Executive
December 2017 N° 220
www.executive-magazine.com

# FACTS & FORECASTS 2017-2018

Lebanon: LL 20,000


EDDIE
REDMAYNE'S
CHOICE
SEAMASTER AQUA TERRA
MASTER CHRONOMETER
OMEGA
AVAILABLE AT:
ATAMIAN
ATAMIAN - ABC DBAYEH, Tel: 01 25 66 55 Ext: 201
ABC ASHRAFIEH, Tel: 01 25 66 55 Ext: 205
ABC VERDUN , Tel: 01 25 66 55 Ext: 222


TO BREAK THE RULES,
YOU MUST FIRST MASTER
THEM.
+41 21 642 32 66 | AUDEMARSPIGUET.COM


THE VALLÉE DE JOUX. FOR MILLENNIA A HARSH, UNYIELDING ENVIRONMENT; AND SINCE 1875 THE HOME OF AUDEMARS PIGUET, IN THE VILLAGE OF LE BRASSUS. THE EARLY WATCHMAKERS WERE SHAPED HERE, IN AWE OF THE FORCE OF NATURE YET DRIVEN TO MASTER ITS MYSTERIES THROUGH THE COMPLEX MECHANICS OF THEIR CRAFT. STILL TODAY THIS PIONEERING SPIRIT INSPIRES US TO CONSTANTLY CHALLENGE THE CONVENTIONS OF FINE WATCHMAKING.
AUDEMARS PIGUET
AUTOMATIC
ROYAL OAK
FROSTED GOLD
IN WHITE GOLD
AUDEMARS PIGUET
Le Brassus
TAMER


For a different way to experience life.
Intensify the everyday with the Macan.
S VM9688
Drive the 2018 Macan from
$749 per month to the limits you set.
USD*/month
749
36 months
25% down payment
*Terms & conditions apply
Complimentary registration
0% interest rate on balloon payment
Lease-to-own programme
2-year Porsche Worldwide Warranty
Porsche Centre Lebanon s.a.l.
Telephone 01 573 911
porschebeirut.com
Image for illustration purposes only.

PORSCHE

# EDITORIAL

#220

## From Pax Ottomana to Pax Persica, and everything bloody in between

**While 2017 began with promises that Lebanon was entering a new era, the year ended with proof that our political culture has not advanced a millimeter in hundreds of years.** This land is still ruled through entitlements. Wannabe regional supreme leaders choose our politicians, and in return, they demand veneration and tribute from appointees. We're still ruled by entitled princes who care only about protecting their own power and wealth, while they extort citizens to the bone.

No wonder Jerusalem was recognized as the capital of Israel by US President Trump. Arab leaders did not want it enough, they only politicized the Palestinian cause to keep their citizens quiet without making any attempts to defend the holy city. Who can blame them? They are all manipulated and appointed themselves. Certain leaders love putting on a show of dedication, when behind the curtains lurks the truth of their hidden agendas. Jerusalem can only be claimed by those who are willing to truly want it. For now, it's the Palestinians, Iranians, and the Israelis.

The resignation of Prime Minister Saad Hariri followed by the speeches of Hassan Nasrallah demonstrated how hard it is to hope for change, despite a new election law and promises of long-overdue parliamentary elections. The law was written in a way to protect those in power. Reformists and idealists stand little chance of taking over Parliament and changing the county's direction. Sectarian rhetoric and dirty tricks will dominate in the first quarter of 2018. The establishment will do all it can to bury the opposition, which, because it is still divided, is unable to voice a clear and consistent message.

Since the beginning of the Syrian crisis in 2011, our end-of-year issue has been increasingly difficult to produce. There's very little good economic news coming out of Lebanon, and plenty of uncertainty coming from external forces, be it US pressure on Lebanese banks, or a regional power struggle that impacts people's daily lives. From bankers to hoteliers to industrialists, all are helpless in front of geopolitical developments, worried about Lebanon's economic future.

What we need, and what 2018 can help lay the foundations for, is the collective will to be a nation and build a nation. Our princes will lead us to ruin. They'll keep us divided to enrich themselves, each community subservient to entitled crooks. We can't move forward as a country until we all see ourselves as citizens of one country, instead of as communities competing for foreign entitlements that come with licenses to steal the spoils of a failed state.

Yasser Akkaoui
*Editor-in-chief*

# CONTENTS

#220

# CONTENTS

#220

Executive

| | |
|---|---|
| **Responsible director** | Antoine Chidiac |
| **Managing director & editor-in-chief** | Yasser Akkaoui |

| | |
|---|---|
| **Editor-at-large** | Thomas Schellen |
| **Real estate & industry editor** | Matt Nash |
| **Hospitality & tourism editor** | Nabila Rahhal |
| **Economics & policy editor** | Jeremy Arbid |
| **Deputy editor** | Sarah Shaar |
| **Executive Life editor** | Olga Habre |
| **Photojournalist** | Greg Demarque (Additional photos from AFP, Getty, Reuters) |
| **Illustration** | Ivan Debs |
| **Art direction** | Tanya Salem of Smart Box sarl |
| **Visualization & infographics** | Ahmad Barclay |
| **Contributors** | Sami Atallah, Dany Baz, Mona Sukkarieh, Carmen Geha, Mounir Rached, Zeina Zeidan Maalouly, Christine Assouad, Sahar Mandour, Bassam Khawaja, Soumaya Merhi, Scott Preston |

| | |
|---|---|
| **Operations manager** | Lucy Moussa |
| **Web development manager** | Magali Hardan |
| **Marketing representative** | Karine Ayoub Mattar |
| **Print & online advertising** | Michele Hobeika |
| **Public relations manager** | Maguy Ghorayeb |
| **Subscriptions manager** | Roula Emanuel |
| **Subscriptions** | Gladys Najjar |
| **Distribution manager** | Katia Massoud |
| **Accountant** | Fadi Bechara |

**Published by NewsMedia sal**
Sehnaoui Center, 7th floor, Ashrafieh, Beirut
Tel/fax: 01/611-696
editorial@executive.com.lb

**Contact us –** We need your input.
Please contact us with any suggestions or comments at:
www.executive-magazine.com or
editorial@executive.com.lb

**For subscriptions –** subscribers@executive.com.lb


HUGO BOSS Middle East FZ-LLC Phone +971 4 55 15 531 hugoboss.com

# LAST YEAR

## JANUARY

### Three Lebanese killed in Istanbul terror attack

Three Lebanese nationals were killed and six were wounded in a terrorist attack in a nightclub in Istanbul shortly after midnight on New Year's Eve.

Elias Wardini, Rita Chami, and Haykal Moussallem had been celebrating the New Year when a gunman opened fire, killing 39 revellers, 27 of whom were foreigners, including Lebanese, Saudi, Israeli, Iraqi, and Moroccan nationals.

The nightclub shooting was the first major terrorist attack claimed by Daesh in Turkey, on the back of a wave of attacks the previous year. Following a massive manhunt, Turkish authorities arrested a suspect, Uzbek national Abdulgadir Masharipov, on January 16. Local media has reported that he confessed to the attack.

### Lebanese government passes long-awaited oil and gas decrees

On January 4, in its first meeting after securing parliamentary approval, the Lebanese government passed long-anticipated oil and gas decrees that laid out the conditions related to the licensing round and detailed the model exploration and production agreement. Also announced was the formation of a ministerial committee to examine special tax provisions related to petroleum.

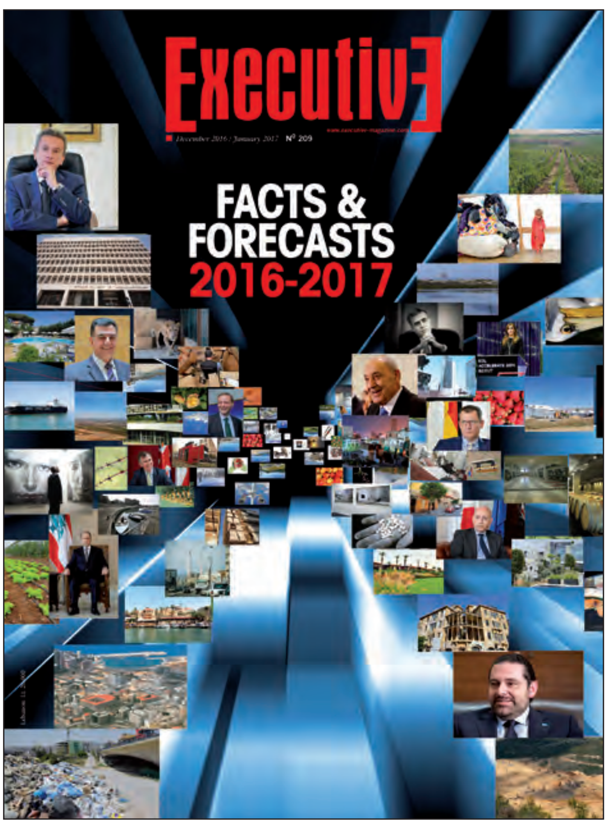
### Judge orders temporary closure of Costa Brava dump after bird scare at Beirut's airport

Judge Hasan Hamdan ordered the temporary closure of the Costa Brava landfill site south of Beirut on January 11, after fears were raised that the landfill posed a danger to the nearby Rafic Hariri International Airport. Reports had emerged the day prior that a minor incident had taken place during a plane's takeoff, when it came into difficulty after allegedly hitting some gulls. Prime Minister Saad Hariri also ordered the immediate installation of additional ultrasonic bird repellers at the airport, amid concerns that the nearby landfill site was attracting too many birds to the area.

### Lebanese security forces thwart would-be suicide bomber in Hamra

Lebanese security forces announced on January 21 that they had arrested a would-be suicide attacker moments before he was planning to detonate a bomb in the Costa Coffee branch on Hamra street.

The incident took place at around 9 p.m. on a busy Saturday night, when terror suspect Omar Al Assi was allegedly detained outside the cafe wearing an eight-kilogram shrapnel-laden explosive belt. While initial reports were confused on the exact circumstances surrounding his arrest, security officials later said that Assi was shot in the leg, before being knocked unconscious by the officers that arrested him. He was taken to a hospital immediately following his arrest.




### President Trump enacts travel ban

In his first week in office, newly inaugurated US President Trump signed a series of executive orders into effect, including a widely criticised travel ban on citizens of seven Muslim-majority countries and a halt on America's intake of Syrian refugees on January 27.

The controversial move caused travel chaos for citizens from Iran, Iraq, Libya, Somalia, Sudan, Syria, and Yemen—including those with legal status in America—who were detained in US airports, denied access to flights or forced to return home.

Trump's executive order banned entry into the US for nationals from the affected countries for the next 90 days, froze the US' refugee-resettlement program for 90 days, and indefinitely suspended refugee resettlement from Syria. Following numerous legal challenges, the ban was lifted, only to be reinstated on December 4, 2017 after a supreme court ruling.

OVERSEAS
UNE INVITATION AU VOYAGE
OVERSEAS
CHRONOGRAPHE
VACHERON CONSTANTIN
GENÈVE, DEPUIS 1755
Cadrans
153 Rue Foch · Centre Ville · Tel: 01 - 985 984
Cadrans Autoroute Dbaye · Immeuble SNBSL · Tel: 04 - 402 156

# LAST YEAR

## FEBRUARY

### Trump says two-state solution to Israeli-Palestinian conflict not only option

In an extraordinary dismissal of long-standing US government policy, US President Donald Trump broke with his predecessors' insistence that any peace solution come with a separate Palestinian state during a joint news conference with Israeli Prime Minister Binjamin Netanyahu on February 15.

Speaking at the conference, the new US president said, "I'm looking at two-state and one-state, and I like the one that both parties like. I'm very happy with the one that both parties like. I can live with either one. I thought for a while it looked like the two-state might be the easier of the two—but honestly, if Bibi, if Israel and the Palestinians are happy, I'm happy with the one they like the best."

### Le Pen cancels meeting with grand mufti over veil controversy

The French far-right leader, Marine Le Pen, scored a PR victory during her visit to Lebanon on February 21 when a meeting between her and Lebanese Grand Mufti Abdel-Latif Derian was cancelled over her refusal to wear a headscarf.

The National Front leader is a controversial figure, despite her efforts to detoxify her party's image. Like other far right politicians in Europe, Le Pen has been capitalizing on fears of terrorism to push an anti-Islam, anti-immigrant agenda.

Her refusal to wear the veil, a traditionally accepted practice when meeting with the grand mufti, was hailed a feminist victory by her supporters, yet reports suggested that Le Pen had been aware of the requirement in advance of the meeting, offering no objections until she arrived at Dar al-Fatwa in Beirut.

### Israeli raid strikes Lebanese-Syrian border

Israeli warplanes struck posts along the Lebanese border with Syria on February 22, during pre-dawn raids around 3 a.m. At least six rockets were said to have hit in the outskirts of Qalamoun, near the Lebanese town of Nahleh.

The target of the strikes, however, was not clear. Hezbollah issued a statement on Twitter that denied the raid had targeted their posts near the town's outskirts. Israeli newspaper *Haaretz* reported comments from the head of the Syrian Observatory that confirmed the raid took place, but said that it was not clear if it was targeting Syrian army or Hezbollah sites.

Israel remained quiet about the raid, but reports suggested it was targeting weapons heading for Hezbollah. The assault was taken as an indication of the red lines the country has drawn to prevent Hezbollah from gaining advanced weaponry.


### Abbas visits Lebanon amid Ain el-Hilweh unrest

Palestinian President Mahmoud Abbas arrived in Lebanon on February 23 for a three-day visit to meet with Lebanese officials amid tensions between Palestinian factions in the country. His was the first visit by an Arab leader since the election of Michel Aoun in October 2016.

Clashes had erupted the same day in the Ain el-Hilweh camp, the largest refugee camp for Palestinians in Lebanon. The Lebanese army was placed on high alert after gunbattles erupted in the Safsaf neighborhood of the camp. The troubles reportedly began after a woman from the Barakat neighborhood was verbally harassed when passing by Safsaf. A tentative ceasefire collapsed on February 28 sparking renewed clashes.


ALL-NEW 2018 TERRAIN
READY LIKE A PRO
GMC
WE ARE PROFESSIONAL GRADE
1599
Rasamny Younis Motor Company is listed on the Beirut stock exchange
.COM
RYMCO
DRIVE LIFE

# LAST YEAR

## MARCH

### New army chief headlines security appointments

On March 8, the cabinet approved a crucial list of military, security, and judicial appointments. Notably, General Joseph Aoun was chosen as the new commander of the Lebanese Armed Forces. Despite sharing the same last name as President Michel Aoun, the two men are not related.

Also approved were new commanders of the Internal Security Forces and Lebanese State Security. Despite reaching the age for military retirement, Major General Abbas Ibrahim kept his position as head of General Security as a civilian.

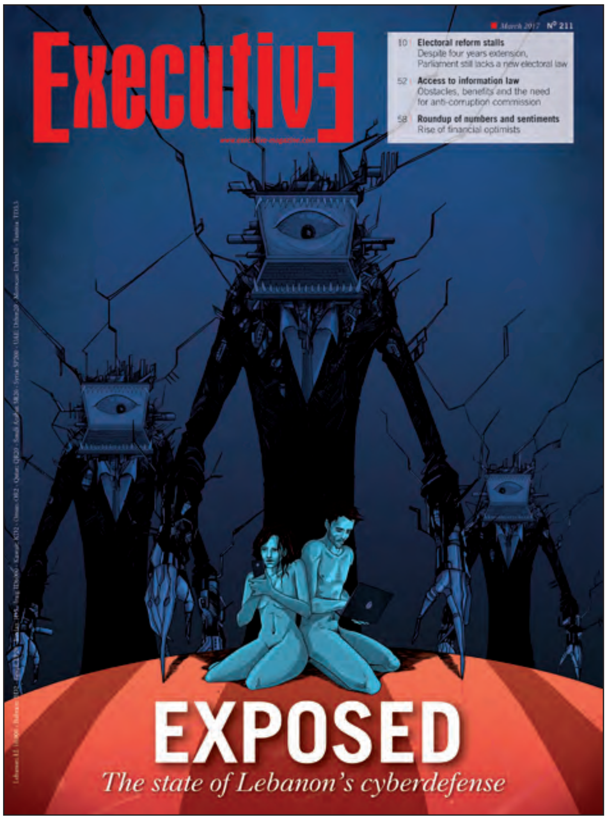
The appointments were met with praise from the UK, US, France, and the United Nations, all of which expressed the hope that their close collaboration with the Lebanese security forces would continue under new leadership.

### Thousands protest planned tax hike

Building on the momentum of smaller demonstrations earlier in the week, thousands of Lebanese gathered at Downtown's Riad el-Solh Square on March 19 to voice their opposition to proposed tax increases.

The tax plan would raise the value added tax from 10 percent to 11 percent, and increase duties on cigarettes and alcohol. Popular anger toward the tax plan was fueled by the persistence of widespread corruption in the country. Many activists have argued that if this corruption is combatted effectively, the resulting savings would pay for the increased salary scale, which was given as the reason for the proposed tax hike.

Prime Minister Saad Hariri entered Riad El Solh Square to address the protesters, asking them to form a committee to convey their demands to him in person. His statement was met with derision and ire from the crowd, forcing him to leave with his security team.




### AUB settles sanctions lawsuit

The American University of Beirut agreed to pay $700,000 to settle a civil lawsuit on March 23, after being accused of assisting three organizations linked to Hezbollah between period December 2007 and March 2016.

Acting Manhattan US Attorney Joon H. Kim said, "For years, the American University of Beirut accepted grant money from USAID, but failed to take reasonable steps to ensure against providing material support to entities on the Treasury Department's prohibited list.

"With today's settlement, the university is being made to pay a financial penalty for its conduct, and importantly, it has admitted to its conduct, and agreed to put proper precautions in place to ensure that it does not happen again."

In a statement to *The Daily Star*, AUB rejected claims that its conduct was intentional, and added that "it did not admit such conduct as part of the settlement."

### Clashes break out again in Ain el-Hilweh

Three people were killed in Ain el-Hilweh as a result of renewed clashes between different Palestinian factions in the camp on March 23 and 24.

Fatah and Islamist factions within the camp moved quickly to try and control the violence, and a Palestinian man was arrested by the Lebanese army on charges of instigating the clashes.

The refugee camp was rocked by clashes throughout February, which at one point shut down UNRWA's services within the camp and forced the disbanding of a joint force responsible for its security.

EX
ED

ESA
BUSINESS
SCHOOL

# CERTIFICATE IN SHIPPING AND LOGISTICS

## NOW RECRUITING

## The opportunity to gain specialized knowledge and good practices of the shipping business

STRUCTURE OF THE PROGRAM

4 modules in Beirut

1 study trip to Le Havre

DURATION
5 months

The Shipping and Logistics course gives participants an introduction and an overview to the shipping market. It offers students the opportunity to gain specialized knowledge and good practices of the shipping business, including the line management, the role of law, supply chain and terminal management.
The course will introduce participants to important factors to consider when working with shippers, consignees, private operators, customs...Emphasis is put on practical aspects but the course will also give participants an understanding of the mechanism and structures that determine price and value as well as the economic background of the shipping world.
Port visits will round out the course.

**Study trip to Le Havre**

The highlight will be a 4-day trip to Le Havre, visiting the port of Le Havre (first French port for the containers), an area dedicated to the management of containers, as well as a shipping agency visit and meeting with port Executives.

In partnership with

EM NORMANDIE
IPER LE HAVRE

With the support of

CMA CGM

a business school run by the
CCI PARIS ILE-DE-FRANCE

BBA MEM MBA EMBA DBA EMFM XiFM MSM MEMS EX ED

LEAD THE WAY

289 Clemenceau, Beirut, Lebanon, T +961 1 373 373 ext.1141 E exed@esa.edu.lb

www.esa.edu.lb

# LAST YEAR

## APRIL

### Hariri appeals for international investment

Prime Minister Saad Hariri appealed to the international community to invest in Lebanon, with a focus on Syrian refugees, during a speech at the Brussels Conference on supporting the Future of Syria and the Region on April 5. He warned of rising strains between refugees and Lebanese nationals, and of the pressure that the country's inflated population has put on the economy. "Estimates suggest that more than 500,000 Syrian and Lebanese youth are at risk as social discontent rises," Hariri said. "Ninety percent of Lebanese youth feel threatened by the displaced Syrians, and tensions between both communities are reaching a dangerous level." Hariri asked for international support for a two-pronged program. "The first is to launch a large-scale capital-investment program that would help generate employment for both Lebanese and Syrians," he said. "The second is to provide education opportunities to displaced Syrians, including non-formal education, technical, and vocational training."

### US launches military strike on Syrian airbase

The United States launched a military strike against a Syrian airbase early on April 7 in response to the Syrian government's chemical attack on Khan Sheikhun just three days prior. Navy warships stationed in the Mediterranean launched 59 Tomahawk missiles at the Syrian airbase near Homs, from which the chemical attacks were allegedly launched. The Syrian government denied using chemical weapons, but an investigative panel commissioned by the UN Security Council announced in October that it had determined with confidence that the Syrian Air Force was behind the attack, and that the government had used chemical weapons it had promised to destroy in 2013. The missile attack was the first acknowledged US strike against the Syrian government, and represented a dramatic shift from US President Donald Trump's previous approach to Bashar al-Assad's government, which had moved away from trying to unseat the Syrian president.

### Hezbollah flaunts weapons in a controversial border tour

Hezbollah invited dozens of journalists on an unusual tour in southern Lebanon on April 20, parading its armed fighters in front of cameras and allowing reporters to peek across the border at Israeli defense installations that Hezbollah officials claimed were an indication of Israel's growing fear of the group's military wing. A UN Security Council resolution bans Hezbollah from carrying arms in southern Lebanon. The press tour drew intense criticism from Lebanese politicians, and Prime Minister Saad Hariri made his own border visit the following day, where he remarked, "I'm visiting the south and the Blue Line today … to thank our troops, and to tell the Lebanese Armed Forces that they, and only they, are the legitimate force in charge of defending our borders."


### Taliban attack devastates Afghan army base

Disguised as Afghan soldiers, 10 Taliban fighters entered a military base belonging to the Afghan National Army on April 21, opening fire and detonating at least two suicide vests throughout the course of a nearly five-hour battle. Many of the soldiers on the base were unarmed, having just finished Friday prayers. Official estimates said 140 soldiers were killed and 160 were wounded, but an Afghan news agency reported that the attack left more than 250 soldiers dead. The Taliban said four of the gunmen were former soldiers who had served at the very base they attacked.


ARMANI.com

# LAST YEAR

## MAY

### MEA fleet to grow by one-third

Middle East Airlines, the Lebanese flag carrier, announced on May 4 that it had ordered 10 new airplanes from Airbus. Five of the A321 airplanes were slated to arrive by 2019, and the other five by 2021, said Mohamad al-Hout, the airline's chairman. MEA currently flies 18 airplanes to 32 locations. Hout also announced the launch of a codeshare agreement with Turkish Airlines for flights between Beirut and Istanbul.

### Lebanon blames Israel for telecom hack

During a May 11 speech by Hassan Nasrallah, the leader of Hezbollah, around 10,000 Lebanese phones lit up with anti-Hezbollah text and audio messages. "Nasrallah continues to lie," said one of the messages, which was sent via WhatsApp. The following day, the government blamed Israel for the messages, which it said were sent when Israel used "sophisticated technology" to break into Lebanese telecom networks and make it appear as if the messages were coming from inside Lebanon. Israel was accused of a similar hacking attack during the 2006 war.

### Hariri attends Arab Islamic American summit in Saudi Arabia

Prime Minister Saad Hariri traveled to Riyadh on May 21 to attend the Arab Islamic American summit, which brought together 50 Arab and Muslim leaders, plus US President Donald Trump, who was on his first foreign trip since taking office. Hariri's attendance drew controversy among Lebanese politicians, who asked why the prime minister was invited to represent the country rather than President Michel Aoun, the Lebanese head of state. In a speech at the summit, Trump praised Lebanon for welcoming Syrian refugees and contributing to regional security, and lashed out at Iran and Hezbollah for destabilizing the region.

### Central bank governor gets a fifth term

Riad Salameh, the long-serving governor of Banque du Liban, Lebanon's central bank, was reappointed for a new six-year term on May 24. He had already served four terms in the role, which he was first appointed to in 1993. Rumors had swirled earlier that Salameh had submitted his resignation, sparking concern because of his record of keeping the Lebanese economy relatively stable throughout a battery of crises. Salameh's reappointment came among mounting threats of new American sanctions against Hezbollah and its supporters.


### Car bomb rips through Kabul's diplomatic quarter

More than 150 people were killed and more than 400 were injured when a truck exploded outside the German Embassy in Kabul on May 31, marking one of the deadliest attacks in the country since the US invaded in 2001. The truck appeared to have been attempting to enter the Green Zone, a heavily fortified quarter that houses foreign embassies and the headquarters of coalition forces.

### "Wonder Woman" banned in Lebanon

Just hours before "Wonder Woman," an American-made superhero film, was set to premiere in Lebanon on May 31, the Ministry of the Interior announced that it would be banned in the country. The film had already cleared the usual screening procedures and had been widely promoted in the leadup to the premiere. The government's announcement came after a campaign to boycott the film over the leading role of Gal Gadot, an Israeli actress. The group highlighted Gadot's military service, which is compulsory for most Israeli citizens.


ABC
VERDUN
Your True Neighbor

# LAST YEAR

## JUNE

### London hit by two vehicular terrorist attacks

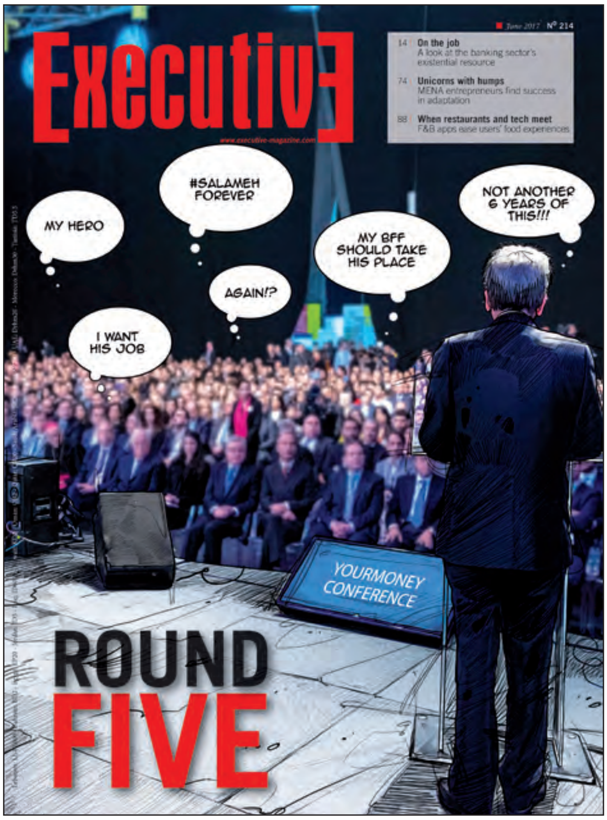
A van plowed through pedestrians on the sidewalk of London Bridge on June 3, hitting several people before it crashed. When the vehicle came to a stop, its three occupants ran into the Borough Market neighborhood, just south of the bridge, and began stabbing restaurant and bar patrons. The attack, for which Daesh later claimed credit, killed eight people and injured another 48. London also suffered a vehicular attack on June 19, when a van drove into a group of people administering first aid to a man who had collapsed near London's Finsbury Park Mosque after an evening prayer. The attacker was reported to have said, "This is for London Bridge."

### Four countries break ties with Qatar

Saudi Arabia, the United Arab Emirates, Bahrain, and Egypt made a coordinated announcement on June 5 that they would cut ties with Qatar, which sits on the Gulf Cooperation Council along with Saudi Arabia, the UAE, and Bahrain. Saudi Arabia closed Qatar's only land border, while the quartet closed their airspace to Qatari aircraft and blocked Qatari ships from docking at their ports. The group accused Qatar of financing terrorism around the world. Qatar has acknowledged assisting the Muslim Brotherhood, but denies links to groups like al-Qaeda or Daesh. The announcement came just one day after US President Donald Trump visited Saudi Arabia, and after the announcement, Trump tweeted in support of the blockade. The countries behind the boycott demanded that Qatar curb its ties with Iran, Saudi Arabia's regional rival and Qatar's close ally, shut down the influential and widely consumed Al-Jazeera TV network, and sever ties with "terrorist organizations" including the Muslim Brotherhood and Hezbollah.

### DSL prices plummet, but internet speeds still slow

Prices for internet access were cut by nearly half when the government announced a new pricing scheme for DSL connections on June 7. Under one new plan from Ogero, the state-owned telecom provider, 50GB of data without a speed cap would cost LL30,000 per month. Internet speeds throughout the country are still slowed, however, by outdated copper connections.




### Long-awaited elections law sets up 2018 vote

Lebanon's cabinet approved an elections law on June 14 that tees up a vote in May 2018, staving off political crisis and resolving a longstanding dispute over the electoral revamp. Parliament ratified the new law on June 16, replacing Lebanon's winner-take-all electoral system with a more nuanced system that allocates seats by proportional representation. The new law reshuffles some of Lebanon's electoral districts and makes changes to the way voters choose candidates and lists. It also extends Parliament's term for a third time, further prolonging a tenure that was originally meant to expire in 2013.

### Former Ogero chief released on bail

Abdel Moneim Youssef, the former head of Ogero, was released from prison on bail on June 19, after the end of a corruption trial during which he was charged with misappropriation of funds. He was accused of misusing millions of dollars during his time as head of the state-owned telecom provider. The case involved accusations of Ogero's involvement in unlicensed networks.

# LAST YEAR

## JULY

### Four Syrian refugees die in army custody

At the end of June, army raids on two refugee camps near the Lebanese border village of Arsal turned deadly when a young girl was killed and seven Lebanese soldiers were wounded following a spate of suicide bombing attacks.

In the aftermath of the attacks, the Lebanese army detained 356 Syrian refugees, four of whom—Mustafa Abdul Kareem Absi, Khalid Hussein Moulays, Anas Hussein Al-Hsaikeh and Othman Merhi Moulays—later died while in custody. The army released a statement on July 4 announcing these deaths and stating that they were due to pre-existing health conditions. Human rights groups, however, alleged that the detainees were tortured and called for a full investigation.

### Former Ogero head walks free

The case against Abdel Moneim Youssef, the former head of the state-run telecommunications company, Ogero, was closed on July 6, with local media reports citing a lack of evidence. Youssef had been accused of corruption in his dual roles as both director general of Ogero and director general of maintenance and operations at the Ministry of Telecommunications—a role meant to oversee his other position.

### Lebanon approves first large-scale wind farms

Permits for Lebanon's first large-scale wind farms were approved on July 12, moving forward a project to build three wind farms in the Akkar region. The wind farms will have a potential output of 200 megawatts, which, together with plans to license up to 180 megawatts of solar generation, mark steps toward helping Lebanon reach its stated goal of having 12 percent of its electricity generated by renewables by 2020.


### Interior ministry bans all demonstrations

On July 16, Interior Minister Nouhad Machnouk banned all demonstrations in Lebanon in response to planned protests by Syrian activists against the alleged mistreatment of Syrian refugees, following the deaths of four individuals while in army custody earlier in the month. The ban covered all demonstrations within the country, regardless of cause, and was cited as necessary to "preserve security and civic peace," according to a tweet from Machnouk.

### Hezbollah battles Daesh on Arsal outskirts

On July 22, Hezbollah and the Lebanese army launched a joint offensive to clear Daesh and Jabhat Fatah Al Sham militants from the border area surrounding the Lebanese village of Arsal.

After nearly a week of fighting, the death toll included two dozen Hezbollah fighters and more than 150 militants. Hezbollah leader Hassan Nasrallah declared that the group was close to a "very big military victory" in a televised speech on July 26. The following day, a ceasefire agreement negotiated through General Abbas Ibrahim, head of Lebanon's general security directorate, was announced. Hezbollah halted all fighting in the area while an evacuation agreement was struck that saw militants transferred with their families to Idlib.

### Hariri meets with Trump during five-day visit to the US

Prime Minister Saad Hariri kicked off his US visit on July 25 with a White House meeting with US President Donald Trump. Speaking together at a news conference, the two leaders pledged solidarity against terrorism, and Trump praised the role of the Lebanese army in keeping the country safe. Trump also made several comments about Hezbollah, an integral part of Hariri's government despite being labeled a terrorist organization in the US, leading commentators to question the president's understanding of Lebanese politics.


A statement of unlimited opportunities, the all-new BMW X3 is your perfect partner – always on, no matter the time or space. It impresses with a broad range of innovative features starting with the Display Key, Gesture Control, Touch Screen and Driving Assistant Plus – just to mention a few, supported by 250hp under the bonnet. Experience the all-new BMW X3 now during a test drive.

**Bassoul-Heneine sal**
Sed El Bauchrieh: 01-684684/5
Ain El Mreisseh: 01-360708/360779
www.bmw-lebanon.com

# LAST YEAR

## AUGUST

### Lebanon's rape law partially repealed

On August 16, Parliament voted to abolish Article 522 of the penal code, which allowed rapists to escape persecution by marrying their victims. Known as Lebanon's "rape law," it had been the subject of repeated campaigns from women's rights organizations in Lebanon. Repealing of the law was the latest in a series of recent victories in the region for women's rights, but activists said that more still needed to be done. Two articles, 505 and 518, remain in force, and give rapists a free pass if the sexual assault is committed against a minor (ages 15-18), and there was a prior agreement of marriage.

### Lebanese army secures decisive victory over Daesh

The Lebanese army succeeded in a 10-day offensive, that started on August 19, to clear Daesh militants from the outskirts of the northeastern border towns of Ras Baalbek and Al-Qaa. Daesh withdrew from the area on August 28 as part of a ceasefire agreement negotiated by Hezbollah that also saw the militant group retreat from the Qalamoun region on the Syrian side of the border. The ceasefire agreement included the transfer of ISIS militants to the eastern countryside of Deir ez-Zor and came under criticism from Iraqi officials. On August 30, buses carrying the militants were targeted by the US-led coalition forces.

### Remains of final missing soldier found

On August 29, the remains of the final missing Lebanese soldier, Abbas Medlej, were found in Rahweh on the outskirts of Arsal. Though still to undergo DNA results to confirm Medlej's identity, it marks the end of a three-year long ordeal for the families of those soldiers who were kidnapped by Daesh and then-Nusra Front militants in August 2014, when the northeastern border town of Arsal was briefly overrun. The fate of the missing soldiers was finally confirmed as part of a ceasefire agreement with Daesh.

### Lebanon passes first animal welfare law

Lebanon signed its first ever animal rights law on August 29, after years of campaigning and lobbying by Animals Lebanon, an animal rights' organization. The law governs the protection and welfare of live animals and the regulation of establishments that handle them, such as pet shops, zoos, slaughterhouses, and farms. The law also strengthens Lebanon's 2013 commitment to the Convention on International Trade in Endangered Species. Mechanisms to enforce the law have yet to be put into place, however, penalties range from fines to up to four years of imprisonment.

### New taxes frozen pending further study

On August 31, the Constitutional Council froze the newly passed tax law following an appeal from the Kataeb Party.

The new taxes were signed into law and published in the Official Gazette just one day prior to the council's decision. The majority of the tax hikes were intended to be effective immediately, despite the ongoing controversy over their implementation.

While revenues from the new taxes had not been allocated to pay for any specific measure, pundits and politicians alike have linked them to the salary scale rise and accused the government of paying for the public sector wage rise by taxing Lebanese citizens. Those opposing the tax hikes argued that the VAT raise in particular would inflate the cost of basic goods.


ALL-NEW
2018 TRAVERSE
MAKING EVERY RIDE COUNT
STARTING AT
$39,999
EXCL. VAT
TRAVERSE
Sometimes, a little extra room can bring everyone together. The all-new 2018 Traverse is for the go-getters, the adventure seekers, the family that's always in motion and anyone else who finds meaning in the everyday drive. Because no matter where you're headed, this midsize SUV has the technology, safety and capability to take you there.
CHEVROLET COMPLETE CARE
FIND NEW ROADS™
V6 - 310HP – 9 SPEED AUTO - 8 SEATER
CHEVROLET

# LAST YEAR

## SEPTEMBER

### Lebanon's tap water highly contaminated

On September 5, it was reported that Lebanon had the second-most contaminated water supply in the world, behind the US.

An investigation by Orb Media found that 83 percent of the world's tap water is contaminated by microplastics, tiny plastic fibres. Lebanon's tap water was the second-most polluted in the world at 93.8 percent, compared to 94.4 percent in the US.

New studies have found that the tiny plastic fibers are everywhere, not just in oceans but also on land, in food, in the air, and in tap water, leading to urgent calls for research their effects on public health.

### National Day of Mourning

A national day of mourning in honor of the 10 Lebanese soldiers killed by terrorist organizations was held on September 8. President Michel Aoun and Army Commander Major General Joseph Aoun gave speeches to crowds assembled at the Defense Ministry in Yarze during the state funeral for the soldiers, eight of whom had been kidnapped, during clashes with Daesh and what was then known as the Nusra Front in Arsal in 2014.

Until August 2017, the fate of these soldiers was unknown, but their remains were recovered as part of a ceasefire deal negotiated as the Lebanese army expelled Daesh militants from the Lebanese side of the Syrian border area.

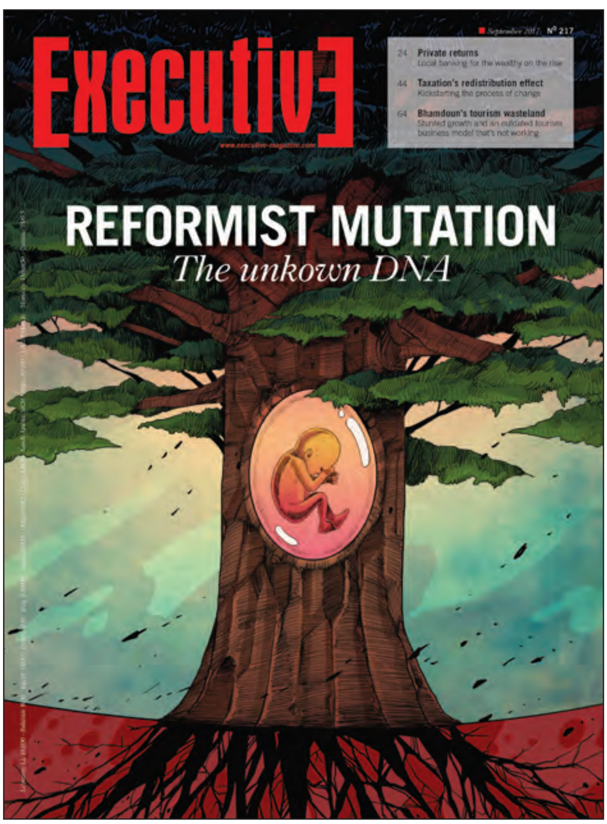
### Lebanon delays oil licensing round

Lebanon's energy ministry extended the deadline for bids in the first licensing round of offshore oil and gas exploration on September 8, moving it from September 15 to October 12.

The extension was the latest in a three-year delay caused by political deadlock. On September 19, however, Parliament passed a petroleum tax law ahead of the new bidding deadline in October. Lebanon has pre-qualified more than 50 companies to bid for the licences.

### Arrest of 19 Daesh militants

Following a sudden flurry of security alerts issued by foreign embassies, the army announced on September 15 that it had arrested 19 people connected to Daesh on suspicion of planning terror attacks in Lebanon.




Army intelligence said it discovered a cell led by an Egyptian national named Fadi Ibrahim Ahmed (known as Abu Khatib), who was hiding in the Ain el-Hilweh refugee camp.

The announcement came as Lebanese authorities sought to calm the panic that the security alerts had raised, with Interior Minister Nouhad Machnouk tweeting that the Lebanese authorities were checking the authenticity of these threats and that there was "no need for fear or exaggeration."

### Ramco wins Beirut trash tender

The ongoing process over choosing a replacement for Sukleen, the company contracted to pick up the capital's trash, moved forward on September 15 when Beirut Mayor Jamal Itani announced that a joint venture between Lebanese company Ramco and the Turkish Atlas Group had been selected.

The pair is scheduled to take over from Sukleen in February 2018, and will also be responsible for implementing a new recycling system to help cut down on waste. But the announcement was not without controversy, as representatives of the civil society movement Beirut Madiniti noted that the tender is still awaiting a final decision from the Court of Audit, casting doubt on to the timing of the decision.

MONT
BLANC
Inspired by performance
TIMEWALKER
Hugh Jackman and
the new TimeWalker
Chronograph
The new TimeWalker Chronograph is inspired
by performance and the spirit of racing.
montblanc.com/timewalker
Crafted for New Heights.
GOODWOOD
FESTIVAL OF SPEED
GOODWOOD ROAD RACING COMPANY
Official Timing Partner of the
Goodwood Festival of Speed.
TAMER

# LAST YEAR

## OCTOBER

### Amended tax bill addresses high court's objections

After the Constitutional Council, Lebanon's highest court, struck down a sweeping new tax law in September, Parliament passed a revised version on October 9. Like the original bill, Law 45, the revised Law 64 put in place tax increases like a 1 percent hike to the value added tax, or VAT, and a 2 percent bump in corporate taxes. Politicians have said that the taxes are meant to line up new revenue in order to cover a long-awaited public-sector wage increase.

### US ratchets up pressure on Hezbollah

On October 10, the US State Department announced bounties worth $12 million for information that would lead to the arrest of two senior Hezbollah officials, both of whom have been on a list of foreign terrorists for years. US counterterrorism officials said the move was part of an intensifying campaign against Hezbollah, which they said aspires to "carry out attacks here in the homeland." Hezbollah officials denied the accusations and denounced the move as an effort to "demonize" the group. Earlier in October, the US House of Representatives passed several bills that propose new sanctions against Hezbollah. The Senate passed a different version of one of the bills, but as of this writing, no bill has passed both houses.

### Hundreds of judicial appointments approved

President Michel Aoun signed off on a proposal to appoint more than 400 judges and fill 90 vacant posts on October 10. According to local reports, several politicians intervened in order to secure top judicial positions for their preferred candidates.

### Two bids come in for offshore oil and gas exploration

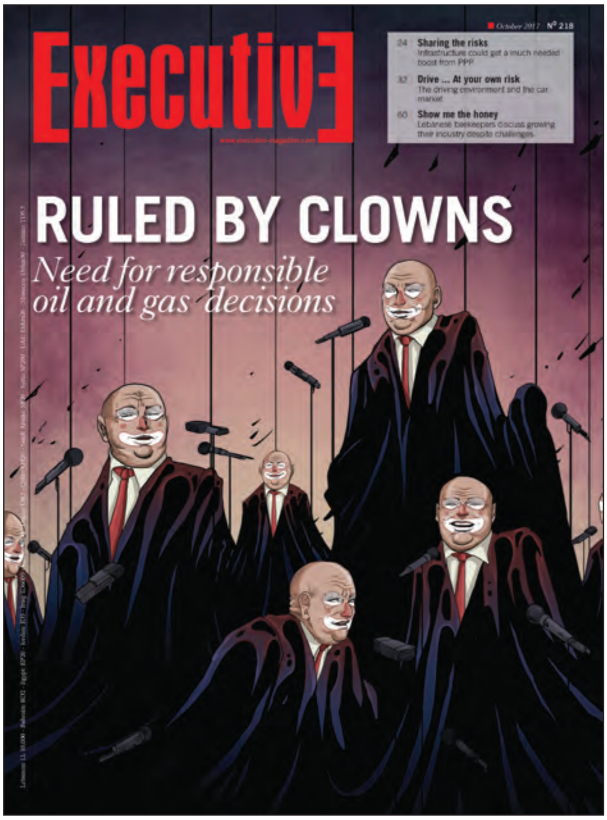
A consortium made up of companies from France, Italy, and Russia made bids on two of the five offshore blocks that Lebanon has made available for oil and gas exploration, the government announced on October 12, bringing a protracted bidding process closer to the finish line.

Lebanon passes first budget in over a decade

In a landmark legislative victory, Parliament passed Lebanon's first budget in 12 years on October 19. The budget law broke a long cycle of unchecked government spending and revenue collection, bringing the Lebanese state just a little closer to normalcy. Previous attempts at passing budgets had been held up by a constitutional requirement that the Court of Accounts first complete an audit of past spending—an impossible task without a budget to compare against—so the October bill gave the court a one-year extension. The delayed audit could again become a sticking point when it comes time to hash out the already late 2018 budget.

### Watered-down anti-torture law finally passes

Parliament passed a law on October 19 formally criminalizing torture, moving forward on a proposal that had languished without a vote for years. The bill came several months after reports that the Lebanese army tortured four Syrian detainees arrested in a refugee camp, leading to their deaths. Civil-rights groups were disappointed by the final bill, which was considerably weaker than the draft originally proposed five years ago. But an analysis from Human Rights Watch offered guarded optimism after the bill passed, stressing that its success hinges on the Lebanese government's willingness to prosecute offenders under the new law.



# LAST YEAR

## NOVEMBER

### Prime Minister Saad Hariri resigns—then un-resigns

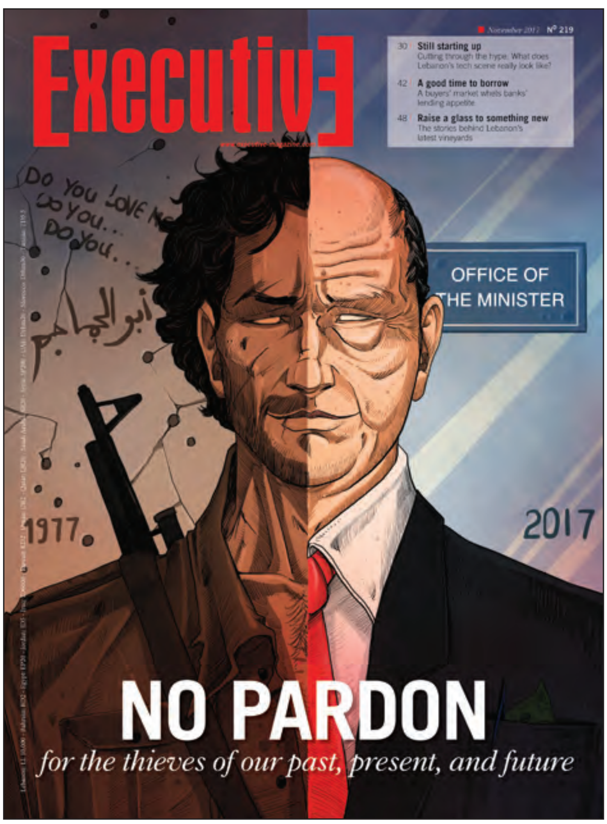
During an unscheduled trip to Saudi Arabia, Prime Minister Saad Hariri announced his surprise resignation on live television from Riyadh on November 4, decrying Iran's regional meddling, warning of Hezbollah's ever-increasing influence in Lebanese politics, and alluding to threats on his life. The speech kicked off a period of extreme uncertainty in Lebanon. President Michel Aoun refused to accept the prime minister's resignation until he submitted it in person in Beirut and explained his reasoning. But Hariri stayed away from Lebanon for weeks, sparking rumors both on the street and in the highest ranks of government that he was being held against his will in Saudi Arabia. A long, uncomfortable interview with his own political party's TV station on November 12 did little to alleviate the whispers. At last, Hariri traveled to Paris on November 17, where he met with French President Emmanuel Macron and other French officials. Finally, on November 21, the day before Lebanese Independence Day, the prime minister made good his return, having built up widespread popular support during his absence. He announced that he would postpone his resignation, and eventually rescinded it in December, staving off the collapse of his government but leaving many questions unresolved.

### Hezbollah rejects resignation

In a speech on November 10, less than a week after Hariri announced his resignation and slammed Hezbollah for its ties to Iran, the group's secretary-general, Hassan Nasrallah, gave a speech rejecting Hariri's resignation and suggesting the prime minister's hand may have been forced. Nasrallah denounced what he called Saudi meddling in Lebanese affairs, and declared that the current government, which prominently features Hezbollah and its allies, would continue unhindered.

### Gulf countries call on citizens to leave Lebanon

The governments of Saudi Arabia, the United Arab Emirates, Bahrain, and Kuwait urged their citizens to leave Lebanon as tensions mounted in the week after Hariri's surprise resignation. Saudi Arabia's minister of Gulf affairs went so far as to accuse Lebanon of declaring war on the kingdom because of what he described as Hezbollah's aggression. The travel warnings briefly threatened the Lebanese tourism and hospitality sectors, which depend in large part on high-spending visitors from the Gulf. Previous travel bans from the Gulf took a toll on the industry, which began taking steps to expand its appeal to visitors from other Arab countries and from Europe.




### Earthquake on Iran–Iraq Border kills more than 500

A magnitude 7.3 earthquake struck northwest Iran on November 12, just kilometers from the Iraqi border. The earthquake killed more than 500 people in Iran and left nearly 7,500 injured, as buildings, many built to house low-income Iranians, collapsed. Iraqi media reported fewer than ten deaths and more than 500 injuries in the country.

### Egypt suffers deadliest terrorist attack in modern history

An attack on a Sufi mosque in Egypt's Sinai Peninsula left more than 300 people dead and wounded more than 120 others. Militants carrying Daesh flags detonated a bomb inside the mosque during Friday prayers on November 24, then sprayed bullets at fleeing worshippers from the main entrance and the mosque's windows. It was the deadliest terrorist attack in Egypt's modern history, according to government officials.


بنك بيروت ش.م.ل.
Bank of Beirut s.a.l.
Banking Beyond Borders
VISA
FIFA WORLD CUP RUSSIA 2018
worldwide partner
2018 FIFA World Cup Russia™
Your next goal, thanks to VISA
Use any of your Bank of Beirut VISA cards to win 2 packages to the 2018 FIFA World Cup Russia™ courtesy of Visa.
* Offer valid till January 31st
T&C apply
Lebanon | Australia | UK | Germany | Sultanate of Oman | Cyprus | UAE | Nigeria | Ghana
www.bankofbeirut.com
24/7 Customer Service
1262 | +961 5 955 262

# Five decades of whisky with The Dalmore's Richard Paterson

Spending over half a century in the whisky industry is no mean feat, so when Richard "The Nose" Paterson, master distiller for Scotland's The Dalmore, visited Beirut we took the opportunity to discuss the man, the brand, and the spirit.

**How did your journey in the whisky business begin?**

It ran in my family for a long time. When I was eight my father took me to his bonded warehouses—he wanted to show me his world. I could see the silhouettes of the casks, there was a dampness about it, and even the noises of the city were silenced. He handed me a glass and asked that I tell him something about it. I didn't know what he meant. He said, "Is it as heavy as your grandfather, as light as your mother, as sweet as your chocolate bar, or as dusty as the floor?" I never drank it then, but I looked at nuances. Now, when I walk into warehouses I have that same feeling, I smell and hope that some of it will reflect in the whisky.

**What makes The Dalmore different from other brands?**

For a start, where it is located. All 120 distilleries in this part of Scotland are individual. [Our] stills are large and bulbous, therefore you get more complexity. More importantly, the wood makes it special. I make sure to get casks that will be comfortable with the whisky. [We use] American white oak that previously held bourbon, [like other distilleries]. But we go one step beyond. We buy Spanish sherry casks, leave five liters of sherry in the cask [for a while], so the wood is absolutely saturated. It draws the goodness from the [sweet] sherry, and elevates The Dalmore above the other whiskys. This is a heavy style. Each expression uses a different set of casks, but The Dalmore's DNA is always the same: chocolate orange.

**Do you have a favorite?**

I love them all but the King Alexander really shines. The assemblage of port, madeira, marsala, cabernet sauvignon, and matusalem sherry, [and American white oak] gives us very special effects; when you put them together it's like a box of chocolates.

**What's the best way to drink The Dalmore?**

No ice. If it's too strong, add a few drops of water, until it's right. A tip: Give whisky as much time in your mouth as its age. If it's 15 years old, give it 15 seconds. Don't knock it back. In a cocktail, a mixologist should make sure it's a combination of flavors. These things are personal, what's important is to enjoy it.

**Why do you think single malts are so popular now?**

[In the late 90s] it was about blended whiskies but malt whiskys had started to come in. Now people [especially the younger generation] are looking for innovation, something they can afford that's going to give them a memorable taste. And when you buy an expensive bottle you need to open it—it's not for looking at, it's for drinking and sharing.

**Is The Paterson Collection the most expensive whisky ever sold, for £1 million?**

As far as I'm aware. The 12 bottles are a one off collection with a journal, which took me a year to write. The young gentleman from China who bought it is a real connoisseur and will fully appreciate it. I'm happy it's going to him.

**What is something people should know about whisky?**

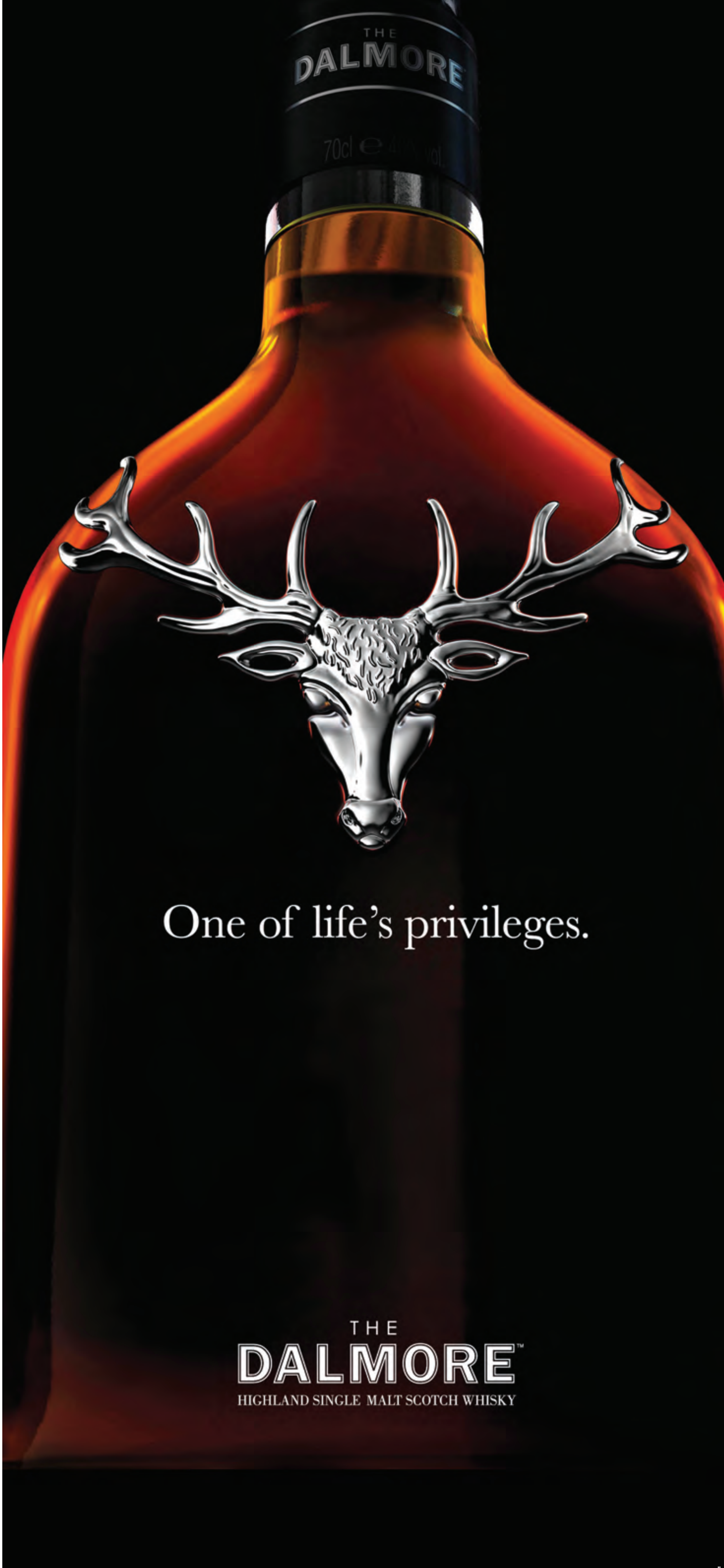
It's knowing the huge history behind it, remembering what's associated with it, how it came about. [For example] during Henry VIII's dissolution of the monasteries in 1536-1541 monks that were producing whisky came to Scotland and brought the art of distillation with them.

**What's the oldest whisky you've tasted?**

Of those that went into The Dalmore 64 years, the oldest go back to 1868. They are very special but old is not always better.

**After a long day do you unwind with a glass of whisky?**

I love wine but I finish off a lot of evenings with a single malt or even a cognac. The most important part is not drinking it but sharing it with someone you love.




REFORMS
I ♥ BUDGET
ECONOMY POLICY

# It was all going so well ...

**2017 was the year the Lebanese state began functioning again.** The election of President Michel Aoun in October 2016, and the return of Saad Hariri as prime minister ushered in an era of governing productivity the likes of which Lebanon had not seen in many years.

In the 11-month period since the election of the president and the appointment of a cabinet, the state managed to approve the first state budget in 12 years, pass new taxes, increase salaries for public sector workers, enact a new electoral law to oversee parliamentary elections scheduled for spring 2018, pass decrees that had stalled the country's first offshore oil and gas exploration licensing round for several years, and fill high-level positions within the security forces and the judiciary. These were necessary measures that only began to address the economic challenges and other difficulties the country will face in the coming year and beyond.

But this period appears to be short-lived. In November 2017, Hariri resigned as Lebanon's prime minister, only to rescind his resignation one month later after ruining his credibility in fantastic ways. With elections coming up, it seems more likely than not that officials will use their platforms to amplify and showcase what was done in the past year instead of what should be done in the coming year and beyond. What we have already seen is more of the same old tactics: political messaging focused on sectarianism or on a policy of disassociation from regional conflicts, instead of governance issues that impact the daily lives of those residing in Lebanon.

To those thinking of preparing to run in the upcoming parliamentary elections, remember the phrase famously coined by James Carville ahead of the 1992 American presidential election, "It's the economy, stupid."

By Jeremy Arbid

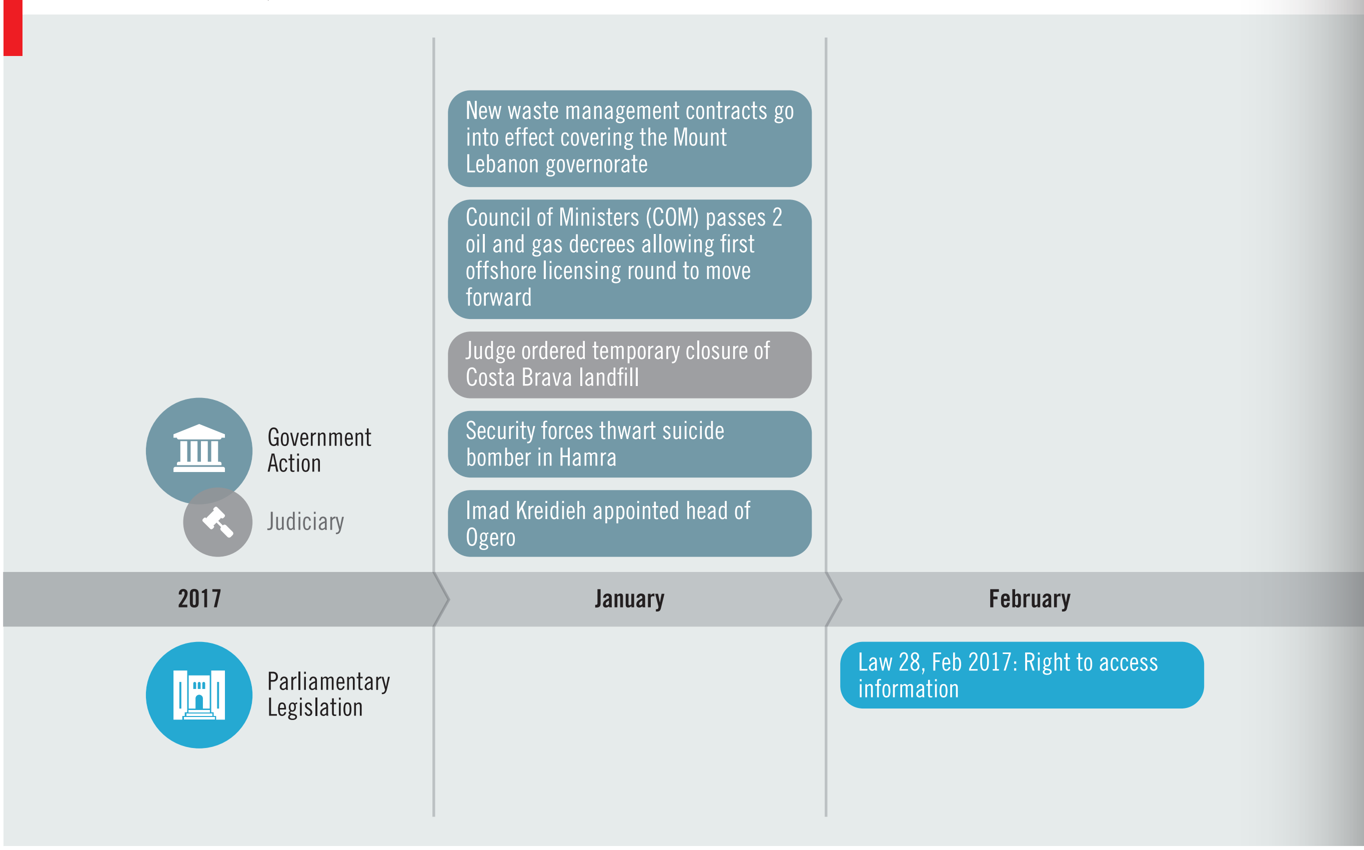
# Where do we go now?

