

# INEQUALITY IN LEBANON: QUESTIONING LABOR, SOCIAL SPENDING, AND TAXATION

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## Summary

The *Commitment to Reducing Inequality (CRI) Index report*, produced by Oxfam and Development Finance International (DFI), was launched in October 2020. The CRI index measures what governments are doing through their policy commitments to achieve SDG 10 on reducing inequality. The Index ranks 158 governments on their policies and commitments in three areas—labor rights and wages, public services, and taxes—proven to be pivotal to reducing inequality. Rather than measure inequality directly, the index focuses on what each government is doing to fight inequality, as well as the actual impact of policies on reducing inequality. This policy brief is based on a public [webinar](#) and a policy dialogue hosted by Oxfam and the Issam Fares Institute for Public Policy and International Affairs aiming to discuss the results of the CRI and present recommendations that can lead to reducing inequality at the policy level in Lebanon, noting that the country's multiple crises, compounded by the COVID-19 pandemic, have increased inequality, and pushed those most vulnerable further into the margins of poverty and insecurity.

## LEBANON'S COMMITMENT TO REDUCING INEQUALITY INDEX RANKING FOR 2020

- ▶ Lebanon's overall CRI index ranking for 2020 was 115 of 158.
- ▶ The country ranked 95 on labor rights and wages, 105 on public services spending, and 117 on tax progressivity.
- ▶ Such low scores indicate an overall poor effort by the government towards reducing inequality and a lack of policies that aim at bridging the inequality gap.

## Political and economic context

Lebanon is experiencing a multifaceted and unprecedented crisis at various interconnected levels. The crises include (1) an economic and financial collapse, (2) a COVID-19 outbreak, (3) the devastating Beirut Port explosion, and (4) a major political deadlock, paralleled with a significant deterioration of the overall security situation. Political and economic instability threaten the livelihoods and safety of all population groups and never more than today, the inequality gap is growing.

At the beginning of 2019, the number of unemployed people in Lebanon was estimated at 200,000 by the Central Administration of Statistics (CAS)<sup>1</sup>, or 11 percent of a workforce of 1.8 million. Since then, data shows that an estimated additional 350,000 people out of 1.15 million working in the private sector have lost their jobs due to the economic recession, and the COVID-19 pandemic. This number includes 130,000 jobs lost in 2020 up to now (BusinessNews, 2020).

<sup>1</sup> The Central Administration of Statistics is a public administration within the Presidency of the Council of Ministers in Lebanon responsible for collecting, processing, producing and disseminating social and economic statistics at the national level and for providing all users with evidence-based information for decision making. See [www.cas.gov.lb](http://www.cas.gov.lb).

It is estimated that more than 55 percent of the country's population is now trapped in poverty and struggling to meet bare necessities, i.e., almost double last year's rate of 28 percent (ESCWA, 2020), with disparities visible across governorates. Poverty also tends to be higher among marginalized social groups, including among persons with disabilities (PwDs), the elderly, female-headed households (often widows), migrant workers and refugees.

A survey conducted by the International Labor Organization (ILO) (Kebede, Stave, & Kattaa, 2020) shows that, prior to the lockdown, the majority of the sample of surveyed Lebanese and Syrians were working without written contracts, paid leave, social security or health coverage. Only 11 percent of respondents had worked during the lockdown, with almost twice the share of Syrian refugees being permanently laid-off. Other indicators also show major threats to livelihood and access to food security for all populations in the country. A web survey conducted by the World Food Programme (WFP, 2020) targeting Lebanese, Syrians, and Palestinians found that due to a combination of containment measures for COVID-19 and a worsening economic crisis, two out of every three Lebanese households suffered from a reduced income compared to the previous year, while about 10 percent of respondents across all groups reported that their households are resorting to alternative income sources to make ends meet. Lebanese women and young adults aged 25-34 were particularly affected by reduced salaries, and in line with the ILO survey, change in employment status was significantly felt more by Syrian women (61 percent) than men (46 percent). The same survey by WFP found that 50 percent of Lebanese, 63 percent of Palestinians and 75 percent of Syrians were worried they would not have enough food to eat over the past month. This is exacerbated by a depreciation in the value of the Lebanese Lira, as well as soaring inflation rates, estimated at 136.8 percent year-on-year in October (CAS, 2020).

