



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

معهد باسل فليحان
المالي والاقتصادي
Institut des Finances Basil Fuleihan

Rapid Impact Assessment of the Crisis on Lebanese State Institutions

Snapshot
2020 - 2021

With the Support of



for every child

The rapid impact assessment conducted by the Institut des Finances Basil Fuleihan provides an evidence-based description of the crisis's impact on Lebanon's state institutions and their capacity to sustain public service provision to citizens, based on six core functions listed below. It also identifies areas of fragility and recommendations with the aim to inform the policy response¹.

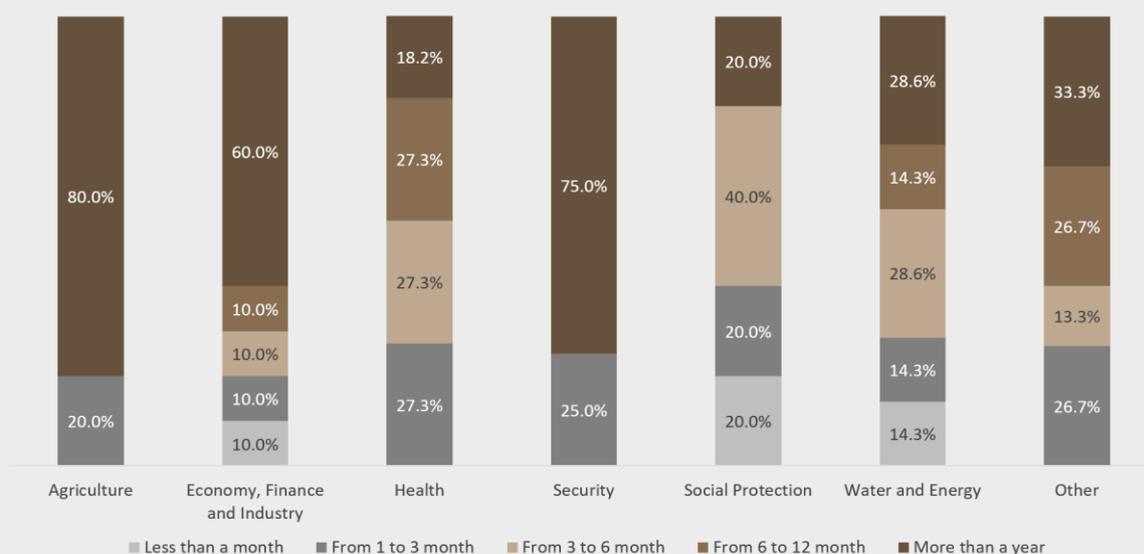
Around 200 participants across different sectors contributed to the survey and took part in the group discussions. This brief summarizes main qualitative findings and recommendations. It is also a call for action to all concerned stakeholders to act quickly.

Government agencies and public services are on the brink of collapse. But Lebanon cannot recover in the absence of strong institutions that are able to safeguard public interest. Government institutions need to be supported and empowered. While recovery is impaired by existing pre-crisis structural deficiencies and political stalemate, solutions can be implemented. The crisis has opened a window for transformative action.

Impact on Service Provision

- With the crisis, one-third of the surveyed public institutions registered a sharp increase in the demand for public services, in particular in the health sector.
- However, most of the respondents confirmed that overall capacity for service provision deteriorated amid the crisis. Service provision took longer than the usual, notably in the energy sector, social affairs and security. Examples of services for which the demand has increased are provided in Appendix 1. Impact on specific sectors, notably health, agriculture, water and social affairs is provided in Appendix 2.
- In more than half of the surveyed administrations, at least one line of services was discontinued as the survey was conducted. Around **40%** stated being able to sustain service provision for over a year. The sectors most at risk were the water and energy and social protection while respondents in the security and agriculture sectors estimated their institutions would be more resilient and able to sustain service provision for over a year under current circumstances. Examples of services that were discontinued is provided in Appendix 3.

Figure 1: For how long will PA be able to sustain service provision? (by sector)



¹ For detailed results and analysis, check the full report or brief summary available on the Institute's of Finance website.

