



Advocacy Note on the Impact of the Removal of Subsidies on Food Security, and Recommendations

1. Background and rationale

In the midst of the economic and financial crisis, in January 2020, Lebanon modified the existing subsidies system to fund imports of basic goods such as fuel oil, pharmaceutical products, and wheat grains goods by providing hard currency to importers at the official exchange rate of LBP 1,500 to the dollar. In July 2020, a food and agricultural/industrial basket was also subsidized, but at the higher exchange rate of LBP 3,900 to the dollar, including nearly 300 items.

As Lebanon's economic and financial crisis continued, the Central Bank announced in November 2020 that it could run out of money to pay subsidies on basic goods by early 2021. Official foreign reserves were estimated to stand at around USD 16 billion in mid-March 2021, with USD 1 to 1.5 billion available for two to three months at the current rate (USD 500 million per month) for the subsidization of wheat grains, fuel oil and pharmaceutical products at the official exchange rate, and the basket of food items and agricultural/industrial inputs, at the bank exchange rate (USD/LBP 3,900).¹ Once the minimum reserve requirements threshold is reached subsidization might not continue. However, it is anticipated that subsidies on the broader "food basket" could be discontinued first, whereas the subsidy on the basic goods could be reduced, particularly on fuel.²

¹ Finance minister interview with Bloomberg on March 16th, 2021. Source: [Bloomberg](#). It is important to note that till now, no clear numbers exist on the actual available reserves and how long they can last.

² MTV talk show "Its about time" mentioned that the food basket will be reduced to 30 items beginning of April. The current basket cost USD 80 million for subsidization and is supposed to be lowered to USD 40 million. The show mentioned that discussions focused on using WFP SMEB basket as basis for the commodities to remain subsidized. However, no decision was taken at the time of updating this note.

If authorities do stop subsidizing certain goods — especially flour, fuel, and medication — prices are expected to rise significantly, further reducing access to food and medicine for the poorest segment of the population.

As a series of governmental consultations to agree on a set of possible modifications to the subsidies system have been taking place,³ this advocacy note from the LCRP Food security and agriculture sector aims at highlighting the impact of the removal or modification of the subsidies on food security and vulnerable populations, at the same time presenting a set of programmatic recommendations for the humanitarian community at large. The Advocacy Note is intended as a live document that will be regularly updated.

2. Analysis

Currently, two main exchange rates are used for the different subsidization mechanisms, while different percentages of the import price are covered through the mechanism in place. There are three groups:

1. Wheat, medicine, medical equipment, and infant formula: the Central Bank subsidizes 85 percent of the import price at the official rate of LBP 1507.5⁴.
2. Combustible fuel (gasoline, diesel, and cooking gas): 90 percent subsidized at the official rate as well. The Central Bank also supports the import of fuel oil used for the generation of electricity in national plants.
3. Basket of nearly 300 food and agricultural/industrial products:⁵ those are subsidized at the Central Bank market platform rate of LBP 3,900.

Based on previous analysis conducted by the World Food Programme (WFP)⁶, and considering a depreciation of the LBP on the informal exchange rate markets of LBP 15,000 to the US dollar,⁷ **removal or reduction of subsidies is expected to have very significant inflationary repercussions on both the subsidized commodities, as well as the rest of the commodities/services in the market.** Full removal of the subsidies will lead to the bread price increase by 1.5 to 4.25 times over and above the current price of LBP 2,500 for a package of 905 grams, noting that the price of the large bread package already

³ Recently the Finance Minister indicated that certain products will be removed from the basket of food items as well as a reduction of the fuel subsidy.

⁴ In the latest price update for the bread package on March 31, 2021, the Ministry of Economy & Trade indicated that the Central Bank has agreed to increase the subsidy on wheat from the current 85 percent to a full 100 percent. However, no official decision in this regard was released by the Central Bank yet. Source in Arabic: [LBC News](#)

⁵ The initial basket contained around 300 items. However, the basket has been revised several times since its inception, cutting down the number of items. The latest revision on March 24th cut down the number of components included under the industrial material section to only four items, from around 80 items in the previously updated list in November 2020. The latest list can be found here: [Ministry of Economy & Trade list of subsidized items](#)

⁶ [WFP Update of Food Price Trends – August 2020](#)

⁷ The potential price increases assume an informal exchange rate of LBP 15,000.

increased by nearly 67 percent since June 2020, while its weight decreased by 10 percent⁸. Combustible fuel prices could increase more than five times the current levels. The price of medicine, medical equipment and infant formula could increase of up to 326 percent once subsidies are removed, while the price of the items in the basket of 300 food and industrial/agricultural products might increase to 285 percent.



