Fighting Hunger Worldwide

October 2014

Is the Syrian crisis jeopardizing the economy and food security in Lebanon?

Special Focus Lebanon

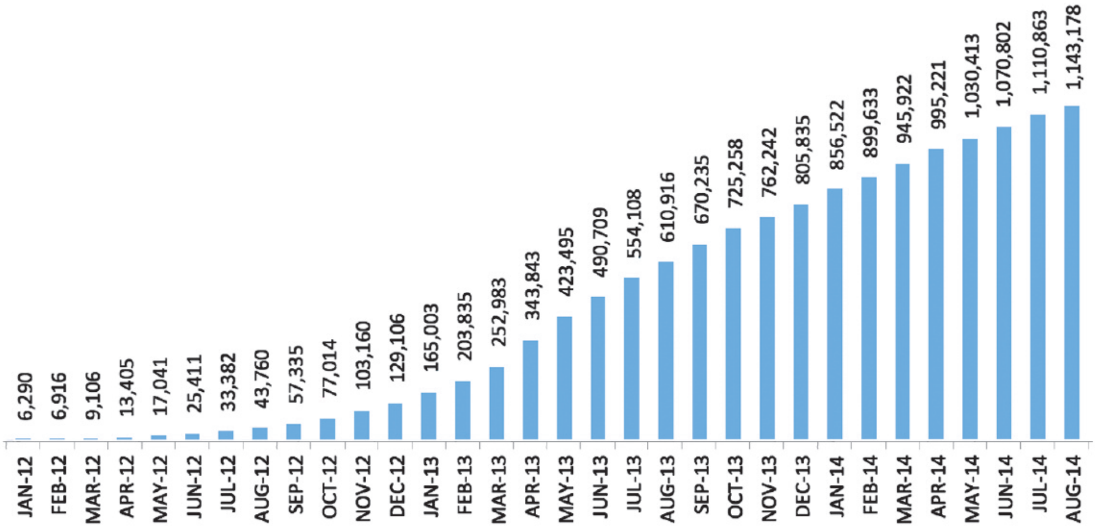
- **The crisis in Syria – now already in its third year – has had an immense impact on Lebanon, because of the economic slowdown and the arrival of over 1.5 million refugees.[1]**
- **The economic slowdown, manifested by a sharp decrease in annual growth rates from almost 10 percent pre-crisis to 1 to 2 percent in 2011–2014, is a result of increased insecurity, disrupted trade routes and the declining confidence of investors and consumers. Exports and foreign direct investments fell by 25 percent between 2013 and 2014, and tourism has dropped 60 percent since the start of the crisis. Public debt reached 141 percent of GDP in mid-2014.**
- **The influx of refugees is particularly felt in the housing and labour markets and in the quality and availability of public services. Labour supply has increased by up to 50 percent and public school students by 30 to 35 percent. There has also been a surge in demand for public health care services.**
- **The crisis is having a disproportionate impact on already vulnerable households, not only because of the increased competition for unskilled labour and the overloaded public services, but also because half of the refugees live in the poorest third of districts.**

Lebanon: the largest per capita recipient of refugees in the world

The crisis in Syria and the resulting influx of refugees to Lebanon has made the country the largest per capita recipient of refugees in the world. In May 2014, the number of registered Syrian refugees in Lebanon reached over 1 million people, with more arriving every day (Figures 1 and 2). By August 2014, a staggering 35 percent of the Lebanese population were refugees, including 450,000 Palestinian refugees.[2] The Syrian refugees live among the host communities because Lebanon currently has a no-camp policy in place.

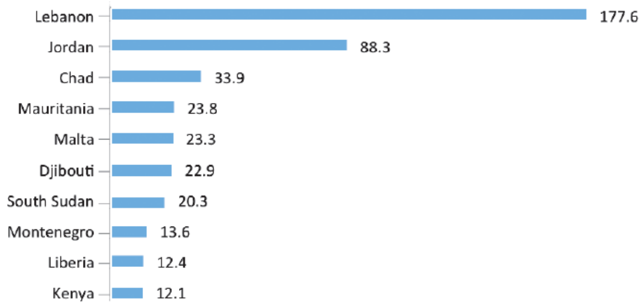
1. According to a statement by the Government of Lebanon in September 2014, available at http://www.assafir.com/Article/1/374374
2. By 29 August 2014, there were 1,143,178 registered refugees or persons awaiting registration. In early 2014 the number of registered Palestinian refugees in Lebanon stood at 447,328: http://www.unrwa.org/where-we-work/lebanon