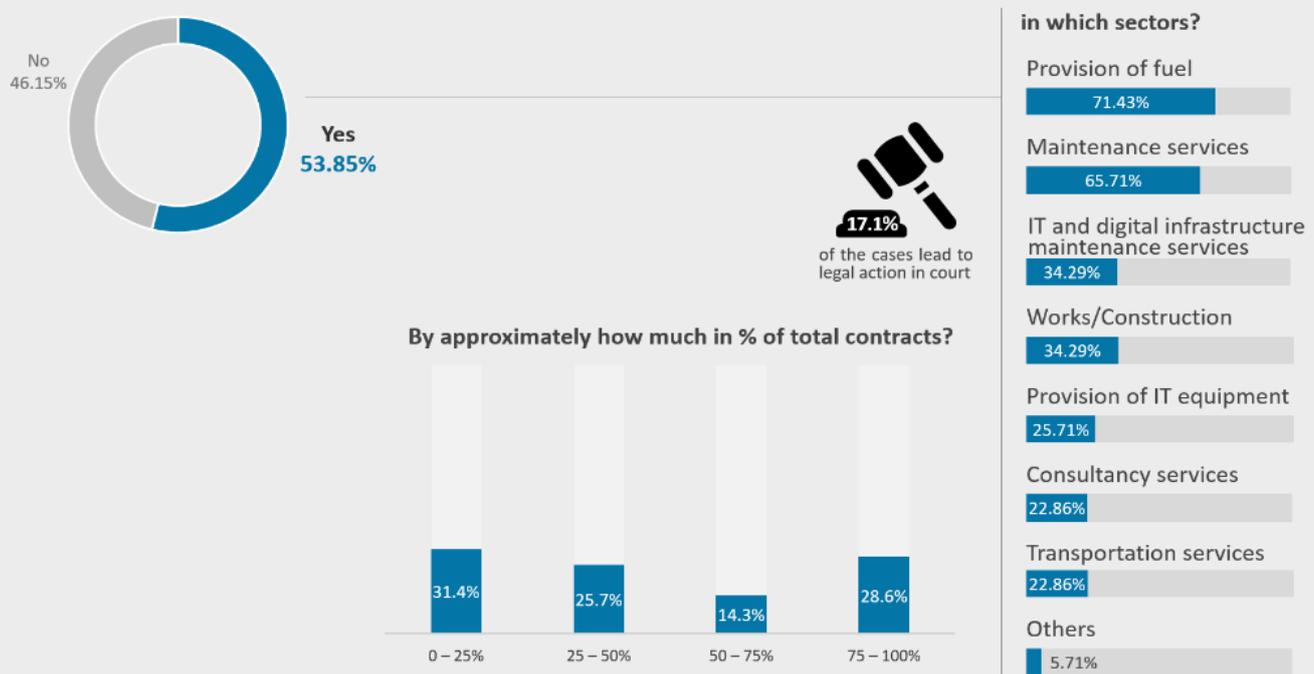
Impact on Budget and Planning (function 1):

- In 2021 and 2022, Government agencies operated based on the one-twelfth rule of the 2020 Budget law and their budgets were reduced by 90% in real value.
- Around half of administrations encountered a flat budget cut when negotiating their draft budget for 2021 with the Ministry of Finance.
- Around 35% of revenue-generating entities that filled the survey witnessed a reduction of more than 30% in nominal revenue collection.
- Among institutions that were able to mobilize external financing, less than a quarter have received aid in foreign currency. Alternative sources of financing came mainly from the private sector and philanthropic associations and from donors but were mostly delivered in LBP.
- Budget execution was disrupted by delays in expenditure controls and payments and by contracts' suspension.

Impact Public Procurement (function 2):

- The crisis prompted severe disruptions in the procurement of goods and services. Around two-third of public administrations were unable to fill the demand from depleting stocks, paving the way for significant future disruptions.
- Suppliers became increasingly reluctant to work with the public sector. Contractors and suppliers requested to be paid in foreign currencies or upfront, which are both measures in contradiction with the Public Accounting Law that regulates the operations and finances of government agencies.
- The use of uncompetitive practices such as direct contracting and mutual agreements increased, especially for emergency procurement. .
- The crisis led to breaches, and suspensions of existing contractual agreements in more than half of the surveyed administrations.

Figure 2: Did the crisis lead to breach, interruption, or suspension of existing contractual agreements?



Impact on Accounting and Financial Reporting (function 3):

- Prior to the crisis, more than half of the surveyed administrations faced payment arrears varying between one and twelve months.
- Currency devaluation significantly affected the institutions' operations by reducing the size of executed public procurement, jeopardizing liquidity and cash management, and further impairing the settlement and reporting on financial obligations.
- They reported facing difficulties in comparing financial statements across the years, mostly due to the variations in exchange rates. Surveyed administrations were obliged to introduce new reporting standards to capture the impact of the crisis on their finances.

