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Labour Markets Performance and Migration Flows in LEBANON

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American University of Beirut

National Background Paper
November 2009

Labour Markets Performance and Migration Flows in
Arab Mediterranean Countries: Determinants and
Effects

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Lebanon**

For more information on the Study

www.eui.eu/DepartmentsAndCentres/RobertSchumanCentre/Research/Migration/LabourMarketsMigration/Index.aspx

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Highlights

- *Problematic data:* Lebanon's last official census dates back to 1932 and its last labour market survey to 1970. Labour market indicators are obtained from two official household surveys conducted in the last 10 years, and a few private sector (university and private research centres) surveys.
- *Small country, with a small labour force:* Lebanon's population is reckoned to be about 3.76 million, with a labour force barely exceeding 1.1 million.
- *Low labour force participation of women:* only 20% of women of working age are in the labour force.
- *Educated labour force:* a high percentage of Lebanon's labour force (36%) has secondary and tertiary education.
- *The majority of employees work in the private sector, mostly in services:* of the total number of workers in Lebanon, 85.4% work for private sector companies and institutions; 64% work in the services sector.
- *Many jobs needed in the future:* estimates of 15,000 jobs per year needed until 2020 in order to provide employment opportunities for new labour market entrants, under the prevailing labour participation assumptions.
- *Archaic labour regulations:* Lebanon's Labour Law is outdated and deficient; it excludes coverage of foreign workers; social insurance schemes are costly (23% of wages) and inefficiently managed.
- *Low labour costs:* Lebanon's Gross National Income (GNI) *per capita* is evaluated at almost 5000 Euros per year in current terms; almost 6 times lower than the average GNI in European countries. Average unit labour cost has been estimated at 484 Euros per month.
- *Significant domestic inequality:* the consumption expenditure of half of the Lebanese is approximately 20% the average consumption level; and significant regional inequalities persist.
- *Unemployment:* unemployment stands at 9%, with a higher incidence of unemployment among the young than among adults, and among those who have been through tertiary education. Joblessness is costing Lebanon 630 million USD per year in lost productivity.
- *Immigrants and refugees:* there are 120,000 registered foreign workers, mostly maids from Asia and Africa. There are also an estimated 500,000, mostly undeclared, Syrian workers, working primarily in construction and agriculture. There are too almost 450,000 Palestinians, with a 60% unemployment rate and a lack of full working rights.
- *'Laissez-faire' economy:* there are no labour market policies and there is an absence of public strategic human-resource planning. The only reform was a 70% increase in the minimum wage in 2007, the first raise since 1996.
- *Absence of national employment strategy:* the Lebanese Government does not have a national employment strategy to identify labour-market challenges and so addressing them in a consistent manner.
- *High emigration, mostly to the Arab Gulf:* the average annual emigration flows are estimated at 15,000 persons, with a stock of migrants abroad of nearly 560,000 in 2005, a quarter of the resident population. Most migrants are highly-skilled (more than 10 years of schooling), males (80%) and young (below 35).
- *High remittances received, yet loss of human capital:* more than 4.5 billion USD per year, almost 23% of GDP. Yet remittances mostly finance domestic consumption, and outward remittances are also very high (almost 4 billion USD). Almost 22% of university graduates migrate each year, and 50% of current university students wish to leave.

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1. The labour supply in Lebanon: situation and prospects

1.1. Demographic dynamics and prospects

a. Working age population projections

According to the latest official households' survey conducted in 2004, the resident Lebanese population is estimated at 3.76 million. This excludes residents in the Palestinian camps, who are considered refugees. The Lebanese represent 93.4% and non-Lebanese 6.6% of the resident population. It is interesting to note that international sources such as the ILO estimate the Lebanese resident population to be 4.1 million. This discrepancy is the direct result of the lack of an official population census in the country, as the last census was conducted in 1932. Confessionalism, which still marks Lebanese politics, acts as the main inhibitor against conducting a census, given the sensitivity of revealing sectarian information in the context of the political divisions in the country.

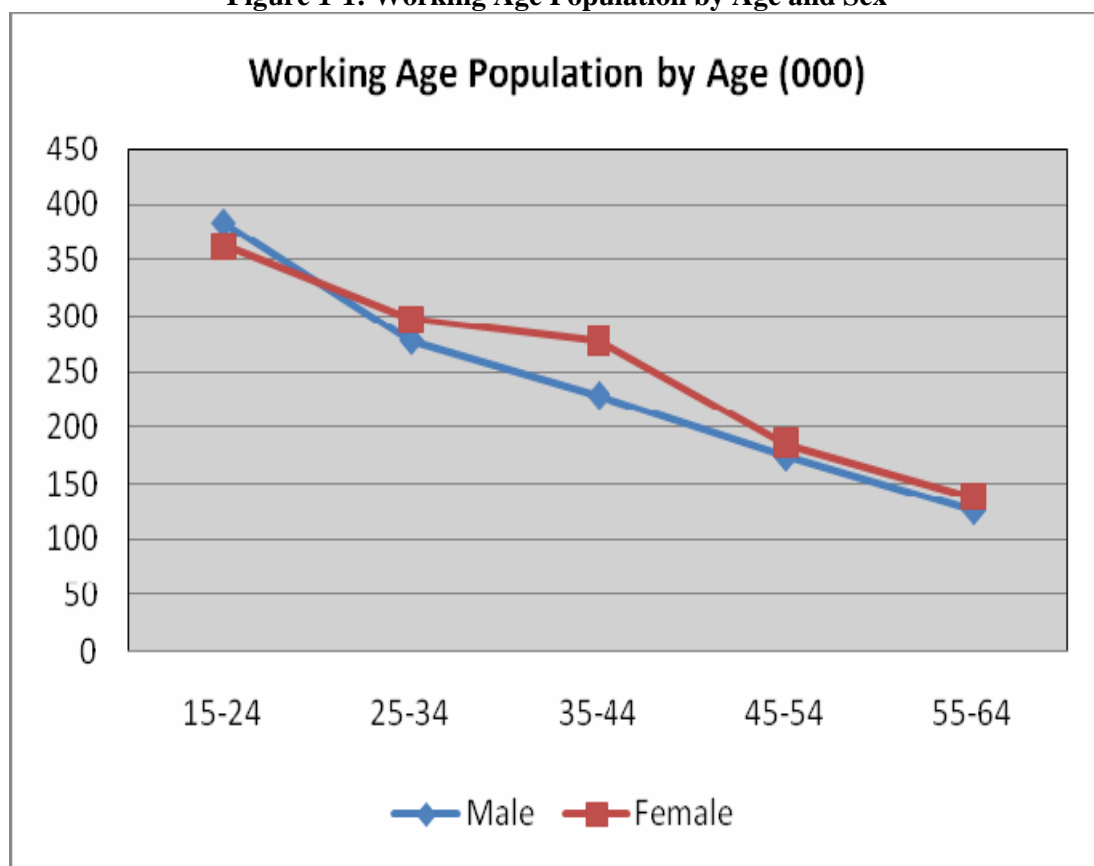
The Lebanese population is characterized by a young age structure, with around 37% of the population younger than 20; this ratio is expected to decrease to 30% in 2020, according to ILO estimates. The Lebanese population's growth rate ranks at 119 worldwide (CIA World Fact book). Although this rate has been decreasing over the last 8 years from 1.38% to 1.15%, it is still considered high when compared to other developed countries and results in a continued increase in the younger population. The working age population (age 15 to 64) constituted 65% of the total population in 2004 (Table 1-1).

The share of females of working age is around 52% and is expected, according to ILO projections, to remain at that level until 2020. Population distribution reveals that there has been a considerable decrease in the number of men aged 25-44, relative to the number of women (Figure 1-1). The main reason for this decrease is the large flow of men emigrating since the Civil War.

Table 1-1: Working Age Population by Age and Sex

Working Age Population by age (000)	2004 (latest available year)		
	Male	Female	TOTAL
15-24	383	363	746
25-34	278	297	574
35-44	229	277	507
45-54	174	186	360
55-64	125	138	264
Total Working Age Population	1,189	1,261	2,450
Total Population	1,887	1,868	3,755

Source: The National Survey of Household Living Conditions 2004

Figure 1-1: Working Age Population by Age and Sex

Source: The National Survey of Household Living Conditions, 2004

b. Labour force projections and participation rate

Although the Lebanese population is relatively young, the participation in the economy of the younger part of the population is volatile due to the high level of migration, especially among the young, who have witnessed several crises that Lebanon has gone through in the past three decades. The Lebanese labour force according to the latest household survey stands at 1.062 million in 2004 (of which 76% are men and 24% women) while the ILO estimated it at 1.34 million in 2004 with the claim that it would reach 1.7 million by 2020 (Table 1-2). Notice that major discrepancies appear in data sources in Lebanon, especially between two nationally representative surveys, one conducted by the University Saint Joseph in 2001 and the other conducted by the Central Agency of Statistics in 2004. The two surveys show a decline in the overall population, working age population and the labour force between 2001 and 2004 by as much as 350,000 individuals! This tells us more about statistical surveying errors than it does about major changes in population dynamics during this short period.

Table 1-2: Demographic Dynamics and Prospects for Lebanon

		2000 ^a	2004 ^b	2010 ^c	2015 ^d	2020
Total Population	Number, 000	3,935	3,755	4,227	4,431	4,616
	Change t, t+5, 000		-180	472	204	185
Working Age Population (15-64, 000)	Total	2,830	2,450	2,791	3,004	3,147
Labour Force Participation Rate (%)	Total	50.4	43.3	43.4	53.5	54
	Male	75.7	68.0	66.9	80.2	79.6
	Female	24.3	20.1	21.1	28.3	29.7
Labour Force	Number, 000	1,416	1,062	1,493	1,607	1,700
	Change t, t+5, 000		-354	431	114	93
	Male (%)	75.7	76.1	73.0	72.9	72.0
	Female (%)	24.3	23.9	26.5	27.2	28.1

Sources: a USJ survey 2001, b National estimates from the Household survey 2004, c Data for 2007 according to Central Administration of Statistics Survey, d 2015 and 2020 ILO estimates.

A closer look at the labour force participation rate shows that only around 43% of the working-age population is actually working or looking for a job. A comparison with other countries reveals that this is a low labour force participation rate. The world average stands at 70% in 2007 with 69% for Europe according to the ILO. The share of the Lebanese working-age population that is economically inactive is high which indicates that a large source of productive potential remains untapped. Most inactivity is due to females being excluded from the labour markets, as the labour participation rate for females, while growing, will not exceed 30% by 2020.

1.2. Characteristics and composition of the labour force and employment

a. Composition of labour force

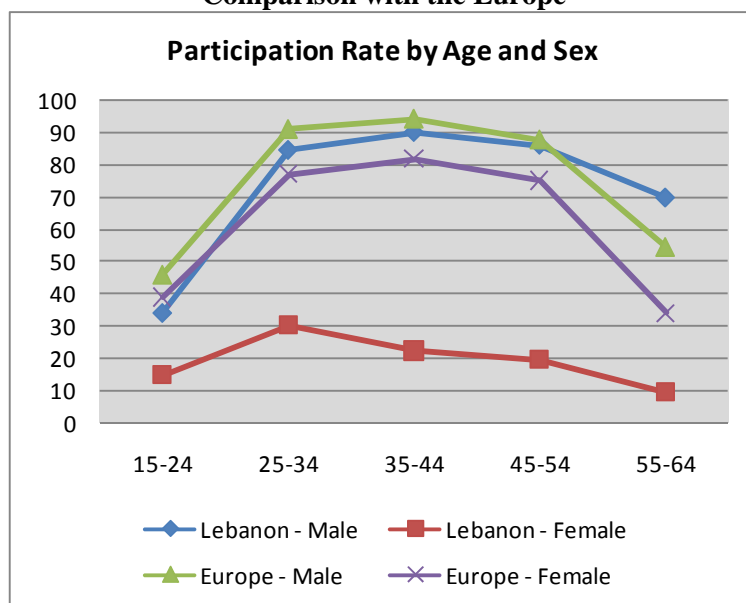
The labour force participation rate of youth (aged 15-24) is much lower at 34% (with an inactivity rate, therefore, of 66%) than the prime working-age population (aged 25-54) at 64% (26% inactivity). The ILO estimates that this difference is not expected to drop by much till 2020 reaching only 33% and 67% respectively (Table 1-3).

