







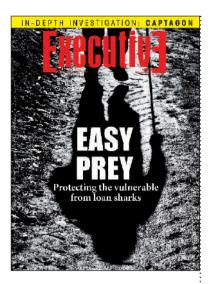


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# Editorial

# **WORSE THAN WEAPONS**



he war years in Lebanon were particularly ugly near the end. I was 16 years old when the bottom fell out from under the lira, and the currency collapse changed everything. People lost their jobs. Wealth vanished. Desperation reigned. We were used to being terrorized by bombs, bullets and ever-accurate mortar shells. Financial terrorism proved even worse.

I remember ads in the paper for recruitment agencies. They required something like \$20 for their assistance in finding people jobs. The promise, of course, was empty. There were no jobs, only crooks and distressed and vulnerable people who most probably knew better than to fall for such a scam. Fear that your family will starve or be pushed onto the street, however, does not inspire the best decisions. Criminality was everywhere. Certain unscrupulous types were approving loans they knew would fail to get their hands on land or property at obscenely low prices. It was a morality-free zone.

Seeing an advertisement designed to dupe people who lack a social safety net brought back some of my worst memories. We've been living through an economic disaster the past few years, and all signs point to distress. Even our drug trade is flourishing again. I fear for what we're becoming. I don't want to live in a country of outlaws, isolated from the global economy. I want a country where honest hard work and entrepreneurial risk taking are respected and rewarded.

EXECUTIVE has spent more than 16 years advocating for ways our government officials can make Lebanon better for all. We must remember, however, that building a prosperous country requires individual initiative and individual responsibility. Our focus in 2016 on business ethics includes a series of warnings we all must heed. We take a look at the many opportunities that adherence to international best practices can provide.

This month we report how Beirut should position itself as a hub for private banking with an ethical investment focus. Money can be made honestly, and we mustn't forget that. We have been sailing back into the morality-free zone. It's time to reverse course.

> Yasser Akkaoui Editor-in-chief





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Economics & Policy
Evidence shows Lebanon has become
a production hub for Captagon



Lebanon's Lotto operator seeks to enhance its market

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#### Published by NewsMedia sal

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According to the United Nations, 40,000 people, of which half are children, were suffering from starvation in the Syrian town of **Madaya** as the result of a government siege which had restricted access to the area since October 2015. On January 8, Doctors Without Borders announced that 23 people had died of *starvation* since December 1, counting only the deaths at the charity's health center. The Lebanese March 14 coalition condemned the siege as amounting to a "war crime", and news of starving besieged residents sparked global outrage. On January 7, the Syrian regime announced it would allow UN relief agencies and partnering organizations access to the town to distribute food and medical supplies. Relief began to pour in on January 11, with 400 people being treated at Madaya hospital for malnourishment and other serious complications.

In return for a 3 billion euro aid package from the European

Union, Turkey has promised to *stem the flow* of refugees leaving for Europe by creating better conditions that would encourage refugees to stay. The EU leadership, however, has thus far been unsatisfied with results, pointing to a meagre decrease in refugees crossing from Turkey to Greece since the aid package was promised in October 2015 - a decrease most probably due to weather conditions. In early January, Turkey announced that Syrians travelling to Turkey would henceforth need entry visas granted prior to arrival, in an attempt to discourage Syrians from coming to Turkey. Turkey has also announced *plans to* provide Syrian refugees in Turkey with work permits to ease their living conditions.

A suicide bomber hit the historic Sultanahmet tourist district of *Istanbul*, Turkey, on January 12, killing at least 10 people and wounding more than a dozen others. The majority of the casualties were

German citizens visiting Istanbul on an organized

Years of economic sanctions on Iran were **lifted** on January 16, in line with the terms of the nuclear deal between the Islamic Republic and the P5+1 countries that was reached in July 2015. The scrapping of the crippling sanctions coincided with the release of five American prisoners Iran had held captive for years, as part of an American-Iranian prisoner swap.

A global cost-ofliving index released in January by Numbeo. com, a global statistics website, ranked Beirut as the second-most expensive capital in the **Arab world** following Qatar's capital, Doha. The index compares different world cities based on their Consumer Price Index (a measurement of changes in the price level of a market basket of consumer goods and services purchased by households), benchmarking them to the index for New York City. The CPI value of Beirut was measured at 66.37, in

comparison to Doha's 70. The Numbeo.com costof-living index also takes into consideration the Rent Index, Groceries Index. Restaurant Price Index and the Local Purchasing Power Index for each city.

On January 12 a 23-year-old Palestinian, Mohammad Omar Khodeir, set himself ablaze outside a UNrun clinic in Tyre's Burj al-Shamali Palestinian refugee camp in **protest** against UNRWA's cuts to its health coverage. Khodeir suffers from the hereditary blood disorder thalassemia but could not afford the portion of treatment cost required by new UNRWA policy. Khodeir was admitted to Jabal Amel Public Hospital after suffering from severe burn injuries. The incident took place as Burj al-Shamali residents went on a general strike to protest the UNRWA aid cuts which began in July 2015 as a result of a massive shortfall in the agency's overall budget. The cuts have affected health services, food stipends and housing subsidies. Protests against these cuts have taken place



Emergency responders work beside victims at the site of a terror attack in Istanbul's Sultanahmet district on January 12, 2016.

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#### QUOTE OF THE MONTH

THE FREE PATRIOTIC MOVEMENT AND THE LEBANESE FORCES HAVE MOVED TO THE STAGE OF POLITICAL COALITION IN ORDER TO REACH POWER.

MP SAMI GEMAYEL, Kataeb leader, on the reconciliation of former wartime rivals Samir Geagea and Michel Aoun

in Palestinian refugee camps across the country. On January 26, for example, Palestinians in Sidon's Ein el-Hilweh refugee camp *shut down an UNRWA office* to pressure the organization to reverse the cuts.

Speaking at a January 14 news conference about cybercrime at Banque du Liban (BDL), Lebanon's central bank, head of the Special Investigation Commission Abdul Hafiz Mansour revealed that cybercrime in Lebanon has increased in 2015. Mansour claims that the increase from 51 cases of cybercrime in 2014 to 84 cases in 2015 comes as hackers have found new ways of accessing bank accounts and transferring money illicitly. Mansour added that BDL would be issuing a circular to advise banks on precautionary measures. BDL's 2016 strategy for fighting cybercrime in Lebanon also includes the launch of a guide for public use which contains advice on how to avoid falling victim to such crimes.

On January 14, wastemanagement activists from the We Want Accountability group organized a sitin at the Ministry of Environment, while approximately 50 protesters rallied outside the building. The group intended to call attention to the government's failure to solve the waste management crisis and protest the lack of transparency at government talks and in the resulting plan to export Lebanon's trash to Europe. The protesters were eventually forced out of the building and 18 people were arrested. Most were freed the same evening.

Former Information Minister *Michel Samaha was released from jail* on the evening of January 14 on conditional bail of \$100,000 after having spent almost three and a half years in prison on

On January 18,

Lebanese Forces leader

Samir Geagea endorsed
his longtime political rival

Michel Aoun, leader of the
Free Patriotic Movement,
as a presidential candidate.
The position has been



Former Lebanese Minister Michel Samaha is greeted by his daughters on January 14, 2016, after a military tribunal ordered his release on bail.



Samir Geagea (L) meeting with Michel Aoun (R), head of the Change and Reform bloc in the Lebanese Parliament.

terrorism charges. Samaha

assassinate political figures

attacks, after incriminating

video evidence showed him

ordering a police informant

to carry out attacks and

handing him bags of cash

to fund the operation. The

court's decision to release

him has sparked outcry

politicians, particularly

those of the March 14 bloc.

amongst citizens and

was first convicted in

May 2015 of plotting to

and planning terrorist

vacant for 20 months and disagreement between the political parties had, up to this point, resulted in deadlock.

The **Lebanese Ministry of Health** 

closed down two unlicensed water distribution companies on January 25 as part of a new joint campaign launched with the Ministry of Industry to close down illegal and unsanitary companies around the country. The two companies closed down for being unlicensed were the Rawda Water Company and the Springs Water Company, both located in Sidon. Health Minister Wael Faour said earlier this month that 80 percent of Lebanon's approximately 800 unlicensed water companies have been selling contaminated water. The two ministries have been issuing warnings against unlicensed and uncomplying companies for months, calling on them to apply for licenses and comply with necessary regulations.



#### > Financial literacy

## The ABCs of the 123s

A collective responsibility

inance is a complicated topic to understand. The jargon and math don't help. Top employees of Lebanese lending institutions have admitted to Executive that even some bankers cannot define an annual percentage rate (APR). Look it up on Wikipedia, and you'll no doubt be researching more new terms (such as nominal APR and effective APR) before you finish reading the first sentence. Financial literacy is not a global strong-suit. Surveys from 2011 conducted by researchers with the non-profit, United States-based National Bureau of Economic Research asked residents of Germany, Italy, Japan, the Netherlands, New Zealand, Russia, Sweden and the United States three short questions designed to assess respondents' ability to calculate interest rates, understand inflation and understand risk diversification. Only in Germany did more than 50 percent of those surveyed answer all three questions correct. In all eight countries, at least 10 percent of respondents got all three wrong.

Financial literacy is becoming a hot topic internationally, according to the Organization for Economic Co-operation and Development (OECD). They explain that this stems, in part, from a global "concern about the potential impact of shrinking public and private welfare systems, shifting demographics, including the ageing of the population in many countries, and the increased sophistication and expansion of financial services." In other words, people around the world are likely to be increasingly responsible for taking care of themselves financially rather than being able to rely on state-organized savings or pension schemes. In response, the OECD also reports that "as of 2014, more than 50 countries at different income levels are well advanced in the design or implementation of a national strategy for financial education, and many other countries are considering developing one." While EXECUTIVE was unable to find financial literacy statistics for Lebanon, it is safe to assume we would not score higher than the majority of other countries. What we know, however, is that this country has no effective pension system, and citizens are basically left to fend for themselves when it comes to having a secure financial future. Banque du Liban (BDL), Lebanon's central bank, recently passed much-needed regulation to limit the potential bite of loan sharks (see story page 18), but there is still a lot more work to be done to educate and protect the population.

In the United Kingdom, there exists a company called Lending Stream. It offers so-called "payday loans" – shortterm, high-interest credit many borrowers cannot repay on time, which can rather quickly bury them in unsustainable debt. Quite prominently on the company's homepage is the following note of caution: "Warning: Late payment can cause you serious money problems. For help, go to moneyadviceservice.org.uk." Money Advice Service describes itself as "an independent service, set up by government" with a mandate to "help people manage their money." Their offerings are diverse, and their financial advice is clearly aimed at helping people who understand nothing about finance get a grip on the basics. Lebanon needs something like this. While it may be too much to ask the government to follow the exact model, the Ministry of Economy and Trade could quite easily include information like this (dos and don'ts of borrowing, understanding interest rates and how to calculate them, identifying and mitigating risks, etc.) on the consumer protection section of its website

Given that government is not the only stakeholder in citizens' economic wellbeing, the impetus to act should not be expected to come from government officials alone. Civil society, business and economic associations and even banks and financial institutions themselves can easily step up and help financially educate the public. We already have one example of a local ad company and a local bank partnering to produce 30-second financial literacy spots (see Q&A page 24). We need much more of this. And as an increasing number of local corporations seek ways to deploy capital on do-good initiatives under the banner of corporate social responsibility, here is a perfect place to start spending. For banks in particular, increasing financial literacy can actually translate into more business opportunities. Research out of China from 2013 shows that people increase the amount they deposit into retirement savings accounts the more they understand interest compounding (which means that interest earned is added to the principal after a certain time period – yearly, for example - thus generating the account holder more money the longer said money is kept in the account. See, increasing financial literacy can be that simple). The central bank can even help incentivize private-sector efforts to increase financial literacy by awarding the corporations doing the best job each year. Companies love affirmations of how excellent they are.

Stopping at financial literacy is not enough. We also need all relevant stakeholders to understand that they must never exploit financial illiteracy. Again, BDL has done commendable work in this regard – twice passing decisions demanding that banks, financial institutions and now even loan sharks fully explain products and services to customers. These are excellent developments, but we need more players to understand their ethical obligation not to mislead people into making poor financial decisions. The head of Lebanon's Advertising Association says he's keen to develop an industry code of ethics. This is a must, and it requires buy-in from not only the agencies producing ads, but the media outlets that run them and the intermediaries in between.

To build a prosperous future, we have to understand how to get there without being duped into bankruptcy along the way.

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> Drug policy

### Rehabilitation first

The case for decriminalization

he opening crawl of the movie "Reefer Madness" served as a morality tale to parents of the Silent Generation: "... the new drug menace is destroying the youth of America in alarmingly increasing numbers. Marihuana [sic] is that drug – a violent narcotic – an unspeakable scourge – The Real Public Enemy Number One!" The narrative represents a viewpoint on how to limit drug prevalence in the United States – complete abstinence – otherwise drug users will commit horrific crimes. The 80-year-old film is useful in that it shows just how much the world has changed its perception of illicit drug use.

Nowadays, substance abuse – including alcohol, tobacco and illicit drugs – is considered by the World Health Organization as a mental health disorder. Lebanon's Ministry of Public Health agrees. In 2015, the ministry introduced a five year road-

map to improve mental health treatment, including substance abuse.

International bodies overseeing narcotics – including the United Nations Office of Drugs and Crime and the International Narcotics Control Board – lay out the best practices of drug enforcement that many of the world's police agencies follow. The approach is to be a balanced one – stem the source of drug production to reduce its supply and raise its street cost while also going after consumers.

Targeting illegal drug manufacturing facilities and individuals – traffickers and dealers – is challenging but necessary to stop drugs at the source. In this regard Lebanon has destroyed drug crops, raided known drug factories and made arrests. But there are still large swaths of the country with a relatively low level of state control, while instability along the Lebanese-Syrian border is an enabling factor.

That Lebanon is not able to stamp out drug production and trafficking is frustrating, even more so when looking at statistics on user-related drug arrests. Rather than receiving their right to rehabilitation treatment, offenders are locked up. Lebanon's drug law 673/1998 incorporates rehabilitation as an alternative to prison time but there are problems in the law's application. The problem is, on the one hand, that cases of drug use are not being heard by a rehabilitation committee [see story page 34].

On the other hand Lebanon does not have the health infrastructure to cope with rehabilitation demand generated by drug-use arrests. EXECUTIVE agrees with the view that there needs to be a better and faster process to determining rehabilitation referrals – The Legal Agenda, a local non-governmental organization monitoring Lebanon's judicial system, recommends

the committee be expanded to serve different geographically-located user populations and it must be funded. The health ministry's five year plan should address the lack of rehabilitation provision.

Since the early 2000s a more progressive approach to drug use has been championed in some countries – Portugal being an example. Drug use and possession in that country is still illegal but is instead punished with administrative penalties (fines or community service) rather than criminal ones (prison time). The idea goes back to drug use as a mental health issue, one that must be treated through rehabilitation. Short of legalizing cannabis and all its products, Lebanon should decriminalize personal use and possession. There are international benchmarks on the classification of drugs and the amounts that define user possession and intent to sell. Lebanon should use these benchmarks as a guide to define decriminalization.

At the very least, Lebanon must amend its drug law to distinguish between possession of any drug for personal use and possession with intent to sell. Portugal considers a 10-day supply as personal use warranting only administrative penalties,

any amount more than that warrants criminal penalties. Amending the law to remove facilitating drug use as criminally punishable is also necessary – sharing a joint with a friend or giving them drugs for free can land someone in jail for a minimum of five years.

Best practice in rehabilitating drug users accepts them at their level of readiness to bring them closer to a healthier lifestyle even if that means accepting that some of them will continue to use temporarily. But there is a legitimate need for so-

ciety to be protected from people that do become violent while under the influence of dissociative drugs (e.g. hallucinogens). With harm reduction programs the aim is not to eliminate drug use but to reduce the negative consequences (to personal health, to interpersonal relations, to livelihood, and with the law) of drug abuse, and there is evidence that harm reduction programs do have positive impacts. The programs can serve to reintegrate users into society whereas criminalization may disenfranchise or disbar them from social welfare programs (e.g. education and housing). NGOs in Lebanon can and are already providing this public good. The risk is always that these programs are too little but are better than nothing.

If Lebanon is to curb illicit drug manufacturing and trafficking then it must go after the big fish – the tycoons living large. Recreational users and those that have become addicted need medical help more than an extended stay in the clanker, and prison time spent for drug use can ruin a person's life. Decriminalizing personal use and possession of cannabis and its products ensures recreational users don't end up in prison in the first place.

THE PROGRAMS
CAN SERVE TO
REINTEGRATE
USERS INTO
SOCIETY WHEREAS
CRIMINALIZATION
MAY DISENFRANCHISE
THEM FROM SOCIAL
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#### > Financial responsibility

# Leader in ethics, leader in managing wealth

Or is Lebanon set to repeat past mistakes?



bsolute discretion; the strength of character that engenders trust; the emotional intelligence that enables one to gauge a client's needs, wants and insecurities; and a keen financial mind. Such are qualities that distinguish a top private banker. These qualities, or at least their appearance, have for eight centuries opened the doors of the wealthy and given private bankers access to the money-drenched souls of the super-rich, from the doges of Venice, Belgian merchants, European royal families, American industry tycoons and third-world rulers to dot.com billionaires and post-communist oligarchs in Russia and China.

When asked about their interaction with high net-worth individuals in the current era, private bankers at the start of this year still, as they did a decade ago, talk about advising their clients on expanding and preserving their wealth, about assessing their conservative, moderate or aggressive risk appetites and, quite a bit, about asset classes and diversification of portfolios in volatile times.

Yet in important ways, private banking has changed more in the few years of this century than in the 700 years before. The three main components of this change were the redrawing of regulations, the impact of technology and the globalization of markets. Regulations moved away from selective laissez-faire regimes and from being accommodative to the private greed of the upper 20 percent, to the intense scrutiny and punishment of financial rule-breaking by banks, of complicity in money laundering and individuals' tax evasion, of sanctions breaking and so forth. ICT systems for asset management and private banking were developed in revolutionary leaps, allowing for unprecedented sophistication of the planning, management and reporting of portfolios. In tandem with the rising data volumes, markets on every continent became richer and more accessible, giving wealth managers more options to diversify than ever before while, at the same time, engendering interconnectedness of risks with new and perhaps entirely unknowable upsides and potentially devastating downsides.

All the while, there is a growing understanding that the destruction of nature, eruption of large social conflicts and unmitigated concentration of power in the hands of self-absorbed individuals and institutions are detriments to the world's economic future and even threaten the survival of mankind. Environmental, social and governance (ESG) considerations have risen from fears on the fringe of human debates to central concerns in the shaping of the 21st century society and economy.

Some – but certainly not all – necessary lessons have been learned in this context from the Great Recession and social upheavals of the past seven years.

Instead of capitalist orthodoxy allowing us to presume that mere pursuit of individual interest will sustain the public good, new ESG responsibilities demand attention and have begun to inform our ethical orientations and behaviors. Tying this into the behavior of private banking means to extend and enhance business ethics beyond the notion that the most successful private banker in the long term is the one who puts the client's interest first in all things (for some options, see story page 44).

From what we can see in history and human behavior, wealth will always be more concentrated under the stewardship of the few rather than distributed into the hands of the many. Even when significant portions of wealth get redistributed via violent or peaceful ways, the concentration process will immediately restart after a revolution or, in the far superior case of voluntary distribution, carry on. Given the continuity and the considerable benefits of managing this process of growing, preserving, sharing and regrowing wealth, and acknowledging that banking is the top asset and best performer in the Lebanese economy, there is no reason why the wealth management process under observance of best ESG standards and in practice of highest business ethics should not involve Beirut as one of its strongest hubs.

As 2016 is a year that started with many questions and rising uncertainties for private bankers and all wealth management disciplines (see story page 36), there is one lesson from the recent past that demonstrates why ethical behavior would be a win-win for private banking institutions in Beirut. While a lot of private wealth was destroyed in 2008 and 2009, the total sum of wealth and most high net-worth family fortunes were restored by 2012 or so. But wealth managers that were exposed during the Great Recession for their unethical greed, recklessness, self-absorption and institutional malperformance, in some cases ended up in jail and in others vanished from the markets. The best time to distinguish yourself as a private bank and advertise yourself for future business is to excel in ethical behavior during a period of financial uncertainty.



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# SHARK HUNT

Central bank steps in to regulate non-bank lenders By Matt Nash

laytime is over. Nearly one year after calling for unregulated lenders to step out of the shadows, Banque du Liban (BDL), Lebanon's central bank, imposed new restrictions and reporting requirements on what are locally known as comptoir creditors. Until January, articles 183 and 184 of the 1963 Code of Money and Credit - Lebanon's banking bible - allowed companies to engage in consumer lending absent of any BDL supervision provided they did not accept deposits. While a few of these companies – most notably al-Lebananiyeh al-Arabieh lil Tasleef (LAT), which was running television, print media and billboard campaigns to promote its willingness to approve a loan in five minutes - have garnered media attention because of legal trouble in late December and early January, the exact size of this market segment and the overall economic impact of the new rules are difficult to quantify.

#### **CONSUMER PROTECTION?**

In early 2015 and again in January 2016, BDL published decisions related to comptoirs (see box). The January 2016 rules set out new regulations for these type of companies. While the central bank refused EXECUTIVE's interview requests to discuss this topic, circumstantial evidence suggests consumer protection was at least a partial motivator.

#### **BAD REPUTATION**

In investigating this story, Execu-TIVE reached out to other lenders operating without the same supervision as that imposed on banks and financial institutions - microfinance institutions (MFIs). Every MFI Ex-ECUTIVE spoke with says a comptoir would be called a loan shark in an English-speaking market, meaning their practices are predatory and they charge interest rates in the neighborhood of 30 percent or more

per month. According to a report in the local press, two comptoirs were shuttered in late December - Housing Finance for Financial Loans in Hadath and MFD in Jal el-Dib. Both were closed because of consumer complaints about their loan practices, the report said. The comptoir with the most aggressive advertising strategy, LAT, is under scrutiny for allegedly selling collateral before a borrower defaults, a practice now specifically

#### **CUSTOMERS ALLEGE** THAT JAIRO TRIED SELLING THEIR POSSESSIONS BEFORE THEY DEFAULTED

banned by BDL. Local media report that LAT would draft documentation allowing the company's owner - Fadi Jairo - to sell whatever collateral they offered up in exchange for the loan if the borrower defaulted. One of the company's print ads specifies that collateral can be property, land or a car or truck title. Customers allege that Jairo tried selling their possessions

before they defaulted. EXECUTIVE contacted LAT for an interview and was originally told a meeting with Jairo would be arranged on January 20. When EXECUTIVE called on the agreed date, an employee said of Jairo, "He has a problem. He's not coming." On January 25, EXECUTIVE called the company to ask about interest rates on their loans only to be told that it is no longer accepting new borrowers pending clarification of the new central bank rules.

#### INTO THE FOLD

As evidenced by the February 2015 decisions, comptoirs have been on the central bank's radar for some time. Bachar Kouwatly, general manager of Ibda'a Microfinance, tells EXECUTIVE that BDL even tried to ascertain their number, although he did not have more details. Youssef El Khalil, president of the Microfinance Association - a group of MFIs recognized by the Ministry of Interior in 2015 - tells Executive that, according to figures from the central bank, where he also works, there were "over 1,000" comptoirs prior to 2015, but

#### FORCED TO SHOW THEIR HAND

On February 2, 2015, the central bank published two decisions. One of them, Basic Decision 11947, called on regulated banks and financial institutions to include more financial education in their dealings with clients, and builds on a 2010 decision that called for clearer explanations of loan terms in bank and financial institution advertising. Among other requirements, the 2015 decision demands that banks and financial institutions "provide customers with accurate, clear and ample key information on the conditions, benefits and risks of products and services." It defines "key information," in part, as: "the computational method of the actual cost of each product or service (i.e. all expenditure, commissions, expenses, charges and/or any other amounts)" and "the computational method of the lending or deposit interest rate of each product or service." Basic Decision 11948, passed on the same day, calls on what it identifies as "comptoir credit" companies - those operating under articles 183 and 184 of the Code of Money and Credit – to notify the central bank of their existence. On January 21, 2016, the central bank again passed two decisions related to the comptoir lenders: one banned all banks and financial institutions from loaning them money, and the second brought them into the central bank's regulatory orbit – meaning they must play by the same rules as regulated lenders including 2015's rules on properly informing customers about the products and services on offer.

no more than 40 after the bank began requiring them to register. This does not necessarily mean there are fewer loan sharks in Lebanon, of course, as BDL's request for information could well have pushed some comptoirs further into the shadows. Each MFI EXECUTIVE interviewed distinguished between shadow lenders registered as companies (the comptoirs) and village loan sharks operating without any pretense of formality. "The local loan shark has existed forever and a day," says Youssef Fawaz, executive director of Al Majmoua, an MFI. Some of Al Majmoua's micro borrowers, he explains, took their first loans from his institution specifically to pay

THE NEW CENTRAL
BANK RULES,
HOWEVER, SEEM
AIMED AT MAKING THE
COMPTOIR BUSINESS
LESS LUCRATIVE AND
EASY TO ENGAGE IN

off debt to village loan sharks. That said, he adds that he has noticed some comptoirs – like LAT – being more aggressive in recent years, but notes loan sharking is not something the central bank can eliminate completely. "They've been there, and they will always be there," he says.

