

# POVERTY IN LEBANON: SOLIDARITY IS VITAL TO ADDRESS THE IMPACT OF MULTIPLE OVERLAPPING SHOCKS



Shared Prosperity Dignified Life



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## Introduction

Lebanon is experiencing the impact of multiple growth shocks, including a recent spike in COVID-19 cases and an explosion that killed over 200 people and destroyed Beirut Port, warehouses storing food and other vital resources, and vast residential and business areas. These shocks reinforce the ongoing financial crisis that had already increased headcount poverty, exacerbated extreme poverty, and reduced the middle-income group.

## Impact assessment

**Firstly, recession** in Lebanon has been endemic as a result of the Syrian crisis, an exhausted Lebanese growth regime, a burst real-estate bubble, and a gradual decline in tourism receipts and private investment from Gulf Cooperation Council countries. These factors have added pressure to the balance of payments. **Secondly, the deteriorating economic situation** since September 2019 has

**30%** REDUCTION IN THE SIZE OF THE MIDDLE-INCOME GROUP

**57 to 40% of the population**



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brought domestic political instability to a head, putting further pressure on the fixed peg exchange-rate mechanism and, in turn, on bank dollar reserves. **Thirdly, COVID-19** induced a GDP shock as a result of lockdown measures and the consequent drop in aggregate demand. Households are facing a price shock of around 50 per cent because of currency devaluation and COVID-19-induced reductions in the economic activity. **Fourthly, the port explosion** has left Beirut's key trade and shipping hub and neighbouring residential, industrial and business areas in ruins. The resulting damage requires substantial resources for reconstruction and humanitarian assistance, and will dampen Lebanese imports, exports and other economic activity.

**The headcount poverty rate is expected to jump from 28 per cent in 2019 to 55 per cent in May 2020.** The corresponding increase in extreme poverty is from 8 to 23 per cent. This brings the total number of poor among the Lebanese population to 1.1 million and 2.7 million for the lower and the upper poverty lines, respectively. The latter is an increase of 1.3 million poor from the reference (pre-COVID-19 and pre-explosion) growth scenario for 2020. The equivalent rise in the number of extreme poor is 750,000.

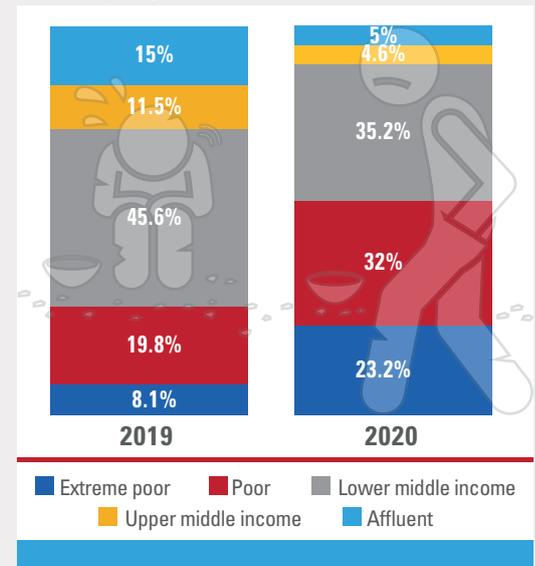
**These estimates spell havoc for the ability of Lebanon to retain its predominantly middle-income population status.** The middle-income group has contracted from over 57 per cent of the population in 2019 to less than 40 per cent in 2020. The real challenge facing Lebanon is that this group, which represents the bulk of the country's human capital, may shun the uncertain economic opportunities in Lebanon and seek to emigrate. The affluent group has also shrunk significantly from 15 to 5 per cent of the population.

As of May 2020, headcount poverty and vulnerability rates are expected to increase further as a result of rising inflation and the impact of the Beirut Port explosion, particularly affecting incomes and food availability and prices. Few in Lebanon will be spared the negative consequences of these multiple overlapping shocks.

**Lebanon has one of the most unequal wealth distributions in the region and the world, ranking twentieth globally with a wealth Gini coefficient of 81.9 per cent, and one of the highest concentrations of billionaires per capita.** The top 10 per cent of adults owned 70.6 per cent, or \$151.4 billion, of all estimated personal wealth (\$214.3 billion) in the country in 2019, but these monetary figures are expected to shrink significantly in 2020.

**In 2020, the top decile in Lebanon is projected to hold \$90.8 billion of wealth, a 40 per cent drop year-on-year as a result of the banking crisis, the associated restrictions on access to financial wealth, and the expected reduction in the value of high-end land, real-estate property and natural resources, which are represented heavily in the portfolios of the wealthiest nationals.** The Beirut Port explosion further diminishes business and individual holdings of real estate and other capital, and their capacity for trading and economic activity. Despite the enormity of these shocks and their ripple effects, Lebanon could rebound quickly if the economy kickstarts, macroeconomic stability is restored, and necessary economic governance reforms are enacted by the incoming Government. For example, given the estimated distribution of wealth and

**Headcount ratio for poor, middle, and affluent income groups, 2019 and 2020**



**55%** ESTIMATED HEADCOUNT POVERTY RATE  
**Lebanon, May 2020**

**8 → 23%**  
EXTREME POVERTY INCREASE IN 2020

**70.6%** OF THE WEALTH  
is owned by 10% of the adults



the revised estimates of the poverty gap in Lebanon as of May 2020, the solidarity fund required to close the extreme

poverty gap is around 1 per cent of top-decile wealth, compared with 0.2 per cent in 2019.

## Policy response

### 1. Establishing a national solidarity fund is a crucial policy response to tackle the country's humanitarian crisis and close the poverty gap.

Lebanon should mobilize its own substantial resources, with a fair and progressive system of shared responsibility, supported by political will and strong institutional capacity to ensure societal solidarity. The solidarity fund should target the needs of vulnerable groups, including the most vulnerable ones affected by the explosion such as the poor, displaced and elderly.

### 2. Bolstering food and health security and social protection, which urgently needs donor support.

Foreign assistance can play a vital role to support immediate responses conditional on ensuring it is directed to adequate access to food, medication, unemployment benefits and cash.

### 3. Addressing this crisis will require the country to transform quickly and adopt various coping mechanisms.

With shared responsibility and societal solidarity in place, especially between the wealthiest top decile and the poor, the bulk of the poverty impact can be absorbed. In Lebanon, and in other Arab middle-income countries, ESCWA advocates for a solidarity fund to mitigate the expected rise in poverty as a result of the COVID-19 pandemic, and other natural or man-made disasters such as the Beirut Port explosion.

### 4. Enacting necessary economic governance reforms, limiting rent-seeking activities, and enhancing transparency and accountability.

More transparency on income and wealth would allow the ministries of finance, social affairs and related institutions to improve poverty-targeting practices.



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