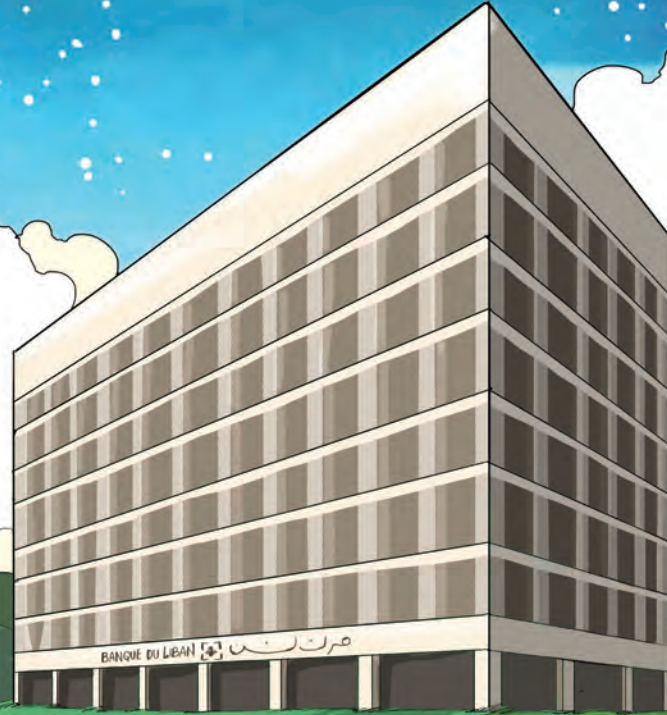


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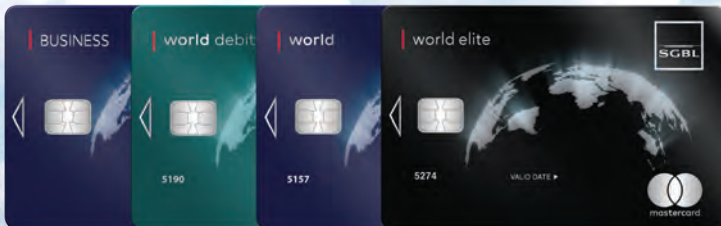
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EDITORIAL

#225

Pursuit of excellence

The vicious survival cycle that Lebanese corporates are stuck in comes at a price. To sustain their existence, they have to constantly bend the rules and outsmart the system, while suffering the inefficiencies and lack of vision that come from the absence of the state.

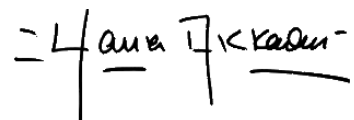
In short, corporates adhere to a short-term management style, winging most decisions in order to provide for the next day. This behavior is destructive to say the least, and its repetition develops bad habits and builds bad practices. It is only when you have a vision for your greater purpose that you begin to commit to long-term objectives. Corporates should be reminded of their purpose and develop their participative strategies in a wider national context accordingly—a challenging proposition in the absence of national policy.

The one industry that demonstrates how commitment to purpose pays on the micro and macro level is our banking industry. After the chaos of the 1980s, which left vulnerable citizens manipulated and impoverished, came the 1990s, and the renewed commitment and role of the banking industry was re-established and reinforced, putting at the disposal of the citizens reliable, trustworthy services that protected their assets with fairness, commitment to best practices, rigorous controls, and astute oversight. Adherence to such standards paid off, and the contrast that exists today between the financial industry's space and the rest of corporate Lebanon is so clear in terms of both corporate performance and human resources welfare. Not only did the banking industry survive every crisis since 1992, but none of the serious participants stopped growing, while one bank who ventured into unethical behavior was quickly flagged and liquidated.

The integrity of our financial system's health rests in the vision and character of Riad Salameh, the governor of the central bank. His ability to commit to the good that this industry brings to Lebanon alongside his mastery in identifying unnecessary risk without neglecting the development and growth of the industry, his consistency, his passion, and his hard work have allowed the banking industry to flourish and gain respect. All this was achieved by nurturing relationships, both nationally and internationally, and keeping things in balance for the national well-being.

Other industries that operate in less regulated environments can watch, learn, and mimic the success of our banking industry, and hopefully deliver to and protect all their stakeholders and participants in a manner we have come to expect from Lebanon's banks.

Elevating our commitment to excellence pays, regardless of the uncertainties that plague our nation.



Yasser Akkaoui
Editor-in-chief

A full-page background image of a misty mountain landscape. The foreground is a rocky, grassy slope. The middle ground shows a line of evergreen trees. The background is a dense forest of evergreen trees, all shrouded in a thick, grey mist or fog. The overall tone is somber and atmospheric.

TO BREAK THE RULES,
YOU MUST FIRST MASTER
THEM.

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.



ROYAL OAK
OFFSHORE
CHRONOGRAPH
IN PINK GOLD

AUDEMARS PIGUET
Le Brassus

 TAMER

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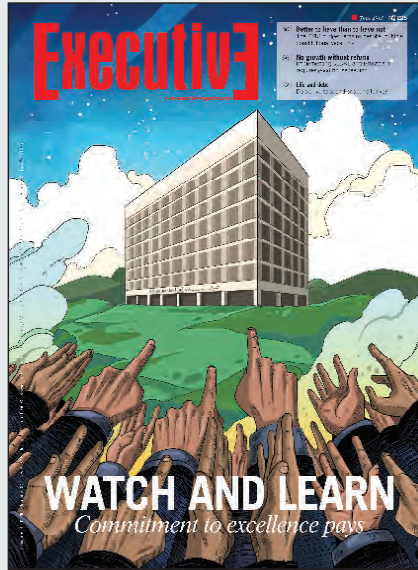
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Editor-at-large Thomas Schellen
Hospitality & tourism editor Nabila Rahhal
Economics & policy editor Jeremy Arbid
Deputy editor Sarah Shaar
Executive Life editor Olga Habre
Photojournalist Greg Demarque
(Additional photos from Getty, AFP, Reuters)
Illustration Ivan Debs
Visualization & Infographics Ahmad Barclay
Art direction Tanya Salem
Contributors Dany Baz, Mona Sukkarieh, Riad Al-Khoury, Jamil Saghir,
Nasser Yassin, Samah Karaki, Jihane Abi Saleh

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

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**TOOK OVER HIS FATHER'S BUSINESS.
NOT HIS FATHER'S WARDROBE.**

LAST MONTH

ZOOM IN



A handout picture provided by the Lebanese Parliament press office on May 23, 2018 shows Speaker Nabih Berri during a session in the parliament in downtown Beirut to elect the new speaker of the house, i.e., himself.

Establishment parties dominate parliamentary elections

On May 6, Lebanon held parliamentary elections for the first time in nine years. The vote, which had been twice-delayed in 2013 and 2015—ostensibly due to security concerns and disagreement over a new electoral law—marked the first time that elections were held under a proportional representation system. Despite these changes, the results saw Lebanon's establishment political parties retain their hold over the legislature. Yet the elections were not without controversy. Election monitor the Lebanese Association for Democratic Elections noted numerous violations, including voter intimidation, mishandling of ballot boxes, and irregularities in the vote-counting process. In response, several unsuccessful candidates are preparing to appeal the results to the Constitutional Council ahead of the June 8 deadline.

Post-election clash leaves one dead in Aley

Armed clashes between supporters of the Progressive Socialist Party (PSP) and the Lebanese Democratic Party (LDP) in the Aley town of

Choueifat left one dead on May 8. Alaa Abi Faraj, a member of the Civil Defense, was killed in the violence. Both PSP chief Walid Jumblatt and LDP head Talal Arslan appealed to their supporters to refrain from further provocations and maintain calm in the area. The violence was blamed on rising tensions in the lead up to, and aftermath of, the May 6 parliamentary elections. The army quickly deployed to the area, however, according to media reports, Abi Faraj's killer has thus far avoided capture by fleeing to neighboring Syria.

Shake-up of the Future Movement

Following a tepid performance in the parliamentary elections, which saw the Future Movement drop 13 seats from a showing of 33 in the 2009 elections, there were major internal shake-ups within the party. On May 12, Nader Hariri, cousin and former chief of staff to Saad Hariri, resigned from his post in a shock move, for reasons that remain unclear. He was replaced by Mohammad Mneimneh, head of the prime minister's protocol, who took on the role in a caretaker capacity. Meanwhile, the following day, the party announced that Wissam Hariri, the party's general electoral coordina-



LAST MONTH

QUOTE OF THE MONTH

"I was surprised with the low turnout to exercise this right. I renew my appeal because if you really want to see change ... you should practice this right."

President Michel Aoun via Twitter urging greater voter turnout on May 6, 2018.

tor, and Maher Abu al-Khudoud, head of party leader Saad Hariri's follow-up office, were both dismissed as a direct consequence of the elections, with Hariri commenting later that day that these moves were due to "accountability."

Beirut Pride week canceled

Beirut Pride week, originally slated to be held May 12-20, was abruptly canceled following the detention of its organizer. In a statement released on May 15, Beirut Pride organizer Hadi Damien said he was detained by the Internal Security Forces' Anti-Vice Unit overnight and forced to cancel all of the festival's remaining events following complaints. Beirut Pride was set to feature various educational and celebratory events intended to raise awareness and discuss the fluidity of the gender spectrum. Despite Lebanon's reputation as a socially progressive Arab country, homosexuality remains highly stigmatized and even illegal according to some interpretations of the law.

Constitutional Council annuls several articles of 2018 budget


On May 15, following a challenge submitted by Kataeb party head Sami Gemayel and nine other MPs in April, Lebanon's Constitutional Council annulled several articles of the 2018 budget law. However, the council decided against rejecting the entirety of the law, despite citing two major constitutional violations. Among the articles struck down was the controversial article 49, which would have granted temporary residency for foreigners who bought property in Lebanon. Critics argued that the ar-

ticle could facilitate the permanent settlement of Syrian and Palestinian refugees in Lebanon. For additional information on the Constitutional Council ruling, see page 50.

US imposes additional sanctions on Hezbollah

On May 17, the US Treasury Department announced sanctions on an alleged Hezbollah financier and the party's representative to Iran, in addition to five alleged front companies based in Europe, the Middle East, and West Africa. Earlier in the week, the US and Gulf countries also imposed additional sanctions on the party's top two leaders, Secretary General Sayyed Hassan Nasrallah and Deputy Secretary General Naim Qassem. The moves against Hezbollah, which the US considers a terrorist organization, are part of broadening American efforts to counter Iranian financing of its proxies in the region. Earlier in the month, US President Donald Trump announced his intention to withdraw from the landmark Iran nuclear deal and reinstate sanctions on the Islamic republic.

Lebanese director honored at Cannes

Lebanese director Nadine Labaki won the Jury Prize at the Cannes Film Festival on May 19 for her new film "Capharnaum." The film, which was shot in Beirut and tells the story of a child refugee, received a 15-minute standing ovation at its premiere screening. Labaki, known for her films "Caramel" and "Where Do We Go Now?" also became the first Arab woman to be awarded a major prize at the Cannes Film Festival. Her victory generated significant buzz on social media in Lebanon. 



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LEADERS

BUDGET

Transparency

Lebanon still needs more accountability in governmental decisions.

Last year, Lebanon ratified an access to information law which requires the state to publish annual reports for government institutions, and to make most government documents available upon request. At the time, this law was lauded as a step toward complying with international norms and satisfying transparency and accountability, institution building, and social justice required by the United Nations' Sustainable Development Goals. But, over a year on, many state institutions have not published annual reports, as the law prescribes. Implementation has been lacking because the body intended to oversee it, the Anti-Corruption Commission (ACC), has not been formed. The ACC would be tasked with oversight of state agencies, compliance with the law, and act as the arbitrator of denied or ignored information requests. Forming the ACC requires auxiliary legislation, and the incoming Parliament must ratify this law and commit the government to appoint ACC commissioners as soon as possible.

Lebanon's newly elected parliamentarians, and many of those hoping for ministerial appointments, espouse the virtues of transparency, accountability, and anti-corruption measures. Now that elections are over and government formation is in progress, it is time to put words into action.

There are positive indicators. The Lebanese state passed two budgets in the past six months after going nearly 12 years without, and in April the Ministry of Finance published what it titled the "Citizen Budget." But is it a coherent document worthy of such a title?

The Citizen Budget does offer greater visibility of high-level public

finance figures that were previously buried in the budget law, which is helpful in explaining how much state agencies spend and their sources of revenue. But it offers neither transparency of what state agencies are spending their budget on, nor does it provide a breakdown of specific revenue sources. Collection of Value Added Tax (VAT) is not shown by source—the Citizen Budget does not distinguish between VAT collection at the point of sale or that collected at Lebanon's ports via customs, for example. Last year, EXECUTIVE filed an information request with the Ministry of Finance for the source breakdown of VAT collection but was denied, and without the ACC, there was no avenue for recourse.

NICE, IN THEORY

A press release by the Ministry of Finance announcing the Citizen Budget reads: "... the Ministry of Finance has committed to issuing the Citizen Budget in parallel with the approval of the state budget, in order to allow the public, citizens, private sector, and the different components of civil society to initiate a dialogue, interact, and give their opinion on the economic and social priorities of the government, as well as on the objects of public spending and how it is financed. Consequently, they will be able to take informed stances when it comes to holding the government accountable."

What a nice sentiment after over a decade of a state without a budget. But with no audit for this 12-year period, this sort of transparency is an empty gesture. As the Constitutional Council stated in its mid-May ruling following a challenge to the 2018 state budget, "the lack of transparency in the collection of

public funds and spending questions the credibility of the budget and its implementation, and opens the door wide to corruption."

On the notion of public consultation, it does not appear that the Ministry of Finance is actually committed to any dialogue with, or feedback from, the citizenry in drafting and publishing the first Citizen Budget. It is basically an explainer of the budget law, which is nonetheless

■ EXECUTIVE filed an information request with the Ministry of Finance for the source of VAT collection but was denied.

good in that it reduces the legwork involved in finding the information.

At least to EXECUTIVE, the Citizen Budget was helpful in light of a recent decision by the government to put the online version of the Official Gazette, where all legislation, regulation, and judicial rulings are published, behind a paywall. The Official Gazette had previously been freely accessible online since 2006. That seems to be a flagrant contradiction of the transparency advocated in the Citizen Budget.

We do not know the rationale for putting the Official Gazette behind a paywall, let alone the projected revenue from this paid content. Given that both of these are communications between the state and its citizens intended to provide visibility of what the state is actually doing, we need that visibility for communication between the two. The question arises because we appear to be heading in the wrong direction: We have an access to information law that is not fully implemented, and now the Official Gazette is behind a paywall, contradicting the notion of transpar-

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LEADERS

ency, accountability, and public consultation that the Ministry of Finance claims to be embracing. When instituted a year ago, we noted that state agencies did not have the capacity to implement the access to information law in spirit. Now the paywall for the Official Gazette makes accessing these documents even more difficult for the public.

To fulfill campaign promises of state transparency and accountability, and in an effort to combat corruption, the new Parliament must pass legislation laying out the framework of the ACC, its role, functions, and powers. Without this body, the access to information law remains toothless. For its part, the Ministry of Finance should already

be preparing the 2019 budget, a process which must include public consultations, in line with the commitments outlined in the announcement of its Citizen Budget. Lastly, the government owes the public an explanation for its placing the Official Gazette behind a paywall, and what exactly it plans to do with the money earned from this.

OVERVIEW

Beware the bully

On banking, politics, and behavior in Lebanon

It is a wild and wondrous time. Almost a Big Bang moment. If all goes perfectly, Lebanon in April and May 2018 laid crucial seeds for a dual process of political maturation and economic resurrection. The two-month long excitement began with better than anticipated commitments from the CEDRE conference, an immense hope for billions of dollars in international economic investment inflows that was not dented even as the results of the Brussels II conference on Syria and refugees left much to be desired in every regard.

The period peaked on May 6 with a development that less than a year ago many verbose and not so outspoken naysayers had doubted would ever happen: smooth elections. In short, government formation is progressing, all the while in between these epochal moments of the past two months, Lebanon saw almost an overburden of investment conferences, international statements of encouragement, and local ones of promise tinted in every conceivable political color. Rationally disinclined minds might even add that the weather in May stood out as very unusual.

Thus, the picture as it presents itself at this felt halfway point between international support events, elections, the appointment of the next government leaders, and the actual

formation of a government, is a positive and hopeful one.

A MOMENT TO SAVOR

Yet, of course, this picture is not perfect. There are promises of rapid action in government formation and calls for swift agreements that have come from every powermonger in the political arena. But, as the experiences have taught us in similar situations in recent history, inflated promises mean nothing in Lebanon. As of today, the country has no proof yet that its competing tribal chiefs are coming to agreements among themselves, or much more importantly, that they are serious about sacrificing part of their power and initiating needed reforms. Also, shouldn't one ask, as a responsible business publication, when was the last time that everything went according to plan in Lebanon, irrespective of any consideration as to whether the plan was perfect or flawed?

Perhaps, for now, this moment on the domestic stage is one to savor, and to remember that it could not have happened without the example and success of Lebanese banking. It stands to reason, from the messages and comments that EXECUTIVE has gathered over these last two months, that this country's international credibility as an investment destination and partner of international donors would have been far lower if our banking story in recent tough times was not one of resilience and prudent regulations.



Prime Minister Saad Hariri poses with French President Emmanuel Macron, French Economy Minister Bruno Le Maire, and French Foreign Minister Jean-Yves Le Drian at CEDRE in Paris on April 6, 2018.

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LEADERS

It also stands to reason that the ability to conduct elections in this country, and do so reasonably well, rested upon the two pillars of internal military security—kudos to them—and national economic security, which has been channeled for the past 25 years through Lebanese commercial banks and the financial system supervised by the central bank. But another impression that also asserts itself strongly at this particular point in time is that Lebanese banking is profoundly and inextricably entwined with global developments, including developments that range far outside of the spheres of economics and reason.

If there are grounds for concern in this region, and there are, then the biggest tumbleweeds of worry were blown in from the international fields last month, witnessed in the abomination of reckless disregard for international law and the rights of Arab people through the relocation of the US embassy to Jerusalem, and in the stoking of the risk of war following the US decision to renege on the Iran nuclear agreement.

This side of spring 2018 reminds us that Lebanon may be able to stand on her head and wiggle flowers between her toes, but she can't dream of deciding things of geopolitical consequence in the Middle East, and thus can't determine her own fate. The ultimate big picture, seen from Beirut, is one of hope but also of high opacity and more risk—geopolitical, geo-economic, and multi-societal risks—than anyone can welcome.

What to call for in these times? Sanity? But calls for sanity always appear to be either futile or counterproductive. Attempt a reverse psychology gambit and call for insanity, conflict, and geopolitical games of playing chicken? The risk that these would spin out of control stands against such a toying

with incendiary tools; this call also doesn't feel right morally. We want to remain human.


NO ROOM FOR COMPLACENCY

Calls for better banking practices are always in order, as banking is integral to the never-ending quest for human economic development. However, calls for banking improvements cannot address the need for wider political and social sanity. Let's make this a general call then, for being aware of human fundamentals, such as the reality that bullies are the losers of history. We have seen the chief bully in Washington and the tier-two bully of Tel Aviv. We are also seeing, but are less directly affected by, bullies in Europe and Asia. But the rise of the global bullies means one thing for all of us: Beware of the bully within.

We are all potential bullies because we have aggressive animal spirits in our blueprint of culture and biological heritage. And the dangerous thing is that bullies can score wins. But what is true for fooling people is also true for bullying: You can bully most of the people some of the time and some people all of the time, but you cannot bully all of the people all of the time. That's why bullies are losers in the long run.

More importantly, bullies lack the ability to aim for win-win or win-win-win outcomes. They are experts in "I win, you lose." Yet in a world where peace and sustainability have to be engineered with resilient and durable institutional foundations, where contracts and greater public goods have to be matched into winning combinations, bullies are incapable of performing according to desired and needed outcomes. They are incapable of helping the world move forward into a more sustainable future. This is necessary to keep in mind in a time when global bullies sail with strong tailwinds.

The next thing to call for at this time is relentless alertness. Abandon complacency. Complacency is not exactly a prime risk in Lebanon, except perhaps for the few and very powerful who had been the beneficiaries of the economic balance-on-the-brink-of-an-abyss for the last 20 or 30 years. It will remain to be seen if these elites have still enough vigor to break out of the narcissism, smugness, and vain-glory of the role that they did nothing to deserve. But while we are waiting for the 'elites' to reform (or else), we can ill afford to wait for our banks. It is reassuring that the sector appears to be in good health (see story page 18), but Lebanon needs more of them by helping toward improving the socio-economic equilibrium. For this, EXECUTIVE looks at links between banking and infrastructure investment potential under the scenarios from CEDRE to PPP (see page 24).

A final thing to call for is to take ownership of our attention. We often do not pay enough attention to who grabs our attention, with what means, and for what purpose. One assumption with high favor in 20th century economics construed human rational behavior as basis for the core premise of economic theory that people choose by "optimizing." In truth, and very different to the assumption of man as rational economic agent, we are driven by a plethora of motivations, desires, and influences. This bears well to remember also in banking where the drift of our society to consumerism is leading to increasingly un-economic behaviors. In this context, we nudge you to think about your banking choices in the age of consumerism (see story on debt page 80), continually expand and improve your own financial literacy, and (see story on GDPR page 96) pay attention to your personal data privacy in this era of growing digital exposure. 

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BUOYED BY BANKS

By Thomas Schellen

Banking sector health check

The relationship between the Lebanese economy and its banks is not quite as simple as the numbers suggest. Banking aggregates are improving every year. But the economy in Lebanon cannot be assumed to be sturdy just because the banking sector is jogging on and on. There are far too many risks and alarm signals on the macro level. To name a few beyond the often-cited debt to GDP ratio (now somewhere above 150 percent), seemingly perennial current account deficits (nearly 20 percent in 2016 according to World Bank Group data), and the deficit to GDP (last above 8 percent), the burdens of inequality to society keep increasing—there are weaknesses in factor productivity, poor capital stock formation, lack of competitiveness of manufacturers, an anemic middle class, and arguably not enough energy in the entrepreneurship ecosystem and knowledge economy.

This only can serve to emphasize that banking can supply financial nourishment that a society needs to solve its economic problems—but cannot on its own cure an economy. A society's economic health is unachievable without banking sector health. When viewed from this perspective, it is more than a simple comfort that banking in Lebanon is still doing astoundingly well. But can one assume that the sector is of overall convincing health, especially when considering the degradation of the regional environment?