Figure 1. Cumulative amount of registered Syrian refugees in Lebanon, January 2012 to August 2014



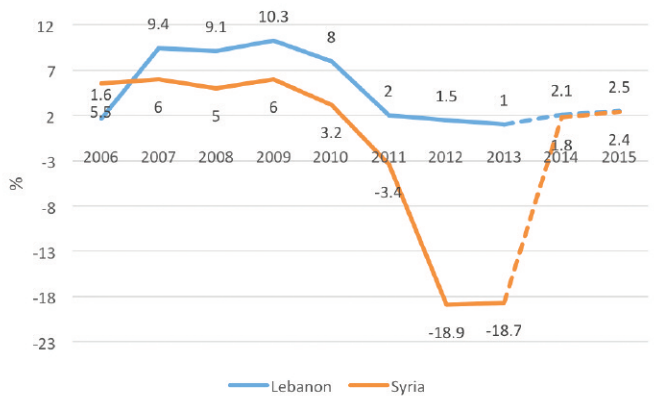
Source: UNHCR Inter-agency information sharing portal, accessed 3 September 2014
http://data.unhcr.org/syrianrefugees/country.php?id=122

Figure 2. Top 10 refugee-hosting countries per 1,000 inhabitants, 2013



Source: UNCHR Global Report 2013.

Figure 3. Real GDP growth, Lebanon and Syria



Source: Lebanon: IMF (2014). *World Economic Outlook April;* IMF (2014) *Article IV Consultation Mission Report.*
Syria: Economist Intelligence Unit (2014) Syria Country Report.

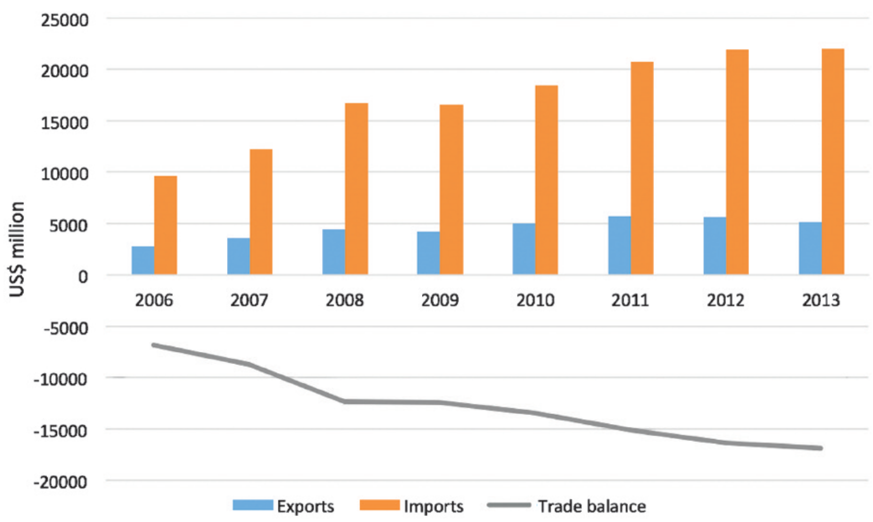
The crisis has led to a slowdown of the economy

Lebanon's economy is largely dependent on the Syrian economy, because of its proximity and their trade relations. The economic slowdown worsened in Lebanon just as the crisis in Syria erupted in March 2011 and before the influx of refugees (Figure 3). The growth rate of 1.0 percent in 2013 is even lower than the 1.6 percent rate recorded in 2006 during the conflict with Israel. The International Monetary Fund revised upward its real GDP forecast for 2014 from 1.0 to 2.1 percent in May 2014, reflecting the stabilization of economic conditions in the first half of 2014. However, it is projected that as long as the Syrian war and the regional instability continues, the growth of Lebanon's economy will remain weak.[3]