## Lebanon's economy heads into 2018 on uncertain footing

**At the end of 2017, Lebanon does not know exactly where its economy stands because there is a lack of publicly available quantifiable data to suggest what direction Lebanon is headed in the coming year and beyond.** We know that the economy is in a bad way, thanks to a few high-level indicators like stagnant economic growth and rising levels of poverty. But we do not know whether or not we are on the cliff's edge, staring down into the darkness of the abyss that is an economic collapse. Rather, it seems our viewing lense is situated just far enough back to see that there are fundamental flaws within the economy, but the angle is not wide enough to know precisely where such fissures really are or how deep they go.

At the legislative level, 2017 saw several laws passed by Parliament that will directly impact the economy, such as tax increases, salary increases for public workers, and a state budget—as well as laws that will indirectly affect the economy, like an election law that should usher in the first parliamentary elections since 2009. And there have been political events, like the November 2017 resignation-turned-non-resignation of Prime Minister Saad Hariri that is hard to quantify in terms of its effect on the nation's economy. To be sure, the laws, decisions, and events of 2017 will affect the confidence of investors and consumers alike, but they

STATE ACTIVITY TIMELINE, JANUARY TO JUNE 2017



will leave their mark in ways that are not easy to forecast. It does not seem likely that Lebanon's economy will churn more powerfully in 2018, but the legislation at least does provide the bricks that are necessary for any country in the 21st century to build a brighter economic future.

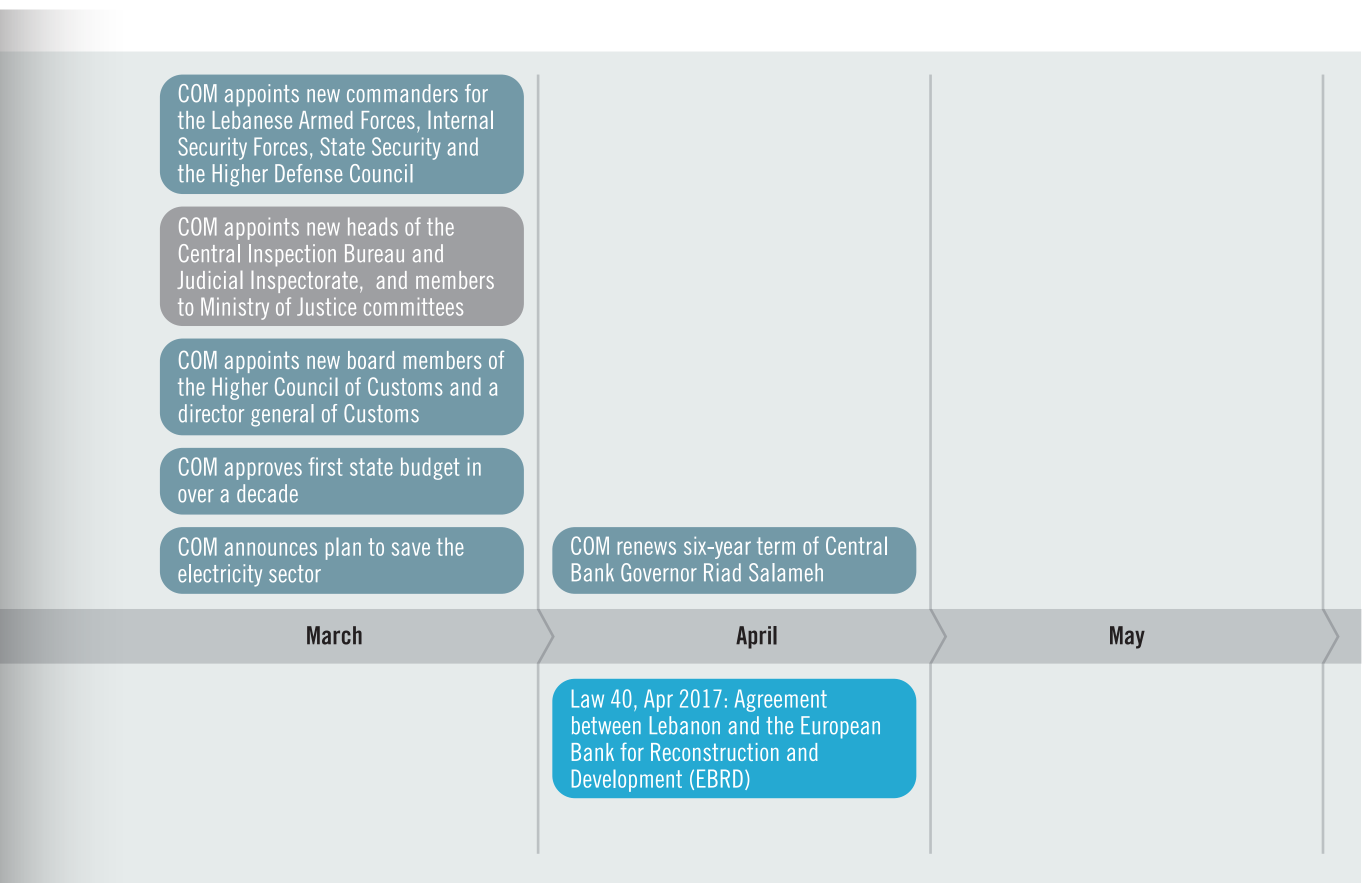
Despite the current and foreseeable difficulties that Lebanon faces, 2017 was a successful year for the government—at least in terms of providing the bare necessities of a functioning state. After such a long period during which the state was non-functioning, putting in place necessary fundamentals, such as regular elections and an annual budget, was good progress.

> Lebanese politicians must decide that what they really want is to govern, or decide that they do not, and resign

**MAINTAINING MOMENTUM**

This return to basic governance after a long absence can have a positive effect on the economy, if the government's work ethic is carried over into 2018 and beyond. Ahead of parliamentary elections scheduled for May 2017, certain Lebanese politicians must decide that what they really want is to govern, or decide that they do not, and resign.

Local politicians have for years ignored the country's economy, disregarding its weaknesses and providing no economic vision and no fiscal policy. With the passage of a state budget, the first in 12 years, Lebanon now has what it needs to begin articulating that vision and policy. But most politicians seem unwilling or incapable to make that a cornerstone of their electoral platforms for the 2018 elections, says Sami Atallah, director of the Lebanese Center for Policy Studies, a Lebanese think tank (see Q&A page 46). Instead, the traditional political parties seem more content to rehash the political messaging of the last decade, which has proven to be uncreative, unproductive, and detrimental to the state of Lebanon and its citizens. Atallah says that when it comes to campaigning ahead of the elections, the traditional political parties "will shift the debate somewhere else, to sectarianism or the disassociation policy or Hezbol-



lah's weapons, to divert attention from the real socioeconomic issues that matter to the people."

For Nicholas Chammas, chairman of the Beirut Traders Association, a political crisis like the one instigated by Saudi Arabia in early November 2017 could spell doom for the Lebanese economy next year. Chammas told Executive in a November 2017 interview that the Saudi–Iranian conflict "is reverberating across the Lebanese economy." Chammas added that the Hariri affair has already, in the month since, had a perceived negative economic impact. "People today are afraid to consume, let alone invest," he said. "And this is very deplorable because it is happening during the fourth quarter, which is most important [period] for the economy and the trade sector: It typically represents something like 35 percent of our yearly turnover. So if we lose momentum in the fourth quarter, it will be a dire sign heading into 2018." Any drop in economic productivity could not be solely blamed on the political crisis, and its impact cannot be isolated because the situation is fluid. But was the economic outlook bright for 2018 to begin with?

## THE CENTRAL BANK STEPS IN

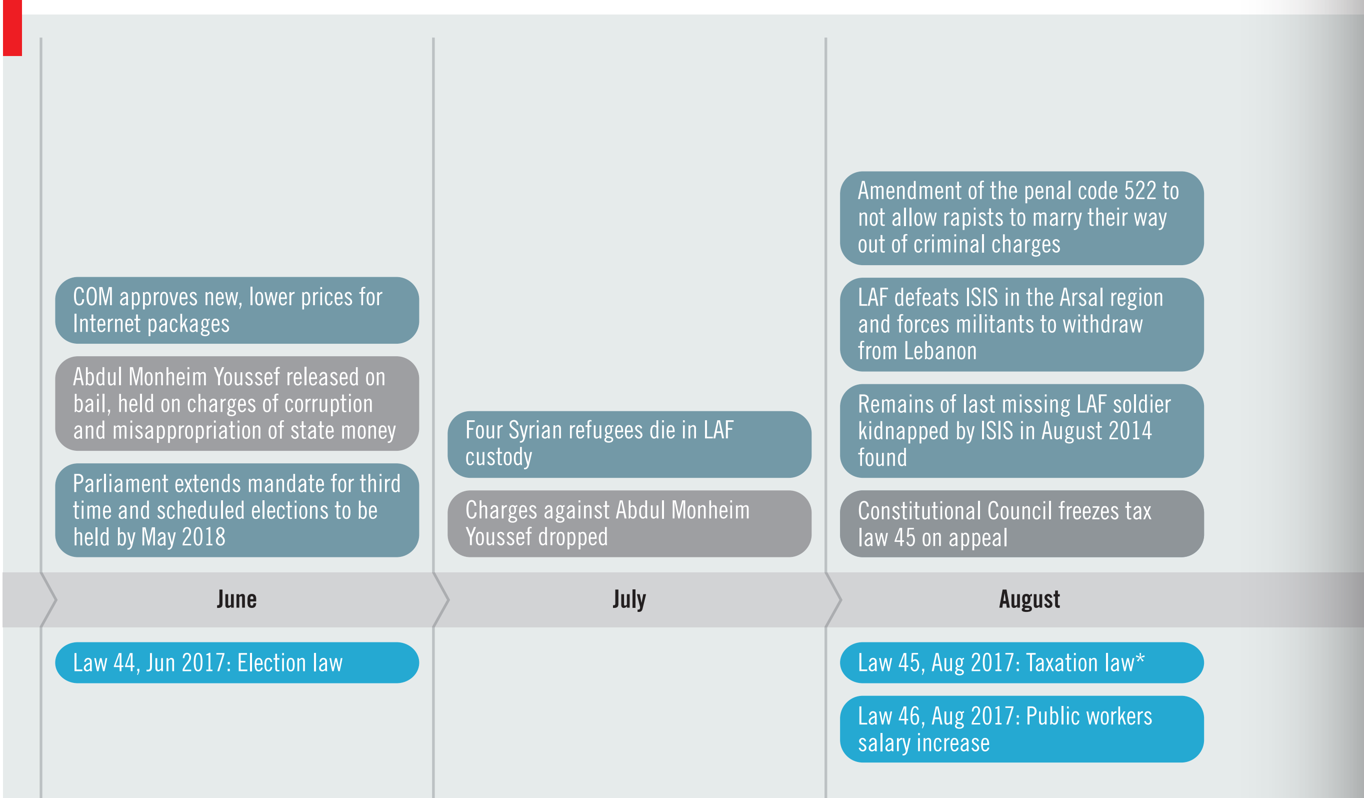
Riad Salameh, the governor of Banque du Liban (BDL), Lebanon's central bank, told a conference audience in November 2017 that he expected Lebanon's economy would finish 2017 with 2.5 percent growth, according to remarks published in *The Daily Star*. In September 2017, the director general of Lebanon's Ministry of Finance, Alain Bifani, told Executive that the ministry estimated that GDP growth for 2018 would "hopefully" reach 2.5 percent.

Following Hariri's shenanigans in early November, the Institute of International Finance downgraded growth projections for 2018 from 2.9 percent to 1.8. And the International Monetary Fund, which calculates its projections using government figures, expects only 1.5 percent growth for 2017, with its 2018 estimate coming in at around 2 percent.

As Atallah pointed out, the government has, in 2017 and in recent years, articulated no economic vision, and the recently passed budget—while necessary—does not begin to set out fiscal policy.

Enter BDL, which has for several years propped up the economy through its stimulus packages. Its

STATE ACTIVITY TIMELINE, JULY TO NOVEMBER 2017




*In September the Constitutional Council struck down tax law 45, ruling that the law violated the constitution.

latest package came in October 2017 in the form of Circular 475, which makes available up to $1 billion of financial facilities to local banks at the borrowing rate of 1 percent interest, if denominated in the local currency, or at interest rates up to the upper limit of the US Federal Funds Rate for dollar-denominated loans. The latest stimulus package, like previous ones was geared toward Lebanon's housing-related economic activity. The 2017 package is the fifth from the central bank since 2013. That year, BDL announced a stimulus worth up to $1.5 billion, followed by $800 million in 2014, and packages in 2015 and 2016 each worth up to $1 billion.

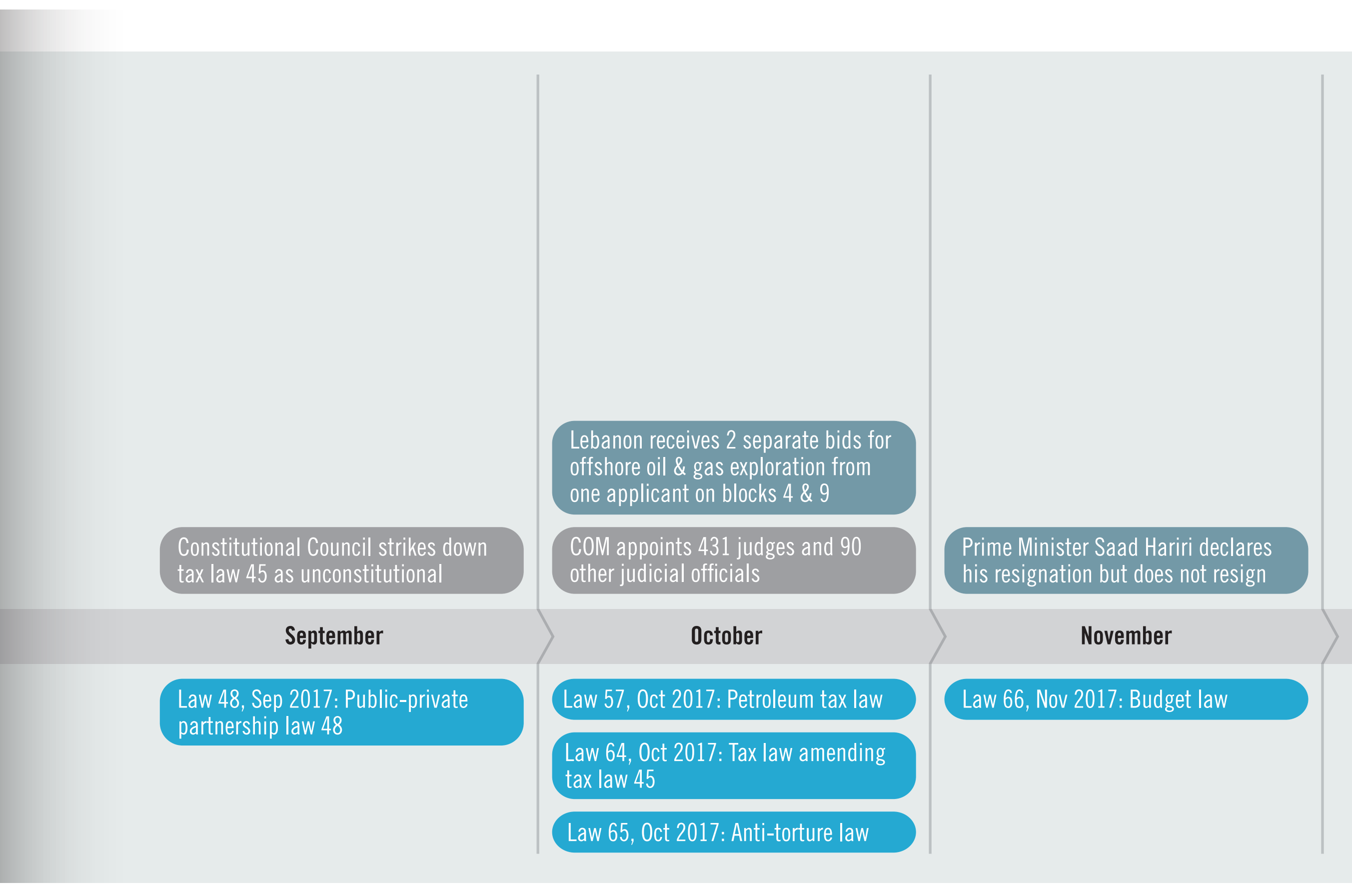
The central bank has increasingly taken on the role of a quasi-fiscal policy maker through the issuance of its stimulus packages. The stimulus packages provided by BDL are according to its priorities, which may not be redistributive but are aimed at maintaining monetary stability and keeping Lebanon's banks liquid. BDL's mandate by law is to maintain currency stability and to protect the banking sector, to maintain solvency, and to ensure overall growth conditions for the economy. Growth equality is not in its purview.

The Lebanese state has no plan for where to take the country economically in 2018 and beyond

**RUDDERLESS**

The Lebanese state has no plan for where to take the country economically in 2018 and beyond. Without such a vision for the national economy, set down in the form of a high-level and multi-year document, it will be difficult to articulate fiscal policies like spending priorities and where to maximize revenue collection.

In August 2017, Parliament passed a law that increased taxes and introduced new ones, including a 1 percentage point increase to the Value Added Tax (VAT) that brought it to 11 percent, a 2 point increase to the corporate tax rate that brought it to 17 percent, tax increases on interest of deposits and on dividends, and an increase in the capital-gains tax. The constitutionality of the tax law was challenged at the Constitutional



*Consumer confidence is a fickle beast*

Court, Lebanon's highest court, and was struck down in September, only to be re-legislated by Parliament with minor amendments in October. But in arguing their case to the public ahead of the high court's decision, self-proclaimed opposition lawmakers claimed that the taxation scheme affected Lebanon's lower class the most. At the time, EXECUTIVE's editors fact-checking the lawmakers' claim found the opposite: The new tax burden would hit mostly idle wealth. The editors concluded that "those who are blocking the tax measures are defending the rich by sticking up for the poor."

Spinneys CEO Michael Wright told EXECUTIVE in a November 2017 interview that most of the cost of the VAT raise, which will go into effect at the start of 2018, will be internalized by retailers. He opined that retailers will try to downplay the impact of the VAT raise, referring to what happened in 2002 when the VAT was first introduced in Lebanon. "In most cases, except for cars, it was a re-regulation of taxation policy, and a trade-off between implementation of VAT and a reduction of import duty, which in most cases ended up in a [price-]neutral position. Despite the neutrality of the price change, the consumers reacted terribly. [Sales] volumes dropped by 20 percent and never recovered, even though there was no change in prices. So I hope the Lebanese consumer won't panic when these VAT increases are implemented, because it will probably be absorbed into the system," says Wright (see Q&A page 192).

> I hope the Lebanese consumer won't panic when these VAT increases are implemented, because it will probably be absorbed into the system

The new tax measures have already negatively affected consumer confidence, according to third-quarter results from the Byblos Bank/American University of Beirut Consumer Confidence Index, which were released in December 2017. In a press release, Byblos Bank's head of research, Nassib Ghobril, explained, "The steep decline [of the index] in July, and its continuing decline in August and September, show that the negative impact of the tax hikes on sentiment is a lot more significant than any potential positive impact of the public-sector wage increase." Ghobril added, "The results clearly show that the massive tax hike will offset the much-hyped positive impact of the public-sector wage increase on consumption and, by extension, on economic activity."

In reality, nobody knows how taxes will play out over time, because they were not studied by the government or non-partisan organizations, and statistical modeling appears to not have been done. No one can determine who will benefit and who will be hurt, because there is no data.

The ad-hoc taxation impact might be felt in two years, and it has been driven by political interests and expectations, but not by modeling. No one can say how many households will be affected, because the government has no idea how many people live in Lebanon: No census has been carried out since 1932, and there are no reliable figures on the size of the tax base, the number of individual taxpayers or corporate taxpayers, or the size of the informal economy. Because there are so many variables and unknowns, the impact of taxation on the national welfare situation is not at all predictable.

Similarly, there is no statistical modeling of how the long-overdue salary increase for public sector workers will impact its beneficiaries, or of what will happen to the state's finances because of this new spending. Proponents of the new taxes argued that they were necessary to finance the new state spending, which came in the form of the salary increase. Alain Bifani, director-general of Lebanon's Ministry of Finance, told EXECUTIVE in a September 2017 interview about how many households would benefit, but Bifani was not accurately able to quantify the figure because some households have multiple members

in the public sector, and there is not a clear segregation of households and individuals that benefit from the salary increase. What the government's figures can show is the number of beneficiaries counted as individuals, but the government cannot compute that into a number of households. If the tax base is calculated using the number of households and not the number of individuals, it will be inaccurate.

Also starting in 2018, commercial entities will not only have to pay the increased tax for corporations, but they may be subjected to payment of an annual fee to keep current the commercial registration of their entity. According to lawyers Executive spoke with in November 2017, Law 20, which passed earlier in the year, requires payment of an annual lump sum for every business location, including its branches and points of sale. Offshore and holding companies are exempt, and the lump sum fee is not tax-deductible and is due even if the company makes losses. The law was an amendment to previous laws that went unimplemented, so its impact is unclear, and the number of companies that would be affected is not known, making revenue estimates unpredictable.

The downturn in Lebanon's economic output has pushed more people into unemployment or underemployment, and poverty rates have risen

## GRIM EMPLOYMENT NUMBERS

Even if the effects of new taxes, of the salary increase for public workers, and of the proper projection of state spending and revenue collection in the form of a budget for 2017 do begin to be measured in either quantifiably positive or negative ways, the economic feeling of many Lebanese citizens and non-Lebanese residents can be described as overwhelmingly anxious.

In the years since 2011, Lebanon's national economic growth has plunged to negligible rates, because of a region-wide economic depression and the disruption of trade routes with Lebanon's Arab neighbors due to the civil war in Syria. Lebanese exports have dropped by over $1 billion in the course if five years when comparing year-on-year numbers from 2012 to September 2017. In the same period, Lebanon's hospitality and tourism sectors have also been negatively affected because of of local political instability, security threats, and a travel boycott by some Gulf countries to Lebanon. While 2017 tourism numbers did signal a better year for Lebanon's hotels, Pierre Achkar, president of both the Lebanese Federation for Tourism Industries and the Lebanese Hotel Association, told Executive in a November 2017 interview (see page 166) that tourists have "started coming back in small numbers, and we did indeed see an increase in the number of Gulf tourists over the previous year—but it was nowhere near the numbers in 2010 and before."

The economic bleeding that is visible at the national level pales in comparison to the pain individuals felt in 2017, and they can expect no quick medicine to alleviate their economic suffering in the coming year. The downturn in Lebanon's economic output has pushed more people into unemployment or underemployment, and poverty rates have risen.

According to an International Labour Organization (ILO) model, estimates of the total unemployment rate among Lebanese nationals has hovered at just under 7 percent between 2011 and 2017. In the same period, total labor participation for Lebanese nationals older than 15 increased by one percentage point to 47 percent, with the number of people in the labor force rising to 2.2 million by 2017. Unemployment for Lebanese youth, which the ILO defines as the ages between 15 and 24, has climbed steadily to almost 22 percent.

While the employment figures might not seem great for Lebanese nationals, labor participation among the over 1 million UNHCR-registered Syrian refugees in Lebanon is outright bad. According to 2017's Lebanon Crisis Response Plan (LCRP), the ILO projected the size of the Syrian labor force in Lebanon at 384,000, and estimated that 36 percent were unemployed. The LCRP document also gives ILO figures showing that only 4 percent of Syrian workers reported to be working in Lebanon are skilled workers. Most Syrian refugee workers are employed in three sectors: agriculture (24 percent), services (27 percent), and construction (12 percent).

Mireille Girard, head of the UNHCR in Lebanon, told Executive in a November 2017 interview (see Q&A page 222) that the Lebanese economy is not generating enough jobs to absorb Lebanese workers into the labor force, not to mention Syrian refugees. She says competition between Lebanese nationals and Syrian refugees for jobs that would classify a laborer as underemployed (being below their level of education or trade skill, for example) has exacerbated the labor market's shortcomings, diminished earnings and household spending power, and has put relations between Lebanese and refugees on edge. "The level of Lebanese vulnerability has also increased in that there is very serious unemployment, because the economy is not generating jobs, and


*Life for Syrian refugees can only be described as grim*

skilled jobs are really not created, there is less construction and tourism, [and] there are [fewer] jobs in many sectors. People are going more and more into unskilled labor. This is creating a competition between the Syrian refugees and Lebanese, and this creates tension."

Girard told Executive that most Syrian refugees are underemployed, working on average only half the month. "The number of [refugees] that have secured a fulltime job is quite small. [At the] start of the month, [refugees] don't know how many days they will be able to work, which is extremely destabilizing, because they don't know if they will earn enough to pay for rent. We know refugees on average pay $200 for rent, $35 to $50 for electricit, and about $30 for water, per month. These are running costs, no matter what. For education, the costs are covered for Syrian and Lebanese in public schools, but there are transportation costs, clothes for children, and a number of other expenditures. If a refugee works two weeks a month and the daily labor rate is about $12 per day, that will be about $177 per month."

The figures on poverty rates for Lebanese are not pretty. The first target of the United Nations Sustainable Development Goals for Lebanon is to reduce the poverty rate to zero by 2030. Lebanon is far from achieving this goal, as the available statistics show. UNDP is preparing to update numbers on Lebanon's poverty rate, but the latest numbers are not yet available. What is available are 2008 poverty stats from a Ministry of Social Affairs and UNDP joint study, showing that then "28.5 percent of the Lebanese population (or 1.07 million individuals) were estimated to be poor, living on less than $4 per day. About 300,000 individuals were considered as extremely poor, living on less than $2.4 per day, and unable to meet their most basic food needs." A second study from 2015 from the Central Administration of Statistics, Lebanon's public statistician, found that before the Syrian refugee crisis began in 2011, "poverty in Lebanon was estimated at 27 percent."

As for Syrian refugees, the Human Rights Watch researcher Bassam Khawaja told Executive in a November 2017 interview that nearly 70 percent of the population lives below the poverty line only $3.84 per day, and that while data is limited, "all the assessments are that things are getting worse instead of better." Girard told Executive that worsening poverty and extreme poverty rates for Syrian refugees have made life increasingly desperate. "Between 2014 and 2015, 50 percent of Syrian refugees were below the poverty line; now it has become 70 percent. Twenty-five percent were below the extreme poverty line, or survival line, and that is now 50 percent. The level of vulnerability has increased dramatically."

> Ten calendar months of functioning governance were a welcome change after years of policy stagnation, but as 2017 came to a close, Lebanon was once again pushed from outside toward the unknown

**UNCERTAINTY LOOMS AGAIN**

It is rare to meet a resident of Lebanon who thinks that planning is possible in this country. Ten calendar months of functioning governance were a welcome change after years of policy stagnation, but as 2017 came to a close, Lebanon was once again pushed from outside toward the unknown. With an increasingly vulnerable refugee population, rising resident poverty, stagnation in economic growth, and external dangers creeping up on the economy's best-performing sector, it is nearly impossible to forecast what may come next.

By Jeremy Arbid

# Political maneuvering


Talking reform with Sami Atallah of LCPS

**According to elected officials, 2017 was a year of achievement for the Lebanese state.** After years of political polarization that prevented even basic governance, lawmakers made progress this year by passing the first state budget in 12 years, appointing officials to fill vacant positions in security, judicial, and other state institutions, and ratifying a new electoral law ahead of parliamentary elections scheduled for May 2018.

But these developments might not mean that Lebanese politics have fundamentally changed. Sami Atallah, the director of the Lebanese Center for Policy Studies, a Lebanese think tank, says the state's efforts in 2017 were probably more opportunistic than altruistic. Atallah says that Lebanese politicians are primarily looking to bolster their records ahead of next spring's elections, and that he does not foresee an opening for non-traditional party candidates in the coming election, unless they succeed in framing the debate on socioeconomic issues and offer serious solutions to address them.

**E** ***In November 2017, the parliament approved the first budget since 2005. What does this mean for law and policy-making?***

First and foremost, it's about time that the government submit a budget and the parliament approve it. Putting aside the content of the budget in terms of spending priorities and fiscal reform, the fact that the country was operating without a budget for the last 12 years indicates a governance failure par excellence. While the government was unable or unwilling to put together a budget, the parliament also failed to uphold its responsibility of compelling the government to submit one. In fact, the parliament has facilitated the improper behavior of the government by approving many laws of a fiscal nature, despite the absence of a budget. In effect, the parliament was giving the government a carte blanche and became an accomplice by further undermining public finance management. Through such a prism, one can see how the parliament, which ought to represent and protect public interests, seems at best incapable of doing so—not because of lack of authority, but because it chose to give up on its responsibilities and succumb to political paralysis that governed the period.

**E** ***But does the adoption of a budget suggest adherence to a more sound fiscal policy?***

No, it does not. Adopting a budget is a necessary action by the government and Parliament. Not doing so is a violation of the country's laws. Just because they passed a budget, it doesn't really mean that it carries any fiscal reform with it. It only means that the political elite have agreed on spending allocation and how to finance them.

Any serious fiscal reform should tackle some of the following: For one, they could revise the tax system in a way that reduces the tax burden on middle and low income groups. They could address the expenditure side of the budget. Although spending on public salaries and wages as percentage of GDP is not much higher than the international average, the public bureaucracy suffers from poor productivity. This is largely the doing of the same elite who were complaining about adjusting the salaries of the same people they recruited into the public administration for clientelistic reasons.

Any serious reform could also streamline social spending, which is mired with problems. Consider that several public ministries and agencies allocate money to the same sector, which undermines efficiency. For instance, the Ministry of Education, the Office of the Prime Minister, and the Council of the South can allocate resources to public education. Furthermore, social spending is not commensurate with outcomes. According to a study by Herera and Pang (2005), Lebanon utilizes 25 percent more input to "produce the same health outcomes [as] best practices countries" and "13 percent more input for education".

Fiscal reform could also allocate public resources based on equity rather than political considerations. The government could begin evaluating the efficacy of spending on various programs, including those at the Ministry of Social Affairs, whose budget is mostly allocated to charitable organizations. If it's serious about reform, the government could strengthen the public procurement process and reduce; if not, eliminate corrupt deals that have infested the public sector. It could also review the government's public properties and assess the extent to which the state is getting its fair share.

If serious about reform, the government could also adopt institutional reforms, including what is referred to as budget comprehensiveness, where all government spending is integrated into the budget. Currently, a fifth of such spending takes place outside the budget and without much scrutiny, consequently undermining efficiency and accountability. The government could also adopt a more transparent budget classification. There are already serious concerns about the credibility of the numbers that have yet to be addressed. These are some of the measures that the government or Parliament can adopt to demonstrate a commitment to reform. However, none of these were seriously brought up. In the last parliamentary debate, some MPs have managed to put on a show highlighting corruption concerns, but effectively, nothing happened. In brief, we're very far off from any reforms.

**E *Do you think the tax law and the salary-scale adjustment will begin to redistribute income and wealth in Lebanon?***

I do not believe the governing elite had redistribution of wealth in mind. Instead, they passed the legislation out of the imperativeness of the coming election. It's not a coincidence that previous salary-adjustment bills were passed prior to parliamentary elections. Lawmakers needed to pass the salary-scale adjustment, and the new public spending had to be financed. Imposing regressive taxes would have been counterproductive politically and electorally, so they needed to come up with a compromise. Politicians were stuck between satisfying their electoral bases at the expense of taxing the capitalists who they are very close to, if not from the same circle. Something had to give, so they imposed indirect taxes, like the Value-Added Tax [VAT] increase, but also increased taxes on capital in order to raise more funds to cover the gap of the salary adjustment bill.

We should keep in mind that in the past, lawmakers have favored legislation which indeed redistributed wealth, but in favor of the wealthy. Consider that tax reform in 1993 reduced the highest bracket on income from 45 percent to 10 percent, hence reducing the tax burden on those with high incomes. They have helped the rich avoid paying inheritance tax by exempting the selling, buying, and transferring of shares in real estate companies—which are often set up as holding companies for the family's assets—from taxes.

> "Just because you're a new face, and you're not corrupt, does not mean you have a solution"

Rather than making income tax progressive, the government relied on indirect taxes and fees to finance its budget. In 2003, the government introduced a VAT of 10 percent. The burden of the sales tax, which is paid by consumers, ends up falling disproportionately on the lower income groups. By 2011, the VAT became a significant source of revenue, making up almost one-quarter of total government revenue. These are just few examples to show how the government opted for taxing consumption rather than capital, hence reducing the tax burden on the rich while taxing those with limited income.

**E *Will fiscal and taxation policy, or other good governance issues, be important to voters in next spring's parliamentary elections? And, in your opinion, will any of the non-traditional political parties or non-establishment candidates stand a chance of picking up seats in Parliament?***

It's all about how you frame it. These independent movements could succeed in framing issues in such a way that they address people's concerns and needs head on. This would require a full understanding of the concerns and needs of voters, not just simply running on an anti-corruption platform. They would need to adequately articulate such a message to the people, which requires that the media be on board. They will also have to be ready to respond to or counter the narrative of traditional political parties, which will try to shift the debate to somewhere else, to sectarianism or the disassociation policy or Hezbollah's weapons, all in order to divert attention from the real issues that matter to Lebanese.

If the elite succeed in maintaining control, then there is very little chance for the independent movements to have a breakthrough. However, if independents can show that they're up to the fight, at least in terms of highlighting Lebanese people's concern, then the elite will find themselves in a battle they can't win because they have consistently failed to deliver basic services.

Many of our traditional leaders have no clue how to address these issues. This is not to romanticize civil society, because it needs to be up to the task of articulating solutions. Sometimes, I find civil society organizations and non-traditional independent politicians to be shallow in how they approach politics. Just because you're a new face and you're not corrupt doesn't mean you have a solution, so this is frustrating, too. Independents or civil-society activists who want to run for elections need to clearly articulate why they are running and the solutions they will be pushing for.

By Mounir Rached

# Fiscal performance and the debt outlook

## Lebanon needs growth oriented policies

**There has been quite a lot of concern regarding Lebanon's recent fiscal performance and its debt outlook.** In its Article IV reviews for Lebanon, the International Monetary Fund has repeatedly alerted officials that the debt burden could derail the government from attaining its economic objectives and could be the prime risk source on financial stability, stressing that a sustained and balanced fiscal adjustment is essential.

The election of a president and the appointment of a new prime minister in 2016 set the stage for a revitalization of Lebanon's policy making framework. The passage of the 2017 budget, the first in 12 years, indicated a new policy direction and added to the overall confidence and the potential for improved economic performance.

But fiscal performance was strongly affected by the crisis in Syria, which ushered in new challenges. The tax base stalled as economic growth nearly came to a halt, and the revenue share of GDP dropped from 22 percent in 2010 to 20 percent in 2016, further weakened by the removal of the VAT on diesel fuel in 2012.

At the same time, expenditure was burdened by a cost-of-living adjustment in 2012 that raised wages in that year by over 20 percent and maintained them at a higher level of GDP. Wages and salaries of public-sector workers have been rising annually by nearly 8.5 percent on average, a higher rate than that of any other expenditure component, accounting for 33 percent of total spending. Spending on debt servicing, which constitutes another major item of total spending at 32 percent, has been increasing with the rise in gross debt and the increase in interest rates. The recent wage increase will show its full impact in 2018. Subsidies to the public utility, Electricite du Liban (EDL), have benefited in recent years from the decline of oil prices in international markets—with transfers declining by over 50 percent—but remain a serious fiscal burden. Lebanon's capital spending has been quite low, at less than 5 percent of total spending, and is plagued by slow execution and managerial problems.

The 2017 approved budget adopted a number of tax-raising measures linked to new public spending via the wage increase rather than to an effort to address the fiscal imbalance. The international community has repeatedly warned of the seriousness of the fiscal outcome and the need to place it on a sustainable footing through both raising taxes and trimming spending. The recent move received broad international support.

In spite of the bleak performance and significant spending rigidities—mainly related to salaries and debt service—Lebanon's fiscal outlook has an optimistic side. A primary surplus (calculated by deducting interest payments from the overall fiscal balance) has been recorded since 2014, aided by the reduced fuel subsidy to EDL and occasional increases in non-recurrent transfers from telecommunications. During the first half of 2017, the primary surplus reached LL2.4 trillion ($1.5 billion). This, however, does not preclude the need for further adjustment, as Lebanon's public debt burden will continue to rise, adding to existing vulnerabilities and ultimately crowding out essential public investment and social spending.

**FISCAL OUTLOOK**

The recent wage increases, estimated annually at LL1.5 trillion ($1 billion), will further burden the spending bill, but the tax measures, at LL1.7 trillion ($1.13 billion), are estimated to generate enough revenues to exceed the wage-increase expenditure. The most prominent tax increases raise the corporate profit tax rate to 17 percent from 15 percent, raise the tax rate on interest income from deposits and LL treasury bills and bonds to 7 percent from 5 percent, raise VAT to 11 percent from 10 percent, and raise property capital-gains tax and a host of other fees and charges.

These measures were welcomed by the IMF because without them, the fiscal outlook could worsen significantly. Although the corporate tax hike has been criticized by some local businesses, the increase will raise the corporate tax contribution from a low 7.6 percent of total revenues to just 12 percent. Lebanon's dependence on direct taxation has traditionally been quite limited—the country has relied mostly on indirect taxation, which constitutes less than 4 percent of GDP and only 20 percent of total revenues. Compared to countries with equivalent income levels, Lebanon has a disproportionate dependence on regressive taxes.

The tax rate on earned interest has been effective in generating a higher direct tax rate, as Lebanon does not apply a global income tax and these earnings were largely exempted. VAT taxes, although raised to 11 percent—with extensive exemptions on spending of low income groups—are expected to have less of a regressive impact than has been predicted.

A key potential reform on the spending side would be to trim subsidies, especially to the power sector. This sector receives significant financial subsidies: EDL's fuel purchases are capped at $25 per barrel of oil, with the treasury covering the excess cost. EDL also sells electricity at the average fixed rate of 75 LL ($0.05) per kilowatt-hour to distributors, while subscribers are charged on average 133 LL ($0.09). This has resulted in a sector that is plagued with shortages and mismanagement. There is an immediate need for reform in the sector, which remains a large drain on the budget and a key bottleneck to improved competitiveness and equity. Other subsidies also constitute an added strain on the budget, mainly subsidies to NGOs providing supposedly social functions and loan interest subsidies in housing and other sectors, which bring total subsidies to over 10 percent of total spending—equivalent to one-third of the total deficit.

> The most important task before the government is to stabilize the debt-to-GDP ratio and gradually decrease it with growth-oriented policies

These indicators demonstrate that fiscal improvement with a positive impact on the economy could be introduced over a short period of time, and that it's quite feasible to cut the deficit in half by 2020. With a combination of spending cuts and revenue-raising measures, Lebanon can halt the slippage in fiscal finances and revert into a more solid and sustainable fiscal position. Lebanon has a revenue potential that can reach 25 percent of GDP by 2020 from the current 20 percent. With public investment and social spending remaining steady at 29 percent, this implies a significant cut in the deficit—to 4 percent of GDP.

Furthermore, there has been sustained international concern with the debt dynamics of Lebanon, but these concerns have been overstated. Lebanon's debt stands at 145 percent of GDP, down from 175 percent in the early 1980s. Certainly, as noted above, a major concerted effort is needed to cut the growth of the debt dynamics. As is well known, the absolute debt, which is estimated to reach the equivalent of $80 billion by 2017, increases annually by the size of the deficit. Lebanon's debt service is one-third of total spending and 10 percent of GDP. However, the unique quality of Lebanon's debt is that it's predominantly due to Lebanese creditors, both local banks, and resident creditors, in Lebanese lira (60 percent) and US dollars (40 percent). This implies that the large debt service is received primarily by Lebanese investors, constituting an internal transfer process, which in turn eases the exposure of the debt to external shocks. The banking sector realizes that preserving the government's financial stability is crucial for its overall credit rating and profitability.

The most important task before the government is to stabilize the debt-to-GDP ratio and gradually decrease it with growth-oriented policies, as was done during the first decade of the millennium. One main reason for the recent escalation of the debt ratio is due to the subdued growth that was triggered mostly by the Syrian crisis, plus a period of low inflation rates. Debt ratios increase when price deflators are low.

The government has to make fiscal reform its top priority to reduce financial risk in the banking sector, and to ease pressure on the exchange rates.

*MOUNIR RACHED is a former IMF economist and currently an advisor to the Minister of Finance.*

By Jeremy Arbid

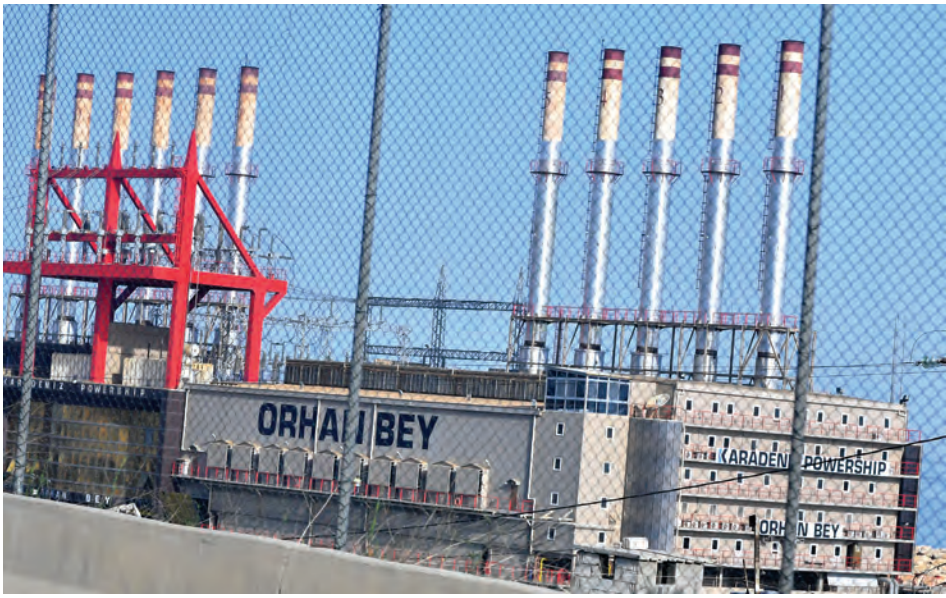
# In need of new energy

## Another year of power cuts

**Lebanon's electricity sector was not saved in 2017, despite an emergency plan from the Ministry of Energy and Water (MoEW) endorsed by the cabinet earlier in the year.** While the electricity needs for much of the country did not improve much this year, the outlook for 2018 and beyond looks a little brighter.

Lebanon currently has a maximum electricity-generation capacity of 2000 megawatts (MW), far less than the 2017 summer peak demand of 3400 MW. In the coming year, the government could license almost 1200 MW of new electricity-generation capacity. Of those megawatts, 400 could come from the construction of clean, renewable energy. Wind power would generate up to 200 megawatts in a blustery area in north Lebanon, and solar photovoltaic (PV) could produce up to 180 MW across different parts of the country.

Wind farms were originally tendered in 2013, but have faced repeated delays. According to news reports published in summer 2017, the government awarded licenses in 2017 to three companies: Hawa Akkar, Sustainable Akkar, and Lebanon Wind Power. The price at which the companies would sell the electricity to Lebanon's public utility, Electricite du Liban (EDL), was reported at 11.3 cents USD, but a power purchase agreement (PPA) was, by early December 2017, not yet signed. For solar PV, the government received 42 bids at the end of October 2017. The plan is to build 12 solar plants across four districts of Lebanon—three each in South Lebanon, Mount Lebanon, the Bekaa Valley, and North Lebanon.




*One of two electricity barges whose contracts end in 2018*

Pierre Khoury, head of the Lebanese Center for Energy Conservation (LCEC), an organization attached to the MoEW and responsible for renewables, laid out what should happen next for solar PV and wind at the International Beirut Energy Forum in September 2017. The PPAs for wind must be signed before the end of 2017, the deadline for the government to negotiate the kilowatt price at which it will purchase wind-generated electricity from each of the three companies. Khoury said commercial operation of the wind farms was expected by 2020, and the government would, in 2018, open a second licensing round to construct additional wind farms. As for solar PV, the LCEC was yet to announce its evaluation of the 42 bids as of early December 2017. Khoury told the conference audience he expected solar PPA signatures by the middle of 2018, with electricity from the 12 solar farms being fed to the grid starting sometime in 2020. The government, Khoury says, also plans for a second PV licensing round in early 2019. By the end of 2016, Lebanon had installed 23 MW of solar generation capacity, according to UNDP's Small Decentralized Renewable Energy Power Generation Project (see PV treemap page 52).

> The plan is to build 12 solar plants across four districts of Lebanon—three each in South Lebanon, Mount Lebanon, the Bekaa Valley, and North Lebanon

■ If the government is able to sign contracts for the new electricity barges in 2018, they can be deployed and relatively quickly connected to Lebanon's electricity grid

*Zouk Power Plant north of Beirut*

**GOVERNMENT LOW ON ENERGY**

Of the 1200 megawatts of potential new capacity in 2018, 800 MW could come in the form of new electricity barges, but the government was—for much of 2017—not able to agree how to tender these. If the government is able to sign contracts for the new electricity barges in 2018, they can be deployed and relatively quickly connected to Lebanon's electricity grid. Lebanon already has two electricity barges that came online in 2013, adding 367 MW of generating capacity, but the contract for those was renewed once and expires in late 2018, after which it cannot be extended again. Those megawatts will be subtracted from Lebanon's generation capacity by the end of next year, and it is not clear if the government plans to replace them with a new tender.

By end of April 2018, Lebanon must also figure out what it wants to do in terms of governing the electricity sector. Law 462 of 2002 was supposed to organize the electricity sector and establish the National Electricity Regulatory Authority (NERA), which would be responsible for licensing new power generation, and which, to date, has never been established. In the absence of NERA, Parliament has passed a series of laws giving cabinet the power to award licenses for electricity production, Ramy Torbey, the managing partner of Aziz Torbey Law Firm, tells Executive. Law 775 was passed in 2006, granting cabinet a one-year period to award licenses, but that law was never used. In 2014, Parliament passed Law 288, giving the government the ability to license power plants for a two-year period until April 2016. In 2015, the government was still unable to constitute the regulator, so Parliament passed another law that extended cabinet's licensing authority from 30 April 2016 to 30 April 2018. "Parliament either has to extend the 2015 law if it feels that the government is not in a position to constitute NERA, or the government will need to create this authority [to license new power producers and distributors] and organize the sector," Torbey told Executive in a November 2017 interview.

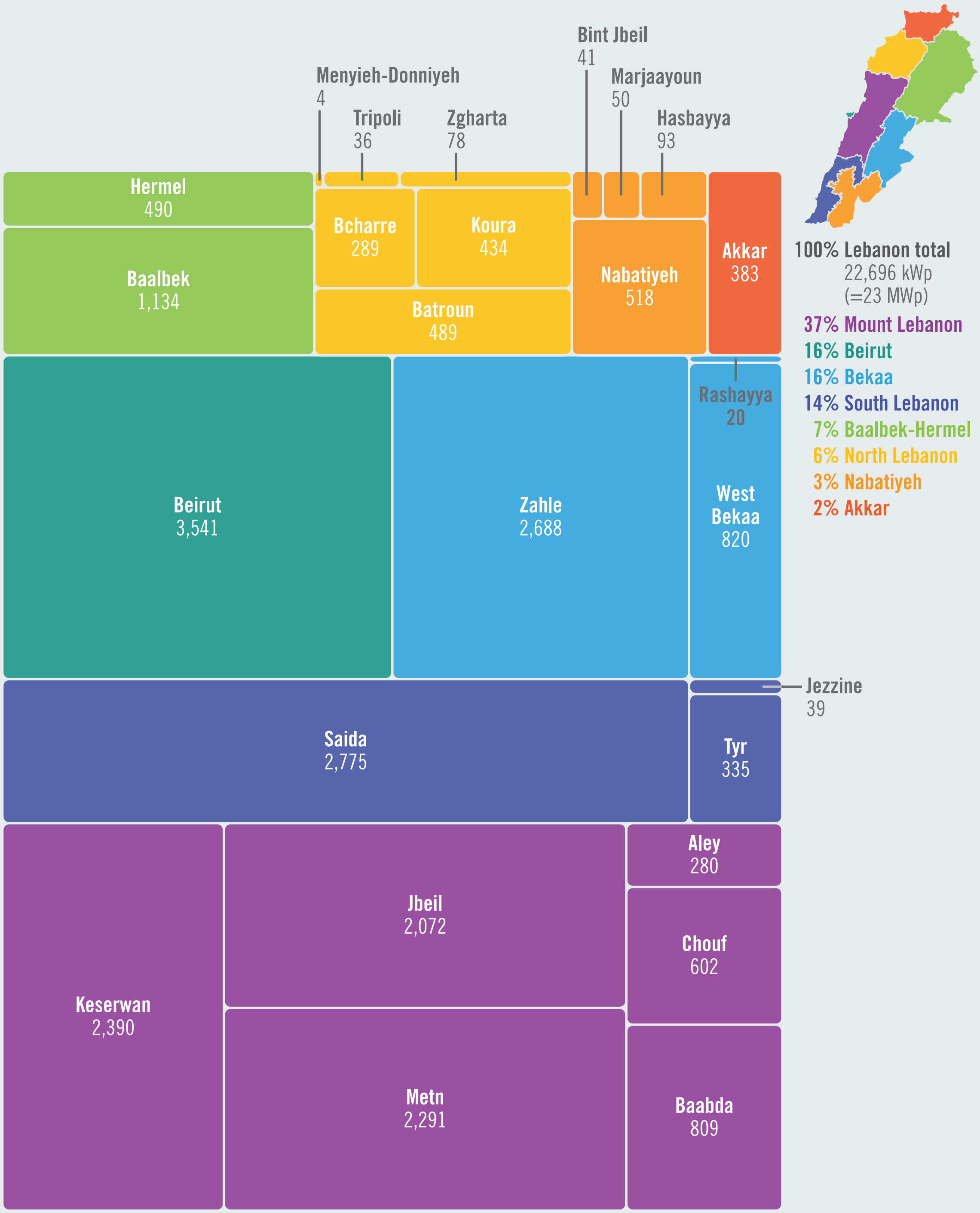
Public officials, like Ministry of Finance Director General Alain Bifani, have been calling for electricity reform since 2015, thanks to a fall in oil prices that cut treasury subsidies to EDL annually by about half (see EDL / brent oil price chart, page 64). According to the government's electricity plan from 2010, "The failure of the GoL [government of Lebanon] to reform the electricity sector is causing an annual deficit of $1.5 billion on the public purse and losses on the national economy estimated at not less than $2.5 billion per year."

**NO HOPE FOR SECTOR REFORM**

In October 2017, the government agreed in principle to import a cheaper source of fuel in the form of liquefied natural gas, and the MoEW indicated it might announce a call for proposals for floating storage regasification units, facilities needed to return liquefied natural gas back to its gaseous form for power plants to burn. But these ideas have languished on the books since at least the 2010 electricity plan.

It seems unlikely elected officials will have the appetite to reform the electricity sector, either through lower public spending or by fixing the legal framework, ahead of parliamentary elections scheduled for spring 2018. But Lebanon could license the new electricity barges sometime in 2018, adding megawatts to the country's generation capacity, or it could start building the renewable plants. Those new megawatts will still leave Lebanon far below the power-production capacity it needs to supply 24-hour electricity, and the renewable megawatts would not come online until sometime in 2020 at the earliest, but incremental progress is better than none.

PHOTOVOLTAIC ELECTRICITY GENERATION CAPACITY, PEAK KILOWATTS (kWp)




Data for 2016 year-ending.

Source: UNDP DREG Survey for the 2016 Solar PV Status Report for Lebanon

By Mona Sukkarieh

# The saga of Lebanon's first licensing round

## Is there an end in sight?

**At the end of 2017, politics once again threatened the completion of Lebanon's first offshore oil and gas licensing round.** More than four years ago, former Prime Minister Najib Miqati resigned the very day his cabinet was set to discuss two decrees needed to open the bid round. Those decrees finally passed in January 2017, and this year saw development after development that made it seem as though the oil and gas sector was finally a top priority for the government.

However, just as the first licensing round was drawing to a close—following a positive recommendation from the Lebanese Petroleum Administration in favor of awarding licenses for Blocks 4 and 9 to a consortium made up of France's Total, Italy's Eni, and Russia's Novatek, and right before one final government approval—Prime Minister Saad Hariri announced his resignation from Riyadh, Saudi Arabia, on November 4, 2017.

The Ministry of Energy and Water tried to be reassuring. On the sidelines of the Abu Dhabi International Petroleum Exhibition and Conference on November 14, Energy Minister Cesar Abi Khalil put forward a "business as usual" attitude, claiming that the political crisis would not delay the licensing process.

Awarding an exploration and production agreement requires the approval of the Council of Ministers, which authorizes the Minister of Energy and Water to sign, on its behalf, an exploration and production agreement with the winning consortium. This process would likely be impossible under a caretaker government. According to the Constitution, a caretaker government does not exercise its powers "except in the narrow sense of managing day-to-day affairs." The idea is that a caretaker government cannot take measures that would place a burden, financial or otherwise, on the subsequent government. This would appear to rule out signing exploration and production agreements.

Luckily for Lebanon, events unfolded positively, because the political crisis could have derailed the licensing process. Hariri put his resignation on hold after returning to Beirut on November 22, following a request from President Michel Aoun. The president had previously refused to accept the resignation until Hariri returned to Lebanon to submit it. A prime minister who has not resigned is still an active prime minister, and his government is in its full capacity. A series of consultations among various political factions led to a dissociation policy toward regional conflicts that was unanimously approved by the government and resulted in Hariri revoking his resignation at the beginning of December.

The government is now expected to resume normal activity. If the government's priorities remain unchanged — and it appears they are—it would be reasonable to expect that awarding EPAs will be on cabinet's agenda in the coming period. In the meantime, and parallel to the political crisis, the Ministry of Energy and Water, along with the Lebanese Petroleum Administration, successfully concluded a three-day negotiation at the end of November with the Total-Eni-Novatek consortium over the technical part of their offer for blocks 4 and 9. The energy minister will detail the results of the negotiations and the bids put forward by the companies in a report that will be submitted to cabinet for approval. If cabinet approves the offers, the minister will be authorized to sign the exploration and production agreements with the consortium.

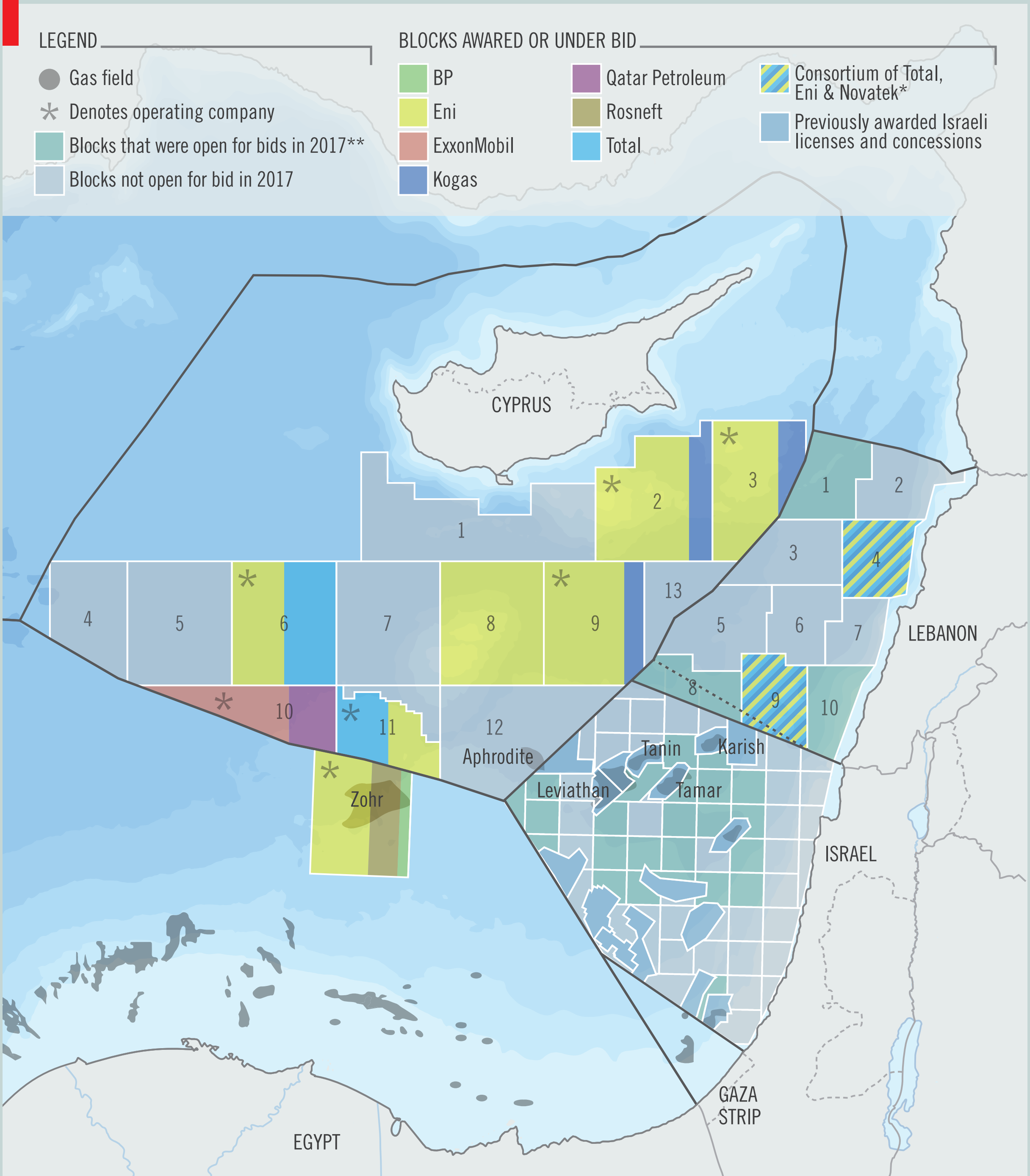
Although the situation appears to be less alarming now, this is not an open-ended issue. There are deadlines to take into consideration. According to the tender protocol, an application is valid for a period of 180 days after submission, which took place on October 12, 2017. The energy minister can extend the deadline for up to 90 days based on a recommendation from the Petroleum Administration. Further extensions are possible, but subject to the approval of the consortium.

The saga of the first licensing round has been riddled with one crisis after another. By early December, four and a half years after its launch, it seems to be nearing conclusion. But even at this stage, political decision-making still affects the process. This latest episode confirms what was already obvious: Every step of this process that requires a political decision to move forward is a potential obstacle. This also applies to future licensing rounds. Though the political factor will always be at play, it will probably be less predominant in the post-licensing phase, where other technical and financial considerations will become apparent.

The good news is that the investors that have made the decision to come here are aware of the political risk involved and have factored it in. This tempers the need for crisis communication designed to reassure them. Verbal assurances can only go so far when your interlocutors are fully aware whether a potential threat is serious enough to bring the process to a halt.

*MONA SUKKARIEH is the cofounder of Middle East Strategic Perspectives*

RECENT OFFSHORE GAS ACTIVITY IN THE EASTERN MEDITERRANEAN




*Consortium bid for two blocks in Lebanon. Government deliberating whether or not to sign one or more contracts based on the bids.
**Israeli authorities announced they received bids from Greece's Energean and from a consortium of Indian companies on two blocks in Israel's first offshore licensing round, but did not disclose which blocks.
Map is illustrative and may not be fully accurate for all countries. Egypt blocks only include those close to maritime borders.
Sources: Lebanese Ministry of Energy, Cypriot Ministry of Energy, Egypt Natural Gas Holding Company, Israeli Ministry of Energy

By Matt Nash

# Lebanon's mismanagement strikes again

## Water crisis made worse

**Lebanon is an oasis. In a region synonymous with desert, the only significant stretches of sand in the tiny, water-rich country are along its 220-kilometer Mediterranean coast.** It is the only place in the Middle East with a natural ski season, yet it still does not take on-the-ground snowfall measurements—assessments have been done by studying satellite photography and extrapolating estimates. For all its natural blessings, however, the outlook is bleak for Lebanon's water sector.

Data is admittedly scarce—one cannot manage what is not measured and monitored—but available indicators suggest that key sector management issues, like overexploitation of groundwater resources and gross mismanagement of wastewater, were not adequately addressed in 2017, nor will they be anytime soon.

Lebanon's current national water and wastewater strategy was written in 2010 and received cabinet approval in 2012, but it remains largely unimplemented. The Ministry of Energy and Water's 2017 annual report—compulsory under the access to information law approved in February 2017—has not been published at time of writing, and the ministry did not respond to an interview request for this article.

Problems in the water sector are well-studied, if still largely unaddressed. Five decentralized, regional "water establishments"—administrative offices still not fully endowed with their legally mandated decision-making and financial independence—are supposed to supply their regions with safe drinking water, continuous access to "utility water" for showering and cleaning, and wastewater-collection and treatment services. Three of the five water establishments are underfunded, and all of them are understaffed. The country's drinking and utility water infrastructure is aging: An estimated 20 percent of its households are not connected to the water network, and Lebanon's wastewater infrastructure is barely complete, treating only 8 percent of the country's wastewater, according to estimates from 2010.

The agriculture sector generally relies on inefficient flood irrigation, moving water from source to field through aged canals, compounding water loss. The country suffers annual water shortages, typically during the end of summer. Illegal wells are widespread, estimated to number nearly 60,000 in a country of only 10,000 square kilometers. Two studies on groundwater in Lebanon—one from UNDP in 2015 and another conducted by the American University of Beirut from 2013 to 2014—show seawater intrusion in coastal aquifers. The UNDP study suggested that all of the country's most heavily relied-on groundwater sources were stressed.

Quality is also a concern. A 2016 study from UNICEF found that only 47 percent of the drinking water provided by Lebanon's water establishments is free from E. coli bacteria. The study has not yet been published, but some of its findings are available in the 2017 Lebanon Relief Plan report, a document compiled by multiple government agencies with input from various aid organizations.

