



DECODING LEBANON

Marginalization Cost: Regional Disparities Fueling Lebanon's Fragility

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Over the past two decades, Lebanon has been on the verge of economic and fiscal crises on several occasions. As many Lebanese began to feel the implications of these crises, mass protests erupted in October 2019 against declining economic conditions and the corruption of the political elite. Adding to the economic and fiscal crises, a monetary crisis was followed by the coronavirus pandemic, which started in spring 2020. All these developments deepened inequalities among socioeconomic groups. Inequalities have been especially visible in terms of spatial distribution—the disparities between social categories within and among regions—exposing the structurally weak nature of the state's redistributive policies.

INTRODUCTION

Regional disparities have always been a key concern in Lebanon, even during the country's more prosperous years. Successive governments since the 1989 Taif Accord have failed to bridge development gaps among regions. Peripheral areas, such as North Lebanon, the

Bekaa Valley, and South Lebanon remain marginalized and underdeveloped, while development efforts have focused on Beirut and its suburbs. These spatial inequalities represent a threat to social cohesion. If left undressed, they could lead to further social and economic unrest, intensifying the popular protests that continue to this day.

In parallel, the coronavirus pandemic was initially seen as a great equalizer. The disease was supposed to affect all parts of the population evenly, with no differentiation in terms of ethnicity, social status, income, age, or gender. However, the contrary ended up being true, as the pandemic's effects amplified existing inequalities and gave rise to new ones. This was to be expected because, prior to the crisis, Lebanon did not have the mechanisms or policies in place to enhance equality in society. These would have included poverty reduction measures and would have guaranteed equal access to social protection and social insurance, healthcare, education, employment, electricity, and water, as well as adequate infrastructure.



In Lebanon's precarious environment today, poverty is on the rise. The World Bank estimates that **overall poverty prevalence** in 2020 could reach 50 percent, up from 27 percent in 2011. Extreme poverty is expected to reach **22 percent in 2020**. Although there is no recent assessment of poverty by region, Lebanon's crises will make many more people poor, and poor regions poorer. Historically, the highest poverty rates have been in peripheral areas. The latest data available on the **spatial distribution of poverty** are from 2011 and show that 38 percent of the inhabitants in the Beqaa Valley lived in poverty, 36 percent in North Lebanon, and 25 percent in South Lebanon, compared to 16 percent in Beirut. Despite the lack of recent data, the increase in poverty and its impact have been visible at multiple levels discussed below: income, education, healthcare, and social protections.

THE FINANCIAL AND ECONOMIC CRISES HAVE SHRUNK INCOMES

Lebanon's financial and economic crises have hit household earnings very hard. The massive currency devaluation increased consumer prices, as most local consumption is reliant on imports. Inflation has soared as a result, reaching around **90 percent on a year-to-year basis** in June 2020, with a much higher rise in the price of basic consumption items such as food. Globally, poor households **spend most of their income on food**. So, in Lebanon, an increasing proportion of residents experience less access to food, mainly the poor and less advantaged. Consequently, more people are expected to fall into a poverty trap, unable to satisfy their basic needs. Moreover, with the slowdown in aggregate demand, businesses have tried to contain operational costs by downsizing their activities and laying off employees, or in the best case lowering their incomes, at

times by reducing working hours. This has resulted in **unemployment** or underemployment, pushing people to enter the **informal economy**.

Income disparities have been further widened by the **multiple exchange rate regimes** prevailing in Lebanon. Workers in Lebanon typically earn income either in U.S. dollars or in Lebanese pounds. Prior to the crisis and given the government's policy of maintaining a currency peg between the pound and the dollar, there was no difference in nominal income between those earning pounds and dollars. However, when the pound began losing value in the aftermath of the October 2019 protests, this practice led to major income discrepancies. Those who earned salaries in pounds lost more than 80 percent of the value of their income. People earning in dollars, in turn, faced one of two possibilities. Those paid in locally earned dollars—in other words, dollars from accounts that banks put under discretionary capital control restrictions—would **receive** the sums only after their conversion into pounds at an exchange rate of \$1.00 to 3,900 Lebanese pounds. This translated into a loss of nominal income of 40–55 percent, calculated at the prevailing market rate of around \$1.00 to 7,000 Lebanese pounds. Those earning dollars from outside Lebanon could buy pounds at the market rate.

According to author observation, public sector employees were among those who faced the highest losses in their purchasing power. Looking at the socioeconomic profile of these employees, most come from poor and vulnerable regions. On **average**, around 13.7 percent of Lebanon's labor force is employed in the public sector. This reaches as high as 31 percent in Akkar Governorate, 26 percent in Baalbek-Hermel Governorate, and 19 percent in Nabatieh Governorate, compared to 6 percent in Beirut Governorate. The concentration of public sector employees in peripheral

impoverished zones and the loss in their incomes' purchasing power suggest that the recent wave of crises hit the periphery harder than the center, increasing spatial inequality.

