

## **The Structure and Characteristics of the Lebanese Workforce**

### **Introduction about the general economic frame that impacts the status of the labor force and its evolution**

This research aims to analyze the structure and characteristics of the labor force in Lebanon which includes, as a statistical definition, all workers in all sectors and branches of the economic activity, in addition to the unemployed. The workforce constitutes the main foundation of economic and social growth. Its properties affect to a large extent the development scheme of the national economy. These properties are in turn affected by the general orientations of the economic development in the medium and long term. The importance of the role played by the workforce, as a general leverage for the economy, has increased over the past three decades. This is due to the evolution of the global economic theories since the mid-1980s, from the almost exclusive focus on the narrow concept of economic growth, to a broader development concept, then to special emphasis on the sustainable human development concept, which focuses on the role of “human beings” rather than on the role of “bricks and mortar” in making growth happen. In order to understand the status of the labor force and its development –in quantity and quality - we need to have a deep understanding of the foundations and mechanisms that governed the development of the economic structure of the country during the era which followed the Civil War (1975-1990). That is because the correlation between the two parameters of this equation is a powerful one and statistically proven, as confirmed by different international experiences.

The development of the Lebanese economy in the postwar period has been influenced by a succession of political and security shocks resulting from internal conflicts and repeated Israeli attacks, then especially by the overall fallout on Lebanon by the Syrian crisis since 2011. During the same period, however, the economic development has also been affected more strongly by internal policies and factors that had a large and direct interactive effect, not only on the economic situation in

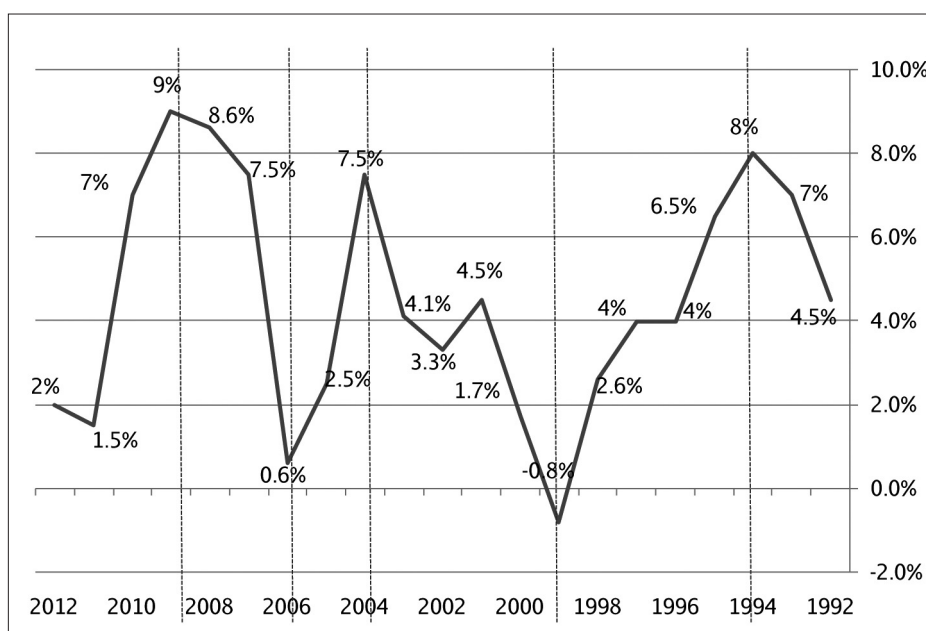
general, but also on the situation of the labor force and its main characteristics. In this context, we may review the most prominent of these factors as follows:

1. Lebanon's integration pattern into globalization, and the way the country dealt with it after the 1990s included some imbalances, which lessened the potential benefits that it could have reaped from this trend, and exacerbated the negative aspects associated with it. The "national reconciliation" at the end of the civil war coincided with a clear victory, on the global level, of the neo-liberal economic theories mainly expressed by the "Washington Consensus". This resulted in calls to liberalize the exchange of goods and services, implement structural adjustment, reduce the role of the State, and reinforce "the supply side economy". The "Raised Hand" policy has been so widely adopted that we witnessed a large rush towards trade liberalization. This was mainly achieved through an ambiguous engagement into the WTO and the Euro-Mediterranean partnership negotiations before ensuring that the national interests associated with these negotiations were relatively balanced. This is what practically led to discarding – without real compensation – the necessary protection of domestic production. It has also contributed to the worsening of the trade deficit, expanding the dependency on foreign markets, subjecting the Lebanese party to exchange terms determined by the foreign party in many areas (e.g. controlling global import prices, double standards in defining and practicing dumping policies, refraining from easing technology transfer, strict adherence to the rules prescribed by the foreign party in intellectual property, certificates of origin, and production standards and specs).

2. Since the early 1990s, spiral sharp fluctuations in annual growth rates have been recorded - as shown in chart (1). These growth rates have seen successive cycles of recovery and slowdown. Periods between 1993 and 1995, then between 2007 and 2010, recorded the highest growth rates. In the first period, the growth was the result of the natural economic takeoff just after the end of the civil war and the launch of the reconstruction process. In the second period, it was the result of the positive economic impact that Lebanon cropped from the outbreak of the global economic crisis. This has contributed to transforming this country into a safe haven - albeit temporarily - for large inflows of remittances, capital, and direct foreign investment (knowing that Lebanon did not profit well from this opportunity, which is rare in normal circumstances). In contrast, the lowest rates of growth were recorded during the period between 1998 and 2003, due to the exhaustion of the reconstruction effects, and the deterioration of the fiscal deficit and the public debt crisis. It was

later followed by another era of sharp decline in growth rates after 2011, owing to the Arab uprisings, especially with the Syrian influx to Lebanon. It is clear that this spiral pattern of the growth rate evolution was reflected negatively on the performance of the Lebanese labor market and the labor force structure. Overall, the annual economic growth rate since the mid-1990s reached about 4% on average, half of what was expected under the reconstruction programs that were put in place in the first half of the 1990s.

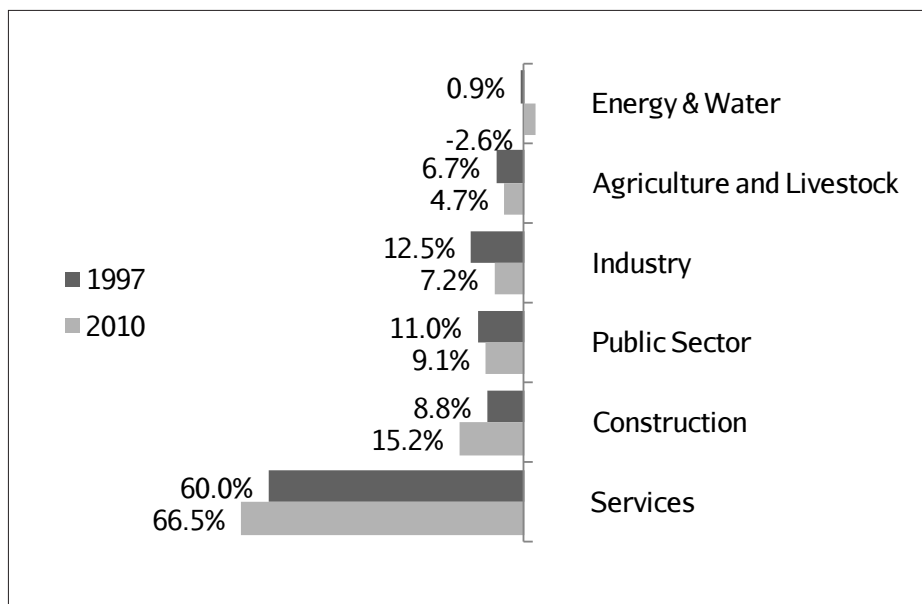
**Chart 1: GDP growth rates<sup>1</sup> in Lebanon (1992-2012)**



(1) Sources: IMF – World Economic Outlook, October 2009; Report: “Presidency of the Council of Ministers – Economic Accounts (1997-2007); Lebanon Country Profile 2013 (Ministry of Finance, 2008-2012 period).

3. In connection with these trends, the real economy weakened during the last two decades amid the emergence of a financial swelling caused by the financing schemes of public spending. Other factors include real estate episodic surges of rentier nature, especially in urban areas, the decrease of the relative weight of agriculture and industry in the GDP by at least one-third, and the restraint of the high added value production to a few highly-concentrated economic activities. Several factors have contributed to the weakening of the domestic production's competitiveness and the decline of export(of goods and services).Among these factors: The weakness of basic infrastructure facilities (especially electricity)and the high production costs –due to the distortion of the internal price structure and the high weighted exchange rates of the national currency. These developments indirectly translated into the rising role of consumption in defining economic growth – especially the consumption based on import rather than on domestic production. They also translated into the big boom of a few parasitic low-productivity services, and other modest and improvised activities. In connection with this type of economic growth, the export/import coverage rate declined to about a half of what it was in the mid-1970s, with consequent wholesale negative effects on the performance of the local labor market.

