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December 2018 - January 2019 N° 231

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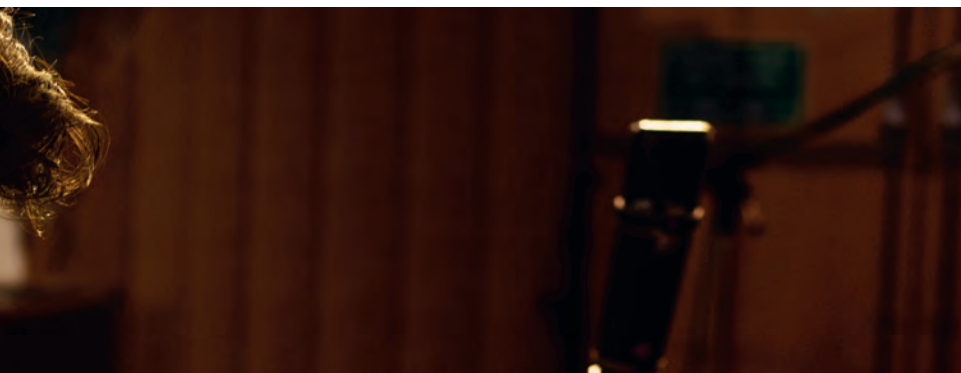
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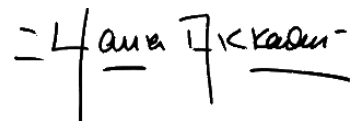
#231

■ Turning point

In its 20 years of reporting, rarely has this magazine witnessed a Lebanon that feels as vulnerable as it does today. It seems that the Lebanese citizen has totally surrendered under the weight of seven long years of geopolitical turmoil, which has depleted our self-confidence and enthusiasm along with our economic resources and infrastructure. The little excitement and hope for a better Lebanon that accompanied this year's elections were quickly replaced with a bitter reality that confirmed the return of the same old faces. Lebanon is once again hijacked politically and economically, and is being used as a bargaining chip on negotiation tables by global powers that have no regard whatsoever for our lives, hopes, aspirations, or dignity.

Lebanon's private sector has never been deterred or discouraged in the absence of a government, which has always been perceived as irrelevant relative to our larger-than-life resilience and ambition. Not anymore. We've reached a turning point that requires a government that has the ability, aptitude, and willingness to execute much-awaited measures essential for rebooting our economy. It is also vital that we elevate our current state of mind to a new and more hopeful perspective, one which defies the haunting worry that Lebanon is heading to an inevitable and self-inflicted demise.

For our 20th anniversary, EXECUTIVE MAGAZINE has put forward, in addition to our annual Facts and Forecasts, draft recommendations for a collaborative socioeconomic roadmap for the country, with the ambition of reviving our renowned resilient and optimistic ethos. We hope that this integrative approach will allow us to take ownership of the fate that we deserve.



Yasser Akkaoui
Editor-in-chief

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LAST YEAR

JANUARY

Lebanon's EDL workers protest short-term contracts and late salaries

Employers of Lebanon's state-run *Electricité du Liban* (EDL) staged their second protest in 10 days on January 4 on Beirut's Corniche al-Nahr, calling for long-term contracts and payment of late salaries. Some workers claimed they had not been paid in 10 months, with many saying they could not afford basic necessities such as household items and school tuition for their children. The protest came on the heels of a number of sit-ins and strikes, most of which have been ignored by authorities despite the delays caused in power generation in some areas of the country.

The US cuts funding to UNRWA

On January 16, the US Department of State announced it would cut its yearly earmarked aid package to the United Nations Relief and Works Agency for Palestinian Refugees (UNRWA) from \$125 million to \$60 million. The US is UNRWA's largest funder—contributing almost 30 percent of its budget—and this move will decimate funding for some of the most vulner-

able people in the region. Later in the month, on January 25, US President Donald Trump threatened to cut aid to the Palestinian Authority, accusing the Palestinians of having “disrespected” US Vice President Mike Pence by refusing to meet with him during his recent state visit. Palestinian President Mahmoud Abbas declined to meet with Pence in protest over Trump's decision to recognize Jerusalem as the Israeli capital, a move rejected by a resounding majority at the UN General Assembly in December 2017. In September the US cut funding for UNRWA in its entirety.

Activists protest violence against women after another femicide

A man reportedly killed his wife in the early hours of January 22 in Beirut, sparking renewed calls for more stringent laws to protect women in Lebanon. The country suffers from high rates of domestic abuse and femicide. A security source told *The Daily Star* that Fadi Ghazi Askar shot and killed his wife in the street as she attempted to escape following a domestic dispute. The latest Lebanese femicide prompted activists and civil society organizations such as KAFA to organize a protest on Jan-

uary 27 outside the Parliament, decrying recurrent violence against women in the country. Protesters denounced the authorities' passivity following the violent deaths of eight women since early December 2017, and demanded legislative reforms to protect women from domestic violence. A statement signed by several NGOs present at the protest said: “Women are dying one after the other because of inaction by the legislative, executive, and judicial powers that don't consider this to be a priority issue.”

Rift between Amal and FPM deepens

A video leaked on January 28 showed Lebanon's Free Patriotic Movement leader and Foreign Minister Gebran Bassil calling Speaker of Parliament Nabih Berri a “thug,” sparking outrage amongst supporters of Berri's Amal Movement. The Amal Movement released an official statement on January 29 warning that the statement threatened the country's unity, stability, and security. Berri's top political aide, Finance Minister Ali Hassan Khalil, accused Bassil of crossing a red line and described him as a “political dwarf” with sectarian motives. Meanwhile, Berri's supporters took to the streets, shutting down roads across Beirut and causing traffic mayhem. The dispute has since quietened down.







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PEACE OF MIND

LAST YEAR

FEBRUARY

Lebanon kicks off oil and gas exploration despite maritime dispute

At a ceremony on February 9, Energy Minister Cesar Abi Khalil declared that the ongoing maritime border dispute with Israel would not get in the way of Lebanon's plans for oil and gas exploration. The event was convened to celebrate a contract that gave a green light to a trio of companies—France's Total, Italy's Eni, and Russia's Novatek—to explore for offshore oil and gas off the coast of Lebanon. A portion of one of the areas to be explored, Block 9, is claimed by both Israel and Lebanon.

Top US diplomats visit Lebanon

US Secretary of State Rex Tillerson arrived in Lebanon on February 15, marking the first visit by a US secretary of state to Beirut in four years. During his visit, which was just one stop in a diplomatic tour of the Middle East, Tillerson characterized Hezbollah's involvement in regional conflicts as a security threat to Lebanon. Later in February, Acting Assistant US Secretary of State David Satterfield shuttled back and forth between Lebanon and Israel in an attempt to broker a compromise over a disputed

area in the Mediterranean Sea. Speaker of Parliament Nabih Berri declared that one proposed solution, to divide the disputed maritime area between Lebanon and Israel, was "unacceptable."

Wave of cases against press continues

Marcel Ghanem, the then-host of popular political TV show Kalam Ennas, appeared in a Baabda court on February 16 to face charges of contempt of court and obstruction of justice. The charges stemmed from a November episode of Ghanem's show, "Kalam Ennas," in which Ghanem criticized the Lebanese ju-

diciary and the justice minister. In the show, he had been discussing charges that were filed against two Saudi guests who had criticized the Lebanese president in a previous episode. Ghanem's case was referred to the Publications Court in April, and his trial was adjourned to December 11. The charges against the TV host came as part of a series of cases that have targeted journalists, commentators, and analysts, including the comedian Hicham Haddad, and Hanin Ghaddar, a US-based researcher who was sentenced in absentia to a six-month prison sentence on charges of insulting the army.

EDL employees clash with police

Contracted employees of Electricité du Liban, Lebanon's public electric utility, clashed with riot police in front of the utility's Mar Mikhael headquarters on February 19, following a protest that blocked a highway nearby. The demonstration was a response to an incident the previous week in which an ISF officer slapped a protesting EDL contract worker. The confrontation was captured in a video that spread quickly on social media, prompting an internal ISF investigation. EDL contract workers had been demonstrating regularly for months to ask for long-term contracts and to protest late wages.

Date set for Paris IV donor conference

On February 20, the Lebanese government announced that the Paris IV donor conference—also known as CEDRE—would take place on April 6. Lebanon will reportedly seek a \$16–17 billion package to support infrastructure work and the economy at large. Finance Minister Ali Hassan Khalil said on February 19 that Lebanon must pass a state budget for 2018 (later passed in March) in order to demonstrate its commitment to reforms required by the international community prior to releasing funds.



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LAST YEAR

MARCH

PM Hariri meets Saudi king and crown prince in Riyadh

On March 1, Prime Minister Saad Hariri made an official visit to Saudi Arabia, where he met with Saudi officials, including King Salman and Crown Prince Mohammed bin Salman, to discuss strengthening Lebanese-Saudi relations. It was the premier's first trip back to Riyadh since his November 2017 visit, during which Hariri was allegedly forced to announce his resignation live on Saudi TV. Although the move was later rescinded, it sent shockwaves through Lebanon and the region.

Over 100 female candidates register for elections

By the deadline of March 6, a total of 976 individuals had registered as candidates for Lebanon's parliamentary elections, set to be held in May. A record 113 women paid the fees required to run as parliamentary candidates—up from a mere 12 female candidates who registered for the last parliamentary election in 2009. However, with no women's quota, only six women became MPs, up from a previous four.

International Women's Day in Beirut draws thousands

On March 11, thousands of women marched in Beirut to mark International Women's Day. Held under the slogan "Different causes, shared anger," the event brought together a wide collection of citizens, activists, and NGOs to raise awareness on various issues, including gender equality, violence against women, LGBTQ rights, and migrant domestic worker rights.

Cabinet agrees to 2018 budget

The Council of Ministers

agreed on March 12 to a 2018 state budget that would lower the 2017 deficit by \$145 million, and passed it on to Parliament for approval. The government was under pressure to institute financial reforms in the run-up to CEDRE, a conference focused on attracting international investment in Lebanese infrastructure.

Acclaimed Lebanese novelist dies

Emily Nasrallah, an award-winning author, died on March 14 at the age of 87. She acquired international fame as an author in 1962, with her first book, "Birds

of September." Considered a feminist icon in Lebanon, many of her writings dealt with themes such as women's struggle for self-determination. In February, Nasrallah received the National Order of the Cedar in recognition of her accomplishments and contribution to Lebanese culture.

Lebanese security agencies receive support at Rome II

The Rome II conference was held in the Italian capital on March 15, with the Lebanese Armed Forces and the Internal Security Forces both presenting five-year development plans for prospective donors. France, the UK, and the European Union all announced funding allocations for Lebanese security agencies during the event.

Cabinet approves CIP for CEDRE

On March 21, the Council of Ministers approved the Capital Investment Plan (CIP), which was presented on April 6 at CEDRE. The CIP was a blueprint for investment projects that the Lebanese government hopes will gain international backing and funding at CEDRE. The plan calls for \$23 billion in financing for 250 projects that would be carried out in three four-year cycles between 2019 and 2030.



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LAST YEAR

APRIL

Lebanon receives \$11 billion in pledges at CEDRE

On April 6, the CEDRE investment conference was held in Paris, bringing together Lebanese government officials along with representatives from states, international organizations, and financial institutions. During the conference, Lebanon presented its Capital Investment Plan (CIP), along with projected financing needs of up to \$23 billion. More than \$11 billion in the form of loans and pledges were promised during the conference by countries and international institutions, surpassing the estimated \$6 billion that was required to implement the first stage of the CIP.

Aoun signs 2018 state budget, Kataeb appeals

On April 18, President Michel Aoun approved the 2018 state budget, the second budget passed by the country in less than six months, after nearly 12 years without one. The 2018 budget mandates reductions in spending that will slightly decrease Lebanon's annual deficit, a move meant to appease the international community in light of CEDRE. On April 24, Kataeb lawmaker Samy Gemayel appealed several articles of the newly enacted budget

before the Constitutional Council, including Article 49, which provides temporary residency for foreigners who purchase property in Lebanon. Critics feared this could lead to the permanent settlement of Syrian and Palestinian refugees.

2018 Arab League Summit held in Saudi, Lebanon to host 2019 edition

President Michel Aoun met with Saudi King Salman bin Abdulaziz on April 22 on the sidelines of the 29th Arab League Summit, held this year in the Saudi city of Dhahran. The meeting, which was also attended by Prime Minister Saad

Hariri and Foreign Minister Gebran Bassil, marked a warming in Saudi-Lebanese relations. It was later announced that Lebanon would host the 2019 edition of the Arab League Summit, last held in Beirut in 2002.

Lebanon preps for second oil and gas licensing round

On April 24, Energy Minister Cesar Abi Khalil requested that the Lebanese Petroleum Administration begins preparations for the launch of a second round of offshore licensing for oil and gas companies. The announcement was made during the fourth annual Oil and Gas Summit, held

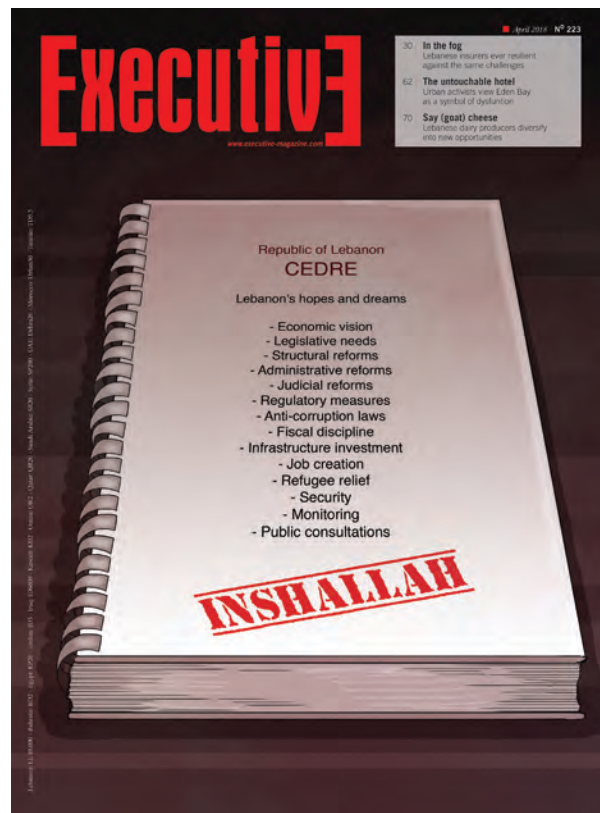
in Beirut. The first phase of exploration into Lebanon's potential reserves began at the end of May, in maritime blocks 4 and 9, after a proposal by a consortium composed of France's Total, Italy's Eni, and Russia's Novatek was approved (following the first licensing round).

Hariri attends Brussels II refugee donor conference

The second EU-backed "Supporting the Future of Syria and the Region" conference kicked off in Brussels on April 24. A total of \$4.4 billion was pledged by the international community to support Syrians, both inside the country and displaced across the region, as well as host communities. Prime Minister Saad Hariri spoke on the second day of the conference, urging the international community to do more to help Lebanon cope with the refugee crisis.

Lebanese diaspora votes in parliamentary elections

For the first time, Lebanese expatriates were able to cast their ballots for parliamentary elections at polling stations abroad during the last week of April. Voting was held in six Arab countries on April 27, and in 34 other countries, including in the Americas and Europe, on April 29. Over 82,000 Lebanese expats had registered to exercise their right to vote from abroad, which was mandated in the 2017 electoral law.





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LAST YEAR

MAY

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—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. The results saw Lebanon's establishment political parties retain their hold over the legislature, but the elections were not without controversy. The Lebanese Association for Democratic Elections noted numerous violations, including voter intimidation, mishandling of ballot boxes, and irregularities in the vote-counting process. In early June, unsuccessful candidates submitted seventeen appeals to the Constitutional Council disputing the election results. These appeals were heard in mid-September, but as of December no rulings had been made.

Post-election clash leaves one dead in Alei

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

one person 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 electoral tensions.

Future Movement shake-up

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, and was replaced in a caretaker capacity by Mohammad Mneimneh, head of the prime minister's protocol office. The following day, the party announced that Wissam Hariri, the party's general electoral coordinator, and Maher Abu al-Khudoud, head of Hariri's follow-up office, were both dismissed.

Beirut Pride week canceled

Beirut Pride week, slated to be held May 12-20, was abruptly canceled following the detention of its organizer. In a statement released on May 15, Bei-

rut 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. Beirut Pride was set to feature various educational and celebratory events intended to raise awareness and discuss the fluidity of the gender spectrum.

Constitutional Council annuls several articles of 2018 budget

On May 15, following a challenge submitted by Kataeb leader Sami Gemayel and nine other MPs, Lebanon's Constitutional Council annulled several articles of the 2018 budget law. Among the articles struck down was the controversial Article 49, which would have granted temporary residency for foreigners who bought property in Lebanon.

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.





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LAST YEAR

JUNE

Naturalization decree courts controversy

A decree granting Lebanese citizenship to over 400 individuals, signed by President Michel Aoun on May 31, proved controversial throughout the month of June. The law was published on June 7, following heavy criticism around the secretive nature of its passage. Naturalization has long been a controversial issue in Lebanon, given the country's delicate sectarian balance. Both the Progressive Socialist Party and the Lebanese Forces submitted formal appeals of the decree to the Shura Council. The LF lodged a second appeal of the decree with the council at the end of August.

Bassil freezes residency permits for UNHCR staff

On June 8, Free Patriotic Movement leader and caretaker Foreign Minister Gebran Bassil froze the renewal and issuance of residency permits for UNHCR staff. Bassil, who is at the forefront of calls for Syrian refugees to return to their homeland, accused the UN agency of conducting a "policy of intimidation" designed to frighten refugees away from the prospect of return. The move was widely criticized in Lebanon as a step beyond Bassil's mandate.

EU announces \$191 million refugee package; Merkel visits Beirut

On June 20, World Refugee Day, the European Union adopted a 165 million euro (\$191 million) support package to aid Lebanon in hosting its Syrian refugee population. The package was aimed at supporting the public education system, and providing socioeconomic support to refugees and host communities. The following day, German Chancellor Angela Merkel made her first visit to Lebanon where she met with President Michel Aoun, Prime Minister-designate Saad Hariri, and Speaker

Nabih Berri, and called for Lebanon to adopt structural reforms discussed at CEDRE.

Geagea heads to court over LBCI

Lebanese Forces leader Samir Geagea and Lebanese Broadcasting Corporation International (LBCI) CEO Pierre Daher both made personal appearances in court on June 22, as part of their years-long legal battle over the ownership of LBCI. The ownership of the company, formerly known as LBC, was transferred to Daher by the Lebanese Forces in 1992, when it became clear that Geagea was set

to be indicted on charges related to alleged acts of violence committed during the post-civil war period. (He served 11 years before receiving a pardon.) The LF sued Daher for ownership of LBCI, claiming that the transfer had been made in name only. Daher, meanwhile, claims to have paid \$5 million for the station. On October 15, the judiciary issued an indictment in favor of the LF, requesting the imprisonment of Daher and an LBCI board member, having found them guilty of fraud and embezzlement. In response, Daher vowed to keep fighting.

Hundreds march for domestic workers' rights

Several hundred protesters marched from Dora to Sin el-Fil on June 24 to protest the lack of labor rights and protections for the estimated 250,000 domestic workers in Lebanon, who do not enjoy the same labor rights as other workers in the country. Domestic workers cannot unionize, have no guaranteed freedom of movement, and their travel documents are often confiscated by employers. A 2017 IRIN report found that, on average, two domestic workers die each week in Lebanon. Human rights organizations blame this situation on the kafala system, which ties a worker's legal status in Lebanon to their employer through sponsorship.



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LAST YEAR

JULY

Lebanon's landfills near breaking point

Trash piling up in the country's landfills sparked concerns over a new looming trash crisis. The mound of waste in Tripoli's dump reached a height of 37 meters, causing site managers to warn that the tower could collapse and spill trash into the sea. Meanwhile, the expansion of the Costa Brava landfill, south of Beirut, reportedly continued despite a court order to halt construction. In early July, activist group United for Lebanon filed a lawsuit against the expansion. On July 17, an Aley judge issued a temporary hold on the project, calling for environmental impact reports on the potential expansion. Immediately following the judicial order, observers suggested that works at the site had continued unabated. As of October, three separate lawsuits had been filed against the landfill's owner and operator, and activists were hopeful that a deal could be made to—if not shut the site entirely—improve waste management at the facility.

Third power barge arrives in Lebanon

On July 18, a new Turkish barge docked off Lebanon's coastal town of Jiyeh. The Esra Sultan barge was

intended to provide 235 megawatts of "free" power per day for three months, complementing the output of the Fatmagul Sultan and Orhan Bey barges, which have been operational in the country since 2013, at an annual combined cost of \$370 million. In May, cabinet also announced its intention to issue tenders to bring a fourth electricity barge to the country as part of the emergency plan to ease Lebanon's perennial electricity deficit.

Army conducts deadly raid on drug kingpin near Baalbek

On July 23, Lebanese Armed Forces personnel

carried out a raid against one of Lebanon's most wanted drug dealers in the eastern town of Brital, which resulted in the killing of eight armed suspects, including the drug kingpin, and the arrest of 41 others. Weapons and drugs were also seized during the operation, which turned deadly after army personnel were fired on by supporters of alleged drug dealer Ali Zaid Ismail, known as "Lebanon's Escobar."

More refugees leave for Syria in government-sponsored return

Nearly 900 Syrian refugees decamped from the border town of Aarsal on

July 23, beginning their journey back to Syria. This marked the third wave of voluntary refugee returns from Aarsal—at the time, 3,000 Syrians had reportedly signed up to return to their home country. In November, General Security claimed that 87,000 refugees had returned to Syria from Lebanon, with 7,000 reportedly returning under the agency's initiatives. Refugee return has been a controversial topic in Lebanon, where nearly one million refugees are registered with the UNHCR. Government estimates put the number of Syrian refugees in the country at closer to 1.5 million.

Free speech activists rally against government monitoring of social media

Hundreds of activists gathered in Downtown Beirut on July 24 to protest the government's monitoring of social media. The demonstration came after several activists and journalists reported to have been contacted by government authorities for their comments online. Elie Khoury, who criticized President Michel Aoun online, and Charbel Khoury, who posted a sarcastic joke about Saint Charbel on Facebook, were both called in for interrogation by the ISF's Cybercrime Bureau. Activist and journalist Mohammad Awad was arrested earlier in the month for criticizing Lebanese authorities on Facebook.





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LAST YEAR

AUGUST

Cabinet formation talks remain stalled

Despite a flurry of activity, hopeful statements, and meetings between Lebanon's political leaders during the month of August, negotiations over the composition of a new government remained deadlocked. President Michel Aoun announced on August 27 that he was still waiting for Prime Minister-designate Saad Hariri to present him with a proposed cabinet lineup. Reported obstacles to the formation of a new Council of Ministers included a battle over seats between the country's two main Christian factions, the FPM and the Lebanese Forces, divergence regarding Druze representation, and the possible inclusion of non-Future Movement Sunni ministers.

Ibrahim visits detainee Zakka in Iran

General Security head Abbas Ibrahim paid a surprise visit to Tehran on August 7 to meet with detained Lebanese citizen Nizar Zakka. Iranian authorities arrested Zakka—then secretary-general of the Arab information and communications organization IJMA3—in 2015, after he had traveled to Tehran to attend a state-sponsored conference. Zakka, who also holds permanent resi-

dency in the United States, was later charged with espionage and sentenced to 10 years in prison. On August 14, in comments to the London-based newspaper *Asharq al-Aswat*, Zakka's lawyer said that Ibrahim's visit may have "paved the way" for his client's imminent release. Zakka remained imprisoned as of December, when his family reiterated their calls for world leaders to pressure Iran to secure his release.

Baalbek-Hermel governor receives death threats after army raid

Baalbek-Hermel Governor Bashir Khodor was urged by government authorities

to avoid travel to his home region after receiving death threats following a July raid by the Lebanese army that resulted in the death of one the country's most notorious drug dealers. According to an August 11 report by *The Daily Star*, both President Michel Aoun and caretaker Interior Minister Nouhad Machnouk contacted Khodor personally regarding the assassination threats, and asked him to refrain from returning to Baalbek-Hermel.

ISF to question prominent human rights advocate

On August 16, President of the Lebanese Center for

Human Rights Wadih al-Asmar announced via Twitter that he had been summoned for questioning by the Internal Security Forces' Cybercrimes Bureau. According to Asmar, authorities told him that he would be questioned regarding opinions he had expressed on social media. Asmar's interrogation was the latest in a series of controversial government crackdowns on expression that in July led to a protest over free speech. In response to Asmar's summoning, 18 Lebanese human rights organizations on August 17 penned an open letter to the United Nations High Commissioner for Human Rights and the UN Special Rapporteur on Freedom of Opinion and Expression to strongly condemn the state's actions.

Bassil discusses refugee return plan in Moscow

On August 20, caretaker Foreign Minister Gebran Bassil met with his Russian counterpart, Sergey Lavrov, in Moscow to discuss increased coordination to facilitate Syrian refugee returns. During a joint press conference, Bassil said Lebanon was "fully committed" to the Russian initiative, which aims to return 1.7 million Syrian refugees to Syria, including a possible 890,000 from Lebanon. The proposal reportedly calls for the establishment of centers in Jordan and Lebanon to facilitate the return of refugees.





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LAST YEAR

SEPTEMBER

The US cuts all funding to UNWRA

On August 31, the Trump administration announced that the US would be ceasing all funding to UNWRA. In Lebanon, hundreds of Palestinians protested the funding cut in the Ain al-Hilweh refugee camp near Saida on September 10. The director of UNWRA in Ain al-Hilweh said the organization faces a \$200 million budget deficit after the halt in US funding. Also in September, the EU offered an additional \$46 million to the agency to help fill the gap, and urged the US to reconsider its “regrettable” decision.

Closing arguments heard at Special Tribunal for Lebanon

On September 21, the Special Tribunal for Lebanon, the UN-backed court charged with investigating the assassination of former Prime Minister Rafik Hariri, in 2005, held its final hearings—the near-culmination of the almost five-year court case. Closing arguments began on September 11, with the prosecution laying out the case against four indicted individuals allegedly connected to Hezbollah. A fifth individual, Mustafa Badreddine, was also indicted as the alleged chief architect of the plot, though charges were

dropped following his death in Syria in 2016. Hezbollah has acknowledged that Badreddine was a military commander with the group while denying his or the party’s involvement in the assassination of Hariri. Also in September, Ghobeiry Municipality named a street in honor of Badreddine, a move Prime Minister-designate Hariri characterized as “the mother of all strifes.” As son of the assassinated former premier, Saad also attended the beginning of the STL prosecution’s closing arguments.

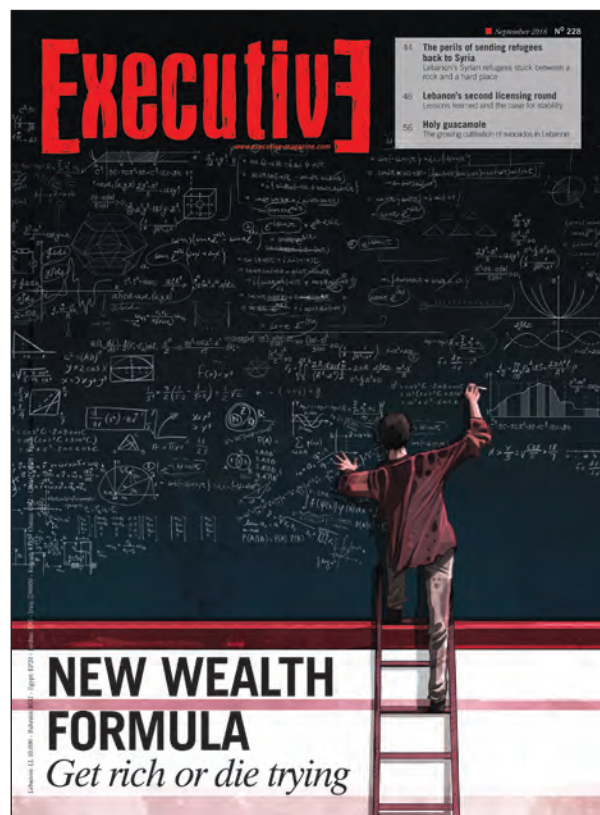
Aoun delivers speech at United Nations General Assembly

President Michel Aoun gave a speech at the 73rd United Nations General Assembly on September 26, during which he called on the international community to help facilitate the return of Syrian refugees to their country. During his trip, the president also met with Jordan’s King Abdullah II to discuss initiatives to resume the commercial transport of Lebanese goods via the Nas-sib border crossing between Syria and Jordan, and with Egyptian President Abdel Fattah al-Sisi. The latter meeting touched on government formation efforts, and an economic development summit scheduled to be held in Beirut in January

2019. Aoun’s trip got off to a rocky start on September 21, when passengers on a commercial Middle East Airlines flight bound for Cairo were forced to disembark at Beirut airport to accommodate the travel of the president and his delegation to New York.

Parliament holds post-election legislative session

On September 24 and 25, Parliament held its first legislative sessions following parliamentary elections in May. The meeting saw several key draft laws approved by the legislature, including projects stemming from CEDRE, and over \$300 million in World Bank loans allocated to the health ministry and to finance infrastructure development. A controversial waste management decree was also endorsed, which would give municipalities the authority to deal with their solid waste, despite opposition from several MPs and environmental activists, who staged a sit-in during the session. In total, Parliament approved 15 draft laws out of the 29 total bills on their agenda—those passed included anti-corruption legislation and an allocation of \$66 million to support subsidized housing. Meanwhile, negotiations over the cabinet’s composition remained deadlocked, with rival factions unable to agree on the number and allocation of cabinet positions for each party.



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LAST YEAR

OCTOBER

Bassil dismisses Israeli claims of Hezbollah missile sites

On October 1, caretaker Foreign Minister Gebran Bassil led foreign ambassadors and press on a chaotic tour of alleged missile sites in Beirut in an effort to dispel the notion that any missiles were based there. Bassil's move came in response to a September 27 United Nations address by Israeli President Benjamin Netanyahu, during which he claimed that Hezbollah had built weapons storage facilities containing precision missiles near the airport.

US issues fresh Hezbollah sanctions

After months of speculation, the US doubled down in its pursuit of Hezbollah in October, with the United States Department of Justice designating the group a "transnational crime organization" on October 15, followed by new US sanctions targeting their financial activities. On October 25, US President Donald Trump ratified these new sanctions, outlined in the Hezbollah International Financing Prevention Amendments Act (HIFPAA) of 2018. The new sanctions target, among other entities, the group's Foreign Relations Department and the Al-Manar TV station.

Mieh Miehl clashes kill five

Violent clashes between two rival Palestinian factions rocked the Miehl Miehl camp, east of Saida, for several weeks in October, leaving at least five dead and 26 wounded. The Fatah Movement and Hezbollah-linked Ansar Allah fought on-off skirmishes over a two week period. Successive ceasefire agreements culminated in a deal on October 28 stipulating the deployment to the camp of a joint-force from the Democratic Front for the Liberation of Palestine, the Popular Front for the Liberation of Palestine, and Islamic Jihad. In November, a series of

meetings between Fatah and Ansar Allah paved the way for affected residents to begin returning to their homes in the camp and for schools to reopen.

Hariri visits scandal-hit Saudi Arabia

Prime Minister-designate Saad Hariri flew to Saudi Arabia October 24 to attend the Future Investment Initiative (FII) conference held in Riyadh from which several prominent companies and sponsors withdrew following the murder of dissident Saudi writer Jamal Khashoggi at the Saudi consulate in Istanbul. International outrage at the death and the obstructive

Saudi response marred the FII, but Hariri reiterated his support for the kingdom. He met with Saudi King Salman following his arrival and spoke on a panel at the FII alongside the kingdom's de facto ruler, Crown Prince Mohammed bin Salman (MBS), during which he spoke about Lebanon's reform efforts and praised MBS's vision for the kingdom. During the panel, Hariri laughed when made the butt of MBS's joke about his alleged kidnapping in the kingdom almost a year prior. A Reuters report alleged that Hariri was not only forced to resign, but also held against his will and beaten, before an intervention by the French to secure his release in November 2017.

Cabinet talks continue

Lebanon came close to forming a new Council of Ministers, with seemingly one issue remaining unresolved: The demand of some non-Future Movement Sunni MPs to be represented by a minister in the cabinet. Prime Minister-designate Saad Hariri—whose Future Movement won 17 of the 27 Sunni seats—rejected the demand, while Hezbollah insisted it be met. On October 29, Lebanese Forces leader Samir Geagea announced that his party would participate in the new cabinet, indicating that the LF had backed down in their confrontation with the Free Patriotic Movement.





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LAST YEAR

NOVEMBER

Nasrallah and Hariri verbally spar over cabinet formation

Despite high hopes that a new government would be formed in November—following more than six months of negotiations and an October breakthrough over the distribution of Christian seats—formation efforts stalled again over Sunni representation. During a November 10 speech, Hezbollah leader Sayyed Hassan Nasrallah reiterated his party's support for the inclusion of a non-Future Movement Sunni MP in the Council of Ministers, threatening to return negotiations to stage one over the issue. In response to Nasrallah's comments, Future Movement leader and Prime Minister-designate Saad Hariri blamed Hezbollah for obstructing the formation of a government, and said the party would bear the responsibility for any negative economic consequences Lebanon experiences.

Lebanon celebrates 75 years of independence

Lebanon commemorated the 75th anniversary of the founding of the republic on November 22. A military parade was held at Beirut's Martyrs' Square, and was attended by the country's top political, security, and

religious figures. Following the parade, activists held a protest in Riad al-Solh Square to protest against the ruling classes' failures in the areas of infrastructure, human rights, and environmental protection.

Beloved radio DJ murdered

On November 27, popular British radio host Gavin Ford was found strangled at his residence in Beit Mery. Security forces later arrested two Syrian nationals, who confessed to killing Ford during an attempted robbery. Ford was an icon on the Lebanese radio scene, hosting programming on Radio One

since 1996. "Gavin Ford in the Morning," co-hosted by Ford and EXECUTIVE Life Editor Olga Habre, was "Lebanon's most listened to breakfast show," according to the beloved radio host's Instagram page.

Generators seized after ignoring order to install meters

Inspectors from the economy ministry confiscated generators in Baadba's Hadath on November 27, following multiple warnings that generator owners must adhere to a decree requiring the installation of consumption meters. The consumer protection law, which went into effect

on October 1, intends to force generator owners to only bill subscribers for the electricity they consume, rather than charging a flat fee, as was standard practice. Many generator owners have refused to comply, claiming that the new measures would make them unprofitable.

Wahhab bodyguard killed following boss's verbal spat with Hariri

Rival political leaders called for calm in the country following the fatal wounding of a pro-Syrian politician's bodyguard in unclear circumstances. During a TV talk show appearance in late November, Wahhab insulted Prime Minister-designate Hariri, saying he was not qualified to be a building custodian, let alone prime minister. The comments prompted protests among Hariri supporters and a judicial summons for Wahhab. During an attempt by the Internal Security Forces (ISF) to bring Wahhab in for questioning, his bodyguard Mohammad Abou Diab was shot in the Chouf village of Jahiliyah on December 1, succumbing to his wounds the following day. Wahhab blamed Hariri, ISF chief Maj. Gen. Imad Othman, and State Prosecutor Samir Hammoud for the death. Meanwhile, the ISF said Abou Diab had been killed by friendly fire. The shooting has raised political tensions and the specter of sectarian strife in the country.



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Everything is speculative

Lebanon faces a lot of big IFs in 2019

Since 2011, Lebanon's economy has been exhibiting recessionary symptoms. Economic growth slowed from 8 percent in 2010 to 0.6 percent in 2017, as measured by the country's public bean counter, the Central Administration of Statistics. For 2018, the International Monetary Fund (IMF) projected GDP growth at just 1 percent.

At the time of this writing, Lebanon has not yet formed a government in the seven months since parliamentary elections in May 2018, but there is room for speculation that it may be formed before the end of 2018, or hopefully in early Q1 of 2019. Cabinet formation could unblock decision making that would lead to a reassurance of confidence in the country. Confidence has not dramatically fallen on the financial and banking side of things, but expatriate confidence in particular could use strengthening. There has been a lot of energy channeled toward fear that could be eliminated, so formation of a new cabinet could calm unjustified or excessive fears triggered by uncertainties over the future.

When a new government is formed, it will need to follow through on reform promises made at CEDRE in April 2018 to attract inflows of capital in order to reboot Lebanon's economy.

CURRENCY CONCERNS

The current economic model is unsustainable and has been understood to be for years now, but was allowed to keep operating, even though it was known that the currency peg was not designed or engineered for the long term. Despite this unsustainability, Freddie Baz, chief strategist and board member at Bank Audi, says Lebanon is not at risk of a devaluation because of the level of foreign currency reserves held by Banque du Liban (BDL), Lebanon's central bank: "The last several years have seen BDL's foreign assets as percentage of local currency money supply in ranges above 70 and 80 percent—81.9 percent today. This [percentage ratio] is where you have evidence for the risk of a collapse in the local currency. I am talking about 18 years where the central bank's foreign assets represent 80 percent of your money supply in local currency; this is a technical buffer." (See Freddie Baz Q&A, page 80.)

Even with such a technical buffer protecting the lira, external factors could spell trouble for Lebanon's economy and others in the region, the IMF noted in its November 2018 Middle East and North Africa Regional Economic Outlook. The Middle East, the report reads, faces many risks that "cloud the outlook." These

risks include the global interest rate environment that mainly reflects the rise in interest by the US Federal Reserve in a little over two years from 0 to 2 percent, and the IMF also mentions the tariff wars sparked by the US against its major trading partners, the European Union and China, as the rise of trade barriers would certainly reflect on the ability of small economies, like Lebanon's, to compete in global markets. Another risk mentioned by the IMF as a damper to the region's economic fortune is geopolitical strains and regional conflicts, or the possibility of economic or financial sanctions on non-state or state actors, or the forced closure of financial institutions, as EXECUTIVE reported in its November 2018 report on US foreign policy in the region vis-a-vis Iran and Hezbollah.

As countermeasures to protect themselves, the IMF suggests countries in the region should use "flexible exchange rates" to "serve as buffers in the event of external pressures," but for Lebanon the IMF recommends maintaining the peg for the foreseeable future.

SPENDING GONE ROGUE

The IMF's other protective measure from the November 2018 report is that public spending should be



Overview

adjusted to be “equitable” and “more supportive of growth.” At CEDRE, Lebanon promised to reduce its deficit by 5 percentage points of GDP over five years, and the 2018 state budget featured a 0.06 percent decrease in total spending compared against the 2017 state budget.

But over the first six months of 2018, the fiscal deficit rose sharply by 234 percent in a year-on-year comparison to 2017. State expenditures totally overshoot the 2018 budget spending forecast, says Jean Tawile, economic advisor to MP Samy Gemayel. He attributes this rise to the public sector wage increase legislated in late 2017 and hiring in the public sector over the course of 2018.

Tawile’s assertions were confirmed in an early December 2018 public statement issued by the Ministry of Finance that also noted an additional fiscal burden—Lebanon’s current account balance, described by the IMF as the “flows of goods, services, primary income, and secondary income between residents and nonresidents.” From 2000 to 2014, the average annual deficit of the current account stood at \$5.1 billion each year. By 2015, \$9.1 billion more flowed out of Lebanon than in, and that figure has risen sharply since 2015. For 2018, the IMF projects a deficit of \$14.5 billion, and \$15.2 billion in 2019.

UNSUSTAINABLE ECONOMIC MODEL

Lebanon’s official reserves—foreign currencies, other assets denominated in foreign currencies, and gold reserve—stood at \$36.4 billion, according to the IMF. The IMF projects official reserves to dwindle to \$31.1 billion next year. In 2015, the figure stood at \$36.7 billion and rose to \$40.2 billion and \$40.6 billion in 2016 and 2017, respectively. This is happening because the country’s traditional economic model relies on internal USD circulation. Lebanon’s

model depends on the financial and services sectors, tourism, foreign direct investment mainly in the form of real estate, and remittances and in recent years, not enough dollars have been entering the economy to offset dollars exiting at an increasing rate. Annual tourist arrivals by total number have largely recovered from 2010, a golden year for tourism in Lebanon, but tourism spending has not. In 2010, nearly 2.2 billion tourists came to Lebanon and spent roughly \$8 billion. By 2016, according to the latest available figures from the World Bank, arrivals were at 1.7 billion and spending was at \$7.2 billion. Stakeholders tell EXECUTIVE that in 2017 and 2018 those who have been coming to Lebanon have been spending less overall. Big spenders from the Gulf are not traveling to the country in the same numbers as before, and this is reflected in tourist arrivals by nationality (see tourism figures on page 93). Instead, budget travelers are coming to Lebanon at higher rates, and this is partly reflected in the occupancy of high-end hotel rooms (see hotels overview on page 90).

The real estate sector is also not as robust as it was in 2010 and prior. This is in part because Gulf nationals are no longer purchasing property in Lebanon as they once were and instead, according to stakeholders, have been selling off assets. Likewise, Lebanese expats working in oil-producing countries have not been purchasing property back home, amid job security concerns on account of lower oil prices (while oil prices recovered in 2017, they began falling again toward the end of 2018) and job security concerns, as EXECUTIVE reported in its October 2018 real estate special report.

While the real estate sector may see positive developments in 2019 through increased investor confidence, the sector, alongside tourism and hospitality, may not return as the drivers of Lebanon’s economy that they once were.

An abbreviated history of the real estate, tourism, and commercial sectors as traditional components of the Lebanese economy shows that, at certain points in time following the establishment of the Lebanese

■ Lebanon’s model depends on the financial and service sectors, tourism, foreign direct investment mainly in the form of real estate, and remittances, which has proven to no longer be sustainable.

republic, these were important drivers of the economy, but not concurrently or linearly.

Real estate as a traditional cache of wealth was always a component of the Lebanese economy, while tourism was not, except for a very narrow period in the 1960s when Lebanon, in terms of transnational infrastructure and aerial linkages, was superior to all other Arab countries. Beirut’s airport was then the gateway to Arab countries—a transit place with appeal for specific types of tourism, mostly casino gambling and other fun-related activities. This was a short-lived period ending with the outbreak of the civil war, when Beirut lost any prospect to position itself as a layover hub in competition with neighboring countries.

When Rafik Hariri first became prime minister in the early 1990s, there were three dream scenarios that Lebanon wanted to revive. The dream was that Lebanon would serve as a tourist hub for Arabs, and as a bridge between the Arab world and the West. This was ful-

filled, but not to the large economic scale Hariri sought—perhaps due to the failure of the Oslo Accords. The added double dream of being a financial and commercial hub are interrelated. Lebanon experienced this to a certain extent in the 1950s and 1960s, even though high human capital was mismatched with relatively poor wealth in the country. In terms of real estate, Hariri had dreamed of building Beirut into a showcase on the Mediterranean. Beirut Central District, the emergence of Solidere as a government-controlled investment scheme, and the rollout of infrastructure was part of the dream to make Lebanon a commercial hub. The traditional business of shipping and trading in the region reflected today as the CMA-CGA global shipper—with special mention of the development of their Marseille hub and Chinese links—has not left much to be done locally. Thinking of Lebanon in 2019 and beyond as a center of trade is not feasible because it has become so multicentric.