QUALITY EDUCATION IS BECOMING A LUXURY

The impact of the economic crisis has not been limited to a reduction in income and a descent into poverty. Access to quality education has also been greatly affected. The loss in income has undermined many parents' ability to send their children to choice schools, particularly private schools, which are no longer affordable for a considerable segment of the population.

In 2017, around 70 percent of students were enrolled in private educational institutions. This trend began to change dramatically as the economic situation deteriorated and incomes fell. Tuition fees of private schools rose after an August 2017 government decision to implement a new salary scale that significantly increased salaries for private and public school teachers, as well as public sector employees. As a result of the increased private school tuition, enrollment in public schools increased from around 30 percent to 47 percent nationwide, according to household data in 2018–2019.

This transformation, however, did not impact Lebanon equally. The rising enrollment of students in public schools was more apparent in regions that historically had high poverty rates. These included the governorates of Akkar, where, according to author calculations, 68 percent of students were enrolled in public schools, Nabatieh where the figure was 58 percent, South Lebanon where it was 57 percent, and North Lebanon where it was 53 percent. However, these figures reflect

the situation before the financial and economic crisis, and the deterioration since then will compel many more people to transfer their children from private into public education.

The coronavirus outbreak added another layer of challenges, limiting student access to a quality education. New learning techniques have been adopted to ensure social distancing and limit the spread of the virus. Accordingly, schools and educational institutions have been closed. They have chosen to introduce remote learning instead, either through the internet or through television broadcasts.

However, these require reliable internet connectivity and uninterrupted access to electrical power, which are far from universal in Lebanon. All of Lebanon suffers from poor digital connectivity and sporadic electricity provision. The latest survey shows that only 54 percent of households enjoy access to the internet in one form or another, while the rest are not connected. Significant disparities exist across regions. Beirut has the highest rate of connectivity at 65.5 percent, while the lowest rates are in Akkar at 25.5 percent and Baalbek-Hermel at 33.5 percent.

Much the same pattern exists with respect to uninterrupted power supplies, with wide variations across regions. In light of the frequent shortages of electricity, having an alternative source of power is essential for online learning. Electrical generators are the most common alternative. In Lebanon, around 84 percent of households have access to generators, again with significant regional disparities. In Akkar 92 percent of households are connected to generators while only 42.5 percent of households in the Beqaa Valley have such access. The high percentage of generators in Akkar can be explained by the very low supply of electricity



provided through the national power network. These disparities in internet and electricity access, as well as increasing reliance on public schooling, compound educational difficulties in the periphery more than the center.

DISPARITIES IN HEALTHCARE AND SOCIAL PROTECTIONS

The health sector is another area where inequalities exist, and these have been exacerbated by the economic crises. The country has struggled to achieve universal healthcare coverage, and this ambition still seems highly unrealistic due to the multiplicity of institutions involved in the sector—the Ministry of Public Health, the National Social Security Fund (NSSF), and various public sector insurers and mutual funds—and the difficulty of bringing them into a standardized framework that can ensure equity and transparency. The latest official statistics show that around **44 percent** of the Lebanese population does not have any health insurance coverage. Once again, clear disparities exist between regions. The highest percentages of uninsured populations are located in North Lebanon and Akkar—at 53 and 55 percent, respectively. Meanwhile, Mount Lebanon and Beirut enjoy the highest levels of health insurance coverage with **64.6 percent** and **57.2 percent** of their residents being insured, respectively.

The NSSF, in turn, exists to provide social insurance to the Lebanese. Currently, it covers only **46.8 percent** of the insured population. The rest are insured through other public, private, or mixed funds—the Civil Service Cooperative covering public sector employees, the security forces health funds covering the army and other security forces, mutual funds for judges, parliamentarians, Lebanese University professors, and others—in addition to private insurance.

The low level of social security coverage is related in part to weak enforcement of the law that obliges employers to register their employees in the NSSF. According to the **latest official statistics**, the highest levels of compliance are reported in Mount Lebanon (52.6 percent) and Beirut (51.2 percent), while the further away one gets from the capital, the weaker the implementation of the NSSF's regulations. For instance, among the governorates, Akkar reports the lowest percentage of the population insured with the NSSF at 26.7 percent, followed by Baalbek-Hermel at 28.4 percent. Those without any insurance plan are covered by the Ministry of Public Health as an insurer of last resort. The ministry pays for hospitalization and offers primary healthcare services through a network of **238 healthcare** centers across Lebanon. The coronavirus outbreak has put additional pressure on the healthcare system, particularly on the Ministry of Public Health's resources, which will negatively affect its capacity to serve the large numbers of people who remain uninsured.