Table 1-3: Composition of Labour Force by Age and Sex

Labour Force by age		2004 (latest available year)		
		Male	Female	TOTAL
Total (000)		808	254	1062
Percentage distribution	15-24	16.18	21.02	17.34
	25-34	28.97	35.37	30.50
	35-44	25.48	24.35	25.21
	45-54	18.50	14.30	17.50
	55-64	10.82	5.16	9.47

Source: The National Survey of Household Living Conditions, 2004

Figure 1-2: Labour Force Participation Rate by Age and Sex – Comparison with the Europe



Sources: *The National Survey of Household Living Conditions 2004 & Laborsta*

The labour force participation rate for women is estimated at an average of 7% for young women (15-19) and 32% for prime aged women. Compared to the European Countries (as defined in the LABORSTA database), Lebanon has a lower participation rate for men aged 54 and younger and a higher participation rate for men aged 55 and above. However women participation rates are much lower than the European average in all age brackets (Figure 1-2).

b. Composition of Labour Force by Level of Education

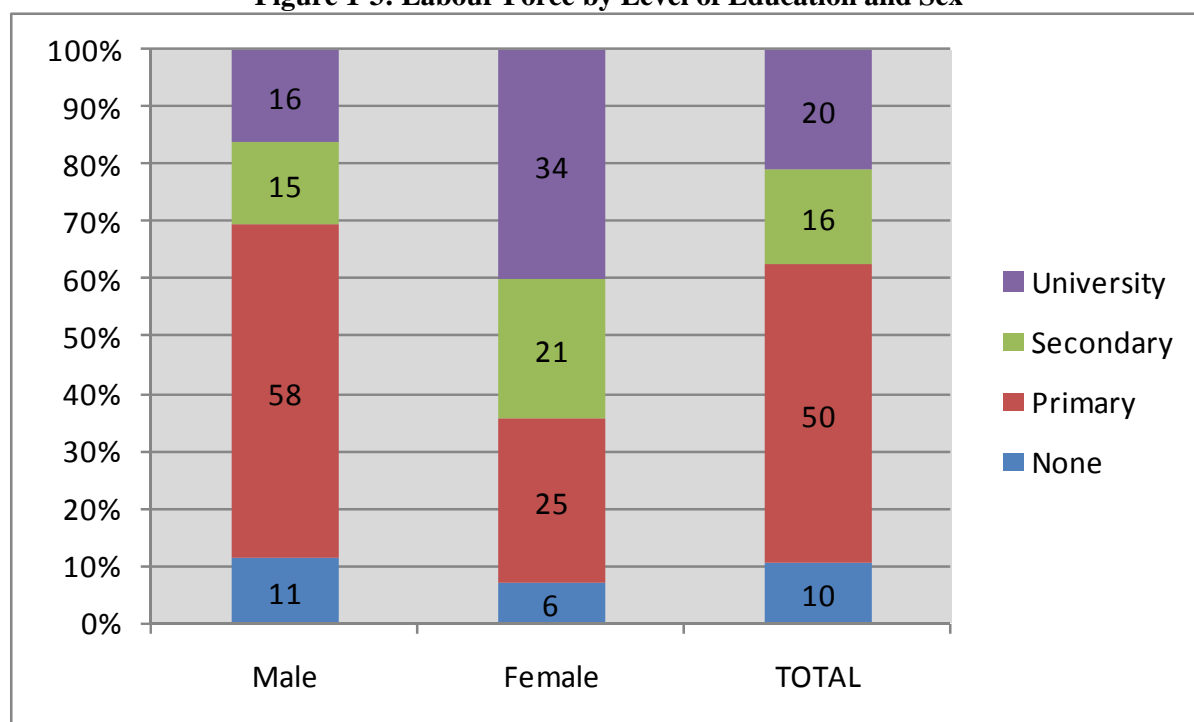
The household survey shows that the percentage of women in the labour force holding a university degree is higher than the percentage of men participating in the labour force and holding a university degree (34% versus 16%). Indeed, those who only attained a primary degree make up the highest percentage of men workers (Table 1-4 & Figure 1-3).

Table 1-4: Labour Force by Education Level and Sex

Labour Force ² (by level of education, %)	2004 (latest available year)		
	Men	Females	Total
None	11.3	5.9	10
Primary	57.8	24.6	50.1
Secondary	14.6	20.6	16
Tertiary	15.9	34.1	20.1

Source: The National Survey of Household Living Conditions, 2004

² The Household Survey categorizes education as follows: illiterate, literate (read and write), pre-school, elementary, complementary, secondary and university. For the purpose of comparison, the “none” category shown in table 4 and figure 5 groups the illiterate, literate (read and write) and pre-school; the primary groups the elementary and complementary categories.

Figure 1-3: Labour Force by Level of Education and Sex

Source: The National Survey of Household Living Conditions 2004

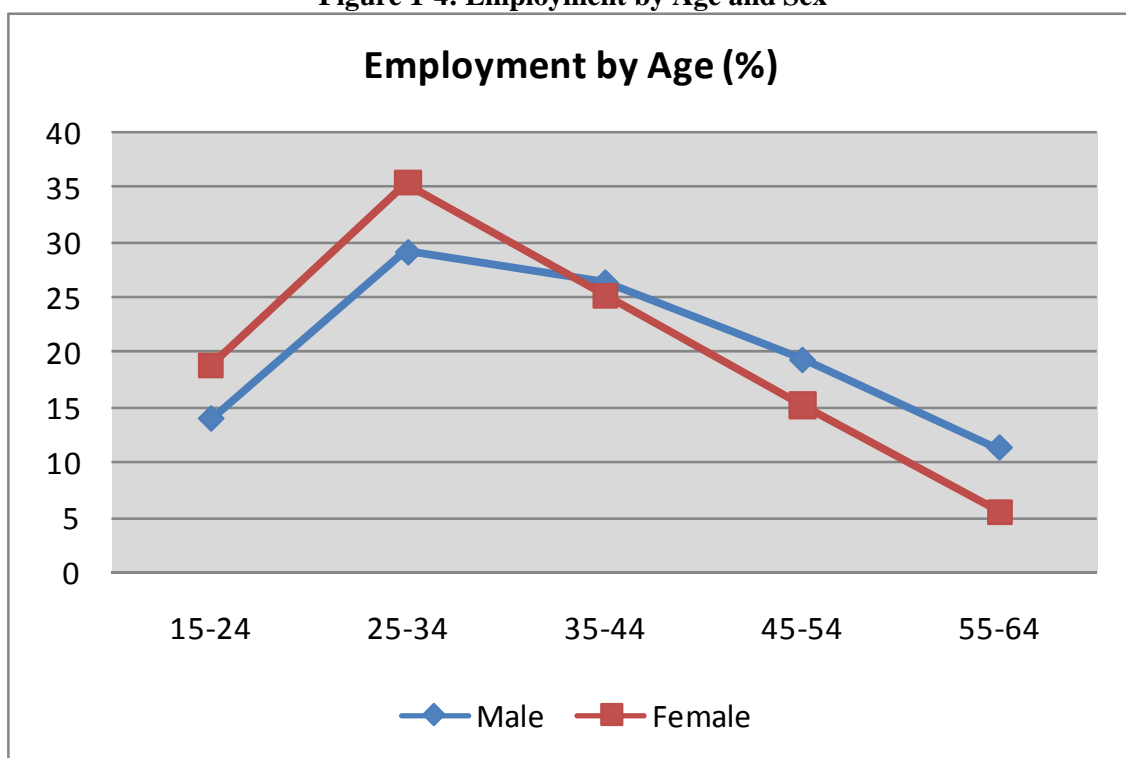
c. Composition of employment

Employment in Lebanon constitutes 92.5% of the total labour force, the distribution of employment by gender is the same as that of the labour force (74% women, 26% men). Of the total employed population, the age group (25-34) is the most active as is the trend in other countries (Table 1-5 & Figure 1-4).

Table 1-5: Employment by Age and Sex

Employment by age (%)	2004 (latest available year)		
	Male	Female	TOTAL
Total (000)	751,212	230,990	982,338
15-24	14	19	15
25-34	29	35	31
35-44	26	25	26
45-54	19	15	18
55-64	11	6	10

Source: The National Survey of Household Living Conditions, 2004

Figure 1-4: Employment by Age and Sex

Source: The National Survey of Household Living Conditions 2004

Most employed Lebanese have only had primary education (48%), followed by those with tertiary education (Table 1-6). Employed females seem to have a higher educational level than males, with 45% of females having a university degree compared to only 18% of males. This reflects the interplay of two factors: first, the increased educational enrolment for women over the past decades, and second, the prevalence of high emigration among educated males, who are employed outside Lebanon.

Table 1-6: Employment by level of education

Employment Distribution (%)	2007		
	Male	Female	Total
None	9.7	5.4	8.7
Primary	54.6	26.4	48.3
Secondary	17.4	22.8	18.6
University	18.3	45.3	24.4

Source: Central Administration of Statistics Survey, 2007

Of the total number of workers in Lebanon, 64% work in the services sector (23.3% in commerce and 40.7% in other services), while 15% work in industries, 12% work in construction and 9% in agriculture. Furthermore, 85.4% of all workers work for private-sector companies and institutions, while 13% are employed by public-sector institutions and 1.2% by institutions and organizations from other sectors (i.e. international organizations, civil or non-governmental organizations, (Table 1-8)).

Table 1-7: Employment by Activity

Employment* (by activity, %)	2004 (latest available year)		
	Male	Female	TOTAL
Agriculture	10.2	5.7	9.3
Industry	15.5	13.3	15.1
Construction	14.2	0.9	11.6
Commerce	24.4	18.3	23.3
Services (other than commerce)	35.7	61.8	40.7

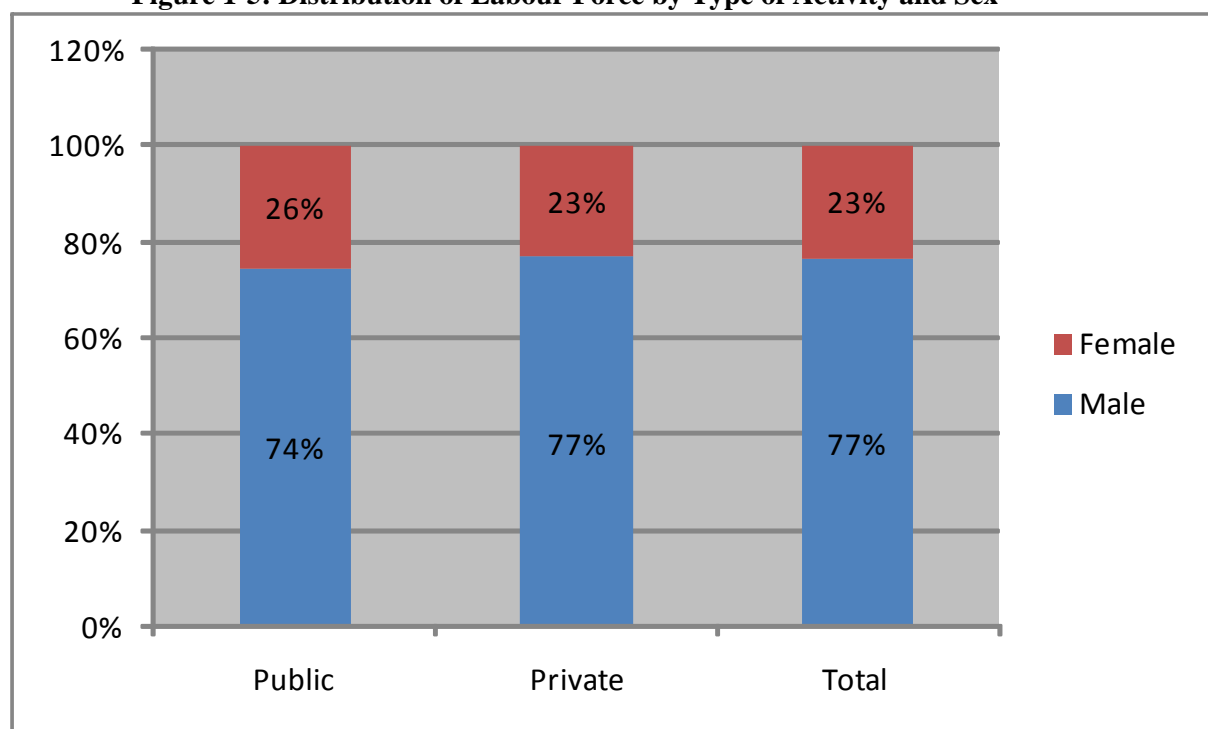
Source: The National Survey of Household Living Conditions, 2004

