

Position paper: The road to reforming the state and the system in Lebanon must be democratically led

The Centre for Social Sciences Research and Action

Abstract

Position paper by the CeSSRA's International Financial Institutions Monitor on the Lebanon report published by the fund under article IV on 29 June 2023.

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The International Monetary Fund (IMF) has been periodically assessing the economic and financial situation in Lebanon since 2006, under the Article IV report, that covers non-borrowing countries.

On 29 June 2023, the IMF published a [Lebanon report under article IV](#), accompanied by a statement by its executive board, highlighting potential risks and policy recommendations aiming at achieving macro-financial stability and reviving the economy.

The IMF assessment “[regrets] the very limited policy action taken to address the crisis” in Lebanon. Indeed, and as the report underlines, the country has been going through a multidimensional crisis since 2019, with rapidly accelerating inflation and currency depreciation, a widening fiscal deficit, and staggering poverty rates. The current harrowing situation has been faced with a largely passive political class.

While no concrete public action and policy reform have been adopted amidst the collapse – which is rightfully pointed out by the report – policy makers’ main focus has been, yet again, to resort to external backers to save the country’s economy^[1], in a context characterised by complete absence of democratic

consultation or participation.

In the report, and in the more recent Executive Board Assessment, the IMF reiterates the importance of implementing prior actions in order to unlock external support that would be critical in reviving and stabilising the country's economy.

These IMF recommendations are not new, they are in line with the prior actions, or proposed policy reforms that have been required by the fund since 2022^[2].

Historically, and looking at the effects of IMF interventions around the world, the fund's policies and imposed austerity measures contribute to higher inequalities, pushing the population into further poverty and precarity, as living conditions deteriorate and social contracts break down^[3].

Moreover, austerity measures with their corollary of public spending cuts directly impact children and women. The latter notably face further obstacles in accessing social services and specifically healthcare, the labour market, and have to grapple with the rising burden of unpaid care work for dependents.

The report's recommendations centered around, first, the restructuring of the financial system, and call for measures addressing Lebanon's sizable losses. While the IMF stresses the importance of protecting small depositors "to the extent possible", it remains that adopting a capital control law at this stage of the crisis would mainly impact smaller depositors. Indeed, they are the most at risk of losing their deposits, and no credible measures have been introduced to protect them, leading some analysts to believe that delays are intended to liberalize deposits.

Second, the fund calls for fiscal reforms, particularly debt restructuring, reducing inflation, unifying exchange rates, as well as improving public administration. Reallocation of funds to service debts often comes at the expense of social protection and social security schemes, and the IMF encourages the gradual increase of value-added taxes, which leaves the general population to bear the brunt of the crisis and of stabilisation efforts. It is, thus, necessary to develop an equitable fiscal policy based on progressive taxation, and to introduce a wealth tax.

Lastly, the IMF reiterates the necessity to strengthen "the safety net to support the most vulnerable in a targeted manner". Although successive governments have relied on social assistance that are based on poverty targeting, they have had underwhelming results so far, as multidimensional vulnerability rates exceed 80% according to recent figures^[4], and the crisis continues to deepen, and the missing middle category widens with increased pauperism and people falling through the cracks of an exclusionary, discriminatory, and fragmented social protection system. A national social protection strategy has been developed for the first time in the history of the country, setting the grounds for universal, life-cycle, and rights based social protection floors for all in the country. It is hence necessary to endorse it officially, build on this milestone, and move towards the policy and programmatic implementation of this strategy to ensure the protection of all, including the most vulnerable.

^[4] For more on this point read: Olga Jbeili, Michele Scala, Miriam Younes. "Bailing out on rights. The high cost of an IMF deal in Lebanon". Eds. Marie-Noëlle AbiYaghi, Léa Yammine. Beirut: Centre for

Social Sciences Research and Action. 2022. page 8-9.

^[2] Jbeili, Scala, Younes. *op.cit.* page11 and following.

^[3] For more, see this infographic by the CeSSRA: <https://civilsociety-centre.org/content/international-financial-institut...>

^[4] Sama El Hage Sleiman, Maguy Abdel Ahad, Christopher Chalhoub. "Multidimensional poverty in Lebanon: A proposed measurement framework, and an assessment of the socioeconomic crisis". Beirut: UN ESCWA. 2021. Available on: <https://www.unescwa.org/sites/default/files/pubs/pdf/multidimensional-po...>