

YOUTH EMPLOYMENT

**Towards an Improved Regulation
of the Labor Market**



POLICY BRIEF

EXECUTIVE SUMMARY

Youth in Lebanon face the highest levels of unemployment than any other age group, especially among university graduates, who make up 30% of people seeking a job. The rate of unemployment is 15% among youth between the ages of 15 and 29, while it is 4% among the rest of the working-age population. Within five years of graduation from university, an estimated 40% of male graduates and 20% of female graduates emigrate to find employment opportunities abroad, leading to a severe brain drain of the country's human capital.

A youth bulge does not justify the high levels of youth unemployment given that the rate of population growth in Lebanon has been decreasing. Instead, youth unemployment is caused by a complex set of factors, including the weak legal and physical infrastructure for job creation and business expansion, as well as poor working conditions, such as inadequate benefits and fixed salaries that are not adjusted to inflation. These factors create a vicious cycle resulting in a stagnant economy with little industrial diversification and innovation.

To address the high rate of youth unemployment, this policy brief recommends short-term immediate reform of the National Social Security Fund (NSSF) through diversification of the plans it

offers. Moreover, it suggests the creation of incentives for registering employees in the NSSF and for young freelancers to register at the Ministry of Finance, with tax deductions. In the longer term, a complete overhaul of the business infrastructure (telecommunications, electricity, transport, e-government, reduced political risk, etc) is critical to foster business expansion, economic growth, and job creation.

The adoption and implementation of these policies requires strong and persistent pressure by civil society organizations (CSOs) to encourage evidence-based research on labor market demand and supply, advocate for change in relevant laws and practices, and support the government in implementing and monitoring reforms.

This policy brief was developed by the *Youth Economic Forum*, in close collaboration with experts, activists and civil society organizations.

Lebanon, 2012

FRAMING THE ISSUE

The Problem

When evaluating the labor market structure, it is clear that Lebanese youth face an unemployment problem distinct from the rest of the population.

The rate of unemployment among youth aged 15 to 29 is 15% while it is 4% among the rest of the working-age population.

The high rate of youth unemployment contributes to a persistent brain drain and high levels of emigration.

Moreover, almost 50% of all non-agricultural employment was in the informal sector between 2000 and 2007 (O'Sullivan, Rey, & Mendez, 2011). This highlights the large number of people who do not receive benefits in the form of insurance, retirement plans, and the like, which increases the burden on the economy in the long run.

Situation Brief

Though it dates back to 1946, the Lebanese labor law provides adequate work conditions and benefits. However, many citizens complain that enforcement of the law is nowhere near adequate. Only 34.5% of employed Lebanese were registered in the National Social Security Fund (NSSF) in 2005 (World Bank, 2012).

During stakeholder consultations conducted by the Youth Economic Forum with 107 individuals around the country, numerous citizens voiced concerns over employers not adequately implementing NSSF rules.

In addition to problems with implementation of the labor law, both employers and employees view the NSSF as an inefficient mechanism. The high cost of the NSSF has led companies to hire consultants and freelancers as opposed to full-time employees, which explains the existence of a large informal sector.

“ The entire labor market in Lebanon is saturated due to high competition for employment (Yaacoub & Badre, 2012); we need to invest in the creativity of youth in the informal sector. ”