Impact on Information Technology (function 4):

- The crisis accelerated the depletion of IT hardware and software that were already lagging prior to the crisis. As a result, administrations were prevented from sustaining service provision (for **53%** of respondents), working from home (for **48.5%** of respondents), and maximizing productivity (for **53%** of respondents).
- Prior to the crisis, in more than half of the responding administrations, hardware was last upgraded three to five years ago and in **18.2%** of the cases, no upgrade was performed for more than 6 years. Maintenance checks on IT equipment were performed in majority when an emergency occurred and in only few of the administrations, software was updated in the course of the last year. In most cases, the latest update dated back to 3 years and more.
- Depletion of essential IT software increased the risk of losing citizens' data: Only **6.1%** of institutions estimated their IT system to be very secure, while **12.1%** of respondents reported being subject to cybercrimes and hacking attempts.
- In terms of automation, the two most automated functions were budget (**62%** of responses) and accounting (**72%** of responses), in ways that facilitated an easy and organized flow of work. The least automated functions were archiving, HR and procurement. Paper archiving poses major challenges in terms of preservation of data and records.

Impact on Human Resources (function 5):

- Out of surveyed administrations, more than half claimed that their employees requested unpaid leaves, in particular among middle managers and categories of staff in charge of technical and sectoral service delivery, such as doctors in hospitals, teachers in schools, and engineers in public works and IT departments.
- Mass exit, increased absenteeism due to fuel shortages and loss of purchasing power, and the depletion of skills represent worrying indicators as to the capacity of the public sector to survive the crisis.
- The respondents expressed the need for new skills and competencies in the aftermath of the crisis, such as cognitive and emotional intelligence, stress management, resilience and self-motivation, digitization and IT literacy, leadership and crisis management.

The assessment findings also conclude that pre-existing structural weaknesses were exacerbated by the crisis and undermined the institutions' operational and response capacity.

Areas of risks and fragility:

Disruptions in service provision are an alarming indicator as to the State's capacity to maintain social cohesion and access to basic services, putting the lives of the most vulnerable at risk. It could lead to a significant drop in livelihoods especially for those living on the frontline of poverty.

Furthermore, the analysis of key PFM functions and of existing deficiencies sheds the light on areas of fragility that may deserve particular attention in the short and medium term:

- 1. The lack of strategic planning and of discipline in spending increases fiscal risks and weakens scrutiny and accountability:** Malpractices in PFM, the lack of clarity on spending decisions and of transparency on actual implementation are expected to increase existing contingent liabilities and fiscal risks, and to further weaken reporting and oversight. Extrabudgetary entities and public corporations that fail to record sizable financial transactions in the budget carry significant fiscal implications on the country. Additionally, the low quality and fragmentation of existing financial data hamper the government's capacity to properly inform policy decisions, to accurately estimate provisions needed to meet the state's financial commitments, and to meet the financial criteria of any externally supported bailout plan in the long run.
- 2. Procurement capacity is expected to further deteriorate, leading to more disruptions:** The continued deterioration in the exchange rate and the growing uncertainty in international market prices will constraint the buying capacity of public administrations and therefore their ability to run normal operations.
- 3. The increase in non-competitive practices and breaches in rules heightens risks of corruption.**
- 4. The depletion of existing hardware and infrastructure puts Lebanon's public administrations at risk of losing critical citizens' data:** Not properly maintaining IT hardware, software and infrastructure is putting the administration at risk of losing important databases such as those related to revenue management (tax, property management, customs, etc.) and to the delivery of services (social assistance, etc.). It also hinders the Government's ability to use data efficiently to inform policymaking.
- 5. Mass exit and the depletion of skills are worrying indicators on the capacity of the public sector to survive the crisis:** As public servants are faced by a sharp drop in their living conditions, priority needs to be given to preserving talents, especially highly qualified staff who have been groomed and trained throughout the years to deliver quality work. Otherwise, the post-crisis administration will be lacking both staff and underlying infrastructure pilot reforms and respond citizens' needs.

Recommendations on potential solutions

Priority areas of action identified by administrators that filled the surveys to help ministries and public institutions mitigate the impact of the crisis on service delivery include:

1. Stabilizing the official exchange rate (80.6%)
2. Increasing financing (91.2%)
3. Adopting and integrating financial information systems (56.5%)
4. Training and capacity building (50.0%)
5. Transition towards e-government (52.6%) whenever possible.