That said, the new central bank rules seem aimed at making the comptoir business less lucrative and easy to engage in as well as curbing some of their more unsavory and potentially illegal practices (such as selling collateral before a borrower defaults, which is the subject of a court investigation into LAT). For example, a comptoir must have 2 billion LL (over \$1.3 million) in paid-up capital in order to register, and must have the same paid-up capital for every branch it wants to open. Comptoirs must also register all the loans they give at the central bank; their clients cannot be made to pay monthly installments

that exceed 35 percent of their household income; loans they give cannot be worth less than 60 percent of the collateral on offer, nor can the loans exceed 5 percent of the comptoir's capital or \$100,000, whichever is less; and they cannot take fees for opening a new file for a client.

#### **FOLLOWING THE MONEY**

Requiring comptoirs to report all their loans to the central bank serves two purposes. In the year 2000, the central bank created a Central Office of Credit Risk to keep track of all outstanding loans in the country. The office is a tool to limit over-indebtedness - meaning that it prevents consumers from taking out multiple loans with different banks. Without it, enforcing caps on the percentage of monthly income going toward debt payments would be more complicated if not impossible when a consumer has different loans from different institutions. Requiring comptoirs to register loans with the central office means they will be part of this system. Prior to the central bank's January decision, comptoirs could theoretically add to a consumer's debt burden if that consumer had other outstanding loans. This rule therefore helps protect consumers from themselves. However, it also adds a level of control to this previously unregulated market segment by making these loans known to the central bank. Khalil, head of the Microfinance Association who spoke to Executive just days before the new rules were public, likens steps to control comptoirs to central bank moves to crack down on then-unregulated money exchange offices in the wake of US Treasury Department accusations in 2013 of money laundering against the Lebanese Canadian Bank, which supposedly involved exchange offices. "Exchange bureaus in this country were operating [with no regulation beyond registering their names at the central bank prior to 2013], but nowadays with anti-money

laundering laws, [the central bank] had to intervene, and now they are very heavily regulated." The loan registration rule means the central bank will have an idea of the total value of this market segment, information that is lacking until now.

#### **WELCOMING THE CHANGE**

One previously unregulated lender that will now have to abide by the central bank's rules is Money sal. Founder and General Manager Elias Samia tells Executive he welcomes the new rules. Since launching operations in 2012, Samia says his company - which lends at an annual interest rate of 17 percent to salaried employees of what he describes as "top tier" companies - has been fighting perceptions that Money is a loan shark. More regulation, he says, is another weapon in that fight. Money launched an aggressive expansion campaign in October 2015, partnering with retail outlets - mostly cellphone shops – to extend its reach and build a national distribution network. He tells Executive that, as of mid-January, Money had 150 such partnerships with a goal of reaching 700 by the end of 2016.

He describes the company as an "investment vehicle" for sister company UFA Assurances, founded by Henri Chalhoub and focused on insurance, which Samia notes means UFA has plenty of excess liquidity. Money takes no collateral and promises quick and easy loans. It even offers a loan-delivery service, of which Samia is particularly proud. The company caps its loans at \$6,000 and Samia says the average ticket size among Money's 7,000 borrowers is \$2,500. He wants to double that portfolio in 2016 and grow by 30 percent in each of the following four years, meaning Money would have around 40,000 clients by 2021 with an average ticket size reaching around \$4,500. The company, he says, currently has provisioned for a non-performing loan rate of 1.7 percent but the actual default rate is 0.4 percent.

One risk to his business posed by the new regulations, Samia says, is the loan reporting requirement. He estimates around 15 percent of his clients choose Money specifically because of the anonymity it was able to offer. In an interview before the new rules were made public, Samia says that some clients also come to Money because they have loans from banks but cannot borrow more because they are already spending 35 percent of their household income to service existing debts, yet they have enough disposable income to take on a bit more of a debt burden. Asked after the new rules were made public whether the fact that the cap now also applies to Money will shrink his client base, he denies that the regulation poses a new business risk for the company, saying he is confident that the central bank may waive that requirement in certain cases.

#### **NEEDED PROTECTION**

Perhaps the most significant impact of the new central bank rules will be the level of consumer protection that comes with subjecting monthly comptoir loan payments to caps based on household income. Lebanese law, according to Toufic Soudayha – a

THE LOAN-TO-INCOME LIMIT WILL HELP PROTECT PEOPLE WHO MIGHT NOT FULLY REALIZE WHAT THEY ARE GETTING THEMSELVES INTO

lawyer with Alem & Associates – puts no interest rate limits on lending. Coupled with the requirements to fully explain to people the loan's terms when borrowing from a comptoir, the loan-to-income limit will help protect people who might not fully realize what they are getting themselves into.

What effect BDL's new regulations will have on the wider economy is unclear. As Société Générale de Banque au Liban (SGBL) notes in its January 2016 monthly economic publication, "In late 2014, the Central Bank tightened personal lending requirements in a bid to keep household leverage ratios in check and reduce risk in the financial system." In the wake of that rule change - which mirrors the monthly payment versus household income cap placed on comptoirs -SGBL notes that the value of consumer loans offered by banks "rose by only 1.84 percent [year-on-year] in the first six months of 2015 to \$6.65 [billion], a net production of just \$14.3 [million] over the period, down from \$325.7 [million] in the first half of 2014." It seems safe to assume comptoirs will face a similar lending slowdown, meaning consumers will be pumping a little bit less cash into the system.



# MERCEDES-BENZ HITS RECORD-BREAKING SALES EXCEEDING 1000 CARS AND IS RANKED #1 LUXURY CAR IN LEBANON FOR THE 5<sup>TH</sup> YEAR IN A ROW

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"It was all made possible due to the offorts of the highly professional and well targeted marketing and sales strategies that has contributed to the recent success" oralised Mr. Cesar Abun, General Manager of Mercedes Ivenz and smart at 1. Sargour & 1.5. To also commended regarding the top quality line of Mercedes Isenz vehicles and the sustained of forts of the T. Sargour & Fils team, the record-breaking sales have been largely credited to the excellent customer service.

T. Gorgour & Fils were recently voted ≠1 for customer satisfaction in a poll conducted by DMEL Middle East.

ADVERTOR A

# Toward ethical lending

Information is the best protection a borrower can have By Matt Nash

n the list of what separates humans from our primitive ancestors, one activity usually gets neglected: lending with interest. Finance seems embedded in our DNA. We have debt records that date back more than 4,000 years. As the historian Niall Ferguson put it in his book, "The Ascent of Money: A Financial History of the World," these ancient ledgers serve as "reminders that when human beings first began to produce written records of their activities, they did so not to write history, poetry or philosophy, but to do business." Not surprisingly, debates about interest rates are nearly as old. Religious authorities, philosophers and even state officials have, at one point in the past, advocated a ban on interest altogether. Islam still considers interest sinful.

Questioning interest, however, is as much an ethical debate as a financial one. Does a person with more resources have an obligation to help - free of charge - a person with fewer resources for that poorer person's benefit? For the non-Sharia compliant, the answer humanity has settled on seems to be: the person with more deserves compensation for his or her assistance, with some limitation. After all, loan recipients use what they borrow to better their own lives (either by increasing their own wealth with the loan or acquiring a possession they did not have the means to buy on their own), so why shouldn't the lender benefit too?

As noted, however, humanity seems to have generally agreed that lenders have an obligation to limit how much they benefit from the arrangement. Many jurisdictions today ban excessively high interest, commonly referred to as usury. Lebanon has no such ban (nor do its legal codes put a limit on what interest rates lenders can charge), but Banque du Liban (BDL),

Lebanon's central bank, has devised rules to keep consumers from being buried in debt by placing limits on how much of their monthly household income can be spent repaying a lender. In the end, the effect is arguably the same.

#### A PREMIUM FOR THE POOR

The exact rate of interest charged on a loan does not seem to be what distinguishes an ethical lender from an unethical one. Taking advantage of the vulnerable or financially illiterate and misleading people are the real distinguishing marks of an unethical lender. For example, microfinance is currently the darling of the development community. Microfinance institutions (MFIs) lend small amounts to poor borrowers who typically invest the funds into some modest business venture. The idea is to

TAKING ADVANTAGE OF THE VULNERABLE OR FINANCIALLY **ILLITERATE AND** MISLEADING PEOPLE ARE THE REAL DISTINGUISHING MARKS OF AN UNETHICAL LENDER

help the poor create more wealth for themselves. Microloans come in ticket sizes far smaller than most commercial banks would ever consider (hundreds or a few thousands of dollars) and thus they come at a premium. Though the rates are higher than a bank would charge, microfinance is considered by most an ethical practice.

More important than specific rates, therefore, is just how well a borrower understands what he or she is getting into. The Great Recession of 2008 might never have happened if duping poor people into buying homes they

could not afford had not become such a rampant practice in the United States.

One of the biggest risks MFIs face, according to the three people Execu-TIVE interviewed for this report, is over-indebtedness. If MFIs do not have effective tools to communicate or a centralized list of clients and their outstanding debts, borrowers could take out several loans from different institutions, eventually finding themselves with more debt than they can afford. Lebanese MFIs are hoping a new association, officially launched in mid-2015, can help mitigate this risk (known as cross lending).

#### **PROTECTING BORROWERS** FROM THEMSELVES

Poor decision-making on the borrower's behalf - rather than unethical lender behavior - is not only a risk faced by micro-borrowers. People using otherwise legal services like payday loans or car title loans often get in over their heads, and governments in the UK and the US have legislated protections for people who use these services, such as legislation regarding debt restructuring and personal bankruptcy. One other tool these governments are using as a protective measure is more information. The thinking goes that if a borrower fully understands the risk of certain types of loans, he or she will seek funds elsewhere. Lebanon's central bank has also recently demanded lenders provide potential clients clear and easy-tounderstand information as a consumer protection measure. For a lender-borrower relationship to be both ethical and mutually beneficial, both parties need to have agreed to all terms with a full understanding of what they mean. Further, if the borrower is coming at a moment of vulnerability, a lender has a moral - if not always a legal - obligation to make sure not to take advantage of the borrower. Until humanity agrees on an ethical paradigm to govern lending, this seems like the best we can hope for to ensure credit does more good than harm.



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# Questioning the messenger

While a money lender's advertisement was legal, Executive asks if it was ethical By Matt Nash

ust five minutes," the elderly man tells his waiting wife. He's busy securing their financial future, he explains.

The advertisement by al-Lebananiveh al-Arabieh lil Tasleef (LAT), a loan company, could not have been clearer: quick and easy money. At the end, the ad duly informed viewers that potential customers need collateral to receive their loans, such as a property or land deed, or a car or truck title. (This information was elaborated in a print ad the company took out in Al-Waseet, a free weekly classified ad newspaper). As the company is not a bank, it was not legally required to disclose the interest rate on the loans it offers. However, the company is now being sued by consumers who allege its owner was executing sales contracts on land and property before borrowers defaulted on their loans.

In focusing on an elderly man, the ad may have been particularly targeting the financially vulnerable. Lebanon does not have a staterun pension program. The National Social Security Fund is an end-of-service indemnity, not a pension. This means retirees receive a lump sum that is meant to last until death. For any number of reasons, retirees may find themselves needing cash but unable to secure a bank loan given their lack of income. When financially distressed, people often make bad financial decisions. LAT's potentially predatory business practices prompted EXECUTIVE to investigate non-bank lenders (see story page 18), and the company's commercial raised questions about ethics in the local advertising industry. The ad did nothing illegal, but preying on the vulnerable is undoubtedly unethical.

On its website, the global International Advertising Association does not have its own formal code of ethics. Rather, it links to the International Chamber of Commerce's ethics code for advertising and marketing. Among the guidelines, the code includes: "Marketing communications should be so framed as not to abuse the trust of consumers or exploit their lack of experience or knowledge," as well as "Marketing commu-

nications should not contain any statement, claim or audio or visual treatment which, directly or by implication, omission, ambiguity or exaggeration, is likely to mislead the consumer, in particular, but not exclusively, with regard to: [...] the value of the product and the total price to be paid by the consumer." Given the advertisement provides no information on the loan's interest rate nor does it warn consumers that they stand a chance of losing their collateral, EXECUTIVE sought to find out what consideration was given to advertising ethics when producing and airing this ad.

An employee at the advertising department of a prominent local television station that aired the ad tells EXECUTIVE, "I have no idea" how it ended up on the station. This particular media outlet works with a media planning company (which buys airtime and then chooses which ads to run where, meaning the media outlet has no say in which ads get aired). A representative of the media planning company - who asked not to be named - says that because the company does not actually create advertisements, ethics are not a company consideration. She explains that General Security reviews all ads before they can go on television, but says they focus on considerations such as violence, keeping "inappropriate" products - like condoms - off the air when children may be watching, and screening for "more than what we are allowed to see" when it comes to the wardrobe choices of actors and actresses in the ads. Whether an ad encourages retirees to gamble with their homes is not one of General Security's considerations, she says, thus it was not something the media planning company thought about either.

EXECUTIVE proceeded to talk ethics with George Jabbour, head of the Advertising Association, Lebanon's official syndicate for the profession. While Jabbour says ethics in advertising is a priority for local practitioners, he acknowledges the association has no written code of ethics, but hopes to begin drafting one in 2016.

# Room for improvement

Lebanon's Advertising Association sees the need for a code of ethics in 2016 By Matt Nash



XECUTIVE sits with George Jabbour, president of the Lebanese Advertising Association and
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 Advertising Association and
 Advertising Association and Association and Association and Association and Association and Association and Associatio CEO of the Middle East Communications Network, to talk about ethics in the local advertising industry.

#### What did you think of the al-Lebnaniyeh al-Arabieh lil Tasleef commercial?

If we want to talk about how the advertising was done - purely advertising without evaluating the [company's business model] - I think it was effective. It was convincing. It was attractive. And it was, in a way, shocking, even.

#### E Was it professionally done from a production standpoint?

No. It was not done by an advertising company. Looking at the production value, it was not really impressive at all. It's basically a very simple, straightforward message: "You want money, ok, get it in five minutes." So it's shocking. Because to get money, if you have a bank mortgage, it will take five days to do just the paperwork alone. So there are people who are going to come in, to call and ask how it works.

#### E The ad featured an older man who claimed to be securing his family's future. Traditionally the business model is to trick people in order to acquire their property cheaply. Isn't that misleading?

The ad was not misleading. It's the nature of the business that's misleading. Advertisers usually follow a brief. I can imagine the client said to whomever produced the ad, "I want to tell people that whenever you want money, you come here and get it." Nobody told them what the conditions were. It's like an ad for a new house; they don't tell

ONE OF THE **CUSTOMERS DIED.** WHAT DID THEY DO? THEY STOPPED HIS ADVERTISING, BUT HE'S STILL SELLING VERY WELL

you how much the house costs, the quality of the materials in the house, or of the electrical and mechanical equipment. All of these are details you negotiate over once you are there. The purpose of advertising is to attract customers. In advertising you don't give the full message - it's not a brochure; it's a 30-second spot where you attract the customers.

#### E But there's arguably a difference between not giving every detail about a new apartment and tricking someone.

Let me elaborate by jumping to other issues because this is very important. For example, Zein al-Atat and his herbal medicines that claimed to cure everything from pimples to cancer. One of his customers died. What did they do to him? They stopped his advertising, but he's still selling very well. His products are everywhere in town. But the decision taken was to stop the advertising. We have to differentiate between the product itself and the message you deliver as an advertising agency. After all, the advertising agency is not an investigation committee. We have to trust the source - which is the client - and it's up to the authorities - or the client who is bluffing the authorities - to check the product. So if the product of this 5-minute ad company is faulty, it's up to the authorities to stop the guy.

E When you read famous quotes by advertising great David Ogilvy, such as you should never write an ad that you wouldn't want your family to read, one may wonder if it is true that no advertising executive ever lies to their spouse. From a legal perspective, it is not a problem when advertising people and media people just do their jobs. But with regards to the ethical aspects, Ogilvy also said not to advertise anything evil, right?

Basically, you are right. When it comes to the ethical part, unfortunately, it's subjective. How? It can differ from one country to another. What is ethical in Lebanon may not be ethical in France. You cannot have an ethics practice around the world that's the same. If we take Lebanon as an example, the Advertising Association is fully in line [with the idea] that no advertising message should be unethical. And when we say unethical, we mean misleading the consumer. But if you have an unethical message, we don't have the means and tools to stop it right now because this needs either an ethics protocol agreed to by everybody – which is not easy to achieve – or you need measures you can take against the advertiser or advertising agency, as well as a committee to decide what is ethical or not.

As we agree that a big problem with financial advertisements arises when they are likely to mislead people who are not well informed about risks and pitfalls of borrowing, could ethical leadership perhaps start from another point? For example, should the advertising industry be a stakeholder in educating the public on financial literacy?

We [at the agency I manage] have started this with [a large Lebanese bank]. It was a project I initiated myself with [the chairman of the bank that is our client]; we have started a program we call financial literacy through which we inform the masses. It is not addressed to professionals, we're explaining to people how to get a car loan, what it will cost, what [interest cost] is high, what is low. We have a program of everyday messages after the news at 8:30 p.m.

## E: Should the Advertising Association be more proactive in this field?

For sure. We have the intention to be, but unfortunately we don't have the staff. The Advertising Association today has a board of 12 people, all of whom have their own businesses. And we have only one secretary. We do not work full time for the association. And we have many topics to tackle - one of which is ethics. But to do it, we need funds and we need staffing. Today if you tell me, "Look this is an unethical ad," we will take a decision to stop it. But sometimes we don't know, because we don't have a committee supervising every ad being aired. In principle, 100 percent yes [we care about ethical advertising].

In Lebanon the state has set a few clear rules for advertising, but there's a lot of ambiguity, especially concerning whether or not an ad is ethical. Does that not increase the responsibility you

#### as the advertiser have?

Yes, I think the private sector is doing too much on behalf of the state. The state is almost absent. In principle, what we preach in terms of inspiring excellence or the right to choose, yes, we all do respect this and I think today most of the advertising agencies are in line with this practice. If you have any examples of where we need to take a position, I'd like to know them.

# There are certain ads where the message immediately sounds fishy. This 5-minute ad was one of them.

If you take this ad, even after the court decision to stop the advertisement, many stations continued running it. Even after a court decision. I'm not talking about an advertising agency's opinion. So what are the measures we

WE HAVE TO TRUST
THE SOURCE – THE
CLIENT – AND IT'S UP
TO THE AUTHORITIES
– OR THE CLIENT
WHO IS BLUFFING THE
AUTHORITIES – TO
CHECK THE PRODUCT

can take? We are not here as a dissuasive organization. We're an advisory organization.

# Doesn't it risk reputation harm if ads like this are put on the air?

Sure, but more than 30 percent of advertising goes directly to the media. And most of these are the tricky ones. These ads did not go through advertising agencies.

In conversations we had with the TV station and the company that booked the ad, neither seemed to understand the idea of having any ethical obligation of oversight. The ad booker said as long as General Security approves an ad, it's fine and the obligation ends there.

I understand what you're trying to

say and I believe in it, but how can we find a way to apply what you're aiming for? We all aim for that.

# E We got close to it with a code of ethics. Do you have one?

No. And I ask you, is there any written code of ethics that would be relevant for Lebanon? Also, we'd need a committee. What you're talking about is great, but when it comes to implementation—you need a process, you need a vision, you need people, and—before all—you need money. Since I took over the [Advertising Association], I've tried many ways to raise money. We need a river, a flow of money coming always. I'm trying to do that.

## What is your program for 2016 for giving ethics more space?

The first thing I will share in our next meeting with all our board members is this discussion. We will discuss it. Perhaps an advertising campaign would give more information to the consumer. If we raise awareness, we can go from there to write a code of ethics. But I'm not sure it will end in 2016. There are so many people who will give their opinions and we'll have to amend some things here and there, but we can begin the process.

#### Are ethical considerations a part of the industry today or does everyone know General Security's red lines and leave it there?

No. It's a case of just getting the money whenever General Security gives the license. But I think this is more on the media level. When you have a known product, you go to an agency. When you want to sneak in, you do a production for \$10,000 and do a deal with a media outlet to run a bulk of ads. The media today are in need of money and they don't care about ethics. It's like everything else – whether littering or driving crazily – the media outlets will say everyone else is doing [something unethical], so why should I stop? We don't have moral values anymore in this country.





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ECONOMICS & POLICY \ > Overview

# Lebanon's Captagon boom

Getting high off of local supply By Jeremy Arbid



he sun had not quite risen one cold January morning in east Lebanon as an Army patrol set out to arrest individuals suspected for the murders of Sobhi and Nadimeh Fakhri in November 2014. What was to be a raid in Baalbek turned into a major drug bust - the Army stumbled upon a Captagon producing laboratory as well as large quantities of cannabis and heroin. It was the latest in a series of seizures by the Lebanese authorities of Captagon, an illegal drug whose trade has skyrocketed in recent years and whose black market value is said to be in the hundreds of millions of dollars annually.

Business is booming and media reports insinuate that a number of players are addicted to the action – Lebanese and Syrian foot soldiers, Lebanon's armed militias, the drug lords of Lebanon's Bekaa Valley, the drug lords in Syria's Qalamoun Mountains, a member of the Saudi royal family, a Bulgarian chemist flown in to cook Captagon – even a feature film has hooked the public. One Reuters report from 2014 suggested that the

outflow of Captagon from Lebanon had fallen by 90 percent between 2011 to 2013. But statistics reported to the United Nations Office of Drugs and Crime (UNODC) by Lebanese authorities show a spike in seized Captagon starting in 2013. That year the Lebanese authorities as a whole seized 11.7 million Captagon pills. In the 12 months following, Lebanese Customs alone found more than double that amount. This points to a major shift in trafficking Captagon through Lebanon, if not significant local production of the drug as well. Now, a new law passed by the United States might answer who runs the Captagon show.

## THE REGION'S STIMULANT OF CHOICE

Captagon got its start in the 1960s as a pharmaceutical drug most commonly prescribed to treat attention deficit hyperactivity disorder (ADHD). The arrival of newer drugs that were more effective and less addictive (at treating ADHD) prompted the US government in 1981 to con-

clude that Captagon no longer had any medical use, leading to a ban. The World Health Organization followed suit a few years later, recommending prohibition of the drug globally. While the pill sold on the black market today carries the same name because of the pharmaceutical's reputation, it is not the same drug (see explainer page 33).

Today's street Captagon is an amphetamine-based stimulant that is said to be used both by Syrian regime forces and rebel groups fighting the country's now five year long civil war. The pill, the Washington Post alleged, is said to make monsters out of normal men so that they can kill "with a numb, reckless abandon." But that's not really the case, according to addictions psychiatrist Joseph Khoury of the American University of Beirut Medical Center. Khoury, who treats patients that abuse Captagon alongside other drugs like Tramadol (a highly addictive opioid pain medication), says that Captagon keeps users alert much like a can of Redbull does. "If you want to sit at the front for days it is a valid tool - that is the purpose [to stay alert]," he says.

It neither makes users into superhumans nor does it have the psychedelic effect that the media has paraded. "If you want a guy to attack a trench and he's on Captagon, he'll probably be overconfident. But the idea that it makes people turn into suicide bombers is ridiculous. It's not what explains the alteration of somebody's personality, turning the normal caring and loving human being into a monster that can be mind-manipulated - it's completely not true," Khoury says. Other practitioners tend to reach the same nuanced conclusion, and a recent article in Forbes cuts straight to the point: "there is nothing especially magical about Captagon."

**A TRAFFICKING** 

#### **THOROUGHFARE**

Outside of use by combatants in various conflicts from Syria to Yemen, Captagon has regional fame as a recreational drug, and is in particularly high demand in the Gulf countries. Lebanon and Syria have traditionally been waypoints on the route of Captagon from the laboratories of Southeastern Europe and Turkey to the Gulf. But recent reports of Captagonfactory busts, as well as UNODC and Lebanese Customs' data, not only indicate Lebanon's continuation as a Captagon trafficking thoroughfare but also point to a rise in local production as factories are increasingly set up.

The UNODC reasoned in its 2008 World Drug Report that in the Middle East, "the growing seizure volume appears inconsistent given the small number of clandestine laboratories reported by authorities in Bulgaria [three laboratories] and Turkey [12 laboratories] in 2006." Interpretation of factory busts and seizure reports led the UNODC to conclude that, in as early as 2006, production of Captagon began shifting from Southeastern Europe and Turkey to the region. Syria has been a source for Captagon production since at least 2006, the UNODC wrote in its 2009 World Drug Report. By 2014, a report by the International Narcotics Control Board (INCB) concluded that the breakdown of, or at least severe strain on, Syria's government institutions created the ideal environment for the drug's production to flourish. "The crisis situation in the Syrian Arab Republic clearly creates conditions favourable to the illicit manufacture and trafficking of tablets sold as Captagon," INCB wrote.

