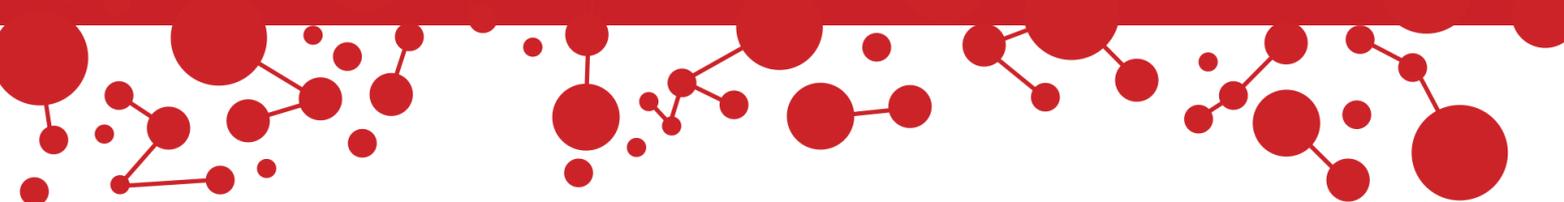


# Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation

CASE STUDY LEBANON  
– July 2021



*This case study accompanies the CaLP Network Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation. It is intended to illustrate the process of situational analysis, response analysis and response option selection presented in the GPR. The learning from this case study has also actively contributed to the good practices documented in the review. It should be noted that the case study represents a snapshot in time of a continuously evolving situation. This case study was authored by Roselyn Mullo (DG ECHO) and Anne Johnston (FCDO), supported by Emma Holden-Maillard and Calum McLean (working for the FCDO-GIZ SPACE initiative).*



# 1. CONTEXT

A decade into the protracted humanitarian crisis in Syria, **Lebanon continues to host the highest number of displaced persons per capita globally, totaling around 25% of the population.** Lebanon is currently engulfed in the **most severe economic crisis since the civil war**, caused by structural macroeconomic policy neglect, political fragility, low GDP growth, increasing debt burden and a high fiscal deficit.[1] This crisis has been further compounded by the COVID-19 pandemic and the August 2020 Port of Beirut explosion.

The World Bank has declared the current economic crisis one of the top three most severe crises globally.[2] **Socio-economic fragilities among the most vulnerable host and refugee populations have been exacerbated** and a bleak outlook looms in the absence of a fully functioning executive authority. Registered unemployment spiked to around 40%, the value of salaries paid in LBP have dropped by 85%, and businesses are closing. Around 88% of Syrian refugees and 22% of Lebanese live in extreme poverty.[3] The upcoming removal of subsidies on food, fuel and medicines will push people further into poverty.

**Cash and voucher assistance (CVA) worth over USD 429 million was injected into Lebanon's economy in 2020**, comprising around a quarter of the official response in Lebanon.[4] This includes support to the Syrian refugees and other population groups through large-scale multipurpose cash (MPC), sectoral cash and electronic food vouchers. **Most cash is delivered through the ground-breaking Lebanon One Unified Inter-Organisational System for E-card (LOUISE) platform.** The model was born out of a formalized collaboration between UNHCR, WFP, UNICEF and the former Lebanon Cash Consortium (LCC) and uses a one-card system, a common beneficiary registry and a joint vulnerability assessment methodology. Currently, MPC is supporting around 138,060 households,[5] including 136,232 Syrian refugees, 1,828 Lebanese and 8,057 Palestinian refugees from Syria.

**CVA for vulnerable Lebanese has been slower to get off the ground.** The National Poverty Targeting Programme (NPTP) for Lebanese households was launched in 2011 by the Government of Lebanon (GoL) with technical and financial assistance from the World Bank (WB) and currently reaches 15,000 households (scale-up is underway). An Emergency Social Safety Net (ESSN) with the WB is also being established, and the GoL is considering providing subsidy replacement cash cards to the most vulnerable Lebanese households, but has not identified the financial resources to support this exercise. [6]

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[1] Ministry of Finance 2020. General Debt overview. Retrieved from <http://www.finance.gov.lb/en-us/Finance/PublicDebt/PDTS/Documents/General%20Debt%20Overview%20Updated%20as%2031%20December%202020.pdf>.