Towards an Improved Regulation of the Labor Market

The Urgency

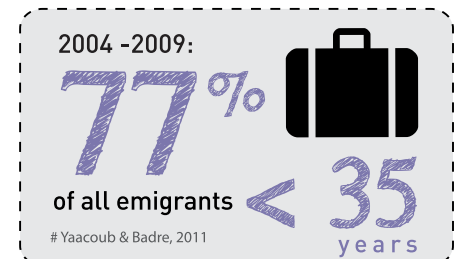
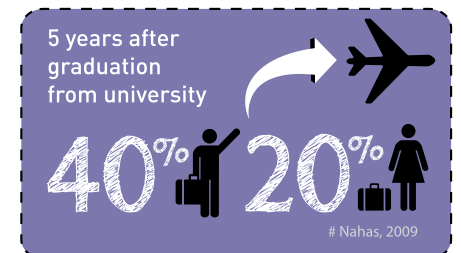
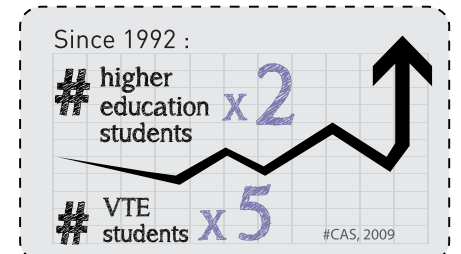
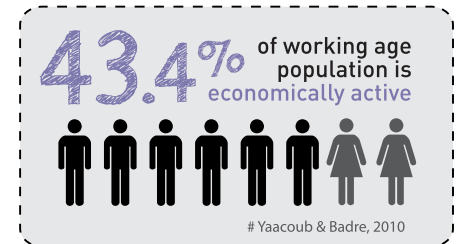
Improving youth employment through job creation and a better work environment comes hand-in-hand with modernizing the Lebanese economy as a whole. While many countries in the Middle East and North Africa region are introducing reforms at an increasingly fast pace, Lebanon continues to lag behind because of its inadequate business infrastructure, be it physical or administrative infrastructure.

Immediate reform is essential to reduce the high rates of emigration among youth and to improve the living conditions of young people who choose to stay in Lebanon. Reforming the NSSF will immediately contribute to mitigating the impact of bureaucratic procedures on youth employment. However, in the long term, drastic infrastructural reform will be required to facilitate job creation and business growth.

“ The role of the government should be to provide the bare minimum safety net: (1) diversify the economy and (2) make education free. ”

Loris Elqura, International Consultant

DID YOU KNOW ?



LOOKING AT EXISTING POLICIES

Existing Policies, Laws and Practices and Their Relevance to the Policy Concerns

Policy	
Law	1. High youth unemployment and brain drain
Practice	
Labor Law (1946)	
Decree 112 (1959)	→ Decree 112 stipulates that public sector employees must have held Lebanese citizenship for at least 10 years. This is a potential employment market for Lebanese youth. However, there has been an ongoing hiring freeze in public sector employment due to the low government budget. Moreover, the government is restricted in its ability to fire employees, making the average age of public sector employees very high, with little opportunity for youth employment.
National Employment Office (NEO) Programs	→ The NEO is intended to provide youth with training on soft skills and to link job seekers with potential employers. However, it has not been effective in promoting and implementing its programs. Between 1998 and 2005, the NEO received only 1,370 job requests and 450 annual job offers, and placed a mere 210 job seekers (ESCWA, 2012). The NEO recently partnered with the World Bank to introduce a new program intended to incentivize companies to employ fresh university graduates by covering up to one year of NSSF fees and conducting training programs. This is a five-year program with a limited budget, not a sustainable intervention.
Intellectual Property Rights Law	→ Improper enforcement of intellectual property rights laws has discouraged Lebanese innovators from expanding from within Lebanon. They instead choose to work at corporations in OECD countries, where they are given proper copyrights.
E-Commerce Draft Law (2002)	→ Lack of proper telecommunications infrastructure (legal and physical) has hindered innovative youth from creating businesses in the e-commerce sector. Instead, they resort to creating their businesses from abroad.
Privatization Law 228 (2001)	→ The privatization law primarily intends to improve the infrastructure of the telecom and electricity sectors in order to encourage economic growth and increase employment. However, this law has not been implemented effectively.

“ The role of the government is not finding work for job seekers nor absorbing the unemployed. It is to provide an investment and business climate that is conducive to private sector job creation by modernizing laws, reducing bureaucracy, stopping monopolizing sectors, modernizing the infrastructure, and so forth. ”