But it is difficult to determine how much Captagon still originates from Syria. Officials that EXECUTIVE spoke with say that while production continues there, the all-out war in the country has disrupted land routes popular for transiting the illicit drug through Jordan to the lucrative black

markets in the Gulf - namely Kuwait, Saudi Arabia and the United Arab Emirates - requiring new ways to move the product and possibly shifting some Captagon production from Syria to Lebanon.

Lebanon witnessed a stark rise in the number of Captagon tablets seized by authorities in 2013 compared to previous years, according to the latest dataset compiled by the UNODC from Lebanese authorities. The statistics show that in 2013 Lebanon discovered 11.7 million tablets, having seized only 680,000 two years earlier. Data from Lebanon's customs authority - Executive could not obtain police and army seizures by time of print - show a steeper rise in Captagon busts in 2014. That year, customs seized 25.4 million tablets at the airport and Port of Beirut. Customs valued the seizures to total \$151.85 million - \$6 per pill, a conservative

#### LEBANON WITNESSED A STARK RISE IN THE NUMBER OF CAPTAGON TABLETS SEIZED BY **AUTHORITIES IN 2013**

estimate given that the street value price in the Gulf countries where the pills were destined can range anywhere between \$10 to \$20 per pill, a price range cited by the UNODC's Illicit Synthetic Drug Expert Martin Raithelhuber.

Access to the Port of Beirut and Lebanon's airport as export points has become increasingly important. "They conceal [Captagon] sometimes inside the bowels of machinery or hide it in furniture," says head of the drug unit at Lebanese Customs, Colonel Nizar Jurdi. Recent seizures by customs at the port detail the manner in which pills were concealed - in nursery school tables, engine blocks or water cisterns. "You should not imagine that there is one container full of Captagon, that

is not how it works," Raithelhuber illustrates. "It might be one container among hundreds on a cargo ship, and in this one container there might be one large box which may not even contain the pure drug but may contain machinery, and in the cavities of the machinery is where the drug is [concealed]," he says.

Jurdi says his drug unit at the Port of Beirut inspects somewhere between 15 and 20 containers per day. The paperwork of all containers imported from Latin America, Romania and Ukraine and those exported to Arab countries are scrutinized because of those countries' reputation as big drug producers or consumers. When a customs inspector reading the scan of one of these containers detects something unreadable or suspicious in the container, it is referred to the drugs section, says Jurdi. The goods in the shipment, the reputation of the goods' owner and that of the import/export company, and any shared intelligence information between countries' customs authorities are all factors that Jurdi says are taken into account when deciding whether a flagged container requires manual inspection.

In 2014 the Port of Beirut recorded 1.2 million container movements in and out of the port. The sheer scale in container volume limits the number of containers that can be X-ray scanned and an even fewer number undergo a manual search. A rough calculation indicates that less than 1 percent of all container movements at the Port of Beirut underwent manual inspection that year. According to the UNODC, in 2015 there were an estimated 750 million container movements globally and the organization says, as a very rough estimate, only 2 percent of those containers were physically inspected. "Monitoring the contents of the sheer volume of containers," reads a recently published UNODC document, "without interrupting the flow of legitimate trade poses tremendous challenges to customs."

ECONOMICS & POLICY \ > Overview



Less than 1 percent of containers at Beirut Port in 2014 were manually searched

"That just shows the challenge we're facing here – [having] good intelligence on what is a suspect shipment [is very important] – we want to increase the hit rate they have with this small percentage by improving the exchange of information between [UNODC] member states," says the UNODC's Raithelhuber. Indeed, when EXECUTIVE conducted its interview with Jurdi, a Kuwaiti customs official was present in the room, indicating that at least some level of cooperation between these two countries is real.

#### A GULFIE DRUG

For years recreational pill-poppers in wealthy Gulf countries have taken Captagon to get high. In these countries, says the UNODC, "it is popular among the younger, affluent population and it has also enjoyed a reputation as a sexual stimulant since the beginning of the 1980s."

There is only anecdotal testimony that its usage is picking up in Syria and while drug-related arrests and Captagon court cases are on the rise in Lebanon, it is not a popular drug among local users. The real market for the drug remains the Gulf countries,

where the street value is most attractive for distributors. Between 2011 and 2013, according to UNODC data, Saudi Arabia alone seized some 173 million tablets.

Statistics on the number of users are harder to come by. One recent article by Voice of America estimated as many as 50,000 Saudis undergo drug rehabilitation annually, but the report did not say whether that was

#### BETWEEN 2011 AND 2013, ACCORDING TO UNODC DATA, SAUDI ARABIA ALONE SEIZED SOME 173 MILLION TABLETS

for Captagon treatment and it did not cite any sources. In an October 2015 interview with Arabic-language publication Economic, Abdelelah Mohammed Al-Sharif, secretary general of Saudi Arabia's National Committee for Narcotics Control, said that Captagon use was prevalent among the country's youth and that 40 percent of the total drug-using population fell between the ages of 12 – 22, but he did not

elaborate on the number of users. In any case, the amount of tablets seized suggest that the drug's use in the Kingdom is significant.

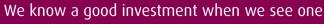
Captagon, and amphetamines more widely, have been the Middle East's drug of choice for the best part of the last four decades, says the UNODC's Raithelhuber. Boredom is a driver of Captagon use in many Arab countries where alcohol is banned and access to other drugs such as cocaine is limited. There is evidence that in the past, recreational Captagon consumption was a socially accepted and established pattern. In Kuwait, for example, when pharmacies still sold the drug legally it was taken with morning tea, a visiting Kuwaiti customs official volunteered to EXECUTIVE. Raithelhuber says that drug markets have a certain resiliance. "Once a drug has established itself in a user population, that's what users know and that's what they want to get again; not all of them are willing to experiment with other drugs," he says.

# LEBANON – PRODUCTION PROVINCE

The figures on seizures show an explosion in the quantity of pills that are at least trafficked, but may also be locally produced. Jurdi reasons that instability caused by the war in Syria and the closure of its borders, along with the rise of seizures and laboratory busts in Lebanon, are correlational evidence of this shift.

In the last few years both the Lebanese Army and the country's police, the Internal Security Forces (ISF), announced Captagon factory busts and arrests. The rise in incidents was enough for head of the ISF, Major-General Ibrahim Basbous, to sound the alarm at an October 2015 Captagon-focused drug conference held in Beirut. Though Basbous did say that Lebanon's security forces had made progress in the fight to stem the drug, he appealed to the delegates to "contribute to rooting out the operations of smuggling Captagon tablets."







Lebanon needs all the help it can get.

Security forces - the ISF, Army and customs - have dismantled and arrested criminal groups manufacturing or trafficking Captagon, but lack of government clarity on the number of Captagon-factory busts and arrests does obscure the current extent of production. The amount of Captagon that Lebanon has seized does, however, imply that production volume is large, though an estimation is impossible. "We don't have that indicator for synthetic drugs because it's a footloose industry. Laboratories can be anywhere - in a basement, an empty industrial factory - they don't have to be very big to produce several tons per year," the UNODC's Raithelhuber says. An April 2015 report by the European Council concluded that shutting down Captagon production capacity in Lebanon requires more specialized security personnel, equipment and logistical support (e.g. intelligence) and that without these Lebanon is challenged to curb production and trafficking.

#### **HEZBOLLAH'S 'KINGPIN'?**

Armed military groups are said to use the Captagon trade as a source of revenue to rival the state's control in parts of the country - and fingers point to Hezbollah. A January article in the Arabic language Sawt al Jabal is the most recent to allege Hezbollah's role in trafficking Captagon - it reiterated the insinuation that the brother of Hezbollah MP Hussein al-Moussawi, Sheikh Hashem al-Moussawi, is a major Captagon manufacturer and smuggler in Lebanon's Bekaa Valley. Back in 2012, Lebanese television channel MTV ran a documentary following the ISF as it raided Hezbollah-funded Islamic schools it said were directly connected to Moussawi. A subsequent article by Al Akhbar stated that Lebanese authorities were not able to apprehend the sheikh. Another sheikh identified only by his first name and last initial, Abbas

N., said during a police interrogation that "there is a religious edict allowing [Captagon] usage because it is a stimulant and not a drug," *Al Akhbar* reported.

A 2012 article in online publication Middle East Transparent alleged that the fatwa (a religious edict) was issued by Moussawi. It sanctioned the manufacturing and trafficking of Captagon as long as followers of Wilayat al-Faqih (Guardianship of the Jurist, an Iranian interpretation of Shia doctrine) did not consume the drug. The journalist of that article alleged that revenues from trafficking ignited an internal power struggle at the highest level of party leadership - Hezbollah's Bekaa Valley faction was gaining influence that threatened Hezbollah's southern-dominated top brass. The factional infighting, the article alleged, gave Lebanon's anti-drug officials the green light to raid Bekaa Valley's

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Hezbollah-linked Captagon factories under the presumed outcome that the raids would weaken that faction's influence within the party to the advantage of the other. EXECUTIVE could not independently verify this claim.

The validity of the power struggle claim is questionable but it may have helped to attract unwanted attention. Research published in May 2015 by George Washington University in the United States paraphrased testimony from an anonymous US Drug Enforcement Agency (DEA) agent stationed in the Middle East. The DEA agent told the researchers that "the top of the

pyramid in the global Captagon trade has been since the 1980s and remains the same core group of Lebanese gangsters based in the Bekaa Valley." The research points to the Captagon trade as sanctioned by Hezbollah and says that there is increasing evidence that the party is directly involved. "All available indicators point to Hezbollah with Iranian backing as most involved in Captagon production as an officially sanctioned fundraising strategy," the research concludes.

Following the money would provide conclusive evidence as to who runs the Captagon show, but that is no simple task. There is very little information available on the flow of cash from Captagon trafficking, although all officials that EXECUTIVE spoke with agreed the drug's illicit trade is in the hundreds of millions of dollars annually. It is not easy to trace the money because it often remains as cash that does not flow through the traditional banking system, and there is no global framework for coordinating the tracking and seizure of drug money.

The Hezbollah International Financing Prevention Act of 2015 signed into US law in December may change that. Section 201 of the law calls for a report on narcotics trafficking by Hezbollah - Congress will be briefed on Hezbollah's narcotics trafficking, the procedures for listing the party under the United States Foreign Narcotics Kingpin Designation Act as well as government efforts to combat Hezbollah's narcotics trafficking activity. The Kingpin Act grants the Treasury Department's Office of Foreign Assets Control (OFAC) the authority to block individuals and entities from the US financial system and prohibits any transactions between designees and US companies and individuals. Previously the Kingpin Act was invoked in 2014 to designate the Medellín, Colombiabased criminal organization La Oficina de Envigado (La Oficina), the enforcement and collection arm of deceasedleader Pablo Escobar's Medellín Cartel.

#### CAPTAGON FXPI AINFD

What is today sold on the streets as Captagon is a mimic of the drug of the same name pharmaceutically manufactured in the 1960s and 1970s. Captagon is the brand name of fenethylline – a metabolic precursor inactive in its own right but one producing amphetamine and theophylline (a caffeine type substance) inside the user's body. Taken orally, the body's liver metabolizes the fenethylline tablet so that the stimulant amphetamine is absorbed into the bloodstream producing the desired effects of increased alertness and energy that improves performance of manual and intellectual tasks.

Fenethylline was found to have limited benefits for its prescribed use – treating attention deficit hyperactivity disorder – and reports on its abuse and potential for addiction as well as adverse side effects led to its prohibition by the United States Food and Drug Administration in the early 1980s. Later, in 1986, it was banned worldwide when the World Health Organization recommended it be listed as a controlled substance under international treaty – the Convention on Psychotropic Substances, of which Lebanon is a signatory. The convention calls on signatories to license the import, export, manufacture, trade and distribution of fenethylline, and to require a medical prescription for its dispensation and use. The United Nations Office on Drugs and Crime (UNODC) says it has not been legally manufactured since that recommendation came into effect.

Today's Captagon mimics the effects of the pharmaceutical brand and carries the same name because of its similarity in appearance to the original, rather than having the same chemical composition. Because fenethylline is now a banned substance, the amphetamine needed to mimic the desired effect must be synthesized and put directly into the pill – usually as a mixture of mild amphetamines and caffeine, and sometimes other related substances, says Joseph el-Khoury, an addiction psychiatrist at the American University of Beirut Medical Center.

When Captagon mimics do contain amphetamine, one common and easy way to synthesize the amphetamine ingredient is to use a precursor called phenyl-2-propanone (phenylacetone or P2P), says UNODC's Illicit Synthetic Drug Expert Martin Raithelhuber, "It's a common chemical product produced at volume for many licit and industrial purposes," Raithelhuber tells EXECUTIVE. He says it is also possible to convert a related chemical to P2P and then produce amphetamine. The procedure requires only a basic understanding of chemistry and the necessary chemical equipment. "We're not talking about very sophisticated, complicated processes. It is not complex to produce amphetamine and the result will be amphetamine sulphate which is in powder form," Raithelhuber explains.

The same convention banning fenethylline also lists P2P as a controlled substance and its import and export requires a special permit from Lebanon's Ministry of Public Health. Customs data available online does not list any import or export for the years 2011 – 2015, so where illicit manufacturers of Captagon source the necessary raw material they need to make amphetamine is anyone's guess. It is most likely smuggled inside other legally imported products. Illegally handling these raw materials, according to Lebanon's law on narcotic drugs and psychotropic substances and precursors 673/1998, carries a life sentence and a fine between 25 million – 100 million Lebanese lira (\$16,600 – \$66,400).

Forensic studies of seized Captagon in the mid 2000s by authorities in Jordan, Turkey, Serbia and Iraq detected amphetamine and caffeine in most pills, according to the UNODC. But, the UNODC says, some of the Captagon mimics that have been seized do not actually contain any amphetamine but only caffeine, ephedrine (an amphetamine substitute used as a stimulant) and quinine (a muscle relaxant and painkiller). Nizar Jurdi, head of the drug unit at the Lebanese Customs, told Executive that in January Customs seized some 250,000 pills because they bore the Captagon logo and were being smuggled with cannabis. But lab tests of the pills determined the Captagon mimic was a fake containing no amphetamine. The tested tablets were made up of 70 percent caffeine, 10 percent acetaminofene (also called paracetamol and found in popular brand name over-the-counter drugs such as Tylenol and Panadol for the treatment of moderate pain and fever reduction) and up to 20 percent aminofen (the generic substitute of acetaminofene).

In October 2015 OFAC used it to designate Hezbollah-affiliated individuals and organizations.

Already listed as a terrorist organization by the United States, the application of the Kingpin Act as part of the new law will broaden OFAC's mandate to sanction Hezbollah for any alleged role it has in narcotics trafficking - though OFAC does not publish

THE APPLICATION OF THE KINGPIN ACT AS PART OF THE NEW LAW WILL BROADEN **OFAC'S MANDATE TO** SANCTION HEZBOLLAH justification for its designations. Completion of the narcotics report is expected in the first quarter of 2016 and the law requires its publication. A month later Congress will be briefed. By the middle of the year, America believes it may be able to offer an answer as to the actual size of Captagon production and the nerve center of its trafficking.

**ECONOMICS & POLICY** 

## Crime and punishment

The case for rehabilition and treatment of drug users By Jeremy Arbid

ot much is known about Captagon prevalence in Lebanon. Anecdotal testimony regarding court cases and rehabilitation treatments suggest that use is low but rising. The prevailing explanation for this is that there is a leakage of pills into the drug-using community as more Captagon is produced in the country and trafficked through it, but there are no statistics to verify the extent. What is known is that individuals caught using the drug are arrested and that there is deficient data on the number of Captagon-specific criminal proceedings. When arrested, users are thrown into a state of limbo that drug users generally face when they are arrested in Lebanon.

"Drugs have spread so much in the last few years," says Faisal Abdallah, a Lebanese lawyer specialized in criminal law. EXECUTIVE was not able to obtain statistics on drug-related criminal proceedings, neither in general nor specific to Captagon - the Ministry of Justice did not respond to Executive's request and Mohammed Saab, a judge who has presided over user-related hearings, declined an interview to discuss the findings of a book he published on drug-related crimes in 2015. Whether user-related arrest figures have risen as a function of drug prevalence or due to vigilant law enforcement cannot be answered.

According to statistics from the Internal Security Forces' (ISF) drug unit obtained by The Legal Agenda – a nongovernmental organization monitoring Lebanon's judicial system – 5,381 individuals were prosecuted for Captagon use in 2013 and 2014, about 2,000 more than in 2009 and 2010. But the failure to report details of the number of users arrested and prosecuted for popping pills, alongside a complete dearth of data on Captagon rehabilitation, results in an inability to define the problem. Rather, what the figures show is that Leba-

non's police are increasingly arresting, prosecuting and jailing drug users when the law says rehabilitation should be an alternative.

Even first-time offenders face serious and punitive consequences rather than the rehabilitation they should be offered. Depending on the drug, a first-time offender can face fines of 2 million to 5 million Lebanese Lira (\$1,327 – \$3,318) and prison time ranging between three months to three years. Arrested drug users are, according to the law, entitled to be heard by a committee set up in 2013 to follow up on rehabilitation treatment. The Legal Agenda found that the committee is hardly used, hearing only 120 cases in 2013 and 2014.

#### A CLOGGED UP SYSTEM

The Legal Agenda, Abdallah and addictions psychiatrist Joseph Khoury all agree that underutilization of the committee has two causes. Its ad hoc nature - the committee's board members are volunteers and it has no clear mandate - undermines its purpose because the government, the police and the legal profession do not take it seriously. But the greater challenge is due to a backedup judicial system, Abdallah says. Offenders can only be referred to the committee once a judge has heard their case, but because the court system is so clogged, offenders rarely receive their right to present their case to the committee for treatment referral. Instead, drug offenders face prison time, incurring a criminal record, and are thrown into the general prison population. This, the Legal Agenda says, means that users are subject to upfront punishment that deters them from seeking drug rehabilitation treatment on their own.

Lebanon's narcotics law 673/1998 classifies drug use as a health issue but in practice the judicial system still views it as a crime, and offenders have many

obstacles in their way to receive rehabilitation treatment. A drug user has to be very motivated, Khoury says, because they may have to pay out of pocket – government insurance programs cover psychiatric care and drug addiction treatment for security forces and public sector workers, and private insurers cover some segments of the population, but this leaves many insufficiently covered. Lebanon's Ministry of Public Health does not have enough money to cover those that fall between the cracks.

A 2010 report from the World Health Organization (WHO) pointed out that some of Lebanon's public health budget was allocated for mental health services, but that it included neither short-term inpatient care nor outpatient care and only covered certain psychotropic medicines. WHO called for the establishment of in- and out-patient treatment centers for substance abuse, but acknowledged a lack of funding to do so as well as a lack of specialists - psychiatrists and psychiatric nurses - to staff those facilities. Khoury told EXECUTIVE much the same in a January interview - that Lebanon does not have enough psychiatrists nor the health infrastructure to rehabilitate users.

The recommendation of The Legal Agenda is to empower the committee to enable the treatment alternative to imprisonment. But this, the NGO says, would at least require the expansion of the committee's mandate, and adding a committee in each of Lebanon's six governorates to hear rehabilitation cases of offenders in different parts of the country. This, however, would require amendment to the law to both articulate and expand the committee's mandate, as well as to fund it and a healthcare rehabilitation system to treat users. "I would be for not incarcerating any users - I think people need to be treated," prescribes Khoury.





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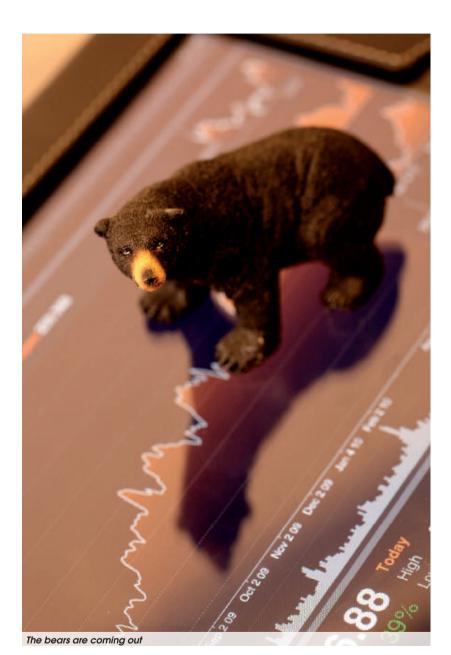
#### Crash course on markets

Volatility will rule in 2016 By Thomas Schellen

t was as if the in-laws had decided on New Year's Eve that it would be fun to come for an unannounced visit. Volatility. It is part of the family experience in any investment strategy and, like the parentsin-law, volatility is never far away but the average investor feels so much more comfortable when it is out of sight. Well, in the first days of 2016, volatility was all over the place, but made itself noticed most strongly in China where the Shanghai Composite Index fell almost 12 percent from 3,540 points on December 31 to 3,125 points on January 7.

Perhaps it is no wonder, then, that an often-quoted January 8 research note by the Royal Bank of Scotland contained warnings like "history tells us that a United States downturn may be nearer than you think", bulletpoints that vacillated from thrice bearish outlooks for China, commodities and oil, to widening output gaps and predictions (almost certainly computer assisted) that automation is on its sneaky way to destroy up to half of all jobs in developed markets. "Watch out. Sell (mostly) everything" was the recommendation (emphasis original). Surveys of other economists ensued immediately showing that, although few economists agreed to the disaster scenario, many couldn't totally dismiss it - "cataclysmic year" became the words of the hour.

Now, one lesson of the Great Recession is that any analyst or economist who could lay claim to have predicted the catastrophe became an instant celebrity. One can wager on this doomsday (DD) effect using a new economic formula where precise prediction of gloom (1), multiplied by actual cataclysmic percentage drop



in world markets (X) and divided by the [accidental] number of months between the prediction and the [arbitrary] date presented in media as the actual key date of market collapse, results in the lucky DD effect number

(YN). A high positive YN acts as multiplier of book sales and social-network followers, better speaking opportunities on television and YouTube and elimination of the awkwardness factor when starting conversations

with "I am an economist...". As a bonus, the risk of a negative YN appears to be negligible because the information markets tend to quickly forget erroneous predictions due to their sheer volume, even ignoring it when outlooks for, let's say, key commodity prices turn out to be egregiously wrong by 30 percent or more.

Nonetheless, 2016 began with many interesting questions. The impact of the Federal Reserve's December interest-rate hike, analyses showing a stealth bear market in the US, the dichotomies between monetary policies in the US and in the Eurozone, the China syndrome, the Brazilian crisis, Russia's conundrum, capital outflows from emerging markets, the inverted oil shock and the economic troubles of oil producers in the Gulf Cooperation Council and weaknesses of their stock markets; there was much to think and talk about. What would the implications be for Lebanese investors? Keeping all the vagaries of the outlook business in mind, EXECUTIVE sat down with a selection of Beirut-based private bankers and wealth management experts to learn of their views on the state of markets and advice for 2016.

#### **GENERAL EXPECTATIONS**

Investors will do best if they lower their expectations, recommends Toufic Aouad, general manager at Bank Audi Private Bank. Noting that the start of 2016 appeared internationally to be "the worst in the past 84 years, since 1932," Aouad perceives the theme of 2016 to be low growth, low inflation and high volatility, leaving no ground to anticipate high returns. "For the same risk profiles, [investors] should expect that returns will be lower. This is not very good news to share with investors but that is really the situation today," he explains.

Neither he nor his colleagues in the Lebanese private-banking realm see the writing on the wall to be prophesizing doom. "I don't think 2016 will be dramatic," says Georges Abboud, global head of private banking at BLOM Bank Group. He thinks that investors will have to change their behavior in selection of equities to favor stock-pickers over investing in passive funds but believes that there is also money to be made this year.

"Some people talk of the financial meltdown, but we don't think so," says John Dagher, the chief executive officer of Julius Baer (Lebanon), a unit of the Swiss private bank by the same name. "We believe that it is going to be a challenging year but we also believe that central banks will continue to be a major factor in the markets and will continue to have adaptive policies. A lot of industries are under pressure, so you have to be selective and you have to diversify, but there is always somewhere in this world where you could employ some money. Interest rates are still going to be on a slow tone and the correction in prices will also reach a place from where on you could see some buoyancy," he elaborates.

For Nadim Kabbara, who is head of research and manager of several funds at FFA Private Bank, the general outlook is for more uncertainty, also when adding in factors such as a possible exit of the United Kingdom from the European Union, the migration issues in Europe and the presidential elections in the US. "There is a lot of uncertainty and one thing that brokers are convinced about is that there will be more volatility this year. That is why we advise our clients to invest into more balanced portfolios," he says.

