

INFORMALITY IN LEBANON – DIAGNOSIS AND ANALYSIS¹



LEBANON

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INTRODUCTION

The report defines informal labor as the labor resulting from «the economic activities of workers and economic units, which are not fully or sufficiently covered – by law or practice – by regulatory arrangements. It neither includes illegal activities, especially service provision, or producing, selling, owning, or using legally prohibited goods, including the illicit production and trafficking of drugs, illicit manufacturing and trafficking of firearms, human trafficking and money-laundering, as defined in the relevant international treaties» (International Labor Organization, Recommendation 204 of 2015).

The report is composed of three parts. In addition to this introduction, we present first a detailed analysis of the political economy of the post-Taif period and its impact on the labor market in Lebanon. The second part presents the features of the labor market, and details the nature and extent of informal relations in the various sectors of the economy, and even in the public sector. It also examines the situation of workers and employees who are not permanent civil servants in the Lebanese public sector. The report ends with concluding remarks, in which we present the role of civil society organizations in approaching informality in Lebanon and pushing towards reducing their impact on labor relations, and thus on people's daily lives.

Governmental policies

The priorities of the emerging government focused on rebuilding the destroyed infrastructure and achieving economic growth; a series of economic and financial policies that contributed to the so-called economic boom were adopted (Trabolsi, 2016), and financial sectors and revenues were inflated at the expense of the productive base, generating decent and regular jobs. The strategy of borrowing with high interest rates from local banks was an essential tool in this process. The public debt service reached about %90 of total tax revenues in 1994, and about %126 in 1997². In 2012, the public debt service consumed %39 of the total public revenues, whereas the total public debt represented a high percentage of the Gross Domestic Product (GDP), reaching a maximum of %185 in 2006, and dropping to %139 in 2015³ (Economic Research Unit, Credit Libanais Bank, 2016). The main objective of the borrowing policy was to finance reconstruction and provide the necessary liquidity to support the government's deflationary monetary options, which pursued the policy of stabilizing the exchange rate and controlling inflation, with the resulting consequences on the overall productivity of the economy. As for government investment spending, which contributes significantly to stimulating economy's productivity and the creation of more jobs, it has declined significantly since 2000 and continued its downward trend failing to exceed, since 2005, the threshold of %1.7 of GDP, knowing that much of it was allocated as current expenditure to manage and maintain the infrastructure built in the 1990s (ibid., P. 8).

In the end, the profits of the banking sector had ballooned; banks' combined capital went from \$ 123 million in 1990 to about \$ 3.6 billion in 2003. The sector generated huge profits. For example, these profits increased by about %40 between 2005 and 2006 (Trabolsi 2016, P.58). This governmental financial strategy, supported directly by Banque du Liban, led to the so-called power of negative expulsion of investments directed to productive sectors, and hence job creating investments. The ratio of loans to total deposits in Lebanese

banks (%33) is one of the lowest in the world, while the deposits ratio reached about %327 of GDP (Bank Audi report on the banking sector, 2011). The number of newcomers to the labor market outpaced the economy's ability to absorb them and will maintain an important growth rate estimated by the World Bank's report (2012) at approximately 19,000 young newcomers annually. Figures will reach 23,000 every year if estimations related to increasing women's economic participation levels supported by high levels of education among them are added⁴.

LEBANESE LABOR MARKET

The data available on the Lebanese labor market is largely unable to reflect the reality of job supply and demand, especially since most data are based on statistics issued by the Central Administration of Statistics in 2009. The challenge here is not only due to said data having lost a part of their evidentiary value due to time factor, but also because the Lebanese labor market has undergone significant structural changes since then. A recent report issued by the World Bank estimates that the proportion of migrants reached %15 of Lebanese by 2010. The same report states that the flow of Syrian refugees to Lebanon inflated the labor force in Lebanon by around %35 within no more than five years (Le Borgne E. & Jacobs T, 2016, P.35-33). Therefore, we are faced today with a composition of the labor market that is completely different from what we can find in different literatures and research methods. Thus, pending the completion of the labor force survey prepared by the Central Administration of Statistics in cooperation with the International Labor Organization, which is expected to be completed in 2017⁵, we can only rely on the available data to be taken into account in analyzing employment patterns established by the political economy that governed and is still governing production relations during the past two decades in Lebanon.

