Fiscal policy toward promoting employment generation in Lebanon

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With inputs from Aline Zayat and Dana Hamdan
Fiscal policy toward promoting employment generation in Lebanon

I. Economy and Fiscal Situation Overview

II. Structure of Output and Employment

III. Assessing public budget allocations to support employment generation

IV. Role of fiscal policy for employment generation: Policy discussions for Lebanon
Role of fiscal policy for employment generation

Guiding approach

Fiscal policy has a greater role in connecting to real sector development.

**Short term fiscal measures:** Hands on tools to boost demand in the economy and create immediate jobs

**Medium to long term fiscal measures:** Steer the economy toward economic diversification and more productive employment generation

However, only fiscal policy is not enough, it should be complemented by conducive monetary policy, industrial policy and a well strategized macroeconomic framework.

*Source: (ESCWA 2017 – Rethinking Fiscal Policy for the Arab Region).*
I. Economy and Fiscal Situation Overview
Economic growth remained low, growth of debt shot up. MICs in the Arab region vs. Lebanon.

Increasing debt accumulation stresses fiscal space in Lebanon

Public Debt, Domestic and External Debt, Debt-to-GDP ratio in Lebanon

Source: IMF (weo) ; World Bank (IDS).
Lebanon’s high share of Debt to GDP is expected to increase further due to multiple shocks including the impact of COVID-19.
Lebanon: Debt service costs a high share of total expenditure
Limits fiscal space for development expenditures

Wages, Salaries and Capital Expenditure (as a % of total expenditure)

Interest payments (% of total expenditure)

Source: Based on data from MoF, Lebanon
Tax Revenues as a % of GPD in MICs

Share of income tax revenues remained sluggish
Goods and services tax collection remained low

Share of personal income tax in total tax revenue

Goods and services tax as a share of private consumption

Income tax reforms have largely relied on increasing tax base: Improving progressivity remained a major challenge

Note: The arrow for Egypt show the top tier tax threshold to GDP per capita ratio in 2011; the arrow for Jordan shows the top tier tax threshold to GDP per capita ratio in 2018.

Efforts to improve tax revenues from corporate tax reforms

Corporate tax rates in middle income countries of the region

Taxes from corporate income (% of total taxes)

Lebanon ranks 143 out of 190 countries in ease of doing business index. FDI inflows continue to decline over the past decade.

**Rank in Ease of doing business index in the MICs of the region 2019 (Out of 190)**

- Lebanon: 143
- Egypt: 114
- Tunisia: 78
- Jordan: 75
- Morocco: 53

**FDI inflows (million USD)**

- Egypt: 10,000
- Jordan: 800
- Lebanon: 4,000
- Morocco: 3,000
- Tunisia: 2,000

**Source:** World Bank (2019)

**Source:** UNCTAD 2019
II. Structure of Output and Employment
Sectoral shares of output and employment

Increasing share of services sector in output

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture and allied</th>
<th>Industry</th>
<th>Construction</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.1%</td>
<td>21.7%</td>
<td>4.1%</td>
<td>69.4%</td>
</tr>
<tr>
<td>2010</td>
<td>4.3%</td>
<td>11.4%</td>
<td>4.3%</td>
<td>80.1%</td>
</tr>
<tr>
<td>2018</td>
<td>4.3%</td>
<td>12.0%</td>
<td>4.3%</td>
<td>80.4%</td>
</tr>
</tbody>
</table>

Declining share of employment in industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Construction</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>55.98%</td>
<td>16.86%</td>
<td>18.73%</td>
<td>6.52%</td>
</tr>
<tr>
<td>2010</td>
<td>60.14%</td>
<td>15.01%</td>
<td>14.69%</td>
<td>9.70%</td>
</tr>
<tr>
<td>2018</td>
<td>63.52%</td>
<td>12.98%</td>
<td>13.80%</td>
<td>9.70%</td>
</tr>
</tbody>
</table>


Source: Based on data from ILO.
Larger share of female employment in services sector as compared to male employment

**Source:** Based on data from ILO.
Employment rates: Females and youth females are at disadvantage as compared to national average