#### **SCENARIOS ON THE UNITED STATES**

The US markets are in many ways still not to be scoffed at, says Youssef Dib, general manager of private and investment banking at Near East Commercial Bank, part of Saradar Group. "Our view on the US is that it is still benefiting from strong fundamentals - the economy is supported by growth," he explains. He points to

positives of low unemployment and interest rates that are still low even as the Federal Reserve has embarked on their normalization at the end of 2015. to strong consumer sentiment and to corporate profits that have been sufficiently attractive on downward revised sentiments. For negatives, Dib lists the unattractively high equity valuations, the suffering of the investment sector, high corporate debt levels and the general toll that the strong US dollar is taking on corporate profits. "Overall, what we can say about the

"THERE IS A LOT OF UNCERTAINTY AND ONE THING THAT BROKERS ARE CONVINCED **ABOUT IS THAT** THERE WILL BE MORE VOLATILITY THIS YEAR"

US market is that it is resilient but it is not our favorite because of the rate increases by the Fed. But the resilience of the US market is a mitigating factor against possibly adverse developments," he tells EXECUTIVE.

Pointing to the impact of the Fed's interest rate tightening, Audi's Aouad sees the US dollar as the probable first winner of this decision, despite the fact that the appreciation has already previously been priced in on the currency markets. Given that the Fed has started intervening rather late when compared with previous rate liftoffs, it is hard to use historic reactions in any attempt to predict market reactions this time, he notes. Audi Private Bank is selective on US markets, seeing financial companies for example as stocks that are likely to benefit directly from rate hikes. "We can say today that the US bull market is entering its last phase, where we usually witness narrow market breadth and high volatility," he says.

In addressing the interest rate issue, Dagher also describes the approach of Julius Baer's researchers as one of digging through historic

records on interest rate hike impacts and trying to see what could happen under today's circumstances. The bank does, however, anticipate little further movement on interest rates in the near future. Dagher says that Julius Baer expects to see no or "perhaps one more" quarterly increase in the US interest rate in 2016. (note: all interviews for this story were conducted more than a week before the January 27 announcement by the Federal Open Market Committee that it would keep the federal funds rate steady at this time). Given the hidden bears and expected end of the historic bull-run on Wall Street, he adds: "Diversification becomes very important. Although some people have been writing that diversification is not going to achieve much in this huge globalization, it still will help you when you diversify into different markets and different industries."

#### **DRIFTS IN EUROPE**

When looking over various very recent European predictions that the Eurozone might be on the verge of collapse or reading speculations that the EU is sitting on a precipice above the abyss that is about to open, it may be useful to recall that pundits with a personal interest in currency markets told Lebanese audiences of an impending euro meltdown. That was in early 2010, just after Greece in 2009 started to suffer from confidence losses because of its lying over debt levels.

Construction of similar narratives seems to be a cyclical habit in some otherwise elusive European psyche, as perhaps best exemplified by the centenary propensity for predicting the end of their civilization as the end of all worthwhile civilization. The seminal European work representative of this cultural pessimism, and counter piece to some neocon American writings, is Oswald Spengler's "Untergang des Abendlandes"; known in English as "The Downfall of the Occident" or

"The Decline of the West", it was written just about a century ago.

But the continent's love for selfdoubt notwithstanding, Europe in 2016 does not look that bad a place for investors seeking a bit of extra diversification. "If we look at Europe, we see that stocks trade at price to equity (P/E) ratios of 12 to 13. This is below peak levels and when you look at the profit margins of European companies, they are also 20 percent off their peaks. There is space for European companies to improve their margins," reasons Abboud. Considering that the quantitative easing (QE) program by the European Central Bank (ECB) is supposed to stay in place at least until some time in 2017, he adds: "All these factors show that there is some potential for [stock prices in] Europe to

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grow. I am sure if you dig in, you will find value stocks, with good dividends and good fundamentals."

For Aouad, European stocks - amidst overall expectations that returns will not be high in 2016 appear better positioned than those in the US to deliver high single-digit returns. "The Eurozone is recovering, you can see it by profit margins or the credit cycle. You have some tailwinds, which are the weak euro for exporters and the low oil prices," he says. Within the European space, Bank Audi Private prefers companies that are domestically focused for being not as vulnerable as some exporters to eventual disruptive developments in emerging markets. "Among exporters, we prefer those who trade with the US as the

exchange rate will be to their advantage. High-dividend domestic names in continental Europe are also to be considered. We like mainly financial and mid-class [stocks]," he explains.

In Kabbara's perspective, it is prudent to use opposing strategies in Europe and the United States, namely to look at small cap and domestically focused companies in the US, and at exporters or companies whose input costs are in euros in Europe.

Dagher characterizes Europe as a region that retains trust of investors and will remain a very important market. Outside of market issues, he notes that points for necessary consideration in 2016 include terrorism threats, immigration controversies and matters of external relations such as the Turkish-Iranian issue. The bank's researchers expect no big changes in the euro-US dollar currency relations, and Dagher cites indications that the currency pair will move this year in either a narrow range of 1 euro to \$1.07 - \$1.10 or at most shift into a wider range of \$1.05 -\$1.15. On the monetary side, he agrees that the ECB's task is less easy than the Fed's in decision-making terms. Overall he sees potentials on both sides of the Atlantic. "Valuations in European markets are perhaps a bit better than American ones; [but] this doesn't mean that there are no US equities that you can move into after the last correction," he says.

Dib sounds almost Europe-bullish. "The economic picture in Europe looks rather good and it is our favorite equity market. Even the euro might appreciate by yearend. If the market goes up and the euro as well, it would even be a plus-plus," he says. From a Lebanese perspective the dollar strength results in European buying opportunities, such as apartments that look 25 percent cheaper than two years ago, but cautions that he would still avoid southern Europe and Greece as well as the UK because of it giving the impression that it is taking a course of its own.



BANKING & FINANCE

### EMERGING MARKETS AND CHINA

As to the, in comparison with developed economies, even more enigmatic markets, Dib sees no specific dangers. "The reasons why we are not positive on emerging markets are that sentiment on them is still very negative and that a lot of them have problems politically. Valuations, however, are very compelling. Valuations in emerging markets have gone down 50 percent and that puts a floor on any further downside that could happen," he comments.

Aouad highlights that emerging market equities have been broadly the subject of severe risk-aversion by investors, which materialized in net outflows especially in the second half of 2015. "Within this asset class, country selection is very important. We are very cautious on emerging markets and when we say we are country specific, we don't like to name countries. [However], we look more at India and Mexico rather than the rest in the spectrum of emerging markets," he says.

China, the current top enigma within the enigma of emerging markets, remains a big uncertainty, Aouad admits. "The question is whether the Asian giant will be able to succeed in his shift to a consumer and services

based economy while dealing with lower investments and huge debt burden," he posits. While he agrees that "China is obviously the big scare" of today, Abboud offers the view that there may be mitigating factors as well as over-emphases of risk potentials when it comes to the Chinese economy in a global context. "As a whole we think the market will continue to be volatile in China, but so far we are giving credit to the Chinese government to be able to guide the soft landing," he says. That an oversupply of analyst fears have been projected onto the country's economy, and that the Chinese deserve to be given time to manage their challenges, appears to be a majority view among the private bankers who talked with EXECUTIVE.

### THE GCC AND OIL: STILL THE FATEFUL PAIRING

Forget any notion of decoupling. The start of 2016 must have reinforced the perception that Arab markets, especially the countries of the GCC, and oil have a correlation that is as strong and fateful as ever. "For the GCC specifically, the last year was not easy and market caps in large GCC markets have certainly corrected in value since oil prices started coming down a year and a half ago. The oil price has been front and center for

GCC equities but we want to remind investors that markets have been pricing in a lot of that downside in oil. P/E multiples [of companies traded on GCC stock exchanges] are today more in line with emerging markets. Also, dividend yields are quite appetizing now versus developed markets and even versus other emerging markets," explains FFA Private Bank's Kabbara.

Having a dedicated exposure to markets in the Middle East and North Africa (MENA), FFA Private Bank has noteworthy views on regional equities. According to Kabbara, the bank's regional investment approach is to concentrate on companies with growing market shares and which have strong balance sheets, good management and pay dividends. "Our outlook for 2016 in MENA is cautiously optimistic and we are trying to manage the [correlation of corporate valuations with the oil price] by focusing more on countries that are diversified away from oil," he says. Kabbara then adds: "From the macro perspective, there are no changes in why we are invested in MENA; we benefit from the demographics that you find in emerging markets but not elsewhere, from the income growth, from the young population, from governments that continue to invest in their economies and from the peg that until now links local currencies and the US dollar, which you don't see elsewhere in emerging markets."

Dagher, who has decades of experience working in financial markets around the Gulf, confirms that GCC economies face major changes because of the oil situation but emphasizes that the bank does little in research on the GCC and that his comments are based on his personal observations. "The mere fact of thinking about an initial public offering of Aramco means that there is a huge change in that GCC economic decision makers are looking at shifting risk of oil as the main business from the state into private hands, at least for a part of the risk," he says.



Chinese stocks got off to a really rough start in January



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Phasing out of water-wasting forage shows that oil is not the only factor impacting Gulf equity

Since changes in the GCC also involve introductions of value-added taxes and removal of subsidies, or possible withdrawals from full dollar-pegs, "it is a very interesting period to see how those things will materialize," he says.

That the magnitude of the challenge for change and adaptation of companies in Saudi Arabia and other GCC economies extends into the non-oil sector was demonstrated last month by top dairy manufacturer Almarai and food and consumer conglomerate Savola Group. The two Saudi companies were hit by the removal of energy subsidies but also, in Almarai's case, by a government decision to phase out domestic production of alfalfa and animal forage because of high water consumption; the transition to sourcing forage abroad is going to cost it \$53 million in 2016 alone, Almarai estimated in a disclosure in

January. The stock lost almost 30 percent of its value in the first three weeks of January before recovering about half of the lost ground in the fourth week. Savola, which owns part of Almarai, fell even more, by about 40 percent, before coming back to a one-month loss of 18 percent on January 28.

There are clearly more things to be known about GCC equities than some far-away analyst's notes on emerging markets can cover. As Dagher corroborates, many factors besides oil are at play in the GCC markets. "It will always be rewarding to be in the GCC markets," he says.

#### **NOT FOR CONCLUSIONS**

As January drew to its close, major Arab stock indices closed the month's last trading week on positive notes. All markets in the Gulf Cooperation Council gained a bit on January 28 but for the year to date (ytd), the region's major bourses were all still bleeding, at ytd drops of more than 9 percent in Dubai and Abu Dhabi, around 11 percent in Kuwait and Qatar, and 14.5 and 14.9 percent in Egypt and Saudi Arabia.

In the wider world, China ended the month with investor distrust, as the Shanghai Composite Index was down 25 percent between January 1 and January 26. The Fed met expectations that it would not venture into another rate hike and adjusted its coded communication to tell markets that they should not consider upcoming decisions as foregone conclusions. The trend to issue wildly alarmist analyst notes seems to have abated to some degree but it seems that uncertainty could be even deeper than one would like to assume. The concept of economic predictability was certainly not helped when the World Bank was compelled last month to lower its forecast for 2016 crude oil prices to \$37 per barrel. The astounding 28 percent downward variance from the \$51 forecast issued in the previous commodities outlook in October 2015 cannot be regarded as reassurance of any person's or any institution's ability to give accurate predictions for the global economy in 2016.

Doom or just volatility? Maybe the anonymous interstellar power that left us the Mayan calendar had a special sense of humor and moved the doomsday notch one leap year into the past – so that 2016 is the real 2012. Or perhaps, by way of other wholly uneconomic and unscientific but entertaining mind games, all the blood moon, harvest moon and blood-harvest moon occurrences of last September were warnings for wealth owners to repent, divest of all assets, distribute everything to the needy by [insert date of personal preference] and start rebuilding private wealth in a new cycle of global enterprise to get wealthier than ever before in the coming period of [insert lucky number] years. We will never be able to guess right.



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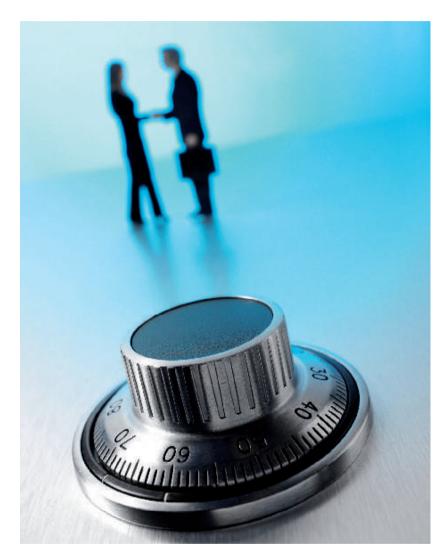
"Why is there so much more research done on baldness than on malaria? Because rich people go bald, and they don't die of malaria." WILLIAM H. GATES III

# Great potential in need of an edge

Private banking in Lebanon has a host of new angles By Thomas Schellen

here were times when homegrown private banking in Lebanon looked like a short-distance runner trailing behind the field in a long-distance race. A decade ago, whenever EXECUTIVE would report on the wealth management and private banking options from Beirut, representatives of foreign institutions were the natural go-to people. Local and regional directors at Merrill Lynch, BNP Paribas, Credit Suisse, UBS, HSBC and other foreign institutions provided the most insightful interviews. They also, in courting local clientele, took the business of Lebanese high net-worth families and individuals to the financial centers overseas. London, Geneva and New York stood out as the places where Lebanese private wealth accounts were managed. Sure, some local banks had knowledgeable individuals with job titles such as "head of private banking" and offices situated in unexpected corners of their respective banks' headquarters. But mostly these people would talk about interesting ideas and projects envisioning future growth, and several of them, and their fledgling departments, were no longer to be found when Executive came around again a year or two later.

Visiting with private bankers last month, the flair was stronger on the side of the locals. From the rep office of UBS and from Credit Agricole Suisse (Liban) came understandable apologies for not being available to discuss the global scenarios at this time. The Lebanese units of Swiss banking organizations Julius Baer and UBP provided perspectives originating in their global



head offices, plus valuable personal insights into regional markets. But the managers of homegrown private banking were just as interesting to listen to and had intriguing news of their own to share.

Interviewees at sector leader Audi Private and at local independent FFA Private Bank signaled calm confidence about their performance and shared their assessments of the whole range of areas of financial interest – i.e. the broad array of volatile markets and potential worry spots. Growth was clearly on the minds of Georges Abboud, global head of private banking at BLOM Bank Group, and Youssef Dib, general manager for private and investment banking at Near East Commercial Bank (NECB).

#### **NEWS ON CAPACITY GROWTH**

BLOM Private Bank is working on expansion of its private banking operations in Switzerland, Abboud said, full of enthusiasm. "We will definitely grow the operation in Geneva because we have a lot of demand from our clients visiting us there. We will build the advisory offering that will have a common platform between Beirut and Geneva," he told EXECUTIVE after having just returned from a visit as part of a new mandate to take care of all of the group's private banking operations.

With positions in the deep middle field of the Lebanese market in terms of headcount and other metrics, NECB has not been a bank in the forefront of banking activity. For the past two years, management appeared reticent to accept interview requests as the bank was working out its merger with another institution, Banque de L'Industrie et du Travail (BIT). But as Dib told Executive, the veil of the bank's new identity - neither to be NECB nor BIT but a new brand related to the main driving force behind the institution, banker Mario Saradar - will be lifted within a few months. "2015 was an important year for Saradar Group with the official merger of the two banks. At present we are one group with two banks, NECB and BIT, and around April we will be one entity with a new name and new corporate identity," Dib said. According to him the merged bank will have a strategy to operate as universal bank with a retail network of 20 or more branches but private banking will be one of the key business lines. "Wealth management is in the DNA of both NECB and Saradar [Group], which is highly reputed in this field," he added.

Noting that FFA Private Bank has almost completed a decade of operating as an independent private bank (it was established as brokerage Financial Funds Advisors in 1994), and given that private banking culture appears today soundly rooted in the

units backed by the country's top two commercial banks, the new positioning of Saradar Group is a welcome addition to private banking capacity in Lebanon. However, four reputable names and growth-oriented organizations do not yet make a crowd and the Lebanese market is still a good distance away from passing important milestones that would allow the local sector to compete for all the highpowered Lebanese specialists who work the world over in asset management, funds management, private

#### PERHAPS ANGLING FOR ETHICS CAN HELP IN CARVING OUT A STRONGER NICHE

banking, etc. And while IT systems are in a process of significant enhancement at Audi Private Bank and also are being beefed up at BLOM, strengths would have to increase further before advisories here can deliver on all client needs and requests. Also the national environment, as ever, will have to become conducive to the needs of bankers and clients to allow Beirut to become a rising star in private banking.

Under those circumstances, perhaps angling for ethics can help in carving out a stronger niche. It may be counterintuitive to the popular notion that banking for the rich is akin to depriving the poor or the view that a private banker's success requires loving money more than love itself, but business ethics and private banking are in no way mutually exclusive. If one attempts an unbiased examination of the contentious issue of wealth, one can find historic and new touch points with ethics concerning the what-in and the what-for of investing and the how of best wealth management behavior.

#### THREE ROADS LESS TRAVELLED

In regard to the what-in, the reality of an alternative investment dimension has been demonstrated through growth of green, socially responsible, and ethical investment strategies as well as Sharia-compliant Islamic finance. Retail funds applying environmental and ethical selection criteria were no more than quirks in the financial landscape when first devised in developed European countries. But that was before the real spread of awareness of climate threats and the proliferation of investment choices. Between December 1999 and June 2014, the assets under management (AUM) in the Socially Responsible Investment (SRI) fund market across Europe grew from 11 billion euros (\$12 billion) to 127 billion euros (\$138.4 billion) according to a report by specialist French research firm Vigeo.

In a comparable but more recent view of the United Kingdom market, the non-profit Ethical Investment Research Service (EIRIS) of the UK, which merged with Vigeo in the beginning of 2016, said that the UK's AUM in retail funds with ethical or green orientation grew from less than 300 million GBP (\$431 million) in around 1990 to more than 15 billion GBP (\$21.5 billion) in June 2015.

The Vigeo report notes that ethical AUM represent 1.7 percent of European retail AUM but that is a veritable niche and has ever-more potential for growth as attention to environmental and social issues soars, and management structures of SRI funds have been maturing and performances becoming more competitive with conventional funds.

Similarly, the Islamic finance industry has been fed by increasing appetites for religion-compliant products. A report by the Malaysia International Financial Center (MIFC), which is affiliated with Bank Negara Malaysia, the country's central bank, said last month that Islamic AUM stood at \$60.2 billion globally in the third quarter of 2015, albeit down from \$75.8 billion a year earlier. Attributing the drop to lower oil prices and some changes in regulaBANKING & FINANCE

tory environments, MIFC said that Islamic AUM are expected to grow to \$77 billion by 2019, at slightly above 5 percent per annum, and added for evidence that the average growth rate of Islamic funds over the past five years was 9.6 percent per annum.

On the one hand, the growth potentials for ethical funds of Western and Islamic orientation seem worth pondering from a Lebanese perspective because the outlooks and descriptions have become less propagandistic when compared with some hyped-up conferences and reports 10 years ago. On the other hand, it seems a good rationale for Beirut as the prospective wealth management center in the

middle of East and West to develop expertise in funds that have untapped marketing potentials in Western and Muslim-majority markets, and conceivably elsewhere in emerging markets.

The ethical what-for of investing can perhaps best be approached by examining a recent fruit of philanthropy. There are 1,382 people who work at the world's largest philanthropic organization, according to the entity's latest factsheet. Among these people are one Melinda Ann French, married name Gates, and one William Gates III. It is widely known that the Bill and Melinda Gates Foundation has been endowed with billions of dollars by the Gates family and their col-

laborators, such as Warren Buffett. It has a trust endowment value of \$41.3 billion (at mid 2015) and grant payments of \$34.5 billion since inception, according to its factsheet.

> Private Banking

It is in no way probable that many philanthropic organizations will quickly meet the benchmarks set by the Gates Foundation. Moreover, initiatives like the Giving Pledge, which Gates and Buffett founded in 2010 to entice their high net-worth peers toward dedicating over half of their net worth to philanthropy, are yet far from creating a sustainable tradition. But all this, including the lags behind best practices, could make advising on philanthropy a more interesting pursuit for Lebanese private banks.

There are precedents from world-leading private banks. Not only do big names operate their own foundations for giving and corporate citizenship but organizations such as Credit Suisse, UBS and Lombard have instituted philanthropy advisory services as part of their offerings for high net-worth clients. Again, the what-for of giving could be an underexplored and twice – socially and financially – profitable niche for private banking in Lebanon.

#### **HOW TO BE ETHICAL?**

The how of ethical private banking starts with affirmation of the best existing practice. As John Dagher, a Lebanese private banking veteran and current CEO of Julius Baer (Lebanon), put it, "Every banker and every bank should put the client as their prime focus, without any other interest." Conflicts of interests between giving the best advice to clients and pushing for sales performance in product campaigns must be avoided and he would not agree to rewarding employees on product campaigns, said NECB's Dib. "Understand your client and make her or him understand what he or she really wants. One thing that is important is that you have sometimes to contradict your client - if he wants to take risks that are higher than what you [see as good]," he

#### NEW FORMULAS IN PHILANTHROPY



Philanthropy is as entrenched in human behavior as the pursuit of wealth itself. What makes the Gates Foundation look like it could be the first result of an evolutionary leap in philanthropic behavior is the combination of immense size - the funding power for health and education projects looks to be as large as that of some states - management approach and personal involvement. The management approach has investment professional written all over it. For example, Gates once compared a large

health-related initiative to a venture capital fund for investing in medical science ideas with potential return of saving lives through the projects that succeed. He described the context as an innovation space for catalytic philanthropy that is designed to "fix market failures – places where capitalism fails to meet the needs of the poor." One could also call this an investment vehicle, an ultra-long, openended, unspecified-return fund with unlimited reward potential for third-party beneficiaries – the poor. What appeals here is that the thinking behind this approach is accessible to people who excel in finance or tech entrepreneurship. Thirdly, this foundation qualifies as personal investment of an intensity that one might have previously only associated with personalities such as Mother Theresa, not with a rich donor. The Gates couple is investing their presence and their leadership into the organization in the same way that one would expect of a Fortune 500 chairman of the board. In conclusion, to rate as a philanthropic organization for the 21st century, every such organization would be one with outstanding leadership, excellent management, and one that is capable of speaking the language of the markets, in addition to satisfying requirements for moral integrity, financial transparency and top-caliber organizational governance.

advised on the ethics topic.

Experience of criminal behavior in top financial centers such as rate-fixing in the long-running Libor scandal and countless examples of ethical failures in banks that helped customers get away with tax crimes have taught that the implementation of ethics requires significantly more than being honest in the dealings with the client. Being their banker, it can be a serious ethical failure to prioritize clients' financial interests over the community's financial interest. When going as far as evading the law in the process, misguided focus on a client's private interest over the public rule puts a banker's personal future at risk, not to forget reputational damages and financial punishments for the bank.

To reduce financial crimes in a banking hub as much as possible, regulations and supervision are the first line of defense. The second anticrime rampart are codes of conduct and internal controls within the bank. The third element in keeping bankers ethical is a multi-layered tradition of best practices and ethical behaviors that ideally stretches from acculturation to values in one's family and childhood environments to training in ethical behavior during school and university studies and later on, continual education and job-training programs.

MISGUIDED FOCUS ON A CLIENT'S PRIVATE INTEREST OVER THE PUBLIC RULE PUTS A BANKER'S PERSONAL FUTURE AT RISK

There are some elements that could be utilized to the advantage of Lebanon in quietly building capacity as a private-banking hub, especially in a regional context. "If we compare to the Gulf Cooperation Council, we definitely have more human resources for private banking. We have a strong banking sector and we have a very strong central bank, which

has given a lot of power to the capital market authority as a regulator which we did not have before and which is even better for us," said BLOM's Abboud.

Lebanon's central bank has, in the past, been able to keep the market's many bankers closer to the straight and narrow than other supervisory regimes were able to do, judging from the evidence of violations in hubs like London, New York and Geneva. Incentives for a much stronger ethic are at least not inconceivable if the private banking industry here were to agree on setting up new beacons of integrity and ethical advisory services that will contribute to sustainable profitability. One way of reasoning for ethics is simple and practical: by knowing that they have more to lose from ethics violations than to gain from acts of corruption, most people will make the rational choice. The additional good news is that the managers of our private banks seem to be in agreement on the potential to make honesty a competitive edge.

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## EIP: Equity per mimicry

New fund promises to do right by MENA countries By Thomas Schellen

n today's financial universe, the private equity space is a vital quadrant to map and monitor.

Private equity (PE) investments – allocations of capital that institutions and the wealthy inject into companies, not through stock markets but with the help of professional intermediaries – have grown into an alternative investments class worth \$3.8 trillion in assets under management (AUM) in 2014 according to the 2015 Preqin Global Private Equity and Venture Capital Report.

Achieving immense growth between 2004 and 2008 before suffering from bloodletting during and after the Great Recession, the worldwide PE industry has undergone a resurrection in the last few years. Worldwide in this context means, as it so often does in investment markets, first the North American market with 57 percent of all PE AUM in 2014, followed by Europe (24 percent) and then Asia (13 percent) – leaving 6 percent of activity for the rest of the world, including the Middle East and North Africa.