Each of these studies, however, provides only a snapshot most relevant to the time data was collected. Continuous measurement and monitoring are the only ways Lebanon will be able to evaluate its water resources in order to properly manage them. For this to happen, the water sector must become a priority.

> Only 47 percent of the drinking water provided by Lebanon's water establishments is free from E. coli bacteria

Wastewater is the best example of an easy-to-neglect sub-sector that proves how far down the list of policy priorities the water industry appears.

Lebanon has treatment plants, but resource-starved water establishments do not have the money or workforce to operate and maintain them. Worse, several of the country's treatment plants are not connected to wastewater-collection networks because these networks can cost thousands of dollars per meter to build, and neither donors nor the government have ponied up the cash to do it.

As the country perhaps enters a new era as an oil and gas producer, it cannot continue to neglect this far more precious natural resource that causes such traffic problems the first time it returns each year.

By Matt Nash

# Lebanon’s waste: another ongoing saga

## The battle for space, time, and money

**The long-term effects of Lebanon’s 2015 waste-management crisis will likely linger for years, and chances that the experience will be relived in the medium-term remain high.** Incineration is the approved future for nearly half of Lebanon’s waste, despite the fact that opposition has repeatedly derailed incineration plans in the past and opponents to government waste management plans remain adamantly opposed to incineration.

For nearly eight months in 2015, municipal solid waste (MSW) in Beirut and most of the Mount Lebanon governorate (excluding the Jbeil district) was not being collected. Municipalities in this service zone—where waste management, from collection to treatment and landfilling, was conducted by Sukleen and Sukomi, children of parent company Averda—turned to open dumping of trash in the absence of another solution. It also prompted a considerable increase in waste-burning (see Human Rights Watch piece, page 220). When the crisis, which was sparked by the closure of the country’s largest sanitary landfill, abated with the reopening of that landfill, Sukleen retrieved waste generated during the crisis from 59 percent of the municipalities it served, the company told Executive in 2016.

A report published in late 2017 sheds light on just how damaging the waste crisis was in Lebanon. In 2011, the Ministry of Environment commissioned a study to determine how many open waste dumps littered the country. That report’s authors found 504 open MSW dumps, 122 of which were not operational at the time. The ministry updated the report with new field research in 2016. This time around, authors found that the number of operational open MSW dumps has actually decreased, but the total number of MSW dumps climbed 22 percent, while the estimated volumes of trash in all of the country’s open dumps jumped 49 percent to over 5.7 million tons (see waste map, page 59).

## THE TEMPORARY SOLUTION

To fix this mess, the government took a number of decisions. First and foremost, in 2016, the state launched tenders to award Averda’s work to new companies. Averda did not charge extraordinarily high prices for its work in Beirut and most of Mount Lebanon; in fact, the company’s rates were in line with World Bank estimates for waste management in a middle-income country. But, unusually, it was given a monopoly on waste management, from collection to treatment and landfilling, largely through no-bid contracts. Waste managers tend to handle only one part of the garbage-treatment cycle in a given market (i.e., only collection, only treatment, or only landfilling).

Horizontal integration allows for maximizing efficiencies and can result in profit margins slightly higher than possible without said integration. The result of the government tenders was a continuation of horizontal integration, but by a different company and on a slightly smaller scale. A joint venture between Lebanon’s Ramco and Turkey’s Altas won a collection contract for the Metn and Kesrouwan districts, formerly the northern part of Averda’s service zone. A joint venture between Lebanon’s Al-Jihad for Commerce and Contracting and Bulgaria’s Soriko won a collection contract covering the Baabda, Chouf, and Aley districts. That joint venture also won contracts to operate and maintain sorting and composting facilities, as well as two offshore landfills, the temporary waste disposal sites that will be replaced by incinerators in four years, as per the last government-approved plan of 2016.

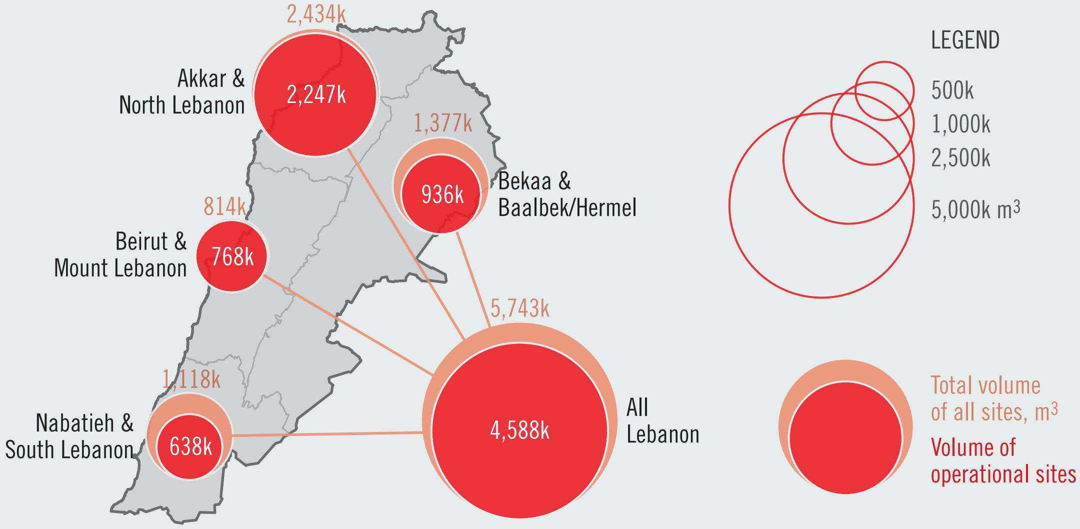
## UNCERTAIN FUTURE

The city of Beirut is handling its waste alone, Municipality President Jamal Itani told Executive in an October interview. The city already tendered a collection contract (won by Ramco-Altas) that will be implemented in the first quarter of 2018 and plans to tender a waste-incineration plant before the end of 2017, with hopes it will be operational by mid-2020. When Executive spoke with Itani in October, details such as total project cost or financing mechanisms were not discussed. That same year is when the temporary, offshore landfills should reach capacity. This means that in two short years, Lebanon must find the land to build enough incinerators to handle its waste stream or 2015 could be repeated all over again.

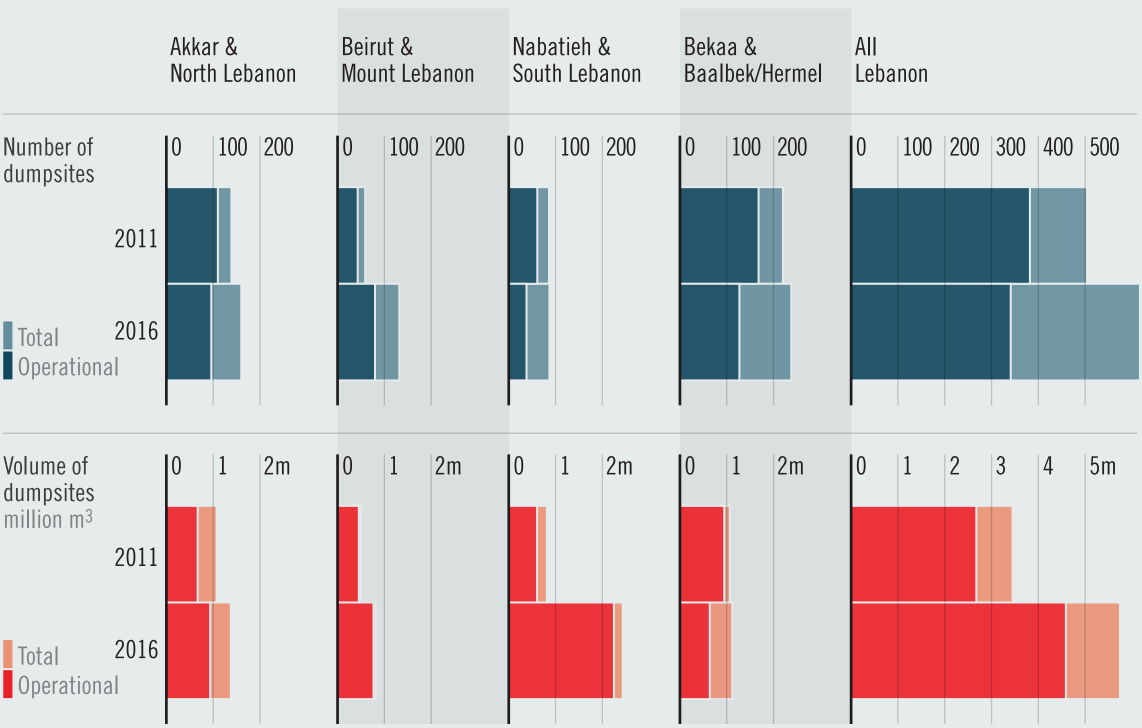
## MUNICIPAL SOLID WASTE DUMPSITES IN LEBANON, 2016 VS 2011

### DUMPSITES AND VOLUME OF WASTE BY REGION, 2016

in cubic metres ($m^3$)




### NUMBER OF DUMPSITES AND VOLUMES OF WASTE, 2016 VS 2011




Source: Updated Master Plan for the Closure and Rehabilitation of Uncontrolled Dumpsites, Ministry of Environment-UNDP

By Matt Nash

# Missed connections

## Lebanon promises 21st century internet speed

**Their approaches have been as different as fresh fallen snow is from the salty splash of the sea.** Abdel Moneim Youssef, former head of the Lebanese state-owned telecom provider Ogero, was cold. Elusive, even. He avoided questions by dissecting them and firing queries back at his interviewer. Imad Kreidieh—who replaced Youssef after the latter was removed from office amid corruption allegations he was later cleared of—has taken to Twitter to tout accomplishments more often than Donald Trump.

Blame for abhorrently slow internet download speeds in Lebanon often fell at Youssef's feet. Ogero controls the country's fixed-line telephone network, which includes a fiber-optic backbone—now fully operational—and connections between individual users and the internet, which happen at Ogero *centrale* around the country. Ogero is also a key decision-maker for telecom policy along with the Ministry of Telecommunications (MoT), which owns all of the country's mobile-phone network infrastructure. (The country's two networks, branded in the market as Alfa and touch by operators Orascom and Zain, are managed on behalf of the MoT). Among other complaints, Youssef allegedly kept internet connection speeds at the *centrale* slow. The veiled accusation here is that the beneficiaries of slow internet are illegal providers, who serve an estimated 50 percent of the market. Regardless of the reasons, by the third quarter of 2017, Ogero had resolved bottlenecks at the central offices, and internet speeds were indeed much faster for many users—we are talking jumps of download speed from 2 megabits per second (mbps) to near 30 mbps.

**A FASTER FUTURE?**

Ogero spent most of 2017 tendering new projects designed to speed up the internet for as many users as possible. Ongoing projects include upgrading switching technologies to maximize efficiency from the existing copper telecom network, installing "cabinets" across the country to bring fiber as close to homes as economically feasible, and installing new wireless connections to bring fast speeds to users in remote areas. At a conference in late 2017, Kreidieh went so far as to promise that Lebanon will soon have the world's fastest network. (He later took to Twitter to clarify that users will not necessarily have the world's fastest connections, just that the network would theoretically be capable of providing them).

Many internet users in Lebanon have a copper wire somewhere between their device and the actual internet. Internet via mobile phone is now entirely wireless and fiber—home connections, however, are another story. Most buildings are internally wired with copper, meaning even 'heavy users' such as universities, banks, and military installations, which are today connected to the fiber backbone via fiber most likely have copper carrying connectivity from the on-site fiber landing site to individual users spread across campus, or dispersed among dozens of floors in an office building. Copper can achieve 30 mbps speeds, provided the distance it is serving is only a few meters. As distance increases, however, quality and speed decrease.

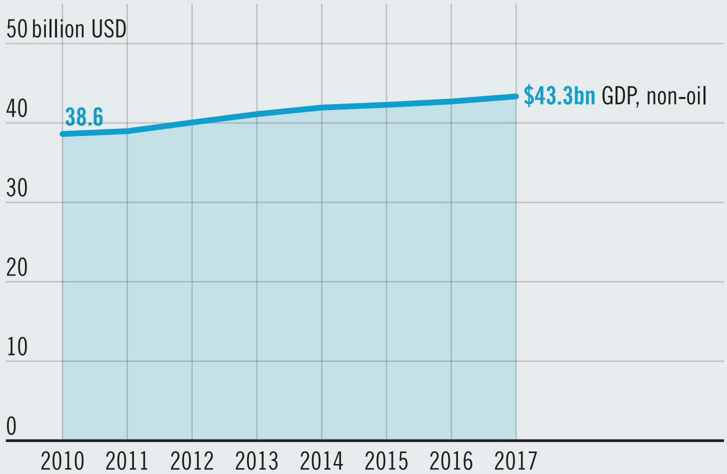
Ogero aims to alleviate the distance problem by deploying fiber cabinets. Instead of having copper wires stretch several kilometers between end users and the nearest *centrale*, the cabinets will stand in between, with one fiber line connecting the cabinet to *centrale*, and copper connecting users a shorter distance between their home and the cabinet.

Kreidieh insists the work is ongoing, although he did not respond to an interview request for this report. A potential storm on the horizon, however, first appeared on the radar in October 2017 when telecom minister Jamal Jarrah (who also did not reply to an interview request) accused Kreidieh of corruption. Whether the accusations will continue, and whether or not a management crisis could derail ongoing projects is unclear, but if there's one thing that years of empty promises have no doubt taught Lebanese internet users, it is that the proof will be in the streaming.


Creditbank S.A.L.
SME Financing
Every professional knows the old adage: where there's a will, there's a way.
We empower your will: Creditbank gives you the right resources to succeed. Our SME Financing program offers you tailor-made credit facilities as well as full advisory and consultancy services.
If you have the craftsmanship, our advice and financial support provide you with the ideal "tools" to put the power in your willpower.
Willpower
01 501 600
creditbank.com

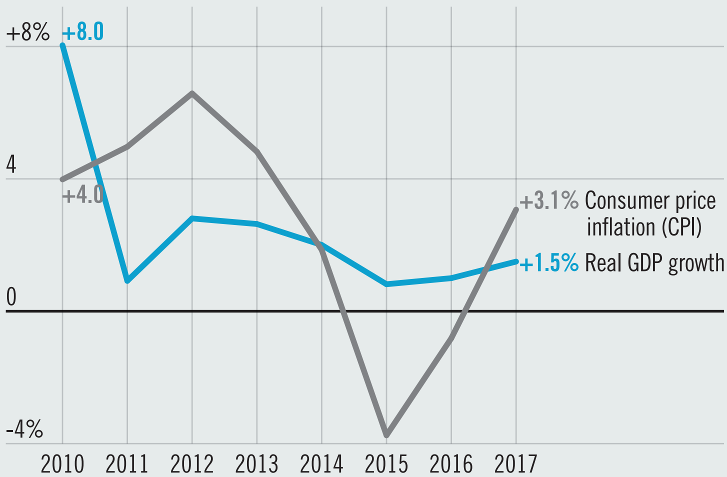
## Numbers & Figures

### LEBANON GDP, IN 2011 PRICES



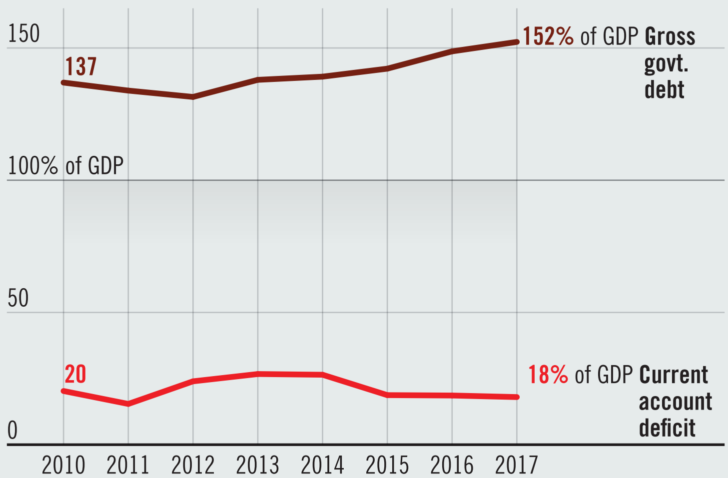

Figures from 2014 onward are estimates.
Source: International Monetary Fund

### LEBANON GDP GROWTH & CONSUMER PRICE INFLATION, YEAR ON YEAR



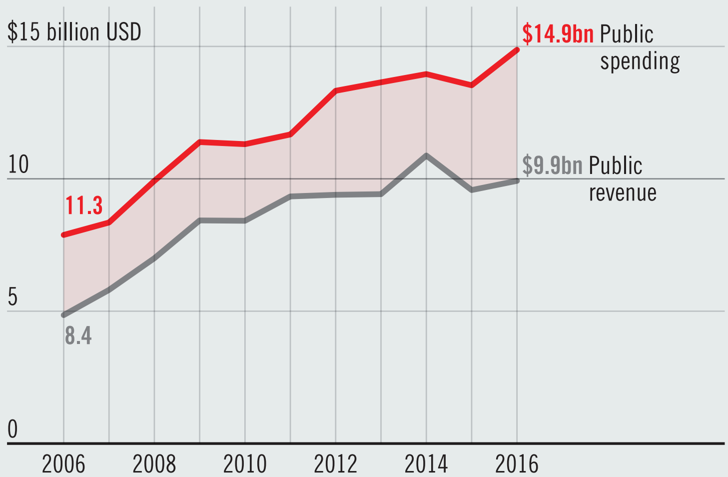

GDP figures for 2014 onward, and CPI for 2017 are estimates.
Source: International Monetary Fund

LEBANON NATIONAL DEBT & CURRENT ACCOUNT BALANCE, % OF GDP



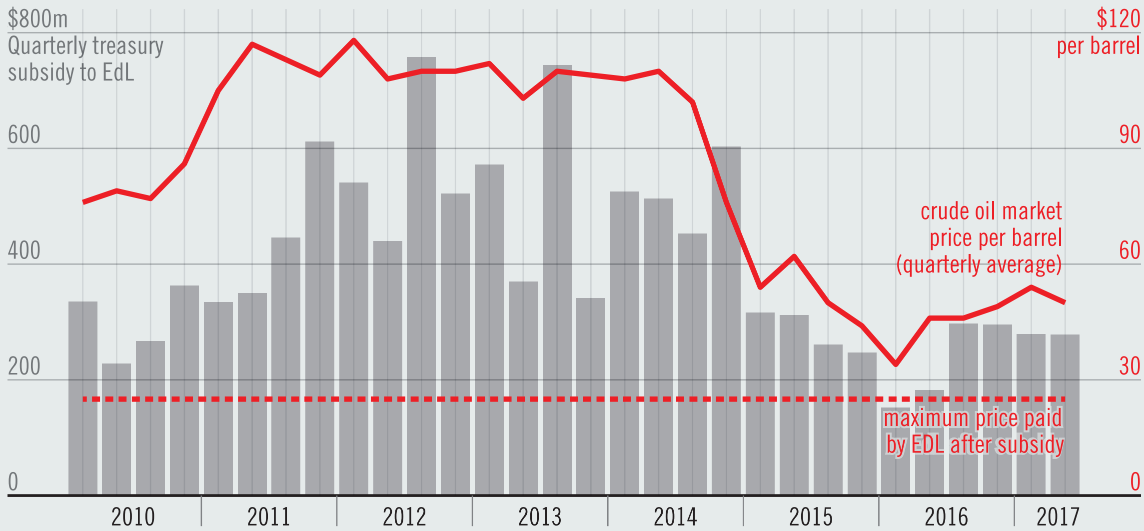

Ratios for debt from 2016 onward and deficit from 2014 onward are estimates.
Source: International Monetary Fund

LEBANON GOVERNMENT SPENDING VS REVENUES




Revenue includes tax revenue, non-tax revenue, and treasury receipts.
Source: Ministry of Finance, Public Finance Monitor

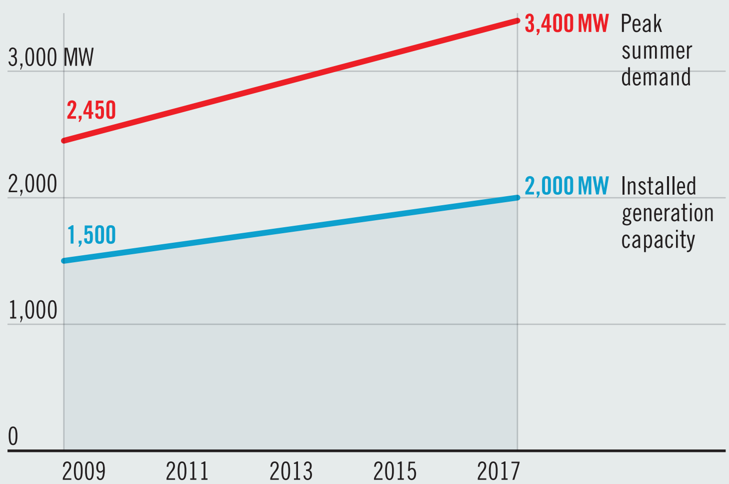
## CRUDE OIL PRICE & TREASURY SUBSIDY TO EDL




Quarterly averages calculated from monthly data.

Sources: Ministry of Finance, US Energy Information Administration

## RISE IN ELECTRICITY GENERATION CAPACITY AND DEMAND




Source: Ministry of Energy

By Matt Nash

# At long last...

Prime Minister Saad Hariri (C-L) attending a cabinet meeting at the presidential palace on June 14, 2017.

Guarded optimism from a variety of anti-establishment groups, political movements, and individuals followed the mid-2017 approval of a new electoral law. Lebanon's Parliament has thrice extended its own term since the last elections in 2009, ostensibly twice because lawmakers had failed to agree on a new law to govern new polls. After the most recent extension was granted to prepare for elections in spring of 2018, an Executive survey of newcomers running against the country's established political parties found hope amid fears the vote would once again fail to be held.

The new electoral law (see an in-depth description in the pages that follow) uses proportional representation to allocate Parliament seats for the first time in Lebanese history. Such a mechanism allows more opportunity for smaller parties to secure seats. As Executive queried new political entities throughout the summer, all agreed that the anti-establishment movement would fare best if it was just that: a unified national movement.

When we checked back in with those we spoke to during summer 2017, the few who responded confirmed that meetings continue, and unity remains elusive. Putting ego aside and sticking to a consistent, hopeful message of change will arguably be the biggest challenge for anti-establishment candidates—if elections are held on time in 2018—but committing to implementing a detailed program and refusing to compromise on core principles will be the equally daunting challenges facing reformist candidates, should they become reformist representatives.

**While some of the terminology is the same, in 2018 Lebanon will have an electoral system unlike anything it has ever seen.** The new electoral law, approved by Parliament in June, features changes to electoral districts and introduces two new components: proportional representation (PR) and preferential voting. It is certainly more complicated than the electoral systems used in the past, but EXECUTIVE has prepared a guide to help readers understand both how to cast ballots and how their votes will be counted.

## NEW DISTRICTS

For administrative purposes, Lebanon is divided into governorates (*mohafazat*) and districts (*kadat*). Traditionally, each administrative district has also been an electoral district. In 2009, there were only a few exceptions (Baalbek and Hermel were merged into one electoral district, as were Miniyeh-Danniyeh, West Bekaa-Rashaya, and Marjayoun-Hasbaya).

In 2018, the electoral map will not be drastically different. While the previous 26 electoral districts have been reduced to just 15, the number and sectarian division of seats remains largely unchanged. This means that those electoral districts that have been combined retain the number of seats and the divisions they had in 2009. For example, Bcharre, Batroun, Koura, and Zgharta combined become one electoral district with 10 seats: seven Maronite and three Greek Orthodox. Six of the 2009 electoral districts reappear unchanged.

Beirut underwent the biggest makeover. The city was divided into three electoral districts in 2009. In 2018, it will be two electoral districts. The district known in 2009 as Beirut 2 is gone, with the Medawr neighborhood (see map page 70) now merged with 2009's Beirut 1 (Ashrafieh, Saifi, Rmeil). The Port (Marfaa) and Bachoura neighborhoods are now part of the remainder of the city in 2018's new Beirut 2. The city's upcoming electoral division quite nearly mirrors the so-called "green line" of the civil war. The former Beirut 2's two Armenian Catholic seats went to Beirut 1, as did the evangelical seat representing Beirut 3 in 2009. Beirut 2's one Sunni and one Shiite seat each remain in 2018's Beirut 2.

## THE LISTS

In past Lebanese elections, political parties would strike alliances to form lists of candidates in an electoral district. However, there were no pre-printed ballots at voting stations. What this meant is that voters either entered the polling stations with party-printed lists to place in their voting envelopes, lists they wrote at home (i.e., creating their own lists by choosing their favorite candidates among the competing lists) or nothing, using the blank pieces of paper and pens in the voting booth to handwrite a list of their chosen candidates. The electoral list was a marketing concept, not a legal requirement. Candidates were free to register and run in a constituency even if they were not part of a list, and voters could mix and match among the lists. However, election results proved that most voters opted to choose entire lists. Many argue that this often led to unfair results as a result of close elections (i.e., a list that garnered 51 percent of the votes saw all of its candidates elected, while candidates who attracted 49 percent of voters got nothing).

> There is no limit for the number of lists that can run in an electoral district, however, there are rules

Under the new law, lists will be legally set in stone (meaning no more mixing and matching and no more individual candidates), and voters will be handed pre-printed ballots by electoral officials when they enter a polling station. There is no limit for the number of lists that can run in an electoral district; however, there are some rules. Lists can be either complete or incomplete, meaning if an electoral district has 10 seats, the list can either have 10 candidates (a complete list) or fewer (an incomplete list). An incomplete list, however, cannot be a one-person show. Any incomplete list must have at least three candidates or more, up to a minimum of 40 percent of the seats in an electoral district, and—in electoral units comprised of more than one administrative district—one candidate from each *kada*.

## PROPORTIONAL REPRESENTATION

The new electoral law also introduces proportional representation, an attempt to better represent voters.

Tallying the votes and determining how many seats each list will receive is a three-part process. First, all votes cast in an electoral district are counted and then divided by the number of seats to reach an "electoral quotient" (for example, 100,000 votes cast in a 10-seat electoral district means 10,000 votes is the electoral quotient). Second, the number of votes for each list will be measured against the quotient, and lists below the quotient will be disqualified (in our example, even a list with 9,999 votes wouldn't make the cut). Third, once lists below the quotient are disqualified, the votes from those lists are subtracted from the overall total of ballots cast and the quotient retabulated with seats then distributed to the lists based on the new quotient (see sample ballot page 74).

When allocating seats based on the quotient, the math typically won't produce "round" numbers. A list will be allocated 3.567 seats, for example. To handle remainders, lists are first allocated their whole number of seats and the list or lists with the largest remainders get any remaining seats (in a 10-seat district, imagine List 1 gets 4.921 seats; List 2 gets 3.896 seats and List 3 gets 1.895 seats, the final allocation will be: List 1: five seats; List 2: four seats, and List 3: one seat).

Voting systems vary across the world, and there is no absolute best practice for determining an electoral quotient (or threshold) in a PR voting system. In some countries that use party list systems, a percentage of total votes cast is used (any list with more than X percent of the vote gets at least one seat, with more popular lists getting more seats). This percentage can be high—10 or 20 percent—which disfavors parties or candidates with limited popularity. It can also be low—5 percent—to favor the inclusion of less popular parties/candidates. Lebanon's chosen method of calculation results in varied threshold percentages across the country (i.e., seat distribution is not well-aligned with population distribution, at least according to the imperfect lists of registered voters, meaning that some electoral districts have "more" seats than others based on the comparative populations — (see chart page 72).

**PREFERENTIAL VOTES**

The new law also introduces preferential voting, meaning voters can choose their favorite candidate on the list they vote for (provided the candidate is running in the *kada* where the voter is registered). It's as if voters get to vote twice, first for a full list of candidates representing the entire district and second for a specific candidate representing the *kada* in which the voter is registered. For example, the new electoral district of Batroun-Bcharre-Koura-Zgharta has 10 seats, so the district will see lists with between 4 and 10 candidates. Once a voter has chosen a list representing the entire district, he or she then chooses a favorite candidate from his or her *kada* (for example, voters registered in Koura can only cast a preferential vote for candidates running in Koura).

> Voting systems vary across the world, and there is no absolute best practice

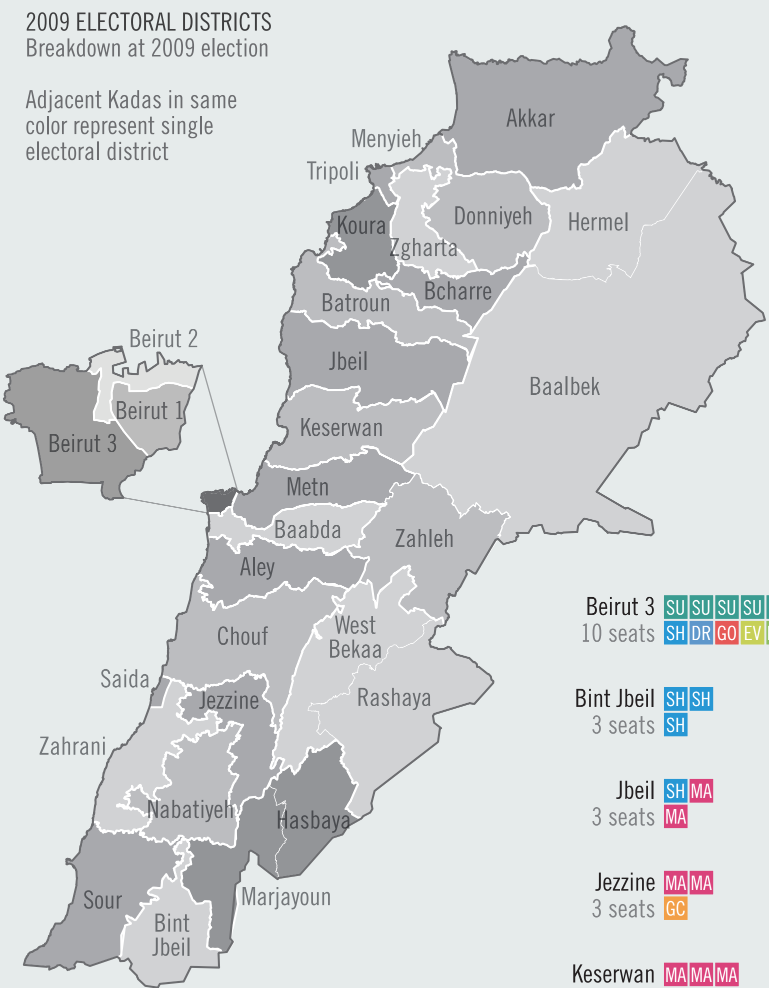
Once all lists passing the threshold have been identified and allocated their number of seats, the job of actually filling the seats comes down to the preferential votes. This, again, involves some math. To seat candidates, they are ranked in order of their popularity (calculated by dividing the number of preferential votes received by the total votes cast in each administrative district (kada), not the wider electoral district). Candidates are then ranked based on these percentages and allocated seats. Because seats are still allocated to religious communities, this does not necessarily mean that the most popular candidates on a list will actually get elected (see sample ballot page 28). If there were no seat allocations for religious communities, the strongest candidates on each list allocated seats would win. Community allocations complicate that, however. Imagine a constituency with two Sunni seats and three lists. List 1 received the most total votes and has the most popular Sunni overall (the Sunni candidate with the most preferential votes from his or her *kada*). List 2 received the second-most total votes, and one of its Sunni candidates received the second-most preferential votes. List 3, meanwhile, received the least number of votes, yet the list's most popular candidate is a Sunni (i.e., one of the list's Sunni candidates received more preferential votes than any other candidate on list 3). List 3's star Sunni is guaranteed to lose because the two more popular Sunnis will get the seats first, and all other Sunni candidates will be disqualified once the two Sunni seats are filled.

**AN UPHILL CLIMB**

Civil society organizations have long called for proportional representation as a means to wrest some power from the country's established political parties. This law certainly gives newcomers a better chance at getting elected than all previous electoral laws. However, it arguably is written in a way to decrease that chance as much as possible. While this law is unlikely to result in drastic changes to the parties and interests filling the seats of Parliament, it offers those hoping to challenge the establishment a fighting chance.

By Matt Nash

## 2017 LEBANESE ELECTION LAW




Seats by confession

- SU Sunni
- SH Shia
- DR Druze
- AL Alawite
- MA Maronite
- GO Greek Orthodox
- GC Greek Catholic
- AO Armenian Orthodox
- AC Armenian Catholic
- EV Evangelical
- MC Minority Christian

Beirut 3 SU SU SU SU SU
10 seats SH DR GO EV MC

Bint Jbeil SH SH
3 seats SH

Jbeil SH MA
3 seats MA

Jezzine MA MA
3 seats GC

Keserwan MA MA MA
5 seats MA MA

Nabatiyeh SH SH
3 seats SH

Chouf SU SU DR DR
8 seats MA MA MA GC

Saida SU
2 seats SU

Sour SH SH
4 seats SH SH

Tripoli SU SU SU SU
8 seats SU AL MA GO

Akkar SU SU SU AL
7 seats MA GO GO

Aley DR DR MA
5 seats MA GO

Baabda SH SH DR
6 seats MA MA MA

Baalbek-Hermel SU SU SH SH SH
10 seats SH SH SH MA GC

Batroun MA
2 seats MA

Bcharre MA
2 seats MA

Beirut 1 MA GO GC
5 seats AO AC

Beirut 2 SU SH
4 seats AO AO

Koura GO GO
3 seats GO

Marjayoun-Hasbaya SU SH SH
5 seats DR GO

Menyieh-Donniyeh SU SU
3 seats SU

Metn MA MA MA MA
8 seats GO GO GC AO

West Bekaa-Rashaya SU SU SH
6 seats DR MA GO

Zahleh SU SH MA GO
7 seats GC GC AO

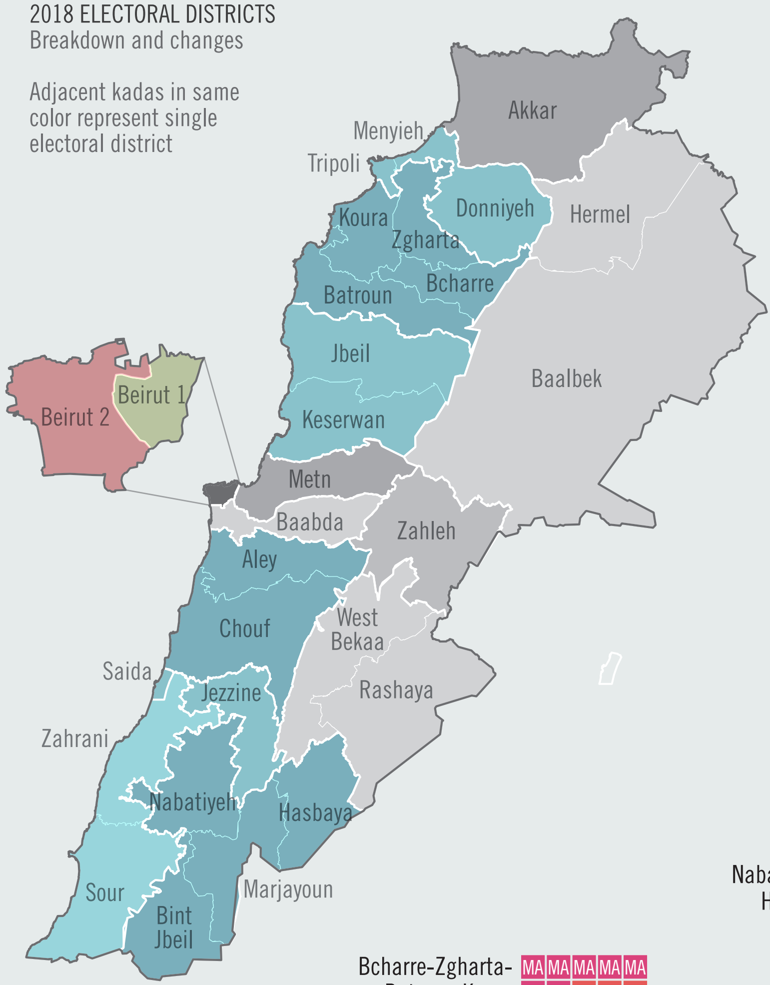
Zahrani SH SH
3 seats GC

Zgharta MA MA
3 seats MA

Source: 2017 Election Law; Ministry of Interior and Municipalities.

## 2018 ELECTORAL DISTRICTS
Breakdown and changes

Adjacent kadas in same color represent single electoral district




Change to district since 2009

- No change to district
- Merged districts, no net change in seats
- Merged districts, net increase in seats
- Merged districts, net decrease in seats

Akkar, 7 seats: SU SU SU AL MA GO GO

Aley-Chouf, 13 seats: SU SU DR DR DR DR MA MA MA MA MA GO GC

Baabda, 6 seats: SH SH DR MA MA MA

Baalbek-Hermel, 10 seats: SU SU SH SH SH SH MA GC

Bcharre-Zgharta-Batroun-Koura, 10 seats: MA MA MA MA MA MA MA GO GO GO

Beirut 1, 8 seats: MA GO GC AO AO AO AC MC

Beirut 2, 11 seats: SU SU SU SU SU SU SH SH DR GO EV

Jbeil-Keserwan, 8 seats: SH MA MA MA MA MA MA MA

Metn, 8 seats: MA MA MA MA GO GO GC AO

Nabatiyeh-Marjayoun/Hasbaya-Bint Jbeil, 11 seats: SU SH SH SH SH SH SH SH SH DR GO

Saida-Jezzine, 5 seats: SU SU MA MA GC

Tripoli-Menyieh-Donniyeh, 11 seats: SU SU SU SU SU SU SU SU AL MA GO

West Bekaa-Rashaya, 6 seats: SU SU SH DR MA GO

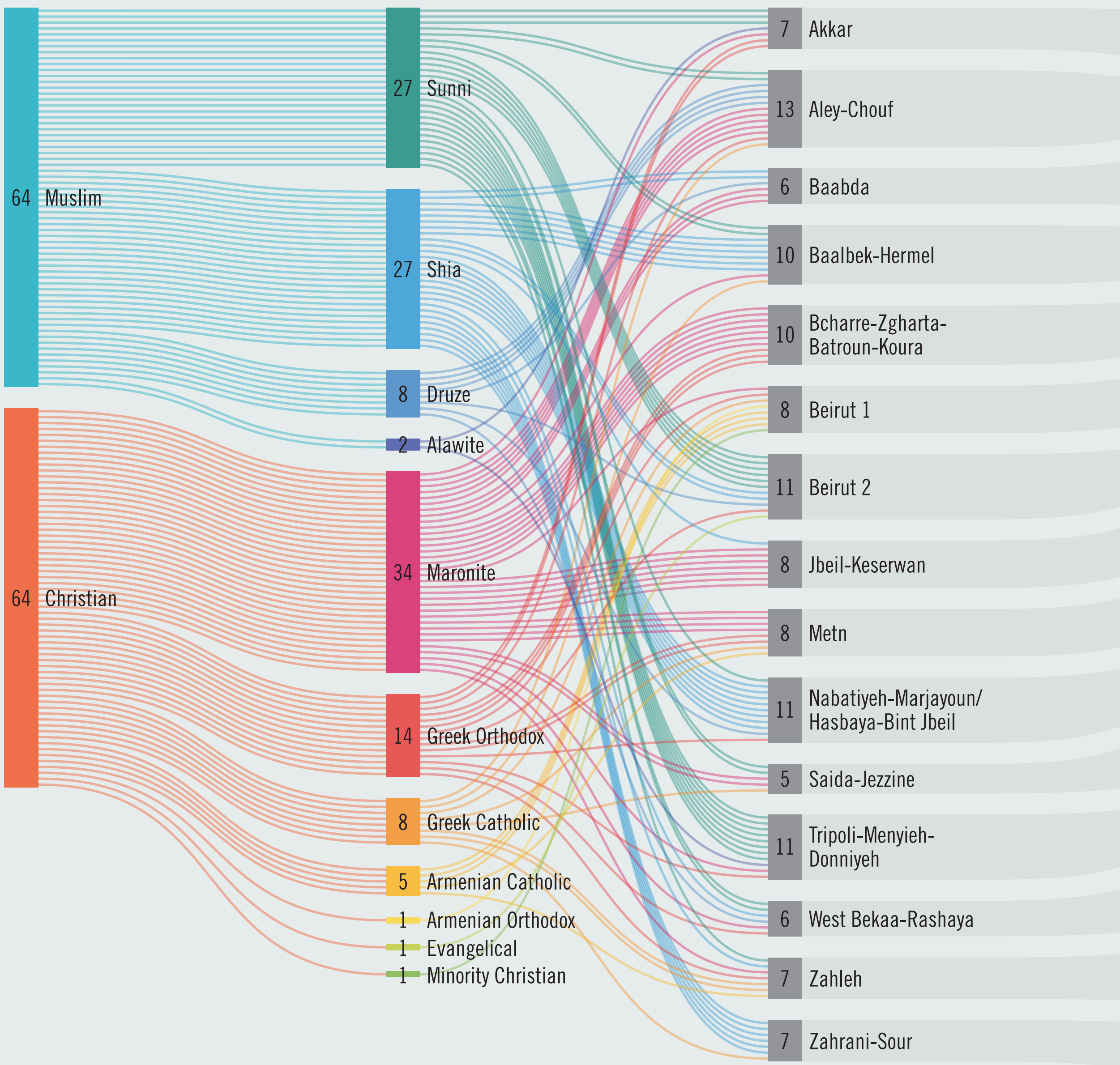
Zahleh, 7 seats: SU SH MA GO GC GC AO

Zahrani-Sour, 7 seats: SH SH SH SH SH SH GC

Source: 2017 Election Law; Ministry of Interior and Municipalities.

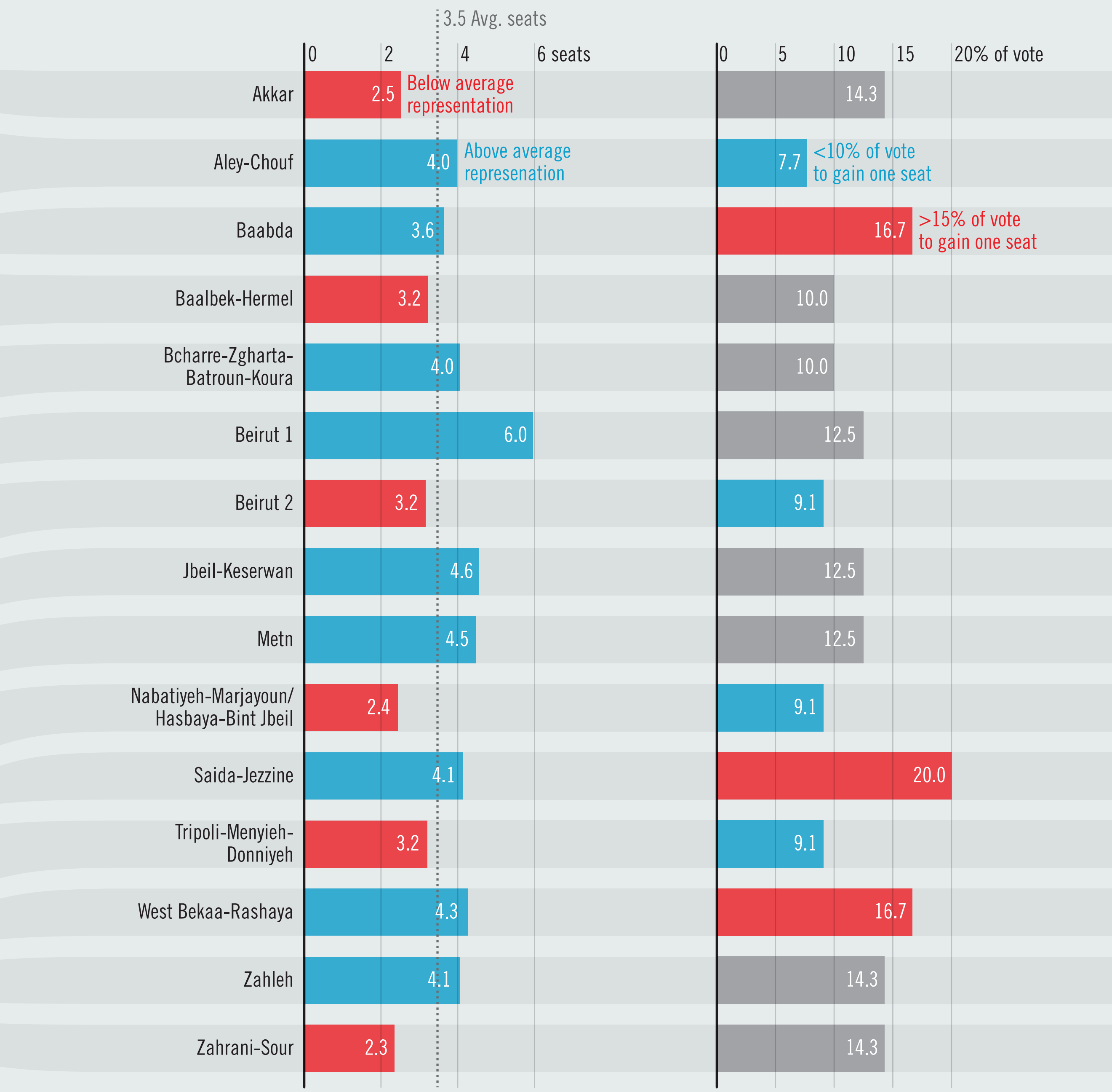
## 2017 LEBANESE ELECTION LAW

2017 SEATS BY CONFESSION
Distribution of seats by confession and district



2017 OVER/UNDER REPRESENTATION
Seats per 100,000 registered voters*

2017 PROSPECTS FOR ALTERNATIVE LISTS
% of vote to gain one seat under proportional system**




*Calculated based on estimate of registered voters in 2017. **Based on 'electoral quotient' calculation = 100% / number of seats.
Sources: 2017 Election Law; Ministry of Interior and Municipalities. Calculations by Executive.

## 2017 LEBANESE ELECTION LAW

### 1 THE BALLOT

A scenario for voting with the new electoral law, based on a two-kada district

LEBANESE ELECTION 2018 - SAMPLE BALLOT TWO KADA DISTRICT

Place an X in the box next to the candidate of your choice. The candidate must be from your own kada. (Your vote counts for both the candidate and the list, meaning your vote counts twice.)

| | LIST A | | LIST B | | LIST C | | LIST D | |
|---|---|---|---|---|---|---|---|---|
| Kada A candidates | Sunni 1 | | Sunni 1 | | Sunni 1 | | Sunni 1 | |
| | Sunni 2 | | Sunni 2 | | Sunni 2 | | Sunni 2 | |
| Kada B candidates | Maronite 1 | X | Maronite 1 | | Maronite 1 | | Maronite 1 | |
| | Maronite 2 | | Maronite 2 | | Maronite 2 | | Maronite 2 | |
| | Greek Catholic | | Greek Catholic | | Greek Catholic | | Greek Catholic | |

For illustrative purposes, Executive has created a five-seat, two-kada electoral district. The district has 104,066 registered voters, roughly 60 percent of whom cast ballots.

On election day, voters will be given a pre-printed ballot in the voting booth and instructed to cast a vote for their chosen list and a 'preferential vote' for a single candidate within that list. Voters can only cast preferential votes for candidates running in the kada where they are registered, meaning a voter registered in Kada B can only choose from the three Kada B candidates. There is no set maximum number of lists per electoral district.

### 2 TALLYING VOTES AND DETERMINING SEATS PER LIST

After votes are cast, two numbers are important in distributing seats. Total votes cast for a list determine how many seats a list is allocated. Preferential votes for individual candidates determine who from a list gets sent to Parliament (see right).

| | Total votes | Votes/ Quotient 1 | Votes/ Quotient 2 | Base seats | Remainder | Final seats |
|---|---|---|---|---|---|---|
| LIST A | 17,206 | 1.38 | 1.54 | 1 | .54 | 1 |
| LIST B | 20,304 | 1.63 | 1.82 | 1 | .82 | 2 |
| LIST C | 18,410 | 1.47 | 1.65 | 1 | .65 | 2 |
| LIST D | 6,520 | 0.52 | Eliminated | | | |

**ELECTORAL QUOTIENTS**

Total votes cast = 62,440

Kada A votes = 39,096

Kada B votes = 23,344

Parliamentary seats = 5

**Electoral quotient 1 = 12,488**

(= 62,440 / 5)

Votes excluding List D = 55,920

**Electoral quotient 2 = 11,184**

(= 55,920 / 5)

To determine how many seats a list gets, first the total number of votes cast is divided by the number of seats in a district to reach an 'electoral quotient' (the threshold a given list must pass to receive one seat). Each list's total votes is divided by the quotient, and any list with a value less than 1 (eg. 0.999) is eliminated. The votes cast for that list are then subtracted from the total votes cast, and a new electoral quotient calculated for the remaining lists. Parliamentary seats are then allocated on a proportional basis among the remaining lists. First, seats are distributed based on the whole number 'votes/quotient' value of each list, and then any remaining seats are distributed to the lists with the higher remainder(s).

## 3 DISTRIBUTION OF SEATS BY LIST & CONFESSION

How seats are distributed between qualifying lists. Winning candidates outlined in red.

| LIST A | Kada A votes | Kada B votes | % of kada |
|---|---|---|---|
| Sunni 1 | 7,810 | | 22.0 |
| Sunni 2 | 7,300 | | 20.6 |
| Maronite 1 | | 810 | 4.0 |
| Maronite 2 | | 640 | 3.1 |
| G. Catholic | | 646 | 3.2 |
| **Total votes** | **15,110** | **2,096** | |

| LIST B | Kada A votes | Kada B votes | % of kada |
|---|---|---|---|
| Sunni 1 | 4,010 | | 11.3 |
| Sunni 2 | 1,054 | | 3.0 |
| Maronite 1 | | 5,110 | 25.0 |
| Maronite 2 | | 7,820 | 38.3 |
| G. Catholic | | 2,310 | 11.3 |
| **Total votes** | **5,064** | **15,240** | |

| LIST C | Kada A votes | Kada B votes | % of kada |
|---|---|---|---|
| Sunni 1 | 11,420 | | 32.2 |
| Sunni 2 | 3,916 | | 11.0 |
| Maronite 1 | | 1,510 | 7.4 |
| Maronite 2 | | 1,484 | 7.3 |
| G. Catholic | | 80 | 0.4 |
| **Total votes** | **15,336** | **3,074** | |

Preferential votes are tallied at the kada level. Some districts include only one kada (eg. Metn), but most districts include two or more. To distribute parliamentary seats, candidates are first ranked based on the percentage of preferential votes they received from the total votes cast in their kadas. Seats are then distributed among the candidates based on their overall ranking, with two constraints:

1) The number of seats a list has (i.e. if a list only gets one seat based on the number of votes it received, after one candidate is seated based on their ranking of preferential votes, further candidates from that list are eliminated).

2) The sectarian quota of seats also influences who actually gets elected (i.e. once all seats allocated to a community have been filled, remaining candidates from that community are eliminated).

| Candidate | % | Rank |
|---|---|---|
| Maronite 2 | 38.3 | 1 |
| Sunni 1 | 32.2 | 2 |
| Maronite 1 | 25.0 | 3 |
| Sunni 1 | 22.0 | 4 |
| Sunni 2 | 20.6 | 5 |
| G. Catholic | 11.3 | 6 |
| Sunni 1 | 11.3 | 7 |
| Sunni 2 | 11.0 | 8 |
| Maronite 1 | 7.4 | 9 |
| Maronite 2 | 7.3 | 10 |
| Maronite 1 | 4.0 | 11 |
| G. Catholic | 3.2 | 12 |
| Maronite 2 | 3.1 | 13 |
| Sunni 2 | 3.0 | 14 |
| G. Catholic | 0.4 | 15 |

SEAT ALLOCATION 1

| Seat | Elected |
|---|---|
| SU | |
| SU | |
| MA | Maronite 2 |
| MA | |
| GC | |

SEAT ALLOCATION 2

| Seat | Elected |
|---|---|
| SU | Sunni 1 |
| SU | |
| MA | Maronite 2 |
| MA | |
| GC | |

SEAT ALLOCATION 3*

| Seat | Elected |
|---|---|
| SU | Sunni 1 |
| SU | |
| MA | Maronite 2 |
| MA | Maronite 1 |
| GC | |

SEAT ALLOCATION 4**

| Seat | Elected |
|---|---|
| SU | Sunni 1 |
| SU | Sunni 1 |
| MA | Maronite 2 |
| MA | Maronite 1 |
| GC | |

SEAT ALLOCATION 5

| Seat | Elected |
|---|---|
| SU | Sunni 1 |
| SU | Sunni 1 |
| MA | Maronite 2 |
| MA | Maronite 1 |
| GC | G. Catholic |

*List B allocation filled (remaining List B candidates eliminated) and Maronite seats filled (remaining Maronite candidates eliminated).

**List A allocation filled (remaining List A candidates eliminated) and Sunni seats filled (remaining Sunni candidates eliminated).

Source: Scenario and data by Executive. Calculations based on 2017 Election Law.

By Carmen Geha

# A new hope

## Small wins creating momentum

**For the first time in a very long time, I am hopeful that activism in Lebanon is opening up to new ways of mobilizing and engaging citizens in public life.** I have been involved in a range of civil-society work for more than a decade. My PhD thesis addressed the challenges imposed by Lebanon's political system on the ability of civil society to influence reform. I have designed and delivered a number of training sessions for civil society on how to advocate for policy reform, and I have come out frustrated and disappointed each and every time. Here is what I know to be true about what has held back Lebanese politics: Lebanese national institutions are the least important actors when it comes to decisions on public policy-making. In fact, many important policy issues are governed by a non-policy or by the absence of a clear policy framework, not the least of which is the case of Syrian refugees. I have also learnt that sectarian courts are incompatible with a rights-based approach to reform. Lebanese politicians thrive on polarization and the ineffectiveness of state institutions. And civil society's demands are either neglected or co-opted by the establishment.

But today, I am hopeful because I feel that some activists are beginning to realize these truths and are adapting to them.

*Beirut Madinati candidates and delegates cheer while monitoring ballot counts for the municipality elections after the close of polling stations during Beirut's municipal elections on May 8, 2016.*

### HISTORICAL CONSTRAINTS

"I don't think anything is really ever going to change, but I still believe we need to do the things we've always done and hope for the best." This is what one activist explained to me recently, during one of the many ongoing workshops put on by civil society in this country. In Lebanon NGOs continue to be sidelined from reform and policy making, and the national institutions actually responsible for reform and policy making are largely ineffective. Essentially, decisions over reform, or the lack thereof, are made outside Parliament, and even outside the cabinet, by a select handful of the political elite, whose grip over power can be attributed to a 1991 amnesty law that allowed warlords to return to power by taking legislative and executive seats.

This last year was not much different, with its spells of political deadlock, moments of consensus, and the creation of a new cabinet that is now a feather in the Saudi-Iranian winds. Meanwhile, the conflict in Syria is entering its seventh year, leaving over a million registered refugees in Lebanon with no access to basic rights and no government willing to regulate their legal status. In such a context, we cannot expect civil society organizations to be effective advocates for policy reform, as they remain the weakest players in the web of partisan interests and geopolitical commitments that Lebanese politics is so well known for. But that is not to say that there is no hope. If anything, 2017 has given birth to new and exciting avenues for mobilization. Here are some that are likely to meet ongoing success in 2018.

### THE BEIRUT MADINATI EFFECT

The unprecedented electoral battle led by the competent, hopeful, and visionary team and candidates of Beirut Madinati (My City) has created a ripple effect across the country. There is a new feeling among activists that can be explained as nothing short of "Yes we can," which manifested in the momentum around the 2016 Beirut municipal elections—and could be poised to leave a mark on the upcoming parliamentary elections as well. In 2017, Beirut Madinati backed the *Naqabati* (My

Syndicate) list, which put Jad Tabet at the head of the Order of Engineers and Architects, beating his establishment-backed opponent in a slender, but significant victory. Suddenly, activists felt that they did not need to remain within the confines of civil society activism, but could also propose their own solutions to vexing problems and push forward their solutions onto public opinion and electoral platforms. Myriad new reform platforms are working on concrete plans and advocating for solutions in newspapers and on political talk shows. It remains to be seen to what extent this experience can be replicated in parliamentary elections or even in other municipal elections, but for now 2017 is ending on a really high note. A shift in mindset from demanding solutions to offering solutions, and proposing candidates who can work on those solutions, is bound to result in a shift of strategy by activists.

### AUB'S SECULAR CLUB AND INDEPENDENT STUDENT MOVEMENTS

Attention from media, political parties, and intellectuals across the country has focused on the success of the American University of Beirut's secular club, which won a third of the seats of the elected student body in October 2017, as well as on independent clubs in other universities across the country, including Université Saint-Joseph and the Lebanese American University. In a country ripped apart by sectarian politicians, political parties have historically controlled student life, and even sports clubs. It is both remarkable and hopeful for a young group to have emerged as an opponent to politically affiliated clubs on campuses across Lebanon. These students have developed a new rights-based discourse that is focused on access to education, freedom of expression, and youth civic engagement. We have also recently seen the launch of the Mada network, a first of its kind youth-led political platform. For as long as I can remember, I have felt sorry for my students because once they leave the safety of their campus they have very little opportunity to get engaged in public life, aside from joining NGOs as volunteers or as staff. But this appears to be changing—a change that we also have to wait for 2018 to see come to life.

> It is both remarkable and hopeful for a young group to have emerged as an opponent to politically affiliated clubs on campuses across Lebanon

We are finally on a recognizable path. Moving forward, the challenge will be to capitalize on these new mobilization platforms by adopting issues that civil society has been working on in Lebanon for decades. We need political platforms to address what civil society has been demanding for a long time. Hope is not created in the offices of NGOs or in civil society workshops, but in political decision-making circles where activists have finally earned their seat.

*CARMEN GEHA is an Assistant Professor of Public Administration at the American University of Beirut*


SEIZE
THE POWER
OF YOUR DAY
waterfrontcity.com


BANKING
FINANCE
INSURANCE

# Lebanon's year in finance

Volatility and stability are fake opposites, and no country and its financial economy showed this more perfect in 2017 than Lebanon. When juxtaposed with Lebanon's political path (see Overview in Economy and Policy section page 38) and regional power games, which converged in creating the quintessence of sudden changes, the nation's stability in finance at the end of 2017 shines more than ever. In the financial markets game, the banking sector in its ever-charging offense to new asset and deposit heights (see Dany Baz comment on developments up to September 2017 on page 94) is deserving of multiple cheers, alongside the consistency of the national insurance industry as defense team, and the persistence of our national stakeholders in capital markets development, which are playing a superbly enthusiastic midfield game, despite the still-low intensity of Lebanese capital market activity (a review of the financial game is available from the next page).

In addition to stability, governance in the Lebanon's financial sector has been on a trajectory of growth, and as latest expansion, is set to see more female wisdom added to the strong male presences in boardrooms (see comment on Women on Board page on corporate governance page 98). Beyond improvements through better mental balance between femininity and masculinity, internal development opportunities in banking, finance and insurance are concentrated in improvement of processes from risk management and compliance to ever-smarter allocation of capital resources (see banking development story page 88). For opportunities to arise from the national economic context, hopeful bankers are waiting for promised analyses of development opportunities in the national economy, and otherwise, continue to eye the oil and gas sector, the tech entrepreneurship sector, and capital markets. In the latter, the top bets are on the establishment of the long-awaited Electronic Trading Platform (ETP) in conjunction with a partly privatized Beirut Stock Exchange (BSE).

Birth of an ETP is by now the hottest expectation in Lebanon's financial markets. In a background paper (published in 2013 with an opening advice that this paper should not be quoted for copyright reasons), World Bank experts explained, "Electronic trading platforms can make a substantial contribution to development of government securities markets when trading volumes have reached (or have a potential to reach) a certain minimum critical mass." For exits of companies founded during the past four years of entrepreneurship support by Banque du Liban, Lebanon's central bank, and for vitally important trading in government securities, the ETP seems set to be financial opportunity number one as the country enters into a year where it will be prudent to be mindful of geopolitical risks and, existentially, the unexpected.

By Thomas Schellen

# Five cheers for stability


The banking sector saw limited growth in 2017

**A good starting point for reviewing the Lebanese banking sector at the end of 2017 to study a document that was published early in the year and is referred to in financial High Valyrian as a FSAP.** For common folks, this stands for Financial Sector Assessment Program. A FSAP is undertaken by the institutions missing from Westeros: the World Bank and International Monetary Fund. To augment insights from the FSAP on Lebanon, which was published under the title Financial System Stability Assessment, one can turn to the findings of the IMF's Article IV consultations on Lebanon.

For readers who are interested in super-condensed material, the entire economic narrative of Lebanon in 2017, and 2016 before it, is contained in FSAP's opening paragraphs, in just two sentences: "Lebanon has maintained financial stability for the last quarter-century during repeated shocks and challenges," but "over time, macroeconomic and financial vulnerabilities have accumulated." This is the Lebanese paradox of endurance, resilience, and risk in a nutshell. In a sense, nothing more needs to be said about the matter of the tiny Lebanese economy.

As for the banking sector, the FSAP elaborates that despite economic and political shocks, "confidence in the banking sector has been sustained … and the banks have grown and remained profitable." About Banque du Liban (BDL), Lebanon's central bank, the report observes, "BDL plays a critical role in sustaining confidence, although, without sustained fiscal adjustment, there are limits to these policies."

The assessment, which runs to nearly 80 pages in body text and appendices, concludes by saying: "Developing a strategy that addresses the elements noted above, including eventual withdrawal of BDL's economic stimulus programs, and bringing in views from the financial industry and other stakeholders, could build consensus around reform priorities and sequencing with due regard to financial stability and integrity concerns."