Source: Based on data from ILO.
Credit utilization vs employment across sectors

**Agriculture Sector**

Utilized credit in LBP Billion vs Employment in Thousands

**Industry Sector**

Utilized credit in LBP Billion vs Employment in Thousands

**Construction Sector**

Utilized credit in LBP Billion vs Employment in Thousands

**Services Sector**

Utilized credit in LBP Billion vs Employment in Thousands

Source: ILO; Banking Association Lebanon Reports (2013, and 2017)
Declining trend in growth of credit utilization
Total and sectoral growth rates

Growth of credit utilized (nominal value) %

Source: Banking Association Lebanon Reports (2013, and 2017)
Summary: Employment challenges in Lebanon

- Low productivity activities, a high share of informal employment
- Lower female employment rate, higher concentration in services sector
- Youth unemployment rate is particularly high
- Low demand for skilled workers
Summary: Employment challenges in Lebanon

- Declining growth of bank credit utilization shows the challenge of access to finance. 
  *Ex: a study shows 80% of investment activities are funded by individual funds within the enterprises*

- Skill mismatch: A weak match between education and work

- Labour regulations represent a barrier to hiring new workers

- Inequalities in the educational system
III. Assessing public budget allocations to support employment generation

Social Expenditure Monitor (SEM)
Social Expenditure Monitor: An integrated framework for supporting macro-fiscal policies and the SDGs

Social Expenditure Monitor
(A tool to support budgeting and fiscal policy reform)

Advances macro-fiscal and SDGs achievements

Social Justice and Inclusive Development
(inform expenditure and policy reforms to address poverty, vulnerability, equity, exclusion)

Growth and Fiscal Sustainability
(facilitate more efficient public service delivery and expenditure switching options)

Better Statistics
(improve collection of public finance statistics in line with National Accounts and SDGs concepts)
## SEM Social Expenditure Structure

The indicators in each dimension are designed to map the purpose of expenditure and the main beneficiary population.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Main Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Education</strong></td>
<td>• Children</td>
</tr>
<tr>
<td>1. Early childhood education</td>
<td></td>
</tr>
<tr>
<td>2. Primary education</td>
<td>• Young persons (aged 15-24)</td>
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<tr>
<td>3. Secondary education</td>
<td>• Adults (aged 25-64)</td>
</tr>
<tr>
<td>4. Post-secondary skill training</td>
<td>• Older persons (aged 65+)</td>
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<tr>
<td>5. Tertiary education</td>
<td>• Persons with disabilities, sickness and, survivors of conflict</td>
</tr>
<tr>
<td>6. Education for adults</td>
<td>• Socially marginalized or at risk of social exclusion, refugees and immigrants</td>
</tr>
<tr>
<td>7. Research and use of technology on advancing education</td>
<td>• Households/ Families</td>
</tr>
<tr>
<td><strong>2. Health and Nutrition</strong></td>
<td>• Benefits to community at large</td>
</tr>
<tr>
<td>1. Outpatient services (including residential care)</td>
<td>• Institutional development and administrative support</td>
</tr>
<tr>
<td>2. Inpatient hospital services</td>
<td></td>
</tr>
<tr>
<td>3. Reproductive health care</td>
<td></td>
</tr>
<tr>
<td>4. Discrimination against women and gender-based violence</td>
<td></td>
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<tr>
<td>5. Public health services</td>
<td></td>
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<tr>
<td>6. Expenditure on medicines, medical products, appliances and equipment</td>
<td></td>
</tr>
<tr>
<td>7. Research and use of technology related to health and nutrition</td>
<td></td>
</tr>
<tr>
<td><strong>3. Housing and Community Amenities</strong></td>
<td></td>
</tr>
<tr>
<td>1. Housing</td>
<td></td>
</tr>
<tr>
<td>2. Water supply network and reservoirs</td>
<td></td>
</tr>
<tr>
<td>3. Quality of water supply</td>
<td></td>
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<tr>
<td>4. Urban commuting</td>
<td></td>
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<tr>
<td>5. Rural connectivity</td>
<td></td>
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<tr>
<td>6. Street lighting</td>
<td></td>
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<tr>
<td>7. Community development</td>
<td></td>
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<tr>
<td>8. Research on housing and amenities</td>
<td></td>
</tr>
<tr>
<td><strong>4. Labour market interventions and employment generation programmes</strong></td>
<td></td>
</tr>
<tr>
<td>1. Incentives to encourage female employment</td>
<td></td>
</tr>
<tr>
<td>2. Training and skills upgrading, including on technology (on the job)</td>
<td></td>
</tr>
<tr>
<td>3. Grants and other incentives to private enterprises/start-ups for job creation</td>
<td></td>
</tr>
<tr>
<td><strong>5. Social Protection and Food Security</strong></td>
<td></td>
</tr>
<tr>
<td>1. Support towards achieving basic income, housing and food security</td>
<td></td>
</tr>
<tr>
<td>2. Unemployment benefits</td>
<td></td>
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<tr>
<td>3. Support to family and children, including maternity benefits</td>
<td></td>
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<tr>
<td>4. Subsidies to food processors</td>
<td></td>
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<tr>
<td>5. Subsidies to fuel (oil and gas)</td>
<td></td>
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<tr>
<td>6. Subsidies to electricity</td>
<td></td>
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<tr>
<td>7. Subsidies and other support to farms</td>
<td></td>
</tr>
<tr>
<td>8. Research on social protection and food security</td>
<td></td>
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<tr>
<td>9. Other nationally defined sets of goods and services</td>
<td></td>
</tr>
<tr>
<td><strong>6. Art, Culture, and Sports</strong></td>
<td></td>
</tr>
<tr>
<td>1. Cultural facilities and events</td>
<td></td>
</tr>
<tr>
<td>2. Promoting individuals and organizations in art and cultural fields</td>
<td></td>
</tr>
<tr>
<td>3. Sports facilities and services</td>
<td></td>
</tr>
<tr>
<td>4. Promoting athletes and teams</td>
<td></td>
</tr>
<tr>
<td>5. Research on advancing sports, culture and art</td>
<td></td>
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<tr>
<td><strong>7. Environmental Protection</strong></td>
<td></td>
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<tr>
<td>1. Solid waste management</td>
<td></td>
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<tr>
<td>2. Wastewater management and sanitation facilities</td>
<td></td>
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<tr>
<td>3. Incentives for renewable energy supply (hydroelectricity, solar, wind, biomass)</td>
<td></td>
</tr>
<tr>
<td>4. Protecting biodiversity/ combating desertification/land degradation</td>
<td></td>
</tr>
<tr>
<td>5. Research on environmental protection</td>
<td></td>
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</tbody>
</table>
Allocations to labour market intervention and employment generation constitutes the lowest share of total social expenditure