Freddy Baz, vice-chairman and group strategy director of Bank Audi, the largest bank in Lebanon by assets, views the health of local banking in context of an economic environment that is marked by tightening conditions, both nationally and regionally. He tells EXECUTIVE, “As to the health of the banking sector, the quantity effect and the price effect have obviously impacted the bottom lines and internal capital generation of banks because of these deteriorating macro conditions. This is the case in the region as a whole, where one could see decelerating inflows affecting the foreign positions of countries and domestic liquidity. It is true that banks in Lebanon are today facing more challenging macro conditions, but not to the detriment of their asset quality and liquidity, which are still among the best in the region.”

Baz acknowledges that the inflows to Lebanon are down in absolute terms, but “not dramatically so.” According to him, when seen in relative terms, that is when comparing the share of inflows that are attracted to Lebanon with the rest of the Middle East and North Africa (MENA), Lebanon's slice of the inflow pie was

about 15 percent in the past two years. This was down from a previous peak share of 18-19 percent but still a sign that the country in terms of inflows is boxing far above its weight in GDP where the national contribution to consolidated regional GDP is 1.5 percent.

Saad Azhari, chairman and general manager of BLOM Bank, points to the existence of growth and positive profit performance reported by top banks for the first quarter of 2018 despite having borne the impact of increased tax burdens. “I think that the health of the banking sector, even with the difficult environment, is still good. We are witnessing reasonable growth of deposits. The situation in Lebanon is one of challenges, but the banking sector is still in a good shape,” Azhari tells EXECUTIVE.

According to Alain Wanna, deputy general manager and head of group financial markets and financial institutions at Byblos Bank, the first quarter in 2018 was satisfactory for the sector. “The top four banks, by their published figures, were able to achieve stable profits or small increases, which is very acceptable if we consider that it was after the introduction of new taxes with the involvement of double taxation. Parliamentary elections are behind us, and they were conducted smoothly, CEDRE finished and results were very good, so if the new government is formed quickly, and we have the implementation of reforms that the [previous] government promised, we can expect that acceptable deposit growth will be maintained in 2018,” he says.

Also for Sami Abou Jamous, chief strategy and planning officer of Saradar Bank—the latest entity to ascend to the Alpha group of banks in Lebanon—the good run of Lebanese banking will continue despite turning more uphill. “The banking sector in Lebanon has been resilient and will hopefully continue to be resilient since banks are strongly capitalized. As we at Bank Saradar see it, the pace of this growth will be slower, competition will intensify, and costs driven by mounting regulatory requirements will increase—hence squeezing margins for banks in the years ahead. However, there will continue to be growth. All this means that we [as banks] have to start operating differently, hence our differentiation and our using of digital means to optimize cost,” Abou Jamous says.

BANKABLE HEALTH AND HARMONY

When it comes to preservation and improvement of individual health, the importance of lifestyle choices and influences from the living environment cannot

Banking

NEWS FROM THE HOUSE OF SARADAR

Over the past three to four years, Saradar Bank was being developed as a universal bank with a full range of services in corporate, private, and retail banking. The process was aimed at engineering one differentiated banking entity out of two smaller banks, Near East Commercial Bank and Banque de l'Industrie et du Travail. Although, or perhaps because the procedure entails the creation of a new three-to-five year vision and strategy (implementation of which is currently ongoing) on top of the refurbishment of the bank's brand and network, since 2016 Saradar Bank had been anything but forthcoming with information about its state of affairs and plans for further development. Until now.

"By end of 2017, we grew our assets by 26 percent versus a market [growth] of 6 percent and our deposits grew by 26 percent versus a market [growth] of 3.5 percent. Also, at the end of 2017 we became an Alpha bank [with deposits above \$2 billion]. The growth in deposits was an ambition and objective because we wanted to reach Alpha bank [status]," says Sami Abou Jamous, Saradar Bank's chief strategy and planning officer.

"In 2017 our focus was to implement a new strategy, improve efficiencies, optimize cost structures, [and] invest in technology and people. Moving forward, our focus is on profitable growth. Our ambition is to continue growing fast but claiming that there will be the same high-paced growth [as in 2016 and 2017] would be an ill assumption," he tells *EXECUTIVE* in an interview on the eighth floor of the bank's head office building.

On the corporate side, the positioning of Saradar Bank is targeted toward a segment that Abou Jamous calls "mid-corporate." The competitive edges of the bank in this business line include its factoring service, as well as project finance and corporate lending approaches with a strong emphasis on long-term and personal relationships with their client base that extends beyond mid-sized corporates to small and medium enterprises (SMEs).

In private banking, which is the bread-and-butter business of Saradar Bank as it had been the primary strength of the previous Bank Saradar (before a merger into a joint group with Bank Audi in 2004), the bank pampers its clientele with investment advisory, wealth management, and "premium services" that appear to be a banking equivalent of 'I want to read every wish from your eyes.'

Most innovative, however, might be the lender's new approach to retail. The bank is surprisingly more than content with



the size of its physical network in Lebanon, which currently entails 17 branches. This number is puny when measured against the what Bankdata states is a total of 1,037 domestic branches operated by Alpha and Beta banks at end of 2017, and is negligible when compared with other contenders in the Alpha group of banks (ranked 14th by deposits, its peer Creditbank, for example, has 25 branches while branch networks at the ten largest banks easily run into counts above 50). However, the small geographic footprint of Saradar Bank is the foundation for shaping the retail line of business into a digital bank that is close to being as "digital native" as possible (see overview piece for more).

In the structural organization context of the family-owned Group Saradar, the bank is not a top-level corporate entity, but rather a unit of Saradar Finance House (SFH), which in turn is one of three units that comprise the group. SFH, according to Abou Jamous, bundles partial or full ownership interests in several financial enterprises, such as micro-lending provider Vitas, money transfer operator CashUnited, and asset management arm Saradar Family Office (SFO). Of the two other units in Group Saradar, the first organizes all property investments and real estate development activities in Lebanon and abroad; the second unites under its umbrella what internally is called other investments, which include postal services provider LibanPost as well as ventures that, according to Abou Jamous, range from artistic enterprises to some that are not-for-profit.

Abou Jamous, who besides his position in Saradar Bank is also is chief operating officer of Group Saradar, reveals that strategic plans on group and bank level include investments into at least one Fintech-oriented startup fund, acquisition of an insurance company, the possible creation of sister banks to Saradar Bank abroad (most likely in Europe and Africa), and expansion of real estate investments in Europe and the United States.

be overestimated. With smoking, drinking, poor diets, and weak control of stress factors, health professionals see the presence of four factors responsible for the development of health problems.

There are some, who in this figurative sense, would regard Lebanese banks as having long been addicted to junk food diets, due to banks' over-reliance on a single "nutrient group" for fueling their activities—namely

the financial food group of treasury bills and sovereign Eurobonds. At present, however, there are added possible detriments to the Lebanese banking sector that must be considered, from taxation pressures to stress-inducing uncertainties over the national outlook. Practically all of these possible impediments to the health of the banking sector are related to political developments, if not in Lebanon, then in the region and world.

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PEACE OF MIND



PEACE OF MIND

Banking

This exposure to political influences on various levels increases the value of having a reliable political outlook in Lebanon. The experience of having had successful elections is a good base, Baz notes. The important issue in his view was not the voting outcome of the elections but the process itself. “Going back to the democratic process is something that is positive. The conclusion of the electoral process was needed by itself and is a reflection of an improvement in the political governance process in the country,” he says.

For Azhari, (who spoke to EXECUTIVE on the eve of the parliamentary elections), a fast formation of a new government would send a very positive signal to the economy and the banking sector. “The sooner a new government will be formed and the sooner that the government will be able to benefit from the CEDRE package, the better for the overall economy. I was positively surprised by the success of CEDRE as I wasn’t expecting that they would be able to reach what is effectively \$11 billion of subsidized loans. [This amount] was beyond my expectations and when disbursed over the next five years is really a big number. I think the government’s priority should be to [do everything to] benefit from those loans,” he advises.

While all bankers asked by EXECUTIVE about the issue of the government formation said that speedy progress to a new Council of Ministers would be highly welcome and provide encouragement to the banking sector, Baz emphasizes that it should not be interpreted as a detriment to the next government’s effectiveness if negotiations over it were to be marred by laborious and time-consuming elements of the type that often characterize processes in Lebanese politics, adding that he was hedging for this risk.

Equally, he says, it will be more important for the government to demonstrate its collective awareness of the nation’s existential needs for structural reforms—reform of the tax system, reduction of waste in the public sector, combating corruption, expanding provision of efficient public utilities, and the creation of better social buffers in areas such as education and health. Agreements among the government’s constituents would count for much more than the government achieving contentious numerical targets such as the exact implementation of an annual deficit reduction by precisely one point. “In top-down analysis we are not driven by figures and numbers—we are bankers and we are managing very large institutions with risk cultures that go beyond what exist in other business. One can question the 1 percent annual reduction in deficit that has been proclaimed but in my

opinion this is a false debate. The right debate is to be conscious as Parliament and cabinet about the urgency of reducing the deficit,” Baz says.

For Wanna, an accurate understanding of the banking sector’s health prospects has to include a perception of risks and outlooks for banks. “If you want to look at the main risks, I can summarize these as the mismatching in the balance sheets of the Lebanese banking sector, the level of liquidity in the sector, sovereign exposure, and the quality of the loan portfolio,” he explains. “Going forward, I think that consolidation in the banking sector will, in the short to medium term, be one of the major drivers of growth in the sector. To merge

■ “It is my view that it is better for smaller banks, and for the country, if they merge with larger banks.”

with larger banks will be the only way out of their situation for smaller banks with limited capital and limited ability to introduce new technology or [those] who

face problems to even finding a correspondent bank for their dealings with international markets and who also have to invest in compliance and other key areas. It is my view that it is better for smaller banks, and for the country, if they merge with larger banks,” he says.

DIGITAL BODY BUILDERS

The latest movement in the international industry is the rise of digital. There is some chance that banks of the next generation might be unrecognizable to banking customers of today. But while it is actually quite likely this does not negate the possibility that it will be an autobahn to perdition if banks ignore or underestimate the digital future.

Awareness of the importance of digital offerings for banks is arguable near universal, if one goes by their rhetoric and marketing efforts in pushing digital services. Digital native banks cannot at present be established in Lebanon and it is likely that consumers will still be able to recognize a bank when they see one in 10 or 20 years. Still, it is of interest to see that a bank now talks about the digital over the physical as Saradar Bank’s Chief Strategy Officer Sami Abou Jamous tells EXECUTIVE when explaining why the bank is more likely to keep its network small and is working to create a “tailor-made hybrid digital bank.”

Beyond the political risks to banking sector health and risks related to the Lebanese market regardless of any political factors, keeping the sector healthy will require countless other considerations that would go beyond what can be addressed in this story. ■



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STRONGEST LINKAGE OR MISSING LINKS?



Shabrouh Dam

Banking and prospective infrastructure investments in Lebanon

The list of infrastructure needs is long, yet the wish list of these projects for Lebanon is still very rough, and as EXECUTIVE noted last month, looks methodologically as messy as a disorganized teenager's room waiting for an encounter with neatness. As the projects in the vast national infrastructure file may contain some old and technologically obsolete plans or plans of dubious national economic value, any realistic outlook for upgrading Lebanese infrastructure to the levels required for economic sustainability, plus social and environmental compatibility, is clearly more in the mid and long term than in the immediate or short term.

This is without even starting to talk about the systemic challenges of managing projects in public-private-partnerships (PPPs) wisely and with great efficiency, nor about the prioritization, selection, and determination of time frames for specific projects. But within this general perspective, what is the outlook for Lebanese banks' participation in the finance of the great effort?

From the perspective of invigorating the Lebanese economy and finance on the macro level through the CEDRE process, the question to the role of local contributions gets a clear answer from Banque du Liban Governor Riad Salameh. "The

idea about CEDRE is to fund the projects with international funds, not local funds,” he tells EXECUTIVE. In his view, the sourcing of funds through local capital market platforms should thus be an exception (see interview with Governor Salameh on page 30).

The international angle in the CEDRE context is of primary importance for the economic equation in the country, emphasizes Alain Wanna, deputy general manager and head of group financial markets and institutions at Byblos Bank. “[Lebanese] banks will play a role, but the funding for the infrastructure projects will come from outside of Lebanon, and it is very important that Lebanon receives new funding from outside. For the balance of payments, for currency reserves, [and] for stimulation of growth, it is very important that the money comes from outside the country, and comes at subsidized interest rates,” Wanna says.

FINANCING PPP

He clarifies the expected division of labor between the external funders and the local commercial banks, saying, “International donors and funders will follow the projects [organized under CEDRE] very closely, and they have a key role in this. They will observe the bidding process, study the costing, and monitor the development of the projects. This is important to avoid any notion of corruption. Lebanese banks, within their available liquidity, will be involved with activities such as extending credit lines and providing financing deals to contractors and companies involved in the [infrastructure] projects.”

For Saad Azhari, chairman and general manager of BLOM Bank, Lebanese banks will have a definite role to play in PPP infrastructure projects but he says this must be put into perspective. “In Paris [at CEDRE] they were able to secure long-term financing for those projects. Long-term financing is coming from those specialized international institutions that can give those loans for 20, 25, and 30 years. This is provided.

“When those projects come to be executed, however, private sector involvement will be large. The role of the banks is in this area. The private sector will need [Letters of Credit and] open overdraft facilities, or they might need to get loans, for exam-

ple for buying a piece of equipment or construction machinery with a three to four-year loan. Thus our role [as commercial lenders] will effectively be in supporting those who are going to execute the projects,” Azhari says, adding that local banks on one hand will benefit in this way from the CEDRE process and on the other hand will be able to ensure that local companies will have the ability to execute infrastructure projects under the plan.

Bank Audi also leaves no doubt that it is ready to be involved in the finance of PPP infrastructure projects in Lebanon, and that participation in the scheme is a no brainer for a large local bank. “Let me start by saying that we have participated in similar deals in other countries in the region. Why

■ “The funding for the infrastructure projects will come from outside of Lebanon.”

would we not be doing this in Lebanon?” Group Chief Strategy Officer Freddy Baz asks rhetorically. As he tells EXECUTIVE, Bank Audi has already participated in infrastructure projects elsewhere in the

Middle East, for “important projects involving electrical central plans, port facilities, etc.” While he refrains from going into greater details regarding these projects “for reasons of confidentiality,” he makes it clear that the bank would look at projects in Lebanon with both great interest and with the eye of a financier. “We will only be driven by financial considerations. We will be looking at the file [of infrastructure projects] as we do for any other corporate file and any other project financing file,” Baz explains.

“What we look at and stress-test and where we challenge our counterparties is the feasibility of the project, and the capacity of the project to generate the cash required for the project to reimburse itself [from operations and operating revenues],” he elaborates, emphasizing that this is not on the basis of any financial guarantees, as requisite as such are for completion of a financing arrangement. “We are never driven by guarantees on our loans even though these guarantees are essential and we never give final approval for a financing arrangement if the guarantees are not adequate. But this is the last part that we look at [in discussing the project],” says Baz.

Banking

He explains further that Bank Audi could either get involved directly in projects, by taking an equity stake, or less directly, through financing the contractor or the investor. This does not involve looking through the project list for something that might be to the bank's taste, however. "We wait until the investor or the contractor comes [to us]. What is requested is for banks to be available and open," Baz clarifies. He notes that today much confusion remains regarding the Capital Investment Plan espoused at CEDRE, and PPP projects and the PPP law, given that what was presented was a list of projects which the Lebanese government considered to be priorities and are assumed to be capable of generating profitability for the private sector.

THE RECKONING

From the perspective of FFA Private Bank, the issue of investments under the proposition set forth in the CEDRE conference involves a macro-economic risk for a GDP contraction in the coming few years, given that the Lebanese government's promises of reform and deficit reduction require a totally new exertion of fiscal discipline. "Should we decide to abide by that discipline, it is likely to push 20 to 30 percent in the weakest segment of the population into deep poverty. This might be a cost that we would be socially unable to bear and that would come with its own social unrest," warns Iyad Boustany, general manager and head of investment banking at FFA.

This could translate into one of three rather unsavory options, the first being eruption of heated social debates and top-down attempts to have the burden of the economic and administrative restructuring process be borne collectively—which probably would mean an unequal distribution of burdens from rich to poor. Another option—unwise from a banking perspective—would be if attempts were made to use banks as the donkeys for carrying the cost burden related to reforms. This, says Boustany, could happen under a mistaken presumption that banks were the main financial beneficiaries of the past period when fiscal discipline was lacking, with the consequence of society saying that banks should write-off 20 or 30 percent of the Lebanese government's debt. The third alternative, of not initiating reforms and trying to continue with the unsustainable pre-CEDRE status quo, would be no solution at all. Thus, a period of reckoning, in Boustany's view, is very likely as re-

sult of the fact that Lebanon has been living above its means for a very long time.

To tap into the economic saving potential of infrastructure investment flows and PPP projects, it would, according to FFA Private Bank, be prudent to broaden and deepen the direct flow of investments of all sizes from the Lebanese population and the diaspora. Banks, which have barriers

■ The present time would be the right moment to change the business model that the Lebanese economy has been operating for three decades.

against participation in PPP finance because of the long tenors—infrastructure projects typically require financing for durations upward of seven, 10, or more years—should be disinter-

mediated from the process of direct infrastructure finance, i.e., the middle man should be removed when it comes to financing these projects.

"We are very strongly advocating something that the government should be advocating, [namely] a totally disintermediated, capital market driven infrastructure financing. [This route] could achieve several benefits in one strike, one of them being that it would give small investors equal investment opportunity, something that the World Bank is very vocal about," Boustany proposes.

TRANSPARENCY AND PPP

He acknowledges that moving to such a model would imply a total shift in the prevailing economic model of Lebanon, away from issuances of debt instruments that channel income to banks and a minimal privileged strata of society. Boustany argues that the present time would be the right moment to change the business model that the Lebanese economy has been operating for three decades and switch to a model where that the vast majority of the people—who have been paying for the party that others were having for the past 20 years—will be enabled to participate and profit directly from buying infrastructure finance instruments with diversified risk profiles and yields.

This, by his reasoning, would also act as support factor in the fight against corruption as people with stakes in project bonds etc. will have incentives to demand greater transparency and improved governance from infrastructure project managers. Despite imperfections, the new PPP law, according to

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Boustany, supports the development of transparency and governance.

According to him FFA Private Bank would seek to play a role in promoting investments in infrastructure PPP projects that are carried out through capital markets instruments with ticket sizes that are as small as possible. He says: “We are positioning ourselves toward very strongly advocating the disintermediated model of public finance and PPP financing, creating all the elements and using all the existing tools in order to give life to this model, which we believe for the time being to be the only one viable for channeling vast needed funds into infrastructure projects.”

OPEN AND EQUAL INVESTMENT

“Money is available in Lebanon. All that is needed is to agree on an arrangement that isn’t one where the [elites] take most of profit and throw a few morsels to the people. [This means that] we have to ensure that all projects will be open to wide and equal investment to the general public, not just the more questionable ones while the political establishment picks and chooses [profitable projects] for themselves. Everybody needs to be provided the legal ability to access and finance projects, whether they look difficult or promising,” Boustany asserts.

Whereas the disintermediated capital markets strategy advocated by FFA would with high probability run against the current interests of many financial players in Lebanon, the viewpoints of other bankers focus on highlighting areas where disruptive market impulses and established models can mesh. Bank Saradar’s Head of Strategy Sami Abou Jouma seeks to balance the reward expectations and risk potentials that relate to the CEDRE scheme. “Implementation of the agreements in the CEDRE initiative will change the equation in the Lebanese market in a positive way, whether in terms of liquidity, corporate lending, or project finance. PPP projects with support from multilateral institutions and international donors will have a spillover effect on the Lebanese economy, and local banks, especially the big banks, will have a role to play in the financing of the wider ecosystem created by PPP [projects], but it is difficult to say today at which level and in which form and amounts,” he explains.

“The three elements needed for the success

of the CEDRE concept and PPP are fulfillment of the right reforms, the right governance framework, and the putting in place of checks and balances. If these three things happen, then I think, yes, PPP will be very positive news for the Lebanese economy,” he concludes.

BLOM’s Azhari, who by his own characterization is a perennial optimist, believes that the impact of CEDRE will be reflected in the national GDP and that the country could see a return to growth rates from the strongest upward periods of post-war Lebanon. He concedes that it is currently difficult to anticipate the GDP impacts of differ-

■ “Everybody needs to be provided the legal ability to access and finance projects.”

ent PPP infrastructure projects or the multiplier effect of inflows expected under CEDRE. He would not join speculations, put forward by some in the financial industry, about rates of increase in the lending ac-

tivity of banks, though he asserted the view that “overall, the impact is definitely going to be positive and the GDP growth is going to be larger than the amounts that are being received.”

Coming to the provisional bottom line on the views and approaches of top bankers in Lebanon (as far as those responsive to EXECUTIVE) vis-à-vis the value proposition of infrastructure PPP financing, it emerges that a plurality and a possible majority are leaning to the optimistic point of view on CEDRE and the financing of PPP with participation by local banks. This is notwithstanding their awareness that the prospects of the whole endeavor are yet only visible as if through a murky glass.

As Audi’s Baz views the many vagaries of prospects for anything from deficit reduction to reforms and finance for investments and PPP, he notes, “Markets are tolerant. They do not need ultimate solutions; they need signals that you are again on the right track.” He summarizes his personal outlook from a banker’s perspective by saying: “Our expectations [related to the new Parliament] are not very high but if all of what has been talked about at CEDRE and in the last Councils of Ministers [meetings of the previous government], 50 percent is achieved, it will in my opinion be more than enough to provide sustainability and stability again in the country.”





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THE ESSENTIAL VIEW

A quarter of a century at the helm

EXECUTIVE sat down with Riad Salameh, the governor of Banque du Liban (BDL) to discuss the prospects for the country's GDP, the role of the central bank, and the external and internal challenges that lie ahead.