**Chart 2: Comparative structure of the GDP, between 1997 and 2010**



**Table 1: GDP real growth rates in the 1997-2009 period, as per economic sectors<sup>2</sup>**

<b>Economic Sector</b>	<b>Cumulative real growth rate of GDP</b>	<b>Average annual growth rate of GDP</b>	<b>Contribution to the real GDP growth</b>
Agriculture & Livestock	11.1%	0.9%	1.4%
Energy & Water	73.9%	6.3%	-1.8%
Industry	20.2%	1.5%	4.7%
Construction	40.3%	2.9%	8.0%
Services	78.0%	4.9%	79.0%
Trade	71.6%	4.6%	27.4%
Transport & Communication	216.8%	10.1%	18.5%
Business Services	97.5%	5.8%	4.6%
Maintenance & Repair	13.5%	1.1%	0.2%
Lodging	25.9%	1.9%	3.0%
Hotels & Restaurants	90.7%	5.5%	4.0%
Personal Services	12.9%	1.0%	0.6%
Health Services	69.6%	4.5%	5.5%
Education Services	36.1%	2.6%	4.8%
Financial Services	104.0%	6.1%	10.6%
Public Sector	47.3%	3.3%	8.5%
<b>TOTAL of GDP</b>	<b>61.3%</b>	<b>4.1%</b>	<b>100.0%</b>

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(2) "IMF: Lebanon: Real GDP Growth Analysis, 1997-2009" (March 2011).

4. The emergence of the fiscal deficit and the public debt problem in this period was clearly reflected in the performance of the Lebanese economy and its stability, especially in the State's ability to finance its expenditures. The absence of budgets and annual public account closures since 2005 has facilitated an out-of-control expansion in current spending, characterized by ample embezzlement, in conjunction with the absence of real legislative and institutional control over the evolution of this spending. This is what led to the continued growth of the State's financial deficit, despite the increase in the tax burden by almost two folds since the mid-1990s. This fact has compelled the political class to work in every way in order to cover its spending: to raise funds, remittances, aid, and "guarantees" from outside, through donor country conferences and close ties with the Arab oil-producing countries. This enabled banks to achieve a sustainable increase in the size of deposits, and allowed the State to continue to borrow an even larger part of these deposits - albeit with high interest rates - to finance the deficit and debt service. The State subdued the monetary and fiscal policies and the high interest policy for this purpose, ignoring the negative consequences of these policies on the macro-economic level.

5. This pattern of economic development has prevented the country from achieving one of the basic objectives of the reconstruction plans that were developed in the first half of the 1990s, which was to bridge the economic gap among regions. The economic activity continued to be generally concentrated in the "Greater Beirut" area, whereas the economic weight in peripheral areas was declining, in terms of their share of the basic infrastructure, private investments, employment opportunities, and the fruits of the economic growth. These regional disparities were reflected in the imbalanced relationship between the central and local authorities with respect to the management of the economic and social development in its geographical dimensions. The local and municipal situation outside Greater Beirut remained subject to economic polarization, controlled by a coalition of interests which had the upper hand in the "center", whether at the legislative level, capital formation, supply of human resources, or financing (municipal dues at the Independent Municipal Fund). This imbalanced relationship between the center and the peripheries is largely responsible for the labor market's underperformance outside Greater Beirut, particularly in the North and the Bekaa, which have the lowest rates of economic growth and virtually no new jobs.

6. The reconstruction era in the second half of the 1990s has been successful in achieving relative progress in the re-establishment and development of public

utilities and basic infrastructure; but the conditions of these networks quickly deteriorated. This is evidenced by the present conditions of electricity, energy, water, public transport, and public education. This deterioration – which does not serve growth nor job creation – resulted from a sharp decline in public investment, starting from the beginning of the third millennium. Investment spending has not exceeded on average 7% of the total national investment over the past four years. The preoccupation of the political class with their own interests, and the internal rivalry to take away what can be taken from the non-productive public spending, led to a fatal deficiency in the maintenance of basic infrastructure, and a failure in the reconstruction of the public administrations and the productivity of their human resources. As a general outcome, the increase in public spending was no more than a record rise in the cost of the political class (as per the amounts booked from the public spending), in conjunction with a record low in the size and quality of public service that this class was supposed to provide to all citizens.

7. On the social level, the prevailing economic growth pattern did not succeed in improving the living conditions of large groups of workers. This finding is supported by a broad range of official and semi-official indicators, including the decrease of the wages share in the GDP compared to its level in the mid-1990s, whereas the share of capital gains and royalties increased. This decrease was not caused by the decline of the employees/total workers ratio, but rather by the rising imbalance between the consumer price evolution on the one hand, and the average wage evolution on the other. Indicators of inequality and discrimination also deepened, in terms of size and type of workers' access to social services and basic public services. This is especially the case regarding retirement, health services, the quality of education (especially public education), and provision of electricity, water, public transport, social welfare, and the care for the disabled. Half of the Lebanese currently lack consistent health coverage, while nearly two thirds lack regular retirement programs, including more than 150,000 wage earners in the private formal and informal sector who are not declared to the National Social Security Fund. All Lebanese also lack an employment insurance system, whereas unemployment is increasing, especially among the youth and workers belonging to poor families and below medium. Inequality indicators are also increasing in the distribution of tax burdens, as the bulk of this burden is concentrated on the consumption of wage earners and medium and poor social groups, through the dominance of indirect taxes and fees in the State revenues.

## The current situation of the labor force in Lebanon

### First, statistical gaps

Before embarking on the analysis of the labor force's situation and its characteristics, we must point out to some shortcomings and statistical constraints which impede the adequate understanding of all aspects of this situation. We can highlight in this regard the following basic research determinants:

- A total lack of national demographic surveys, in the strict sense of the word (the only national population census goes back to 1932), in a country like Lebanon that is characterized by its small size and extreme openness to migration flows since before the outbreak of the civil war, and especially after the end of the war.

- The relative scarcity and irregularity of field investigations (based on statistical sampling) which relate to the labor force and the labor market, and therefore the time intervals between these researches are large.

- There is often a difference in the methodologies used in these researches (including certain definitions and concepts, methods of sampling, and statistical methodologies).

- Most field researches issue statistical results based on the Lebanese *mohafazat* (governorates) level, without going down to the *cazas* (counties) or major cities level.

- Lack of a (Lebanese) legislation which defines the concept of residence which would then assign precise distinctions between those who are effectively resident in Lebanon and those who are non-resident. This is important for the sake of estimating the total number of Lebanese living in Lebanon and the total number of workers.

- Researches do not cover most – if not all – various social categories that constitute an integral part of the workforce; some examples include: Palestinians living in the refugee camps, cheap foreign labor inflows to Lebanon, Syrian labor (before the Syrian exodus to the country, and after).

These statistical gaps involve many complications for the current analysis of the labor force situation in Lebanon. They show that the most detailed official data on the subject date back to 2004 (Central Administration of Statistics - CAS, 2004), and that some update was done in 2009 (CAS, 2009). In parallel, non-official data were released on the same subject in different periods between 2004 and 2012, from studies or field work carried out by such international institutions as the World Bank



and the International Labor Organization, or carried out by universities active in Lebanon, e.g. USJ. These official and non-official data tend to be congruent and consensual in general. But noticeable differences stand out among them in many detailed indicators, either because of discrepancy in the methodological approach, or due to uneven content of the statistical questionnaires and their inclusion degrees. When using the available statistical results, this paper will seek to mention the specific research reference that led to these results.

**Table 2: Major statistical field surveys that addressed the labor force characteristics in Lebanon<sup>3</sup>**

Survey year	1970	1997	2003	2004	2007	2009
The institution that performed the survey	CAS	CAS	USJ	CAS	CAS	USJ
	International Labor Organization (ILO)					
	Center for Educational Research and Development (CERD)					

### **Second, comprehensive approach to the main trends that govern the labor market**

We notice that, in general, the high economic growth rates over the past decade were not associated with a parallel growth in creating new jobs. The World Bank<sup>4</sup> points out that the average annual GDP growth rate reached about 3.7% between 1997 and 2009, while the labor force growth rate in the same period did not exceed 1.1%. In addition to this disparity, with its obvious economic significance, a major

(3) Consultancy & Research Institute (CRI) - "Review and Assessment of Labour Market Information in Lebanon": (2011).