Other formulated short to medium term recommendations integrating a mix of measures aiming to enhance the administrations' operational capacity and introduce necessary legislative amendments to improve the regulatory framework include:



Regulatory / Legislative

- **Consolidate the role of the Ministry of Finance in crisis management and as a regulator**, through the issuance of clear guidelines and ceilings to frame planning and spending, consolidate public sector's financial operations, better monitor spending and improve both clarity on spending decisions and transparency on actual implementation. Use the preparation of the 2023 Budget as an opportunity to strengthen the budget preparation process with the introduction of robust guidance tools such as fiscal rules, mandatory ceilings per spending unit, fiscal risk statement, prioritization of expenditure to ensure a minimum level of service provision in key vital sectors, etc. and enforce measures that would systemize and tighten controls over budget approval and execution.
- **Strengthen budget institutions, notably the Ministry of Finance, Court of Accounts and Parliament**, by conducting institutional capacity assessments, identifying priority institutional reforms and designing action plans aimed at developing and consolidating these institutions' capacities and systems. Improving surveillance and scrutiny is a critical component for improving accountability and restoring citizens' trust in State institutions.
- **Enforce existing laws mandating SOEs to submit their accounts to the Ministry of Finance** and issue, over time, additional measures such as the preparation of monthly, quarterly, and annual financial statements to be submitted to the Ministry of Finance and published online, and the preparation of an annual consolidated report on the assets and liabilities of all SOEs to feed into the fiscal risk analysis. On the medium term, issue and enforce new governance rules to be applied to State Owned Enterprises.
- **Engage in an evidence-based, holistic, consultative, and participatory design of the public sector restructuring as part of the Government Recovery Plan** to conduct a reform that is not solely about size or wage bill, but mostly about what citizens expect from the state in terms of role, mission and values.



Operations / Capacity

- **Enhance spending units' capacities for planning:** including development programs tackling strategic planning for budgeting, revenue mobilization, cost pricing and analysis under multiple exchange rates, cash planning, public investment management, etc. Countries with stronger planning institutions are quicker in formulating and adopting comprehensive fiscal adjustment plans (IMF, 2014).
- In line with the entry into force of the new Public Procurement Law 244/2021, **adopt new practices, such as centralized purchasing for most procured goods and framework agreements**, that would facilitate procurement and ensure efficiency and value-for-money.
- **Upgrade existing hardware at a reasonable cost**, to extend its life cycle for around three years.
- **Maintain the IT system in place operational to avoid the loss of existing data and plan, on the medium to long term, for the deployment of integrated financial information management systems across all spending entities** to help improve the quality and timeliness of budget reports, simplify control processes, and reduce the costs of government transactions.
- **Leverage national expertise and talents:** Lebanese SMEs could be called upon to provide technical advice, handle the provision of services when cost allows to, and assist in the design of practical solutions to IT challenges faced by public administrations. Staff within ministries and institutions could upgrade their skills through certification programs.
- **Provide support to critical and performing government agencies** in retaining talents and help keep critical public services from being disrupted.
- **Assign a crisis management focal point or team** within each public administration and institution to streamline coordination and response and optimize service provision.
- **Gradually decentralize selected services to municipalities** while providing necessary capacity.

Appendix 1: Examples of types of services for which demand increased and decreased

| SECTOR | DEMAND INCREASED FOR SERVICES SUCH AS | DEMAND DECREASED FOR SERVICES SUCH AS |
|--------------------------------------|--|--|
| Health | <ul style="list-style-type: none"> - Hospitalization (mainly due to Covid-19 and the inability of patients to cover the cost of hospitalization in private hospitals) - Primary care - Vaccination | |
| Water and Energy | <ul style="list-style-type: none"> - Consultancy on the use of solar and other alternative sources of energy - Water provision | <ul style="list-style-type: none"> - Administrative work such as the transfer or cancellation of an existing water subscription, requests for new water subscription or the amendment of the number of water meters - Handling of complaints |
| Agriculture | <ul style="list-style-type: none"> - Provision of flour and diesel for bakeries and mills. - Control of smuggling - Flour and bread prices' adjustment - Set of quotas and the control of quantities of wheat distributed to bakeries - Land reclamations - Applications for the establishment of agricultural cooperatives | <ul style="list-style-type: none"> - Laboratory tests |
| Social Protection | <ul style="list-style-type: none"> - Social assistance services - Elderly care | <ul style="list-style-type: none"> - Requests by the displaced to receive compensations for the rehabilitation or reconstruction of their properties |
| Security | <ul style="list-style-type: none"> - Safety and public order (fighting of small crimes such as robberies, managing demonstrations, assault on state property etc.) - Prevention - Enforcement of anti-monopoly decisions and measures - Investigations and prosecution work - Judicial police - Passports' issuance - Cooperation with other institutions to ensure food security | <ul style="list-style-type: none"> - Entry visas - Residence cards |
| Economy, Finance and Industry | <ul style="list-style-type: none"> - Issuance of industrial certificates - Issuance of imports and exports licenses - Storage - Trademark registration - Monitoring of prices and pricing policies | <ul style="list-style-type: none"> - Provision of industrial research and testing to confirm the quality of products according to Lebanese specifications - Foreign workers' employment permit |
| Others | <ul style="list-style-type: none"> - Requests for the rehabilitation of facilities and buildings damaged by the Beirut explosion | <ul style="list-style-type: none"> - Licenses for tourism establishments and festivals - Development/Infrastructure projects - Road maintenance, construction, rehabilitation, and maintenance of government buildings |