REBOOTING THE ECONOMY

There is consensus at the political level in Lebanon that the economic model is not sustainable, and that Lebanon is at a point where restructuring the economy is necessary. But there is a difference in opinion on how the state should go about doing so—either by burning the house to the ground and rebuilding from scratch, or through a measured approach over several years. Both routes are politically difficult, and reforms will cause pain especially to beneficiaries of public sector employment—but if Lebanon is able to follow through on the promises made at CEDRE and receives the capital inflows pledged by donors, then a transition can be more smooth. If no compromises are made by the political elite, and the cabinet void persists, this will drive confi-

dence further down, and perhaps precipitate a collapse of the currency or of the economy at large.

There are big ifs all around—if a government is formed sooner rather than later, if it implements a strategy for reform, and if external factors do not get in the way first. But assuming the best case scenario—that Lebanon has a new cabinet before the end of 2018 or just after—the metaphorical house that is on fire can be extinguished and rebuilding and remodeling works can begin.

But what should be the architecture and interior design of Lebanon's economy in the future?

Lebanon has always been a net adopter of technology and worked as a lab for dissemination of tech into areas that have larger market potential. For auto parts or retail brands, the theory is if it can be done in Lebanon, it can be done in Riyadh or Cairo. So as a test market for the MENA region, Lebanon has been functioning since the second half of the 20th century at varying levels of performance. There is also a history of Lebanese entrepreneurship that has gone to other places to extract resource wealth and then acted as transmitters of that wealth—for example, the Audi's established business with the Kuwaitis and the Frem's transferred Western knowhow into Gulf environments. The particular strength and success formula of Lebanese companies has been to take what has been successful in Western markets and translate it to work in the Arab market contexts, re-exporting technologies and managerial skills to where they are needed.

Lebanon has cultural and technological adaptivity and, relatively speaking, a good human capital position, and these could be leveraged into a national function in the digital

economy in a context where Lebanon has potential to compete with peers, but not with France, Sweden, China, or the US, in digital capacities. But Lebanon could capitalize on in digital economy relations with countries at a similar level of digital readiness.

However, reports that measure digital readiness and digital competitiveness have not yet shown how digitally ready Lebanon is, but assessing urban development and productivity contexts could create competitive advantages. If Lebanon manages to be an early adopter of digital business structures among other global communities of similar size and capacity, it could become a potent supplier and competitor of high native human capital and high native marketing potential, and the

■ There is consensus at the political level in Lebanon that the economic model is not sustainable, and that Lebanon is at a point where restructuring the economy is necessary.

trade heritage of Lebanon could be translated into an economic force for the country.

How can Lebanon make optimal use of these qualities to create a digital turning point and compete in the future global digital economy?

Given the challenges Lebanon faces, it will be up to the next cabinet, once it is formed, to take steps to adopt an all-encompassing digital strategy—including cybersecurity measures and the rollout of e-government to digitize public service provision—that the government said it had prepared in 2018. Should implementation of that strategy begin in 2019, Lebanon will be positioning the economy for the coming decade and beyond.



2018 Roundup



Oil and gas in the Eastern Mediterranean

This year saw the translation of international oil companies' interest in the Eastern Mediterranean—following the discovery of Zohr, in Egypt, in 2015—into concrete projects, and the confirmation of the region's potential, with a new and promising discovery in Cyprus.

Egypt received its final liquified natural gas (LNG) shipment in September and is aspiring to become a regional gas export hub, following an impressive increase in production and the signing of agreements that could see the transport of gas from neighboring countries to feed its LNG plants for re-export.

At the start of the year, Lebanon signed its first offshore exploration and production agreements and is preparing to invite companies for a second bidding round in 2019.

Meanwhile, in Israel, the development of the Leviathan and Karish gas fields are on track. The country also launched its second offshore licensing round, counting on improved conditions this time around. This year also

saw the confirmation of regional co-operation among those countries that already enjoy relatively good relationships, and reminded us that heightened political tension in this part of the world could evolve into a confrontation at any time, with a direct impact on companies' operations.

Geopolitical risks, market conditions, and prospects for monetization will affect the attractiveness of the region's resources. The decisive factor will, ultimately, be their competitiveness. Here is a quick overview of the major developments and milestones that marked 2018 in the region and an analysis of what to expect in 2019, 10 years after the first major discoveries in the Levant Basin.

LEBANON

The high point for Lebanon was the signing of two exploration and production agreements (EPAs) in January with a Total-led consortium (including Eni and Novatek) for blocks 4 and 9. The exploration plan was approved in May, and preparations are

underway for Total's first drilling in Block 4, expected toward the end of 2019. It will be followed by drilling in Block 9, which will be more politically sensitive, given that it will be conducted some 25 km north of the disputed maritime border with Israel.

The drive toward strengthening transparency in the sector continued in 2018 with the publishing of the EPAs in April (Lebanon is the first country in the Eastern Mediterranean to disclose signed agreements) and the adoption by Parliament in September of an oil and gas transparency law.

In June, Lebanon and Norway agreed to move onto Phase 3 of the Oil for Development Programme, which extends from 2018 until 2020. The initiative has been providing technical support to Lebanese authorities since 2006, particularly in the establishment of the legal and regulatory framework governing the sector.

Lebanon is also completing plans to import LNG for power generation. In May, the Ministry of Energy and Water launched a tender for up

to three floating storage regasification units (FSRUs), after publishing the list of the 13 companies and consortia that prequalified to bid. The tender closed on November 21. Eight offers were received from the following bidders: Gas Natural Fenosa; BW, Vitol, Butec, Almagani, Rosneft; Exxcelerate, Shell, BB Energy; ENI, Qatar Petroleum Int. Ltd.; Golar Power Ltd., CCC; Total; Petronas; and the Phoenicia energy consortium (Gunvor, Exmar, EGC Egypt, Petrojet, Maridive, Primesouth). A final decision is expected by early 2019 but will have to wait until after a government is formed.

In May 2018, the government approved the LPA's recommendation to prepare for a second licensing round. According to a tentative timeline published on the LPA's website, the tender will be launched by the end of 2018. The absence of a government could be problematic if cabinet formation drags on indefinitely, since there is an intention to amend some of the documents governing the second licensing round, including the prequalification requirements, tender protocol, and the model EPA. If all goes according to plan, the prequalification round will take place between January and April 2019, with the results to be announced in May. Prequalified companies will have six months, between May and October 2019, to submit their bids, and EPAs are expected to be signed by the end of 2019. Delays in forming the government already threaten these deadlines.

Speaking of deadlines, the LPA's mandate was set to expire on December 3. By law, it is possible to renew the mandate once. It was clear after the first few months of 2018 that this was where we were heading, as the selection process for a new board takes place over many months and no action was seen on this front. In the absence of a government to renew the

mandate, Energy Minister Cesar Abi Khalil issued a decision extending the LPA's term, putting an end to a subject that the LPA, the energy ministry, and the government had evaded publicly discussing throughout 2018.

CYPRUS

The year started off on a high note with drilling and a discovery by Eni in Cyprus' Block 6, and is ending with a promising drilling in Block 10 by ExxonMobil.

In February 2018, Eni announced the discovery of Calypso in Block 6. The field holds an estimated 6-8 trillion cubic feet (tcf) of natural gas and confirms the extension of a "Zohr-like" play into the Cypriot EEZ. An appraisal drilling in 2019 will give a clearer image of the reservoir's potential. A few days after the February announcement of the discovery, the Turkish Navy prevented Eni's drillship, the Saipem 12000, from reaching its next drilling target in Block 3. Turkey's reaction was an unprecedented turn after years of issuing statements and harassing and monitoring drillships and surveyors. Until that point, Ankara did not go so far as to cause the interruption of drilling operations in Cyprus' EEZ. The Saipem 12000 ultimately retreated, and Eni had to postpone the drilling in Block 3 (and a number of other

■ The absence of a government could be problematic if cabinet formation drags on indefinitely.

drillings elsewhere in the Cypriot EEZ) to an unspecified date.

Exploratory drilling resumed in Cyprus on November 16, with two back-to-back drillings by ExxonMobil in Block 10. Turkey, which does not have direct claims to Block 10, did not intervene to interrupt Exxon's program. But, as Ankara believes

that the island's resources are jointly owned by the Greek and Turkish Cypriots and does not recognize what it calls unilateral actions by the Greek Cypriot administration, it strongly objected to the drilling. Early results of Exxon's drilling will start to emerge by the end of the year. A significant discovery could be a game-changer on more than one level for Cyprus—new discoveries could make the exploitation of offshore resources more viable than it has been so far, given the modest projections for the Aphrodite field. For various reasons, it has been a challenge to monetize Aphrodite. The fact that resources remained unexploited kept tensions between Greek Cypriots and Turkish Cypriots below a certain threshold. If the exploitation of offshore gas resources is made possible before a solution to the Cyprus dispute is brokered, it will strengthen the Greek Cypriots' hand in the negotiations. This might explain Turkey's aggressive behavior following the discovery of Calypso. Ankara's measured response to Exxon's drilling can be interpreted as a result of the location of the drilling (no Turkish direct claims on the block) and the profile of the company (American). However, a more aggressive approach, similar to the February 2018 incident in Block 3, is not out of the realm of possibility elsewhere in the Cypriot EEZ.

Nicosia is proceeding with its plans undeterred. On October 3, Energy Minister Yiorgos Lakkotrypīs announced that Block 7 (parts of which fall within what Ankara considers its continental shelf) would be on offer for a month. Instead of a proper licensing round, the government decided to grant the license for Block 7 to companies that hold licenses in adjacent blocks, due to geological considerations related to the discovery of the Calypso gas field by Eni in nearby Block 6. Only three companies were invited to bid: Eni, Total, and ExxonMobil. In late November 2018, the energy minister

Comment

announced that a joint offer was submitted by Total and Eni. A final decision on the award is expected in early 2019, and possibly even before the end of 2018. The political calendar (possible resumption of negotiations) could incite Cypriot officials to speed up the process (this could explain the swift one-month window given to companies to express interest in the block). Heading to the negotiating table with a new set of *faits accomplis* (new award, new discoveries) would consolidate the position of Greek Cypriots, who could then brandish revenue sharing as a carrot to entice Turkish Cypriots into a deal.

Next to Block 7, Block 8 could witness some changes. Currently, Total is the operator of Block 11 and Eni's partner in Block 6. However, the company voiced its intention to expand activities in Cyprus, expressing interest in farming into Block 8, currently licensed to Eni. As mentioned above, Total recently submitted a joint offer with Eni for Block 7.

Further south, the government and companies are at pains to find solutions to develop Aphrodite. Cyprus and Egypt signed an intergovernmental agreement in September for the construction of a pipeline that could ultimately carry gas from the Aphrodite gas field to Egypt for liquefaction and re-export. Aphrodite's right holders seem to think that this option does not secure a reasonable return on investments and would like to revise the terms of the production sharing contract with Nicosia in order to secure a bigger share of revenues. Cypriot authorities have shown willingness to discuss the issue. An additional obstacle for developing Aphrodite could be the fact that a small part of the reservoir extends into the adjacent Ishai license in Israel. Cyprus and Israel have been negotiating a unitization agreement for years but have yet to reach a deal.

In the meantime, and until Cyprus can produce its own gas, au-

thorities are planning to import LNG, launching a tender for the procurement of an FSRU in October. The deadline to present offers is on January 18, 2019, and the completion of the LNG import terminal is expected by November 2020. A second tender will follow in 2019 for the supply of LNG. Critics claim the project is costly and will increase the price Cypriot citizens pay for electricity, already among the highest in Europe. The Greek firm Energean Oil & Gas has proposed a supposedly less expensive alternative that involves transporting gas by pipeline from gas fields it operates in the northern part of Israel's EEZ. However, the offer was not accepted as it was unsolicited and was not submitted as per the terms of the tender. An important element to take into consideration is the fact that gas from Karish and Tanin is earmarked for the domestic Israeli market and that Energean needs to apply for a special approval from Israeli authorities to export gas from these two fields.

As is now standard, 2019, like the years before it, will see a series of meetings focused on the proposed East Med pipeline. An intergovernmental agreement is expected in February 2019, but a number of factors need to change to make the project commercially viable.

ISRAEL

The development of Leviathan is proceeding smoothly. Almost 70 percent of the project has been completed, and the first gas is expected to be delivered on schedule by the end of 2019.

The first half of 2019 will see considerable activity in the northern part of Israel's EEZ. In March 2018, Energean announced that it had secured \$1.2 billion in funding to develop Karish and Tanin, and made

a final investment decision for the Karish project the same month, after signing a series of gas sale purchase agreements with industrial groups and independent power producers, by offering unexpectedly low prices. In June 2018, Energean announced that it will drill an exploratory well in its Karish license by the end of March 2019. The Greek company refers to it as "Karish North," and this has already caused alarm in Lebanon over the potential for rising political tensions stemming from drilling near the disputed maritime border. The drilling will be followed by three development wells in Karish Main, with first gas from the field scheduled for 2021.

■ Gas is expected to flow to Egypt in the first half of 2019, ten years after the discovery of Tamar, Israel's first major gas discovery.

After years of speculation as to which route Israeli gas was going to take to reach export markets beyond the region, the Egyptian option was quicker to materialize than the rest. Noble Energy and Delek Drilling announced on February 19 the signing of two agreements with Egypt's Dolphinus, worth about \$15 billion, to supply gas from Leviathan and Tamar to Egypt, both for local consumption and re-export. Gas is expected to flow to Egypt in the first half of 2019, ten years after the discovery of Tamar, Israel's first major gas discovery. The deal is a major breakthrough: It marks a successful conclusion to years of multi-tracked negotiations to export Israeli gas to Egypt. From an Egyptian perspective, the deal is an important step toward turning the country into a regional gas export hub, but approval depended in part on finding a solution to the \$1.7 billion in compensation that Egypt is required to pay to Israeli

companies following the halt in supplies in 2012. Egyptian media started reporting in November 2018 that a deal had been reached to considerably reduce the fine and extend the payment period. Another important milestone was the acquisition, by Noble Energy and Delek, of a 39 percent stake in the East Mediterranean Gas pipeline, which will eventually be used to transport the gas to Egypt.

Another, much more modest but still noteworthy export agreement was signed with two Jordanian companies. The Tamar partners signed a deal with Jordan Bromine and Arab Potash for additional volumes. The agreement will go into effect in the first quarter of 2019 and could reach \$200 million.

In early November 2018, the Israeli Ministry of Energy and Water Resources announced the opening of a second offshore licensing round. Israel is hoping to generate more interest than it was able to attract in the first bid round, which was completed last year and is banking on an apparent improvement in market conditions and better prospects for exports. Nineteen blocks in five zones are open for bidding, all are located in the southern part of Israel's EEZ. Bids are due in June 2019 and the announcement of winners is expected in July 2019.

EGYPT

Egypt's natural gas market has been undergoing fundamental changes over the past four years, and 2018 has been no exception. In 2017, the Egyptian Parliament adopted a gas market law, and an implementation decree was approved in February 2018, establishing a gas market regulatory authority and paving the way for the private sector to import natural gas directly, an important step toward becoming a regional gas transit hub. Less than a week later, Noble Energy, Delek, and Dolphinus announced the signing of a deal to export Israeli gas to Egypt. The first



natural gas import licenses were expected to be delivered by the end of 2018, but the Natural Gas Regulatory Authority has postponed the issuance of licenses because the private sector was still "unprepared."


In September, Egypt received its final shipment of LNG, a significant milestone for the country, which will save the country around \$1.5 billion a year. Cutting LNG imports was made possible when production from Eni's Zohr reached 2 billion cubic feet per day (bcf/d). This figure is expected to reach 2.7 bcf/d in 2019. Zohr's capacity, along with various other new fields, pushed domestic gas production in Egypt to a record 6.5 bcf/d.

Also in September, Eni started drilling in its Nour concession. The public is anticipating a large discovery, although Eni has denied the wild estimations reported in the media. More details will be revealed toward the end of the drilling work in December, or early in 2019.

A series of new awards is expected in 2019. Last May, the Egyptian Natural Gas Holding Company (EGAS) launched a bid round putting 16 concession areas on offer: 13 blocks in the Mediterranean Sea and three concessions in the onshore Nile Delta region. The deadline to place bids was originally set for October 8 but was postponed to November 29. Another tender for Red Sea explora-

tion blocks will be launched by the end of 2018. A new model contract, offering investors friendlier terms in future agreements on undeveloped frontier areas, such as the Red Sea, is expected in the first half of 2019, and will take effect once the Red Sea tender is awarded.

Egypt is also proceeding with payments to international oil companies (IOCs), a further sign of the sector's good health. By July 2018, arrears stood at \$1.2 billion, down from \$2.1 billion in February, and from a high of \$6.3 billion in 2012. Cairo intends to fully repay IOCs by the end of 2019, although this is not the first time a target date was provided.

On the subsidies front, further reductions to fuel subsidies spending were envisaged by the 2018-2019 budget, down to EGP 89 billion, but Egypt could end up spending much more—as the increase in oil prices since the budget was approved indicates—depending on prices throughout the year (the current budget assumes oil prices at \$67 per barrel). This could disturb plans to phase out fuel subsidies in 2019. The public's tolerance for higher prices will affect a political decision to pursue or postpone plans to reach this target in 2019. 

Mona Sukkarieh is the cofounder of Middle East Strategic Perspectives.

Do or die

A vision for Lebanon in 2050

Everyone is aware that we are in a global world, but awareness of globalization's causes and consequences is not universal. In my humble understanding, globalization shows that the notion of economic independence has become obsolete and that “consuzenship” (a combination of citizenship and consumerism) has replaced the old concept of citizenship.

Nowadays, people are driven by the pursuit of happiness to move to wherever in the world they can to fulfill their needs. This is the real cause of migration from South America to North America, and from Africa or Afghanistan to Europe, and ultimately from Syria to Lebanon—regardless of economic, political, or security motivations. People are moving from citizenship to the more attractive concept of consuzenship, where individuals search for the best state services on offer—provided they can find a way to migrate to new havens.

ONWARDS AND UPWARDS

The Lebanese who migrate to the developed world do so because they are unhappy with their lot. The original and primary mission of governments in all countries, especially in emerging ones, is to bring prosperity and happiness to their citizens. A few developing countries do so by benchmarking with successful countries and trying to close the gap between their standard of living and that of a similar country in the developed world.

The demise of distance and time have had consequences not only for trade, but also the individual—due to the widespread use of technology, such as the internet and smartphones, linking global citizens. This is where I



“And this flower of the partisan, is the flower of liberty.”

consider globalization the most effective and visible.

Globalization has a tremendous impact on politics and the economy. The very existence of small countries, such as Lebanon, is at stake. How can small economies survive in a global economy where education, infrastructure, technology, markets, defense, laws, regulations—and all other government services—require both a far-sighted vision and capital that lies beyond their reach? We should acknowledge that Lebanon is only a tiny piece in the global puzzle, and thus needs to reshape itself to fit in to the regional and international map, one way or another.

The main question is how to put Lebanon on the highest possible orbit. We do this by starting with our values. In the process of nation-building, our values are the critical pillars on which a nation is founded.

Unfortunately, following the 1975-1990 civil war and the subsequent Syr-

ian occupation, our values retrograded from the ones that we previously shared with the successful countries of the free world to the ones we currently share with failed states. In order to remedy this situation, Lebanon needs a different breed of leaders and a new mode of political governance, one where authority and responsibility coincide. In Lebanon today, authority is shared by many, and consequently no one is held responsible. This produces an unaccountable government—when one is even formed—and leads to increased waste and corruption. Corruption has become deeply embedded in our cultural landscape.

A new breed of leaders should anchor the country to core humanitarian values—values that have been shaped over time by humanity’s greatest philosophers and brightest minds. These values should be at the heart of citizenry from day one, disseminated starting from early childhood all the way

through university. I am fully aware it would take time and tremendous effort to reconstruct our values system, but it is the only way to put our next generations on the right track. Do or die.

REAL REFORM

Having said that, the economy could enjoy an extremely favorable and enabling environment, which would allow us to rethink a new inclusive economic model. A “new political economy,” for which I advocate in my book “Un Projet Une Nation,” means building a society where growth is complemented by inclusion, and where inequality decreases not from unfair compulsory policies that make capital flee, but by a fair taxation and harmonious and balanced growth. I am advocating for an intelligent economy with equal opportunities, not one of unaccountable welfare. Everyone should be responsible and play their part in the growth of this future project.

The aim of all this is to avoid Lebanon becoming a dispensable country, and instead make it one with a message and clear mission that promotes the values of freedom, tolerance, and responsibility toward humankind. Are we capable of leading the charge and becoming the example for countries in our region and elsewhere? This is the issue that any new leadership must address.

Lebanon also has a unique opportunity to be a leading country in building bridges between Christianity and Islam. Our country has the practiced experience and the people to advocate for this noble goal. Let us make it a political priority on our national agenda.

We also need to reengineer the whole political and economic system, starting by defining the mission and role of the new state. What is a state for? It is supposed to free its people from their many chains, not imprison them in outdated and unfair laws. After building a consensus for change, we will need to run national workshops on all issues that have an

impact on citizens’ daily life—such as the fiscal code, the budget process, labor law, pension funds, etc.—in order to transform Lebanon into a modern country that meets the needs of its people. The world is moving faster than our parliamentarians can legislate—much faster than many minds can even imagine—and this will only accelerate.

We must reform with the goal of decreasing inequalities, raising living standards, and above all, serving humankind. Our education system should promote critical thinking from an early age and seek to build an individual who is responsible to their fellow citizens and their environment, and tolerant toward all human beings regardless of their nationality, religion, gender, ethnicity, or sexual orientation.

Our economy should seek within the near future to become less reliant on exports to Arab countries, as part of our move toward greater political and economic independence. Having a single land border for exports via Syria makes us very dependant politically, and consequently economically, on the Syrian regime. Instead, we should target value-added services in the knowledge economy, which will be exportable not just across our borders but worldwide via information superhighways.

In the next quarter of a century, we should pursue and target an endogenous growth rate above the hurdle rate of 6 percent in order to overcome the dark outlook of our current path. It is possible, provided we accept that we must reform our system entirely as though starting from scratch.

We should take an active role in the fourth industrial revolution and start building our capacity for the fifth one—we should always anticipate beyond the next big thing, not get bogged down in the past and present. Governing is about planning for the future while mitigating risks

and preparing for inevitable uncertainties. Let us focus on what makes us indispensable for the region and the world. We need to think outside our obsolete box, move past our out-of-date beliefs, and look forward toward the future of the future. This is a quantum leap we must accomplish, a leap primarily in our minds: We need to create a new way of forward-thinking and a new culture for Lebanon.

This vision is necessary for the future of our country, not least for those we are already leaving behind.

I have in mind the extreme poverty in Akkar and the northern Bekaa Valley, and in many other places within Lebanon. I feel the burden of not having provided an alternative, leaving many fellow citizens forced to turn to illicit activities in order to live a decent life. We are paying the price for our collective shortsightedness and our inability to share prosperity.

I have in mind all the violence against our children and our wives. I have in mind our youth who migrate

■ The world is moving faster than our parliamentarians can legislate.

far from their families in search of jobs.

I have in mind all the workers and entrepreneurs, all the unemployed, the disabled, the old, and the young, from all regions of Lebanon, all ages, all religions, and all faiths, who suffer from indecency in their daily life.

It is time to enter into our age of enlightenment.

This is not the dream of a member of the intellectual elite of this country. It is the fight that started many years ago, and that will never stop, not so long as there is still hope to advance the values of liberty, humanism, and dignity, and to defeat the vices of violence, ignorance, and poverty. ■

Roy Badaro is economic advisor to the president of the Lebanese Forces.

By Paula Yacoubian

Another crisis of our own making



Lebanon's waste sector at risk of the same mismanagement as electricity

The waste crisis and the mismanagement of the sector have become a symbol of government incompetence and corruption. Millions of dollars have been squandered, and instead of having modern infrastructure, we have been left with an ongoing disaster affecting our health and draining our resources. There are 941 open dumps in Lebanon, more than 150 of which openly burn waste on a weekly basis. We are polluting our surface, groundwater, soil, and air. A Human Rights Watch report quoted an unnamed environmental journalist who said: "It's as if you're inhaling your death."

Apologists for the disastrous status quo keep saying that no one is of-

fering a viable solution, and present incinerators as the magical fix-all that will make the waste problem disappear. This "waste-to-energy" solution will allegedly solve the waste problem and the country's other lingering crisis, electricity. For proponents, waste will be the new electricity source, whereas, in reality, it will be the new electricity scandal.

LOCAL SOLUTIONS NEEDED

The waste problem cannot be solved with fragmented solutions or expensive and complicated technologies. Waste management is a social output and should be adapted to local conditions. Waste management

solutions cannot be simply copied. What works well in Monaco will not necessarily work in Lebanon. What is needed is a comprehensive solution that takes into consideration our habits, our waste composition, our administrative and legal framework, our financial means, and our geographic and topographic nature.

We need to start working on waste minimization, enacting laws and providing incentives for reducing the use of plastics, for example, and encouraging waste reuse and recycling. We should start to enforce sorting waste at source to improve the value of recyclables and to limit the contamination of organic waste

that can be treated biologically and turned into compost, which has commercial value and can improve agricultural soil. We are currently importing compost from abroad to use in our agriculture sector, even though the majority of our waste is composed of organics (more than 53 percent). Recyclables make up to 30 percent of the garbage we produce and can bring an estimated annual benefit of \$65-272 million to the Lebanese market. The remaining fraction of the waste that cannot be recycled can be valorized and transformed into lower grade products, such as plastic crates and boards, or it can be placed in a landfill.

Incinerators, or the proposed “waste-to-energy” solution, cannot be considered an option for Lebanon given that most of the prerequisites for their adoption are not met. Waste incineration can be considered in countries where mature and well-operated waste management systems exist and where community planning systems are stable and able to make appropriate long-term planning decisions (for more than 15 years). This is not applicable to Lebanon, a country that has been implementing emergency plans for the past 20 years.

Another condition is that the calorific value of the waste must be high enough to sustain combustion. The high organic and water content of the waste in Lebanon makes it of low calorific value. To increase its calorific value, energy would be spent to dry the organic fraction and recyclables—especially plastics and materials with high calorific content—should be burnt. This will entail losing valuable resources and energy. The energy produced by incinerators will be minimal and not worth the pollution that mismanagement might cause.

Incinerators cannot be used without a robust legal and institutional framework that can oversee and monitor the emissions and ef-

fluents of this technology, enforce compliance with standards, and apply sanctions and penalties on polluters. Incinerators transform waste from a solid physical form to ash and air emissions. Air emissions from incinerators are highly toxic and carcinogenic. A pollution control system is needed to capture those emissions and the toxic fly ash. Proper monitoring of emissions is needed and proper disposal of fly ash in hazardous waste landfills should be secured. No labs in Lebanon are equipped to test for certain pollutants (such as dioxins and furans) emitted by incinerators, and there is no specifically-designated hazardous waste landfill at the national level. Moreover, air pollution levels in the country already exceed World Health Organization standards and are linked to increased risk of cancer and cardiovascular diseases. We do not need additional cumulative sources of pollution in the country.

Finally, incinerators are among the most expensive technologies, costing between 80 and 200 euros per ton of waste. This technology is usually adopted in communities that are able and willing to pay for the increased treatment cost, for example via management charges, tipping fees, tax-based subsidies, or high electricity feed-in tariffs. With the economic situation in Lebanon and the increasing debt, lending \$1.15 billion to adopt incinerators is suicide.

FINDING AN ENVIRONMENTALLY FRIENDLY ALTERNATIVE

Since the end of the civil war, Lebanon has been suffering from an electricity crisis—despite the investment of billions of dollars and the electricity sector being highly subsidized—costing the country around 25 percent of its annual state budget. Looking forward, the waste sector

will be the new electricity sector, and the country will drown further.

There is an immediate need to adopt appropriate solutions to the environmental predicaments facing Lebanon. We need to start with a comprehensive strategy that reduces health and environmental risks, recovers materials, and finds alternatives to the incinerator plan, which would cost more than a billion dollars.

We are facing a classic case of corruption: squandering public money for personal gain.

I was promised a special emergency legislative session by Speaker

■ The environmental degradation that we are facing is becoming irreversible. We need to act now.

Nabih Berri to address the country's environmental challenges. We are preparing tens of draft laws aimed at stopping the deterioration of the environment, which is affecting our health, tourism, and economy, and has become a national crisis. There is an urgent need to pass laws to deal with solid waste and wastewater. Enacting laws is important, but even more important is the enforcement of these laws.

The environmental degradation that we are facing is becoming irreversible. We need to act now. Everyone has a role to play, including citizens, deputies, municipalities, ministries, and judges. This is a battle that we cannot afford to lose. Our children's future is at stake. Unless we unite and join hands, we cannot prevail over the entrenched forces of darkness.

Do not waste our future, and do not make the waste sector the new electricity crisis, dragging the treasury, and the country, into ruin. ■

Paula Yacoubian has been a member of Parliament since May 2018.

By Jessica Obeid

Lebanon's electricity crisis



Getting to the heart of it

Lebanon's power sector is a substantial drain on the state's treasury, responsible for 40 percent of the country's fiscal deficit, according to the World Bank. Significant reforms are required to cut the fiscal shortfall and address structural and governance issues at the root of the crisis.

The country's power generation capacity is nearly 2,050 megawatts (MW), excluding the capacity of two temporary power barges, while the demand is estimated at 3,500 MW. The electricity tariff is largely subsidized; the average tariff of the state-owned electricity utility—Electricite du Liban (EDL)—is 9.5 cents for each kilowatt hour (kWh) consumed, while the cost of generation ranges from 17 to 23 cents/kWh. EDL thus incurs significant financial losses, between \$1.5-2 billion annually, depending on oil prices. The country also relies on expensive heavy fuel oil and diesel oil, unlike the rest of the Middle East where natural gas, considered cleaner, and cheaper, is the largest source for electricity generation.

It is obvious, looking at the figures, that fixing the power sector requires increasing the power generation capacity

by adding power plants and restructuring the tariff to reflect the true cost of generation—something that the Ministry of Energy and Water (MoEW) is keen to do. But reforming the power sector also entails immediately confronting deep-rooted structural and governance issues.

INCREASE GENERATION

In 2018, the MoEW took steps to increase the generation capacity through thermal and renewable plants and temporary power barges, and started the process of switching to natural gas through floating storage and regasification units (FSRUs).

Lebanon signed four contracts in 2018, with the aim of adding 752 MW in power generation capacity in the upcoming years. One contract relates to the Deir Ammar thermal plant and the other three deal with wind farms in Akkar. Two expressions of interest (EoI) for a second round of wind and solar development projects ranging between 410-700 MW were also launched.

In February, the MoEW signed 20-year power purchase agreements

(PPAs) to develop three wind farms in Akkar with three different joint-ventures: Lebanon Wind Power (60 MW), Sustainable Akkar (82.5 MW), and Hawa Akkar (70 MW), at the cost of 10.75 cents per kWh for the first three years, and 9.6 cents per kWh the remaining years. The first two of these ventures were later bought by a common entity. These farms are a breakthrough for the Lebanese power sector: they enable a new modality where the public utility purchases electricity from the private sector; they reduce dependence on fossil fuels' price volatility, contributing to Lebanon's new target of 30 percent renewable energy by 2030; and they will generate cheaper electricity than EDL's thermal power plants. However, these wind energy initiatives are significantly more expensive than similar projects in the region and across the globe, with the global cost of electricity averaging 6 cents per kWh for onshore wind in 2017. For Lebanon, the higher cost is mainly due to the uncertainty in the sector, which is driving up the risk premium that companies account for in the projects' finances. These wind farms, planned to be completed by 2020, face the challenge of attracting a required investment of approximately \$360 million and risk setback due to political turmoil, following a five-year delay between the launch of the request for proposal and February's PPA signature.

In May, Lebanon restarted the construction of a 540 MW power plant in the north of Lebanon at Deir Ammar, expected to come online in 2020 under a 20-year build-operate-transfer (BOT) agreement. In October, Lebanon agreed to change the agreement with the international firm initially contracted to build the plant in 2013, into a BOT, following a dispute over payment of value added tax between the firm and Leba-

non's finance and energy ministries.

The year also witnessed a call for EoIs for a second round of wind and solar energy projects, aiming to develop four wind farms with a total capacity ranging between 200-400 MW, and three solar photovoltaic farms with a total battery storage capacity ranging between 210 and 300 MW, through PPAs. The calls resulted in 42 EoIs for the wind projects and 75 for the solar projects. The first round for solar photovoltaic farms, launched in 2017, resulted in 256 EoIs, of which 42 pre-qualified companies were requested to submit a proposal by October 2017. The awarding of the first solar round is still pending due to regulatory issues and political conflicts, and the next step for the second round of wind and solar projects is still unknown.

THE FIRST STEP IN SWITCHING TO NATURAL GAS

While Lebanon is moving forward in renewable energy, the country is also planning the transition of current and future power plants into using cleaner fossil fuel sources.

Adding natural gas to Lebanon's fuel mix would improve the country's energy security by diversifying fuel and supply sources, and reduce fuel costs by approximately 40 percent, according to the energy minister. It would also serve to minimize greenhouse gas emissions. The benefit of such a transition would vastly increase if Lebanon finds and develops offshore oil and gas reserves.

The country's 2010 electricity plan envisioned that two-thirds of the fuel mix would be made up of natural gas from multiple supply sources. To achieve that, Lebanon will need to develop the necessary infrastructure for the supply and distribution of natural gas, and convert and build new power plants operating primarily on natural gas. Two measures were identified that could achieve this over the short term: the procurement of natural gas through an FSRU and the supply of natural gas to the power plants via a coastal gas pipeline. Moored on the coast, the

FSRU would be fed with liquefied natural gas (LNG) imported by ship and, following a regasification process, would feed gas to Lebanon's power plants via a coastal pipeline or, more realistically, via several smaller pipelines that stretch from one plant to another in its vicinity. Last year, Lebanon launched an FSRU tender, its second attempt. While the original tender outlined that one FSRU would be built at Deir Ammar, the updated EoI calls for three FSRUs: one of each to be located at Deir Ammar and Selaata in the north, and one at Zahrani, south of Beirut. In 2018, 13 consortiums were pre-qualified to participate in the tender of the project, eight of which submitted proposals in late November 2018. Details of the projects related to the source of LNG and the actual cost of energy, driven by the regular necessary shipments remain unclear at this stage.

FUTURE OUTLOOK

Past plans by the MoEW have remained mostly on paper, but the alarming fiscal deficit and the growing frustration of unreliable electricity supply may prompt power sector reforms in the near future. The International Monetary Fund stated in February 2018 that "electricity reforms should focus on expanding capacity and eliminating subsidies." While it does make sense from a purely fiscal perspective to focus on the sector's drain on the state budget—which should also account for illegal connections and non-billed consumption—the existence of a strong institutional system is a necessity for achieving true reforms, and authorities in the sector must address the underlying structural and governance issues. Otherwise, even with generation increased to match the current peak demand, the sector will encounter the same shortcomings in the future, as a result of growing demand.

Lebanon's Capital Investment Plan (CIP), presented in April at CE-

DRE, includes plans to increase generation capacity and upgrade high and medium voltage transmission lines and the low voltage in the distribution network, in line with EDL's master Plan for 2023-2030.

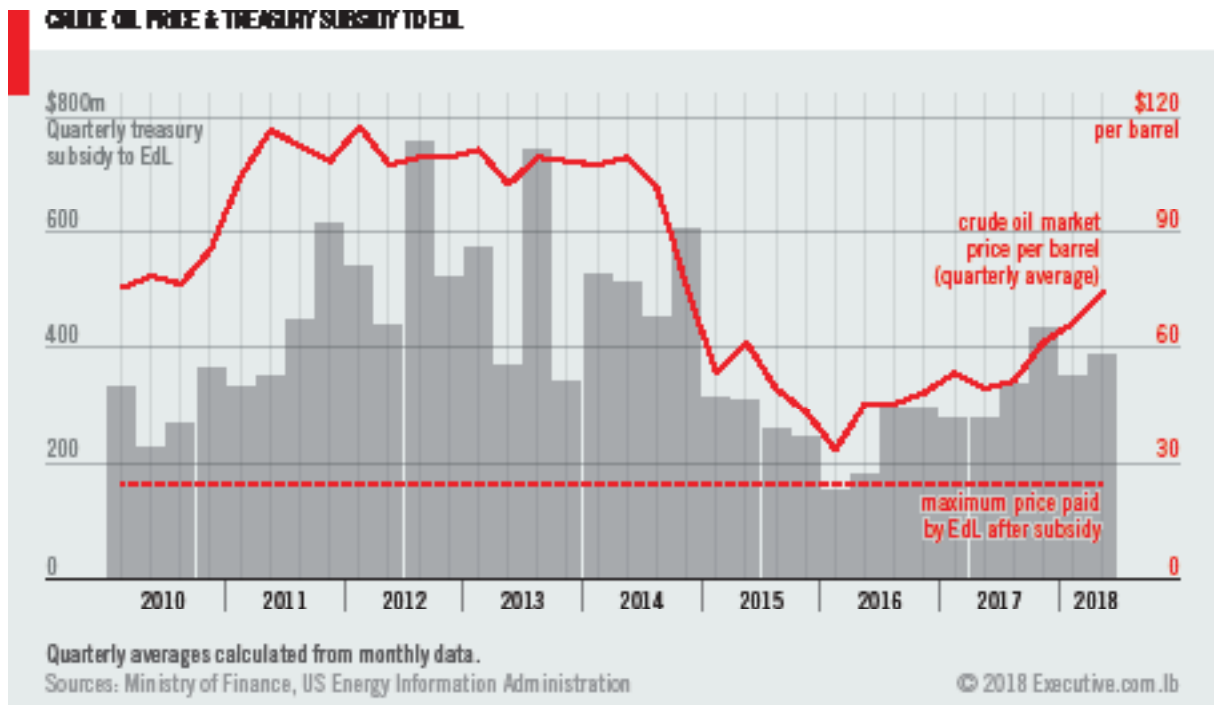
According to the CIP, four generation plants of approximately 500 MW each are planned to be completed by 2023: two in Selaata, one in Zahrani, and one in Jiyeh (by modernizing the Jiyeh power plant), in addition to the

■ Adding natural gas to Lebanon's fuel mix would improve the country's energy security.

previously mentioned BOT in Deir Ammar—projected to be completed by 2020. If all these plans come to fruition, expected total installed capacity would reach 4,925 MW, combining all renewable energy projects and existing plants. Two more thermal plants and further renewable energy investments are also planned in the long run, for 2027-2030. All new power plants are expected to run primarily on natural gas, with heavy fuel oil as a fallback option in the absence of natural gas.

The reinforcement of the grid is a priority, as the government has not improved the grid network simultaneously with recent contracted improvements to power plants, causing inefficiencies and losses, and hindering the plants' ability to operate at full capacity, as was the case when a third power barge was connected to the Zouk plant in August 2018.

The government is also planning a tariff hike, based on a price of \$60 per oil barrel. Eliminating subsidies is a necessity for the proper functioning of the sector. However, they should be coupled with an increase in power generation and carefully designed to mitigate the impact on vulnerable households and ensure equity. The sector has failed to achieve this in the past few decades, with different areas facing dif-



ferent blackout hours, leading to higher generator bills for those suffering from the highest shortage in EDL supply. Removal of the subsidies should also be coupled with a drastic cut in non-technical losses otherwise illegal connections might increase in the future.

UNSOLICITED PROPOSALS

The gravity of the situation has prompted several unsolicited proposals (USPs) from international energy firms to improve Lebanon's power sector. The growing economic crisis might prompt the government to begin direct negotiations pursuing USPs, which would not be an unusual phenomenon in countries with power crises.

While USPs enable governments to identify innovative solutions to severe infrastructure challenges and capture the private sector's interest in implementing commercially viable projects, they bring their own set of challenges.

These proposals typically do not fall within a government's planned energy projects, posing the challenge of integrating the proposed solutions within the strategy for the overall energy sector. They are tailored to meet the objectives,

equipment, and technologies of the proposing firm, not the citizens, and might compromise air quality. And, most significantly, in the absence of a transparent and true competitive procurement process, their negotiations increase the chance for low governance and low value for money, and heighten the risk for future public-private partnerships. This was the case when Tanzania embarked on direct negotiations to purchase power, which eventually led to arbitration.

Lessons learned from around the globe show that USPs should be channeled into a transparent and competitive process, granting a fair chance to all interested firms, not only a select few. The government should first launch an EoI or request for proposals before entering into direct negotiations, setting guidelines and allowing firms to bid against each other by showcasing their qualifications and innovative solutions with optimized technologies at cost.

The gravity of the sector might also prompt the government to pursue further temporary solutions, further aggravating the deficit.

One thing is certain: The sector

needs a comprehensive, optimized strategy that increases power generation and efficiency at the least possible cost and improves the sector's governance. Such a strategy should be clearly communicated to the Lebanese taxpayers. Implementing electricity Law 462 (2002), which sought to appoint a regulatory authority and "unbundle" EDL into private generation and distribution companies, is necessary to increase confidence, competition, and draw investments in the sector.

Lebanon's deficit for the year 2018 is estimated at \$4.5 billion, though that figure could grow much higher. In the best case scenario, cutting the current EDL deficit of \$1.5 billion would be significant, but this is only a first step in addressing Lebanon's public finance woes. The government needs to address its structural and governance issues across all state institutions—not just in the power sector—and urgency should not compromise transparency or sustainability. 

Jessica Obeid is a Beirut-based energy consultant, former resident fellow at Chatham House-London, and former chief energy engineer at UNDP-Beirut

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By Kareem Chehayeb

Ignored but ongoing



The Syrian refugee crisis in Lebanon

In 2018, the Syrian popular uprising-turned-civil war entered its eighth year, and so did Lebanon's refugee crisis. This past year was critical for Lebanon. Not only did the country hold its first parliamentary elections since 2009, it also saw decreased funding for refugees, a highly controversial policy by the country's General Security to return refugees to Syria, and ongoing tensions between the foreign ministry and the United Nations High Commissioner for Refugees (UNHCR) over refugee returns.

DONOR FATIGUE WORSENS

With Lebanon hosting, globally, the largest number of Syrian refugees per capita (only Turkey hosts more in absolute terms), it came as no surprise that international aid was more readily supplied during the early years of the conflict. This aid came in the form of not only direct assistance for Syrian refugees, but also funding to help the Lebanese government mitigate the impact of the refugee crisis on its infrastructure and economy. However, as the conflict in Syria drags on, international donations have stagnated.