(4) World Bank report, December 2012, "Lebanon: Good Jobs Needed – The Role of Macro, Investment, Labor, Education and Social Protection Policies", Middle East and North Africa Human Development Group – David Robalino and Haneen Sayed – December 2012.

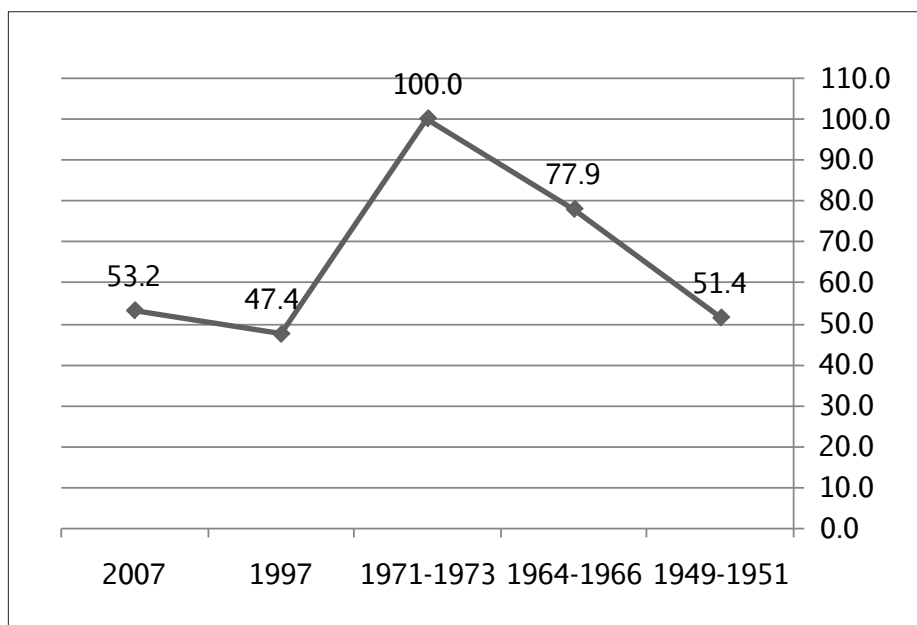
It is to be noted that there is a difference between the figures for the average annual GDP growth rate during 1997-2009 of the World Bank study (3.7%) and the IMF study (4.1%) as previously stated in Table 1.

paradox shows that the jobs created by the local economy in that period were in their majority concentrated in low productivity sectors and were activated in general by low-skilled labor, while the Lebanese educational system expanded in producing more and more high-skilled graduates. The past decade involved - as will be shown in detail further in this paper - a gradual transition of the workforce from agriculture and industry, to low productivity third sector activities (retail trade, car maintenance, especially used ones, transportation and storage, real estate activity...), along with a steady growth in the proportion of self-employed. The World Bank had notably found<sup>5</sup> that 61% of the self-employed and 35% of the wage earners are now enrolled in low productivity service activities, while only 14% of the wage earners and 3% of the self-employed are engaged in high productivity service activities. The Lebanese scheme of the workforce's gradual transition from the first and second sectors to the tertiary sector was radically different from the scheme achieved in industrialized countries, where the transition was mostly towards high productivity service activities, which grew due to the "maturation" and saturation of the industrial sector. This confirms that the predominance of "noble" service activities is largely linked to the extent of growth registered in the industrial era, and this is precisely what the Lebanese experience missed out on.

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(5) World Bank report 2012, *ibid*.

**Chart 3: Work productivity indicator<sup>6</sup> between 1950 and 2007**  
 (as of constant prices in the 1972-1974 period)



One of the key signs of the labor market's weakness too is that the majority of wage earners and self-employed (65%) hold only a high school diploma or below (World Bank study)<sup>7</sup>, including 40% who only hold the elementary certificate or below. Two-fifths of the wage-earners consider that their skills are not commensurate with their work requirements. This also applies to a part of university graduates and vocational education ones who enter annually the labor market, as confirmed also by their employers when they talk about the obstacles that they face. These employers point out in particular to the difficulty in finding good quality technical, engineering and administrative skills, and staff who are proficient in the

(6) Source: "National Social Development strategy" – UNDP and Ministry of Social Affairs (With support from the Inter-Ministerial Committee for Social Issues) – 2010.

The indicator was calculated as being 100 for the period 1971-1973.

(7) World Bank report 2012, opcit.

digital economy, in computer and foreign language skills, and have the ability to work independently and in teamwork. This obstacle may be due to the growing brain drain and the migration of skilled people, along with the increasing flow of cheap low-skilled foreign labor to the Lebanese market. A number of factors contribute to the migration of local talents, among which two are the most important: A steady rise in the cost of living in Lebanon compared with the level of revenues on the one hand, and the notable difference in wages and associated benefits in the competitive labor markets on the second hand, especially in the Gulf countries.

The labor market is characterized in Lebanon by the difficulty in finding the first job, as well as the difficulty in re-entering the labor market for those who were unemployed - at the age of 45 years and above - and tried to go back to work again. Various studies agree on the time spent by the first-time job seeker in order to actually get a job. This period reaches 18 months on average for those who are not holders of a formal diploma (according to the World Bank)<sup>8</sup>, and is about 10 months for those who have completed their college education and began the journey to seek employment, while it is more than a full year for the rest of first-time job seekers. This long job-searching journey applies also to the unemployed who have previously worked (especially in medium and older ages), as they spend on average more than a year to get a new job. The labor market is also characterized by the fact that personal relationships are the most important tool that allows access to work – a feature that may have a positive aspect for a few Lebanese, and a negative one for the majority. This relationship aspect is not limited to parents, relatives and friends, but it expands to politicians, public officials, and confessional leaders. These kinds of relationships weaken the professional working environment, and increase nepotism between some workers and the political class.

Within the local labor market's characteristics, we also notice the important weight of informal work, and the extreme slowness in the transition process of informal activities to formal ones, as compared to many other countries. Although there are no accurate and updated official statistics about the size of informal activities in various sectors in Lebanon, the World Bank's estimates suggest that this phenomenon affects more than 20% of wage earners and 30% of self-employed in

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(8) Ibid.

low-productivity activities. These ratios greatly increase if we take into account a broad range of non-Lebanese workers, who are rarely declared to the National Social Security Fund (NSSF), even if they dispose of a residence permit or a contract registered at the Ministry of Labor. The growing phenomenon of informal employment raises doubts on how comprehensive the coverage of the NSSF is for salaried workers in Lebanon, and on the extent to which the labor legislation is enforced. It also highlights some aspects of the inequality and social exclusion, especially concerning a large part of those workers who do not profit from most social benefits and safety nets available for regular workers.

**Third, the available statistical estimates about the total number of the population (resident in Lebanon)**

According to the Central Administration for Statistics - CAS<sup>9</sup> (the 2004 and 2009 surveys), the total number of residents in Lebanon was about 3.75 million people in 2004. It rose to about 3.86 million in 2009, while the latest World Bank's estimates suggest this figure exceeded the four million people threshold (without the displaced Syrians). We also noticed, through the results of the 2004 study, that 6.6% of the total residents are non-Lebanese, and this figure does not include the Palestinians living in the camps, nor the traditional flow of migrant workers from Syria and from other cheap labor exporting countries. The dynamics of demographic growth show that the Lebanese (resident) population is moving rapidly toward less youth, amid a marked decline in fertility rates (which is reflected in the decrease in the average number of children per woman from 5.1 children in 1970 to only two children in 2004), and a rise in life expectancy (from 61 years in 1960 to 72 years in 2004). These results also indicate that the working age residents (15-64 years) constitute about 65% of the total number of residents. More than half of the residents are concentrated in the Beirut and Mount Lebanon *mohafazat*, while the rest is distributed over the North (20.5%), the Bekaa (12.5%), the South (10.5%), and Nabatiyeh (5.9%). This denotes clear differences among these various provinces in terms of employment mechanisms, which are related to the natural demographic growth on the one hand, and, on the job market's demand governed by the evolution of economic activity and entities, especially private ones, on the other hand.

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(9) Central Administration of Statistics (CAS), National Study of Living Conditions of Households (2004); "Multiple Indicators Cluster Survey 2009".