## Inequality in the context of labor: Legal and practical challenges

The labor law regulating working conditions and labor relations, including the right to organize, is in many instances outdated, exclusionary of vast categories of workers, and skewed in favor of employers. Previous reforms included guaranteeing the right to

compensation in case of an arbitrary dismissal (1975), ensuring no gender-based discrimination in regard to “the type of work, the amount of remuneration, employment, promotion, vocational training and clothing” (2000), exempting Palestinian refugees (through legislation 129) from paying fees for work permits and confirming their right to equal employment (2010), increasing maternity leave from 7 to 10 weeks (2014) and allowing retirees to benefit from the provisions of sickness and maternity in the National Social Security Fund (NSSF) (2017). In parallel to this, obstacles to decent work and equality still persist, as we count the exclusion of domestic, seasonal, agricultural and other workers from labor law provisions. And although addressed by legislation, gender equality at work is still far-fetched, notably with the absence of protection against harassment at work, not to mention the persistent disregard of women’s legal right to equal compensation and promotion. Another deficit in the Lebanese labor framework is the adoption of the Kafala system for migrant workers, which is an administrative procedure instituted by the Lebanese General Security which exposes migrant workers to various forms of abusive conditions. In addition, labor legislation falls short of providing equal work opportunities and access to PwDs and does not guarantee any form of protection for children who are sent to the labor market.

Although the Ministry of Labor recently updated and repromoted the unified contract that dates back to 2008 to counter the Kafala system and protect migrant domestic workers, Lebanon’s Shura Council abolished this step (Amnesty International, 2020; Human Rights Watch, 2020). Also, women still face unequal pay, limited promotion, and violent practices such as sexual harassment at the workplace as well as do most unpaid care work, reportedly putting in more than 5 hours in performing care work per day (ILO, 2018). Another standing issue is the linking of social protection to employment, necessitating being formally employed and registered in order to benefit from health coverage and pension or end of service indemnity. The multiple crises have led some employers to unilaterally reduce employees’ wages, force them to attend work despite safety concerns, deprive migrant workers from their salaries, lock them, and abandon migrant domestic workers on the streets or deport them to their countries (Legal Agenda, 2020). In addition to that, the labor legislation contains serious violations of the right to organize such as requiring a prior permit to establish a labor union in the private sector or outright banning public sector workers to organize themselves in clear violations of International Labor Legislations. This is compounded by the systemic efforts of political parties in power to undermine the labor movement after the end of the Lebanese civil war to pave the way for neoliberal policies, which has led to the co-optation of most labor unions and confederations.

Lebanon ranked 95 of 158 countries worldwide in labor rights according to the 2020 CRI Index, highlighting critical short falls in its labor system. This indicates wide-ranging inequalities in employment and workers’ rights, especially for low-wage earners (with some employees earning two thirds or less of the national median gross hourly earnings), women, refugees, migrant workers, informal workers, children and the unemployed. Furthermore, most workers are paid below minimum wage as informality is prevalent and employers generally underpay migrant workers and refugees. The above-mentioned labor rights violations are the result of the existing labor legislation, prevailing practices by employers in the private sector, as well as the Government disregarding its own laws in the public sector, while workers face serious constraints in their ability to organize themselves to achieve their rights and interests.

### ***Spending on public services fails to fight inequality***

Lebanon lacks a comprehensive policy or strategy for a national social protection system; and the multiple crises have revealed the gaps and shortages in the government’s approach to social protection.