In fact, the 2018 funding gap for UNHCR in Lebanon is its worst so far. Despite the need steadily rising, this year UNHCR received just \$887 million out of a required \$2.68 billion. Factoring in a sum of \$310 million that carried over from 2017, the total secured funds amounted to only 45 percent of the required funding for the year.

This is not the first time that UNHCR in Lebanon has received less than 50 percent of its required funding. Need is outpacing willingness to donate. In recent years, from 2015 to 2017, UNHCR in Lebanon received roughly \$1 billion per annum, but the funding gap has continued to widen. This situation looks set to continue, with the aid requirements of refugees and their local host communities—many of whom reside in impoverished areas—not diminishing.

Lebanon is not alone in coping with the refugee crisis. Jordan and Turkey are also hosting large numbers of Syrians and must contend with shortfalls in international aid. Unfortunately for all the host countries in the region, key donors are continuing

to cut foreign aid. The Trump administration recently pulled US funding for UNRWA and is having second thoughts over their Syria aid program, redirecting more than \$230 million earlier this year. Meanwhile, Turkey and the EU continue to squabble over the implementation of the 6 billion euro (\$6.8 million) aid package signed in 2016.

Going forward, the cuts to US foreign aid under President Donald Trump will have adverse effects on struggling aid and assistance initiatives. In 2017, the US was the largest single state donor by far, providing \$1.45 billion to UNHCR. Germany was the next largest, at roughly \$477 million.

STAGNATED CONDITIONS

Given that these funding gaps have existed since 2012, it should come as no surprise that there has been little marked improvement in the socioeconomic conditions of refugees, despite years of aid. In a 2018 update to the UNHCR's refugee response plan for 2017 to 2020, the agency stated that more than 76 percent of Syrian refugees live below the poverty line, set at \$3.84 per day. A whopping 87 percent of them are in debt, with the average debt amounting to \$798 per person. Syrian refugees incur significant costs—for example, 18 percent of average monthly expenditure goes toward paying rent, often for overcrowded housing. Meanwhile, food is the largest monthly expenditure, at 44 percent, and accounts for the greatest proportion of debt.

Although the financial situation of Syrian refugees in Lebanon is dire, a thin, unexpected silver lining presents itself in the form of the continued improvement in the performance of the Lebanese health sector. A study by the American University of Beirut, the World Bank, and Lebanon's Ministry

of Public Health (MoPH) revealed that not only has the sector shown resilience during the refugee crisis it has even improved. Walid Ammar, the director general of the MoPH, told EXECUTIVE in July that public and private health institutions continue to improve in light of the ongoing circumstances.

Meanwhile, the World Bank continues to oversee several projects in collaboration with the state to create more jobs in an attempt to alleviate poverty. The Creating Economic Opportunities program was established prior to the refugee crisis, and original projections sought to create some 52,000 jobs for Lebanese people over a 15-year-period. However, Zeina Khoury, a private sector specialist at the World Bank, told EXECUTIVE in September that beneficiaries now also include 3,000 Syrian refugees who are to receive training—but not job placement support or wage subsidies—in sectors in which Syrians have the legal right to work in Lebanon. The program has yet to be formally adopted by cabinet and Parliament.

In any case, the sectors in which refugees are allowed to work are extremely limited. And it appears that UN agencies are anticipating further cuts to their aid programs designed to ameliorate the refugee crisis. In a meeting with the Ministry of Social Affairs in October, it was confirmed that UNICEF would discontinue their cash for education programs for refugee students due to insufficient funding. Around 13,000 households will be affected by this measure.

With diminishing funding, the government suspending UNHCR's ability to register new refugees in 2015, and severe labor restrictions, the socioeconomic wellbeing of Syrian refugees in urban and rural areas is unlikely to improve in 2019. It appears that refugees will continue to rely on borrowed money for subsistence. These unsustainable conditions could also be a catalyst for some to take the risk of returning to Syria, despite the lack of a political solution to the conflict.

VOLUNTARY RETURNS?

Since last spring, General Security has been publicly documenting countrywide refugee returns organized in coordination with Syrian security and government officials. Photo handouts show refugees crowding around white buses provided by the Lebanese state, or the all-too-familiar green buses synonymous with war-time population transfers in Syria. According to statements released by General Security, the buses cross into Syria mostly through the eastern Masna and northern Ab-boudieh border crossings, with some buses utilizing the al-Zamrani crossing near Arsal.

The number of Syrians who have chosen to voluntarily leave Lebanon is disputed. Despite the presence of a UNHCR representative to monitor returns, confirmed by both General Security and UNHCR Lebanon Representative Mireille Girare, numbers differ between the two organizations. A General Security statement from early November stated that 87,670 Syrian refugees had returned from Lebanon since July. This statement broke down the number of returns into those who had gone back through a General Security return program (7,670) and those the statement said had returned on their own (80,000). This cleared up some confusion that had existed in the local press, as previous statements from General Security had provided breakdowns of their own returns program and an overall total that was much higher, without explaining the discrepancy.

Nevertheless, the overall number of Syrians returned is still disputed, despite the November statement from General Security. Lebanon's caretaker State Minister for Refugee Affairs Mouin Merhebi claimed in a November interview with AP that only 12,000 Syrians had returned to Syria. Meanwhile, UNHCR tallied 3,100 returns as of October this year, though UNHCR spokeswoman Lisa

Abou Khaled told *The Daily Star* that these figures represented individual returns, not refugees whose return was coordinated by General Security, and that there were additional "spontaneous returns" that UNHCR was not capturing.

UNHCR's updated numbers indicate that the number of registered Syrian refugees in Lebanon continues to steadily decrease. As of October 31, UNHCR documented 951,629 Syrian refugees in Lebanon, a significant decline from three years ago, when the organization had roughly 1.2 million individuals registered. Despite these developments, the government continues to estimate the number of refugees (both registered and undocumented) to be significantly higher, at 1.5 million. But in his AP interview, Merhebi said that the number of Syrian refugees was now at around 940,000, following returns or resettlements in other countries.

Is Syria safe enough for refugees to return? Many Syrians have expressed concerns over security risks related to arbitrary detentions or forced military conscription by the Syrian army, its allies, or by opposition groups. There is also the question of the ongoing humanitarian and internally displaced people (IDP) crisis within Syria. In October 2018, the UN Office for the Coordination of Humanitarian Affairs documented over 64,000 displacements within Syria, mostly taking place

■ As of October 31, UNHCR documented 951,629 Syrian refugees in Lebanon, a significant decline.

in the Idlib and Aleppo governorates. The UN agency cited that the displacements were the result of Syrians seeking better security and humanitarian conditions. Human Rights Watch and other human rights organizations continue to document airstrikes on IDP

Comment

camps and ongoing attacks against civilians by numerous forces on the ground. Merhebi also told AP that 20 Syrians had been killed after returning to Syria from Lebanon, but offered no concrete proof to the newswire, and rights groups monitoring the situation have recorded no deaths.

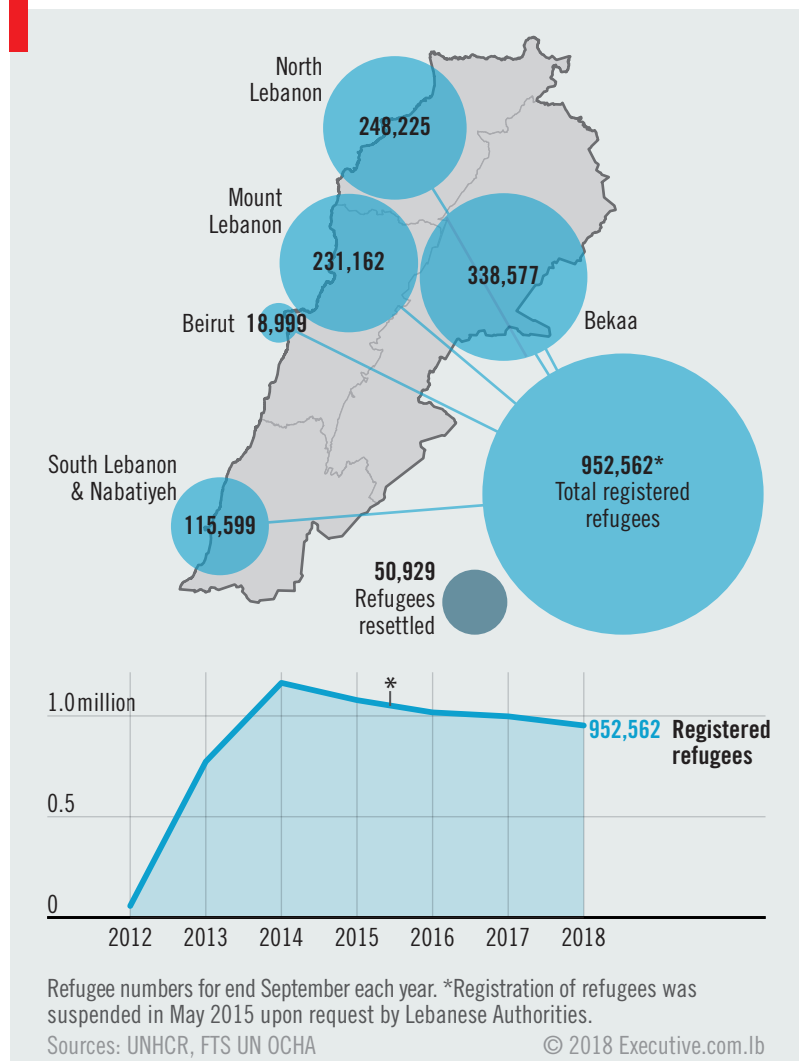
UNHCR DISPUTE

Though the government has not reached a consensus when it comes to the Syrian conflict and the refugee crisis, the foreign ministry continues to butt heads with UNHCR. In May 2015, the government ordered UNHCR to stop registering Syrian refugees. This left sponsorship by a Lebanese employer as the only option for Syrians to obtain legal residence, a difficult path given the need for *wasta* that colors such arrangements.

In June 2018, caretaker Foreign Minister Gebran Bassil froze the renewal of UNHCR staff residency permits indefinitely. A statement from the foreign ministry cited alleged “intimidation tactics” by UNHCR, which they claimed were aimed at scaring Syrian refugees out of returning to Syria, by notifying them about the risk of military conscription, the poor security situation, and the fact that returns have not been endorsed by the international community. Despite other ministers and government officials condemning Bassil for the unilateral freezing of UNHCR residency permits, the decision still stands. In response, UNHCR stated that they respect the right of refugees to voluntarily return and do not discourage returns based on “individual free and informed decisions.”

With Bassil expected to continue heading the ministry once a cabinet is formed, it is expected that relations between the two will continue to sour. President Michel Aoun, echoing his son-in-law Bassil, said in a November speech that there are forces “stagnating” returns by “intimidating” refugees, arguably pointing fingers at UNHCR and human rights organizations that


REGISTERED SYRIAN REFUGEES IN LEBANON



have expressed concerns about refugee returns at this point in time.

Given the circumstances, it seems the government’s current thinking is affecting the rhetoric coming from UNHCR and similar organizations. In a panel discussion at Saint Joseph University in Beirut in October, Girard appeared to downplay initial concerns about refugee returns to Syria, focusing instead on UNHCR’s role in ensuring their safety on Lebanese and Syrian territory. Meanwhile, Christophe Martin, head of the delegation of the International Committee of the Red Cross, told Prime Minister-designate Saad Hariri in November that

the organization supports the return of Syrian refugees, if their security is guaranteed and the non-refoulement principle is respected.

Speaking from eastern Ghouta, near Damascus, the Danish Refugee Council’s Secretary General Christian Bach said in November that the reconstruction effort must get underway, given that many Syrians, refugees, and IDPs alike, are returning to the ruins that were once their homes. It is therefore likely that the narrative will continue to shift in 2019 to focus on the logistics of repatriation, rather than the legality and security of it. 

Kareem Chehayeb is a journalist and researcher based in Beirut.



The Spirit of the season



By Jeremy Arbid

Is there a real estate crisis?



Uncertainty and inflation drag on Lebanon's real estate market

Since at least 2014, the country's real estate developers have been warning of troubling times ahead. The sector slowdown had begun much earlier, as EXECUTIVE reported in its October 2018 real estate special report, and sector stakeholders have, for several years now, expressed hope that the next year

would be better—repeating this mantra, as if speaking the words out loud would bring about the positive change they have been seeking. By definition, real estate is always cyclical, so the question is: Where are we on the down leg of this cycle—still declining, at the nadir, or nearing an upward turn?

NO TO LOW CONFIDENCE

Confidence to invest in Lebanese real estate reached a low point in 2018. The sector was negatively affected by political uncertainty and economic distortions due to monetary interventions by Banque du Liban (BDL), Lebanon's central bank. But the formation of a new government has the potential to bring relief on both fronts.

After Lebanon forms a new cabinet, there will be a confidence boost, and a foundation for renewed economic growth can be set. This could come in the form of fiscal incentives, taxation changes, or legal changes that require government approval, such as regulating the rental market, alongside BDL's monetary measures. There are many possibilities that could manifest, if, and only if, the new government adopts a clear vision for the real estate sector. One thing to watch for in 2019 is a housing policy—currently being prepared by the Economic and Social Council (an advisory body to the prime minister made up of academics, economic associations, civil society, political parties, and government entities) as part of its 22-point socioeconomic plan—which will require approval by cabinet before any measures can be implemented.

When it comes to asking whether or not real estate will experience pricing adjustments in 2019, the calculation should not only be considered in social or political terms, but also as a macroeconomic factor.

In 2013, there was macroeconomic worry at the central bank because of deflation, and the response was to target specific sectors that BDL at that time thought would be beneficial to the economy, through stimulus packages that cost roughly \$1 billion each

year. The central bank's annual subsidy package helped drive up GDP growth, and also contributed to inflation, according to a public sector economist with whom EXECUTIVE spoke.

On top of that, the 2017 public sector wage scale increase pushed inflation in general, but also property price inflation, as the wage hike increased the eligibility range for subsidized loans.

It was the absence of the housing subsidization scheme in 2018 that proved a pivotal factor, clearly demonstrating that without subsidies (i.e. monetary interventions by BDL) the sector was worse off. The freezing of BDL's subsidization scheme was correlated to the central bank's macroeconomic concerns, including the potential overheating of the economy as a result of rising inflation.

If inflation was to be mitigated at a time when the state was opening the money supply tap in terms of the salary scale, the central bank needed to be careful with its incentive packages.

When the public sector salary increase of \$800 million was announced in late 2017, and later turned out to far exceed that amount, the central bank concluded that its measures, coupled with the wage increase, would have sent inflation soaring to 7 percent, or higher, in 2018. "Inflation, if you recall before this year, was in the realm of 3-4 percent, and this year it hit 6 percent. If we were to add to that [BDL's incentive structure], inflation would've probably approached a double-digit level," the public sector economist told EXECUTIVE.

UNRELIABLE DATA

The real estate numbers that make headlines are most likely not suggestive of any sort of trend, or whether there is an impending market crisis or not. In 2018, the number of real estate transactions and cement deliveries went down, but have fluctuations over the last two decades had any correlation with economic development? And if there is a correlation, is it a cau-

sation, or is it just coincidental?

Before concluding that a real estate crisis can pull the Lebanese economy down, one must first determine whether there actually is a crisis, and that is hard to ascertain. The degree to which real estate transactions contribute to GDP, somewhere in the range of \$8-9 billion each year, or \$45-50 billion over the last five years, does show that the sector is important, but it should also be noted that it is an inflation driver.

Subsidies for real estate can drive inflation higher, but the overall effect is very difficult to measure. There are more variables to consider when valuing the real estate component of the national economy than what are typically taken into account by analysts, who may have a bias toward thinking that everything is a threat to the sector and suggesting a larger crisis than may actually exist.

This is all to say that there is uncertainty in the straightforward reading of real estate indicators: For example, reading selective indicators that are not thoroughly collected data observations—such as the proxy indicator of cement deliveries—do not necessarily reveal as much as one might think. Survey data on real estate perceptions, which is soft data, combined with hard data that is proxy, can lead readers of real estate indicators to conclusions that may be more dramatic than they are sensible.

What Lebanon is lacking is reliable data, which is not at all unique to the real estate sector. We do not have an official price index to show price per square meter or transaction price increases in given areas. All the numbers we do have to work with are anecdotal—so when the sector says it believes there is \$3-6 billion in unsold residential units in Beirut, or that some developers have gone bankrupt, the factors leading to the unsold apartments or bankruptcies are unknown. We say there is a real estate bubble and that there is a downturn, but we do not have reliable data to say which

activities of the sector have imploded, which are underdeveloped, or which are in a bubble state at present.

PROGNOSIS: UNCERTAIN

Whatever the real status of the sector is, and where we are on the down leg of the cycle, stakeholders may actually have a better year in 2019 than in 2018. This time around, that optimism is based on hope and the tangible measures expected following the formation of a new government, rather than on hope only, as was the case in past years.

Lebanon's housing authority, the Public Corporation for Housing (PCH), is set to restart its subsidy in 2019 for lower-income, first-time homebuyers, thanks to a one-time allocation of \$66 million by Parliament. The subsidy had been offered by the central bank but was discontinued at the end of 2017, leaving borrowers in limbo. In November 2018, EXECUTIVE interviewed the head of the housing authority, Rony Lahoud, who at that time said the PCH was still negotiating with banks to adjust the financing mechanism for subsidized loans and, possibly, offer a new home loan product to qualifying beneficiaries.

As for developers and apartment owners, a new real estate fund could partly ease the oversupply of high-end unsold apartments in Beirut. In October, real estate developers Namir Cortas and Massaad Fares launched Legacy One, a real estate fund that hopes to raise at least \$325 million to buy up housing units in the \$500,000-\$2 million price range in Beirut.

These developments, coupled with the formation of a new government and the implementation of a housing policy, could mark the beginning of a return of investor confidence to Lebanon's real estate sector. In the context of the t-junction faced by the Lebanese economy, meaning the economic model has hit a wall and must change direction, the real estate sector in 2019 could very well experience a decisive directional move, either remaining static or moving forward. 

Rape subculture in Lebanon

#ShameOnWho?

The world over, legal systems are failing victims in cases of sexual violence and rape. In these cases, what should be a simple roadmap to justice takes twisted turns until the victim is blamed and the rapist is cleared. A mixture of lax laws and skewed perceptions of accountability often leave these victims shunned, shamed, and without recourse against their rapist.

Fueled by this harsh reality, ABAAD, a local nonprofit that seeks to empower the marginalized, launched the campaign #ShameOnWho in order to challenge the endemic victim shaming in Lebanese society. ABAAD is calling for more severe penalties against rapists—penalties that actually hold the rapists, not their victims, accountable for their actions.

LAW AND CULTURE

Through a series of initiatives, including a viral social experiment video, a stunt at the Beirut marathon, and an immersive play open to the public, the organization grabbed much needed attention and debate on the issue. In Lebanon, one in four women are subjected to a form of sexual assault in their lifetime, according to ABAAD.

Rape culture is still very much prevalent both in the laws and the societal attitudes of Lebanon. Just last year, ABAAD's ran a campaign that was successful in having article 522 of the penal code, which had allowed a rapist to escape punishment if they married their victim, repealed. However, women's rights organizations argue that the repeal did not go far enough because there

are other articles in the penal code that are interpreted in such a way that allow the rapist to escape criminal charges.

That the previous Parliament would water down proposals from women's rights groups is not surprising, given that in 2016—at a women's rights conference, no less—then-Kataeb MP Elie Marouni brazenly stated: "There are certain circumstances where we need to ask ourselves if women have a role in pushing men to rape them."

THE BLAME GAME

These attitudes are not only reserved to parliamentarians. In ABAAD's viral video, a young actress plays the part of a rape victim seeking help on the streets of Beirut. Those who respond to her are all members of the public, and it does not take long for the victim blaming to kick in.

The men and women in the video quickly excuse rape by commenting on the victim's clothes: "My sister would never wear that," or "A girl going out with a guy, looking like that?"

Others make comments on her state of mind: "Are you on something? Did you take drugs? Are you drunk?"

Some make assumptions about her character: "Seems like she goes from one guy to another," or "She looks like some random hooker."

And then there is the flat out victim blaming and shaming: "She's just a slut," "What does she expect?"

"You're embarrassing yourself, don't let anyone know what happened."

It is no wonder that rape goes unreported.

Society has placed all the blame on the victim, her clothing, her choices, her actions, and none on the perpetrator of the crime itself. These attitudes are insidious and can make women falsely believe they might have done something to provoke their attacker. Not only does this undermine the victim's experience, it also gives rapists a free pass. No one is prosecuted, no one is punished—except, arguably, the victim herself.

But rape happens because of rapists. End of story.

In a society that continues to feed and normalize rape culture, ABAAD's efforts to break this vi-

■ Society has placed all the blame on the victim, her clothing, her choices, her actions, and none of the perpetrator of the crime itself. These attitudes are insidious.

cious cycle will only be successful through joint efforts by the public and the government. Rape is a crime and it should be treated as such. It is time to judge the rapist, not the victim.

Mariam Shour has a BA in Media and Communications with a minor in Creative Writing from the American University of Beirut. She writes on social activism and Lebanon.



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BEIRUT

By Bassel F. Salloukh

A Dickensian drama

Lebanon's financial woes are home spun

Much like Ebenezer Scrooge's selfish deeds, Lebanon's past monetary and fiscal policies have finally come home to roost. As 2018 ends, most Lebanese have but one haunting worry: What kind of economic show-down will 2019 bring? To answer these fears, we first have to look at how we arrived at this wretched economic condition that haunts our future prospects.

There is nothing magical about Lebanon's present economic crisis. It is rooted in the ghosts of past economic visions and choices. The lopsided pre-war merchant republic was recycled, producing a postwar rentier economy anchored on largely nonproductive tourism, real estate, and financial sectors, regressive tax rates, and depressed wages. High interest rates were the price paid to stabilize the Lebanese lira and ensure a steady increase in bank deposits which, alongside remittances from an ever-growing immigrant population, were used to redress the country's balance of trade deficit. Considered at the time a necessary short-term measure, this postwar economic philosophy rewarded investments outside the real economy and financed a way of life based on uber-consumption, allowing many Lebanese to live beyond their otherwise logical means. Consumption, rather than saving, became the Lebanese way of life—capital concentration took precedence over sound fiscal policies. Today, we are reaping the results of these past ghosts: 1 percent annual economic growth in 2018; a 6.2 percent average inflation rate year-on-year through July; \$83.7 billion public debt as of August 2018 (compared with \$3 billion in



Consumption, rather than saving, has become the Lebanese way of life.

1993); a total fiscal deficit at 8.3 percent of GDP through June of 2018; an 'unsustainable'—as the World Bank keeps reminding us—debt-to-GDP ratio of 155 percent at the end of 2018, expected to rise to 166 percent by 2020; and a trade deficit of \$11.7 billion through August 2018.

ALARM BELLS ARE RINGING

This postwar economic model overlapped with a peculiar political economy incentivizing cronyism, an endemic corruption organically connected to the Taif Accord's power-sharing arrangement with its massive sectarian redistributive policies and political mobilization along mainly sectarian lines. Nowhere is this more glaringly evident than in the predatory rent-seeking practices of the postwar political elite, a fiscal evasion gap of some \$5 billion in 2017, the equivalent of 10 percent of 2017's GDP, according to Bank Audi estimates, and the ballooning of the public sector's workforce size and wage bill. Constituting some 300,000 employees in 2017 and

representing 35 percent of GDP according to Banque du Liban (BDL), Lebanon's central bank, the postwar public sector emerged as a source of political rent, part of the sectarian political elite's ensemble of clientelist networks and strategies deployed to produce docile sectarian subjects. The result is a Lebanese state that looks nothing like the modern Weberian state, with its measure of institutional autonomy from private societal interests. Rather, it is an archipelago of patronage networks that sustains the political economy of sectarianism.

Most worrying today is the insouciance creeping into reactions to persistent International Monetary Fund and World Bank warnings pertaining to the gravity of present economic conditions. This is especially so if we try to peek into our future economic prospects. If we do that, we see three potential but alarming and overlapping trends: 1) increased pressures on BDL's foreign exchange reserves; 2) a persistent balance of payments deficit exacerbating the country's perennial

balance of trade deficit; and 3) rising debt financing as a result of pressures to raise interest rates and a concomitant increase in the debt-to-GDP ratio which, at least according to analysis of one worst case scenario published in *Al Akhbar* in November 2018, may reach 215 percent in the next five years.

Now that we can see the specters of our future more clearly, will policymakers, much like Scrooge, see the error of their ways, and start thinking about how to address what is a glaring contradiction between existing monetary policies and the need to reboot the real economy beyond non-productive rentier structures? Will they realize that relying on unorthodox monetary policies to rectify predatory and populist postwar fiscal policies cannot continue indefinitely, especially given new geopolitical realities and emerging market pressures? And if they decide to embark on an economic restructuring beyond the freshman logic guiding the infrastructural projects presented at CEDRE, has anyone paused to think for a minute about how to spread across classes and sectors the inescapable pain and agony that comes with deep economic reforms, particularly the privatization of strategic public services?

It is axiomatic that the postwar political economy, with all its distortions, has now run its course. But to exonerate the average citizen from part of the blame is to miss how the sectarian system operates through a combination of material and immaterial incentives to obviate the emergence of alternative forms of interest-based identities and modes of political mobilization. It is high time we free ourselves from the ghosts of economic policies past, and start making the kind of difficult fiscal choices that can reverse the present meltdown, without torpedoing the livelihoods of the poor and disadvantaged. Anything else would be sheer humbug!

Bassel F. Salloukh is associate professor of Political Science at the Lebanese American University, and a research fellow at the Lebanese Centre for Policy Studies (LCPS)



Acres Development: “The Way Up In 2019 Should Go Through Structural Reforms”

The economic stagflation has been building up gradually since 2012 and its toll has been weighing heavily on the retail sector. Amidst this challenging reality, however, Acres Development Holding has been looking for the proverbial silver lining where it could not only survive the crisis but also lay the foundations for new projects as well. Regional politics, wars, and a seemingly never-ending influx of refugees have played a major role in exacerbating the Lebanese economic challenges between 2012 and 2017. The impact of these factors has been obvious through the slowdown in our economic growth; yet, as of 2017, the regional impact was compounded due to a series of locally manufactured fumbles such as the increase in the public salary scale, the delay in government formation, the ongoing electricity crisis, lack of reforms, and a further dip in the trade balance.

Despite all the challenges, Acres Development Holding registered a 17 percent increase in sales up till 2017; nevertheless, the drop we saw in 2018 was because of the severity of the local factors. We are expecting the situation to persist till 2019 if no reforms are made. The silver lining, however, lies in the expected economic upturn due to both the perceived advancement of the Syrian “solution” by 2021, the materialization of Lebanon’s nascent oil and gas sector, and, hopefully, structural reforms that will lead to the implementation of CEDRE. Acres Development Holding has decided to pursue its strategy’s implementation in announcing two new mega projects: LeMall Jbeil in 2020 and LeMall Tripoli in 2023. We believe in the positive future and now we have our eyes set on developing new projects in Syria for which we are preparing our team.

By Thomas Schellen and Jeremy Arbid

New PPP projects underway to upgrade infrastructure



Ziad Hayek discusses new PPP projects

At the end of October, EXECUTIVE interviewed Ziad Hayek, secretary general of the High Council of Privatization and PPP (HCP), to learn of proposed public-private partnerships. The HCP had organized stakeholder meetings to discuss public-private partnership (PPP) proposed projects. This interview primarily discussed two PPP projects that are now in the pre-planning phase—the expansion of the Beirut airport and a toll road plus highway extension. A third PPP project, discussed as part of a published interview with Hayek in EXECUTIVE’s November issue special report on entrepreneurship, concerns the construction of a national data center.

E Two projects—relating to Rafic Hariri Airport, the toll road and highway extension—have been officially mentioned as PPP projects that are underway.

The airport expansion project is to build Terminal 2. This is a longer-term plan for a new terminal and not about the immediate improvements

planned for airport Terminal 1. This new terminal will be on your right-hand side if you are going to the airport. Just before you reach the main building, there is an open area on the right, where you nowadays can see some private jets parked. The project is to build a new terminal on this land and build the access roads to it [at an] estimated cost of about \$500 million, and we are now at the stage where we have retained the International Finance Corporation (IFC) to advise us. The IFC selected [four] technical consultants and legal advisers, (yet to be announced). We had our kickoff meeting for this project [on October 22], where everybody came together, all the stakeholders in government as well as the consultants. Ministries—the Ministry of Public Works, the airport, the Directorate General of Civil Aviation, Middle East Airlines, Middle

East Airport Services, the Ministry of Interior, the Ministry of Tourism, the Ministry of Defense, the Council for Development and Reconstruction—all the stakeholders were there. As of today [October 23], consultants are conducting separate meetings with each stakeholder to gather more information [for] a full-fledged feasibility study, which will include a transaction structure that we can present to the Council of Ministers for approval, at which time we would launch the process starting with requests for expressions of interest, receiving them, pre-qualifying companies, and then work with [the winners].

E What is the planned timeline for this project?

We hope to be able to go to the Council of Ministers sometime in March [2019].

E A second PPP project under consideration is a toll road from Dbayeh to Nahr Ibrahim including a highway extension from Khalde to Dbayeh, what can you tell us about this?

Our consultants are the European Bank for Reconstruction and Development (EBRD). The total project is more complicated [when compared with the airport project], because we

■ “The project is to build a new terminal on this land and build the access roads to it.”

have the [government] decree for expropriation of land for one segment of the [planned highway], but we need [the expropriation decree related to] the second segment as well for it to be a viable project. We are wait-

ing for the new government to come up with that decree. What we have done in the meantime is to optimize the design of this road, which will go from Dbayeh to Okaibe, near Nahr Ibrahim. We optimized the design of this road and made sure that the road will have access points from all roads running from east to west that lead up the mountains in the Keserwan area. We also optimized the design to use tunnels as much as possible, decrease the cost of expropriation, and make traffic flow more smoothly.

E Is there already a map of the planned optimized route?

There is a map, but it is not an official document without the approval of the Council of Ministers. The planned road will be running through a tunnel under the mountain of Harissa. The total project, including the Beirut ring road which is supposed to run from Khalde to Dbayeh, has an estimated cost of about \$3 billion.

E Does this include the cost of expropriation of land for the two stretches of highway in Beirut and from Dbayeh to Nahr Ibrahim?

I am including everything in the cost. We are reducing the cost of expropriation by including tunnels, but these are expensive in themselves. The current [draft] expropriation decree covers Dbayeh to Nahr Ibrahim; what we are waiting for is the decree for the route from Khalde to Dbayeh. In this project, we think it will take some time before we can finalize the design because we have to do most of the design. Also, we need to do the expropriation of the land before we can award [the project]. We think it will be about three years before we can award [the project]. If we are lucky, we think construction can commence in 2022, with the road set to be completed in 2030.

E In two large infrastructure projects in Lebanon that were carried out or discussed

at the height of the national reconstruction in the 1990s, a very different toll road concept called Altoroc could not be financed with planned private sector participation. The rehabilitation and expansion of the Beirut airport involved late design changes, significant cost overruns, and arbitration with contractors Consolidated Contract Company and Hochtief. As cost overruns are always a danger with large infrastructure projects, what mechanisms can you deploy to counter such tendencies when contractors might bid low and deliver at higher prices when concepts are modified during the contracting period?

We have learned from international best practices, the way we designed the PPP law and our specialist PPP team. The approach is no longer about having a tender for project,

awarding it to the lowest bidder, and then bringing in variation orders and all this stuff. [The approach] is slightly different now. First, we have a very strict prequalification process. Then we are sharing the information with all the stakeholders. In the case of the toll road, this involves municipalities and various ministries. From the design of the project, the selection of the prequalified companies, and then the involvement of all bidders in the contract, and by having the contract as part of the tender documents, we are making sure that all elements in the process lead to full transparency and the ability to do a good assessment of the proposals. Thus, it is not necessarily the lowest [bid] that will get awarded. You can have a low price

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and still lose the tender because of the way that company history, quality, and the other aspects are taken into consideration. There is no foolproof system, but I think with those control mechanisms we are improving the procurement a lot.

E *How are you distributing the risk between the public partner and the private ones?*

It is exactly a partnership in risks. It is through this process of working with prequalified companies when you determine who is bearing what risk and [who] is best positioned to bear which risk. Generally, with this type of project, the private sector will bear the construction risk, the financing risk, [which includes the] interest rate and exchange rate [risk]. The government will bear the risk of tariffs [related to setting the toll rates], the risk of force majeure, airstrikes, and whatever security issues. There are so many things. When you are starting to talk about risks, the first impression is that there are two or three risks. In reality, there are 20 or 30 risks that you need to deal with.

E *How about the operational risk for toll roads, such as working with revenue projections that turn out to be wrong, as it has been seen in some countries in Europe in recent years?*

About the toll road tariffs, traffic estimates are always the most difficult thing to deal with. But there are two things to keep in mind. One thing is that you cannot question your decisions. Each one of us will make decisions in our lives, and there is a saying that there is no wrong decision. When you make a decision, you are convinced that this is the best thing to do. To look back and say, 'We screwed up, this was wrong,' is fine. There is no shame in having gotten something wrong and we all do in our daily lives.

There is shame in not doing your homework, in not considering all the variables and mitigating all the risks. So [in regard to the operational risk of estimating traffic forecasts and setting tolls], I want to say first that the onus is on us, and the private sector companies, to dot all the i's and cross all the t's. The second thing is that having a PPP project with a contract that is not flexible enough to deal with changes that will happen in the future, is a badly designed PPP project. PPP projects are meant to last for 20 and 30 years, yet no one has a crystal ball to determine

■ "The onus is on us, and the private sector companies, to dot all the i's and cross all the t's."

what will happen. For example, now we may be working on a toll road but in 15 or 20 years, roads may be obsolete and we will be using flying cars.

E *Some very large multinational companies in the automotive sector are considering trends in automated driving, like autonomous delivery vehicles, as survival issues. Does this suggest that the operational risk in a toll road scheme today is daring from such perspectives?*

It is daring. Your PPP contract has to be flexible enough to deal with uncertainty. We are not talking here about having rigid contracts where you end up having to go to court. There are provisions for discussions and arbitration mechanisms; flexibility needs to be built into the contract. Coming back to my point about how one should not be concerned over making the wrong decision but should do their homework, I would add that in case of a toll road, the thing to remember when people later criticize such a road and say there was an overes-

timization of traffic is that there was a decision made at some point in time whether we need a road or not. If we need a road, there is a cost. If you do it through normal procurement, the government is bearing all the risk. If you do it through PPP, the government is sharing the risks [with the private sector]. PPP will always be better, because you [as a government] are sharing the risks, instead of bearing all the risks yourself.

E *Does a successful partnership require goodwill from both sides, with potential asymmetries in mutual readiness to invest goodwill?*

Sure. But that is all hypothetical. In practice, the question is, 'Do we need the road?' If we say, 'We don't need a road, we are fine with the current situation,' then fine. If we say that, 'Yes, we need a road,' the question [for the government] becomes whether you build the road yourself or do it with the private sector. If you have the money to do it yourself, go ahead and do it. It is faster and it is cheaper financing-wise because the government borrows money [at lower rates] than the private sector. If you don't have access to the money and still want the road, then you should work with the private sector and accept the risks while doing your best to mitigate these risks.

E *In regard to doing this homework, have you assessed extreme scenarios, such as radically decreasing amounts of traffic in 10 years because of shifts in mobility and traffic behavior?*

We have not done the traffic assessment yet, and we don't have that expertise. This is what the technical advisers will do. We will be relying on experts to do this. But I venture that the best thing one can usually do is estimate traffic increases based on population increases, urban development, and GDP increases, and then discount that [to allow for these predictions to be inaccurate].



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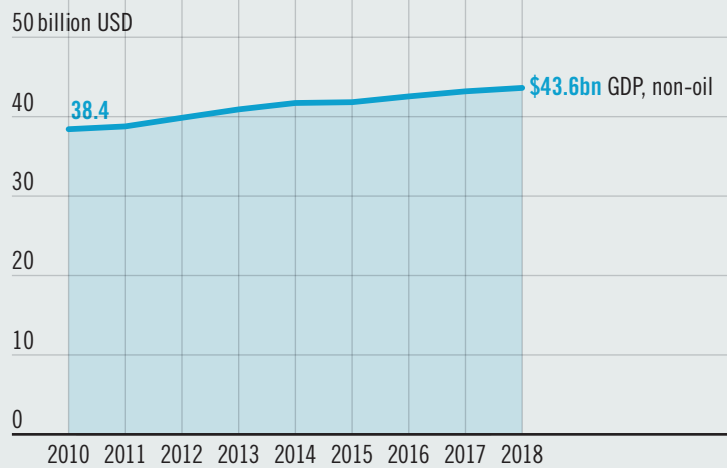
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Numbers & Figures

LEBANON GDP, IN 2011 PRICES

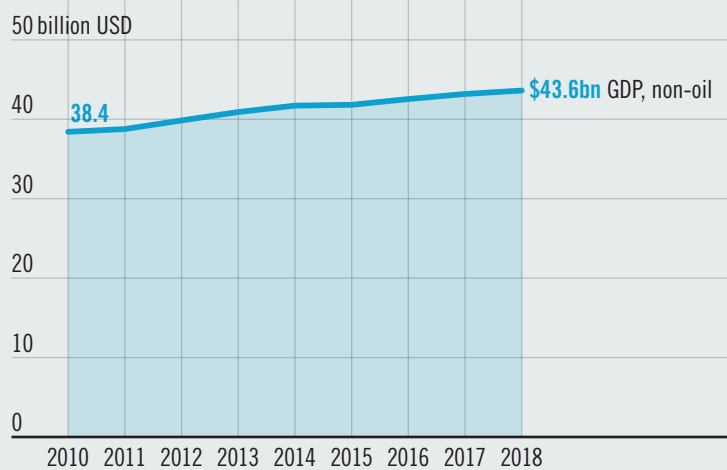


Figures from 2017 onward are estimates.

Source: International Monetary Fund

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LEBANON GDP, IN 2011 PRICES

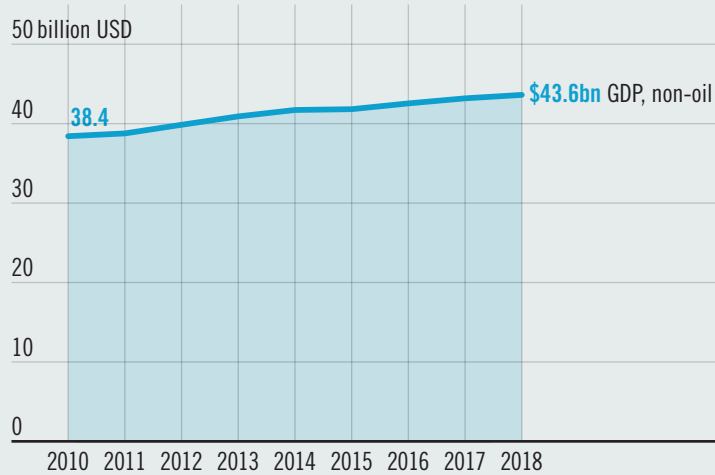


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Source: International Monetary Fund

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LEBANON GDP, IN 2011 PRICES

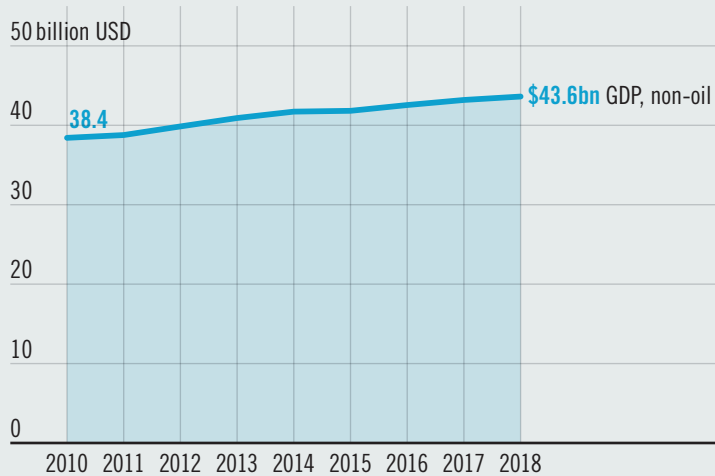


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LEBANON GDP, IN 2011 PRICES

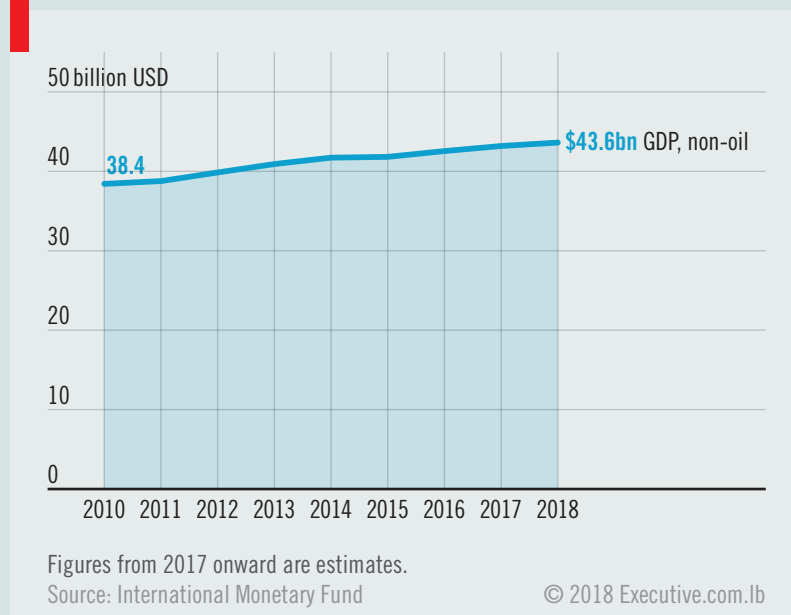


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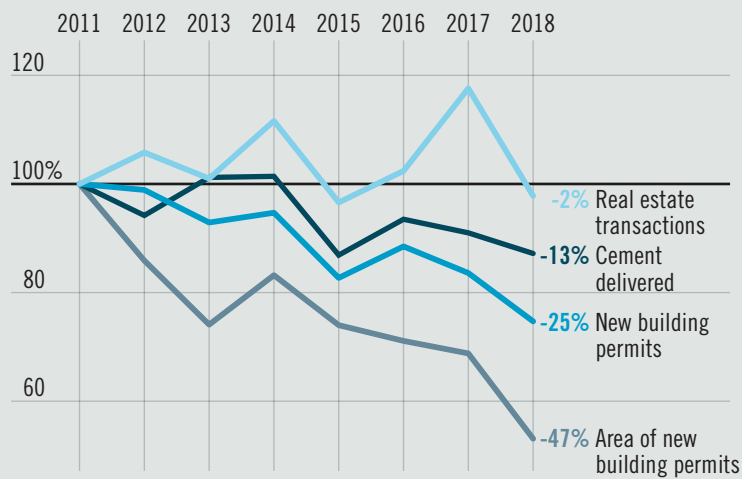
Source: International Monetary Fund

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Numbers & Figures



LEBANESE REAL ESTATE TRENDS (2011 = 100%)

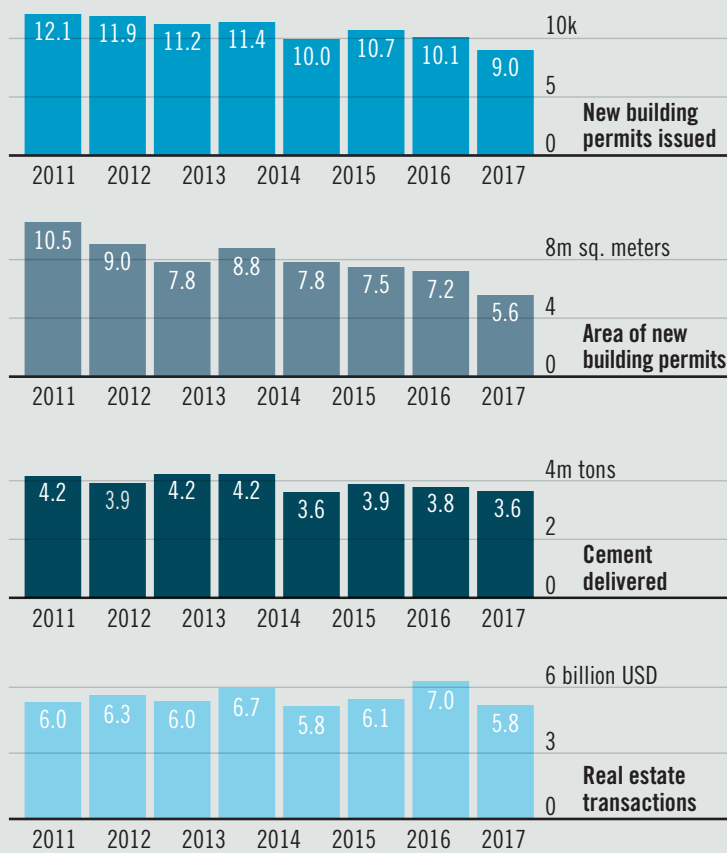


Equivalent year-on-year figures, Jan-Sep.