[2] World Bank (2021). Lebanon Sinking into One of the Most Severe Global Crises Episodes, amidst Deliberate Inaction. Press Release, 1 June 2021. <https://www.worldbank.org/en/news/press-release/2021/05/01/lebanon-sinking-into-one-of-the-most-severe-global-crises-episodes>

[3] Defined as living below the survival minimum expenditure basket. See VASYR (2020).

<http://ialebanon.unhcr.org/vasyr/#/>

[4] LCRP 2020 dashboard.

[5] Basic assistance working group minutes, June 2021

[6] <https://www.worldbank.org/en/news/factsheet/2020/04/21/targeting-poor-households-in-lebanon>

## 2. SITUATION ANALYSIS

### a. What is happening to prices?

In late 2019 the government declared a 'state of economic emergency' resulting from the **overwhelming debt burden of USD 91 billion, around 160% of the GDP**,<sup>[7]</sup> among the highest in the world. In March 2020 the government marked a first ever default on a USD 1.2 billion Eurobond. By the end of 2020 the foreign exchange reserve at the central bank, Banque du Liban (BDL) reached USD 24.1 billion, declining by USD 12.5 billion since the end of 2019.<sup>[8]</sup> **The GDP contracted by 20.3% in 2020,<sup>[9]</sup> and a further decline by 9.5% is projected in 2021.<sup>[10]</sup>** Between 2018 and 2020, the per capita GDP is also reported to have plummeted by almost 40%.<sup>[11]</sup> In the revised macroeconomic outlook for Lebanon, the WB foresees a downgrading of Lebanon income classification from an upper-middle income status (GNI per capita of between U\$4,046 and US\$12,535) to a lower-middle income status.<sup>[12]</sup>

**Available funding for subsidies required to purchase certain basic goods such as fuel, medicine and agricultural products may run out in two to three months. This will raise prices,<sup>[13]</sup>** exacerbating the fragility of the most vulnerable in accessing basic goods and services. The WFP predicts that subsidy removals will lead to five-fold increases in the price of combustible fuel, a 326% increase in the price of medicines/medical equipment and a 285% increase in the cost of subsidized food baskets. **Purchasing power has suffered significant erosion**, particularly among the working middle-income class and the poor Lebanese and refugees engaged in the informal economy. Reports further indicated increasing prevalence of indebtedness across all population tiers, including the majority of refugees (90%).

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[7] Trading Economics. Government Debt in Lebanon increased to 130131 LBP Billion in January from 128975 LBP Billion in December of 2020. <https://tradingeconomics.com/lebanon/government-debt>

[8] Lebanon Economic Update: April 2021

<https://thedocs.worldbank.org/en/doc/a3d1489dafa646ee90f5a19abd950cab-0280012021/original/9-mpo-sm21-lebanon-lbn-kcm.pdf>

[9] Lebanon Economic Update: April 2021

<https://thedocs.worldbank.org/en/doc/a3d1489dafa646ee90f5a19abd950cab-0280012021/original/9-mpo-sm21-lebanon-lbn-kcm.pdf>

[10] Assuming COVID-19 effects continue into 2021, the limited prospects for macro-economic policy reforms and minimum level of political stability (i.e. formation of government).

[11] Lebanon Economic Monitor: The Deliberate Depression. Washington DC: World Bank Group.