But the breadcrumbs of global money can certainly be well worth picking up when one is among the handful of PE specialist firms versed in investments on the southern rim of the Mediterranean – particularly if one has a good narrative and a value proposition for concerned institutions. The challenge is in being attentive to the interests of European development institutions, which in simple terms are to expand investments in MENA countries in the hope that economic empowerment of the native population would curb migration pressure.

The latest arrival to the MENA PE space with a focus on mobiliz-

ing European institutional money is Emerging Investment Partners (EIP). Operating from an office in downtown Beirut, the funds management company is run by two directors, Wassim Heneine and Karim Burhani. They are currently working on the establishment of their first PE fund, which they say is about to commence fundraising for \$100 million from high networth people and from institutions such as the European Investment Bank (EIB), the London-based European Bank for Reconstruction and Development (EBRD), and the German and French public invest-

"WE ARE RAISING A FUND TO DEVELOP THE ECONOMIES OF THE REGION AND OF COURSE TO MAKE MONEY, BUT TO MAKE MONEY WITH A DEVELOPMENTAL MINDSET."

ment agencies Deutsche Investitions und Entwicklungsgesellschaft (DEG) and PROPARCO. "We are raising a fund to develop the economies of the region and of course to make money, but to make money with a developmental mindset. We are pitching all these organizations that have in their mandate to develop our region, to fight poverty, to encourage prosperity, because it is only with prosperity that you kill extremism and terrorism and give people better lives," explains Heneine.

#### A SOCIAL FOCUS FOR PE

The two EIP directors aim to source up to 70 percent of the first EIP fund

from European public investment institutions and target individual investors from the MENA region for 20 to 30 percent. The fund's first close is planned for the fourth quarter in 2016 with an aim of \$75 million, and a second close to reach \$100 million is planned for six months after the first. Expecting to be able to deploy all capital within three years and intending for investment-toexit cycles to range from five to seven years, EIP will be sector agnostic but will be more inclined to invest in sectors such as health, education and food and less to invest in companies in sectors such as tourism. Ticket sizes will be \$5 million to \$10 million and the fund already has contact with companies that are investment prospects, Heneine says.

"Any company with EBITDA (earnings before interest, taxes, depreciation and amortization) of \$1 million to \$2 million will be on our radar screen. We are mapping the market and are looking for companies that have a solid and scalable product, large addressable market and good management, and which want the \$10 million for purposes such as expanding into a new country or establishing a new production line," he elaborates. Capital increase and injection of growth capital will be the preferred mode of investment for the EIP fund but the investment approach will also allow for some buyout components when founders or investors of a target company want to liquify their shareholdings.

The fund's geographic reach will not include Turkey but the managers could look at Iran and other countries in the days of a second fund, adds Burhani. "For the time being we are more focused on countries in North Africa and the Levant; countries that we know well, that we have invested in and where we have exited," he says. According to Heneine,



the first EIP fund's intended investment focus is on Egypt for about \$40 million, Jordan and Lebanon for about \$20 million each, and Morocco, Tunisia or Algeria for the remainder.

Seed money of about 10 percent for the fund has been promised or committed by two sponsors, the Lebanon-based BEMO Group and Generation Alfa, a Geneva-based asset management organization. The two sponsoring organizations are linked to the Obegi and Alfadel families, which are of Syrian extraction. Representing the two families in the venture are Riad Obegi and Imad Alfadel who are shareholders and board members in the EIP funds management company, alongside Heneine and Burhani.

#### **A SMALL POND**

EIP is incorporating its PE funds in Guernsey, which is a popular base for PE funds and has been acknowledged by European regulators for compliance with European Union norms. "We will be doing everything by the book," insists Heneine and tells Executive that the company has been set up with due diligence and procedures and corporate governance guidelines in place. "Once we progress, we intend to sign PRI [the Principles for Responsible Investment, an initiative supported by the United Nations] and UN Global Compact. We really want to make money but we want to make money responsibly and make money while having an impact on our society," he reiterates.

In legal terms, the EIP headquarters in Beirut is a representative office according to Heneine and the two managing directors have thus far not entered into communications with Lebanon's Capital Markets Authority (CMA) or issued a prospectus for the fund. "Fundraising in Lebanon is done on a very restrictive basis. We [and the potential investors] know each other and it is not really mass marketing; this is why we did not feel the need to go and have interaction with the authorities," Heneine says. A prospectus for institutional investors outside of Lebanon

will be issued at a certain stage in the fundraising process. It will be based on regulatory requirements of the Guernsey jurisdiction and if at some point EIP will be "required to have our prospectus reviewed by the CMA, we will gladly do so," he adds.

The first impression that EIP made on the Lebanese market was in a 2015 sideproject announcement of a 51 percent investment into Beirut-based hos-

#### STRATEGIES OF PE INVESTING INTO NORTH AFRICAN AND LEVANTINE GROWTH COMPANIES ARE STILL A RARITY TODAY

pitality sector company Venture Group, the developer of the Backyard Hazmieh cluster project. However, the Venture project was a small investment and done outside the fund's scope, Burhani explains: "Until the official announcement of the fund we have a bracket to go opportunistically and invest wherever we like. Once the fund is established, the management team of me and Wassim and other team members will be exclusively working to achieve the strategy and ensure the success of the fund, so we will be 100 percent focused on these mandates."

Strategies of PE investing into North African and Levantine growth companies are still a rarity today. A perusal of the MENA Private Equity Association's directory of member companies shows a single company, Capital Trust Group, as a non-Sharia focused fund manager with focus on growth companies that addresses the same markets which EIP has on its target list for its first fund. As a matter of fact, Heneine and Burhani both worked previously with the three Euromena private equity funds that Capital Trust Group launched as general partner in 2006, 2009 and 2014.

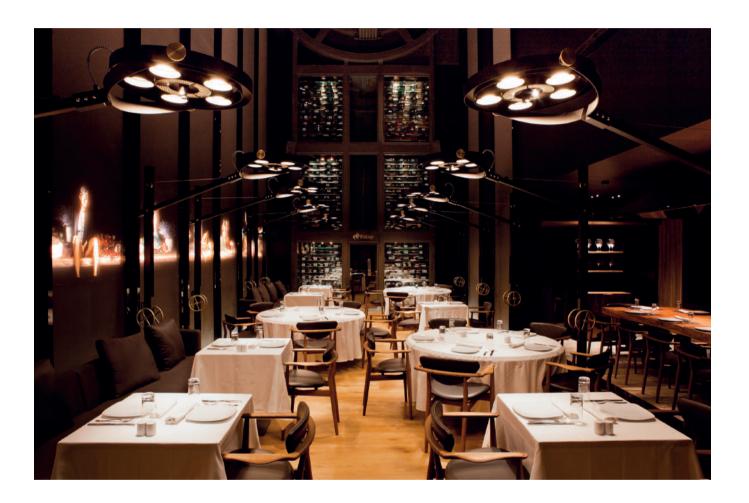
#### **CLEAR GROWTH**

When Euromena I was launched in Beirut back in 2006, it was a pioneering

venture that encountered numerous challenges. At a comparatively humble \$63 million in size, the fund included a \$12 million participation from the European Investment Bank at a time when EU countries were concentrating their attention for development in areas outside their borders much more on Eastern European countries than on the Mediterranean rim. The Euromena I and II funds delivered notable successes investing in mid-size companies in Egypt, Jordan, Lebanon and Algeria. According to an EIB disclosure from last September, the bank committed \$25 million to the Euromena III fund, the current edition, for which Capital Trust Group has projected a second close at \$200 million in Q1, 2016.

While there are quite a few similarities to make one believe that EIP's founders did not transcribe the knowledge and connections they acquired at Euromena one-to-one into their new venture's strategies, mimicry has a long tradition as a business development pattern and replication of successful corporate DNA can work well enough. That is, of course, if the replication is within ethical limits and if enough new value-added makes the new company a strong-enough competitor to the incumbent. From the perspectives of entrenching new investment skill sets in Lebanon and of developing economies in the Middle East and North Africa by employment of private equity methodologies, it is positively impressive that the community of PE funds with Lebanese management is broadening today. EIP for its part affirms its readiness to serve the region and deliver on the expectations of its investors. According to Heneine, the biggest worry for an investor in sponsoring a funds management team is team risk, but this does not apply in the case of EIP's two managing directors. He says, "The last thing an investor wants is to invest in a team and experience on the following day that everyone goes their own way. With us, team risk is very low because we not only know each other but we worked together. This is a good comfort for investors."

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#### Luck of the winners

Lotto operator seeks to enhance its market By Thomas Schellen



hen La Libanaise des Jeux, the country's sole concessionaire of lotteries and scratch-card games, introduced a new game last month, it was sheer coincidence that the launch event was held within five hours of a recordshattering lottery draw half a world away. Nobody could have predicted that Yawmiyeh, the new Lebanese daily draw game, would see the light just after the Powerball lottery in the United States declared that three winning tickets would each be eligible for 30 annual payments totaling around \$533 million.

In many ways, the two games couldn't be more different from one another. Powerball jackpot amounts are determined on basis of sales revenue from tickets and payouts are shared among winning tickets. Through two revisions over the past few years, Powerball structures have been rigged in favor of producing huge jackpots with ever-lower chances of reaping them. Yawmiyeh is structured to offer fixed odds – every

winner will get a preset multiple of the wagered amount, irrespective of eventual other winners.

The top prize at Yawmiyeh thus cannot be larger than LL 120 million (\$80,000), based on the maximum possible wager of \$2 and a multiplier of 40,000. On the other hand, there could be any number of winners and each of them would get the top payout. This exposes La Libanaise des Jeux to a small risk of ending up with a loss for a daily draw but the company has calculated that payout ratios for winners on yearly terms should be 45 percent. This, says president and largest shareholder of La Libanaise des Jeux, Rainier Jreissati, is the same risk as is taken with the other draw games operated by his firm.

Describing Yawmiyeh as a set of three games – with bets on three, four or five numbers, in sequence or disordered – Jreissati tells EXECUTIVE that the game is "cheap and easy" to play. It is marketed as a single game to the public and Jreissati expects that the daily game's high frequency, simplicity and low barrier of entry through

a minimum wager of LL 500 (\$0.36) will generate new business in the Lebanese lottery market and enhance participation in the existing lottery scheme, *Loto Libanais*. "It is always good to have a new game and it is good for the synergy of the lottery. I am expecting something from the new game, because when you introduce a new game, the old one will work as well," he says.

State-sanctioned lotto was introduced to the Lebanese market in the second half of the last century and has been operated by La Libanaise des Jeux since 2002. According to Jreissati, the total winnings dispersed by the lottery between 2002 and the end of 2015 amounted to \$480 million and the company recognized 28 million winning tickets. Top prizes, accumulated in accordance with the jackpot principle, reach up to two to three million dollars apiece and there are 11 to 14 major wins each year.

Jreissati sees potential to boost the size of the Lebanese lottery market, which according to him is currently worth around \$100 million per year, by 30 to 40 percent through adding Yawmiyeh and at least one other game that the company has in its pipeline. "I am optimistic by nature and I think that the market can perhaps reach \$150 million," he says, but concedes that it is difficult to say what game innovations would take the market to this size because of the need to take cultural factors into account and get the aiming of games at potential target groups right.

#### A GLOBAL GAME

In general terms, the story about lotteries' immense lure of immeasurable fortune is universal across history and geographies. Lottery receipts in earlier eras were used by sovereigns to finance wars and colonial expansion.

Presented today generally within the context of raising funds for cultural, social and educational causes, the lotto equation works well across developed markets. According to the European and North American lottery associations, revenues from lotto and sports betting in 44 European countries amounted to 82 billion euros (2012 data) and \$70 billion (2014) in the United States and Canada. No 2015 data were available from the North American Association of State and Provincial Lotteries at time of writing. A 2013 consulting study for the European Lotteries Association said, based on 2010 data, that citizens of the European Union allocated 1.2 percent of their consumer spending to gaming products offered by lottery operators in 26 EU countries.

In emerging markets, China is the big lotto story of the past decade. According to data cited by a major supplier to the country's two official state lotteries, spending on lottery products by Chinese consumers exploded from less than 200 million Yuan Renminbi (RMB) in 2000 to over RMB 382 billion (\$56 billion) in 2014 and grew to represent almost 20 percent of the global lottery market, which in 2014 was worth \$284.3 billion in sales according to the World Lottery Almanac, an industry publication.

In relation to such global performances, the Lebanese lottery market is both insular and minute. La Libanaise des Jeux has some dealings with lottery operations in Africa but is reducing these activities. There are no market links between La Libanaise des Jeux and other lotteries in the Middle East and North Africa, Most Arab countries have no official lottery schemes and apart from Lebanon's lottery program, only Morocco and Egypt have been receptive to the idea.

#### PROBABILITY ENGINEERING

For most of its modern history, the myth of wealth by lotto has been sustained by operators who offered players the chance to become millionaires. But recently the appeal and performance of lotteries in developed markets have been boosted by a few tricks. Operators of games in the US

THE DELIBERATE **INFLATION OF PRIZES** AND JACKPOTS HAS NOW PEAKED IN THE SMASHING OF THE **BILLION-DOLLAR-BARRIER** 

and the EU have employed two toolsets to fight against any waning of interest among their audiences. The first was the congregation of markets via interstate lotteries such as Powerball, Euromillions and the Eurojackpot. By combining national lotteries in Europe and state lotteries in the US into border-crossing games, operators pooled players into much larger groups and thus expanded finance flows into jackpots.

Changing the odds was the second tool. This was achieved in the case of Powerball last October by increasing the general count of numbers in the game from 59 to 69 and simultaneously lowering the number of options for the additional red "powerball" from 35 to 26. The measures increased the probability of small wins and at the same time massively lowered the probability of winning the jackpot. By reducing the chance of top-tier wins per draw, operators supported the aggregation of mega jackpots. In practical terms of jackpot amounts, lotto companies used the two tools to the effect of pushing prize ceilings from less than \$100 million in the late 20th century to hundreds of millions of dollars in the past 15 years; the deliberate inflation of prizes and jackpots has now peaked in the smashing of the billion-dollar-barrier.

#### THE FRENZY FACTOR

It can be counted on that the accumulation of mega jackpots will not cease. Nothing in state-sanctioned gaming works better than a big jackpot for simultaneously attracting players and empowering their irrational behaviors. The record Powerball jackpot in the United States last month provided proof if such was ever needed. With over \$1.5 billion in the pot, some otherwise sane people drove hundreds of miles to buy their tickets in convenience stores that had sold a winning ticket in the past. Regular consumers increased their spending from their usual \$2 to \$10 per draw to hundreds of dollars for



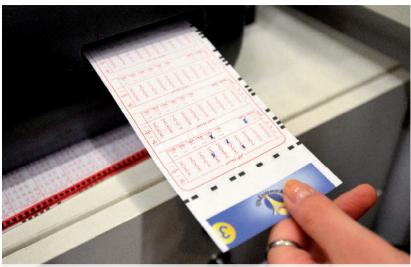
Low-income individuals spend the highest proportion of their incomes on lottery tickets

dozens of tickets. Lottery agents had to work overtime to serve queues of customers who wanted to part from their money for a one-in-300 million chance to be the next lotto billionaires.

The results of the people's many irrational attempts to get extra lucky by overspending for some magic were very exciting - for the vendors and for the ultimate beneficiaries, the participating US states, that is. Reporting from sales outlets around the US, UKbased newspaper The Guardian found anecdotal evidence of gross sales increases between three and 25 fold for the January 8 to 12 sales periods when compared with an average week. For the final day before the January 13 draw at 11 p.m. Eastern Standard Time, lottery revenues were estimated at a record \$600 million, up from \$326 million on the day before. During just one hour on the evening of January 13, \$8.6 million worth of Powerball tickets were sold in Texas alone. The New York State Gaming Commission said lottery sales in the 'empire state' were up by \$310 million in the fiscal year ending March 2016. It reported record sales by its licensed retailers to the tune of \$9.7 million in commission earnings during the full cycle of Powerball jackpot buildup between November 7 and January 12.

#### **UNITED IN PLAY**

International researchers into gambling addictions and socially motivated critics denounce huge jackpots as exploiting people who don't understand the odds and decry big lotteries as regressive taxes on the poor, arguing that the highest proportions of incomes spent on lotteries come from low-income people. When asked why Loto Libanais jackpots have remained humble when compared with the mega-jackpots in developed economies Jreissati points to the very limited size of the Lebanese market versus the interstate lotteries that have access to huge player pools.



In tandem, jackpots and revenues are reaching record levels worldwide

Regarding social stratification of players, he says that Lebanese from all walks of life participate in the game and that his company has found no indications that players come predominantly from low-income groups. For evidence, Jreissati points to the profiles of winners. "How can I know that people from all social groups are playing? Because when the winners come [to claim their prizes]; there are all kinds of people who are winning," he says.

Against allegations that playing the lottery could cause the sort of problems of addiction and financial ruin that are associated with other forms of gambling, Jreissati argues that it is very difficult to lose a fortune playing the type of games offered by La Libanaise des Jeux. "You cannot lose all your money playing the lottery; even if you go crazy for a mega jackpot, it is still only one draw. Don't cry over people who lose on one day, cry over the people that come back to gamble on each of the next seven days, trying to win back their money," he argues. He also refutes the assumption that his company is doing better in difficult economic times because people would gamble more during periods of distress. "That is not true," he says and explains that he believes people are reluctant to spend even one or two dollars on lottery tickets when they are short on cash.

According to Jreissati, a high degree of equal participation in the lottery applies not only on socioeconomic but also on communal terms. He claims that there are no religious objections against the games and affirms that point-of-sale outlets with the requisite gaming terminals - currently numbering 1,200 units - are distributed evenly in terms of geography. "We are present all over the country, in every single place," he says, insisting that no region accounts for a dominant share of sales. He acknowledges, however, that the lure of a big win entices players in Lebanon just as it does anywhere. "We are well balanced in terms of regional distribution of players and players come from all income groups, but we have definitely more players when there is a big jackpot."

#### **WINNER TAKES A LOT**

The image of playing lotto in Lebanon has had positive connotations of giving to charity since the 1980s when the lottery was designated to support orphanages. Up until the early 2000s, for every draw at the Tele Liban state television network, an array of converted bicycle wheels – faintly reminiscent of the Marcel

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Duchamp dadaist installation, Bicycle Wheel – was operated by residents of an orphanage or charitable institution that was a beneficiary of lottery revenues. Spinning those wheels in front of boxy cameras in an austere room at the Tele Liban production center in Verdun, six youngsters every week were visually conveying the message that the lottery had been established to help the disadvantaged.

According to Jreissati, who has been involved with the lottery business in Lebanon since 1984, a guaranteed share of lottery revenues is transferred to the National Directorate for Lottery at the Ministry of Finance. With the MoF website offering no insights into the allocation of lottery revenues and Jreissati saying that the income stream is treated by the government as increasingly important, it is a compelling assumption that the chronically disadvantaged Lebanese state finances have been benefiting from the game more than any other lottery stakeholder in the past 13 years.

There is no doubt that at least as a gateway, governments are the strongest gainers from gaming activities in practically every jurisdiction with officially licensed lotteries. In the Lebanese case, the state is a triple winner. The MoF takes not only a guaranteed amount off the top of every sold ticket, it also comes to knock on the doors of every winner for taxes and it thirdly collects corporate taxes from the operator.

In hard bucks, the state share of gross revenue comes out at 42 percent, or north of \$40 million annually, given sales of around \$100 million as stated by Jreissati. From the winners of payouts, La Libanaise des Jeux is mandated to deduct 10 percent in tax on behalf of the state and transfer these amounts to the authorities. At the 45 percent payout ratio to winners, the annual tax yield related to \$100 million turnover would come to over \$4 million. Adding in the corpo-

rate taxes that La Libanaise des Jeux pays on its income, it does not seem too daring to say that an annual lotto jackpot approaching \$50 million goes to the treasury.

#### **HUMBLE REWARDS**

Operating a state-sanctioned lottery appears to be a low-risk and fairly steady enterprise. However, when accounting for the guaranteed payouts and for the state share of revenues, plus distribution costs of 5 percent that go to the independent ticket resellers in La Libanaise des Jeux's point-of-sale network, it presents itself as anything but a license to print your own money. After overheads and marketing costs, the profit margin for the company is less than 2 percent of annual revenues, Ireissati says. "The setup is heavy; we have more than 100 employees, and when we don't sell, we lose," he adds.

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The company's concession for operating the lottery extends for another eight years, based on a renewed contract with the government. In winning the new contract, which includes an obligation to guarantee the state revenues of LL 50 billion (\$36.34 million) per annum during the current concession period, La Libanaise des Jeux last year faced a single competitor since a foreign company decided not to enter a bid after reviewing the terms of reference. "The market is not that attractive," Jreissati admits. The narrow margins under the concession are making it challenging to survive and newcomers would have to invest great amounts if they wanted to build it up

with a different arrangement, he adds.

In operating the concession since 2002, La Libanaise des Jeux achieved strong growth of their franchise until 2005; it experienced a slump in 2006, followed by "normal growth rates" until the present, Jreissati says. For expanding into the daily game, the company has committed to renewing and enlarging its network of lotto terminals from currently 1,200 to 1,500 units. Based on a cost of \$3,000 per terminal this will require investment of \$6 million, or the equivalent of four years' profit.

Projections by market research companies see future growth drivers for the global lottery market in mobile gaming and in upswings of national economies that would entice people to increase their leisure spending, of which playing the lottery is a big component. For Lebanon, Jreissati estimates that a return to economic growth could boost his business by double-digit percentages. As to the potential for shifting the game to mobile, he says that deployment of an app had been intended to coincide with the launch of Yawmiyeh in January.

The app was not completed in time for the launch but Jreissati appears unfazed by the delay as he is far from following the hype for everything mobile. "I don't believe that online and mobile gaming will take a big part of the market," he explains, pointing to persistent distrust by many people in usage of credit cards and to the importance of social aspects of buying a ticket in a neighborhood store. Where online and mobile lottery options could be a boon in Jreissati's view is the mobilization of expatriate Lebanese who trust the lottery in their home country. By playing from wherever they are in the world, they would bring new money into the country. "This is good for us and for the government," he says with the optimism of someone who unfailingly trusts in his luck.







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## Inside a corporate nation

The lessons on statebuilding I learned at Microsoft By Yasser Akkaoui





Satya Nadella, CEO of Microsoft attends the session "The Transformation of Tomorrow" during the annual meeting of the World Economic Forum in Davos, January 2016.

hree of the world's top five companies by market value – Apple, Microsoft and Google – today run like nations unto themselves. Each has a utopian head-quarters – home base for an army of employees with global reach and influence. Their aim is wealth creation both for employees and shareholders, but their products also help businesses grow, adding value to the global economy. Increasingly, it is the un-elected

leaders of these influential entities who are changing everyday lives in the far-flung corners of the globe. The failed or failing states in our region should look to the boardrooms of Apple, Microsoft and Google for inspiration on how best to develop rather than pinning our hopes on mimicking the ballot boxes in the United States or Europe.

If properly calibrated, an authoritarian system can be a good thing. For

proof, we can look to the value creation in the United Arab Emirates, Qatar and Singapore. These countries are arguably akin to overprotective and undemocratic corporates, duplicating prosperity instead of poverty and driven by meeting the needs of what business people require. Creating investment-friendly climates not only draws in the big international players, but also helps local enterprises flourish and gives hope to young graduates eager to begin climbing the corporate ladder. Contrasting the success these three jurisdictions can boast of in the past quarter century with Lebanon where progress on this front has been continuously thwarted by warlords turned politicians keen on increasing ethnic, religious and geographic segregation - makes the solution to our chronic emigration problem all the more clear.

After an inside look at how the new world order is being shaped, I'm all the more convinced that this new corporate-nation model is the key for unlocking growth in the Middle East and beyond.

#### **TOURING "THE CAMPUS"**

When I paid a visit to Microsoft's Redmond campus last November, it became clear how this new political and cultural form has evolved. The campus is an ideological epicenter for Microsoft's 100,000 worldwide staff – a truly diverse citizenry comprised of an educated, innovative and creative class. Space on the campus is designed in a way that brings everyone together to work as one. Like its competitors Apple and Google, Microsoft knows that isolating employees and pitting them against each other will not build a great company.

Life on campus revolves around the Holy Land – the famed garage where the company was founded. Microsoft's Holy Land does not inspire competition and conflict. It reenforces the company's mission by being a space that fosters innovation and creativity. It is through the garage, Microsoft's visitors are told, that the company has managed to keep a startup culture. Kathleen Hogan, chief people officer, explains that merit is the only qualifier in this multicultural environment. Productivity, she says, is assessed by the watchful eye of higher management. And while the atmosphere and dress code screamed "carefree", CEO Satva Nadella was omnipresent. Nadella's name pops up in every speech and presentation. Everyone walks in step with the leader's vision of a human-centric approach to problem solving (coincidentally the basis for new product development).

#### **DESIGN BY INCLUSION**

Jeanette Wing, corporate vice president for research, explains that all new Microsoft solutions are intended to let individuals and corporates do more. At the heart of how the company does this is abductive reasoning - or using human behavior to inform product development. It all starts by identifying possibilities - the "what if"s, as Wing puts it. Using an iterative approach infused with creativity and innovation, engineers and scientists studiously observe client instincts, wants, needs and behaviors when creating something new. Helping inform this process is enhanced data collection gleaned from each and every Microsoft device.