E *Thank you for sitting down with EXECUTIVE at this crucial time for Lebanon. I understand that you very recently discussed the country's economic outlook and the positive impact of the elections on the financial situation with President Michel Aoun. In the current context, how do you see the perspectives for Lebanese GDP in the next two years, or perhaps even in the longer term?*

Lebanon is a volatile country and there always are unforeseen events. The central bank has taken it as its policy not to announce estimates for growth prior to July of every year. In general, the Lebanese economy will profit from the implementation of the resolutions at the CEDRE conference. On one side, we estimate that the growth can increase—[in excess of] the normal growth of the country—by 1 percent on every \$1 billion invested. On the other side we think that the reforms, which have been announced or promised by the government, will increase confidence and will therefore contribute to positive growth as the government has announced that it will decrease the deficit to GDP by 5 percent [age points] over the next five years.

E *How about the risks related to the reforms in the current geopolitical environment, in which we have just seen the oil price go above \$80, or if we look at the interest rate environment in the United States and many concerns about the Middle East in Europe and the US? How much of a risk exists that the reforms and fiscal discipline needed to reduce the deficit by 5 percentage points of GDP over five years would lead in the short term to negative developments in the economy, specifically in the perception of their situation by the people?*

The challenges are true challenges, and we will be facing them whether the increase in interest rates because of the world increase in rates, [or] whether the higher oil prices. [It is also true that] geopolitical risks will be influencing the economy. But I believe that if there is realistic political will internally [in Lebanon] to undertake reforms, that these reforms will be executed. I don't want to speculate. We have to wait to see the new government, and it will be their [responsibility].

E *Some bankers expressed views that beyond GDP growth and employment creation because of the CEDRE inflows, it could also create a possibility to lower interest rates. Do you see any room for lower rates in Lebanon?*

Interest rates are going to be stable. You cannot talk about lowering interest rates in a global environment where rates are going up. We have seen that emerging markets in the world are now practicing higher interest rates. The banks and the economy will have to adapt to this new level of interest rates. The only way to moderate this increase is to improve on the fiscal [situation], which will improve the rating of Lebanon and lead to an equilibrium in our market with lower spreads when we compare our rates to the international markets.

E *So the risk premium on Lebanon could be reduced by measures of reform and fiscal discipline?*

Yes.

E *Was there any reason for concern in the recent widening of spreads in Credit Default Swaps (CDSs) for Lebanon, which reflect the cost of insuring debt?*

This is temporary and not linked to Lebanon as such. As yields on the 10-year [US treasury] bond went above 3 percent, we have seen a sell-off in all



emerging markets. Lebanon also has seen its [bond] yields pushed higher, which normally pushes CDSs higher because of technical reasons. There are no new credit events in Lebanon from us which would justify any reaction.

E *If we turn to looking at the role of the central bank in Lebanon, BDL has been, of course, the guardian of the monetary policy and of banking but also, especially in recent years to a large extent, of the entire economy, talking about the stimulus packages initiated by BDL. Do you see a possibility that under*

a reform paradigm, the economy could shift and see the government take a more determined role in fiscal policy?

We will welcome such a move. It is our hope and our aim to depart from non-conventional central bank activities, provided that the government fills the gap. During the past years, this [stimulus from BDL] was needed to maintain the stability in the economy and the social stability, but our main [area of] concern is the monetary stability and the banking sector, and also keeping Lebanon compliant with the international laws.

Banking

E *Wouldn't the government and specific ministries be hard-pressed in finding the cash to create incentive programs such as the housing loan incentive?*

This will depend on the budget which [the government and Parliament] will adopt. Of course, all these initiatives need to be funded and need to be subsidized. Thus, if the policy of the government is to take over these activities, this will be shown in the next budget, because in the present budget there is no allocation for such subsidies.

E *The story of BDL over the past 25 years cannot be separated from your story as its governor. When you were inaugurated on August 1, 1993, what was your expectation on how long you would be in this post?*

At that time, I thought it would be a one-term operation, but events in Lebanon have put the central bank and my presence here as a matter of consistency for the country. Various governments have therefore decided that I should continue.

E *With the effect that it looks today as if you might on one not too distant day, namely in about one year, enter the record books as the world's longest continuously serving central bank governor of all-time up to this point in history.*

[Laughs] I don't know what the terms of the other central bankers are, but I did not do it on purpose.

E *As you have the benefit of being able, from personal experience, to review the challenges of the central banker's role as they evolved over many years in the international development of the financial economy, how in your view does the current phase of 2017/18 compare to previous phases in the role of central bank governor of Lebanon?*

Well, the banking sector has improved, and the confidence in the currency has improved. Our concentrations and concern now are on the implementation of the new rules and regulations and accounting standards that have been decided through the Basel III agreements. Challenges that did not exist when we started are now important risk factors for the stability of the country, and I mention here what we have to face in terms of compliance and in facing the sanctions that are part of our daily business. The challenges have changed from the time when it was our objective to create the confidence in the currency, decrease dollarization, and strengthen the capital of banks. Of course, we have to keep these objectives, but we are now in another world of the added challenges that I mentioned.

E *The IMF has recently used the term "unsustainable" in*

describing Lebanese debt to GDP ratios and the current account deficit, but one could argue that these ratios have, for many years, been far from positive and indeed worrying. Is Lebanon's situation today worse than in previous periods?

We differ with the IMF with their estimate of growth for 2017, and these differences can influence all the feasibilities in projections that can come after. We think the growth in Lebanon was about 2.5 percent in 2017, and they put it at about 1 percent. The realities come from the market. Lebanon's stability depends on confidence and on the inflows that come to Lebanon every year. This is what we look at more than at economic data, especially since, as you know, the GDP in Lebanon is undervalued as we are in an economy where not everything is really billed.

■ Lebanon's stability depends on confidence and on the inflows that come to Lebanon every year. This is what we look at more than at economic data.

E *What do you tell bankers, especially bankers from international markets, who would say that the Lebanese pound is overvalued?*

You cannot maintain an overvalued currency for so many years. This is

the best answer. We have seen a live stress-test [of the currency] in November when Prime Minister Hariri resigned. It created demand on the dollar where depositors were converting and it also created outflows. But the system remained stable and things reversed as the political event finished, which was a political and not a monetary crisis. That this reversal happened means that markets are looking at the value of the pound and being realistic. On the other hand, nobody in the world could really determine what the value of the pricing of a currency is. It is [determined by] supply and demand.

E *It seemed from a recent conference sponsored by the Bank of International Settlements that the view on exchange rates in small open economies is shifting from a focus on such countries' independent stances on monetary policy to greater understanding of inescapable dependencies through policy spillovers from globally dominant central banks. Research papers thus appear to put more emphasis for central banks to know if their currency is close to its long-run equilibrium value rather than using other metrics for assessing the real exchange rate, which seems to indicate that the impact of external influences on small economies and your positions on the exchange rate are increasingly being validated.*

Yes, and our policy is derived from the realities of

Lebanon. We have a dollarized economy in Lebanon today, and there is no value added to this economy if we do not maintain a peg on the pound. On the contrary, the peg on the pound creates demand for consumption and also stable purchasing power, thus social stability.

E *But from your perspective, how could the competitiveness of the Lebanese economy be increased vis-à-vis strong manufacturing nations which have exchange rates that make their products more competitive in global markets, when looking for example at regional behemoth Turkey where the exchange rate just this spring reached 4.6 TRY to the USD, down from about 3.5 a year ago and from 2 in 2014?*

The higher costs that are linked to production in Lebanon are essentially due to the absence of a proper infrastructure. Once you have this infrastructure, you are going to be able to produce and be competitive. Cost is on the other hand also due to lack of efficiency, which means that you need a more serious approach at work[places] in terms of working hours and having fewer holidays. This would also help increase salaries in the private sector by way of an increase in demand [for labor].

Lebanon is competitive in many sectors, but our infrastructure is today really very backward. We are talking here not only about roads and transportation, but also about the environment, about fighting pollution [and] exploiting the sea. The resolutions of the Paris conference are important to create a base for a productive [and] competitive economy, and the internal reforms are important for effectiveness. Our view is that the public sector growth as share of GDP should stop, and we should encourage the growth of the private sector to have a greater part in our GDP. That will turn out to give leverage to Lebanon.

E *Which brings us back to the CEDRE process and the importance of international support for Lebanon. One of the issues in this regard is the refugee issue that was the main topic at the Brussels conference held in April. Is the drain on the Lebanese economy and society from your perspective a component that needs more international humanitarian and development assistance, beyond what was pledged in Brussels or at earlier such refugee aid conferences?*

[The refugee issue] is a cost on Lebanon and has been stated as such by the World Bank and the United Nations. [In the presence of] such a cost, whatever reforms you do, there will be pressure on the government. The increase in the security forces, for instance, and the cost of that increase is due to the fact that you need more people to assume security [functions]

when you have such a number of refugees. And so on.

On another side, the Syrian war also has hurt Lebanon because residents from the Arabian Gulf countries are not visiting Lebanon as before and because our exports are almost impossible to achieve. So whatever you do in terms of [improving] productivity, whatever you do in terms of [achieving] reform, these [economic restraints due to the refugee issue] are realities and currency devaluations are not going to solve these realities.

But returning to the relation between competitiveness and the exchange rate, I take you to the Italian example, where [Italy] used to devalue the lira to improve the economy [before the EU's establishment of the economic and monetary union]. They realized that [this approach] was not working and that is why they joined the euro, which is a stable currency. The currency can play as long as it does not create inflation.

E *Could then inflationary pressures on Lebanon arise from the CEDRE inflows of money, if the equivalent of more than 20 percent of the country's GDP in one year are to flow in over the course of five years?*

The investments are spread over 10 to 12 years, so the issue of inflation can be mastered.

E *And the central bank will play a strong role in this?*

Of course.

E *If we turn to the banking sector, where you mentioned the need to comply with international rules and also apply new accounting standards. One of the goals of the unconventional measure initiated by BDL in 2016—often called the swap—was to enable banks to build up profits that they would retain for the purpose of switching to the more demanding International Financial Accounting Standards, or IFRS 9, if I understood correctly. The migration to IFRS 9 was mandated for the first quarter of*

this year. Can you tell us anything about how it was achieved, if it was smooth or if there were any hitches?

It was smooth. It has delayed the publishing of our usual statistics by two weeks, but, as

■ Our view is that the public sector growth as share of GDP should stop, and we should encourage the growth of the private sector.

of now, all banks are taking IFRS 9 as the reference in reporting. There are also other circulars which were considered positive like the issuance of the liquidity cover ratio. One can say today that the

Banking

banks are properly capitalized because when we did the engineering [of 2016] and we also asked the banks to have a solvency ratio of 15 percent, based on Basel III. Today, they are at over 15 percent [solvency].

E *Is this the case all throughout the sector?*

It is the average of the sector. You always have one or two banks which are behind, and we follow their cases, but you have to admit that what we are asking [of Lebanese banks] is beyond any level of what is required worldwide.

E *As one always hears rumors about new developments and pairings in the Lebanese banking industry, is there any change in the BDL policy on mergers of banks in the top tier of now 15 banks, the so-called Alpha group with deposits of over \$2 billion each?*

We have not introduced any change so far. We are, of course, flexible, and will adapt to the realities, adapting our policies to what is required to be able to keep Lebanon financed properly. For the time being, we do encourage mergers but not among the top 12 banks. We think that the consolidation that has happened by market forces has also improved the confidence in the banking sector in Lebanon.

E *If I may ask in this context about another financial sector, namely insurance. Insurers have spoken for some time about having appealed to you for subsidized soft loans from BDL that would encourage consolidation in this industry which according to the World Bank's Financial Sector Assessment is beset with over-crowdedness and unhealthy competition on pricing. Is there any outlook for the insurance sector to get soft loans from the central bank or any other form of support toward consolidation?*

The insurance sector is not in our jurisdiction. It is controlled and regulated by the Ministry of Economy [and Trade]. We have no project for putting any subsidized loans [at the disposal of] the insurance companies in the country.

E *What can we expect for 2018 as far as Circular 331 and its process, as far as the Beirut Stock Exchange (BSE), and as far as the electronic trading platform (ETP) and the transformation of the current capital markets environment?*

On 331, we are committed to pursue implementation of this circular as we believe that it is going to contribute to the creation of a productive sector for Lebanon, productive like we see it in the modern world, and that would play an important role in improving efficiency and competitiveness in the country. [Regarding the BSE], we are still waiting for the

government to designate board members so that the process of privatization of the Beirut Stock Exchange can be pursued as the law requires. On the electronic platform, we are getting there. It is a matter of one or two months that we will have the clearing system in place. We are presently testing it and want to operate [the ETP], even if we will not sell it for the time being because we are waiting to sell it at the same time as the Beirut Stock Exchange. We believe [the ETP] will create liquidity in the country.


E *Is it correct that an ETP is usually especially beneficial for the trading of government securities on basis of certain volumes?*

Such a market gives you the freedom to list all types of papers after getting the approval of the [Capital Markets Authority]. There are no restrictive measures such as on a classic stock exchange. We anticipate seeing trading not only in government securities [but also] in currencies, except for the Lebanese pound, [and] in shares when these shares cannot be listed on the stock exchange. We hope that [the ETP] will [provide] exits for startup companies and funds, and also hope to see commercial paper and debt paper traded there. Trading should be possible from all over the world, so this is another way to integrate the Lebanese diaspora with the local economy.

E *How about things like bonds for financing parts of the PPP projects in infrastructure? Would the ETP be a possible avenue for trading such bonds as financial papers with small minimum tickets in Lebanon?*

The idea of CEDRE is to fund the projects with international funds, not local funds. Therefore, apart from certain exceptions, this should not be a place to use in order to fund these projects.

E *When multilateral institutions such as World Bank and European Bank for Reconstruction and Development, which have committed to roles in the financing of Lebanon's infrastructure projects, will come to Lebanon, will BDL have an advisory role on the evaluation of projects or in some other form sit at the table when projects are being negotiated?*

The central bank has no role in this. These are international funds, and the follow-up should be done by international bodies. [The process of discussing the infrastructure investments] is between the government and the lending institutions or countries, but whenever our contribution is required we will not hesitate because we think that the project is beneficial for Lebanon. 

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THE BREAKDOWN

Analysis of banking sector results

It has been one of the most reassuring factors in the Lebanese economy—some might be inclined to say nearly the only one—that local banks maintained their strong financial standings during the past years and have been perfectly assuming their role in financing the economy. Beyond their financial performance, which is highlighted in the analysis below, banks have also been implementing adequate corporate governance standards and nurturing good transparency and disclosure practices. The Lebanese have every reason to conclude that the robust financial fundamentals, rigorous adherence to standards under supervision by the central bank, and solid risk profiles put Lebanese banks in a good position to reap the benefits of an economic upturn locally and regionally.

The analysis below is based on the consolidated performance of 26 banks that account for 97 percent of banking activities. Fifteen of these 26 banks are defined as comprising the Alpha banking group with deposits above \$2 billion (per bank) and the other 11 banks are classified as the Beta banking group with deposits between \$500 million and \$2 billion. The number of Alpha banks increased from 14 to 15 as of December 31, 2017.

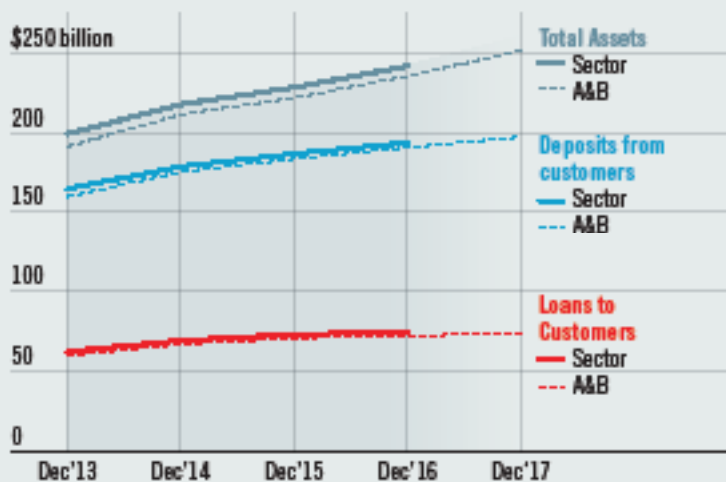
BANKING ACTIVITY

Total assets stood at \$241 billion at year-end 2016. Customer deposits, which represent more than 80 percent of consolidated assets and have increased by 15 billion over the past two years, totaled \$193 billion, while consolidated loans represented \$74 billion in 2016. A second look shows that domestic deposits have increased by \$18 billion while foreign deposits decreased by \$3 billion. In parallel, domestic loans to customers have increased by \$5 billion over the period while foreign loans have remained at the same levels since December 2014. Based on the figures of Alpha and Beta banks, assets could reach around \$260 billion at year-end 2017, deposits could surpass the \$200 billion mark, and loans could reach \$75 billion for the sector at year-end 2017.

The breakdown by currency reveals that the dollarization of domestic deposits remains steady at 64 percent while dollarization of domestic loans decreased substantially from 74 percent to 71 percent during the period under study, further reasserting the Lebanese Lira (LL) as a lending currency. Much has been said and written on the impact of the central bank's stimulus packages and the fact is that banks have injected more than \$3 billion worth of loans denominated in LL in the past two years with a growth of 13 percent compared to a 4 percent growth in total domestic loans.

In the light of growing regional and local tensions, 2014 was the last year where activity growth registered double-digit figures. Since 2015, overall activity dropped to an average growth of around 5 percent and the domestic/foreign breakdown reveals that the slowdown is due to foreign aggregates that were hit by the devaluation of currencies in major markets of presence, namely Egypt and Turkey. In addition, some banks have deconsolidated their foreign entities in Armenia, Russia, Cyprus, Syria, Iraq, and Sudan, further translating into a decrease in balance sheet aggregates.

LEBANESE BANKING SECTOR ASSETS, LOANS & DEPOSITS

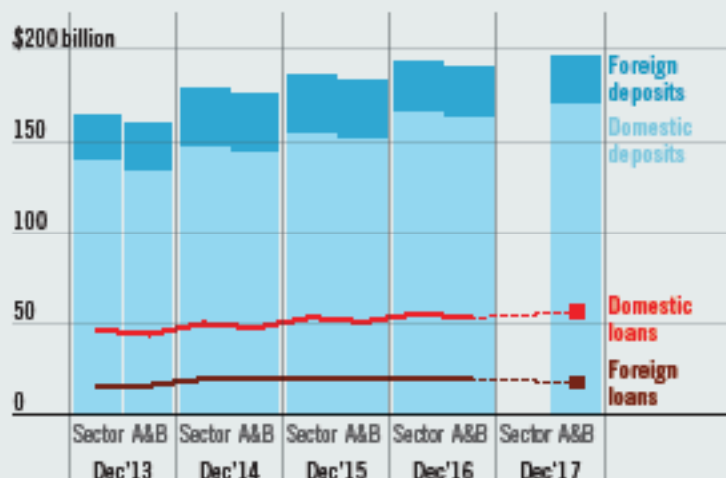


A&B = Alpha and Beta banks; LL=Lebanese Lira; FC=Foreign Currency

Source: Bankdata.com

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Domestic vs. foreign deposits & loans in Lebanese banks



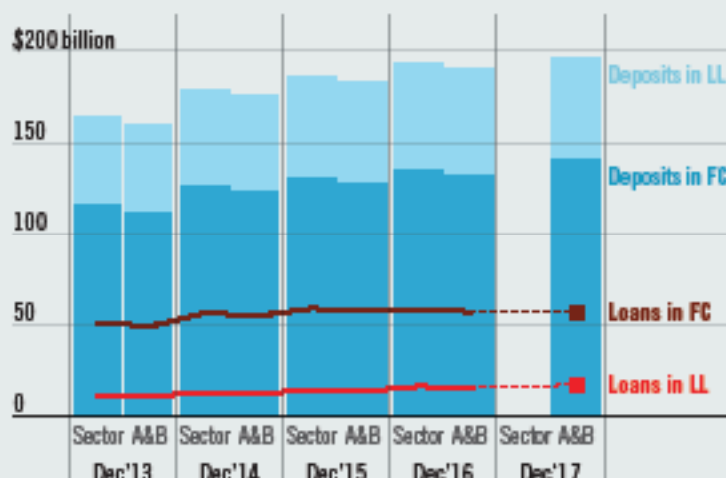
A&B = Alpha and Beta banks

Source: Bankdata.com

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Lebanese banks operated a network of 1,427 branches at year-end 2016.

Domestic vs. foreign deposits & loans by currency



A&B = Alpha and Beta banks; LL = Lebanese Lira; FC = Foreign Currency

Source: Bankdata.com

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year-end 2016. Of these, 359 branches were located abroad after the closure of 52 branches in foreign markets in a development linked to the deconsolidation of foreign entities mentioned previously. The domestic network of 1,068 branches grew by 29 new branches in the past two years.

LIQUIDITY AND ASSET QUALITY

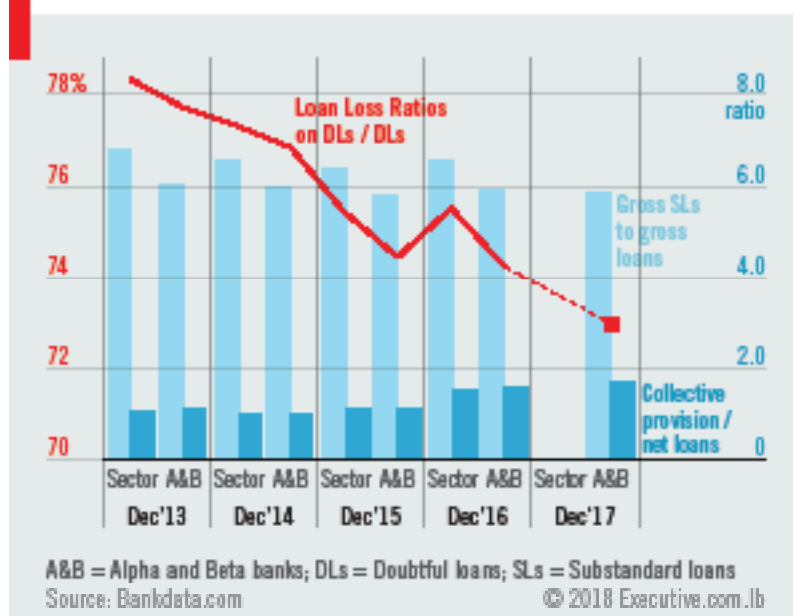
Liquidity is on the rise at 35.15 percent, well above regional averages, with liquidity in LL rising to 37.55 percent and liquidity in foreign currency (FC) registering 34.08 percent. In parallel, the loans to deposits (LDR) ratios remained stable throughout the period under study and well below regional and international benchmarks. At end of 2016, the latest observation currently available for this analysis, LDR stood at 38.36 percent overall, broken down into 27.11 percent in LL and 43.32 percent in FC.