Table 1-8: Employment by Sector

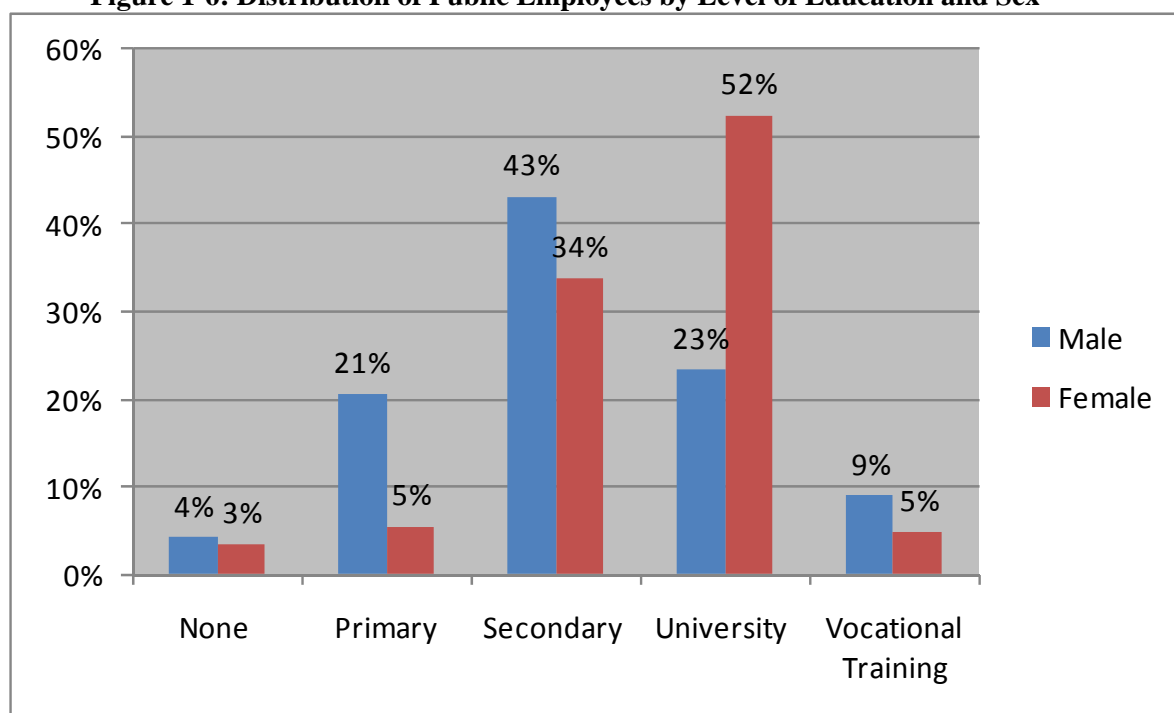
Employment* (by activity, %)	2004 (latest available year)		
	Male	Female	Total
Employment (by sector, 000)			
State	14.3	13	13.3
Private sector	84	85.9	85.4

Source: The National Survey of Household Living Conditions, 2004

Figure 1-5: Distribution of Labour Force by Type of Activity and Sex



Source: The National Survey of Household Living Conditions, 2004

Figure 1-6: Distribution of Public Employees by Level of Education and Sex

Source: The National Survey of Household Living Conditions, 2004

Note that gender imbalances in employment in Lebanon are seen across the private and public sectors (Fig. 1-5), with a slightly greater share of females in public sector jobs.

Most public-sector employees have secondary and university education (Fig. 1-6). It is noteworthy that women in the public-sector have much higher educational attainment levels than men.

The majority of the working force in Lebanon are salaried employees, and almost 27% are workers on their own account (Table 1-9).

Table 1-9: Employment by Status

Employment (by status, %)	Male	Female	Total
Own-account workers	9.6	32.6	27.1
Employers	1	6	4.8
Contributing family workers	4	3	3.3
Employees	84.2	57.3	63.8

Source: The National Survey of Household Living Conditions, 2004

1.3. Estimation of national job creation needs to absorb projected labour force growth

Assuming that current rates of unemployed workers remain constant, Lebanon would need to create more jobs in the immediate future to absorb new entrants into the labour force. Table 1-9 shows estimates for two scenarios: the first is for prevailing activity rates, taking into account projections in labour force growth according to ILO estimates. The second is for a scenario assuming a 5% increase in women's activity rates.

Estimates suggest that the Lebanese economy needs to create an average of 15,000 jobs per year in order to provide employment opportunities for new labour market entrants, at least according to prevailing labour participation assumptions. If women's participation rate in the labour force were to increase by 5%, then 7,400 new jobs would be needed each year on average for females, with total job creation needs per year increasing to 16,700.

Table 1-10: Estimation of national job creation needs

Lebanon, 000	Total Labour Force (2007)	Current Employment (2007)	Needed jobs 2007-2015	Needed jobs 2007-2020	Jobs to be created each year
Current activity rate: 43.4%	1,493	1,340	1,451	1,535	15
Male	1,090	979	1,052	1,099	9.2
Female	396	361	399	436	5.8
+5% Activity Rate of Women; Activity Rate in 2015: 54.2%	1493	1340	1,471	1,557	16.7
Male	1090	979	1052	1099	9.3
Female	396	361	419	457	7.4

Source: Author's estimates based on data from CAS and LABORSTA

Note that these estimates are based on ILO projections for the Lebanese labour force, and these projections already rely on somewhat shaky national data estimates. These estimates should rather be considered the lower limit of job creation needs.

2. The labour market performance in Lebanon

2.1. Regulation of the labour market

The Labour Code

Lebanon's Labour Law is outdated (the first draft was enacted in 1946 and the latest amendment was passed in 2000) and relatively short (114 articles). The Lebanese government, Lebanese labour unions and international organization all see the need for a new code, one that might adapt to the changing dynamics of the Lebanese market. The government is presently working with the ILO to prepare a new Labour code, under the ILO Post Conflict Decent Work Country Program. However, the passage of a new code through the Lebanese Parliament is not likely to happen in the near future. The present labour code was originally drafted under the French mandate and carries traces of the French labour code of that time.

The labour code is deficient in many respects, for instance many categories of workers are not included, categories that could greatly benefit from the rights and obligations imposed on them as well as on employers. This exclusion discourages the Lebanese from working in low paid jobs that are currently filled by foreign workers. These categories include: domestic servants employed in private homes; seasonal agricultural workers; public service wage-earners who are not governed by Civil Service regulations; family businesses employing only members of the family; and casual workers or journeymen in government service.

Given this situation, employment contracts and working conditions are regulated by the labour code and related decrees. The law provides for mandatory employment contracts that can be verbal or written and of fixed or open-ended duration. Termination of a contract can be initiated by any of the parties at any time. A prior notice of 1 to 4 months should be given to either party depending on the length of service. The law protects the employee from an abusive termination of contract. Disputes between employers and employees are to be resolved before the Labour Arbitration Council established by the Labour Code. In practice, unless the worker is clearly at fault, terminations are routinely considered abusive even for economic, technical and managerial reasons, including cases where companies were adversely affected by hostilities (such as the case of one of the biggest Lebanese dairy production companies which was destroyed in the Israeli attacks in 2006). Abusive terminations call for the payment by the employer of benefits ranging from between 3 and 16 months of the last salary of the employee (including the required notice of termination).

International conventions

Lebanon has ratified 50 ILO conventions, the last of which in 2006. Out of the 8 Fundamental Human Rights conventions, Lebanon has adhered to seven concerning equality, the elimination of child labour, the elimination of forced labour and the right to organize and collective bargaining. However, it still has to ratify the last one on Freedom of Association and Protection of the Right to Organise.

Social protection and pension

The Government established a National Social Security Fund (NSSF) in 1963 by decree covering national insurance for sickness, maternity and work-related accidents, family, education and transportation allowance and an end of service pension. All employees are entitled to register with the NSSF. However, contributions from a company increase with salary level and number of employees. Therefore, some firms refrain from registering their employees in the NSSF or declare lower salaries in order to decrease their contributions to the NSSF for the end of service pay. Another major problem with the national social security fund is that it is attached to the husband's rather than to the wife's salaries.

Lebanon offers pension plans to its civil service and military personnel. But it does so only while the urban private sector and contractual workers in the public sector are under an End-of-Service Indemnity (EOSI) program, which provides lump sum payments upon retirement. Pension plans are defined benefit financed on a pay-as-you-go basis and administered by the Ministry of Finance. The EOSI plan combines a defined contribution and a defined benefit component and is financed through a quasi capitalization scheme and administered by the NSSF. Voluntary pension schemes are relatively underdeveloped, and are provided by insurance companies. The Ministry of Social Affairs provides a small social pension to a limited number of elderly women/widows.

Lebanon's pension system suffers from low coverage and high fiscal costs. The schemes for the civil service and military cover just 6% of the labour force, and cost 2.7% of GDP per year (of which 2.2% are military pensions). The current implicit pension debt represents between 50 and 60% of GDP. On the other hand, the EOSI plan covers 30% of the labour force and comes out at 0.8% of GDP. It is still running a surplus and has reserves of about 12.6% of GDP. Unfunded liabilities, however, could range between 7 and 15% of GDP. The social pension is paid to around 1,000 women/widows at LBP25,000 (US\$16) per month.

The NSSF uses the annual surpluses of the EOSI plan, in part, to finance deficits in health and family allowance plans. The NSSF does not fully credit the interest earned on the reserves of the EOSI program to the individual accounts of plan members. In addition, the NSSF determines last employer liabilities in a discretionary manner so creating uncertainty about labour costs. These liabilities can be considered an implicit tax on labour. There are no built-in incentives within the system to ensure that funds are managed in the best interest of plan members.

The implicit taxes collected by the NSSF, the high costs involved with bureaucratic procedures in dealing with the NSSF and poor services provided to plan members discourage participation in formal labour market. In addition, the EOSI distorts the relative labour cost of local *versus* foreign labour since employers cannot enrol foreign workers in the NSSF: they are not eligible. Furthermore, labour mobility between civil service and private sectors, and also within the private sector is discouraged by inadequate portability of benefits.

Regulation of working conditions and of redundancy

Employees working full time for a company are entitled to 15 days of paid vacation, and to paid sick leave, provided 3 months after the end of contract date. The maximum working week is 48 hours and, in case of overtime, a rate of 150% should be applied. The law demands special occupational health and safety obligations from employers. However the 2008 Human Rights report on Lebanon claims that there are cases where employees could not avoid hazardous conditions without jeopardizing their employment.

Redundancy occurs when the employer's company ceases to exist, when it ceases to carry out the activity for which the person concerned was appointed, or when the activity carried out by the employee is expected to cease or diminish. The concept of redundancy exists in a very primitive form in the labour code; the law provides that the employer may terminate some or all employment agreements in the firm in case of *force majeure* or economic or technical circumstances necessitating such termination. In such a case the employer has to inform the Ministry of Labour and Social affairs of the *force majeure* and shall consult the Ministry on a plan for such terminations and the means for the re-employment of those laid off. The only right that the employees have in such circumstances is the priority to return to work if the firm resumes activities.

Although the law protects the employee, in practice it makes the employer the actual provider of insurance to formal sector workers. The definition of abusive termination is vague and is translated into high contract termination costs – thus discouraging hiring. The Labour Law does not make provision for temporary layoffs that can serve as a relief valve for employers during short-term adversities.

Intermediary institutions and main agents involved in collective bargaining

The labour code stipulates that all employees, except public-sector employees, have the right to join and establish unions as well as the right to organize and to bargain collectively. There exists in Lebanon many sector specific unions and syndicates all represented by the General Confederation of Lebanese Workers, which is the only union recognized by the government as the official interlocutor and representative of the labour force. The General Confederation coordinates and organizes most national negotiations and strike actions regarding cost-of-living increases and social benefits. Relations between the General Confederation and the government is consumed in party political struggles rendering the Confederation's ability to influence policy-making weak and dependent on the political power of the day.

Wage formation and labour costs

An employee has the right to a minimum wage set by the government according to the cost of living index, a wage which must be sufficient to meet the essential needs of the worker and his family. The minimum wage was frozen at \$200US per month (300,000 LBP) for 12 years from 1996 to 2008, totally disregarding cost-of-living inflation. The legislation does not provide for a periodic review of the minimum wage, instead minimum wages are reviewed at the discretion of the government or the collective bargaining powers. The government recently approved an increase in the minimum wage to \$333US (500,000 LBP) without undertaking a proper assessment cost-of-living increases. The fact

that minimum wages are not applied to foreign workers and exclude certain categories, as explained above, causes high unemployment among unskilled workers. And, while the minimum wage does not satisfy the needs of Lebanese households, wages lower than the minimum wage are accepted by incoming migrant workers.