This is just as true at the end of 2017 as it was a year earlier. What the paper was naturally unable to predict, however, was the journey of national sentiments from the end of last year to December 2017, a whitewater adventure in a raging stream of unpredictable political twists and economic turns. On this ride, the banking sector proved to be an essential raft of stability, providing stabilizing effects on the financial economy, such as wealth management and insurance, and on the entire country. Moreover, while the past year saw some rumors and debates over allegedly impending financial and economic doom owing to the central bank's monetary policy, the year's dangerous instability was not at all related to banking or BDL monetary policy. It arose from pure politics.

## THE 2017 NARRATIVE IN BRIEF

In rough strokes, the Lebanese ride through the year was defined by local politics and international circumstances. The journey of notable twists began with political declarations of optimism after the formation of a government in December 2016. Based on this optimism, banks and economic stakeholders started January 2017 full of hope for improved performances. For bankers, February brought with it the first turn toward concern, over speculations about the upcoming end of BDL Governor Riad Salameh's term. Then, later in spring, concerns in the banking sector grew as reports of new American anti-Hezbollah measures emerged. Speculations and rumors over Salameh's resignation and debates in the United States over the Hezbollah International Financing Prevention Act (HIFPA) built up uncertainty throughout spring 2017, accompanied by some research essays and speculation about Lebanon's longstanding economic imbalances, the stability of the lira, and sector-internal matters such as upcoming board elections at the Association of Banks in Lebanon. While political unity and reform remained an issue throughout the first half of 2017, May and June brought the Salameh question and Lebanese political concerns back to the front burner, via the urgently needed new election law.

From outside Lebanon, the global implications of the new regime in the United States and fears over a possible spread of populist influences in Europe spiced up the local journey with imported political concerns, until election outcomes in the Netherlands and France calmed minds all around. In the context of global developments, however, tensions soon erupted into a new bout of mad politics, with North Korea on top of the insanity pole. A competing political performance on center stage was delivered by new global twittertainer, The Donald, with his bizarre "Trump First" show.

Leading financial markets in the US and Germany, in the meantime, achieved stronger growth than pundits had predicted at the onset of 2017. Throughout the year, large economies reported improvements; the picture was peppered in the year's second half with the occasional dire warning against complacency and "frothy valuations," uttered by financial powers like IMF head Christine Lagarde or the Bank for International Settlements in Basel.

In Lebanon, July brought a boost of relief to banking emotions as Salameh's new term was confirmed. Lebanese banking and political officials polished doorknobs in the US in August, while the Lebanese focused on their summer vacations. HIFPA worries, meanwhile, were swept under a rug of artificial calm for a while, only to reappear later in the year (see page 86 for the timeline of HIFPA adoption in the US). In mid-summer, the mood was again dampened by another wave of rumors about trouble for the Lebanese lira and the economy, peaking in a paper in which noted economist Toufic Gaspard argued his case for addressing the "Financial Crisis in Lebanon." The paper even triggered a sanctimonious response from the usually taciturn BDL.

October came with more optimistic declarations, as locally-held international and national conferences kept bankers on their feet. But any hopeful mood was blown come the first weekend in November and the surprise resignation that Prime Minister Saad Hariri chose to deliver via a Saudi-owned TV network from Riyadh. Thus ensued a month-long story of verbal panic, damage control, and reassurances, followed by ostentatious relief in early December.

The performance of the banking sector for the first nine months of the year has been reassuringly stable

Throughout 2017, BDL Governor Salameh iterated his assurance of stability in conferences, interviews, and interventions on all sorts of occasions. At practically every major appearance, he repeated the statements which he had given at the end of 2016, such as, "Our holdings in foreign currency allow us to think that we can keep the Lebanese lira stable," or affirmations of determination for maintaining interest rates. At a conference in July, just to cite one example, he offered his mantra, "The Lebanese lira is stable and will remain so," and assured his audience, "Interest rates in Lebanon are stable."

In no month of 2017 could one count more of these assurances than in November, when the governor voiced his assurances of stability not only nationally, but also sought to appease international concerns about the Lebanese situation. Even when asked in mid-November by a CNBC interviewer how frustrated he was about the disruption of Lebanon's economic recovery by the latest political turn, Salameh's answer was, "The Lebanese lira will remain stable."

By early December 2017, the assurances appeared to have achieved their purpose. Although political question marks still linger en masse and no conclusive summary on the performance of Lebanese economic indicators for full-year 2017 can be drawn up, the performance of the banking sector for the first nine months of the year has been—when compared also to the rather exceptional boon year of 2016—reassuringly stable. Banks in the top tier of the sector delivered remarkable numerical normalcy. Assets rose, deposits rose, and even lending showed increases that seemed commensurate with the overall economy's (subdued) growth (see comment by Bankdata, page 94).

Details about the loan activities by the largest Lebanese lender, Bank Audi, reinforce the impression of shifts in accents within overall persistency. Grace Eid, head of retail banking at Bank Audi Lebanon, informs EXECUTIVE that the lender saw "strong development in domestic-loan issuance in Lebanese lira," especially with regard to personal loans. Eid notes an inversion in this segment in particular, saying that in 2017, sales of lira-denominated loans outperformed dollar-denominated ones, whereas in the year 2016, "45 percent of our personal loan executions were in Lebanese lira, versus 55 percent in US dollar.

"Regarding the home loan, no major changes were witnessed during the past two years, as 80 percent of our lending portfolio remained in Lebanese lira. Although our strategy in


*Riad Salameh, Governor of Lebanon's central bank*

2017 was to increase car-loan sales in Lebanese lira, as we have introduced a new plan in this currency, 99 percent of our lending portfolio was in US dollars," she elaborates.

In another area where bankers increasingly started seeking to better serve the Lebanese market, small and medium enterprise clients picked up on the idea that large banks could help them with their specific needs, Bank Audi confirms. "[Besides a] remarkable increase in the sales of the retail banks' core retail products, starting with the personal loan and followed by the home and car loans, we have witnessed, in the SME banking sector, a high demand [for] products that finance the working capital (operating expenses), followed by [demand for] subsidized loans from the central bank for long-term financing," explain Eid and Hassan Sabbah, head of SME banking at Bank Audi.

### WORDS FROM STAKEHOLDERS IN OTHER PARTS OF THE FINANCIAL ECONOMY

In addition to commercial banking, with its ever-more diversified retail, small commercial, and corporate offerings, other sectors of the financial economy showed either concrete development or at least promise of future development. From the banking sector's chambers of wonders—the wealth management and private banking space—come tidings that Lebanese High Net-Worth and Ultra High Net-Worth Individuals (HNWI and UHNWI) found themselves able to lean back comfortably on rich cushions. Leading private bankers in Lebanon who opened their hearts to Executive in fall 2017 assured that wealth deities are exceedingly kind to their clienteles. Wealth management specialists representing Swiss private banking group Julius Baer likewise signaled that their local clients have nothing to fear.

During a visit to Lebanon in early November, Remy Bersier, head of Emerging Markets at Julius Baer, confirmed that the bank, which has had an office in Lebanon since it acquired the Beirut operations of Merrill Lynch, has not seen any unusual behavior or irrational capital-flight impulses from clients here. "We are committed to growing here, and are recruiting. We want to reach a higher level of access to the UHNWI segment," he says. With a strategic concentration on the three pillars of sustainable profitability, client experience, and reputation, "We have many projects ongoing today in the bank and are really careful to respect regulations. One of the key topics is to bring the bank into the next decade and, hopefully, century. Reputation is not negotiable," he emphasizes.

Capital markets in 2017 still were as they had been in previous years: underdeveloped to the point of invisibility. But as the FSAP assures and local capital-market wizards confirm, Lebanon's regulatory Capital Markets Authority (CMA) has not been idle. The FSAP reports said that "Over the past five years, the CMA has built capacity and is now well established as an independent regulatory authority," and acknowledged that the institution, which is also chaired by BDL Governor Salameh, "has prepared regulations in line with international best practices covering licensing and registration, market conduct, business conduct, securities offerings, listing rules, and collective investment schemes, and has put in place a supervisory program."

The CMA's key message to the market in 2017 was confidence, CMA Communications Head Tarek Zebian conveys to Executive. "Today, investors and financial institutions strongly feel the presence of CMA while conducting securities-related business activities. In 2017, CMA formulated, in coordination with experts from the World Bank, a 'blueprint for market development,' a document that was shared and consulted upon with all stakeholders of the CMA, including the office of the prime minister, representatives of public institutions, and financial industry professionals. This signaled to the various participants our long-term commitment to shift the capital markets to the forefront of financial activity in Lebanon," Zebian says, adding that the authority's measures should ultimately translate into vibrant capital markets which enhance economic growth.

Pointing to progress in the drawn-out saga of attempting to transform the Beirut Stock Exchange (BSE) into a high-performing entity and the vibrant center of Lebanon's capital markets, Zebian affirms that a cabinet decree issued in August of this year initiated the process of establishing a new entity under the name Beirut Stock Exchange sal, transferring all assets of the "dismantled government-


WHEN GROWTH
IS BUILT ON SAFETY
Bank Audi awarded Safest Bank in Lebanon for two consecutive years by Global Finance Magazine.
SAFEST BANK AWARD • 2016
GLOBAL FINANCE
SAFEST BANK AWARD 2017
GLOBAL FINANCE
bankaudi.com.lb
Bank Audi

owned Beirut Stock Exchange to the new sal company." According to him, the new BSE is to be sold within one year.

Among a host of other new measures, in 2017, the CMA signed a memorandum of understanding with Lebanon's Insurance Control Commission (ICC) at the Ministry of Economy and Trade. "In essence, the MoU clarifies the relationship between both authorities, especially toward investment insurance policies that has dual oversight as a result of securities-linked (unit-linked) products underlining their formation," Zebian explains. It is expected that CMA and ICC will exercise joint jurisdictional oversight and collaboration in the interests of insurance policyholders and investors in this industry.

### THE INSURERS' LOT

The Lebanese insurance sector is engulfed to quite some deGree in a dichotomy that is not all that dissimilar to the contradictory state of the country's economy. All insurance companies are private sector players. The companies pride themselves in being pioneers of practicing insurance skills in the region. However, no single insurance company has been listed on the BSE, and sector assets historically represent under 10 percent of GDP. Banks regularly outdo insurers in terms of sector-asset growth and, as the FSAP notes, insurance assets stand small when compared with the banking industry.

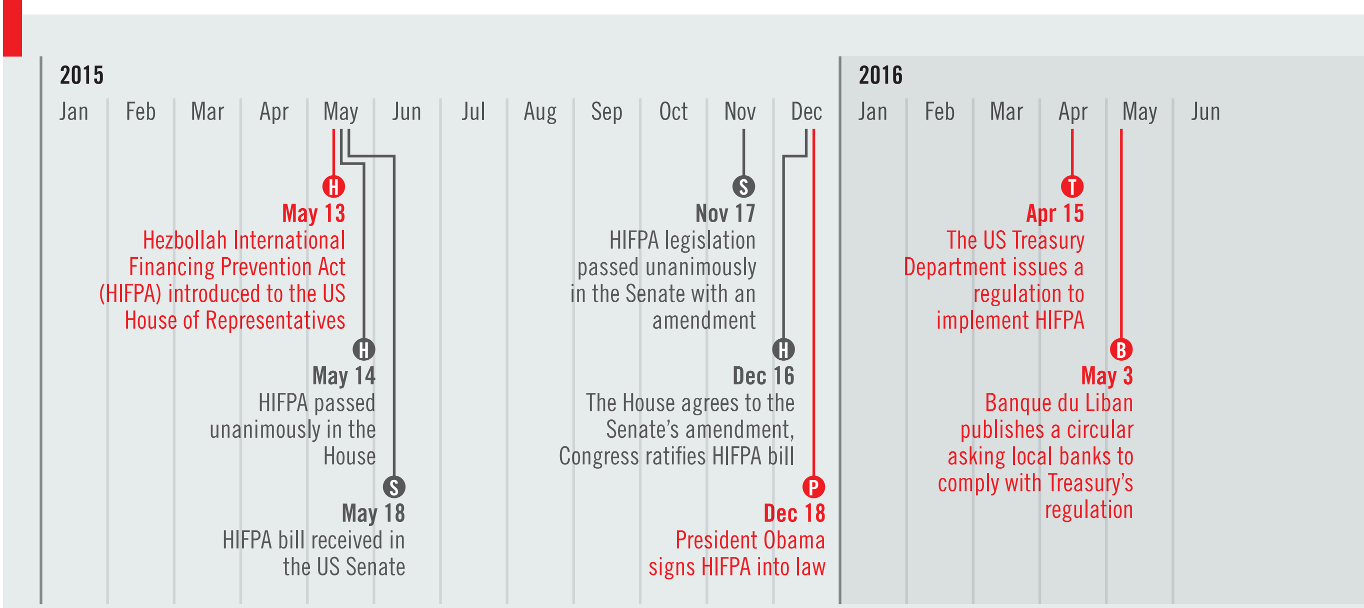
In the FSAP description, "The ICC is instrumental in maintaining the industry in a generally sound condition," but "the insurance sector faces structural challenges to its sound development."

AXA Middle East confirmed that 2017 saw an increase in competitive pressures in the local market, resulting in decreases in premiums. Coupled with cost increases from the expected VAT increase and rising costs for medical care, the company foresees a "reduction of profit or even losses for insurance companies." According to Reine Kattar, AXA Middle East's brand, communication, and reputation manager, the company, which is affiliated with the multinational AXA Group, is also witnessing some cost pressures from an increase in regulatory action, a relatively new phenomenon in the Lebanese insurance market. "Governance requirements are increasing, which leads to higher cost in compliance, risk management, and internal audit," she explains.

New regulatory pressures included, AXA Middle East General Manager Elie Nasnas confirms growth prospects for the insurance industry. "I can see a growth in the insurance sector for the coming years. This can only be offset currently by the lack of tax incentives for life products," he tells Executive, adding that the incentives for life insurance savings products exist in many countries and motivate owners of small as well as large businesses to buy these insurance programs.

"Also needed today is a unanimous decision by the Ministry of Finance to exclude the costs of taxes related to health and savings insurance policies from the general tax on

LEGISLATIVE AND REGULATORY TIMELINE OF THE US HEZBOLLAH INTERNATIONAL FINANCING PREVENTION ACT (HIFPA)




Sources: Law Library of Congress; US Treasury Department; Banque du Liban; Executive reporting wages and salaries, which will in turn encourage business owners to invest in such policies. A driving factor which will drastically help the insurance sector would be a policy shift of making some currently optional policies to become mandatory insurance covers. Most notably, these are civil liability for material damages as well as insurances against fire and natural disasters. In the past, these types of policies were seen as optional, but in today's world they are indispensable to our everyday lives," he says.

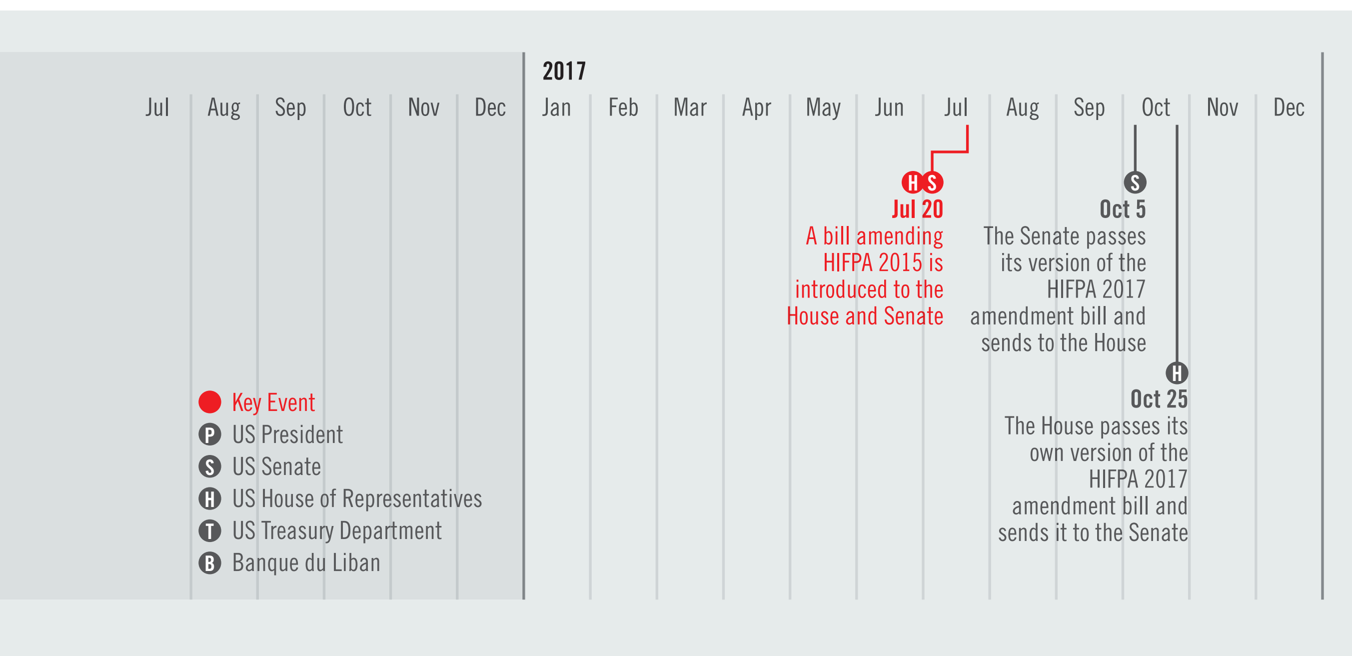
The assessment of insurance as in need of structural reform is also confirmed by Anthony Khawam, deputy CEO of Sécurité Assurance, who tells Executive, "Compared to regional and international standards, our market is overcrowded. There are 52 insurance companies for a $1.5 billion market. This results in fierce competition and lower market standards, and also makes it difficult for the regulator to monitor and stop the misconduct of some players."

Regarding measures that would accelerate reform in the insurance sector, Khawam identifies the meager capital requirements as a main reason for the market's over-crowdedness. "It is very important to raise capital requirements and to create subsidized loans that would encourage mergers and acquisitions. These initiatives would consolidate and strengthen the market, and our understanding is that the regulator is rightfully working on both of those fronts," he says. In his view, the ICC has indeed been responsive and proactive in dealing with market misconducts. "This sent the right message to stakeholders, not to mention that some corrective measures were much needed," he concludes.

> There are 52 insurance companies for a $1.5 billion market. This results in fierce competition and lower market standards

The CMA's Zebian confirms that the capital-market regulator favors public listings from the insurance sector. He emphasizes, "The CMA seeks to create a sound legal and operational framework that allows for companies of certain maturity and size to take the decision to float their shares. As such, we see a great potential in insurance companies and strongly believe that the insurance market, which is almost 3 percent of GDP, can have strong growth in the future. This is something that investors continue to look for."

Within the framework of Lebanese political insecurity, it would certainly be frivolous to predict certainty in any part of the financial economy. Growing cohesion in the interaction of banking and wealth management with capital markets and insurance seems the best hope at the end of 2017—provided that the long experience of Lebanese banking sector stability extends through 2020 and beyond.



*By Thomas Schellen*

# From foggy to cloudy


Banking development opportunities for 2018 suffer from opacity and uncertainties

**Ethereal. Ephemeral. Elusive. ETP, perhaps.** Questing for upcoming banking-sector development opportunities in 2018 brings a whole palette of e-words to mind, including the "e" in ETP (electronic trading platform), but not the favorite e-word of marketers and their PR minions: exciting.

It seems that development opportunities in the banking sector are increasingly scarce, partly, of course, because good opportunities are by definition those that are not obvious to all, but also because the business of banking is facing new pressures all around. Before the decade is out, 2017 and 2018 might count among years that drove this point further home.

Earlier in the 2000s, during the quasi-mythical days before the Great Recession, development logics for large Lebanese banks seemed compelling. One strong strategy calculation for a growing top bank was to go cross-border, leverage your comparative advantage of the sophistication of Lebanese financial industry knowledge in conjunction with your cultural proximity to other countries in the wider region, and deploy your accumulated financial ammunition outside of Lebanon to avoid putting pressures on the home market.

Another famed strategy for development was to tackle underserved but potentially profitable market segments, such as private banking, or to find other untapped and potentially lucrative market niches (which, for example, does not apply to efforts for inclusion of the unbanked poor, a segment that is ridiculously underserved in overbanked Lebanon but not intrinsically lucrative).

During the past year, big headlines about international expansions or takeovers of foreign banks by Lebanese lenders were scarce—with the one notable exception of an acquisition spree by Societe Generale de Banque au Liban (SGBL) and its chairman, Antoun Sehnaoui. SGBL made news over the acquisition of two entities from one banking group in Europe in December, and Sehnaoui was reported to have acquired a small bank in Colorado, United States, in mid-year. Overall, however, most news from local banks shown on the website of the Association of Banks in Lebanon in 2017 or reported in Lebanese media focused on corporate social responsibility, and querying top bankers about development strategies at the end the year felt like pulling teeth.

## UNDERSTANDABLE HESITANCIES

Put into national and global contexts going into 2018, however, any banker's hesitancy in declaring new development opportunities is as unsurprising as reluctance in the face of painful dental procedures. Foggy perspectives, first of all, afflict the Lebanese economic and financial environment, due to the local political climate. That point has been demonstrated indisputably in November of 2017 to all who even might have dared to dream differently.

Foggy perspectives intrude equally, however, from the global economic-policy environment. The impairments of vision in this regard relate to long-standing debates over banking rules and policy twists in the United States, among other things. This is not just about Hezbollah-bashing legislation from American lawmakers but also about legislative measures with global economic implications. At the end of 2017, there is no apparent certainty about the future regulatory climate in US banking, although this climate is widely assumed to become friendlier for financial corporations. In spite of this policy expectation, there certainly are some mixed international impressions of movements on the US regulation and deregulation front—buzzword Dodd-Frank—which are certain to influence banking internationally.

A December announcement about a reform agreement on the Basel III rules by the Bank for International Settlements (BIS) also tended to leave its own space for ambiguities. The final reform framework for the 2010-initiated Basel III package aims, as BIS states, "to restore credibility in the calculation of risk-weighted assets." Titillations linked to this reform will quite likely be limited to central bankers and experts in advanced financial accounting, but one noteworthy facet of the package is that it gives countries and banking institutions extended deadlines before the announced reforms come into effect in 2022 and have to be fully implemented in ten years.

More relieving for concerned central banks and government treasuries than the timeframe might actually be that the reform package does not talk about risks when it comes to sovereign bonds. These will still enjoy statutory innocence on bank balance sheets and will be zero-risk assets, since the insolent idea that sovereign bonds could behave any other way was not approved by the Basel committee, which includes central bankers and government-appointed regulators from 28 jurisdictions and operates on a consensus principle.

Next, the changes in the US taxation system, which are yet to be adopted and signed into law at time of this writing, have economic and equity market implications of uncertain magnitudes and directions in the horizon for the coming few months. Some European bank economists described the corporate US tax cuts in their 2018 outlooks as pro-market and not yet priced-in in December 2017, but the prospects of these cuts also caused some vocal concerns among government economists in the major European export power, Germany.

On the political level, prospects of risk were stoked significantly at the end of 2017 by the ignominious Jerusalem decision by the US president. Such a move can only serve to remind humanity that wars in history have been triggered—if not caused—by irrational elements, from deliberate insults of national pride to football games. Especially from a vantage point in the Eastern Mediterranean, the move is a painful reminder of the recurrent misperception of man as rational being. Optimistic concepts of eternal peace as based on enlightened treaties, or as capitalist peace predicated on the global spread of a fast-food empire, have unfortunately not proven sustainable, Mr. Friedman, just like the idea that no honorable journalist of our times could ever debase himself as a sycophantic scribbler.

> Prospects of risk were stoked significantly at the end of 2017 by the ignominious Jerusalem decision by the US president

Even without a clear understanding of the regional pressure experience from bilateral Saudi-Iranian rivalries in the Middle East, which the risk quarterly of Aon, the international insurance intermediary, in late November 2017 categorized as "the major driver behind the general increase of risk in the region," it is very hard to ignore the impression that more tinder is piling up in the world's number-one tinderbox. Who can think about development opportunities at such a time?

Thinking about the overall uncertainty at the end of 2017, one might finally want to cast a questioning eye on market expectations for the coming year. These are generally optimistic in tenor, even if curiously worded—like one from Bank of America Merrill Lynch (BofAML), a leading wealth-advisory and asset-management player, which titled its 2018 Global Markets Research Outlook, "So bullish, it's bearish." But bullish indeed is the consensus of the analyst herd, and the picture is similar even from the watchdog of the developed economies, the Organization for Economic Cooperation and Development (OECD).

From the lofty vantage points of all-impressive charts, the OECD hints of raging economic bulls across member countries. In one OECD powerpoint, economic outlook projections for real GDP growth rates in 2017, 2018, and 2019 by the organization feature 39 arrows of the up, down, and flat varieties for the world, the Euro region, and individual member countries. Of the 13 arrows for 2017, 11 point up versus two year-on-year downers (UK and India). Of the arrow sets for 2018 and 2019, year-on-year development projections for 2019 have 11 down arrows, but when one compares the forecasted growth rates with the 2016 actual rates, each of the three years in the projection timeframe is overwhelmingly up.


*US recognized Jerusalem as Israel capital*

That is to say, relative to 2016 actual, projected GDP growth rates for OECD countries are flat only three times. Seven of the 39 arrows point down. That leaves 29 upward projections across the economically dominant part of the world in this and the next two years when compared with 2016. This is scary.

On one probably heuristic level in this writer's mind, the unscientific scare factor is that overwhelmingly bullish expectations for a coming period in the global economy are associated with years that turned out as leading down to quite the opposite of dominant expectations, like 1928 and 2006.

It is difficult to forget that in 2006, the IMF opined in the foreword of its September World Economic Outlook (WEO), "Our baseline is that world growth will continue to be strong." This confident assertion was followed by the fascinating (and bullish) assurance in the April 2007 WEO that "continuation of strong global growth" was the most likely scenario, because risks had declined from the previous year, and compared to six months prior there was "less reason to worry about the global economy."

What differed markedly from these opinions was not merely the April 2008 WEO acknowledgement that "the world economy has entered a new and precarious territory," but rather the entire geo-economic experience of the years that followed.

If we pivot back to current 2018 views, Copenhagen-based international trading specialist Saxo Bank at the end of November confessed to having a contrarian view on global growth in 2018 vis-à-vis an overly rosy consensus among financial augurs. Saxo enigmatically opined in its global macro outlook that "2018 is certainly the most favorable occasion for a bubble burst since 2007." Open warnings seem to be out of favor with analysts this year, but is an overall aversion to trouble the waters more on the good or on the bad side as far as predicating existing trends?

> Seven of the 39 arrows point down. That leaves 29 upward projections across the economically dominant part of the world.

### WHAT WORKS?

From an emerging-markets angle, beyond general intuitive uneasiness it might be a rational fear that things that are good for the big players in the global economy do not have to be in the best interest of countries that comprise the precariat of the global sphere in terms of their absolute shares in world GDP. Usually, these countries do not even appear on index radar screens as frontier economies. This differential between analytics of the global and local could mean that consultation of crystal balls and tarot cards are superior to arduously googled research papers and outlooks by leading international-bank economists. Or, at least, it could mean that inquiries of what worked in 2017 for the top Lebanese banks are preferable to the assessments by their foreign peers who do not have Lebanon in the center of their analysts' radar, or anywhere else on their research screens.

So what did work for the Lebanese alpha banks with deposits in excess of $2 billion in 2017, and thus might also help them to rich harvests in 2018?

BLOM Group, Lebanon's runner-up in banking power and winner of 20 different accolades in various financial award categories in 2016 and 2017, according to its website, said in a November 2017 blog entry by its Blominvest unit that over the first nine months of 2017, BLOM Bank "attained the highest level of operational, non-exceptional net profit" and also topped the ranks of the four listed Lebanese banks in two crucial return ratios.

"BLOM Bank recorded the highest [return on average common equity] at 16.93 percent and the highest [return on average assets] at

1.55 percent," the entry read, before adding that the percentage growth of assets and the lending portfolio at BLOM—with asset growth of 7.7 percent and loan growth of 6.4 percent in the first three quarters of 2017—was higher than that of its listed peers, AUDI, Byblos, and Bank of Beirut.

Asked what was behind the bank's success leadership in 2017, Saad Azhari, BLOM Group chairman and general manager, explains that the bank's growth in assets and deposits as well as its higher loan growth than the sector was "definitely linked to the acquisition of the HSBC loan portfolio, which added about $500 million."

While the acquisition of HSBC Middle East, which BLOM officially announced in November 2016 and completed in June of 2017, did not greatly boost BLOM in size, it was very beneficial for the group's trade-banking activities, where it facilitated a strong increase in commission income from letters of credit (LC) and letters of guarantee (LG). According to Azhari, the acquired HSBC Middle East business adds some 2 to 3 percent to BLOM's business, "but in terms of commissions on LCs and LGs, the increase is about 50 percent of the consolidated BLOM activity in this area, and when taken for Lebanon alone, the volume of LG [and] LC was doubled," he says.

Some processes and digitization at BLOM could also be improved through integration of HSBC staff, and BLOM also succeeded in retaining a very high share of the acquired customer base. "The add-on to profitability is also good; while the size of HSBC portfolio is small, it will add to profitability in future," Azhari acknowledges, adding that the acquisition worked "overall better than expected."

When asked about the best development prospects of Lebanese banking going forward, Azhari pointed to the inopportune timing of such considerations in the politically charged month of November 2017, and expressed hope that the problem would be temporary. As positive general perspectives, he cites the oil and gas sector, as well as bank investments into tech entrepreneurship under Circular 331, from Banque du Liban (BDL), Lebanon's central bank. Granting oil and gas licenses "will definitely open new doors, as there will be companies that will be suppliers and services providers. This activity will boost investments, so I think the oil and gas sector will be an important sector for the future," he says.

2017 was a year of subdued appetite for growth among all Lebanese banks

In the view of Freddie Baz, vice-chairman and chief strategist of Lebanon's largest financial entity, Bank Audi Group, 2017 was a year of subdued appetite for growth among all Lebanese banks. He points to challenges in the two main countries with a Lebanese banking presence abroad, Turkey and Egypt, to explain why pursuit of growth in the external markets was less vigorous than in some previous years. "Both countries are facing many challenges. These challenges are of [a] short-term nature, but short-term strategies [for foreign operations of Lebanese banks] are much more in a consolidation mood than in growth mode," he explains, adding, "At the same time, in Lebanon, we are seeing a lot of volatility and many unknown parameters. They do not exist to the extent of generating big fears and concerns, but people want to see improvements. These are again being delayed; the situation is delaying, delaying, delaying."

**UNDERESTIMATED**

Emphasizing that Lebanon's performance over the past 25 years is likely to be underestimated in comparison to other Arab countries, Baz points out, "For reasons of Lebanon's sectarian dimensions, sensitivity toward regional conflicts is probably the highest among peers in the region. But amazingly, when you look at the long run, there are interesting numbers concerning growth." He cites recent studies conducted by Bank Audi's economic research team under Group Chief Economist Marwan Barakat, which show that average annual GDP growth in Lebanon is in the 4 percent range in the past 27 years and, compared to the region, only 20 or 30 basis points lower when viewed over long periods (from 2000 to 2017 in the first comparison, and from 1990 to 2017 in the second comparison).

What impacts the perception of Lebanon are long-standing but largely consistent risks and the presence of high volatility. "The bottom-line reading is that Lebanon gets affected by regional conflicts and domestic difficulties much more than the region, but its capacity to rebound is also much faster. The volatility is high, but in the very long run, Lebanon always catches up," Baz says.

The perception of Lebanon as especially risky or slow in economic development and political economy might explain many unfavorable perceptions of the nation and its financial industries among the country's residents and foreign observers, including perceptions of measures relating to the overconcentration of the monetary side in the national mix of fiscal and monetary policies. In 2016, the best things that happened to the banking sector arguably were

the central bank's unconventional measures, driven by BDL's desire to fill up its vault with foreign-currency reserves, which was explained by the central bank as a measure in the national interest.

It is undisputed that this unusual financial engineering translated for commercial banks into a year that was described with epithets from atypical to significant, but it was not so much by their own initiative as by their willing and skillful participation in the central bank's scheme.

One of the possible macroeconomic advantages that the World Bank's Fall 2016 Lebanon Economic Monitor envisioned as result from the 2016 financial engineering was "a positive impact on private lending and, thus, economic growth" from the rise in Lebanese lira liquidity at the commercial banks, contingent on "sufficient demand for the additional liquidity in local currency." (This was the only advantage noted by World Bank economists with respect to the macro economy, versus four disadvantages.)

In September 2017, Bankdata, the analyst firm and banking consultancy, noted, "It is worth recalling that Lebanese banks are increasingly benefitting from the stimulus packages of the Central Bank of Lebanon providing interest incentives for [Lebanese lira] lending over and above an increasing liquidity in LL which is being more and more targeted toward lending at competitive rates."

Analyzing alpha bank lending trends over nearly seven years, from December 2010 to September 2017, Bankdata told Executive that annual lending growth in the period was highest in 2013, with $7.3 billion in additional loans, while observing that "the pace has slowed substantially since December 2015, with additional loans of $2.6 billion over the past 21 months." According to the analysis from November 2017, alpha banks' overall loan portfolio "stood at $35.8 billion at year-end 2010, and reached $66.5 billion in September 2017, an incremental $30.7 billion, of which 70 percent or $21.4 billion [was denominated] in foreign currencies and $9.3 billion in local currency."

The share of local-currency loans in the total rose steadily from around 15 percent at the beginning of the period to 22 percent at its end, the consultancy said. By type of loans issued over the past three years, corporate loans represented 40 percent of the overall portfolio, according to Bankdata, and reached almost 50 percent when counting commercial real estate loans. Small and medium-sized enterprise (SME) and housing loans each accounted for around 15 percent, and retail loans for 12 percent of the total.

## NOT THE TIME

As the two top bankers, Azhari and Baz, both emphasized, the purpose of the financial engineering of 2016 was to improve dollar reserves at the central bank and simultaneously increase the equities of banks. "Considering the high cost of attracting dollars, the purpose of the financial engineering was not to increase lending," Azhari says.

Baz notes that banks amassed large amounts of liquidity through the financial engineering, which they absorbed, and that any offer to lend lira at good rates was the result, but not the target, of the engineering. "The result of the engineering was increased liquidity, and banks had to use this liquidity. This is notwithstanding the notion that we need at a certain point to de-dollarize our economy, but this de-dollarization cannot start before fundamental imbalances are adjusted," he says, referring to Lebanon's deteriorating capital stock and dependency on inflows, which he characterized as a form of the resource curse.

Pointing to high correlation between GDP growth and loan growth in the country, he refers to the sluggish economy as related to the equally weak loan growth in 2017. "In Lebanon, additional lending in the economy is commensurate with

1.5 to 2 percent real GDP growth. If you want to achieve 5, 6, 7 percent, you need to double the amount of lending," he notes. When one puts all this into context of economic pressures experienced by Lebanon from 2011 till today, one sees the role of the BDL measures as positive, when Governor Riad Salameh was faced in 2016 with a weakening balance-of-payment position at a time when money inflows could be mobilized. "One needs to take money when it is available, because when one needs it, one may not find it," Baz says, adding that in his view, debates over the cost of the measure were missing the point of comparing the cost of such an adjustment with the cost of a social crisis that could result from not undertaking it.

## LOOKING INTO VIRTUAL OPPORTUNITIES

The sum of volatile economic realities in Lebanon, global uncertainties, and ever-more-complicated regulatory and operational environments for the banking industry in the country might leave the 21st century's digital frontiers as only the palpable frontier of banking opportunities. Frontiers are always good for adventures and opportunities. They lead to unknown and perhaps even virgin territories, although the natives might object to the viewpoint. But there are no natives on the other side of the digital frontier (one assumes) and that makes it doubly attractive to venture into digital exploration.

The drawback is that the digital realm is not so new and untouched as it was 20 years ago, when the first wave of new finance settlers ventured there during the first bubble phase of the internet revolution—and soon beat retreats after the burst of the dot.com bubble, at least from the concept of "online-only" banking. More than 15 years after the burst, the internet is a standard banking channel and IT investments, online services, and cybersecurity for banks present themselves as must-have development obligations. Just as a bank operating during the Industrial Revolution needed to invest in a building, a counter, and a vault, banks in the current age need to have online services, advanced IT, and powerful cybersecurity. Lebanese banks have allocated investments to their IT departments, from upgrading core systems to adding new processes, they flaunt their online services and are aware of the cybersecurity issue (although it has to be noted that the legal and technical cybersecurity framework in Lebanon is still in considerable need of development on national level).

> Banks in the current age need to have online services, advanced IT, and powerful cybersecurity

The frontier adventures of 2018 and the next few years might be hidden in the jungle of cryptocurrencies, as the bitcoin-mania at the end of 2017 underscores. However, the path into this territory does not yet appear all that clear. Salameh, who in the past few years had been criticized by financial-tech entrepreneurs for blocking the concept of cryptocurrency adoption in Lebanon, recently readjusted his outlook and started talking about a sovereign digital currency, for example, at a cybercrime prevention conference in November. However, it seems that the Lebanese banking sector still has to tune its sensors to the cryptocurrency and distributed ledger technology, not at only in development practice but even in concept. BLOM Chairman Azhari enthused to Executive that the bank already has its version. "We ourselves, if we can say so, have a virtual currency, our golden points. It was started before [the topics of Bitcoin and Blockchain came into existence] and our customers used their golden points to buy merchandise all over the world."

Loyalty points, in technical terms, are known as tokens. Under a well-established concept they are used by many consumer focused companies, including retailers, airlines, and banks, and they have a specific purpose: to reward and enhance customer loyalty, duh. Importantly, the issuers control their generation, distribution, value, and shelf life. This limits their qualities as fungible, transferrable, or tradeable digital means. Cryptocurrencies and their safety features (the blockchain) are generally designed to be tradeable, have unlimited lifespans, and are thought of as fungible.

The concept of a digital sovereign currency in Lebanon under BDL supervision comes with many questions. Moreover, the timeframe for any adoption of such a scheme is yet to be determined—and if the time that has passed since the first reference to an ETP in a public speech by Salameh is any reference, nobody needs to trouble their mind over a sovereign or any other cryptocurrency in Lebanon for a few years yet. For Audi's Baz, the much hotter agenda item for Lebanon is the creation of the electronic trading platform (ETP) attached to the Beirut Stock Exchange. "Digital currency talks are very premature for Lebanon. In my opinion, the ETP is more important, and the [BDL] governor is keen on developing it," he enthuses, adding that not mere words but real action has been dedicated to the establishment of an ETP in the Lebanese context, and needs to result in more concrete steps.

By Dany Baz

# The financial positioning and performance of alpha banks in 2017

## The growth of Lebanon's top lenders

**The Alpha Report by Bankdata Financial Services covers 14 banks, each of which have deposits exceeding $2 billion and collectively represent the lion's share of banking activity—holding 87 percent of the $227 billion in assets at the end of September 2017.** Before assessing the performance of Lebanese alpha banks during the first nine months of 2017, it is important to acknowledge the political climate in which they operate.

In November 2017, shortly after the Alpha Report was finalized, Lebanon reeled from the shock resignation of Prime Minister Saad Hariri. Much has transpired in the weeks since. Political and economic influencers universally sought to reassure the Lebanese people and their international partners that the stability of Lebanon will persist, and that its economic integrity will be preserved. The prime minister eventually made his way back home, and retracted his resignation—for now. And as the country entered into December of 2017, the commitments of key political stakeholders have seen positive developments toward stability, reinforced by the Lebanese economy's long history of resilience and endurance.

However, given it is not yet possible to assess the impact and potential repercussions of the year-end political period, the following overview is, thus, Bankdata's diligent view of banking conditions in the first nine months of 2017—without any speculation as to developments in the fourth quarter of 2017.

### SLOW BUT STEADY GROWTH

Measured by the consolidated assets of alpha banks, banking activity saw 4.8 percent growth in the first nine months of 2017 to reach $227

ALPHA BANKS RANKING BY MAJOR AGGREGATES AS AT SEPTEMBER 2017

| Bank name | Total assets | | Customers' deposits | | Loans and advances | | Shareholders' equity | | Net profits | |
|---|---|---|---|---|---|---|---|---|---|---|
| (values in US$ million) | Rank | Value | Rank | Value | Rank | Value | Rank | Value | Rank | Value |
| Bank Audi Sal | 1 | 44,682 | 1 | 35,749 | 1 | 17,185 | 1 | 3,807 | 1 | 437 |
| BLOM Bank Sal | 2 | 31,800 | 2 | 26,884 | 2 | 7,625 | 2 | 2,874 | 2 | 357 |
| Byblos Bank Sal | 3 | 22,396 | 3 | 18,002 | 4 | 5,307 | 5 | 1,821 | 7 | 115 |
| Fransabank Sal | 4 | 21,576 | 4 | 17,603 | 3 | 6,794 | 4 | 2,035 | 6 | 130 |
| SGBL Sal | 5 | 20,787 | 5 | 15,988 | 7 | 4,833 | 6 | 1,802 | 4 | 171 |
| Bank of Beirut Sal | 6 | 17,477 | 6 | 12,730 | 5 | 5,050 | 3 | 2,391 | 5 | 152 |
| Bankmed Sal | 7 | 17,045 | 7 | 12,586 | 6 | 5,023 | 7 | 1,738 | 3 | 282 |
| Banque Libano-Française Sal | 8 | 13,172 | 8 | 10,592 | 8 | 4,244 | 8 | 1,227 | 8 | 93 |
| Crédit Libanais Sal | 9 | 11,182 | 9 | 9,126 | 9 | 3,399 | 9 | 818 | 10 | 58 |
| IBL Bank Sal | 10 | 7,006 | 11 | 5,766 | 14 | 956 | 11 | 545 | 9 | 76 |
| BBAC Sal | 11 | 6,872 | 10 | 5,985 | 11 | 1,755 | 10 | 606 | 11 | 42 |
| First National Bank Sal | 12 | 4,756 | 12 | 3,881 | 13 | 1,114 | 12 | 434 | 13 | 23 |
| Lebanon and Gulf Bank Sal | 13 | 4,465 | 13 | 3,753 | 12 | 1,396 | 13 | 375 | 12 | 31 |
| Creditbank sal | 14 | 3,765 | 14 | 3,170 | 10 | 1,809 | 14 | 338 | 14 | 17 |

Source: Bankdata Financial Services


SECURITE
assurance
WE'RE HERE.
SATISFACTION.
THE SECURITE ASSURANCE EFFECT
securiteassurance.com
NEED HELP? WE'RE HERE
1534

billion at the end of September. In terms of human capital and presence on the ground, alpha banks expanded their networks by 14 branches and 707 persons in domestic positions in the first nine months of 2017. With these additions, the 14 banks accounted for 1,202 branches, and a total staff of 31,202 employees at the end of September. It is worth noting that the staff count of employees abroad did not increase, meaning that all additions to the alpha banks' net employee count were domestic hires.

In continuation of long-term trends in the banking sector, activity growth was driven by customer deposits—whose growth accounted for two thirds of the asset growth in the first nine months of 2017. Customer deposits actually achieved 4 percent growth over the period; noting that alpha banks' deposit growth was mostly tied to domestic deposits. On a consolidated basis, alpha banks' domestic deposits rose by 4.6 percent, while foreign deposits grew by 0.7 percent year-to-date. In parallel, the consolidated loan portfolio of the alpha group grew at a slower pace when compared with previous years. As banks found the harsh economic environment restricting their lending opportunities, loan growth was reported at merely 2.6 percent over the nine-month period (compared to 4.7 percent in the first nine months of 2016).

While the bulk of deposit growth was tied to foreign currencies, almost all new loans this year were in Lebanese lira. This development, which occurred in the context of a stagnant FX loan portfolio, was contrary to what was observed last year. Domestic-loan dollarization decreased to a record low of 69.4 percent at the end of September and moved ever closer to the domestic deposit dollarization ratio of 65.4 percent at end of the third quarter. The gap between the two dollarization ratios has been contracting from 7.4 percent at the end of 2016 to 4 percent at end-September 2017. This trend has also been reflective of the impact of the financial engineering operation undertaken in 2016 by Banque du Liban (BDL), Lebanon's central bank, that increased banks' liquidity in local currency.

**IMPROVED RETURNS**

The growth in the alpha banks' loan portfolio was coupled with a slight retreat in lending quality. The gross doubtful and substandard loans as a percentage of gross loans rose from 6.81 percent in December 2016 to 7.78 percent in September 2017. Net doubtful and substandard loans as a percentage of gross loans likewise rose from 2.43 percent to 3.19 percent over the same period. Nonetheless, while doubtful loans are provisioned to the extent of 71.8 percent by specific provisions, collective provisions were significantly enhanced, reaching an all-time high of 1.71 percent of net loans.

> The unfavorable developments were offset by a noticeable rise in net operating margin

At the profitability level, alpha banks' net profits from operating activities grew by a mere 3.4 percent over the first nine months (growth was 21.4 percent when adding profits from discontinued activities). It is important to note that the growth in recurrent profits over the first nine months of 2017 saw a real increase above the nominal growth of 3.4 percent when normalizing the profits of the corresponding 2016 period for non-recurrent fees and commissions resulting from BDL's financial engineering operations. Nominal profit growth was driven by 2.6 percent growth in net interest income, yet offset by a 49.5 percent contraction in net fees and commission income (for the reasons mentioned above), leading to a 6.2 percent contraction in net operating income. Within the context of an 11.1 percent contraction in operating expenses, banks experienced stagnation in operating profits.

With respect to return ratios, Bankdata observed a relative improvement. While a slight increase in the return on average assets from 1.04 percent in the first nine months of 2016 to 1.19 percent in the same period of 2017 was reported, the return on average common equity rose from 12.77 percent to 14.33 percent, though still below the cost of equity of alpha banks. The components of return ratios suggest that spread has contracted by 6 BPS, moving from 1.94 percent to 1.88 percent, coupled with a decline in the ratio of non-interest income to average assets from 1.20 percent to 1.03 percent. All in all, this generated a retreat in the asset utilization rate from 3.14 percent to 2.91 percent.

The unfavorable developments were offset by a noticeable rise in net operating margin from 33.23 percent to 40.96 percent, mainly tied to the drop in credit cost from 8.00 percent to 5.76 percent, while cost to income improved from 49.70 percent to 44.89 percent over the same period. Both the asset utilization ratio, and the credit cost ratio of the corresponding 2016 period were inflated on one side by the non-recurrent revenues and on the other side by the BDL requirement for banks to use their exceptional revenues in one-time extra provisions.

*DANY BAZ is the general manager of Bankdata Financial Services*

mastercard


Win 1 Million card miles and travel the world with Byblos Bank's Akram Program, Lebanon's most generous card loyalty program. All you have to do is use your Mastercard debit or credit card to buy anything for a minimum of $20. The more you spend, the more chances you have of becoming a millionaire!

During December 2017
Authorized by the Ministry of Finance

(01) 20 50 50 byblosbank.com

BYBLOS BANK

By Zeina Zeidan Maalouly

# Corporate governance

Increasing female participation at the top will benefit all

**Corporate governance in the Middle East and North Africa (MENA) has been insufficient and is preventing corporations from fulfilling their economic potential.** Corporate governance is crucial when companies seek to attract new shareholders and optimally mobilize sources of capital, but publicly traded companies in the region are not only lagging behind developed economies in terms of corporate governance, but also behind many emerging markets.

Transformations of corporate management culture have recently commanded a great deal of attention in international business literature. One particular focus is the optimization of corporate boards through the increased inclusion of female board members.

It is in the area of female participation in corporate governance, so on the board of directors, that companies in the MENA region face particular shortfalls, which has unfavorable implications on corporate governance culture throughout the region. Globally, women account for only 12 percent of board seats among the world's largest companies, and 13.4 percent of directors in developed markets, versus 8.8 percent in emerging markets, according to data from MSCI, a global equity indices compiler. But despite this low target, in the Middle East, fewer than 2 percent of board members are women, according to Bloomberg figures.

If a correlation between the low adoption of corporate governance and low rates of women on boards is drawn, corporations in the MENA have the opportunity to kill two birds with one stone by simultaneously improving their corporate governance practices and establishing policies to increase the number of women serving on boards. There are sound reasons to do both, for corporate culture and overall performance alike.

**FAMILY BUSINESS**

A primary reason for the slow pace of corporate governance reform in the region is that the majority of businesses are either family-owned or small- or medium-sized enterprises. These companies tend to hire from within, especially for top positions, rendering it difficult to maintain independent and transparent governance.

By definition, corporate governance is the system by which companies are directed and controlled. It hinges on how the company's board of directors and upper management communicate with its shareholders and stakeholders.

With proper governance, any organization would be transparent and accountable for every decision it makes. This fosters a healthy and symbiotic environment. Inversely, weak corporate governance permits waste, corruption, and mismanagement due to a lack of accountability. The more transparent and forthcoming the organization is about its actions, the more amicable the relationship can be between management and shareholders.

Sound corporate governance requires supervisors who are responsible for constantly reviewing and reevaluating all of a company's processes and regulations. In the case of any errors or mishaps, they are required to instigate proper changes that will prevent such issues in the future, and make them less harmful to overall profit and performance.

These practices should be made clear to all stakeholders, and any

change needs to be promptly reported. The shareholders also hold the right to question any reforms the company implements, or new projects it undertakes, to ensure that such ventures do not have negative impacts on internal or external stakeholders.

There are many benefits for cohesive corporate governance at multiple levels. For a company, it eases access to external capital, bolstering its competitive edge. In the case of family-owned organizations, the distribution of power and capital is very clear, which lessens the possibility of conflicts erupting between family members. The latter is crucial to attract new investors and placate those who are already established. Internally, it will create a transparent feedback mechanism that will root out any weak operations that are compromising productivity.

Properly implemented and transparent corporate governance often attracts shareholders, who are more likely to invest if they have access to all the information regarding the spending of their money as well as the projected success. Furthermore, sound governance will encourage present shareholders to support further expansion into new projects and products that will develop the company and help it remain competitive. This cannot be achieved unless the shareholders are being routinely updated with all the latest findings and regulations that are implemented.

Numerous empirical studies have shown that investors are significantly more likely to invest in a well-run organization than in a poorly-run one. The corporate value of any organization will be bolstered and subsequently add value to the economic status of the nation.

Including women on corporate boards is a crucial way to improve corporate governance. Studies by international accountancy groups Deloitte and EY have shown that investors and shareholders increasingly see the value of gender balance in businesses, and that shareholders care about the gender composition of boards.

**WOMEN ON BOARDS**

Importantly for the bottom line, a 2016 Organization for Economic Co-operation and Development (OECD) report, citing McKinsey, showed that companies with women on executive committees outperformed those without women in leading positions, bringing in an average of 47 percent more return on equity and 55 percent more earnings before interest and tax.

Findings from narrow market segments—such as listed Fortune 500 companies in the United States—that show improved bottom-line performance of companies empowering women strongly across various levels of decision-making are difficult to extrapolate to international markets. However, an analysis carried out a few years ago by the Peterson Institute for International Economics on 21,980 firms in 91 countries indicated that including women on boards may improve corporate performance, "with the largest gains depending on the proportion of female executives."

> Companies with women on executive committees outperformed those without women in leading positions

The OECD, which is championing corporate governance, has issued a recommendation on gender equality, advising that jurisdictions "encourage measures such as voluntary targets, disclosure requirements and private initiatives that enhance gender balance on boards and in senior management of listed companies, and consider the costs and benefits of other approaches such as boardroom quotas."

Introducing quotas to get more women on boards has been proven to be effective. In France, for instance, once a quota was introduced in 2011, the share of women on boards went from 10.7 percent in 2009 to 33 percent in 2015, while there was an 18 percent increase over a similar period in Italy.

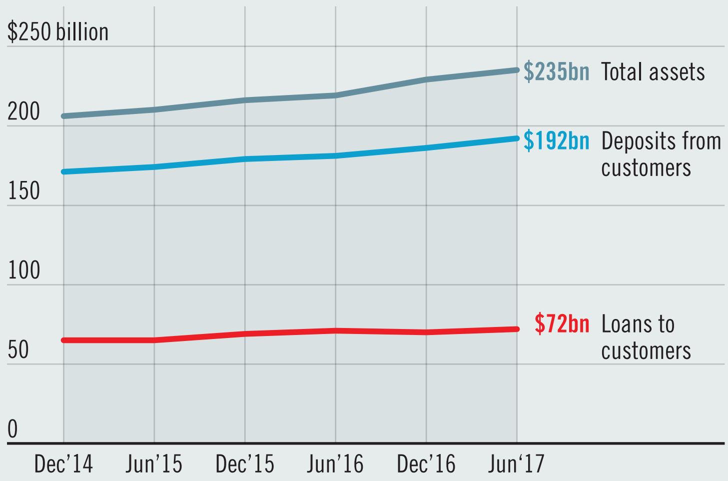
Yet despite such progress there is still a seemingly widespread belief that women are not qualified to be on boards. This argument does not hold up to reality. The number of women in higher education outstrips the number of men in Lebanon, as well as in many MENA countries, while in the Lebanese banking sector, women account for 47 percent of all employees—certainly a large enough pool of talent to draw upon. What is holding back women from being on boards is not qualifications but experience. To have that experience, women need to be able to move up the ladder and break through the glass ceiling. That requires a mindset change in corporate culture.

Among family-owned businesses especially, a dual-track approach to corporate governance and increasing female participation in management and boards in the MENA should be encouraged. As the MENA region starts taking corporate governance more seriously, governments, regulators, and institutions should seriously consider adopting the OECD "Recommendation on Gender Equality" to boost the number of women on boards.

*Zeina Zeidan Maalouly, Ph.D, is chair of the board at Royals Financials S.A.L.*

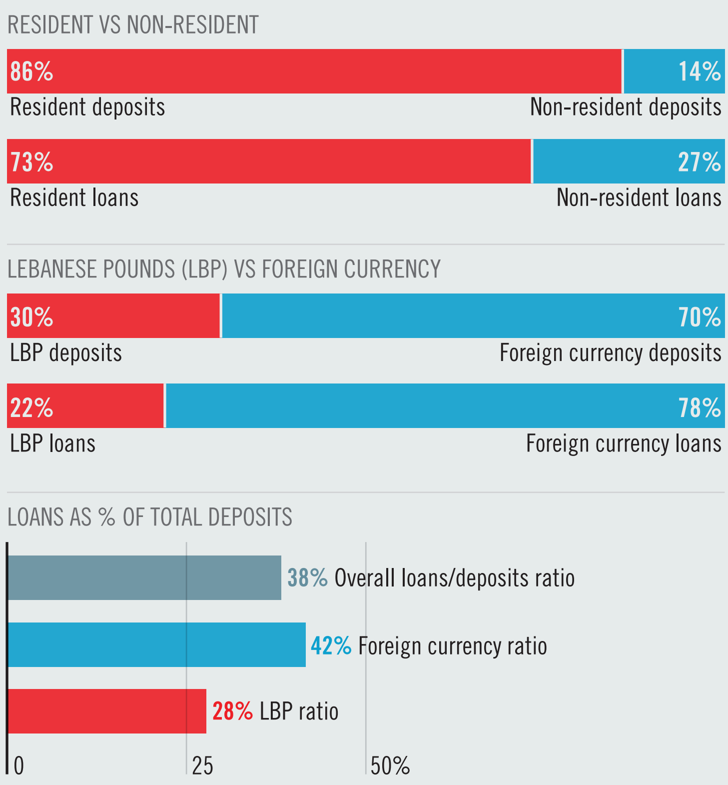

الاعتماد اللبناني ش.م.ل
CREDIT LIBANAIS SAL
A Card for Every Lifestyle!
VISA SIGNATURE
VISA PLATINUM
Manage your expenses with Credit Libanais credit cards which provide you with payment facilities in Lebanon and worldwide.
With MasterCard and Visa cards, you can always have access to our assistance and services.
• Settling purchases
• Safe online shopping
• ATM services
• SMS card alert
• Phone & Online banking
• Comprehensive travel insurance coverage
• Loyalty points redemption for valuable rewards and travel tickets to any destination and with any airline company
Credit Libanais Tower, Corniche El Nahr, Adlieh
1518 | +961 1 607100 | 69 branches at your service
www.creditlibanais.com | info@creditlibanais.com.lb
CREDIT
CARDS

LEBANESE BANKING SECTOR ASSETS, LOANS & DEPOSITS




Source: Bankdata.com

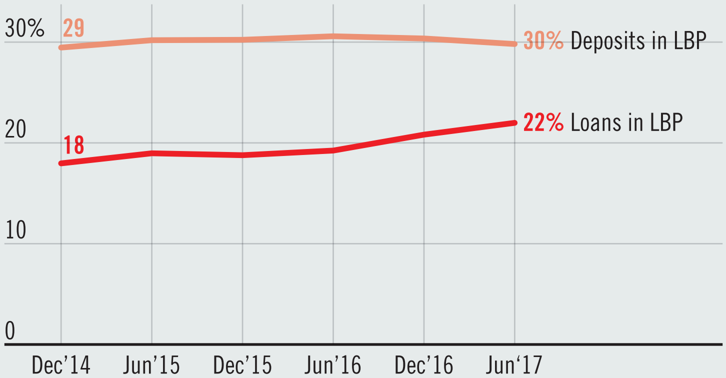
DEPOSITS & LOANS IN LEBANESE BANKS



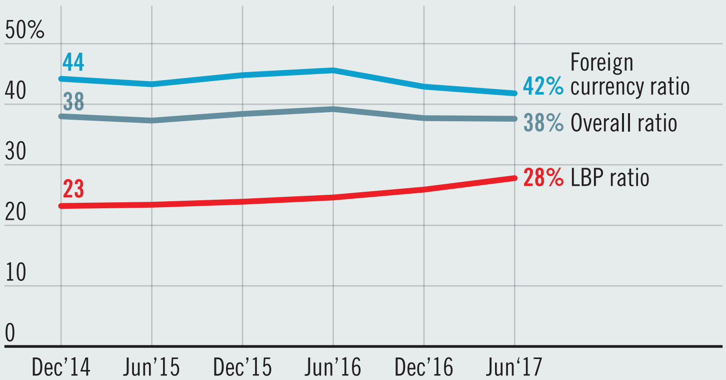

Based on data for June 2017.
Source: Bankdata.com

## DEPOSITS & LOANS IN LEBANESE BANKS

PERCENT OF DEPOSITS AND LOANS IN LBP (VS FOREIGN CURRENCY)

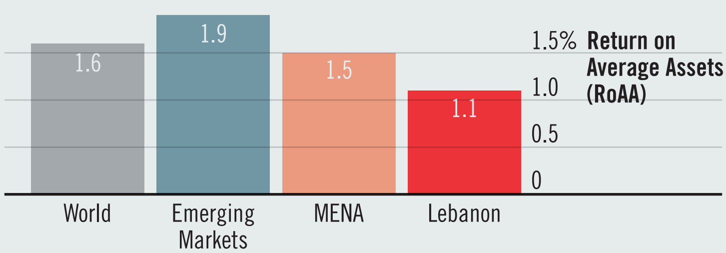


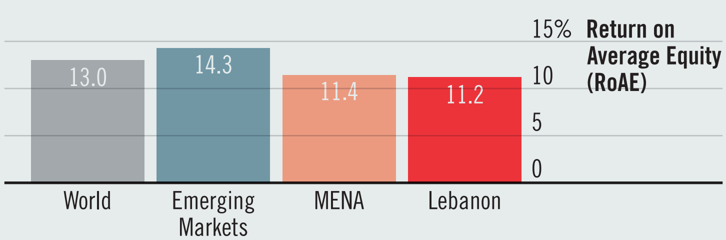

LOANS AS PERCENT OF TOTAL DEPOSITS




Source: Bankdata.com

## RETURN ON INVESTMENT IN BANKING SECTOR




Based on data up to Jun 2017.
Source: Bankdata.com


REAL ESTATE
HIFPA
REFORMS

# There is definitely room at the inn

**With the birth of every new generation comes the promise of future demand for residential property.** Lebanon's external migration problem means an unknown percentage of her sons and daughters will settle and buy homes abroad, but those who stay need a place to live. There is stable, local demand for real estate, and both land and property purchases are a favorite local savings vehicle, based on the increasingly hard-to-believe myth that property values in Lebanon only appreciate.

The country's real estate sector saw boom years between 2007 and 2010, when both the pace of project announcements and rise in per-square-meter asking prices skyrocketed. Some seven years into a sales slump caused by lack of appetite from expatriate Lebanese, foreign investors, and an unquantifiable percentage of speculators who helped amplify the boom, developers are delivering projects in Downtown, completing more affordable residential offerings outside of the capital, and shifting their strategies to turn profit on their developments.