The persisting regional and local challenges have slightly impacted asset quality with an in-

Foreign activity represents around 16 percent of deposits and 27 percent of loans. It is interesting to compare the ratio of deposits and loans per branch locally and abroad. In fact, Lebanese banks are able to replicate their local pace of circa \$50 million per year per branch in terms of loans, but foreign branches are collecting only half the deposits of domestic branches, respectively circa \$75 million and \$150 million per branch per year. Lebanese banks operated a network of 1,427 branches at

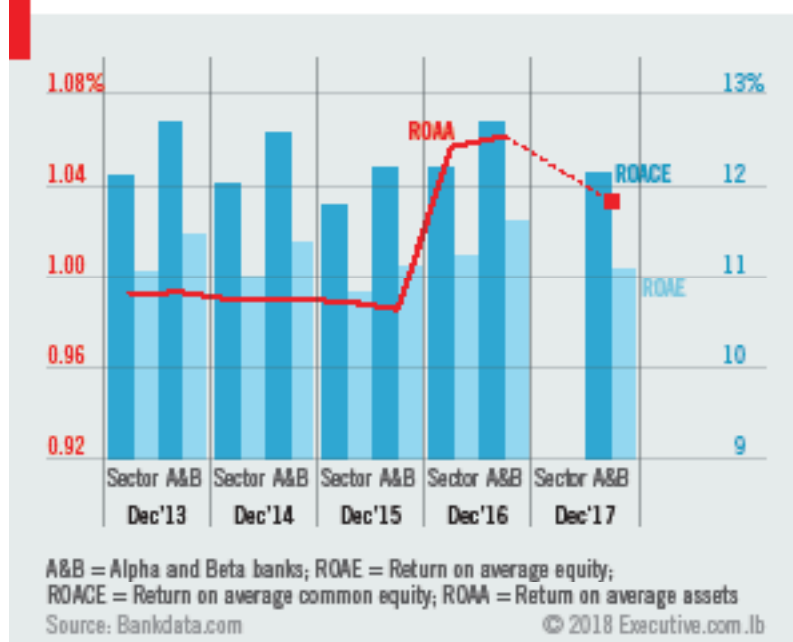
Banking

LEBANESE BANKING SECTOR ASSET QUALITY



crease in the ratio of doubtful loans to gross loans that rose to 6.55 percent at end 2016, similar to its 2014 level but slightly higher than the 6.37 percent registered in 2015. In parallel, the coverage of doubtful loans stood at 75.52 percent, up from 75.44 percent in 2015 and well above the world average of 68.70 percent in 2016. In addition, Lebanese banks increased their collective provisions to a new high of 1.55 percent at year-end 2016.

RETURN ON INVESTMENT IN BANKING SECTOR



PROFITABILITY

Net profit increased by around 13 percent to \$2.5 billion at end 2016 with domestic profit dropping from the mid-80s to low-70s as a percent of total net profit. Return ratios followed suit with return on average assets (ROAA) and return on average equity (ROAE) nudging up to 1.06 and 11.23 percent respectively. In comparison, the MENA average ratios stood at 1.50 and 11.40 percent respectively in 2016. It is worth noting that Lebanese banks have increased their equity by around \$3.5 billion over the last two years under study.

The analysis of components of return ratios show that margins and spreads remained stable throughout the period under study at around 2 percent and 1.90 percent respectively. In parallel, the net operating margin was equal-

ly steady at around 34 percent while cost to income improved, dropping from around 50 percent to 44 percent over the period compared to a world average of 55 percent at end 2016.

■ Lebanese banks have increased their equity by around \$3.5 billion over the last two years under study.

DANY BAZ is the general manager of Bankdata.



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Made in Lebanon solutions

Some business success stories surprise like new gourmet recipes. It occasionally happens that culinary innovations start with ingredients which by and in themselves do not appeal to everyone as superb delights for the senses—for example liverwurst and artichokes, or Brussels sprouts and tofu—but make a winning dish when combined. Likewise, hardcore banking and software development might, each on their own terms, be perceived as stale, boring, and tedious activities. But when the two ingredients are being composed into a menu of refined products in a company like Beirut-based Capital Banking Solutions (CBS) they can excite not only their cooks, but also make money in global markets and entice investors.

CBS is an 11-year old company that according to CEO Samer Hanna has around 270 employees, half of whom are in Lebanon. He tells *EXECUTIVE* that the other half are located in offices in Monaco, Paris, Geneva, Abidjan, New York, and Miami. According to him, the combination of local and global was by design. “Capital Banking has always had the aim to be a global company while relying on Lebanese developers and Lebanese minds,” he says.

CORE BANKING

In terms of its product and services lines, CBS addresses very specific software needs in the banking and financial industry. According to Hanna, CBS is no Fintech player in the sense of the word’s present day usage but “100 percent a software company” that develops its own software, distributes it in the form of software modules and bundles through their own sales team (as well as some third-party channels), and also provides implementation and maintenance. The product scope ranges from a core banking system—the flagship product—to modules/bundles for corporate banking, compliance, risk management, anti-money laundering, digital banking, private and investment banking, Islamic banking, and capital markets.

A core banking system can broadly be defined as the software with which banks in the last 50 or



so years increasingly use to support their most common transactions. The system usually entails capabilities for deposit, loan and credit processing, opening and maintaining accounts, and keeping financial records, as well as various interfaces such as those for general ledger systems and reporting tools.

Such a system often represents a very substantial IT investment for a bank, and replacing it involves very lengthy IT procedures and extensive employee training. The life cycle of a core banking system is very sensitive to technological innovation and regulatory change, but high cost and other barriers to change often lead banks to rely on their legacy core banking system for many years, and even decades. Moreover, implementation of core banking is so demanding that successful migrations to a new system are by no means guaranteed. Hanna acknowledges that in the CBS experience there were instances when a project was more challenging than expected and had to be implemented at a financial loss to the company, but he proudly says, “We have not failed in one single implementation in the last 10 years, even if it cost us money, and we had to take it on ourselves to succeed.”

According to him, CBS serves mostly small to medium-sized banks and sells a core banking system often for \$1-1.5 million (which is not a high price, as such systems go). Core banking systems do not account for the largest sales in terms of deals—

STABILITY



RENEWABLE ENERGY LOANS

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EDUCATIONAL LOANS

HOUSING LOANS

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Banking

these are from sales of software modules like anti-money laundering and compliance—but overall are the company's top revenue generator. CBS released a new version of the system at the end of 2017 under the name CapitalBanker, a version which makes Hanna enthuse that “this system is gorgeous.”

He is more reserved when the question turns to the financial performance of CBS, declaring “I can say that we are a profitable company and growing in double digits every year, by around 15 percent on average, which is very acceptable to us and to our board.” As he does not disclose current performance figures, he only allows that the company holds a “tiny” share of the global core banking software market when compared with leading providers such as Switzerland-based company Temenos, or Oracle Financial Software Services and the EdgeVerve division of Infosys, which are both based in India. Temenos, which claims to be international market leader in software for banking and financial institutions, reported revenues of \$735 million and \$138 million in net profit for FY 2017. Market research vendors put the global market size and outlook for core banking software as growing toward \$10 billion annually.

GLOBAL OUTLOOK

Hanna reveals, however, that the firm has revenue targets of \$50 million in annual sales over the coming few years and is not too far from that point. Moreover, there can be no question that CBS has taken to the global market for making its fortune. As Hanna says, the company derives 8 percent or less of its annual revenue from sales in the Lebanese market and shows no sign of having prioritized its home market for acquisition of new clients, increase of its sales, or even presence in local trade shows. Hanna says, “We did not have a need [to perform in the local market], and still do not feel that the return [from the Lebanese market] is important [enough] to invest the effort, time, and people into exhibiting in the local market. Most of our sales and revenues are generated in Europe, the Middle East, and Africa.”

As to the background of relative reticence in Lebanon, it also seems conceivable that the company's connectedness with Bank Audi Group, which is no secret, would discourage some other banks in the local arena from seeking a client relationship. According to Hanna, two of the six board seats at CBS are held by Bank Audi Group, which he explains is a 45 percent shareholder (another seat is

held by Berytech Fund II, or BTF II, which was, at time of writing, about to declare a \$5 million equity investment and participation in CBS; the three remaining seats are with Hanna and two other executives of the company).

Notes in Bank Audi's Annual Report for 2016 say under the header Other Operating Income that the group derived \$25.1 million in revenues from nonbanking activities, attributed to “Capital Banking Solutions Ltd., a subsidiary.” Another note to the Annual Report states CBS Ltd. to be a company with a registered office in the Dubai International Financial Center in which the group acquired an additional 33 percent share in September 2015, bringing the total ownership stake to 70.5 percent. According to Hanna, the corporate structure of CBS includes, under a Lebanese holding, offshore and onshore corporate

units in Beirut, besides the Dubai unit, which was established for the handling of international billing.

A twofold rationale drove CBS to seek an injection of fresh capital from BTF II, which is a venture

■ Market research vendors put the global market size and outlook for core banking software as growing toward \$10 billion annually.

capital fund that confirms on its website that its funding is sourced from Lebanese banks under the terms of central bank Circular 331. This was, on one hand, the desire to create an extensive sales department in support of CBS' global footprint. The other aim was to create new products, from investing into an Islamic banking module to developing its cloud-based services. According to Hanna, the state of the Islamic module is about 70 percent of where CBS wants to take it, but the company already achieved sales to banks in Iraq, and the migration to offering banking software as a service in the cloud context is progressing, besides which, he says, “We went crazy on digital; we have a great digital banking module and are now finalizing our mobile banking app.” While CBS wants “to stay as far away from Bitcoin as possible,” Hanna concedes that the company has tasked a very small team with investigating blockchain and probably creating a process using the distributed ledger concept. As the digital frontier of banking will not wait for the timid, it appears encouraging that a Lebanese software company is standing its ground in technology development markets that, by all rational expectations, will have great importance in the future of banking. ■

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By Jeremy Arbid

REGIONAL POLITICS TIGHTENING THE NOOSE AROUND LEBANON



Lebanon's economy at risk from external pressures

Over 300 days have passed since Saad Hariri, Lebanon's prime minister, stood on the White House lawn next to Donald Trump as the US President promised an answer to the "menace" of Hezbollah within 24 hours. That answer did not materialize in the form of a comprehensive foreign policy or as diplomatic niceties, at least where the public is concerned, but now in mid-2018 we indeed have the answer—namely that actions speak louder than words. With that principle in mind, Trump's politics vis-à-vis Hezbollah and the region has been made clear.

American focus appears to follow that of Israel. In other words, their focus is on Iran. This leaves Syria, as of right now, as a tertiary concern to the Americans. Meanwhile the month of May saw escalations from the Israeli side over what it perceives as Iranian encroachment, escalations that risk further inflaming the Syrian war. These included Israeli airstrikes on Iranian military facilities in Syria, the American withdrawal from the Iran Deal (formally known as the Joint Comprehensive Plan of Action), moving the American embassy in Israel to Jerusalem, and American sanctions that targeted Iranian central bank officials, leaders of Hezbollah, and Hezbollah's alleged illicit global financial network. All of these could increase the risk of a new

war in the region. But what could happen to Lebanon and its economy, including the financial sector?

WIDER CONSEQUENCES

On May 8 Donald Trump abandoned the Iran Deal, fulfilling a promise made on the campaign trail. The US president offered no strategy or alternatives, with a list of demands only later fleshed out by US Secretary of State Mike Pompeo. The Iranians have a list of their own that they have sent to the European parties to the deal who wish to keep the agreement in place. These include European protection of Iranian oil sales and a continuation of purchases. The Americans have threatened sanctions on European companies if they do business with Iran, and so far Total, an international oil company, announced it would freeze its \$1 billion investment in an Iranian gas field if the Americans reapply sanctions on Iran later this year. Other global companies have also said they would wind down business in Iran. In the 1990s the United States threatened sanctions against European companies for trading with Cuba, but the European Union was able to neutralize the threat by suggesting retaliatory sanctions. Right now it is anyone's guess how this chapter of the saga might play out, and at this point it is unclear how wider American actions will affect the regional economy. We also do not yet know what sanctions targeting senior officials connected to Hezbollah will do to Lebanon, its banking sector, or the local economy.

ECONOMIC WOES

What we do know is that the risk of a regional war that could engulf Lebanon has already had implications for the country's economy.

Moody's, a credit agency, reported in mid-May that global financing conditions will tighten gradually but also said that Lebanon, as one of several sovereigns, could be vulnerable to an interest rate shock. In the event of such an episode, the Moody's report concludes that "the most exposed emerging market and frontier market sovereigns would see fiscal strength weaken. Absent a policy response



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that effectively mitigated the erosion of fiscal strength, these shifts would strain ratings, even for sovereigns we already assess with the lowest fiscal strength.” Their announcement does not directly address war risk, but Lebanon’s vulnerability to an interest rate shock could be due, as they put it, to “high debt burdens, eroded revenue bases after the commodity price shocks, and an untested capacity to refinance sizable maturities in an environment of tighter financing conditions.” The indirect effect of oil prices, which now hover around \$80, will heavily impact the Lebanese economy, putting pressure on exchange rates and the international interest rate environment. There is also speculation that Brent Crude trading could reach \$100 per barrel next year, in part due to US sanctions on Iranian oil.

Lebanon has one of the world’s highest debt-to-GDP ratio, estimated above 150 percent in 2017 by the International Monetary Fund (IMF), and the government recently swapped Eurobonds with Banque du Liban (BDL), Lebanon’s central bank, worth \$5.5 billion in Lebanese treasury bonds, according to a Ministry of Finance statement. The swap is meant to finance the government through the end of the year and to reduce debt-servicing costs.

CHALLENGES AHEAD

The Eurobond fell to 94.67 as of May 14 according to the BLOM Bond Index, a measurement of the performance of the Lebanese government in the Eurobond market, a decline of 8.5 percent from its peak of 103.42 on January 17. Dollar-denominated bonds have also tumbled, according to the May 14 Weekly Economic Commentary published by Nasser Saidi, a former Lebanon economy minister: “Lebanon’s dollar-denominated bonds fell to multi-month lows after Trump pulled out of the Iran deal: the \$1 billion bond maturing in 2022 tumbled to 90.66 cents (the steepest loss) - its lowest level since Nov 2017.” In a message to EXECUTIVE, Saidi explained the drop as investor uncertainty by stating that “investors consider Lebanon at risk of war as a result of potential Iran confrontation.”

Lebanon’s fiscal standing is, in polite terms, very challenging. Saidi, responding to an EXECUTIVE email, summarized the choppy strait that Lebanon must navigate, while also considering the external pressure points: “Given the high and growing risk premium, the spread on sovereign debt and interest rates are likely to remain high and rise further in Lebanon. This will be further exacerbated by the rise in US interest rates as part of monetary policy normalization and higher inflation. Given the peg of the

LBP to the USD, there will be upward pressure on Lebanese interest rates. The impact of rising rates is substantial. It is estimated that a 1 percentage point (100 basis points) increase in interest rates would raise the cost of debt service by 7 percent of government revenues, from an already unsustainable 49 percent. However, BDL indicated in March this year that there would be no further rate hikes in spite of the [US Federal Reserve’s] anticipated hikes later this

■ Lebanon’s fiscal standing is, in polite terms, very challenging.

year, indicating monetary accommodation of budget deficits by the central bank. Trying to lower spreads will hamper the nation’s ability to attract

inflows, thereby raising risk premiums further.”

Internal dynamics, coupled with some external factors, hold the possibility to trip up Lebanon’s economy, rather than indirect pressure of sanctions which at this point really do not look like an economic instrument but more like a political one that makes noise and headlines but does not change the economic equation fundamentally. Yes, there are sanctions on Lebanese individuals and companies and that does pile on political pressure on the country, but the standard answer from Lebanon’s central bank is that it complies with international standards and foreign and local legislation, while the banking community is in compliance with global anti-money laundering and counterterrorism financing requirements.

Riad Salameh, governor of BDL, does not seem so fazed by the myriad challenges piling on the country. He has, after all, guided Lebanon through similar rocky periods over his 25 year tenure. “The challenges are true challenges and we will be facing them, whether the increase in interest rate because of the world increase in rates, or whether the higher oil prices. [It is also true that] the geopolitical risks will be influencing the economy,” Salameh said in a recent interview with EXECUTIVE (see Q&A page, 30).

Past experience has demonstrated the vulnerability of Lebanon’s economy to external shocks and maybe it is so far positive that there has been only limited military action in the immediate period following America’s JCPOA withdrawal, embassy move, and targeted sanctions. How Lebanon plays into these geopolitical issues we still do not know, but the sound of the Trump administration’s war drums grow ever larger and the latitude afforded to Israel to do as they may in the region widens. ■



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٥.٧٨١	٣.٦٥٤	صافي الإيرادات من الفوائد
١٢.٠١٩	٥٠.٣١١	الإيرادات من العمولات
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السادة Ernst & Young
السادة سمعان غلام وشركاهم

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السيد خليل صحنوي	عضو
السيد جورج صغبيني	عضو
السيد سليمان معزوي	عضو

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(*) ان وجدت في الوضعية المجمعة
 (***) بعد تنزيل مبلغ ٨٢٧٢ يمثل مؤونة الديون والقيم المشكوك بتحصيلها
 ومبلغ ١٠٤٨٧ يمثل فوائد غير محققة.

Better to have than to have not



The 2018 budget remains despite multiple constitutional violations

A legal challenge of the 2018 budget law taken to the Constitutional Council, Lebanon's highest court, threatened to cancel what was the country's second state budget passed in the last six months, on the back of no budget at all for almost 12 years. Parliament ratified the 2018 budget without approving an audit of public finances, amounting to a violation of the constitution the court says, and inserted clauses to the law that the court deemed non-essential to budgetary matters.

In total, the court struck seven

articles from the budget law and rebuked Parliament for its lack of oversight on government spending and collection, saying that by not approving an audit, they had left the door open to corruption. Given the weaknesses in Lebanon's economy and the challenges facing the state's coffers, however, the court decided against annulling the law in its entirety—instead ruling that it is better to have a budget than not.

The budget projects an overall spending reduction of nearly \$9 million to \$15.85 billion (LL23.89 trillion)—

down 0.06 percent from the previous fiscal year, as EXECUTIVE reported last month. As for revenue, the budget estimates \$12.4 billion (LL18.6 trillion) for 2018. About 77 percent of this will come from tax collection, \$9.5 billion—(LL14.3 trillion)—with the remainder projected to be raised from non-tax revenues and the profits of state-owned enterprises and public institutions—\$3 billion in total (LL4.5 trillion). (See revenue infographic, page 51.)

This year, Value Added Tax is estimated to generate \$2.6 billion (LL4 trillion) after the rate was raised from 10

GOVERNMENT REVENUES, PROJECTED AND ACTUAL

Source of revenue (values in thousands of \$USD)	2017 Projected budget law	2017 Actual effective revenues	2018 Projected budget law	% Change from 2017 actual
Tax revenues	8,521,047	8,208,052	9,466,312	+15%
Taxes on income, profits, and capital gains	2,802,103	2,786,229	2,651,007	-5%
Other income taxes	451	710	690,501	+97,154%
Built property tax	180,617	187,476	146,534	-22%
Inheritance tax	115,018	110,395	117,313	+6%
Non recurrent taxes on property	899,118	639,502	588,226	-8%
Domestic taxes on goods	947,310	947,443	1,169,022	+23%
Taxes on services	2,567	2,222	2,627	+18%
Sales tax	338	232	269	+16%
Value Added Tax	2,282,607	2,305,539	2,625,665	+14%
Other taxes on goods and services	296,504	306,123	337,307	+10%
Taxes on imported goods	575,648	492,352	572,564	+16%
Fiscal stamp fees	347,396	347,728	484,305	+39%
Permit fees	51,177	56,484	54,123	-4%
Fines and penalties	20,000	25,327	25,738	+2%
Confiscations and forfeitures	5	23	5	-78%
Sanctions	188	267	206	-23%
Non-tax revenues	2,368,477	2,569,377	2,929,551	+14%
Administrative fees	485,121	494,879	541,997	+10%
Administrative charges	21,121	21,864	21,930	-0%
Other administrative fees & charges	14,408	10,083	13,167	+31%
Transfers from postal services	0	600	0	-100%
Income from non-financial public enterprises	1,557,957	1,535,874	1,644,046	+7%
Transfers from public financial institutions	40,557	40,252	40,962	+2%
Transfers from public investment mgmt. institutions	0	0	0	-
Other income from public institutions	3,987	4,511	4,066	-10%
Regie profits	70,149	86,720	83,821	-3%
Property income	68,358	176,590	69,731	-61%
Retirement deductibles	103,177	146,846	206,362	+41%
External current grants	0	40,405	0	-100%
Sales	2,262	2,282	2,308	+1%
Extraordinary non-tax revenues	1,380	8,471	301,161	+3,455%
Total revenues	10,889,524	10,777,429	12,395,863	+15%

Source: Citizen Budget 2018 published by Basil Fuleihan Institute, citing 2018 budget law

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Budget

CONSTITUTIONAL COUNCIL

In mid-May Lebanon's highest court, the Constitutional Council, issued ruling 2/2018, annulling several articles of the 2018 budget law by deeming them unconstitutional. However, the council decided against annulling the entirety of the law, despite two major constitutional violations. Firstly, the court determined that the budget was passed by the government and ratified into law by Parliament outside the timeframe stipulated under the constitution (see the infographic in *EXECUTIVE*'s November 2017 issue for more details). Secondly, the court ruled that article 87 of the constitution was violated because Parliament ratified the budget law without reviewing and ratifying an audit of previous spending and revenue collection.

The court also reprimanded Parliament for failing to oversee the work of previous governments by not approving or auditing budgets since 2006, saying that this created an abnormal situation that caused serious damage to the national interest, allowed for a lack of transparency in the collection of revenue and spending, called into question the credibility of the budget and its implementation, and opened the door to corruption. The court ruled that the continuing absence of an audit was a flagrant violation of the constitution, but ultimately decided against annulling the 2018 budget on these grounds.

The court also ruled that seven articles (14, 26, 35, 43, 49, 51, and 52) in the budget law would be annulled because they were unrelated to budgetary matters, and were, therefore, deemed unconstitutional. Article 49 would have granted residency to any foreigner (including Arabs)—along with his or her spouse and dependents—purchasing a residential unit valued at least LL750 million (\$500,000) in Beirut, and at least LL500 million (\$333,333) for other areas in the country. The court invalidated the article stating it should be issued as separate legislation and not as part of the budget law.