The population residing in Lebanon is distributed over around 880,000 households (2004), with an average estimated size of 3.4 members per household, compared with an average size of 4.5 members in 1970, reflecting the decline in the average number of children in the family from nearly 3 children in 1970 to 2.2 in 2004. According to the CAS study in 2009, there is almost equal distribution of residents by gender, where women account for about 50.3% of the total residents versus 49.7% for males, but with a gap in favor of males in the age groups below 29-year-old. This gap turns in favor of women in the age groups ranging from 29 to 64 years.

**Table 3: Distribution of age groups<sup>10</sup> according to gender (2009)**

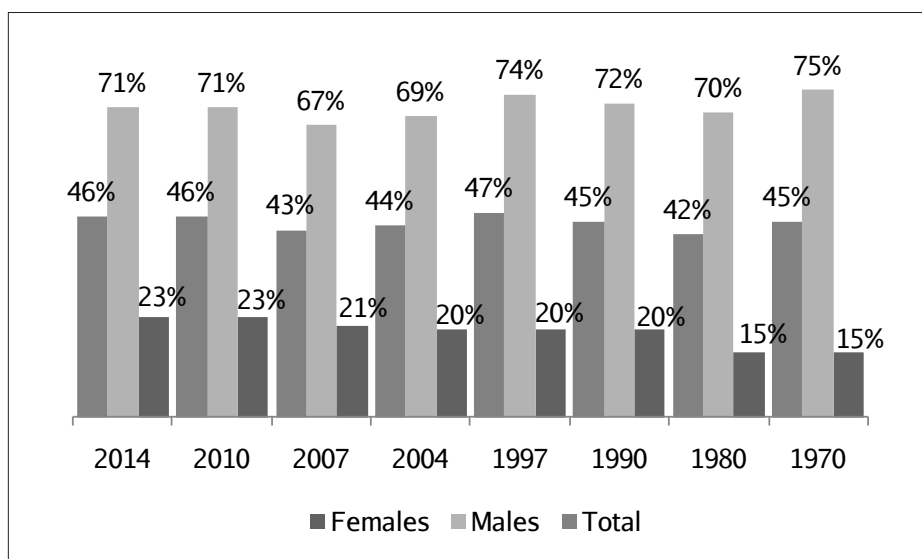
Age group	Female	Male	Total	Female/Male ratio
0-4	5.3	5.7	5.5	0.9
5-9	9	9.7	9.3	0.9
10-14	9.5	10.6	10	0.9
15-19	9.8	11.3	10.6	0.9
20-24	9	9.4	9.2	0.9
25-29	7.7	7.4	7.6	1
30-34	6.5	5.8	6.1	1.1
35-39	7.2	6.2	6.7	1.1
40-44	7.3	6.3	6.8	1.1
45-49	6	6.2	6.1	1
50-54	7.6	5.9	6.7	1.3
55-59	4.3	4.1	4.2	1
60-64	3.4	3.4	3.4	1
65-69	2.6	2.9	2.8	0.9
70-74	2.1	2.4	2.3	0.9
75-79	1.2	1.4	1.3	0.9
80-85	1	0.9	1	1.1
+85	0.5	0.5	0.5	0.9

(10) CAS, "Multiple Indicators Cluster Survey 2009" (Published 2010).

#### Four, economic activity rate in Lebanon

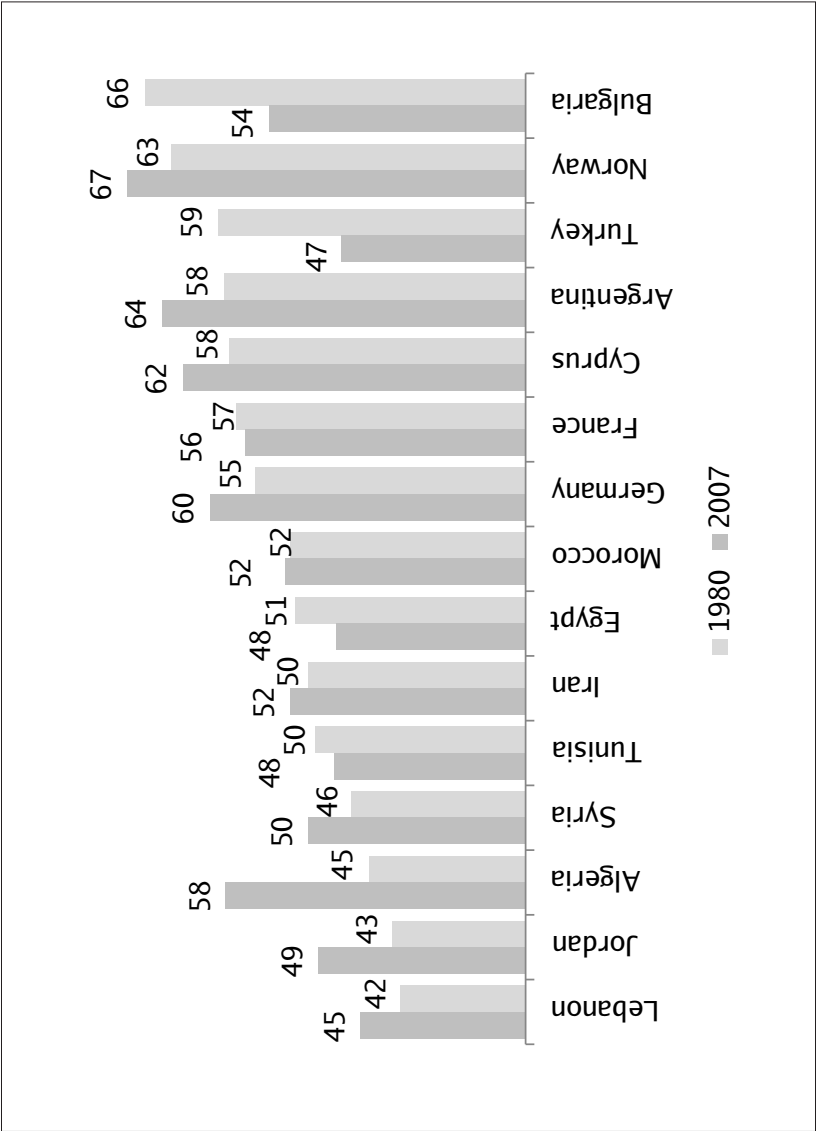
The rate of the economically active in Lebanon is a composite of those actually working and the jobless, as a percentage of the total residents in the age groups above 15 years. According to the results of the CAS study, the rate was about 44% in 2004, marking a high consistency over more than three decades, as it was about 45.3% in 1970. The rate of the economically active in Lebanon is low in comparison with that of most neighboring countries, as this rate is up to 49% in Jordan, 50% in Syria, 52% in Morocco, and 58% in Algeria. This low level is due to two main factors: First, the persistent low level of female participation in the labor force (20% of women aged 15 and above were working in 2004, and 23% in 2014); that's more than the female working rate in 1970 (15%). The second factor is the decrease of male participation in the work market due to several factors, most notably the increasing male migration rates, which was reflected in a drop in their activity rate in Lebanon from 75% (of the 15 years and above male age group) in 1970 to 68% in 2004.

**Chart 4: Distribution of those economically active by gender (1970-2014)<sup>11</sup>**



(11) International Labor Organization (ILO), "Economically Active Population" (6<sup>th</sup> edition, October 2011); Central Administration of Statistics (CAS), "Living Conditions of Households for Years 1970, 1997, 2004, 2007".

**Chart 5: Labor force out of the working age population (%),  
in 1980 and 2007, in some selected countries**



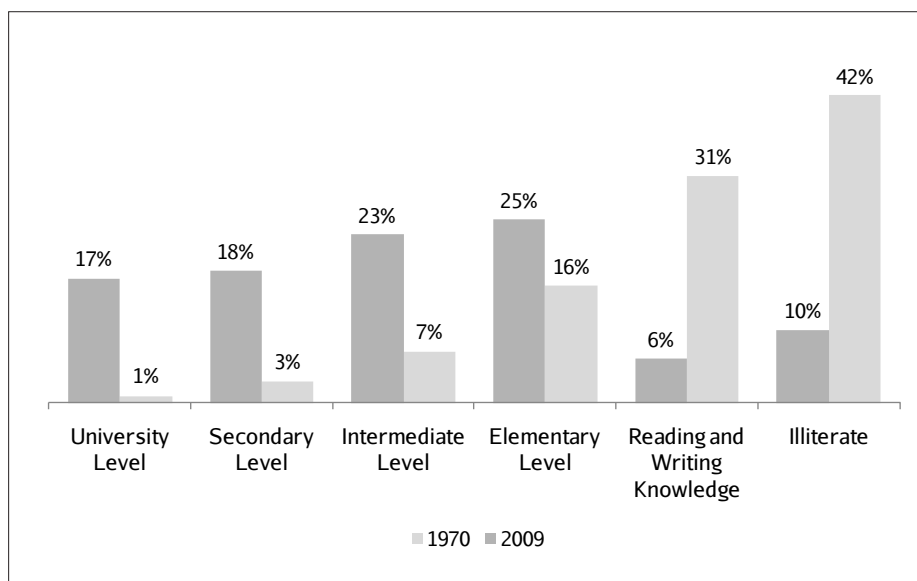


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**Five, about the low women activity rates**