Appendix 2: Impact of the crisis on specific sectors²

| Health | Agriculture | Water | Social Affairs and Welfare |
|---|--|---|---|
| <ul style="list-style-type: none"> ▪ The observed shift in the number of patients from private to public healthcare facilities exceeded 50%. Patients were only heading to the hospital when faced with severe or advanced stages of illness, which heightened the cost of treatment. ▪ Increases were also recorded in outpatients for laboratory and pharmacy services and in services provided in Primary Healthcare Centers where the number of daily visits was multiplied by 5 to 6 times. ▪ Shortages were significant among essential and life-saving medicines (e.g. dopamine, adrenaline, etc.) that were disrupted in both their generic and brand forms. Suppliers requested to be paid in cash USD and imposed lengthy procedures for purchase of lifesaving drugs. | <ul style="list-style-type: none"> ▪ Lands were left uncultivated due to the high cost of production which was estimated to have increased by 100 to 500%, driven by the rising prices of fuel, seeds, etc. and the disruption in access to water. ▪ Framers prioritized the exportation of their products rather than meeting the needs of the local market. ▪ The sector also suffered from workforce shortage particularly in daily workers and skilled practitioners such as engineers, IT technicians, etc. ▪ A number of services usually made available to farmers were either disrupted or reduced such as the organization of annual exhibitions to promote local products or the distribution of in-kind and financial aid and training. ▪ A significant increase in the demand to establish cooperatives was registered. ▪ The demand for land reclamation and for the opening of agricultural roads and artificial lakes was also on the rise. | <ul style="list-style-type: none"> ▪ Water services were sustained but reduced to minimal capacity while the quality-of-service provision dropped. ▪ Both the production and distribution of water were affected by the crisis. The most challenging obstacle concerned institutions had to overcome in 2021 was their inability to procure for the needed goods and supplies given the sharp and rapid depreciation of the exchange rate. ▪ The demand for new subscriptions increased amid talks of an upcoming tariff adjustment. There was also a significant increase in the demand for new services that were not previously made available by water authorities, such as the subscription for half a meter or irrigation networks mainly used for agricultural purposes. However, water establishments were not able to provide these services. ▪ An increase in complaints was registered principally emanating from delays in maintenance services. ▪ Water authorities which were financially autonomous became reliant on budget allocations from the Budget reserves and on donor support, particularly for capital expenses. ▪ The sector suffered from massive departures, notably among technicians and. | <ul style="list-style-type: none"> ▪ In SCDs, some services were halted, such as patients' consultations with doctors and the provision of drugs, at a time when such services should have been supported, increased and sustained. ▪ Elderly care centers were subject to a significant increase in demand for their shelter services, as well as services provided to people with disabilities. ▪ Increases in demand were also registered for: (a) Drugs and hospitalization; (b) Poverty vouchers/cards; and (c) Support to pay rent ▪ A sizeable increase in gender-based violence and demand for assistance was reported as well. ▪ Service delivery through associations was reduced to the provision of basic needs. Community-based activities for kids were cancelled. ▪ Social workers' weekly visits to families decreased due to the rise in transportation fees and were replaced by remote work and online meetings. ▪ Financial constraints have impacted the intake of new cases and the capacity to follow-up on the existing ones at the level of SDCs. Concerned staff were unable to perform the home or family vetting visits needed to approve the requests for services submitted by citizens. |

² Information for this sectoral analysis was collected during focus groups held between January and March 2022 that gathered participants from public administrations and institutions. Sample of the focus groups differs from the one of the quantitative survey.

Appendix 3: Examples of services being discontinued (2020-2021)

| SECTOR | SERVICE BEING DISCONTINUED |
|---------------------------------|--|
| Health | Closure of medical sections |
| | Closure of HR departments |
| | Shutting down medical machinery |
| Infrastructure and Works | Regular maintenance of roads and buildings |
| Agriculture | Training and field visits |
| | Land development, lakes, and mountain roads |
| Water and Energy | Water and power supply shortages |
| Culture | Support to the organization of cultural events and exhibitions |