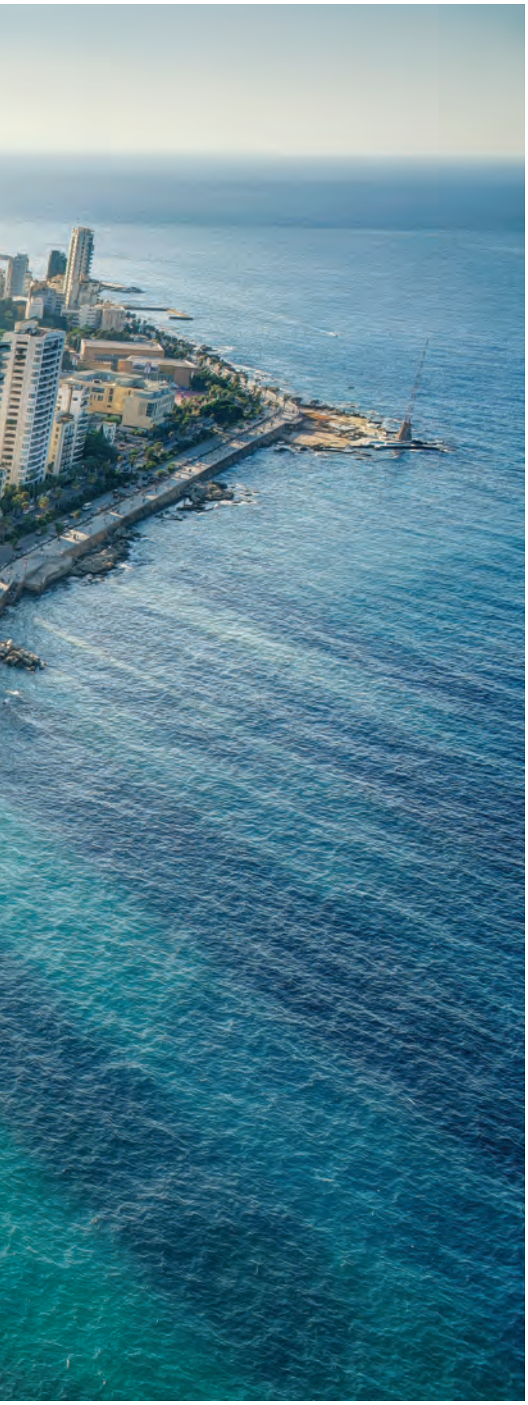
While one analyst told Executive that—combining mortgages and loans to developers—some 40 percent of the local banking sector's combined lending portfolio is exposed to real estate, the dark side of this exposure is impossible to verify. Banks report non-performing loans, but without a breakdown by sector. There are, no doubt, buyers who took out loans 10 years ago, paying 10 to 30 percent more per square meter for an apartment than their neighbors in the same building who bought more recently. And anecdotal evidence suggests all sorts of shenanigans that have allowed buyers to avoid the painful task of actually saving up 25 percent of a property's value before making a purchase. However, there is simply not enough data to evaluate whether the previously mentioned market realities will result in a large volume of defaults.

By Scott Preston

# A long time since the boom

Real estate sector lowers prices to entice buyers

**Going into 2017, real estate stakeholders were riding a wave of optimism spurred by the end of a nearly three-year presidential vacuum and the formation of a unity government.** After several years of market stagnation, developers willed themselves to believe that consumer confidence would be restored and residency uptake would finally resume. Buyers were also hopeful that political stability could improve the economy and enhance the investment climate. Yet the enthusiasm proved to be a setup for collective letdown as 2017 quickly became another disappointing year for the real estate sector.



Shortly after the appointment of a cabinet, Parliament turned its attention to increasing both public sector salaries and state revenues via the imposition of new or increased taxes and fees. A number of these fiscal measures targeted the real estate sector, increasing the price of each ton of cement and applying a 15 percent capital gains tax on secondary residences. For developers who were already struggling to maintain profit margins amid an economic downturn, the timing could not have been worse.

"We were really optimistic about 2017 because we had a president … [and] we have a new law for elections, plus we felt there was potential in the last quarter of 2016. So this is why we wanted to finish our [projects] in order to prepare for 2017," says Ghada el Khatib, COO of Plus Holding. "Unfortunately, the government doesn't help in any sector … You know its like they act like our enemy, not our supporters," she explains, referring to the new tax regime.

"We were really optimistic about 2017 because we had a president"

According to the AUB Byblos Bank Consumer Confidence Index, end users in Lebanon are feeling more positive overall compared to the monthly average in 2016, although the sentiment has not been sufficient to substantially boost sales amid consumers' high expectations for 2017. Throughout the year, the tax law persistently weighed on consumer appetites. Parliament's discussion of the law alone caused confidence to decline four months in a row from January to April. The largest drop was noted in July when the index tumbled 13 percent after the tax law was passed.

**RUSH TO REGISTER**

While Executive was unable to compare this year's sales transactions figures from the Central Administration for Statistics (CAS) to its existing data set (as the numbers have yet to be released), statistics from the General Directorate of Land Registry and Cadastre (LRC) appear at first glance to contradict the dismay expressed by industry professionals. According to LRC figures cited in a report by Bank Audi, there was a 15 percent year-on-year increase in real estate transactions from January to July.

It is doubtful that the number of transactions is actually reflective of a significant recovery in market activity, however. Transactions are tallied using property registrations, and buyers in Lebanon are able to defer these registrations for several years. An official at the LRC explained that many buyers were pushed to register their properties in 2017 due to a rumor that the government would hike registration fees, thus accounting for the uptick that otherwise suggested a sales surge no developer has reported.

Although the fee-hike rumor proved to be false, it was based on a real change in the registration process. Following the implementation of the new tax law, buyers can no longer delay paying the entirety of their registration fee by holding off on registering the purchase. The new law says buyers must pay 2 percent of their

asset's value immediately, regardless of when they register it. This misunderstanding likely caused a surge of registrations for properties that were acquired in previous years before title deeds were turned over.

With the exception of sales transactions figures, most real estate sector indicators showed little change. When changes were identified, they often reflected a downward trend. For example, cement deliveries fell by 105,626 tons to 3,787,589 from January to September of this year compared to the same period of 2016. This may point to reduced building activity, although cement production operates somewhat independently of the real estate sector and includes infrastructure projects, as well as exports.

More telling is the decline in the number of issued construction permits as compiled and published by Banque du Liban (BDL), Lebanon's Central Bank, which decreased 5.4 percent to just over 10,000 in the first nine months of 2017, compared to the same period in 2016. The total area covered by construction permits was also down by 3.2 percent in the first nine months of 2017, compared to the same period in 2016, putting the total decline of permit area at 31 percent since 2011. As real estate projects that broke ground nearly 10 years ago finish up around the country, developers are finding it harder to finance new developments under the strain of dwindling liquidity. According to Karim Makarem, director of RAMCO Real Estate Advisors, challenging market conditions are even inhibiting the sale of land.

"The newest trend is that developers are not buying land in 2017. There are very few developers out there looking to build new projects. I suppose that's an important thing to say, whereas in the past you've always had some developers out there in the marketplace looking to identify lands for development. Now, not all, but most of those looking to buy land are investors looking to buy discounted land," he says.

> Developers are finding it harder to finance new developments under the strain of dwindling liquidity

**ADVANTAGE: BUYER**

Since 2011, local buyers in need of new housing were fueling demand. For these prospective buyers, budget tends to be the determining factor in their acquisitions. Indeed, Bank Audi noted a "flurry of apartments/studios below 150 square meters" coming onto the market in 2017, representing a strategic pivot to smaller units that developers made when the slump started.

"There hasn't been much change in the dynamics of the residential real estate sector in Lebanon in 2017," explains Nassib Ghobril, chief economist at Byblos Bank. "The sector, generally speaking, is still stagnating. The only active segment of that sector is the small-size apartments, 150 square meters and below, and the demand is coming from people who qualified for the Public Housing Corporation [subsidized] mortgage package. That's about it. Basically that's what's driving demand for residential real estate in the country."

And while official asking prices for residential property have hardly budged since 2011, RAMCO, which tracks the price of developments in municipal Beirut for projects starting at $3,000 per sqm on the first floor, calculated a drop of only 1.7 percent in 2016 with a similar decrease of under 2 percent expected in 2017. In reality, developers are being forced to offer large discounts in order to sell their stock.

Marwan Mikhael, head of research at Blom Bank, explains, "Starting with the downturn in 2012 until now you will have a decline in prices depending on where you stand. For me, the market, you have to divide it into the luxury market, the middle market, and the low market. In the luxury market, you have a decline of 30 to 40 percent in price since 2012 until now. In the middle you have between 15 and 25 percent decline, and on the low side, you have 10 to 15 percent."

**SHIFTING STRATEGIES**

Amid low consumer confidence and a growing quantity of housing at ever cheaper rates, prospective buyers are not in any rush to make housing purchases. In response, developers are

### LOOKING OUTSIDE BCD FOR OFFICES

Throughout the economic downturn, the smaller office segment of the real estate sector has been hit hard. This is particularly true of Beirut Central District (BCD), historically the national capital of Lebanon's office market. "[The market] is really, really slow, unless you have something quite attractive, because all companies, instead of expanding, are reducing their staff," says Demco Properties' general manager, Carlos Chad. "I don't see how people can go and say, 'okay, let's go invest in Downtown now.'"

Through his experience managing sales on behalf of clients, Karim Makarem, director of RAMCO Real Estate Advisors, notes that an oversupply of office space has precipitated a drop in rental prices. "Rental prices have gone down, no doubt about it. Whereas at its peak, you had office prices that—in the most prime offices—were achieving 350 or 400 dollars per square meter, now, you'd be hard pressed to achieve these figures, and 250 to 300 [dollars] in the triple A is probably the limit. So definitely there's been a 20 or so percent drop in rental values."

Bank Med has been one of the few companies to purchase land in Solidere territory since 2011. Just months ago, the bank acquired a plot along the Beirut waterfront to serve as the location for its new headquarters.

For the most part, businesses are moving out of the Downtown area to the suburbs. Chad attributes this trend to the risks associated with being present in the BCD, such as protests. In recent years, areas like Antelias and Dbayeh have emerged as office hubs, with new supply coming onto the market.

Regarding sales activity within the capital, Corniche El Nahr and Hazmieh were some of the only neighborhoods where offices are in high demand, as reported by Blom Bank in March of 2017. The found that office vacancy within the capital was 26 percent, and 33 percent outside Beirut. Besides the general state of the economy, these high rates were partly attributed to oversupply present across numerous segments of the market.

experimenting with a range of coping strategies to survive this period of economic stagnation. Mohamad Sinno, managing director of the real estate consultancy Vertica Realty Group, says that one of his clients has introduced a lease-to-own arrangement at the Beirut Terraces. Demco Properties is also considering a similar option whereby renters would pay 5 percent of the apartment's value to put a hold on the residence for a rental period of up to three years. Later, if the tenant decides to purchase the unit, 50 percent of the accumulated rent would be deducted from the final sales price. This arrangement could help developers attract buyers without the negotiation of hefty discounts that cut into their margins.

Other companies are putting their hopes in other markets altogether. Khatib says that Plus Holding is looking to finish its current projects as soon as possible while expanding outside of Lebanon. "We are trying to get new markets, like in Cyprus and Greece. We are mushrooming outside the country because Lebanon for us is our country, we have to keep a good reputation, a good quality, a good service. But is it a profitable country? No it's not, unfortunately," laments Khatib. "Do you want to invest more in this country for the time being? No."

The government is also attempting to stimulate investment in the sector through an initiative by BDL, in conjunction with the ministry of foreign affairs. Together, these institutions are reaching out to Lebanese expatriates with high purchasing power by introducing a housing loan tailored specifically to them. The so-called expat mortgage allows Lebanese residing outside the country to borrow at a 2 percent fixed rate for up to 30 years.

For now, it is too early to tell how impactful the expat mortgage could be. Subsidized housing loans for resident, first-time homebuyers enabled by BDL have been keeping the sector afloat since 2012. Ghobril notes that the value of mortgages has nearly tripled since 2010, from $4.5 billion to $12 billion at the end of 2016. In 2017, the number of outstanding mortgages is thought to be around 125,000.

Fourth quarter lending may be diminished due to confusion surrounding the disbursement of the central bank's subsidies. Several economists and industry stakeholders interviewed by Executive said the central bank had instructed commercial banks to suspend lending at subsidized rates until early 2018. This was said to be due to the central bank maxing out its budget for subsidies early in the year. An official at the central bank contradicted this notion, asserting that all subsidized mortgages were frozen for two weeks starting on October 5. On October 20, the Public Housing Corporation reintroduced its loan at a 3.6 to 3.8 percent interest rate. The expat mortgage, and another loan subsidizing office space for SMEs, were switched from lira to dollars. According to the official, all other subsidized mortgages are currently being approved.

For the most part, developers are ready to put 2017 behind them, while trying to remain optimistic about a Doha Accord-style u-turn in the upcoming year. However, industry professionals acknowledge that the surprise resignation of Prime Minister Saad Hariri stalled what little momentum had been achieved prior to November. With political jostling still unresolved, the light at the end of the tunnel remains a distant dream for Lebanon's real estate sector.

By Scott Preston

# You can build it, but will they come?

Permanent residents still not flooding the streets of Beirut Central District

**Amid plots of unsold, multi-million dollar reclaimed land, on what was 30 years ago an uncontrolled garbage mountain rising from the sea, Downtown Beirut now features more completed buildings than cranes.** However, the Beirut Central District (BCD) has been hit hard by stagnation in the real estate market that began in 2011. While projects launched at the beginning of the decade have been delivered or are nearing completion, sales ratios mean investors have still not realized gains.

Solidere, the company created by Parliament in 1991 and founded in 1994 to oversee rebuilding of the BCD, in the past handily published project updates throughout Downtown in its annual report, but the company's most recently published review of yearly performance on its website is from 2014. Interviews and desk research, however, confirm that three residential towers on the western flank of the BCD were delivered in 2017: Beirut Terraces, the DAMAC Tower, and 3 Beirut, all launched in 2010. Other large-scale projects—such as the GC Towers south of the Martyrs' Square statue, first announced in 2008, and District S, launched in 2010—are still at least 12 months from completion. The very ambitious Phoenician Village never broke ground, while the fates of the Landmark mixed-use project at the foot of the Grand Serail and Beb Beirut residential tower, just north of the ring-road on the Martyrs' Square axis, are unclear. Meanwhile, Beirut Gardens—between Rafik Hariri's burial site and the Virgin Megastore—looks closer and closer to completion, even as one contractor on the project still advertises a 2014 delivery date on its website.

But even as construction continues, the pace of sales for developers who bet big on BCD is still struggling to keep up.

## THE GOOD OL' DAYS

Since 2011, developers operating in the central district have struggled to attract clients to buy their properties. But times were not always so difficult. Following the summer 2006 war, Lebanon experienced an economic boom, and pent-up demand drove construction activity to heights not seen since the 1990s. From 2007 until 2010, developers built as quickly as possible, targeting the expensive tastes of Lebanese expatriates and foreign clients, based mainly in the Gulf.

"When the boom started in 2007, 2008, and extended until 2010, almost all of the supply was life-sized, luxury apartments because it was targeting the expatriates," recalls Nassib Ghobril, chief economist at Byblos Bank. "People here, the developers, thought that every expatriate was a multi-millionaire that had a briefcase full of cash to throw at real estate. That's what they saw. They built 400, 500, 600 square-meter apartments."

Amid seemingly insatiable demand, a profusion of amateur developers entered the market, inflating the availability of housing in Lebanon. Speculators chased after these residential offerings, encouraging even more construction. Carlos Chad, managing director of Demco Properties says that a lack of professionalism and due-diligence during this period led to problems in the market later on. "There was an oversupply that was mainly due to the fact that a lot of pseudo-developers went, built buildings, and proposed a lot of units without making any [kind of] market study. [They] didn't [investigate] the market to understand what was the real need, what was the purchase power, what were the budgets, what were the sizes," explains Chad.

The good times proved to be short-lived. Clients from the countries of the Gulf Cooperation Council (GCC) were some of the first to lose their investment appetites. Nimr Cortas, a co-founder of Estates, says that he noticed a downturn in foreign acquisitions as early as 2009 when oil prices fell, impacting wages in the Gulf. This coincided with tension in the relations between Lebanon and the GCC over Iranian influence in the country, which alienated even more non-Lebanese clients.

Then, in 2011, uprisings throughout the Middle East eventually took root in Syria, pushing the Lebanese economy into a uniquely long period of economic stagnation. Wary of the investment climate in Lebanon, expatriates curbed their purchases in the country. This put many of the developers in the BCD area in a bind. Previously, development companies tended to acquire land with liquid capital and then finance the construction of their products with presale revenues. When turnover slowed down developers had to find alternative methods of paying for the completion of their projects. As a result of the crunch on liquidity very few new buildings have been initiated within Downtown, and progress on projects launched before 2011 has been slow, with developments taking five or more years to complete.

> Clients from the countries of the GCC were some of the first to lose their investment appetites

## THOUSANDS OF UNSOLD UNITS

The legacy of the boom years today is an overabundance of luxury residences in the downtown area, often with a price tag over a million dollars. Ramco Real Estate Advisors estimates that there are now 3,600 unsold apartments in the BCD alone. The excess supply has forced property owners to reduce their margins and offer discounts of 20 to 40 percent in order to move their inventory.

In recent years, several large buildings have been delivered and others are near completion in the downtown area. Most projects of this generation were started just before 2011 and were therefore able to capitalize on the final months of the boom period. The timing meant developers could collect presale revenues that helped make the projects economically viable. Still, these purchases were generally well below the approximate 60 to 70 percent sales ratio that is required before developers begin to turn a profit on their investments.

The case of the luxurious GC Towers, near the Mohammad Al Amin mosque, aptly demonstrates the difference a few years time can make. When the project was launched in 2009, Ghada El Khatib, COO of Plus Holding, reports that 40 to 50 percent of the apartments—between 6,000 and 10,000 square meters—were quickly bought up. However, the discovery of ancient ruins on the site required that construction be halted until the Department of Antiquities secured the artifacts on the ground. By the time the project was resumed years later, the market had turned and many investors pulled out. "We have sales yes, but not like [before 2011] because of the stopping of the project. If the project didn't stop, we could have been sold now 100 percent."

Eying delivery dates one and two years down the road, Khatib says that the towers still have a long way to go before they begin to generate profits as only 55 and 60 percent respectively have been bought up. "We have to continue what we have started, even if we have a shortage of money. We need to deliver because there are


*Place de Etoile in Beirut Central District*

many people who need to be given their apartments. It's not about revenues, it's about credibility."

Several recently completed developments in the BCD area managed to sell out completely prior to 2011, according to Mohamad Sinno, managing director of Vertica Realty Group that consults with companies operating in Downtown—including the Platinum, Marina Towers, and Karagulla buildings. Benchmark's Beirut Terraces and 3Beirut by SV Properties and Construction, are currently being handed over to clients and are believed to have sales ratios of between 50 and 70 percent.

**WHERE ARE THE PEOPLE?**

As for occupancy rates, Carlos Chad, says many developers are moving into office construction to diversify their portfolios and hedge against stagnation in the residential market. "In Solidere it happened a lot because there was an oversupply, and the other problem was that Solidere was becoming a ghost city because a of lack of investors, the locals couldn't afford it, only the expats could afford it. The wealthy expats who come once or twice a year. So you have 50 weeks of vacancy, so it's a dead city."

While much of Solidere's Downtown sits uninhabited, property taxes and service fees eat away at developers' revenues. In 2017, Sinno noted that a number of new service companies are making their way into the downtown market and are helping reduce the cost burden on vacant units. "Before, it was a monopoly in Solidere. Now you see new players coming into the market, which means competition, which [also] means better prices. So it's changing a bit," says Sinno.

> Solidere was becoming a ghost city because a of lack of investors, the locals couldn't afford it

On the whole, both developers and consumers have grown increasingly indebted to banks since 2011 through building and purchasing accommodations. "Their [banks'] exposure to the sector has increased during the previous years, and if you measure it by, say housing loans plus construction loans, their exposure to the real estate is about 40 percent of the whole credits to the private sector," according to Marwan Mikhael, head of research at Blom Bank.

**A CONTROVERSIAL SOLUTION**

In an attempt to house some of the real estate sector's non-performing assets Estates', Cortas, along with colleague Massaad Fares, are attempting to launch a billion-dollar investment fund. Intending to make use of a 2016 central bank circular, they hope to attract enough capital to launch the fund within a couple months.

Yet many economists remain skeptical about the feasibility of the fund and its implications for the real estate market. "These are not distressed properties simply because they are vacant, and there is no demand for them," says Ghobril. "[It] is distortive to the market, in my opinion. What prices will they pay? How much will they have leverage over the developer? How will that affect other segments of the residential real estate? And the other question is: Are they going to be able to raise one billion dollars?"

With or without the fund, much of the BCD will remain as it is today: abandoned. For most Lebanese who cannot afford to live in the area, the downtown lost its only appeal in 2015 when garbage protests and the ensuing security crackdown led to the closure of bars and businesses along Uruguay street and in Place de L'Etoile. Despite the modern structures, high-end retail, and luxurious apartments, a nighttime stroll through the area shows that, while the Downtown may have been built, the lights still are not on.

**JAMMAL TRUST BANK**
IS ALWAYS ON THE LOOKOUT FOR THE

# 53%*

**WHO ARE UNBANKED**

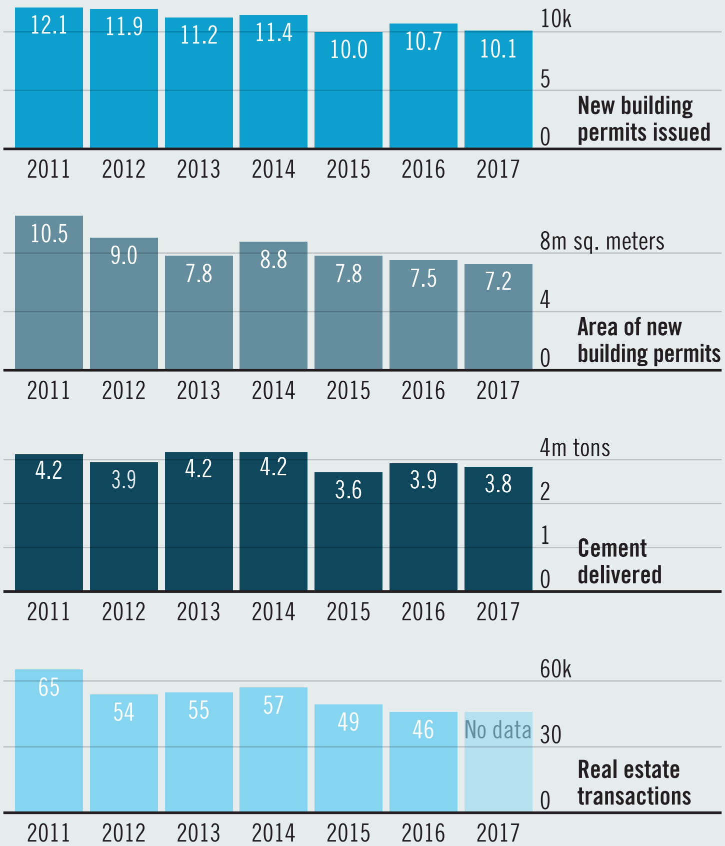
**JTB** is the only Bank in Lebanon that has a bundle of products geared towards financial inclusion.

* Latest Data from the Global Findex 2014, World Bank Group.

JTB JAMMAL TRUST BANK SAL

**WE SPEAK YOUR LANGUAGE**
**1558 | jtbbank.com**

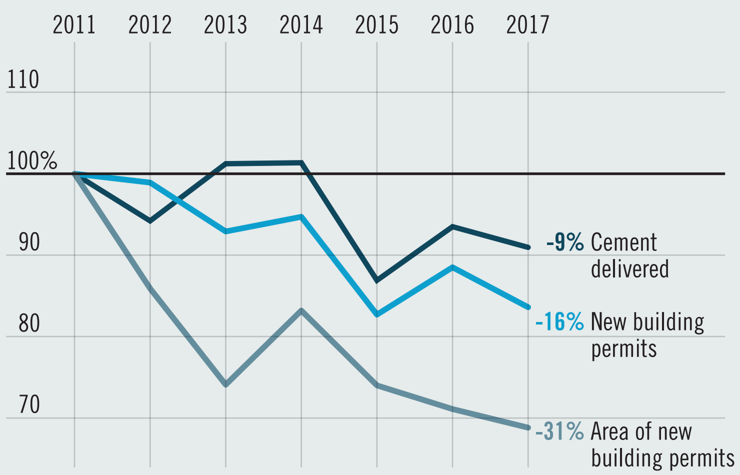
LEBANESE REAL ESTATE INDICATORS




Equivalent year-on-year figures, Jan-Sep.

Sources: Order of Engineers, Banque du Liban, BankMed, Central Administration for Statistics, Credit Libanais.

LEBANESE REAL ESTATE TRENDS (2011 = 100%)




Equivalent year-on-year figures, Jan-Sep.

Sources: Order of Engineers, Banque du Liban, BankMed, Central Administration for Statistics, Credit Libanais.


INDUSTRY
AGRICULTURE

# In need of government support

**With its fertile soil and balanced climate, Lebanon has a lot of potential when it comes to agriculture.** In turn, the agro-industry, which has easy access to premium crops of local production, has the resources needed to produce high-quality foods and drinks.

This has been illustrated through the country's wineries, which use local grapes to produce wines that are increasingly becoming well-known across the world and are exported to 40 countries. This is thanks to the quality of the wine, and the collective marketing efforts of both the public and private sector. While locally this appreciation is still somehow lacking, Lebanon's winemakers say this will gradually change when Lebanese consumers become better educated on wine; they also say they will be working on a generic campaign to promote Lebanese wine among local consumers (see article on wine page 124).

Other agro-industries have not yet reached the level of notoriety that wine has. Some agro-industry entrepreneurs are working on disrupting the sector with their products, but they are still quite a rare species. (see TAQA article page 136)

The majority of agro-industrialists say they don't have the budgets to invest in such innovation and marketing strategies, although doing so would certainly elevate the industry. Their budgets are fully dedicated to covering the cost of production, which is high in Lebanon, and so they ask for government support for their sector (see agro-industry overview page 120).

By Nabila Rahhal

# Improving on tradition

Lebanese agro-industry sector is in need of modernization

**Fall is peak season for Lebanon's agriculture sector, as farmers are busy harvesting olives, grapes, apples, thyme, pine nuts and apples.** These products are then used to make traditional goods such as olive oil, *zaatar*, jams, and syrups. Lately, a number of non-traditional goods, such as apple cider or chutney have been thrown into the mix, diversifying the market and adding potential to an industry that already has much to offer. While there is still room for growth, the sector has been held back by a variety of factors, notably the high cost of production, a lack of education in modern practices, and little government support. However, over the past few years, entrepreneurial agro-industrialists have managed to overcome these obstacles and produce innovative foods that bring dynamism to the sector.

**AN IMPORTANT SUBSECTOR**

According to Mounir Bissat, the secretary of Syndicate of Lebanese Food Industries, agro-industry is a major subsector of industry. "Among the industry subsectors, agro-industry is the one with the most industrial establishments in Lebanon: There are around 960 companies working with food products in Lebanon. It's the second[-largest] subsector in terms of exports, and the first in terms of added value, since the raw material used is grown or found in Lebanon," says Bissat.

Agro-industry has an estimated workforce of 20,607 people and accounts for 25 percent of the industrial sector workforce, making it the biggest employer in the industry sector, according to the website of the government-run Investment Development Authority of Lebanon (IDAL).

**THE SYRIA EFFECT**

The ongoing crisis in Syria has had a mixed impact on the agro-industry. To begin with, according to Bissat, the influx of refugees at the onset of the war meant more mouths to feed, increasing demand for and consumption of food products in the local market. This meant that international NGOs working on food programs for refugees, such as the UN World Food Programme, bought from local retailers, spurring activity in the sector.

Moreover, Lebanon's exports to Syria have increased during the war. According to IDAL, there has been a compound annual growth rate of 27.3 percent in Lebanese exports to Syria between 2012 and 2016.

Bissat says Lebanon's international exports also experienced a minor breakthrough as a result of the war: "When the crisis first started, many Syrian food factories were unable to produce. Our market share in the export market grew, due to demand from some Eastern European countries which used to import food products from Syria or Turkey," recounts Bissat. But the growth was not sustainable in the long run, Bissat said, because the price of Lebanese goods was not competitive enough.

Despite these positive outcomes, the war had a negative impact on Lebanon's agro-industry. "Later—because the presence of Syrian refugees in Lebanon was not regulated—it backfired on the agro-industry. Some of the Syrian factories reopened in Lebanon illegally, while the big companies reopened in Turkey, Egypt or Jordan, where there is better infrastructure, and we were not able to capture them and financially benefit from their presence," explains Bissat.

**AN EXPENSIVE ENTERPRISE**

One of the main challenges facing the agro-industry is the cost of production. Land and labor in Lebanon is expensive in comparison to the rest of the region, while the cost of energy is through the roof. Bissat says that, while governments in the region support their industry sector—subsidizing the cost of energy, for example—Lebanon's industry sector receives no such support.

Bissat says the cost of energy has an indirect effect on agro-industry as well. To illustrate this, he pointed to Soliver, which was Lebanon's largest glass factory until it shut down in mid-2017 because the cost of energy needed to update its equipment did not justify the investment into it. "Soliver asked for the government to subsidize its energy cost, and had it agreed to do that, it would have reflected positively on us in the agro-industry in that we would have been able to get our glassware for less, thereby decreasing our cost of production," explains Bissat.

**THE NEED FOR INNOVATION**

Indeed, because of the high cost of production, Lebanese food products are higher in price than their counterparts in the region, reducing their competitiveness. To compensate for these high prices, Bissat says the

*Lebanon's traditional products need to be modernized*

industry could offer high-quality, innovative, and alternative food products.

While Lebanon has the high-quality part down, innovation—whether in product packaging and promotion, or in the production of new items—is still rather slow. Bissat says almost 90 percent of the companies in the agro-industry are family-run small and medium-sized enterprises with limited budgets, making it difficult to invest in modernizing traditional recipes or innovative design, explains Bissat. Nevertheless, he insists that investment in research and development is a necessary way forward for the sector.

Frank O'Brien, Chief of Party of the Lebanon Industry and Value Chain Development (LIVCD) program in the United States Agency for International Development (USAID), agrees that such investment is key, but explains that the ongoing political uncertainty discourages most private companies or farmers from making additional investments, especially in non-essential capital.

However, he argues that such investments may be cost-efficient in the long-run. "Quite often, businesses are reluctant to invest, not knowing that in the short to medium-term, it can be more costly not to do so. The perceived savings [from] not investing can be lost in the future, when it's not possible to supply a preferred product or crop of a certain quality or standard, thereby resulting in a downward spiral of reduced competitiveness," O'Brien explains. The USAID-funded LIVCD program aimed at improving Lebanon's economic stability and providing income-generating opportunities for small business while creating jobs for the rural population, in particular women and youth according to their website- has supported the agro-industry sector in a variety of ways, including by co-funding modern equipment and needed supplies for factories, and working with farmers to modernize their growing techniques to improve quality and yields.

> "The perceived savings [from] not investing can be lost in the future, when it's not possible to supply a preferred product or crop of a certain quality or standard"

The LIVCD program is in its last year of implementation, and it is hoped that the support the program and other similar NGO funded projects has offered the sector will carry through in the years to come as the agro industry stands on its own two feet and considers investing into innovation at a larger scale.

By Nabila Rahhal

# Of reds, whites, and rosé

Lebanese wines are being recognized

**There is a lot to raise a glass to when it comes to Lebanese wine.** 2017 saw several new wineries entering the market, with a few more slated to launch their first vintage in 2018, raising the total number of wineries to 49.

Demand for Lebanese wine has grown internationally as well, with over 40 countries indulging in it across the globe, as opposed to a decade or so ago. The popularity of local wines among Lebanese consumers is also rising as the enotourism trend has helped educate them about wine.

All the winery owners and managers that Executive spoke to said they had experienced growth in sales, markets, and production size. "Our market share grew to 40 percent—meaning 1.8 to 2 million bottles. Our premium portfolio is growing, and we're appealing to more consumers," says Dikran Ghazal, the general manager of Château Ksara.

**RISE TO FAME**

Exporting a portion of production is the natural path for agro-industrialists in a market as small as Lebanon. Lebanon has been doing so ever since the Phoenicians were shipping their wine off to nearby Mediterranean cities, but also more recently, since the late Serge Hochar took Château Musar to London during the Lebanese Civil War.

Wineries in Lebanon formed the Union Vinicole du Liban (UVL) in 1997, with the sole objective of "consolidating and building on Lebanon's image as a wine producing country by highlighting its proud history and promoting its potential."

As more wineries entered the market, it was understood that the only way to acheive growth was for wineries to work together on promoting Lebanon as a winemaking country. As such, starting six years ago, the UVL began to aggressively promote Lebanese wine abroad through generic campaigns—such as the one done in the UK in 2012—and participation in international wine fairs, such as Megavino in Brussels and ProWein in Germany, under one pavilion named "Wines of Lebanon."

The public sector has played its part in promoting Lebanese wine abroad, through the Ministry of Agriculture's organization of the annual Lebanese Wine Day—the first edition of which was held in Paris in 2013. The Chamber of Commerce, Industry, and Agriculture of Beirut and Mount Lebanon also contributes an annual sum to the UVL, which supports its budget for international fairs and helps the smaller wineries who do not have a budget participate in these foreign exhibitions.

**SIPPING ON THE FRUITS OF SUCCESS**

These efforts have paid off. "For five to six years, we've been [making] lots of noise everywhere, and since today, people are bored of drinking the same [types of] wine, they find Lebanese wine exciting. Also, Mediterranean food and wine is now a global trend, and this helps us," explains Faouzi Issa, winemaker and co-owner of Domaines des Tourelles, adding that his wine entered new markets in 2017, including Malta, Côte d'Ivoire, the Dominican Republic, and Réunion.

In agreement, Ghazal says there are a number of reasons why Lebanese wine is getting the international recognition it deserves. "There have been efforts made by the wineries' export teams, and over the years, these pay off. On the other hand, the quality of Lebanese wine is getting better every year, due to the climate and manipulation of the soil and [developments in] how we store the wine and harvest the grapes. Plus, there are more activities happening in key markets abroad, such as trade events and wine tastings, which [spread] the word. There is curiosity [among international consumers] for wines of the new world, and Lebanon has a history with wine which big companies like us work on developing," says Ghazal, mentioning China as a booming new market this year for Château Ksara.

Some producers feel that the international consumption of Lebanese wine would further increase if there was additional government support or subsidies, like the support available in wine producing countries like Argentina, South Africa, or Chile. "The market is huge outside Lebanon: If we

Demand for Lebanese wine has grown internationally as well, with over 40 countries indulging in it across the globe, as opposed to a decade or so ago

Château Khoury

Château St. Thomas

## WINEMAKING TRENDS: WHAT'S IN A GRAPE?

After years of producing wine, Lebanon has developed enough maturity as a wine producing country to begin having a little fun and step out of its comfort zone. More and more wineries are now experimenting with different grape varieties or fermenting techniques.

Today, wines from indigenous grapes are a trend, and some Lebanese wineries have been happy to entertain it. "Indigenous grapes are a trend because consumers are bored with the commercial varieties and want to try something new. People want to go back to the roots of winemaking, with Greek or Georgian wines increasing in popularity," says Joe Assad Touma, a winemaker at Château St. Thomas, explaining that on a practical level, with global warming becoming an issue for wine, indigenous grapes are advantageous in that they cope better with the local climate changes.

Château St. Thomas was the first to produce a single variety Obeidy wine in 2013, (using an indigenous Lebanese grape), and Touma says the response has been so good that he has tripled his production to 15,000 bottles this year. "Tourists who come to the winery here are one of the main consumers of Obeidy because they want to try something local and different," he says.

Touma works with non-local varieties as well, and recently launched a Vin Nouveau—a wine which has to be drunk in the same year of harvest—in Vinifest 2017.

Château Kefraya has also been experimenting with local grapes and other varieties. "In Kefraya, we don't buy any grapes, so we planted Merwah for experimentation, and are also experimenting with other varieties. Our focus is on the *terrior* as always, and we're experimenting [with] the relationship between *terrior* and grape varieties," says Edouard Kosremelli, Château Kefraya's general manager, adding that the winery launched an experimental range [in October 2017] called Exception, which is a result of this experimentation. Exception is only sold in Kefraya's wine boutique and was produced in limited quantities.

Domaines des Tourelles experimented with Cinsault—an old vine grape variety largely used for rosé blends in Lebanon—with great results. "When I first released it in 2014, I made 10,000 bottles, and we ran out of stock in a month. It's doing great globally and is sold in the UK, Japan, Holland, New York, and Ohio, but I don't have stock to sell in more countries abroad. Cinsault is usually used in a blend, but I took the risk and used it alone," says Faouzi Issa, winemaker and co-owner of Domaines des Tourelles, adding that he has since increased his production to 25,000 because of the high demand, and plans to produce even more of it in the coming years.

just add 20 percent to the notoriety of Lebanese wine abroad, we would all run out of wine. Our market share is increasing, but we're moving in baby steps because we need government support; private investment alone cannot create international recognition," says Hady Kahale, general manager of Ixsir, explaining that for Lebanese wine to truly succeed globally, it needs to build a name for itself out of Lebanese restaurants and ethnic markets.

**ALL IN A DAY'S WORK**

Growing exports takes more than shipping the wines off in crates, says Ghazal. "You have to follow up and

Domaine de Tourelles's popup shop in ABC Ashrafieh generates sales

Château Qanafar

Château Kefraya

Lebanese consume two liters of wine per capita which is significantly lower, than, for example, the US, where consumption is 13 liters per capita

build relationships, and it's quite an investment of time and money. Thirty to 35 percent of our budget goes to exports, and there are less margins in it, since prices are competitive internationally," says Ghazal.

"It takes more effort than the local market because you need to travel and promote the wine in order to support your distributors," explains Edouard Kosremelli, chairman and CEO of Château Kefraya, adding that the winery exports 40 percent of its production abroad.

To Issa, penetrating new markets where Lebanese wine is relatively unknown, such as the US, requires an investment of time and energy. "It's been three years that I have been investing in the US market, and today, my wine is in 15 states, including New York. It requires a lot of effort and mobility, though, since you have to be there personally and consistently. They don't know what Lebanon is, so you need to introduce the country, and what you're doing, and then it snowballs," he says, comparing it to the UK market, where Lebanese wine is already established and where, he says, Domaines des Tourelles is highly appreciated.

**NOTHING LIKE HOME**

Although Lebanese wine is widely acclaimed internationally, the same cannot easily be said for its popularity here at home. Lebanese consume two liters of wine per capita, according to those interviewed for this article, which is significantly lower, than, for example, the US, where consumption is 13 liters per capita.

Of those domestic consumers, many prefer foreign wine, assuming it is of better quality than the Lebanese—which frustrates Lebanese winemakers. "It's unfair to say that imported wine is better than local wine because our grape varietals are largely French, our *terrior* is as good as Europe, if not better, and we have the right climate. The local market should appreciate this," says Ghazal.


Château Khoury


Château Kefraya


Château Qanafar's boutique shop in Beirut

Kosremelli notes that if Lebanese wine was not of high-quality, it would not be so successful in export markets. "The more the consumer in Lebanon becomes wine-educated, the more they will see and understand that these are misconceptions. Our success with exports helps with the Lebanese market, since local consumers see Lebanese wines being promoted abroad. Also, the recent increase in wineries also helps increase consumption because it evokes curiosity," he says.

To Ixsir's Kahale, a generic campaign is needed to promote Lebanese wine locally. "The way forward is really working on the image of wine, both locally and abroad. I'm one of those who believe a generic campaign in Lebanon should be done, although it needs a time commitment from us. We have great wine, but people have preconceived notions about 'made in Lebanon' not being so good, which will take time to change. People have to know: We have some of the best wines in the world," he insists.

"People have to know: We have some of the best wines in the world"

Joe Assaad Touma, winemaker at Château St Thomas, says the UVL is considering such a generic campaign. "As UVL, one of our aims is to promote Lebanese wine, not only abroad, but in Lebanon itself. We really have great wines that can compete with the imported wines that exist in Lebanon. We're planning to promote this more as a generic campaign. At the same time, we try to encourage all restaurants to have at least half of their wine list be Lebanese. We can see this is improving, but still, there are [a] few restaurants that don't have any Lebanese wine on their list, which is shameful," he says.

## TOURING WINES

The increasing popularity of enotourism in Lebanon goes a long way into promoting its wines. "Wine is about a way of life, and you have to meet the people who are making the wine to understand it—no wine producing region is successful without enotourism. When people visit our wineries, they see the level of sophistication we have in them, and they understand much more about wine. When they understand wine, they will consume Lebanese wine happily," explains Kahale, noting that visits to Ixsir's winery increased by 20 percent in 2017.

Kosremelli says Château Kefraya

# Wherever You Travel, We Have The Right Card For You.


## Exclusive Currency Credit Cards

Travel the world with LGB BANK's exclusive currency credit cards without bearing any exchange rate costs, and earn LGB Miles with every purchase. The Euro Card, Sterling Pound Card, US Dollars Card, Turkish Lira Card, Emirati Dirham Card, Saudi Riyal Card and Lebanese Pounds Card are all available to ease your payments wherever you are.

For info: 01 965 965

www.lgbbank.com

LGB BANK
بنك لبنان والخليج

Château Kefraya


Château St. Thomas' wine tasting corne

Château Qanafar

had a 7 to 10 percent increase in the number of visitors to its winery, explaining that more foreign visitors are now interested in such experiences and ask their tour operators to help them book enotourism excursions.

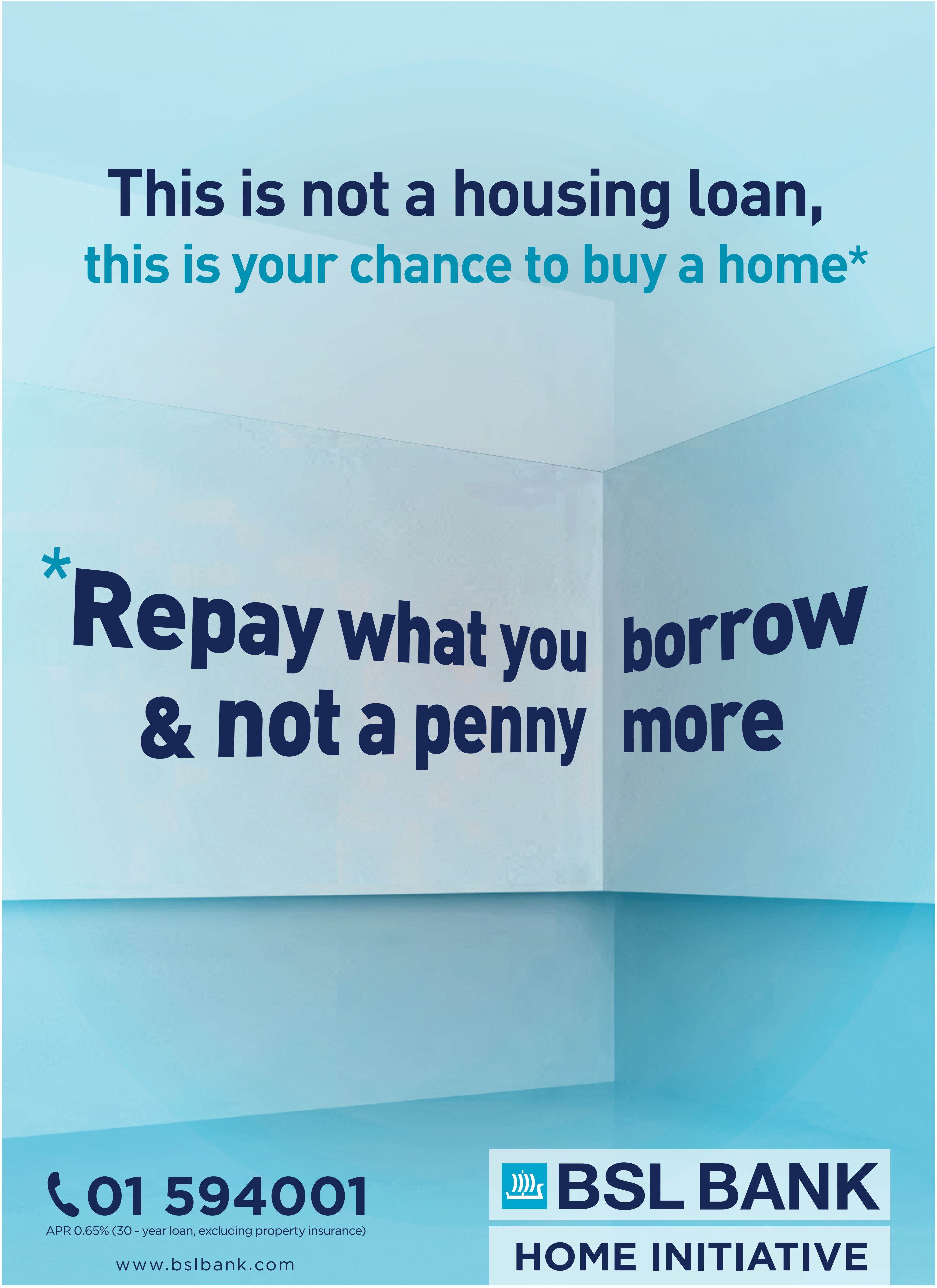
Château Ksara benefits from its 2000-year-old cave in attracting visitors who are interested in both history and wine. "We expect to close the year at 80,000 visitors. This is the case for two reasons: the brand is 160 years old and has a solid reputation where trust has been built, and no one has a natural cave like ours in Lebanon or in the world. Once people visit the winery, they almost always buy [our wines] because they see the story behind it," says Ghazal, adding that their sales in the winery shop have increased by 20 percent in 2017.

Having a winery restaurant not only complements the enotourism experience, it also increases sales. "One year into our opening, Château Khoury restaurant became and still is the biggest client for my wine. Most of the people who come here drink wine with their meal, and for us, this is the best way to promote our wine. Tourists who come to eat here buy wine from our winery shop and Lebanese do so during the Christmas period as gifts," says Jean Paul Khoury, winemaker and co-owner at Château Khoury.

> More foreign visitors are now interested in such experiences and ask their tour operators to help them book enotourism excursions

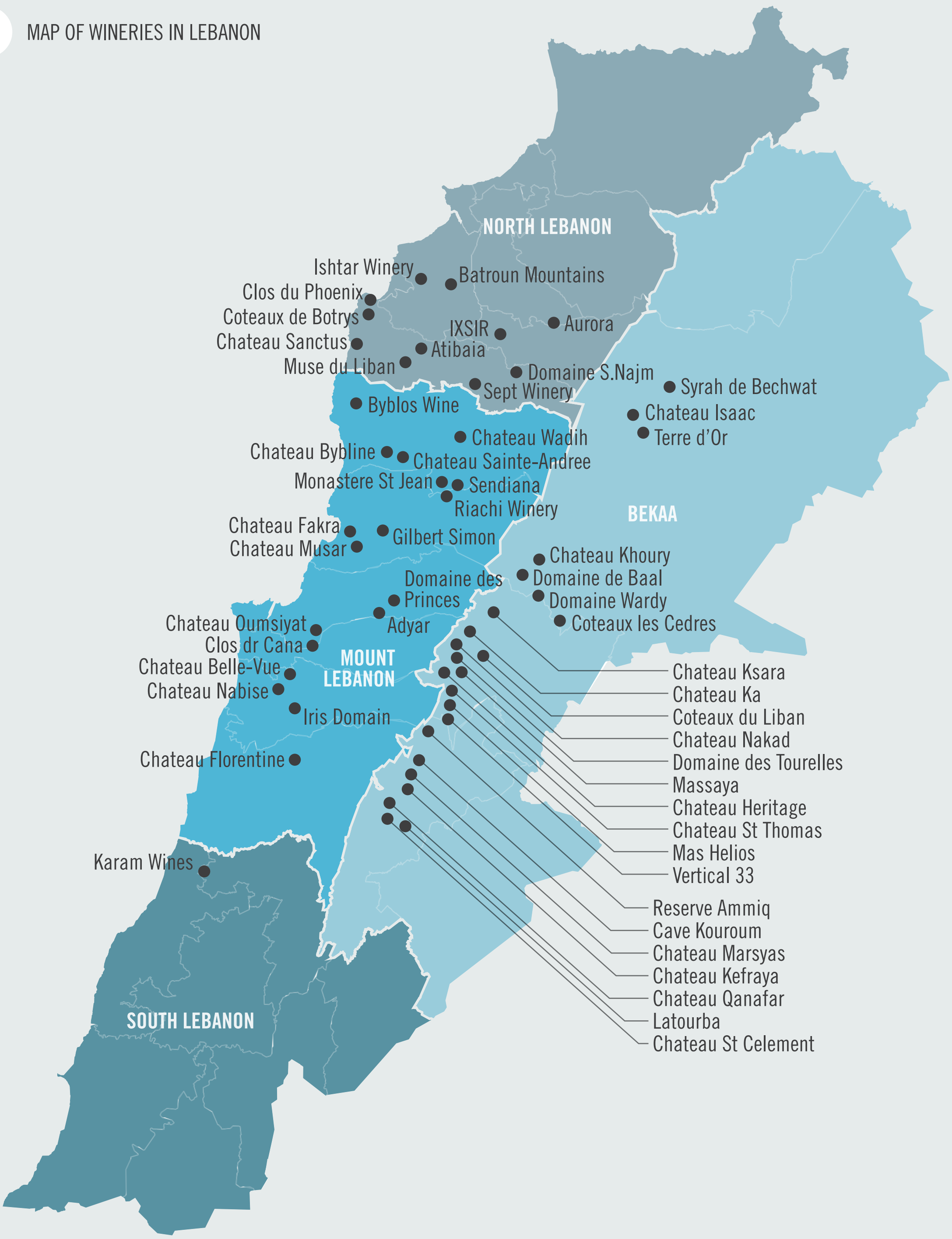
Wine-related activities such as grape harvesting also help consumers experience winemaking in an enjoyable way. "We have the harvest event that we have been doing since 2000. It's getting more popular, and lots of people come on an annual basis. This year, we had around 200 people, mainly families. The idea behind it is to educate people on what it takes to produce a bottle of wine. People want to experience this and get involved in the process of winemaking. When they leave here, they appreciate more every glass of wine they drink because they know the labor that went went into it," says Château St. Thomas' Touma.

Lebanon clearly has the potential to take its place among the best global wine producing countries slowly, but surely, and with more governmental support. If anything is worth raising a glass to, that would surely be it.


This is not a housing loan,
this is your chance to buy a home*
*Repay what you borrow
& not a penny more
01 594001
APR 0.65% (30 - year loan, excluding property insurance)
www.bslbank.com
BSL BANK
HOME INITIATIVE

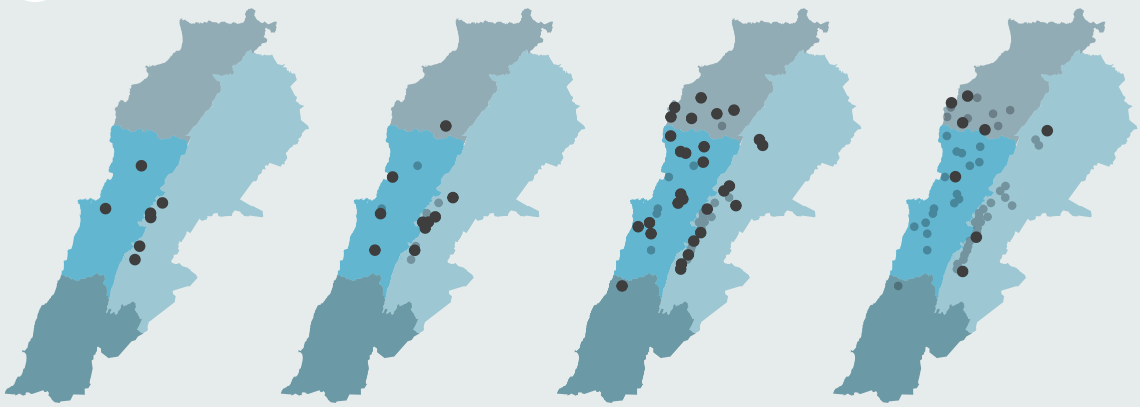
WINE INDUSTRY IN LEBANON

1 MAP OF WINERIES IN LEBANON




*49 wineries excludes two wineries where date of first vintage was not available.
Source: 209 Lebanese Wine + additional research by Executive.

## 2 DEVELOPMENT OF WINE INDUSTRY SINCE 1990




## 3 WINERIES BY AVERAGE ANNUAL PRODUCTION VOLUME

| Rank | Winery | Region | Bottles (k) |
|---|---|---|---|
| 1 | Chateau Ksara | Bekaa | 2,500 |
| 2 | Chateau Kefraya | Bekaa | 1,500 |
| 3 | Chateau Musar | Mount Leb | 700 |
| 4 | Chateau Florentine | Mount Leb | 500 |
| 5 | Chateau Oumsiyat | Mount Leb | 450 |
| 5 | Chateau St Thomas | Bekaa | 450 |
| 7 | Cave Kouroum | Bekaa | 400 |
| 7 | Chateau Nakad | Bekaa | 400 |
| 9 | Domaine Wardy | Bekaa | 350 |
| 10 | Chateau Heritage | Bekaa | 300 |
| 10 | Chateau Ka | Bekaa | 300 |
| 10 | Clos de Cana | Mount Leb | 300 |
| 10 | IXSIR | North | 300 |
| 10 | Massaya | Bekaa | 300 |
| 15 | Chateau Fakra | Mount Leb | 250 |
| 15 | Domaine des Tourelles | Bekaa | 250 |
| 17 | Chateau Barka | Bekaa | 150 |
| 18 | Couvent Rouge | Bekaa | 120 |
| 19 | Adyar | Mount Leb | 90 |
| 19 | Karam Winery | South | 90 |
| 19 | Riachi Winery | Mount Leb | 90 |
| 22 | Chateau Marsyas | Bekaa | 60 |
| 22 | Coteaux du Liban | Bekaa | 60 |
| 24 | Latourba | Bekaa | 60 |
| 25 | Château Qanafar | Bekaa | 55 |
| 26 | Batroun Mountains | North | 50 |
| 26 | Cave Du Monastere St Jean | Mount Leb | 50 |
| 26 | Chateau Khoury | Bekaa | 50 |
| 26 | Muse du Liban | North | 50 |
| 30 | Coteaux de Botrys | North | 40 |
| 31 | Chateau Belle-Vue | Mount Leb | 20 |
| 32 | Chateau Isaac | Bekaa | 15 |
| 32 | Chateau Nabise | Mount Leb | 15 |
| 34 | Chateau Sanctus | North | 15 |
| 34 | Atibaia | North | 12 |
| 34 | Domaine de Baal | Bekaa | 12 |
| 34 | Gilbert Simon | Mount Leb | 12 |
| 38 | Aurora | North | 10 |
| 38 | Chateau Bybline | Mount Leb | 10 |
| 38 | Clos du Phoenix | North | 10 |
| 38 | Reserve Ammiq | Bekaa | 10 |
| 38 | Vertical 33 | Bekaa | 10 |
| 43 | Chateau Sainte Andree | Mount Leb | 8 |
| 43 | Chateau Wadih | North | 8 |
| 43 | Mas Helios | Bekaa | 8 |
| 46 | Sept Winery | North | 7 |
| 47 | Domaine S.Najm | North | 5 |
| 47 | Iris Domain | Mount Leb | 5 |
| - | Domaine des Princes * | Mount Leb | - |
| - | Ishtar Winery * | North | - |
| - | Syrah de bechwat * | Bekaa | - |

* No production number available

By Nabila Rahhal

# Food for thought

## Potentials of the Lebanese agro-industry subsector

**Executive sat with Mounir Bissat, secretary of Syndicate of Lebanese Food Industries, to talk about the challenges and opportunities in front of the agro-industry subsector experienced in 2017.**

***E What are the main challenges facing the industry sector in general, and the agro-industry specifically, in Lebanon?***

The first challenge is instability in the country. The current situation [concerning Prime Minister Saad Hariri] is worrisome. Almost 60 percent of our exports are to Arab countries, so anything that endangers this relationship will backfire very badly on the industry sector as a whole and on the food subsector specifically.

In the Arab markets, the "made in Lebanon" [brand] has a premium for which consumers pay good money. The Lebanese agro-industry in these markets is well developed, because some of the big Lebanese companies have been present there for over 30 years, and put in a lot of effort and investment to establish their brands and presence in retail spaces in a professional manner.

It would be a pity to lose this work and these markets over the turbulence that is occurring now.

***E Have exports to Arab markets managed to overcome the hurdle of road closures due to the conflict in Syria?***

Yes, we were able to adapt rather quickly and export through sea instead of land. The impact at first was on the pipelining, because it used to take up to 15 days to reach Oman, which is the farthest destination [we export to] by land, while today, by ship, it takes a month or 35 days.

This is not to [mention] that the paperwork and formalities at land borders are faster and more efficient than at seaports.

This all negatively affected the sector, but we persevered and continued. But until when? This is a big question mark, especially if the Arab markets are further affected.

***E Let us go back to the challenges facing the sector.***

A challenge the industry sector suffers from—regardless of the political situation—is overhead and operational costs, which are very high in comparison to our competitors in the region.

Many of the traditional foods we produce are also made in other Arab countries such as Syria, Jordan, Egypt, Turkey, and Saudi Arabia. These countries have an advantage over us in that the industry sector receives government support and subsidies, which we don't have in Lebanon.

The high cost of energy and of labor affect the competitive advantage of Lebanese exports in these countries.

If we want to talk about challenges in the agro-industry specifically, I think it is high time to invest in research and development (R&D).

***E Why are we not doing so already?***

Eighty percent of companies in the agro-industry are [small and medium enterprises], and family businesses, so most of them to do not even have a R&D department; they cannot afford to invest in one.

It is true that Lebanon is excelling in developing high-quality food products, but to innovate on a traditional recipe or develop a new one is not easy.

***E But recently, we have seen more entrepreneurs in this sector modernizing traditional recipes or innovating them.***

It's happening at a small scale, but not at the industry level.

This is an essential need for the agro-industry to continue on the right path. We should invest in new products, or variations of the existing ones.

***E Does this innovation have to be done through an R&D department? Or are there other ways?***

We can outsource it, because many universities in Lebanon have the research centers to do this. But up until now, we have not been able to formulate a link between academia and private food companies.

***E Why not?***

Because it is expensive, and we cannot cover the costs if there are no subsidies or support. For example, the money companies spend on R&D is not tax deductible.

Also, the mindset of academia in Lebanon is not business-oriented, [where] internationally, the success of the food industry is due to collaboration between it and the research done in universities.

**E What are the strengths of the Lebanese agro-industry?**

The Lebanese agro-industry is export-oriented, which helps us survive the challenges mentioned. Regardless of the local economic situation, the market in Lebanon is small and exporting is natural for growth anyway.

What helps the export market is that the Lebanese diaspora and expats are spread around the globe, and they are the main consumers of our food products. Wherever expats are, they tend to establish Lebanese cuisine restaurants, and this automatically opens up markets for our food products.

The agro-industry is the subsector with the most diversification and diversification in export destinations, with around 70 destinations across the globe.

**E But doesn't being consumed mainly by Lebanese abroad limit the market for our agro-industry?**

Unfortunately, yes. Lebanese food across the world is still labeled as ethnic food and is mainly consumed by Lebanese and Arabs. Europeans and Russians who try Lebanese food in a restaurant love it, but they rarely buy Lebanese food products from a supermarket.

This is a challenge where R&D and marketing could play a role [in finding a solution]. Let's take *hummus bil tahini*, which is an estimated $1 million market in the USA; Lebanon has less than 0.1 percent share of this market.

The role of R&D here would be marketing Lebanese products in a manner resembling the way that hummus has been marketed and exploited by other countries [that produce it].

It may be too late for Lebanon and hummus, but we could, for example, promote pomegranate molasses as a healthy salad dressing. If this is something we can achieve, it would be a great success story for the Lebanese agro-industry.

**E Who would be responsible for doing so?**

It should be a joint effort with a team leader. The private sector has the dynamics for that but lacks the means. A task force should be created which includes research centers, agro industrialists, and the concerned ministries with a team leader.

But the question is: Who will the team leader be? The public sector will not accept that a member of the private sector be the leader, and the private sector's confidence in the public sector is low.

**E Is the agro-industry reaching out to new markets?**

The subsector achieves growth because the market is increasing locally and internationally, due to a trend toward Middle Eastern cuisine being perceived as healthy. This creates more demand for Lebanese food products.

However, as I said earlier, if we want to achieve real growth in the export markets, we have to go mainstream and not remain in the ethnic market. If we stay in the ethnic market, we will continue to grow in modest percentages. The international market has already become saturated and the foods we produce in Lebanon are now being produced internationally. We are competitive on quality and are well established in the international markets we are present in, but other countries compete with us on price.

> "It may be too late for Lebanon and hummus, but we could, for example, promote pomegranate molasses as a healthy salad dressing"

**E What can be done to support this sector?**

It's high time the government develops an economic strategy and decides if they want Lebanon's economy to be built on services or the banking sector or something else. Logically, all the pillars of the economy should be almost equally developed.

After the end of the [2006] war, factories that were not damaged resumed work the next day, while it took up to a year for tourism and services to recover. I am not saying that industry will contribute 60 percent to GDP, but if we are supported to reach 30 percent, it would solve many of the problems the government is suffering from today, such as unemployment, [low] foreign direct investment, [an unfavorable] trade balance, and [meager] cash flow.

Also, there should be some subsidies for the cost of production—especially the cost of energy. Factories in Lebanon buy fuel derivatives at market price, while all neighboring countries have subsidized rates. So you can imagine the difference in production costs. The government could also support the agro-industry with transportation costs and through legislation facilitating our work and reducing our expenses.

Comment

By Soumaya Merhi

# TAQA is a living product

## Lessons learned from a healthy Lebanese snack

**TAQA is a Tripoli-based wholesale bakery that produces and manufactures health snacks, such as cookies, *maamoul*, and dried fruit and nut bars.** TAQA's snacks are all wheat-free, GMO-free, palm oil-free, and vegan. We started out as an artisanal bakery called Bread Basket Square and progressively transitioned into a manufacturing facility with automated lines.


TAQA products have a clean and modern look

A business plan came eventually, but we certainly did not start out with one. Selling our cookies would prove to be a struggle, one that provoked self-ambition and discovery. It started with a farmer's market, and a hunger for a food revolution. I wanted to give meaning back to a consumer good. I wanted the product to be transparent: What you see is what you get.