WORKERS

Workers constitute about %45 of the total population (15 years and above), the majority of whom are men (%77) compared to %23 of women. When comparing the percentages of the unemployed, it turns out that the unemployment rate is the highest among women (about %18, which is double the rate among males) and youth (%34) (Le Borgne E. & Jacobs T, 2016, P. 39 ,36). Figures show a large gender gap in terms of employment between men (%67) and women (%25), and this gap widens to the maximum among young workers (39-24 years)⁶.

INFORMAL LABOR RELATIONS

Lebanon's informality grew at an annual rate of %0.86 between 2000 and 2007, a period which began with difficult economic conditions leading to Paris III Conference in 2001, which was pivotal in re-injecting a large mass of liquidity into the public finance. This period also witnessed the biggest political shock in Lebanon's post-Taif history, i.e. the assassination of Prime Minister Rafic Hariri and the subsequent political crises, but also the July 2006 war. In comparison with the countries in the region, informality has been growing at a faster pace than Egypt (%0.76) and Syria (%0.58) (Gatti & al, 2014, P. 86), known for the prominent role of the public sector in the total labor supply, and by the large agricultural economy, which is predominantly based on informal labor,

knowing that both countries were relatively stable politically and economically. More than half of the workers in Lebanon (%56) are informal, with a clear disparity between rural workers, with more than two-thirds of informal workers, and a decline in urban workers to about %48 (ibid., P. 86).

In this context, the World Bank report (2015) indicates that formal employees account for no more than %29 of the total labor force in Lebanon, while informal self-employed represent %32 and informal workers %19 (figure below). The same report points out that one-third of all (absolute) workers and two-thirds of self-employed are engaged in low-productivity and cost-effective services (retail sales, vehicle maintenance, transport, and storage). In contrast, the telecommunications, financial brokerage, and insurance sectors absorb no more than %14 of employees and %3 of self-employed. The latter category consists mainly of individuals providing sales and marketing services to insurance and telecommunications companies, most of whom do not enjoy any protection or social benefits, especially as they are registered in the Ministry of Economy and Trade as individual entrepreneurs. Therefore, companies are not liable towards this category of employees who are reclassified as service providers. Hence, work relations in Lebanon are dominated by formality and not by contractual relationships or even the economic sector, which supports the opinion considering that informality is outside the scope of any sector, job, and even specific area.

Informality is largely concentrated among poor workers. For example, %82.5 of the poorest individuals (the poorest %20 of Lebanese) are informal workers, while this percentage does not exceed %35 among the wealthiest group (the richest %20 of Lebanese) (Gatti & al., 2014, P. 11). This gives us a strong indication of the interdependence between informality and poverty in Lebanon. These data confirm that informality is a major cause of inequality among Lebanese workers. There is no doubt that it widens more the income gap between Lebanese workers and migrant workers or refugees, most of whom are engaged in informal labor relations. Like other countries in the region, Lebanon has a negative correlation between levels of education and age on the one hand, and informality on the other, which means that informal workers are less educated and younger than formal workers or even self-employed. Young workers (24-15 years) have the highest rates of informality (%69) compared with other age groups. However, in different age groups, the rate of informality does not fall below %50. It is remarkable that two-thirds of informal workers are under 34 years of age, and one-third of them are under the age of 24. Self-employed workers are also relatively younger than formal workers, with %33 of them under the age of 34 (ibid., P. 95).