*Nassib Ghobril,
Head of Economic Research & Analysis Department,
Byblos Bank*

Policy	
Law	2. Low job creation and industrial diversification
Practice	
Labor Law (1946)	
Decree 112 (1959)	→ Benefits for public employees well above market rates place a heavy burden on the Lebanese economy, as they are paid for through taxation of individuals and businesses.
National Employment Office (NEO) Programs	→ The NEO caters to the existing labor market rather than seeking to diversify it for the purpose of expansion, innovation, and job creation.
Intellectual Property Rights Law	→ Improper enforcement of intellectual property rights laws has limited diversification of Lebanon’s national economy due to inadequate protection of innovators’ ideas and the high risk of loss on investment.
E-Commerce Draft Law (2002)	→ The e-commerce sector is growing globally and Lebanon has not yet tapped into the market because of its inadequate infrastructure (legal and physical).
Privatization Law 228 (2001)	→ Improving the telecom and energy sectors will foster innovation and entrepreneurship, especially given the growth of online businesses, thus contributing to economic diversification and job creation.

* Source: International Labour Organization, 2012

CONSIDERING POLICY OPTIONS

The following table describes policy options for tackling youth unemployment based on thorough research and participatory consultations with stakeholders around the country.

Each policy is based on different assumptions, has a specific objective and strategies, and presents different advantages and disadvantages.

	<i>Policy Option</i>	<i>Assumptions</i>	<i>Objectives</i>	<i>Strategies</i>	<i>Advantages</i>	<i>Disadvantages</i>
1	<p>Reform NSSF Plans and Create Incentives for Registration</p> <p><i>Reform the NSSF by modernizing procedures and create a diversified selection of NSSF plans to accommodate different needs, with a focus on retirement plans (currently fixed at 8.5% of basic salary). Also create incentives for young freelancers to register at the Ministry of Finance through tax deductions, and subsequently at the NSSF by reactivating the voluntary NSSF plan.</i></p>	<ul style="list-style-type: none"> → High NSSF rates crowd out business spending on salary and create an informal sector with minimal social security. → Social protection is a key concern for youth, especially given political volatility within Lebanon and the region. 	<ul style="list-style-type: none"> → Reduce the sunk cost of hiring for businesses so they can spend more on variable rewards (e.g., bonuses, salary increments, etc), thereby attracting and retaining youth who may otherwise choose emigration as an alternative. → Encourage young freelancers to register at the Ministry of Finance and NSSF in order to improve working conditions in the informal sector. → Provide incentives for youth to work in Lebanon, whether they find full-time employment or work as freelancers. 	<ul style="list-style-type: none"> → Create a diverse selection of NSSF plans at different costs for employees, with a focus on retirement plans. → Reduce the payroll tax on young freelancers' income to encourage their registration at the Ministry of Finance and save companies the 7.5% tax they pay for non-registered freelance services. → Reactivate the NSSF plan for self-employed individuals. 	<ul style="list-style-type: none"> → Cost reductions for businesses, which may be channeled towards either increased employment or higher wages. → Reduction of the informal sector, along with its long-term negative impacts on emigration and livelihoods. → Increased tax collection due to an increase in the number of registered freelancers. 	<ul style="list-style-type: none"> → If not developed properly, businesses may have greater incentives to hire a certain category of employees and fire another, generating discrimination in hiring policies.
2	<p>Improve Business Infrastructure</p> <p><i>Implement and enforce existing laws that protect and encourage business creation, such as the intellectual property rights law, privatization law, and e-commerce law, in addition to implementing infrastructure reform in the telecom, electricity, and public transport sectors.</i></p>	<ul style="list-style-type: none"> → The weak physical and legal infrastructure is diverting international investment, discouraging Lebanon from developing innovative ideas locally, and preventing the development of the labor force skill set. 	<ul style="list-style-type: none"> → Attract foreign investment that employs Lebanese human capital. → Incentivize innovative youth to develop their concepts from within Lebanon rather than resort to foreign countries. → Expand the Lebanese economy and increase job creation. 	<ul style="list-style-type: none"> → Implement existing laws related to intellectual property rights, privatization, and e-commerce, and continuously monitor performance for further improvements. → Aggressively develop sustainable business models for the telecom, electricity, and public transport sectors via public-private partnerships. 	<ul style="list-style-type: none"> → Reduced operating costs for businesses, which will encourage business start-ups and create jobs. → Protection of innovative ideas, which will divert innovators from seeking foreign adopters. 	<ul style="list-style-type: none"> → Will require large amounts of initial government spending. → Increases costs of products that are currently being pirated, thereby limiting access to those with lower income.