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

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LEBANESE REAL ESTATE INDICATORS



Equivalent year-on-year figures, Jan-Sep. 2017

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

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Standing against chaos

Lebanon's banks remain stable, seeing moderate growth

Socioeconomically, Lebanon at the end of 2018 gives the appearance of having experienced a year of only two seasons: an overlong Carnival of political absurdities, and a Halloween of economic horrors. As opposed to the usual cycles of tilling, seeding, ripening, and harvesting, these two seasons of 2018 were profoundly unproductive.

If this failure of productivity has led the country to deteriorate in popular perception into a haunted house with many vacant dwellings, the financial sector nonetheless remains the top-performing attraction in the house of Lebanon. In this sense, banking looks like a huge, flattering, magical mirror right in the hallway of this haunted house that affords those who look into it the best possible reflection of the national economic reality.

International observers, local economists, members of the business community, and broad swaths of the population appear unanimous in their view of the banking sector as the remaining primary motor of the Lebanese economy.

At the same time, however, there are also strong opinions that target banks are at fault for any and everything: from operating as an oligarchic sector and being politically exposed to standing in the way of genuine and equitable economic development.

On yet another perception front-line, views of the banking sector as healthy and pivotal for Lebanon's economic sustenance are juxtaposed by widespread perceptions that the banks are unfairly siphoning profits away from society (although they are carrying large and increasing tax loads), and growing fears that the course of the monetary system, and the entire banking sector, is either unsustainable or could even comprise a large risk factor in an alleged trajectory toward a crash landing of the Lebanese economic system.

FOCUS ON THE DATA

Compared with the adrenaline rush and emotional thrills that are triggered by horror scenarios like a warning of impending economic doom for Lebanon by way of a currency devaluation or other shocks, a review of the numbers is outright boring. Not only is such brain work inherently tedious, but could be unwelcome to Lebanon's populists because the analysis of data variations and ratios in the national banking system go a very long way toward tempering any irrational impulse of flight, submission and resignation, unqualified complaint, or blind outrage.

On the upside, a look at the data can sober a person. Taking account of data in general, and of Lebanese

banking sector data for 2018 in particular, is not conducive to generating panic. Rather, it is an outright antidote to such outbreaks when examining banking data with a view to economic forecasts on near-term horizons. However, assumption-heavy data speculations over the medium and long term cannot safely be preferred over the reading of coffee residues, tarot cards, or palms.

In 2018, the latest observations by Lebanese financial consultancy BankData available at time of this writing continued to report moderately encouraging growth in banking activity.

According to BankData, assets of the group of 15 Lebanese banks with deposits above \$2 billion (alpha banks) grew by 7 percent over the first nine months of 2018, from \$232.8 billion in December 2017 to \$249.2 billion. At the funding level, the alpha banks' domestic deposit growth in the period was \$3.6 billion, translating to 2.3 percent. Albeit acknowledging that this increase was noticeably below the \$6.9 billion growth in the first nine months of 2017, and also lower than the average growth of \$5.4 billion in the same period over the past five years, BankData consultants pointed to the environment of political uncertainty. They explained that overall deposit growth was to 72 percent in foreign currency and to 28



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percent in Lebanese lira, raising the dollarization ratio of domestic deposits to 67.7 percent in September 2018.

Juxtaposed to lending developments in 2017 as well as lending trends over the past five years, which saw loans to the private sector grow in the first nine months by \$1.7 billion and \$1.2 billion respectively, the nine-month period in 2018 saw loans to the private sector contract by \$1.1 billion, driven by a contraction in private sector loans denoted in a foreign currency. Other data observations by BankData point to increasing average costs of funds for alpha banks in Lebanese lira and in foreign currency by 43 and 24 basis points (bps) respectively, which the consultancy noted was below the rise in the US benchmark rate.

Net contraction of lending portfolios and the imposition of added taxations on banks were reflected in declines of net profits for the alpha banks, even as they increased their efforts to control costs. According to BankData, net profits at the end of September contracted by 13.8 percent overall and 9.7 percent in domestic terms. "As such, alpha banks posted declining profitability ratios, with an annualized return on assets ratio of 0.94 percent against 1.17 percent over the same period last year, and an annualized return on equity ratio of 10.48 percent (11.43 percent for return on common equity), against 12.65 percent (14.01 percent for return on common equity) over the same period last year," the consultancy said, adding that banking in Lebanon is "showing no sign of caving in, despite an accumulation of domestic economic stresses and external pressures."

Asset utilization and net operating margins of alpha banks saw declines and overall performances in 2018 and clearly lag behind those of earlier, more glorious periods of growth. However, this is not what one should see as a field littered with macro-economic mines on hair-triggers,

especially when assessed in context of Banque du Liban (BDL), Lebanon's central bank, given its orientation and proven track record as a defender of stability and confidence.

Neither the historic nor present levels of BDL's hard currency reserves lend credibility to mental assumptions by international banking analysts that the central bank would ever choose to fund the external financing gap purely from its own FX reserves. This would continuously degrade the domestic money supply (M2) to a mere 10 percent by the end of the period over five years between mid-2018 and mid-2023, as a December 2018 report by investment bank Goldman Sachs speculated. (For context, see the interview with Bank Audi chief strategist Freddie Baz on page 81.)

In light of realities, it does not seem appropriate to flatly buy into the twin assumptions by Goldman analysts that, over the next few years, capital inflows to Lebanon will fail to pick up from the 3 percent range of autumn 2018 while the country's external balance sheet will continue to deteriorate. Predicated on those assumptions, the analysts wrote: "We believe it is only a matter of time before the BDL's ability to maintain the peg will be widely questioned."

Contrasting such 'ifs' and generally extreme assumptions, there are innumerable signals that the need for reform and the limitations of the (working) tool sets in BDL and commercial banks are increasingly understood across all levels of Lebanon's monetary and financial decision making, and are even understood by fiscal policymakers. With this in mind, it is prudent to realize that the short-term perspective for the Lebanese banking sector is certainly not littered with risks and red flags anywhere near the extent that the Lebanese natural environment is littered with garbage and exposed to pollutants.

FURTHER DOMESTIC AND INTERNATIONAL CONTEXTS

The relative health of the Lebanese banking sector is accentuated in the overall financial markets picture when one expands the consideration to the domestic financial sector and the year's challenges on emerging markets on the internal and external vision axes respectively.

First, however, any analyst of the banking sector in relation to the whole economy is well-advised to be cognizant of the dangers that come with the sector's disproportionate role. Namely, there is a danger that policy decision makers look into the banking mirror and forget the need to be prudent in fiscal and economic reform decisions, along with the danger that bankers and their allies might be so over-awed when looking at their own images in this flattering mirror they become desensitized to the needs of the little players in the real economy. In the financial markets, the insurance and capital markets of Lebanon did pirouette through 2018 with less vigor and performance than banking.

International conditions and shifts in the world economy in the course of 2018 were perhaps to the greater or smaller advantage of advanced markets, but the same cannot be said when one considers the pressures that emerging economies and many small countries in the third world were exposed to. From the rising tide of trade conflicts affecting the largest emerging economy, China, and political uncertainties that have been prone to affect developed economies, who for decades had been insulated from heavy domestic and external political shocks, to the currency pains for financially exposed emerging markets that accompanied the normalization efforts of the Federal Reserve in the United States, disruptive impulses radiated throughout the global economy in 2018.

What could be easily overlooked

in this regard is that Lebanon, despite its self-induced problems, handled itself not at all badly when compared with larger regional neighbors like Egypt and Turkey in terms of currency pressures, or with similarly sized or positioned countries in terms of income bracket (high middle-income) or their sovereign and financial credit risk ratings.

On the domestic financial economy, the sole underwriting segment of the insurance sector with strong positive outlook for growth as measured by premiums development in 2018 is the medical business line, largely owing to changes relating to guaranteed renewability of medical insurance contracts and improved coverage continuity of employed persons who reach retirement age. Overall, it seems that insurers in Lebanon are faced with enduring international industry challenges, such as the need for digitization, and local ones related to the improvement of insurance awareness and acceptance.

Performance expectations for Lebanese insurers in 2018, apart from the medical line, are at best modest, and reported financial developments leave room for questions. This is even more so the case when the high inflation rates in 2017 and 2018, by local standards, are taken into consideration in conjunction with the sector's total premiums in 2017—a year in which the sector according to the Association of Insurance Companies in Lebanon (ACAL) achieved written premiums of \$1.636 billion, reflecting an increase by 3.45 percent from the previous year—and in 2018, where the Insurance Control Commission (ICC) expects negative growth in life insurance premiums alongside stagnation in the property and casualty lines. The ICC sees this as correlated with the economic situation in the country, and the anemic situation in many sectors. (See comment piece by acting insurance commissioner Nadine Habbal on page 78.)

The picture turns still a few shades darker when looking at the 2018 “performance” of Lebanese capital markets, namely the market capitalization and trade volume developments at the Beirut Stock Exchange (BSE). Total trading volume at the BSE for the first 11 months of 2018 was \$349 million, more than 36.5 percent lower than in the first 11 months of 2017. In that period, the total trading volume was \$551 million (after having experienced a similar annual weakening from a multi-year high of \$885 million in trading volume during 2016). With the market cap hovering up to \$1 billion below the \$10 billion line in 2018, the BSE represents less and less financial market fire power when one regards its market cap as a share of the official Lebanese GDP that amounts to more than five times this value.

“The anemic performance of the Beirut Stock Exchange stems from two main reasons,” Lebanon’s Capital Market Authority (CMA) tells EXECUTIVE in response to emailed questions. “First, its current legal structure, which represents a public company that reports to the Ministry of Finance. Second, the rising economic uncertainty and political landscape in Lebanon has dealt a blow to the Beirut Stock Exchange.” CMA also expresses optimism that current “circumstantial performance of the BSE” would return to average performance levels seen over the past seven years, noting that fundamentals of companies listed on BSE have not changed and that the book value of many of these companies—most of which are banks—is higher than market prices of these stocks near the end of 2018 (to the chagrin of bankers).

While mirroring in the first instance the investor perception of listed assets, a fatigued stock market might also be an alert to imbalances in the functionality of the entire

economy. The general consideration is that a highly valued or possibly overvalued securities environment is reached when market capitalization at national exchanges equals 120 or more percent of a nation’s GDP and that anything below 50 percent is an indicator of undervaluation of listed companies and the whole market. This could even signal some degree of dysfunctionality of capital markets or a drag on economic development, with the reasoning that highly functional financial systems facilitate better usage of economic growth potentials in economies by enabling the best investment opportunities to receive optimal funding.

Moreover, research conducted since the global financial crisis of 2008 has suggested that stock market performances in emerging markets contribute importantly to economic growth in these economies. Other research has noted that rich countries with large equity markets in relation

■ Performance expectations for Lebanese insurers in 2018, apart from the medical line, are at best modest.

to their GDP also have high standards of living, while underpowered capital markets tend to correlate with countries underperforming in terms of economic development.

When taken as mirrors of the real economy and signifiers of good or ill health in the national context, the persistent and growing disproportionality of the Lebanese banking sector and the other pillars of the financial economy reinforces the acknowledged fact that a continuation of the financial and, by implication monetary, practices of the past quarter century cannot continue indefinitely, and that a reboot, invigoration, and rebalancing in the financial economy deserves a near-term high-

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er ranking on the national to-do list than discussions over currency stability and parity.

THE WEATHER IS CHANGING

International economists' collective crystal balling on the coming year is comforting in that, whatever really comes to pass in the global economy in 2019, pressures and national worries are not going to be limited to Lebanon. In a poll of some 500 economists and economic analysts around the world taken by Reuters in September/October of 2018, expectations on a majority of the 44 economies covered in the poll were for unchanged or downward GDP growth rates and unchanged or increased inflation in 2019. By analysts and economic media, the specters of bear markets and recession were raised under questions of when, not if.

Hinting to already materializing risks in the global economy was, for example, the director of the International Monetary Fund (IMF), Chris-

tine Lagarde, when she said just in advance of the IMF-World Bank's convening in Bali for annual meetings in October that it has become more difficult for most countries to deliver greater prosperity because the "global economic weather is beginning to change" when compared with spring of 2018. The IMF's World Economic Outlook at the same time admonished in further detail that "downside risks to global growth have risen in the past six months and the potential for upside surprises has receded."

The Organization for Economic Cooperation and Development (OECD) also voiced its concerns in an economic outlook in November. "As central banks progressively, and appropriately, reduce their liquidity support, markets have started re-pricing risks as reflected by the return of volatility and the decline of some asset prices," the OECD observed.

Pointing to reversing capital flows away from emerging to advanced economies, especially the United States, the

report noted the increase of political and geopolitical uncertainty in Europe and the Middle East, along with highlighting the uncertainty caused to businesses by heightened trade tensions and the risk that these tensions could be "disrupting global value chains and investment, especially in regions tightly linked to the United States and China."

In this broad context of under-optimistic global forecasts for the coming year, trade confrontations between large economic powers, and oil price developments, there is naturally room for nuances in such a vast and challenging landscape of expectations. For example, in its outlook on global markets, Bank of America Merrill Lynch (BofAML), in a research report published in December of 2018, expects 2019 to see "modest gains in equities and credit, a weaker dollar, widening credit spreads, and a flattening to inverted yield curve." The research team thinks this will translate into a tighter squeeze on liquidity that would likely contribute to higher levels of volatility.

ALPHA BANKS RANKING BY MAJOR AGGREGATES AS OF SEPTEMBER 2018

Bank name (values in US\$ million)	Total assets		Customers' deposits		Loans and advances		Shareholders' equity		Net profits	
	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
Bank Audi Sal	1	45,724	1	30,881	1	13,702	1	3,828	1	410
BLOM Bank Sal	2	35,699	2	26,790	2	7,313	2	3,150	2	383
Byblos Bank Sal	3	24,379	3	18,382	4	5,569	5	1,862	5	114
Fransabank Sal	4	23,576	4	17,206	3	6,666	4	2,154	6	108
SGBL Sal	5	23,499	5	17,569	6	5,094	6	1,859	3	147
Bank of Beirut Sal	6	18,397	6	12,921	5	5,422	3	2,383	4	147
Bankmed Sal	7	17,290	7	13,134	8	3,692	7	1,373	10	46
Banque Libano-Française Sal	8	14,848	8	11,106	7	4,375	8	1,291	8	92
Crédit Libanais Sal	9	12,283	9	9,387	9	3,391	9	861	9	54
IBL Bank Sal	10	8,142	11	5,888	14	886	11	614	7	100
BBAC Sal	11	7,841	10	6,220	11	1,814	10	628	11	39
Lebanon and Gulf Bank Sal	12	5,491	12	4,221	12	1,308	14	394	13	20
First National Bank Sal	13	5,238	13	3,939	13	971	12	417	12	22
Creditbank Sal	14	4,097	14	3,290	10	1,928	13	407	14	16
Saradar Bank Sal	15	2,675	15	2,093	15	880	15	235	15	-1

Source: Bankdata Financial Services

Besides a continuation of late-2018 bear vibes in the US securities markets and a slowing of the US economy overall, BofAML expects global profit growth to decline and global economic growth to decelerate amidst global monetary policy divergences and a weakening dollar. Alongside a “modestly positive” outlook for commodities and projections of strengthening euro and yen, the research team opines that the outlook for emerging markets in this scenario is broadly positive, as EM assets are “cheap and under-owned.”

For the economy of Lebanon—which is neither overly correlated with other emerging markets nor typical by profile—it is not necessarily a bad thing that prominent expectations for geo-economic developments in 2019 are accompanied by narratives of impending risk and uncertainty. It will perhaps be more important that the latest global outlooks have room for factors such as less upward interest rate action by the Fed, and a relaxation of oil prices. Both factors might contribute to relieving external financial pressures on the Lebanese state.

Much more meaningfully, on the domestic front, the potential for improvement has a numerical advantage at the end of 2018. Possibilities of grave shocks always exist, but the hopes for stability have a stronger currency.

Encouragement and room for positive expectations come, for example, from the impact that political constructiveness—a formation and great performance leap on the government level—would have on public investment growth and for financial inflows (see comment piece by chief group economist Marwan Barakat on page 76). News of the past few months have been actually pointing to improvements on some infrastructure fronts such as the PPP outlook, as elusive as parts of it still looks today, and on the internet connectivity side.

Nota bene, one of the side effects of the superb strength of Lebanon’s banking sector as a distorting mirror

attracting attention in the economy, is that other aspects of the financial economy, such as development of capital markets and the microfinance industry, can be overlooked and left behind. That is unfortunate, as demonstrated by a report on the current state of stock markets around the world, published in December 2018 by the World Federation of Exchanges (WFE). The report explains how international portfolio investments can be attracted to exchanges in emerging and frontier markets, and how these can then contribute to economic development.

Necessary factors to this development, according to WFE, include adoption of reporting standards (such as IFRS), encouragement of English-language corporate disclosures, and implementation of elevated corporate governance practices. Stating that “the greatest predictor of foreign inflows into emerging markets is emerging market equity returns,” the WFE report notes that an increase of domestic returns on equity by merely 1 percentage point can be associated “with a \$24.4 million increase in monthly inflows” to the average market.

In capital markets, we have waited another year for hot news (as EXECUTIVE expected in our 2017 year end issue). However, the CMA confirms that after having conducted a flurry of other constructive activity throughout 2018, in early December it finally issued its Request for Proposal (RFP) to launch its Electronic Trading Platform (ETP), which the CMA counts on to “significantly improve liquidity in the Lebanese markets, allowing Lebanese diaspora easier access to invest in Lebanon, and contributing to the growth of the economy.”

According to the CMA, the RFP sets the guidelines for developing

the ETP and the securities allowed for trading on the platform and thus enables financial institutions that are interested in owning and operating the platform to apply for the license issued by the CMA.

“With the enhancement in the types of securities available for trading by local and international investors, we are certain that the Lebanese capital markets will regain their ap-

■ “We are certain that the Lebanese capital markets will regain their appeal and attract an enhanced private sector participation given the renewed opportunities that the ETP provides.”

peal and attract an enhanced private sector participation given the renewed opportunities that the ETP provides,” the CMA confirms—so, in short, there is finally something moving in regard to the BSE/ETP.

Elsewhere in the financial economy, BDL has sent new and positive impulses that actors in the small, but motivationally important microfinance sector see as encouraging and, along with the arrival of veritable Fintech initiatives in the entrepreneurship ecosystem (see EXECUTIVE’s November report), some announcements hint at new and improved initiatives in regard to cybersecurity and at least further considerations of digital currency at the central bank level.

This leaves the big long-term task of banks upgrading themselves to contribute to the digital transformation of the economy and activate new thinking in ways that should help in bursting through many current mental and operational idiosyncrasies, barriers that have formed as collateral of the years, while banking was the only reliable engine of the Lebanese economy. ■

Comment

By Marwan S. Barakat

2018 in review, and onwards to 2019

The financial situation in Lebanon

This has been a difficult year for the Lebanese economy, sectors of activity, and financial markets at large.

Compounding matters, political uncertainties have grown, especially during the second half of 2018. This year has witnessed a low real GDP growth, which Banque du Liban (BDL), Lebanon's central bank, estimates at 2 percent and the International Monetary Fund (IMF) estimates at 1 percent. The Lebanese economy needs to grow at no less than 6 percent annually to ensure sufficient job creation to meet the annual demand for jobs by the estimated 30,000 Lebanese joining the labor force each year.

The BDL coincident indicator, a gauge of real sector activity, demonstrated over the first nine months of 2018 a growth speed at half that experienced during the same period in the past five years. The evolution of real sector indicators suggests that almost all economic sectors experienced additional weaknesses this year.

As for financial markets, inflows reported a net contraction this year, weighing on deposit growth, which, though still positive, reported one of its lowest performances in recent years.

The growing political uncertainty over the past year, driven by the delay in cabinet formation, adversely impacted economic conditions in four main ways: (1) Adverse effects on private investment driven by the postponement of investor decisions amid growing uncertainty; (2) Adverse effects on public investment in infrastructure through the non-materialization of CEDRE pledges and the ensuing risk of losing them; (3) Adverse effects on the awaited fiscal reforms to curb Lebanon's elevated debt and deficit ratios; and (4) Adverse effects on capital inflows that

are sorely needed to finance the country's external deficits.

While the above factors are quite meaningful, the real economy, which slowed down further over the past few months, has not yet fallen into a recessionary trap, as evidenced by a persistently positive—though low—growth rate. This is tied to the quasi-resilience of private consumption, the continuing support of the large Lebanese diaspora, and the stable domestic security conditions in a region characterized by instability.

Macro forecasts for 2019 are based on a 2.5 percent real GDP growth forecast (with 6 percent nominal growth) on the assumption of a successful cabinet formation, along with slow progress in CEDRE reforms and implementation. Nominal growth will be driven by factors that diverge significantly from one another. These factors, as conditioned upon the positive assumption of government formation, will be: (1) A 6.5 percent domestically-driven growth in private consumption; (2) Likely stagnation of private investment at 2018 levels amid politico-economic uncertainties weighing on private investors initiatives; (3) A 24 percent growth in public investment from a relatively low base within the context of the state's new Capital Investment Plan; and (4) A 14 percent growth in exports on the basis of the recent reopening of Syrian/Jordanian routes for Lebanese land exports (mainly the Nassib border crossing).


In parallel, money supply (M3) will grow by 4 percent on the back of an 8 percent growth in financial inflows that will generate an almost equilibrated balance of payments. It will generate, at the banking sector level, a \$7 billion growth in deposits, of which circa 30 percent would be in Lebanese lira and

the remaining in foreign currencies.

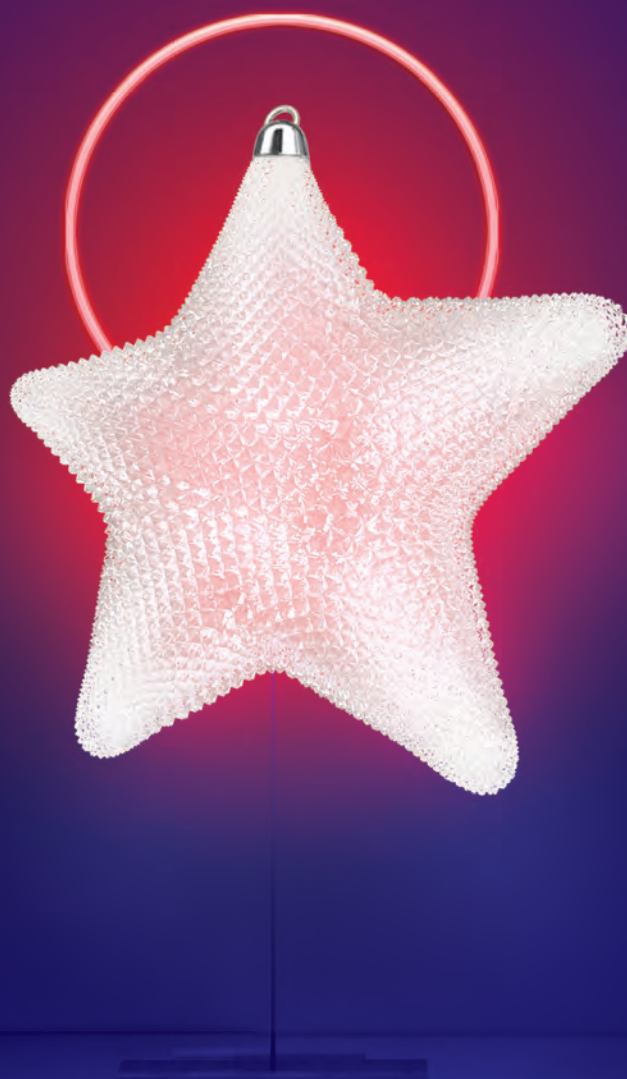
I do not foresee financial instability in 2019. This expectation comes on the back of strong monetary and financial buffers related to large hard currency (FX) reserves (standing at 80 percent of domestic currency money supply) and abundant bank liquidity (standing at 50 percent of FX deposits).

Elements of positive financial reality notwithstanding, the most significant challenge facing the government is to address the public finance imbalance that today represents the most significant vulnerability in the economy. With the public debt ratio expected next year to exceed 150 percent of GDP (the third highest worldwide) and a fiscal deficit ratio of 10 percent of GDP (in the top ten globally), adjustment reforms are now sorely needed to ensure the soft-landing of the Lebanese economy.

These much-needed reforms include spending rationalization through severe austerity measures, raising domestic resource mobilization, improving tax collection, fighting tax evasion, and reforming the electricity sector, along with a series of growth-oriented measures that aim to improve the overall business environment in Lebanon.

While exits still do exist and require tough economic choices on behalf of policymakers, Lebanon no longer has the luxury of delaying the long-awaited adjustment reforms. Having said that, a tangible advance in reforms, along with the thorough implementation of the CEDRE pledges to finance infrastructure spending, could create positive catalysts that would move Lebanon from an era of widening macro uncertainties to an era of gradual containment of risks and threats, as a prerequisite for economic recovery and the corollary realignment of growth with Lebanon's long-term potential. 

Marwan S. Barakat, PhD, is group chief economist and head of research at Bank Audi.
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By Nadine Habbal

The view from the ICC

Outlook and potentials in the Lebanese insurance sector

Regional geopolitical turmoil and ensuing economic uncertainties continue to place increasing pressure on the insurance sector.

Stagnation in most of the sectors of the national economy is reflected in slower growth in premiums written by Lebanese insurers, and higher strain on profit margins.

In light of this, the Insurance Control Commission (ICC), which is the regulatory authority for the supervision and control of the insurance sector, reporting to the Ministry of Economy and Trade, forecasts growth rates in 2018 of -7 percent for life insurance, driven by lower new business and little activity on mortgage and personal loans; -4 percent for motor insurance also driven by lower new business; and -1.7 percent for property and casualty insurance. The stagnation in property and casualty lines is directly correlated with the economic situation in the country, which is witnessing little activity in terms of new projects, transportation, and other similar activities.

The downtrend in the above business lines is juxtaposed with an important expected 16.1 percent growth for medical insurance, triggered by an anticipated increase in the number of persons insured following the recent implementation of Decision 186/ICC, pertaining to the guaranteed renewability of medical insurance products.

As such, the expected gross written premiums in 2018 should reach \$465 million for life insurance, \$365 million for motor, \$560 million for medical, and \$270 million for the property and casualty lines, for a sector total of around \$1.66 billion, a growth of 1.2 percent when compared with 2017.

The mitigation of the challeng-

ing economic conditions requires increased focus on innovation in terms of products, services, and operations in the broad sense. Large segments in personal and property lines remain weakly insured, if at all. The sector is yet to show a marked commitment to innovation, despite serious but sparse initiatives.

Digitalization is still largely shy; while it imposes an understandably complex path, it remains a necessity if the sector wants to benefit from the present challenges and prepare for coming growth opportunities. Digitalization needs to be considered at different levels of the insurance operations, starting with distribution and going all the way through to financial reporting. Embarking on this path will undoubtedly foster significant improvements to the core administration systems, enhancing the data quality and enabling advanced pricing and risk management techniques to be deployed.


Good governance and transparency play a major role in this proposed scenario, as they provide the guarantee that an institutionalized and rigorous approach to capacity building and innovation can be deployed. In other circumstances, shareholders would be highly reluctant to provide the support needed to boost innovation through digitalization or other creative ideas.

The ICC is progressively deploying a framework that would help the sector to pursue new avenues. The rollout of this framework started several years ago with enhanced reporting transparency, through annual report statistics, providing stakeholders with an enriched perspective on what is going on with the sector. Risk-based capital would be the next major step, reinforcing the financial condition,

and establishing a scientific context within which insurers would have to manage their underwriting, investment, and credit strategies to reach an optimal setup.

In this context, one of the ICC's focuses is its service tasked with providing Lebanese policyholders with adequate assistance and consultation for complaints related to insurance policies and services. Launched in 2018 under the name "ICC Care," this service's uptake by policyholders is already showing the importance of ICC Care's growing role in the resolution of misunderstandings and complaints. At the time of writing, the ICC is preparing the launch of an extensive awareness campaign related to ICC Care, targeting the insured population holding individual or group medical insurance coverages. This is essentially an extension of the social media efforts that were initiated recently. The latest announcement related to the commencement of Lloyd's direct activity in Lebanon via cover-holders is reflective of the ICC's efforts in this perspective.

On a separate note, the ICC is using its website and social media to keep the public informed about the implementation and implications of Decision 186/ICC, which is related to the guaranteed renewability of medical insurance contracts for individuals and groups. For instance, the ICC published a list of insurance products that have received the ICC pre-approval, and introduced a number of infographic slides that summarise the key features of this decision.

As a concluding remark, I would like to restate that the insurance sector in Lebanon has an excellent opportunity to build itself into a natural platform for insurance in the Levant region. This is within our reach, and we all need to strive toward this objective in a disciplined and cooperative way. 

Nadine Habbal is the acting head of the Insurance Control Commission of Lebanon.

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Q&A

By Thomas Schellen

Perspectives from the pinnacle of Lebanese banking

Q&A with Freddie Baz, chief strategist and board member of Bank Audi

Lebanese banks are the life raft of the national economy. While this raft is astoundingly large in comparison to the real economy, with banking sector assets surpassing the real economy by a factor of four, the existential role and solidity of banking make it the focus of attention in national economic and policy debates. Many reports and studies, and an exponential number of rumors, have increasingly questioned if and how the Lebanese banking sector can keep functioning so well. EXECUTIVE sat down with Freddie Baz, chief strategist and member of the board of Lebanon's largest bank, Bank Audi, to see how the economy looks from the top of the banking industry.

E Do I understand correctly that you believe the perspectives presented in many of the alarming economic reports that have been circulated in Lebanon in recent months have somehow been tainted—flavored, for example, by ulterior motives or even by ignorance?

The background of our discussion today is the plethora of economic reports in the media in the past two years that were filled with warnings, some of which had zero substance. People do not know how to look at things in relative terms. The Lebanese economy is facing major macro-imbalances. Nobody is disputing this. But for those imbalances to translate into a hard landing for the economy, there has to be a causality between the problem and the hard landing. We have seen reports alleging the [imminent breakdown] of the Lebanese economy. However, while these reports [offer a] more or less fair diagnosis of the situation, things start to diverge when some ignorant economist [starts] saying that we are heading [toward an] imminent hard landing.

Some others, who know that there are strong implicit buffers in existence, are even more alarmist in their tone of analysis, because it might be in their interest to see the collapse of the economy happen.

E What is your view? Is Lebanon's economy in danger of imminent meltdown?

No. What does it mean to have more pain? One does not kill [a] patient in order to [cure] him. What I am telling you is that I technically agree with most diagnoses regarding the problems of the Lebanese economy. Where I diverge from the analysts that are honest and not technically ignorant, is in saying no—those problems, in the case of Lebanon, will not necessarily translate into the same hard landing we observed elsewhere. This is because we have a financial dimension in Lebanon that is far above the economic dimension, with four times the GDP in bank assets.

Despite all you read and hear, we are still having gross financial inflows. In the first eight months of 2018, inflows amounted to \$10.5 billion. We pay a small premium on those USD denominated funds, obviously, but as long as the magnitude of inflows is far above the absorption capacity of the economy, a part of them ends up in the accounts of the central bank for the purpose of getting [banks] a higher yield on liquidity. We already pay a premium, and so we want to reduce negative carry.

Thus, when you look at Lebanon's history, the last several years have seen BDL [Banque du Liban, Lebanon's central bank] foreign assets as [a] percentage of the local currency money supply in ranges above 70 and 80 percent—81.9 percent today. This [percentage ratio] is where you have



evidence for the risk of a collapse in the local currency. I am talking about 18 years during which the central bank's foreign assets have represented 80 percent of the money supply in local currency; this is a technical buffer.

I am not saying that there is resilience despite all those distorted risk profiles and debt ratios [in Lebanon], but what we are trying to explain is that there are technical buffers that [stand against] the conceptual translation of macroeconomic imbalances into a correction of the currency. This auto-correction mechanism of markets to restore equilibrium does not work in Lebanon or would take much more time [to unfold].

E The World Bank's latest Lebanon Economic Report, published this October, said "global market conditions have become a more important determinant of Lebanese Eurobonds' risk/return profile," and seemed to suggest that Lebanon's financial sector today is more strongly correlated with factors that influence other emerging markets. Is that a point of concern?

There is no such correlation. Otherwise the correction [of the currency] would have happened years ago. [In the 2000s] we went through two years

when debt to GDP was at 186 percent. When you look at peer groups in the global economy, the foreign reserves at the central bank [in these countries] represent, on average, 35 percent of the money supply in local currency. We are at 80 percent, so you see how this is about technical buffers.

[However, viewing Lebanon] on a standalone base, I am not at all happy about [the country's] risk profile, and I believe that it needs to be adjusted very quickly. I know that we can sustain [such a risk profile] because of the specificities that I mentioned just before, but our capacity to sustain such risks has, over the years, created a huge laxity among our decision makers.

E Are political Lebanon and economic Lebanon like two different planets?

First of all, I don't believe that we have decision makers in [either realm]. This is unfortunate. If we take the current situation, the talent that we have is not represented in either field. If we talk about the commitments of CEDRE, for \$11 billion, out of which \$800-\$900 million are to be grants, which translates into an average cost of these commitments for borrowing at market rates that is very acceptable to Lebanon. Especially since those funds, as per the [Capital Investment Plan] presented by the government, would cover major infrastructural bottlenecks as priority, which, once adjusted, cannot but improve the overall efficiency and competitiveness of the Lebanese private sector. [But] look how this issue is dealt with politically and economically. Still, I do not believe that it is a situation of *harakiri*.

E Do you then fully believe that the banking sector is healthy and the monetary sector remains buffered in 2018 while the real economy is not doing well? Where, then, would the problem of our political economy figure into this picture?

If I want to be a bit more nuanced, I will say that the banks still enjoy a good standing but that one cannot say that banks are doing well. You cannot do

well in a depressed and weak environment. But again, we have good standing, which is measured by the large size of the banking sector in comparison to the size of the economy. If the banking sector were smaller in size, any setback in the economy would translate into a more material [impact]. [Notwithstanding] the fact that [banks] have lent too much to the domestic private sector.

E How high is the ratio of lending to the private sector today? The Lebanese Economic Monitor (LEM) mentioned that BDL-subsidized lending via banks created strong credit flows to the private sector between 2012 and mid-2018, saying that "by June 2018, the stock of outstanding credit to the resident private sector reached 99 percent of GDP," and 130 percent to the resident and non-resident private sector.

[The ratio] is 105 percent loans to GDP all in all, for the resident and non-resident private sector. But still, a ratio of 100 percent of loans to the private sector is too high. However, let's talk about the situation in US dollars, because this is the real firepower of Lebanese banks. I believe, based on tables I prepared two or three weeks ago, that we have lent \$40 billion.

At the end of August 2018, domestic deposits of Lebanese banks stood at \$119 billion. Banks have provided loans to the private sector of \$40 billion and have outstanding Eurobonds of \$16.5 billion. This means that we have lent to the public and private sectors in Lebanon \$56.5 billion out of \$119 billion, which in turn means that we have \$71 billion of operating surplus, which is placed with the central bank and with correspondent banks abroad. This is a huge amount. I am amazed when people point to our decreased deposit growth rate and ask what if banks are no longer capable of financing [the public and private sectors]—but our operating surplus today represents 1.26 times GDP. When people look at liquidity in terms of flows, we have decreasing trends in deposit growth, but this is on the background of an operating surplus of \$71 billion.

E Turning to the regional landscape and specifically to the exposure of two large banks, Bank Audi and BankMed, to the risk in the Turkish lira, the LEM said in October: "Any significant erosion of the capital base for the Lebanese banking groups" behind Turkish banks Odeabank, in the case of Bank Audi, and Turkland Bank, under BankMed, "will likely require intervention by the Lebanese central bank"—referring to the need for recapitalization by BDL. What is your response?

These are basic conceptual analyses. All banks have recovery resolution plans as per [Banking Control Commission] regulations. The central bank has intervened to provide liquidity, not to provide capital, because the main risk is liquidity, not capital. In response to this remark [on the possibility of capital adequacy issues at Turkish units of Lebanese banks], at the end of September, Odea had the highest [capital adequacy] ratio in the whole Turkish banking sector.

We did a stress test [using Basel III methodologies] that showed that we can sustain an exchange rate of 12.5 Turkish lira to one US dollar for our [Capital Equity Tier One (CET 1)] to fall below the 7.5 percent minimum requirement in Turkey. Even at the consolidated level, since the article that you are referring to said that the groups could be impacted because of Turkey, our stress tests show that in order to fall below minimum 10 percent CET 1, the Turkish lira should be above 10 TRY to one USD. This [LEM comment on the Turkish exposure of Lebanese banks] is a conceptual theoretical report made by analysts sitting in a room somewhere and having very little interaction with what is happening on the ground. How can you make such a statement without picking up the phone and talking to someone at BankMed and Bank Audi to get info? Say what you want, but at least get information, listen, and educate yourself.

E They did not call you?
Zero [calls].

Q&A

E So in summary, how do you see the Lebanese banking sector's development in 2018 as compared with the rest of the economy?

It is not about trends. It is about performance. This is different. I do not see any major weakness, but I see that we can do more and achieve more, in terms of turnover and results of operations for the banking sector.

E How about Bank Audi?

We have released our results, and there is some paradox in achieving such important results. I mean, when you achieve a 20 percent year-on-year [increase in net profit after tax before accounting for results of discontinued operations in the 2017 income statement] for the first nine months in your main markets, under the current operating conditions in these markets, people say: "What is this?" But when you go into details, you see that we launched, almost two years ago across the group, a performance management strategy. Turkey was the trigger [for implementing this].

This strategy aims at derisking, deleveraging, and rebalancing our balance sheets in our main markets from foreign currency exposures to local currency. This has translated into an important overall decrease in our risk-weighted assets and has been triggering the improvement in our capital adequacy ratios, but not to the detriment of our bottom lines. In our rebalancing, we let go of opportunistic big tickets from depositors, which were highly priced and not stable. We are trying to replace them with more granular customers, and we also did not renew many of our maturing loans to non-core or non-prime relationships in terms of providing the group with ancillary business. This has translated into reducing our size in Turkey—the size of Odeā—from close to \$11 billion to approximately \$6 billion. Out of these \$5 billion [in the reduction of assets in Odeabank], probably 60 percent is due to exchange rate depreciation, but there [is] \$2-3 billion of real derisking and deleveraging. We also

have rebalanced our loan portfolio toward local currency lending instead of foreign currency lending.

E Only in Turkey or also in Lebanon?

This was in Turkey, Egypt, and Lebanon, but the bulk was in Turkey; this has allowed us to sustain almost the same level of daily net interest income in Turkey, despite the fact that the size of the business has shrunk. Thus the first reason behind those important results is improved topline net interest income. Our consolidated spread in the first nine months of 2018 improved by almost 40 basis points (bps) with respect to the corresponding period of last year. This has been generated by improved spreads in Lebanon, Turkey, and Egypt. It is not coming just from one geography.

The second point to note in relation to the performance management strategy is the cost efficiency measures which have been implemented. We have shown 20 percent increase in profits. When you look at our operating expenses in the consolidated nine-month 2018 results, they decreased [year-on-year] by \$80 million, out of which probably 25 [million] are due to depreciation of the Turkish lira, because of the resulting shrinking in the counter value of the cost base. The remaining [reduction in operating expenses] is real cost savings in Turkey of \$30 million and from Egypt and Lebanon, too.


We also have improved NIM [net interest margin] from \$780 million to \$907 million, so we have \$127 million of additional topline, and we have \$80 million of reduced cost. Our profits increased by \$68 [million] because we had \$80 million of additional taxes with respect to new taxation of banks, mainly in Lebanon, comprised by the tax on deposits and the increased income tax. The remaining was \$40-50 million in additional provisions—this is real recurring [income] driven by the performance management where people [in the bank] are focusing much more on sustaining the quality of existing loans

instead of granting new loans on a daily basis and revising yields on loans with respect to operating environments in each market. We are trying to reduce the cost of deposits not by decreasing [deposit interest rates], but by letting go of opportunistic big tickets—this translates into savings [for the bank], while we are also increasing the more granular base of small depositors.

E Did the cost of deposits in Lebanon go up significantly after the extension of high interests for long maturity deposits?

By end August, we had \$120 billion of domestic deposits in Lebanon [in the banking sector]. Bank Audi is always lower, although we launched 15 percent [interest] programs for deposits of five years. We did maybe \$500 million or \$600 million [of such long-term deposit contracts with high interest rates] and probably other banks did the same, whereas you have the equivalent of \$54 billion in local currency deposits. So if there was \$1 billion [out of these \$54 billion], this is a small margin [of the total deposit portfolio in the sector].