Today, only 10 companies control almost every large F&B brand in the world; these behemoths are dictating your diets and nutritional intakes with colorful packaging that is overwhelming on supermarket shelves.

TAQA is part of something different, and harder to achieve. As food becomes more specialized, branding is taking center stage. However, the more specialized food there is, the more costly supply chains will become; hence, mega food manufacturing facilities are on the decline. The more specific the food industry aspires to become, the tighter and leaner the manufacturing map will have to be.

> 10 companies control almost every large F&B brand in the world

### INITIATION TO BUSINESS

Two years ago, a normal day in my life included driving from Tripoli to anywhere from Barbir, Beit Mery, Corniche El Mazraa, Zouk Mosbeh, or Batroun, and back to Tripoli. Zapping morning radio shows, quick, stolen hellos, and senseless hours spent in traffic were my first experiences into distributing my products in the Lebanese market.

With sales routing came a sharpened mind and fine tuned observation. A quality, honest health snack at an affordable price was needed in Lebanon. With a focus on a fair and profitable business model and a three-year track record of proof of concept, I was ready to launch a proper manufacturing facility. Over time, the refined business pitch started bringing in funds, which facilitated my head-first dive into transitioning the product from niche market share to modern trade.

Help from friends and family, supportive suppliers, committed investors, and loyal customers are all sound pillars of TAQA. My initiation to a streamlined 'business' was the daunting task of proving myself.


*TAQA has opened a boutique shop and office in Gemmayze*

As a manufacturing facility, TAQA is still on a learning curve and has much to overcome, but what is important is that procedures are in place

**INITIATION TO MANUFACTURING**

Running a manufacturing facility is about confidence and modesty. It is about balancing ambitions with the market's potential, and relentlessly believing that the product will succeed.

Shifting from an artisan bakery to a certified ISO 22000:2005 manufacturing facility required no less than a culture shock. Implementing a food management system, training, procedures, regulations, traceability, and recruiting a dedicated team is an indefinite process constantly evolving.

I believe skilled workers and simplified supply chains will eventually be the driving forces of manufacturing and, in the future, will replace outsourcing and low-cost mass labor. Small tweaks in our processing lines helped me and my team reach optimal scalability. As a manufacturing facility, TAQA is still on a learning curve and has much to overcome, but what is important is that procedures are in place to be able to absorb and adapt quickly to new changes.

**TAQA AS A LIVING BRAND**

I tend to define TAQA as more than a product: It is how we think. and how we share our product. Any output from the factory—be it a product or a photo on social media—is a true and genuine reflection of what we do. We are not a fan of generic material, packaging, or products. TAQA has dedicated itself as a brand to support many different communities in Lebanon, notably the athletic and outdoors community. I want TAQA to deliver an honest message about lifestyle and healthy snacking.

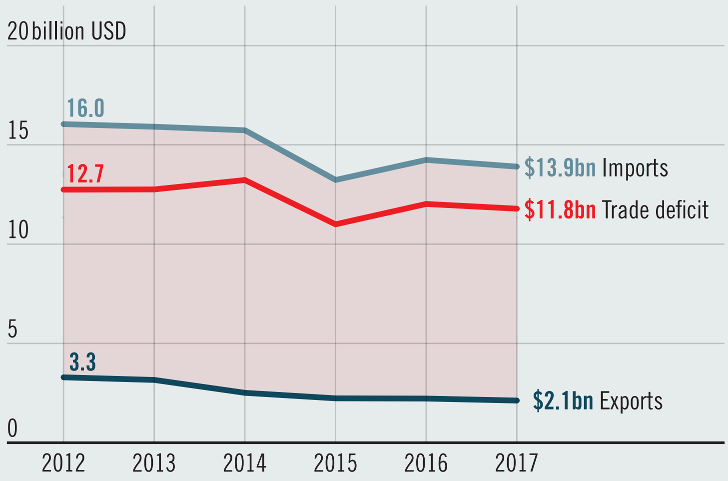
This has been a rollercoaster of a journey, with many milestones achieved along the way. Having to tap into distinctively varied skillsets like sales and marketing, distribution, and production management; to getting deep into the nitty-gritty details of paperwork, pitching to investors, and acquiring a food-management system; and perfecting soft skills for customer service, as well as hiring and training employees have made this journey the most exhilarating one that renders you humble and appreciative of anyone that cares to do something of meaning in the Lebanese market place.

*SOUMAYA MERHI is a Lebanese entrepreneur and founder of TAQA brand*


You see a family recreating art.
At Fidus,
we see a USD 57 million
Van Gogh masterpiece.
We know a good investment when we see one
Private Wealth Management • Trading and Capital Markets • Funds & Structured Products Advisory
+961.1.990600 • www.fidus.com.lb
fidus
WEALTH MANAGEMENT

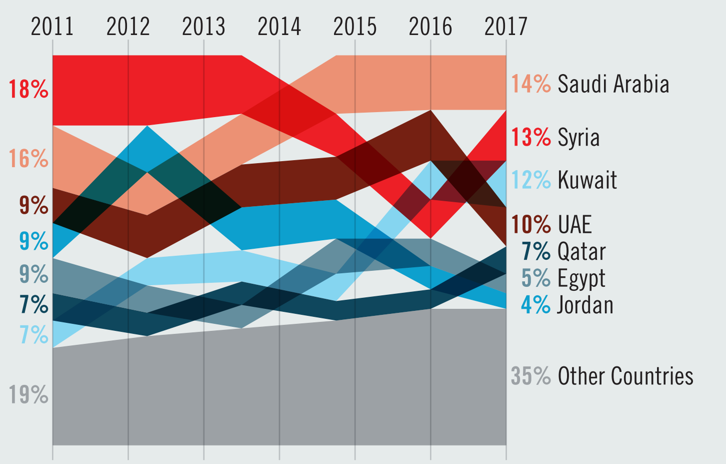
**Numbers & Figures**

## LEBANON IMPORTS AND EXPORTS



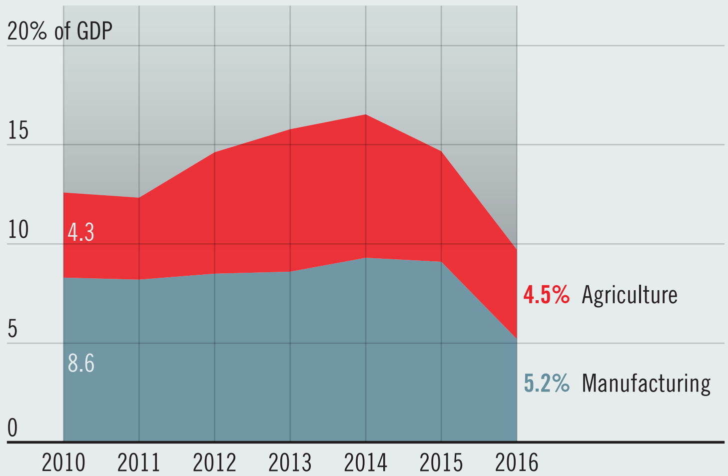

Equivalent year-on-year figures, Jan-Sep.
Source: Lebanese Customs, all sections

## LEBANON FRUIT & VEGETABLE EXPORTS, BY DESTINATION COUNTRY



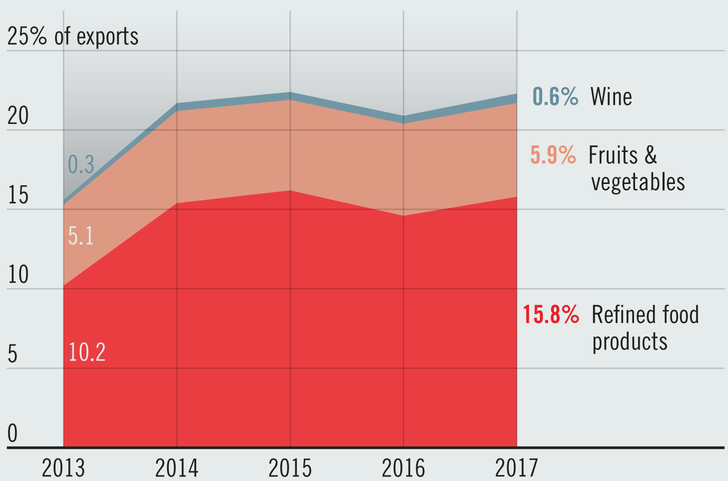

Percentages based on full-year figures except for 2017, Jan-Sep.
Source: Lebanese Customs National Tariff data, section 2

## AGRICULTURE & MANUFACTURING AS PERCENT OF LEBANESE GDP



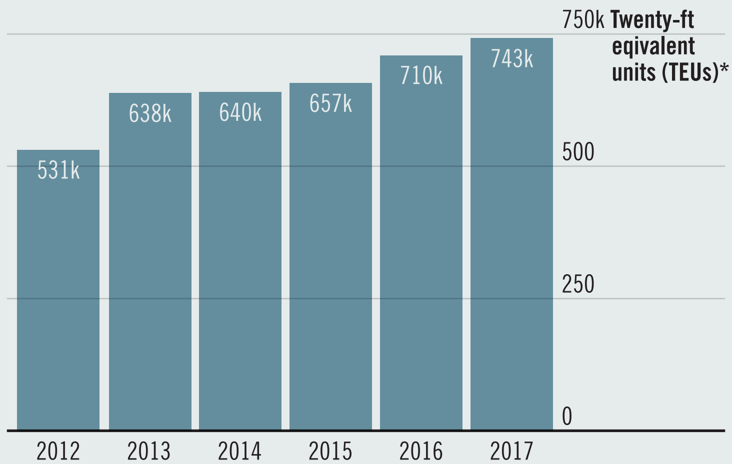

Based on full year data.
Source: World Bank

## FOOD PRODUCTS AS PERCENT OF LEBANESE EXPORTS




Equivalent year-on-year figures, Jan-Sep.
Source: Lebanese Customs National Tariff data, sections 2 and 4

## CONTAINER TRAFFIC IN & OUT OF BEIRUT PORT (FULL OR EMPTY)




Equivalent year-on-year figures, Jan-Oct. *1 TEU = 1 standard container
Source: Port of Beirut

## TOP 10 COUNTRIES IMPORTING LEBANESE FOOD PRODUCTS

### A FRUITS & VEGETABLES
$m in 2017 to date, % of fruit & vegetable exports

| | | | |
|---|---|---|---|
| 1 | Saudi Arabia | **$17.4m** | 13.8% |
| 2 | Syria | **16.6** | 13.2% |
| 3 | Kuwait | **15.0** | 11.9% |
| 4 | UAE | **13.1** | 10.3% |
| 5 | Qatar | **9.2** | 7.3% |
| 6 | Egypt | **6.7** | 5.3% |
| 7 | Turkey | **5.4** | 4.3% |
| 8 | Oman | **4.8** | 3.8% |
| 9 | Jordan | **4.5** | 3.6% |
| 10 | Sweden | **3.3** | 2.6% |

### B REFINED FOOD PRODUCTS
$m in 2017 to date, % of refined food product exports

| | | | |
|---|---|---|---|
| 1 | Syria | **$62.2m** | 18.5% |
| 2 | Saudi Arabia | **43.1** | 12.8% |
| 3 | Iraq | **27.4** | 8.1% |
| 4 | USA | **20.0** | 5.9% |
| 5 | UAE | **18.0** | 5.3% |
| 6 | Qatar | **16.9** | 5.0% |
| 7 | Jordan | **12.9** | 3.8% |
| 8 | Kuwait | **11.3** | 3.3% |
| 9 | Canada | **11.0** | 3.3% |
| 10 | Egypt | **9.8** | 2.9% |

Figures for Jan-Sep 2017.
Source: Lebanese Customs, sections 2 and 4


PAUL & SHARK
yachting
BE A SHARK AMONGST THE FISH
OUR NEW CONCEPT STORE.
MORE FASHIONABLE THAN EVER.
NOW OPEN IN ABC VERDUN
Downtown, Allenby Street
ABC Dbayeh / Achrafieh / Verdun
City Centre Beirut
El Mina Street Tripoli
Customer Service 01 97 18 18


ENTREPENEURSHIP

# Taking stock of the harvest

**Four full years after the seeds of entrepreneurship were planted, the garden is growing strong, but even in the rosiest of scenarios, its fruits will not be plentiful enough to feed the nation.** Banque du Liban, Lebanon's central bank, ventured into policymaking back in 2013 with an aim of establishing a robust "knowledge economy" in the country. This policy move came in the form of Circular 331, which allowed local banks to invest in startup companies either directly or via participation in venture capital funds.

Exact metrics needed to gauge the circular's effectiveness are not publicly available (data like total capital raised via 331, total capital deployed in compliance with 331, total jobs created as a result of 331, etc.), but Executive cannot dispute the existence of growth in the sector post-331, even if it is impossible to fully quantify. The first fund to raise and deploy 331 money did so in 2014. The rules laid out by 331 say compliant investments must be exited within seven years, meaning that data necessary to calculate a return on the 331 investments will likely not begin pouring in until 2021 and after.

That said, evidence of a blooming new sector is clear. More universities are teaching entrepreneurship and developing centers dedicated to supporting entrepreneurial pursuits. The number of conference and demo-day attendees is on the rise, and startup accelerators continue to nurture tens of companies per year. There are threats and challenges—overvaluations as funds compete, the struggle to find original concepts and ideas, public transparency in spending taxpayer-backed money—but Lebanon's garden of entrepreneurship seems generally well-tended. (For a more detailed look at the ecosystem, please see Executive's November 2017 Special Report.)

What is—and has been—clear is that supporting the entrepreneurship ecosystem certainly created economic activity. Evaluating the macro impact of this activity is impossible given the opacity of data and is likely to remain muted even in the medium-term. It will no doubt be another decade before anyone can meaningfully begin to determine the macroeconomic success or failure of the 331 experiment.

By Thomas Schellen

# Predictive analytics and TMI syndromes

Hype and reality of big data, AI, and fintech in local startups

**Too-much-information (TMI) syndrome is a chronic affliction of contemporary existence.** The affliction is growing, without an app that can alert us to its threats and update us on the speed with which the disease of big data is invading ever more of our lives. Other IT buzzwords with mystifying potentials are artificial intelligence (AI) and fintech, short for financial technology.

For corporations, the disease of TMI takes the form of an addiction. Everyone seems to need big data, without necessarily having found a way to understand its specificities and implications. But there is a very human coping strategy that says, "If you can't beat them, join them." In local entrepreneurship, this maxim manifests itself through startups that catch on to external trends and produce a locally designed version of an app that is expected to benefit from the trend—in this case, the desire to analyze and benefit from big data.

Technical challenges related to big data give rise to extensive research needs and very costly development efforts for data storage and processing solutions on the scale of petabytes and exabytes, the latter term having recently been added to our vocabulary in order to describe a quintillion of bytes. Quintillion is what comes after million, billion, trillion, and quadrillion. Clear? (Not to this writer, sorry). Blessed are those who understand the mathematics needed for managing such numbers, but the business of capturing and managing these information volumes seems to be cut out for larger corporate entities rather than the typical two to four-person startup.

Startups that use big data in Lebanon wisely seem to concern themselves mainly with the more recent interpretation of the term—analyzing previously inaccessible data volumes for predictive analytics of customer behaviors to improve corporate performance in customer responsiveness. As such, big data apps represent the digital workshop of attention merchants and marketing magicians who nudge people to behave in ways that are most profitable to the company they serve, whether it is a manufacturer, distributor, specialized retailer, or large provider of commercial healthcare, insurance, or finance.

## RESTRAINTS

Besides the requirements for large capacities on the tech side of big data, what also restrains the space for specialized Lebanese startups in the areas of fintech, big data, AI, and Blockchain or cryptocurrencies, are cultural and legal factors such as the conservatism of the financial industry and regulators. In conferences that promote Lebanese investment and economic potential, such as the Lebanese Diaspora Energy (LDE) event in late spring of 2017, fintech was touted as promising field of entrepreneurship, but the numbers of successful independent startups in this area are limited. Digital currencies were—until recently—officially disavowed by the central bank, and enabling distributed-ledger technology (Blockchain) apparently means that the ecosystem has yet to produce startups with a track record of operations in this realm.

Despite this local reality, there is absolutely no reason to question findings by global consulting groups that show a huge boost in fintech investments from Q1 to Q2 in 2017, reaching a total of $12 billion during that period—$8.6 billion of that was in Q2 alone, according to KPMG, says a December 2017 note by Arabnet. The note also quoted another report, by CB Insights, saying that venture capital (VC) investments in fintech in Q2 of 2017 reached $5.2 billion globally.

The numbers for MENA are next to nothing in comparison. Arabnet cites "over $24 million" in fintech investments in 2017, and refers to just three investment deals that are supposedly fintech-related. They actually add up to $24.96 million, with the largest of these investments being a $20 million injection by undisclosed parties into a three-year-old payment gateway called PayTabs that in an earlier round got funding from Aramco Investment Ventures. The other two fintech startups cited with funding in 2017 are based in Dubai. It is hard to imagine how MENA fintech investments might even have reached 1 percent of global fintech funding over the years, as Arabnet suggested.

When endeavoring to profile startups in areas such as AI, fintech, and big data, Executive was treated to a number of incomplete leads, rumors, and less-than-coherent startup narratives that suggested deficiencies in the communication strategies of these entities and their partners in the ecosystem. Also, this magazine has yet to see impressive numbers of new startups relating to AI or fintech that are not iterations of companies that we profiled in one of our previous annual reviews on Lebanese entrepreneurs—but Executive has to admit that its investigative capacity has been recently somewhat impaired because of human resource attrition. (A core editorial team member had to invest immense personal efforts into a near-term repatriation to the land of his birth; Matt, thank you for years of good work at Lebanon's discerning voice of business and entrepreneurship!)

**A BIG DATA STARTUP SAMPLER**

Thus, in this 2017 roundup of entrepreneurship companies, Executive offers profiles of only two startups that are active in the space of big data retail analytics. The companies share a specialization in data collection from in-store environments for the purpose of predictive analytics and marketing optimization. What is striking about their differences, however, is that they represent diametrically opposite professional backgrounds in the small field of big data retail analytics entrepreneurs.

One company, Vision in Motion (ViM), is the brainchild of a fresh entrepreneur with no personal experience managing a fast-moving consumer goods (FMCG) enterprise. In fact, having started the company while still working toward his Lebanese high school baccalaureate, 19-year old Samy Khoury embarked on his venture with no enterprise management experience whatsoever.

Having started the company while still working toward his Lebanese high school baccalaureate, 19-year old Samy Khoury embarked on his venture with no management

He was an achiever that had been recognized in 2015 as young innovator at an international competition in Warsaw, Poland, but his entry into entrepreneurship came in the form of a lucky break. To join the Speed Beirut Digital District (BDD) acceleration program in 2016, he was required to have "a technical co-founder," Khoury tells Executive. Not having found the required partner until the day before the application deadline, Khoury called a friend who owns a small grocery in Ashrafieh. As Khoury tells his startup tale, the friend answered, "I don't know any programmers," but a customer in her store said, "Yes, you know a programmer. He's your friend from school." This chance connection à la Libanaise led to a phone call between Khoury and this programmer, who established their partnership in the last minute to qualify for joining the Speed program.

The other company, eQuality, tilts to the other extreme in terms of the typical startup founder's age and professional track record. Nadim Tabet incorporated the company in his mid-50s, and already had 30 years of experience in the FMCG game, 16 of them as a management consultant. "I'm a management consultant by profession, and [I] specialized in the FMCG business, where I worked with Procter & Gamble and managed companies that relate to the FMCG business," he tells Executive.

His professional journey to set up eQuality included stations in the United States and Dubai before establishing himself in Lebanon. Here, Tabet met his co-founder, a computer engineer named Rafic Hage, through a work relationship. Hage, 37 years old and seasoned as founder of several IT startups, explains how he developed his passion to serve an industry with lack of technology in specific niche areas.

"I was attracted to FMCG because it was new to me. I have been in IT ever since I graduated and have started three companies, which means I was always in this scope of responsibility such as finding resources, hiring resources, setting up plans, scoping projects, and leading developments from scoping to delivery. What was interesting in the partnership with Nadim in particular was to do IT solutions for businesses within a specific vertical," Hage tells Executive.

`ViM's path in entrepreneurship last year involved three months of participation in the Speed@BDD program, and one month immersed in Silicon Valley upon invitation

SMALL COMPANIES TAKING ON BIG DATA

### eQuality

Startup initiated in 2015 as two-person partnership between Nadim Tabet and Rafic Hage; established in form of two companies, one local sarl and one offshore sal.
**Business focus:** Cloud-based applications
**Objective:** Production of mobile-first applications that serve FMCG companies in the Middle East, such as apps for retail analytics
**Service range:** B2B
**Base:** Lebanon
**Headcount:** 12 staff, including the two founders, at end of year 2017; planning to hire five in coming six months
**Scope of operations in 2017:** 11 countries

### Vision in Motion

Created in 2016 as two-person startup by Samy Khoury and Amer Mouawad
**Business focus:** Software as a service
**Objective:** Production of software that allows retailers to count customers and analyze their shopping and movement patterns
**Service range:** B2B
**Base:** Lebanon
**Headcount:** Four staff at end of year 2017, two of them co-founders and two employees; did not set employment target for 2018, but expects to need three to four new hires by middle of the year
**Scope of operations as of January 2018:** Two countries

through Speed. The accelerator injected $30,000 cash and provided other benefits in exchange for a 10 percent equity stake in ViM. This year, the team won a number of competitions at Arabnet in Beirut and Dubai, coming to an agreement there with PepsiCo under which ViM will implement a test project in one or two Dubai supermarkets from January 2018, with an eye to expanding the relationship if this test goes well.

eQuality progressed on its own financial power and did not participate in any incubation or acceleration program. Tabet says that the startup is oriented to the sophisticated end of the market, and its trilingual app comes with upmarket flair when compared with competitors. He is exploring the use of image-recognition software for future applications, but describes the technology in the market as currently too costly and not yet mature. Hage says eQuality is geared toward using artificial intelligence: “In any project involving AI, you start with collecting data. You need a large set of information for you to mine,” he explains. “For the past two-and-a-half years, our customers have been collecting data, and now we have enough data to start coming up with the proper analytics and predictive analysis.”

According to Tabet, since eQuality entered business with a target of serving large corporate customers, 25 client companies in the FMCG space signed on for its first product, a “merchandising intelligence application.” Under the name eye2, it offers FMCG distributors and suppliers a new way to assess their products’ merchandising status inside hypermarket store environments. While data is entered through interconnected devices, processed in the cloud, and immediately displayed on a dashboard, data-collection and entry methods are not the core strength that eQuality is focused on. Rather, the type of data collected and its fast translation into percentage-share visuals displayed on a dashboard are what Tabet describes as particular strengths of eye2. He claims that the dollar turnover of his company is already in “the high six digits,” and puts seven digits to the value of company, though he has not commissioned a formal valuation exercise. “Today, we are still self-financed, but we are considering different options [of future investments from VCs or strategic partners], because we want to expand dramatically,” he says.

Neither company is yet at the stage of offering predictive analytics, but they are working to develop the capacity, with some built-in assurances of customer anonymity. According to Khoury, the English-language ViM is a comparatively affordable solution, because it uses data from security cameras that are already installed in stores. “The data we provide our customers is aggregate data, not specific data,” he says, so ViM could not be employed to identify individual customers and build personal behavior profiles. “We don’t show faces, we don’t show anything [individual]. It is basically a picture of an empty shop with a heat map on top of it. People are already filmed for security purposes and there is no invasion of privacy here,” he argues.

Despite of this limitation by design, ViM rose in less than two years to an estimated corporate worth in the millions of dollars. Khoury says ViM recently did a valuation exercise with a person in the retail industry who was interested in buying a stake or even all of the startup. “Value was estimated to be anywhere between $2 million and $4 million,” he says.

Both startup examples imply that Lebanon-based entrepreneurs can use the future of big data to aim for considerable business success, even if they begin their journeys to big data and predictive analytics while still working on the requisite capabilities. While neither is currently involved in formal valuation exercises with potential investors, both see themselves as million-dollar enterprises in year three after launch, and both are aggressively optimistic about their future. But beyond this sample, what will be the role of big data for local companies?

**SOME CRITICAL NOTES ON BIG DATA**

The term "big data" has been in use for 20 years and has been defined by three sets of challenges: One challenge is the technical side, where information is accumulating faster. It is today faster than it ever was before, faster and more varied than predicted even during the past decade of fast data growth. In the future, the accumulation of data in terms of volume, velocity, and variety will be greater and faster still.

The second challenge is what to do with the growing resource of raw information: How to analyze it correctly and put the insights to use, and how to protect people from exploitation of their data that is able to overpower them through manipulation or destruction of what used to be their privacy.

The third challenge is the gap between data reality and human assumption, the propensity of humans to think that quantity affects quality. This is what has been called a mythology problem with big data.

New information is supplied much faster than it can be consumed. That is true for unidirectional outbound media (such as this magazine), for bidirectional communication (all verbal and nonverbal chats on mutual media such as communication channels and social networks), and essentially also unidirectional inbound information channels where data from cameras equipped with facial recognition software and computerized communication-monitoring tools amass data volumes that are preserved and remain indefinitely accessible.

In the distributed non-collective data processing sphere of the past few millennia, also known as human memory, the oversupply of such data was a given, and one can blindly assert that it was growing permanently. But it was not a problem because the data from human eyes and ears went no farther than the individual brain, and was limited by a mix of individual data-handling limits (a.k.a. cognitive capacity) and forgetfulness—a blessing, after all.

To tackle the mythological assumption that big data is going to change everything beyond imagination, an ancient paradox is helpful. The sentence, "all Cretans lie," has been used to confuse unwary students of logic for at least a century. But it is much older. Antiquity attributed the phrase "Cretans are always liars, evil brutes, lazy gluttons" to a pre-Socratic thinker from Crete by name of Epimedes. This dude lived—exact timing is as unknown as the real number of expatriate Lebanese shoppers globally—some five, six or seven centuries before Christ. (The before-Christ part is sure, because the semantic paradox of a Cretan saying that all Cretans lie was quoted by St. Paul in a moralizing tweet to a follower residing on the very island).

> There is much reason to believe that future influencers will be data-savvier than their contemporaries

Apparently, disinformation is not a new idea at all. Even in the book of psalms, one statement says, "All men lie." So what is new about big data when the best thing that an economist-cum-data analyst can come up with after several years on the job at Google, sifting through the world's largest available data stacks, is a 2017 book titled, "Everybody Lies"?

This is not a book review, so issues such as the leading body-perception concerns, unexpected racial stereotypes, origins of media biases, the success of advertising, and questions asked about internet porn by male and female Google users will, unlike in the book by Seth Stephens-Davidowitz, not be addressed.

There is much reason to believe that future influencers will be data-savvier than their contemporaries, and Stephens-Davidowitz concludes that "the future of data analysis is bright," asserting his belief that every future influencer—every coming Kinsey, Foucault, Freud, Marx, and Salk—is likely to be a data analyst. But so were intellectual influencers since antiquity, from Archimedes and Plato to the original Sigmund Freud and Karl Marx, and certainly also the pre-Google economic shakers and thinkers, from Astor and Vanderbilt to Carnegie, the Hearst and the Koch families, and from Adam Smith to Keynes and Greenspan.

Early in his book, Stephens-Davidowitz concedes that a major reason for the value of Google searches is not so much the large quantity of mined data, but the honesty of people who undertake them, thinking they search unobserved. But will humans adapt their behavior in an age when big data analytics is known to everybody?

One can only wonder when the big data analytics providers for retailers will spot the first data anomalies caused by GPS-tracked legions of pretend-customers, dispatched by interested parties to roam supermarket aisles with the explicit mission of influencing the data that are being collected.

Big data and AI together will improve aspects of economies. But what one should be prepared for, especially anyone presently under 70, is that with the near-term confluence of advanced surveillance technology, and a new intensity of data analytics, the tiny niche of individual human freedom will be even harder to claim than ever.


HOSPITALITY
TOURISM

# A successful year

**With the election of President Michel Aoun in November 2016, the Lebanese hospitality and tourism sectors breathed a collective sigh of relief.** The internal stability they had long been hoping for was finally there. Moreover, no bombings or other major security incidents had shaken the country since November 2015—this while other popular touristic cities around the world had suffered from terrorist attacks. After five long years, it seemed tourism in Lebanon was going to be revived with full force.

Indeed, all operators in the hospitality sector that Executive spoke to reported a successful end of 2016, which spilled into the first quarter of 2017, and set the year off to a great start. This positive environment continued throughout the summer, with all of the five-star hotel managers Executive spoke with saying they had an increase in room occupancy at higher room rates (see article on hotels page 152).

Although traditionally the Gulf was the main market feeder for tourism in Lebanon, this year saw a diversification of nationalities visiting Lebanon, with many tourists arriving from Europe and countries with large Lebanese diasporas. This shift was due, in part, to the collective effort of the public and private sector in reaching out to new markets and promoting alternative forms of tourism in Lebanon (see Q&A with Pierre Achkar page 166).

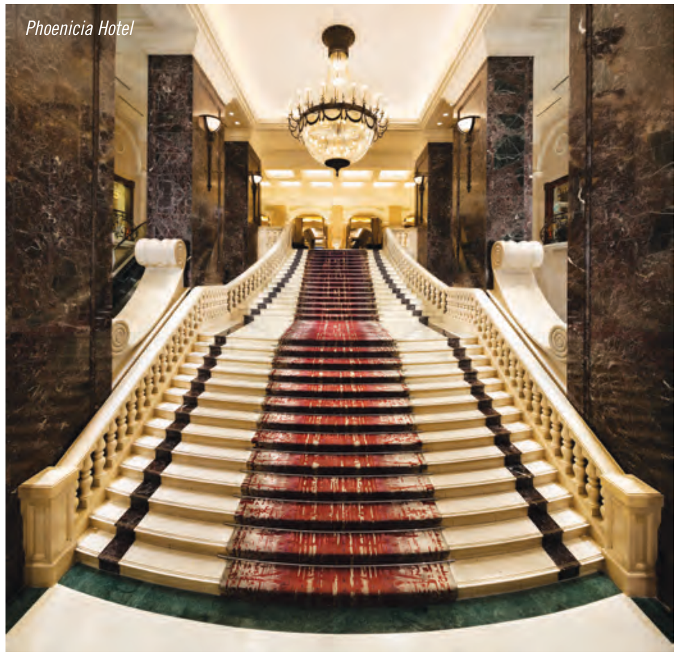
Meanwhile, the country's food and beverage (F&B) sector also had a good year overall, benefitting from the presence of tourists and expats during the summer. Lebanon's growing reputation as a destination for culinary experiences was testimony to F&B operators' hard work as well, and helped the sector grow. However, operators complained of an overabundance of venues all competing for the same market share. This, coupled with local consumers' generally low purchasing power, led to an overly competitive market, where those with the most creative or attractive promotions got to keep the customers.

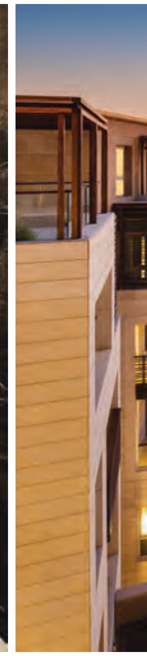
**Five-star hotels**

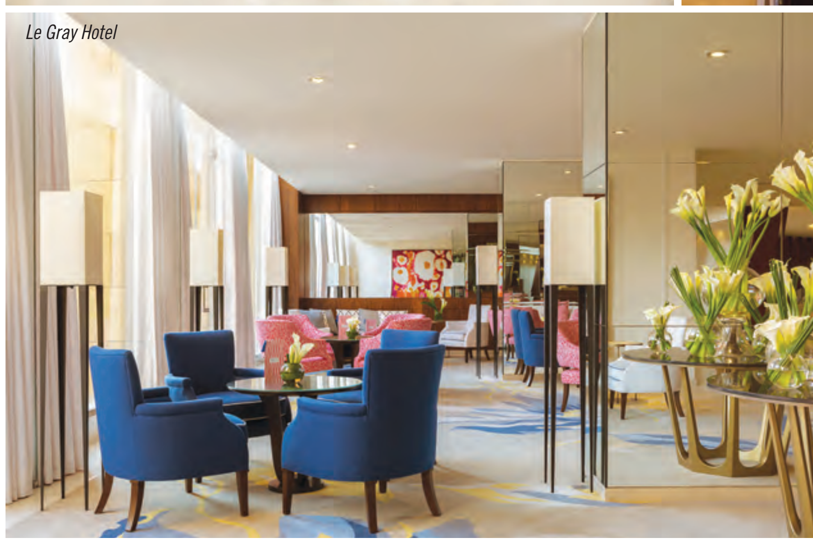
By Nabila Rahhal

# The comeback year


Four Seasons Hotel


Phoenicia Hotel




Le Gray Hotel

Beirut's five-star hotels talk of a mostly positive 2017

**After five long years, it seems the dark stormy clouds of dwindling tourist figures and empty rooms have finally cleared from the sky of Lebanese tourism.** 2017 was reported by those in the industry to be smooth sailing, for the most part.

There may still be some ominous weather ahead—the fallout from Prime Minister Saad Hariri's resignation and subsequent retraction remains to be seen—but industry figures are confident the sector will continue to see gains.

## A GOOD YEAR

Figures from the Ministry of Tourism show that 1,592,301 visitors entered Lebanon so far in 2017 (until October 2017) compared to 1,365,845 in 2012, the year tourism in Lebanon started to decline.

The boost in tourist numbers this year was reflected in the performance of Beirut's five-star hotels, all of which reported an increase in room occupancy and revenues from 2016,

*Kempinski Hotel*

along with an increase in average room rates. “We closed 2016 with 56 percent occupancy, while this year—comparing year-on-year—we’re at 73.4 percent occupancy with a 17 percent increase in average rates. So it was a fantastic year; one of the best in the last six years,” says George Ojeil, general manager of Le Gray, admitting that while 2017 was not as profitable as 2010, which he described as a “record year,” it did come close.

Maha Atieh, director of sales and events at Phoenicia Hotel, says 2017 was better than 2016 in all aspects. Occupancy grew by 23 percent from 2016, an increase she calls significant.

The Four Seasons also had a good year, with General Manager and Regional Vice President Rami Sayess saying that business significantly increased in 2017 compared to previous years. “The year was not just good—it was great. In terms of business performance, 2017 for us as Four Seasons Beirut was the best year since the hotel opened in 2010. It really showed us that this country has a lot of potential,” he says.

Kempinski Summerland Hotel & Resort also reported a successful first year of operation. “In terms of numbers and occupancy, as the first full operating year, we’re happy with our 2017 performance, despite the last two months negatively affecting our occupancy,” says Daniele Vastolo, Kempinski’s general manager. “Our business growth was very steady since the opening, and we have managed to establish, in a very short time, our place in the market, as well as gain a fair share of the business amongst our competitors.”

The image of Lebanon portrayed through the media has a significant impact on tourism

**WHY NOW?**

Hotels’ solid performance in 2017 was the result of several factors, and if these trends continue, Lebanon will again be a viable player on the tourism map.

To begin with, the election of President Michel Aoun in October 2016 set a reassuring tone for the tourism sector. “The positive performance of the last quarter of 2016 contributed to a very strong [Q1] 2017. The fact that Lebanon was no longer on the news in a negative way—but instead positive news was being shared—really helped,” says Sayess, explaining that the image of Lebanon portrayed through the media has a significant impact on tourism.

Some hotels also had individual factors contributing to their growth in 2017. Le Gray, for example, inaugurated an expansion—which included 16 additional rooms, a new lobby lounge, a ballroom, and five conference rooms—and welcomed an increase in corporate and social events. “The demand was very good; on the rooms level the demand was very positive, and occupancy did not drop below 80 percent starting from Eid El Fitr [in June] until the first week of November. Banquet and events became busy mid-September,” says Ojeil.

**IT TAKES A VILLAGE**

Efforts made by the hospitality sector to diversify the Lebanese tourism market also contributed to its positive performance in 2017.

When the Gulf Cooperation Council (GCC) countries first advised their citizens not to travel to Lebanon in late 2012, the tourism sector suffered from the loss of a major market. But by mid-2015, the sec-


Le Gray


Four Seasons Hotel

tor was compensating for the lack of Gulf tourists by developing alternative tourism markets for Lebanon.

One of these efforts was the Visit Lebanon Forum, held in May 2017. The business-to-business forum was organized by the Ministry of Tourism, in collaboration with members of the hospitality sector, from travel agents to hotels. The event brought 150 international tour operators, event agencies, and tourism corporations to Lebanon for the first time to network with industry specialists and see what the country had to offer.

All of the hotel representatives interviewed for the article said the forum had a positive impact on business, noting in particular a significant increase in visitors from Europe, where the invitees were from, to their properties. "I truly believe there were many people who were curious about and really wanted to come to Lebanon but were waiting for stability and to hear more about the country. So what the Ministry of Tourism did was very beneficial. Visit Lebanon 2017 was a very smart idea driven by the Minister of Tourism, which tried to do the maximum [it could] in a very short period with limited resources," explains Sayess.

Another contributing factor was the Ministry of Foreign Affairs' efforts in reaching out to the Lebanese diaspora through the fourth annual Lebanese Diaspora Energy conference held in Beirut in May, and the related events held worldwide in regions with a large Lebanese immigrant population. "The presence of this conference all around the world—and its annual occurrence in Lebanon—encouraged the Lebanese diaspora to come visit Lebanon and discover their roots. We're projecting that, in 2018, this market will be a big focus for us because, while [expats and the diaspora] are surely affected by the security situation, they are not affected by political tensions or travel bans," explains the Phoenicia's Atieh, adding this market's strength is that guests tend to stay for at least 10 days—often after a long flight—and usually visit with extended family, booking multiple rooms to fit all the cousins.

All hotel management interviewed said the Lebanese diaspora was a major market feeder this year. "This year we had guests from diverse markets such as the Latin American market—a purely leisure market which comes in the summer. North America and Australia were major markets as well," says Ojeil, adding that the European market was also active this year.

> By mid-2015, the sector was compensating for the lack of Gulf tourists by developing alternative tourism markets for Lebanon

Hotels played a major role in promoting Lebanon overseas as a destination, and their properties as the place to stay. Hotel representatives told Executive about their promotional efforts within their international chain or sister properties, and of their participation in global travel forums. "We have to work this way because, unfortunately, we don't have a lot of support on the official level—many countries have representative offices all over the world, which we don't have. So it depends on us and our connections to bring people to Lebanon," says Atieh.

## ALTERNATIVE TOURISM RULES

The Ministry of Tourism launched a rural tourism strategy in 2015 to develop alternative forms of tourism including ecotourism, eno-


*Phoenicia Hotel*


*Kempinski Summerland Hotel & Resort*

## IT'S ALL ABOUT THE FOOD

Hotel management interviewed for this article say their F&B outlets are crucial for attracting local business and satisfying international guests staying at the hotel. "Throughout my career in the hospitality sector, F&B has proven to be the first attracting point for all guests. Furthermore, the Lebanese people are well known for their love of food and trendy experiences—and with the new foodies' era, the challenge is bigger. In this regard, we always have to be up to date with new trends, thus creating different experiences to meet all tastes. This is why our F&B team, with our Executive Chef Georges Mansour, meet on a weekly basis to create different concepts," says Kempinski's General Manager Danielle Vastolo, outlining Kempinski's different F&B offerings from a special Sunday brunch in Candelabra to live entertainment in Pier 78.

Phoenicia Hotel's director of sales and events, Maha Atieh, recognizes the power of F&B in a hotel and says Phoenicia is investing in enhancing this experience for both their local and international guests. "We have a new French chef who is looking to take F&B to a new level. We also have a new German F&B director who is managing all our outlets and even our coffee-break food offerings," she says.

Sayess says Four Seasons targeted Lebanese customers with its latest additions. "The new F&B outlets we had in the hotel helped a lot with the local market: Our roof bar was very busy this summer and we opened our shisha lounge, Arabesque, and started our Sunday buffet," he explains.

Le Gray went the extra mile with the F&B hotel experience and signed a letter of intent for the establishment of a brasserie and chocolate boutique by star chef Alain Ducasse. "We wanted to endorse the fact that Le Gray is a dining destination, and so we thought that having a French brasserie that is associated with the best chef in the world could support the hotel's benchmark. This would also support Beirut as a food destination, as having such a high caliber chef in Lebanon would enhance the reputation of the hotel and of the city," George Ojeil says, explaining that what distinguishes a hotel stay is the quality and variety of food options, how frequented the F&B outlets are, what activities they host, and the services on offer. "It creates an attraction even for business travelers."

**Five-star hotels**

## BE OUR GUEST

When Executive first wrote about guesthouses and boutique hotels in 2013, there were barely a dozen such establishments across Lebanon to choose from. Since then, this number has rapidly increased, and in 2015, it was estimated that there were around 40 guesthouses and boutique hotels across Lebanon.

The most recent alternative tourism property to enter the market is Bkerzay, a guest village located on a 200,000-square-meter plot between Baakline and Deir Dourit in the Chouf that opened for business on September 1, 2017. Its owners, the Salman family, say the term guest village best describes the development, which includes 34 guestrooms divided among two-story natural limestone structures, a restaurant with a capacity of 150, a swimming pool, a pottery production facility, a piazza, and a spa that will open soon.

The Salmans did not build on the total area of their land. Instead, they used 15,000 square meters for the guest village, and kept the remaining space as a natural forest—downzoning the green area to ensure that neither they nor anyone else can ever build on it.

Bkerzay started as a pottery production facility in 2013, and a producer of traditional goods from the land such as olive oil, soap, zaatar, and honey. "The whole theme is the fruits of the earth—pottery is earth—and returning to the land," says Karim Salman, one of the cofounders of Bkerzay and the owner's son.

The pottery studio, for one, became increasingly popular throughout the years, aided by the two annual pottery events organized by Bkerzay. However, Salman explains the project was not initially sustainable as it was. "To make it self-sustaining, they started to think of what they can do to bring in revenue, so they thought of building a few houses and renting them out. The idea was to build just a few, but once they started, they got really excited and went all in," says Salman, speaking of his father and Maha Nasrallah, a professor at the American University in Beirut, whom he calls the co-parents of Bkerzay.

Bkerzay is an eco-friendly project, and Salman outlines the green details, which range from purifying sewage water for irrigation, to heating the rooms through wooden stoves, to not removing any tree from the property—no matter how awkwardly located.

Salman says the response has been very positive since they opened. The restaurant is full on weekends, and is busy on weekdays with company retreats and functions by charity organizations. Visitors to the restaurant tend to spend the day at the property, either enjoying an introductory pottery lesson or taking a hike in the surrounding forest. "Urban people really don't have the opportunity to participate in these types of experiences, and everyone likes to do it, even if just for fun. It is nice to do something a little bit different and [get] back to the basics or the roots," explains Salman.

The room occupancy was performing well in September and October, took a downturn in November, and is projected to do well again in December.

According to Salman, this favorable reception is partly because people miss being in green spaces. "If you look at our environment, most people are from Beirut or some other urban place, and in those cities, the green spaces are shrinking by the day. This increases the value of a place that is close and really respects authenticity and nature," says Salman, adding that people also responded to the fact that it is a family-run business, so the ambiance is very warm and genuine.

tourism, and gastro-tourism, among others, and the influx of European visitors have been drawn to these new options. "Foreign visitors are increasingly interested in staying in rural and provincial areas, and at L'Hôte Libanais, we actively encourage them to spend part of their stay at guesthouses and boutique hotels out of Beirut," says Orphée Haddad, founder of L'Hôte Libanais (see guesthouses box page 156).

Beirut five-star hotels say they fully support these alternative tourism trends, explaining that any activities that promote Lebanon as a destination ultimately benefit their hotels as well. "What is important for us is to see the number of visitors to Lebanon going up; for me, the destination is more important than the hotel. The rural tourism trend is making people talk more about Lebanon, and this will help [encourage] more people to come to the country. Out of 1,000 travelers to Beirut, not everybody can afford the Four Seasons, so we just want our fair share," explains Sayess.

Atieh notes that tourists who

*Phoenicia Hotel*

come for rural tourism one summer and stay in guesthouses out of Beirut, or budget hotels in Beirut, may end up choosing the Phoenicia or another hotel in Beirut for their next corporate meeting.

**WORK, WORK, WORK, WORK, WORK, WORK**

The stability in Lebanon starting in late 2016 brought back markets that had been largely absent for the previous five years.

One such market is corporate travel and the meetings, incentives, conferences, and exhibitions (MICE) segment. "MICE made a good comeback this year: As a hotel of 446 rooms, we need big groups to really fill them, so it's our traditional main feeder. Pharmaceuticals, regional banks, NGOs, and multinationals were considering Lebanon for their cycle meetings and annual client meetings. All those companies that were going to Dubai, Turkey, and Amman now want something different," says Atieh, explaining that regional and international conferences and activity relating to oil and gas, or rebuilding Syria, were significant contributors to Phoenicia's revenues in 2017.

Le Gray took advantage of its expansion to fully open up to the MICE segment, and Ojeil says it plans to continue doing so while going forward. Sayess also reported an increase in corporate guests, noting that "Beirut is becoming a destination," with several weddings for regional visitors held at the hotel in 2017.

**NOTHING COMPARES TO YOU**

GCC nationals began to visit Lebanon again in 2017, and all the hotel management Executive spoke to boasted of an increase in their numbers when compared to 2016. "Regardless of the various roller-coaster events in the country, 2017 was, for us, remarkable: We hosted a wide variety of nationalities with a strong presence from GCC countries, led by Saudi Arabia," says Kempinski's Vastolo. Atieh says year-on-year growth from the Saudi market at Phoenicia was 164 percent, and 119 percent from the Kuwaiti market from January to October.

However, these numbers fell short of those of in 2011, before the GCC issued travel warnings for Lebanon. "In 2017, business from the Gulf wasn't [as strong] as expected, but the European business and other markets that came to Lebanon really compensated for this. Of course, if we can have this, plus the Gulf, it's even better," says Sayess.

Although the Lebanese hospitality sector is moving away from its reliance on the Gulf tourism market and toward greater diversification, those in the industry say Gulf nationals will remain a main market for Lebanon. "We're building for the Lebanese diaspora, but still they're seasonal travelers and need long vacations to come to Lebanon, while those from the Gulf used to come every weekend to Lebanon, and we used to notice that because our occupancy rates would go up from Wednesday to Saturday and on their holidays, such as the January school break in KSA," says Atieh.

Sayess says he has high hopes for a return to pre-2011 levels of visitors from the Gulf. "Those from the Gulf are our natural guests because of their proximity to Lebanon. Besides, language is easy for them here, and many even have homes here. They will come back; it is just a matter of when," he explains.

**AS UNPREDICTABLE AS TOURISM IN LEBANON**

Hariri's resignation in early November 2017, its retraction, and the subsequent fallout shook the tourism sector. The management Executive spoke to reported cancellations of corporate conferences, as well as individual and group room bookings at their hotels in the two weeks that followed his resignation.

Those interviewed say they will end 2017 on a positive note, noting that activity in December is typically fueled by locals and visiting Lebanese expats. Ojeil says Le Gray is preparing for a festive December and will be hosting international bands and events throughout the month.

What comes next is less certain. "With the new situation and the happenings in Lebanon during these last two months, the year 2018 doesn't give us the business clarity that we wish to have in order to plan accordingly. This is why, as a hotel, when it comes to business strategy and results, we have taken a very conservative approach, with the hope that the situation in Lebanon will turn positive and help us in proper planning," says Vastolo.

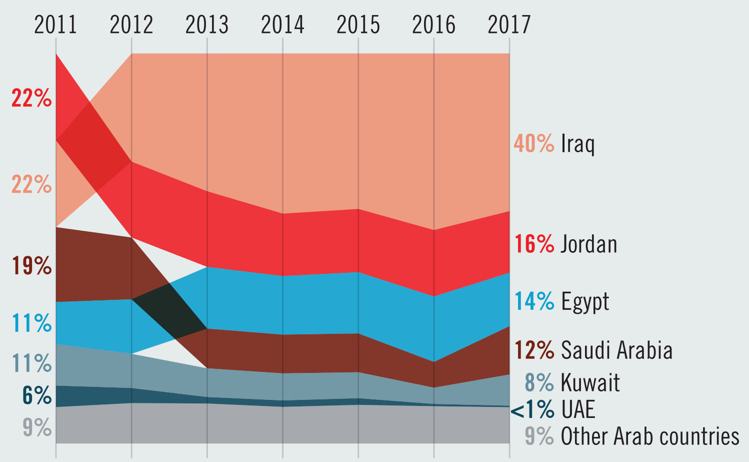
Ojeil says that with the potential absence of Gulf tourists, the hospitality sector will once again have to focus on the local market. "If we don't have a [political agreement] soon, we must shift our focus to the local dynamics and try to generate revenue from more local corporate business, weddings, and social events," he says, adding that Le Gray will also focus on emerging markets such as Latin America, Europe, and Russia.

Sayess also believes that focusing on the European market is an option. "It may be hard to count on the Gulf market in 2018, but if we have a repeat of 2017, where the European market was coming, we will be fine until [tourists from the Gulf] hopefully come back," says Sayess.

Once again, the Lebanese tourism sector finds itself at the mercy of politics—and only time will tell if skies will remain blue next year.

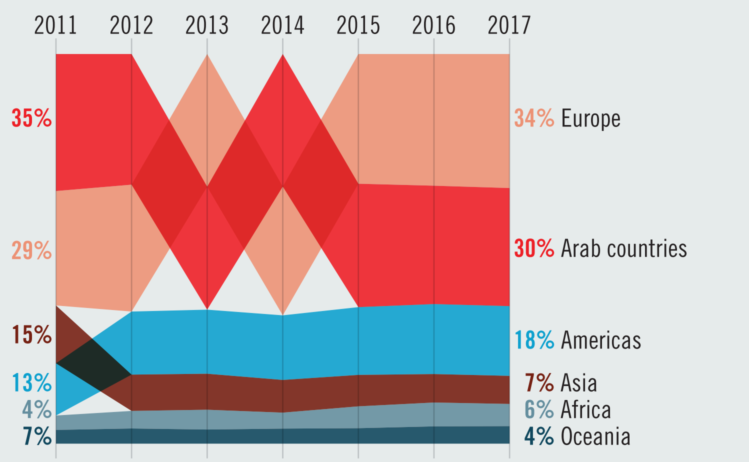
**Facts & figures**

TOURIST ARRIVALS IN LEBANON BY NATIONALITY, ARAB COUNTRIES ONLY




Percentages based on full-year figures except for 2017, Jan-Aug.
Source: Ministry of Tourism

TOURIST ARRIVALS IN LEBANON BY WORLD REGION




Other regions <0.1%. Percentages based on full-year figures except 2017, Jan-Oct.
Source: Ministry of Tourism

By Nabila Rahhal

# A mature market

## Lebanon's F&B operators share challenges and successes

**Lebanon's food and beverage (F&B) industry is finally getting the kudos it deserves: Beirut was named *Travel and Leisure Magazine*'s Best International City for Food in 2017, and the country has recently been recommended in many global publications for its food, wine, and nightlife.**

The country is developing into an F&B haven, as more establishments step out of the box with their culinary concepts. Meanwhile, Lebanon exports nightlife trends to the region. Despite this, those who work in the industry still have to cope with the challenges of an increasingly competitive and unregulated market, and with consumers' decreasing purchasing power.

### SUMMER LOVIN'

The F&B operators Executive spoke to say summer 2017 was a good one, almost reminiscent of 2010—a record year for many in the industry. "We really felt a difference [compared to the last three years]: Everybody in the sector was working, hotels were fully booked. If it were only the Lebanese expats that had come back for the summer, it would've been enough for us. But on top of that, many tourists—especially Kuwaitis—came, too," says Tony Haber, CEO of Addmind, a Lebanese F&B and nightlife management company, explaining that Lebanon is resilient and quick to rebound from a crisis.

In his bars, TRI Concepts CEO Toni Rizk noticed a relatively new trend. "The good thing about Lebanon this summer is that we got a lot of European tourists who are actually residing in the Gulf but came to Lebanon for a quick getaway, since they find it authentic and have read about its food and nightlife in the press," he says.

### SEASONAL ESCAPE

Summer is when many take a break from the city's heat and head to the beach or mountain bars that pop

## ADDMIND: FROM BEIRUT TO DUBAI … AND BACK AGAIN

After focusing on its growth in Dubai in the past few years, Addmind has returned its attention to Lebanon. The hospitality and nightlife management company plans to open seven venues in Lebanon in 2018.

Addmind made its name in Lebanon, developing nightlife concepts such as nightclubs like White and a lounge bar called Iris, before expanding into Dubai in 2012. Today, Addmind's brands in Dubai are well established in an increasingly competitive market. "This is because many outlets opened at the same time [in 2016] and not all of them worked, so many shut down, leaving a big supply of outlets. This automatically decreased the rent and made finding a location a lot easier, and so the barrier to entry became lower and the competition became higher," says Toni Haber, CEO of Addmind, adding that the company is used to working in a highly competitive environment where catering to the local market is key because of its experience in Lebanon.

In comparing the two markets, Beirut and Dubai, Haber says costs—mainly rent—are significantly lower in Lebanon than in Dubai, but Dubai has a larger market than Lebanon. He notes, "They are working on a smaller crowd here; the same crowd that goes out to all the places." The Lebanese market also suffers from instability, whereas in Dubai businesses can make projections and assumptions with more certainty.

Addmind's venture into Dubai helped it develop its brands in multiple ways. To begin with, it built an internationally acclaimed name out of White and Iris, because of the wide mix of nationalities in Dubai, many of whom frequented its venues. The company was able to throw three parties in India under the White nightclub brand, which Haber says drew approximately 7,000 people in attendance.

Addmind also launched summer pop-up venues—under the White and Iris brands—in locations like Ibiza, Sardinia, and Cannes during the Grand Prix. "The aim [of these pop-ups] is both financial and [the] preservation of the brand name, to keep it going. We have a lot of staff from Dubai who don't work in the summer when we close for the season, so it is easy for us to take them to these pop-ups," Haber says, explaining that Addmind is asked to take over locations seasonally by owners that need a brand with a strong name, its own PR and entertainment to increase footfall.

Addmind's Dubai experience also helped it leverage contacts for the new outlets it will be opening in Lebanon. For example, in April 2018, the company will be opening a high-end Japanese restaurant whose chef is the regional corporate chef of Nobu, a well-known restaurant that specializes in Asian cuisine and whose architect is the same as Zuma, another popular Asian restaurant. It will also be opening a medium to high-end Italian restaurant-bar called Matto in December 2017 at Aishti by the Sea, in collaboration with an Italian consultant Haber first met in Dubai.

Addmind is focusing more on F&B venues in Lebanon going forward. However, it has learned from experience to make sure these F&B venues have excellent food mixed with good entertainment.

The company will also be opening an Asian restaurant, a Lebanese café bar, and a rooftop Latin gastrobar to complete its F&B portfolio for the year. Additionally, Addmind has not neglected its original business of nightlife and has bought the Biel Pavilion rooftop and indoor top-floor area. This location will feature a two week pop-up starting December 20, and will be used for a new White or Iris in the summer.

up during this season. The past year saw more such venues mushroom across Lebanon, venturing into new territories or reviving familiar ones such as Qlayaat, Aley, and Jounieh.

Established locations continued to be an attraction this year, with around 10 new F&B venues setting up shop in Broummana, and some, such as Roadster, Starbucks and Zaatar w Zeit, establishing year-round venues. "We opened a seasonal Trumpet Cocktails Food and Tunes in Villa Printania, Broummana, and it was very good exposure and experience. Everybody in the summer wants a change from Beirut and escape to the beach areas or cool mountains. So, if you open a seasonal project that caters to them, you'll have a good market," says Rizk, explaining that the cost is relatively high for such projects because rent is calculated over three months, and because salaries

## ROADSTER DINER: SUSTAINING SUCCESS OVER TWENTY YEARS


Few restaurants in Lebanon stay in operation for more than a decade or so, given the many challenges facing the F&B sector in the country. Roadster Diner, however, has managed to stand the test of time.

Starting with one restaurant in Achrafieh in 1998, the company today has 18 Roadster branches stretching from Jbeil in the north to Verdun in the south, as well as five Roadster delivery centers and a central kitchen that caters to all of these outlets on a daily basis, to maintain a consistent fresh taste and quality. The company also owns the brand Deek Duke, which includes five restaurants and two delivery centers.

But remaining competitive for almost 20 years is not easy, and Roadster works hard to maintain its position as a market leader in the casual dining category. For one, the company has been busy widening Roadster's reach to its consumers. In July 2017, Roadster Diner opened two new Roadster branches (one in Broummana and one in ABC Verdun), and one Deek Duke in June 2017 on the Jbeil highway.

Roadster also relocated its original Ashrafieh branch—in Ashrafieh—further down the street to the Restos St. Nicholas cluster, to give the brand more visibility and its customers a better experience. "Achrafieh is a very promising area that is seen as the capital of Beirut, so we need to have a very solid presence in it. We had the opportunity with Venture Group to be part of this project, and so we took the decision to relocate there two years ago. It's a better location in terms of accessibility, and in the look, a promising project that matches our brand image," says Michel Aji, chief business development officer at Roadster.

Roadster still has its eye on expansion, and Aji says the company is potentially taking the brand to Lebanon's suburbs in the north or south, and expanding internationally. The demand is definitely there because of the high brand loyalty Roadster has garnered over the years, but Aji says some factors need to be considered. "For us [to expand], it all depends on our level of readiness and development. When you expand, you need to have the right backup in terms of operations, logistics, and manpower. What is important for us is to make sure that wherever we open, we can maintain the same level of standards, quality of service, food, and excellent customer experience," he says, adding that this takes a lot of planning and market research and is easier said than done.

Roadster kept its brand fresh by uplifting and renovating its identity and interiors in 2016. "We believe that change is good, especially for a brand that has been around for 20 years. The diner trend is becoming rather outdated globally, so we decided to uplift the interiors and the branding without changing the core—which is excellent food, service, and experience," explains Aji, adding that the company intentionally worked with a UK design outfit that could be neutral and objective, in comparison to Lebanese who have an affinity for the brand.

Sustaining and managing an operation of such a size—according to its own statistics, Roadster has 1,300 employees and caters to around 5 million customers a year—requires a solid and well-organized structure. Aji explains that Roadster has a dedicated division for every aspect of the business to ensure that things run smoothly and consistently. It also has a strong corporate culture and vision which ensures that all employees are well taken care of and have the opportunity to grow within the company.

While there has been competition to Roadster over the years, Aji considers this healthy and necessary, saying it pushes the company to innovate and keep on introducing new items and ideas.

are higher in the summer when demand is higher and operators have to do their calculations carefully, or they might end up losing money.

Rabih Fakhreddine, CEO of 7 Management, says that while seasonal outlets come and go, the real business is in Beirut. "The year was good for us, despite many places opening this year. The expansion is happening geographically—with venues opening in different areas across Lebanon—but Beirut will always remain the hub of nightlife, since the main purchasing power is here; it's the showcase for the country," he says.

### A DOG-EAT-DOG MARKET

New F&B venue openings were not restricted to the summer, and it seemed as though there was a new concept opening every week this year, with almost the same number shutting down. "The rule of F&B in a mature market is that you have many venues that enter the market, but almost an equal number that exit it. This is the case in London and New York, for example. But in Lebanon, it has gone out of control," says Haber, noting that Beirut's mature F&B market means that those who want to open new establishments need to know what they are doing in the face of high-quality competition.

While Lebanon is a free market, Rizk says some regulation would benefit the whole sector. "There are so many new outlets that it's not a healthy market anymore; there needs to be some control in this. It's the role of the municipality and the Ministry of Tourism to regulate this [market], but there is no coordination or common strategy among them: They wait until residents complain of noise or traffic before they take action. They can control this through increasing the price of [the operating] license, since it is very cheap here," says Rizk, explaining that F&B in markets abroad is generally regulated through costly licensing.

## WHEN THE GOING GETS TOUGH

This increased competition, coupled with consumers' dwindling purchasing power, is making it challenging to operate an F&B outlet in Lebanon. "The market is tighter, the average check is dropping, spending power is getting lower year after year, and the economy is not helping at all. It's not easy for us operators because we have to maintain a certain level of quality and consistency. All this comes at the expense of our profit margins," says Fakhreddine.

Rizk also speaks of the projected impact of recent tax increases on the F&B sector. "With the tax increases, expenses will be higher at a time when the purchasing power is even lower: Average salaries are low in Lebanon, and so people will barely have any money to spend. Over the long run, if the situation continues like this, it will affect our sector. It's too soon for the effects to show now, but they will gradually," he says.

This situation has led to a market where both differentiation and value are key. Snack and fast food F&B concepts are growing in popularity. At the same time, almost all F&B concepts from the casual diner to the medium-end restaurant to the neighborhood bar are promoting offers and formulas aimed at attracting customers through reduced pricing and value meals.

*Kahwet Beirut caters to those who want shisha with their food*

## THE ORIENT EXPRESSION

When it comes to nightlife, differentiation is often in the entertainment. Theme nights or themed concepts from latin to jazz to oriental have become commonplace. The most enduring trend is the oriental or Lebanese one.

> "There are so many new outlets that it's not a healthy market anymore; there needs to be some control in this"

Fakhreddine claims his groups are pioneers when it comes to oriental-themed concepts and were among the first to introduce Arabic songs in their playlists back in 2012 with their Hamra venue February 30. According to him, they were also the first to introduce shisha in nightclubs in their Mar Mikhael summer venue Sayf Feb 30. "Shisha is becoming trendy, and not just in Lebanon—clubs in London and Paris are introducing shisha to their menu. The trend is everywhere, so we capitalized on this while trying to provide a unique experience. It's the young people who are driving the trend of shisha, which is interesting because it's usually the older crowds who like it," he explains, adding that they sell 300 shishas per week in Sayf Feb 30, which is good for a club.