(for discussion only; NOT for citation)

Source: Public Budget (2020)
Overall, social expenditure, as a share of GDP, continues to decline which has implications on several aspects of social development and inclusive employment.

Source: Public Budgets, Author’s Calculations
IV. Role of Fiscal Policy for Employment Generation
Fiscal policy and employment generation

Theoretical Policy Levers

- **Tax policy:**
  - Corporate tax vs labour tax
  - Capital-intensive product vs labour-intensive product
- **Subsidy policy**
  - Wage subsidy
  - Exports subsidy/other fiscal incentives
- **Government spending**
  - Skill training and capacity development
  - Public works programmes
  - Fiscal expansion
- **Labour market interventions through**
  - Minimum wage setting
  - Public sector wage revisions
- **Access to finance to SMEs**
Discussion on Policy Issues for Lebanon

Support to boost labour demand:

- Investing in strategic sectors, connecting to global value chains
- Financing reconstruction work
- Improving agricultural production
- Credit expansion to productive sectors and SMEs
- Wage subsidies toward promoting SMEs

Support to improve quality of labour supply:

- Investing in improving quality of education, research and development
- Investing in active labour market programmes such as training and skill upgrading, employment services

Well strategized short–and–medium-term measures can transform the economy toward higher productivity, growth and generation of inclusive and decent employment.
Generating fiscal space is essential to support employment generation

A. Immediate debt relief measures
   - DSSI with participation of private creditors and its extension till 2021
   - Debt restructuring and write offs
   - Gradually shift to debt stabilizing fiscal policies

B. Financial/Monetary policy reforms
   - Banking reforms and recapitalization of banks
   - Monetary and exchange rate policy
   - External finance

C. Harnessing domestic resources
   - Improve tax progressivity, not just more taxes on goods and services
   - Improve tax compliance, ensure tax filing by all citizens

D. Better public finance management
   - Establish social expenditure monitor (SEM)
   - Medium term expenditure/revenue framework
Thank you!