The challenge of informality in Lebanon transcends its spread in most sectors, but it is very difficult to shift from informal labor relations to formal labor. This is what a study conducted by the World Bank in 2010 on a group of workers found; it also explored the nature of labor relations they engage in over the months. These data indicate that the probability of shifting from self-employment to formal waged employment is almost non-existent. The same is true for informal workers. About %3 of the formal employees shift to self-employment and %2.2 become informal workers from one month to another. About %94 of formal workers maintain their labor relations. The mobility of informal workers, if any, drives them into more

vulnerable labor relations. All available options are in fact bad. They either maintain their vulnerable informal work or become self-employed, with higher risks, because they will be involved directly in finding jobs, marketing, and employment; or will engage in unknown labor relations (mostly family). Exiting unemployment is very limited due to the lack of job opportunities created by the economy. For example, only %8 of the unemployed can find jobs the following month, but most are absorbed as self-employed (%6) and informal labor (%2). Therefore, we are faced with a labor market characterized by a lack of mobility in labor relations; informal labor (workers or self-employed) absorbs this mobility the most and re-produces excessive vulnerability in labor relations. This conclusion becomes extremely meaningful if we add it to the employment structure in the Lebanese market where formal workers constitute less than one-third of the workers. Thus, the competition between workers for available or productive jobs is mostly downward.

Figure 4: Probability of shift across different labor relations (monthly classification follow-up between December 2007 and December 2010)⁸

| | Self-employed | Formal workers | Informal workers | Unemployed | Inactive | Unspecified | Total |
|------------------|---------------|----------------|------------------|------------|----------|-------------|-------|
| Self-employed | 95.96 | 0 | 0 | 0 | 0 | 0.03 | 100 |
| Formal workers | 3.13 | 94.96 | 0.32 | 0.43 | 0.11 | 1.94 | 100 |
| Informal workers | 3.02 | 0.15 | 95.69 | 0.91 | 0.3 | 1.85 | 100 |
| Unemployed | 0.17 | 0 | 0.06 | 0.06 | 0 | 96.72 | 100 |
| Inactive | 6.19 | 0.26 | 2.05 | 95.54 | 0 | 0 | 100 |
| Unspecified | 4.5 | 0.35 | 1.04 | 0.69 | 93.38 | 0.23 | 100 |
| Total | 83.7 | 1.74 | 4.97 | 2.15 | 3.72 | 3.72 | 100 |

Source: Gatti & al., World Bank, 2014, P.20

INFORMAL COMPANIES

Informal companies are relatively small in size; their business (including their profits) does not exceed \$ 2,455 per month, i.e. not more than 6 times the minimum wage in Lebanon (Le Borgne E. & Jacobs T, 2016, P.45). This is explained by the operational size of these «companies,» which are actually self-employed individuals, and their workload allows them to incur the expenses of another worker who helps them in their work. This conclusion is actually based on the fact that about %56 of these companies employ between 1 and 2 workers, whereas companies employing 3 workers account for %25.37 (ibid, 45). By examining the ownership of these “companies” and the date of their establishment, it turns out that they are historically present in the Lebanese market and constitute a major player in labor supply. Below is the breakdown of these informal companies according to the nationality of their employers. Starting with the Lebanese, more than half of these companies (%57) were established by Lebanese⁹ between 1985 and 2010, and still exist until 14/2013, while the percentage of companies established between 2011 and 2014 was about %29 (ibid., P. 47). It is worth noting the great acceleration in establishing these enterprises between 2011 and 2014, which indicates the emergence of informal labor as the most prominent employer in economic crises. The situation is significantly different among Syrian residents; the percentage of informal enterprises established by the Syrians between 2011 and 2014 is about %66 of the total informal enterprises run by Syrians living in Lebanon. This supports our hypothesis that informality has increased dramatically over the last five years in Lebanon, and that informal activities

1. Rabih Fakhri Gemayel – Independent researcher in economic and social development issues (current research priorities: the new patterns of labor relations, economies of operating platforms and electronic applications, political economy of informality, forms of organizing informal workers).

2. Nabil Abdo, Rabih Fakhri, and Farah Kobeissi, "Workers and Trade Unions with no movement" research paper under publication in cooperation with Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut.

