



PAPER NO. 2

SOCIAL PROTECTION

SOCIAL SECURITY IN LEBANESE POLITICAL ECONOMY:

A CRITICAL VIEW FROM WITHIN THE NATIONAL SOCIAL SECURITY FUND



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About the Author

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Introduction

Since its inception in 1963, the National Social Security Fund (NSSF) was not shielded from the impact of Lebanon's political economy and became a coveted asset for the ruling elite. Founded under the leadership of reformist President Fouad Chehab (1958-1964), it was part of a broader initiative to modernize the Lebanese state, encompassing the creation of institutions such as Banque Du Liban, the Civil Service Council, the Central Inspection, and the Directorate of Social Revival, in addition to new faculties and programs at the Lebanese University.

When it was established, the NSSF possessed a distinct political and social identity. Lebanon had not previously possessed a substantial social welfare system, and it was bordered by conservative nations with little inclination towards social equity, or nations trying to solidify their socialist regimes.

The Lebanese Labor Law was enacted in 1946 as a result of the union movement's persistent demands for better working conditions. However, despite being a significant milestone, the Labor Law did not bring about substantial improvements to the welfare of the working class. Social benefits were mainly distributed through religious charities and institutions or given to individuals associated with influential and affluent figures, such as ministers, MPs, and other clients of political patrons. These benefits included education, healthcare, food, and limited job opportunities in both the public and private sectors.

Therefore, the founding of the NSSF can be attributed to four interrelated factors:

1. The mounting influence of the labor union movement, which gained momentum following the enactment of the Labor Law;
2. The realization by authorities at the time of the necessity to establish a mechanism capable of managing social tensions;
3. The acknowledgment of the significance of providing

social benefits rather than delegating them to religious or sectarian organizations or the political patronage system. There was also a need to restrict the influence of these entities and prevent them from exploiting social benefits to exert pressure and weaken the legitimate political authority's social role;

4. The desire to create state structures and institutions resembling those in Western countries.

The legislation that established the NSSF (Decree No. 13955 of 26 September 1963) was meticulously designed to protect the Fund from political meddling. The NSSF was founded as an autonomous entity with a social mandate and granted moral, financial, and administrative independence. While the Council of Ministers and the Ministry of Labor offer direction, the Fund is not subject to supervision from the Civil Service Council or the Central Inspection.

In addition, the law stipulated that the NSSF's board of directors must have an equal number of representatives from both employees and employers, with 10 members from each category, in addition to six representatives from the state.

The same law specifies that the NSSF covers the following areas:

1. Sickness and maternity;
2. Workplace accidents and occupational hazards;
3. Family and education allowances;
4. End-of-service indemnity.

Although the law was passed in 1963, the government waited for two years before implementing the Fund. Additionally, there was another delay that persisted until the early seventies before launching the first and most crucial branch of the NSSF, the sickness and maternity insurance.

The Beginning of the NSSF

The establishment of the NSSF was initially beneficial to employees, but the Fund has faced numerous challenges throughout its operation, particularly following the civil war (1975 – 1990) and up to the present day. The country's division into areas of influence and control by sectarian forces has created significant gaps that persist until today. Some of

** This paper is informed by the author's own experience as a former advisor at the Ministry of Social Affairs as well as various discussions, conversations, and interviews he conducted with former and current officials and colleagues from the ministry.*

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the most notable gaps and difficulties include:

1. Non-cooperation from institutions that fail to register themselves or their employees. These unregistered institutions are estimated to be twice the number of registered institutions.
2. Fraudulent reporting of employee wages by employers. Employers often submit wage declarations that reflect lower wages than what employees receive, with the declarations falling within minimum wage limits.
3. Exclusion of foreign workers from health insurance for political reasons, under the guise of not granting social privileges that could lead to claims of political rights. However, it should be noted that foreign workers represent a significant portion of the workforce, and their inclusion in the insurance scheme could stimulate the Fund's financing cycle, improve its services, and strengthen its sustainability.
4. Limited automation of the Fund's operations, except for a small part of central administration.
5. The limited number of inspectors makes it difficult to detect significant violations, such as the need to compel thousands of institutions to register their employees. The failure of institutions to register their employees deprives them of the benefits of the Fund's contributions and their rightful incomes. The weakness of the inspection system provides opportunities for registered institutions to commit fraud by underreporting contribution values, and there is little prosecution of those who fail to declare or pay contributions. It is estimated that the number of institutions registered with the NSSF is less than 39,000, with an estimated 71,000 still unregistered. This underscores the need for strengthened inspection procedures to uphold the rights of the Fund and wage earners.
6. Closing accounts and budgets have also been problematic, with the most recent instance of an "inaccurate" account closure occurring in 2014. Concerns were raised with the Council of Ministers, which shows the degree of the mishandling of funds and the potential corrupt financial management.
7. Overlapping competencies between managers and employees, as well as in branch budgets, is another challenge facing the NSSF. Deficits in the sickness and maternity coverage are often compensated for by the end-of-service indemnity coverage.
8. The NSSF has also been criticized for the exorbitant salaries of its employees, which are often multiple times higher than comparable positions in the public and private sectors.
9. Furthermore, the NSSF has been accused of poor utilization of subscriptions, as it only invested in treasury bonds. This approach may not be advantageous in creating employment opportunities, generating profits

for workers, and diversifying risks to protect participants' investments. Instead, the Fund should invest cautiously and diversify its risks to safeguard the subscriptions.

10. The NSSF's board of directors consists of 26 members, but the current board has expired since 2006 and has not been renewed. The board has also lost 11 members due to resignation or death. Despite this, an unlawful board of directors continues to operate, further complicating the NSSF's operations.

The NSSF has been unable to implement necessary development projects to increase contributions. The unemployment compensation fund has not been approved, and compensation funds for work accidents and educational contributions have been stalled due to the lack of official decrees to implement them. Furthermore, the pension system continues to be overlooked.

The collection of owed amounts has never exceeded 70%, primarily due to ineffective follow-up and a tendency to reach consensual settlements with taxpayers. Unfortunately, these consensual settlements frequently involve corruption and bribery.

The Role of the NSSF

The Lebanese government's decision to provide social security coverage exclusively to labor unions, rather than extending it equally to all members of society in important areas such as healthcare, education, and income security, is concerning. This decision is particularly worrying in situations involving old age, disability, unemployment, illness, work injuries, maternity, or loss of a primary breadwinner. The NSSF was established to ensure health security for approximately 1.5 million citizens, constituting around a quarter of the population. As such, it should have offered a foundation for a comprehensive social protection system.

In Lebanon, only 10 formal and semi-independent institutions are authorized to offer insurance, including the State Employees' Cooperative, the Army Cooperative, the Internal Security Forces Cooperative, and the Mutual Fund of Lebanese University Professors. However, there are notable variations in the coverage they provide, particularly in healthcare and education compensation. The National Fund stands out from the rest in terms of the quality of its coverage. However, this did not address the underlying issue of inadequate social protection in Lebanon but merely shifted the focus from a broader public concern to a specific service demanded by stakeholders within a particular sector.

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Moreover, official insurance policies in Lebanon continue to practice gender discrimination. If both parents are insured, the insurer for the family is designated as the father rather than the mother. Similarly, discrimination is evident in the treatment of foreign workers and migrant workers in Lebanon. Foreign workers are not entitled to end-of-service compensation, and migrant workers do not receive any benefits from the NSSF.

Tampering with the NSSF

During the devastating civil war, the NSSF faced numerous challenges due to the country's security, economic, and political crises. Despite the destruction of many institutions, the suspension of hundreds more, and the displacement and emigration of hundreds of thousands of workers, the Fund persevered and continued to provide its services. Although the NSSF managed to maintain a positive financial reserve and accumulate a large stock, there was little progress in terms of improving the quality of services, expanding coverage, or enhancing the administration's performance. This was largely due to the difficulty of implementing a reform process in a context dominated by armed groups and a sectarian power-sharing system among warlords.