RECOMMENDING POLICY

Reform NSSF Plans and Create Incentives for Registration

This policy brief focuses on the first policy option highlighted above—i.e., reform of NSSF plans and creation of incentives for registration—as the most actionable by civil society actors in the near to medium term. One of the primary causes for youth unemployment is the non-conducive environment for business creation.

The NSSF is a major obstacle to equitable hiring in Lebanon as most companies consider NSSF rates to be very costly. This is reflected in the very low percentage of employees registered in the NSSF, which is estimated at 34.5% (World Bank, 2012). The implications of this low registration level are only felt in the long run when employees retire and struggle to keep out of poverty because they do not have retirement benefits.

The social security tax is calculated as follows from the basic salary (excluding the transportation allowance): 8.5% for retirement + 9% (up to \$1,667 salary) for maternity and sickness (2% of which are covered by the employee) + 6% (up to \$1,000 salary) for family allocations.

This means that maternity and sickness fees are capped at \$150 per month and family allocations at \$60 per month. However, retirement withholdings increase proportionally

with the salary, with no limits.

Consequently, NSSF fees for a \$1,000 basic monthly salary add up to 23.5% of the total salary, of which the employee pays 2% and the company pays 21.5% (NSSF, 2004).

The retirement plan of 8.5% of the basic salary poses a big burden on the private sector, especially that it has no ceiling and increases proportionally with the salary. Under the current plan, employers and employees cannot choose how they would like to invest retirement funds.

Moreover, many employees who are registered in the NSSF also pay for private health insurance because of inadequate plan coverage and service quality (Ministry of Finance, 2010). In addition to NSSF fees, employees incur a payroll tax to the Ministry of Finance, which ranges between 2 to 20% of the basic salary.

“*Operating costs for Lebanese companies are high and this includes the subscription fees to the NSSF. That is why the informal economy is equivalent to 30% of Lebanon's GDP.*”

*Nassib Ghobril,
Head of Economic Research
& Analysis Department,
Byblos Bank*

These high costs to both the company and the employee may be reduced through the following steps:

1. Reform the NSSF by creating an electronic reporting and tracking system, developing a sustainable financial model, and improving quality of service. This should be aimed at providing adequate health coverage for employees registered at the NSSF.

2. Diversify NSSF plans, with a focus on retirement plans to offer employees some flexibility in choosing their plans.

3. Create incentives for companies to register employees in the NSSF through reductions in fees, modernization of systems and procedures, and enforcement of existing laws that fine violations by employers.

4. Develop NSSF plans for freelancers who are registered at the Ministry of Finance and create incentives for registration through tax deductions for young freelancers of a specified age group:

a. Demand-side incentives:

The current 50% deduction on the income tax of “non-resident” freelancers should be removed to become 15% in order to discourage companies from contracting freelancers who live and work in Lebanon but are not registered with the Ministry of Finance.

The “non-resident” tax applies to anyone who earns income in Lebanon but resides outside the country. Companies who hire non-resident freelancers are responsible for filing

and paying that tax, which was set at 15% but benefits from a 50% tax deduction to effectively be 7.5%. It has become common practice for companies to consider Lebanese freelancers who are not registered at the Ministry of Finance as “non-residents” even if they do in fact live and work in the country. The non-resident tax has become the only way for companies to justify payments made to individuals who do not file their taxes with the Ministry of Finance as it is technically illegal to contract resident freelancers who are not registered with the Ministry.

b. Supply-side incentives:

Increase the ability of young freelancers to register at the Ministry of Finance by reducing their income tax rates and increasing their NSSF benefits. The tax reduction may be capped at a certain income level, after which the government may charge normal tax rates. As the freelancers age and become more established as professionals, tax rates may return to the normal level.

This policy recommendation will directly contribute to reducing the operating costs incurred by businesses when hiring employees in addition to creating better social security prospects for youth in the informal sector. In the long run, however, complete and radical reform of the telecommunications, electricity, and public transport infrastructure is essential to expand the Lebanese economy, increase investment, and divert the brain drain.