The oriental or Lebanese concept is also reflected in the many Lebanese cuisine cafes that entered the market this year—or expanded into prime locations, such as Falamanki in Raouche. Fakhreddine says his Lebanese café concept, Kahwet Beirut, located in Downtown, has a capacity of 400 and has been full almost every night since its launch in October 2016—allowing him to return his $500,000 investment in less than a year.

## A FOODIE DESTINATION

Whether it is poke, ice-cream rolls, oysters, chicken burgers with innovative sauces, lobster rolls, or barbecued pork, Lebanese F&B operators went all-out this year with their adaptations and personal interpretations of global culinary trends.

There is a newfound appreciation among Lebanese consumers for good quality food. “More and more restaurants are now focusing on the food rather than just trying to impress people through the way the restaurant looks. This is because people are developing more of a palate and an understanding of where the food comes from, so there’s more focus on farm-to-table or seasonal food,” says Karl Naim, cofounder and CEO of Chef Exchange, an online platform for people to book culinary experiences that also offers menu consultations for restaurants. Naim also founded Lobster Society, a “passion-project” restaurant with a focus on lobster-based dishes.

Riad Abou Lteif, a chef and co-owner of Ferdinand, a neighborhood bar in Hamra, and Meats & Bread Hardcore BBQ, a restaurant in Gemmayzeh, says the Lebanese are quick to adopt trends and have taken an interest in niche fresh food. “When it comes to niche food, people will go to places that cater to their tastes. Those that usually like sushi will go to the new poke places, for example. As long as the product tastes good, [a venue] will survive and have its clientele among the Lebanese,” Abou Lteif says, adding that he believes ramen noodles, soul food, and stews with a twist will be the upcoming food trends in Lebanon.

Food has even become an important aspect of business in bars, which are not typically known for their mouthwatering cuisine. “There is more of a general interest in food in Lebanon, even in nightlife, and one of our bars, Trumpet, has had an increase in footfall because it’s becoming known for the good food we serve in it,” says TRI Concept’s Rizk.

Operators who used to solely be into nightlife developments are now branching into F&B. Fakhreddine says his positive experience with Kahwet Beirut has encouraged him to venture more into F&B in 2018 through the planned opening of a Japanese restaurant, and a snack concept called El Kbeer.

Meanwhile, Haber says Addmind will also be venturing into F&B, with a twist (see box page 161). “Nightlife has always been much more developed in Lebanon than other countries. But I think today, the market is changing in that sense, and that’s why we are changing with it and going more into F&B concepts with an element of fun,” he says.

## WHAT THE FUTURE HOLDS

Many of Lebanon’s F&B operators have their eye on markets beyond Lebanon. Naim says that once Lobster Society completes its first year of operation, he will look into taking it to the Gulf.

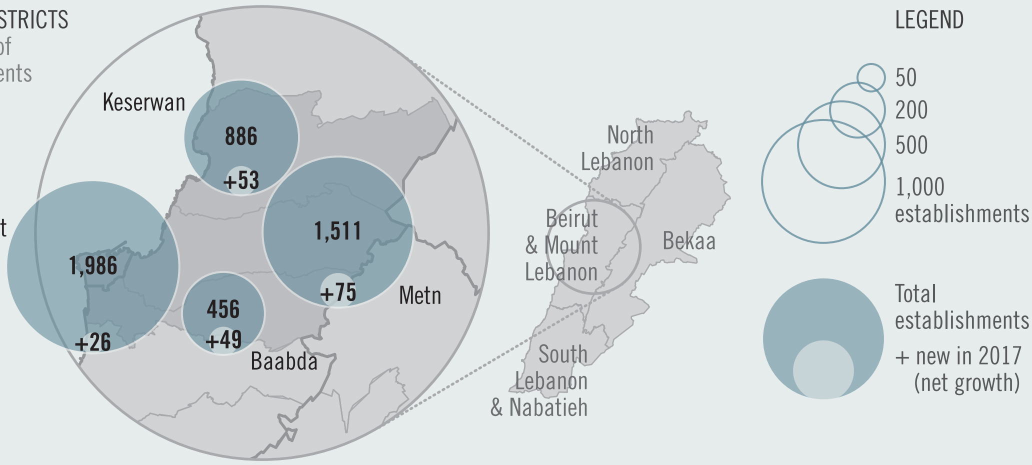
Some of Fakhreddine’s venues will also be going regional next year. “We tested the market, gathered a database, and made a very solid name and equity for our brand through the Antika nights we used to host in hotel ballrooms in Dubai. Now is the time to capitalize on that. Although Dubai is in recession, 7 Management’s strategy is to target the mid-sector, and we are investing in a calculated and smart way,” says Fakhreddine, who plans to launch Seven Sisters rooftop in Dubai by the end of January 2018 and Antika Bar in August 2018.

Whether it is through food or nightlife entertainment, Lebanon’s F&B operators continue to find ways to keep their consumers happy despite the obstacles currently in their path—and those that will surely arise in the future. That is the Lebanese way, after all.

More and more restaurants are now focusing on the food rather than just trying to impress people through the way the restaurant looks

## AGGREGATION OF FOOD & BEVERAGE ESTABLISHMENTS

### LEADING DISTRICTS
by number of establishments




### TOP FIVE SUB-DISTRICTS
by number of establishments

| | Sub-district | Total | MOST COMMON ESTABLISHMENT TYPES: 1 Quick Bites | 2 Casual Dining | 3 Bakery | 4 Dessert Parlour | 5 Café | MOST COMMON CUISINE TYPES: 1 Lebanese | 2 Fast Food | 3 Bakery | 4 Desserts | 5 American |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Ashrafieh Beirut | 362 | 123 | 101 | 63 | 43 | 35 | 140 | 62 | 83 | 62 | 50 |
| 2 | Tripoli Tripoli | 315 | 179 | 49 | 61 | 55 | 7 | 188 | 60 | 61 | 64 | 36 |
| 3 | Hamra Beirut | 289 | 84 | 99 | 45 | 32 | 44 | 119 | 51 | 60 | 43 | 55 |
| 4 | Jounieh Keserwan | 164 | 64 | 43 | 20 | 22 | 14 | 65 | 38 | 25 | 27 | 24 |
| 5 | Mar Mikhael Beirut | 138 | 30 | 46 | 11 | 10 | 12 | 31 | 23 | 14 | 21 | 17 |

• = Outside of top 5 within sub-district.

### MOST SEARCHES
on Zomato.com

| | MOST SEARCHED FOR ESTABLISHMENT TYPES | MOST SEARCHED FOR CUISINE TYPES |
|---|---|---|
| 1 | Cafe | Japanese |
| 2 | Pub | Italian |
| 3 | Fine Dining | Burger |
| 4 | Club | Chinese |
| 5 | Bar | Lebanese |

### OPENINGS & CLOSURES IN 2017

| | SUB-DISTRICTS WITH MOST NEW OPENINGS | | SUB-DISTRICTS WITH MOST CLOSURES | |
|---|---|---|---|---|
| 1 | Achrafieh Beirut | +64 | Achrafieh Beirut | -65 |
| 2 | Hamra Beirut | +50 | Hamra Beirut | -52 |
| 3 | M.Mikhael Beirut | +43 | Jbeil Jbeil | -51 |
| 4 | Jounieh Kesrwane | +36 | Jouneih Kesrwane | -48 |
| 5 | Dbayeh El Meten | +30 | Saida Saida | -34 |

zomato Data as of Nov 2017. Data for localities outside of Mount Lebanon and Greater Beirut governorates is only partial.
Source: Zomato.com

By Nabila Rahhal

# Diversifying Lebanon's tourism

What Lebanon needs to do to attract more than just Gulf tourists

**Executive spoke with Pierre Achkar, president of the Lebanese Federation for Tourism Industries and the Lebanese Hotel Association, who says the tourism industry has learned the hard way the dangers of relying on one market.**

Although no single market can replace the Gulf tourists, he says, the tourism sector is developing alternative markets and new revenue streams to try and make up for the decreasing number of visitors from the Gulf.

**E** ***Lebanon's tourism industry has been largely reliant on tourists from the Gulf. Was that still the case in 2017?***

For the past 50 years, Lebanon has been reliant on the Gulf market for tourism. And this is normal, whether in Lebanon, Europe, or America: It's called proximal tourism. France can't have its touristic boom if its neighbors, Germany and Italy, boycott it, for example. This doesn't mean that we in Lebanon aren't developing other markets such as Europe, Russia, and China. But these markets demand stability in Lebanon and need a long-term strategy. Also, some of these countries require infrastructures that don't exist in Lebanon.

**E** ***Can you give some examples?***

I'll give you an example of my recent trip to Russia with Jean Abboud, the president of the Association of Travel and Tourist Agents [in Lebanon]. We learned that Russian tourists want to stay in beachfront resorts where they can swim in the sea. While we have a few resorts like that in Lebanon, we don't have enough volume to satisfy a large demand. What is needed today are beach resort hotels in touristic areas such as Beirut, Jounieh, Byblos, and Batroun.

**E** ***What is stopping us from developing such properties?***

We, in the hotel industry, are working on this. We would need at least 3,000 rooms on the seashore to create this resort tourism, and the locations of these properties would have to be in well-developed touristic cities with restaurants, nightlife, and [other] activities.

But the problem is that the cost of land is very high in these areas, and the area available to be developed only allows for a small number of rooms. Therefore, it would take an extremely long time to return one's investment, so it doesn't make financial sense to develop such projects in the current circumstances—unless one owns the land.

Russia, Germany, Scandinavia, and all those cold countries that want beach tourism constitute a major tourism market, with 700,000 Russians visiting the beaches of Turkey this summer. Capturing this market would allow us to diversify our tourism portfolio and reduce our reliance on tourists from the Gulf—but we have to prepare and be ready for it. Lebanon has to decide if it wants to adjust the building laws to accommodate resorts. This is just one example of the tourism diversifications that we're working on.

**E** ***What about tourism from other European countries?***

The lack of stability in Lebanon is discouraging European travel agents from proposing Lebanon as a destination to their clients.

The past 10 years in Lebanon have been filled with internal turmoil. Many European travel agents

Kempinski Summerland
Hotel & Resort

# A GEM OF A VENUE FACING THE GRAND BLEUE

The beautiful ballroom is one of the centerpieces of Kempinski Summerland Hotel & Resort. It rightly bears the name of "Waltz Ball Room" which gives desire to waltz in this welcoming space open on a vast esplanade. Elegant, tastefully done in shades of gray, beige, silver and gray, illuminated by large crystal ceilings, with a specific entrance, it is an ideal venue for prestigious events: weddings, dinners, receptions, cocktails. Likewise, a seaside area for wedding dinners, or other, with barbecues and entertainment.

In 2018, a new extension of 200 square meters has been made with a modern and unique design reflecting the hotel's five star, thus offering an increased brightness that adds even more charm and singularity to this giant glass roof and will accommodate 150 more people thus bringing to 700 the total capacity of the room.

invested in promoting Lebanon during this period, and even sold travel packages to groups, only to have an incident happen that would cause cancellations.

When this happened several times, these agents removed Lebanon from their product offerings, and now they would only put it back if we had four to five years of continuous and consistent stability in the country.

Meanwhile, the tourists from the Gulf were still visiting Lebanon despite the internal security situation. This is why we say that Gulf tourists not coming to Lebanon in recent years is a political statement, and not out of fear for their security.

**E *But following the election of President Aoun in November 2016, they returned to Lebanon, correct? Many in the sector are saying that 2017 was a good year for tourism overall.***

They started coming back in small numbers, and we did indeed see an increase in the number of Gulf tourists over the previous year—but it was nowhere near the numbers in 2010 and before. This is because the political tension didn't ease up completely, despite the election of President Aoun.

On the surface, however, the situation looked positive, especially since security in the country has been well controlled over the past three years, thank God, contrary to most countries in the world.

We also have the Lebanese Diaspora Energy initiative, and the events it hosted in the countries [with high levels] of Lebanese immigration. It also organized a large conference, which was held in Beirut and was attended by 2,000 visitors [who will in turn encourage family and friends to visit].The Ministry of Foreign Affairs and Emigrants had a big role to play in activating this Lebanese diaspora market, which has huge tourism potential; the improvement in tourism that we saw in 2017 was thanks, in part, to this market.

Other factors that contributed to a positive outlook in 2017 are the security and the alternative tourism streams that we had developed.

But, the big difference [between these tourists and those from the Gulf] is in the length of stay. When Gulf tourists used to visit Lebanon, their average stay was 10 days. Meanwhile, the average stay of European tourists, for example, is three days. So while this year we had a big volume of tourists, their shorter stays meant less profits and lower room rates [because more empty rooms need to be filled].

This is not to mention that the Gulf tourists spend more than other tourists, and also they tend to invest in Lebanon or in Lebanese F&B concepts, which they take back to their own country. This doesn't happen with tourists from other parts of the world.

**E *You mentioned alternative tourism. Can you elaborate on what that means, and what you, in the hospitality industry, have been doing to develop this?***

When you're faced with a problem in the country, and your main touristic market is not visiting, then you're forced to seek alternative forms of tourism to attract different nationalities and markets of tourists.

So, we started developing alternative tourism streams in Lebanon, from medical to religious to beach tourism. This is something we should have begun working on 10 years ago, instead of waiting until now. But today, we've become so desperate for business and, as they say, "necessity is the mother of all inventions."

**E *At the end of 2017, because of the political crisis surrounding Prime Minister Saad Hariri, the tourism situation was back to being uncertain. What's the outlook for 2018?***

We have entered a new scenario which is definitely harmful for the hospitality sector. The few thousand Gulf tourists who were visiting Lebanon again will stop doing so.

If you ask me if their visits since the end of 2016 were that impactful to the sector, my answer would be no. Because, as I said earlier, they had not come back to Lebanon in big numbers yet. Also, those who were visiting Lebanon this past year largely had their own homes, so they were not that significant to the hotels.

But what is harmful is what is being circulated in the international media about Prime Minister Hariri and potential armed conflicts in the country [at the time of interview in November 2017]. Everybody has access to news these days, and what they are reading and seeing is discouraging for tourism, especially for European tourists.

> "What is harmful is what is being circulated in the international media about Prime Minister Hariri and potential armed conflicts in the country"

The only nationalities which wouldn't be affected by such news are the Arabs: The situation in Syria, Iraq, and Egypt is worse than Lebanon, and so they would continue to visit Lebanon for vacations. But they are not enough to build a tourism market on.

Up until now, everything is uncertain. If the current crisis is the beginning of a solution, then all will be good for tourism. If it's going to escalate further, then we're in trouble—the whole economy will be in trouble, but the first to be affected in tourism are hotels and furnished apartments.

The positive point is that tourism in Lebanon is very resilient, as history has shown: The minute a crisis is resolved, hotels are fully booked the next day.

By Nabila Rahhal

# More than one way to cluster

Venture Group discusses its business model and future projects

**Rabih Saba and Marwan Ayoub are the founders of Venture Group, a development and consulting group known for its hospitality clusters.** The group developed Uruguay Street in 2012, followed by The Village Dbayeh and The Backyard Hazmieh. Saba and Ayoub sat down with Executive to discuss their new venture, Restos St. Nicholas, as well as their future plans for developing more diversified clusters.

**E *Can you tell our readers more about your newest project, Restos St. Nicholas, in Ashrafieh?***

The project was a joint venture with the landlord [Emile Sabbagha], who is the owner of Sabbagha Development, a land and real estate development group. We would say it's one of our most strategic and harmonious partnerships, not in the least because Emile is an engineer himself, and so was integral in the development process.

Starting with this partnership, we developed what we like to call a boutique cluster that complements Ashrafieh. We're answering a particular need: While in the evening people [in the area] usually go out, in the daytime, there is a high presence of commercial spaces like banks and offices, which require such F&B clusters.

**E *How does St. Nicholas differ from your other hospitality clusters?***

It's more integrated with its environment. There are three access points on three different streets, so you can walk through it without sitting in any outlet or feeling that you're entering a cluster.

Our other projects are introverted, but in this one, the facades are on the street, and you can see those dining. So, you see, there is a different concept development process for every cluster and every location we work with.

**E *Looking back on your experience in cluster development, what are the lessons you have learned?***

We started with F&B because this is our background, and where we come from. But we learned through experience that what we're doing is much more than just having restaurants and bars; it's about developing real estate properties, have them make revenue, yet retain their owners. So now we see our kind of cluster development from a different angle, which may not involve restaurants at all.

**E *How does the cluster model operate at a wider level?***

It works on the economics of proximity and answers a need. For example, we go into a rural city in

Lebanon with a certain purchasing power and a certain understanding of a given service, like healthcare, and say that we'll bring them expertise that they usually commute to the capital to access—for example, a medical center with a couple of floors for children's healthcare and other types of clinics, with the same value they usually get in the capital.

**E *So is that your outlook moving forward in your development projects?***

That's the next thing for us. There's certain ceiling to what the F&B industry can accommodate in Lebanon. Now, we're developing F&B clusters in Ramlet Al Baida, Zahle, Beit Mery, Ajaltoun, Saida [Sidon], and Sour [Tyre].

We'll adapt the clusters based on the areas I mentioned because they are, in some sense, not as mature as the capital—with the exception of Ramlet Al Baida—so we'll go with brands that are more affordable for the purchasing power of the area, and so on.

But again, there would be a certain ceiling. We'll be developing these six to seven projects in the coming three years, and then what? We're into development, so going forward we'll look at other industries, as we have started doing.

**E *So in total, you'll be developing and managing around nine hospitality clusters? Isn't that spreading yourself too thin?***

On the contrary, our business model works better when there are many projects because it operates on economies of scale and scope. This is where an experience in one cluster would benefit the other.

**E *What type of industries are you considering for your future developments?***

We're looking into a couple of concepts now, basically in the line of an office park and healthcare. But again, we'll only develop value-added conceptual projects. You won't see Venture Group develop a building with offices—it has to be a full experience: a compound where you get parallel activities, just like what we did with the restaurants.

You can see that our clusters have complementing services which cater to everything but shopping. So they are more community centers than a collection of restaurants or bars.

**E *What makes a good location for a cluster from your experience?***

It depends on the industry. For F&B, it has to be accessible and visible, and the proximal market or catchment area has to have a need for such a project. There are many factors we consider. We look into the build-up area designated by law, and as such, if it would be feasible financially to have a project.

**E *How do you decide which industry would perform best in a certain location?***

We consider the local market needs and the maturity of the area. We would not develop an F&B project with places to drink and dine out if there isn't a lifestyle which suits such outings.

We, as Venture Group, would start with F&B because it's a sure thing so far that we've done. If the F&B is not adequate—either because we already have a project in the area or the area doesn't need an F&B-focused project—we would be looking at other industries.

**E *On what basis do you select your tenants?***

It's product and price related. It depends on which F&B brands are willing and have the investment capacity to penetrate a certain area. They know better than us somehow, those big brands, where they want to go because they are more in touch with the consumers than us, and actually that's how we test the market. From 10 phone calls, we can almost know whether a location in Zahle is good enough or not because these brands would tell us if they have potential clients in the area or not.

**E *Lebanese are notorious for their short attention spans when it comes to F&B locations. How do you keep your existing projects viable, knowing that you celebrated The Village Dbayeh's two-year anniversary in November 2017?***

It's all based on keeping them "happening." There are two angles. The first is the normal dynamics of the consumer: You wouldn't see a Hazmieh resident in The Backyard Hazmieh in August, but you would see many Lebanese expats there instead.

"You visit an F&B cluster either because it's within your community, or because there's something happening, and that's why events are important"

The other angle is how we add value to the project by having a calendar of events. These events keep people coming back. You visit an F&B cluster either because it's within your community, or because there's something happening, and that's why events are important.

**E *Last time we spoke, in 2016, you were developing F&B projects in Egypt. Can you update us on these projects and your expansion plans?***

We signed projects in Saudi Arabia and Dubai, but our core presence as a company with a full set-up is in Egypt. We have a couple of projects there that we're already working on, and a couple more in the pipeline. We also have our eyes on growing stable markets at the touristic level, such as Cyprus, but we want to grow organically and not burn ourselves by moving too fast.

By Christine Assouad

# Breaking new grounds

## One woman's journey in F&B


**Entrepreneurship is about dreaming, and making those dreams come true.** This has been my story for the past 20 years.

I started my Dunkin adventure at the age of 20, not thinking for a second that I would still be here 20 years later, still passionate and excited about the brand as if I had opened my first branch yesterday. For me, this is key: I love what we are doing, especially the fact that, with coffee and donuts, we are spreading happiness every morning in 35 branches across Lebanon. Making sure we are putting a smile on people's faces has been my driving force for the past 20 years.

Semsom is another passion of mine. Inspired by a conversation I had 10 years ago with an American taxi driver who had no idea what Lebanese cuisine could offer, I was determined to spread the joys of our food to the world. I like to think that if he knew what we had achieved since, he would be really proud. We have opened branches in Beirut, Jeddah, Kuwait, Muscat, Dubai, and New York, and the best is yet to come.

I get a lot of questions about my New York experience. It has been very challenging, but very rewarding as well. The main difference with the MENA is that New Yorkers do not know what Lebanese cuisine is.

We purposefully did not open in areas with a high density of Lebanese because education has been our main mission. One challenge we faced was that while our guests knew what hummus, shawarma, and falafel were, they did not associate them with Lebanese cuisine. Another challenge is that most guests do not like to take risks, especially on their lunch. They have 30 minutes, and they have their favorite spots or numerous options, either on their block or through delivery, to choose from. The risk is not financial, as our meals are around $10, but it is more that they do not want to be disappointed with a meal. So we did a lot of sampling, office tours, and neighborhood parties to introduce them to Semsom because once they taste our hummus—which is made with my grandmother's recipe—they are hooked and keep coming back: More than 20 percent of our guests visit more than once a week. But, the biggest challenge has been real estate: We had to visit more than 100 locations to finally get a lease. The main reason was that we compete with major global brands such as Pret A Manger, Chipotle, and Starbucks, so it was difficult to get a landlord to give us a space. We had to change all our cooking techniques to be workable at hoodless outlets. We knew going in that the first outlet would be challenging, but it was a way to get our foot in the door.

> While our guests knew what hummus, shawarma, and falafel were, they did not associate them with Lebanese cuisine

Overall, it was a challenging two-year learning curve to fully understand how the market worked. We are in a much better place now with three outlets, a pop-up store at Goldman Sachs, great catering deals with major brands, and two more stores in the pipeline. We will be ready as of 2018 to start expanding into other cities.

I have not yet discussed how being a woman factors into all of the above. Perhaps it is because I actually do not label myself a "woman entrepreneur," but rather, simply, a passionate entrepreneur. It is a challenging world out there for all of us, women and men. The highs and lows are the same for both. And teaching this to young women entrepreneurs through mentoring has been one of the most rewarding experiences for me. I thrive in helping others flourish, in ensuring that they dare to dream, and more importantly, in guiding them to equip themselves with the tools to realize their dreams.

*CHRISTINE ASSOUAD is the franchisee of Dunkin Donuts in Lebanon and the owner of Semsom, a Lebanese eatery.*


You see a bride playing a sonata.
At Fidus,
we see John Lennon's USD 2.1 million
"Imagine" piano.


VOTE
VOTE
VOTE
iD
iD
iD
VOTE
CULTURE

# Lebanon doesn’t disappoint on culture

**In a country where so much has declined since the turn of the century, Lebanon’s culture scene stands tall, a mighty beating heart that maintains the nation’s spirits.** However small Lebanon is in comparison to the world, the local culture scene is bigger than its borders.

Lebanon’s art scene has been growing for over two decades, with quality works produced by increasingly renowned contemporary local artists, the proliferation of diverse museums and art spaces, and the rise of new initiatives (see Overview page 176). Other platforms of creativity are on the rise too: Lebanon hosted an unprecedented number of festivals this year, as well as successful art and design fairs that showcase local and international works. One of the greatest potentials for Lebanon is its nascent cinema industry (see page 184). With a number of initiatives already in place or in the works, film could be Lebanon’s next big thing—not just culturally but economically, an essential combination if Lebanese culture is to continue flourishing. Lebanon is slowly but surely developing into a small but potent hub of creativity.

By Thomas Schellen and Olga Habre

# Deeply dancing diversity of culture


The National Museum

## One of Lebanon's broadest asset bases grows further

**Culture in Lebanon is a mosaic of many histories and identities, from the most ancient of civilizational triumphs—such as the sarcophagi exhibited at Mathaf, the National Museum—to the reconstruction and re-imagination of Beirut's urban core that began in the last decade of the 20th century and is still progressing in the Beirut Central District.**

In 2017, a missing piece in the puzzle has finally been opened to the public with Beit Beirut's soft launch (meaning no big event, no big fanfare, no speech or drink). In the context of Lebanese museums and some showy—but not always vibrant—art spaces, such as the two-year-old Aishti Foundation, Beit Beirut stands out as an honest building that opens perspectives on local identities and the 20th century trauma of the Lebanese conflict.

Even if the museum's exhibition concept and content were to move onto other trajectories, the historic essence and presence of Beit Beirut is testimony to the potential for and repercussions of civil war. And just in a few more years, the Lebanese capital is scheduled to open another important window into contemporary culture, when the Beirut Museum of Arts (BeMA) will open in 2020, as envisioned by the Association for Promotion and Exhibition of Arts in Lebanon (APEAL).

The opening of a new museum in 2017 positions Beirut on a Middle Eastern cultural axis that has old and new anchor points, but that is overall still very much evolving. Along this axis—where ancient locales from Ugarit and Palmyra to Petra and Jerash testify to the region's overflowing heritage of diverse civilizations, and in 2017 newly appointed world heritage sites like Hebron in occupied Palestine, Yazd in Iran, and Aphrodisias in Anatolia, Turkey remind us also of the political importance of respecting cultures—there also are new museums with claim to global fame that have opened in the last quarter of 2017 or have been officially announced for 2018.

The first of the two mega-shrines to art and culture is the Louvre Abu Dhabi, which at last opened in November 2017, and the second the Grand Egyptian Museum (GEM), which is under construction in Giza, near Cairo, and is slated to partially open in 2018. Needless to say, these two edifices of human achievement—the future GEM is advertised as the world's largest archeological museum—are in a completely different league of financial expenditure compared to the Lebanese scale.

### CULTURE IS PRICELESS

The construction, branding, and consulting cost of the Louvre Abu Dhabi is believed to be around $2 billion, and GEM construction was estimated in late 2017 to be just shy of $800 million. The creation of Beit Beirut out of the preserved Barakat Building and the construction of a new annex building, according to Beirut city officials, required some $18 million, and no branding cost (or final use concept) has been heard of at the time of writing.

However, it is not important that Beit Beirut is a small edifice of culture that is dwarfed by the region's bigger museums. Culture is not quantifiable in any way. Culture has too many edges and too much volume to be a tradable commodity or asset. Even when passing on culture to close relatives, it

APEAL

The Association for the Promotion and Exhibition of the Arts in Lebanon (APEAL) is planning to open the Beirut Museum of Art (BeMA) in 2020, and though construction has not yet begun on the edifice itself, an architect and a design for the building were chosen in 2016. However, the building isn't the core of a museum, and while we wait for the space to be constructed, the museum's outreach program, one of several planned for BeMA, is carrying out APEAL's work supporting art around Lebanon.

The idea is to decentralize art and make it more accessible to people from all areas of Lebanon and all walks of life. This mission is being fulfilled with ongoing art residency programs, launched in 2016 at Ras Maska, followed by a theater project in 2016 in Baalbek and continuing in May 2017 with a residency in Jezzine. BeMA also organized a workshop called "Shoo Hayda" at the National Museum with artist Annabel Daou. The project engaged members of the community who wished to participate free of charge, giving them exposure to explore and interact with their cultural heritage.

Like many museums abroad that are shifting their strategies to become more inclusive, BeMA hopes to engage different communities. Nada El Khoury, vice president of APEAL, said in an interview with Executive Life earlier this year, "Art should not be intimidating. That's why we are going to people, to villages, and we are telling them you shouldn't be scared to step into a museum; on the contrary, [they should feel welcome]."

Also part of the outreach program is the newly launched Artists in Residency Program in the Lebanese public school system, in partnership with the Lebanese Ministry of Education and Higher Education. The first-of-its-kind program will see fourth and fifth graders from seven schools in different parts of Lebanon collaborate with artists, with the support of their art teachers, discovering the creative process, using their own methodologies, and working on specific art projects such as painting, ceramics, video, or other media, which will later be showcased during a public event. The number of schools engaged is set to grow in the future, and the aim is to let youth from different backgrounds widen their horizons by using art as a new form of dialogue and an opportunity to express opinions, ideas, and feelings toward social, cultural, environmental, or other topics, while awakening their sensibility to art.

In another component of its educational programming, APEAL chose two artists for its annual APEAL/Maria Geagea Arida Annual Scholarship Award: Natasha Gasparian, who is completing a Masters in Art History and Curating at the American University of Beirut, and Myriam Dallal, who will finalize her work toward a doctorate at the Paris 1, Pantheon-Sorbonne University in France in Arts Science.

As a new space designed for cultural memory and public access, Beit Beirut offers the option to transition in one seamless step between today and the Lebanese past of the 20th century

will be reinterpreted by the new owner, who has a different way of seeing things, appreciating beauty, defining esthetic value, and organizing the personal cultural sphere and its contents.

When the passing of identity items and memories from the old to the new generation is disrupted by war and destruction, the transaction is made more difficult, and cultural value can be lost entirely, until somebody comes by 20, 30, 100, or 3,000 years later, digs through the rubble, and finds items deserving to be rescued and treasured. Then, a museum might be born and developed at considerable cost and long-term immeasurable reward.

**BRIDGING THE GAPS BETWEEN PAST AND PRESENT**

On the level of communities and large social bodies, the cultural continuum of Lebanon, with all its disruptions and testimonies of disruptions, forms a treasure chamber for the mind where the here and now can interact with myriad moments in history and relive them. This Lebanese continuum, or cultural sphere, is one-of-a-kind, and allows one to step between today and different eras that reach back as far as four millennia or as near as 30 or 100 years.

One step, and there is Beirut's glitzy shopping mile; the next step, and there is a Roman ruin. One step, there is a digitally enabled office tower for the 21st century; the next step, and there is a Phoenician port. As a new space designed for cultural memory and public access, Beit Beirut offers the option to transition in one seamless step between today and the Lebanese past of the 20th century. With the quiet shift of the Barakat Building, located on the old Green Line in the Ashrafieh district, from restoration project into operations in 2017, it is now possible to dance between the present reality and a very specific and burdened part of the past. Moreover, thanks to the integration of old and

Inspired by healing ceremonies in places that have endured violent experiences, the exhibition incorporated Beit Beirut's own history of violence, attempting to heal Beirut's collective trauma

*Afaf Zurayk*

## BEIT BEIRUT

After years of standing empty and silent, Beit Beirut finally opened its doors in 2017. The inaugural exhibition by Zeina El Khalil, "Sacred Catastrophe: Healing Lebanon," which opened on September 18 during the Beirut Art Fair, was made up of a series of paintings, sculptures, sound and video works, and a large-scale installation distributed over the four floors of the building. Inspired by healing ceremonies in places that have endured violent experiences, the exhibition incorporated Beit Beirut's own history of violence, attempting to heal Beirut's collective trauma. For 40 days, the exhibition, as well as workshops, panels, poetry readings, and performances, used the space to transform what was once a symbol of violence into a platform for peace and reconciliation.

Another exhibition, "How to Tell When the Rebels Have Won," was held at the museum from November 10 to 25 as part of the 10th anniversary of the Arab Fund for Arts and Culture, which included more than 40 artists from 15 Arab countries. The exhibition at Beit Beirut, curated by Rasha Salti, included photography, sound and video installations, as well as music and dance performances. One notable exhibitor was architect Mona Hallak, the activist who started the long and arduous campaign to save the landmark that now houses Beit Beirut. Her project, "Studio Mario," was an ode to the photography studio that once occupied the ground floor of the Beit Beirut building. Displaying vintage photographs, negatives, and documents found in the building, the exhibit paid tribute to the memory of the studio, the neighborhood, and its people, and included free postcards that viewers could take home and offer information about the anonymous people in the photos.

In December, Beit Beirut hosted its third exhibition, "Shifting Lights," a collaboration between three artists of different generations and professional backgrounds. The exhibition featured nine powerful paintings by the veteran artist Afaf Zurayk, photographs of details from those paintings by her longtime friend and collaborator, the photographer Noel Nasr, as seen through the design vision of the architect (and Zurayk's former student) Rami Saab.

Nasr's ultra-zoomed-in photographs were printed on giant translucent sheets and stretched into cylindrical pods that viewers could enter to view each painting. Creating such an intimate space for confronting the works gave visitors a more participatory role. Meanwhile, the space outside the pods allowed others to see silhouettes of these interactions. The paintings themselves are a cry for help set against the pain and turbulence Zurayk sees in the world, while Nasr and Rami's work adds layers of understanding. Combined, the artwork, photography, and architectural interpretation of the space are aimed at healing and peace, so Beit Beirut was the natural choice for a venue.

new in the structure of the Beit Beirut, one can step-dance through this museum in a perfect dabke between the Beirut of snipers and the Beirut of artists.

Drawing upon similar intersections of violence and peace and of past and present, Zad Moultaka represented Lebanon in front of a global art audience at the Venice Biennale this year with his project, ŠamaŠ, a powerful installation that parallels the Arab region's violent history and present-day. Though Lebanon didn't participate in the prestigious event two years ago, in 2017, two other Lebanese artists also made it to Venice: Lebanese-Armenian Jean Boghossian exhibited in the Armenian pavilion, and living legend of feminine art and design Huguette Caland displayed her work at the Biennale's main exhibition, Viva Arte Viva. With the public sector granting only moral support to artists representing the nation, one wonders what Lebanese artists would create with the funding of more developed nations.

Zeina Arida, the director of Beirut's Sursock Museum, says the international art community is definitely paying attention to contemporary artists from the region, and specifically to Lebanon. In fact, she says they've been paying attention for over 20 years, but that the scrutiny has increased more and more. The evidence: Many Lebanese artists are present in prominent art collections and exhibitions worldwide, and are winning art-related awards.

This is one of the reasons Lebanon's film industry is trying to collaborate with other countries on co-productions: to benefit from foreign funding. In parallel, a funding scheme is still being developed to make cinema a viable sector for investors. Ultimately, it isn't just the funds backing a film that count, but the talent working on it, which is why the continuation of script workshops put on by the non-profit Fondation Liban Cinema (FLC) is so important, along with exposure to and interaction with talented filmmakers who have "made it," both locally and abroad, at film festivals held in Lebanon.

As far as other expansions of the Lebanese realms of culture in 2017, the continued development of design departments at noted universities such as the Lebanese Academy of Fine Arts, the Lebanese American University, and the American University of Beirut (AUB) deserves acknowledgement. AUB launched a newly created Master's Program in Art History and Curating this year, while École Supérieure des Affaires, taking on culture from a financial perspective, began offering an Arts Management certificate.

**SHOWING OFF THE TALENT**

This rising wave of talent appreciation and development appropriately found further expression, both esthetic and financial, through the new Beirut Design Fair that was held for the first time alongside the Beirut Art Fair. Both events were successes beyond the organizers' economic expectations. Beirut Design Fair aims to firmly establish the Lebanese capital as a regional center of attraction for design, following the path pioneered by Beirut Design Week. Now in its fifth year, Beirut Design Week in May 2017 asked participants provocatively whether design was a need, and got responses ranging from mundane objects like utensils and street signs, to social-impact initiatives and cultural heritage preservation projects. The question encouraged the public to reconsider stereotypical definitions of design, looking at it as a problem-solving discipline instead, and it got organizers to ask themselves how their own event impacts the industry.

> Beirut Design Fair aims to firmly establish the Lebanese capital as a regional center of attraction for design, following the path pioneered by Beirut Design Week

Held in September, the Beirut Design Fair's first edition was well received by the public, complementing the art fair next door. The 8th edition of the Beirut Art Fair, a place for discovering new artists, featured 51 galleries from 23 countries, and was attended by over 28,000 visitors. (All those figures climbed from previous years.) The fair's central exhibition, "Ourouba, The Eye of Lebanon," was made up of contemporary Arab art curated by Rose Issa, presented pieces from public and private collections in Lebanon.

Issa said the personal Lebanese art collections which she could access in the process of curating are "quite different from certain monumental institutional collections developed under ongoing censorship in the Gulf." The notion of authentic rather than flamboyant art treasures in private Lebanese collections actually can strike the culture enthusiast quite unexpectedly, as in a small show exploring the relation between art and revolution in the Middle East that runs from late November 2017 through February 2018. The exhibition at the AUB on-campus gallery, curated by Octavian Esanu on occasion of the 100th anniversary of the communist "October Revolution," surprised with a portrait from the Mao Zedong series of pop art legend Andy Warhol, on loan from a "private collection" in Beirut.

Also of note is the rise in summer festivals, which have reached record numbers in 2017 and have spread far beyond the established festival brands of Baalbeck, Beiteddine, and Byblos, to small towns and cities like Tripoli and Zahle. While the high number of events are an indication of inter-

## SURSOCK

*Fabrik.
Courtesy of the
Sursock Museum*

Lebanon's flagship art museum, Sursock, now open for over two years, has been continuing its rich programming in 2017 while looking forward to new goals. This year, it launched its first-floor collections gallery, a space where Sursock can pay tribute to artists in the museum's permanent collection. In addition, a total of ten exhibitions were held throughout 2017.

Attendance this year was almost as high as the first year of operation, at around 60,000 visitors. Zeina Arida, the museum's director, says it's not surprising that more people came during the first year, because they were curious about its novelty. Today, in addition to tourists and occasional visitors, many visitors return often. The museum's public events, which include talks, workshops, film nights, guided tours, and more, are still well-attended, and are often coupled with a tour of the museum's newest exhibitions.

The museum is getting a lot of school visits, mostly from private schools. Everyone is welcome to the free museum, Arida says, but private schools have been keener to take the initiative to visit. She admits the museum could attract public schools if its administration were more proactive, but explains they have not yet had the time or budget to address this. It is a priority for the coming year to develop Sursock's education department so that the museum's representatives can reach out to schools, encouraging them to visit, as well as train teachers, go to the schools and give talks, and initiate other activities. She says the museum aims to develop more inclusive programs and to target communities it has not previously engaged to widen its audience.

A museum is also an organization that needs to run smoothly, so Sursock is trying to create a committee of "friends of the museum" that would include a network of individuals, companies, and institutions who would be able to support it, financially and otherwise, while forming a community and sharing ownership of the museum. Arida says it's vital to have funding to maintain the quality and number of existing programs, and points out that fundraising also needs to be diversified. In addition, to start new programs and departments, further funding is needed.

The museum has also fostered creative partnerships in the Lebanese and international art scene. In Lebanon, it has collaborated with the likes of Beirut Art Residency, as well as universities like the Lebanese Academy of Fine Arts and the American University of Beirut, and it is looking into collaborations with various art centers, non-profits, and artist collectives.

Among the activities scheduled for the coming year is the museum's bi-annual event, Salon d'Automne, planned for fall 2018, with the open call launching early to allow artists to develop projects specifically for the event. The museum also has an exciting collaboration with London's Tate Modern; an exhibition by Fahrelnissa Zeid that previously showed at the Tate will be coming to Lebanon in spring. Arida says the museum is working on more international collaborations like this. Also planned is activating the library and archive program, as well as the museum's online platform, which would give users remote access to the collection.

est and community effort, they aren't necessarily good for festivals economically, as some festival organizers point out that their (already huge) challenges only increase when there are too many people trying to get a tiny piece of the same pie.

These festivals added to the growing appeal of other musical and performing-arts events seeking to widen awareness and popular appreciation of culture, such as the Beirut Museums Night in April and various multi-venue events such as the Fête de la Musique in June and Beirut Chants in December. Culture, despite all that could have disrupted its rise in 2017, underscored its resilience as a Lebanese asset with exceptional growth potential, which will likely continue to grow in the coming years .

By Olga Habre

# The future is film


Opening of Beirut Art Film Festival

## Together for Lebanon's cinema industry

**Lebanon's cinema industry is improving in terms of quantity and quality, with more films being made since the early 2000s, and film industry experts agreeing that the standards of the productions themselves are much higher than before.** 2017 was a good year for the Lebanese film industry, with the release of acclaimed movies, reoccurring festivals showcasing local and international productions, and an even better presence abroad. Maya de Freige, the director of Fondation Liban Cinema (FLC), a non-profit supporting the local film industry, says Lebanese cinema is developing and expanding to the point where we can now really call it an industry. However, the challenge remains to find more financing for local filmmakers, as well as a continued emphasis on making quality films that are also commercially successful–a rare intersection even for international powerhouses, and all the more difficult for Lebanon because its small population means films need to appeal to a wider audience.

### FILMS AND FESTIVALS

The good news, de Freige says, is that films are becoming increasingly more diverse. In the past, many films were about the Lebanese Civil War, but now the war has become more of a backdrop than a main part of the story, with the prime example being this year's acclaimed drama "The Insult" by Ziad Doueiri. While Lebanon's cinema is dominated by dramas, there are more and more genres, including comedies like "Tombé du Ciel," "Mahbas," and "The Traveller," risque romances like "Listen," and action movies like "Very Big Shot" and "Nuts."

At this year's La Nuit des Mabrouk, FLC's bi-annual awards ceremony, the films that won awards included comedy-drama "Tombé du Ciel," dramas "Tramontane," "Peur de Rien (Parisienne)," "La Vallée (Al Wadi)," as well documentaries "Treve," "A Maid for Each," and "Tadmor."

The films anticipated for release in Lebanon in 2018 include power couple Joanna and Khalil Joreige's drama "The Notebooks," another drama by Michel Kammoun called "Beirut Hold'em," Nadim Tabet's "One of These Days," a documentary called "Panoptic" by Rana Eid, Lucien Bourjeily's "Heaven Without People," and the highly anticipated Nadine Labaki film, the title of which hasn't been revealed at time of writing.

Many recent films have also made the festival circuits, both abroad and in Lebanon. Not only are festivals a great platform for more international audiences to see Lebanese films—or generally, films that are not typically shown in cinemas—but they are also a way for the filmmakers themselves to see what's out there, which is why it's so important to have festivals in Lebanon that show both local and international movies. Beirut International Film Festival (BIFF) director Colette Naufal says filmmakers must see more foreign movies because they can learn a lot by watching the work of others.

Celebrating 20 years in 2017, BIFF had close to 60 international and local films in its program. Held in October, it opened with the political drama "La Cordillera" by Argentinian director Santiago Mitre, held in the presence of the director as well as his wife and actress in the movie, Dolores Fonzi, and closed with Hugh Welchman and Dorota Kobiela's visual mas-

*Films shown at the Beirut International Film Festival*

terpiece "Loving Vincent," about the last days of Vincent Van Gogh. Every year, many features are winners of global awards or are screened in international competitions.

The festival is also a platform to highlight important political and social issues in the region. This year, two documentaries and five short films were from Lebanon, and, while not included in the competitions and categories, there were six short films about Lebanon before the outbreak of the war in 1975, offered by the Ministry of Tourism. Awards went to Iranian and Turkish films, and one film from Saudi Arabia. Naufal stresses they choose the program based on quality, and just because it is a Lebanese festival doesn't mean they give priority to Lebanese films. Incidentally, in 2016 there were more Lebanese films featured in the selection, but it just so happened that this year's Lebanese films were more commercial than festival-types, she explains. The aim of BIFF has "always been to bring [people] arthouse films that are not released in theaters," says Naufal, adding that another goal is to "invite producers and directors to meet Lebanese filmmakers. You never know where that takes them."

One festival exclusively dedicated to showing Lebanese productions is the Lebanese Film Festival (LFF). The bi-annual event alternates years with another festival, which showcases films from the region, Ayam Beirut Al Cinema'iya, which was held in March 2017. The next edition of LFF is planned for 2018. LFF became bi-annual in 2012, in an effort to have a bigger event each time, rather than having fewer films annually, and also because organizers are mostly volunteers, says Pierre Sarraf, one of its founders. He adds that the event is a meeting point for the local industry and a reference for foreign festivals picking movies for their own programs. Since its inception in 2001, the number of films applying to the festival has jumped from 20 films in the first, to almost 200 in its last edition. "The quality is improving too. Many of the films in our program participated in major class A or B festivals around the world," he says.

This year's Beirut Art Film Festival, its third edition, held in November, was dedicated to screening a more artistic repertoire of films.

> [The Lebanese film festival] is a meeting point for the local industry and a reference for foreign festivals picking movies for their own programs


*The Insult by Ziad Doueiri made it to the 2017 Cannes Film Festival*

This festival is divided into two parts, screenings in Sofil (Intramuros) and the various external screens in schools and universities (Extra-muros), and does not give awards, but is instead a platform for thematic films that are related to the arts. There have been more and more films included in the festival, from just 25 films in 2015 to 60 in 2017, including 13 from Lebanon.

The popular outdoor Cabriolet Film Festival, held in Gemmayze and Byblos, saw an interesting selection of 38 local and international short films. Now nine years old, the festival has no restrictions on genre, but each edition covers a different theme, this year being "The Traveler." Other festivals in Lebanon include the European Film Festival, DocuDays Beirut International Documentary Festival, Outbox International Short Film Festival, Maskoun Fantastic Film Festival, MY Film Festival, festivals organized by various countries such as Germany, Brazil, and Spain, and festivals held outside Beirut, including commendable efforts such as the Tripoli Film Festival.

**LEBANESE CINEMA ABROAD**

De Freige says the Lebanese are increasingly realizing that they have a respectable film industry. Even if every person in Lebanon watched all the local films released, however, it wouldn't be enough to make them profitable. De Freige says the industry needs to make good quality films that captivate a wider audience. Stressing on the same point, Naufal says "making a feature that doesn't go outside of Lebanon doesn't get you very far." Sarraf agrees that it's a huge challenge penetrating foreign markets and few Lebanese films make it internationally.

> The Lebanese are increasingly realizing that they have a respectable film industry

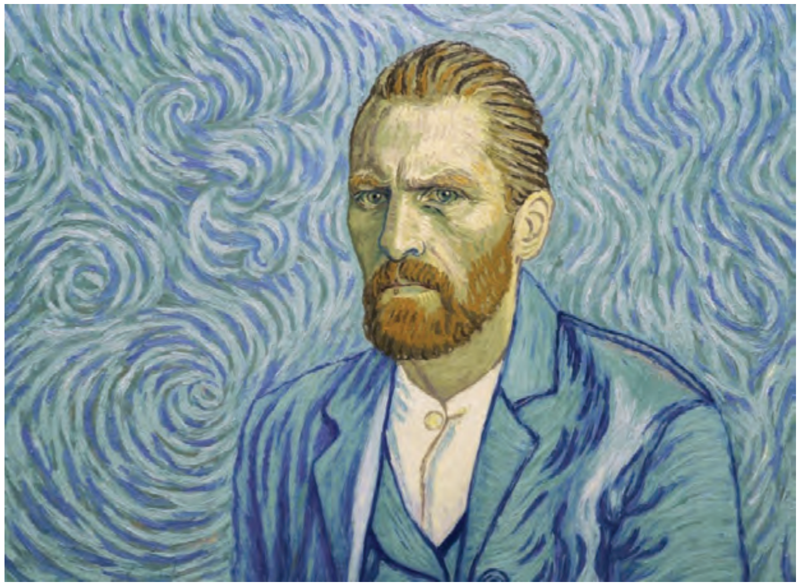
To get foreigners to pay to watch Lebanese films, they need to actually be screened abroad (a distribution issue) and the industry needs to have a good reputation (a promotional issue). The good news is that Lebanese films have been showing (and winning awards) at prestigious film festivals around the world for years, and more people outside of Lebanon are starting to recognize the industry. This year The Insult was honored at the Venice International Film festival, with the Best Actor award going to lead actor Kamal El Basha from Palestine. At the 2017 Cannes Film Festival, Lebanon was the chosen country in the fifth edition of the Factory program. Four Lebanese filmmakers were partnered with international filmmakers to create short films, which were screened at the Director's Fortnight in Cannes. The aim is to establish connections among filmmakers with lots of potential in the international cinema industry to help them produce features. The four resulting short films were: White Noise by Ahmad Ghossein and Lucie La Chimia, Salamat From Germany by Rami Kodeih and Una Gunjak, Hotel Al Naim by Shirin Abu Shaqra and Manuel Maria Perrone, and El Gran Libano by Mounia Akl and Neto Villalobos.

Collaborations with other nations are a good way to get films screened in more places too, as having filmmakers, producers, cast, and crew from more than one country helps films get better distribution. France has had a co-production agreement with Lebanon since 2000. Now FLC is working on similar collaborations with Belgium, Argentina, and Brazil.

There are now festivals abroad dedicated to Lebanese films, especially in communities with a large Lebanese diaspora, such as Canada and Brazil. In November, de Freige and others from the industry flew to Brazil for the first ever Lebanese film festival there, held in both Rio de Janeiro and Sao Paolo. In addition to introducing Lebanese films to a wide audience of diaspora at the festival, FLC's mission was to begin negotiations with ANCINE (Brazil's cinema commission) to work on a co-production agreement, though de Freige laments this will likely take a long time.

**MAKING CINEMA A REAL INDUSTRY**

Despite the creativity of the industry's work, finances are vital to any industry. However, this should be seen as an opportunity. The private sector is already supporting cinema financially—for example, it was Li-



*Films shown at the Beirut International Film Festival*

Bank that made it possible to host a Lebanese film festival in Brazil. BIFF's Naufal says that recently public sector funding has become more significant, but it's their main sponsor, SGBL, that has kept her festival afloat since 1998.

When FLC was launched in 2003 one of its goals was to create a fund for filmmakers. Since then, the focus has shifted from creating a support fund that simply gives financial assistance, to an investment fund that encourages investors to partner with filmmakers. In recent years, progress has been made—in 2015 a memorandum of understanding was signed by FLC and the Investment Development Authority of Lebanon (IDAL)—but the fund is not in place yet. In 2016 Banque du Liban (BDL), Lebanon's central bank, released Intermediate Circular 416, which subsidizes loans of up to $3 million by banks and financial institutions for the production of movies, television series, and documentaries, as well as theater plays.

"Film is an economic sector as well as a cultural one, and those responsible should try to support it as much as they can," says de Freige, explaining that it employs a lot of people, especially young people, and keeps them in their country doing work in a field they love. Sarraf lists several parts of the system that are doing things right: universities keeping their programs updated, the Ministry of Culture increasing its annual contribution to film, FLC's partnership with IDAL, and BDL's new circular, which has led to more individual producers from the private sector who are venturing into investment in cinema.

It's not just an issue of funding. Sarraf says the industry needs to "lobby with the government to create new laws that would help the industry, laws regarding the participation of local TV networks in the film industry and laws to give incentive to distributors to better distribute Lebanese films." In an interview earlier this year, Doueiri also called for more support from the state, saying the film industry is a machine that needs everything from script writing, casting and directing, to post production, as well as laws that protect the industry and help with financing.

Ultimately, the films themselves are equally important, which is why industry experts advise filmmakers to focus on making quality films that tell good stories. Most agree that one of the challenges Lebanon still has is for filmmakers to write good scripts. FLC says that's why they offer annual script re-writing workshops with visiting professionals. Naufal also advises the best way to make better films is for young directors to work on major feature films with other directors for a while before jumping into producing their own features. Adding that apprenticeship is true of any industry, she brings up the example of Doueiri, who worked on several films with major international directors like Quentin Tarantino before making his own movies.

Despite everything, Sarraf points out that the industry is much more structured today than it was in 2001, when LFF was founded, and says it's the team effort thus far that has paid off. "Every player in the industry is doing their part of the job and everyone benefits from this common effort," he says. Though the progress is slow, the results are showing, and further baby steps in the right direction, hand in hand, will hopefully get the Lebanese film industry to more silver screens worldwide, and make it a significant contributor to the national economy.


iD
iD
VOTE
VOTE
RETAIL

# Mixed feelings

**Summer 2017 was a bright spot for fashion retail in an otherwise slow year.** This was not because of the increased tourists—fashion retailers said those who visited Lebanon this summer were not here for shopping in Lebanese malls and fashion corridors—but rather Lebanese expats who came home for vacation and had time to shop. The good tourism season, however, contributed to many local Lebanese having extra cash to spend on shopping (see article page 190).

But summer 2017 aside, it was another dismal year for retail in Lebanon. Talk of the government introducing increased taxes worried consumers, who saved their purchasing for essential goods, avoiding shopping for fashion items.

Meanwhile, the fast-moving consumer goods (FMCG) sector had an eventful year. November 2017 saw the last of Kuwait-based The Sultan Center (TSC) stores shut down, as the company exited the Lebanese market entirely. Other large FMCG retailers continued to expand: Majid Al Futtaim's Carrefour opened its second branch, adding a store in City Mall Dora to its Beirut City Center branch. Meanwhile, Spinneys opened three new stores in Lebanon by early October 2017 (see Q&A page 192).

By Nabila Rahhal

# Highs and lows

## A mixed performance

**This year, consumers were bombarded with text messages announcing all the latest store sales and irresistible promotions.** Those able to ignore the messages could not have failed to notice the multiple number of shopfront displays with massive red sale signs. Despite all this, most shops remained relatively empty.

On the whole, it was yet another disappointing year for many of the country's retailers. And yet, there were a few bright spots. Summer 2017 was reported by many retailers as a busy season with an increase in sales, while the opening of several new malls added dynamism to the sector.

### A GOOD SUMMER

Many tourists and expats visited Lebanon in summer 2017, boosting the retail sector in multiple ways. Global Blue's insight into tourist spending report revealed a slight overall increase in purchasing this year up until October 2017 (the latest available figures) as compared to the same period in 2016—with the largest increase coming in the third quarter of the year, during the summer.

Retailers have credited visiting expats for most of the increase in summer business. Izzat Traboulsi, CEO of T2 Trading, the retailer for Hugo Boss in Lebanon and Egypt, says summer 2017 was "phenomenal." "We had Iraqi and Egyptian customers with high purchasing power, but the people we depend on the most are the Lebanese expats who come to Lebanon in the summer," says Traboulsi, explaining that since these Lebanese expats are here on vacation from their daily life and work, they have more leisure time to shop.

In an interview conducted in August 2017, Mher Atamian, managing director at Est. Hagop Atamian, a distributor of luxury and medium-end watches in Lebanon, said his business now relies more on visiting expats who come to Lebanon during the summer vacation than on Gulf tourists, who have been frequenting the country less and less.

Indeed, although more tourists visit Lebanon during the summer, it seems their direct impact on retail through their spending is still small. "There has always been a positive correlation between tourism and businesses in general, and this year is no different. However, the size of the impact differs from one industry to another. For instance, [usually] tourism affects the hospitality sector the most, with retail coming in second place," explains Khalil Noujaim, managing partner at Level 5 Holding, the exclusive agent of the French luxury brand Eden Park in Lebanon, in an interview with Executive conducted in August 2017.

Traboulsi explains that a good tourism season, such as summer 2017, reflects positively on his existing customers, and, as such, has an indirect impact on Hugo Boss. "We're not reliant on tourists and expats alone during the summer, but also on existing clients who spent more this summer. When tourists are in Lebanon, they're going to spend money on hotels, restaurants, car rentals … and this has a positive impact on our customers. When our customers make more money, they will shop more," he says, explaining that 90 percent of their sales are from locals, while tourists—when they are present—are a bonus.

### IT'S A MALL WORLD

Another bright spot for the retail sector was the launching of new commercial centers, with the largest branch of The Spot Mall opening in Choueifat in May 2017, and ABC Verdun welcoming customers as of July 2017.

It usually takes up to one and a half years for a new mall to show good results, according to Traboulsi, because it takes time for people to get used to it, and for advertising cam-

*Sale signs loom trying to attract customers* paigns to take effect. Despite that, he says Hugo Boss has done well so far in ABC Verdun.

Both Traboulsi and Atamian say that ABC Verdun opens a new catchment area for them, mainly Lebanese residing in Africa who come home for the summer, and whose homes are in proximity to Verdun.

Traboulsi also speaks of the consumer-behavior patterns shoppers in ABC Verdun have displayed. "The footfall wasn't [high], but the average ticket was, meaning there is purchasing power in Verdun. Also, our high-priced items in Verdun performed better than those in Achrafieh and Dbayeh—this is a good indication for us because, again, it shows the purchasing power is there," he explains.

**A DOWNWARD SPIRAL**

Despite those small highs in summer 2017, it was, overall, another bad year for the retail sector. Talk of tax increases—which began early in 2017—did nothing to encourage consumer spending.

The results of the Byblos Bank/AUB Consumer Confidence Index for the third quarter of 2017 show that the index dropped by 13.5 percent from June to July, by 5.5 percent from July to August, and by 2.2 percent from August to September. The authorities' determination to increase taxes and fees, at the expense of households' day-to-day needs, exacerbated consumers' skepticism and added an unnecessary burden on the already stretched budgets of households," says Nassib Ghobril, chief economist and head of the economic research and analysis department at Byblos Bank Group in the report.

This effect was felt in the premium fashion retail sector as well. "Talk and fear of increased taxes have impacted us a lot in that people worry about increased cost of living, and so decide to save their money instead of shopping. This is normal; even in Dubai when they announced the introduction of a 5 percent VAT, it slowed down the market tremendously there as well," says Traboulsi, explaining that he only felt the impact on business starting October 2017, when talks of a tax increase intensified, and that so far sales figures have not dipped too significantly—citing a 10 percent drop in October.

Talk of tax increases—which began early in 2017—did nothing to encourage consumer spending

**OUTLETS AND SAVINGS**

With consumer focus on economizing, it is no wonder that outlet stores did so well this year, and that events like Black Friday, which was held at the Beirut International Exhibition and Leisure Center (BIEL) in November, were popular with consumers. Traboulsi says Hugo Boss participated in the BIEL Black Friday event and made approximately the same amount of money in the first three days of the event as they did the whole month of November.

It is also no wonder that the idea of dedicated outlet malls is finally taking root in Lebanon. Centerfalls, projected to open in Metn's Mazraat Yachou in October 2018, will be Lebanon's first designer outlet mall and will attract many of the country's premium retail brands.

Traboulsi says that while he would consider opening a Hugo Boss in such a dedicated outlet mall in a remote location, he would never open one in proximity to any of his stores, as some brands have done. "We focus on our clients to sell them [merchandise] in our stores either at full price, or at a small discount during the sales period. The client of an outlet store should be a different business: You can't open an outlet mall in the middle of a busy area where there is high footfall and potential clients for your full-price collection. My aim is to keep my clients coming to my store and have the outlet clients go to my outlet. The outlet is the bonus, while the real margins are in the shop," he says.

The retail sector is betting on the end-of-year festivities and gift-giving—which usually account for a high percentage of their sales—to make up for some of the losses this year. Otherwise, the going will be tough heading into 2018, and we may be reporting more of the same next year.

*Malls were the name of the game in 2017*

By Nabila Rahhal and Thomas Schellen

# The long journey of a large retailer


Spinneys keeps expanding in Lebanon

**Local markets have proven remarkably resilient when it comes to resisting the dominance of large retailers that offer fast-moving consumer goods (FMCG) in hypermarkets and supermarkets—**those behemoths of daily shopping that you enter with an empty shopping cart the size of a compact car and leave with said cart overflowing. One operator of mega-sized retail stores, Kuwait-based The Sultan Center (TSC), closed its Lebanon stores in 2017, but at the same time, other operators steered their outlets into major expansions. Majid Al Futtaim's Carrefour franchise, for example, ventured into Beirut's Dora City Mall following its very large operation in the Beirut City Centre Mall in Hazmieh. But perhaps no FMCG retailer added more outlets in 2017 than Spinneys. Hitting age 20 in Lebanon in its current incarnation—it entered Lebanon in the 1940s but opened its first post-war store in Dbayeh in 1998—Spinneys opened three new outlets by end of October 2017 and is set to operate 19 stores all across Lebanon by the end of the year. Executive sat down with Spinneys Group chief executive Michael Wright to discuss the FMCG sector in Lebanon and the details behind its ongoing expansion.

**E** ***2017 saw changes in the landscape of large retail in Lebanon, perhaps most visibly in the shuttering of TSC stores. Where is the Lebanese FMCG sector heading, and how do you assess the market for large retailers, such as Spinneys and your direct competitors?***

This market is long overdue to modernize in terms of the segmentation [between large and small operators]. People often will tell you here that the Lebanese market is [unique] because you have a personal relationship with a local small shop and when you buy, you will get credit. However, when I was a child in England, it was exactly the same: There was a little corner shop and you knew the name of the guy and you played with his kids. But all markets end up modernizing because of the benefits of what mass-market retailing can bring to consumers and to everybody.

This process has, for various reasons, been delayed in Lebanon. One important reason is that distributors make more profit when selling to the small stores. Because the small stores have no bargaining power, the distributors purposely support that end of the market for their own benefit. The small retailer has been grazing off his shop: He doesn't really make money out of it, but his family picks out their dinner for the night off the shelf and they feel that things are going well. I think this segment will come under more pressure in future. Then we look at modern retail and ask: Why did it not take market share? One reason is that the differential in the market has not been supported by what distributors do. So what I see happening now is that there have been too many modern retailers struggling in this one-third of the market that they operate in.

**E** ***Is it still one-third of the FMCG retail market that is in the hands of modern retail?***

It is still one-third. Within that, it means the battle is amongst them, and the weaker players eventually lose out. Some players [in modern retail] only exist because of their accounting methods, which don't count

"All markets end up modernizing because of the benefits of what mass-market retailing can bring to consumers" property costs. They think they are in business, but should better employ their capital somewhere else. The result of that has been a slow process of some retailers losing out, which takes a lot of time because of the commercial model, where it takes a long time for the death to happen. You have trade credit, and [even] if your profit and loss (P&L) component falls apart, you still have cash and carry on. TSC has lost out. Monoprix tried to expand and retrenched, Bou Khalil has been in trouble for many years, there is no secret in all of these things. I warned my friends in the distribution business of this slow death of some. TSC were trying to give us their business in exchange for some shares in the combined business and we refused that.