The court repealed article 26 of the budget law which would

have exempted companies that failed to pay the taxes imposed on them by law, in full or in part, while individual taxpayers in a similar legal position would have to pay the taxes imposed on them in full. The court ruled that this violated the spirit of the constitution, which calls for social justice and equality for citizens, that it would lead to the abandonment of revenues owed to the state, and that the article had nothing to do with the budget in terms of estimating expenditures and revenues, and implementation. Article 35 was also struck from the budget law. The article would have allowed construction violators to pay a fine and settle legal blocks on their property. This means existing properties would have been able to remove violations from their property record, allowing permits for businesses to operate on the property, rental of the property, or sale of the property. The article did not delineate the rates at which construction violations could be settled, leaving the issue to cabinet to determine the years applicable, the charges, and the fines.

Other articles annulled from the budget law were: article 43, which would have allowed cabinet to determine the merging or dissolution of public agencies that were redundant or no longer functioning; article 51, which would have allowed cabinet to determine the rates at which the minimum wage for public sector workers would be increased, increased public sector working hours from 32 to 34 per week, and stipulated that the Friday workday would last from 8 a.m. - 11 a.m.; and article 52, which concerned changes to the judicial recess period that would have been determined by the Higher Judicial Council.

The court also ruled that article 13 of the budget law that stipulated a treasury advance to *Electricité du Liban*, while not including the advance in budgetary figures, did not violate the constitution. It, therefore, decided against annulment, citing several articles of the public accounting law governing the issuance of treasury advances.

to 11 percent in last year's budget law. Tax on interest income is estimated at \$863 million (LL1.3 trillion). Customs duties could bring in \$572 million (LL863 billion), real estate registration fees another \$588 million (LL886 billion), income tax on profits \$990 million (LL1.5 trillion), and income tax on salaries and wages some \$517 million (LL780 billion).

Non-tax revenues include transfers from telecommunications surplus,

expected at \$1.4 billion (LL2 trillion), profits from *Casino du Liban*, \$78.3 million (LL118 billion), and from the Port of Beirut, \$142 million (LL214 billion). *Banque du Liban*, Lebanon's central bank, is scheduled to transfer about \$41 million (LL61 billion). Property held by the state is expected to generate around \$70 million (LL105 billion), while fees paid for administrative services would add another \$542 million (LL817 billion).

Government revenue has fluctuated over the past several years, according to figures published in the Public Finance Monitor (PFM) by the Ministry of Finance. In 2014 the government raked in \$10.9 billion (LL16.4 trillion) before dipping to \$9.6 billion (LL14.4 trillion) the following year, and rebounding to \$10 billion (LL15 trillion) in 2016. PFM has not yet published full-year figures for 2017, but revenue estimates in the

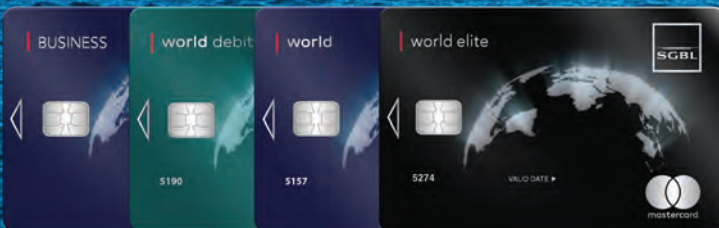
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Budget

2017 budget law came to \$10.7 billion (LL16.2 trillion).

AUTHORIZATION PLUS

Marwan Khatib, a senior associate at Kabalan & Associates law firm, says the budget law does much more than just authorize the government to spend money and collect revenues. The law includes incentives for taxpayers to settle their dues and over the long-term might allow the government to improve tax collection rates and strengthen the overall public finance situation.

Article 55 of the law reduces customs duties and excise taxes on imported hybrid and electric vehicles. The new rule limits customs duties on hybrid vehicles qualified as personal use automobiles to 20 percent regardless of the value, and to 10 percent if intended for public use. Electric vehicles, meanwhile, will be fully exempted from customs duties. Owners of both types of vehicles will not pay registration and are exempt from their first “*Mechanique*” fee. Previously, vehicle purchases were levied customs duties at 20 percent for all vehicles valued at \$13,300 (LL20 million) or below, and 50 percent on vehicles worth over \$13,300.

Article 13 allows a treasury advance to Electricité du Liban (EDL) of nearly \$1.4 billion (LL2.1 trillion) to cover the cost of fuel purchases, estimated to reach \$1.38 billion (LL2086 billion), and to cover interest and loans which are projected to amount to \$9.3 million (LL14 billion). The article also states that EDL, with the Ministry of Finance and Ministry of Energy and Water, have six months from the date of publication of the budget law to come up with a mechanism to reimburse the treasury for the advance.

Article 15 delays capital expenditures on and maintenance allocations for state infrastructure by a year. Investments in infrastructure advocated by the article include:

maintenance of buildings at the Lebanese University; increasing the capacity of drinking water delivery around the country; improving irrigation and sewage; construction of a tourist port in Jounieh; enlarging and maintaining the road from Sultana to Saida, and from Kfar Remen to Marjaayoun; removing landmines in the south; modernizing the Army’s IT department, as well as construction and maintenance of facilities and equipment; improving school buildings, furniture and supplies; and upgrading and expanding the country’s fixed telephone line network.

STRAINED TRANSPARENCY

Article 16 allocates just under \$500 million (LL750 billion) over five years for the purchase or construction of new buildings to house government offices, to provide space deemed adequate through 2050. The article does not clarify which agencies would be prioritized nor does it say which regions of Lebanon would receive funding first. But it does show the allocation by year: \$6.6 million (LL10 billion) in 2018, \$133 million (LL200 billion) in 2019, \$133 million (LL200 billion) in 2020, \$110 million (LL165 billion) in 2021, and \$116 million (LL175 billion) in 2022. It also stipulates that all government agencies renting space must end their leases by 2022.

Khatib added that many of the articles in the budget law 2018 may be crucial to the operation of government. Article 17, for example, decreased fines on taxpayers behind on their bills by up to 90 percent, providing an incentive for them to settle their unpaid tax bills by paying only a 10 percent fine instead of the full amount owed. This decrease will apply to delayed *Mechanique* fees, municipality fees, and NSSF con-

tributions. Khatib suggested many taxpayers who had previously not paid in full may now pay up given the lower penalty, allowing the government to collect higher amounts in revenue than it otherwise would. Another example that Khatib points out is article 29, which updated property taxes applicable at different rates dependent on buildings constructed after September 1962. He also highlighted article 38, which amends fees for passports. A one-year passport now costs \$40 (LL60,000), a five-year passport costs \$200 (LL300,000), and 10-year passport costs \$332 (LL 500,000). The Constitutional Council also struck down article 26 of the budget law, which would have offered waivers for companies behind on their tax bill, stating that it violated the spirit of the constitution, among other reasons (see box of court decision, page 52).

In April, the Ministry of Finance

■ The budget law does much more than just authorize the government to spend money and collect revenues. The law includes incentives for taxpayers to settle their dues.

published a document titled “Citizen Budget 2018,” offering greater transparency of high-level public finance figures that were previously buried in the budget law published in the Official Gazette (which, in mid-May, was put behind a paywall). A letter addressed to EXECUTIVE and signed by the Minister of Finance, Ali Hassan Khalil, stated that the ministry “has pledged, as of this year, to regularly publish the Citizen Budget, in parallel with the adoption of subsequent budgets in the coming years, making it a permanent and ongoing tradition.” Inshallah. ■

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Winners announced for the Young Lions Print Competition



1st Place Winners: Vera Karam and Youssef Yammine from Mirum Agency

The country representative for the Cannes Lions Festivals, Executive Magazine, in cooperation with the Lebanon chapter of the IAA (International Advertising Association) and the AA (Advertising Association), is thrilled to announce Vera Karam and Youssef Yammine from Mirum as the winners of the Young Lions Print Competition 2018, held on April 20, 2018 at the American University of Beirut. Congratulations to the victors!

For its fourth year, the Young Lions Print Competition challenged 39 teams of young professionals in the advertising industry. Participants were briefed onsite and given seven hours to develop their print ad for Lebanese NGO Dar Al Ajaza, whose identity was kept secret until the day of the event. To ensure the most qualified and balanced judging, impressive jurors from leading advertising agencies gathered on April 24, 2018 to identify Lebanon's Young Lions leading creative team. After a thorough judging process, Vera and Youssef came out on top of an exciting race. Having been granted an all-expenses-paid trip, including flights with Air France—the official carrier—accommodation, and a full week delegate pass to the festival, Mirum's team will now go on



2nd Place winners: Stephanie Raad and Nour Tueini from Fortune Promoseven



3rd Place winners: Tamara Chehade and Sara Egavian from Leo Burnett.

Executive



to represent Lebanon in the prestigious worldwide Young Lions Print Competition in Cannes.

The competitors did an astounding job with the limited time provided. Among the exceptional entries in this year's competition, Executive would like to congratulate the 2nd place winners Stephanie Raad and Nour Tueini from Fortune Promoseven, as well as the 3rd place winners Tamara Chehade and Sara Egavian from Leo Burnett.

Executive is proud to continue supporting young, bright minds in the advertising field and remains firmly committed to nurturing Lebanon's creative talents and broadening their horizons.

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Securing our energy future



Energy security is inextricably linked to renewables

Worldwide electricity consumption is estimated to grow from around 20,000 terawatt hours (TWh) today to 35,000 TWh in 2030, putting energy security at the forefront of future planning.

While in the past, energy security was largely focused on oil supply, and natural gas supplies were not globally integrated, today a global market in natural gas is linking countries, continents, and energy prices in unprecedented ways—fostering the need for a cooperative approach.

Securing the world's energy future also depends on moving past traditional energy concepts, sources,

and approaches. By 2040, 60 percent of the new production capacities are expected to come from renewable sources. Environmental sustainability is closely bound with future energy development in emerging and developing countries in particular, and renewable energy sources and storage have become critical for development and prosperity.

ENERGY SECURITY AND DEVELOPMENT

The interdependence between energy-producing and energy-consuming countries is increasing due to the shift in the geographical

sources of oil and gas supplies expected over the next several decades. More than ever, it is in the world's common interest to secure a sustainable supply of energy. Enhancing energy security will require a far-sighted and cooperative approach internationally, one that builds on the value of interdependence.

This is especially true for developing countries, which are expected to account for more than two-thirds of the growth in energy consumption in the coming years. For these countries, energy security is also key to development. Economic activity and the economic growth necessary for job

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creation and raising incomes depend on adequate, affordable, and reliable supplies of energy.

The impacts of current unreliable energy supplies severely constrain businesses and hurt their competitiveness. In Sub-Saharan African countries, for example, production losses caused by power outages reach between 6 and 8 percent of sales. It should not come as a surprise that many companies in Sub-Saharan countries use their own generators, despite the fact that the cost of privately supplied power is two to three times higher than energy from public grids. As a consequence of unreliable grid supply, the percentage of companies with their own generators is very high in developing countries overall, as seen here in Lebanon.

Unreliable energy supplies in developing countries also come with an individual cost—some people can spend up to a quarter of their income on an energy supply which does not meet their needs.

Securing the energy future of developing countries is therefore vital to their future development and the needs of their citizens. One way in which to do this is to shift the focus of energy supplies to renewable or green energy sources.

THE FUTURE IS GREEN

Here in Lebanon, there have been some attempts to foster the use of renewables as an alternative to conventional oil-based energy. One particular success is the use of solar water heaters, which have and continue to gain considerable interest in many parts of Lebanon.

By the end of 2018, it is expected that small-sized photovoltaic initiatives will have been implemented across the country, while a wind farm project in Akkar that would generate 200 megawatts has also been tendered, and another 200 megawatts of solar generation projects are planned. But overall generation from renewables

is still a very small percentage of total energy sources in Lebanon (around 5 percent).

There is still much work to be done, compounded by the fact that what little success has been achieved so far is now at risk due to the potential of offshore oil and gas in Lebanon. The high levels of speculation surrounding these prospective hydrocarbon resources have inflated expectations of an oil and gas solution to Lebanon's energy woes, putting the urgency of renewable energy development at risk.

It is true that extracting petroleum could be a potential solution to the electricity problem in Lebanon. However, this should not stop renewable energy development or impede Lebanon's target of deriving 12 percent of its energy from renewables by 2020. In fact, the country should be aiming to double the percentage of renewables beyond this low goal.

Standing in the way of this, however, is the possibility of discovering oil and gas that could supply local power plants at a far lower cost compared to current prices paid by the government. Over-reliance on this outcome could create a tendency to see renewables as a secondary source of energy. If that occurs then there is little hope of Lebanon installing renewables past its near-term target. Even worse, it could stunt growth in the renewables sector for generations to come.

The stakes here are high. By reducing Lebanon's reliance on conventional oil-based energy and accelerating a switch to renewables we would achieve a cleaner environment and a healthier country to live in, especially in places where private generators are running almost 24 hours per day and emitting harmful greenhouse gases. Securing our future energy supply requires bold action supporting the implementation of transformational

renewable and storage power projects. Energy storage facilitates access to clean energy and acts as a buffer to stabilize the intermittency of renewable energies. It is an essential tool for enabling the effective integration of renewable energy and unlocking the benefits of a clean, renewable, and resilient energy supply.

This is as true for Lebanon as it is for developing countries the world over. The bottom line is clear—energy insecurity constrains economic growth and poverty reduction, and has environmental impacts that are increasingly detrimental to people's health and well-being.

The big question is whether it is possible to expand supplies and access to energy in ways that enable the

■ Energy insecurity constrains economic growth and poverty reduction, and has environmental impacts.

needs of the present to be met without compromising those of future generations.

The answer cannot lie in efforts to restrict energy consumption alone. We need to find ways to supply homes, farms, and factories with the energy they need, but with a smaller environmental footprint and much higher energy efficiency. Increasing energy supply and use, and decreasing the environmental footprint, therefore present a double challenge. If that challenge can be successfully met, the result will be a double dividend: an improved clean energy supply and an improved atmospheric environment that should, in the long term, lead to a more stable climate. ■

JAMAL SAGHIR is the professor of practice at the Institute for the Study of International Development at McGill University, an affiliated scholar at the Issam Fares Institute, Beirut, and senior associate at the Center for Strategic and International Studies, Washington, D.C. All views expressed in this article are his own.

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By Mona Sukkarieh

Aphrodite's blues

Cyprus and Israel diverge over shared gas reservoir

As the final preparations for the May 8 trilateral summit between the heads of state of Cyprus, Israel, and Greece were being laid out—the fourth such summit in just over two years, with so far, more words than actions—news broke that Cyprus and Israel might resort to international arbitration to resolve a dispute over Aphrodite, a gas field located in the Cypriot Exclusive Economic Zone (EEZ), with a tip extending into the Israeli EEZ.

In December 2010, Cyprus and Israel signed an agreement delimiting their maritime border. It was supposed to be followed up by a unitization agreement providing a framework for cooperation in the exploitation of cross-border natural gas and oil reservoirs, but the two sides have yet to agree to such a deal. A year later, toward the end of 2011, Texas-based Noble Energy announced the discovery of Aphrodite in Block 12 off the Cypriot coast.

When it was first discovered, Aphrodite was estimated to contain around seven trillion cubic feet (tcf) of natural gas, but a subsequent appraisal drilling in 2013 revised these estimates down to a mean of 4.5 tcf. Encouraged by this discovery, in November 2012 the holders of the Ishai license within the Israeli EEZ bordering Block 12 drilled a well that demonstrated that Aphrodite did partly extend into their license, though it only showed negligible quantities of natural gas. At the time, Eyal Shuker, CEO of Israel Opportunity, one of the Ishai licensees, declared: “We regret the results, and we would have been happy were they differ-

ent.” Yet, much to the disbelief of the Cypriot side, in November 2015 the petroleum commissioner at the Israeli energy ministry classified these findings as a discovery, a term implying a commercial value.

Exactly how much of these natural gas resources extend to the Ishai license is unknown at this point. The Cypriots claim it is only a negligible fraction, possibly around 3 percent of the reservoir or less, while the Israelis, on the other hand, insist it is larger than that and have mentioned shares ranging from 5 to 10 percent of the reservoir.

OBSTACLES TO DEVELOPMENT

The fact that Aphrodite extends to the other side of the EEZ border gives Israel a say in the development of the reservoir. In the absence of an agreement, Israel would likely refuse to allow the development of the gas field given that extracting gas from Aphrodite will lead to extracting gas from the Ishai prospect. However, this is not the only obstacle to the development of Aphrodite. Other factors explain why the gas field has not been developed yet, seven years after its discovery. As the local market is too small to justify the development of Aphrodite, the gas field's license holders need to find export markets. So far, all options on the table are proving to be challenging from a commercial point of view. The high cost of development, combined with relatively low global gas prices,

makes it hard for Aphrodite gas to be competitive, and that explains the difficulties in securing firm sales agreements to date. The absence of a framework to exploit joint reservoirs between Cyprus and Israel is an ad-

■ The fact that Aphrodite extends to the other side of the EEZ border gives Israel a say in the development.

ditional challenge that complicates development even further.

The issue was brought back to the spotlight with news that the negotiations between Cyprus and Egypt to connect the Aphrodite gas field to Egypt have reached their final stages and a deal is expected to be signed in the coming weeks. But this would be an inter-governmental agreement laying out the framework to facilitate possible gas transfers to Egypt in the future, and not a deal committing volumes of Aphrodite gas to Egypt. Indeed, the development of the Aphrodite gas field is still on hold with no real progress on this front since Noble Energy, the operator of the field, submitted a development plan in 2015. The company is focusing its efforts in the Eastern Mediterranean on developing Leviathan, the giant 22 tcf gas field in Israel, which at this time is its absolute priority in the region.

DISAGREEING ALLIES

The Cypriots have been disgruntled over what they perceive as an aggressive handling of the affair by the Israeli side, especially in light

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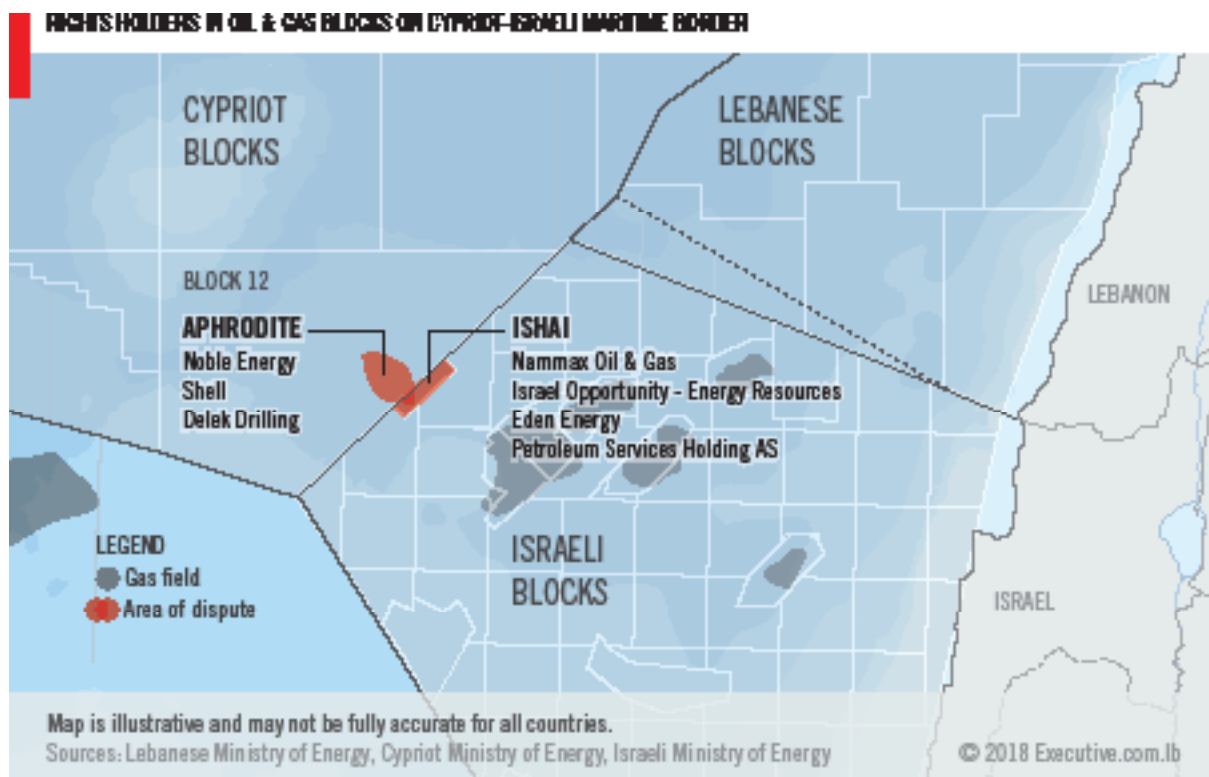
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of the flourishing relations between the two countries in recent years. Ahead of the trilateral summit in Nicosia on May 8, Yuval Steinitz, the Israeli energy minister, made it clear that “the government of Israel cannot give up, not even as a gesture of friendship, on its territories or its natural resources.”

Ironically, the Israelis have interests on both sides of the border, with Delek Drilling, an Israeli company, holding a 30 percent stake in Aphrodite.

A matter of concern for Lebanon is one of the arguments the Ishai licensees are using to support their case in front of Israeli officials, whose support with regards to their share of Aphrodite they appear to perceive as fragile. Rony Halman, chairman of Israel Opportunity, was quoted as saying: “An Israeli concession to Cyprus and further

development of the Aphrodite reservoir that ignores Israel’s rights in it will represent a dangerous precedent that in the future will affect additional reservoirs in the Mediterranean basin that extend across the maritime borders between Israel and its neighbors. Such behavior will lead to a significant loss of state revenue.” In any case, companies with stakes in the cross-border gas reservoir will continue discussions in the coming months. If they fail to reach an understanding, they will turn to an international expert, or possibly an arbitrator, to propose a solution.

Trilateral tracks have proven to be an excellent venue for discussions. This was the fourth trilateral summit for the three countries in

two years, and a fifth is planned for later this year. Countless other lower-level diplomatic meetings have also been held, with few concrete results so far when it comes to some of the grandiose projects under dis-

■ There is a tendency to brandish these projects even though the commercial viability of, at least some of them, is hard to prove.

cussion. Yet, there is a tendency to brandish these projects even though the commercial viability of, at least some of them, is hard to prove. In the meantime, more pressing issues, such as a unitization agreement, have seen slow progress. ■

MONA SUKKARIEH is the cofounder of Middle East Strategic Perspectives, a Beirut based political risk consultancy.