FUTURE ACTION

SHORT TO MEDIUM TERM		LONG TERM	
RESEARCH	<ul style="list-style-type: none"> Conduct a household survey capturing the latest data on the labor market to understand needs related to social security benefits (e.g., retirement, maternity, etc) 	<ul style="list-style-type: none"> Conduct research on potential NSSF plans that do not encourage companies to discriminate in hiring 	RESEARCH
ADVOCACY	<ul style="list-style-type: none"> Push for a reduction in the income tax charged on young freelancers of a specified age group 	<ul style="list-style-type: none"> Push for reform of NSSF programs 	ADVOCACY
ACCESS TO INFORMATION	<ul style="list-style-type: none"> Create user-friendly materials that summarize the laws, regulations, procedures, rates and fines related to: <ul style="list-style-type: none"> → Labor law → NSSF → Payroll taxes 	<ul style="list-style-type: none"> Create an electronic system that allows for user registration, online payment, and tracking 	ACCESS TO INFORMATION
AWARENESS	<ul style="list-style-type: none"> Build awareness among both employers and employees on labor rights and benefits, especially in areas outside Beirut and within SMEs 	<ul style="list-style-type: none"> Conduct and publicize a cost-benefit analysis of companies and freelancers that have successfully implemented the program to encourage other companies to subscribe 	AWARENESS
MONITORING & EVALUATION	<ul style="list-style-type: none"> Create a watchdog organization that monitors and reports on violations of the labor law 	<ul style="list-style-type: none"> Recommend policy adjustments to prevent violations 	MONITORING & EVALUATION
SUPPORT	<ul style="list-style-type: none"> Provide legal and technical support for employees who feel their labor rights are being infringed upon 	<ul style="list-style-type: none"> Provide legal and technical support for employees who feel their labor rights are being infringed upon 	SUPPORT
CAPACITY BUILDING	<ul style="list-style-type: none"> Provide youth, both students and graduates, with customized freelance skills, from legal registration, to marketing their services, to managing their clients, projects, and financials 	<ul style="list-style-type: none"> Develop a support network for freelancers to share knowledge, skills, and best practices, and offer them easy access to clients 	CAPACITY BUILDING

ENGAGING DIFFERENT STAKEHOLDERS

The suggested policy option must be endorsed by key stakeholders and policy-makers to be implemented. The influence that the various stakeholders yield on the decision-making process will determine how they should be engaged and the messages they should receive. Below is a list of stakeholders to be considered.

→ President of the Republic	→ NSSF	→ Private sector
→ Council of Ministers	→ Chamber of Commerce	→ Youth
→ Higher Council for Privatization	→ Investment Development Authority of Lebanon (IDAL)	→ Syndicates
→ Ministry of Finance	→ Central Administration of Statistics (CAS)	→ Freelancers
→ Ministry of Labor	→ Electricité du Liban (EDL)	→ Media outlets
→ National Employment Office	→ Political parties	→ Voters
→ Ministry of Industry		→ Academia & research institutes
→ Ministry of Telecommunications		→ Expatriates
		→ NGOs, CSOs, & CBOs
		→ ILO, UNIDO, & ESCWA

Each of these entities requires a different strategy and approach to ally it with the suggested policy. The following table highlights the incentives for the key stakeholders to adopt or support the proposed policy. These incentives can form the basis for developing communication messages to persuade the stakeholders to take action.

Stakeholders	Incentives
Private Sector	Reduce the high NSSF fees on private companies and the %7.5 payroll tax paid when contracting non-registered freelancers.
Employees	Improve the plans and benefits offered by the NSSF and increase the number of employees registered at the NSSF.
Young Freelancers	Reduce taxes for registering at the Ministry of Finance and provide a minimum level of social protection through reformed NSSF plans. Obtain official recognition of freelance work in filed taxes, giving young freelancers time to establish themselves before taxation returns to normal rates at a higher age.
NSSF Administrators	Renew confidence in the NSSF by increasing the number of registered employers and employees (i.e., increased revenues), thereby enabling improvement in services.
Ministry of Finance	Increase the number of registered freelancers from the informal sector, thus increasing overall tax collection.

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