The high level of termination benefits in cases of abusive dismissal can add to labour costs, up to 8.5% on salaries. Thus individual companies, especially larger ones, act as *de facto* unemployment insurance providers (World Bank Lebanese Economic and Social Impact Assessment, 2006). Nominal payroll contributions/taxes under social insurance add up to 23.5%, as detailed in Table 2-1. They could alternatively be used for worker protection and employment creation among Lebanese nationals. In practice, the effective rate of deductions as a percentage of total labour costs is much lower. In addition: (a) employers and workers evade them, through mutual agreement and under-reporting of wages; (b) employers alone may impose tax avoidance on workers as a pre-condition for employment; or (c) employers may also diversify their workforce through the use of contract/informal labour with a resulting decline in their overall obligation to payroll contributions.

Table 2-1 : NSSF payroll contributions

	Employer	Employee	Total
Health insurance	7% (max. LL105,000 a month)	2% (max. LL30,000/ month)	9%
Family allowance	6% (max. LL90,000 a month)		6%
End of service benefits	8.5% (no maximum)		8.5%
Total	21.5%	2%	23.5%

Source: World Bank Lebanese Economic and Social Impact Assessment, 2006

Note: 1 Euro= ca 2000 LL

Overall assessment of labour market flexibility

The Lebanese labour market is characterized by *de facto* flexibility, but for the wrong reasons. Table 2.2 shows data from the *Doing Business* World Bank surveys, for the labour flexibility module. Lebanon's labour markets seem to be characterized by rigidity of hiring, yet with flexibility in firing and overall employment when compared to regional norms. As mentioned earlier, regulations are evaded by most of the labour market. In addition, wages are low in unskilled occupations such as agriculture, construction and certain services (such as garbage collection and domestic service) due to open immigration policies coupled with the non-payment of payroll contributions by foreign workers.

Table 2-2: Indicators of labour market flexibility, Doing Business Report 2009

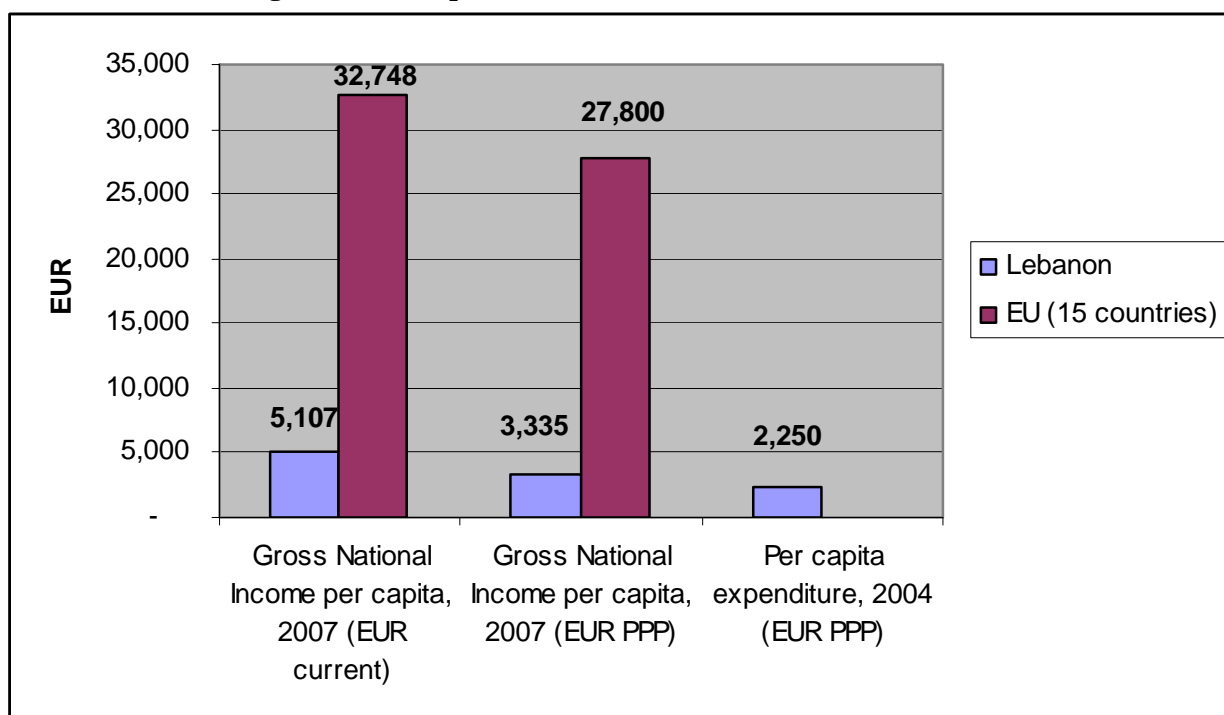
Indicator	Lebanon	MENA Region	OECD
Difficulty of Hiring Index	44	22.5	25.7
Rigidity of Hours Index	NA	41.1	42.2
Difficulty of Firing Index	30	31.6	26.3
Rigidity of Employment Index	25	31.7	31.4
Firing costs (weeks of salary)	17	53.6	25.8

Source: The World Bank Doing Business database, 2009

2.2. Wage and national income analysis

Lebanon's Gross National Income (GNI) *per capita* is estimated at almost 5000 Euros per year in current terms; almost 6 times lower than the average GNI in European countries (Figure 2-1). When measured in Purchasing Power Parity (PPP) terms, Lebanon's GNI stands at 3335 euros/year/person, and it is much lower (at 2250 Euros/year/person) when measured by taking expenditure *per capita* as a proxy for income. The wide difference between Lebanese and European incomes might be a pull factor for Lebanese emigration to Europe, yet when compared to average incomes in the Arab Gulf region (almost 37,000 Euros PPP/year/person in 2007); Europe becomes less attractive as a destination.

Figure 2-1: Comparison of Lebanon's income with EU-15



Source: Lebanon National Income Statistics, 2007 and Eurostat

According to a recent national poverty study (El Laithy et al., 2008), in 2004-2005 average *per capita* annual nominal consumption reached 3,975,000 LBP (approximately \$2,650). When taking regional price differentials into consideration, annual *per capita* real consumption is reduced slightly (by 1%) to 3,935,000 LBP (Table 2.3).

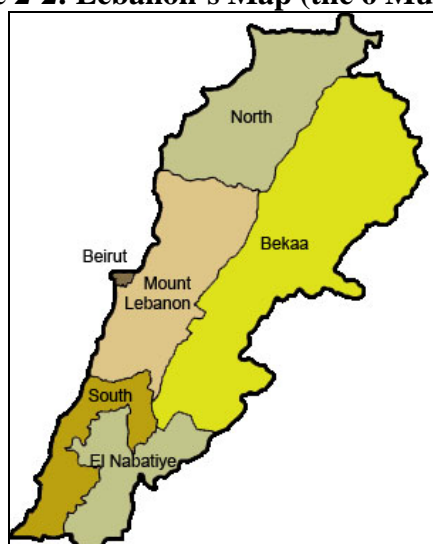
Regional welfare differences appear to be predominant in Lebanon. *Per capita* consumption is highest in Beirut (more than one and a half times the national average) and lowest in the North (three quarters of national average). The North, South and Bekaa governorates have *per capita* real consumption below the national average. The median *per capita* consumption is always smaller than the mean indicating that most Lebanese consume less than the national average: the consumption expenditure of half of the Lebanese is approximately 20% the average consumption level.

Table 2-3: Mean and Median Nominal and Real Per Capita Consumption by Governorate (2004-2005) in Thousand LBP

Governorate	Nominal <i>Per Capita</i> Consumption		Consumption Adjusted for Regional Price Differences	
	Mean	Median	Mean	Median
Beirut	6514	5240	6141	4939
Mount Lebanon	4512	3661	4321	3506
Nabatieh	3924	3349	4075	3478
Bekaa	3385	2747	3558	2888
South	3007	2276	3151	2385
North	2532	1933	2671	2039
All Lebanon	3975	3101	3935	3073

Source: El Laithy et al. (2008)

Figure 2-2: Lebanon's Map (the 6 Muhafaza)

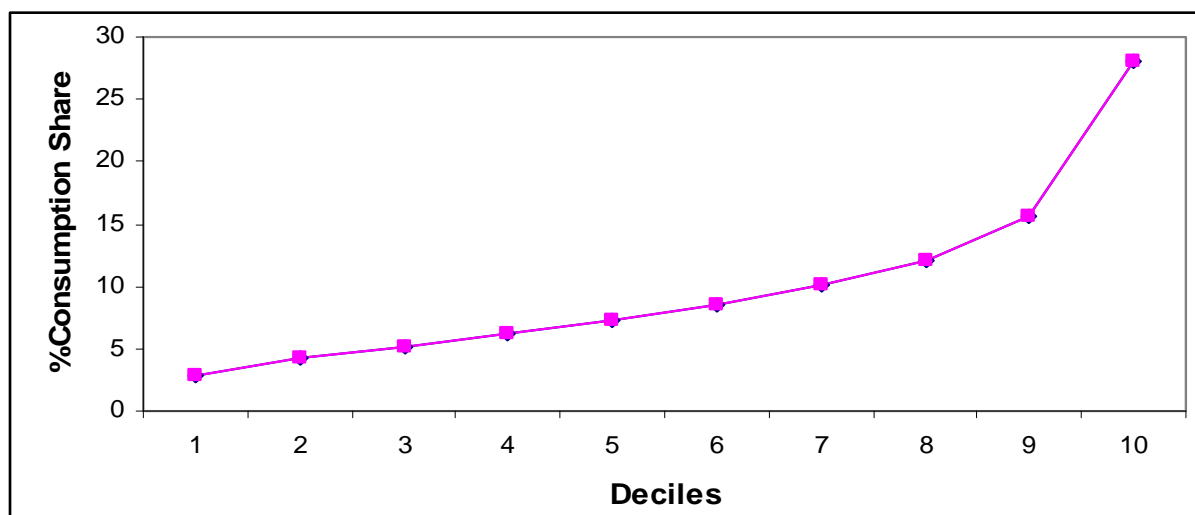


Expenditure distribution among the Lebanese population was also found in El Laithy et al. (2008) to be relatively unequal. The bottom 20% of the population consumed only 7% of all consumption in Lebanon, and the richest 20% consumed 43% (Figure 2-3). However, inequality is comparable to other middle-income countries. Gini coefficient, a measure of inequality, is estimated at 0.37 for nominal consumption and 0.36 for real consumption. These levels of inequality are comparable to the average for MENA countries (average Gini value of 0.37) and much lower than that of Latin American countries (0.55). Relatively equitable distribution up to the 5th decile (Figure 2.2) also implies a high concentration of population around any consumption threshold – a factor which explains why in Lebanon 20% of the population are bunched between the lower (extreme) and upper (normal) poverty lines.

Within-governorate inequality accounts for most of the inequality in Lebanon. About 92% of aggregate inequality in consumption in Lebanon can be attributed to within-governorate inequality, while only 8% is due to inter-governorate inequality. Although the North has the lowest *per capita* expenditure, it exhibits the largest inequality compared when to other governorates: the Gini

coefficient amounted to 0.37. On the other hand, Nabatieh's *per capita* consumption is ranked third in descending order, yet it has the lowest inequality: Gini Coefficient 0.29.

Figure 2-3: Consumption Shares by Deciles



Source: El Laithy et al. (2008)

Reliable data on national wages is scarce in Lebanon. The only recent official wage surveys were undertaken during the establishment of the 1997 national accounts, where detailed wages, salaries and other labour charges paid by firms were collected. These estimated the share of GDP from wages and salaries at an average of 35.5%, 83.2% of which from the public sector and 29.1% from the private sector. Data on national accounts published by the Central Agency of Statistics does not include any recent estimate of this share, and there is no data on the evolution and trend of wages.

However, a recent World Bank firms' survey conducted in 2005, as part of the Investment Climate Assessment for Lebanon, contained questions to companies related to the cost of labour, and contained measures such as the total yearly cost of labour including wages, salaries, and bonuses. The survey was representative of Lebanon's major private sectors, and included 456 companies. Table 2-4 below details the average monthly labour costs, computed by dividing a firm's total labour cost by the number of workers.