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By Nasser Yassin

No growth without reform

Implementing CEDRE and Brussels II requires good housekeeping

Within a period of six weeks last spring, Lebanon received an attentive treatment from the international community. On March 15 in Rome, an international meeting was held to support Lebanon's armed and security forces. Afterwards in Paris on April 6, world leaders convened to offer Lebanon substantial foreign aid to bolster its economy at the CEDRE conference. Then on April 24-25, the international community reiterated its support for Lebanon's efforts in hosting more than 1 million Syrian refugees at the Brussels II conference on "Supporting the future of Syria and the region." These three occasions signal the world's commitment to maintain Lebanon's stability, but also signify the weak state of the country's security and economy.

Lebanon's economy has experienced a slowdown since 2011 due to the eruption of crises in Syria and the region, and a resultant domestic political deadlock. Real economic growth has been subdued for the past six years while public debt has been on the rise with its share to GDP surging to reach a disconcerting 150 percent in 2017, according to the International Monetary Fund. Unemployment has been growing, and in refugee-hosting communities a noticeable and sharp increase in mostly low-skilled laborers has led to an approximate annual doubling of new entrants into the workforce. In the same vein, risks of spillover from regional turmoil, particularly in Syria but also in Yemen, are not far-fetched. Adding to this, the country is under strain from Syrian refugees, the vast

majority of whom are destitute and reside in dire conditions among the poorest Lebanese communities in under-resourced and under-served cities and districts.

Despite recognizing the effects of regional turmoil and intense demographic pressures on society and the economy, as well as the need for international support and foreign aid to weather any potential storm, Lebanon is in urgent need of serious housekeeping.

SYSTEMATIC CHALLENGES

Reforms are pressing, and have to go hand-in-hand with the plans to boost the economy—such as the Capital Investment Program (CIP) that was proposed at CEDRE. The Lebanese state needs to build a high-level political consensus for genuine reform, with commitments to tackle the systemic nature of corruption at all levels. New policies are needed to minimize graft and criminalize it. Implementing the Access to Information law, enacting policies to protect whistleblowers, and strengthening an independent judiciary are key in this reform drive. It is also clear that to stop the siphoning of state resources it is time to move away from the current clientelistic practice of using public sector employment to expand the electoral capital of politicians in office.

Equally pressing is the need to reduce inequalities. With 50 percent of population sharing only 5 percent of the country's wealth, 10 percent of

population sharing 70 percent, and just 1 percent sharing 35 percent, Lebanon has among the highest levels of unequal wealth distribution in the world. This necessitates an open, inclusive, and careful revision of current social and economic policies, which may lead to a new and comprehensive social and welfare strategy that could shift the focus toward more productive sectors in the economy, the integration of current social welfare and social protection programs, and more importantly, a high-level political commitment to reverse the increasing geographic disparities in Lebanon. This should be in alignment with Lebanon's commitment to the UN's Sustainable Development Goals (SDGs), specifically SDG 1, to end poverty in all its forms everywhere, and SDG 10, to reduce inequality within and among countries.

INCLUSIVE DEVELOPMENT

Implementation of the proposed development programs and projects at CEDRE and Brussels II

■ Implementing the Access to Information law, enacting policies to protect whistleblowers, and strengthening an independent judiciary are key in this reform drive.


needs to be inclusive, in particular of women, the youth, and refugees. It is crucial that this should move from basic levels of participation to having the programs and projects attuned to the needs of women in

society (including women in businesses), to the youth (particularly in refugee-hosting communities), and to the refugees themselves, both Palestinian and Syrian. Implementing an all-inclusive approach for development programs and projects would require new or modified government directives such as a quota system, a simpler work permit regime, and coherent and accessible ways for refugees to acquire residency papers.

It is also essential to have the planned programs locally-grounded, where municipalities can partner together in the design, implementation, monitoring, and later maintenance of development projects and initiatives. It is also key to prioritize areas and regions hosting highest numbers of refugees, and in particular the 251 most vulner-

able localities (*kadas*) that host 87 percent of Syrian refugees while at same time encompass 67 percent of the most economically vulnerable Lebanese. Here, development projects would generate a social stability dividend with improved social relations and cohesion between hosts and refugee communities.

On May 17, a small event took place at the Beirut Port. Although not as grandiose as having world leaders gather around the table in Paris or Rome to show public support for Lebanon's stability or pledge to boost its economy, it was a moment to celebrate as 20 tons of potatoes farmed in the plains of Akkar were exported to the Netherlands. A modest size of export yet a momentous improvement following painstaking efforts to revamp farming practices and enhance the qual-

ity of produce to make it eligible for EU markets. Lebanon can definitely benefit from more trade. Indeed, it needs to start reversing its trade deficit, which soared to \$20.3 billion in 2017. Trade creates employment, particularly if it is geared toward boosting productive sectors in the country's peripheral regions where agriculture (e.g. Akkar and Bekaa) and manufacturing (e.g. Tripoli) are predominant, as well as toward the export of services, such as those found in the budding tech-hubs in Beirut. Given the centrality of reforms, aid and trade should go hand-in-hand to put Lebanon's economy on sustainable track. 

NASSER YASSIN is the director of research at the Issam Fares Institute for Public Policy and International Affairs, and assistant professor of policy and planning at the health management and policy department at the American University of Beirut.

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The seventh edition of the Middle East's
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Design & The City

Advertorial: Beirut Design Week (BDW2018) returns for its seventh edition themed "Design and the City". Designers are invited alongside activists, writers, educators, and students to consider design's transformative role in every aspect of life in the city, from public spaces to the smallest detail in the interior of our homes, offices and places of recreation.

"Design and the City" proposes to ask the wide spectrum of the creative industry to collaborate with activists, environmentalists, artisans, entrepreneurs, agriculturalists and food experts, technology consultants and researchers to present cross-disciplinary initiatives that demonstrate how design can contribute to social change through good governance, social inclusion and environmental justice. Drawing inspiration from local grass-roots movements, the festival offers a community-led platform for inclusive, experimental models for the urban experience.

A series of themes showcases objects, tools, vocabularies and processes that help create new itineraries for the everyday practice of place-making and reclaims the right to the city as a structured system of shared beliefs and values, of tolerance, inclusiveness and openness.

BDW2018 Top 3 Highlights

Design & the City Public Installations at BDW18 Parking Lot

Designers address various themes related to Design & the City with interventions located in a parking lot at one of the busiest highway intersections of the city close to Forum de Beyrouth on Armenia Street.

1. Urban Hives by Nathalie Harb: a low-cost, modular platform covers a car parking space and is connected to a beehive, offering an opportunity for urban farming.
2. Pop-up Waterscape by LOOP: A playful installation that shows the value of water to human interaction and recreation in the city.
3. Shame on Us by 21db & Das Scharf: Visitors reconnect with public realm and are provoked and punished through negative impulses when they inflict harm on the city and the planet.

Exhibitions Opening at Beit Beirut

The official opening event of BDW2018 will take place at the iconic Beit Beirut Museum, launching three main exhibitions.

1. Independent Beirut: Aspiring designers present their products and projects to the local design community, in collaboration with Fabraca Studios and Adorno.
2. Design Does* Beirut: A contextualized version of the much acclaimed exhibition touring from the Design Museum in Barcelona with Elisava university and DDS Barcelona, with interactive analog and digital explorations on how design tackles social challenges.
3. Forum on the City and the Designers at Beit Beirut
Co-curated by BDW and Public Works Studio, the aim of the forum is to understand design as a practice that is produced by the interaction between spaces and the actors that inhabit them.

Jeanne D'Arc: a Pedestrian Model Street

The AUB Neighborhood initiative mobilizes its faculty and students, residents and businesses to create a series of interventions on J'ean D'Arc to make it more accessible and pedestrian-friendly, while also addressing the thematic of walkability, urban farming, collective memory, storytelling, and playing.

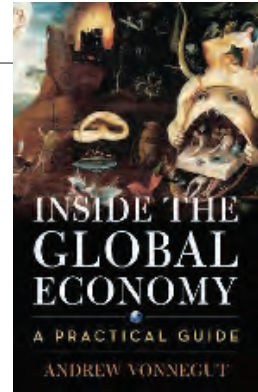
Inside the global economy

A PRACTICAL GUIDE

By Andrew Vonnegut
Rowman & Littlefield Publishers

2017 pp 332

Hardback \$95, Paperback \$39, eBook \$37



In publishing a “practical guide” to the global economy, American economic researcher Andrew Vonnegut provides a toolset for better understanding the ways in which it is prone to be influenced by “big shifts.”

According to Vonnegut, such shifts can be demographic or ecological, but can also involve issues related to inequality, information technology, and emerging markets. Viewing some or all of these shifts through a unified global economy lens can be beneficial in analyzing the present geo-economy or preparing for future movements in it.

The book would be of interest to readers in countries that cannot shape the world to satisfy their particular national economic interests—a reality faced by most, if not all. Other approaches often use individual (national) economies as their starting point and then model the global system as interactions among them. Vonnegut considers the global economy as a whole, not simply a sum of national parts, providing a framework that is not extrapolated from national perspectives of international economics.

Vonnegut’s writing drew on his academic expertise teaching a course on global economics at the University of California Santa Barbara (UCSB), and his practical experience as a consultant working in emerging markets finance and policy (with a stint in the Middle East, where this author met him).

Contemporary economic phenomena in my view can be explained using Vonnegut’s approach. An example of this is the global impact of

the United States tax reform that was adopted by the Congress at the end of last year.


According to a report released in February by UNCTAD (the United Nations Conference on Trade and Development), US corporations may bring in up to \$2 trillion under the new tax regime by repatriating cash from foreign affiliates. As analysts describe it, the reform ends a system whereby companies defer tax on foreign earnings until the repatriation of funds. Instead, the new measure treats those earnings as if they were being repatriated, with an 8 percent tax on non-cash assets and a 15.5 percent tax on cash.

UNCTAD noted that the last similar US tax move—the 2005 Homeland Investment Act—resulted in the repatriation of \$300 billion from abroad, and that funds available for repatriation in 2018 are seven times larger than in 2005. With \$3.2 trillion in US overseas retained earnings, including about \$2 trillion held in cash, this amount is today equal to half of US-owned foreign direct investment. Consequently, the UN body said, “repatriations could cause a large drop in the outward FDI stock position of the United States.”

Such a shift in FDI stock is expected to have significant effects on global investment patterns. The implications for developing economies are not wholly clear as they comprise a wide range and also depend in part on the reactions of other countries. Using the tools provided by Vonnegut would be of value in assessing these inter-relationships and the ramifications of US and

others’ policies beyond their borders.

However, Vonnegut’s analysis of the global economy as more than a grouping of domestic economies could fruitfully be taken even further by adding a geopolitical framework. Andrew Vonnegut’s famous cousin, the novelist Kurt Vonnegut, once wrote that US President George W. Bush had “gathered around him upper-crust C-students who know no history or geography.” Inside the Global Economy, as it stands today, could do with a geopolitical component and would benefit from being beefed up with perspectives on history and geography. Regardless, the world is changing so fast that a second edition of this book should not be far off. I give the current global system another decade before a very different world starts to replace it.

Also, it has to be mentioned that Inside the Global Economy pays little attention to Arab countries. This is deplorable because this otherwise fine book could have much to say in clarifying the context of regional turmoil in this part of the world. Introducing, for example, the case of Qatar’s dispute with Saudi Arabia, within the context of the Iran-US clash, would provide a more shrewd analysis of energy markets. If the geopolitical element is woven into Vonnegut’s analysis, this comprehensive book will be of even greater value to readers seeking to understand the global economy, from the Arab world and beyond. 

RIAD AL-KHOURI is the Middle East director of GeoEconomica GmbH. He was assisted in this book review by Emily Silcock.

CAPITAL CONCEPT S.A.L.



STRATEGY - FINANCE - GOVERNANCE

LIFE AND DEBT

DO WE LIVE TO SPEND OR SPEND TO LIVE?

Words by **Olga Habre**



Seven years ago Leila (a pseudonym) and her husband began their life together. Like most couples in Lebanon, they felt pressured to purchase a home right away instead of renting, so they took out a 30-year housing loan. Their families wanted a big Lebanese wedding, but the young couple could not afford one on their salaries, so they took on a five-year personal loan to pay for the celebration, honeymoon, and some furniture for their new apartment. Shortly afterward, Leila also took out a five-year loan for a car.

Lebanese traditions are becoming increasingly difficult to adhere to. Although they are a double income family, Leila and her husband find it impossible to live

on their salaries alone. Now with children, they worry that in the unexpected case that one of them loses their job, they would not be able to keep up with their monthly debt repayments, which would spell disaster. Despite this pressure, Leila says she does not regret their decisions, rationalizing them as the only way her family can live a comfortable life where they can buy and experience the things they want.

In fact, many Lebanese now consider taking on debt as the only way to live. Lebanese American University (LAU) Associate Professor Maya Farah, who teaches consumer behavior, says that without accumulating debt, many Lebanese put off significant life choices such as getting married. In the past, a young couple may have received financial assistance from their family, but a sinking economy means most people are struggling and cannot afford to help out. Additionally, Farah says that Lebanon is progressively moving from a collective to an individualistic society, so young couples are increasingly on their own when it comes to finances.

LIVING LARGE

Why this need for huge weddings at all? The Lebanese are known for showing off and living large, and weddings are notoriously “extra.” Last month, Lebanese socialite Alice Abdel Aziz’s wedding photos went viral, amid claims that their wedding cake was of a record-breaking size—she and the groom were pictured physically standing inside the cake.

The following weekend, Prince Harry and Meghan Markle’s royal nuptials were ridiculed by comedians, who laughed about the wedding’s simplicity compared to the local variety, and joked that Markle’s understated makeup was simpler than that of a Lebanese woman at the gym. Some Lebanese even took to social media to voice genuine criticisms of the “plain” wedding, implying pride for Lebanon’s over-the-top traditions and tastes. Farah explains that this is “the *nouveau riche* effect,” the opposite of which is where the wealthy are comfortable with themselves and do not feel the need to flaunt their riches.

But it is not just weddings—even Lebanese family lunches are sprawling, as are other social occasions. As it turns out, our need for these festive occasions is deeply rooted in the fabric of our society. Hounaida El Jurdi, assistant professor of marketing at the American University of Beirut, explains that, “all humans want to achieve social mobility, or improve their stature in the eyes of their peers.” She says that the part of the world we live in is referred to as a tribal society, where social affairs and get-togethers are very important because they present opportunities to show off possessions, and thus achieve social mobility. This explains why many Lebanese love to dress up—a fancy dress or an expensive watch signal to others that you have wealth.

Farah says that Lebanon is materialistic, which is a typical characteristic of developing countries.

“We call it conspicuous behavior, which refers to consumption where people want to display their wealth and status through what they possess,” she says. But what is the price we are willing to pay to feel accepted or even envied by our peers? Jurdi laments that many seek social mobility even if it means getting buried in debt.

A GLOBAL CONUNDRUM

This is not an exclusively Lebanese problem. In the US, total household debt soared to over \$13 trillion at the end of 2017, according to a report by the Federal Reserve Bank of New York. By the end of April 2018, consumers in the UK owed \$2.1 trillion, according to NGO The Money Charity.

The Lebanese are moving from a culture of saving to credit, as illustrated by Leila, who admits she is living from loan-to-loan. It is hard to measure exactly how indebted the Lebanese really are. While individual banks have records on client debt, no national data exists. In addition, Lebanon has a large shadow economy—unofficial economic activity existing alongside the country’s official economy, such as loan sharks, unofficial deals that merchants offer clients, or even borrowing from family.

Whether you blame advertising for whetting the world’s appetite for consumption, the internet and social media for fueling the fire, or the ease with which we now have access to credit, the entire world is sinking further into debt.

THE SCIENCE OF SPENDING

Studies in behavioral economics looking at how human decision-making happens have demonstrated that consumer behavior is rarely rational. In the 1960s, Stanford University’s famous marshmallow experiment claimed that kids who were willing to wait longer for a bigger reward—or demonstrated discipline and practiced delayed gratification—were more likely to succeed in life. Participants in one experiment wanted to punish unfair players so badly that they were willing to take a financial hit themselves to do so. In another experiment by Richard Thaler, famous for the Nudge theory that won him the Nobel Prize in 2017, student grades were adjusted for a maximum grade of 137 rather than 100, which resulted in an irrational higher feeling of satisfaction among the students, despite the fact their grades did not actually change.

“A man in debt is so far a slave” — Ralph Waldo Emerson

Other experiments have looked at body language, eye movements, and neuroscience, such as MRI scans of brain activity and specific regions and subregions that show increased activity in response to specific information stimuli. These findings can be applied positively—like nudging—encouraging behaviors that lead to a good outcome for individuals and societies, or misused by marketers to manipulate consumers into irrational spending that can drive them into debt.

TUGGING AT EMOTIONS

Brands and advertisers know this, and are often accused of manipulating emotions and preying on vulnerabilities to cash in (see Q&A page 78). The methods of doing this are getting more sophisticated, with the most vulnerable more likely to fall into the traps. The young are too inexperienced to understand the cost-burden of their spending. The old may not be savvy to some tricky marketing tactics. Low-wage earners want a taste of the luxury they work so hard to try to achieve.

Pop culture is also perpetuating consumerism, coining phrases such as “retail therapy” to imply relief, and using emotionally charged words, like saying you “deserve” it, to delude the hard-working everyman that they have toiled enough to purchase something. The younger generation has its own set of terms: FOMO (Fear of Missing Out), YOLO (You Only Live Once), and treat yo’self.

When communities were smaller there were less people to impress, but now we are bombarded with (often exaggerated) lifestyles of the rich and insta-famous. Farah says, “Temptation to spend is everywhere, especially with the prevalence of social media where you can’t escape ads and ads are targeted.”

If we give in, we often try to justify our consumption. Farah gives the example of people rationalizing using credit during sales because they think that in the long-run they are saving money by buying items at a discount.

DEFINING THE ESSENTIALS

Many purchases we make are vital to improve our quality of life—home appliances, cars, and the roofs over our heads are widely considered necessities. In a country where public transportation is often unavail-

THE 5 C’S OF CREDIT

A qualitative and quantitative method used by lenders to evaluate borrowers

Character: refers to credit history, or the borrower’s reputation for repaying debts.

Capacity/Cash Flow: measures the borrower’s ability to repay the loan in question, measured using his or her debt-to-income ratio as well as job stability (as it reflects cash flow). In Lebanon, Banque du Liban (BDL), the central bank, has put a condition that the maximum total payments cannot exceed 35 percent of one’s income, except in the case of a housing loan, where it can be 45 percent of total indebtedness.

Capital: shows how much capital the borrower has already put toward the potential investment. A substantial investment of one’s own money generally reflects a higher level of commitment and seriousness. This usually does not apply for personal loans, since there is generally no down payment.

Collateral: refers to the borrower’s assets, including real estate or cars, which the lender could repossess in case of default. For most personal loans this does not apply, unless the loan amount is higher than BDL’s limit of \$100,000.

Conditions: describes how the borrower plans to use the loan, including specifics like interest rate and amount of principle.

able or inconvenient, we may argue that a car is essential. But where do you draw the line between a “regular” home or vehicle and a “luxury” one? At the very least, we can say that after a housing or auto loan has been paid off, the borrower owns a physical thing. It gets trickier when we talk about non-physical things—like the trend of experience-based spending.

How do you define “essential” and draw the line between a need and a want? Jurdi points out that, “what may be essential for one person may be a luxury for another. Someone may absolutely need to take a vacation for his/her mental and emotional stability.”

If a wealthy individual wants to spend money on ridiculous amounts of luxury items, no one can stop them, but what about those who borrow money to live the high life? Our culture teaches us to live in the moment, except that in the context of easily accessible loans and credit cards what it’s actually saying is that we can spend now and worry about paying later.

LOANS FOR ALL SEASONS

Leila's case illustrates a relatively typical debt cycle that shifts with life's changing needs. Young people take on debt to get an education, viewing it as an important investment. People buy cars. With marriage they can feel obliged to have large weddings and buy homes. Starting a family involves countless other expenses. Many people get sucked in further and sometimes use debt to cover previous debts at increasingly high costs. (See story on loan offerings, page 72).

Elie Abou Khalil, head of the group retail products department at Byblos Bank, notes that when it comes to personal loans, there is a tendency to take more than one, which is exactly what happened with Leila. Newlyweds (like Leila) are choosing to celebrate beyond their means, even if that means starting their new life together with a negative bank balance. Of course, there are those that opt out; destination weddings seem to be on the rise because they often end up costing much less for the couple, but are often frowned upon in Lebanon.

Banks have also become more innovative in their offerings, like FNB's notorious plastic surgery loan from a few years ago. Though many ridiculed this product and by extension Lebanese society, Sarah, (also a pseudonym), took out such a loan to get weight-loss related surgery. She has no regrets, saying she is much happier, and maintains she paid for the surgery in a smart way because she used her monthly interest to pay installments.

But today there is an even easier way to spend. More and more people are turning to the credit cards sitting so conveniently in their wallets. This more accessible alternative is also more risky because people are less likely to think about their decisions when using them. Frequently people get a credit card for emergencies only, but then slowly begin to use them for day-to-day activities. Farah cites studies which show that credit cards facilitate the descent into debt as they do not involve the physical act of taking money out of a wallet and seeing bills disappear. Banks also make it very attractive to use cards by offering rewards points, travel miles, and other incentives—all genuinely good payoffs provided you pay off your debts on time.

RESPONSIBLE LENDING

Lebanon has a very rudimentary system of credit scoring or assessment of consumers' credit histories, when compared with US and other developed economies. Abou Khalil says banks use the 5 c's of credit (see box page 74) to assess borrowers, but explains ultimately the bank needs to do its homework: "You don't lend simply because you can get collateral from the borrower. Banks used to do this 40-50 years ago. Today banks are analyzing risk more and are more aware that you should lend based on capacity."

Jurdi notes that bank loans are often marketed using photos of exotic locations, lavish weddings, and smiling beauties holding shopping bags, preying on the human need for instant gratification. Meanwhile, the copy reads 0 percent in huge font.