Photo: WFP/Ziad Rizkallah

Non-subsidized commodities are expected to witness additional price increases as a result of any subsidy removal/modification, albeit at lesser percentages than the directly subsidized commodities. As transportation for example is part of nearly all goods/services economic cycle, any gasoline price hike will translate into an increase in the cost of nearly all good/services, as sellers/traders will transfer the cost increase to the end consumer.

While no decision has been taken yet on the subsidies mechanism modification/removal, and the introduction of support card for vulnerable families⁹, a gradual increase in the cost of combustible fuel has been taking place since the start of December 2020, with the cost of gasoline price increased by 62 percent, diesel by 69 percent, and cooking gas by 45 percent.¹⁰

Already in 2020, 22 percent of Lebanese households consumed inadequate diets (poor and borderline food consumption).¹¹ For Syrian refugees, one out of two households consumed inadequate diets,¹² while for refugees of other nationalities, two out of five households did so.¹³ The expected inflation following the removal/modification of the subsidies will add further pressure on households' purchasing power.

WFP's assessments conducted in 2020 indicated that deteriorated purchasing power is one of the main reasons why food security in Lebanon is at risk. In May 2020 – during the first COVID-19 lockdown - one in ten Lebanese and Syrian households reported having completely lost their income. In September

⁸ In a decision on March 23rd, 2021, the Ministry of Economy & Trade raised the price of the large package of bread to LBP 3,000 (for 960 grams). This represented a 100 percent price increase since June 2020. However, the Ministry revised the price down in a later decision back to LBP 2,500 on March 31st 2021, indicating that the central bank has agreed to cover the subsidization of wheat fully, up from the current 85 percent coverage. Source in Arabic: [LBC News](#)

⁹ Details of the four modification scenarios that were drafted initially in December 2020 were shared recently by media sources, albeit not officially (Source: [LBC News](#)). Under all four plans, certain subsidies will be replaced with a financial support card. Each scenario lists a different amount of support to vulnerable families.

¹⁰ Increases between the first week of December 2020 and the end of March 2021. The Directorate General of Oil has decided to update the prices of combustible fuel (gasoline, diesel & cooking gas) twice per week in late March. Decision was due to informal exchange rate volatility and international oil market prices changes.

¹¹ [WFP mVAM November/December report](#)

¹² [VASyR 2020](#)

¹³ VARON 2020

2020, this figure doubled to one in every five households from both populations. For Lebanese households, the unemployment rate increased by 12 percent to nearly 40 percent for the period of November/December 2020, compared to the week prior to the start of the general lockdown back in March 2020.¹⁴ The median take home income dropped by 14 percent in USD equivalent,¹⁵ between the second (September/October) and third (November/December) rounds of survey.¹⁶ Syrian refugees' unemployment rate rose as well by 8 percent to 39 percent between 2019 and 2020,¹⁷ while that of refugees of other nationalities stood at 37 percent.¹⁸ Debt level among all populations increased in 2020 (47 percent of surveyed Lebanese borrowed money, 92 percent of Syrians, and 63 percent of refugees of other nationalities),¹⁹ and the main reason for borrowing was to purchase food. Food expenditure share of total expenditures also further increased in 2020 among all populations (48 percent for Lebanese and Syrians, 43 percent for refugees of other nationalities),²⁰ indicating that people already have less resources to cover basic needs. As most of the populations residing in Lebanon are currently adopting some form of livelihood or food related coping mechanism, the ability of people to cope with the removal of subsidies is highly doubtful, given the unfolding situation.

This is why removal of subsidies, without the implementation of appropriate social safety nets programming, will severely impact access to adequate food and likely further increase the depth and breadth of food and nutrition insecurity in Lebanon, making it significantly more acute and widespread.

With the current (fourth) lockdown and the political paralysis that hinders the implementation of necessary reforms at the macroeconomic level, Lebanon is heading towards an economic collapse. The



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¹⁴ [WFP mVAM November/December report](#)

¹⁵ Using the informal exchange rate average for the selected months

¹⁶ [WFP mVAM November/December report](#)

¹⁷ [VASyR 2020](#)

¹⁸ VARON 2020

¹⁹ [Web Survey \(Aug/Sep 2020\)](#), [VASyR 2020](#), VARON 2020

²⁰ PDM for NPTP beneficiaries 2020, [VASyR 2020](#), VARON 2020

country shows more and more the inability to function and fulfil the administrative and organizational tasks required to support its people and provides only minimal public services. The health sector is suffering due to the increase in COVID 19 cases, while many poor households are not able to access the basic necessary health services. The agricultural sector is missing the necessary investments and will be unable to cover – even if at a small level – any of the national food needs. The decrease in food imports and the subsidies removal materializing will lead to increased inflationary pressures and may contribute to further political and social instability, and increased protection risks across the country. Food insecurity and malnutrition are bound to increase further.