3. Dissecting the Lebanese public debt: debt dynamics & reform measures, Credit Libanais, Economic Research Unit, July 2016, P. 11. <https://www.creditlibanais.com.lb/Content/Uploads/LastEconomicAndCapitalResearch/16071112203804.pdf>

4. David Robalino & Haneed Sayed, "Good Jobs Needed - The Role of Macro, Investment, Education, Labor and Social Protection Policies", 2012, p.10-12, World Bank.

5. The field survey stopped for technical reasons and we were unable to obtain a clear timeline for the completion of this important survey. For more information, please refer to the

Central Administration of Statistics.

6. Snapshot of Poverty and Labor Market Outcomes in Lebanon based on Household Budget Survey 2011/2012, WB & CAS, May 2016, version 2, p.3.

7. Gatti & al., "Striving for Better Jobs The Challenge of Informality in the Middle East and North Africa", World Bank, 2014.

8. This table shows the percentages of change in the nature of employment in Lebanon through a monthly follow-up. For example, the classifications in the first column on the right

are the reference classifications of workers (i.e. the nature of their work before starting the study and the possibility of shifting to another classification). For example, we note that 99.9% of the self-employed retained the classification and so on among the different categories of working relationships.

9. Palestinians' breakdown is similar to that of Lebanese, but the percentage of enterprises established in the recent period (2011-2014) by Palestinians exceeded that of Lebanese. This is due to the influx of Palestinian refugees from Syria.

represent the largest employers of refugees in Lebanon. The proportion of informal enterprises owned by Syrians and located near Syrian residential communities increased from 5% in 2010-2004 to 14% in 2014-2011. In this context, it is important to note the fundamental role played by local and international NGOs, which provided great facilities for refugees in terms of training and preparations to establish their own work or access to financial facilities (small loans).

INFORMALITY OF REFUGEES AND MIGRANT WORKERS

Syrian refugees

We cannot talk about informality in Lebanon without addressing the labor relations of migrant workers and Palestinian and Syrian refugee workers, knowing that we have excluded the Syrian labor from this analysis due to the lack of clear reliable data. However, it is certain that the vast majority, if not all economically active Syrian refugees, are of course informal and have no social rights or guarantees. As mentioned earlier in this report, the World Bank (2015) estimates that the labor force in Lebanon has increased by about one-third in the last five years due to the influx of refugees from conflict areas in Syria. According to UNHCR, the total number of registered Syrian refugees is about 1 million refugees, composing 235,024 families. This number does not reflect the real figure, since the Lebanese State has stopped registering new refugees since May 2015, including newborns. ILO¹⁰ estimates that the labor force among refugees (15 years and above) is 239,700 (based on registration data in mid2014-), i.e. 14% of the Lebanese labor force. The number of workers among them is estimated at 160,500, i.e. one out of ten workers in Lebanon. The unemployment rate among refugees is about 79,200) 33% people representing about half of the unemployed in Lebanon) and rises to 68% among refugee women. Working refugees are concentrated in the service sector (36%), agriculture (28%), trade (15%), construction (12%), industry (4%), and other unspecified sectors (6%). ILO reports that the vast majority of working refugees are engaged in informal labor relations. The percentage of workers without an employment contract is about 92%, while the proportion of those receiving monthly wages does not exceed 23%. The study also highlighted a significant gap in wages compared with their Lebanese counterparts. The average income of refugees (US \$ 278) was less by 38% than the minimum wage in Lebanon. The gap widens to about 63% among women (Ajlouni S. & Kawar M., 2015, P.37-33). It is worth noting that many households (12% of the surveyed refugee households) are obliged to adopt a negative adaptation strategy which increases child labor. Data show that about 27 out of 37 children covered by an international survey reported working for about 7 days a week¹¹

Palestinian refugees

The proportion of workers to the total refugee population is about 32%; it drops among women to 11%, and reaches 55% among men. These figures reflect a decline compared to employment ratios in 2010, driven mostly by a decline in the employment rate among men, which was about 65%. This decline is mainly due to the large influx of labor that has resulted from Palestinian asylum from Syria in recent years. Current figures indicate that the vast majority of Palestinian refugees working in the country are active in informal labor relations, with some 86% of workers without any employment contracts. Self-employment is the most important source of income. About 48% of the workers are classified as day workers, while the percentage of freelancers is about 30%.