Table 2-4: Average monthly labour costs in main sectors, 2005

	USD	EUR
Food and Beverages	492	364
Textile and Clothing	428	317
Furniture	565	418
Trade	556	412
Services	802	594
Construction	884	655
Overall	654	484

Source: World Bank Investment Climate Assessment Survey 2005

The data shows that average unit labour cost in Lebanon reached 654 USD in 2005, or 484 Euros. The highest labour costs were found in construction, followed by the service sectors. The textile and food and beverages sectors had the lowest labour costs, at almost 350 Euros/month. These numbers reveal two important points. First, labour costs in Lebanon are very low, especially when compared to those prevailing in the EU-15 bloc: where average labour costs were at almost 3500 Euros/month in 2005, according to Eurostat figures. This reveals a reasonably competitive domestic labour market, especially for potential foreign investments. Second, prevailing labour costs in Lebanon are almost two times higher than the recent minimum wage level, set at 330 USD/month. This indicates how public intervention tools are disconnected from current market dynamics.

As for the structure of wages, data is also very scarce, with a complete absence of public statistics. One source of information is a private research centre, InfoPro, which gathers data on occupations in selected sectors. Table 2-5 shows the main wage structure for selected professions, according to years of experience.

Table 2-5: Wage structure for selected professions, 2007

Years of experience	Secretary	Accountant	Foreman	Electrical Engineer	Architect
Fresh Graduate	\$300-\$400	\$400-\$600	\$500 - \$700	\$600-\$800	\$600 - \$900
1 year	\$350-\$450	\$450-\$600	\$600 - \$800	\$600-\$900	\$650-\$900
2 years	\$400-\$500	\$500-\$650	\$700 - \$900	\$800 - \$1200	\$900 - \$1200
3 years	\$500-\$600	\$600-\$800	\$800 - \$1000	\$1050 - \$1400	\$900 - \$1200
5 years	\$550-\$650	\$700-\$950	\$900 - \$1300	\$1200 - \$1650	\$1200 - \$1600
7 years	\$600-\$750	\$800-\$1000	\$900 - \$1450	\$1500 - \$2000	\$1350 - \$1900
10 years	\$700-\$850	\$950-\$1250	\$1000 - \$1700	\$1900 - \$2700	\$1700 - \$2650
15 years	\$800-\$1000	\$1200-\$1600	\$1200 - \$1900	\$2200 - \$3000	\$2300 - \$3500
20 years	\$1000-\$1250	\$1450-\$1800	\$1400 - \$2250	\$2800 - \$4000	\$2500 - \$4500

Source: Infopro research, www.opportunities.com.lb

The data above reveals some interesting patterns in the Lebanese labour market. The skill/education premium, computed as the difference in wage between say a foreman and an architect, and an accountant and an electrical engineer, is much smaller for fresh graduates than for persons with years of experience. An electrical engineering graduate just out of university seems, for instance, to earn almost 30% more than an accountant, while after 5 years of experience the gap would double. This indicates that new skilled graduates are facing stiff competition in the national market, which lowers their comparative wage premium. This acts as a push factor for persons considering emigration.

Moreover, wage increases are rather compressed when workers accumulate years of experience. An architect would double his/her wage in 5 to 7 years, which is quite a long time given the much better remunerations available to experienced architects in, for instance, the Gulf countries.

3. Main labour market performance issues and challenges

3.1. Unemployment situation and trends

As is the case with overall labour statistics in Lebanon, the measurement of unemployment rates is still precarious. The latest official statistic put it at 9.2%, using the conventional ILO definition (Table 3-1). A closer look at unemployment trends in the country reveals fluctuations by as much as 3%

during the past decade, reflecting slow economic growth and also the impact of the July War in 2006. Yet it should be emphasized that reliable unemployment estimates are still unavailable; there being no official Labour Force survey.

Table 3-1: Unemployment Rate Trends

Unemployment Rate	1997(a)	2002(b)	2004 (c)	2007(d)
Total	8.5	11.5	7.5	9.2

(a) Source: Central Administration for Statistics, ages 15+

(b) Source: USJ, L'Entrée des Jeunes Libanais dans la vie active et l'Emigration, June 2002 (ages 15-54)

(c) Source: Central Administration for Statistics, Living Conditions of Households Survey, 2004, ages 15+

(d) Source: Central Administration for Statistics; ages 15-54

Given this, official and private statistics also differ on recent trends in the unemployment rate for males and females (Table 3-2). While both sources indicate a rise in unemployment rates for males, the private survey conducted by USJ in 2001 shows a steep rise in unemployment among females, due to increased female labour force participation. Yet official surveys show a decline in female unemployment, with a very small increase recently. This may seem at odds with labour market dynamics in the country, where a rising number of educated females is entering the labour force each year.

Table 3-2: Unemployment Rate Trends by Sex

Unemployment Rate	1997(a)	2002(b)	2004 (c)	2007(d)
Male	8.9	9.3	9.6	10.2
Female	7.1	18.2	8	8.8

(a) Source: Central Administration for Statistics, ages 15+

(b) Source: USJ, L'Entrée des Jeunes Libanais dans la vie active et l'Emigration, June 2002 (ages 15-54)

(c) Source: Central Administration for Statistics, Living Conditions of Households Survey, 2004, ages 15+

(d) Source: Central Administration for Statistics; ages 15-54

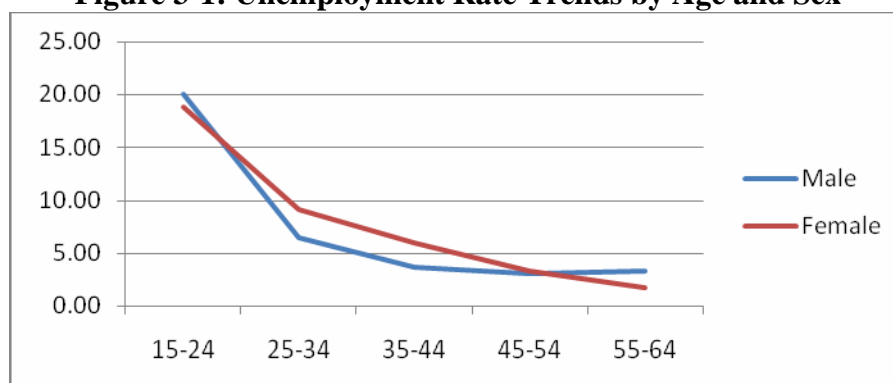
Data is also not consistent when one seeks to compare unemployment trends by age groups, as surveys classified age groups in different ways (Table 3-3). Yet a trend that comes out of the age-specific unemployment rates is that the young (15-24) experience more unemployment than adults (

Figure 3-1).

Table 3-3: Unemployment Rate Trends by Age and Sex

Unemployment (by age, %)	1997(a)			Unemployment (by age, %)	2002			Unemployment (by age, %)	2004		
	Male	Female	Total		Male	Female	Total		Male	Female	Total
<20	30	22.4	29.1	15-24	19.3	30.4	22.6	15-24	20.00	18.86	19.67
20 - 24	20	11.4	17.7	25-34	8.9	18.7	11.9	25-34	6.43	9.21	7.20
25 - 29	9.7	7.4	9.1	35-49	5.4	9.7	6.3	35-44	3.71	6.00	4.20
30 - 54	4.2	5.2	4.4	50-64	6	5.7	5.9	45-54	3.11	3.34	3.14
55 +	2.2	1	2.1					55-64	3.32	1.78	3.12

a) calculation includes first-time job seekers

Figure 3-1: Unemployment Rate Trends by Age and Sex

The decline in unemployment rates in higher age groups reflects two factors: first, the problems facing young persons when they enter the labour market, in terms of the mismatch in education and skills and the time necessary to find a job. Second, migration for Lebanese aged above 25 contributes to lowering the unemployment rate, as it tends to ‘evacuate’ persons who cannot find a job on the local market towards opportunities abroad.

Unemployment figures also show a higher incidence of jobless individuals among those with higher levels of education (Table 3-4). The data shows that in the past decade unemployment has been rising among individuals with secondary and university education, reaching almost double the unemployment rate levels for persons with no education at all.

Table 3-4: Unemployment Rate Trends by Educational Achievement

Unemployment (by level of education, %)	1997			2002			2004			2007		
	Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL
None	6.7	2.5	5.8	..	..	9.8	11.0	4.8	5.4	5.8	5.3	5.2
Primary	10.6	7.5	10.2	..	..	12.0	13.9	7.7	8.5	15.2	8.1	9.1
Secondary	8.4	8.1	8.3	..	..	11.9	9.2	8.6	8.7	9.6	9.8	9.7
University	5.5	7.5	6.2	..	..	10.8	10.3	6.9	8.2	11.4	10.9	11.1

Many reasons could explain high unemployment rates among young Lebanese. On the demand side, a scarcity of entry-level opportunities for young people in the productive sectors stems from factors including economic instability and the deterioration of macro-economic conditions (inflation, budget deficit and public debt); and the recruitment practices of employers, who frequently resort to personal contacts, thereby reinforcing the perception of a lack of opportunity. On the supply side, the most important factors are the gap between the skills of the new entrants to the labour force (professional training and a high level of education) and the labour market needs, as well as the reluctance of young Lebanese to accept low-skilled jobs due to poor wages and working conditions. The lack of an effective guidance and orientation system and few internship opportunities offered by employers for gaining work experience also play a role. This situation has led to a mismatch between the demand for and the supply of labour.

Unemployment among the Lebanese is also found to be long term: nearly half of unemployed individuals have been looking for a job for more than a year. Most of the unemployed are those who recently lost their jobs (Table 3-5), predominantly for personal reasons, the closure of firms or insufficient salaries. It seems, therefore, that unemployment in Lebanon is not only related to economics, and that high reservation wages might be a factor in a mismatch between workers’ wage expectations and market rates.

High reservation wages in Lebanon are mostly due to the high cost of human capital investments, mainly in education. As most quality educational training in the country is private, both at the school and university levels, students and their parents spend a high proportion of their budget on education. This, in turn, fuels a demand for wages that would compensate the high costs of investment in degrees and diplomas.

Table 3-5: Reasons for unemployment

Status of unemployed	%
Looking for 1 st job	45.3
Lost job	54.7
Reasons for losing previous job	
Personal reasons	37
Closing of enterprise	18.6
Insufficient salary	15.4
End of contract or of work	10.7
Collective firing	8.9
Military service	6.6
Other	2.1

Source: USJ, L'Entrée des Jeunes Libanais dans la vie active et l'Emigration, June 2002

Based on the assumption that the young earn on average 80% of national wages, and in addition, that females earn on average 25% less than males, it is possible to calculate the exact financial impact on a national economy of excluding the young from the job market (Chaaban 2008, 8). If it is assumed that youth unemployment is equivalent to adult unemployment (as zero unemployment among youths is arguably unrealistic), youth unemployment is costing Lebanon 1.07% of its GDP each year (ibid.). The cost of male youth unemployment is more than three times higher than that of female youth unemployment (ibid.). This is partially a result of fewer females participating in the active workforce. If this gauge of inactivity is expanded to examining the cost of youth joblessness, the figure is significantly inflated. The joblessness rate includes the official unemployment rate as well as the inactivity rate of youths who are not engaged in education. Such a measure is perhaps more illustrative of the real costs involved in the inability of the young to successfully enter the job market. In the case of Lebanon, based on the same assumptions as above, joblessness among the young is costing the country 2.74% of its GDP. That is equivalent to almost 630 million USD per year. Indeed a significant detail that becomes evident when the joblessness rate is considered is the real impact of inactivity on the country's young females. If the joblessness rate is measured, the lack of employment among young females costs the Lebanese economy 2.03% of its GDP (Chaaban 2008, 8).

3.2. The Informal economy

The World Bank estimates Lebanon's informal economy at around 36% of GDP. The informal, largely invisible, sector is difficult to measure given its heterogeneity (from subsistence farming to high-level self-employed professionals). Yet the few estimates available reveal that self-employment in non-agricultural sectors accounts for a surprisingly large share of the Lebanese labour force (34%), higher than Egypt, Syria, Algeria, Tunisia, Djibouti and Morocco (Table 3-6).