The crisis in Syria has disrupted trade, tourism and investments. Syria is the main transit trade route for Lebanon to Iraq, Turkey and the Persian Gulf, the largest markets in the region. Before the crisis, over 20 percent of all exports transited by land through Syria, but this trade has stagnated completely. New trade routes and increased regional instability have led to higher shipping costs, sapping the competitiveness of Lebanese exports and widened Lebanon's already large imbalance in trade since the start of the crisis (Figure 4). The trade imbalance has been aggravated by the increase in demand from Syrian refugees, resulting in higher imports of food and capital goods.[4] The most recent statistics on overall trade show that compared with the first seven months of 2013, exports declined by 25 percent over the same period in 2014, and imports by 4.7 percent.[5]

3. Economist Intelligence Unit. 2014. *Lebanon Country Report.*
4. World Bank. 2014. *Lebanon Economic Monitor.* Spring 2014.
5. Bank Audi. 2014. *Lebanon Economic Report 2nd quarter 2014* and Economist Intelligence Unit. 2014. *Lebanon Country Report.*

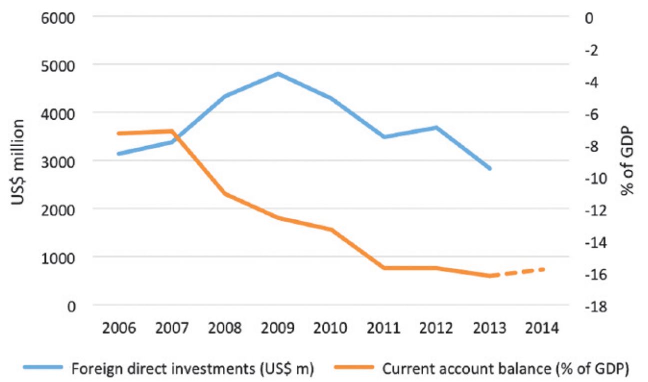
Figure 4. Lebanon's trade balance



Source: UNCTAD. 2014. World Investment Report and Lebanese customs at http://www.customs.gov.lb

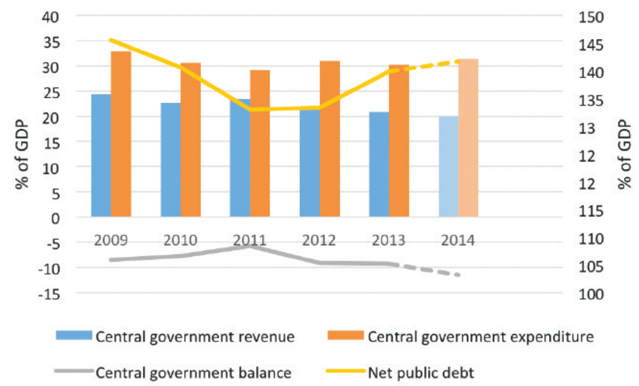
By the end of 2013, tourism had dropped by 60 percent compared to pre-crisis levels.[6] This trend continued in the first quarter of 2014, with 16.5 percent fewer tourists than in the first quarter of 2013. The crisis has also damaged investor confidence. Real domestic investments have fallen by 15 percent relative to 2010. Foreign direct investments (FDI) are 33 percent lower than in 2010; they fell by 24 percent between 2012 and 2013 alone (Figure 5). This reflects the fact that Lebanon is now less attractive to Gulf investors in the real estate sector. The fall in FDI, coupled with high external debt payments, has put additional pressure on Lebanon's external position.

Figure 5. Lebanon's external position: foreign direct investments (net inflows) and current account balance



Source: UNCTAD. 2014. World Investment Report and IMF. 2014. World Economic Outlook, April.

Figure 6. Fiscal indicators as percentage of GDP



Source: Economist Intelligence Unit.

The crisis has also had an impact on the public sector. Lower government revenues – caused by the economic slowdown – appear to be the driver behind declining government balances (Figure 6). Before the start of the crisis, Lebanon's public debt had been falling rapidly. Because of the increased pressure on government balances, public debt started to rise again and reached 141 percent of GDP in 2014.[7] The foregone output has only partly been compensated by increased consumption by Syrian refugees.[8]