## ***Healthcare***

The recent COVID-19 pandemic has placed a strain on Lebanon’s already over-stretched healthcare system. Spending on healthcare comprised 13.21% of the government’s total budget in 2019 (Ministry of Finance [MoF], 2020). Lebanon does not have universal healthcare coverage, although significant progress towards providing primary healthcare and essential health services has been achieved in the last decade. Despite this progress, the majority of the government’s budget for healthcare goes towards subsidizing in-patient care at private hospitals (Ministry of Public Health [MoPH], 2020). Furthermore, public hospitals are understaffed and underfunded. Only 55.6 percent of the population (figure excludes migrant workers) had access to some form of health insurance coverage in 2018-2019 (CAS & ILO, 2020). Government subsidized schemes covered the majority of those with access to health insurance in 2018-2019, such as the NSSF, which mostly covers those formally employed in the private sector (45.5 percent). Other government funded insurance schemes include those for the Army and the Internal Security Forces (20.1 percent), which are covered completely from the government budget, and the Civil Servant’s Cooperative (5.9 percent), which is also covered from the government’s budget, with 1% deduction from the public servant’s payroll. About 15.3 percent of the population is covered by private insurance schemes (CAS & ILO, 2020). Those who are unemployed or informally employed are not covered by any such schemes. In addition, roughly 33.6 percent of elderly were not benefiting from any type of health insurance coverage (CAS & ILO, 2020). Out of pocket expenditure as a percent of total healthcare expenditure in 2017 was still high at 33.2 percent. The MoPH covers hospitalization costs for those not covered by any health insurance scheme on a case-by-case basis. In addition, it provides various medications for free, including some cancer and other chronic disease medications. Nevertheless, coverage by the MoPH and distribution of medications is usually governed by nepotism and an unclear working modality.

## ***Education***

The COVID-19 pandemic has also exposed the structural weaknesses within Lebanon’s education system, particularly with the shift to online learning. Spending on education as a percentage of the government’s total budget was 8.9% in 2019 (MoF, 2020). Lebanon has a relatively low expenditure on public education (1.8 percent of the GDP; 5.5 percent of total public expenditures in 2015) when compared to other countries; this was equal to approximately 900 million USD in 2015, of which almost 28 percent were subsidies to the private sector (Abdul-Hamid & Yassine, 2020). In terms of enrolment, 46.5 percent of students are enrolled in public schools, 47.8 percent in private schools, and 5.6 percent in free (government subsidized) private schools (CAS & ILO, 2020). In 2018-19, 24 percent of students reported not being enrolled in school as a result of economic hardships (CAS & ILO, 2020). When assessing the quality of education in Lebanon, we find that there is inequity in learning achievements (for example, based on scores of standardized tests for the highest versus the lowest scorers), which is likely driven by differences in economic, social, and cultural status (Abdul-Hamid & Yassine, 2020).

## ***Social protection***

Government spending on social protection was equal to 22.11% of its total budget in 2019 (MoF, 2020), however, this budget is not reflective of access to services. This amount covers illness, disability, end of service indemnity and retirement, family benefits, protection of women’s rights, and unclassified social protection. The biggest portion of the population that benefits from those are employees of the public sector and employers of reputable private sector companies. The most vulnerable populations do not have access to these services due to unfair labor laws and social protection policies. Part of the budget goes towards covering ad hoc social protection schemes provided through the Ministry of Social Affairs (MoSA), and to over 200 Social Development Centers (SDCs) across Lebanon mandated to implement the MoSA’s social development