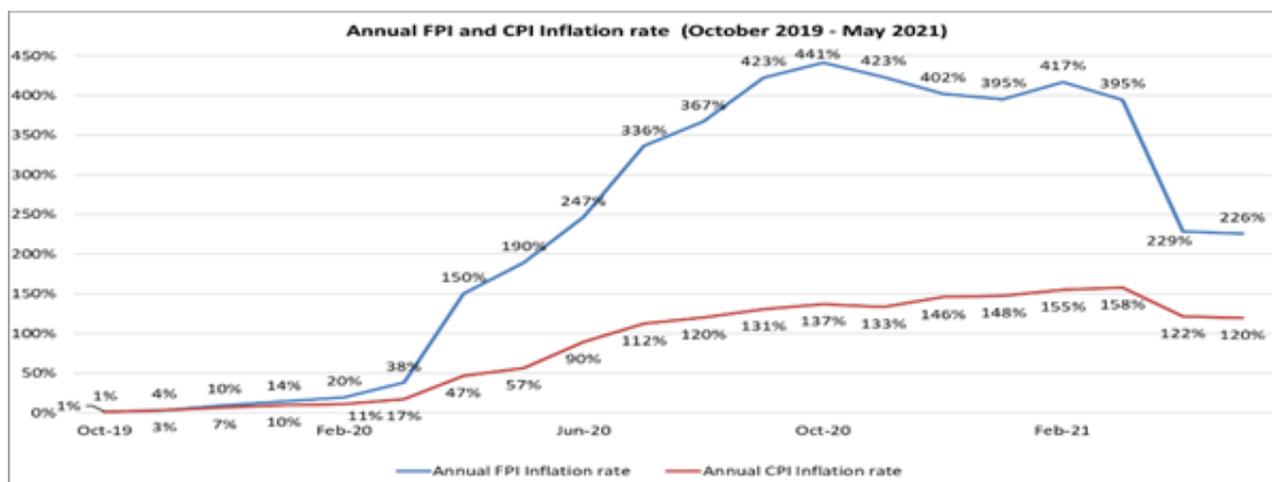
<http://documents.worldbank.org/curated/en/474551606779642981/Lebanon-Economic-Monitor-The-Deliberate-Depression>

[12] World Bank (2021). Lebanon Sinking into One of the Most Severe Global Crises Episodes.

[13] According to the BAWG March 2021 minutes, WFP analysis projects the following price changes in the event of subsidy removal: Bread: Potential price increase of 1.5 to 4.25 times the current price; Combustible Fuel: Potential price increase of more than five times the current price; Subsidised Food Basket at the cost of LBP 3,900: Potential price increase of up to 285%; Medicine/medical equipment: Potential price increase of up to 326%

A sharp depreciation of the exchange rates has induced spiraling levels of inflation, with particular impact on food price volatility. Between October 2019 and May 2021, the consumer price index (CPI) recorded an increase of nearly 243%, while the food price index (FPI) increased by 858%. On an annual basis, the CPI and FPI recorded an increase of 120% and 226% respectively between May 2020 and 2021.[14]

Figure 1: Annual FPI and CPI inflation rate (October 2019–May 2021) [15]



To align with prevailing market realities and actual beneficiary expenditures, the **Basic Assistance Working Group (BAWG)** revised the **minimum and survival minimum expenditure baskets (SMEB)** in August 2020 (Table 1).

Table 1: Updated MEB and SMEB values (September 2020)[16]

|                 | 2020 SMEB |         | 2020 MEB  |         |
|-----------------|-----------|---------|-----------|---------|
|                 | Per HH    | Per Ind | Per HH    | Per Ind |
| <b>Food</b>     | 590,188   | 118,038 | 653,544   | 130,709 |
| <b>Non-Food</b> | 953,425   | 190,685 | 1,097,998 | 219,600 |
| <b>Total</b>    | 1,543,613 | 308,723 | 1,751,542 | 350,308 |

The **SMEB, which is separated into food and non-food spend, is now monitored monthly and shows a continuing increase.**[17] The food SMEB is currently 49.6% higher than the value set in August 2020. For the non-food SMEB, a price increase of 40% was registered between August 2020 and May 2021; continued price volatility remains the most likely scenario.

[14]Central Administration of Statistics (CAS), CPI and FPI Data.

[15]Source: Central Administration of Statistics (CAS) Lebanon.

[16]Source: BAWG, September 2020.