However, banks are required, in accordance with BDL Circular 134, to reveal the total cost of products in ads, or the annual percentage rate (APR), which includes all the costs the customer will have to stump up when taking a loan. While this number is required it is usually in the small print and most consumers do not even know what it means.

Hind Fadel, head of marketing at BSL says, "Banks have the responsibility to provide consumers with full disclosure on products details such as terms and conditions, or the total cost (APR) etc., in order for them to make informed decisions."

BML's Head of Marketing and Communications Dana Alaywan says their marketing department plays a big role in promoting products, especially since competition in the banking industry is fierce. Less common products need to be communicated to target audiences through special channels.

Fadel add that they encourage responsible spending: "We advise our customers not to get indebted for ad hoc entertainment, but rather benefit from loans to durably improve their well-being."

LEARNING TO READ THE NUMBERS

The problem is most people who fall into debt mean well. They are emotional, vulnerable humans, assaulted with more temptation than they can handle and don't have enough information to make sound decisions. Financial literacy is vital and it is a global challenge.

Byblos Bank has been promoting financial literacy for years. In a recent survey with people aged 18 to 24,

"A man in debt is so far a slave" — Ralph Waldo Emerson

WHO'S BORROWING WHAT?

Less than essential loan offerings

We all know someone that has taken on a loan that some might call "non-essential," but who is borrowing, and what for? Generally, according to Elie Abou Khalil, head of the group retail products department at Byblos Bank, 60 percent of the bank's customers are men and 40 percent women. However, 75 percent of loan takers are men. Hind Fadel, head of marketing at BSL bank says she has also noticed a trend of more men than women. "Women, in general, are more conservative and more risk averse than men, and they usually pay their dues better than men," Abou Khalil explains. He reveals that people across all earning capacities have taken on loans. The minimum monthly salary for a borrower at Byblos Bank is \$800, and these clients take out the most loans. But he notes that even those with \$8000 monthly salaries get loans, though these are larger in amount. Fadel says BSL's minimum revenue requirement for a loan is \$667. Abou Khalil says banks do not usually lend to those under the age of 20. Choosing his words carefully, he says, "When you're young, you're less mature. With maturity you respect commitments more." At BSL, Fadel says their age cut off is 21, and the borrower must be a maximum of 64 years old at the time of loan settlement. Interestingly, Abou Khalil notes that they see a lot of repeat clients with personal loans. These non-specific loans address various needs, and most bank require only a general indication of where the money will be spent, without asking for details as a prerequisite to lending. Some of these are marketed as wedding and travel loans, usually with slightly different conditions, but they are essentially the same bank products. The average personal loan amount is \$15,000 and Bank du Liban (BDL), Lebanon's central bank, has set an upper limit of \$100,000 beyond which the bank requests collateral. With the growing popularity of travel among Lebanese, travel loans became increasingly available in the early 2000s. Imane Chaar, head of sales support and quality assurance at BML bank, noticed that with more packages offered by travel agencies, especially affordable ones, consumer demand for travel loans grew. In their experience, the largest segment applying for this loan earn \$2,000 per month, and are aged between 25 and 35. On the other hand, Abou Khalil says Byblos Bank has noticed a decrease in this kind of loan in the past five years, but says it is not because people are traveling less. Rather, they are using other methods, namely credit cards, to purchase their packages from agencies, as well as using the sharing economy and online platforms to make arrangements. This is quicker than applying for loans, even though this type of loan is actually one of the easiest to process since it is a relatively short-term loan (Byblos Bank's travel loan is limited to seven months). Wedding loans often come as a package that includes a registry and additional benefits. Lebanese banks are increasingly widening their offerings, with tech loans for the hottest gadgets, a boat loan by BML, and the FNB plastic surgery loan making headlines internationally a few years ago. On the other hand, maybe it is just the marketing that is changing, and the product is essentially the same: debt.

they found that 50 percent have no idea how much they spent in the last month, 47 percent have no savings, 46 percent need additional information about financial products, and 37 percent say their main source of stress is financial troubles, more so than health, family, and career concerns.

One of Byblos Bank's initiatives is a daily two-minute segment on local TV station LBCI called "Fakker Maliyan" (Think Financially). It addresses a spectrum of topics in fun videos that are also available on their website. These videos, along with regular newspaper articles and the MONEYSMART bootcamp series, teach important principles of banking such as saving, spending, borrowing, and investing. Such information enhances consumers' ability to make the right decisions and understanding the consequences of bad ones.

Many other Lebanese banks, including Bank Audi, Bank Libano-Francaise, Bank of Beirut, BLOM Bank, SGBL, and Jammal Trust Bank, have had financial literacy programs in partnerships with schools and other organizations across Lebanon, such as The Institut des Finances Basil Fuleihan (a Finance Ministry-run civil service learning center), and the educational NGO INJAZ.

All the experts Executive Life spoke to for this article agree that financial literacy needs to start early on. Schools need to integrate financial literacy into the curriculum, and what little is currently being done is not enough, says Farah, adding that many parents are not aware of the importance of these skills. She is already teaching her six-year-old son about money, giving him a weekly allowance, training him to save, and sometimes borrowing from him, returning his money with interest. "If schools don't teach financial literacy we will be raising kids with revolving debts," she says.

Experts also agree that financial literacy needs to be taught on a national level. According to a 2016 report by the Organization for Economic Development and Cooperation (OECD), suggested recommendations include starting financial education early and ideally in school, strengthening basic financial knowledge across the population, encouraging behaviors to improve financial resilience, improving consumer protection, enhancing the pension system, and increasing financial inclusion.

Farah clarifies that "debt is not bad in itself. It is bad when it is badly planned or used for non-essential things, and financial literacy helps you make that distinction." Ultimately knowledge is power and our only way out of this financial pandemic is to equip ourselves and our children with the skills needed to navigate the consumerist minefield, so we are always ready to make informed, rather than emotional decisions about what to do with our hard-earned cash.





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"A man in debt is so far a slave" — Ralph Waldo Emerson

OMAR NASREDDINE

DEBT AND ADVERTISING ETHICS

Words by Olga Habre

In its investigation into consumerism, Executive Life sat down with seasoned advertising executive Omar Nasreddine, CEO and managing partner at Triptikum, a boutique creative and integrated communications agency based in Beirut.

Do you think the advertising industry is driving consumerism and debt?

I don't think advertising is the cause. As a marketer, I think there are two ways you can sell a product or service: you can either play on people's insecurities, or you can play on people's motivations and say 'here is the solution'. Advertising that plays on people's insecurities is one hundred percent manipulation. Obviously, there are the good and the bad examples, and not all advertising agencies are the same, but in general, clients and agencies are riding that wave to a certain extent, and I think it is a blow below the belt.

What are some of the tactics advertisers use?

I think technology is taking the world to a bad place. Freedom is lost. It's like George Orwell wrote in "1984"—Big Brother. I know clients who have gone all the way to using neuroscience to understand how the subconscious works to create something that unlocks it. I think any company that uses neuroscience to go into people's thoughts and insecurities should be well governed. Also digital data—now they know which topics you like, and they target you online.

But also, because of the internet, people are waking up. They are not taking crap from brands anymore. There is a certain heightened awareness in people with certain levels of education. With time I hope human values will win, those who are ahead can lead those who are behind, and with time it can help shape the industry.

Are there rules that ad agencies abide by, especially regarding banks' non-essential products?

There are codes of conduct for everything, which advertis-

ing agencies are bound to by law in any country, and they are similar. You cannot deceive the consumer, for example. In Lebanon, you also cannot mention competitor brands in your ads. I also believe that banks have to justify their bottom line. It's not a shame to want to make money because you are in the business of making money, but you can make money by doing good or bad or in-between. Loans are what banks sell, and at the end of the day whatever word you put in front of "loan," it's still the same product wearing different a face. But the usage of the word non-essential here is brilliant because it is the question and the answer in itself. What is essential? But I don't think the problem is with regulating how creative agencies or banks communicate their non-essential loans.

Where is the problem then?

The root cause is financial illiteracy—it's an epidemic and it's scary. I work with all kinds of companies, big CEOs, and it is shocking how financially illiterate people are. Financial illiteracy is worse than illiteracy.

We're vulnerable, and I am against taking advantage of that. The Lebanese people like to go out and have fun, and they mean well. Even when they take a loan, they just think that to be accepted in a certain group they have to look or act a certain way, but they mean well. Sadly though we don't have enough information that can empower us. I think more banks should do the right thing. One large Lebanese bank says they are a bank for life, like a friend, and you see them doing financial literacy in all shapes and forms without taking credit. This is what differentiates the brands that are playing on people's insecurities versus those who are taking people by the hand and educating them.

What should the role of advertisers be?

We have a big responsibility to get the industry to be creative and intelligent. Advertising agencies should have the role of elevating society, and if you don't do that it's a crime in my opinion.



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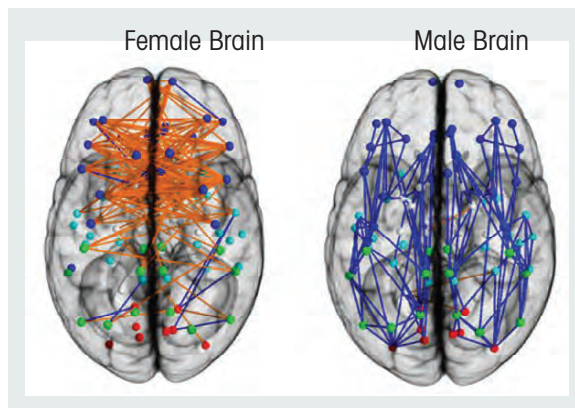
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NEURO-LEADERSHIP

RETHINKING GENDER DIFFERENCES WITH THE BRAIN IN MIND

Words by **Samah Karaki**



In numerous reports questioning the gender gap in the workplace, particularly the gap further up the leadership ladder, one persistent argument points to differences in men and women's confidence. This has led many to address how women can be empowered in the workplace. Such steps are necessary at all professional levels, as even some very high-powered women can feel as if they do not deserve their positions, having the so-called "imposter syndrome." But confidence is not a panacea; solving the gender gap is a complex issue requiring an equally complex approach.

In a report published recently in the Harvard Business Review, data analysts from management consulting company McKinsey & Co. and workplace analytics company Humanyze tested the argument that women's behavior is to blame for the dearth of female leaders. For this landmark study, researchers spoke with 70,000 workers from 222 companies that employ more than 12 million people. Of those, 44 percent said that uncon-

scious bias among male managers is a significant barrier to gender diversity in the workplace. This indicates that arguments about changing women's behavior wrongly place the onus on internal rather than external factors. Based on the results of this study, one cause of gender inequality is the unconscious bias that men are more creative, smarter, and better leaders. Which raises the question: Are they? What does the science actually say about gender differences in leadership? Do men and women have different brains that could reflect different abilities? If so, whose is better suited for the workplace? Some are uncomfortable with a biological account of human behavior, feeling it underestimates the influence of the social and cultural forces that shape who we are. It is almost certainly true that our personalities partly develop from cultural expectations around traditional gender roles. But over the past 15 years or so, new technologies have generated a growing pile of evidence that there are inherent differences in how men and women's



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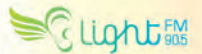
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"A man in debt is so far a slave" — Ralph Waldo Emerson

brains are wired and how they work. We do know now that some differences are innate: at seven months female babies focus more on faces than male babies, and even male baby monkeys prefer playing with cars.

The left side of the brain stores and uses what is known and deals with facts, with information in isolation, while the right brain is constantly on the look-out for what is new and engages with emotional information, with concepts as a whole. Sometimes the left side is referred to as "the male brain," and the right side as "the female brain," but this is a misleading oversimplification. A 2014 study found that the two hemispheres of a woman's brain talk to each other more than a man's do. Women's brains consistently showed more strongly coordinated activity between hemispheres, while the men's brain activity was more tightly coordinated within local brain regions. There are a number of conclusions crucial to women being valued in organizations that can be drawn from these observations. Men, because of their brain activity, focus on problem-solving and outcomes, not readily taking the broader picture into account. Women may appear to lack focus, but the suggestion here is that they are scanning wider horizons. When applied to the workplace, this ability would be "big picture thinking," seeing the impact of decisions on a large number of stakeholders, and taking relationships into account when solving a problem. This way of thinking is not lacking in focus, but rather a strength that can bring huge value to a team.

If the future of excellence in organizations and their capacity to retain talent lies in the quality of relationships and trust among employees, then it could be that women have a more intuitive understanding of such processes.


POWER AND TESTOSTERONE

Dominance and power are often connected with the hormone testosterone. It is true that high-power alpha males in primate hierarchies have high levels of testosterone, and powerful and effective leaders also have high testosterone that makes them more motivated by competition and more optimistic when it comes to risk-taking. Women, on the other hand, have less testosterone, and a large number of studies have concluded that they are more risk-averse than men. Women approach risk while paying attention to facial expressions, body language, and unspoken words. In other words, they have more empathy when they take decisions.

In challenging times, however, high testosterone can actually undermine leadership by reducing this empathic accuracy and driving men toward over-optimism, most notably during the 2008 global financial crisis. A recent study used experimental games to examine how power and testosterone levels affected leader corruption over time. The study showed that those who had high levels of testosterone were most corrupt when they had high levels of power. In other words, power interacted with endogenous testosterone in predicting corruption. As you might suspect, women, who have lower levels of testosterone, were more resistant to corruption than their male counterparts.

This is not to say that any conclusions on whether women are "better" than men in leadership roles or vice versa should be drawn. Challenging situations demand leaders that have the flexibility to utilize an array of leadership qualities that includes risk-taking and high confidence, but also reading other people, listening to employees' concerns, and then making one's own decisions, along with guiding, inspiring, and protecting the group.

This points to the need for women to stay true to their own skills and values to be authentic. When we hear about empowerment in the workplace, what is often suggested is that to reach these levels of power women must act more like those who have long been historically empowered: men. Women are expected to embody the characteristics we often attribute to men in the workplace, as if these are the only characteristics that can contribute to professional success. But diversity in leadership is key to business success. Globalization has intensified the pressure and demands for competition and change, so companies that want to survive these challenging times need to find the way to spark innovation by harnessing the power of different ideas from diverse groups of people and tapping into a range of opinions, ideas, and experiences.

The final thing to remember is that it is very easy to hold gender as the marker for diversity within an organization, but it is not the only form of diversity. There is also cultural background, age, sexuality, disability, and most overlooked, diversity of thought and experience. 

Samah KARAKI has a PhD in team gene regulation and adaptive behaviors from the Neurosciences Paris Seine at the Sorbonne Université.



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THROWING COLOR INTO THE WIND

JAD EL KHOURY'S BURJ EL-HAWA INSTALLATION AND EXHIBITION

Words by **Olga Habre**



You've likely seen his work—little red characters crawling around bullet holes in decrepit Beirut buildings, or the whole blue wall of his distinct doodles on Hamra Street—but Jad El Khoury's most recent creation is tinting the urban skyline. "Burj el Hawa," or the Tower of Wind, is an instillation of colorful curtains in the windows of one of Beirut's most iconic and tragic towers, Burj El Murr.

Standing at 40-stories, it is an unfinished concrete carcass in the center of Beirut, and, to many, is a memorial of the Lebanese Civil War. Construction halted during the conflict, after which it was used by militias, and became a sniper's nest, as well as the

sight of other atrocities. To this day it bares the family name of its owners, El Murr, but the meaning of the name, "bitter," is fitting. Authorities have long struggled with the eyesore, but demolishing it has so far been impossible for safety reasons—it is too big and too close to other structures.

The artist says he had always feared the skyscraper, which to him looks like a monster looming over



"A man in debt is so far a slave" — Ralph Waldo Emerson




Beirut. Upon seeing acclaimed Lebanese artist Marwan Rechmaoui's "Monument for the Living," where a replica of the tower reduces it to just two meters, Khoury for the first time felt stronger than the Burj.

Khoury and a team of five fitted 400 vacant windows in Burj El Murr with the mismatched balcony blinds typically found in middle to lower-class neighborhoods in the city. Getting Lebanese army approval, the sponsorship of Leticia Gallery and support of friends and family, he made sure to adorn both sides, saying he couldn't just do the east or west side alone,

alluding to Beirut's historical divide that many still perceive. The artist describes the building as currently "dancing" in the wind with its new colors.

Khoury wanted to use the vibrant fabrics to breathe life into the empty structure, which stands in what many, including him, consider a lifeless part of town. "I wanted to give soul to a place that didn't have one. Downtown is beautiful, but there is no soul, no life. The balcony shades are elements from working-class neighborhoods—that's where there's life," says the artist.

Such a vivid installation may be necessary to draw attention to a vital subject. Many on social media praised Burj el Hawa, but a few negative comments, mostly from those of an older generation, were directed at the gruesome tower itself. The trauma of our tragic past has not been officially reconciled as there is no formal or agreed upon history of the conflict. Khoury thinks it's important to address the war and what we experienced collectively and individually. "I've done several projects that have to do with war. In order to move on we need to talk about it," he says, arguing against suppressing negative emotions and adding that this project, "even if it's a bad memory, is a chance to talk about it again."

The Burj el Hawa installation is being unexpectedly taken down before its scheduled end date, ostensibly due to safety issues. According to Khoury, Solidere is alleging that rocks are falling from the site. But his journey inside the premises that most have only seen from the outside has yielded a complementary project, an exhibition of the tower's insides. While photographing the interior of Burj El Murr, especially the graffiti of multiple factions that left their marks on the walls, Khoury says, "it felt like I went back to a very ugly, depressing time." Scheduled to open on June 28 at Platform 39 art gallery in Ashrafieh, the exhibition will include photos, one of the curtains from the building, other artworks, as well as performances. 

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Races		Start Time	Age categories by birth year (eligible for awards)
	1K Run	10:45 am	2 age categories: 2010 & younger, 2007-2008-2009
	5K Run	11:00 am	9 age categories: 2006 & younger, 2001-2005, 1994-2000, 1989-1993, 1984-1988, 1974-1983, 1969-1973, 1964-1968, 1963 & older
Entrance Fee	\$30 per ticket Children aged 3y & below are admitted free of charge and don't need to be registered. 50% discount for 18y to 22y olds, ie YOB 2000 to 1996		
Awards	12:15 pm	1K & 5K winners will be awarded medals & gifts. The award ceremony will be followed by an outdoor lunch buffet offered by Myschoolpulse, Faqra Club and Taanayel.	
To Register	- Online on www.myschoolpulse.com - ABC Achrafieh L1 (near Virgin) & ABC Verdun L3 (near Starbucks) from July 12 to August 2, 10AM to 10 PM, at Myschoolpulse booth If you wish to be timed and eligible to awards, the deadline to register is Friday, July 27th at 10pm.		
Contact	+961 76 370589 or info@myschoolpulse.com		



"A man in debt is so far a slave" — Ralph Waldo Emerson

BUILT TO LAST

THE TIMELESSNESS OF QUALITY

Words by **Yasser Akkaoui**



Different people have distinctive tastes and habits. Some are status aspirers eagerly replacing their watches or wallets every few years in keeping with the latest trends. Others, like myself, come from a school where a person has one watch, which is his sole time telling tool, one pen, which is his sole writing instrument, one pair of cuff links, which stay with him for life, and so on. Such products stay with you, becoming a part of your identity and can represent you as a person. As such, you take your time in selecting them knowing that your choice is the first step in laying the foundation of your relationship with your product.

Indeed, a relationship is often built between the con-

sumer and such durable products. I still remember when my family gifted me a Montblanc pen when I entered university. Thirty years later, I still use that same pen. It has acquired a few scratches throughout the years, but even those scratches carry with them the memories of when I dropped it; they have become visual souvenirs of my personal history, just like the scars I carry on my body.

For products to stand the test of time in that man-



ner, they are built to last using the noblest of materials and the most authentic of manufacturing techniques. They are not flashy products that you change every year. Instead, they tend to be designed classically and are meant to stay with you forever without losing their shine or value. These qualities of durability and timelessness make such items collectible classics, which many hand down from generation to generation—something you cannot do with fast moving fashion items which lose their value a few years after you buy them. If they don't gather value because of the exceptionality of the design and quality, they will because of how close they become to you and how much they represent you as a person.

Along the same lines, the relationship a manufacturer that delivers such excellence has with its customers is also a long lasting and consistent one. Due to the perilous economic situation in Lebanon, Montblanc might not have as many stores here and may as it does in China or India but at the end of the day, what matters the most— and this is what I respect about brands like Montblanc— is that it is all about



creating this relationship with their customers and servicing them. It's all about how you build a solid relationship with your clients: it's all about maintaining their positioning and making sure this relationship between the person and the tool being used is seamless.

It is not unusual for companies with a centuries old heritage, to play an active role within their community and society. Montblanc's Montblanc Cultural Foundation which was founded in 1992 plays a major role in promoting culture and arts through the Montblanc de la Culture Arts Patronage Project, the only international award recognizing the work and commitment of modern-day patrons of the art. Montblanc has also joined forces with UNICEF on more than one campaign to promote quality education and literacy around the world. These and similar initiatives show that Montblanc is a provider of tools that allow people to achieve excellence in more than one way and definitely making you proud of carrying their name.



BUSINESS ESSENTIALS

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■ **Chedid Re**, a company of **Chedid Capital**, is celebrating its 20th anniversary this year. It has grown steadily over the years to become a reinsurance broking powerhouse that ranks first in the MENA region and as one of the top 20 reinsurance brokers in the world.

■ **George Kabban** of international insurance broker **UIB** has been elected chairman of the board of the **DIFC Insurance Association**.

■ **Middle East Markets** announced **Boecker®** as the winner of "the Best Food Safety Training Provider in the Middle East for 2018." **Boecker®** was selected following a rigorous nomination, voting, and judging process, carried out by a network of global industry experts and an in-house team. Receiving the UAE Business Award for "the Best Food Safety Training Provider in the Middle East" is an honor for **Boecker®** and a result of 20 plus years of expertise in the field.

■ **OFID** has signed a \$20 million bilateral trade finance term loan agreement with **Banque Libano-Française** in Lebanon to support international trade in the country. The loan is supplied through **OFID's** private sector and trade finance operations department.

■ On the April 19, **G. Vincenti & Sons** organized a tasting session to introduce **Sipsmith London Dry Gin**, the latest addition to its fine alcohol range. The event took place at **The Cask & Barrel** liquor boutique in the presence of prominent media representatives, bloggers, and gin aficionados.