In 2010, the Lebanese State approved an amendment to the legislation relevant to Palestinian refugees' labor. It withdrew the principle of reciprocity and allowed them to register in the social security. However, they only benefit from end of service indemnities and are deprived of health care (UNRWA and American University of Beirut, 2016).

INFORMALITY IN THE PUBLIC SECTOR AND PUBLIC INSTITUTIONS

The Lebanese public sector, in its civilian, military, and educational bodies, accounts for about 10% of the total Lebanese labor force, i.e. about 130,696 individuals. This figure excludes some 27,000 contracted teachers in the various educational sectors (except for the contracted professors at the Lebanese University) and workers with informal contracts, in the sense that these contracts are not fixed-term ones and do not grant them any social benefits or guarantees for end of service or continuity. They often do not benefit from coverage of work accidents. They are divided into the following categories: contractors, daily workers, workers on demand, and porters. Their number amounts to around 6,880. Military personnel represent about 72% of the total labor force in the three aforementioned bodies, all of whom have formal and protected labor relations with social benefits and compensation of their own. However, the principle of a fixed-term contract with all other benefits has been introduced to compensate the lack that resulted from the abolition of compulsory military service in the past decade. The remaining workers are distributed to the educational system (21%) and the civil apparatus (7%). If we exclude military agencies from our analysis of the employment structure, it turns out that the percentage of permanent workers amounts to 47% in the educational sector and 44% in the civil service¹².

Figure 5 Labor relations patterns in the public sector



Source 5: Researcher's design based on office research deliverables

Based on the table below, we notice that public institutions in Lebanon are mainly based on informal workers. Lebanese legislation allowed this through the 1959 Personnel Law and by leaving a margin of labor relations outside the framework of legal coverage, without violating the law in force. This is what Zoran Slavnik describes in his analysis of the political economy of informality as «policy drift». This means that the State does not amend the adopted policies or laws to allow more flexibility in labor relations and restrict workers' guarantees, but keeps the old system and tries to manipulate it by overlooking legal gaps on the one hand, and adopting them for purposes other than the original ones on the other. This is particularly the case of gaps in the Personnel Law, which allows public institutions to contract temporarily if funds are available. Then what is temporary becomes a fait accompli through which State institutions use their bargaining

power to impose formal labor conditions on workers and divide these conditions according to conflicting interests. The interests of permanent employees are contrary to those of daily workers; sometimes even the interests among groups of informal workers themselves are contradictory, such as daily workers and collectors who work for Electricité Du Liban (EDL). This results in a «legislative labyrinth» with regard to labor relations in the public sector, and also extends to the private sector. For example, recent labor movements have seen clear inconsistencies between permanent civil servants represented by the Trade Union Coordination Body, on the one hand, and contracted workers and employees on the other. The Trade Union Coordination Body, the most effective trade union framework in the last five years, has distanced itself from the demands of informal workers in the public sector. Even its former president, Mr. Hanna Gharib, considers that the basic demand is to achieve the objective of adjusting wages for permanent teachers and civil servants. Public sector reform and other issues can be then discussed¹³.

| Remarks | Wage / Allowance | Employment period | Number | Institution |
|---|------------------|---|--------|---|
| Informal workers represent around 30% of workers in these institutions. Governmental decrees or competitive examinations for permanent employment were suspended. | NA | Few years for most of the cases and few cases for more than 2 decades | 1,800 | Water establishments (A) all over Lebanon |
| They have no coverage even in the hospital where they work and do not benefit from any guarantees. | \$ 2-6 / hour | 5 years in most of the cases | 650 | Rafik Hariri university hospital |
| EDL does not pay their contributions to Social Security although the latter accepted them. | \$ 15/day | Some of them work since 15 years | 1,833 | EDL - Workers on demand |
| | NA | NA | 737 | EDL - Collectors |
| Social Security does not grant them medical coverage and the Social Security syndicate does not claim their rights because they are not permanent. | NA | 5-15 years | 150 | Social Security |
| They are not covered by any social or health protection and OGEHO syndicate refrains from organizing them. | NA | 5-10 years | 900 | OGEHO |
| The Régie manipulates the law and grants 2-month contracts and then let workers stop working for one month, to go back to work again, and so on. | \$ 22/day | 5-18 years | 270 | Régie Libanaise des Tabacs et Tombacs |
| They have no social or health protection or guarantees and have no right to paid leaves. | \$ 25/day | Some of them work since 1990 | 533 | Ministry of Finance |