As time went on, managing the Fund became increasingly complicated due to the accumulation of security, political, and sectarian challenges. Chronic issues persisted and proved difficult to resolve, not just due to negligence and a lack of responsibility, but also because of political and sectarian interference. There was a constant search for sectarian balance in the distribution of benefits, perpetuating a disregard for the NSSF's obligations, such as opening branches to cover previously neglected areas in the Social Security Law. These areas include old age, unemployment, retirement pensions, and grants for the disabled.

The NSSF: Between Privatization and Nullification

Toppling the Workers and Seizing Control of the Board of Directors through Looting

Following the end of the Civil War, the National Social Security Fund had significant financial potential that did not come from taxes or fees. It is noteworthy that although the Fund did not prevent the 17,000 employees of the Lebanese state

from their benefits, the state did not pay its contributions. Furthermore, the state has continuously attempted to seize the Fund.

Foreign entities began their efforts to seize the Fund during the first Hariri administration in 1993, by suggesting and deliberating on the privatization of healthcare services. The reasoning behind this proposition was that social security systems are not fitting for countries with small institutions, but more feasible in countries with large economies and huge wealth. Given its operating structure, the Fund provides social amenities and acts as an advantage and profit for the labor force.

The General Confederation of Lebanese Workers (GCLW) opposed this endeavor, citing the Social Security Law, which upholds the financial and administrative autonomy of the Fund. Furthermore, the government cannot sell something that it does not own, and since the Fund's resources come from subscriptions of institutions and employees, which are outside the state budget, it cannot be sold. Nonetheless, the Fund's considerable financial resources and independent means remained a tempting prospect for the political class.

The government took additional measures to gain control of the board of directors and influence decisions from within the Fund, realizing that privatization alone would not be enough to seize its substantial resources. The government, therefore, took control of the GCLW and appointed labor representatives to the Fund's Board of Directors, with 10 representatives each from employers and labor, and six from the government. This ensured that the labor representatives would not impede the government's plans.

After gaining control of the GCLW and eliminating opposition to its neo-liberalization and privatization policies, the government ensured that only its supporters held the position of Minister of Labor during that period. These supporters were drawn from various groups who supported the Syrian occupation, such as the Baathists, Syrian Nationalists, or the Amal Movement. Since the Minister of Labor was responsible for granting licenses to unions and confederations, including the GCLW, around 30 new unions that aligned with the government were created, increasing to 60 the total number of federations. However, most of these were not genuine unions and consisted of only a few members or workers. Consequently, the balance of power in the General Council of the GCLW shifted significantly in favor of the government's supporters, with 54% of the votes in their favor. This led to the loss of defenders of the Fund's independence and their ability to represent themselves on the board of directors. The GCLW is just one of several federations subject to licensing by the Ministry of Labor, which effectively allowed the government to exert greater control over the organization. According to

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the internal regulations of the GCLW, every union, regardless of its size, should be represented by two delegates in the General Council. As a result, the ruling authority was able to gain a majority of the voting power, eliminating any influence from opposing forces. This was the case in 1997 and led to the formation of a completely loyal board of directors. Additionally, the Council of Ministers appointed a supporter of the Amal Movement as the general manager of the Fund, further cementing the government's control over the organization.

The attempts to dismantle the Fund did not stop at this point. Financially, the Fund was hit hard blow when the government transferred the dismissal of 38,000 Middle East Airlines employees to Social Security. The government collected 17 billion Lebanese pounds from their declaration and registration, while the Fund paid 72 billion Lebanese pounds for their dismissal in the same year. This drained the Fund's finances. This issue has always applied to voluntary health insurance, which, despite its outward positive appearance, still puts an extra financial strain on the Fund's budget. Those who opt for optional insurance usually end up costing more than their subscription. Additionally, the contribution rates for employers were reduced under the pretext that the subscription paid for two workers would create an employment opportunity for a third worker.