[17]See: <https://app.powerbi.com/view?r=eyJrIjoiYmYzNTVkyWMTMTE4MC00Nzk3LWlWY2ZctNTI0MDNiZTM1Njc1IiwidCI6ImU1YzYzM3OTgxLTY2NjQ0NDEzNC04YTBlTY1NDNkMmFmODBiZSIsImMiOiJh9&pageName=ReportSection>

Figure 2: Monthly revised food SMEB price development in LPB (national average Oct 19–May 21)[18]

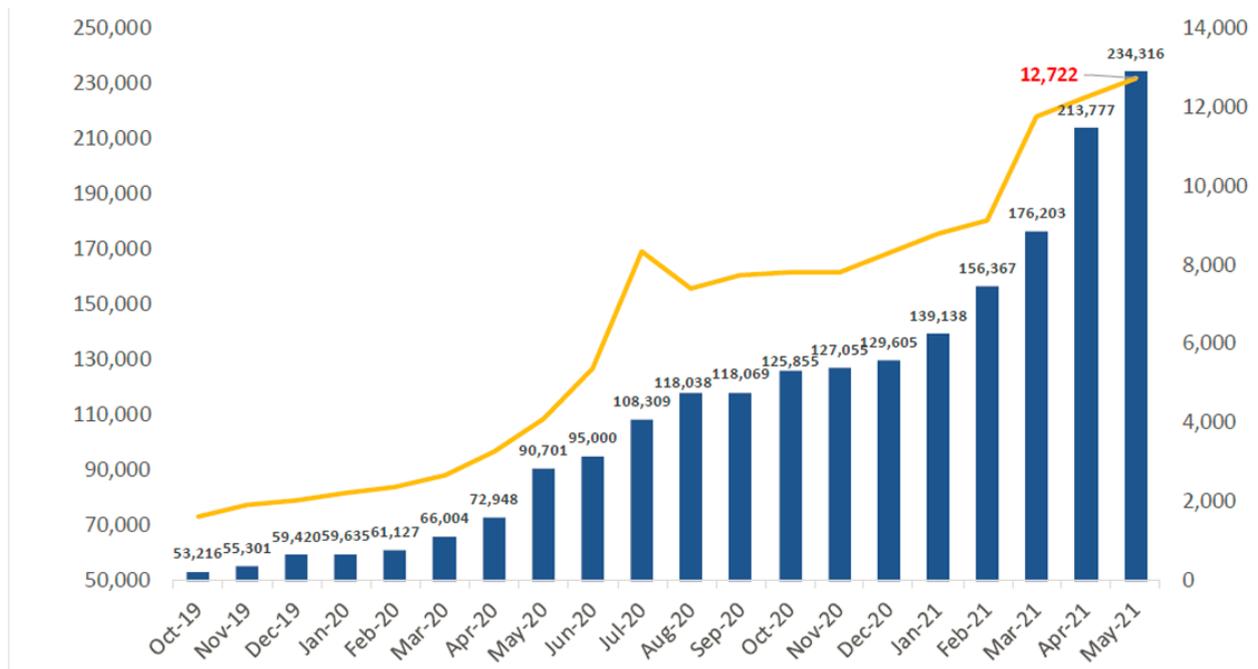
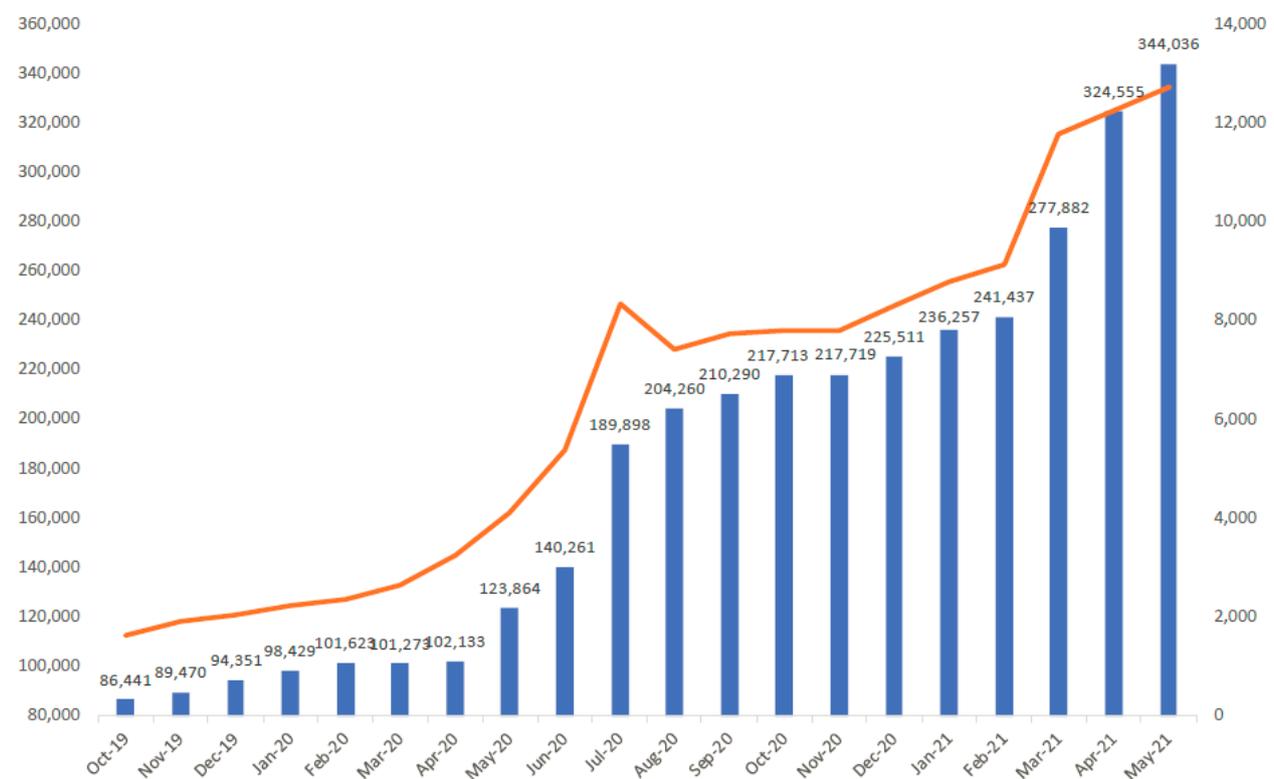