**E** ***Why did you refuse?***

I didn't want to take their business because it was full of debts and losses. It was just a bad setup. Some of their [store locations] were okay, but some of the deals on their sites were horrible.

**E** ***Do you mean in terms of store leasing costs?***

Yeah, the leases were unsustainable. When I looked at it, yes, I gained a bit of market share, but their losses were as much as my profitability. I don't see the benefit of that.

**E** ***There has been talk that the forced exit of TSC has impacted many distributors and smaller suppliers. By your estimate, are these impacts digestible for the distributors, or will they change the retail business in Lebanon?***

I think the scale of the debacle in TSC is probably digestible. Of course, nobody likes it, but I think even the least cautious [distributors] had deleveraged a little with them over the past few years. So I doubt we're going to see any distributors going under or being in financial difficulties because of their losses to TSC. Of course, the same can't be said for the poor staff.



*One of Spinneys' most recent branches in Ain El Tineh*

**E** ***What is the scenario for the small individual suppliers? Rumors are that TSC also left those people sitting high and dry.***

They left everybody. They were taking products from anybody who they could get it from and one of the reasons why we broke off talks with them [was] because of their intentions that they described to us previously. We had turned down taking their entire business because it was just too much work, so they came up with other scenarios where they would carve out their operation and leave behind the rump of their problem and bankrupt it. And we said we did not like that plan because it was going to leave a big mess behind, and we didn't want to be involved with that. So yes, I'm sure that some small suppliers [are left with unpaid invoices]. The numbers I heard with the large and medium suppliers are that they can absorb [these losses], but I'm not sure about the smaller end [of the market], where I don't have the information.


***What is the rationale for Happy, your new brand?***

We recognize that part of the market is entirely price-focused and perhaps not driven at all by any quality development, neither range nor service. This is why we developed Happy as a discount brand, which is doing very well and is our strongest-growing format. The discount model just means a different way of working. Consumers have to adapt to the offering, and [discount markets have internationally] taken a big chunk of mass market purchasing. Some of the market has moved up to shop at the higher-end of quality supermarkets, and some people mix and match; they do some shopping here, and some shopping there. This market is changing. The advantage that Spinneys has over the rest of the mass-market people is that they can't offer the quality elements that Spinneys offers, and neither can they compete with the pricing of Happy. Because Happy is not about cutting prices of products that you find in every supermarket; the main products are there, but a big part of the range [consists of] different, but comparative products [offered at lower price].

***Where are you in market share today?***

A year ago, which is the latest figures we have from Nielsen Data, we were at 4.5 percent of the total [FMCG retail] market and 12-point-something percent of the modern trade. Since then, we've opened three new stores, and we have two more to open; thus, I'd like to think that [in future market assessments] we'll be in the 10 percent range of the total mass market, and the 15 to 20 percent range of modern trade. When I speak to some of the larger international brand [owners who distribute their products in Lebanon], I never hear anyone saying that we're less than 7 percent of the total market.

> "Consumers react violently to any inflation and seem to not notice deflation at all"

***By rolling out new stores, are you trying to dominate the market in the modern retail segment?***

Dominate is not at all the word I like to use for what we're doing. I like to say that we want to serve the consumers who ask in all surveys to have a Spinneys near their house. That is what we're doing. With anything we do, we don't aim at attacking our competitors; we aim everything we do at being customer-centric.

***What is your total network size in 2017, including markets, hypermarkets, discount markets, delivery centers, warehouses, and fleets?***

If we include the two stores that we're about to open, this takes us to 19 stores, including Happy. If we split it down by sizes, we have five large stores, four small stores, and 10 medium-size stores, of which three are Happy stores. The new stores haven't yet broken even because they are in the first few months of operation, but they are growing nicely; all our middle-aged and older stores are doing very well. Some regions go up, while others go down, but the general trend of the overall business is going up. One thing to note is that price deflation has been an interesting factor over the last few years, in the sense that consumers react violently to any inflation and seem to not notice deflation at all.

***Does price deflation occur in Lebanon because of varied movements of currencies that you could use to advantage in your purchasing strategies, or are other factors in play?***

The deflation, which was substantial—many large categories had 30 percent deflation—was driven by two factors. One is parallel imports: Currency fluctuations in Egypt and Turkey [where the Egyptian pound and Turkish lira moved lower against


0%
INTEREST
6 MONTHS INSTALLMENT
BENEFIT FROM
EASY PAYMENT FACILITIES
ON A MINIMUM PURCHASE
OF $200 AND ABOVE
OFFER VALID TILL JANUARY 15
*TERMS & CONDITIONS APPLY
Virgin
MEGASTORE


the dollar in recent years] allowed a big arbitrage on price differential [for parallel importers]. These were mainly unscrupulous third parties who not only brought in parallel products but also did a lot of under-invoicing to avoid taxation. All modern retail chains steered clear of [such deals]. Instead, we all worked with the distributors on achieving more promotions to counter the effect [of cut-price parallel imports] on consumers. But inevitably, the distributors weren't able to stop the political influences that allowed people to cheat, and so they cut their prices.

The other driving factor is that the economy is stagnant, and all distributors are under pressure from their principals to increase their volumes every year. They, therefore, lower their prices, expecting sales to go up. It doesn't work, because everybody is doing the same thing [in the context of the currency movements of the euro against the dollar, which were enabling this deflation]. As a result, you can look through many categories and see prices that are much lower than they were a few years ago. Coffee, milk powder, detergents, and whisky have seen 30 percent [downward] price moves, which is an enormous transition in [an FMCG] market.

**E** ***Isn't it true that you've had increased prices in the consumer goods basket—for example, in dairy products such as butter and imported yogurts—some imported goods, or in meat? And how much of an impact do we have to expect from new, or increased taxes for future prices in the FMCG sector?***

I don't see that there has been much commodity inflation expected for butter, which has gone up recently because consumers in China developed a taste for it. Some of this [consumer-price] inflation you mentioned has been driven by government decisions, like the move from loose white cheese to pre-packed white cheese, which is much more expensive. The decision is driven by protecting local industry, but at the cost of not allowing consumers to have the choice between pre-packed and loose.

**E** ***Do you expect inflation from higher Value Added Tax? There was one concern voiced by critics of trade and commerce in general, saying that retailers will use the impending VAT increase to hike prices in advance.***

That's the theory of consumer groups and ministries of economy in all countries. The first reaction [from consumer advocates] when taxes are slated to go up—or when Ramadan or Christmas is coming—is to cry out that retailers will exploit this opportunity and prices will go up. I've never seen [such price gouging] to be the case in any multi-chain modern retailer, but it's a good story [for] people saying that we will protect you against these horrible retailers. But it doesn't happen because in a market where you have multiple FMCG competitors, we do a much better job of competing with each other than any regulator could ever do.

**E** ***Still, the impending tax changes in Lebanon have created some commotion and feelings of concern.***

I remember when the VAT in Lebanon was first introduced in 2002. In most cases, except for cars, it was a re-regulation of taxation policy and a trade-off between implementation of VAT and a reduction of import duty, which in most cases ended up in a [price-] neutral position. Despite the neutrality of the price change, the consumers reacted terribly. [Sales] volumes dropped by 20 percent and never recovered, even though there was no change in prices. So I hope the Lebanese consumer won't panic when these VAT increases are implemented [from the start of 2018] because it will probably be absorbed into the system.

**E** ***Also for alcohol?***

It's a bit different for alcohol. Alcohol prices have been very depressed and whisky for example has been very cheap. I think everybody has hit the bottom in pricing alcoholic beverages

and the currency exchange rate on the euro is moving against everybody, so there is no room on that side. I think that any increase in alcohol taxes will have to be reflected in price increases.

**E** ***How important is alcohol for Spinneys in terms of turnover and profits?***

In turnover it's below 5 percent of total business, and in profits it is on par with the rest, neither more, nor less profitable than other products.

**E** ***When it comes to digital, will big data and retail analytics change your game, where you can track consumer habits through their cell phone and such?***

We aren't at that level yet, but we will be. I already have more information about my consumer shopping habits through our loyalty points program than I'm able to use today. We're still working our way through using that kind of information.

**E** ***But the trends in digital retail have reached the FMCG business globally. How do you deal with that?***

We look at what trends are hyped and what are ready to be tried or implemented. Home delivery is one aspect—home delivery is the dream of many app creators who want to design an app for supermarket deliveries and make money from it, but it doesn't work. [British FMCG retailer] Tesco, for example, was waxing lyrical about how much money they were making from home delivery under the previous management, but when the new management came in they said they were losing money.

**E** ***So how does home delivery work for you, since you have been at it for a few years even without the digital aspect?***

I was very specific about my aims in home delivery. I wanted to gain expertise in it, to try and find what the possibilities are, and to do it in such a way that doesn't commit me to never-ending losses of pursuing it full-scope. Therefore, I allocated certain [capital expenditure] and marketing expenditure to it, I set up a specific model that I believe would be profitable, and let it run with those and see where it naturally goes. Where it took us was into profitability, but not very high profitability.

**E** ***You haven't mentioned yet how many warehouses the group has and how large your fleet is. What are these numbers?***

We operate from three warehouses: One is a third-party logistics warehouse and two are in-house satellite warehouses. We mix and match products between these locations according to type, volume, and value mix. Our delivery fleet for consumers is, I think, three vehicles. The fleet serving the stores is 15 plus, I believe, but I'm not sure of this.

**E** ***So delivery of goods from your warehouses to your stores is mostly outsourced to the various logistic providers?***

Exactly. However, we're going to bring logistics in-house because we believe we can flex what we're doing better in the future if we take ownership of the logistics side of our business. Our role is being more than just a retailer. This year, we brought around 300 containers through direct relationships with exporters and our company, which puts us as a mid-range distributor in terms of volume, and I would hope by the end of next year we should have at least added 50 percent to that. By a year's time, we will hopefully be almost in the high tier as a distributor.

> "I already have more information about my consumer shopping habits through our loyalty points program than I'm able to use today"

**E** ***Does that mean you will be growing the portfolio of stores branded as Spinneys and Happy?***

Yes. Between already-signed stores, stores that are agreed and about to be signed, and stores which we're still working on, we have a plan to reach 30 stores within two and a half years. That's not assuming any expansion of Happy, which we will [also pursue], acquisitions of existing stores from somebody, or moving into any smaller store format.

**E** ***Do you plan to grow Spinneys' own label?***

Spinneys' own label brand has its positioning and is becoming stronger and stronger. But I have a belief that it's very important to avoid overemphasis on Spinneys' own label, and I prevent it becoming over-expanded for the sake of over-expanding it, because that actually reduces some of our quality aspects to consumers.

**E** ***Finally, congratulations on your 30 years at Spinneys. Did working in the Middle Eastern food market fulfill your expectations?***

Yes. I joined the company on Dec 14, 1987, and I remember wondering at the time how long this job will last. I was not lacking a career in the UK, but left the UK because the retail market was being de-skilled in [that] they didn't want management taking the decisions. So I wanted to come to a market where I could think about things, and then implement them and make changes. I have to say that [was] one of the gratifying paths of my career, and I'm glad that I came.

CAPITAL CONCEPT S.A.L.

STRATEGY - FINANCE - GOVERNANCE

**Registery of Commerce of Beirut** 1004399 | Capital 30 000 000 LL. Fully Paid
Al Bourj Building, Martyrs' Square, Beirut Central District, Lebanon
**Tel.** + 961 1 991 911 | **Fax.** + 961 1 997 050 | **E-mail.** info@kconcept.biz

By Nabila Rahhal

# Black clouds in the retail sky

Another challenging year for commerce

**Executive sat with Nicolas Chammas, chairman of the Beirut Traders' Association, to discuss the retail sector's performance in 2017, in light of continuous market stagnation in Lebanon.**

***E As of mid-November, how has 2017 been for the trade sector in Lebanon?***

This year has, unfortunately, been another bad year. The decline in the commercial sector has been a steady one since 2011. The growth rate for the economy in the past five or six years has been less than 2 percent, which is negligible. This is the nominal growth, not the real growth—which is less—while the growth per capita is negative.

Taking the period between end of 2011 and end of 2017, the average decline for the trade sectors combined is 35 to 40 percent. This is really a meltdown of the trade sector in Lebanon, keeping in mind that it's the [greatest] contributor to GDP.

The food and beverage and staple segments have been in better shape than durables [furniture, cars], or luxury [watches, high-end electronics, jewelry]. Durables and luxury have suffered much more than these staples.

***E There is a popular belief that the luxury segment is not very affected in times of economic hardship because "the rich get richer." To what extent is this true?***

Not really—they are not getting richer anymore.

Let's not forget that remittances from abroad have declined as well. Traditionally, expatriates transfer money—mainly from the Gulf and Africa—but these regions have been affected tremendously [by] the drop in the price of oil.

Meanwhile, the purchasing power of Lebanese residents has declined for everyone, even the rich. The more you substitute the Lebanese labor force with [a] Syrian labor force, the more the national purchasing power is declining.

***E How does this situation affect you as traders?***

Every economic agent is in a state of deficit today, but what is visible is the twin deficit of the state, meaning the balance of payment and the fiscal budget. When you have a negative balance of payment, it means that the state is living beyond its means; same thing for companies, where most are indebted, and for most households.

As the economy is a chain, every part of the chain is suffering. Take the commercial sector, for instance: We're the biggest borrower from the banking system, because we're the largest sector. This is what I call the visible debt, you see it in the books of the banks—but what you don't see is the payables from the customers to the retailer. Today, retailers don't sell, unless, in many instances, they make financial facilities to the consumer.

Also, there is liquidity stuck between the retailer and the wholesaler, and between the wholesaler and the supplier. So, in this commercial chain there is maybe $7 or $8 billion stuck.

***E Does this situation explain why there seems to be an increase in discount stores and sales across the retail sector?***

Absolutely. Not only have sales diminished in volume, we also have a price factor. Traditionally, the commercial sector goes on sale twice a year: after the summer and after the end of year, in order to liquidate the stock and bring in the new collection.

But now, it is happening all year round to attract people—but this kills your margins as a retailer. Even if you are selling, you are selling practically at a loss. Also, what this is doing is getting people accustomed to buying only when there is discount.

***E Did the situation not improve at all in 2017, especially with the election of President Aoun in October 2016?***

Lebanon today is more stable than most countries [in the region], but the perception of Lebanon is still not good.

And let us not forget that [the government] enacted a law with about 25 new taxes that very much hurt consumption and investment. Add to this the ongoing political crisis, and the terrible strife between Saudi Arabia and Iran, which is reverberating across the Lebanese economy.

So people today are afraid to consume, let alone invest. And this is very deplorable because it is happening during the fourth quarter which is most important [period] for the economy and the trade sector: it typically represents something like 35 percent of our yearly turnover. So if we lose momentum in the fourth quarter, it will be a dire sign heading into 2018.

> "Lebanon can't pay the price of any outside conflict as we're too weak and small a country"

**E** ***What solutions do we have?***

We need a political settlement under a favorable regional umbrella.

Lebanon can't pay the price of any outside conflict as we're too weak and small a country. We have to put our own house in order, find a political settlement, and arrange elections as soon as possible.

**E** ***Following such a settlement, how quickly will the situation improve for the retail sector?***

Provided it's a credible settlement, the situation will pick up quickly, just like it did after the Doha settlement in 2008.

It will take longer for the financial situation in the sector to improve, but at least you would've started a trend. You can't change the situation of debt and deficit overnight, but you can put it on the right track.

This can happen with one prerequisite: growth.

**E** ***How do we ensure this growth?***

Growth is built on two things: the facts on the ground, which will take time to change, and expectations. The economy is to a large extent reliant on expectations; if people have positive expectations then this drives growth quickly. For instance, if we were to say 'in six months [we will] be in good shape economically,' this will give back confidence in the Lebanese economy, which is currently scaring people away. Only a credible settlement can attract them back.

By Olga Habre

# Behind the times

Patek Philippe Boutique


Tamer Boutique

## Luxury watch market stands still

**It's hard to call it a good year, but staying afloat is good enough for now: This appears to be the general consensus among most luxury watch distributors in Lebanon.** Despite the economic slump plaguing many sectors over the past few years, these distributors are powering through the difficult times with business as usual, and hoping for a better 2018.

### SALES

When the economy and tourism were stable a few years back, sales were higher, thanks especially to tourists from Arab Gulf countries. Today, luxury watch retailers are trying to maintain sales, at best. "Things aren't moving forward like we hope. It's been years that it's a few percent less or more, depending on the brand," explains Mehr Atamian, managing director of Atamian, the distributors of a long list of brands including IWC, Jaegre-Lecoultre, Officine Panerai, Omega, Tag Heuer, Chopard, Dior, and a host of more affordable brands in their TimeZone boutique.

He says with his company's current investments, it should be increasing sales by double digits. "Instead, we're maintaining sales—but at least we're not slipping backwards," he says. Atamian says the international brands they distribute are actually happy with their sales because their numbers are stable, pointing out that even markets like Dubai and Saudi Arabia have seen a drop in sales in recent years. "They see Lebanon still performing—we're a tiny country compared to those, but we still rank among 4th or 5th in terms of turnover, if you compare each brand regionally," he says.

So who is buying watches? Watch collectors, for one. "The trend that we have been noticing in the high-end watch industry leans towards value-for-money purchases," says Pamela Kassouf, a brand manager at Holdal, a luxury-goods distributor. "Watch collectors will always opt for the special pieces." Holdal owns the Cadrans multi-brand store, as well as brands like Patek Phillipe, A. Lange & Söhne, and Vacheron Constantin. He adds that there are clients who buy regular catalog items, but that these purchases are slowing, given the slow tourism in the country. Atamian says a lot of spending comes from expatriates—especially Lebanese working in Africa and the Gulf—who come back to visit family in Lebanon and buy gifts.

Ziad Annan, CEO of A&S Chronora, the official retailer of Rolex and Tudor, says the company's sales have been steady this year compared to other years, and points out that the brands also deserve credit. About Rolex, he says, "We're lucky to represent a solid [luxury] brand in Lebanon … despite the unpredictable political and economic situation." Chronora offers Rolex clients a 0 percent financing payment facility in collaboration with BankMed—a nod to tough times—but the company does not disclose how many clients

*Rolex Boutique*

have made use of the offer.

Simone Tamer, chief commercial officer of Tamer Freres, works with Audemars Piguet, Omega, Breitling, Bomberg, Mont Blanc, Hublot, Swatch, and Flik Flak, describes the situation of the past few months as very hard, but the company's long list of recent activities shows it is persevering, and it is expecting better sales in the next year.

**WHAT'S ON OFFER**

The retailers Executive spoke to said they offer most of the range of each of their brands. Tamer says Tamer Freres carries their brands' entire collections; Chornora says its Rolex collection is widely represented in Lebanon, but that it can also order specific timepieces in case something is out of stock.

Atamian says his company carries about 80 percent of its brands' collections, pointing out it's not practical to carry everything because some watches are tailored to certain tastes that may not sell locally. "Brands cater to the whole world, so they produce watches thinking about all the major markets. For example, China is the most important market for all brands now, and they like smaller watches in China, so brands are producing small watches," he says. Lebanon's market has a more European taste. He adds that big luxury brands don't change models often, but have additions to existing families or limited editions.

Retailers with mono-brand stores get special boutique-edition models that other retailers don't sell, encouraging them to open flagship stores for individual brands. "The brands need to give incentives to open boutiques because they're costly," Atamian says, adding that these pieces are highly sought after by collectors.

Kassouf says the latest trends across Holdal's brands vary widely, but there is a general tendency towards classical models, vintage designs, as well as big dials and more lightweight materials. Other trends in watch materials include the use of a lot of steel, he says, with the exception of A. Lange & Söhne, which only uses precious materials, with a focus on white gold. One brand, Richard Mille, uses NTPT, or "thin-ply" technology, to create strong, lightweight carbon.

Kassouf say customers are looking for more flexibility, too. "Brands are offering different color and strap options and styles to render the watch adaptable to different lifestyles. For example, Vacheron Constantin is concentrating on the Overseas model, a watch that comes with three interchangeable straps and bracelets made of steel, rubber, and Mississippian alligator leather," she explains.

Brands are launching increasingly innovative products to please customers, too. This year, Tamer Frere brought Montblanc's Summit smartwatch to Lebanon. Collaborations are popular too, like the Hublot Ferrari collection that debuted in April.

**BUSINESS AS USUAL**

Regardless of sales, companies were busy as ever with events, openings, and other activities to keep business going. Several brands opened retail space in the new ABC Verdun, which now contains a Montblanc store from Tamer Frere, and new

Retailers with mono-brand stores get special boutique-edition models that other retailers don't sell, encouraging them to open flagship stores

Atamian brands


Tamer

Atamian and TimeZone boutiques. According to Atamian, this is opening doors to a wider market, and his company is receiving many first-time customers.

October saw the launch of Atamian's newly redesigned IWC boutique in Beirut Souks. Meanwhile, Tamer Freres, which also has mono-brand boutiques in Downtown Beirut, opened two new Kronos multi-brand boutiques this year, at Jounieh's old souks and in City Center Beirut in addition to Kronos Boutique in ABC Dbayeh, Down Town and City Mall.

A&S Chronora launched a new brand identity earlier in 2017, which includes a new logo, website and a CSR focus on preserving architectural culture and heritage in Lebanon, including the building in Downtown where its current boutique is located.

With luxury watches, client-retailer relations don't end after a sale is made. Many watch-buyers are collectors who are constantly on the lookout for new models to add to their collections, so brands often coax them with VIP activities such as master classes, workshops, trips and dinners. For Holdal, after a series of flagship single-brand boutique openings in Downtown in 2016 (including A. Lange & Söhne, Patek Philippe, Richard Mille, and Vacheron Constantin), 2017 was more about private events focusing on VIP clients. This year, they organized two private visits to watchmaking facilities in Europe: the A. Lange & Söhne factory in Dresden, Germany in September, and  the Patek Philippe Museum and factorymanufacture in Geneva, Switzerland, in October.

Atamian invited special guests to a dinner with Panarai at the Beirut Yacht Club, and with German brand Glashutte to Barbizon. Atamian is also partners with the Beirut Art Fair, and it hosted an artist and welcomed guests in front of its boutique during the inaugural walking tour of Beirut Art Week. Atamian says these events are all necessary as part of a 360-degree advertising strategy that includes digital and social-media campaigns, and special events. "We're trying to cover everything. We have to," he says.

Tamer Freres received members of the board of directors of Audemars Piguet, as well as the influential magazine Watch Anish this year. They also had a special celebration in April for the 30-year anniversary of the children's watch, Flik Flak.

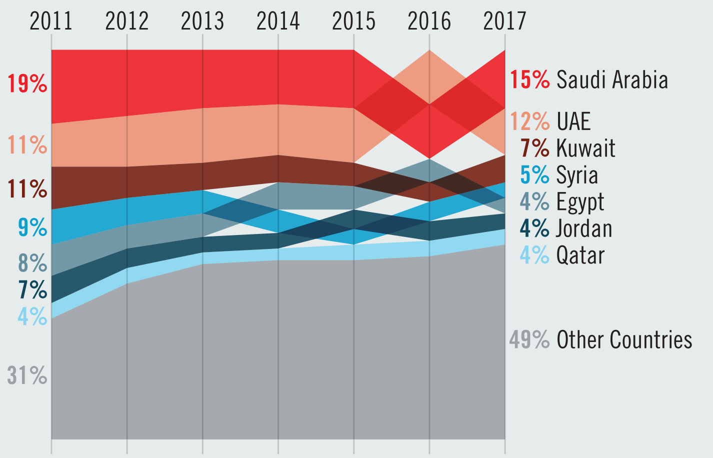

Richard Mille

Luxury watches also need to be serviced. Many brands are offering this service now from Beirut. This year, Tamer launched a new certified after-sales service in Lebanon for Audemars Piguet, so clients can get their timepieces serviced locally by certified professionals, instead of waiting for them to be shipped to service centers abroad.

**WHAT'S TO COME**

Tamer says he had planned several events in 2017 that had to be postponed. "We're hoping that 2018 will allow us to invest in activities like the ones happening all over the world," she says. Atamian is renovating their Longines and Tag Heuer boutiques in Beirut Souks. In the next year, Chronora has plans to modernize Rolex Downtown and Jounieh with new furniture coming from the Rolex headquarters, and to relocate its headquarters closer to its flagship store in Downtown, on Rue Foch. It also has a major Rolex event planned for late spring. Kassouf says there will be events in 2018, but reveals only that they are striving to provide customers with true, high-end watches experiences.

TAX-FREE SPENDING IN LEBANON BY COUNTRY OF RESIDENCE




Percentages based on full year figures except for 2017, Q1-3.
Source: Global Blue


الجمهورية اللبنانية
وزارة الصحة العامة
بإيدك
تسيطر
عالسكري
ما تغض
النظر...
السكري بسبّب
مشاكل بالنظر
تابع مع طبيبك
لتضبط مخزون السكري
www.moph.gov.lb
DiaLeb
CHRONIC CARE CENTER
LSEDL
SANOFI
novo nordisk
NOVARTIS


Human Rights
HUMAN RIGHTS
VOTE
VOTE
iD

# Small steps toward a big goal

**After years of paralysis, Lebanon's parliament once again returned to legislating in 2017.** Debates about public-sector salaries and the taxes needed to pay for the increase dominated the headlines throughout the year, but there were lesser-reported wins for human rights, albeit smaller than those pushing for change might have hoped.

Like nearly every country on the planet, Lebanon lags behind its constitutional promise of equal rights and protections for all of her people. As the very definition of human rights continues to evolve (see Overview page 210), Lebanese laws and cultural norms have remained stubbornly static. What little change the country saw this year has been incremental—take, for example, Parliament's decision to remove an article of the penal code allowing a rapist to escape punishment by marrying his victim, while leaving in place articles of the code that allow girls as young as 9 to marry (see story page 216)—but welcome nonetheless.

A new law banning torture is also a step in the right direction, even if it does not go far enough to protect those accused of crimes against the country's security and stability (see amnesty comment page 218). However, Lebanese society remains highly stratified, with the wealthy and well-connected enjoying a far higher standard of living than the increasing number of Lebanese slipping into poverty. The idea that access to safe drinking water, 24 hours of electricity, and proper waste management systems are included in the category of human rights has clearly still not taken hold among Lebanon's power brokers (see Human Rights Watch piece page 220), but 2017 proved that they are not completely oblivious to the notion.

By Thomas Schellen

# The rock and the magic beanstalk

## 2017 saw some progress made with human rights, but still not enough

**Human rights are the rock from which modern civilization mines its values, its social contracts, and its entire portfolio of identities.** Human rights are the very justification for our system of social coexistence and stratification. They are key to understanding humanity's (mostly unsuccessful) attempts of balancing the logic of solidarity against the logic of economic greed, the logic of universal equality and dignity against the logic of discrimination and political power, and the logic of preserving planet Earth against the logic of exploitation.

The idea of rights as inherent to the human being and as the foundation for social contracts is, in historic terms of development of thought, quite recent. Today's stupendous and still-accelerating development of inalienable human rights can be traced to roots of formulations in the 17$^{th}$ and 18th centuries in England (Bill of Rights of 1689), France during the French Revolution (Declaration of the Rights of Man and the Citizen), and the United States of America (Declaration of Independence).

It took quite some time for the concept of human rights to emerge out of the seedbed of natural rights as an idea of Western religion. In the 19$^{th}$ century, an encyclopedia published in Germany claimed that human rights inherent to man were an indeterminate concept that "has to lead to different interpretations in different circumstances and can only be valid in a Christian context."

Not long after formation of the concept, human rights were thus often seen as vague and tied to an ideological view of man as created being endowed with spirit, and through the will of God superior to, and existentially different from, animals. In the early 20$^{th}$ century, another popular encyclopedia defined human rights as "the totality of the ideal requirements that man directs at the state and whose provision he demands from the state." The "scientific" perspective on human rights of the time was declared to include the right to emigration, the choice of belonging to a state, and also rights to procreation and the use of nature.

Today, human rights arguably draw their ideological strength from the dominance of humanism—usually in its secular version—in international discourse, influenced by Western thought. UN bodies tend to describe human rights with broad strokes of proclaimed universality, declaring them to be "rights inherent to all human beings" on top of the homepage of the UN's High Commissioner on Human Rights (UNHCR). In a speech he delivered in the fall of 2017, UN Secretary General Antonio Guterres—who formerly held the office of UNHCR chief and appears to be a darling of some civil-society stakeholders—juxtaposed human rights with terrorism. He stated that human rights "are a true recognition of our common humanity," diametrically opposed to terrorism, of which he said, "Terrorism is fundamentally the denial and destruction of human rights."

Notwithstanding such regular bursts of ideological confirmation and unwavering adherence by highly credible human rights advocates, human rights can also be considered to be anything but universal in 2017—69 years after the United Nations General Assembly adopted the Universal Declaration of Human Rights (UDHR) in 1948, with the votes of 48 countries against the eight which abstained, and two which voted no.

### IMPLEMENTATION STILL A DREAM

It would be insane to claim that human rights are applied universally today, even on the most basic level. Whether the focus is on freedoms

The human rights to work and to live in dignified social circumstances and without environmental hazards do not even see serious pretense or attempts of universal implementation

from or freedoms to, one cannot ignore today that freedom of conscience, freedom of worship, freedom from torture, and freedom from want scarcely exist in even the most democratic or the most economically developed societies.

The same goes for additional layers of human rights, such as the right to education and health, gender equality, and protection from violence and discrimination. The human rights to work and to live in dignified social circumstances and without environmental hazards do not even see serious pretense or attempts of universal implementation. If anything, each addition of a new human right only leads to a higher count of human rights violations in the daily experiences of the ever-growing numbers of humanity. Human rights are also far from universal in conceptual and philosophical terms. This is evidenced by many changes and diverse understandings of human rights, since the first renderings of the phrase in Enlightenment-era political documents.

Yet, despite the precarious state of their implementation and their dependence on human definition and cultural evolution, human rights are, today, inextricably linked to the social, political, and economic future. Increasingly, human rights are of economic importance and impact all areas of economic activity. Sometimes, the business community might even be more aware of this relevancy than the civil society and activist community. The old ideological divide between left and right in this regard still shines through today when civil-society stakeholders embellish their human rights appeals by bashing transnational corporations and bad capitalists.

It is not unheard-of that transnational corporations are guilty of, or at least complicit in, human rights violations in the world of work, in the climate and environmental arena, and elsewhere. But neither make corporations perfect culprits, nor do activists—who are often at the forefront of human rights battles—make innocent and pure lambs of self-sacrifice for the good of humanity and universal rights. Activism and capitalism both are deeply human endeavors.

The human rights discourse of today deserves to be freed from the ideological definitions and 19th and 20th century juxtapositions between an ideological left and a capitalist right. Capitalism in the 21st century is an imperfect, but adjustable economic system that reflects imperfect human behavior. It is not the 10th reincarnation of the 18th and 19th century socioeconomic and politico-ideological reality of hapless exploiters and growing proletariat that Karl Marx exposed in a visionary, but flawed, set of observations and assumptions garnished with materialist determinism.

*Syrian refugee woman feeding her daughter*

**A GEO-SOCIAL TRIANGLE OF PROGRESSION**

Human rights today belong to a complex of forward-pointing qualifiers of any society's achievement potential, with deep economic implications. This moral and practical relevance to the corporate and business world is as clear to economists and corporate leaders as the perils of the capitalist mode of our world are to civil society exponents. The relevancy of improvements in the global state of business is visible at every corner and side of the triangle composed of human rights, humanitarian principles that are expressed in international humanitarian law, and geosocial aims which are enshrined at this stage of international discourse in the sustainable development goals (SDGs).

Lebanon is part of the world in the 21st century and depends on being a part of this world. This is demonstrated very convincingly from the country's extreme sensitivity to regional and international political decisions, from the intensity of its interaction with external partners in everything, and from the enormity of the national trade deficit. Despite its humongous political and systemic inconsistencies, Lebanon does function as a society, and is not fit to be thrown to the dustbin or treated as a failed state. But it is, and has for many years, been a troubled state as far as the implementation of human rights is concerned. This year, 2017, saw some legal progress on rights of children and women, and indeed of all people in Lebanon, in the changes to the legal protection of rape victims against forced marriage, and in the law criminalizing torture. Much, however, still needs to be revised in its legal frameworks outlawing torture (see comment page 218). From the perspective of international human rights organizations, Lebanon is still no example when it comes to the protection of human rights, and especially when it comes to social, political, and economic rights or environmental, education or health rights (see Human Rights Watch comment on page 220).

> Lebanon does function as a society, and is not fit to be thrown to the dustbin or treated as a failed state

On the other hand, comments from diplomats, UN officials, and political leaders of developed countries upon visiting Lebanon from about 2012 onward were filled with praise for the humanitarian role that the Lebanese fulfilled in the Syrian refugee crisis of the last five years. The global community's moral debt to Lebanon in this regard has been acknowledged more than once (in the speeches by World Bank President Jim Yong Kim and then-UN Secretary General Ban Ki Moon during a joint visit to Beirut in spring 2016), and the Lebanese people were recently described as "humanitarian and responsible," during President Michel Aoun's speech to the UN General Assembly this September, in which he also advocated for Lebanon to be given the role of official center of dialogue with a mandate from the United Nations.

**GREAT OPPORTUNITIES AWAIT**

Were it to take steps to capitalize on its potential for implementing human rights and SDGs, a whole bouquet of benefits could bloom for the country—of which at least six come to mind that are very practical and economically rewarding. First, above any economic regard, it is good for self-esteem to do what is recognized as right by time-honored moral teachings, and by present-day world consensus. Second, and better accessible to economic quantification, Lebanon has a definite opportunity to improve productivity and social coherence within its multi-faceted society by applying rights-based approaches to inheritance and personal status, by improving its human rights protections, and by upgrading the provision of education, utilities, and even infrastructures, which are all in line with human rights and SDGs.

A third and closely related benefit to making the country more livable and "leave no one behind" is to keep Lebanese from emigrating for the wrong reasons. By no indication will emigration ever cease, but there are positive and negative economic outcomes of emigration that could well be correlated more or less strongly to positive and negative reasons for emigration. According to anecdotal evidence, many of the negative rea-


Under the High Patronage of His Excellency
The President of the Lebanese Republic
GENERAL MICHEL AOUN
arabnet BEIRUT 2018
February 20-22 |Register Today | arabnet.me
THE LONGEST RUNNING
DIGITAL EVENT IN THE LEVANT

sons seem to be related to people's experiences of inequality, poor infrastructure, and feeling deprived of physical opportunities or freedoms. Positive reasons for emigration include a desire to advance your career and acquire knowledge for the sake of one day coming back home to share the wealth of knowledge.

Fourth is the humanitarian economy, where Lebanese entrepreneurship appears to have untapped potentials. One recent groundbreaking study on humanitarian economics—written by the Swiss academic Gilles Carbonnier partly during a stay in Lebanon—shows how the economic and political-economy dimensions of humanitarian crises and responses have risen in importance in the world. Being involved in humanitarian economic activity can be the mental opposite of profiteering from wars, but nonetheless, quite profitable.

In writing the book on humanitarian economics—which, as he told Executive, draws on both neoclassical and behavioral economics—Carbonnier states on one side that essential principles of humanity and impartiality in this economic activity "require a degree of altruism, refraining from acting only out of self-interest," but that on the other side it is necessary for actors in this field to channel or constrain "the altruistic impulse in order to pursue greater effectiveness" and avoid negative side-effects of emotional and thus anti-economic decisions.

He shows how the dimension of this economic activity has shaped a humanitarian marketplace with an immense growth trajectory from the 1970s to the 2010s. According to his research, the international humanitarian aid sector in 2010 was "a multibillion dollar enterprise with more than 270,000 workers involved." Make space, carmakers, at least as far as employment growth rates are concerned.

Carbonnier cites data according to which international humanitarian aid volumes grew in the short term (more than one third to $24.5 billion from 2012 to 2014) and long term, from substantially less than $3 billion annually before 1980 to over $15 billion at the start of the current decade (in constant 2012 prices). Moreover, he finds that over the past two decades, the supply of humanitarian aid increased rapidly, but that this was caused in part by economic demand from donor countries using humanitarian assistance as a "default foreign-policy instrument" rather than by a parallel surge in actual humanitarian needs. Plus, he finds that the humanitarian marketplace has greatly diversified in terms of participants and types of services provided. For a country like Lebanon and its entrepreneurs, this has important implications. One implication is that private-sector actors can contribute to humanitarian economics and do not have to shun moral profit.

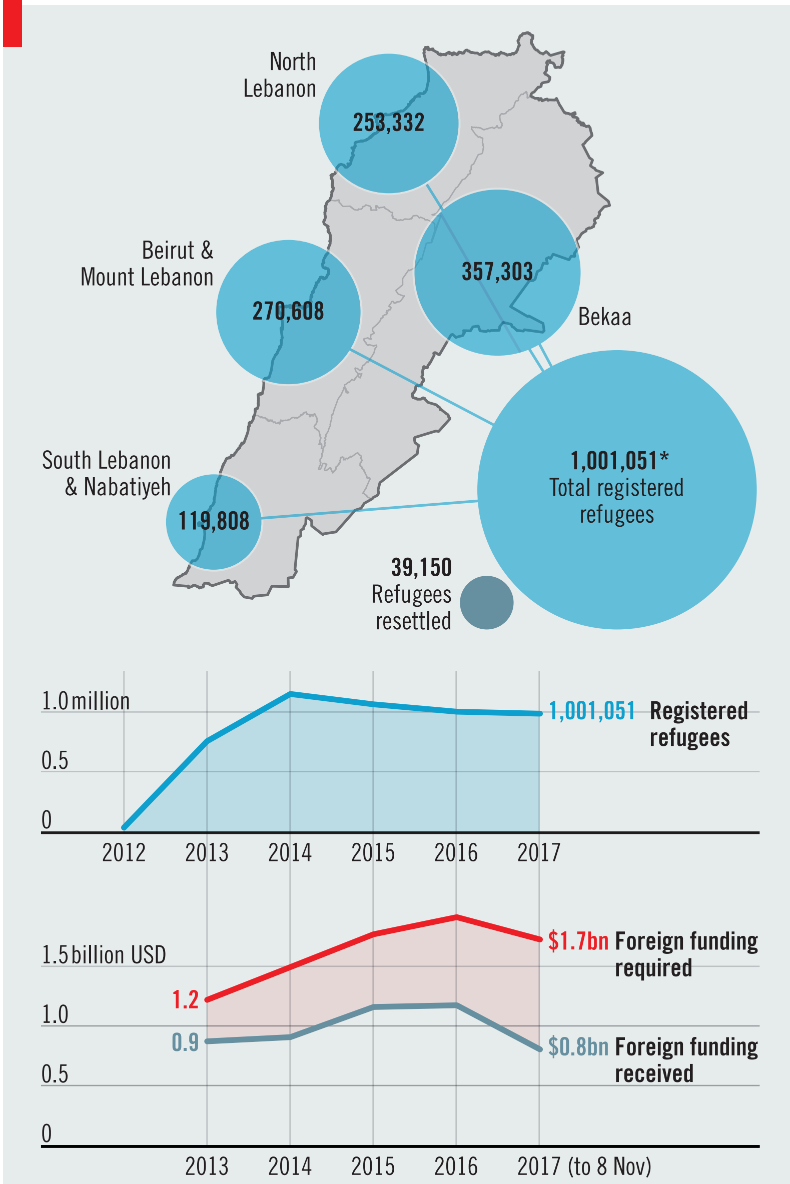
Fifth, if one agrees with the assertion Secretary General Guterres made in his anti-terrorism speech at the University of London's School of Oriental and African Studies in November, implementing human rights can be a preventive instrument in the fight against terrorism. This is bound to produce any number of financial and economic benefits. Guterres implied as much when he called for all parties to conflict to "respect and ensure respect for international humanitarian law and human rights in situations of armed conflict." He pointed to short- and long-term aspects, stating that "all human rights, including economic, social, and cultural rights, are unquestionably a part of the solution in fighting terrorism," and that "upholding human rights and the rule of law is the safest way to prevent a vicious circle of instability and resentment."

> "Upholding human rights and the rule of law is the safest way to prevent a vicious circle of instability and resentment"

### THE SIXTH ELEMENT

The sixth opportunity for growing Lebanese humanitarianism and proverbial generosity into a magic beanstalk for accessing untapped socioeconomic potential lies in fulfilling the country's aspiration to be a hub of international peace diplomacy and conflict management. This opportunity presumably comes with the prerequisite of having stronger legal frameworks and more convincing societal practices in human rights,

REGISTERED SYRIAN REFUGEES IN LEBANON




Refugee numbers for end September each year, except for 2017 end June. *Registration of refugees was suspended in May 2015 upon request by Lebanese Authorities.
Sources: UNHCR, FTS UN OCHA

stronger application of international humanitarian law, and greater efforts toward fulfilling the SDG agenda in the period until 2030.

Scrutiny of and by nations of international roles with a moral dimension, such as holding a seat on the UN Human Rights Council or membership in UN organizations such as UNESCO is increasing, with reasons for protests or withdrawals existing at the opposite ends of the political-ideological spectrum. But it would not be harmful for Lebanon's desire "to be a permanent center for dialogue between different civilizations, religions and races as an United Nations organ"—as President Aoun told the UN general assembly in September—to have a strong human-rights framework and a convincing monitoring process for SDG achievements, in addition to being "a microcosm of diversity" and practical example of humanitarianism.

Neither would it hurt for the government to clarify its position on rights of refugees, step back from harsh measures against refugee populations, and counter rumors of alleged refugee criminality—thus improving the overall positive impression of Lebanese assistance to the huge refugee population (see interview page 222).

The country might influence the international discourse on human rights, just as it did as the UDHR was being drafted in 1946-48 through the Lebanese scholar Charles Malek. It has the humanitarian credentials to be a laboratory for the study and implementation of international humanitarian law on a country level, it is home to academics and civil-society thinkers with the mental prowess to contribute much to the global debate on geo-social goals in the SDG discussion, and it has an appetite for a culture that is a bit more satisfying to the spirit than global consumerism.

If Lebanon were to upgrade its implementation of human rights, strengthen adherence to international humanitarian law, expand its role in the global humanitarian economy, implement the SDGs, and monitor progress of these goals, it could avail itself of a new meta-economic growth opportunity that is not dependent on finite resources or the reconstruction needs of a neighboring country. It would not be a moral failing nor an economic sin for Lebanon to capitalize on its experience as small country that, for more than six decades of its not-even-a-century-old nationhood, has been exposed to competing global interests in the center of the world's most conflict-rich region. It would be an act of wisdom.

By Matt Nash

# Another year of elusive equality

Lebanon lags on gender parity

**Despite a constitutional guarantee of "equality of rights and duties among all citizens without discrimination," Lebanese laws treat men and women differently.** The most famous imbalance is a 1925 law decreeing that only children born in Lebanon to Lebanese men are entitled to Lebanese nationality. Activist campaigns to amend the law have been unsuccessful and prospects for change any time soon remain remote.

In 2017, Parliament amended the penal code to abolish an article that allowed a rapist to avoid criminal charges if he married his victim, however, the legislature chose to keep in place articles of the code allowing girls as young as nine to legally marry. Parliament also established a new cabinet portfolio—Minister of State for Women's Affairs—although the choice of a man to lead this sparked mockery among Lebanese social media users. As of early December 2017, the minister had not offered any detailed reporting on his accomplishments during the year, and how permanent and effective the portfolio will be are open questions.

In addition to discrimination enshrined in law, Lebanese women are frequently subjected to harassment in public spaces and the workplace. Little was done legislatively on that front, but the local NGO KAFA succeeded in July in getting the Ministry of Justice to back amendments to a 2014 domestic violence law strengthening the protection of women abused in their homes—though the proposed changes require cabinet approval, which had not arrived at time of writing.

## POOR MARKS

As per the World Economic Forum's Global Gender Gap Report, which ranks countries based on proximity to gender parity, Lebanon is in the bottom 10 percent (137 of 144). Weak political empowerment (142) for women in Lebanon drags down the country's overall ranking, but Lebanon's score for economic participation and opportunity are also below its overall rank (133).

It is unacceptable for Lebanese women to be treated so poorly, and few signs point to state institutions leading the charge toward empowerment any time soon. In the interim, NGOs and civil movements will continue to push for greater equality.

On the economic front, the League of Lebanese Women in Business (LLWB) is continuing a campaign launched in 2016 to persuade local privately-held companies to appoint more female board members. Individual LLWB members have also pooled resources into an angel investor fund to take equity in female-founded startups. Banks, interviewed earlier this year, insisted on the need for and desire to have more female representation in mid- and top-level management positions.

Evidence compiled by the United Nations as part of its "Progress of the World's Women 2015-2016" report suggests Lebanon can achieve increased GDP growth by increasing gender parity in access to education (where Lebanon scores quite well) and labor force participation (where men still dominate with 76 percent participation, according to the World Economic Forum's Global Gender Gap report findings for Lebanon). The economic benefits of increasing the numbers of well-educated women in the workforce are medium and long-term, the UN report says. Increased female participation in education and the labor force boosts growth in the medium-term and leads to healthier, better educated children, which then pushes these economic benefits forward to a second generation.

It is unacceptable for Lebanese women to be treated so poorly, and few signs point to state institutions leading the charge toward empowerment any time soon

Both the moral and economic arguments for equal rights in Lebanon are clear. If there is hope for advances toward gender parity in Lebanon in 2018, incremental change in the private sector is far more likely than than grand shifts at the policy level, however short-sighted and disappointing that may be.

# dine for myschoolpulse

December is Dine for Myschoolpulse month.
Go out, eat, have fun and contribute to helping sick children continue their education from their hospital beds.

Recipe for love

To help give sick children
the right to dream, learn and hope,
head out to our partner restaurants
from 1 to 31 December.

La Table d'Alfred Restaurant-Lounge
LINA'S PARIS
PAUL
Balthazar
La Mie Dorée
KidzMondo A CHILDREN'S WORLD BEIRUT
zomato
ABELA DELICES
Obl urban sushi

*100% of proceeds will go directly to the schooling of sick children.*

www.myschoopulse.com

**Comment**

By Sahar Mandour

# Lebanon has a new anti-torture law—finally

But the legislation fell short of human rights activists expectations

In July 2017, a Lebanese military prosecutor dismissed allegations that four Syrian men had been tortured to death at the hands of the Lebanese army, following a raid on an informal Syrian refugee camp in the Arsal area.

At Amnesty International, we analyzed photos of the victims with the help of forensic experts, and concluded that at least three of the four men had suffered trauma to the head, legs and arms. This should have triggered a thorough investigation with public disclosure of the findings. Instead, the military prosecutor announced that the men had died of "natural causes," without releasing any further information to the public.

The decision of the military prosecutor came as no surprise. It was not the first time that the army stood accused of subjecting detainees to torture or other treatment that is cruel, inhuman, or degrading. Over the past four years alone, Amnesty International documented four cases of death in custody as a result of torture—but the actual number is likely much higher. All four cases were dismissed, leaving victims and their families stripped of any measure of justice in a military court system that lacks both transparency and independence, and that should not be trying civilians to begin with.

For this reason, human rights activists and organizations expressed some measure of disappointment when Lebanon's new anti-torture law was ratified in October 2017. The new law fails to explicitly state that the military court is not qualified to hear cases involving allegations of torture. According to the Code of Military Justice, any crimes related to military personnel are subject to the military court's jurisdiction. The new law explicitly states that torture cases will be heard in regular courts, but it does not prevent military courts from investigating and trying allegations of torture related to the security and military institutions.

It took years of national and international human rights groups pressuring Lebanese authorities to address alleged crimes of torture and fully comply with the UN's Convention against Torture ratified in 2000 for the Lebanese Parliament to finally pass the law Aiming to Punish Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

For the first time, the Lebanese penal code includes a definition of torture. Before the new law was passed, domestic law avoided an absolute criminalization of torture. Instead, Article 401 vaguely defined torture as "violent practices not permitted by the law … with the intention to extract a confession of a crime or information related to it."

As well as criminalizing torture, the new law specifies the inadmissibility of statements extracted under torture, urges the public prosecutor to act on complaints or notices of torture within 48 hours, establishes the right to rehabilitation, and declares torture to be a crime non-justifiable by necessity or national security requirements.

But the law has other shortcomings apart from the issue of military court jurisdiction. For instance, it adopts a statute of limitations of three to 10 years for prosecuting torture that starts the moment the victim is released from prison or detention. This statute of limitations disregards international law and standards and the right of victims to seek justice and remedy. The law also restricts investigations into claims of torture that took place during specific points of a trial: pre-detention, preliminary investigations, judicial investigations, trials, or execution of sentences. It does not address acts that fall outside this context, such as violence during arrest, or the use of force against unresisting protesters. In other words, perpetrators could escape prosecution in situations that are not covered by this law.

The new law should be amended to address the existing loopholes in domestic law, which allow perpetrators to escape justice

In short, the new law sets a national legal framework for criminalizing torture, but it must be fully implemented, and should be amended to address the existing loopholes in domestic law, which allow perpetrators to escape justice.

Human rights organizations were key in advocating for this law, and their roles in monitoring the implementation of the law and continuing to put forward and lobby for amendments as necessary are crucial to ensure victims' full access to accountability, redress, and justice.

*SAHAR MANDOUR is a Lebanon researcher at Amnesty International*


AGBU Antranik

BEIRUTIYAT بيروتيات
THE LEBANESE MOMENTUM
A MAKHZOUMI INITIATIVE

LEBANESE SPOTLIGHT

Z.U.U. HOMENETMEN

By Bassam Khawaja

# Expanding understanding of human rights in Lebanon

The state ignores its economic, social, and cultural duties

**"It's like there's fog across the whole town," said Othman, a resident of Kfar Zabad in the Bekaa Valley.** "We're coughing all the time, unable to breathe, sometimes we wake up and see ash in our spit."

Othman was describing the effects of the open burning of garbage, which takes place regularly near his home. Open burning of waste across the country is a dangerous and unreported part of Lebanon's waste management crisis.

In December 2017 Human Rights Watch released a report on the health risks of Lebanon's waste management crisis. We found that the open burning of solid waste at more than 150 dumps across the country poses serious health risks to nearby residents and that the authorities' inaction to end this open burning of waste was violating their right to health. Those living near dump sites which are burned reported an array of health problems consistent with frequent and sustained inhalation of smoke. Children and older people are at particular risk and these dumps are disproportionately located in lower-income areas.

## FAILURE TO INFORM

The government has failed to meet other basic obligations toward residents to inform them about the impact of the crisis on their health and environment. This lack of information has taken a heavy psychological toll. In particular, parents told us they worry about the potential impact burning has on their children. There is no excuse for the government's failure to monitor the air quality and provide this basic information to the public. People have a right to know about the health risks in their environment. They should demand it.

But burning trash is not just a health or environmental issue. Just like torture, freedom of speech, or women's rights, it is also a human rights issue—and therefore triggers Lebanon's obligations under international law.

Although the Universal Declaration of Human Rights splits civil and political rights (such as the right to life or freedom from torture) and economic, social, and cultural rights (such as the right to health or education) into two separate international treaties, human rights are indivisible. Rights have an equal status—no group of rights is more important than another—and the denial of one right frequently impedes the enjoyment of others.

While state obligations around

civil and political rights are often absolute and immediate, states are generally required to strive for realization of economic, social, and cultural rights. This distinction is rooted in the perception that greater resources are often required to achieve such rights. But that does not give Lebanon a free pass. Both sets of rights are binding and authorities are required to show that they are taking appropriate steps to fulfill economic, social, and cultural rights.

The Lebanese government has long found hollow excuses to not fulfill these obligations, pointing to a lack of money or political instability to justify its inaction. Lebanon's civil war ended almost 30 years ago, and the state today has the wealth, know-how, and international support to make progress on providing education, health, and basic services. But as time passes without improvement, residents have turn to private initiatives, allowing the government to shirk its obligations. The country has settled into a cycle of low expectations and meager results when it comes to basic rights.

*Open burning of waste in Majadel, south Lebanon*

**WORK TO BE DONE**

To get back on track, Lebanon needs to do more to fulfill its binding commitment to respect, protect and fulfil rights such as the right to health and education. This would encourage citizens to demand action from their government, require the government to guarantee a minimum level of protection, and introduce accountability for government failures.

The human toll of inaction is easy to see. Last year, HRW found that more than 250,000 Syrian refugee children are not going to school. Despite the efforts of the Ministry of Education, families are facing serious barriers that violate Lebanon's obligation to provide an education in a nondiscriminatory manner.

Discrimination within Lebanon's education system is not limited to Syrian refugees. We have also found that schools in Lebanon systematically discriminate against children with disabilities, and do not adequately accommodate them in the classroom. Although Lebanon adopted a law in 2000 guaranteeing access to inclusive education for people with disabilities, the government has done little to implement the law. Few Lebanese public and private schools offer any form of inclusive education. This, too, is a human rights issue: the exclusion of children with disabilities discriminates against them and denies them their right to an education.

> The country has settled into a cycle of low expectations and meager results when it comes to basic rights

Lebanon of course deserves international support as it struggles to host the highest number of refugees per capita in the world. But this is not just a humanitarian or development issue—each of these children has a right to an education. Access to free and universal primary education is so fundamental that it is immediately binding—in other words, trying to address the problem over time is not acceptable. Every week without an education harms each child who is out of school. The denial of that right will have serious consequences for the children, their families, and the future of Lebanon and Syria.

After decades of sub-par basic services and governmental intransigence, there is a widespread lack of faith in the government to make progress on these issues. But in failing to move forward to fix these problems, the government is not only failing the Lebanese people and their basic needs, it is also violating its obligations under international law.

*BASSAM KHAWAJA is the Lebanon researcher at Human Rights Watch. Follow him on Twitter @Bassam_Khawaja*

By Jeremy Arbid

# Hard and getting harder

## Syrian refugees face more struggle

**Life for Syrian refugees in Lebanon is a daily struggle for survival. Their situation in 2017 has deteriorated, in terms of receiving enough aid or finding work to meet basic needs—and because humanitarian aid continues to decline as financial need rises, next year will not be better.** Many Lebanese nationals have also seen their socioeconomic situation decline, and poverty rates for both Lebanese nationals and Syrian refugees have risen dramatically. Economic anxiety has increased, as well as tensions between the two populations. Returning to Syria in 2018 does not yet appear to be a viable option. The civil war in Syria continues, peace is not yet certain for much of the country, and stability is still too uncertain to allow refugees to return to their homes.

Mireille Girard, head of UNHCR in Lebanon, met with Executive in November 2017 to talk about aid and development efforts to help both struggling populations cope in 2018.

**E** ***Are Lebanon's refugees better off at the end of 2017 than they were two years ago?***

In general, the situation has deteriorated socioeconomically for Syrian refugees. This is the largest group, but it's really affecting all refugee populations. Because the socioeconomic environment in Lebanon is also grim, it's also affecting the Lebanese communities, and particularly the Lebanese communities in the areas that are hosting the largest numbers of refugees. Refugees have been generously hosted in places that were already underserved before the crisis, such as Akkar and the northern Bekaa, where you already had scarcity of water and not enough electricity for the villages. So imagine, with an additional population, you have to share more of these scarce resources, so that creates a strain on both populations, and neither of them have enough to cover their needs. It is a big challenge for the international community and for the government of Lebanon, trying to cope with the situation and mobilize as much funding as possible.

**E** ***On the UNHCR website, there is a $2 billion request for 2017, only 30 percent of which was met by mid-October. Is that still accurate?***

We will see more clearly at the end of the year. More money was pledged to Lebanon at the Brussels conference [in April 2017] and not all of this is allocated yet, so we hope it will be allocated against these prioritized activities that have been jointly planned by the government of Lebanon and the aid community. In 2015, we had $2.1 billion as the appeal. Last year, it rose to $2.4 billion, and this year was $2.7 billion. Lebanon is in a protracted situation with the economic slowdown, which is not due to the refugee presence, but more because of the war in Syria, which has led to [a decline in exports and tourism]. This has a strained both populations. Some are going more into debt—that is very critical for the Syrian refugees, and we see that within the refugee population, 90 percent of households have debt, close to a range of $900 per family. It's the same for a number of Lebanese. So the international community is trying to address dual aspects, response and resilience, while helping both the displaced population and the communities that are impacted by the presence of refugees, as well as the services that are serving this overall population. It's a challenge, but in Lebanon, not going to a camp situation has enabled us, instead of creating an artificial aid support that funds schooling and hospitals in camps, to help the hospitals and schools in the area. This benefitted both populations and is also a way to build solidarity.

> "Within the refugee population, 90 percent of households have debt, close to a range of $900 per family"

**E** ***It does seem, however, that in Lebanon—but also abroad as well—local populations are becoming less generous, less welcoming, and hostile even.***

Yes, absolutely. One is the institutional response and, where we are, the second one is really the

level of vulnerabilities. Let me identify the vulnerabilities first. Between 2014 and 2015, 50 percent of Syrian refugees were below the poverty line—now it has become 70 percent. Twenty-five percent were below the extreme poverty line, or survival line, and that is now 50 percent. And it has continued to deteriorate, but thanks to everyone's mobilization in London and Brussels, we managed to keep people's heads above the water, so the dramatic deteriorations have been slowed down. But it's still happening. Refugees are sliding more and more into poverty. We're now at 58 percent of refugees below the extreme-poverty line; more than half are at the survival line, and 75 percent are at the poverty line. The level of vulnerability has increased dramatically. The level of Lebanese vulnerability has also increased in that there is very serious unemployment because the economy is not generating jobs, and skilled jobs are not really created. There is less construction and tourism; there [are fewer] jobs in many sectors. People are going more and more into unskilled labor, and this is creating competition between the Syrian refugees and Lebanese, and this leads to tensions.

**E *Does the UNHCR have data on labor?***

We know that the government estimates that for youth, there is a much higher percentage of unemployment. It's in excess of 30 percent sometimes; for the rest of the population, it's lower. For the refugees, what [UNHCR] estimates is that within the adult population, 30 percent are working, and they work two weeks per month on average.

**E *Thirty percent of the adult refugee population is working, but are they primarily underemployed or not fully employed?***

On average it is two weeks a month. The number of [refugees] that have secured a full-time job is quite rare. [At the] start the month, [refugees] don't know how many days they will be able to work, which is extremely destabilizing, because they don't know if they will earn enough to pay for rent. We know refugees on average pay $200 for rent, $35 to $50 for electricity, and about $30 for water per month. These are running costs no matter what. For education, the costs are covered for Syrian and Lebanese in public schools, but there are transportation costs, clothes for children, and a number of other expenditures. If a refugee works two weeks a month and the daily labor rate is about $12 per day, that will be about $177 per month.

**E *Is it safe for refugees to return to their homes in Syria?***

We see that the situation in Syria, there are discussions on de-escalation, and this is very encouraging. The Geneva talks were interrupted for a while, but they have resumed, and this is a good sign. At the same time, we see that in Syria we're still in a war situation. Not that we're waiting for a full peace agreement, but we need some certainty that whatever is discussed is going to be sustainable. When you are a refugee, and you have been through

tremendous difficulty to get your family to safety—and sometimes you were displaced several times in your own country before reaching safety—you want to make sure that you don't bring your children back to war, or to a situation where you step on a landmine. So what you need is some political dialogue that will guarantee that what is discussed is agreed upon. That will give the signal that they have safeguards, they have guarantees. For example, while we see progress, the month of September [2017] was the deadliest month of the whole conflict. In the first six months of the year, 500,000 internally displaced in Syria were able to go back to their homes, but during that period we had 1 million newly displaced people. That tells you that the context is very fluid. There is progress, there is light at the end of the tunnel for sure, and [displaced] people are watching that, the refugees are watching that, and this is what they hang [on]to everyday, because they want to go back home. Close to 90 percent of the refugee population are telling us that there is no question, they want to go back to Syria, and this is not atypical, we see that in every situation. The large majority at the end are going back. This is the main solution for them, and it's their preference. But they are saying not immediately. At the moment, they aren't feeling secure enough to go back. So they're watching to see when will be the time they'll feel secure.

> "You want to make sure that you don't bring your children back to war, or to a situation where you step on a landmine"

***E Can Lebanon be a laboratory for testing better humanitarian and development solutions?***

I'm absolutely convinced about it. We're in the context of a humanitarian response, in a country that has a lot of [entrepreneurial] history, a lot of knowledge, a lot of skills, and we can benefit much more than we are at the moment, so we need to mobilize the energies and the focus. We have been doing a number of exercises with startups in Lebanon, we have a lot of young motivated entrepreneurs who think outside the box and give new ideas. This is welcome and the future of humanitarian responses. We have to go more; more into cash, more into innovation, more [collaboration] with the private sector.

***E Do you see progress on the issue of legal residency for refugees in 2017?***

A number of people are still not renewing their residency—some of them aren't eligible for it, and some who haven't yet received it. This still is an issue because this is preventing people from going through checkpoints and from bringing their kids to school. A number of people are still required to go through a Lebanese sponsor—and that requires money.

***E Does not having residency impede refugees from registering marriages and childbirths?***

There has recently been some legal mobilization to facilitate registration of births even if parents don't have a legal residence, which was a big issue before. Where we are still having big difficulties is that if you pass the first year [without registering a child's birth], then you have to go through a judicial process that is long and expensive, so people give up. If they don't do it the first year, they usually give up because the process is too difficult for them to go through. We're working toward seeing if that can be facilitated exceptionally because of the situation of refugees. You don't want to leave children stateless. When people go back home, they have to go back as a family. The children of Syrian parents are Syrian and should be recognized as such, so if you have a birth with the name of the father, the father being a Syrian national, automatically the child is Syrian. So when the child gets back to Syria, it's on record that he's a Syrian national, and cannot be left behind.


THIS YEAR,
LET'S GET THINGS *MOVING*
2018
SEASON'S
GREETINGS
SGBL
sgbl.com