policies at the local level. Social protection schemes provided by the MoSA include the National Poverty Targeting Program (NPTP), which is a poverty-targeted social safety net program currently supporting 43,000 Lebanese households living in extreme poverty (European Commission, 2020), the disability card for PwDs, which entitles them to healthcare, housing, education, and employment, and the Public Employment Program, meant to reduce employment levels as a means of combating poverty. The former two schemes have unclear or selective eligibility criteria, and tend to be unfairly distributed; while all three schemes are also supported by third parties. SDCs suffer from underfunding, poor quality of services, and poor outreach to local communities (Kukrety & Al-Jamal, 2016). The remainder of the GoL's budget for social protection is spent on sickness and maternity, end of service indemnity and retirement, and family benefits, as part of the government's subsidies to the NSSF, protection of women's rights, and other forms of unclassified social protection. As such, the largest portion of the population who benefit from this amount are formal employees of the private sector or employees in the public sector, while the most vulnerable populations do not have access to these services due to unfair labor laws and social protection policies. The unemployed, individuals working in the informal economy (such as unskilled laborers and seasonal workers), agricultural workers, and non-Lebanese (ex: migrant workers) are outside of any protection scheme altogether. Lebanon also lacks an unemployment compensation system, and a universal retirement scheme for the elderly. Regarding end of service indemnity, this is only available to those employed in the public sector and those who benefit from NSSF, while various syndicates (medicine, engineering) provide some form of a retirement plan for their beneficiaries.

The GoL ranked 105 of 158 governments worldwide on the CRI's public spending pillar. Such a low-score indicates that spending on public services, such as education, health and social protection does little to fight inequality in the country. Despite having several social schemes in place, these schemes exclude various vulnerable groups for a number of reasons.

### **Taxation system failing to ensure resource redistribution**

The post-war economic system ushered in the 1990s adopted a neoliberal reform agenda based on enacting the policies perceived necessary to attract foreign investments to fund reconstruction. This resulted in eliminating the progressive corporate income tax to replace it with a flat-rate. Lebanon's tax system has supported the flourishing rentier economy that is majorly responsible for the current economic collapse. At the height of the Government's borrowing spree in the reconstruction period, taxes on interest income, moveable capital and treasury bonds were eliminated, eliminating taxation on income from interest, and alleviating taxes on personal income for the wealthy. The tax system was further feeding the rentier economy and did not allow a fair distribution of resources which contributed to enlarging the inequality gap. As examples of the rentier economy, insufficient fiscal revenues and the existing tax structure have contributed to a bloated banking system in which deposits reached 280% of GDP in 2016 and where banks hold most of the public debt. Furthermore, the real estate sector has grown exponentially, with 70 percent of foreign director investments (FDIs) being in the real estate and residential sectors by 2010. Wealth tax for instance continues to be absent from the economic policies of the country, which negatively impacts the revenues of the government that can be employed in schemes that benefit the average resident. If Lebanon had in 2010 introduced a tax on net wealth at a rate of just 2 percent, by now it would have raised \$12.8bn – more than enough to cover the loans pledged (but not yet disbursed) at the CEDRE funding conference in Paris in 2018, or the equivalent of 82 percent of its total foreign debt service payments since 2011.

The CRI ranked the GoL 117 of 158 governments worldwide on the progressive taxation pillars. This ranking reflects the abysmal record of the country and the continuous efforts to skew the tax system in favor of the rich and powerful elites. In addition to the absence of

progressive taxation and a wealth tax, Lebanon heavily suffers from poor tax collection, and tax evasion is prevalent in the country. The tax system in Lebanon fails to reduce inequality, on the contrary it acts as a regressive redistribution tool.