Wing stresses that failure is not reprimanded at Microsoft. Product development teams are encouraged to iterate their way to workable solutions. And once those solutions begin looking viable, there is no shortage of cash to incubate and develop them. All of this is geared toward helping Microsoft beat competition to the next tech breakthrough. And it is not unique to Microsoft. Companies in all sectors are increasingly realizing that any new product or service must incorporate client wants and needs from the very beginning. More and more, companies are designing experiences

instead of products alone. With their entrenched bureaucracies and resistance to change, national governments could never be this nimble or successful in service provision.

#### WITH GREAT POWER...

While the 1990's fear of humanity becoming an identical hoard of robot-like creatures is being replaced by the excitement over robots that are becoming more human, serious ethical questions remain. Reinventing productivity for an increasingly mobile client base using multiple devices requires an intelligent cloud. "[It] could do things for you and increase your productivity that is constrained with time and progress," according to Tim O'Brien, general manager of global communications. In an attempt to mitigate the privacy and data security risks that come with this cloud, Microsoft gives control to users over

REINVENTING PRODUCTIVITY FOR AN INCREASINGLY MOBILE CLIENT BASE USING MULTIPLE **DEVICES REQUIRES AN** INTELLIGENT CLOUD

how to manage information they store on the cloud. Corporates decide what and how they upload data, all from a singular platform available across all devices. Microsoft is also increasingly investing in several of their security programs: Credential Guard, Device Guard Hello and Defender to name a few. In addition, a Digital Crime Unit is busy improving the security of the products and services while protecting elders from tech scams and children from digital sexual exploitation.

Yet high-profile security breaches in the past few years have both made us all think twice about uploading naked selfies and raised questions about whether the corporate guardians of our private data are doing enough to

keep our secrets safe. Time will only tell, but it is clear that corporations can adapt to these challenges quicker and more effectively than government. When my website or email servers get hacked, the nearest police station in Inah is the last place I'd think to go. And hearing these promises of data protection, I remained skeptical about the privacy and security of my data in general but certain that Microsoft - and all tech giants – is doing more to protect me in cyberspace than my government is doing on the ground in Beirut.

#### AT HOME ABROAD

Alma Kharrat, senior program manager, and Elias Bachaalani, security software engineer, are two Lebanese who made Microsoft their home and are now fully integrated in Microsoft's community, contributing to the company's ambitions. During a meeting with Kharrat and Bachaalani organized by Microsoft in one of its many dining venues on the Redmond campus, both became sentimental when I spoke about life back in Lebanon, but they also expressed the disappointment they felt when visiting family from time to time. Lebanon has failed and betrayed them. Microsoft has not.

They reminded me of countless friends in cities like Dubai, where everyone belongs to a different multinational company. I see corporate identity replacing national identity, especially among people who opt out of their broken national social contracts and chose to seek a new life within a sheltered corporate environment. With an average of four connected devices per person today, people are less isolated and more liberated from geography, local governance and territory. With globalization making national borders increasingly meaningless, our states need to adapt or risk being made obsolete by the corporate kingdoms to come.

> YASSER AKKAOUI is Executive's editor-in-chief.

**ENTREPRENEURSHIP** 

# Talent takes the stage

Entrepreneurs are showcasing their products as 331 takes hold

he entrepreneurship ecosystem is evolving and becoming more 'startup friendly', hosting networking events every other week and improving the access youthful entrepreneurs have to information. Little by little, startups are crawling into the spotlight and are being given opportunities, access to capital and resources that weren't readily available five years ago. The second Banque du Liban (BDL) international conference was held in December 2015. For some Lebanese startups, however, the exposure and prizes of up to \$10,000 won through competitions was second to none.

BDL Accelerate is a good example of how the entrepreneurial landscape is changing - the event simply didn't exist three years ago. There are further examples of showcasing talent to local and international investors, and events which provide young entrepreneurs with real-world experiences of startup success and failure. Fuckup Nights, the Mexican-born event where highprofile entrepreneurs share with the community stories about their past failures, had its third round in AltCity on January 14; their mission is to create solidarity by sharing experiences of failure and lessons learned. Bootcamp by AltCity and Speed@BDD, two of the accelerators Executive profiled in our special report in November 2015, have both finished their rounds of startup acceleration, and hosted their Demo Days - events which showcase accelerated startups in an attempt to generate funding from investors who are invited to attend.

#### **DEMO DAY: FIRST CYCLE**

Both Demo Days were positive, according to Theo Khoury and Sami Abou Saab, managers of Bootcamp and Speed respectively. "People weren't



Collaboration and constructive criticism is key in improving startups' performances

expecting a lot [from Bootcamp's first Demo Day] but were very impressed by what was available," explains Khoury, who notes that present venture capital representatives gave very positive responses to the relatively inexperienced teams that were presenting to a packed room. Khoury admits that AltCity was reluctant to reach out to foreign investors to attend their Demo Day, as the organization lacks enough long-standing and regional credibility to warrant a one-day visit. Aside from contact from the managers of the 500 Falcons, a \$30

million regional micro-fund that is an offshoot of seed-funding powerhouse 500 Startups, foreign interest has been quiet. Their plan is for future Demo Days to attract foreign investors based on the credibility that Bootcamp builds at home and abroad. However, the ecosystem's current pipeline of funding does not help startups at a very early stage, as the money is more readily available at later stages of development. Both Middle East Venture Partners and LEAP, two venture capital powerhouses, only offer ticket sizes to large entities,

and often to the tune of hundreds of thousands of dollars, if not millions. Whilst successive Demo Days and rounds of acceleration will tell whether AltCity can build enough reputation and credibility to gain international traction, the startups themselves will only flourish if more money is made available at every stage of the developmental journey.

One Cinderella story from the current Bootcamp, however, is ReAble, a startup featured in Executive's "Top 20 for 2015" that has created an online mobile wallet app for people with autism to help with cashflow and money management. The company has received external investment of \$25,000 from a private Canadian backer, on top of the \$10,000 first prize in the Early Stage Startup Competition at BDL Accelerate 2015, and exhibited at the Arab Health Exhibition in Dubai, the second largest health expo in the world. Emile Sawaya, ReAble's CEO and co-founder, credits AltCity with key development processes at the early stage and helping them transform from idea only to startup. He does, however, credit some of his company's success to networking through the wider community rather than exposure at Demo Day - the private investment was made through personal contacts.

Accelerators have also begun to evolve, much like the entire entrepreneurial ecosystem. Originally, AltCity's Bootcamp gave a \$25,000 investment to startup teams after a three month acceleration course which took ideas to fully-fledged startups. AltCity shifted their entire acceleration business model from the beginning of the current and fourth Bootcamp cycle; they are no longer giving \$25,000 in exchange for a 6 percent equity slice, but are splitting the accelerator into two phases. Phase one will be online, and allow Bootcamp to analyze the teams remotely, thus maximizing the number of participants due to less strain on physical resources. Roughly five teams that complete phase one will be selected to proceed to phase two, thereby halving the number

of teams which was in the previous Bootcamp at the physical stage and therefore concentrating its resources on fewer teams. Khoury explains that these changes were made due to time commitments and restraint on resources, which resulted in Bootcamp's inability to dedicate as much time as was needed for individual startups. "Before Demo Day we decided we had too many teams, and we couldn't spend enough time with teams individually," explains Khoury, who notes that the new model will allow for more efficient time expenditure. The original \$25,000 per team investment was made through a partnership with AL-MAWARID Bank, which sits on the board of Bootcamp, as AltCity and Bootcamp were only mandated by BDL to take an equity slice (without investment) in order to sustain Bootcamp. They will therefore revert to this mandate, and take 2 percent in equity from teams in phase two only, though the bank would still be able to offer an investment independently of Bootcamp.

Speed's Abou Saab was also keen

#### ACCELERATORS HAVE ALSO BEGUN TO EVOLVE, MUCH LIKE THE ENTREPRENEURIAL **ECOSYSTEM**

to point out how his accelerator has evolved. Part of the culture of Speed is to incorporate feedback mechanisms which allow the accelerator to improve and best serve its startups. One key example of this was the overhaul of how startups receive advice and mentorship during the program. Initially, talks were given by experts to all startups simultaneously, and although they covered generic problems, were largely untailored to specific needs of individual startups which varied drastically from team to team. After consultations with the startups, the three-hour slot that experts were booked for to address the entirety of Speed's startup class was divided into six half-hour slots, as "a

one-to-one mentorship could actually solve specific points a startup has which generic talks cannot address," explains Abou Saab.

#### SILICON VALLEY

Charlie Khoury, CEO and cofounder of drone-building company Next Automated Robotics (NAR), was also keen to explain how Speed's entire accelerator process had helped his company to evolve. "The number one thing that changed was scalability," says Khoury. "When we first came to Speed our product was just a quadcopter – a simple drone with limited flight. During the acceleration we [changed] to a design that could have outreach and applicability." NAR incorporated vertical takeoff and landing technology into their drone, which now has better wind resistance, higher speeds, a greater flight range and overall a greater applicability to different industries.

Speed's great contribution, however, comes in the form of creating a direct vehicle for Lebanese startups to head straight to Silicon Valley. This process enables startups from Lebanon to apply to the 'LebNet Ignite powered by Blackbox connect program, an immersion which focuses on global startups and provides access to mentors and resources in Silicon Valley, and, for example, includes coaching on pitching and business strategy. The program was made through a partnership with Leb-Net, a network of Lebanese-American hi-tech professionals in the Bay Area, and in turn was organized for Speed by Lebanon for Entrepreneurs, some of whose members sit on the board of the accelerator. George Akiki, president of LebNet, explains the driving factors behind the immersion; "Lebanon has been witnessing an accelerated pace of deal flow, innovation, startups and startup capital. Our intent at LebNet is to build a closer relationship with the ecosystem in Lebanon and impact the formation of world-class companies and entrepreneurs." NAR and Rational Pixels, the latter of which creates product-placement technology, will

ENTREPRENEURSHIP



enroll in the two-week program, and startups in subsequent Speed cycles will be encouraged to apply to the program on a regular basis. For Charlie Khoury, the opportunity is second to none, as direct exposure to Californian firefighters allows them to fine-tune the usability of their drone, which was originally built with the intention of combating wildfires: "We want to see daily examples of how [firefighters] deal with the fires, and can see, for design purposes, how people use and would use [our technology]." As for NAR, the US is a key market for the drones they are developing; therefore being in-country and having the opportunity to have direct meetings with different stakeholders will "have a huge impact on our future" explains Khoury.

By giving entrepreneurs clear access to opportunities abroad and exposure to strategy and business giants within Lebanon, Abou Saab hopes future talent will be more likely to remain in the country rather than seek employment abroad. "We were able to get Rida [Sadek, of Rational Pixels] back from Barcelona after he had lived there for eight years to come for the acceleration [program]," explains Abou Saab, himself a returnee from the US after a career at Microsoft and Skype. "Even for the next batch we have started receiving applications from [Lebanese] living outside of Lebanon, with the idea of coming back. Having something which is retaining

them here is a big value added [to the ecosystem] right now," notes Abou Saab.

#### PIPELINE PROBLEMS

Participants in both Speed and Bootcamp are encouraged to be open to constructive criticism, alterations and continuous external validation to their product and ideas. For Khoury, one key piece of advice to startups was "never [to] move forward before you have external validation. Stop wasting your time on assumptions." Speed's similar ethos is useful for those attending the post acceleration immersion in Silicon Valley, where the final chapter in the disastrous saga of golden startup Clinkle has rocked investors and entrepreneurs alike. After a hugely successful round of initial \$25 million seed-funding in June 2013 - despite Clinkle not having a publicly available demo of their highlyanticipated mobile payments app - the company imploded in the summer of last year with a mass exodus of employees, upon realization that the promised app didn't exist, and a press hounding of the company's hollow investor promises

ABOU SAAB HOPES
FUTURE TALENT
WILL BE MORE
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EMPLOYMENT ABROAD

made by the CEO, Lucas Duplan. According to American business magazine Forbes, in January 2016 investors made the rare move of asking for what was left of their money back from Clinkle's accounts. Whilst NAR and Rational Pixels are a long way off from seeking funding of \$25 million, hopefully the lessons of humility that Duplan has had to learn with a spectacular failure will already be installed, in some fashion, in the Lebanese entrepreneurs thanks to the coaching they initially received.

The work of both Speed and AltCity is crucial to developing the

entrepreneurial ecosystem, but only if it is met by similar efforts along the pipeline. At the moment, there seems to be a gap in the development chain as the ticket sizes offered by venture capital powerhouses MEVP and LEAP are far greater than what most startups require. Tickets of up to \$1 million are good for series A and B level funding, but are far beyond the requirements for idea and seedstages which AltCity and Speed offer - traditionally \$25,000 and \$30,000 respectively. There are tentative steps to amend gaps within the pipeline. Fadi Bizri, managing director at Bader Young Entrepreneurs Program, has joined forces with Abdallah and Ghaith Yafi, managing partners at Y Venture Partners, and Rami Jisr, former general manager of Audi Investment Bank and current managing partner at Broadgate Advisers. The group has created Broadgate and Yafi Venture Partners (BYVP), a \$50 million hybrid fund which aims to invest tickets in early stage startups. Ticket sizes are estimated to be between \$100,000 and \$1 million, and the venture is in final stages of negotiation for the license with the central bank, and is due to go live around March 2016.

However, arguably there need to be further programs like Speed which invest in very early stages, or even up to \$100,000 in total, otherwise many startups will fail to get off the ground. Without this investment, as Theo Khoury analogizes, it's akin to participants in a marathon receiving a gallon of water at the 5km mark, and 50 gallons at the 20km mark, but nothing between 0 and 5km. "They'll just die of thirst before they even reach 5km," says Khoury. Only when every inch of the pipeline is fixed, and startups are given investment at earlier stages, can the central bank rest safe in the knowledge that the money from Circular 331 is being spent in a way that most effectively develops and showcases the talent that Lebanon has to offer.

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# Toasting a good year

The performance and challenges of the Lebanese spirits industry in 2015 By Nabila Rahhal

espite some difficulties attributed to the region's unstable geopolitical situation in 2015, the major Lebanese global spirits distributors nonetheless had cause to celebrate a generally successful year. Last year saw increased consumption of some key alcohol categories among Lebanese as well as some changing trends in drinking habits which worked in the interests of these distributors.

#### A YEAR OF GROWTH

The spirits distributors EXECUTIVE spoke to all boasted an annual growth in sales in 2015.

Carlo Vincenti, who currently runs G. Vincenti & Sons, says the company's overall growth reached 10 percent, with the spirits division alone witnessing an increase of 35 percent. While Vincenti attributes part of this growth to the continuing positive performance of their main brands,

he says the strongest driver was the significant growth of the Jim Beam spirits group, including Jim Beam bourbon, for which they fully took over distribution in Lebanon in April 2014.

**Etablissements Antoine Massoud** (EAM) also reported toast-worthy numbers, according to Anthony Massoud, the company's owner and general manager. "It was a good year in general. On a company level, we had growth of 6 percent but if you take alcohol alone, then we have around 19 percent growth; if you add The Malt Gallery [EAM's specialized whiskey retail store] to the equation it is even more, with 27 percent growth," says Massoud, attributing this growth to the strong performance of their classic brands such as Russian Standard Vodka and Jose Cuervo tequila - and also because, as a company, they shifted their strategy to a value-driven versus a volumedriven portfolio, thereby representing fewer but stronger spirits brands.





#### THE ALCOHOL SEASONS

The last three months of the year are usually a high-activity period in terms of alcohol sales, suppliers tell Executive. This time of year is traditionally marked by family gatherings, festivities and celebrations, often involving alcohol. The month of December alone, according to suppliers, accounts for 25 to 40 percent of the year's turnover.

However, Roy Diab, marketing manager at Fawaz Holding, which imports Ballantine and Chivas whiskies among other brands, says that consumers were thriftier with their alcohol spending during 2015's holiday period. Diab explains that while this typically busy period usually begins in the two months leading to December,

in 2015 it shrank to include only the final fortnight of the year.

After the party-fuelled month of December, the summer season follows as a strong season for alcohol, according to EAM's Massoud. "In 2015, Ramadan moved back into June which allowed us to have a solid July and August, the period when expats usually return to Lebanon for the holidays. We were doing well [during that season] until the garbage crisis occurred, affecting the on-trade sector (hotels, restaurants and bars) and killing the end of August and all of September for us. But by mid-October, people went back to the normal trend," recalls Massoud.

#### **ON-TRADE VERSUS OFF-TRADE**

Lebanese spirits distributors generally reported using a mix of on-trade and off-trade (retail stores) distribution channels depending on the category of alcohol. "On- versus off-trade distribution of spirits clearly depends on the category of spirits - vodka, tequila or champagne are more reliant on on-trade than, for instance, whiskey," explains Vincenti.

However, 2015 saw a drop in the distribution in the on-trade sector because of the effects of the regional and local turmoil on the Lebanese hospitality sector which caused spirits suppliers to slightly modify their distribution strategies and channels.

Massoud says EAM have become more selective about which bars and restaurants they will work with because of this tumultuous period in the hospitality sector, which has led to an increase in default rates. "We have a high default rate in the on-trade and we have to be very cautious; this is what happens when you have a constant crisis state in the country," he warns.

With the on-trade struggling slightly, Vincenti explains that most brands had to emphasize their offtrade activities to make up for sales losses in the on-trade.

Ziad Chami, marketing manager of Diageo Lebanon, which includes Johnnie Walker, Smirnoff and Baileys in their portfolio of spirit brands, says the company relies predominantly on the off-trade sector which accounts for three quarters of its total sales in Lebanon. Chami says they saw a growth in their performance this year through this channel from the modern trade, or hypermarkets and supermarkets, calling them a "critical channel to building our brand and bringing it to life for the consumers".

#### **CHANGES IN CONSUMPTION HABITS**

Despite the difficulties, spirits suppliers consider the on-trade sector a critical channel of distribution and monitor its developments carefully, especially the rise of new nightlife areas and trends.

#### THE INCREASE IN COCKTAIL BARS IN LEBANON HAS LED TO HIGHER DEMAND FOR MORE CREATIVE DRINKS

Chami speaks of an expanision into new areas of Lebanon that he says played a role in attracting different consumers and facilitating access to nightlife. "There are always new pop up areas coming up with investors leading these moves - in 2015 we saw a boom in areas like Dbayeh with The Village and Blueberry Square, as well as further expansions in areas such as Badaro or Mar Mikhael," he elaborates. But it wasn't all parties and celebrations in Lebanese nightlife, says Chami, giving the example of Uruguay Street and the closures there which started towards the end of August 2015.

Massoud also speaks of the developments in Lebanese nightlife in 2015, saying that such cyclical

expansions, with consumers moving from one party street or area to another according to trends, is the norm in Lebanon. It is up to the distributors such as himself, he says, to study these developments carefully and make the right choices of investment in bars and restaurants.

Both Chami and Massoud also speak about a shift in consumption habits from nightclubs and big parties in favor of cocktail bar culture, mentioning that this has impacted their trade positively. "Definitely big celebrations are still part of the Lebanese socializing fabric but, in terms of a shift, we are seeing a bigger shift into cocktail bars and small bars where people can meet and drink casually. As a result, it's driving a very strong mixology and culinary boom, which is really good for us because this is one of the main growth drivers of our reserve or high-end portfolio," explains Chami.

#### THE RISE OF MIXOLOGY AND COCKTAIL BARS

The increase in cocktail bars in Lebanon has led to higher demand for more creative and tasty drinks, as well as professional bartenders to concoct and deliver them. This allows alcohol distributors to market more of their portfolio to eager and ambitious bar-owners, leading to a rise in consumption of spirits most often used for cocktails, such as gin or Aperol.

"Gin, in the premium and abovepremium segments, is growing following a global trend which Lebanese bartenders are heavily exposed to through a diversity of products and global bartending networks. The level of sophistication in cocktails has grown from a bartending and a consumption perspective, with consumers becoming more demanding and in search of 'new' experiences. Cocktails, where gin has always been a key ingredient, are picking up again," explains Diab.





"WE HAVE A SINGLE
MALT BRAND
AMBASSADOR WHO
HAS BEEN WORKING
NONSTOP TO EDUCATE
CONSUMERS"

#### THE MALT EXPANSION

Another spirits category that continues to impress locals is single malt and Japanese whiskey. "Single malt whiskey is a smaller percentage when compared to blended whiskey, which is the dominant category, but in terms of growth rate, single malt is definitely the fastest growing subcategory of whiskey," says Chami.

Vincenti attributes this growth to a more mature consumer base wanting the more pronounced and complex taste found in single malts. Vincenti also adds that the main driving force behind this trend is the consumer's increasing awareness of single malts through both social networks and distributors who have greatly contributed to introducing these single malts to consumers. "We have a single malt brand ambassador who has been working nonstop to educate consumers through special masterclasses and tasting sessions and also educating the bartenders," adds Vincenti.

EAM launched their specialized whiskey retail venue, The Malt Gallery, in late 2013 and Massoud says their single malt and Japanese whiskey category has almost doubled in growth since. Massoud explains that through their specialized venue, they have created a platform which invites direct channels of communication with consumers who are interested in discovering high-end whiskey, which in turn led the growth of this category in their portfolio.

Overall, the year 2015 closed on a happy note for spirits distributors in Lebanon, and all say they are looking ahead to a successful 2016 in which they will continue to grow the brands they represent in Lebanon, despite the various obstacles that stand in their way.



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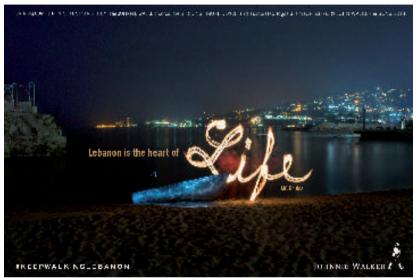
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# Advertising alcohol: the business of selling responsibly

Lebanese spirits distributors talk marketing strategies and techniques By Nabila Rahhal



Distributors invest in ads tailored to the Lebanese market



Jameson Dead Rabbit's mixology seminar: bartenders doing their thing

ust like all commodities, alcohol revenues are significantly impacted by successful branding and marketing campaigns. When well-crafted advertisements are relatable to consumers, these promotions ultimately influence their perceptions and increase the product's popular appeal.

#### MARKETING BUDGETS

Alcohol distributors EXECUTIVE spoke to say that Lebanon, in comparison to other countries in the region, is an advertising haven because there are no restrictions on alcohol advertisements in media channels.

As such, they consider extensive expenditure on promoting their

portfolio of spirits brands (although spirits distributors declined Execu-TIVE's request to provide the total amount spent on advertising per year) to pay off well in sales. "In Lebanon, there is always a strong impact of advertising in terms of driving sales. Advertisements also have a strong impact on top-of-mind awareness, but also on commercial awareness. Our ultimate objective is to build our brand and have a strong and healthy brand performance," says Ziad Chami, marketing manager at Diageo, the multinational alcoholic beverages company with a portfolio of brands such as Johnnie Walker, Bacardi and Smirnoff.

According to suppliers interviewed for this article, the biggest percentage of their marketing budget is usually spent in December which is, distributors say, typically the busiest month of the year for spirit sales. Carlo Vincenti, owner of G. Vincenti & Sons, characterizes his company's experience: "The months of November and December usually account for 40 percent of annual sales, so obviously we spend a large chunk of our marketing budget in that period whether in traditional media or consumer promotions and visibility. Since December is marked by festivities with lots of family and social gatherings involving both gifting and consumption of spirits, all brands tend to launch special packs with gifts and special offers then."

#### TO EACH BRAND ITS OWN

Lebanese spirits distributors often work with advertising or PR companies to create the ideal promotional campaign and say each brand requires





Targeting key demographics through event sponsorship

### MOST GLOBAL BRANDS LACK ADVERTISEMENTS WHICH ARE LOCALIZED FOR THE LEBANESE MARKET

a tailor-made marketing strategy depending on its positioning and the age group of its target clientele. "Every spirit category and even every brand has its own strategy and marketing objectives that could include the traditional media tools or more targeted and flexible ones," says Vincenti.

Anthony Massoud, managing director of Etablissements Antoine Massoud (EAM), a distributing company with a wide line of spirits including Russian Standard Vodka and Nikka whiskey, says: "Every brand has its own strategy, target audience and complexity. We have more than eighty alcohol brands in our portfolio but we have nine core brands which we focus on in our advertising campaigns."

### THE CLASSICS: TELEVISION. PRINT AND OUTDOOR **MARKETING**

Traditionally, mass-media tools such as television, radio spots, print advertisements and outdoor promotions were the most effective means to reach a wide base of consumers.

Today, Lebanese spirits distributors still consider these pillar methods for some brands but say they believe there are better, more targeted ways to reach the consumer.

Nahla Haddad, communication manager at Fawaz Holding, a distribution company managing a wide portfolio of brands including spirits such as Chivas Regal, Jameson whiskey and Absolut Vodka, says they don't heavily advertise their spirits portfolio on television for several reasons.