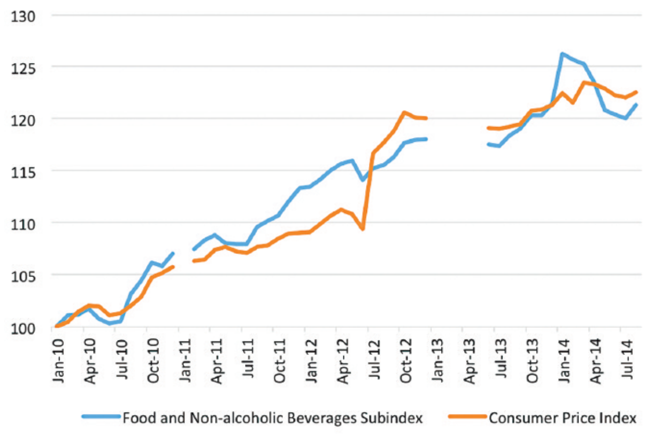
6. Bank Audi. 2014. *Lebanon Economic Report 1st quarter 2014* and Lebanon Ministry of Tourism 2014 at http://www.mot.gov.lb/Publications/Statistics
7. International Monetary Fund. 2014. Lebanon – 2014 Article IV Consultation Mission Concluding Statement at http://www.imf.org/external/np/ms/2014/050914.htm
8. World Bank. 2014. *Lebanon Economic Monitor.* Spring 2014.

Despite the large influx of refugees, consumer prices have increased less than expected...

While the spill-over effects from the Syrian crisis has caused an economic slowdown, the market for consumer goods has coped fairly well with the high number of refugees. A recent market study[9] indicates that the spending power of most refugees is low and the market for products demanded by the refugees (e.g. food and hygiene items) has adjusted rapidly. The refugee influx has pushed up demand for a limited number of low-quality products. The demand for lower-end products has encouraged new market entrants at retail level, putting downward pressure on prices. By contrast, interviews with manufacturers, importers and distributors confirm only a modest change in business from the influx of refugees. According to these actors, their businesses have been much more affected by the security situation and overall economic slowdown linked to the crisis in Syria than by the arrival of the refugees.

Overall, consumer prices have been rising, but at a low to moderate annual average rate (below 5 percent between 2010 and 2013, and only 1.1 percent in 2013) (Figure 7).[10] The sub-index for food and non-alcoholic beverages has largely followed a similar trend and stood at an average of 2.9 percent in 2013. This trend has continued into 2014.[11] Pockets of price increases and price spikes still seem to occur in a few geographical areas where there are high numbers of refugees.

Figure 7. Consumer price Index (CPI) for Lebanon



Note: No CPI was produced for January 2011 or from January to May 2013. The jump in CPI between June and July 2012 reflects an update of the household price sub-index.

Source: Central Administration of Statistics, Lebanon.

...but housing markets are under pressure

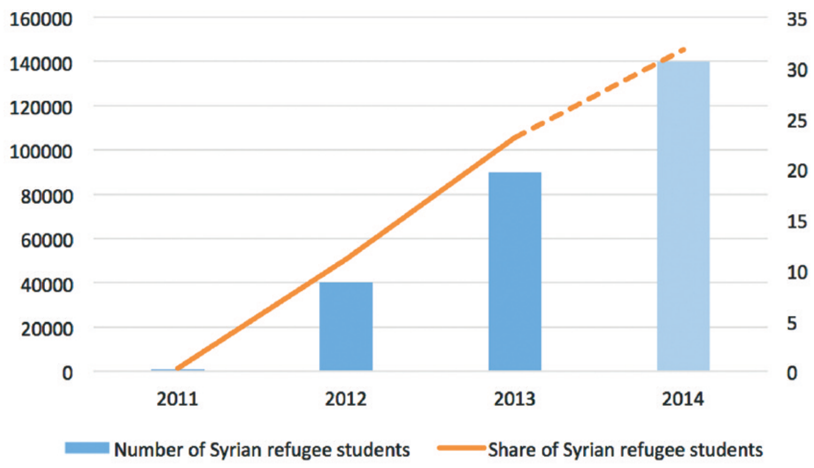
On the housing market, inelastic supply has led to competition between Lebanese and Syrians as more and more refugees enter the country, putting pressure on rents particularly in urban areas. However, the housing markets for Lebanese and Syrians are segmented to a certain extent. In many areas, Syrian refugees cannot access the same type of housing as the Lebanese because of a lack of income.[12] Many refugees rent informal tented settlements, converted garages, unfinished spaces, and converted commercial spaces. On average, 40 percent of the refugees live in unfinished shelters or informal settlements.[13] As a consequence, the harshest competition for housing appears to be among middle-income people. Exceptions include rural areas in the northern region, where poor Lebanese and Syrian households are competing for housing after rents doubled in some communities.[14]