Look at three-month LIBOR. The average cost over one year increased by 60 bps whereby the benchmark rate increased by 1 percent year-on-year, from 1.32 percent to 2.32 percent. This means we are paying less spread with respect to the benchmark, despite the fact that the costs [in the form of interest on deposits] are increasing, and stand at 4.2 percent today. I would not be surprised if they reach 4.5 by December. But can you imagine that if you make a big ticket deposit, say \$5 million over three months, in whatever large global bank today, they will give you 2.6 or 2.7 percent?

My main message is that Lebanese banks—assuming [for this exercise] that they would be a single bank—today are capable, despite all that we are witnessing in the country, to sustain a deposit base of \$120 billion at 4.2 percent. This represents less than a 2 percent premium over what leading global banks are paying [as deposit interests]. This speaks for itself. 

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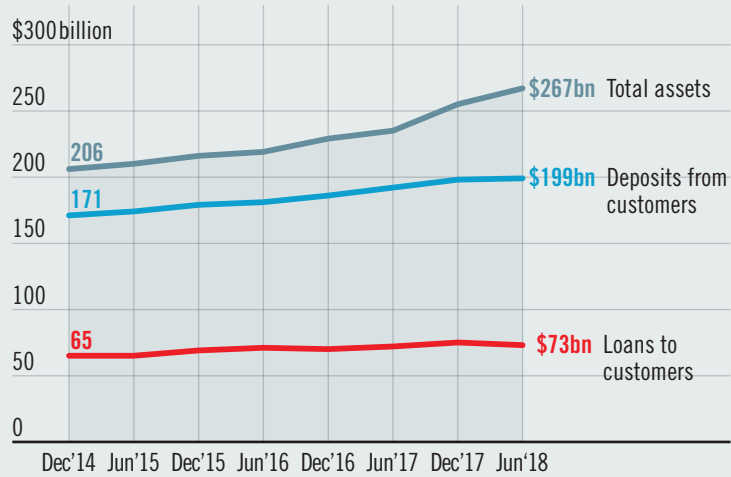
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Numbers & Figures

LEBANESE BANKING SECTOR ASSETS, LOANS & DEPOSITS



Source: Bankdata.com

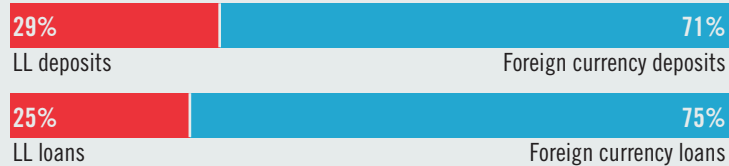
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DEPOSITS & LOANS IN LEBANESE BANKS

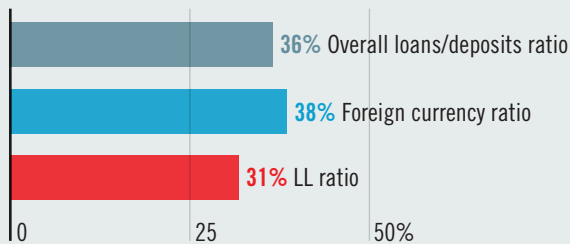
RESIDENT VS NON-RESIDENT



LEBANESE POUNDS (LL) VS FOREIGN CURRENCY



LOANS AS % OF TOTAL DEPOSITS



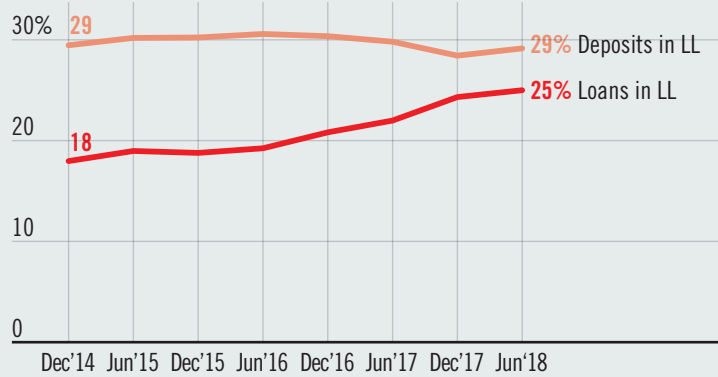
Based on data for June 2018.

Source: Bankdata.com

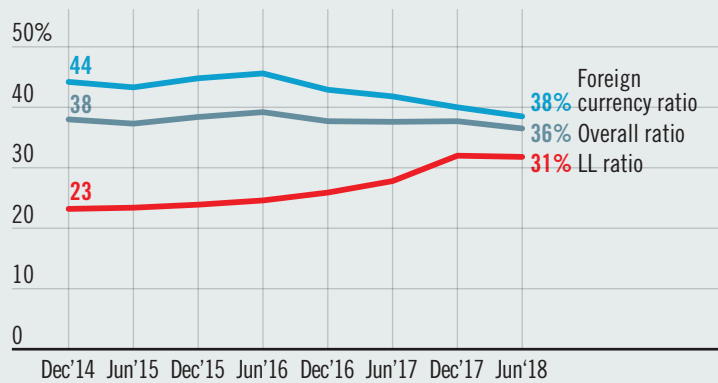
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DEPOSITS & LOANS IN LEBANESE BANKS

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



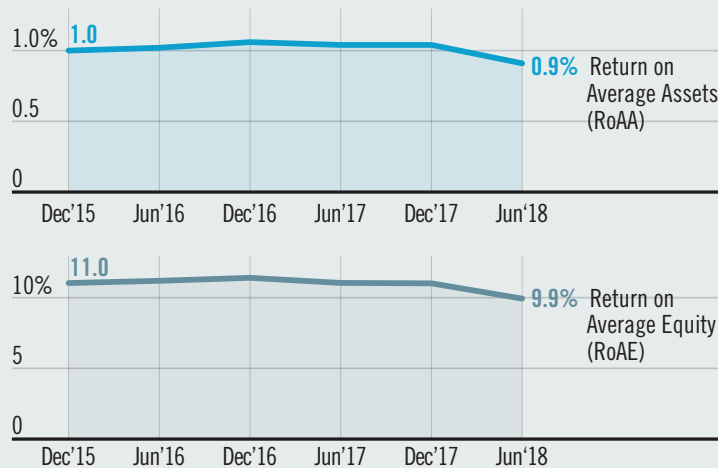
LOANS AS PERCENT OF TOTAL DEPOSITS



Source: Bankdata.com

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RETURN ON INVESTMENT IN BANKING SECTOR



Based on data up to Jun 2018.

Source: Bankdata.com

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The world is their oyster

Lebanon's five star hotels diversifying markets and offerings

Lebanon has not given its five star hoteliers many reasons to smile over the past seven years. Political tension and instability has kept away the country's traditional market feeders, GCC nationals, since 2011.

Meanwhile, regional political and socioeconomic crises have taken their toll on Lebanese expats in the Gulf and in parts of Africa, generally reducing the length of their stay and their spending power while they are in the country. Locally the situation is not much better, with Lebanon's residents less willing to spend on lavish meals in hotel restaurants or on city staycations.

It is a testimony to humankind's adaptive nature and the Lebanese people's well-honed resilience that these hoteliers have not only kept their good natured smiles despite the challenges, but have also persevered in cultivating and growing the markets that continued to visit Lebanon, as well as exploring and developing new ones.

THE PAST YEAR

Most hoteliers saw 2018 as a continuation of 2017 in terms of occupancy: not great, but not bad either.

For Gefinor Rotana, 2017 and 2018 were almost the same in terms of business growth. According to the hotel's general manager, Gilbert Zeait, this was because the last two months of 2017—when then-Prime Minister

Hariri announced and subsequently withdrew his resignation—put a damper on that year's otherwise positive performance. Meanwhile, the first four months of 2018 saw cancellations and a drop in business in the aftermath of the rescinded resignation before things picked up again. "Summer 2018 was very good for us. Room rates were lower than in the golden years, such as 2010, but in terms of occupancy during the summer, I would say it was above 80 percent," Zeait says.

The Smallville Hotel in Badaro also reports almost the same occupancy in 2017 and 2018, according to Michel Boulad, its director of sales and marketing. "Summer of 2017 was almost a record year for the hotel. However, summer 2018 was not as good for Smallville, mainly because the GCC nationals did not come as much as last year during the Adha holidays. The end of year 2017 was rather weak following the Hariri incident, but this year, and judging by our December bookings, we are anticipating much better performance," Boulad explains.

For some hotels, 2018 was a better year than 2017. Nadia Madi, director of sales and marketing at Kempinski Summerland Hotel & Resort, says 2018 saw a 20 to 30 percent increase in occupancy from 2017, and the hotel expects to close the year at 65 percent overall occupancy—a good rate in her

opinion, given that they are a summer resort and business is usually slower in winter. "Since we opened in summer 2016, 2017 was a relatively new year for us. So in 2018, we became more established, and people started knowing us more, whether in the local market or through the Kempinski chain," she says.

Georges Ojeil, the general manager of Le Gray, says 2018 was the second best year in the hotel's history, since its opening in 2009. He attributes this to a "synergetic team and a quality focused strategy," whereby the hotel invested a lot of time and money in training and communicating with its employees, while at the same time not compromising on quality customer experience. The hotel's expansion—which added two floors of rooms, a new lobby, and, most importantly, conference rooms and a ballroom—was also a major driver in the year's exceptional performance. "The extension supported our financial growth because we managed to penetrate different markets. We closed October on 85.5 percent occupancy and November on 80 percent. Although January was shaky, the year picked up considerably afterwards," Ojeil says.

The cluster director of sales and marketing at the Phoenicia Hotel, Tracey Bolton, says the hotel has had a 5 percent increase in occupancy



Hotels overview



Kempinski Hotel



Le Gray Hotel

from 2017 and will close the year at 60 percent occupancy (according to its performance as of mid-November), which she says is exceptional for a hotel of their size (446 rooms). Meanwhile, Rami Sayess, the regional vice president and general manager of the Four Seasons, says 2017 was a record year for their hotel, and that, despite this year's drop in occupancy, 2018 is exceeding the expectations they had at the start of the year when the country was more unstable politically.

As such, Lebanon's five star hotels have managed to maintain almost consistent occupancy—at a positive percentage—despite the tough times.

HERE NO MORE

GCC nationals were Lebanon's main tourism market for such a long

time that the hotel industry became complacent, relying too heavily on this steady stream of guests rather than having to invest energy or resources to fill up the country's hotels.

Today, this is no longer the case, as most hoteliers admit that the numbers of holidaying GCC nationals are in steady decline (see figures page 116). Rotana's Zeait explains that this demographic used to account for 95 percent of the hotel's targeted guests—now they make up only 10 percent. The drop in GCC nationals has also negatively impacted the average length of stay at the hotel, he says. "Even during peak holiday seasons, and although hotels

in Lebanon become fully booked then, it is for a shorter period of time than before. That long duration of stays was when we had high numbers of tourists from the Gulf who would stay for at least a week, and up to five weeks sometimes."

Worryingly, Gulf tourists remain the main market feeders of the Four Seasons, Kempinski, and Phoenicia—although the three establishments confirm that they are staying in lower numbers compared to 2010 and previous years.

Phoenicia's Bolton explains that although the GCC is still a main market for the hotel, it is not the big spenders that are coming. "Thirty-five percent of our business is GCC, but they are not staying in the presidential suites as they used to before," she says.

Speaking for Kempinski, Madi says they have seen a slight increase in GCC nationals this year, while Ojeil says Le Gray has witnessed an increase in Kuwaiti and Qatari nationals.

BEYOND THE GULF

By now, the hotel industry has largely accepted that GCC nationals will no longer be the chief drivers of their business and so have invested all their efforts on strengthening the other markets visiting Lebanon, even if these markets are shy in numbers so far.

European tourists, which have always represented a small market for Lebanese hotels, have been increasing over the last few years, according to

■ Lebanon's five star hotels have managed to maintain almost consistent occupancy, at a positive percentage, despite the tough times.

the hoteliers EXECUTIVE interviewed for this article. They attribute this rise to their own efforts and to Visit Lebanon (a B2B meeting space that targets

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Hotels overview

specific destinations for familiarization trips, which provides all the practical information that those working abroad in the leisure industry would need to arrange trips to Lebanon, organised by the Ministry of Tourism and participating hospitality stakeholders). Other stakeholders can also play their part. Bolton says that the number of Spanish tourists to Lebanon is starting to grow, a consequence of Lebanon's flagship carrier, Middle East Airlines, establishing a direct flight to Madrid in June 2018. "The key going forward is we have to tackle these markets and maximize exposure to drive business," she says.

Lebanese expats—typically first generation immigrants who left Lebanon for career purposes—have also been mentioned as a growth market by hoteliers with whom EXECUTIVE spoke. "This year we saw many Lebanese living in the region coming to Lebanon for a vacation, but also on business trips. They enjoy staying in the resort as a destination for a vacation, and so we had a promotion for Lebanese expats, providing them with special prices to encourage them to stay with us," Madi says.

Among neighboring Arab countries, Iraqis, Egyptians, and Jordanians are mentioned as frequent hotel guests, while Zeait says that Syrian guests have been on the rise at the Gefinor Rotana. "We have a lot of Syrians using hotels, especially when they are living outside the region and come back to visit their relatives in Syria—they land in Beirut and stay here for some time," he says.

Various recent efforts have been targeting the Lebanese diaspora—ranging from the Lebanese Diaspora Energy conference, organized by the foreign ministry, to the Visit Lebanon meetings—and these efforts have paid off in the hotel industry. "We at the Phoenicia Hotel have seen a nice growth of the diaspora market especially over the summer season—these are mainly [Lebanese] from Brazil, Australia, and Canada. It is the young diaspora that is



Four Seasons Hotel



Le Phoenicia Intercontinental Hotel

coming back, and they are looking to reconnect with their history. And because it's the younger generation, they are staying in hotels and not in the villages where their extended family is—to them, part of connecting with their family and heritage is exploring Lebanon, so they make the hotel their base and go out from here," Bolton says.

Ojeil says Le Gray has its eyes on the diaspora market as well. "Latin America is a new market we are targeting, and to a certain extent it is fueled by the Lebanese diaspora. We start with them, but they bring others from their countries with them, or go back and tell them of their trip, which motivates them to come here," he says.

LOOKING FOR SOMETHING NEW

Not content with just developing

existing markets, Lebanon's hoteliers are also aggressively targeting new markets, having learned the dangers of putting all their eggs in one basket. "When we knew last year that the GCC market was not coming back as before, and that their confidence had not been restored in Lebanon as expected, we went after new markets," says the Four Seasons' Sayess, giving the examples of South America, in particular Colombia, as well as Mexico and Australia. In July, he says, the hotel's highest number of visitors was from Australia.

Hotels are keen to diversify their guest base. "We at Smallville are looking to expand in new markets such as Russia or Latin America. There is a lot to explore, and so we need to steer away from the traditional feeder markets and to focus on new markets. This is already something we are doing, and we are see-

A SECTOR IN CRISIS: THE WOES OF RETAIL IN LEBANON

It does not take studies or figures to realize that the retail sector in Lebanon is suffering, although the head of the Beirut Traders' Association (BTA), Nicholas Chammas, confirms that indicators from the BTA Fransabank Retail Index are down across almost all consumables, save for basic staples such as food (read Q&A with Chammas on page 114). Figures from Global Blue also show a slight drop in spending from tourists—most significantly from GCC nationals.

A quick walk through any shopping area—be it a mall or street—is proof enough that there is an ongoing decrease in revenues across the retail sector. Storefront signs for discounts and sales have started appearing earlier in the year and are staying for longer. This is true for stores across the board, from mid-range to luxury stores, and even to outlet stores, whose items are already heavily discounted. In a September interview with *EXECUTIVE*, Frank Kuntermann, CEO of the ABC Group, spoke about having earlier and stronger sales periods as a way to encourage people to spend.

These sales do not seem to be doing the trick though. Informal conversations with salespeople in a random selection of stores suggest that although people are browsing, few are spending. One exception seems to be outlet stores, where, mainly during their sales period,

queues are long—presumably because people feel the deals they get justify opening their wallets.

Another potential sign of a weak retail market is Lebanon's enthusiastic adoption of Black Friday, which started in 2017. Consumers are now bombarded with text messages from a wide variety of stores (from underwear to hardware) announcing Black Friday deals, which this year were extended to apply for a four-day period.

Retailers are doing their utmost to get consumers to shop, but several factors are making people reluctant to part with their cash. Low purchasing power among local consumers makes spending on anything beyond the necessities rare. Moreover, political uncertainty in the country makes those with money think twice about spending it.

To make matters worse for retailers, tourists are not coming to Lebanon as much as they did in the golden years, so spending at stores is largely limited to those residing in Lebanon.

In this unhappy market, it pays to remember that there is usually light at the end of every tunnel. In this case, the eventual formation of the government and the consequent implementation of CEDRE agreements—as well as the potential end of the war in Syria—should bring enough cash flow into the country to get the Lebanese to indulge their love of shopping again.



Hotels overview

DIGITAL HOTELS

The impact of the digital world on any industry can no longer be downplayed, and local businesses have to quickly catch up before they are left behind.

The Lebanese hotel industry is slowly but surely warming up to the digital world, and fully embracing social media when it comes to marketing. Nadia Madi, director of sales and marketing at Kempinski Summerland Hotel & Resort, says digital marketing is one of their main channels, due to its faster reach and cost efficiency, adding that they have an entire department dedicated to social media and e-commerce.

Cluster director of sales and marketing at Phoenicia Hotel, Tracey Bolton says the hotel's entire marketing campaign is shifting toward digital. This is fueled by the younger generation's tendency to shop and plan online only, and by Phoenicia's need to reach this market quickly and efficiently, she explains. "Social media is the future, and it is up to us to make sure we are current in embracing it and working with it to benefit ourselves in terms of driving revenue and awareness."

Michel Boulad, director of sales and marketing at The Smallville Hotel, says his team is going about social media in a different way, but with the same goal of driving business to their hotel. "We are going one step forward and attracting individual bookers—who book directly with us—by improving our presence online through search engine

optimization and by using our social media platform to attract social media influencers in the international travel industry who can talk about their experience at the hotel," he says, noting that while this used to be done by hoteliers using local influencers, international bloggers bring more value.

For a hotel, going digital means going beyond just social media to facilitate online bookings and digital services. Rami Sayess, the regional vice president and general manager of the Four Seasons, says that although online booking is starting to pick up in the region, it is much slower than in Europe and the US. He adds, however, that the Four Seasons has a chat app "which the guests love because they can chat with the hotel even before they arrive and arrange for pick up, or text for room service. The new generation loves that."

Boulad also mentions an app that the Smallville is developing. "We noticed during our trip to the World Travel Market in London this fall how much the travel trade industry counts on the digital world. This includes improving your services digitally, and so we at the Smallville are creating our own app that allows you to book your room, and which serves as an interface between the guest and the reception, while the guest is at the hotel," he explains, making it easier to order room service or requesting for a late checkout.

ing results, but we have to maintain our efforts," Boulad says.

He goes on to explain that the hotel has been participating in international exhibitions to explore new markets. At home, the hotel is partnering up with local travel agents who are targeting new markets such as China or Russia.

In fact, several hoteliers spoke of the Russian and Chinese markets, and it seems serious efforts are being made to attract these tourists to Lebanon. "I would love to explore the Chinese and Russian markets—both of which are very important—but we have to sort out the visa issue as it is not easy for them to get visas," Sayess says. "We need to catch their interest in Lebanon, since they already

go to Dubai, Paris, and Egypt, which means we need to go to the countries and talk to tour operators there. For example, we at Four Seasons welcomed a group of 12 Chinese tour operators here to explore Lebanon, as well as a Russian group, which was arranged through the Syndicate of Hotel Owners in Lebanon."

Meanwhile, Rotana's Zeait says

■ There is a lot more that needs to be done, by all stakeholders, before the country will be ready for a higher level of tourism.

both Armenia and Turkey are interesting markets due to their proximity to Lebanon. The potential is certainly there but what is needed, hoteliers tell EXECUTIVE, is sustained work from all

stakeholders to promote Lebanon as a destination to tourists who may need a small push before they book that ticket.

While hoteliers are doing their part in promoting Lebanon and attracting new tourism markets to it, there is a lot more that needs to be done—by all stakeholders—before the country will be ready for a higher level of tourism, necessitating a strategy (for more on the need for a tourism vision, see HCA article page 106).

WORK WORK WORK

While GCC nationals mainly frequented Lebanon for leisure, today's hotel guests—for the most part—hail from the corporate world, according to the hoteliers with whom EXECUTIVE spoke. "The perception around the area is that the leisure groups are still nervous to come because they are hesitant because of the political situation, so



that still needs a lot of work. Whereas a corporate group will come because they need to do business here,” Phoenicia’s Bolton says.

Both Kempinski’s and Le Gray’s expansions of their corporate facilities have allowed them to target new markets and achieve growth. “The majority of the business in the pipeline is corporate business with a little leisure, especially in the summer,” Ojeil says. “The conference and events facilities allowed us to penetrate the MICE market so we have more residential seminars and more events, training, and conferences happening in house, and this is driving more revenue.”

Still, this has not prevented hotels from going after business from both leisure and corporate travelers, playing

up their facilities to attract both. For Boulad, Smallville’s location on Badaro Street—minutes away from the French Embassy (one of their main clients, he says), as well as major universities, the new business hub of Sin El Fil, Badaro’s pubs, and the national museum—makes them ideally placed to capture both corporate and leisure business.

Zeait also speaks of Gefinor Rotana’s location as being attractive for both businesspeople—surrounded as it is by major hospitals and universities—and those seeking a good time in nearby Zaitunay Bay or Hamra. “We are positioning ourselves as a business-leisure hotel,” he says. “This is healthy because leisure alone gives you seasonal traffic—and is mainly the business of beach resorts—while the volume of business

bookings decreases during holiday times such as the summer or mid to end of December.”

Madi says Kempinski reached 100 percent occupancy at times during the summer, which is normal for a beach resort. During winter, she says, they market the fact that they can offer corporate guests leisure facilities typically found in resorts, such as multiple restaurants, a huge spa, and a marina.

EYES ON SYRIA

As 2019 approaches, Lebanon’s hotel industry is looking toward the future, and hoteliers say they will continue to develop the new markets they have been working on in 2018. At the same time, they have their eyes open to new possibilities and, at the moment, the potential narrowing of the war in Syria is a very interesting prospect—the impact of which is already tangible, to some extent. “We see potential for Phoenicia Hotel in that a lot of companies—from construction to consultancy companies—will be making their base here,” Bolton says. “When they opened the shipping lines, for example, we immediately saw an impact on our business from shipping companies and freight companies. We are waiting in anticipation because we think it will bring a tremendous boost for our economy.”

Ojeil says Le Gray has also felt the impact of Syria’s impending reconstruction. “We are already sensing increased demand from business people coming to Lebanon for a few days for events related to the reconstruction of Syria. They take 14 rooms for a meeting or conference and stay for a few days. It is happening regularly. If we manage to grab our share of this business, it will be very positive for Lebanon,” he says.

Whether it is business from Syria’s imminent reconstruction or from one of the far flung markets that Lebanon’s hoteliers have been tirelessly developing, or even from markets closer to home finally making a comeback, this country’s hotel industry is prepared to welcome it all, having passed through the fiercest tests.



By Dagmar Symes

The right mindset will change it all

Give Lebanon's tourism industry a chance

After five years, my assignment has come to an end, and here I am reflecting on the country I fell deeply in love with. I was blessed to be entrusted with a luxury hotel opening under very difficult and challenging circumstances, and I have enjoyed my time at the helm of the InterContinental Phoenicia, La Grande Dame du Moyen Orient. Beirut was always known as the Paris of the Middle East, and it certainly has the potential to reclaim this title with its present attributes. I have experienced Lebanon as one of the most modern, stimulating, breathtaking yet nostalgic, disruptive places—the contradictory land of the cedars.

Geopolitical challenges and negative perceptions abroad have made Lebanon's future dependent on the region's political playground. To return Lebanon to its rightful place as a tourist destination, the country has to be promoted in a purely positive light based on its strengths and unique features—particularly its diversity. It is renowned for its abundance in nature, rich history, vibrant art, music, and fashion scene, culture, architecture, culinary excellence, and, foremost, its friendly, hospitable, and generous people. Should the new government come up with a holistic approach to drive the country's touristic development in the right direction, Lebanon will fly. This includes the redevelopment of the country's infrastructure, such as broadening public transportation, the further extension of the Rafic Hariri International Airport, and improvements to the road network.

Although I understand the environmental, economic, and politi-


cal challenges, Lebanon deserves to be promoted as the Middle Eastern go-to destination. Only then will the hospitality sector have a true chance at healthy development and prove its legitimate position in the international community. Who would have ever thought that you could ski in the heart of the Middle East?

Lebanon boasts the most reputable academic institutions in the region and is a true talent provider in all aspects. Conversing in three languages, as well as having an excellent education provides a huge competitive advantage within the international professional community. I feel, however, that the country's privately financed education, to some extent, undermines the need for basic expertise within the tourism industry. While education is key to success in life, hospitality is a service industry in which attitude, humbleness, and the right skillset are the basic pillars. Society still stigmatizes certain professions and views certain operational positions in the hospitality industry as somewhat degrading and non-reputable. Yet, the hotel industry relies on its hardworking operational team members, who form the core and the heart of the industry. In other words, the norms set by society are somewhat contradictory to our business. Furthermore, financial investments in the education system are highly unlikely to give good returns at short term.


Technical and vocational institutes need to be elevated in the public esteem to the level of a prime talent hub for our industry and must increase in number. Meanwhile, private institutions' teaching should

adopt the humbleness and service-oriented approach that is the base of our industry. Society has to mature and develop an honest open-mindedness to educational diversity, gender equality, religious co-existence, and multinational cultures.

One of Lebanon's main challenges is that even the younger generation live in a world of "what could have been" instead of "what could be." Past-related thinking prevails against future oriented progression—passive versus proactive. Change is necessary for extraordinary results, thus actions speak louder than words. The habit of blaming the establishment and complaining rather than envisioning and creating the future has to be addressed. The Lebanese people have proven to be resilient and to fight against all odds, while bearing in mind that government institutions will likely remain an issue. Society can have a huge impact on the positive development of the country—whereas a negative mindset will never give you a positive life.

Lebanon's hospitality has it all, if society anticipates a future-oriented growth mindset and positive thinking, despite ongoing internal and external hurdles. As a German, I dare to draw a parallel. If the Germans tore down the wall, why can the Lebanese not tear down their virtual wall? "*Wir sind das Volk!*" I have never been intimidated by how it is done in Lebanon—"wasta and *habibi*"—but have focused instead on achieving what needs to be done, in the right way. Lebanon is so close to my heart that, as an adopted citizen, I see the beauty and opportunities lying ahead for a prosperous future. 

Dagmar Symes is the former general manager of Phoenicia Hotel Beirut (2016-2018) and Kempinski Summerland Resort (2013-2016). She has recently been appointed as general manager of the Anantara Al Jabal Al Akhdar Resort in Oman.



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WEALTH MANAGEMENT

By Mohamad El Hoss

Getting online

Tech opportunities for the Lebanese hospitality industry

It is the end of 2018, and the tech-enabled generations are finally becoming the decision makers in their workplaces. We live in an era where technology is no longer an industry, but rather a layer that transforms all industries, making them more connected and efficient.

There are more creative and brilliant minds in Lebanon than ever before, constantly solving problems and shaping new value chains that will simplify how we do business for decades to come.

BARRIERS TO INNOVATION

Nevertheless, as any entrepreneur in Lebanon knows, there are many barriers that currently slow down the innovation and adoption of new business models and technologies. Such barriers include complicated regulations on e-commerce as a business, as well as the infamous electronic signature law, which state that electronic signatures, even if verified, are not legally binding. The process of establishing and registering a company is in itself tedious, requiring entrepreneurs to navigate all kinds of legal obstacles.

The HORECA industry backbone, which provides services and supplies for hotels, restaurants, and cafes, is ready to adopt innovation and expand, in spite of the various industrial barriers. In fact, the HORECA market is already one of the largest in Lebanon, according to BankMed research and a report published by the World Travel and

Tourism Council in 2016. That year, the HORECA market accounted for at least 20 percent of the Lebanese workforce, the report shows.

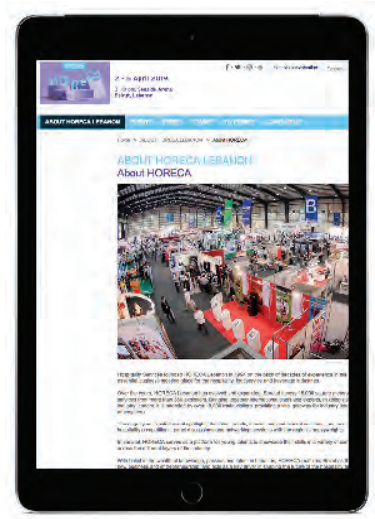
As it stands, 66 percent of buyers in the hospitality industry are already looking for online alternatives to spare them the hassle of managing the currently offline supply chain, according to CloudSale's HORECA market survey conducted in May-June 2018, which gathered feedback from more than 50 HORECA outlets in Lebanon. The solutions the buyers are looking for are not re-inventions of the wheel, but rather tools that digitize the workflow they are already familiar with. The biggest problem holding back the shift to digital is industry standard, unregulated, de-

■ The HORECA industry backbone is ready to adopt innovation and expand, in spite of the various industrial barriers.

ferred payments. A lot of startups have made it their mission to come up with innovative solutions with banks to deal with deferred payments digitally. However, convincing banks and financial institutions that there needs to be a product before proven traction and sales is a difficult task.

MOVING MARKETS ONLINE

On the other side, the suppliers of the HORECA industry are ready and eager to list their products online. Even for the most traditional sellers, there is little downside to



opening themselves to additional sales channels, especially if these channels are efficient and scalable. However, most of these suppliers do not have their data readily available to transfer online, necessitating an initial investment of time. They need to shoot photos of the inventory and hire further support to organize the companies' inputs. All this can be difficult to carry out without having seen actual sales growth and cash in-house settlements first.

The path forward is clear: There needs to be a mutual effort between regulators to create predefined frameworks for exchanging products and payments online. Once this happens, financial institutions and banks will be ready for mass adoption, and hospitality businesses will be the first to benefit. ■

Mohamad El Hoss is the CEO of CloudSale, an online B2B marketplace where HORECA wholesalers can showcase all their products.

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By Nabila Rahhal

Masters of the scene



Stem Beirut

Lebanon's seasoned F&B operators talk challenges and secrets to success

When it comes to the food and beverage (F&B) industry, Lebanon is a country of contradictions.

Although no exact figures are available, those in the industry largely believe that almost the same number of restaurants that closed have also opened. In certain areas, such as the summer hotspot Broummana or in Gemmayze with its restaurants, foot-

fall and the number of new venues is increasing, while in other areas, such as Jounieh and Antelias, customer traffic is slowly dying down. The country is facing an economic crisis, and yet many of the city's restaurants and bars are abuzz with people having a good time.

Operating a restaurant or club in such a mercurial economic climate

is not an easy task, and indeed many have failed. Today, only the fittest in the industry are surviving and growing their businesses, despite decreasing purchasing power among locals and tourist levels still down from their height in 2010. These F&B operators share their frustrations, but also their triumphs and the secrets of their success with EXECUTIVE.

■ “Lebanese expats are suffering because of the regional economic crisis, and this is affecting the money that comes into Lebanon.”

FIRST, THE GOOD NEWS

Although local economic experts speak of the low purchasing power among Lebanese, it seems this has not significantly affected their habit of going out. Those who operate medium- to high-end nightlife concepts tell *EXECUTIVE* that clients continue to frequent their outlets. Toni Rizk, CEO of TRI Concepts, which operates The Bohemian and Trumpet, says The Bohemian in Mar Mikhael has witnessed a 30 percent growth in revenues as compared to 2017, and that his seasonal outlet Trumpet, in Broummana, also grew 20 percent.

Meanwhile, a lunchtime drive by the upscale restaurants in Minet el-Hosn, in Beirut's Downtown—known for attracting bank executives and company CEOs working in the area—or a nighttime stroll through Mar Mikhael, or a trip to the seaside arena street in Downtown—where several of the city's nightclubs are located—confirms that the cultural desire to socialize is still thriving, among a segment of society at least.

This attitude, along with Lebanon's rising reputation as a foodie destination, has encouraged new operators to invest in F&B concepts in Lebanon, despite the risks. “In terms of the economic climate in the country, there is nothing very encouraging for opening a new business. But knowing the culture here—how we want to have a good time no matter what—and also knowing how Lebanon is becoming a destination for the food and beverage industry, we were motivated to go ahead with Zimi,” says Ali Daoud, one of the three partners (along with Rami Demirdjian, the main investor, and Barbara Massaad, food consultant and chef) behind the Mediterranean restaurant, which recently opened in Gemmayze.



WHEN THE GOING GETS TOUGH

Although things seem rosy on the surface for some F&B outlets, digging a little deeper reveals that the regional and local economic situation has taken its toll on even the most resilient F&B operators.

Tourist numbers in Lebanon have been increasing year-on-year since 2014. However, these increases have not yet made up for the plummet in tourism numbers between 2011-2013—and so far in 2018, the numbers are trailing close behind 2017 figures. Amid these challenges, F&B operators have been relying more on Lebanese expats enjoying a vacation at home than foreign tourists—but even the expats have their share of economic problems. “Lebanese expats are suffering because of the regional economic crisis, and this is affecting

the money that comes into Lebanon,” says Dany Aprat, managing partner at Tavolina, an Italian restaurant in Mar Mikhael, and more recently at Slate, a casual chic international restaurant, also in Mar Mikhael.

Samer Rizk, co-owner of Downtown's rooftop bar Capitole, and wine bar and restaurant Stem in Monot, also speaks of expats in the region not making as much money as before, noting that they have been visiting Lebanon less and staying for much shorter periods than they did in previous years. Instead, he explains, they are traveling elsewhere to have new experiences and enjoy a proper vacation away from what he describes as the somewhat “unhappy feel” that has fallen over Beirut since November 2017 (the time of then-Prime Minister Saad Hariri's since-rescinded resignation).

F&B



MORE PLAYERS IN THE GAME

Despite the bleak scenario, the F&B industry continues to attract investors, be it ones who are new to the market or seasoned operators expanding their businesses.

Operators of seasonal summer venues are continuing to open winter-only venues as a way of retaining their staff—whom they have invested time training and would not want to replace every year—and their clients' patronage. The latest such model is McQueen, a winter-only bar-restaurant opening December 2018 in Saifi, which its owner, Samer Rizk, says will have the same spirit and clientele as

Capitole as the natural extension of its summer counterpart.

Events manager Alain Hadife's Zero 4 cluster in Naccache finally opened its doors in early 2018 and once again brought forward the debate regarding clusters versus standalone venues (read more about clusters on page 102). Aprat, who opened Tavolina's second branch in Zero 4, says it all depends on the synergy between the cluster operators and the tenants. "I tend to prefer being a standalone [venue], but I don't mind being in a cluster if

we are aligned [with other operators] on the same vision. But when you are alone, you definitely are freer to make any decision you want, whereas in a cluster you have to abide by certain guidelines."

Samer Rizk, who experienced being in a cluster with Trumpet in The Village Dbayeh, also says that being a standalone venue allows for more freedom, for example, in which type of music one wants to play or what events to host.

Gemmayze is once again returning to the spotlight, but this time as a creative culinary destination rather than as a bar-hopping strip. "The rents went down after the demand decreased around three to four years ago when Mar Mikhael began," says Zimi's Daoud. "This encouraged some investors to open new F&B concepts here and they did well. Their success got people used to the idea of going out in Gemmayze again, which in turn encouraged other restaurants to open. So gradually it's becoming an F&B street. We are complementing each other and catering to all ages without competing with each other."

The upper part of Monot Street in Ashrafieh is emerging as a destination for medium- to high-end eateries. Samer Rizk says he chose this area for Stem because of its authenticity and charm—a residential street with a mix of old buildings and high rise towers. He says the neighbors often stroll down for a bite, which adds to his footfall. Toni Rizk also chose to open his newest concept, an Andalusian bar-restaurant called Almodovar,

■ "We are complementing each other and catering to all ages without competing with each other."

in this corner of Monot. "We liked the area because the venues are big, well-designed, and run by established operators. We feel that the area can



live for 10 years and more,” he says. He notes that the limited spaces available for new venues to enter makes the area even more attractive to him because of the certainty of no overcrowding.

Seasonal outlets in mountainous areas outside of Beirut are still a preferred way of escaping the summer heat, and F&B operators have continued to invest in such projects. This year, Broummana was the destination of choice, with about a dozen new concepts opening there in summer 2017, causing traffic problems and increased competition.

The effects of oversaturation are also being felt in Mar Mikhael, which often feels like a long parking lot. The congestion has the area’s residents, the outlets’ clients, and even the operators themselves complaining. This bedlam, says Toni Rizk, could be resolved by regulating the sector. “When we first opened four years ago, Mar Mikhael was a lot calmer,” he recalls. “Today, it has become overcrowded, and this is negatively impacting business as there are more complaints from residents

and thus more inspections from the concerned ministries. This is because there is no regulation in this industry—they give licenses to everyone on the same street, and when it gets oversaturated and people complain, they start fining the business owners who have already invested in their

■ “When we first opened four years ago, Mar Mikhael was a lot calmer.”

business. They should limit the number of venues per street from the beginning.”

SECRETS TO SUCCESS

Given such a competitive environment, it is no wonder that only experienced operators have managed to keep their outlets full. For Aprat, who has successfully been running Tavolina for seven years now, it all lies with the four Ps of marketing: price, product, promotion, and place. “In university, they teach you about the four Ps, and you can apply them to running a restaurant business as well,” he says. “It’s that simple, but it’s not

easy because you have to be able to combine these four principles well, or else it won’t last.”

Toni Rizk also believes that consistent good management—which manifests itself in good service, food and drinks, and ambiance—is key, and cites it as the reason why The Bohemian has remained popular for four years now, while other venues in Mar Mikhael have opened up and shut down within a year.

Barbara Massaad, chef at Zimi, believes restaurants succeed when they have a soul. “People are realizing that restaurants need to have people behind them,” she says. “Typically, restaurant operation is more of a business, or copy paste, or impersonal, but I am happy to see now in Lebanon that more and more restaurants are opening where you have the personification of the owner, or the chef, or the person working in that restaurant, and this is what is needed. Because of the tough economic times we’re passing through, it’s a survival of the fittest environment, and this is where you are going to see authentic concepts with heart surviving.”

Christine Hauser also believes that the Lebanese are looking for a food experience these days. “People in Lebanon don’t want to feel like they are being ripped off anymore, so we want people to feel that they got their money’s worth in terms of food quality and variety when they come to our restaurant, especially since everyone is cost conscious these days,” she says, speaking of her new restaurant Alma located in Bosa Nova hotel, also for Hauser, in Sin el-Fil.

As another year wraps up, those in the F&B industry are already energetically working on realizing their 2019 goals and expansion plans, despite the challenges they continue to face. This is because they recognize that they operate in a sector that never sleeps, and through which the Lebanese will continue to enjoy their days and nights, come what may. ■

By Nabila Rahhal and Thomas Schellen

Full speed ahead



Venture Group talks expansion of their hospitality cluster model in Lebanon and beyond

Marwan Ayoub and Rabih Saba—and their hospitality company Venture Group, specialized in developing and operating purpose-built restaurant clusters—have covered a lot of ground in the past seven years. Today, their team is playing in the premier league of regional hospitality.

Geographically and financially, Venture Group's cluster business started small. In 2011, Ayoub and Saba began operating a traditional cluster in Beirut's downtown, meaning they developed a master concept plan for a string of pubs on Uruguay Street. Calculating this project to be worth a few million dollars, they took a gamble on the immediate future. They only had sufficient funds for their first contractual payment when they signed their agreement with Solidere, the Lebanese company for

the development and reconstruction of Beirut Central District.

Luckily for hospitality culture in Lebanon, and despite the fact that the Uruguay Street pub cluster did not survive, Venture Group was able to spread its wings financially, geographically, and operationally. Today, the group has three operational hospitality clusters in metropolitan Beirut under its belt (The Village Dbayeh, The Backyard Hazmieh, and Restos Saint Nicolas in Ashrafieh) and another five cluster projects under development from Beit Mery to Saïda.

Each of their projects costs \$5-10 million in direct investment and can accommodate between 12 and 20 tenants, each of whom is expected to invest between \$300,000-700,000 to outfit a hospitality outlet in the cluster, with the investment dependant on the size of the outlet.

Venture Group's ascent from downtown operator of a pub environment to sought-after developer of clusters in Lebanon with a pipeline of million-dollar projects is notable, particularly in a not uncomplicated economic period. However, the real validation of Venture Group's concepts will emerge in the next expansion stage, which looks to the Arab world. The group has signed agreements for three \$50 million plus (in total value) multipurpose entertainment clusters in Egypt—with the first opening in February 2019—and is currently proactively scouting projects in the Gulf. "We are only looking at countries where we can have more than two to three projects and this is why we are not considering Qatar or Bahrain. We were approached to open in Romania, and we will, because it will serve as a base for Eastern Europe," Ayoub says. Beyond such limitations, however, the entrepreneurs are intensifying their consulting activities.

Ayoub says that each project in Lebanon adds incrementally to the total value of Venture Group. The first two to three projects provided a basis to break even, in terms of covering overheads and staff costs of the group. Each additional project, in his assessment, will generate \$500,000 to \$1 million in profit contribution to the group.

It seems the duo has struck gold—even before one accounts for the group's core intangible asset, which is learning from successes and failures in developing hospitality clusters in Lebanon, where managing successful F&B outlets can be a real challenge for even the most seasoned operators (for more on that see F&B overview, page 98).

CLUSTERS IN THE LEBANESE/ARAB CONTEXT

The clustering of public houses, or pubs, and restaurants is in no way unusual. From areas where nightlife and tourism converge, such as in the Montmartre quarter of Paris, or the “longest bar in Europe” in German provincial hub Duesseldorf—where burghers and merchants meet—and working-class pub-filled streets in industrial cities where laborers congregate for budget revelry, to quarters in English or Scottish university towns like Manchester and Edinburgh—where students trek from bar to bar—to fancy eateries aggregated on Manhattan’s Restaurant Row. The list is endless, even before one includes the modern temples of commerce: mega-shopping malls with their food courts and middle-market restaurant agglomerations. The Lebanese angle on hospitality clusters in this overarching sense is not that clusters are rare exceptions, but that clusters can be purpose-built as standalone hotspots of social togetherness that capture the essence of being human. Perhaps modern hospitality clusters in Lebanon—where going out and sharing food and fun with friends and family is a noted cultural behavior that persists even in tough economic times—are an undiluted expression of the truth, enshrined by the philosopher Aristotle, that “man is by nature a social animal. . . . Society is something that precedes the individual.”