It is surprising that the persistent low level of women's participation in the workforce does not follow at all the steady improvement in women education indicators over the past decades. The rates of women enrollment in most education phases, particularly university education, are at present beyond those of males, according to the educational statistics. Between 1970 and 2009, the proportion of illiterate women decreased from 42% to 10%, and the proportion of women who only have writing and reading skills dropped from 30% to 6%, while the proportion of women who have a university degree increased from 1% to 17%. Despite this improvement, female activity rates remained modest. This could be most likely interpreted by cultural and moral inherited factors, in addition to the direct and indirect "pressure" from the community on women to prevent them from working after their marriage or the birth of their children. One example of this material pressure is the gender disparity in employment conditions, especially in the informal sector and the private sector, and the low wage or income levels that do not stimulate women to work when compared to the expenditures that they would have to pay should they leave their house and join the labor market. We can also add the lack of many public services that would support women's work after marriage (such as the dissemination of children nurseries and kindergartens in public schools, and the creation of nurseries and other services in the workplace).

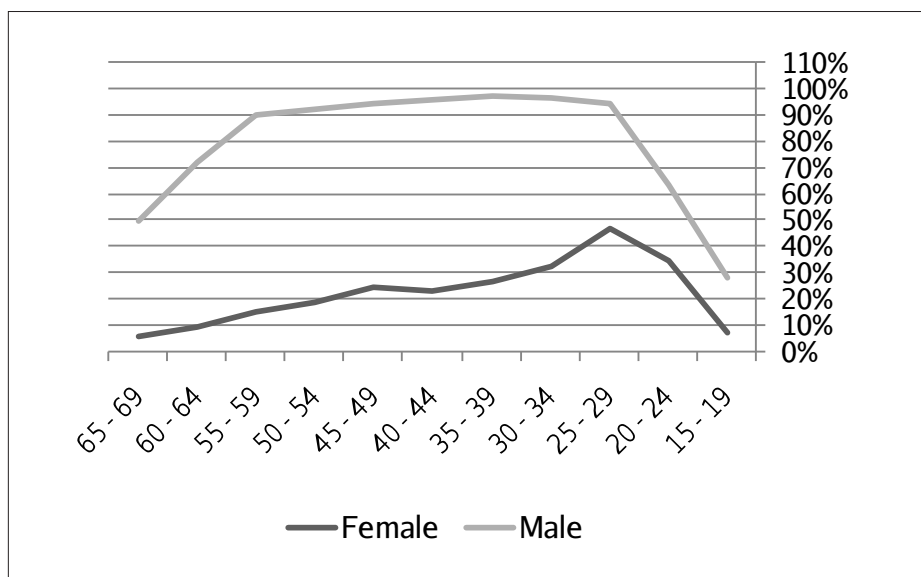
**Chart 6: Comparison among female educational levels (3 years and above), according to the education phase, between 1970 and 2009**



Variations in economic activity rates became even more obvious when viewed according to gender and age group variables. The women's activity rate reaches its peak (47%) in the age group between 25 and 29 years –where the upper ceiling corresponds to the threshold of women's age at their first marriage. But it remains almost equivalent to half the rate of male activity in this same age group. Then the women's activity rate moves gradually and surely downwards as women move from one age group to the next. It decreases to about a third of the male activity rate in the age group between 30 and 34, then to about a quarter – and then to less than a quarter – of the male activity rate in the age groups of more than 34.<sup>12</sup>

(12) CAS (Published 2010), *ibid.*

**Chart 7: Economic activity rates<sup>13</sup> according to age (15 years and above), and gender (2009)**

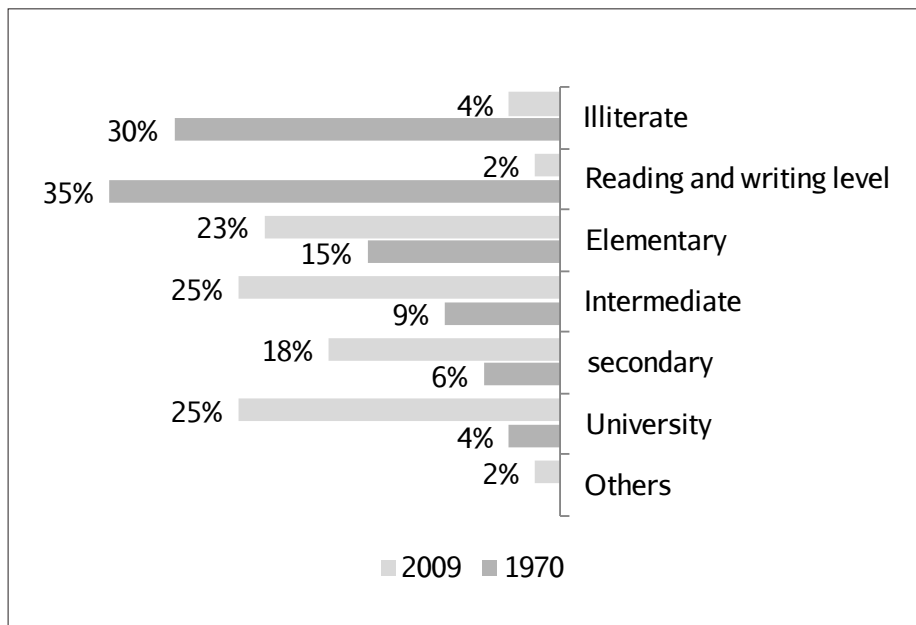


### **Six, distribution of workers according to the educational level**

There has been a significant improvement in the educational level of workers during the past decades, in conjunction with the substantial rise in school enrollment rates at various education stages. We observe, at first, a drop in the illiteracy rate among workers, from 30% in 1970 to 4% in 2009. We also notice a significant rise in the proportion of university degree holders, from 4% of total workers in 1970 to 25% in 2009. In conjunction with these two trends, an interesting decline from 35% in 1970 to 2% in 2009 was registered in the percentage of those who can only read and write, while holders of elementary, intermediate and secondary certificates largely increased.

(13) *ibid*

**Chart 8: Comparison in the distribution of the labor force (15 years and above) according to the educational level (between 1970 and 2009)**



#### **Seven, distribution of workers according to the work status**

Wage earners constitute about half the total labor force in Lebanon (in 2009), reflecting a decline compared to 1970 (as they were around 60% according to the CAS study). This decrease in the proportion of wage earners is contrary to the general trend recorded in advanced industrial nations, where the employees' rate registered a gradual rise till it stabilized in most of these countries to record levels of between 70% and 90% of the total workforce. It is likely that the civil war factors, the micro enterprises boom, and the weakness in the industrial activity, have contributed to the relative decline of salaried workers in Lebanon during the encompassing period since the 1970s. Wage-earners are followed, as per their relative weight in the labor force, by the self-employed who are more and more numerous, as they now reach 30.7% of total workers (2009). The breakdown of the self-employed is distributed on a wide range of professions and activities, some of which are linked to, or are branches of, various free professions. Others, more numerous, are distributed among simple activities with limited or marginal added value. In addition to these two

categories, there is a third category of workers who are wage earners but paid daily, weekly or by piece; they make up 10.2% of the total workforce. The rest is distributed among employers (4.7% of workers), family workers (3.2%), and trainees in the workplace (0.7%).<sup>14</sup>