To begin with, according to Haddad, most of the global brands they represent lack advertisements which are localized for the Lebanese market. Moreover, television requires a huge advertising budget which they can more effectively spend on other more engaging media. "Finally, for brands such as Jameson whiskey or Absolut Vodka, the target audience doesn't watch local television and so we prefer to appear where the target is," explains Haddad.

Massoud says he prefers hosting PR events and tastings - where they invite the media and select consumers - to advertisements on television or billboards. "Our marketing is very much PR driven as its effect is sometimes stronger than advertising because here you are talking to the consumer directly and increasing the word of mouth effect which is very important in Lebanon. In mass media, you might reach people who are not interested in your brand, but with PR and events you are getting your message across directly to a few people that represent a lot to your brand rather than the masses who might not be interested," explains Massoud.

#### THE RISE OF DIGITAL MEDIA

Discussions with distributors did not indicate the collapse of traditional advertising methods, only their supplement with more engaging forms of advertisement. "In general, traditional advertising is still a key part of our advertising mix. But, over the last few years, we have become more active on social and digital media, which is a trend that is happening all over the



world and is becoming a more important part of the mix," says Chami.

Davina Atallah, creative director at Leo Burnett which works with Diageo on advertising in Lebanon, says they found a creative way to engage consumers through a mix of social media and outdoor advertising in Johnnie Walker's Keep the Flame Alive campaign.

In that campaign, recalls Atallah, they asked members of the public across Lebanon why they believe it is worth staying in the country; Leo Burnett then had a fire calligrapher flame-write these statements on the spot, took pictures of the final results and uploaded them on social media. They also released these flame-written statements on LED billboards across the country. "It was an evolution in terms of the brand, from the Keep Walking campaign which focused on stories of well-known Lebanese to a story about the resilience of the Lebanese people [through the Keep the Flame Alive campaign], creating an interaction with them which we had never done before," says Chami.

Haddad says social media has allowed them to develop a two-way channel of communication with their consumers, while also reaching out to the younger generation for brands such as Ballantine whiskey which were commonly associated with an older generation in Lebanon. For the launch of Ballantine limited edition "Beirut" bottle, Fawaz Holding asked

people to share pictures reflecting the true spirit of Beirut on the company's social media pages. The pictures were then reproduced with an image of Ballantine's Beirut bottle embedded in them and the name of the photographer who took them mentioned on Fawaz's social media pages. Those with the best pictures, as voted by Fawaz's communications team, won the limited edition bottle. "Within three weeks, we were able to increase our fan base, recruit a younger audience and enforce brand awareness," says Haddad.

#### THE MASS AND THE DIRECT

For categories with a wide appeal to consumers, such as vodka, a mass-marketing approach emphasizing their association with a party spirit works best, explains Massoud. Therefore, Massoud says they invest in sponsorships of design events across Beirut and parties such as Decks on the Beach in the summer or of bars such as the new Pacifico (where they have a banner above the bar).

Vincenti also invests in hosting parties with international DJs through Poliakov, a vodka brand in their portfolio, but they are best known for their Jim Beam Rocks musical festival, a now annual event produced by Jim Beam at the beginning of the summer season showcasing local bands as well as one major international act.

On the other hand, according to Massoud, some categories of spirits,

such as malt whiskies and wines, are a more refined niche and benefit from targeted marketing involving direct interaction with the consumer. "In single malts, the one-to-one approach is very important. You need to take your time with the consumers, educate and initiate them: it's a long but solid process. This is why we launched The Malt Gallery (EAM's specialized whiskey retail store) as it is an ideal platform to talk directly to the consumer," explains Massoud, adding that this can also be done through tasting plans in other specialized outlets.

#### **BARTENDERS ARE KEY**

Massoud says EAM devises their alcohol marketing campaigns based on whether the particular spirit's category is consumer or trade driven. With trade-driven brands (mainly used in bars and clubs) Massoud says it is better to invest in the outlets themselves, while with consumer-driven brands interacting directly with the consumers becomes very important.

As such, bartenders and bar owners become the biggest allies of spirit distributors and priority is given to marketing and promotions targeted at influencing spirit choice when preparing cocktails or establishing their bars.

Many spirits distributors invest in bringing brand ambassadors or expert international bartenders to Lebanon to give workshops and training to local bartenders. Some spirits distributors organize worldwide annual mixology (bartending) competitions where the winner of a country-wide contest goes on to represent Lebanon, and their bar, in the international competition. Speaking of the Diageo World Class competitions, Chami says: "The objective is to raise the bar when it comes to mixology and bartending. Sales-wise, World Class creates a strong engagement between the bartenders, and the trade itself, with our brands; it will translate into a stronger performance of our reserve portfolio when it comes to the on-trade."

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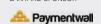








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## KALEI STIRS LEBANON'S COFFEE CULTURE

THE ART OF OF SPECIALTY COFFEE





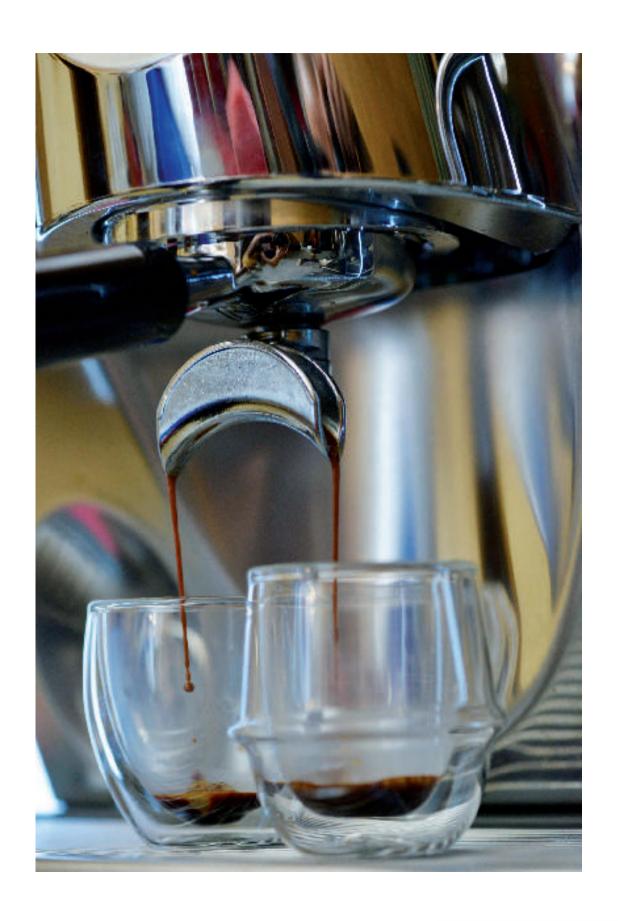
offee. The word smells like Monday mornings and first dates. It tastes like satisfaction and stress. It helps get you through all-nighters and wrap up gluttonous meals. Coffee is many things. But how much do we really know about it?

Coffee beans are believed to have originated in modern-day Ethiopia, and early coffee roasting and brewing began here in the Middle East, starting in Yemen then spreading to the rest of the region, India, and later Europe and the Americas. While many people drink coffee on a morningly basis, coffee aficionados will tell you that it's not just about a caffeine fix. In fact coffee is much like wine; where and how the beans are grown, as well as how they are sorted, processed, ground, roasted, blended and brewed have a huge impact on taste.

Coffee lover Dalia Jaffal, who worked with coffee farmers in Africa as part of a previous job, decided to follow her passion with the push of a former coworker, Andre Fadel. The two initially discussed the idea over a very fateful cup of coffee, and decided to jump start the specialty coffee market in Lebanon. Jaffal pursued a Coffee Diploma at the Speciality Coffee Association of Europe, specializing as a coffee roaster and barista,

and together with Fadel she launched Kalei Coffee Co. in August 2015. The word *kalei* comes from Ethiopia, where traditionally three cups of coffee are served to guests, one of which is called kalei.

Based in Beirut, Kalei is a specialty coffee company. The coffee they source is certified by the Specialty Coffee Association of Europe, which means beans must meet certain criteria and be graded. The founders themselves travel to coffee-producing countries to buy the beans directly from cooperatives and farmers, roasting them here in Lebanon. Kalei's first batch of coffee beans came from Ethiopia and Colombia, but in the future they won't always come from the same sources. Jaffal says they will constantly look for new origins, following the seasons. "Coffee only grows between the two tropics so there are coffee regions. Within these regions there are some premium locations where coffee is better than in other locations, and even within those places you have good years and bad years," explains Jaffal. Two of the varieties available are also shade-grown, which is a slower, more natural way for the plant to grow and thus results in more flavorful beans, versus a faster, more commercial method of growing the plant in direct





sunlight. After a harvest (which is often done manually but can also be performed by machines), the coffee is sorted and graded.

Some of Kalei's coffee is also organic or fair trade, but Jaffal is keen to point out that organic does not necessarily taste better – and is certainly harder to obtain. "With coffee it's really hard to be organic because coffee requires a lot of fertilizer, a lot of labor, etc. to grow," she says. Kalei sells their beans mostly as single-origin – meaning the entire pack contains beans from a single source – but they also offer blends.

Once the beans are imported, they are roasted in small batches. As a specialty, rather than industrial, roaster Kalei regularly makes small amounts of fresh roasts. Roasting is another step in the coffee process that greatly affects taste. "We usually tend to stay within light to medium roasts for specialty coffee because the darker you roast the more flavor you lose. You get a less acidic taste the darker it is, but you also lose a lot of the origin's flavors," she explains, adding that they go slightly darker for varieties intended for espresso.

Jaffal says they're doing a lot of experimenting. All the beans are "cupped" – a process used to observe the tastes and aromas of brewed coffee – to see which beans work best for each method of brewing (filter coffee, espresso, French press, etc.). Experts also use a flavor wheel to define the flavors in the coffee, which can include berries, fruits, wood, smoke, herbs and more. "It's exactly like wine," says Jaffal.

Some customers are experiencing these tastes for the first time, and while many are enjoying the unusual flavors, others are not too keen on the novelty. However, coffee sophisticates have expressed excitement that specialty coffee is available through a local company – both verbally and with an onslaught of demand.

The partners are also looking at different coffee markets, including the more familiar Arabic coffee. Normally, dark roasted Brazilian beans are used to make the drink, so many are not willing to use a dif-



ferent bean variety – although according to Jaffal, "This [change] has started, especially in Turkey and especially with the younger crowds. They're starting to accept and appreciate non-Brazilian beans [in Arabic coffee]." Kalei offers an extra-fine grind that can be used for this type of coffee but they explain that reactions have been mixed. "Our taste is not dark enough for some people, and they want a darker roast," Fadel explains, adding, "More open-minded people like it a lot, it's not as thick but you can still feel the intensity."

The prices of Kalei's coffee are relatively high (approximately \$16 for 350g) and, according to Fadel, something consumers of budget Arabic coffee (which can be as low as \$1.50 for 200g) might take time to get used to – though high-end Arabic coffee prices are on par with Kalei. Fadel adds that their cost is actually much lower than the rates for the same products abroad and prices will fluctuate depending on the constantly changing imports.

Kalei's single-origin beans and blends can be ordered online, where you can also choose custom grinds. The website helps you select the best brewing methods, teaches you what hardware you'll need for different types of coffee, and provides a wealth of additional information on coffee and the farmers who grow it. Kalei coffee is also sold at several cafes and specialty stores in Lebanon (and expanding quickly to Dubai and other gulf countries, who reached out to them for orders). Kalei's most exciting project is perhaps establishing their own coffee shop in Mar Mikhael. Opening in the next year, the shop plans to sell coffee accessories, professionally train baristas and give coffee workshops to educate curious Lebanese about the intricacies of coffee. Н

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# PHOTOMED LIBAN 2016 CAPTURES THE MEDITERRANEAN SPIRIT

THE MIDDLE EAST'S LARGEST PHOTOGRAPHY EXHIBITION

Words by Olga Habre

t's supposed to be exciting – after all, Photomed Liban 2016 is the largest photography exhibition in the Middle East. While there's no doubt about the significance of the artists involved and the size of its impact, this year's festival brought to light the tragic realities facing the talented photographers who put their own lives at risk, and use their skill for activism.

Photomed Liban 2016 is dedicated to internationally acclaimed photographer Leila Alaoui, killed in mid-January in a terrorist attack in Burkina Faso while working on a women's rights campaign with Amnesty International. A beautiful portrait of the 33-year-old has since been painted by the media, describing the Moroccan-French photographer as a passionate young artist who advocated for the silenced and marginalized through her powerful photos. Her tragic death is not only a personal loss for many, and one that robs the world of a vibrant talent, but it also highlights the importance of photography and other arts as a form of resistance that can be used in cultural dialogue. It is also a loss for Lebanon, where she cofounded the art space STATION.

Incidentally, Station is one of Photomed's host venues this year, along with Beirut Exhibition Center (BEC) at the Beirut Waterfront, Le Gray hotel, Institut Francais du Liban and Byblos Bank's headquarters. Running this year from January 20 to February 10, Photomed is a platform for discovering local photographers and admiring the work of other Mediterranean greats. At a press conference launching the event, speakers noted the vibrancy of Lebanon's rich cultural scene, the importance of documenting culture and reflecting the Lebanon we know and love. Now in its

third and largest edition, the exhibition features more Lebanese talent than ever before. Thirteen Lebanese photographers were on display, nine through local galleries and three in independent shows.

Engineer-turned-esteemed-photographer Karim Sakr, who won the Photomed Liban 2015 award, presented "Beirut Street Photography" at STATION, showing Beirut as a cultural crossroads, documenting the ongoing changes in the city and its people. Also at STATION, Randa Mirza's series "Beirutopia" is a bold look at Lebanon's renewed real estate, merging real and virtual urban space. By contrast, for her exhibition "Bogota" at Le Gray hotel, Elsie Haddad captured the last moments of Berlin's historic Hotel Bogota, built in 1911. The images were taken in 2013 before it was turned into an office building.

A huge portion of the exhibition is held at BEC. With a special focus on Spain in this edition, Photomed features the retrospective of renowned Spanish photographer Toni Catany (1942 - 2013), previously held at Barcelona's Museu Nacional d'Art de Catalunya and comprised of over 40 photos organized thematically. Gabino Diego, a Spanish actor, has over the years collected more than 300 works of various photographers including Catany and many other greats to form "Women and Children First". The BEC exhibit also introduces Barcelona-born Álvaro Sánchez-Montañés, who captures everyday moments in extraordinary light with his "Unprepared and Unsorted" exhibition, as well as self-taught Luis Vioque from Madrid, whose "An Imaginary Journey" is a captivating narrative told through landscapes and silhouettes.

The provocative French photographer Antoine



- 1. Álvaro Sánchez-Montañés, Salta
- 2. Arno Brignon, Free Doors to Spain Gibraltar 3. Angelo Antolino, A group of women in the
- courtyard 4. Xavier Miserachs, Marika Green en
- Cadaquès, 1958
- 5. Randa Mirza, Beirut is back and it is
- 5. Kanda Mirza, Beirut is back and it is beautiful, Beirutopia series
  6. Antoine D'Agata, from the series Home Town
  7. Karim Sakr, Beirut Street Photography
  8. Elsie Haddad, Hotel Bogota
- 9. Emma Grosbois, Ceux qui nous regardent

D'Agata's collection "Home Town" draws inspiration from his native Marseille in monochrome images examining the crossing of boundaries, including straying, sex and drugs.

Italian photographer Angelo Antolino's "Women of the Camorra" series follows the lives of wives of arrested drug traffickers. The environmental activism-driven photography of Italy's Alessandro Puccinelli's exhibition "I have crossed the 7 seas" paradoxically glamorizes waste, drawing attention to the issue - something relatable in Beirut in these waste-filled times.

Over at the Byblos Bank headquarters is the dreamy "Mediterraneo" retrospective of France's renowned Edourd Boubat (1923-1999), documenting

his passion for the Mediterranean Sea which he calls the place of all origins.

France's Emma Grosbois in "Those Who are Watching Us" focuses on religious symbols in Italian homes, while another French photographer, Arno Brignon, captures Gibraltar, the gateway to Europe and a confused territory, both exhibiting their work at the Institut Français du Liban.

The winner of the Photomed Liban 2016 photography competition is Bilal Tarabay, who will exhibit his work at Photomed France. Lama Mattar came in second place, with the reward of an exhibition at the Institut Français du Liban.

# LA PETITE MAISON

## I PM OPENS IN DOWNTOWN BEIRUT

Words by Olga Habre

ood and finance may have little in common, but place a meal in the middle of a business deal and the well-fed may be more inclined to converse and compromise. Downtown Beirut is fast becoming a foodie destination for high-end restaurants, catering to the adjacent financial district as well as shop-goers and residents of the upscale neighborhood. The newest restaurant to capitalize on the up-and-coming scene is La Petite Maison Beirut (LPM), launching its new location on the ground floor of the striking, all-white M1 Building in early February.

For a French restaurant, LPM is not at all typical, likely a result of its Niçoise origin. General manager of LPM Beirut Yannick Chaloyard describes it as a cross between fine dining and your grandmother's house. The restaurant has no dress code and walk-ins are welcome, it's relatively formal but not imposing, contemporary but cozy. Their slogan, 'Tous es Celebre Ici', is a play on words that means 'everyone is famous here' as well as 'everyone celebrates here' - in line with their welcoming spirit. Guests come for all occasions: business meetings, warm family meals and swanky dates, as well as unplanned dinners after the beach. "All our guests are treated exactly the same way; we don't look at people's appearance. Appearance is not what makes LPM, what makes it is having the buzz of all those different people together - this is what makes LPM fun," says Chaloyard.

The brand undoubtedly has a lot of character. Its Beirut location at street level in Downtown reflects the restaurant's easy-going accessibility. Chaloyard says there are many similarities between Lebanon and the French Riviera. For one, the Lebanese enjoy being outside in the year-round good weather, which is why the

restaurant has a terrace. Inside, the high ceilings and huge windows fill the space with light. The artwork on the walls is hard to characterize and no painting is alike, but there is nevertheless a cohesiveness to the decor. On one end of the restaurant is a bar serving specialty cocktails and on the other, a busy open kitchen. Staff is hired based on personality rather than appearance; they're trained to be professional but not intrusive, and they all taste the entire menu for better engagement with customers.

The food is prepared 'a la minute' and quality is everything. If LPM is unsure about the quality of a product, they simply don't serve it. For example, fresh fish arrives every morning and if it's not top quality, it's rejected. "I prefer to tell guests we don't have it than compromise on quality," says Chaloyard.

"The reason people come back again and again is because there's consistency. It sounds so simple, but it's consistent and delicious," explains Chaloyard. LPM's loyal clientele, affectionately known as "LPM ambassadors", also frequent the restaurant's other branches located in France, London, Dubai, Istanbul and soon in Miami and Abu Dhabi.

The LPM menu is the same everywhere, save for a few local twists. For French cuisine, the dishes are not cream-heavy. In fact only two dishes on the entire menu contain cream. Some of their most-loved starters include the carpaccio, prawns in olive oil, calamari and burrata. They also recreated a Caesar salad with artichokes and oyster mushrooms instead of chicken and bacon. Chaloyard says, "You get the meaty flavor of the artichoke and the crispiness of the fried oyster mushrooms for the bacon." Other highlights: the veal marinated in maple syrup, sage and honey;







an entrecote cut thicker to ensure juiciness; and the Dorade fish made to share. Their special Josper oven has been described as "the Ferrari of ovens", and gives everything a distinctive smoky flavor.

LPM's dessert is truly a treat. The sorbet is homemade in a special machine that freezes the fruit, so gelatin is not added and sugar is minimal. Their cheesecake is to die for, according to Chaloyard, and the warm chocolate mousse is served with an atypical malt ice cream. In the summer, the panna cotta is made with Lebanese yogurt.

LPM Beirut also has a top-trained, senior female sommelier. Chaloyard explains that, "some sommeliers tend to be a bit obnoxious, suggesting expensive wine and intimidating guests. The role of the sommelier at LPM is the opposite – we are trying to find very interesting wines at affordable prices. Our aim is to let people try new wines, things that they might not normally go for." LPM's selection includes international wines and many recognized Lebanese brands,

but they are trying to promote boutique local wineries, like Iris Domaine, Chateau Qanafar and Aurora. "It's nice to put on the wine list something that people won't necessarily think of," he says.

LPM is known for its food sharing concept, and while this might work really well for families, the idea may not sit too well with businessmen breaking bread. Chaloyard clarifies that plates are simply put in the middle of the table but sharing is not necessary, though he adds that sharing food does help break the ice in any context. It's true that there's a lot of bonding over the food, especially since Lebanon already has a food-sharing culture.

Being in the heart of Downtown surrounded by other restaurants may be a challenge for LPM but Chaloyard says that "Competition is fantastic, it motivates you." LPM Beirut opens from Monday to Sunday for lunch and Monday to Saturday for dinner – which gives Beirut's business elite plenty of opportunities to butter each other up.



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T. Gargour & Fils Mercedes-Benz Lebanon hit record-breaking sales, exceeding 1,000 cars for the year 2015. In addition, Mercedes-Benz ranked first in sales for the fifth year in a row in the luxury car category in Lebanon.

According to the recent "Top Industries in the Middle East and North Africa" survey, conducted by **Bayt.com** and **YouGov**, a pioneer in online market research, banking/finance experienced the strongest industry growth in Lebanon in 2015.

2015 has established itself as a recordbreaking year for cross-border mergers and acquisitions since the financial crisis, according to a Cross-Border M&A Index by global law firm Baker & McKenzie. With corporate deal-making activity at record highs, companies are also executing record levels of cross-border transactions, a global trend reflected in the Middle East.

Bank of Beirut earned four awards, including the Best Home Finance Product, the Best Fund, the Best SME Card and the Best Cash Management, at the 2015 Banker Middle East Levant Product Awards competition, organized by CPI Financial.

Beirut Traders Association and Bankmed released the results of "Beirut Traders Association – Bankmed Investment Index" for the third quarter of 2015. The index, which assesses the investment climate of the wholesale sector in Lebanon, indicated continued deterioration in commercial activity and in intention to invest.

Following the unprecedented global anticipation of the YEEZY BOOST 350 released in white, black and gray, Kanye West and adidas Originals concluded 2015 with another release in a tan version.

**Beytech**, the retail electronics shop in Jdeideh, celebrated the official opening of its kitchen department on December 8, 2015.

Jose Cuervo, the brand that is exclusively distributed by Etablissements Antoine Massoud sal, concluded a month-long competition among 50 bars across Lebanon with a tequila party at the Grand Factory on December 22, 2015.

During the Christmas season, Zaatar W Zeit launched the social media initiative #Christmas4Everyone, aiming at offering generous meals to the inhabitants of underprivileged areas around Lebanon.

**Grand Cinemas** partnered with **Rymco** to offer its fans two Nissan Micra cars through draws held at two of their branches on December 28 and 29, 2015, following a competition that lasted two months and attracted more than 5,000 participants.

Willis Group Holdings plc, the global risk advisory, reinsurance broking, and human capital and benefits firm, announced the completion of its acquisition of Gras Savoye, the largest French insurance broker, on December 29, 2105.

In early January, **Bayt.com**, a leading career site in the Middle East, debuted a revamped homepage, featuring easier job search functionality, new learning tools and a simple layout that help professionals advance their career with ease.

#### **AL-MAWARID Bank sal**

announced in January that its recently launched product, the "black Card", won the "Best Card Design Award" by VISA Middle East.

On January 6, Epiphany celebrations were held at **Alice Eddé's boutique** in Byblos in honor of the traditional feast of the kings on the twelfth night after Christmas.

On January 7, Ford-sponsored accelerator **Techstars Mobility**, driven by Detroit, began accepting applications from startups interested in developing future mobility solutions.

Magnus Olsson, co-founder and CEO of Careem, a car booking service in the Middle East, delivered a keynote speech about ideas that changed the world at Ericsson's Change-Makers Forum. The event was held in Dubai on January 10 under the patronage of His Highness Sheikh Ahmed bin Saeed Al Maktoum, Chairman and Chief Executive, Emirates Airline and Group Dubai Aviation City.

Pikasso Jordan announced on January 10 that they have been awarded the contract to operate the exclusive advertising concession at Abdali Mall, a new shopping center in Amman which is expected to be operational by April 2016.

Qatar Airways launched a first-ofits-kind Travel Festival from January 11-17, offering travellers special deals and packages including discounts of up to 35 percent, companion fares for 2-for-1 tickets, and family and group discounts for travel between January 19 through to December 15, 2016. In support of the Lebanese Lottery, **LG Electronics** announced the winners of its corporate winter campaign, held at its flagship store on January 12, 2016.

On January 12, **National Geographic Abu Dhabi** released the highlights of its 2016 program lineup, as recent viewership figures show the channel moving from strength to strength.

Speed@BDD organized its first Demo Day on Wednesday January 13, 2016 at the American University of Beirut in the presence of investors, officials and media representatives. Six startups pitched their businesses and showcased their products after completing the 3-month acceleration program at Speed@BDD.

La Libanaise des Jeux (LLDJ) chose the Four Seasons Hotel in Beirut to hold its press conference and officially launch the new daily draw game "Yawmiyeh" on January 14, 2016.