Figure 3: Monthly revised non-food items (NFI) price development in LPB (Oct 19–Mar 21)[19]



**Fuel prices continue to soar**, with sharp increases of 86%, 106% and 53% registered for gasoline, diesel and cooking gas, respectively, between December and May 2021.[20]

Increasingly, households are unable to access medicine or afford medical treatment through the private sector.

[18]Source: WFP retail price database, 2020 and 2021, as of 21 April 2021.

[19]Source: WFP retail price database, 2020 and 2021, as of 21 April 2021. For fuel gas, see:

<https://www.iptgroup.com.lb/ipt/en/our-stations/fuel-prices>

[20] See: <https://www.iptgroup.com.lb/ipt/en/our-stations/fuel-prices>

## b. What is happening to the currency and what are the implications for programming?

**The Lebanese pound had lost nearly 90% of its value to the USD[21] since October 2019. As of May 2021, multiple exchange rates prevail:**

- 1** Official exchange rate pegged at 1,507.5 LBP/USD – applied to subsidies of fuel, medicines and wheat.
- 2** Electronic banking/‘Sayrafa’ platform rate of 3,900 LBP/USD – applied to subsidies for other imports and banking sector deposit schemes. Most humanitarian organizations have been using this rate.
- 3** ‘Humanitarian assistance rate’ that equals the daily market rate: agreed for WB and UN agencies (following a letter from the Governor of the Central Bank in April 2021), applied through accounts through the Central Bank and commercial banks.
- 4** Market rate (on 24 June 2021 reached 16,000 LBP/USD).