On the other hand, the Ministry of Finance mandated that the Fund buys treasury bonds worth a billion dollars at zero interest. This soon escalated to investing a third of the Fund's finances in treasury bonds, while the remaining two-thirds consisted of the state's obligations and taxpayer contributions. Currently, the last third is being utilized, despite a 95% drop in the nominal and actual capital value since the start of the financial and monetary crisis in 2019. As a result, the actual value of treasury bonds has declined sharply, leading to significant losses for the Fund and its subscribers.

After Takeover and Financial Depletion, Legal Action Seeks to Abolish the NSSF's Autonomy

The violation of the NSSF's financial independence was compounded by the infringement of its administrative independence. In 2004, the budget included an article indicating that the Fund would be affiliated with the Civil Service Council. This contradicted the Social Security Law, which stipulates that the Fund is under the tutelage of the Ministry of Labor and the Council of Ministers and is not subject to oversight by the Central Inspection or the Civil Service Council.

The 2004 Budget Law was supposed to expire the following year, but Lebanon went without an annual budget for

approximately 14 years, until 2017. During this time, spending was conducted according to the provisional "twelfth rule", which renewed government expenditure annually based on the standards of the year of budget preparation. As a result, Article 54 of the Budget Law was used to amend the Social Security Law, which stipulated that the NSSF is not subject to oversight from the Civil Service Council. This violated the Constitution and all the laws and customs governing the Fund.

The Negative Effects of Incorporating the NSSF into the Civil Service Council

At first glance, the Civil Service Council's recruitment process to fill public office vacancies appears to be reasonable. However, the Council of Ministers issued a strict directive that prohibits employment in the NSSF, and government agencies are obliged to enforce this decision. As a result, there are no job opportunities available within the Fund anymore.

The Advantages of Incorporating the NSSF into the Civil Service Council for the Political Class

Incorporating the NSSF into the Civil Service Council meant the political establishment has achieved its goal of gaining full control of the Fund. It has already taken over the Fund's board of directors and misused the funds secured by treasury bonds. Now, the path has been paved for employment based on clientelism and sectarian quotas.

Filling job vacancies has become routine in every institution, with loyal employees often transferred from the general administration to the Fund, particularly heads of departments and directorates who are not appointed directly by the organization or agency for more than six months. As a result, they must continually prove their loyalty to those who appointed them to secure their positions. This creates a system that allows those in power to exert control over the Fund, compromising its independence and weakening its overall impact.

Using sectarian and clientelistic quotas, loyalists are often granted control over all centers by proxy. One can mention in this regard the recruitment of 120 new employees who are political followers without any competition, using the pretext of filling a deficit in human resources as a result of employees reaching legal retirement age, passing away, or emigrating. This move will further entrench the political establishment's control over the Fund and undermine its independence.

The Current State of Social Security in Lebanon

The severe financial and monetary collapse of 17 October 2019 had a lasting impact on the NSSF, causing its savings to drop from USD 8.5 billion to just USD 450 million. Despite this significant loss, the Fund's leadership insists that there is no deficit, as they include lost or stolen money and treasury bonds in Lebanese pounds. However, they do admit a liquidity shortage due to a low rate of subscriptions. The sickness and maternity branch is particularly affected, having to borrow from the end-of-service indemnity branch to cover expenses.

While the NSSF's spending has decreased over the past three years due to a decrease in claims submitted by insured individuals, this is not necessarily a positive development for an institution with a social mandate. The primary goal of the Fund is to provide services to its beneficiaries, not to achieve financial balance. If financial balance is achieved at the expense of discontinuing services, the institution becomes meaningless. Therefore, the Fund must prioritize providing necessary services to its beneficiaries rather than focusing on financial balance.

Does the Political Class Want to Maintain the NSSF?

The political class and sectarian power centers, such as Faith-Based Organizations (FBOs), have never really forgiven the Chehab government for establishing social security for wage earners and, therefore, depriving them of one of the tools of cooptation at their disposal. Unfortunately, an effective administration was never established to protect, develop, and empower the Fund or prevent corruption from infiltrating it. The outbreak of war in 1975 made matters worse, as sectarian forces recruited the Fund's employees to serve their followers, further weakening it. Meanwhile, the population was subjected to "taxes" to establish special funds for each region, strengthening the role of religious institutions. Despite the establishment of the NSSF, these institutions continued to perform their charitable functions and, with the help of external emergency aid, were able to regain some of the control they had lost to the Fund.

