growth of production, but incidentally it deprives several Lebanese from job opportunities.

Wages in Lebanon are generally determined by specific negotiation previous to appointment, but the government intervenes on wages at three different levels. It has the right to revise, occasionally and in agreement with the employers and the trade unions, the minimum legal wage. It has also the right to decree an adjustment on wages taking into consideration the increase of the cost of living. Finally the government determines the civil servants wages. It resorted to these measures several times during and after the war.

While it is generally admitted that real wages have substantially decreased since 1983, the government and the trade unions diverge on whether real wages have decreased or increased from 1993 till present. However, the minimum monthly wage, which is equivalent to 300,000 LL. (some 200 USD), is widely considered as laying far below the basic family needs calculated by any standards, even if one adds to it family allowances (unemployed spouse and children) and transportation and education allowances.

[To contain unfair competition, the labor law, which gives priority to Lebanese workers vis-à-vis foreigners, should be more broadly followed, and legal foreign workers should be guaranteed the same minimum wage as Lebanese.

The minimum wage should provide the average family with enough household income to meet the basic needs of the family. This principle is behind the very notion of minimum wage.]

4- Agriculture and rural areas

The disparities between the various sectors of the economy and the various geographical areas is also an issue related to the incidence of poverty. This is particularly relevant for agriculture,

which is so far the main source of income of certain rural areas. The continuous degradation of agriculture has been the major cause behind the impoverishment of the population of these areas, and is partially behind their migration to urban areas where they usually add to suburban poor.

For long, some of these areas (especially in the north of the Bekaa valley) have resorted to the culture of illegal, but highly lucrative, crops like hashish and puppy for opium. After the war, the government put an end to this culture, but the population is suffering a huge lack of income and a wide spread of poverty, while these areas are initially seriously underdeveloped in all standards. A joint program between the government and UNDP for crop substitution and integrated development is being launched, but it suffers financial and institutional difficulties.

[Lebanese agriculture should be given the chance to emphasize its comparative advantages, which are the diversity of the climate, abundance of water, and relatively short distances to potential markets.

This could be done by improving the access of poor rural population to credit, information, technologies, water, storage facilities and markets, through appropriate institutional and organizational frames.

The improvement of transportation to remote rural areas and within it will obviously help reducing its marginality and creating new income-generating and job-generating opportunities not necessarily related to agriculture.

Direct and indirect incentives should be provided to the self-employed rural poor, and to those grouped in cooperative frames or small and medium enterprises.]

E- Preliminary Analysis of Social Policy

Poverty alleviation needs a well-defined social policy which Lebanon officially lacks, although it has the basic institutional frame for such a policy. This frame consists mainly of the Ministry of Social Affairs, Ministry of Labor, Ministry of Health, Ministry of National Education, the National Fund of Social Security, and the National Institute for Employment. The country has also two specialized funds, one for the return of displaced people and another for the support of the victims of Israeli attacks in south Lebanon.

The basic elements of social development and poverty alleviation are education and health.

1. Education

Tuition fees constitutes a heavy burden for a sizable part of Lebanese households, since some two third of the total number of students are enrolled in private schools. This is due to three reasons: the number of public schools is insufficient, their geographic distribution doesn't match with the population distribution, and many Lebanese are skeptical about the quality of education at these schools.

[Extending public schools to all Lebanese regions and making it accessible to all students is a strong tool for poverty alleviation, since it relieves poor family from the expensive tuition fees.

The extension plan should start in priority in poor neighborhoods and areas that are deprived of public schools.

This plan should be accompanied by efforts to improve the administration, the quality of education and review the official curricula.]

2- Health

There are different health covers in Lebanon (the main being the Social Security), but some 45% of the Lebanese don't have any formal cover although they can rely on the subsidy of the Ministry of Health for hospitalization. For other health services, they don't enjoy any cover, but they may attend one the many dispensaries run by the NGOs with financial support from the Ministry. Even people enrolled with the social security do not benefit from certain services like {tooth care}. Drugs and out-patient doctor fees are generally paid out of pocket, and the reimbursement of part of the costs may take months. Like education, the costs of health services put a heavy burden on poor families shoulders, especially those families whose providers are unemployed, small farmers, or don't work in the formal sector.

[Every Lebanese should be able to receive the minimum services related to primary and secondary health cares. If the enlargement of the social security to all people who currently don't enjoy any formal cover is impossible for financial or institutional reasons, a special fund should be created for these people.]

3- Housing

Housing is a major problem in Lebanon. A large number of Lebanese, especially in the suburbs of the big cities, live in unacceptable housing conditions. Another large group make important expenses as rental fees. Both groups include a lot of poor. This derives from two reasons: these people don't have enough income to rent a house or enough savings to buy one, and the real estate market is distorted by a very high demand on small apartments for popular housing faced by an equally very high supply of luxury and large apartments. This distortion is exacerbated by the

5- The vulnerable groups

Poverty occurs on a wider scale among some groups because of a specific weakness, disability, old age, exclusion, or marginality.

In Lebanon, there are thousands of disabled people, mainly as result of the war. It is widely accepted that poverty incidence among disabled is far higher than among the society at large. The same could be said about families who lost their providers during the war and turned to be widows and orphans.

[The direct victims of the war (the disabled, the orphans and widows.), especially the poor among them, should be paid special attention from both the government and the NGOs, in the fields of education, health, vocational training and job opportunities.]

The issue of feminisation of poverty hasn't been deeply investigated yet, but there are proof of discrimination against women in poor families. This issue needs a specific survey, and appropriate action is demanded accordingly.

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