3. Shorter-term humanitarian actions and longer-term recommendations

This Advocacy Note focuses on the recommendations for the humanitarian community, inclusive of partners, government and donors, with a short-term, humanitarian focus as the absence of a full-fledged national social protection system requires immediate action in case subsidies are lifted or substantially reduced.

The issue at stake is to cushion in the immediate term the impact of the removal of the subsidies on Lebanon's poor and vulnerable populations.

The main targeted social safety net programme in existence in Lebanon, the National Poverty Targeting Programme (NPTP), is being scaled up to assist 300,000 people (50,000 households) in 2021. The \$246 million Emergency Social Safety Net (ESSN) programme funded through a World Bank loan to assist 147,000 households is not scheduled to start until later in the year, and will be challenged to cover the food needs of the poorest in a context of hyperinflation, especially if the subsidies are removed. While the NPTP and ESSN represent critical safety nets for the poorest Lebanese households, it remains to be seen whether their scope and magnitude will be sufficient (and timely) to counter the devastating effects of the subsidy removal. Furthermore, it is not known presently how assistance to over 200,000 most vulnerable refugee families, not benefitting from the NPTP and the ESSN, could be scaled up to mitigate the impact of the steep inflation expected to result from the subsidy removal.

The sector therefore advocates for i) a set of actions, irrespective of vulnerable populations' status and nationality, to be undertaken in the short term by the humanitarian community and ii) proposes a number of recommendations for the longer term:

i) Most urgent actions for the humanitarian community to undertake in the short term:

- Advocate for a selective and gradual removal of food subsidies, while maintaining the bread subsidies as full removal would have the greatest impact on food security.
- Mobilize institutional donors and countries to immediately deliver humanitarian assistance pledges to Lebanon made after the August Beirut port explosion.
- Immediately scale-up food assistance programmes to help meeting needs and reducing potential malnutrition coping mechanisms, and human suffering. Specific attention needs to be paid to the most vulnerable affected households and individuals, such as persons with special needs, single-headed households, persons with disabilities, pregnant and lactating women, refugees, infants and children, youth, and elderly populations.
- Complement short-term life-saving emergency food assistance, targeting the most vulnerable Lebanese and refugee households, with support on health, hygiene, nutrition (including infant and young child feeding) and debt repayment support.
- Explore the possibility of redirecting existing funds to reach newly affected populations with food assistance, where and when possible and feasible.
- Leverage the robust humanitarian structure in place in Lebanon to ensure a transparent, impartial, and fair targeting of the most vulnerable – prioritizing households that will likely fall into poverty and extreme poverty in the event of the removal of food subsidies.

ii) Recommendations for longer-term programmatic changes in 2021

- Implement longer-term food security programmes to build up a buffer stock of food grains that can be used to mitigate the effects of supply instability. Through this means, food assistance can play a role in protecting the right to food and ensure free and predictable flow of emergency food assistance in the event of a deteriorating situation for the poor who would lose access to food when prices rise, or subsidies are removed.
- Promote programmes combining social protection schemes to protect income and prevent negative coping strategies with support to local production through nutrition-sensitive agri-food systems, *e.g.* provide farmers, including small producers, with seeds and animals (animal husbandry), capacity building, improved market access, and orders from the institutional sector.
- Facilitate farmers' access to credit to sustain domestic food production capacity
- Enact stimulus packages that aim to sustain jobs and the economy including Micro, Small and Medium Enterprises (MSMEs).
- Facilitate access to credit to help vulnerable households manage risk. Link humanitarian assistance with institutional purchases and inclusive value chains to further ensure access to markets.
- Reinforce vulnerability analysis and mapping systems and poverty maps, malnutrition surveillance as well as food insecurity information and mapping for host and refugee populations in Lebanon as food and nutrition insecurity are likely to become increasingly deteriorated across the country.
- Establish or expand direct market linkages between small-scale producers and urban consumers.

- Work closely with the government towards the establishment of large-scale and multi-partner social protection systems and safety net programmes.
- Support livelihoods diversification and home-based food production to increase local food availability and income opportunities, to offset the disruption in the food prices and supply chain.



4. Other Risks and Threats

If additional resources are not mobilized by the humanitarian community, current assistance programmes will not be sufficient to meet the growing needs of refugees and other vulnerable populations in Lebanon. The ability of the humanitarian community to initiate emergency cash programmes will be dependent on additional funding commitments from donors and the flexibility to adapt currently available funds. Funding may not be sufficient for the transfer value to keep pace with price inflation, particularly where assistance in LBP is provided at official rates available through the banking system.

Any scaling up of current cash programmes should also take into account the capacity of the banking system as the service provider, including the availability of sufficient points of cash withdrawal at acceptable distance from beneficiaries.

A risk of high volatility of prices after removal of subsidies is very likely and not only related to the exchange rate but also to the lockdowns imposed by COVID19, and other supply issues. Availability of food may also become a concern if there is a decline in imports and local production is not sufficient to fill the gap.

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