**Lebanon had operated under a dual USD/LBP system until the banking crisis of 2019, when increasingly the Lira became the predominant currency.** USD is now used for imports and is charged against the official rate of USD 1,507.5/USD, resulting in its limited use by the wider population. Meanwhile, the subsidy programme in Lebanon allows importers of basic goods such as fuel, medicine, wheat and other agricultural products to use an exchange rate of USD 3,900, substantially eating into the BDL’s reserves, hence the drive to end this subsidy system. Latest development points at de facto rationing of subsidized goods, characterized by alarming shortages of fuel and medicines and recurrent electricity blackouts.[22]

**The BDL is the main regulator, and financial service providers and commercial banks rely on its policy. Liquidity is an important concern.** On the one hand there is continued depletion of foreign currency reserves, meanwhile according to the WB the currency in circulation surged by 227% in 2020, resulting in a negative feedback loop between inflation and currency depreciation[23] and foreign exchange considerations for cash transfers in Lebanon.[24]

In an effort to salvage further depletion of the reserves, commercial banks adopted severe capital controls by imposing de facto liraification[25] and significant reduction in the value of USD deposits: by 70% compared to pre-October 2019 dollar deposits, while restricting inflows of fresh dollars, and limiting foreign currency withdrawals.

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[21] See: <https://lirarate.org/>

[22] BAWG, May 2021.

[23] World Bank (April 2021). Lebanon Economic Update.

<https://thedocs.worldbank.org/en/doc/a3d1489dafa646ee90f5a19abd950cab-0280012021/original/9-mpo-sm21-lebanon-lbn-kcm.pdf>

[24] World Bank, February 2021.

[25] Fx of 3900/USD.

**Most humanitarian cash programmes distribute in LBP, though some distribute USD or propose to do so soon.** Access to USD for individuals within Lebanon is a challenge for those who do not receive it as salary or assistance. Since the rapid depreciation of the LBP in 2019, a **growing disparity between the rate of transfer of assistance and the informal exchange rate on the ground** led to calls from donors and international organizations to untie humanitarian and development assistance from the official rate. For the LOUISE platform, daily rates are offered for cash programming as of 1 May 2021.

### 3. Implications for CVA Programmes

#### a. Implications for recipients

**Syrian refugees can no longer afford to meet their minimum survival needs**, 80% of refugees are now fully aid-dependent and have no access to livelihoods. **The current MPC transfer for Syrian refugees is insufficient to meet the SMEB.** Assistance amounts to 100,000LBP/capita for the food component and 400,000LBP/household for the non-food component or approximately 41% of the current SMEB value (2,196,331 LBP in May 2021). Negotiations are ongoing with the Ministry of Social Affairs (MoSA) to increase the transfer values, but in the meantime, food security and nutrition are areas of concern,[26] as well as the heightened risks of evictions and related protection needs. Rates of child labor are also reportedly on the rise.

**A perception of aid bias towards refugees is already evident in Lebanon.** Alarming political rhetoric around refugee returns is becoming more evident as the economic crisis continues to bite. There is a perception that Syrian refugees receive 'better' cash (USD). Instances of intimidation at ATMs and restricted access to some shops have been reported. The provision of USD cash transfers may incentivise recipients to use illegal money changers to obtain the best LBP exchange rate.

**Capital control measures following the financial crisis in 2019 restricted withdrawals to LBP; concurrent reduction in liquidity imposed further restrictions on cash withdrawals to registered account holders.** Prior to the crisis, MPC beneficiaries supported by UNHCR and WFP redeemed their entitlements from 37 banks across the country using the Banque Libano Française (BLF) ATM cards. As from February 2021, only four non-BLF banks (180 ATM points nationally) continue to accept BLF cards.[27]

#### b. Implications for humanitarian agencies and donors

There is still a disparity in the exchange rates available for different humanitarian organizations, despite more than a year of negotiations and advocacy. For those still on the 3,900 LBP rate, this represents more than a 60% loss in the value of their assistance. This also presents reputational risks for both humanitarian agencies and donors, both in terms of value for money and protection outcomes. Should dollarisation become the agreed approach, there is no guarantee that there will be sufficient liquidity to support it. Contingency measures to address food insecurity and affordability are being explored by the humanitarian community, including use of in-kind food assistance.