**Chart 9: Distribution of the labor force according to the work status  
(between 1970 and 2009)**



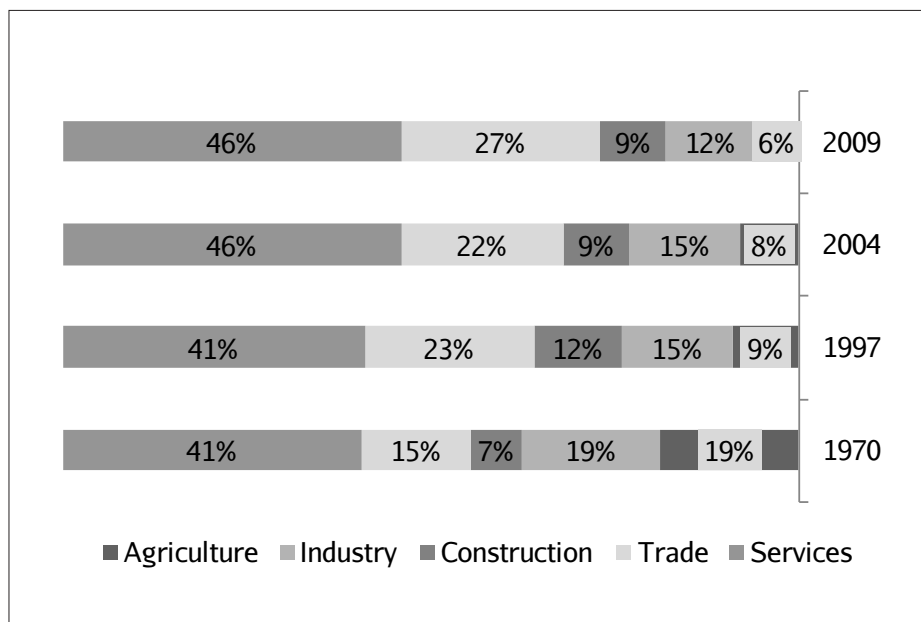
### **Eight, Sectorial distribution of workers**

The past four decades witnessed a noticeable increase in the proportion of workers in the tertiary sector, i.e. in trade and service activities, as opposed to a sharp decline in the proportion of workers in the agriculture and industry sectors. This development came as a natural result of the actual choices, stated or implied, which were made by the successive governments since the early nineties, as partly mentioned in the introduction to this paper (trade liberalization, customs rates

(14) *ibid*

reduction, financial “swelling” as a result of the fiscal deficit schemes, real estate successive surges...). In comparison with the sectorial distribution of workers before the outbreak of the civil war in the early 1970s, it is evident that the largest drop is that of the agricultural sector, as the percentage of workers in this sector fell from 19% in 1970 to around 6% in 2009. Likewise, the proportion of workers in the industrial sector decreased from 19% to 12% in the same period, after the decline in its competitiveness both in the local market versus the imported products, and in Lebanon’s traditional export markets versus the growing competition of products coming from other sources. On the other hand, the tertiary sector’s share jumped from 56% (15% for trade and 41% for services) to 73% (27% for trade and 46% for services)<sup>15</sup> in this period. The proportion of workers in the construction sector also rose from 7% to 9% between 1970 and 2009, while this sector had accounted for about 12% of total employment in 1997 which witnessed the peak time in the reconstruction programs.

**Chart 10: Distribution of the labor force according to the economic sector  
(in the years 1970, 1997, 2004, 2009)**

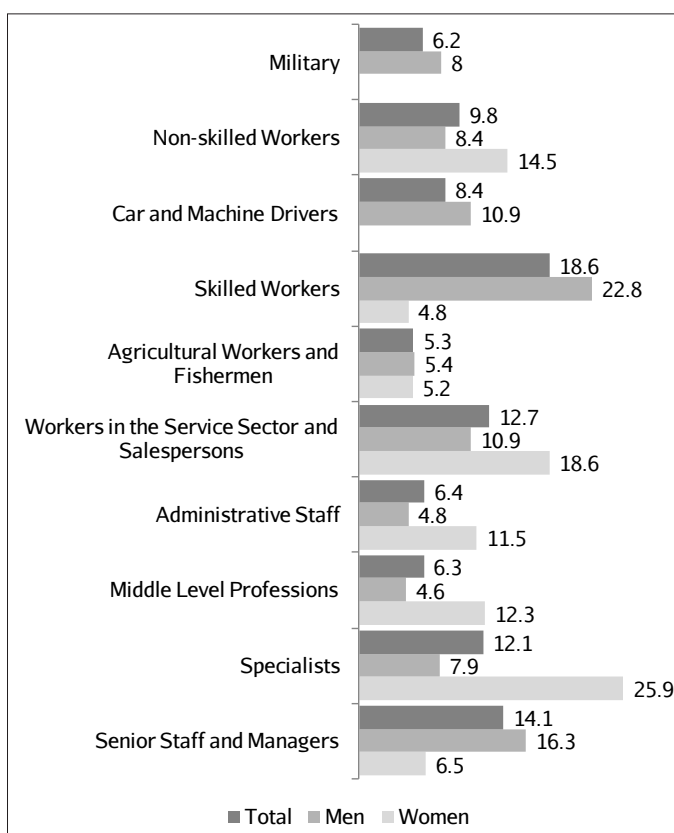


(15) *ibid*

### Nine, distribution of workers according to the main professional levels and gender

The most important socio-professional categories are distributed over four main levels: Skilled workers (18.6%), senior staff and managers (14.1%), specialists (12.1%), and workers in a variety of service professions (12.7%). We notice that there is a form of occupational division on the basis of gender, as women predominantly work in specific professions, whereas men dominate most other professions. The percentage of women (out of total working women) exceeds that of men (out of total male workers) in some specialty professions (teachers, educators, medical helpers, liberal professions...) at a 3 to 1 proportion. Women's work also predominates in many service professions that require limited skills (salespersons in shops, office clerks, workers in service activities, and as technical assistants...) <sup>16</sup>.

**Chart 11: Distribution of the labor force according to professional categories and gender (2009)**



### **Ten, The impact of emigration on the demographic situation**

The demographic evolution of the resident population has been influenced to a large extent by emigration. This factor has always constituted an essential feature inherent to the demographic reality, even if its annual flows were unequal among periods. According to the latest studies, 45% of Lebanese families have seen the migration of one of their members abroad during the period between 1992 and 2007, with a clear disparity in the migration rates according to *mohafazat*.<sup>17</sup> The highest migration score was in Beirut and the lowest in the Bekaa. Average migration has risen from 6.4 people per thousand during the years 1977-1996 to 9.6 individuals per thousand between 2002 and 2007. About 70% of emigrants over the years 1992-2007 were workers, while the students' proportion was only about 6%. Emigration has been characterized by the predominance of the youth category, as about 77% of emigrants during the period 1992-2007 belong to the younger age groups between 18 and 35 years old. The economic activity rate among emigrants (who are of working age, between 15 and 64 years), exceeds the activity rate among residents. This applies even more on females, as the activity rate was 34.8% among those who migrated, compared to 20% rate for those who remained resident in Lebanon. Arab countries have been the main destination for about a third of the total number of emigrants during this period.

The Lebanese emigration flows had registered record levels during the civil war years, then calmed down during the reconstruction era, but they later regained their upward trend, especially as of the beginning of the third millennium, rising to more than 38,000 migrants per year (as opposed to about 25,000 migrants per annum during the period 1975-2000). This emigration has mostly affected experienced staff, college and high technical institute graduates, and the middle and upper skilled individuals. Such migration induced a high political cost, since it contributed (and still does) to emptying the country from specific profile citizens (the voters) who could be considered more aware and demanding for their legal rights, keen to give their opinions and ask for accountability, and tough in raising their voice of criticism about issues related to public affairs.

The amplified migration among this category of human resources has also contributed to the weakening of the labor market environment, and of the legislative

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(17) Choghig Kasparian: "L'émigration des Jeunes Libanais et Leurs Projets d'Avenir" – USJ (2009).



and institutional frameworks that regulate those markets. This involved a huge economic cost that was often covered-up – by most politicians inclusive – through the non-innocent glorification of the “virtues” of migration and its consequent remittances. It reflected an utterly blunt blindness to what the Lebanese community had spent (as public and private funds) on the education of children since birth till they graduated. This cover-up also includes the origin of the problem that lies in the incapacity of the prevailing economic model to generate decent work opportunities and absorb local and emigrant human resources. This fact has prevented the country from benefiting from these resources – as a priority – to develop the comparative advantages of the country’s economy, and to strengthen creative activities, entrepreneurship, and professional productivity in high value-added activities.

### **Unemployment rates**

Official statistical data indicate the volatility of unemployment rates within contained limits, until 2009. According to the CAS<sup>18</sup>, unemployment averaged 6.4% in 2009, compared to 7.9% in 2004 and 8.5% in 1997, while it was about 6% in 1970. Unemployment rate among women in 2009 was estimated to be about twice the level for males. The rate also recorded its highest levels in age groups between 15 and 29 years, reaching about 20%, with a clear decline after 30 years, and further after the age of 35 years. Unemployment rates, as distributed according to the educational level, indicate that the top percentage of the unemployed concerns workers with a university degree (8.8% in 2009). Beyond the official data released on unemployment rates (particularly by CAS), it is worth mentioning other data issued by the World Bank<sup>19</sup>, stating that the unemployment rate has reached about 11% in 2010, and would likely rise to almost 20% in 2014, as a result of the worsening Syrian refugee crisis in Lebanon.