This is certainly a truth one finds corroborated in observing the Lebanese tendency to have social lunches or meet for dinner at a long table in a densely-packed restaurant. The more that is happening around them, the better. Some even note that Lebanese tend to be disappointed when walking into a somehow empty restaurant on an isolated street. What loners and couples looking for romantic isolation might find charming could even cause the archetypical Lebanese restaurant goer to experience a bout of depression.

While the organic clustering of social life—like the hospitality and nightlife scenes in streets/neighborhoods such as Monot, Gemmayze, Mar Mikhael, Badaro, Downtown, and Hamra—has for decades been fragile due to the notoriously bad and unregulated Lebanese organization of urban environments, the hospitality cluster model seems to allow the Lebanese affinity for social living and sharing of good food to converge with the very un-Lebanese behavior patterns of mindful organization and controlled environments.

In the hospitality cluster model the number of outlets is controlled by one main operator, parking is provided, and music volume is controlled. Albeit somewhat artificial, the purpose-built cluster—which is not a sibling, but more of a distant cousin to the food court in a shopping mall, because the cluster is a hospitality destination in itself whereas the food court tends to be integrated in a shopping mission—enables the Lebanese to enjoy the perfect “see and be seen” social opportunity, but in a setting that is free from the problems of disorganization and chaos that so often mar the experience of going out in Lebanon.

A CLUSTER MONOPOLY?

Uruguay Street was arguably the first model in Lebanon of a single operating entity running a common space that accommodates several F&B outlets. While it was not the perfect example of a hospitality cluster (Venture Group only operated and controlled one portion of the street, while the remaining portions were owned by other investors who were not obliged to abide by the group’s rules), it opened Ayoub and Saba’s eyes—and the eyes of other hospitality operators—to the potential of such a formula in a country like Lebanon, where social life is key.

Following Uruguay Street, Venture Group opened their next three clusters within a period of three

years. Other operators also tried their hands at the cluster model, with around a dozen similar hospitality projects opening in Greater Beirut and various mountainous areas in the last three years—some only minutes away from Venture Group projects or from each other (for more on the unhealthy competition this creates, see F&B overview, page 98). However, few of these projects have enjoyed the same success as Venture Group-operated clusters.

As Saba explains, the group created an unintentional monopoly of the cluster model. “We didn’t intend to fully monopolize the market—we were just starting and didn’t know what would happen. What we were sure of was that we wanted to be fast

in developing these clusters while learning from our mistakes and avoiding them in the next project,” he says. He goes on to explain that leveraging economies of scale and collective experience to service all of their other clusters is a key advantage they have over other developers, who typically operate only one cluster project.

LESSONS LEARNED

Indeed, Venture Group utilized their experience in each cluster to optimize their model, with the result that each project cost less and profit ratios looked healthier, according to Ayoub. The most important of these lessons is being cost conscious, according to the two partners. “You have to do a proper financial engi-

Company strategy



neering exercise because having the right equity leverage in the right structure can make the entire difference between losing money and making money and advancing investors' ratios," Ayoub says. He offers the example that investors might say they do not want subsidized loans since they have the necessary money, yet the savings from a subsidized loan can reach 30 to 40 percent of the net ratio.

Maintaining a good reputation with tenants, even at the group's own expense, is another learning curve on which Saba elaborates. He recounts how the canopies they had initially constructed in The Backyard Hazmieh could not adequately withstand the winter rain and were a source of nuisance for tenants and customers alike. The partners decided to construct all new canopies on their own dime.

Designing the project right is also an important factor in a successful cluster; the ratio between indoor and outdoor spaces, and the number of outlets per project, should be taken into consideration. "After the Ashrafieh experience [with six outlets in Restos Saint Nicolas], we wouldn't do anything with less than 20 'keys' (the term Venture uses for outlets in its clusters)," Ayoub says. "However,

we have devised a clever model in seasonal locations, where the project expands during the high season then goes down to the minimum number of units needed to serve the community in the low season, thus offering more value per customer." He explains that this is achieved through the use of rooftops and gardens in the summer as fully operational outlets, whereas in the winter the same areas are used as landscaping spaces.

Being able to reinforce rules and regulations, especially when it comes to music volume, is another important factor and a lesson the partners learned from Uruguay Street. Keeping the project alive with ongoing animations—such as weekly live performances or seasonal popup markets—is also important for the success of a cluster, as is having the right client mix.

FUELING EXPANSIONS

These learning curves born of experience do not come cheap, and the two men admit that it continues to cost them, even if they have made lemonade out of past lemons. As Ayoub explains, they have utilized lessons learned to design a business

model whereby they sell their services to people who have idle assets and want to turn them into income-producing ones, or those who have cash and want to invest in the hospitality industry.

In what Ayoub describes as a turning point in their company's short history, they decided to become an asset-light company. "The first drive of expansion was that we need to let go of the idea of owning the project and begin servicing other investors," he says. "So we became an asset-light company that owns the concept in the sense of developing the concept, which includes concept design, architecture, leasing it on behalf of owners, and running it for 10 years—typically like hotel chains would do with hotel owners." Since their investment in each project is now lower than before, they are able to see faster ROI and thus maintain momentum in launching projects, with five projects currently in the pipeline.

This idea of selling their service and expertise resonated well with would-be investors across all of Lebanon, but Venture Group decided to focus its energies on areas outside of

■ "We need to let go of the idea of owning the project and begin servicing other investors."

Greater Beirut. "We are being offered new projects by the minute in Greater Beirut, some of which are in proximity to our existing clusters," Saba says. "But we took the decision that if we use our efforts, while making the same money, to upgrade other communities, we will bring more value in the sense of job creation in the outskirts of Beirut and would not cannibalize [our existing projects]."

The partners estimate that every project they open in areas outside

of Beirut (such as Saida or Zahle) directly creates 500 jobs along with another 500 jobs. Venture Group also directly invests \$10-15 million, which (by their own assessment) makes the company the biggest driver of investment in the Lebanese tourism industry for the last four to five years.

HOSPITALITY CLUSTERS FOR ALL

When they are approached with a new project in an area outside of Beirut, Ayoub and Saba consult the usual suspects—otherwise known as their regular tenants—in an initial phase they call concept testing. “When developing clusters, there’s a phase we go through, which is testing whether renowned brands are willing to go into such an area, to start with, and second of all, in such a cluster,” Saba explains. “This phase gives us a lot of insight because these brands are in better touch with the end users. This is because these operators know where their delivery market is and the profiles and spending power of their customers vis-a-vis the project that we’re developing.” He explains that this exercise gives them confidence regarding the project’s potential success, and this is backed by a letter of intent from the operators.

Venture Group then approaches the community’s local authorities to ensure their cooperation. Ayoub and Saba say they are usually welcomed and supported by the local authorities because of the added revenues they will inject into the local economies through their ventures. They then meet with the local business community to assure them that they are not there to compete with them, but rather to offer them a better deal than all other tenants—including subsidizing their inclusion in the project—should they choose to join the cluster. Having well-known local outlets join the cluster is strategic, given the traf-

fic their names would bring into the project, Ayoub explains.

While being in a cluster would benefit a tenant through the brand exposure to around 900,000 visitors a year, some operators choose to remain outside of a cluster due to considerations such as rent, Saba says. Those who remain outside the cluster still benefit from increased footfall in the community as a result of the cluster, which may offset decreased footfall due to competition.

As with all Venture Group projects, these clusters are designed for the local population primarily, but stand to benefit from both local and foreign tourism. “We are very keen on introducing elements which would make the project a one-stop destination for tourism,” Ayoub says. “For example, in Saida, we will go to the producers of local crafts and give them

■ “Four years ago, we were all wondering if this model would work and survive in the Lebanese market. And it did.”

small points of sale, which would allow tourists to make just one stop and buy everything the area is known for. In Zahle we are doing the same thing with the wineries and dairy producers. We will also have one landscaping element which makes the project very visible and so somehow a tourist destination.” He notes that their projects would provide a safe environment for school trip lunches and local tourists looking for a clean meal.

UMM EL DUNYA

Venture Group has taken its asset-light business model and its expertise to Egypt and is benefiting from the lack of lifestyle service providers there. Ayoub explains that those who have the know-how develop their own projects rather than sell their expertise as Venture Group

does, thus their first project in Egypt has a retail element. “The market there allows for ambitions in taking on larger projects because there aren’t any service providers there yet, so we’re taking on supermarkets, retail, cinemas, and we are operating a restaurant park with 50 restaurants and a mall behind it,” Ayoub says. He notes the difference in scale between Egypt and Lebanon, with one project in Egypt comprising the same number of outlets as all of their projects in Lebanon to date.

Indeed, they seem to have penetrated the Egyptian market at the right time. “If you went to Cairo 10 years ago it was totally different from what you see now in terms of the taste, the exposure, the lifestyle ... and they are developing by the minute, so maybe in a few years we will not be competitive anymore because they have more money than us, and they are fast learners,” Ayoub says. “We need to be positioned among the first service providers in a very short period of time, otherwise they will catch up with us.”

Venture Group is not worried that Egypt will fall from grace in the same manner as Iraq’s Erbil, but even if that did happen, Ayoub says that since they are an asset-light company they would not lose much in terms of investment.

Saba sums it all up by saying: “The idea of grouping a number of lifestyle facilities including restaurants and bars within the same address has been successful. We managed to master the learning curve of the details in our investment model, the structuring of finances, servicing the clients, renting the shops ... you name it. But at the end of the day, four years ago, we were all wondering if this model would work and survive in the Lebanese market. And it did.”

It did, indeed. And with the velocity that Venture Group is moving at, this Lebanese-grown hospitality model could prove a success in multiple markets soon. ■

By Ralph Nader

Lebanon, expose those hidden gems



Tourism needs a cohesive plan of action

In its 2018 “Lebanon Overview” report, the World Bank stated that “GDP growth in Lebanon in 2017 is estimated to have undergone a slight acceleration to reach an estimated 2 percent, compared to 1.7 percent in 2016. This has been mainly driven by the services and tourism sectors.”

This year, GDP growth slowed again, down to 1 percent, and while tourist arrivals rose by 3.3 percent year-on-year in the first half of 2018, this was a marked deceleration compared to the 14.2 percent growth in the first half of 2017. Lebanon, it seems, still has a long way to go to recover the numbers it saw at its tourism peak in 2010.

In light of the importance of the tourism sector, and the challenges it faces, it is about time Lebanon seriously considers developing a tourism vision and strategy.

A COHESIVE TOURISM PLAN

Developing a tourism plan is the first step toward sustainable and successful tourism. This plan should outline, for Lebanon as a whole and for each region, a clear mission, vision, and positioning, as well as a set of target markets. It should also define roles for all stakeholders, including the private sector, industry associations, and public agencies.

In creating such a plan, one could take Dubai as an example. The emirate’s tourism mission, set in 2013, was to “position Dubai as the ‘first choice’ for the international leisure and business traveler.” This was backed by a solid and quantitative objective: “Our Tourism Vision 2020 is a strategic roadmap with the key objective of attracting 20 million visitors per year by 2020, doubling the number we welcomed in 2012.”

In order to accomplish this goal, Dubai is harnessing the collective

power of public and private stakeholders and focusing on different key objectives. Thus, Dubai’s Department of Tourism and Commerce Marketing established a stakeholder engagement committee that meets on a quarterly basis to discuss the status of the sector and its opportunities for growth.

EMPHASIZE PROMISING POTENTIAL

Lebanon’s plan should focus on promoting and developing the country’s competitive advantages and its core tourism offerings by improving the existing offerings and developing new products that are adapted to each region’s positioning and target markets.

Travel and Leisure magazine ranked Beirut among the The World’s Top 15 Cities in 2018, and named it the Best International City for Food in 2016. The potential is already there and should be capitalized upon, and concrete action plans aimed at enhancing the country’s offerings should be put in place. These plans could include developing an iconic museum for arts, science, culture, and history, which could be designed by a renowned Lebanese architect and ranked amongst the largest museums in the region. They could also involve augmenting key tourist attractions—examples include Jeita Grotto, Our Lady of Harissa, Baalbek, and Byblos (Jbeil)—by developing add-on products such as hotels, restaurants, parks, and entertainment facilities.

To capitalize on achievements in the culinary department, Lebanon’s plan should include the development of fine dining options in Beirut, by attracting international chefs and restaurants, which would firmly position the city as a center of Mediterranean cuisine. Finally, organizing global mega events that would attract tourists from all over

the world (for instance, international music festivals, regional sports events, a women's summit) would put Lebanon on the international tourism map.

The tourism plan could focus on the MICE (meetings, incentives, congress, and events) market by developing full-fledged MICE infrastructure, ensuring that top convention centers have easy access to shopping malls, transportation, and fine dining.

Smart tourism, which refers to the application of information and communication technology for developing innovative tools in tourism, is the future of tourism in the digital world we live in. In 2017, Singapore became the number one global smart city, beating London and New York, according to a study conducted by Juniper Research. Applied to tourism, collecting data from tourists allowed Singapore to better understand visitors' needs and behaviors. This information was useful in adapting tourism products, offering tailored services, and communicating targeted messages.

So why not implement smart tourism in Lebanon, starting with Byblos? Byblos is currently facing challenges that are affecting its attractiveness to tourists. Due to recent urban growth and uncontrolled expansion, the old city is separated from the rest of the

city by a highway, which limits the connectivity between both parts of the city, increases the traffic in the touristic part of Byblos, and decreases the integration of tourist attractions.

Also, the high pressure on infrastructure and unregulated construction has drastically polluted the air and the water. By implementing smart solutions such as traffic management, energy efficiency, intelligent lighting systems, home and building efficiency systems, and technology ecosystems, Byblos can recover its tourism assets and attract a larger number of tourists.

INFRASTRUCTURE BASICS

Even the best laid tourism plans will remain ineffective if basic infrastructure reforms are not implemented in Lebanon, and soon. This includes road management as well as much needed upgrades to the airport.

The only operational civilian airport in Lebanon is designed to handle up to 6 million passengers a year, but each year, since 2013, it has exceeded its capacity. In order to avoid angry scenes at Beirut's Rafic Hariri Airport, which were seen in summer 2018, effective systems should be put in place.

(There is a plan underway to expand the airport, boosting its capacity to 10 million through a \$200 million investment. However, this project is not slated to start until 2020 and has been criticized by industry experts. Speaking to *The National*, Dr. Nadine Itani, an aviation expert and former member of the International Civil Aviation Organization delegation to Lebanon, critiqued the lack of planning or strategy, calling the proposal an "ad-hoc" fix when what is needed is "institutional reform").

Aiming to create direct flights to cities with large Lebanese expatriate communities, such as São Paulo in Brazil, Montreal in Canada, and Sydney in Australia, will definitely encourage those with Lebanese heritage

■ Even the best laid tourism plans will remain ineffective if basic infrastructure reforms are not implemented.

to visit the country more often, boosting the tourism and service sectors.

In addition, the creation of a low-cost airline—not outside the realms of possibility (just look at Malaysia-based Air Asia)—would assist in widening the target market and encourage visitors to travel more often. Travelers more frequently book with low-cost carriers, sacrificing the pampering services of regular airlines, such as the complimentary meals and loyalty programs. In fact, four of the top 10 fastest growing airlines, according to OAG Analyzer, are low cost carriers.

IT'S ALL IN THE MARKETING

Developing a new brand for the country and promoting it through customized marketing messages will put Lebanon back on the global map. Malaysia's "Malaysia: Truly Asia" is a famous and excellent example of a destination branding campaign.



Comment

Also, increasing the sector's online innovative presence on social media is another important marketing tool, and is especially effective in attracting millennial customers. "When booking travel, 89 percent of millennials plan travel activities based on content posted by their peers online," *Entrepreneur Magazine* reported in 2017.

Connecting with specialized and widely-read travel magazines such as *National Geographic*, *Lonely Planet*, and *Travel Discovery* to encourage them to feature Lebanon on their "hot lists" would be an effective marketing tool, as would leveraging Lebanese embassies in foreign countries to promote the country's touristic revival.

BUILD A SOLID PUBLIC-PRIVATE PARTNERSHIP

Even though public-private partnerships (PPPs) may be difficult to execute, the reward is worth the extra effort. A number of mechanisms exist through which the public and private sector can collaborate to help reach these objectives, ranging from small to major projects, such as infrastructure and attraction development. The participation of the private sector in sustainable tourism can be varied, such as marketing and promotion, product development, infrastructure development or renewal, attraction development or renewal, and enhanced productivity and other services.

On the other hand, it is squarely the government's responsibility to determine and approve a tourism strategy, designate major infrastructure projects, grant project approvals and ease the permits, and in some cases act as a regulator.

Chumbe Island in Tanzania—which once was experiencing the destruction of its native ecosystem, putting the health of its coral reefs at risk—is today globally known for its



ecological innovation and exceptional reefs. This success story is thanks to a PPP arrangement, in which the government granted an environmental NGO long-term control over the island and reef. The NGO restored the ecosystem by building eco-friendly bungalows, and a visitor and education center. Today, the tourism revenue from visitors to the island covers all the costs of both the destination operation and maintenance, and the environmental improvement effort.

ENABLE FINANCIAL SUPPORT

Continuous financial support and incentives will enable tourism entrepreneurs to take more risks and

certain employment or investment requirements are met.

However, those employment and investment requirements—such as an investment above \$15 million and a minimum of 200 employees registered with the NSSF—are only met by large hotels and enterprises, making the tax break a "mission impossible" for small- and medium-enterprises.

In addition, it is true that Banque du Liban (BDL), Lebanon's central bank, is supporting new projects by providing subsidized loans, but these loans are not well-suited to all types of project, for two main reasons. First, when private banks increased their loan interest rates from 7 percent or 8 percent to reach 10 percent, BDL kept its interest at a 4.5 percent subsidy. Moreover, these subsidized loans are allocated only to new projects, leaving existing projects in need of renovation and refurbishment behind.

Invigorating and rejuvenating the tourism sector in Lebanon cannot continue in a piecemeal fashion. The new government must create a solid and calculated plan, one that acknowledges the role of both the public and the private sectors, and their opportunities to work together. Lebanon must take back its place as one of the top tourism destinations in the region—2019 is the year to shine bright. ■

Ralph Nader is the CEO of Amber Consulting and the president of The Hospitality Consultancy Association Lebanon.

■ Even though public-private partnerships (PPPs) may be difficult to execute, the reward is worth the extra effort.

develop innovative solutions. Thus, it is important to ensure that funds are easily accessible to newly created companies, as well as existing companies. For example, the Development Authority of Lebanon (IDAL) provides projects in the tourism sector—from hotels, to leisure parks and medical centers—with exemptions from corporate income tax that can run up to 100 percent for a period of 10 years, if

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By Bechara Haddad

Overcoming challenges

Zomato's journey in Lebanon

When Deepinder Goyal and Pankaj Chaddah were just food-enthusiasts collecting delivery menus in Mumbai to post online, it is safe to say they did not expect their idea to grow into Zomato, the F&B behemoth we know today.

Ten years and 24 countries later, Zomato's decisions remain guided by one simple mission: to provide better food for more people.

When Zomato launched in Beirut in 2014, it was just a discovery platform where people could make more informed decisions on where to eat. As the Beirut team later went on to give our 750,000 users (across the web and app) the ability to order online, book a table, and reap the benefits of our Gold memberships.

Even though today it has become virtually impossible to navigate Beirut's incredibly rich and cosmopolitan food scene without the app in hand, our journey here has not been without hurdles.

SEARCH AND DISCOVER

Dining out involves an increasingly complex decision-making process. With so many questions to ponder—who to go with, how much to spend, and what type of cuisine to eat—we want to give our users all the information they could ever need to make the right choice.

This, of course, means that all our data has to be constantly updated to accurately reflect any change at the restaurant, be it as minor as a menu change, or as major as the restaurant relocating. In Lebanon, this is further complicated by the seasonal nature of certain areas when it comes to their F&B outlets, meaning we need to reg-



ularly track their operational status. The variability of restaurants aside, the use of our platform is inevitably dictated by the economic state of the country—specifically, people's purchasing power.

Looking at our simple “cost for two” metric confirms that over the past two years, our users have been browsing for less expensive restaurants, and this trend does not look likely to slow down anytime soon.

TO DELIVERY AND BEYOND

In the same spirit of taking the guesswork out of the equation, our online ordering service is now smoother than ever. Several algorithms are constantly hard at work to make sure that everything our users see is uniquely relevant to them. So if they are health-nuts on weekdays, and pizzaholics on weekends, the list

of restaurants Zomato displays for them will reflect that very behavior. Not only that, it will introduce them to other great options to make sure they see the breadth of the choices available.

When it comes to paying for the order, however, the Lebanese market still suffers from an overwhelming lack of trust in online transactions and foreign payment gateways, as is clearly indicated by the difference in card payments between here and Dubai.

And even though our half-a-million app downloads indicate some degree of tech savviness in the market, many users simply do not trust that an app can automate their order, and that restaurant staff will receive it as intended.

The challenge does not end with user resistance, it is also inextricably

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linked to the city-planning—or lack thereof—in Lebanon. Users must input their address before placing the order, and in Lebanon, addresses tend to be—for lack of a better word—subjective. Due to the lack of consensus on street names and building numbers, deliveries will likely arrive late, or require an additional phone call to determine the exact location, resulting in an unpleasant user experience.

NAVIGATING REVIEWS

In an age where influencer marketing is at its peak, and where customers review everything from the jeans they shop for on AliExpress to hotel stays, it is only logical that at the core of Zomato is the customers. And customers will undoubtedly be vocal about their experiences—some more than others.

One of our main challenges has been getting restaurant owners in the mindset of seeing negative reviews as opportunities for growth, rather than as attacks on their businesses.

Our customers like to know the facts upfront, before visiting or ordering from a restaurant. Unfortunately, restaurant owners tend to underestimate the importance of having an up-to-date page on Zomato, and how critical that is for the user experience. So not only do we give owners and managers a unique log-in to have control over their page, but we also provide a nifty free app (Zomato for Business) that they can use to make changes on the go.

A further challenge is that when it comes to the laws related to running a restaurant, the government in Lebanon tends to be somewhat lais-

■ Users must input their address before placing the order, and in Lebanon, addresses tend to be—for lack of a better word—subjective.

sez-faire about standardizing and enforcing them. This means that certain establishments may be hesitant to be listed on our platform, let alone get on board with online ordering, since that would require them to submit a set of government-issued documents.

WHAT'S NEXT?

When we hit our 10-year milestone, we said to ourselves that we had only just begun. We are proud to say we still operate as a startup, in the sense that there is always an opportunity to grow with, and learn from, our partners.

This year has been an incredible ride for us. In 2018, we introduced some exciting new features: We now give restaurant owners the ability to tell their brand story directly on Zomato through Sneakpeeks, as well as allowing them to display their hygiene rating—issued by a restaurant hygiene inspection firm.

In 2019, we hope to bring Hyperpure, our new sourcing business, to Beirut, where we would effectively become the supply platform from which merchants can buy organic, fresh produce, as well as eco-friendly packaging. This way, we can keep on guaranteeing better food for more people. ■

Bechara Haddad is the country manager for Zomato in Lebanon.

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WEALTH MANAGEMENT

By Nabila Rahhal

A bleak future



Nicholas Chammas talks current trade situation and the way out

On a rainy day in mid-November 2018, EXECUTIVE sat with the head of the Lebanese Traders Association, Nicholas Chammas, to hear his thoughts on the retail and trade sector in Lebanon. Given the amount of text messages Lebanese receive on a daily basis from stores announcing the latest promotion or the ever-increasing number of discount signs on storefronts, it was no surprise that Chammas told EXECUTIVE that the retail sector is not doing well. His solution? The Lebanese should take advantage of those local promotions and shop more in Lebanon.

E How would you describe 2018 for the retail sector?

It was another horrible year for the economy in general, and the trade sector in particular. Cumulatively, we have been going downward for the

seventh year in a row. So it has been a terrible trajectory for the trade sector.

What we are witnessing today is all factors going in the wrong direction. As traders, we have five factors that influence our business. The first one is revenues; our turnover has been declining persistently since 2011. The second factor is trade margins, which have also been steadily eroding [in part] because of the competition from Syrians who have opened their own stores and wholesale operations. Add to this the fact that there is zero pricing power with the traders, whereby you have discounts all year long. Typically, these two factors [revenue and trade margins] should go up annually, but in Lebanon they are decreasing.

On the other hand, you have three factors that typically should go down [in a healthy business environment]

but instead are going up. The first factor is the overhead and general operational expenses, such as rent, labor expenses, or utilities—these have been going up due to inflation. Second is the interest rate: Because of the tightening monetary policy in the United States and financial considerations in Lebanon, interest rates have been skyrocketing, and this has impacted our business. The third thing that has been going up is taxes. In 2017, 22 tariffs and taxes increased and have negatively affected our business.

So all in all, 2018 has been the perfect storm for the trade sector.

E Is this across all sectors of retail?

In general, yes, it is the same scenario across all sectors. Consumables like food and everyday usage items have been affected less seriously than other sectors. Luxury

and durables (such as cars and furniture) were heavily affected. Everything that can be postponed has been postponed for two reasons: [First,] the purchasing power is really not there anymore. [Second,] those who have money in the bank have negative expectations about the situation [in Lebanon], so the result is the same in that money is not being spent. Consumption is nose-diving, and this is a disaster for the retail sector, of course, but also for the economy at large.

E What do you propose as the solution?

Statistics by Global Blue (the private company specialized in restituting VAT in numerous countries) show that in 2017, tourists spent \$3.5 billion in Lebanese stores. During the same period, Lebanese tourists spent \$5.5 billion abroad. This does not include the money that Lebanese spent abroad at restaurants and for other services, which would drive that figure up to almost \$6 billion.

Because of the devaluation of the currency in Turkey, for example, Lebanese are traveling *en masse* and doing their shopping there because it is cheaper than Lebanon. The Turkish lira had lost a lot of ground as we know, but since mid-August 2017 until now, it has regained 30 percent of its value, thanks to tourists like the Lebanese. But by benefitting from the sales and opportunities there, the Lebanese have undermined the Lebanese economy.

We need a booster for the economy, and this is why we are happy with CEDRE, for example. If it happens, let us say you have investments to the tune of \$1.5-2 billion a year, but as we well know, investments are slow to materialize and impact the economy. Economically speaking, consumption is easier to awaken and

faster to react.

What I am saying is that between today and the day CEDRE enters into force, we ought to spend more money in Lebanon. And the good news, as we showed, is that there is money that is being spent, but abroad.

E Although we said at the beginning that there is no purchasing power among Lebanese.

I said there are two factors. Part of it is that the purchasing power has definitely declined. The second one is that the purchasing power is being spent abroad. What I am saying is that for national emergency reasons, let's say for the next two years, every Lebanese citizen should give Lebanon a second chance by collectively spending \$1.5 billion in Lebanon instead of spending it elsewhere.

E What is the incentive? Why would they do that?

It is the case of the chicken and the egg. Whenever the Lebanese spend abroad, they are contributing to making

■ “Consumption is nose-diving, and this is a disaster for the retail sector, of course, but also for the economy at large.”

prices more expensive locally. When traders sell larger quantities, there are economies of scale that enter into play, and at the end of the day, they reduce their prices. So the more volume, the more price reductions. We need to find a way to break this curse.

I am addressing this appeal to two parties. First to the Lebanese, telling them that in the coming two years they should spend locally in order to save the Lebanese economy. My second appeal is to the traders' community to the effect that they should be reducing their prices.

E More than they are already reduced? We were just previously saying how there are already sales all year round.

They are already, but still, I want them to make a bigger effort because people always complain that it is cheaper [to buy things] elsewhere. We have to make a well-studied effort to have better prices, the best services, and create an atmosphere that is hospitable and conducive to good consumption activity by all Lebanese and foreigners.

E Practically, how will this be done?


It's still too early to talk about the practical details. It needs an awareness campaign at the national level, and I intend to undertake that whenever a government is formed. Because this is the only way when you have an amount of money that is available. It is there because it is being spent elsewhere—let's put it to use in Lebanon, since we are in dire need for this.

E But consumers are individualistic and tend to think of themselves before the collective good.

This is the whole substance of the campaign. Lebanese are now happy [with bargains abroad] and are benefitting at the individual level, but they are not aware that they are harming themselves at the collective level. We need to raise their awareness through the campaign.

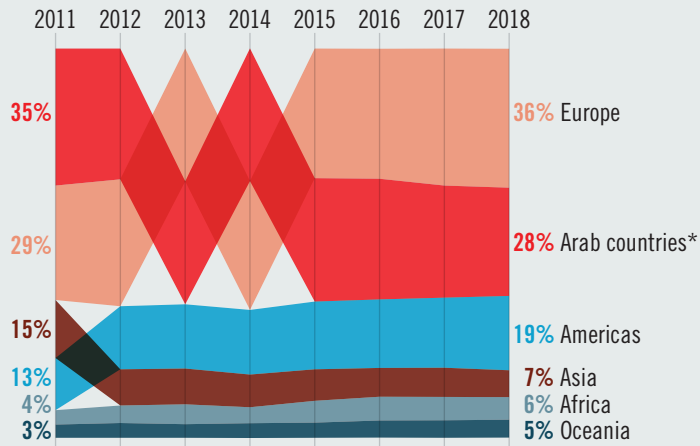
E Last question, now that the war in Syria seems to be nearing its end, how will that impact the Lebanese trade sector?

It will impact it a lot. Lebanon will be the platform for rebuilding Syria, so it will be a huge opportunity—you are talking at least \$200 billion in reconstruction. So Lebanon can participate in many sectors including trade, industry, transport, finance, and so on.

What I care about is surviving the coming two years, because after that you have the reconstruction of Syria and you have the oil and gas. And this is what this plan will do. 

Numbers & Figures

TOURIST ARRIVALS IN LEBANON BY WORLD REGION



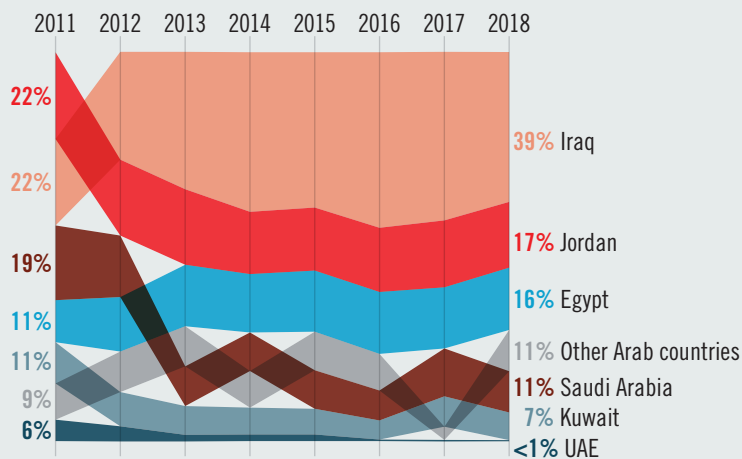
*Excludes Lebanese, Syrians, and Palestinians.

Percentages based on full-year figures except 2018 (Jan-Sep)

Source: Ministry of Tourism

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TOURIST ARRIVALS IN LEBANON BY NATIONALITY, ARAB COUNTRIES ONLY*



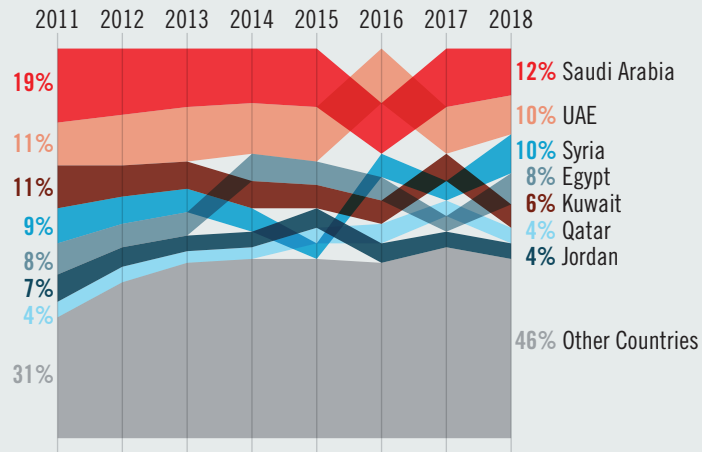
*Excludes Lebanese, Syrians, and Palestinians.

Percentages based on full-year figures except for 2018 (Jan-Sep)

Source: Ministry of Tourism

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TAX-FREE SPENDING IN LEBANON BY TOURISTS' COUNTRY OF RESIDENCE



Percentages based on full year figures except for 2017 and 2018 (Q1-3)

Source: Global Blue

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Maintaining growth

Hope for industry despite challenges

It was the famous Lebanese poet Gibran Khalil Gibran who said that a nation that does not produce—that does not eat bread from the wheat it harvests or wear the clothes it weaves—is a nation to be pitied. As Cristiano Pasini, representative and director of the United Nations Industrial Development Organization (UNIDO) for Lebanon, Jordan, and Syria, argues in his article for EXECUTIVE, countries with a high standard of living also have strong productive economies with well-developed industrial sectors (see page 126).

Lebanon's agricultural and industrial sectors are generally weak. However, there may still be hope for these sectors moving forward.

ALL IN THE SAME BOAT

Mounir Bissat, secretary of foreign affairs and head of the export promotion council at the Association of Lebanese Industrialists (ALI), tells EXECUTIVE that the industry sector largely suffers from the same challenges as the Lebanese economy as a whole. He says subsidized loans for capital investments were harder to access in 2018 than in previous years, noting a slowdown in lending from commercial banks due to changes in the monetary policy.

The main market for Lebanese exports, the Gulf region, was economically strained in 2018, nega-

tively impacting our industry sector. Meanwhile, the low purchasing power among local consumers—who are increasingly reluctant to spend beyond necessities—took its toll on industry in Lebanon as well.

An unregulated and chaotic market is affecting the industrial sector. Bissat says many factories in Lebanon are not officially registered, which means they do not pay taxes. This, in turn, allows them to sell their products at a lower price than companies that are registered, and do pay taxes, creating unfair competition.

Lebanese products face challenges due to the high cost of production, meaning they are not competitively priced in the local market—where they compete with imported goods—or in export markets. “To survive in an increasingly competitive market, we need to have the government subsidize the cost of energy (for energy-intensive industries) and of shipping, and to support Lebanese products in export markets,” Bissat says. He offers examples of potential government support, such as arranging business-to-business (B2B) visits or subsidizing the cost of attending international exhibitions, which he says are key in the industrial sector.

SOME POSITIVE NEWS

There were, however, a few positive developments to celebrate in the indus-

trial sector this year, Bissat says. The May 2018 parliamentary elections saw 15 industrialists, or people with industrial backgrounds, enter Parliament. “We feel that we have an unofficial lobby in Parliament, or at least a significant body that understands the sector's needs and can represent them. We are trying to benefit from this to pass laws that would support the industrial sector,” Bissat says.

ALI, in collaboration with the Ministry of Industry and the Ministry of Economy and Trade, lobbied against 26 imported products that were being dumped in the Lebanese market, Bissat says. (Dumping is the practice of exporting a product at a price lower than that in the exporter's domestic market. This typically involves substantial export volumes and is problematic for the manufacturers or producers of the same products in the importing nation.) The association asked that Lebanese products be protected from the impact of these imported goods, which include detergents, aluminum, burghul, and wafers, through safeguard measures. Bissat says that the government issued a decision just prior to the May elections, which was then implemented in November 2018, to prevent Turkish wafers and detergents from entering the Lebanese market. This decision was not what the association had lobbied for, Bissat explains. “We are not in favor of prohibiting any imports because we are with a free economy and

**MADE IN
LEBANON**

Overview



■ Agro-industry's growth is fueled by the low cost of labor.

also because we don't want our exports to be treated in the same manner. We were pushing for safeguard measures instead," he says.

The October 15 reopening of the Nassib border crossing, between Syria and Jordan, is expected by some to boost the Lebanese industrial sector by allowing for land exports previously stymied due to the war. But Bissat believes it is too soon to tell if that will be the case. To his knowledge, no industrialists had made use of the route as of mid-November 2018, and so far he has heard of increased customs duties and

restrictions imposed by Gulf countries (on which nationalities and vehicle types are able to enter their borders).

In 2018, there was an increase in the number of permits given to industrial entities as compared to 2017. These ranged from small workshops to large factories, and the increase in permits indicates that there is some dynamism in the sector. Kanj Hamadeh, assistant professor of agricultural economics at Lebanese University, says that 40 percent of these permits were given to the agro-industry sector. Hamadeh says agro-industry's growth is fueled

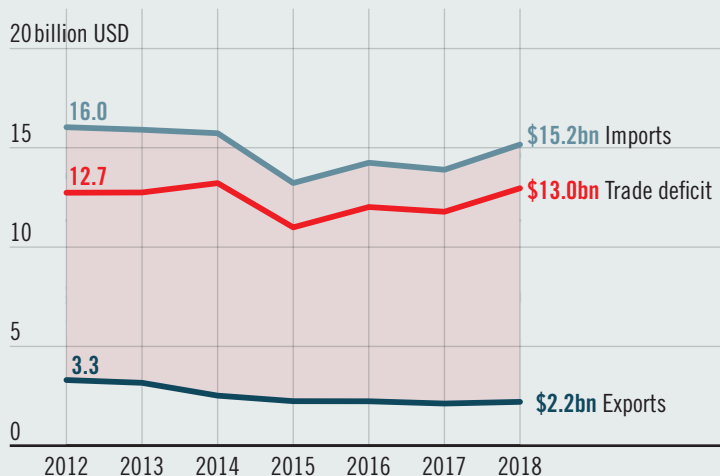
by the low cost of labor and the high demand for food in Lebanon, both of which have been affected by the Syrian refugee crisis. Another factor that contributes positively to the growth of agro-industry is the trend toward eating authentic, healthy, and local food—largely driven by mid- to high-income Lebanese (for more on agro-industry, see page 126).

TECH TIME

Bissat fully recognizes that e-commerce is the future, and the association is working toward developing a comprehensive industry B2B platform, despite the challenges (for a B2B experience, see the Cloudsale article on page 96). "The platform is not the problem—anyone can develop that for us—the problem is how to promote it in international markets and what the payment method should be, given that we don't even have PayPal in Lebanon yet," he says. "We also don't have an e-signature [mechanism] if I want to virtually sign a pro forma. Basically, we lack the necessary infrastructure for e-commerce, witnessed by the slow internet. But it's the trend and the future of commerce, and we have to be ready for it or fall behind."

For the sake of Lebanon, we hope that the industry sector does not fall further behind, and instead maintains its growth as it celebrates its small successes on its way to making "Made in Lebanon" a badge of pride. ■

LEBANON IMPORTS AND EXPORTS



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

Source: Lebanese Customs, all sections



Capital Banking Solutions and QatarMOF raise awareness about CRS.

Beirut, November 21st, 2018

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Wine

By Nabila Rahhal

Made in Lebanon with pride

Wine producers discuss domestic consumption



Sipping on a glass of Lebanese wine has value beyond the drinker's enjoyment. As Edouard Kosremelli, general manager of Château Kefraya, puts it, drinking Lebanese wine supports the economy since thousands of people are either directly or indirectly employed by the wine sector. Lebanese wine encompasses three industries (agriculture, industry, and hospitality and tourism), and is among the country's most successful exports, distributed in more than 36 countries, according to the wineries with which EXECUTIVE spoke.

When sipping on homegrown wine, you are also getting a taste of a long history dating all the way back to the Phoenicians, who were the first civilization to trade wine. Many also believe that Lebanon's Qana, in the south, is the biblical town where Jesus Christ turned water into wine.

In export markets, Lebanese wine is gaining market share every year and is appreciated for its history and quality. Locally, however, those in the wine industry tell EXECUTIVE that wine consumption is still relatively low, outlining why this is the case and what they are doing to change it. "Today there is a momentum for Lebanese wines around the world—the world is interested in the 'old wine' producing countries such as Turkey, Greece, Georgia, Croatia, and Lebanon," says Aurélie Khoros, marketing manager at Ixsir. "There is no reason why this should not be the case in our own country. Lebanon's winemaking history is one of the oldest in the world, and we should take pride in that. The only way to get there is through joint efforts in educating customers."

MORE WINE PLEASE

Joe Assad Touma, winemaker at Château St. Thomas, places wine consumption in Lebanon at just one bottle per capita. “It should be more because winemaking is part of our ancient culture as is evident from research,” Touma says, adding that the good news is that this number is slowly but surely increasing.

According to Zafer Chaoui, current head of the Union Vinicole du Liban (UVL) and chairman and chief executive officer of Château Ksara, wine consumption among the Lebanese has increased only slightly due to the economic situation in the country. “Unfortunately, as was discussed during a conference at the Chamber of Commerce in mid-November 2018, the purchasing power of the Lebanese has gone down by 20 to 25 percent over the past five years,” Chaoui says. “This is very sad and affects not only the economy but people’s behavior as well. Since drinking wine is a luxury, and not a basic necessity, you would expect consumption to drop in such times. However, the consumption of wine in Lebanon has slightly increased—maybe people want to ease their minds in these stressful times.”

Kosremelli agrees that local consumption of wine is increasing in spite of tough economic times. “The local consumption is definitely increasing despite the economic crisis,” says Kosremelli. “If it were not for the economic environment, it [the increase] would have been more tangible. If you look around you, you see that the young generation is drinking more wine than their parents—you don’t need market research to prove that.”

Winemaker and co-owner at Domaine De Tourelles, Faouzi Issa, also believes that the younger generation, in their quest for authenticity, are driving up wine consumption. “Today ‘back to the roots’ is the motto of most of the young generation of Lebanese, who want to enjoy their coun-

try’s local traditions through its food, its villages, and its wine,” Issa says.

Ixsir’s Khoros agrees that wine consumption is on the rise and notes a change in consumption habits. “Wine was, for a long time, synonymous with special occasions or celebrations, but this has changed as it is now also being served more casually in homes and during nights out. Consumers no longer ask for a glass of wine, but most often specify, if not a brand, a style of wine they would like to have, which was not the case a few years back,” she explains.

IT TAKES COLLECTIVE WORK

This slight increase in domestic wine consumption is the result of years of effort from wine industry stakeholders. However, they all believe there is still a long way to go before wine consumption in Lebanon is on par per capita with the rest of the wine drinking world. “Lebanese wine consumption [per capita] did increase, but today it is still one of the lowest for a wine producing country, hence we still have a long way to go,” Khoros says. “This is an opportunity that the entire sector should jump on, especially since the consumer is more receptive today than a few years back.”

Wine producers agree that the most important factor for increasing wine consumption among Lebanese is to raise awareness through various approaches, one of which is education. “We have to educate consumers,” Chaoui explains. “For example, Château Ksara has the exclusive Wine and Spirits Education Trust course, which is among the most well-known in the world. It is held in Lebanon three to four times a year for a reasonable fee, and people come to learn

about wine and how to appreciate it. Although these courses are not limited to Lebanese wines, people who attend this course gain a greater understanding of how good the quality of Lebanese wine is.”