■ **CMA CGM**, a world leader in maritime transport, introduces the

ADRIMED EXPRESS service in Beirut, in line with its commitment to contribute to the economic development of Lebanon. **ADRIMED EXPRESS** will connect Lebanon to Italy and Central Europe, providing direct connections to the Ports of Mersin, Piraeus, Ancona, Venice, Koper, Ravenna, Limassol, and Alexandria, and offering the most competitive transit times on the market.

■ **LGB BANK** sponsored the 13th international dental meeting held by **Saint-Joseph University School of Dentistry** in partnership with the **Lebanese Society of Prosthodontics**.

■ Lebanese skin and body care brand **Beesline** is making a refreshing breakthrough, entering the European market with their innovative product range.

■ **FFA Private Bank** was named "The Best Private Bank in the Middle East 2018" by **Banker Middle East** magazine on May 3. The award was received by the group chairman and CEO, Jean Riachi, at a gala dinner held at the **DIFC Ritz Carlton**.

■ During his visit to Lebanon, Rodolphe Saadé, chairman and CEO of **CMA CGM Group**, gathered the group's clients, along with representatives of various institutions, and reaffirmed the commitment of **CMA CGM** to the economic development of the country. During his speech, he announced his decision to support four Lebanese startups.

■ With its striking appearance, agile handling, and daring design cues, the first ever **INFINITI QX30** created a new generation of explor-

ers on Lebanese roads when it went on sale in May.

■ Faster downturns in the output of surveyed Lebanese private sector companies pulled down the **BLOM PMI** in April. Declines in output were attributed to the regional turmoil, which negatively impacted tourism and client demand.

■ **Byblos Bank** issued the results of the **Byblos Bank/AUB Consumer Confidence Index** for the first quarter of 2018. The results show that the index decreased by 0.6 percent in January from the preceding month, by 0.3 percent in February, and by 6.4 percent in March 2018.

■ The all-new **Jeep® Compass** offers an unmatched combination of attributes that includes legendary and best in class 4x4 off-road capability, contemporary and authentic Jeep design, excellent on-road driving dynamics, open-air freedom, and a full array of advanced user-friendly connectivity and safety technologies.

■ At a ceremony held on May 8 at Grosvenor House, Dubai, hosting around 200 prominent bankers from across the region, Saad Azhari, chairman and general manager of **BLOM BANK**, received "The Best Bank in Lebanon for 2018" award from the internationally renowned magazine **Euromoney**.

■ **Byblos Bank** and **Eventa** offered in 2017 in-depth training through the **MONEYSMART Boot Camps** to 219 young Lebanese men and women from 30 different universities. This initiative helped them better manage their finances and plan their future.

■ **Clemenceau Medical Center**, in affiliation with **Johns Hopkins Medicine International**, hosted the fourth Annual Neurospine Summit in early May.

■ The second-millionth **Fiat 500** was made at the Tychy plant in Poland on May 9. It was a Fiat 500C Collezione, sporting an exclusive two-tone white and grey Primavera livery, powered by a sparkling TwinAir Turbo 85 hp engine, and will be sold in Italy.

■ On May 10 for the third consecutive year, the Unleash your Creativity Contest was held, a CSR initiative by **Fernand Hosri Group** promoting sustainable development through engaging young talents in the economic and social world.

■ **Bassoul-Heneine sal**, **BMW Group's** oldest importer in the world, launched the highly anticipated BMW X2 earlier this month over a three-day event held at their Ain El Mreisseh showroom.

■ **Arab Bank** marked 75 years of operations in Lebanon with a reception at the Four Seasons Hotel Beirut last month. Arab Bank's Chairman of the Board of Directors Sabih Masri, Chief Executive Officer Nemeh Sabbagh, and Country Manager of Arab Bank Lebanon Nadim Ghantous welcomed senior public and private sector officials, alongside prominent figures in the fields of politics, economics, and finance, and members of the media at the diamond jubilee event.

■ **Majid Al Futtaim** hosted a Meet and Greet for the top four finalists of **The Voice Ahla Sawt** in Lebanon's City Centre Beirut.

■ **Nestlé** is ranked first in the 2018 Access to Nutrition Index for its overall performance in its nutrition-related commitments. This confirms Nestlé's leadership in nutrition, health, and wellness, as well as its contribution to tackling the global challenges of obesity and undernutrition.

■ **Huawei** has recently launched its flagship smartphone, the Huawei P20 Pro, in Lebanon. This device is competing in the big league against high-profile companies due to its outstanding specifications, and is already available for preorder from selected retailers.

■ In the framework of the International Museum Day, and organized by the **International Council of Museums** under the theme "Hyperconnected museums: New approaches, new publics," **BeMa (Beirut Museum of Art)** presented the first commissioned workshop series of "Mathaf Mathaf, Chou Hayda?"—an audio guide project led by Anabelle Daou at the **National Museum of Beirut**.

■ To promote the development of inclusive education in Lebanon and ensure quality education for all children, including children with disabilities and learning difficulties, the **Ministry of Education and Higher Education**, with the support of **UNICEF**, launched its inclusive education program, a pilot targeting 30 public schools in all governorates of Lebanon.

■ **A.N.Boukather** became responsible for importing, selling, and servicing **Opel** vehicles in Lebanon from March 2018. An exclusive showroom displaying Opel cars will be opened in July 2018 in Beirut with further representation around the country to follow.

■ Under the auspices of H.E. the **Minister of Telecommunications** Jamal Jarrah, represented by his advisor Jamal Fakhouri, **Alfa**, managed by **Orascom TMT**, organized with **Ericsson** the second edition of the "Alfa and Ericsson IoT Award," in collaboration with the **IEEE Young Professionals Lebanon**. In the final stage of the competition, five teams competed for the first prize, which was won by the "Gaia" team from **Notre-Dame University**.

■ Finland-based startup **HMD Global**—the home of **Nokia** phones, announced that it has raised \$100 million from multiple investors to scale business operations and fund the company's growth in its second year.

■ **United Automotive Agencies sal**, the official retailer of **McLaren** in Lebanon, is offering clients added peace of mind on its complete range of luxury sports cars and supercars in celebration of Ramadan's spirit of giving. In addition to enjoying driving the car, clients can now enjoy peace of mind when owning a McLaren with the three year Service Package, and an extended warranty of two years providing a cumulative warranty for five years.

■ **Ford's** new state-of-the-art Environmental Test Center puts all the world's weather under one roof, enabling engineers to test forthcoming vehicles—from a small **Ford KA+** to a two-ton **Ford Transit**—in the most demanding conditions and make whatever weather they want at any time of the day.

■ Beginning on Endangered Species Day (May 18), powerful images of species at risk from the **National Geographic Photo Ark** were featured for a week on billboards

BUSINESS ESSENTIALS

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in 22 countries, six continents and 30 out-of-home operators. **Pikasso** supported this global out-of-home campaign by donating ad space on 184 roadside digital billboards, large format digital screens as well as LCD screens in malls in Lebanon, Jordan, and Algeria.

■ **Tamer Frères & Montblanc** paid tribute to one of the great cultural figures of the 19th century: Ludwig II, the Swan King, on May 3, 2018, over a fairytale dinner.

■ Audemars Piguet Masterclass dinner was hosted end of April by **Tamer Frères** at the Surssock Museum. **Audemars Piguet** collectors were gathered in an exclusive and unique environment for a brand presentation and to discover unique watch pieces from Le Brassus.

■ **Ets. F.A. Kettaneh**, the exclusive distributor of **Audi** cars in Lebanon, has launched the all-new Audi A8 at **Middle East Airlines** headquarters' MEA Training & Conference Center-Beirut Rafic Hariri International Airport, in the presence of 450 VIP guests.

■ From now on, **Lufthansa** Business Class passengers on long-haul flights to and from South Africa, Latin and South America, and the West Coast of the USA can enjoy an even more relaxed night's sleep with the Lufthansa Dream Collection.

■ With the launch of a new, exceptionally efficient entry-level engine, **BMW** is extending the drive portfolio in the luxury segment. From July 2018, a four-cylinder diesel engine will be available for the BMW 6 Series Gran Turismo.

■ The new **Master Maserati** programs are tailored for the various levels of experience, under the constant watchful eye of the best Maserati drivers, enabling participants to learn all the secrets of sporty driving and put their skills at the wheel to the test, thanks to a completely renewed fleet of cars including all the models in the Maserati range.

■ **Samsung Electronics Co., Ltd.** announced that it received 13 awards including seven Gold Pencils, three Silver Pencils, three Bronze Pencils across visual effects, animation, and cinematography for its 'Ostrich' advertisement in the Branded Entertainment category at The One Club Awards.

■ **Talia** charity announced the appointment of media personality George Kurdahi as its honorary president. The announcement was made during a press conference held by the charity at Le Gray hotel in Beirut on May 10.

■ On the United Nations International Day of Families, **Nestlé** announced its global "Nestlé for Healthier Kids" initiative. The program includes further development of healthier products and advice for families on nutrition and exercise. It aims at helping 50 million children lead healthier lives by 2030.

■ With the aim of addressing alarming findings and raising awareness on the need to introduce better oral care practices and preventive oral care habits across Lebanon, **Colgate** and the **Lebanese Dental Association-Beirut**, launched their 2018 Oral Health Month national campaign.

■ With a varied and all-star international lineup, **Summer Misk Festival** has become a prominent destination for festival goers in Lebanon and the region.

■ **GROHE** is bringing their latest technology and quality designs to their new, aesthetically unique Dubai showroom.

■ **Dell EMC** hosted its Digital Transformation Conference 2018 at the Four Seasons Hotel in Beirut, Lebanon. At this one day event, Dell EMC aimed at driving human progress by helping organizations view themselves as innovators and manage their transformation journey successfully to address the unique challenges at the very heart of business.

■ **Sadeem**—the Arab world's biggest digital competition and series—announced the winner of Season 1 at the iconic Venue Verde, Beirut, during a red carpet finale in front of social media influencers from across the region.

■ **Hyundai Motor Company**, South Korea's largest automaker, has announced its global sales results for April 2018, posting a total of 391,197 units sold, up 11.1 percent from a year earlier.

■ **Air Arabia PJSC** reported strong financial results for the first quarter of 2018 as the Middle East's first and largest low-cost carrier continued to deliver solid commercial and operational results. Air Arabia reported a net profit of AED110 million for the three months ending March 31, 2018, an 8 percent increase compared to the corresponding 2017 figure of AED102 million.

■ **Samsung Electronics Levant Co., Ltd.** and **INJAZ Lebanon**, a non-profit organization focusing on education and entrepreneurship, have joined forces to launch the Samsung-INJAZ School Innovation Initiative.

■ **McDonald's** invited press and media representatives to tour the kitchen and 'back of house' of their recently fully renovated branch in Dora to launch the new Open Door Program.

■ Concluding its "Artists in Residency Program for the Lebanese Public School System," implemented throughout the 2017-2018 academic year, which targeted, in its first phase, seven schools from different Lebanese regions, **BeMA** in partnership with the Lebanese **Ministry of Education and Higher Education**, launched the "Shared Imaginaries" exhibition, showcasing the participating students' works carried out during the program.

■ **Starbucks** announced the launch of espresso capsules compatible with **Nespresso®** machines as it expands its presence in the at-home coffee sector in the Middle East and North Africa region.

■ The first trial of 5G technology in Lebanon carried out by **Alfa** and **Ericsson** has demonstrated the capabilities of this advanced technology live on the ground with an impressive resultant internet speed of up to 25 Gbps.

■ Under the High Patronage of H.E., the President of the Lebanese Republic General Michel Aoun, the eleventh edition of **Beirut Boat** was officially inaugurated at Beirut Marina-Zaitunay Bay on May 9.

■ The **BMW Group** is pushing ahead with its electrification strategy by extending the reach of its all-electric mobility offering to the company's core brands. The **BMW Concept iX3**—presented for the first time at the Auto China 2018 show in Beijing—offers a look ahead to the expansion of the model line-up in this area.

■ **Fratelli Rossetti** celebrates an important milestone this year. Brera, the legendary loafer with tassels, icon of the Milanese brand, turns 50.

■ The country representative for the **Cannes Lions Festivals, Executive Magazine**, in cooperation with the **IAA Lebanon** chapter and **AA**, are thrilled to announce Vera Karam and Youssef Yammine from **Mirum** as the winners of the Young Lions Print Competition 2018 which was held on April 20, 2018, at the **American University of Beirut**.

■ Cooking up sumptuous suhoors and celebratory iftar feasts shouldn't involve a lot of time or stress. Thanks to **Panasonic**, every meal preparation this Ramadan is a breeze with the help of its premium kitchen appliances.

■ During a grand gala ceremony, **Hilton Beirut Habtoor Grand** scooped a prestigious award for the 'Best Business Hotel in Beirut' for the second consecutive year. The award ceremony organized by **Business Traveller Middle East Awards 2018** was held at the Palazzo Versace Hotel, Dubai, in parallel with the opening day of the **Arabian Travel Market**.

■ **Mediterranean Oil Shipping & Transport Co.** **MEDCO sal** an-

nounced, in partnership with **areeba**, the launch of its latest innovation, **MEDCO Pay**, at a press event held at the **MEDCO Chevrolet** station, in the presence of **Visa** and **Mastercard** representatives, bank representatives, and journalists.

■ For the third year in a row, Tony Chebli, head of the information security department at **Credit Libanais Bank**, won the CISO 100 Award at the Middle East Security Awards 2018, an award recognizing the top 100 heads of information security across the Middle East.

■ **Porsche** is expanding its range of hybrid models with the introduction of the new Cayenne E-Hybrid, which combines the best driving dynamics in its class with maximum efficiency.

■ In the framework of its corporate social responsibility activities and its unfailing social support, **Gefinor Rotana Hotel** hosted members of NGO **Baitna**, which provides homes for mentally challenged persons, especially orphans without support.

■ **LG Electronics** unveiled its luxury Signature Kitchen Suite for the first time to European consumers at the world's largest design exhibition during **Milan Design Week**.

■ **Bank Audi sal** achieved a good performance in the first quarter of 2018, with consolidated unaudited net profits of \$114 million, compared to \$110 million in the first quarter of 2017, broken down to over 58 percent from Lebanese entities and 42 percent from entities outside Lebanon (of which include 17 percent from Odea Bank in Turkey and 12 percent from Bank Audi Egypt).

BUSINESS ESSENTIALS

Events

CONFERENCES

	ORGANIZERS	CONTACT	WEBSITE
LEBANON			
22-29 Jun	BEIRUT DESIGN WEEK Mena Design Research Center	+961 1 759 399; participant@beirutdesignweek.org	www.beirutdesignweek.org
12-13 Jul	ARAB ECONOMIC FORUM Al Iktissad Wal Aamal	+961 1 740173/4; info@iktissad.com	www.iktissadevents.com
26-28 Sep	INTERNATIONAL BEIRUT ENERGY FORUM MCE Group	+961 9 900 110; bef@beirutenergyforum.com	www.mcegroup.net
DUBAI			
28 Jun	8TH GLOBAL PROPERTY CONSULTANT SUMMIT Datamatix Group	+971 4 332 6688; info@datamatixgroup.com	www.datamatixgroup.com
2 Jul-26 Aug	MIDDLE EAST AND SCANDINAVIA'S KNOWLEDGE EXCHANGE AND PARTNERSHIP CONFERENCES Datamatix Group	+9714 - 332 6688; info@datamatixgroup.com	www.datamatixgroup.com
16-18 Sep	8TH GCC MUNICIPALITIES AND SMART CITIES CONFERENCE Datamatix Group	+9714 - 332 6688; info@datamatixgroup.com	www.datamatixgroup.com
17-18 Sep	TELECOMS WORLD MIDDLE EAST Terrapinn Middle East	+971 1 444 02500; enquiry.me@terrapinn.com	www.terrapinn.com
18-19 Sep	3RD STARCHWORLD MIDDLE EAST Center for Management Technology	+65 6345 7322; cynthia@cmtsp.com.sg	www.cmtevents.com
23-25 Sep	LIGHT MIDDLE EAST CONFERENCE Epoc Messe Frankfurt	+971 4 338 0102; info@epocmessefrankfurt.com	www.epocmessefrankfurt.com
26 Sep	CYBER DEFENCE SUMMIT Naseba	+971 4 367 1376; prachid@naseba.com	www.naseba.com
ABU DHABI			
10-11 Sep	2ND ANNUAL DIGITAL FORENSICS AND ANALYSIS SUMMIT ACM	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
17-18 Sep	2ND ANNUAL ABU DHABI DIGITAL TRANSFORMATION SUMMIT ACM	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
24-25 Sep	GLOBAL ROAD & TRAFFIC SAFETY FORUM ACM	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
SAUDI ARABIA			
3-5 Sept	ENTERTAINMENT KSA ACM	+971 4 361 4001; opportunities@acm-events.com	www.acm-events.com
11-12 Sep	REAL ESTATE INVESTOR MEETING SAUDI ARABIA Naseba	+971 4 367 1376; prachid@naseba.com	www.naseba.com
25-Sep	RENEWABLE ENERGY INVESTOR MEETING SAUDI ARABIA Naseba	+971 4 367 1376; prachid@naseba.com	www.naseba.com
EGYPT			
12-13 Oct	CITIZENSHIP BY INVESTMENT PROPERTY FAIR Promoteam	+961 1 339 050; sm@promoteam-ltd.com	www.promoteam-ltd.com

EXHIBITIONS

	ORGANIZERS	CONTACT	WEBSITE
LEBANON			
21-23 Jun	EXPLORE M.I.C.E Lebanon	+961 1 384 791; info@micelebanon.com	www.micelebanon.com
26-29 Jun	PROJECT LEBANON IFP	+961 5 959 111; info@ifpexpo.com	www.ifpexpo.com
4-7 Jul	THE LAKESIDE FESTIVAL GATA Events and Promotions	+961 1 322 177; info@gata.pro	www.gata.pro
5-8 Jul	AFFORDABLE HOUSING LEBANESE ANNUAL FAIR Property Insider	+961 1 510052; info@ahlafair.com	www.ahlafair.com
20-23 Sep	BEIRUT ART FAIR Beirut Art Fair	+961 76 497 453; info@beirut-art-fair.com	www.beirut-art-fair
28-30 Sep	BEIRUT RESTAURANTS FESTIVAL Hospitality Services	+961 1 480 081; info@hospitalityservices.com.lb	www.hospitalityservices.com.lb
DUBAI			
25-26 Sep	SOCIAL IMPACT SUMMIT Informa Middle East	+971 4 407 2500; info-mea@informa.com	www.informa-mea.com

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LAST WORD

By Jihane Abi Saleh

The impact of GDPR on Lebanese businesses

The new EU regulations have a long reach

With the continuous digitization of human life and economy, questions around the ownership and privacy of our personal information need urgent attention. From June, it will be crucial for Lebanese companies to understand the implications of new European regulations on the ownership and limits to exploitation of personal information, which came into force at the end of May.

As of May 25, two years after the adoption of the General Data Protection Regulations (GDPR) by the European Union, organizations who are registered in the EU, or selling products and services to EU residents, have to apply GDPR. This can range from large international manufacturers and online retailers, to small enterprises and commercial bloggers. But many in Lebanon assume that this new regulation will not affect them.

This could be mistake, and a costly one, for companies that offer products or services online that are purchasable by EU residents. All local companies with a strong digital presence outside Lebanon should determine whether they need to initiate compliance with GDPR.

GDPR is a landmark European Union regulation that prescribes the rules and regulations for the collection, processing, use, storage, and destruction of the personal information of EU residents. The main aim of this piece of legislation is to protect consumers by giving them greater control over their personal data that is transmitted via the internet, and to compel businesses to be more accountable and transparent in their use of customers' personal data.

As an EU regulation, GDPR is not *a priori* applicable outside of the bloc, however, one of the considerable chang-


es introduced by GDPR is in its extraterritorial scope, which allows it to reach non-EU organizations performing transactions with EU residents. Under article 3 of the GDPR, a company may still have to abide by its rules even if it is incorporated outside of the EU and has no physical presence within the EU.

Compliance with GDPR is thus required of companies anywhere, as long as their activities entail the offering of goods or services to European residents, the processing of data from such persons, or the monitoring of users' behavior that takes place in the EU. GDPR will likely apply to a Lebanese business even if it has no employees or offices within the EU, but is selling a product or service to EU residents, or even simply offering to sell, irrespective of whether a payment is made or not. Likewise, abiding by GDPR is a necessity for any Lebanese company that monitors the behavior of European residents, for example, if it processes information about consumers in an EU country to predict their behavior, or does surveys on the behavior of EU residents. In addition, GDPR is applicable to a Lebanese company if it has EU-based employees and is processing information related to these employees.

GDPR would not apply if the Lebanese company is undertaking regular marketing of goods and/or services. This means that if the company has a website offering goods and/or services but does not have a physical presence in the EU and shows no indication of targeting any EU residents, it is not required to comply with GDPR rules simply on the basis that an EU resident can somehow stumble upon its website—what this means in practice will emerge over time.

However, the GDPR likely will apply to a company, irrespective of its country of incorporation, if its website targets EU residents, if it accepts the currency of an EU country, has a domain suffix for an EU country, offers shipping services to an EU country, or provides information in a language that is predominantly spoken in an EU country such as Italian, French, and German.

Violating the GDPR and failing to report any infraction of personal data rights of EU residents can result in hefty fines; in serious cases, regulators can penalize businesses 20 million euros, or up to 4 percent of their previous year's worldwide turnover, whichever is higher. For smaller infringements to the GDPR, regulators can impose fines amounting to 10 million euros, or up to 2 percent of the companies' worldwide turnover, again, whichever is higher.

Lebanese companies, thus, would benefit from informing themselves about the provisions and requirements that are coming into force with the GDPR. If uncertain as to whether GDPR applies to a Lebanese business, it may be a good idea to contact an auditing or consulting firm with expertise in doing business in Europe, or approach a specialized adviser to make sure that its privacy initiatives are in order. This will not only avoid legal proceedings and painful fines, but also express a will to protect fundamental rights and freedoms of individuals, and in particular, the right of consumers to the protection of personal data. 

JIHANE ABI SALEH is a lawyer with over eight years of experience. She has an LLB from Saint Joseph University in Beirut and an LLM in Commercial and Corporate Law from Queen Mary University in London.

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Dora
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A man with glasses and a beard, wearing a light-colored jacket, is shown in profile, interacting with a large digital screen. The screen displays a grid with numbers and some charts. The background is a dimly lit industrial or workshop environment with warm lighting. The entire image is framed by a thick yellow border.

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