9. Key Development Services. 2014. Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component.
10. Source: Central Administration of Statistics, 2014.
11. Many sources confirm that the quality of the CPI data is not very high. The source of the jump in the sub-index for food and non-alcoholic beverages in the early 2014 is unclear but could reflect irregularities in data collection.
12. Key Development Services. 2014. Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component.
13. UNHCR, UNICEF and WFP. 2014. *Vulnerability Assessment of Syrian Refugees in Lebanon.*
14. Key Development Services 2014. Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component.

The crisis burdens public services…

The influx of Syrian refugees has had a major impact on the delivery and quality of Lebanese public services, such as education and health. Before the Syrian conflict, public schools accommodated 30 percent of Lebanese school-aged children, mostly of lower socio-economic status. With the refugee influx, the school-aged population has increased by almost 480,000 children. Even though the enrolment rate for Syrian school-aged refugees was just 34 percent in early 2014, this has still put considerable pressure on the public school system.[15] The average proportion of Syrian refugee children in Lebanese public schools is 30 to 35 percent, though there are large regional differences (Figure 8).[16] Meanwhile, the number of public school teachers has increased by just 4.3 percent,[17] with a limited increase in public spending on education from 5.7 to 7.1 percent of government expenditure between 2011/2012 and 2012/2013.[18] To accommodate the large increase in students, the school system has been supported by foreign aid.

Figure 8. Syrian refugee children in public schools



Source: World Bank. 2013. Lebanon Economic and Social Impact Assessment of the Syrian Conflict. *Report No. 81098-LB*

In Lebanon, up to 70 percent of the population relies on private health care services. For the 1.6 million Lebanese citizens who are uninsured, the public sector is their health care provider.[19] However, even before the crisis, poor Lebanese faced barriers in accessing health care and medication because of limitations on public service provision, such as a shortage of health workers. The arrival of refugees has exacerbated the situation. As early as December 2012, Ministry of Health data showed that 40 percent of primary health care visits were made by Syrian refugees. While no recent data is available, data from 2012 and government budget allocations for 2013 indicate that the financial burden of refugee health costs has mostly been borne by UN agencies, NGOs, public and private hospitals, and by the refugees themselves. This is supported by data on central government expenditure, showing no major increase in overall expenditure during the last few years.

15. UNHCR, UNICEF and WFP. 2014. *Vulnerability Assessment of Syrian Refugees in Lebanon.* In this assessment, school-aged children were children aged 3 to 17.
16. Projections for 2014 by World Bank 2013. *Lebanon Economic and Social Impact Assessment of the Syrian Conflict.* Report No. 81098-LB.
17. Blominvest Bank. 2014. The Lebanese Brief. Week of 5–10 May 2014.
18. World Bank. World Development Indicators.
19. World Bank. 2013. *Lebanon Economic and Social Impact Assessment of the Syrian Conflict.* Report No. 81098-LB.

...and the negative effects are disproportionately felt by vulnerable households

The pressure that the refugee influx puts on public service delivery falls disproportionately on vulnerable households, because these are the households who most rely on publicly provided health and education. But this is not the only reason. While growing numbers of refugees are settling in the western and southern parts of the country, a large share still resides in peripheral areas in the regions of the Bekaa Valley (35 percent) and North Lebanon (26 percent), close to the Syrian border (Figure 9).