## **RECOMMENDATIONS**

- ▶ Abolish the Kafala system and abide by the unified labor law that guarantees a solid framework of rights and protection. In light of the major issues faced by migrant domestic workers, especially in the context of COVID-19 and economic crisis, it is important to push for the implementation of this law in the Shura Council where it was challenged and stopped. It is also important to grant refugees equal work rights to end the large spectrum of abuse and inequality they face.
- ▶ Enact necessary reforms to guarantee equal access to work and just treatment at the workplace for PwDs, assuring the rights of seasonal and rural workers, and eliminating child labor. Such reforms can reduce the current exclusion or lack of protection on the basis of physical disability, geographical locations and social status.
- ▶ Gender-sensitive laws that protect women from any wage or pay discrimination, sexual harassment, and various forms of violence in the workplace are required. Although existing laws tend to address gender inequality at work, there should be a more careful and meticulous supervision of the implementation of legislation affecting women in the workplace.
- ▶ Lebanon must ratify and implement the International Labor Convention 87 on Freedom of Association and eliminate any requirement for prior permission to establish unions and allow public sector workers to freely organize. Independent trade unions and workers' associations must be reactivated and restructured away from political parties and agendas, since they became fragile and inefficient during the past decades.
- ▶ Establish a system of universal social protection and delink social protection from paid employment.
- ▶ The government should significantly increase social spending on health and education through establishing participatory, binding, and transparent criteria and outcomes for social spending floors that are agreed upon with citizens. Social spending should promote universal healthcare coverage and improve access to and the quality of education in public schools. Such universal social policies are more effective in helping households get out of poverty.
- ▶ It is essential to establish oversight and accountability mechanisms to review and monitor the various public institutions in charge of social spending and social protection. The review of these public institutions should entail a reassessment of their administrative structures as well as their budgets and policies; the latter two should be reassessed on a continuous basis.
- ▶ Reform policies by the concerned public institutions should include structural changes that directly target tax evasion and tax collection. Reforms should focus on a strategy that leads to "building" the trust in the system and ensuring taxes are employed in the right place, directly

going into building better infrastructure and providing social protection to the most vulnerable.

- ▶ As Lebanon goes through the worst economic crisis in its history, any economic reform plan should include a new roadmap for taxation that supports labor, production, consumption and shifts away from indirect taxation, focusing on taxation of the rentier economy.
- ▶ Taxation should include a progressive tax on polluting sectors, on offshore companies and holdings, on banks, on rent, and on wealth. In addition to that, current VAT schemes which impose an 11 percent flat rate on all non-essential goods should adopt a more progressive scheme, such that essential products such as female sanitation products should have less tax, and larger taxes should be imposed on luxurious goods.
- ▶ The focus should shift from indirect taxation to be on enhancing progressivity, including introducing a tax on extreme wealth, specifically large deposits, as the banking system and secrecy laws have been the main vehicle of deepening inequality in Lebanon. If Lebanon had in 2010 introduced a tax on net wealth at a rate of just 2 percent, by now it would have raised \$12.8bn – more than enough to cover the loans pledged (but not yet disbursed) at the CEDRE funding conference in Paris in 2018, or the equivalent of 82 percent of its total foreign debt service payments since 2011.

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## About the Governance and Policy Lab

The Governance and Policy Lab (IFI GovLab) aims to undertake innovative policy research and activities that address some of the most pressing policy issues and public sector challenges faced in Lebanon and the region. The IFI GovLab also aims to conduct policy research affecting digital policies and internet governance in the Middle East and North Africa (MENA) region with the aim to advance knowledge creation and existing evidence on inclusive institutions and good governance in the region.

## About the Issam Fares Institute for Public Policy and International Affairs

The Issam Fares Institute for Public Policy and International Affairs (IFI) at the American University of Beirut (AUB) is an independent, research-based, policy-oriented institute. Inaugurated in 2006, the Institute aims to harness, develop, and initiate policy-relevant research in the Arab region. The Institute is committed to expanding and deepening policy relevant knowledge production in and about the Arab region; and to creating a space for the interdisciplinary exchange of ideas among researchers, civil society, and policy-makers.

## About Oxfam

Oxfam has been working in Lebanon since 1993. We provide humanitarian assistance to vulnerable people affected by conflict, and we promote economic development, good governance at a local and national level, and women's rights through our work with our partners. Oxfam also works with local partners to contribute to the protection and empowerment of marginalized women and men.

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