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[26] Food security sector working group minutes, March 2021

[27] Basic assistance working group, March 2021

## 4. Response Analysis

**There are clear protection risks that remain unresolved**, such as the marginalisation and intimidation of Syrian refugees. There has been a major increase of safety risks at distribution points, on commute and within the community as humanitarian cash is not equitably provided across hosts and refugees. There is also a risk of sexual exploitation and abuse and other forms of exploitative treatment/security risks, with particular concern for the most vulnerable groups (single-headed households, people with disabilities and refugees without legal residency). **The disbursement of refugee aid in USD, while disbursing to Lebanese in LBP (or not disbursing at all), may put them at greater risk.** The decision has therefore been made to dollarize assistance to Lebanese before Syrians.

As has been introduced in previous sections, the **LBP continues to lose value rapidly in the current conditions, and prices for key goods will increase rapidly upon subsidy reductions.** The governance environment is not favorable for stabilizing purchasing power and programme adaptations will need to be made. There are different options available, including:

- Horizontal and/or vertical expansion of aid: All organisations agree that, optimally, both would take place given the rapidly increasing needs.
- Dollarisation of cash assistance.
- Establishment of a parallel humanitarian rate aligned with the informal market that regulates a floating LBP, accessible for humanitarian and development assistance.
- Switching from MPC to vouchers.
- In-kind assistance.
- Cash Plus assistance, thereby addressing some of the service delivery gaps.
- Disbursements of humanitarian cash assistance to Lebanese, in the period until the World Bank-supported ESSN is implemented.

**The feasibility of options is reliant on successful advocacy with the GoL and Central Bank, funding availability and, in some cases, legislative processes.** Humanitarian agencies in Lebanon have the capability to pivot from cash to other forms of assistance, but this would have to be conducted in a coordinated manner. The disbursement of cash to Lebanese communities outside the official mechanisms is inherently difficult given the lack of information on Lebanese poverty levels. The WB and the Lebanese Statistics Office are about to implement a household budget survey, from which first data are expected by the end of 2021.

## 5. Response Options

### a. Policy solutions

**Macroeconomic stabilization built upon substantial policy review is an imperative requirement for economic recovery in Lebanon;** however, the absence of a fully functioning executive authority limits any foreseeable changes. In March 2021, the parliament successfully approved a WB loan of USD 246 million to support the ESSN for 147,000 extremely poor and vulnerable Lebanese households.[28] This will boost social services and support the education costs of 87,000 students.[29]

**Subsidy removals** must be planned in tandem with relief measures which target the most vulnerable Lebanese. In late June, the parliament approved a cash card for Lebanese to compensate for the reduction of subsidies to a value of USD 556 million. Most Lebanese households will receive the card. Refugees will so far not be eligible for such support, but the GoL must recognize and respond to the implications for social stability of their relative ability to meet basic needs across the population.

**The establishment of a formal foreign exchange platform in June 2021** as a basis for trade (at a 12,000 LBP/USD rate as of June 2021) is a positive development, but the difference with the market rate is rapidly increasing.

### b. Programming solutions

The situation has become acute, and humanitarian actors are now talking about a **'whole of Lebanon' response, rather than a refugee response only.** There are gaps in data, which will be addressed through a multi-sector needs analysis (MSNA) this year. A recently established Nutrition Sector Group is coordinating the implementation of a population-wide SMART nutrition survey. The Humanitarian Country Team (HCT) is facilitating a contingency planning exercise, which is crucial in preparing for the next stage of the crisis. Individual organizations are also undertaking contingency planning under this OCHA-led exercise. In June 2021, the UNHC tasked the HCT/UNOCHA to lead the formulation of a 12-month emergency response plan for populations not covered by the Syria response plan.

**Adaptation of existing MPC programming.** In the months following the unrest in October 2019, several measures were undertaken by MPC implementers to alleviate the negative impact on the refugee beneficiaries:

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[28] World Bank (2021). US\$246 Million to Support Poor and Vulnerable Lebanese Households and Build-Up the Social Safety Net Delivery System. Press Release, 12 January 2021.