Even before the arrival of refugees, these regions were poor and underserved. Around half of all the Syrian refugees in Lebanon live in the poorest third of districts. According to pre-crisis statistics, poverty incidence[20] was over 20 percent in three districts in the north (Tripoli, Akkar and Minie-danniyeh) and 13 percent in two districts of Bekaa (Baalbeck and Hermel), compared with the national poverty rate of 8 percent.[21] A recent survey of Syrian refugees in Lebanon found that the most food-insecure refugees are living in North and Bekaa, putting additional pressure on host communities.[22]

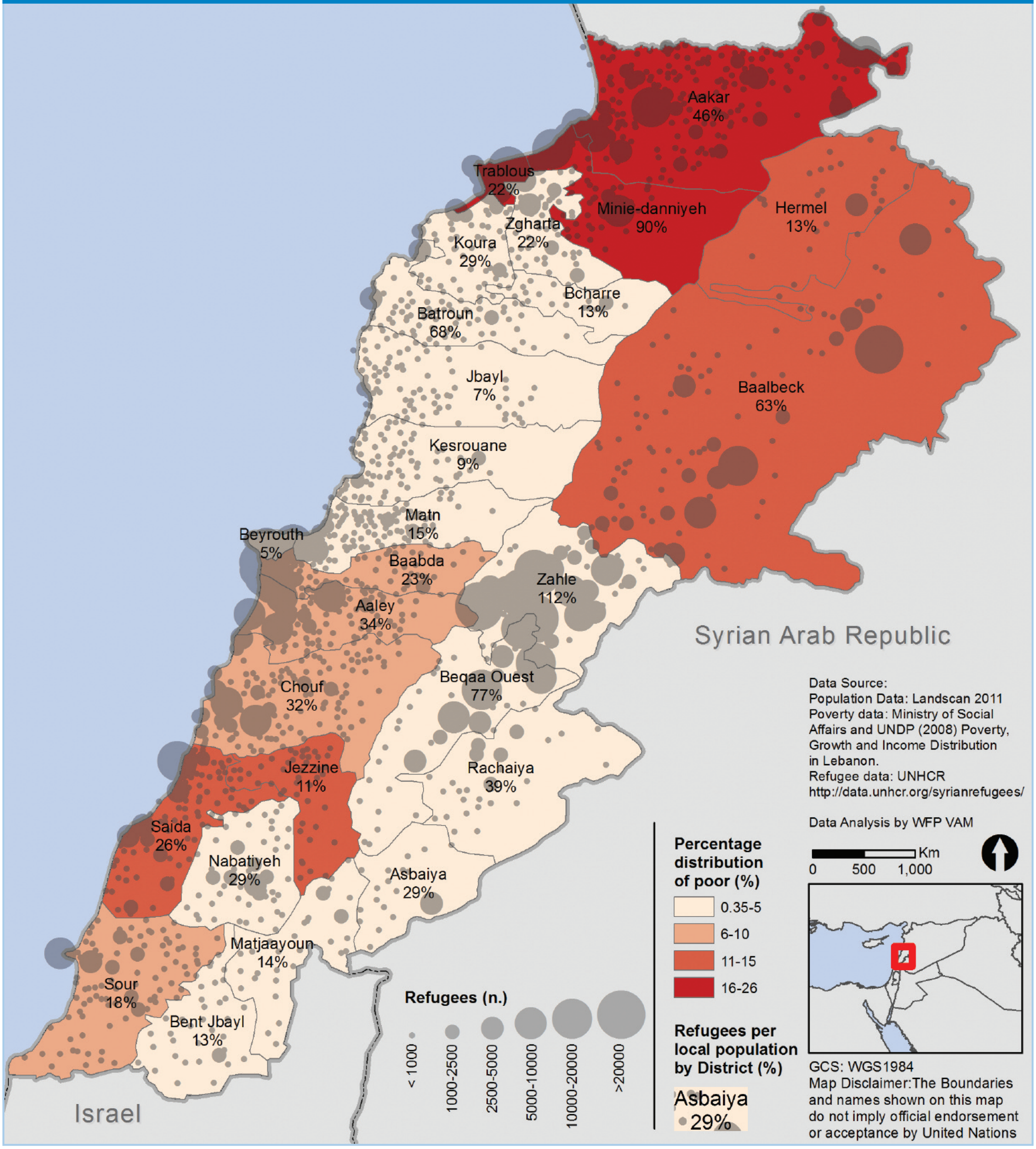
Another reason why the crisis is affecting vulnerable Lebanese the most is the increase in labour supply and the availability of cheap Syrian labour on an already structurally weak labour market, with high prevalence of informal employment. According to the most recent nationally representative household survey of Syrian refugees in Lebanon, 72 percent of households have at least one working household member.[23] It is estimated that the refugee influx has generated a 40 to 50 percent increase in labour supply.