Touma also speaks about the importance of education, explaining that he gives a course on wine as part of the agriculture program at Holy Spirit University of Kaslik. Recently, he has noticed an increase in non-agriculture major students who just want to learn how to taste and serve wine.

Issa believes enotourism—tourism revolving around wine—is key to promoting Lebanese wine among consumers and says this form of tourism is on the rise as more people enjoy visiting and discovering the country’s wineries. He says the number of visitors to Domaine des Tourelles has increased over the past couple of

■ “‘Back to the roots’ is the motto of most of the young generation of Lebanese, who want to enjoy their country’s local traditions through its food, its villages, and its wine.”

years, and they now get an average of 30 per day.

Khoros also speaks of enotourism and its importance in encouraging wine consumption. “We host around 40,000 visitors yearly and offer guided tours, wine tastings, and the possibility of having lunch at Nicolas Audi à la Maison d’Ixsir,” she says. “Enotourism is an important factor in promoting Lebanese wines, as wine is a culture. When you visit a winery and get to know more about the process and the people behind the wine, it sparks curiosity and educates the consumer.” She added that they are currently working on a rooftop bar on their winery’s premises to be launched in spring 2019.

Wine

209 LEBANESE WINE: THE ADVANTAGES TO SELLING WINE ONLINE

By: Selim Yasmine, the founder of 209 Lebanese Wine, an online e-commerce platform for Lebanese wine and spirits.

Buying wine is part of an experience: It is a trip to the terroir and a time travel machine. Often bottles purchased online are those that had previously been discovered in person. After finding their new favorite vintage—and it is not always easy to find a variety of Lebanese wines in traditional retail markets such as supermarkets—wine lovers will then look to the internet to secure a steady supply. There are also a growing number of wine enthusiasts who are discovering new wineries via our 209 Club subscription, which, depending on the plan, will send different bottles throughout the month. The club also holds regular enotourism trips to boutique wineries across Lebanon, allowing its members to appreciate the wine first-hand before ordering it through the 209 Lebanese Wine website.

There are several advantages to e-commerce. The first is that customers are given a wider choice in wines than they would find in brick and mortar stores, which have limited shelving space. The second is that e-commerce provides wine producers with a platform to promote their products, allowing them to diversify their market presence and gain exposure.

There is also the advantage of receiving, through our search engine, expert advice on food and wine pairings, wine choices to match a given budget, and for those who have a preference for certain grape varieties or color, the ability to easily make such selections online.

Despite the numerous advantages, we are still having to work hard to convert Lebanese to online purchasing. Online shopping is still only a small portion of the market although it has been growing steadily as of late, especially with more online stores advertising the advantages and convenience of buying online. Some industries, such as travel and tourism, are more familiar to customers online and feel more accessible than industries like wine which are making the move to a digital presence.

Nonetheless, the trend is here. We at 209 Lebanese Wine expect online shopping to become the standard within the next five years, especially in a country like Lebanon where traffic is prohibitive and people live busy lifestyles.

All Lebanese wineries are taking advantage of the 209 one-stop shop, finding the platform a way to promote Lebanese wine as a group and not individually. By joining forces on a digital platform, the goal of Lebanese wineries is to encourage the consumption of Lebanese wine over other drinks. This is an advantage that has been clear since the beginning and is positively affecting small and big wineries alike.

Having a restaurant or hospitality offering has proven to be a successful tool for attracting enotourism and many of the recently launched wineries either have a restaurant on their premises, plan to develop one within a year, or have opened an outlet in Beirut where one can taste their wine and enjoy some nibbles (an example of which is Vertical 33's tasting room in Gemmayze).

Besides restaurants, seasonal harvest-related activities are also a way to engage consumers with wine in an entertaining way. "We at Château St. Thomas invite all our visitors and clients to our harvest event so they feel involved in the wine making process and thus more attached to Lebanese wine—they feel they are enjoying their own personal wine since they helped in the harvest," Touma says.



"We have this event two weekends per year and welcome around 200 people [each day], which is our maximum capacity, and we have to turn away many others."

Kosremelli feels that the success of Lebanese wine abroad has a positive impact on local consumption. "Whenever our wine is recognized in an international contest or rated by international critics, it gives us credibility in the eyes of the Lebanese customer," he says. "Ours is a dynamic industry that has proven to be successful abroad, and the younger generation who travel and study outside of Lebanon can see that Lebanese wines are appreciated internationally, and so they are becoming prouder of their local wine."

FOREIGN COMPETITION

Events like Vinifest—the annual wine fair organized by Even-tions—and various other summer wine festivals also help to promote Lebanese wine, says Chaoui, but what still stands in the way is the Lebanese perception that foreign wine is better than local wine. "This patriotic feeling is missing in Lebanon," he says. "Probably, with all respect to other industries, wine is the one product which is comparable to international level products. And yet despite this, people feel that if they offer Lebanese



wines at a reception, it's not sophisticated enough. This is something that we need to correct." Chaoui adds that UVL wants to introduce a campaign to instill pride in local wine production—they are hoping for financial support from the Ministry of Agriculture for this project.

Kosremelli feels that competition from foreign wine is to be expected, since wine consumption is generally increasing. "It's normal to see increases in the consumption of both local and foreign wine when overall wine consumption is increasing," he says. "That is because wine lovers like to discover new wines—that's why we export our wines to other markets, and that's why we import wine as a country." However, according to him, the problem lies with the unregulated import of alcohol in Lebanon, which makes for an uneven playing field between the local and foreign wines.

Touma elaborates further, giving the example of how some restaurant owners promote foreign wines over Lebanese ones since they make a larger profit from the imported variety. "A growing number of restaurant owners support Lebanese wine but unfortunately, because imported wine is cheaper, some prefer to sell imported wine over Lebanese wines

because then their profit margins are bigger," he says. "Also, there are a couple of restaurants and wine bars buying wine directly from abroad and selling them here so they can make even more profit from foreign wine. This is negatively affecting Lebanese wines."

These restaurants and bars keep prices down by avoiding purchasing wine through the local exclusive distributor.

Lebanon's wineries have been lobbying with the Ministry of Economy and Trade to regulate alcohol imports. "We respect that Lebanon has a free economy, and we respect all deals with the European Union," Chaoui explains. "All that we ask is that the import of wines be more organized, as is the case all over the world. Normally, you are registered as a wine importer and present permission for each individual lot you report—this is the case in the US and the UK while other countries, like China or Russia, are even more complicated. But here anyone can import wine. What we are asking for is a more regulated procedure and stronger control for the customs authorities."

CLOUDS OVER THE GRAPEVINE

Producing wine in Lebanon is no easy task. Lebanese producers often say that the only Lebanese item in their wine is the grape itself; everything, from the equipment to the bottle and cork, is imported. No company produces the needed materials in Lebanon, which drives the cost of production up. The cost and scarcity of land is another factor which increases production costs. As such, Chaoui explains that Lebanon only produces medium- or high-range wines, since production costs are too high to justify producing low-end wines.

While Lebanon's wineries have the support of various ministries in promoting their wine in the international market, support to decrease the cost of production is still lacking. "It would help if we are supported by decreased taxes on the imported equipment we need to produce wine, be it the barrels,

■ The problem lies with the unregulated import of alcohol in Lebanon, which makes for an uneven playing field.

bottles, or corks," Touma says. "We also pay an 'alcohol grape tax' to the Ministry of Finance of LL200 per kilogram—it's a tax that has existed for years. The government could support us by either removing this tax or decreasing the amount." He added that Lebanon's other wineries are lobbying for this as well.

Lebanon's winemakers work tirelessly to develop both local and international markets despite the challenges, and wine is one of the fastest growing agro-industry products in Lebanon, one that is building a positive reputation for the country. So the next time you fancy a glass of wine, pick a Lebanese label and enjoy it with pride—and in moderation, of course. ■

By Cristiano Pasini

In need of support

The UNIDO view on Lebanon's industrial sector

History shows that roughly all developed countries, which currently benefit from a high standard of living, have gone through a period of successful industrialization—during which the industrial sector, benefiting from high levels of technological advancement and innovation, was the driving force behind national economic growth.

A close look at Lebanon's development pattern tells a different story. Local and regional circumstances have favored the services sector at the expense of the productive sectors of the economy. As a result, Lebanon has not fully benefited from the economic development that industrialization can offer. In the last decades, the contribution of the industrial sector to the national GDP was low compared to industrialized countries in East Asia and the Pacific. Based on statistics by the United Nations Industrial Development Organization (UNIDO), the contribution of the industrial sector to the country's GDP now stands at 8.3 percent.

Weak investment and growth in productive sectors can also contribute to poor job creation, a volatile GDP, and low levels of competitiveness internationally. This view is supported by the World Bank's Lebanon Economic Monitor published this year, which partly attributed Lebanon's "defective" growth model to the high reliance on services (real estate, construction, finance, and tourism) characterized by low productivity and a low capacity to generate high-skilled jobs.

UNIDO has been working in Lebanon since 1989, with a strong belief that a healthy and success-



ful industrial sector has the potential to create jobs for men, women, and youth in different areas across Lebanon. A strong industrial sector promotes exports, reduces the trade deficit, and improves economic resilience against shocks and stresses. The industrial sector also supports development outside greater Beirut, thus promoting the sustainable and inclusive economic growth that Lebanon urgently needs.

INDUSTRIAL ZONES

UNIDO signed a Country Programme Framework with Lebanese government in 2015. In alignment with the Ministry of Industry's MoI 2025 vision for the industrial sector, UNIDO's framework covers the following areas: supporting the development of Industrial parks, improving the competitiveness of small- and medium-sized enterprises (SMEs) in the agro-industrial sector, promoting environmental

sustainability and energy efficiency, and supporting host communities in rural areas affected by the Syrian refugee crisis.

Working in close partnership with the MoI and the international community, many achievements have been realized. Thanks to a grant contribution from Italy, feasibility studies and master plans have been developed for three new sustainable industrial areas. These zones are featured in the government's Capital Investment Plan and are expected to create approximately 31,000 jobs and impact 200 enterprises across Lebanon. Thus far the zones have attracted financial commitments of 7 million euros (\$7.9 million) from the Italian government and 52 million euros (\$59.3 million) from the European Investment Bank (EIB) for their construction and development. The European Bank for Reconstruction and Development (EBRD) is also considering a loan of



42 million euros (\$47.9 million) for investments in the development of these zones.

Moreover, thanks to the support of Italy, Austria, and Japan, UNIDO is promoting innovation in key value chains in the agro-food and the furniture sectors. Approximately 2,000 people were trained and new equipment or other technical support was supplied to more than 15 cooperatives (900 members), 10 agriculture associations, 80 SMEs, and handicraft initiatives.

SUPPORTING GREEN GROWTH

An important component of UNIDO's work is environmental sustainability. Through the regional MEDTEST project funded by the European Union and implemented together with the Industrial Research Institute, UNIDO has been working on greening Lebanese industries by supporting them in identifying potential energy savings and providing training to industrialists on cleaner production practices.

UNIDO continues to support the MoI in overcoming challenges

that are hindering growth in the industrial sector in Lebanon. Weak infrastructure and the high cost of production make industries less competitive compared to their regional counterparts. High interest rates—resulting from the monetary policy adopted by Banque du Liban (BDL), Lebanon's central bank to sustain the fixed exchange rate—has impacted private sector investment.

This limits growth in both traditional and emerging industrial sectors. Moreover, the Syrian crisis had an important impact on the industrial sector, mainly through the closure of regional export markets and the added pressures resulting from the increase in the labor force.

Despite the above-mentioned challenges, Lebanon's industrial sector holds promising prospects. The level of manufacturing value added per capita has more than doubled between 1990 and 2015. By moving from \$268 to \$703 over this period—in constant US dollars per

capita—Lebanon surpassed comparator countries such as Jordan and Georgia. Also since 1990, Lebanon's ranking on the competitive industrial performance (CIP) index has mildly improved from ranking 97 (out of 148 countries) to 90. A promising indicator is also the share of sophisticated manufactured products (medium and medium-high technology, as per UNIDO definition) in total manufactured exports, which in Lebanon is 40 percent—indicating promising technological capabilities in the sector.

The outcomes of CEDRE—especially the preparation of the government's plan for supporting the growth of productive sectors—suggest an increasing recognition that achieving inclusive and sustainable long-term economic growth is contingent upon supporting productive sectors. UNIDO welcomes these efforts in the hope that they materialize in policies and investments that will allow the industrial sector to achieve its potential and positively contribute to the long-term growth of the Lebanese economy.

Through its mandate and with

■ Despite the challenges, Lebanon's industrial sector holds promising prospects.

the generous support of the donor community, UNIDO will continue playing its part in supporting inclusive and sustainable industrial development in Lebanon. This is underpinned by joint working and building partnerships with public and private sector partners, in order to ensure the successful implementation of projects and programs, and to positively contribute to the achievement of the UN's Sustainable Development Goals. ■

Cristiano Pasini is the UNIDO Representative Office for Lebanon, Jordan, and Syria.

By Ramy Boujawdeh

The agri-food revolution



All Lebanese must do their part to help revive the agricultural sector

Agriculture in Lebanon needs a revolution, and we should all be part of it. The sector is facing major challenges: Land is less farmed, younger generations are increasingly uninterested in farming, and national support for the sector is limited mainly to international donors' programs, with little coordination with the Ministry of Agriculture to develop a national strategy. We've all heard about the apple crisis, precipitated by the 2015 closure of the land trade route via Syria for product exports to the Gulf. In addition, issues related to poor traceability practices, irrigation challenges—given the country's contaminated waterways—and inefficient practices in most small and medium farms are ravaging our environment.

It takes a village to raise a child,

and it takes a country to revive a sector. Agriculture is a national matter, and Lebanon can play a role in the food security of the region, given the microclimates it has, as well as its human capital and entrepreneurship mindset. As we see around the globe, agriculture is no longer half science-half art; it is half science and half engineering. Precision agriculture is what will take the sector to new heights.

Lebanon has the human capital to combine science with engineering to save and grow the agriculture sector. What we currently need, as an investment in research and development, is a group of engineers and computer scientists, agricultural engineers, scientists, and business professionals working together under a national strategy to revive the country's faltering

ing farming industry.

Urgent solutions are required for Lebanon to improve agriculture and feed its growing population. We need to apply sustainable practices, following the water, energy, and food (WEF) nexus; meaning that the three sectors—water security, energy security, and food security—are inextricably linked and that actions in one area more often than not have impacts in one or both of the others. Some of the most crucial reforms required are solutions to optimize the use of water in irrigation, to implement renewable energies to energize the sector, and to employ science to breed crops that are resistant to drought and disease.

ADAPT TO SURVIVE

Innovation in the sector is needed, whether it is implemented using

Smarter, better, faster, stronger HUAWEI MATE 20 PRO

Marking the end of 2018 is the release of another Huawei innovation around the world—the Mate 20 Pro. As the most anticipated smartphone to hit the Lebanese market—and the world—this device definitely deserves the hype. The Huawei Mate 20 Pro is beautifully-designed, with powerful AI capabilities and groundbreaking technology that provide the ultimate user experience.

We know the camera is at the top of most buyers' mobile priority list. The world's best smartphone camera is now even better with the Mate 20 Pro. With a winning combination of three lenses and AI recognition, images are crisper, clearer, and more beautiful than ever before. In fact, the new camera system is equipped with a 40MP main camera, a 20MP ultra-wide angle camera, and an 8MP telephoto camera that work together to perfectly capture what you see. For wide shots, the camera helps create a sense of spaciousness. If you're more into photographing what's on your plate, the super-macro feature focuses on details as close as 2.5 cm from the lens, so you can get that ultra close-up, and since the lens is a wide-angle, you're able to fit more into the frame! Additionally, its 24MP front camera produces incredible selfies. The Mate 20 Pro's ability to choose the perfect settings and optimization for every shot means you'll spend less time on post-processing and color retouching later.

The Huawei Mate 20 Pro also offers an improved videography experience: Using AI, the AI Portrait Color Video mode can isolate human subjects and desaturate the colors around them to highlight the person. Moreover, the Spotlight Reel is an easy-to-use video montage feature that identifies clips with a shared theme and auto-generates a montage, made entirely of highlights.

What's even more impressive is its new HiVision feature—a digital encyclopedia that fits into your pocket. Next level AI capabilities help you identify what you're looking at. Whether it is a painting by an unknown artist, a castle in a new city, or even a bag you like but don't know the brand, the device will identify it and, in the case of the bag, tell you where you can buy it and for how much, as well as point out similar retail items.



The Mate 20 Pro's screen, a 6.39-inch curved OLED display with high color saturation and contrast, lends itself to all the photo and video features of the device. Inside, the world's first 7nm Mobile AI Chipset means the Mate 20 Pro is faster, more efficient, and more powerful than other devices—whether you're a gamer or have intensive workloads, the high performance device adjusts its resources to handle the load. With both 3D Face Unlock and an in-screen fingerprint sensor, your information is safer than ever. Encased in three vivid colors—emerald green, twilight, and a classic black—the beautiful smartphone is as striking on the outside as it is on the inside.

With all you can do on the device, you can also rest easy knowing it will last. The Mate 20 Pro is powered by a massive 4200mAh battery and supports 40W Huawei Super-Charge, which means that you can recharge your battery to 70 percent in only 30 minutes. Additionally, thanks to the Wireless Reverse Charge, the device can charge other devices—even other brands—effectively acting as a power bank.

With a camera like no other, a battery that never dies, a top performance, highly sophisticated security measures, and new exciting features, the Huawei Mate 20 Pro is smarter, better, faster and stronger than any other phone out there.

Comment



science and technology, or through innovative business models. We also need to look at the entire value chain, from the supply of seeds, to farming, harvesting, and post-harvesting practices. Much of the innovation in developed countries is focused on large-scale farming practices. However, in Lebanon, it would be more feasible to adopt solutions found in many developing South Asian, African, and South American markets, where the challenges are similar to the Lebanese context, in terms of bottlenecks, fragmented value and supply chains, and low educational levels of farmers.


We also need to look at developing a national strategy for innovation in the sector. This plan would involve multidisciplinary academic faculties, researchers, and the private sector working with regional and Mediterranean partners to develop innovative ways to accelerate growth in the sector. Many programs already in

place, including PRIMA, an initiative by the EU, partially fund such research initiatives. Agrytech, a program by Berytech funded partially by the Netherlands, is supporting the creation of startups in this field and the creation of an agri-food innovation cluster to strengthen and accelerate the sector.

In addition, Lebanon possesses many microclimates, and is therefore capable of producing different varieties of fruits and vegetables. This advantage should be fully utilized using innovative business models, which could identify specific produce that could be channeled into the export market, particularly during the off season. We have seen the high potential of this approach in avocado production as part of the LIVCD program funded by USAID, the potato export plan supported by the Netherlands, and the production of new varieties of table grapes and stone fruits supported by the EU. These op-

portunities should be complemented by helping producers adopt the best farming practices to ensure quality, high yield, and efficient production with proper traceability.

The agriculture sector and agri-food innovation in Lebanon have the potential to increase exports from Lebanon to the world. However, this will only be realized through a concerted effort bringing together academia and the public and private sectors. Agriculture is no longer a nostalgic connection to the country's rural roots—it is an economic driver, an opportunity to innovate, and a crucial sector for the survival and sustainability of future generations.

Let us all take part in this agri-food revolution. 

Ramy Boujawdeh is the deputy general manager of Berytech, and heads Agrytech, the Agri-Food Innovation Hub. He has a BS in agriculture from AUB, and an MS in management and economics.

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TAMER FRS.

Start ups and downs

The growing pains of Lebanon's entrepreneurship ecosystem

Despite the one big news story that dominated watercooler conversations in entrepreneurship circles, the community at large had a comparatively good year. The quality and quantity of startups has increased, as witnessed at multiple demo days throughout 2018. Several exciting international and regional events were staged in Beirut, some for the first time. There is an increasing focus on digital economy, and a budding interest in design—both promising areas for the future. However, the positives in Lebanon's entrepreneurial developments in 2018 were overshadowed by the toppling of a giant, and the consequences its tumble had for everyone.

THE NON-UNICORN IN THE ROOM

The bankruptcy of Bookwitty/Keeward was the talk of the town (in hushed tones) since June, echoing fears in the ecosystem about what is to come, with many fearing repercussions on the whole ecosystem from Lebanon's central bank, Banque du Liban (BDL).

Bookwitty, a promising book business previously forecast to become a potential unicorn, was by far the largest startup failure since the start of the stimulus program by BDL, launched under Circular 331.

While there are many specific lessons to be learned from that event, the ultimate takeaway is that entrepreneurial failures happen frequently, and Lebanon needs to prepare better for them. In EXECUTIVE's October 2018 interview with Bookwitty's founder, Cyril Hadji-Thomas said that no one ever thinks they will fail. Hala Fadel, chair of the venture capital (VC) fund Leap, which gave Bookwitty/Keeward close to \$20 million in funding, told EXECUTIVE in October that failures happen quicker than successes. The Circular was launched in 2013, and we have yet to witness any unicorns—patience it seems, is key.

That Bookwitty had to fall was a sad event for its founder, employees, as well as its multiple high-profile investors—VCs Leap and MEVP, several Lebanese banks, and ultimately BDL. But the startup game is not only notorious for its potentially high rewards—it comes with equally high risks, and a bankruptcy is therefore never unimaginable.

The questions now are: how to prevent failures as much as possible; how to soften the blow when this happens again—and in all likelihood it will; and how to deal with the affected stakeholders. In the case of Bookwitty, rumors were circulated and fingers were pointed at VCs. Some accused VCs in general of hav-

ing too much rule over the ecosystem, while several VCs retorted back that they have had to focus increasingly on time-consuming reporting required by regulators and BDL, and are playing by the rules. It is hard to get a word on record, as few want to disrupt the delicate balance of a nascent industry in an otherwise catastrophic economy. Most of those at the top say they still have hope.

Meanwhile, entrepreneurs in the ecosystem who regularly engage with EXECUTIVE have expressed grievances at specific faults in the system. Startups complain that Lebanon is a difficult country to do business in—regardless of which industry—because of the costly, time-consuming processes and little incentives save for Circular 331 funding, which, however stimulating, also comes with its own drawbacks. Many also opine that there is too little funding in their most needed moments—the valley of death—and BDL bureaucracy causes funds to arrive later than anticipated. In addition, startups lack necessary incentives, such as stock option plans or convertible notes, to attract top talent.

Since Bookwitty's tumble, there are murmurs of changes in the Circular 331 structure. Multiple sources have hinted to EXECUTIVE that a "Circular 331 2.0" is coming, with further clues that VCs are expected



Overview

to take a back seat, and banks themselves may be encouraged to fund startups directly, likely with the aid of a VC or other experts to guide their decisions. Growing pains—whether of the Lebanese variety or otherwise—are normal, but must of course be looked into and remedied as soon as possible. Ultimately, this has been a reality check to the dreamers in the industry, perhaps one that could have been avoided, but regardless should be a lesson in realistic expectations for all.

HONORABLE MENTIONS

On the whole, Lebanon's startup scene is growing, according to experts from BDL, VCs, startup accelerators, and other players. According to central bank sources, \$700 million in Circular 331 funding is available, and an estimated \$300 million has been deployed. The overall trajectory is up, and startups themselves are improving in quality and quantity.

This year's demo days, including those hosted by Smart ESA, Flat6Labs, and Speed@BDD, were impressive events. *EXECUTIVE* profiled a selection of exciting new graduates from accelerators, including several in Fintech, as well as others in the agro-industrial, education, health, gaming, retail, hospitality, data analytics, and Blockchain sectors.

Notably, impact startup FabricAid won first place at the Global Social Venture Competition, the Nobel Prize of the social entrepreneurs, if you will, among other competitions. Meanwhile, older startups also showed growth and promise too. Health tech startup Spike was the winner of the GITEX Future Stars' Supernova Challenge 2018 in Dubai. Security software Myki announced that it raised \$4 million in a Series A round at the TechCrunch Disrupt in San Francisco.

Kamkalima, an ed-tech platform that just raised \$1.5 million, was awarded the Cartier Women's Initiative Award for the MENA region.

Lebanon has also been attracting international startup organizations to host regional events. In March, Get in the Ring held a Beirut edition for the first time. In October, TechCrunch's Startup Battlefield MENA was held at the Beirut Digital District. Later, Seedstars MENA Regional Summit was staged in Beirut in November, and the MIT Enterprise Forum Arab Startup Competition finals took place in December.

FUTURE FOCUS


Moving forward, it seems those in the ecosystem are finally looking into aiding startups working in design fields. For years, design experts in Lebanon have complained that tech was getting all the buzz, while design was neglected, despite the fact that Circular 331 is defined as supporting the knowledge economy, which should encompass design in addition to innovation in tech. Not only that, design

in early 2019 and aims to support designers, makers, and design startups, helping with capacity building and encouraging collaborations.

Endeavor's Ignite Fashion and Design Chapter event was held for the first time in December, focused on these industries. Heads of leading international brands were asked to speak about innovation in the design and retail sector, and Paris-based Kayrouz gave a talk about his experience, partly explaining why his business is based in France instead of Lebanon. His answer: Lebanon lacks facilities and factories, so it does not make business sense.

One thing we are told to expect is a successor to the event formerly known as BDL Accelerate: Gravity. The event is expected to happen in Beirut in Q1 of 2019 (likely, March), but there may be delays, and no official information has been relayed to the media as of the middle of December. Rumor has it Gravity will be a massive affair in the seaside waterfront area, hosting high-profile speakers and attracting thousands of visitors to Beirut. As with Accelerate, Gravity is also supposed to be a free event for attendees.

Lebanon is progressing slowly but surely in the right direction, running into a few ruts and suffering some casualties along the way. The hope for the future is that the country can undertake fundamental changes to legal frameworks to make starting and running businesses easier and more efficient. Startup funding regulations should also be reconsidered in order to better support the entire ecosystem.

Whether it is a growing focus on specific aspects within the knowledge economy that make sense in Lebanon, or a continued effort in pushing tech and digital into Lebanese lives, while helping startups contribute to the economy, Lebanon's entrepreneurship ecosystem has some new pathways to explore. 

■ \$700 million in Circular 331 funding is available, and an estimated \$300 million has been deployed.

is a pillar in Lebanese culture—with a history of silk-making and traditional crafts, and a major source of our nations' international attention with fashion superstars like Zuhair Murad, Elie Saab, and Rabih Kayrouz, as well as jewelry greats like Mouawad and the generations of Mouzannars.

The Goethe Institute in Lebanon is funding the Fantasmaem initiative headed by designer Ghassan Salameh, who works with the MENA Design Research Center to organize the annual Beirut Design Week. Fantasmaem's one year program kicks off

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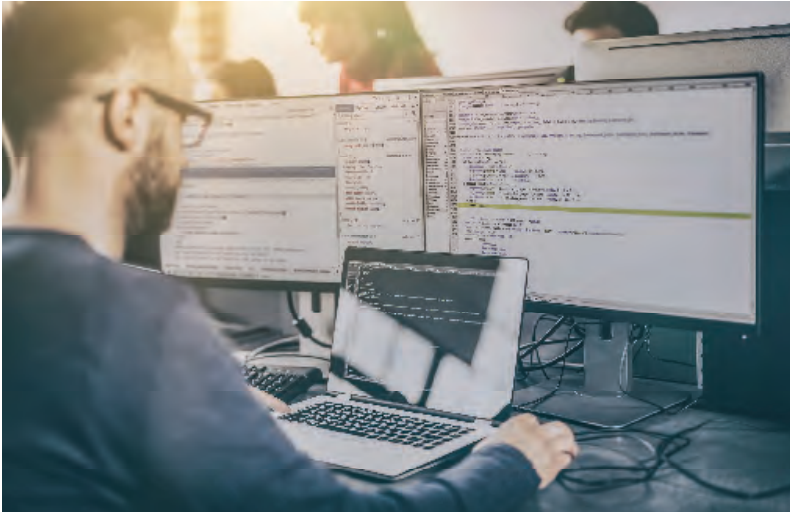


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By Thomas Schellen

Seeking real digital entrepreneurship in quality content



Can Lebanon construct a multi-channel digital future for serious journalism?

The tech entrepreneurship landscape in Lebanon is slowly producing more colorful and fragrant blossoms—more prosaically known as startup ventures. Also, the country's entrepreneurship ecosystem, after some years of incremental progress by trial and error, appears to be heading in a direction where it can deliver on two important asset categorizations and ecosystem requirements: generating more diversity overall; and fostering more concepts with potentials for producing good value-added in the context of the national economy today and its needed digital transition, such as Fintech, Blockchain and AI/Big Data-related startups.

But this is not how the presence and future look for all entrepreneurs who seek to innovate and create Lebanese startups from which the economy could greatly benefit. Specifically, many media startups are looking like ships that have no wind in their sails. Even worse, it seems that serious journalistic projects in this country are embattled

by digitization-obstructing tornados in comparison to which the headwinds encountered by Fintech startups feel like a gentle summer breeze.

BANKING AND MEDIA

Stakeholders in the society and economy of Lebanon might feel it is counterintuitive to examine financial and media services in Lebanon today, because the banking industry is the domestic superhero and the media looks rather like Clark Kent after an injection of kryptonite. However, there are elements that the two can be said to have in common: First, both draw their existential energy from the trust that people have in them. Secondly, both were pioneers of quality services, thriving on freedoms and a knack for adaptive innovation that helped Lebanon to gradually develop its competitive edge over other Arab countries after the territories in the Levant emerged from the suzerainty of the Ottoman Empire at the end of World War I.

On the other hand, important differences between Fintech and media outlooks in Lebanon are the current standing of the banking sector, which by its strength towers head and shoulders above every section of the economy, and publishing industry companies, from venerated newspaper houses in the throes of economic death to some new online ventures that fail to impress either in terms of economic performance or even their fundamental approaches to authenticity and content distribution.

When thinking of banking and media in Lebanon dialectically and not just digitally, however, both have an opportunity to leverage their inherent potentials for generating trust and delivering genuine quality in the emerging Arab digital environment today, even as the digital development and entrepreneurship trajectories of Fintech startups and serious journalism projects have been very different over the years.

Media actually can be seen as one of the earliest industries that were existentially challenged by proto-digitization when newspaper publishers in developed economies were faced with strikes and labor action in the 1960s and 70s because printers, typographers, photo-engravers, and newsroom staff feared job losses from emerging technologies for anything from newsroom work to the layout and pre-print processing of pages. For the five decades since the heydays of mass media in the middle of the 20th century, media have been battling with various waves of digitization. Notably, while commercial organizations on the advertising side of the media industry were in the avant-garde of digital adoption and exists today on basis of having integrated Ad tech into all its processes, the journalistic media and serious news organizations to this day

have yet to succeed in the full transition to business models that include digital pillars in every segment of the content acquisition, refining, customer distribution, and satisfaction journey.

Developing quite differently, the digitization of finance, as opposed to the earlier computerization of banking from the 1970s, has peaked in a short new economy rush of digital disruption before subsiding again in the 2000s. Local bankers with extensive experience recall how the international banking industry used to talk excessively about their eagerness to try online-only instead of operating just as brick and mortar lenders. But they are equally vocal in pointing out how this eager wave ebbed totally and reversed into a race to solidity and traditional banking virtues on safe grounds of high streets and conventional banking districts. However, the development started progressing at accelerating speed after the world was shaken into new financial alertness by the Great Recession of 2008/9, and today it is simply the future of banking.

Bankers in Lebanon, while usually not appearing to be at the forefront of digital thinking, are not at all oblivious to the changes that the digital transition might impose on them in the next two, five, or ten years. But conventional wisdom in the sector is that the transition will not be as radical and fast as some evangelists of the digital banking future are preaching today, such as British consultant and blogger Chris Skinner who enthused in a recent book that banks with “zero technology vision” will have “zero future” and that only those banks that within the next 10 years can embrace micro-service architectures and open market, digitally focused structures will thrive.

“The predominance of digital banking in the future will happen,” comments BLOM chief economist Ali Bolbol before specifying: “But this is a very long-run process. In the short to medium term, the process will be determined by contingent demand and supply factors.” Such factors reflect dig-

ital agility and trust in the non-personal aspects of digital banking in a bank’s client base on the demand side, while the factors on the supply side comprise the respective legal environment and central bank’s aptitude to provide effective regulation of digital finance in a given market, along with the willingness, or resistance, of banks to adopt open technological platforms.

Given the regulatory and cultural bulwarks standing in their way in Lebanon, new Fintech startups in the Lebanese ecosystem, such as Rumman, Juno, and Anachron (see November 2018 issue for profiles) have by no means an easy road to success in front of them, but their markets and methodologies have clear potentials, and their challenges, such as winning approval from the central bank of Lebanon, are also quite precise. The budding Fintech acceptance in Lebanon is furthermore proven by the fact that business propositions of Fintech startups have been able to attract interest from accelerators in the ecosystem.

On the media side, commercial organizations in Beirut—digital agencies and media planners for example—have been thriving in the local entrepreneurship ecosystem even before the Beirut Digital District came into existence. But to say that in search of serious new entrepreneurs the pickings in the Lebanese ecosystem are slim would be a charming overstatement. Of course, there are new media platforms with enticing slogans and exciting concept ideas, and the good part is that there are increasing numbers of digital startups as well as more digitally mature enterprises that have found access to funding. This is observable internationally, but not locally, or even regionally.

MEDIA STARTUPS

For a few examples from 2018, the Tortoise Media “slow news” venture in the United Kingdom—motto: ‘slow

down, wise up’—succeeded in attracting more than GBP 539,000 (\$677,000) from over 2,500 funders on Kickstarter in a month-long campaign in October/November of 2018. Five-year old Dutch member-funded media concept The Correspondent—motto: ‘unbreaking news’—at time of this writing had reached over \$2 million (from nearly 35,000 founding members) of a \$2.5 million crowdfunding goal sought by the organization in order to branch out into the United States (the campaign was to terminate on December 14, after EXECUTIVE went to print). And in the more mature startup sphere, 11-year old Danish-founded platform ISSUU, which relocated its headquarters to Palo Alto, California, claims continuing growth after two successful Series

■ Many media startups are looking like ships that have no wind in their sails.

A and B funding rounds in 2007 and 2014 which resulted in over \$20 million in total investments.

Compared to such magical media stories, the state of journalism startups in the Lebanese media landscape is hardly impressive. However, one hopeful example is Daraj, the investigative journalism venture by three seasoned Arab-language journalists with experience in print and television. Daraj was established in November 2017, and co-founder Diana Moukalled tells EXECUTIVE that the platform, which currently claims to publish four to six authentic and independent journalistic stories per day, has seen quarter-on-quarter increases of its audience by double digit percentages.

Speaking to EXECUTIVE in November 2018, Moukalled says the figures are 230,000 unique visitors per month and 350,000 page views. She explains that the platform has established itself as a partner in global investigative journalism with the International Con-

sortium of Investigative Journalists (the ICIJ of Paradise Papers' fame). Today Daraj has today—including the three founders—human capital of 11 staff members covering operational needs from accounting to graphic design and social media, plus freelancers based in 21 cities. This, according to Moukalled, translates into a network strength of 80 quality contributors who are published on Daraj with different levels of frequency.

While the startup had initial funding in form of grants by pro-media and pro-democracy entities in Europe and also managed to channel profits into their venture from a documentary that the founders produced at the time of Daraj's formation, the first year of operations has been a slower than expected process toward a profit-making venture while maintaining independent views and high journalistic quality standards.

"We created a hybrid model where we launched with funding money until we would reach a point where we are solid enough so that we can move to advertisement [revenue models] and try to generate money through either subscriptions or other resources," Moukalled explains. The startup explored options of getting investments from venture capital firms in the Arab world, and even outside of the region, but is still forced to operate on a tight monthly budget on basis of funding that, unless new revenue sources are activated, will overall last a few more years.

Meanwhile, the three founders of Daraj juggle exhausting, overlong workdays amidst aggregations of risk from commercial pressures, the imperfect state of digital and cybersecurity infrastructures, the experience of being possible targets for personal slander and online trolls, autocratic governments in some Arab countries that could be offended by serious and honest investigative pieces on the platform, and weak legal protection for journalists in Lebanon.



PROMOTE THE POSITIVE

Still, Daraj keeps going out of the conviction that serious journalistic ventures in Arab countries cannot continue to denigrate themselves as mouthpieces in service of special interests and moneyed powers. In Moukalled's words: "We think there is room to do good journalism and have a profitable media platform to preserve editorial independence. When starting Daraj, we thought it is now or never. It is our challenge not to repeat the journalistic mistakes of the past two and a half decades, namely to not become mouthpieces or practice white-washing journalism."

For Samer Shoueiry, the chief digital officer of Publicis Communications MEA—a unit of Paris-based Groupe Publicis, the third largest communications conglomerate worldwide—it is painful to witness how some time-honored Lebanese media organizations had to close their newspapers and also painful to see how poorly local organizations are faring in the digital space, even as the Lebanese cultural and technological prowess could be favorable for digital communication ventures and quality journalism.

That this is not happening—most startups and platforms in digital journalism are on the level of "experiments" to Shoueiry—is to the detri-

ment of this country. In Shoueiry's view, a key problem in the reporting, production, and dissemination of journalistic content resides in news organizations' focus on the negative—something that by impressions at the end of 2018 in coverage of Lebanon is even more pronounced in foreign than in locally produced content.

"Lebanon is at a point where we need to promote the positive. A large threat consists in the fact that the reputation of Lebanon and the Lebanese has shifted from a country and a people that are achievers with their skills and talents, to the image of a people and country that are failing and unable to change, year after year. If you want to create a successful story from a media standpoint that starts from Lebanon, you have to focus on making Lebanon look good in order to make the Lebanese story look good," Shoueiry exclaims.

Roula Mikhael, executive director of the Lebanon-based NGO Maharat Foundation that is dedicated to press freedom and journalism development, likewise sees the situation of digital media startups and Lebanese media in general as worrying to the point of being shamefully poor. "From recent media studies that we did this year, it seems that there are not many media startups in Lebanon while the existing media

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outlets are not really rethinking their business models, which have resulted in a crisis of content due to the way in which these outlets were earning money,” she tells *EXECUTIVE* on the sidelines of a conference on internet governance.

“In the past, Lebanese media was a leader in Arab journalism, but today we cannot talk about a leading role for Lebanese media. It seems that journalists often want to do something different but they don’t know how to run a media outlet or a news website. You need a new business model,” Mikhael adds. She says that Maharat Foundation in 2017 began offering a media management course for publishers and journalists, and that the foundation hopes to incubate a digital media startup in the coming year.

If they attempt to embark on to developing their digital future, journalists and publishers in Lebanon are confronted by many barriers—from old mindsets and their own bad habits to knowledge barriers and cybersecurity issues —Mikhael confirms, before emphasizing how the pitiful state of media regulation and protection of journalists’ legal standings exacerbates the problems of Lebanese journalism. “The law on the freedom of expression must be revised and we as Maharat Foundation drafted a [proposal for a media] law. It has been with the parliament for eight years,” Mikhael says. She explains that the draft calls for more transparency and protection of journalistic work along with unambiguous definitions for defamation, libel, and similar.

THE FUTURE IS DIGITAL

Indeed, one can hardly deny the impression that in Lebanon’s present media landscape, an overwhelming number of journalists are given bits of financial incentives to behave not as the fourth estate, or watchdogs and muckrakers vis-a-vis the ministries,

but mainly as note takers, yes people, propagandists, and spin doctors for the member of the political class that they are affiliated to.

The way forward to better Lebanese digital media would quite certainly have a better foundation if a modern legislative infrastructure for journalism and numerous important freedoms can be implemented alongside construction of better financial and technical avenues that would enable tech startups in media and digital journalism ventures to play their important role as guardians of trustworthy information. Trustworthy analysis and information is something that is getting both ever more important in the context of the emerging digitized knowledge economy that is the future of societies worldwide and, at the same time, there are ever increasing waves of fake news and propaganda that can

■ The common headline for the future of banking and journalism, along with everything else, is digital.

very negatively disrupt entire nations and their economies.

Today it is still a wild dream to see the formation of integrated digital journalism institutions that produce non-zero-sum outcomes across their four core content processing layers of sourcing; high-quality journalistic content; editing, fact-checking, and refining this content into a value-added product; distributing it via platforms that offer good win-win-win monetization for journalists, publishers, and distributors; and achieving true digital customer-centricity.

However, there is no point in sitting around in newsrooms, or cafes and pubs—which journalists all over the world are so fond of frequenting—and wait for a better digital media world. There are steps that media organizations can take, suggests Pub-

licis’ Shoueiry, such as “democratizing the way in which people can subscribe,” by offering multiple options to people for acquisition of media content through SMS, apps, coupons, or even loyalty points from merchants or frequent flyer points from airlines (as demonstrated for example by the partnership between Emirates Airlines and the Wall Street Journal that ran from November 2016 to November 2018).

International content partnerships with emphasis on co-creation of quality stories, dedication to improve the deployment of artificial intelligence and data analytics to achieve top-notch customer centricity, and customization of media content offerings are, according to Shoueiry, other approaches that Lebanese media could pursue. “The power of newspapers and magazines lies in the fact that they have meaningful stories but in a very condensed manner,” he says, adding: “People who might buy a book on the Lebanese economy over the past decade, but do not want to read all of the book or who do not need all the content of this book, could be target customers for buying a custom publication of the exact content they are interested in buying and willing to pay for. You have to really rethink custom content delivery without interruption and give value for money to people who want this content.”

Whatever roads media organizations in Lebanon—startups as well as existing players in online, audiovisual, and print—could pursue on the basis of their strong cultural adaptability and communication skills, there is no doubt that much more digital entrepreneurship in the Arab world is needed for value-added, serious and investigative journalism, and the more Lebanese that enter the startup journalism arena with serious principles, the better. The common headline for the future of banking and journalism, along with everything else, is digital. ■

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By Sami Abou Saab

Time to make the transition

Startups in need of investments

Historically, Lebanon's economy has in large part depended on services, including tourism, F&B, financial services, education, and design. In addition, Lebanon has a strong agriculture sector that constitutes another pillar of the economy. Still, these services and resources are limited in scale due to the scarce availability of local resources, whether natural or human. As a result, Banque du Liban (BDL), Lebanon's central bank—in an effort to foster the digital economy—initiated Circular 331 in 2013 to subsidize investments in startups in the knowledge economy, including the fashion industry. The purpose and goal of Circular 331 was not to become the sole way to invest in startups, but to provide a significant amount of money that could fuel an ecosystem with local presence, talent, and the potential to attain worldwide reach and scale.

However, the local infrastructure

(legal, internet, taxation, etc.) was not ready and did not incentivize entrepreneurs to start their companies in Lebanon. Still, the prime minister's office and the government began working on a list of reforms and updates (based on the government's capabilities and areas of influence) in order to accommodate for this digital age, and to make sure that the money invested by BDL grew and created real long-term value.