Source 3: The State is violating its laws: Thousands of daily workers in public institutions and administrations have no rights, Farah Kobeissi, 2012, Al Manshur newspaper (الثورة تعرق) (التيها: آلاف العمال في المؤسسات والإدارات العامة من دون حقوق، فرح كوبيسي، 2012، جريدة المنصور).

10. ILO ROAS Assessment of the Impact of Syrian Refugees in Lebanon and their Employment Profile 2013, Beirut, 2014

11. Child labor report, Because we struggle to survive – Child labor among refugees of the Syrian conflict, 2016, P. 28-29

12. It is worth noting that these figures are taken from the monthly report on salaries and wages issued by the Lebanese Ministry of Finance in 2012. This report was adopted because it was the only report which included data about the numbers and distribution of employees and contractors in the public sector.

13. This announcement came in an interview conducted with Mr. Gharib by a team that was preparing a research paper entitled "Workers and Trade Unions with no movement", for Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut. The researcher was able to consult it being part of the research team. The paper is still being reviewed for publication.

FINAL REMARKS

Informal labor in Lebanon is an essential component of employment and absorption of the growing labor flow, in light of the limited productivity of the Lebanese economy and the absence of any government strategy in the near term to improve productivity and move towards job-driven growth. The following are some of the key conclusions / recommendations to create an oppositional momentum for the political economy of informality;

- First, efforts must be made to influence decision-makers in relation to labor surveys, which can be restricted to the Central Administration of Statistics, ILO, and the World Bank. Therefore, civil society organizations must work to build their perception on how to study and diagnose labor informality through surveys that may be carried out in the coming period.
- In the absence of any real possibility of change on the level of economic options, the main focus must be to call on the Lebanese government to abide by the standards set out in Recommendation No. 204 of 2015 - ILO.

- Action must focus on adopting a social protection framework, where the State guarantees a minimum of social and health benefits to all, regardless of the nature of their social or economic status. However, this requires supporting and developing the mechanisms adopted by insurance institutions.
- Lebanon has and continues to witness programs and initiatives supported by international donor institutions, often with the participation of local governmental and civil institutions, which call for stimulating entrepreneurship and establishing micro-enterprises. These initiatives are one of the most important drivers of informal labor, particularly among the poor and the most vulnerable groups, such as women and refugees. Self-employed people in poverty pockets or refugee camps / communities, who are responsible for feeding their families and are exposed to the risks of direct labor in the market, are pioneers in these initiatives.

- The structure of the tax system in Lebanon (VAT and other indirect taxes) stimulates informality. Therefore, it is important to adopt taxes that stimulate demand for decent work and redistribution.

- The Ministry of Labor played a key role in licensing what is known in the literature of trade unions by yellow unions, i.e. unions subordinated to the authorities. In this context, trade unions reform is one of the most important options to influence labor relations, since labor formality remains the only option to build the bargaining and moral power of workers and influence working conditions, even informal ones. Therefore, it is very important that Lebanese civil society organizations play a positive role in cooperating with existing labor bodies that have no political and partisan obedience to improve the possibility to reach and organize informal workers into basic frameworks that represent their interests.

- In view of the reality of refugees, and under the governmental policies and procedures which are tightening their economic activity, many economic empowerment initiatives are emerging to improve refugees' access to productive resources. Most of these initiatives contribute to the expansion of the informal economy among refugees. In this context, it is necessary to promote coordination between these various initiatives and to disseminate clear standards that guarantee the protection of migrant workers from exploitation and help improving their situation.