Ericsson's Customer Unit in the United Arab Emirates recently showcased its small cells offerings and solutions at SCWS MENA, which was held from January 18-19 at Conrad Hotel in Dubai.

Nestlé celebrates its 150th anniversary this year with the Choose Wellness campaign; activities in Beirut were held at the Beirut City Centre, providing on-site support from January 22-31 to help people eat healthier, move more and live better.

Byblos Bank hosted at its headquarters in Ashrafieh an exhibition entitled "Méditerranée" by renowned French humanist photographer Édouard Boubat from January 22 till February 10, 2016, in conjunction with Photomed Beirut 2016.

BCI Holding SA (Baalbaki Chemical Industries), the specialty chemicals subsidiary of Lebanese group Unimetco Holding sal, announced on January 26 that it has acquired Italian polyurethane systems manufacturer Polysystem S.r.l. and will own 70% of the acquired business.

Bank Audi hosted a press conference on January 26, 2016 to launch its "My Carbon Footprint" initiative in collaboration with the Ministry of Environment and the United Nations Development Programme. The project will partner with schools to address climate change whilst raising awareness among 10 to 15 year olds on the use of resources and its impact on the environment.

A dance show entitled "Things I'm not" is being presented by the Beirut Dance Company at Al Madina Theatre for 6 nights, on February 12, 13, 14, 19, 20 and 21 2016 at 20:30

Lea Michele attended the 2016 People's Choice Awards wearing a black long-sleeved embellished cocktail dress and matching belt from the **ELIE SAAB** Readvto-wear Autumn-Winter 2015/16 collection.

Swiss watchmaker Baume & Mercier opened its newest boutique in Beirut Souks in Lebanon. Held in collaboration with its exclusive luxury partner in the country, Ets. H. Atamian, Bourne & Mercier's boutique opening also adds a milestone in the brand's celebration of its 185th anniversary this year.

Each year, Nespresso develops limited edition coffees sourced from coffee-growing communities around the world and in 2016 two such coffees were launched: the 'UMUTIMA' wa Lake Kivu' from Rwanda and the 'TANIM de Chiapas' cultivated in Chiapas, Mexico.

At the Consumer Electronics Show in Las Vegas, the **BMW Group** presented the principle of the contactless touchscreen with AirTouch, a feature that empowers intuitive control of entertainment, navigation and communication functions using simple gestures made with a flat hand.

The entertainment portfolio of regional Pay TV beIN MEDIA GROUP expanded with the launch of a new movie channel, belN Movies 3, and five Turner channels, including Cartoon Network, Boomerang, TCM, HLN and CNN HD. Turner recently signed an exclusive partnership with beIN for the MENA region.

King Food sal, the Burger King brand franchisee in Lebanon, recently introduced a new product, the Chicken Cordon Bleu sandwich, across all Burger King branches nationwide.

Set inside a historic, cream-colored Lebanese stone house built in 1800 on a hill overlooking Jounieh Bay, resto-bar Les Caves de la Crêperie reopened its doors after undergoing refurbishment works, offering a nighttime venue for Lebanon's revelers.

Swiss luxury watchmaker **Breitling** has unveiled the Chronomat 44 Blacksteel in the Middle East. The watch is now available in Breitling Boutiques and partner stores across the region.

Confirming its commitment to the youth and education development. Ericsson recently conducted a "Universities Wireless Course" for students from six leading universities in Lebanon.

The House of Aziz & Walid Mouzannar released their latest iewellry line, the Silene Collection, a range of exquisite cuffs and rings from designers Dori Mouzannar & Alia Mouzannar.

The BMW X5 set a benchmark as the global leader in the Sports Activity Vehicle Segment. Since its launch in 1999, the BMW X5 has been setting milestones in its class – a class of which it was the founding member. In its third generation, the BMW X5 delivers outstanding luxury and unparalleled comfort in every regard and never fails to exceed expectations.

LG Electronics announced its newest additions to the Minibeam Series of projectors, the Minibeam Nano (Model PV150G), Minibeam Ultra Short-Throw, the Minibeam Pro (Model PF1500G) and smaller Minibeam (Model PW800G), which are available at all authorized dealers' networks across Lebanon.

Jaguar's first family sports car, the all-new Jaguar F-PACE defied gravity by performing a record-breaking 360 degree loop, one day ahead of its global motor show debut in Frankfurt.

According to a poll recently conducted in the MENA region by Bayt.com and the Canadian University Dubai, 64 percent of respondents believe that all employees have a responsibility to be ethical in business,

with 20 percent holding the company responsible for establishing a strong code of conduct

The new Ford Fusion continues to be a game changer among midsize sedans, with a technologically advanced lineup including two hybrid models and a new all-wheel-drive Fusion V6 Sport engineered to leave other family sedans in the dust.

**Sony Mobile Communications** has joined forces with THE5; the new **Xperia Z5** series features prominently in the boyband's latest music video "Bel Gharam".

Rachel McAdams took the stage during the 21st Annual Critics Choice **Awards** wearing a burgundy embroidered sleeveless gown, paired with matching belt from the ELIE SAAB Haute Couture Autumn-Winter 2015/2016 collection.

A humanitarian and social partnership brought together ABC, the Lebanese retail and mall developer, and Lebanese director and actress Nadine Labaki, who was appointed as ABC's Corporate Social Responsibility ambassador.

Alfa, managed by Orascom **Telecom**, launched the Alfa U-shop app, which offers all its prepaid and postpaid subscribers exclusive shopping deals by high-end brands and local stores.

In collaboration with ANB Motorcycles, the official distributor of KTM and Piaggio Group motorcycles in Lebanon, Lebanese NGO Oum El Nour organized an event to raise funds for the treatment of drug addicts, giving away a Vespa Primavera scooter.

On March 1, 2 and 3, ArabNet Beirut 2016, an annual conference that supports the regional digital ecosystem, will bring together digital communities from across the Levant and North Africa. As demand is ever on the rise – more than \$700 million was invested in tech startups in MENA between 2013 and October 2015, according to an ArabNet Business Intelligence report.

Marketing gurus from Facebook, Twitter, Google, Yahoo!, Coca-Cola, Hua Digital and VISA are scheduled to be present at the Marketing Kingdom Beirut, Lebanon's leading marketing event taking place on March 17-18 2016 at the Mövenpick Hotel in Beirut.



		CONFERENCES				
DATE	NAME	ORGANIZERS	CONTACT / E-MAIL	WEBSITE		
LEBANON						
8-9 Mar	Risk Based Approach for Money on Value Transfer Services	Union of Arab Banks	+961 1 377800; uab@uabonline.org	www.uabonline.org		
17-18 Mar	Marketing Kingdom Beirut	The P World	+994 50 363 5880; lamiya@thepworld.com	www.thepworld.com		
7-8 Apr	MENA Games Conference	IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com		
11-May	The New Arab Women Forum	Al Iktissad Wal Aamal Group	+961 1 780 200; forums@iktissad.com	www.iktissadevents.com		
18-19 May	The Sixth Risk Management Annual Forum	Union of Arab Banks	+961 1 377800; uab@uabonline.org	www.uabonline.org		
19-20 May	Middle East Social Media Festival	Right Services	+961 5 951343; info@mesmf.com	www.mesmf.com		
DUBAI						
3-Feb	Fifteenth GCC Smart Government and City Customer Care Excellence Conference	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
10-11 Feb	World Architecture Festival	Meed Events	+971 4818 0200; events@meed.com	www.meed.com		
16-17 Feb	Fifth GCC Real Estate and Construction Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
21-25 Feb	Future Education Spaces	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com		
23-24 Feb	Destination Dubai 2020	Meed Events	+971 4818 0200; events@meed.com	www.meed.com		
2-3 Mar	NextGen Parking and Traffic Management Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
7-8 Mar 7-9 Mar	GCC Universities Summit Nineteenth Global Women Leaders Conference	Datamatix Group Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com www.datamatixgroup.com		
7-9 Mar 9-Mar	GCC Malls Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com +971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
9-Mai 9-10 Mar	Outreach 2016 - The Digital Marketing Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.daidridixgroup.com		
15-Mar	Fourth GCC Airlines Tourism and Corporate Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
16-Mar	GCC Corporates Legal Strategy Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
20-23 Mar	Government Contact Centre Summit	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com		
21-22 Mar	The Middle East and North Africa Project Finance Forum	Euromoney Conferences	+44 20779 8452; freddy.cobbold@euromoneyplc.com	www.euromoneyconferences.co		
22-Mar	GCC International Water Day Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
23-Mar	Financing Projects in New Oil Era	Meed Events	+971 4818 0200; events@meed.com	www.meed.com		
6-7 Apr	Sixth GCC Government Future Leaders Conference	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
17-19 Apr	The FAHR International Conference	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com		
18-21 Apr	Hospital Design and Infrsatructure Conference Islamic Banking Forum	Informa Middle East Union of Arab Banks	+971 4 336 5161; info-mea@informa.com +961 1 377800; uab@uabonline.org	www.informa-mea.com		
20-21 Apr 25-28 Apr	Arabian Travel Market	Reed Expo	+971 4 3642813; Wellah.Ellis@reedexpo.ae	www.uabonline.org www.reedexpo.com		
26-28 Apr	Arabian Hotel Investment	Meed Events	+971 4818 0200; events@meed.com	www.meed.com		
27-28 Apr	Second Annual Middle East Smart Gov Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
2-3 May	Middle East Investment Summit	Terrapinn Middle East	+971 14440 2500; enquiry.me@terrapinn.com	www.terrapinn.com		
21-25 May	Twenty Second GCC Smart Government and Smart Cities Conference	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
22-23 May	World SME Investors Summit	Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com		
ABU DHAB	T					
8-9 Feb	Future Landscape and Public Realm Abu Dhabi	Advanced Conferences	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com		
15-17 Mar	Fire Fighting Middle East	and Meetings Reed Expo	+971 4 3642813; Wellah.Ellis@reedexpo.ae	www.reedexpo.com		
21-22 Mar	Data and Information Management Utilities	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com		
21-22 Mar	ITS and Smart Mobility Forum UAE	IQPC	+971 4 364 2975; enquiry@igpc.ae	www.iqpc.com		
10-11 May	Third Annual Gas Flaring Management Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
23-24 May	Sixth Annual Business Continuity and Emergency Response Forum	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
24-25 May	Middle East Weather Technology Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
QATAR						
21-23 Feb	Eighth Annual Façade Design and Engineering Middle East Summit	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com		
15-16 Mar	Qatar Projects	Meed Events	+971 4818 0200; events@meed.com	www.meed.com		
15-18 May	Asset Integrity and Reliability Summit	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com		
16-17 Mar	The Gulf Banking Forum	Union of Arab Banks	+961 1 377800; uab@uabonline.org	www.uabonline.org		
18-19 Apr	Smart Parking Qatar	Advanced Conferences	+971 4 361 4001;	www.acm-events.com		
10 10	World Objections 0	and Meetings	opportunities@acm-events.com			
16-19 May 23-25 May	World Stadiums Congress 2016 Fifth Annual Corrosion Management Summit	IQPC Fleming Gulf	+971 4 364 2975; enquiry@iqpc.ae +971 4 609 1555; info@fleminggulf.com	www.iqpc.com www.fleminggulf.com		
KSA						
22-23 Feb	Cyber Defense Summit	Naseba	+971 4 367 1376; prachid@naseba.com	www.naseba.com		
20-21 Mar	Hotel Technology Summit	Naseba	+971 4 367 1376; prachid@naseba.com	www.naseba.com		
10-11 Apr	Academia Arabia	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
26-27 Apr	Second Annual Kingdom Waste Management	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com		
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DATE	NAME	ORGANIZERS	CONTACT / E-MAIL	WEBSITE
3-4 May	Fourth Annual Digital Grids and Smart Cities Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com
9-10 May	Second Annual Kingdom Process Safety	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com
22-23 May	Third Cyber Security Forum	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com
OMAN				
15-17 Feb	Fifth Annual HR Oman Summit	Fleming Gulf	+971 4 609 1555; info@fleminggulf.com	www.fleminggulf.com
6-9 Mar	Eleventh Annual Asset Integrity Management Summit	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com
21-23 Mar	International Oil and Gas Exhibition and Conference	Oman Expo	+968 2466 0124; info@omanexpo.com	www.omanexpo.com
23-24 Mar	Oman Economic Forum	Al Iktissad Wal Aamal Group	+961 1 780 200; forums@iktissad.com	www.iktissadevents.com
28-31 Mar	The Big Show	Oman Expo	+968 2466 0124; info@omanexpo.com	www.omanexpo.com
23-25 May	Oman Energy and Water	Oman Expo	+968 2466 0124; info@omanexpo.com	www.omanexpo.com
<b>EGYPT</b>				
14-17 Mar	HR Leaders Egypt	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com
20-21 Mar	Egypt Investment Forum	Al Iktissad Wal Aamal Group	+961 1 780 200; forums@iktissad.com	www.iktissadevents.com
21-24 Mar	Microfinance Egypt	IQPC	+971 4 364 2975; enquiry@iqpc.ae	www.iqpc.com
28-29 Mar	Power Generation Projects Egypt	Advanced Conferences and Meetings	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
18-19 May	De-Risking Banking Forum	Union of Arab Banks	+961 1 377800; uab@uabonline.org	www.uabonline.org
JORDAN				
10-11 Feb	Mechanisms for Drying up the Sources of Financing Terrorism Forum	Union of Arab Banks	+961 1 377800; uab@uabonline.org	www.uabonline.org
KUWAIT 7-10 Feb 16-17 Feb 8-9 Mar 30-31 Mar	Maintenance Kuwait Summit Process Safety Kuwait Invetment Forum The Arab Banking Conference for 2016: Arab Banking Integration	IQPC Fleming Gulf Al Iktissad Wal Aamal Group Union of Arab Banks	+971 4 364 2975; enquiry@iqpc.ae +971 4 609 1555; info@fleminggulf.com +961 1 780 200; forums@iklissad.com +961 1 377800; uab@uabonline.org	www.iqpc.com www.fleminggulf.com www.iktissadevents.com www.uabonline.org

		<b>EXHIBITIO</b>	ONS	
DATE	NAME	ORGANIZERS	CONTACT / E-MAIL	WEBSITE
LEBANON				
1-3 Mar	ARABNET	International Business Alliance Group	+961 1 751 180; ibag@ibagrp.com	www.arabnet.com
5-8 Apr	HORECA	Hospitality Services	+961 1 480081; info@hospitalityservices.cor	n.lb www.hospitalityservices.com
29 Apr - 1 May	IEEE	Lebanese University	+1 732 562 3878; icm2013@ul.edu.lb	www.sdiwc.net/conferences/ taeece2015
16-18 May	Beirut International Property Fair	Promoteam	+961 1 339050; sm@promoteam-ltd.com	www.promoteam-ltd.com
18-19 May	Beirut International Franchise Forum and Exhibition	LFA	+961 1 742 134; info@lfalebanon.com	www.lfalebanon.com
24-28 May	Garden Show and Spring Festival	Hospitality Services	+961 1 480081; info@hospitalityservices.com.lb	www.hospitalityservices.com.lb
31 May - 3 Jun	Project Lebanon	IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com
DUBAI				
9-11 Feb	Access Abilities Expo	Reed Expo	+971 4 3642813; Wellah.Ellis@reedexpo.ae	www.reedexpo.com
15-16 Feb	Marine Data Infrastructure GCC	Advanced Conferences	+971 4 361 4001;	www.acm-events.com
		and Meetings	opportunities@acm-events.com	
1-3 Mar	PaperWorld Middle East	EPOC Messe Frankfurt	+971 4 389 4500;	www.epocmessefrankfurt.com
			info@epocmessefrankfurt.com	
8-9 Mar	Middle East Rail 2016	Terrapinn Middle East	+971 14440 2500;	www.terrapinn.com
			enquiry.me@terrapinn.com	
14-15 Mar	Outdoor Lighting Projects UAE	Advanced Conferences and		
		Meeting	+971 4 361 4001;	www.acm-events.com
			opportunities@acm-events.com	
13-15 Apr	Gulf Education and Training Exhibition	International Conferences and Exhibitions	+971 4 3355001; info@icedxb.com	www.icedxb.com
8-10 May	Automechanika Dubai	EPOC Messe Frankfurt	+971 4 389 4500;	www.epocmessefrankfurt.com
-			info@epocmessefrankfurt.com	
31 May - 1 Jun	Cards and Payments Middle East	Terrapinn Middle East	+971 14440 2500;	www.terrapinn.com
-			enquiry.me@terrapinn.com	

EXHIBITIONS				
DATE	NAME	ORGANIZERS	CONTACT / E-MAIL	WEBSITE
<b>ABU DHABI</b>				
1-3 Feb	Tawdheef	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com
8-9 Feb	Future Landscape and Public Realm Abu Dhabi	Advanced Conferences and Meetings	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
10-11 Feb	Future Drainage and Stormwater Networks UAE	Advanced Conferences and Meetings	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
15-17 Mar	Emergency Response and Disaster Prevention	Reed Exhibitions	+971 4 3642813; Wellah.Ellis@reedexpo.ae	www.reedexpo.com
12-14 Apr	Cityscape Abu Dhabi	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com
3-7 May	International Jewellry and Watch Show	Reed Expo	+971 4 3642813; Wellah.Ellis@reedexpo.ae	www.reedexpo.com
KSA				
22-24 Feb	Petro Environment	ITE Group	+44 (0) 203 328 9589; stella@bme-global.com	bme-global.com
27 Feb - 1 Mar	PROPAC Arabia	ACE Exhibitions	+966 12654 6384; ace@acexpos.com	www.aceexpos.com
8-9 Mar	Saudi Downstream 2016	BME Global Events	+966 3 859 1888; tara@bme-global.com	www.diec.com.sa
11-Apr	Saudi Building and Interiors Exhibition	ACE Expos	+966 12 654 6384; ace@acexpos.com	www.acexpos.com
14-15 Apr	WEPower	ITE Group	+44 (0) 203 328 9589; stella@bme-global.com	www.bme-global.com
18-20 Apr	GCC Environment Forum	BME Global Events	+44 (0) 203 328 9589; stella@bme-global.com	www.bme-global.com
9-12 May	Saudi Food, Hotel and Hospitality Arabia	ACE Expos	+966 12 654 6384; ace@acexpos.com	www.acexpos.com
16-18 May	Saudi Safety and Security	ITE Group	+44 (0) 203 328 9589;	bme-global.com
			stella@bme-global.com	-
BAHRAIN				
9-11 Feb	Gulf Industry Fair	Hilal Conferences and Exhibitions	+973 17 299123; info@hilalce.com	www.hilalce.com
26-28 Apr	GulfBID	Hilal Conferences and Exhibitions	+973 17 299123; info@hilalce.com	www.hilalce.com
EGYPT				
11-14 Feb	Project Egypt	IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com
14-15 Mar	Second Annual Outdoor Lighting Projects	Advanced Conferences and Meetings	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
7-10 Apr	Cityscape Egypt	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com
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QATAR	Edutec Qatar	IFP	. 061 5 050 111. info@ifnovno.com	www.ifnovno.com
9-11 Apr 18-19 Apr	Smart Parking Qatar	IFP	+961 5 959 111; info@ifpexpo.com +961 5 959 111; info@ifpexpo.com	www.ifpexpo.com www.ifpexpo.com
26-28 Apr	Cityscape Qatar	Informa Middle East	+981 5 939 111; Illio@ilpexpo.com	www.informa-mea.com
9-10 May	Third Annual LightingTech Qatar	IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com
9-12 May	Project Qatar	IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com
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KUWAIT				
18-20 Jan	HORECA Kuwait	Hospitality Services	+961 1 480081;	www.hospitalityservices.com.lb
21-27 Feb	Kuwait International Trade Fair	Kuwait International Fair	info@hospitalityservices.com.lb +965 539 3872; info@kif.net	www.kif.net
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OMAN 8-10 Feb	Open Dealerging and Metarial Landling F. 414-41-	Oman International Trade	, 069, 0024, 1697, tarel@aita.aam	www.citc.com
o-IU FED	Oman Packaging and Material Handling Exhibition	Oman International Trade & Exhibitions OITE	+968 9934 1687; tarek@oite.com	www.oite.com
21-23 Mar	Oil and Gas West Asia	Oman Expo	+968 2466 0124; info@omanexpo.com	www.omanexpo.com
28-31 Mar	The BIG Show Oman	Oman Expo	+968 2466 0124; info@omanexpo.com	www.omanexpo.com
12-16 Apr	COMEX 2016 - IT, Telecom and Technology	Oman International Trade	+968 9934 1687; tarek@oite.com	www.ghedex.com
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19-21 Apr	Global Higher Education Exhibition	Oman International Trade	+968 9934 1687; tarek@oite.com	www.ghedex.com
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24-26 Mar	Cityscape	Informa Middle East	+971 4 336 5161; info-mea@informa.com	www.informa-mea.com







#### > The role of the private sector

## Syrian crisis: a new approach

The ICRC calls for innovative solutions, not just humanitarian aid

fter almost five years of conflict in Syria, the world is standing in awe of the scale of this humanitarian crisis. In Lebanon, it has affected the economy, health and education sectors, infrastructure, politics and even security. After countless words have been written about the challenges posed by the crisis, it is time to start addressing the opportunities. It is time to start building on Lebanon's unique spirit of innovative entrepreneurship and ability to adapt that has kept the country afloat even in the face of decades of violence.

As refugees struggle to make it through another winter inside tents, in the hope that maybe next year they will be warm, it is clear that we are now dealing with a protracted conflict in Syria with long-term effects on refugees and on Lebanon. The International Committee of the Red Cross (ICRC), along with dozens of other aid organizations operating in the country, are going back to the drawing board to reshape the way they provide assistance, adapting their protocols and sometimes even rethinking their missions in order to provide a better response. However, there is a need for new ideas and solutions. The innovative capacity of the Lebanese private sector, if properly invested in this crisis, based on mutually beneficial partnerships and ethical criteria, can be a game changer for humanitarian organizations, for those affected and for the country itself.

With more than 1.2 million Syrian refugees in Lebanon, there is a need to develop new technologies to help the government and organizations efficiently assist and communicate with millions of people. Some of these technologies already exist and only need to be implemented; in Kenya,

the ICRC found money transfer apps as an ideal solution to send cash assistance to those in need. There is a need for streamlined engineering solutions to implement shelter, water and energy projects, such as ICRC's new olive-pit generator in Shebaa. Capable of heating an entire healthcare facility, the generator is fueled with biodegradable material which is three times less costly than conventional energy sources.

There is a need for new sustainable business initiatives that can help those dependent on aid become independent and contribute to the economy, such as a recent initiative with Lebanese returnees from Syria who were provided with an opportunity to start their own business raising cattle and producing dairy products. The private sector and humanitarian organizations can also learn from each other by sharing different perspectives, skills and expertise on the management of large scale operations, logistics and human resources.

These efforts must be supported by government policies and regulations. Corporations and individuals should be given incentives and facilitation to come up with and implement new business models and tech solutions that can bridge helping those in need and bolstering the economy. Labor laws guaranteeing the rights of Lebanese citizens as well as those of refugees in the country must be put in place. Gaps in human resources, such as the need for nurses in Lebanon, can be filled if labor laws and education laws are adapted. Reform of key legislation is needed for the inclusive growth and future stability of the country. Access for refugees to proper healthcare, education and the labor market will help this generation one day rebuild Syria. And it is in Lebanon's interest for Syria to be rebuilt by a healthy, educated and skilled workforce.

But to provide these crucial rights,

the Lebanese government needs the full support of the international community. This month, world leaders, international aid agencies, NGOs and civil societies are meeting in London at the "Supporting Syria Conference" that is co-hosted by the UK, Germany, Kuwait, Norway and the United Nations. Governments and organizations will work on securing funds, as well as identifying long-term solutions and ways to create jobs and provide education to those who have been forced to flee their homes. However, until now the Syria response has remained largely underfunded and the conflict has shown no sign of abating.

If efforts at the London conference fail to come up with durable solutions, then next winter will be another bleak reminder that people are getting more and more vulnerable. To try to ease people's suffering during these harsh months, together with the Lebanese Red Cross, the ICRC is assisting Syrian and Palestinian refugees, as well as Lebanese returnees and vulnerable Lebanese families. We are delivering relief assistance such as food, blankets, diapers and hygiene kits as well as rehabilitating tented settlements to avoid flooding during the rainy season and installing insulation materials that greatly reduce exposure to cold. The most vulnerable are receiving cash transfers that can be used to purchase sorely needed heating materials. But, while Syrians and Lebanese wait for a serious political solution, they cannot simply rely on aid.

For more than forty years, the ICRC has been operational in Lebanon. It has gone through every major conflict the country has seen since 1967. It has witnessed the country's ability to overcome obstacles, and find innovative solutions and opportunities, even at the darkest times. With the help of the government, it is time for the Lebanese private sector to live up to its long-standing reputation of entrepreneurship ingenuity and help turn this crisis around both for the Lebanese and those who have fallen victim to this conflict.

FABRIZIO CARBONI IS HEAD OF THE ICRC DELEGATION TO LEBANON



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