Table 3-6: Self-employment Rate (% of non-agricultural employment)

	Period	Women	Male	Total	Source
Lebanon	1990-2000	16	39	34	ILO 2002
Palestine	2001	17	34	n.a.	ILO 2003
Egypt	2000	17	31	29	ILO 2003
Syria	1990-2000	15	31	29	ILO 2002
Algeria	1990-2000	35	27	28	ILO 2003
Tunisia	1990-2000	61	20	30	ILO 2002
Djibouti	1991	16	19	18	ILO 2003
Morocco	1990-2000	25	18	20	LABORSTA

3.3. Inward migration in national labour market: role and impact

In 2007, the Ministry of Labour renewed 79,000 work permits and issued 42,000 new ones: all in all declared foreign labour amounts to 121,375 workers (Table 3-7). The highest percentage of declared foreign labour is maids: 72% of total permits issued in 2007. Immigrants mostly come from Ethiopia, Sri Lanka, Philippines, Egypt and India (Table 3-8). Although Syrian workers amount only to 0.42% of the total work permits issued, the number of undeclared Syrian workers is much higher.

Table 3-7: Work Permits issued by Profession, 2007

Profession	2007			
	First Permit	Renewal	Total	%
Maid	37,104	50,564	87,668	72.2
Male cleaner	1,512	8,231	9,743	8.0
Porter	669	5,399	6,068	5.0
Agriculture worker	512	4,468	4,980	4.1
Male domestic worker	166	3,186	3,352	2.8
Gas station worker	186	1,351	1,537	1.3
Cement worker	41	493	534	0.4
Cook	6	44	50	0.0
Entrepreneur	14	75	89	0.1
Construction worker	31	297	328	0.3
Tiler	2	195	197	0.2
Manager	25	88	113	0.1
Baker	41	386	427	0.4
Female cleaner	31	216	247	0.2
Other professions	1,878	4,164	6,042	5.0
Total	42,218	79,157	121,375	

Source: Ministry of Labour

Table 3-8: Work permits issued by nationality

Nationality	2007			
	First time	Renewed Permit	Total	%
Ethiopia	27,321	9,538	36,859	30.37
Philippines	1,924	21,073	22,997	18.95
Sri Lanka	3,903	17,391	21,294	17.54
Egypt	1,862	15,193	17,055	14.05
Bangladesh	2,908	4,155	7,063	5.82
India	529	4,765	5,294	4.36
Nepal	1,374	1,094	2,468	2.03
Other nationalities	804	1,379	2,183	1.80
Sudan	362	1,134	1,496	1.23
Iraq	273	690	963	0.79
Syria	211	302	513	0.42
Eritrea	40	376	416	0.34
Nigeria	62	306	368	0.30
Pakistan	30	240	270	0.22
Benin	105	155	260	0.21
Senegal	37	208	245	0.20
Togo	93	111	204	0.17
Cameroon	109	94	203	0.17
France	39	135	174	0.14
Ghana	13	159	172	0.14
Turkey	10	147	157	0.13
United States	63	92	155	0.13
Jordan	26	124	150	0.12
Palestine	28	113	141	0.12
Burkina Faso	39	99	138	0.11
Ivory Coast	53	84	137	0.11
Total	42,218	79,157	121,375	

Source: Ministry of Labour

Syrian workers mostly work in construction and agriculture. However according to Kawakibi (2008) in recent times more Syrian workers are engaged in manufacturing, though with no health or social insurance. Syrian workers in Lebanon get paid about 10 to 15 dollars per day. This is equivalent to the 330 dollars of minimum wage, except that Syrians usually work more than 22 days per month and there are no additional benefits granted to them. There is a lack of statistics and studies on the status of Syrian workers in Lebanon, some sources state that fewer than a 100,000 are legally registered (Kawakibi, 2008). Other sources talk of between 300,000 and 1.5 million Syrians; independent observers, however, estimate the number at 400 to 600,000 (almost 47% of the Lebanese Labour force). Kawakibi states that many studies prove that unemployment in Lebanon is not affected by the immigrant Syrian workers, as the majority of unemployed Lebanese are skilled workers, and the highest rate of unemployment occurs among residents with a secondary education and university degrees.

As noted above, the majority of foreign migrant workers in Lebanon are unskilled, performing strenuous, labour-intensive and often dangerous jobs that do not require specific educational or skills qualifications. They are frequently either illiterate, or have pre-school education. They mainly work seasonally or intermittently in the construction and agricultural sectors or in the domestic service sector, accepting low wages, and are excluded from social-security schemes (ILO, 2006, Jureidiny, 2002). Poor governance has created severe distortions in the labour market, such that migrant labour is not usually in competition with Lebanese labour. Lebanese labour has higher educational levels than foreign labour. More importantly, and in light of the current living conditions in Lebanon, the Lebanese labour force cannot accept the wage levels on offer to foreign workers. Most Lebanese would not work for the US \$330 per month minimum wage, yet this wage is acceptable to many unskilled migrant workers. Even if Lebanese workers were able to receive higher wages for the same occupations performed by foreign labour, the culture of shame surrounding cleaning, construction and agricultural would cause Lebanese job seekers to avoid these occupations, preferring emigration or unemployment.

3.4. Brief analysis of other major challenges

Unemployment among Palestinian refugees in Lebanon

Lebanon currently hosts about 410,000 Palestinian refugees, almost 10% of the Lebanese resident population (according to the latest United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) estimates). Most of the refugees live in the 12 registered refugee camps distributed throughout the country, and they suffer from dire living conditions, bad housing, extreme poverty and unemployment.

UNRWA estimates the unemployment rate in the refugee camps at 60%, translating into almost 150,000 unemployed Palestinians. This figure exceeds total unemployed Lebanese residents, estimated at nearly 137,000 in 2007. This constitutes a major challenge to the Lebanese economy, but is also causing major problems and humanitarian concerns for Palestinian refugees, most of them having lived now in Lebanon for over 30 years.

In fact, there are severe restrictions on the right to work and the rights at work preventing Palestinians from improving their lives. Dozens of professions and trades are restricted to Lebanese nationals: for many years, Palestinians could not legally work in as many as 70 professions, including accountants, secretaries, sales-persons, pharmacists, electricians, guards, drivers, cooks and hairdressers. They are also barred from owning a business involved in trading, currency exchange, gold, printing, publishing, car repair, and engineering or health services. Palestinians are generally able to practice most professions or own businesses inside the 12 official camps, but the restrictions apply elsewhere in Lebanon.

In June 2005 Lebanon's Minister of Labour announced that Palestinian refugees would be permitted to work in various occupations that were previously barred to them by law, though not those governed by a professional syndicate (such as engineering, medicine and pharmacy). However, in order to qualify, Palestinian refugees are still required to obtain a work permit. It remains unclear whether Palestinians will be able to do so and whether this decree will actually reduce restrictions on Palestinians' employment rights.

Interviews conducted by Amnesty International with Palestinian refugees suggest that employers are more likely to employ Palestinian refugees in jobs that do not require a work permit such as construction work or cleaning. In such cases, Palestinians compete mainly with other foreign nationals. In some cases, Palestinian refugees are employed in jobs that require a work permit though they do not have one. Such employees are paid less than their Lebanese counterparts and do not have the benefits and protection provided by a work contract.

Restrictions on employment have a direct effect on other human rights. They magnify the various restrictions on housing rights and negatively affect standards of living. A recent unpublished survey conducted in 2008 by Secours Populaire Libanais revealed that the average monthly wage for Palestinian workers is 260-266 USD/month for males and 188-200 USD/month for females. As many as 50% of the surveyed workers stated their desire not to continue working. The Palestinian refugee population is entirely dependent on URWA and welfare organizations for educational and healthcare services, yet work injuries are not covered. UNRWA requires official work permits to cover these injuries, under Lebanese Labour Law. Hanafi and Tiltnes (2008) equally document exploitation of Palestinian professionals working outside the refugee camps, who work as medical doctors, nurses, pharmacists, engineers and teachers. Palestinian workers are therefore caught in a vicious circle of low-pay and bad working conditions, causing further discrimination against them.

4. Employment policies and labour market reform

4.1. Institutional setting of national employment policy and employment policy-making process

The Lebanese Government does not have a national employment strategy which identifies labour market challenges and tries to address them in a consistent manner. There is a Ministry of Labour (MoL), yet it has a minimal role in developing and engaging in a national employment policy. For this, there are, to date, no Active Labour Market Policies (ALMP) in the country. This situation is a by-product of at least two main factors: 1) Labour market challenges have always been diffused in Lebanon by a 'passive' policy of encouraging emigration, as the Lebanese authorities have failed to address over many decades the 'push' factors that cause Lebanon's mainly skilled workforce to seek jobs abroad. 2) Lebanese policy-makers have done very little to address the issue of high reservation wages (mostly linked to high private educational investments and a high cost of living), which discourages Lebanese workers from engaging in low-skilled jobs. Instead, an influx of foreign workers has been encouraged to take on the available low-skilled jobs, mostly in the construction and agricultural sectors.

4.2. National employment strategy: formulation and guidelines

The Lebanese Government Social Action Plan, drafted in 2006, is restricted to forming a social alleviation strategy for medium- and long-term actions to be executed together with relevant stakeholders. Specific interventions have been designed for education, health, social and local development. The objectives of this plan are to: (a) reduce poverty and improve the quality of education and health indicators; (b) improve the efficiency of social spending while preserving

budgetary allocations at an appropriate and sustainable level; and (c) minimize regional disparities and achieve better dissemination of allowances allocated in the national budget for social intervention. There is no mention in this plan to a national employment strategy.

In fact, the government does not have an effective national human-resource strategy, even for the public sector. Neither generally, does most of the private sector that faces little difficulty in recruiting labour; and, in any case, the private sector is primarily composed of small-size firms. In terms of labour relations, the provisions of the Labour Law are dated and the limited tripartism that exists among workers, employers and the government are largely ineffective. The main player in the area of employment programs is the National Employment Office (NEO). It has neither the capacity nor the funds required for research or for administering effective employment services. It provides limited training (subcontracted to NGOs), and assists individuals in finding jobs. It currently employs 50 staff (out of 107 authorized positions) in nine offices around Lebanon and made 152 placements in 2005 out of 853 applications it received.

4.3. Active Labour Market Policies: description and performance

A major issue affecting Lebanon's labour market policies is nepotism and the confessional divisions within the political establishment. One explanation why the Lebanese government hesitates in introducing massive reforms is that the state is, in some senses, a confessional-rentier state. Historically, the Lebanese government has not been dependent on state revenues for its plans and projects. It has historically depended on long-term loans, grants and donations. Lebanese politicians have grasped the notion of the state and its mode of functioning and have continually manipulated the political and economic situation by using the state to satisfy their clientele and remain in power. Hence, the state is a form of welfare fund that has employed thousands of people that it does not really need. More importantly, this mentality has allowed corruption to establish itself in government agencies. Government servants capitalise on their status and blackmail citizens for the simplest of services such as issuing an ID card. Government overstaffing can also be explained by the compensation package it offers its servants. In general, the public sector portrays itself as offering better job security than the private sector. Its benefits include an education subsidy, health insurance, pension fund, and survivor benefits (Chaaban & Gebara, 2007).

4.4. Recent changes in labour market legislation and reform projects

There are no serious reform programs in labour currently contemplated in Lebanon. A draft Labour Law was proposed in 1992 and again in 2000 but still remains a draft. A modest post-hostilities program (US\$200,000 from the International Labour Organization) aims at providing some regional support to NEO offices for job-matching and training services in the affected areas.

The MoL issued a Decree after the July 2006 War (n. 193/1, August 24, 2006) forbidding the dismissal of employees for economic reasons, *force majeure* or the cessation of work due to hostilities before consulting the MoL. Otherwise, termination shall be considered abusive. The Decree also provides that the employer should provide the employee the requisite one to four months notice (depending on seniority) prior to the termination of the employment agreement. The MoL has instructed its inspectors to refuse terminations of employment agreements only after examining each situation on a case by case basis, on the grounds that each case has its own merits. This practice also opens the door to delays, interferences and favouritism.

More recently, 2007, an increase in the minimum wage was implemented, from 300,000 LBP (200 USD) to 500,000 LBP (380 USD). This was the first time that the minimum wage had been raised since 1996. To date there is no analysis, official or unofficial, on the impact of this raise on Lebanon's labour markets' dynamics.

4.5. Alternative strategies and policy options available for the sound management of excess labour supply

Enacting a national employment strategy is of central importance for the country, as the ‘passive’ policy of ignoring labour markets and immigration dynamics is threatening the Lebanese economy. There is a need to draft a new labour law and regulations should be made with a view to benefiting workers at the lowest possible costs to the labour market. Updating the Labour Law and modernizing labour relations is a necessary step for an upper middle-income country aspiring to integrate more forcefully in the globalizing economy.