<https://www.worldbank.org/en/news/press-release/2021/01/12/us246-million-to-support-poor-and-vulnerable-lebanese-households-and-build-up-the-social-safety-net-delivery-system>

[29] Bassem Mroue (2021). Lebanese parliament approves World Bank loan to help poor. Associated Press. 12 March 2021. <https://apnews.com/article/health-lebanon-coronavirus-pandemic-financial-markets-beirut-b93ab83c784de07a1c576cb77c78e442>

- Introduction of a combo-wallet allowing beneficiaries flexibility to redeem the assistance from the ATM cash point or the WFP contracted shops.
- Installation of additional ATM points in different points around the country, including reception centers, to enhance beneficiary access.
- Staggering of cash transfer uploads between 7 and 14 days as a measure to limit crowds, social tensions around the ATMs and ensure timely replenishments to mitigate liquidity shortages.
- Review on possibility of mobile money, currently not being considered.

**Dollarisation of cash assistance.** Humanitarian and development assistance is already largely dollarized (salaries, offices, procurement) with the exception of cash assistance. Switching to assistance in dollars offers huge improved value for money but brings risks (including protection risks for refugees) which will be a challenge to mitigate. While this has been happening to some degree already, particularly in the aftermath of the Beirut Blast, an increasingly harmonized agreement across stakeholders is emerging. The HCT has reviewed the possibility to dollarize cash assistance, while considering that certain protection and emergency cash cannot be delivered in USD due to the vulnerability of the recipient (e.g. survivor of violence) or the nature of the cash disbursement. The latter is, however, only a fraction of all cash assistance delivered.

**Implementing a harmonized 'humanitarian' exchange rate across sectors.** At this stage the market rate (or parallel market rate) is only offered to UN agencies that have opened USD accounts at the Central Bank and not NGOs. Implementing a harmonized rate aligned with the parallel market has been suggested. The extent of inflationary impact from either option is unclear, though the WB has suggested that dollarisation would offer a lower inflationary impact. The HCT is facilitating a process to review next steps.

Calls to untie humanitarian and development assistance from the official rate initially led to improved rates (3,900, then 6,240), and most recently, individual UN agencies have managed to receive parity by opening bank accounts either in the Central Bank or negotiating this rate with their financial service provider.

## 6. Conclusions and Lessons Learned

The banking sector has been the bedrock of success in the implementation of large-scale CVA programmes in Lebanon. The success builds upon the expanded commercial bank networks in both urban and rural areas, coupled with the option of the two-currency economy (USD and LBP) enhancing overall aid effectiveness. The situation in Lebanon is still evolving rapidly and it is not yet possible to derive specific lessons learned relating to the context. With that caveat in place, some key outlook points are presented below.

**The humanitarian cash sector must be flexible and adaptable to changing circumstances**, in times of instability and problematic cash flow. **Early and robust contingency planning** must be prioritized, as should **strengthening the evidence base**, particularly for emerging areas for which data is still limited (e.g. Lebanese vulnerability, nutrition and market assessments). While contingency planning is now underway and an MSNA is planned, there is still a risk that events will overtake the ability to respond.

**Leadership from the humanitarian coordination mechanism** (e.g. HC and HCT) during periods of strategic change, and with the processes applied, will be relevant to the outcomes. A reflection on the effectiveness of humanitarian coordination during this period, and the contributions made by all stakeholders (including donors), would strengthen the ability of the sector to react to future crises and provide learning for similar contexts.

**Advocacy with the government** on issues such as exchange rates, dollarisation, cash transfer values and refugee protection is ongoing at several levels. Full value for money will be achieved if a floating LBP rate is available for all. For this, the establishment of an official exchange platform between Central Bank, commercial banks and main exchange houses is a must.

Emerging lessons learned:

- Monthly monitoring and transparent dissemination of the SMEB has provided valuable data, which has highlighted the dramatic price increases in real-world terms.
- Active working groups (e.g. Basic Assistance, Food Security, Protection) have provided a continuously updated platform for information dissemination and opportunities for dialogue.
- Successful coordination between donors, the UNRC/HC office and the HCT in undertaking an extensive exercise towards obtaining value for money in volatile situations. However, NGOs continue to only access the official exchange rate (1,507 LBP/USD), with larger, most notably international NGOs, having access to an exchange rate of 3,900.