The following two tables show some characteristics of the unemployment phenomena in Lebanon, according the CAS study.

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(18) CAS (Published 2010) op.cit.

(19) World Bank report 2012, op.cit.

**Table 4: Unemployment rates according to age groups and gender (2009)<sup>20</sup>**

#	Age groups	Female	Male	Total
1	15-19	30.3%	17.4%	19.8%
2	20-24	20.5%	13.1%	15.6%
3	25-29	13.4%	6.5%	8.8%
4	30-34	7.2%	3.7%	4.7%
5	35-39	6.1%	2.1%	3.1%
6	40-44	5.2%	1.4%	2.2%
7	45-49	4.4%	1.6%	2.2%
8	50-54	0.3%	2.0%	1.6%
9	55-59		2.1%	1.8%
10	60-64	1.2%	3.7%	3.4%

**Table 5: Unemployment rates according to the educational level and gender<sup>21</sup>**

#	Top educational level	Female	Male	Total
1	Illiterate	3.7%	4.7%	4.4%
2	Reading and writing knowledge	6.1%	3.6%	4.0%
3	Elementary	9.1%	4.1%	4.6%
4	Intermediate	10.5%	4.4%	5.2%
5	Secondary	14.3%	5.3%	7.7%
6	University	11.4%	7.0%	8.8%
7	Undefined educational level	8.0%	27.3%	13.9%

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(20) CAS (Published 2010).

(21) *ibid*

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Unemployment is characterized by some basic features, including:

- The gap between supply and demand regarding work opportunities. The gap from the supply side is fed by the increasing number of annual arrivals to the labor market as a result of demographic evolution. It is fed on the demand side by the inability of the labor market to create adequate jobs, as a result of the structural features of the Lebanese economy and the lack of a clear relationship between economic growth and the labor market. Even when economic growth rates reached record levels in the period between 2007 and 2010, this has not been clearly translated into creating more employment opportunities.

- The labor market is also characterized by a sharp contrast between the labor supply structure and the demand structure. The supply structure is governed, to a large degree, by the size and type of output generated by the higher and vocational education system, which in turn is determined by the prevailing demographic data. The higher education produces large numbers of graduates from the faculties of Arts, Law and Social Sciences, and relatively lower numbers from specialty faculties (such as engineering, medicine, science, economics...). The formal and informal vocational education also provides a large number of graduates, but this education is suffering from a weak level, and from a discrepancy between its specialties and the actual needs of the national economy.

- In contrast, the demand for labor, especially the part coming from the private sector, is influenced by the characteristics of private businesses in Lebanon. The statistical survey of buildings and establishments which was carried out by CAS in 2004 indicates that more than 88 percent of these private establishments have less than five workers. They are predominantly family or simple businesses with a limited added value. As for large companies, they constitute, in variable degrees, "oligopolies" in about two-thirds of the total number of production and consumption markets in the country. Their number is limited, and their expansion in a small market like Lebanon does not allow them to generate sufficient demand for labor, commensurate with the high number of graduates, especially those with competitive university disciplines. This is what encourages graduates to seek emigration in quest for better work conditions, effective social protection, sustainable professional careers, a more stable political and social environment, and better quality of life.

- The weak institutional relationship between the university and educational institutions in general – including vocational education – and the business community implicates a negative effect that impacts the labor market's performance and structure. Universities and educational institutions are not really aware of the importance of preparing their students to the professional world for the pre-joining the job market period and after. According to relevant studies<sup>22</sup> few establishments are really involved in this regard. According to available data, more than 87 percent of companies have said that they do not need to train or rehabilitate their employees, and 93 percent of them did not allocate any budget for this purpose.

- The structure of workers' wages – in the formal private sector, and further in the non-formal – is characterized by clear discrepancies. Part of which may be due to the impact of persistent political and security events on some companies, and its effect on economic growth. It may be also caused by increased indirect taxes, associated with the decline in the quantity and quality of public services, forcing wage earners to finance some of these services from their own pocket. However, the primary cause of this imbalance remains in the persistent condescending attitude of decision makers toward the wages and social benefits issue in general. The partial and improvised wage rises, which were applied to workers in the private sector after 1996, did not fully compensate for the actual deterioration in the purchasing power of wages during this period. The proceeds of the two official rises which were decided in 2008 and 2012 covered, at best, only half of the cumulative loss that hit the actual wages since 1996. This most likely explains the causes of decline in the total wage share at the macro level as a percentage of GDP, according to the data derived from the National Accounts.

- The social protection – especially with regard to health insurance, family allocations and end-of-service indemnities – is limited to only some categories of wage earners. Based on the available data, more than one-third of the total private sector employees in Lebanon is not covered by the National Social Security Fund, and so they finance alternatives to this coverage out of their own pocket. Even for those who benefit from the NSFF coverage, the actual value of these benefits as a percentage of the average wage has declined compared with what it was in the early

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(22) Labor Market Study, Statistical Survey Results – Corporate, National Employment Institution, in cooperation with UNDP, Beirut, 1997.

1970s; knowing that the average wage itself at that time was much higher than the average wage today.<sup>23</sup>

In summary, the Lebanese economic model was not from the historical angle able by nature to create what the country needs in terms of job opportunities, in quantity and quality. Available data suggest that around 40 to 50 thousand new entrants flow annually to the labor market (including more than 30 thousand university graduates, and two-thirds of this number as graduates of vocational education, formal and informal). In contrast, the total demand for labor – by private companies, existing or created each year (formal and informal), and by some public institutions, such as the military, education, in addition to the self-employed – corresponds, at best, to one-third of this total annual offer. This explains to a large extent the persistent unemployment problem and the increased migration of human resources, knowing that this migration often contributed to alleviate the unemployment rate. The employment problem is not limited to the gap between supply and demand. It also raises many other issues: The relative decline in the wage weight, and the increase of the proportion of informal workers, especially among the self-employed and some wage-earners. These do not benefit from the legal wage rises, legal transport allowances, health protection, and end-of-service compensation. In addition to these problems, there is the persistent issue of the flow of non-Lebanese (and non-Syrian) cheap labor, almost without any control.

### **How do poverty features affect some categories of wage-earners**

The discrepancies plaguing the local labor market have a much heavier effect on poor wage-earners, according to the results of the UNDP study on poverty in Lebanon<sup>24</sup>. The rate of economic activity of poor people (38% in 2004) is below the activity rate of the non-poor (estimated at 45.4%). The unemployment rate among the poor is about 14.9%, versus only 6.7% for the non-poor, i.e. eight percentage points higher. These differences tend to surge when it comes to women's unemployment. The rate of unemployment reaches 26.6 percent among poor women, compared to 8.2 percent among non-poor women. This conclusion is true, though less sharply, for men, as the unemployment rate among non-poor men reaches 6.2 percent, while it rises to 13.5 percent among poor men. While the youth unemployment rate in the age group 15-24 years is estimated at 20 percent, this rate

(23) CRI (1985) – Study on the Evolution of Prices and Salaries in Lebanon 1974-1984.

(24) "Poverty, Growth, and Income Distribution in Lebanon" report, UNDP (2008).

risers to a record level when it comes to poor youth. Out of two young poor having a high school diploma, one of them is unemployed. When we consider poor youth who possess a university degree, we notice that one out of every three is subject to unemployment, as opposed to one out of every five graduates for non-poor young men. In general, poor youth unemployment rate is almost equal to twice the non-poor youth unemployment rate. This means, for the young poor, that improving educational attainment is not enough to break the vicious cycle of poverty, but other conditions should be provided too.