Syrian refugees are mostly unskilled – 60 percent of household heads have been educated to primary level or less. Therefore, they compete with unskilled Lebanese for low-paid jobs.[24] In the first quarter of 2013, wages in the agricultural sector were estimated to have dropped by 30 percent. The construction sector witnessed the highest change in labour distribution from Lebanese to Syrian workers, with a shift of 40 percent from Lebanese to Syrians in North Lebanon and of 30 percent in the Bekaa Valley.[25] By the end of 2014, an additional 220,000 to 320,000 Lebanese may become unemployed, particularly unskilled young people.[26]

The World Bank estimates that the poverty rate will have increased by 3.9 percent by the end of 2014 because of the Syrian conflict. Those already poor will become poorer.[27] This suggests that the poverty outcomes are largely a consequence of labour market effects, exacerbated by poor public services. This also seems to be the main reason for tensions between Syrians and Lebanese, fuelled by perceptions that Syrians receive more support than vulnerable Lebanese. A symptom of the impact on vulnerable households is that following the influx of refugees, more Lebanese households have applied for the national safety net programme in the poorest regions (North Lebanon and the Bekaa Valley) than anywhere else in the country.[28]

20. This is based on the national 'lower poverty line', capturing households living on under US$2.40 a day and defined as extremely poor.
21. Ministry of Social Affairs and UNDP. 2008. *Poverty, Growth and Income Distribution in Lebanon*.
22. UNHCR, UNICEF and WFP. 2014. *Vulnerability Assessment of Syrian Refugees in Lebanon.*
23. Ministry of Social Affairs and UNDP. 2008. *Poverty, Growth and Income Distribution in Lebanon*.
24. According to the World Bank, 19 percent of workers are informal wage employees, lacking access to social insurance and labour regulations. Another 36 percent of workers are self-employed, most of whom are low-skilled with limited access to formal insurance arrangements.
25. World Bank. 2013. Lebanon Economic and Social Impact Assessment of the Syrian Conflict. Report No. 81098-LB.
26. Ibid.
27. Ibid.
28. IRC, Save the Children, DRC, OXFAM and UKaid. 2013. *Emergency market mapping and analysis (EMMA) of the service, agriculture and construction sector in North and Bekaa, Lebanon.*

Figure 9. Lebanon - Pre-crisis distribution of poor and geographical location of refugees



Implications for food security

Until the crisis began, food insecurity and malnutrition were not a problem for Lebanese society. However, they now warrant close monitoring given the sustained pressure of the Syrian crisis on the Lebanese economy, and particularly its consequences for poverty and unemployment among the most vulnerable in the country. Even during the early stages of the crisis, residents in the Bekaa Valley region reported purchasing food on credit (59 percent) and borrowing food (42 percent).[29] Residents in North Lebanon reported buying cheaper food items (43 percent) and reducing the quality of meals (40 percent). Recent data on the food security status of the Syrian refugees in Lebanon indicate that, on average, 13 percent are moderately or severely food insecure in 2014. The highest rates of food insecurity are in the north and east, with 22 percent food insecure in Akkar (North Lebanon) and 16 percent in the Bekaa Valley, again showing the vulnerability of these regions.[30]

Compared with data from 2013, the food security situation of the refugees has not deteriorated in 2014, despite growing numbers of refugees. Nearly 70 percent of the refugees report receiving food assistance through WFP and partners. This underlines the importance of sustained support to the refugees and the host communities in Lebanon. A withdrawal of support will have major implications in the form of even fiercer competition on the labour market, coupled with security and socio-political risks. This will also have repercussions for food security and nutrition.

29. UNDP. 2012. *Rapid Assessment of the Impact of the Syrian Crisis on Socio-Economic Situation in North and Bekaa.* August 2012.
30. UNHCR, UNICEF and WFP. 2014. *Vulnerability Assessment of Syrian Refugees in Lebanon.*

For more information, contact:

Arif Husain
Chief Economist and Deputy Director, Policy, Programme and Innovation Division - Analysis and Nutrition Service
arif.husain@wfp.org

Susanna Sandström
Economist, Economic and Market Analysis
susanna.sandstrom@wfp.org

World Food Programme
Via Cesare Giulio Viola, 68/70 - 00148 Rome, Italy
www.wfp.org/food-security

Photo credits: WFP