The sectarian quota system still relies on the Fund as a source of authority and as a means of providing minor benefits to its

registered followers, such as guards and servants, allowing them to take advantage of the health benefits the Fund offers.

Lebanon's political economy has managed to circumvent the modest reform efforts achieved over the past 60 years. Being the largest public institution has allowed the NSSF to be more resistant to political influence. Other funds remain more vulnerable and many of them have long been robbed. Moreover, the fragmentation of social assistance programs across various ministries and non-governmental associations has made the concept of social protection even more difficult to achieve, given the ongoing economic crisis.

The rights of wage earners to receive benefits from the NSSF have dwindled significantly. For example, in health insurance, the value of bills that can be submitted for reimbursement is often less than the cost of traveling to the insurance centers to submit them. The situation is even worse when it comes to end-of-service compensation, as the largest amount that can be received after forty years of hard work is only around USD 3,000.

Once again, the political economy has exploited the labor of the working class, using their hard work to strengthen the power of the political class.

No Solutions Without Political Will

The foundations of the state have been thoroughly dismantled by the current political economy model, making it challenging to find individual solutions to the country's problems. Superficial solutions have been frequently used to deceive the population and are insufficient in addressing the extensive collapse. It may be overly optimistic to believe that the NSSF can be saved in Lebanon's current socio-economic and political climate, as corrupt political factions are in control and will stop at nothing to maintain their power.

What Lebanon needs is a genuine political will rooted in popular support, along with a new social contract and a concrete and practical reform strategy to implement it. National elites must come together to establish a socially just, unified, and democratic protection system that draws on lessons learned from past experiences and what remains of existing structures. The NSSF is a critical component of this protection system, but it is only one aspect of the broader crisis facing Lebanon. Addressing the root causes of the crisis and building a better future for all Lebanese citizens will require a concerted effort and a commitment to real change.

In the face of the ongoing crisis, urgent action must be taken to address immediate issues such as pandemics, poverty, and

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illiteracy. However, sustainable and effective improvement of living conditions for the population can only be achieved through radical political reform that prioritizes democracy and breaks away from the quota system, clientelism, sectarianism, and all forms of governance that promote backwardness and corruption.

About Arab Region Hub for Social Protection

We are a space in and through which professionals dedicated to exploring, understanding and advocating for better social protection in the Arab region exchange ideas and explore and initiate collaborative action. We envision an Arab region in which all people, regardless of their identities, are guaranteed social protections that secure their access to the essential goods and services needed to ensure their well-being and decent standards of living, which in turn gives them the opportunity to prosper and contribute as active members of society. We aim to facilitate the development of equitable and sustainable social protection systems in the region by: executing, encouraging and facilitating the production, analysis, collation, and dissemination of interdisciplinary knowledge about the topic; facilitating dialogue within professional spheres and awareness raising among the wider public; and enhancing collective action that amplifies advocacy efforts with the different stakeholders and decisionmakers.

Social Protection Program

The Arab Reform Initiative's Social Protection Program, which gave birth to the Arab Region Hub for Social Protection, aims to place social policy and its impact on the socio-economic rights of citizens and residents in Arab countries center stage in the research and advocacy efforts seeking to achieve social justice and social equality. By mobilizing and coordinating a community of practice and knowledge on social protection, the program aims to create a safe space for regular and systematic dialogue between the different stakeholders, in order to help addressing the problem of fragmented, non-inclusive, ineffective, and unsustainable social protection systems in the region. While doing so, the program adopts different perspectives – from addressing the necessary policy, programmatic, institutional, financial, legal and legislative reforms; to the political economy involved in the feasibility of these reforms; passing by social activism around welfare policies.



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About the Arab Reform Initiative

The Arab Reform Initiative is an independent Arab think tank working with expert partners in the Middle East and North Africa and beyond to articulate a home-grown agenda for democratic change and social justice. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality, and gender equality.