There is also a need to reform pension schemes and social security contributions, by providing some form of unemployment insurance which, if properly designed, can be funded from contributions of no more than 2-3% of the payroll. Such an unemployment insurance scheme will also provide more generalized worker protection against the risk of unemployment.

In fact, there are many ways to support the unemployed and each should be assessed after a careful empirical analysis of the elasticity of labour demand, as well as the incidence of labour taxes. However, at face value, unemployment insurance may be preferable to other alternatives (such as unemployment assistance or individual savings accounts). Any unemployment insurance measure is bound to increase labour costs unless compensatory mechanisms are found elsewhere. There should be a re-examination of the Labour Law in respect of its provisions for termination of employment – termination can add up to 8.5% of salaries to labour costs. For example, in its application the current Labour Law: (a) treats most employment terminations as abusive, even if they arise from financial difficulties due to the hostilities; and (b) views employment as either “full time” or “nothing” and makes no provision for temporary layoffs. Most European and OECD countries have provisions for temporary layoffs, and Lebanon can move in this direction ensuring that worker protection is maintained through an insurance mechanism that would reduce individual risks to employers and be funded by lower (than 8.5%) payroll contributions.

Lebanon would also need to introduce a Labour Force Survey and better understand the dynamics of migration. The Central Agency for Statistics is planning to launch a Labour Force Survey soon, which is a welcome step in the development of a labour market information system that would establish the characteristics and trends of the labour market. With such data and additional research, Lebanon should better understand the mobility patterns and broader dynamics of its labour market, both among departing and returning Lebanese, and also among incoming immigrants.

5. The impact of outward labour migration flows on national labour markets

5.1. Estimation and characteristics of outward migration flows since 1990

In contrast to many developing countries, notably those in the Arab world, Lebanon’s resident population has actually fallen in the past ten years (Kaspasian 2007, 120). This is despite an almost twofold increase in foreigners entering Lebanon for work (as measured according to the number of work permits issued to foreigners) (ibid., 119). In 1997, 60,547 work permits were issued to non-Lebanese residents, while in 2005, 109,379 work permits were issued to foreigners (ibid.). The decline in the Lebanese population is due to high emigration, with is estimated at an average of 15,000 persons per year.

Lebanon experienced a natural peak in emigration during its Civil War. Between 1975 and 2000, an estimated 600,000 to 900,000 Lebanese left their country (ibid., 120). In addition to these estimates, some 7% of the population migrated during this period but later returned to their homeland. (ibid.). Today, just under half of the country’s population has one or more family members living abroad (46.2%), these having emigrated between 1975 and 2000.

Today, there are varying methods for calculating, or in Lebanon’s case due to the lack of data, estimating, the number of first generation immigrants abroad. It is estimated that somewhere between 15,000 and 20,000 people immigrate every year (Characteristics of Emigrants, 2000). It has also been estimated that there is a stock of almost 550,000 first generation migrants in 2005 – almost 14% of the Lebanese population. Table 5-1 below shows the distribution of Lebanese immigrants abroad (Chaaban, 2008 - Presentation). Most Lebanese migrants are in the Arab Gulf countries, where job opportunities for skilled multi-lingual individuals have grown quickly in the past decade. The USA, Australia and Canada follow as top destinations, capturing respectively 19, 15 and 12% of Lebanese migrants. Migrants to EU countries have a somewhat small share, not exceeding 15% of total Lebanese migrants abroad.

Table 5-1: Stock of Lebanese migrants abroad, 2005

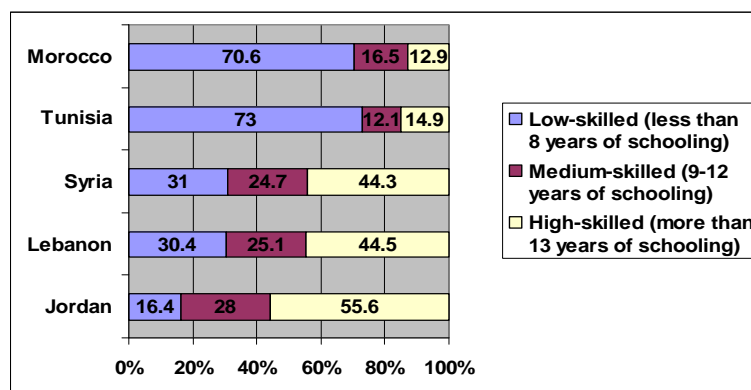
Destination	Emigrant stock	Distribution
Arab Gulf	150,000	27%
USA	105,910	19%
Australia	85,347	15%
Canada	67,230	12%
Germany	39,380	7%
Syria	37,219	7%
France	33,278	6%
Other	36,446	7%
Total	554,810	100%

Source: OECD and www.carim.org, and author estimate for Arab Gulf.

Almost 76% of emigrants are between the ages of 15 and 34. The age group 25-34 ranks first with 46%, while the age group 15-24 follows with 31% of Lebanese emigrants. Moreover, the age group 20-44 makes up 38.7% of the Lebanese population. Of this segment, 82.6% are immigrants. This is worrying for Lebanon’s future social make up and its aging population.

Moreover, based on migrant registries from OECD countries, Adams (2006) shows evidence that most Lebanese emigrants to the OECD are high-skilled (more than 13 years of schooling), which contrasts with migrants from North African countries where more than 70% of registered migrants are low-skilled (Figure 5-1).

Figure 5-1: Distribution of emigrants from the MENA to OECD by level of education (2000)



Source: Adams (2006)

Kasparian (2007) shows that in terms of distribution between the sexes, although both men and women migrate, the number of male emigrants was significantly higher (16.4% versus 10% women). On the whole, the majority of migrants are married (75.4%), while male migrants are more likely to be “single” than female migrants. It is worth noting that Lebanese female migrants are on the whole younger than male migrants.

Table 5-2: Estimation and characteristics of legal outward migration flows

		Stock			Stock		
		Male	Female	TOTAL	Male	Female	TOTAL
Outward migration (by age)		223045	130455	353500			
1987-2001	15-24	63379	45460	108839	28.4	34.8	30.8
	25-34	108405	55344	163749	48.6	42.4	46.3
	35-44	48375	26672	75047	21.7	20.4	21
	45-65	2886	2979	5865	1.3	2.3	2
		Stock			Stock 2007 (latest available year)		
Outward migration (by level of education)		Male	Female	TOTAL	Male	Female	TOTAL
1975-2001	None			40680			6.7
	Primary			258463			42.6
	Secondary			142991			23.6
	University			154278			25.4
		Stock			Stock		
Outward migration (by countries of destination)		Male	Female	TOTAL	Male	Female	TOTAL
1975-2001	Africa	28149	9907	38056	7.2	4.6	6.3
	North America	110367	68914	179281	28.3	31.9	29.5
	Central and South America	18471	7536	26007	4.7	3.5	4.3
	Asia	1610	1076	2686	0.4	0.5	0.4
	Australia	44023	35551	79574	11.3	16.4	13.1
	Europe	107214	49817	157031	27.4	23.0	25.9
	Arab States	80704	43262	123966	20.7	20.0	20.4
	Undetermined	98	114	212	0.0	0.1	0.0

Source: Enquête sur l'entrée des jeunes libanais dans la vie active et l'émigration, USJ-2001.

There are distinct trends that can be identified regarding the regional origins of migrants, their educational background and their economic status at the time of departure. Saint Joseph University's comprehensive 2003 study illustrates some of these trends.

First, the young aged 15 to 29 residing in, or originating from rural and peripheral areas are more inclined to emigrate. Migration is noticeably higher in poorer areas such as the Bekaa, South Lebanon, North Lebanon and Nabatieh. Second, in terms of their educational level at the time of migration, the largest group is found among 15 to 19 year olds with primary or supplementary education. This might

be explained by those in this age group migrating with their parents and completing their studies abroad. Those aged 20 to 24 meanwhile with secondary education were the second largest group to migrate. Faced with the likelihood of unemployment or low salaries in the local markets, the young in this category were exposed to migration. Third, a significant majority of those who departed were people aged between 25 and 29 who were in employment when they made the decision to leave the country. The other noticeable segment of this age group that chose to migrate were those classified as inactive at the time of departure. Within the working population aged 25 to 29 which migrated, more than half were male. Among those noted as inactive, the overwhelming majority within this same age group was female, possibly signalling the propensity for home-making spouses to follow their husbands abroad.

Migration increased between 1996 and 2001, and has accelerated further since – particularly among the young (Kasparian 2007, 120). In a study of 3,500 graduates from Saint-Joseph University between 2001 and 2004, 21.5% of graduates emigrated. A further 5.7% of the sampled graduates went abroad for a protracted period of time, but eventually returned (Kasparian 2007, 120). Unofficial figures place yearly migration numbers between 15,000 and 20,000.

The broader Saint Joseph University survey of 2003 showed that job opportunities and further education were primary incentives for youths to leave Lebanon permanently or for a longer duration. Within the chosen sample of individuals, more than one third wished to emigrate or leave the country for a certain period. 16.6% of those who wished to leave wanted to do so for good (Kasparian et al. Vol 2 2003, 78).

The more limited survey of Saint Joseph University students illustrated that engineering graduates, medical students and information technology students were the most prevalent among graduates working abroad (Kasparian 2007, 120). This indicates that these are jobs with insufficient opportunities in Lebanon. Meanwhile, males were more likely to go abroad for work than females: 48% of male graduates and 26% of female graduates (Kasparian 2007, 120).

The broader 2003 survey showed that youths living in the suburbs of Beirut and in the region of Nabatieh were the keenest to migrate with some 42% of the young surveyed in these areas wishing to leave. Youths from Beirut and the Bekaa were marginally less intent on leaving, with 39% responding that they wished to leave the country (Kasparian vol. II 2003, 78). It is worth noting that Nabatieh, as discussed above, is one of the areas with the highest poverty rate in Lebanon: poverty is at almost 50% there.

Indeed, in line with the desire of youths from less developed areas wishing to emigrate, the Saint Joseph University survey showed that 40.1% of surveyed individuals who did not hold a diploma of education, wanted to leave Lebanon. However, of these, a number stated that they were unable to do so because they did not have the means to pay to leave the country. Of youths with limited technical education, 42.1% wanted to leave. Again, a portion of these youths (9.4%) specified that they did not have the means to depart (Kasparian vol. II 2003, 79). Although a significant proportion of university graduates surveyed also wished to leave the country (33%), they were proportionately fewer than the two categories mentioned above (ibid.).

The desire to emigrate was significantly more pronounced among the unemployed young. 58% of the unemployed in the survey wished to leave Lebanon, compared to 49.2% of those studying and actively looking for work. Of the unemployed wanting to leave Lebanon, one quarter wanted to leave permanently. (ibid., 80)

Young labourers were most likely to wish to leave Lebanon: 46.4% for specialized labourers and 37.7% for non-specialized labour. For office workers, service personnel, medical staff and social services of the designated age group, between 30 and 32% wished to leave. Military staff were the least likely to want to leave the country with only 10% of the survey sample expressing an interest in leaving. (ibid.)

Job insecurity is a core reason for those young Lebanese who wish to go abroad. 42.6% of who were not in permanent employment wished to leave Lebanon. Of these, 18.1% wanted to leave permanently (ibid., 82). Those not in employment were also relatively eager to move with 37.9% of them wishing to leave. Of those, 16.5% wanted to emigrate permanently. Meanwhile, one third of those in full employment intended to leave the country.

The young working in the public sector were less inclined to leave the country. 83.9% of the survey sample working in the public sector had no desire to leave the country either permanently or provisionally (ibid.). It is evident that the public sector with its employment and payment guarantees provides the young with the security and stability they seek.

The inability to find work in the same field as their area of education was also an incentive for the young to seek a life abroad. Among those working in a field related to their education, 30.6% intended to leave. Meanwhile, 39.5% of those who did not work in a field related to their field of study, desired to emigrate (ibid.).

Unsatisfactory remuneration also plays a part in the desire of the young to emigrate. Of those earning 500,000 LBP or less (\$334) per month, 40% of those surveyed wanted to leave. The survey showed that as salaries rose, the desire to leave Lebanon diminished. 46.7% of those who were unhappy with their financial situation were prepared to go abroad in search of a better paid job, while only 25% of those who considered themselves to be content with their salary (judging it sufficient and fair) wanted to pursue other options abroad. (ibid.).