The pressing demand for public services requires further investments in all these sectors to accommodate rising needs. However, given the size of the public debt, the government is heading toward further fiscal retrenchment—the introduction of fiscal measures to reduce the volume of borrowing. Its ultimate objective is to cut the debt, which **passed** 140 billion Lebanese pounds (over \$92 billion) in June 2020, when valued at the official exchange rate of 1,500 Lebanese pounds to \$1.00. In the absence of a debt restructuring plan, the only way to cut the debt is by reducing the fiscal deficit and gradually creating a primary fiscal surplus. However, this would require increasing revenues, reducing expenditures, or both. Yet today the government has a limited capacity to raise revenues, a situation made worse by the slowdown in demand, tax deferral measures introduced by the government to accommodate struggling businesses, and coronavirus-

induced economic lockdowns. On the other hand, fiscal tightening may lead to cuts in public outlays on social programs, transfers to households, and wages and salaries, though this may be unfeasible given the multilayered nature of Lebanon's crises.

The Lebanese government is faced with complicated policy tradeoffs. Demand for public services, such as healthcare and education, is on the rise as a result of the economic, financial, fiscal, and coronavirus crises and their impact on incomes and exacerbation of regional inequalities. Therefore, the government must cater to this growing demand, mainly in the most disadvantaged regions. However, reducing the debt requires slashing public spending to curb deficits and create primary surpluses. In this context, the government is left with few good options as it tries to meet pressing and contradictory policy aims amid prospects that social instability will rise.

WHAT MEASURES MIGHT HELP REDUCE SPATIAL INEQUALITIES?

In light of this serious situation, the government has a number of redistributive mechanisms available to reduce spatial inequalities. Strengthening social protection systems remains an important policy tool to address the root causes of social inequality. The World Bank president [described](#) social protection as “a means to reduce poverty, achieve greater gender equity, reduce economic inequalities, and to promote good jobs.” This implies access to services, such as health and education, and providing protections at all ages. The main pillars of such a system include social assistance and noncontributory programs, a contributory pension system, unemployment benefits, disability benefits, and active labor market policies to improve employability and labor market information. These are the main

policies and programs widely used by countries in moments of economic fragility that mitigate the impact of austerity measures and respond to natural or man-made crises and disasters.

However, such programs and policies are not well developed in Lebanon and the country has a long way to go before putting in place a sound social protection system. For instance, the pension system is limited in coverage, accommodating public sector employees only, who represent [less than 15 percent](#) of the labor force. Private sector employees, in turn, are not covered by any old-age pension scheme. Nor does Lebanon have a system in place to offer unemployment benefits during economic downturns.

One income distribution option that has proven its efficiency in addressing vulnerabilities and reducing inequalities is providing in-cash or in-kind assistance to those in need. Cash transfers are usually efficient as people are given the freedom to buy what they need and avoid market distortions. Lebanon has established a [National Poverty Targeting Program](#), which is currently underutilized despite the massive investment and efforts to build and operate it. The system can be an entry point to reach the poor and vulnerable, mainly in the least advantaged areas. However, it will need additional investment to improve coverage, develop appropriate relief packages, and respond better to the needs of people in crisis. Targeted cash assistance presents an opportunity to rationalize existing subsidy schemes, which are not well targeted and are major fiscal and monetary burdens on the country. Banque du Liban, Lebanon's central bank, is currently leading a major subsidy scheme [to support the import of basic commodities](#). However, the scheme is judged to be unsustainable because it represents a [sizeable drain on foreign currency reserves](#).

Another option could include the promotion of labor-intensive public works in vulnerable areas. This would have two aims. It would improve infrastructure and services in those areas, and it would create job opportunities, enabling members of the workforce to sustain their livelihoods while also improving their skills.

Finally, the government could better utilize the transfer of funds to municipalities. This is considered an effective way to improve local governance and investment and respond to local development needs and priorities. The economic and financial crises are likely to jeopardize the financial sustainability of municipalities, which coronavirus containment measures have exacerbated. As the state has taken in lower taxes and fees because of the dire economic and financial situation, there will be fewer funds to redistribute to municipal authorities. In response to the decline in revenue collection, municipalities should carefully plan and spend their limited resources, allocating according to needs and priorities. In the absence of a proper decentralization process, planning at the local level is an essential step—feeding into how the central government itself plans, as local governments are best positioned to identify municipal needs and vulnerabilities.

Spatial inequalities weaken the link between the periphery and the center and deepen both the horizontal divide among citizens and the vertical divide between them and their government. If they are allowed to expand further, spatial inequalities may become a time bomb that threatens stability, security, and social cohesion. Addressing such inequalities is not just a matter of balanced development, it is about creating a unified society in which citizens enjoy equal opportunities, allowing them to withstand the onslaught of crises and shocks.

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NOTES

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