In the same context, poverty is more concentrated among day-workers and seasonal, temporary, or by piece workers. These categories represent about a third of the total poor workers, while we find another third in the self-employed category. Poverty is less present in the public sector, by comparison to the private sector. Poor workers in the public sector - which employs about 15 percent of the total number of workers - represent only 7 percent of the total number of poor in the country. The results also showed that poverty - and particularly extreme poverty - prevails most in the agricultural sector, and therefore in regions where this sector plays an important role. Out of every five poor workers there is one who works in the agricultural sector. The latter gathers more than one-third of the total poor workers in the Mohafazat of the North, Bekaa, and Nabatiyeh. This trend also applies to a certain extent to the construction sector, where poverty is quite present. Household size also plays an important role in determining the specifications of poor families, as it turns out that poor individuals generally live in larger families than those in which non-poor persons live. The average difference at the national level between poor and non-poor household family sizes is about 2.2 people. The family size is the largest in the North, which also suffers the most from poverty and extreme poverty, while Beirut - with the lowest average of family size - has the least poverty rate.<sup>25</sup>

### **The employees and the multiplicity of end-of-service and retirement systems**

The right to have an old age protection is enshrined in legislation and constitutions, and in many of the ILO international conventions. But the translation of this right into reality varies from one country to another in terms of effectiveness, mechanism, and funding modes. To date, Lebanon lacks a law to safeguard aging workers in the private sector. Lebanon is almost unique among the Middle East and

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(25) *ibid*

North Africa countries for the multiplicity of its pension systems. In the public sector there are two retirement systems - one for the military and another for civil servants - and they are funded on the basis of 'pay-as-you-go'. The private sector has an end-of-service compensation system, which is mainly funded through the capitalization principle. Available statistical data (dating a decade ago)<sup>26</sup> indicate that the two public retirement systems, run by the Ministry of Finance, were covering about 6 percent of the workforce at an annual cost of about 2.7 percent of GDP, with the two lacking an independent reserve. In contrast, the end-of-service private compensation system - which aggregates at present cash reserves estimated at 18% of GDP - covers about 25% of the total workforce. On average, its annual expenses are less than one percent of GDP, and it is administered by the NSSF. These data show that the three insurance systems cover less than one-third of the total labor force, hence a low inclusiveness degree.

In addition, these systems suffer from many shortcomings. The most important ones are the following: The end-of-service private indemnity system provides the retiree with a limited compensation lump sum, which is hardly equivalent – after converting it theoretically to a monthly wage – to 30% or 35% percent of the wage. It also bears a high risk which is shouldered by the retiree, as he becomes solely responsible for investing the lump sum. The retiree may for instance take wrong investment decisions; he is also exposed to fluctuations in currency rates, consumer prices, and financial markets. These risks particularly affect young people, who tend to cash out their compensation lump sum as soon as they lose their job and become unemployed. This decision drastically reduces the value of the compensation as high penalties apply when there is nearly a liquidation of the indemnity account. The end-of-service indemnity system also involves other disadvantages, including the high costs that are supported by the employer, especially for the settlement amounts that range, on average, between one-third and half of the total compensation amount. This situation encourages employers to evade declaring workers, restrain their recruitment policy, or recruit on the basis of short term or seasonal or irregular contracts. The two public retirement systems, for the military and civil servants, are relatively more "generous", as they provide a monthly pension equal to 80 or 85 percent of the last wage to those who worked for their entire period. But on the other hand, these two systems are not sustainable in financial terms, because no cash reserve has been constituted for this expenditure, and they are mainly funded by

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(26) World Bank: "Regaining Fiscal Sustainability in Lebanon: A Public Expenditure Review" (2005).

public money. The high value of the average wage in the public sector, and the possible worsening of the macro-economic imbalances, throw a shadow of doubt on the capacity to continue funding these two systems.

### **The general framework for the main reforms required in the labor market**

The analysis of the labor force and the labor market showed that there are many problems and great challenges on many levels, including in particular: high unemployment, the growing recruitment of cheap and low-productivity non-Lebanese labor instead of skilled competent Lebanese who tend to emigrate more and more, the growth of informal work in different economic sectors, increasing glitches and weaknesses of wage labor, as well as other problems and challenges. To face this situation, economic policies affecting the labor market should be coordinated among several ministries and public institutions, in order to determine the required reforms, based on the following basic pillars:

**First:** Reform and develop macro-economic policies, particularly those that stimulate the real economy, and reduce current imbalances in tax policy which discourage investment in productive sectors and encourage easy non-productive income. Efforts should be made to develop public investment plans (electricity, public transport, water, sewage, communications, and other public facilities) and enhance the financing tools for companies that produce tradable and exportable goods and services, especially SMEs. On the other hand, the quality of public education (academic, vocational, and college) should be improved. On the business side, procedures for the establishment and liquidation of companies should be simplified, the competition law and the decentralization law should be adopted to bridge the gap among regions and improve the labor market performance. Among other measures, the present laws and regulations should also be updated and enforced, and the institutions that have an impact on economic activity should be developed.

**Second:** Stop betting on an economic model based on investment in cheap workers (domestic and imported), who do not benefit from social services and security. This model should be replaced by another one that invests in human resources and absorbs young Lebanese proficiencies who are produced by the education system, and who now tend to emigrate more and more. The gradual move towards this model may involve a high cost in the short term, and may need a radical change in the mentality and behavior of institutions. But it remains in the medium and long term the most effective way to enhance the division of labor, embrace the



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technology world, achieve high rates of sustainable economic growth, develop competitiveness, and reach a larger social welfare and political stability.

**Third:** Reassess the social security systems by benefiting from efforts made by domestic public and semi-public entities in collaboration with the World Bank and the ILO, in order to develop alternatives to these systems. The outcome of these efforts resulted in the introduction of a bill for retirement and old-age security, which has been referred to the Parliament long ago. That bill transfers new private sector workers to a unified new system, while current workers may keep the present rights and compensations with respect to the end-of-service indemnity. The proposed old-age security scheme has a lot of positive aspects and is more sustainable than the present one. But while dealing with it, we have to make sure that social rights are preserved and the following basic principles are respected:

- The transition to the new system should not constitute a cover-up to evade the payment of amounts owed by employers to NSSF adherents ('settlement amounts'). Recovering these amounts, and maintaining their real value (even if they were paid by installments at moderate interest rates) are crucial to secure the success of this transition.

- The repartitioning part of the new system should be strengthened, while the current version is mainly based on capitalization. This could be achieved through insuring a guaranteed minimum pension, taking into account the cost of living in the country, and allowing for the necessity to reassess it along the way in light of changes occurring in the cost of living. This can be funded through higher taxes on the upper wage brackets, and possibly through a contribution by the State, albeit within limited amounts.

- The new system should be applied to all wage earners in the country, unlike the present system that only covers less than half of the total wage earners. One of the most important social rights is to offer a wide coverage base and include undeclared workers who suffer most from exposure to risk.

**Four:** Replace the current public and semi-public health insurance systems with a comprehensive national health system that covers not only workers and their

families, but all Lebanese residents, so that the whole population would be freed from health care concerns and its associated unfairness. This national system should provide minimal health care for residents, leaving room for those who want to get better and broader health coverage to fund it from their own pocket by purchasing it from private insurance companies. The adoption and implementation of this system requires a pre-agreement on its financial and administrative architecture. But in all cases, it should be funded from public money (the State's revenues), and it should replace NSSF's current sickness and maternity branch after reforming it radically and developing it properly.

**Five:** Unemployment insurance is one of the most prominent social rights, and an integral part of most social contracts adopted by developed countries, even though with variable coverage degrees. It should be inspired by some basic and well-established principles: The right to work, the solidarity in front of risk and uncertainty, and the need to maintain social, economic and political stability. The unemployment insurance issue has been seldom raised in Lebanon, although the law that established NSSF in the mid-1960s mentioned the possibility of expanding the effects of this law to include this type of insurance. However, the outbreak of the war in Lebanon, and the general impoverishment which resulted, in addition to the glaring flaw in the performance and priorities of the political class and sect leaders, have prevented the adoption of an unemployment insurance.

**Six:** Develop the legislative and institutional framework governing the labor market, especially in view of this framework being almost inexistent now or having a very limited effectiveness. The Ministry of Labor in particular should establish a comprehensive and reliable information system on the labor market in order to monitor the evolution of supply and demand, and develop and institutionalize the CPI committee and the National Institution for Labor. The Ministry should prepare – through NSSF and in collaboration with other ministries – programs to reduce informal employment, both among the private sector employees and among the self-employed, and to encourage them through flexible measures to declare their activity in return for additional benefits and guarantees. The Ministry should also pass a new labor law and commit to enforce it, reform and activate the workers' unions, as well as develop a modern union structure that promotes adherence to these unions and transparency in union representation.

**Seven:** Facilitate the work finding process, whether for employees or self-employed, to new entrants into the labor market, including graduates of universities and vocational educational centers, as well as to those who dropped out from the educational system. Promoting vocational training and hands-on experience in the workplace –through cooperation between the Ministry of Labor and employers’ associations –plays an important role in facilitating the work finding process. The National Institution for Labor should define the operational procedures that facilitate the transition process from education to work, pursue its course of implementation, and evaluate its results on a continuous basis. It should also implement without delay the project which has already been adopted, concerning the stimulation and improvement of the first job prospects to young entrants to the labor market.