Difficulty in finding satisfactory work were the primary reasons for considering migration. 30.2% of the young surveyed in the 2003 Saint Joseph University's study wanted to emigrate to find a job elsewhere. This was equivalent to 80% of all those considering emigration – whether permanent or temporary.

In sum, emigration in Lebanon, as in other resource-poor countries in the region, is affected by both 'push' and 'pull' factors. The 'push' factors are political instability; the high cost of living, especially for young graduates; and a mismatch between education and market needs combined with a tight labour market for skilled graduates. As for 'pull' factors, these include high salaries in Arab petrodollar-rich countries; an established network of Lebanese communities abroad which helps the young who want to leave the country; and also opportunities for good quality graduate studies.

5.2. Elements for analysing the impact of migration flows on national labour markets

Lebanese immigration has, as is the case in many small labour-exporting countries, its pros and cons. The benefits of Lebanese immigrants include:

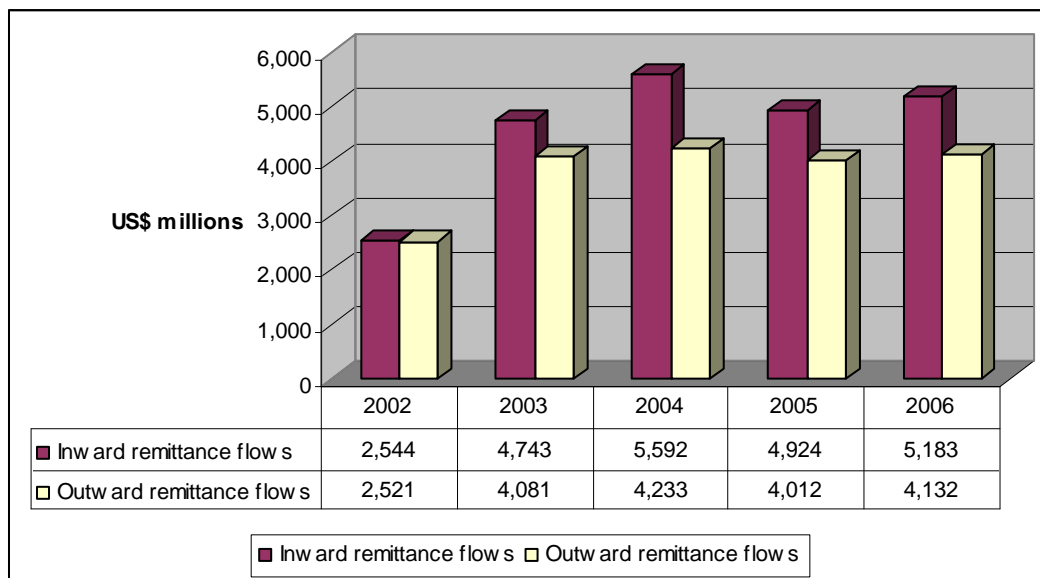
- *Ability to send transfers and remittances:* Lebanon ranks in the top 10 countries in the world in terms of remittances to GDP ratio, reaching 22.8% of GDP in 2006 according to World Bank estimates.
- *Increase in the "skill stock" of the Lebanese workforce:* The possibility of migration raises the expectations of students and their parents, encouraging extensive investment in education. The number of students registered in Lebanon's universities doubled in the last ten years, from around 88,000 in 1997 to 160,000 in 2007 (according to data from the Educational Centre for Research and Development - CRDP).
- *Bringing down local unemployment:* As was noted previously, unemployment decreased for higher age groups in Lebanon, reflecting the impact of adult emigration.
- *Potential gains from "return immigrants" and knowledge transfer:* Most influential politicians and businessmen in Lebanon are from families of return migrants or are return migrants themselves. They have all established successful businesses and contributed to knowledge transfer in the Lebanese economy.

However, immigration also carries with it an unpleasant side. The most notable negative effects include:

- *Loss of the country's human capital and workforce:* Migrants constitute almost a third of Lebanon's labour force, most of them skilled professionals. Data from the 2001 USJ survey shows that the emigration rate among the tertiary educated stands at 29.7%, while the emigration of physicians is evaluated at 1,327 or 9.3% of physicians trained in the country.
- *Paying locally for an education that renders returns abroad:* Lebanon's education expenditure is very high, as public and private educational expenditure reached in 2007 almost 8% of GDP, according to World Bank estimates.
- *Loss of talent and knowledge pool to fill needed skill shortages in the country:* Although no data exists on the professions and skills needed in the Lebanese economy, anecdotal evidence suggests a shortage in nurses, medical technicians, agro-food specialists, translators, and semi-skilled construction workers.

In fact, the financial net return of Lebanese immigration is not that beneficial in monetary terms. For instance, 80% of immigrant remittances are consumed by daily household consumption (daily expenses and school tuition) rather than being used for direct investments. Furthermore, Lebanon receives only slightly more money than it is sending, mostly through foreign domestic workers in Lebanese households (Figure 5-2). The country is therefore experiencing an economic cycle where remittances fuel real estate and services investments; which in turn increase the demand for unskilled workers mainly in construction and the cleaning sectors; thus contributing to an increase in inward emigration flows. Inward remittances are indirectly contributing to the high rates of outward remittances.

Figure 5-2: Inward and outward remittances, billion USD



Source: Data from Banque du Liban and the World Bank.

Immigration is also leading to a gender imbalance. Approximately 80% of emigrants are males (Characteristics of Emigrants, 2001). This fact tends to create an unhealthy social environment over the medium- and long-term. Families are developing with the constant absence of the male figure at home. In addition, the average marriage age has gone up. The percentage of single males and females in their late 20s as compared to the period prior to 1975 is more than double. The make-up of Lebanese society is heading then towards a radical change (Living Conditions of Households: 2004, 2006).

Women are still not the direct beneficiaries of this mass male exodus. Working women only make up 23.3% of the labour force. This low number has a negative effect on Lebanon's GDP. It is not clear whether the low rates of female emigration would be linked to their participation in the labour markets. A priori one would think that high rates of male migration would increase the demand for female labour, but in the case of the Lebanese economy this effect is not observed. This might be due to two factors: the stickiness of employment practices in relation to the hiring of female workers; and the high levels of remittances which can be sustaining the inactivity of women. These important dynamics would require further evaluation.

Finally, in 2006, Lebanon received twice as much money from immigrant remittances as Foreign Direct Investments (FDI) - \$5.2 billion vs \$2.6 billion. Such a high level of remittances, the highest among the Arab nations, distorts markets, causes the Dutch Disease and creates a parallel economy. Moreover, the presence of remittances creates a rentier mentality in which reward is not a function of productivity or work in general. It is a windfall gain (Chaaban & Gebara, 2007).

The recent global economic crisis has had a mixed impact on the Lebanese economy. While the country emerged unscathed from the global financial breakdown of major banks and stock markets – local financial institutions had sound regulation in place – the country is starting to experience the effects of the slowdown on foreign investments and remittances. The World Bank and IMF forecast a global decrease in remittances in 2009, and Lebanon will surely be affected by this. Most Lebanese workers in the Arab Gulf remained in their jobs, but it is not clear whether layoffs might not occur if the crisis is prolonged.

5.3. Policy options

A first step in addressing the complex issue of migration in Lebanon would be a serious attempt to gather more information on this phenomenon. It is strange that a labour-exporting country like Lebanon does not have official accurate information on the extent of emigration and its patterns. For this, there is a need to form a committee which might be dubbed the “National Emigration Study Group”, in partnership with public and private institutions, in charge of producing updated analytical information on migration, especially among the young. There are timid attempts currently being discussed to form a national human resources task force, affiliated to the Prime Minister's office, to conduct a strategic review of Lebanon's human resources and propose recommendations. This initiative should be widened, broadening its scope of actions to assess the Lebanese brain drain and proposing initiatives to rationalize it.

A second step would involve tackling the ‘push’ factors that drive the Lebanese, and especially the young, to migrate: ‘pull’ factors cannot be really affected by a small country like Lebanon. This first involves an economic program to reduce living expenses, especially reducing housing cost by providing cheaper and bigger housing loans for all young graduates. In parallel, active fiscal interventions should target inflation in the housing sector, by taxing empty apartments and large luxurious real estate projects and offering tax breaks for real estate investments which offer affordable housing for young couples. Second, there is a need to invest more in skilled public-sector jobs, as the country cannot keep on relying on the private sector to provide more job opportunities under an adverse political environment. The latest estimates provided by the World Bank's resident mission in Lebanon shows that the labour elasticity to value added growth during the period 1997-2007 did not exceed 0.001, which indicates a significantly inelastic domestic labour market. This indicates that in a period of 10 years, despite a modest real GDP growth of, on average, 3%, the Lebanese economy barely created enough jobs to sustain its growing labour force. Moreover, the agricultural and industrial sectors have witnessed negative labour elasticities. This indicates the presence of rigidities and distortion in the domestic labour market, and the inability of the Lebanese private sector to create jobs.

While many in Lebanon argue that political unrest and infighting, both locally and regionally, are the main culprits behind this sluggish performance, one should note that the last decade witnessed extensive infrastructure and real estate projects in the country. These projects lead to a Dutch Disease phenomenon in the country, with a booming real estate sector inflating the price of essential non-tradable goods and services and creating job opportunities for foreign unskilled workers. This, in turn, depressed the demand for jobs in other sectors of the economy, and provoked large waves of emigration. It is also important to note that focusing on real estate and construction as growth engines of the Lebanese economy was not solely a State decision – the entire ruling political establishment was implicated.

There is a need for a renewed (and reformed) public intervention, through carefully designed programs which promote the creation of job opportunities for skilled workers, within competitive clusters that would ideally be set up through public-private partnerships. These clusters could centre on Information Technology, agro-food industries for high-value added crops, knowledge translation to benefit from the rich linguistic culture in the country, and other sectors where Lebanon has a comparative advantage. Vocational and technical education is an important area for reform in the country, with a view to strengthening and establishing programs that are in tune with markets needs.

Ultimately, migration should be made an option and not a goal, as higher educational institutions teach more skills that promote local job creation instead of contributing to the export of Lebanon's labour force. Currently there are 1 public and 40 private universities in Lebanon with a population of 160,000 university students. Clearly there should be a rationalizing of the number of private higher educational institutions and a revision of the majors being offered, to introduce diplomas that better match the needs of the domestic market. These could produce translators, IT experts, health professionals other than doctors (nurses, medical experts, elderly care specialists, etc), and other specializations which would be defined once a national review of national labour market needs has been conducted.

ANNEXES

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2. List of key information sources

National statistical data sources on demographics and labour markets in Lebanon

Lebanon's last official population census was conducted in 1932 and, since then, all successive governments have deliberately avoided updating this census due to the delicate sectarian and political structure of Lebanese society. In 1970, before the start of the Civil War, the government conducted a labour market study that was also never updated due to the turmoil of the fifteen-year conflict.

Given the absence of a comprehensive population census, sample surveys provide the only source for estimating the number of residents and their demographics, educational, economic and professional conditions. Of these surveys only two official ones, conducted in 1997 and 2004, and a university-based one conducted in 2001 provide information and statistics about the labour force in Lebanon. All national household surveys employed a nationally representative sampling methodology and adopted international standards in the definitions of Labour markets statistics.

1. **Living Conditions of Households, 1997:** Conducted by the Central Agency of Statistics with financial and technical support from the United Nations Development Programme (UNDP) and the Ministry of Social Affairs. This survey used a sample of 20,400 households, excluding the South region, which was under Israeli occupation, and aimed to study the different characteristics of the living conditions of the Lebanese population.
2. **Saint Joseph University Survey: L'Entrée des Jeunes Libanais dans la Vie Active et l'Emigration, 2001:** A nationally representative households' survey, with a special focus on labour markets and migration. Published in: Kasparian, C. (2003), 3 volumes, Beirut: Press de l'Université Saint-Joseph.
3. **The National Survey of Household Living Conditions 2004:** Conducted by the Central Agency of Statistics, in collaboration with UNDP and the Ministry of Social Affairs. This survey provides the most recent national statistical database vital for the analysis of the demographics, the economic activities and the living conditions of Lebanese residents. The sample covered primary residences distributed across Lebanese territory, with the exception of the Palestinian camps, regardless of the nationality of the residence's occupants.

The Lebanon country background paper relies mainly on the most recent national data published in the Household Survey of 2004; and additional data obtained from the Central Agency of Statistics for 2007. However the ILO estimates are used to provide labour force projections.