Initially, Circular 331 was a bit more flexible than it is today, due to the fact that BDL rightfully trusted the banks with the money and the private sector to do the right job. With a major initiative like this, it is normal that multiple players arise, some of them doing great professional and ethical work, while others not so much. In addition, given that this is a nascent ecosystem, there is a major learning curve that players have to undergo. For instance, Lebanon does not have serial entrepreneurs

yet, those who have made major exits and who could become angel investors in the ecosystem. The ecosystem lacks seasoned VCs who are used to take big risks, some of them are satisfied with small returns, and most have no experience working in investment management for startups, usually coming from more conservative investment backgrounds, such as banking or consulting. We also do not have market makers, in the form of industry focused funds with the right expertise on board to bring the right level of strategic support to startups. Even though we do have risk-takers and strong talent, most of the time they have been dissuaded from pursuing their ambitions by the risk-averse mindset in the country—which is based on multiple risk factors that have traumatized people over time and made them turn away from entrepreneurial adventures. That said, this is not unheard of in an emerging economy and in a nascent ecosystem, and I believe that the market has to embrace these conditions, adjust to them, and most importantly, hold the players accountable for their actions when bad practices do take place.

Ultimately, Lebanon in 2018 is creating a startup ecosystem that other countries created 20, 30, or 40 years ago. That means we have to correctly calibrate our expectations, our patience, and the time-frame in which we expect to see major results. To set some expectations: I believe that a positive outcome of Circular 331 would be a \$100 million exit seven to 10 years from the issuance date of the circular. It is too early to judge the initiative's success or failure



right now, but some outcomes can already be seen. Circular 331 has managed to attract a lot of talent from the diaspora, create many jobs, and put Lebanon on the international map for startups and innovation. Here are some examples from my personal experience at Speed@BDD.

ACCELERATING SUCCESS

I was recruited all the way from the US, where I used to work for Skype. The opportunity to run a startup accelerator in Lebanon, with all the impact such an organization could have, made me come back to Lebanon.

Speed@BDD has accelerated 34 startups over its two and a half years of operation, out of which eight startups were co-founded by a diaspora member and three were international entrepreneurs who looked to Lebanon to be the go-to hub to build their startup.

At Speed@BDD, these 34 accelerated startups created a total of 500 jobs.

Eight out of the 34 startups raised early stage follow-on funding totaling around \$3 million in early stage funding, and six of these investments came from non-Circular 331 sources, meaning that angel investors and others got on board, deciding to take the risk with their personal money—a major positive outcome of the Circular 331 investment in Speed@BDD.

Two out of the 34 startups have exited already at a good return, something that is not typically expected until five to seven years after initially investing in a startup.

Speed@BDD startups have won multiple local and regional competitions: One major highlight was the Global Supernova Challenge at GITEX 2018, in which the winner was a Speed@BDD Cycle V startup called Spike. The Spike team won a \$100,000 grant, against competition from more than 200 startups from all over the world including much more advanced ecosystems, such as the US, UK, Canada, and Germany,

putting Lebanon on the international map in a very concrete and positive way.

FAILURE IS PART OF THE GAME

The above are just a few examples of the positive outcomes of Circular 331's support for the startups ecosystem, and they are, of course, limited to my personal experience and to the scope of work we do at Speed@BDD. I can only imagine the positive impact of Circular 331 on the whole country and economy, given the multitude of players out there and the initiative's support for these startups and entrepreneurs.

Nevertheless, some of the circular's outcomes might not have been as positive as the ones listed above, and that—again—is normal. Failure is part of the game and should be embraced and encouraged, since it's the only way to grow the talent pool and to evolve and learn fast. Given that the BDL initiative is leveraging taxpayers' money (allocated through Circular 331 and the banks' capital), I believe it's only normal for the ecosystem, the players, and the regulator to adjust their approach. It's important that the regulator keeps the initiative going as needed, but it has to be within the right framework and context. BDL should evaluate what has been done so far, as well as what could be done to make the ecosystem even better, and adjust anything that needs adjusting moving forward.

Most funds have now deployed a large percentage of their initial Circular 331 finances, and many of them are at the stage where they are looking to raise more money. It is about time for private money to become more seriously involved in this ecosystem, and with that comes stronger support, more natural incentives, and more accountabil-

ity. When someone decides to invest their own money, they only do so if they fully believe that this money will get manifold returns, if they are sure they can provide strategic support to the entrepreneurs, and if they can foresee a liquid exit for their investment. These points, on their own, are clear incentives for a stronger drive and more forward-looking thinking. Such motivation will also induce the right kind of behavior—that is, responsibility and accountability.

Today, we are reaching a tipping point. It is the responsibility of everyone involved in the startup ecosystem to start thinking this way and eventually diminish their reli-

■ It is about time for private money to become more seriously involved in this ecosystem.

ance on the BDL initiative and bring the right type of investments and money on board. The ecosystem has strong momentum, and this is the right time to take it to the next level. I strongly believe that 2019-2020 will be transition years for the whole ecosystem, and this will require that those involved shift their mindset from a complacent reliance on BDL to a more self-sustainable approach, based on private money being introduced more heavily, slowly whittling away at the dependence on the central bank. That, in my opinion, would constitute the ultimate success of Circular 331, and it would be the point where we could say that we built a whole new economy—an economy that extends beyond the local Lebanese and regional MENA markets, to the worldwide economy with Lebanon as its launchpad. We can all be proud of taking part in such a humongous endeavor. ■

Sami Abou Saab is CEO of Speed@BDD

By Nicolas Rouhana

Invest in the building blocks

Lebanon's entrepreneurship ecosystem

Lebanon's entrepreneurship landscape has "leapfrogged" since August 2013, when Banque du Liban (BDL), Lebanon's central bank, released Circular 331 that authorized Lebanese banks to invest in new startups in the knowledge economy. This policy has spurred the development of new growth capital funds and the entry of commercial banks into the equity market, unleashing (theoretically) more than half a billion dollars into the Lebanese

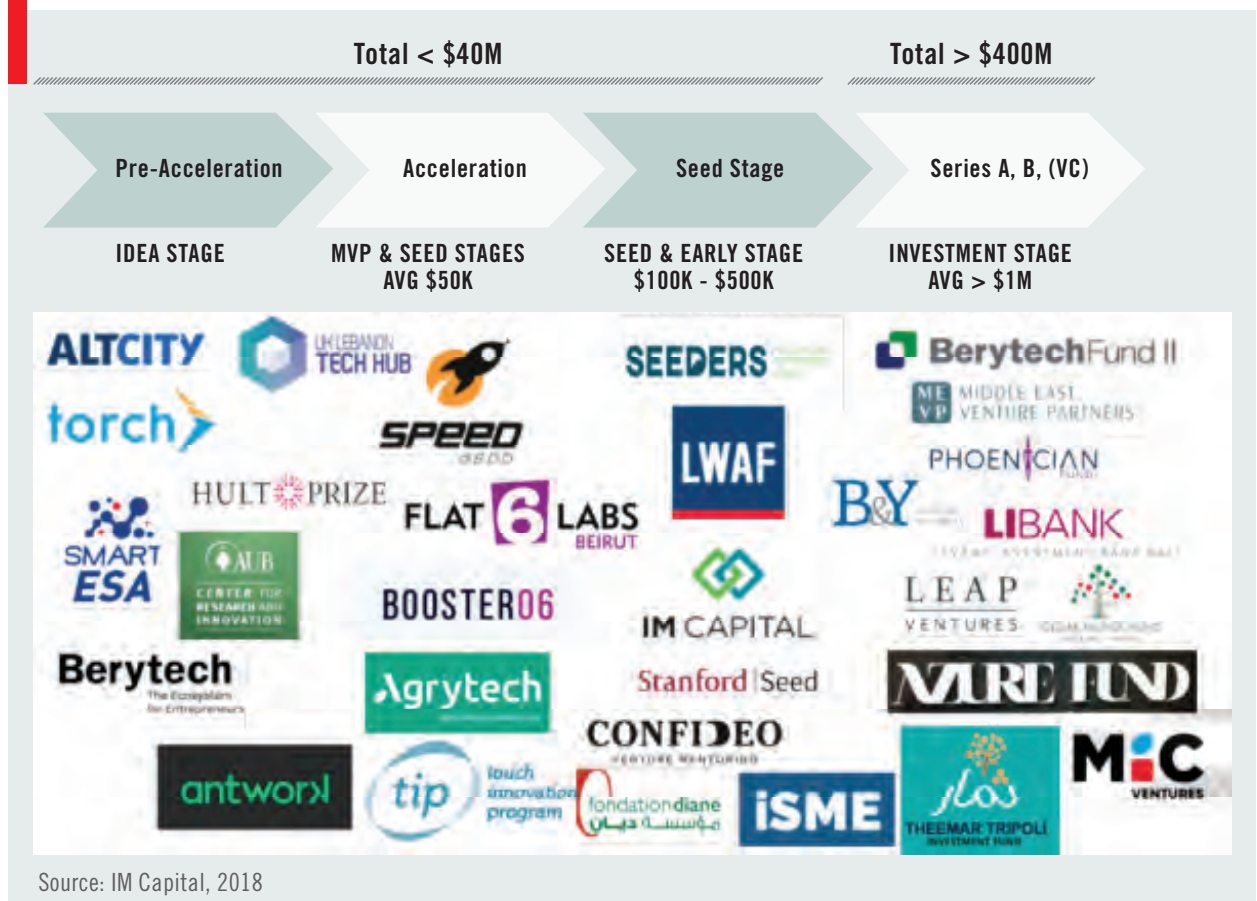
economy. This sudden abundant supply obviously generated demand and buzz around startup creation, from entrepreneurs lining up with business ideas, to support platforms such as accelerators and business support organizations, and facilitators such as entrepreneurial networks and universities that promote entrepreneurship. Though some of these organizations and resources are at a nascent stage of development, the primary elements of a complete entrepreneurial ecosys-

tem are present, as can be seen in the diagram below.

Many of the above building blocks also come from non-Circular 331 initiatives, contributing even more funds to the ecosystem. (Disclaimer: The diagram is a recent snapshot representing major funding and active support actors—some may have disappeared, and others may have appeared since this diagram was created in 2018).

A few striking observations can be

A FINANCING MAP OF THE TECH ENTREPRENEURSHIP ECOSYSTEM



made by reflecting on the below diagram.

First, all are private sector-driven initiatives, with a complete absence of government involvement so far—despite the latter being one of the main pillars in the MIT Regional Entrepreneurship Acceleration Program (REAP) framework. This framework describes the five main interconnected elements for an innovation ecosystem stakeholder model: entrepreneur, risk capital, corporates, universities, and government. Obviously, the role of the government in this context is, at a minimum, to provide basic infrastructure. This includes physical infrastructure like the internet, communications, and electricity, and other support such as an adequate legal framework and a conducive business environment.

Second, there is almost a 10-fold difference in the availability of startup funding in the later downstream stage versus the early upstream stage, where funding is needed more. For a startup to receive substantial funding in Lebanon, it is required to initially thrive on a shoestring budget, in order to reach the later-stage, “jackpot.” An entrepreneur once said: “I feel like I am on a lifeboat in the middle of the sea with no water to drink.”

Third, there is currently more of a landscape than an ecosystem, but the building blocks are being put together slowly but surely. However, an overarching strategy needs to be put in place so that new initiatives complement each other, rather than compete in the same space. One example of overcrowding might be the numerous similar seed accelerator programs that have emerged over the last couple of years—the likes of Speed@BDD, TheNucleus, Flat6Labs, BootCamp by AltCity, SmartEsa, and HultPrize. All of these entities accelerate the creation of startups typically over a three-month period before graduating them at a Demo Day ceremony. However, most of these grad-

uating startups are not yet investor-ready after the three-month period and require further guidance and assistance to develop their project or business model. Thus, the majority of these startups unfortunately disappear, indicating that perhaps more investment is needed in developing post-accelerator programs to fill this funding and equity gap to maximize the chances of increasing “graduated” startups. Such a program would offer them the opportunity to receive subsequent seed funding, keeping them on some kind of “life-support” system.

In other mature ecosystems, downstream VCs, which usually have the big bucks, consider themselves as having a mandate to contribute to the ecosystem in ways that transcend simple monetary investments. For example, Real Ventures, based in Montreal, contributes to their ecosystem in ways that can benefit others as much as they benefit themselves. In addition to their funds under management, they also run the Orbit seed fund, the FounderFuel accelerator, the Notman House co-working space, the Element AI network, Front Row Ventures for students, among other initiatives. This collaborative mindset allows them to lay, or build upon, the foundations of rapidly growing tech hubs in Canada.

Similarly, SOSV is a multi-stage venture capital investor that runs multiple world-class vertical accelerator programs, and provides seed, venture, and growth stage follow-on investment to superstar companies. SOSV has operations based in the US, Europe, and China’s Shenzhen, and runs intensive flexible three-, six-, and eight-month programs. They provide startups with seed capital, a specialized global staff of engineers, designers, scientists to accelerate product development, mentors with deep market

and technical expertise, and a state-of-the-art infrastructure of fully outfitted laboratories and maker spaces.

In Lebanon, IM Capital, part of the Berytech group, is a program funded under the USAID MENA Investment Initiative and has had a mandate since 2015 to facilitate access to early-stage funding. As such, it has provided matching capital and equity guarantees for investors and has also contributed in launching several new initiatives (including the Speed@BDD accelerator), managing and building the capacity of four business angel groups (Seeders & LWAF), and creating and running a mentorship platform based on the MIT Venture Mentor Service model (Confideo), and a

■ For a startup to receive substantial funding in Lebanon, it is required to initially thrive on a shoestring budget.

coaching program based on Stanford Seed methodology—contributing to filling gaps in the developing Lebanese ecosystem. Imagine the ripple effect if the local “big” VCs start engaging in further ecosystem building blocks. They could create more thematic funds and scale-up programs, tap into the diaspora, structure maker spaces into hardware accelerators, and more.

Ecosystems take years to build. We Lebanese are known for our resilience, but our impatience as well. Some fear that Circular 331 money might dry up—fine, we will find other solutions. I am optimistic. We are all here because we decided to apply the famous quote by the late American President John F. Kennedy, perhaps inspired by our own Gibran Khalil Gibran: “Ask not what your country can do for you, ask what you can do for your country.” ■

Nicolas Rouhana is General Manager at IM Capital

By Abdallah Yafi

From seed to growth



2018 has been a better year for startups

Lebanon's startup ecosystem is in much better shape today than 10 years ago, thanks in large part to Circular 331 from Banque du Liban (BDL), Lebanon's central bank. We at B&Y Venture Partners have invested in some fantastic companies with exceptional founders and are very pleased with the quality of our portfolio to date. Most of our Lebanese portfolio companies are tackling global markets, and some of them have recently captured the interest of leading European and US venture capital funds. Circular 331 has made capital available across different stages of startup development (from seed to growth), which is key to developing a self-sustaining cycle of success. Entrepreneurs today also have access to a wider network of support with the recent growth in accelerators, incubators, matching funds, and angel groups. Having an active and engaged

pool of angel investors is crucial to building a healthy ecosystem.


Going forward, it is important to deepen the level of support from the private sector. Local corporations across different industries often have major pain points that our startups can solve for them. For that reason, an increasing number of family offices and privately held companies are investing in our startups, and many are adopting and becoming customers of our local startups. This trend needs to continue.

THE RIGHT LEGAL REFORMS

Our government has shown willingness to play a bigger role in helping build our startup ecosystem. We are confident that the new government, when it comes, will soon pass new ecosystem friendly laws and update the country's commercial code.

While there are always some

workarounds, the legal infrastructure is too rigid for startups today. For example, there is no simple way of creating an employee stock option plan to attract top talent to Lebanese startups. Also convertible notes, which are allowed by Circular 331 and are one of the most commonly used instruments in startup financing across the globe, cannot be easily used today by Lebanese funds because of Ministry of Finance restrictions.

Along with improving broadband speeds, I believe that easing legal hurdles is one of the most important long-term investments our government should make in this sector. The right legal reforms can help Lebanon become the main hub for regional startups as well as an attractive incorporation destination. 

Abdallah Yafi is a Managing Partner at B&Y Venture Partners




BE

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T O D A Y



Merry
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MEGASTORE

REFLECTION



Forever younger, forever on a quest

Not what we are but what we aim to be

By Thomas Schellen

“...it seems to have been reserved to the people of this country, by their conduct and example, to decide the important question, whether societies of men are really capable or not, of establishing good government from reflection and choice, or whether they are forever destined to depend, for their political constitutions, on accident and force.” First published 230 years ago in 1788, this sentence from the lead paragraph in a very early American op-ed still holds water today. Even, or especially, when looking at Lebanon in 2018.

A little over 20 years ago, a number of young enterprising Lebanese minds returned to their home coun-

try. They came back with three mental assets: their advanced education from universities in Europe, the US, and Canada, the determination to work for the improvement of Lebanon toward a country that can deliver on its economic and societal potentials, and the awareness that Lebanon needed a top-flight serious economic and business publication in the English language, a publication that would aspire to reach first-world quality in its coverage of local businesses and offer a well-reasoned, authentic, and locally generated perspective on regional and global economic affairs. A publication that would not fall into the traps of prostituting its content for advertising

money under regionally entrenched practices, like providing advertisers with mindless propaganda stories and kowtowing to powerful decision makers with hollow and sycophantic praises. A magazine that would not copy and paste content to sell cheap narratives as genuine journalism and call prefabricated content “exclusive.” A publication that would not be in the pocket of a political patron and bow to every wish of its funders. A publication that would not shut up in the presence of any big shot and stakeholder in the Lebanese economy and in economic policy making, but seek to criticize when needed, and praise when warranted.

This was the first step in the journey of EXECUTIVE. From its “Zero” issue in November 1998 all the way to the publication of an economic plan in this year-end Facts and Forecasts issue of 2018, the road for us has been many things, but not routine. There have been moments of exasperation, searching, questioning ourselves, and longing for an easier, better governed economic environment, and a more rewarding journalistic life—in the senses of profitability as a media enterprise with all the positive implications that has for editorial budgets and remuneration packages of staff, but even more in the sense of finally seeing this magazine’s advocacy for a better economy and its diligent reporting bear fruit in Lebanon’s society.

But there have also been many moments of satisfaction over a job done at the best of our collective abilities in the editorial, production, photo-editing, layout, design, administrative, advertising, public relations, circulation, and, of late, social media departments. These have been the moments of putting the final period at the bottom of an analysis piece or interview write-up, of sending another issue to the printer, and of seeing another great cover and content being delivered from the print-shop to our office, and hearing from our readers, who trusted us with their constructive voices and comments.

It is therefore, in this issue’s current edition, which not only reviews 2018 but also seeks a positive way forward for this country at the beginning of 2019, that EXECUTIVE presents you with its longest read ever: a 50-page elaboration of 16 economic priorities and about 150 suggested measures,

which we think are in no way exhaustive or authoritative in themselves as much as they are our plea to invigorate the market of ideas in responsible Lebanese society. We request collaboration, from the consultative contributions to the plan made over the last two months, to the participatory involvement and submission of comments and suggestions over the coming weeks. We are inviting active and passionate, but well-reasoned participations, and calling for such comments to be communicated to EXECUTIVE via any or all digital and conventional readership interaction channels in the hope of stimulating a Lebanese movement for a better future.

One note to be added in conjunction with developments of media over the past 20 years, not only in Lebanon, but around the world, concerns the increasing diversification of content access channels. When we started, print magazines were only that, print magazines. In the intervening years, when we witnessed the unfolding of two waves of online economic transformation rudely interrupted by the shock of a global recession and its aftermath with the regional addition of the eruption of the greatest hunger for freedom and dignity by Arab populations and then the largest refugee crisis in context of a globalizing economy right on Lebanon’s doorsteps, new concepts of media and consumption have abounded. These new concepts are not yet really mature, but they are progressing, and in this regard, we are also working on the development of our own fu-

ture as EXECUTIVE, and the expansion and technology adaptations that we should—urgently—achieve over the next few years. But whatever the changes and advances, EXECUTIVE is dedicated to do its best, distinguishing this magazine by quality. Whether one calls it value-added or slow journalism or, as one US president did admiringly describe it in another era, muckraking, we will adhere to

■ The road for us has been many things, but not routine.

this tradition and not go for the cheap copy-and-paste, propagandizing, or sensationalist race for short-term returns.

Reporting on media and journalism by media organizations is always tricky, due to built-in conflict of interest issues, narrow personal expertise, and biases of writing about one’s own profession—in the sense of positive distortions, but even more so because of the prevalence for making fear-driven gloom forecasts that obfuscate existing opportunities. The challenge takes on an entire additional dimension when the aim is to report on content media startups and entrepreneurship for journalistic—data, unbiased reporting, customer centric—ventures in the Middle East and North Africa. Existing news media organizations—in online and mobile or print and audiovisual realms—have a hard time with reinventing themselves for the digital era, on/off being faced with regulatory and legal uncertainty, persisting bad business models of the attention mer-

REFLECTION



chant playbook, humongous journalistic quality assurance problems, and perception problems as partisan propaganda (political and commercial) apps.

The sentence cited at the top of this article is an example of the power of positive content. It stems from the lead of the first of 85 opinion pieces in the discussion of the proposed constitution of the US. Known today as *The Federalist Papers*, the op-eds in the collection measure from just under 1,000 to 5,000 words (or approximately between two and upward of 10 pages per article in terms of a magazine like *EXECUTIVE*). While sensationalist pieces in the New York penny papers of the mid 1900s allowed papers to double street sales, their impact on society over time is not even worth a footnote in history. The impact of the long reads that Alexander Hamilton, John Jay, and James Madison wrote—well before they respectively became the first treasurer, first chief justice, and fourth president of the United States—is measured in national and global terms over centuries. Hurrah for value-added journalism!

Sadly, the experience of this journalist's exposure to Arab media is a harrowing trip into a past of encounters with incompetent, lazy, gullible, or uncaring journalism, superficial research, marketing-poisoned stories and frustrating reads from 20 years across English-language versions of online and offline publications in the

Gulf region, Levant, and Anglophone North Africa. The rest is exposure to fluff or, at best, content that is not convincing, as it neither signals authenticity nor investigative rigor.

This is not to say that the journalism of other cultures is intrinsically better than Arab journalism, or that all of the journalists in this region are less competent than their international colleagues. *Time Magazine's* recognition of “guardians” of the truth—journalists and media staff who became victims of violence and oppression—most prominently Arab journalist Jamal Khashoggi, but also colleagues in the US, Myanmar, and the Philippines, very well serves to highlight that journalists of all cultures and nations are

crucial for the preservation of truth in and across societies. While the recognition of these journalists is a late breaking development for 2018 in context of the vital role that quality media content plays, the fact that journalists around the world take great and often unrewarded risks in their endeavors is highlighted every year by organizations such as the International Federation of Journalists (IFJ), or Journalists without Borders (RSF), which publish annual casualty counts of journalists (by early December 2018, IFJ records 77 victims for the year while RSF specifies its count as 63 journalists, 13 citizen

journalists and four media assistants).

Although it should be noted that being a victim is not automatically proof of personal greatness and professionalism in any field of enterprise, the enduring risks involved in seeking the truth and unmasking corruption or crime make it clear beyond any question that the role of journalism in 21st century societies is as vital as it was in any century since the Age of Enlightenment when media started their slow rise

■ Journalists of all cultures and nations are crucial for the preservation of truth in and across societies.

to independence and toward actually earning the status of the “fourth estate” in modern societies. Their crucial role is important, not only in the fight for social justice and human rights, the protection of the weak and checking of the powerful, but also for the entire spectrum of building cultural and economic wealth. In this sense, *EXECUTIVE* is today as committed as it was when it took the first step on the journey of a publication with the aspiration to offer its readers independent and as good as possible economic and business journalism in the Lebanese context.

CAPITAL CONCEPT S.A.L.



STRATEGY - FINANCE - GOVERNANCE

REFLECTION

In their words

Why EXECUTIVE matters

“It is important for a country like Lebanon to have an English-language business magazine. It makes it possible for English speakers to read about and understand the economic situation in Lebanon. In this, EXECUTIVE is playing an important role, and I am sure that in the future it will continue to play an important role to all people with an interest in the field of business in Lebanon.”

SAAD AZHARI, chairman and general manager, BLOM Bank

“From my perspective, I would say that EXECUTIVE is indispensable.”

ALI BOLBOL, chief economist at BLOM Bank

“EXECUTIVE is a magazine that has never been driven by gossip. It is in a different league from many local magazines and is a publication of international standard. There is no difference when I look at EXECUTIVE and an international magazine like Euromoney. I like EXECUTIVE a lot, and I know from my contacts and friends in global banks that this magazine is a reference.”

FREDDIE BAZ, board member and head of strategy, Bank Audi

“[EXECUTIVE] is one of the most serious magazines out there, if not the most serious one.”

IYAD BOUSTANY, managing director, FFA Private Bank

“I like long reads—meaning I like those articles that give you all the information. Some media [outlets] only provide you with one component of a subject and leave all the others out, in what I call the ‘Madonna generation’ approach to dealing with a subject in stories of 700 or 1,200 words. This does not satisfy me. No, I like long reads that answer my questions, and I miss these magazines that can provide them. The only news media in the United States that I subscribe to today is the New Yorker, and on the local level, it is EXECUTIVE.”

MONA ZIADE, spokesperson for the World Bank office in Beirut

“Allow me to express my appreciation for EXECUTIVE Magazine. It was more or less by coincidence that I came across a copy of the magazine one or two months after I arrived in Lebanon. I found a lot of interesting articles and in-depth information, especially [in the coverage of] the oil and gas field. I was greatly intrigued by this, and even more intrigued by the fact that EXECUTIVE has a German editor.”

MARTIN HUTH, the German ambassador to Lebanon from 2015 to 2018

“I am not a regular reader, but I have a positive impression of EXECUTIVE [for being] critical in a positive way. Many other media [outlets] in Lebanon are seeking to make propaganda or such, and the situation of these media [outlets] is unbelievable. EXECUTIVE Magazine is one of very few media that are critical but constructive.”

DR. WALID AMMAR, director general at the Ministry of Public Health

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EXECUTIVE ECONOMIC ROADMAP

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Editors Jeremy Arbid
Thomas Schellen

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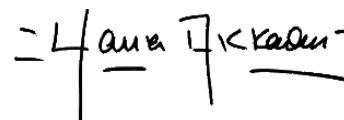
FOREWORD

I come from a generation that, in our late 20s, came back to Lebanon after the end of the civil war in the 1990s. We left behind our stable lives in European or North American cities, with the ambition of participating in nation-building. We had been sold the promise of peace and prosperity. Hafez al-Assad had just met with Bill Clinton in Geneva, and the reconstruction of Lebanon was just beginning. Construction of the airport was underway, as was the rebuilding of Downtown Beirut. The telecommunications network was built, introducing a dial tone that we had not had before. It was a promising start to the end of the civil war era.

My friends, Joey Ghaleb, Ossama Safa, Charles Adwan, and I had a habit of getting together and discussing the future of Lebanon—we were never short on ideas. We started companies, launched non-profit organizations, and penned op-eds promoting the Lebanon we wanted to live in. Everything seemed possible and promising. We believed that change could happen and that Lebanon was ready for it. We grabbed every opportunity to participate in any constructive initiative—no matter how romantic or naive it may have seemed—with the idea of contributing to the rebuilding of our country. We still haven't given up.

Regardless of the monstrosity, the stronger the hands of destruction grasped around the Lebanese neck, we remain more determined than ever to see our vision for a better, newer Lebanon become a reality. A first attempt to draft an EXECUTIVE economic roadmap (by Joey) was published in 2005, after the assassination of Rafik Hariri. It was revised in 2008 following the Doha Accord. They were both designed to equip our politicians with a practical set of priorities to guide them in the right direction.

Ten years on, EXECUTIVE decided to pick up these dreams and ambitions, and update its economic recommendations. We also realized that it would not be complete unless we utilized an inclusive and participatory approach to our endeavor, in order for it to be representative of the collective dreams and aspirations for a 21st century Lebanon. This is now possible thanks to modern communication tools. Thus, EXECUTIVE is putting its plan at the readers' disposal—to own it, improve it, and express and share knowledge and expertise. Forgive us in this first draft if you find it incomplete, too romantic, too ambitious, or too elementary. We count on you to make it a more complete, representative, inclusive, and definitive plan to save Lebanon—and we promise to advocate for the adoption of each and every proposed measure. Let us not have another 20 years go by. We Lebanese never give up, and we are at our strongest when we come together in pursuit of common goals. Despite any uncertainty or despair that we may feel today, we have learned that we must fight smarter and harder to achieve a better Lebanon.

A handwritten signature in black ink, appearing to read 'Yasser Akkaoui'.

Yasser Akkaoui
Editor-in-chief

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Build & reform

Agenda Priority 1

BUILD FISCAL POLICY

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

The government's most important task is to stabilize the debt-to-GDP ratio and gradually decrease it with growth-oriented policies, as was done during the first decade of the millennium. One main reason for the recent escalation of the debt ratio is due to the subdued growth triggered mostly by the Syrian crisis, coupled with a period of low inflation rates. Other factors include the massive increase in the wage bill driven by public sector salary increases and more hiring in the security forces, along with the non-transparent and overpriced procurement process. Debt ratios increase when price deflators are low.

The government has to make fiscal reform its top priority to reduce financial risk in the banking sector, and to ease pressure on the exchange rates. Before receiving funds from CEDRE, genuine structural and institutional reforms are needed at all levels. The government can begin with short-term measures to build positive momentum, but structural reforms cannot be postponed any longer. The government and Banque du Liban (BDL), Lebanon's central bank, have been innovative in their debt management and restructuring policy. More of the same must follow, but with longer-term and more diversified instruments.

Any new policy must introduce new instruments, change strategies and rates, and undertake what is necessary to promote private investments and greater economic activity. More importantly, the Lebanese economy is in urgent need of diversification so that productive sectors, such as agriculture and industry, can add more value to GDP, instead of being so dependent on tourism and construction to generate growth. This obviously necessitates proper policy making across multiple sectors including water, transport, trade, and energy.

The fiscal reform policy must rely on three basic pillars: increasing the primary surplus and rationalizing expenditures; introducing institutional reforms to improve credibility, transparency, and planning; and initiating structural reforms to increase competitiveness and economic growth.

In order to curb a spiraling inflation and the dollarization of the economy, and to ensure monetary stability as well as the effectiveness of monetary policy, BDL and the government in the mid-1990's adopted a pegged exchange rate regime supported by high returns on treasury bills and deposits in Lebanese pounds. This monetary policy succeeded in meeting the set objectives of the past year through large quantitative easing policies (financial engineering), but has come at a large cost to the balance sheet of the central bank and to the treasury.

The banking sector, despite the 2018 crisis, remains relatively liquid with M3 (broad money) after numerous years of annual double digit growth. On the other hand, banks have remained conservative in providing new products and reaching out to new clients, knowing that a major client—the state—is ready to absorb all the liquidity at

a high rate of return. The crowding-out effect has not only depressed investment but also suppressed any need on behalf of banks to be innovative and competitive. On top of that, the lending mechanism, even through the safe medium of Kafalat, remains limited to a closed circle of clients as banks adopt a conservative, risk-averse lending policy, probably also due to the lack of an efficient credit system.

The new government must adopt a long-term fiscal and monetary policy. Even though exchange rate stability is needed in the short run, it cannot be maintained forever. Rigidity in that market (balance of payment constraint) implies that the economy suffers a cost when market forces change, be it international reserves, export competitiveness, or the like. The long-term vision must also include a revamping of banking laws, policies, and infrastructure, given that, in light of globalization, competition even from other Arab or regional banks can be stiff and ruthless. Finally, in order to move to the level of an emerging economy, Lebanon must deepen its capital market, allowing for a more transparent and democratic economy that channels savings and remittances into productive activities.

POLICY PRIORITY 1.1***BUILD FISCAL POLICY***

Main Challenges

- *Tax base and tax incidence*
- *Tax instruments and rates including income tax and VAT*
- *New (long-term) debt instruments*
- *Fulfillment of reform promises including rationalization of expenditures and other reforms*
- *Reform of public sector hiring*

Proposed Measures***Measure 1.1.1***

Adopt the 2019 budget and implement without exceeding spending targets. Commit to public consultations for future budgets, as prescribed in the Ministry of Finance Citizen Budget 2018.

Measure 1.1.2

Introduce new modeling techniques to the Ministry of Finance to assist in evaluating the impacts of various fiscal instruments and better define the new tax policy.

Measure 1.1.3

Revive the Beirut Stock Exchange by listing new debt instruments with their maturities to help smooth out the debt burden.

Measure 1.1.4

Launch work on a new progressive tax policy that includes reviving the unified income tax draft law.

Measure 1.1.5

Implement public sector merit-based hiring in line with international best practices, re-evaluate all public sector staff, and dismiss employees found in violation.

Build & reform

Agenda Priority 1

POLICY PRIORITY 1.2

PRESERVE MONETARY STABILITY AND SOUND EXCHANGE RATE REGIME

Main Challenges

- *Exchange rate regime*
- *Interest and inflation rate policies*
- *The relationship between BDL and the Ministry of Finance*
- *Depth of the capital market*

Proposed Measures

Measure 1.2.1

Maintain the dollar peg in the near and medium term and identify appropriate timing and conditions to revise the policy (e.g., following a period of consecutive growth and stability).

Measure 1.2.2

Provide fiscal incentives and technical support to encourage the public listing of family-owned conglomerates and businesses.

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BUILD CAPACITIES

Lebanon not only has to keep pace with a fast-moving globalized economy but must also take a giant leap forward in order to make up for lost time. Most of the legislative infrastructure dates back decades, while the private sector is bogged down with red tape that slows economic activity and often dissuades investors from mobilizing capital into future projects.

Economic modernization also necessitates a firm re-launching of the privatization program in order to increase economic efficiency, improve quality, attract foreign capital, and yield welfare gains. The labor policy is another track that warrants a closer revision after decades of neglect. And finally, Lebanon continues to lack proper statistics, upon which the formulation of economic policy must be based. So far, efforts to build a statistical database have been sparse, uncoordinated, and insufficient, hence the need for a master plan with the objective of building a long-term database.

At the sectoral level, agriculture is in an abysmal state. Subsidies for the sector are constantly diverted and diluted. Lebanon's climate and abundance of water should allow the country to be a more competitive exporter of agricultural products, including high value-added agrifoods as well as exotic products.

The industrial sector is suffering from high operational costs, unfair competition, and a lack of access to capital. In agriculture, the country needs to invest in renewable energy, water-saving irrigation practices, and environmentally friendly industries.

In the industrial sector, the same revolutionary thinking is required to encourage startups, investment in technology, and communication. This requires communication infrastructure including land-based data transmission lines and competitive access to electricity and energy—all of which are non-existent in the country. Lebanese industry additionally needs, among other things, private equity and venture capital funds, as well as specialized financial institutions that would cater to financing and financial advisory needs.

The banking sector is still undiversified and underdeveloped. New types of institutions need to be created to focus primarily on housing finance, public works finance, securitization, and industrial finance. The current banking sector must also be restructured to allow the creation of various classes of banks such as savings banks, merchant banks, and entities specialized in digital banking.

POLICY PRIORITY 2.1

INCREASE PRODUCTIVITY

Main Challenges

- Access to (cheap) credit
- Policy framework including privatization program
- Foreign direct investment promotion and the technology transfer
- Training and compensation schemes

Proposed Measures

Measure 2.1.1

Set up, in collaboration with banks and the central bank, various funds to improve access to credit, and develop new instruments to increase access to credit by SMEs.

Measure 2.1.2

Promote joint ventures and alliances with foreign conglomerates by providing fiscal incentives and facilitating business transactions (e.g., ease registration, reduce fees, etc.).

Build & reform

Agenda Priority 2

Measure 2.1.3

Improve capacity for regulators by appointing or renewing mandates of utility regulators, such as for the power sector or telecommunications.

PRIVATIZATION

The principal objective of privatizing state-owned enterprises is to promote growth and modernize the economy, not to generate revenues. Privatization, which can take several forms (e.g., build-operate-transfer, management contracts, full or partial sale, partnership with strategic international investors, etc.), remains the main bridge that is expected to transform and modernize the Lebanese economy. While restructuring state-owned enterprises and legislative development—including the introduction of a competition law and a regulatory authority—remain a prerequisite to any successful privatization program, the government must fully commit to the privatization option and announce its intention to resume the privatization program.

Privatization should not be considered as an option to generate revenues to meet short-term fiscal needs but must be viewed as a process that will yield dynamic economic benefits in the long run. In fact, there is a consensus following international practices that demonstrate that privatization, among other things:

- 1. Attracts foreign and domestic direct investment and injects capital*
- 2. Develops capital markets*
- 3. Invites new technologies and increases productivity*
- 4. Provides better service at lower cost to domestic consumers*
- 5. Promotes economic efficiency and competitiveness*

POLICY PRIORITY 2.2

ENABLE THE BUSINESS AND INVESTMENT CLIMATE

Main Challenges

- *Legislative agenda*
- *Trade facilitation*
- *Regulations and bureaucratic red tape (doing business)*

Proposed Measures

Measure 2.2.1

Modernize several key legislative measures, including laws related to: competition, anti-dumping, intellectual property, antitrust, SME, quality-enhancing, bankruptcy and insolvency, code of commerce, and the building code, as well as the creation of a legal mechanism for small debts recovery.

Measure 2.2.2

Provide the Ministry of Economy and Trade with the needed resources to fully re-enforce the consumer protection law.

Measure 2.2.3

Introduce intra-governmental web-enabled solutions—with tracking per application—to reduce red tape.

Measure 2.2.4

Implement most recommendations presented by the International Finance Corporation (IFC) and continuously devise procedures and measures intended to automate service and streamline unnecessary steps in import and export trade procedure.

POLICY PRIORITY 2.3**DEVELOP A LABOR POLICY****Main Challenges**

- *Role and regulation of labor unions*
- *Labor law modernization*
- *Lifelong learning and reintegration schemes for workers*

Proposed Measures**Measure 2.3.1**

Draft new bylaws for unions and implement legislation with the aim of promoting a more constructive and independent role for unions.

Measure 2.3.2

Develop and fund training and development programs, aimed at providing new or special skills to the unemployed and all whose jobs have been made redundant by technological developments.

Measure 2.3.3

Amend the Lebanese Labor Law to include all foreign workers, thereby integrating current special rules applied to migrant workers into the labor law.

POLICY PRIORITY 2.4**DEVELOP A STATISTICAL MASTER PLAN****Main Challenges**

- *The Central Administration of Statistics Directorate*
- *The Statistical Master Plan*
- *Role and coordination of other concerned institutions*

Proposed Measures**Measure 2.4.1**

Revamp the Central Administration of Statistics, starting with the recruitment of qualified statisticians, investment in software, and training new hires.

Measure 2.4.2

Sign a five-year technical cooperation agreement with a qualified international statistical organization to build local capacities and assist the Central Administration of Statistics in developing a Statistical Master Plan, taking into account past projects with institutions such as the World Bank.

Measure 2.4.3

Integrate the national accounts projects into the Central Administration of Statistics and the national Statistical Master Plan.

Build & reform

Agenda Priority 3

BUILD STATE INSTITUTIONS

Public administration in Lebanon must become more meritocratic. An efficient, competent, and modern public administration would be the key to attracting foreign investment, creating jobs, and restoring confidence in the local economy.

A merit-driven public administration should aim to decentralize decision making, utilize new technologies, combat corruption, and increase productivity. Public authorities should seek to reduce the size of the public sector. This civil service revamp should identify and eliminate inefficient budget-draining programs, departments, or agencies.

POLICY PRIORITY 3.1

MODERNIZE CIVIL SERVICE

Main Challenges

- *Decentralization*
- *Civil service overhaul*
- *Corruption and dead-end careers*

Proposed Measures

Measure 3.1.1

Decentralize decision making and institutions by empowering local governments (e.g. with resources, enforcement capabilities, financial autonomy) and creating regional offices for service ministries.

Measure 3.1.2

Develop new legislation focused on previous decentralization on the level of municipalities. This new legislation should incorporate previous drafts as they relate to municipalities.

Measure 3.1.3

Develop new legislation that amends responsibilities and supports decentralization in relation to non-municipality governance structures.

Measure 3.1.4

Evaluate all holdings and assets of the state to identify and better allocate the use of these resources.

Measure 3.1.5

Amend working hours of public sector workers, address redundancies, and examine options for early retirement packages, particularly in quasi-public entities providing public services (e.g., EDL, Ogero).

Measure 3.1.6

Provide new incentives (e.g., offer project ownership, allow upward mobility of staff based upon merit, and entrust responsibilities upon productive staff) to limit corruption and increase productivity. Combating corruption is a fundamental tool, and more policy targets and measures can be found in Agenda Priority 12.

POLICY PRIORITY 3.3***OVERHAUL PUBLIC PROJECTS, PROGRAMS, AND LAWS***

Main Challenges

- *Public and quasi-public agencies and projects reform*
- *Subsidy programs*
- *Outdated laws (legalizing waste)*

Proposed Measures***Measure 3.3.1***

Merge ministries into super-ministries (e.g., combining the ministries of Economy and Industry) and eliminate redundant agencies.

Measure 3.3.2

An Export Promotion Agency should be created, which could absorb the Export Plus program currently managed by IDAL.

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Build & reform

Agenda Priority 4

BUILD REGULATORY FRAMEWORKS

The legal and regulatory frameworks provide assurance to markets, offering a level competitive playing field to businesses in an increasingly globalized and complex environment. A healthy legal and regulatory environment is one that is continuously adapting local and national practices to international best practices. In Lebanon, many of the frameworks have not been kept up to standards, leaving regulators and the private sector to operate in uncertain business environments, less able to compete in the global economy. In order for the private sector to participate in a steady business environment that also enforces relevant laws and rules, Lebanon must appoint or re-mandate regulators that independently govern their relevant industries. Lebanon must emulate the central bank, which has proven to continuously adopt and abide by international financial and banking standards. Other industries should lobby for regulatory frameworks that will allow corporations to embed cultures that are adaptive to change. Beyond these frameworks, buy-in and reinforcement of regulations are key to success of their implementation.

POLICY PRIORITY 4.1

MODERNIZE REGULATORY FRAMEWORK

Main Challenges

- Banking supervision
- Role of the Central Bank and the CMA
- Role of IDAL and the Ministry of Economy
- Legislative framework
- Money laundering and hot money
- Anti-corruption regulations enforceability
- Regulatory frameworks and incentives for SMEs
- Regulatory frameworks and incentives for startups
- Regulatory frameworks and incentives for green investments

Proposed Measures

Measure 4.1.1

Establish a credit system that will reduce risk by banks and modernize the legal framework of credit guarantees and debt recovery procedures.

Measure 4.1.2

Reinforce the role of the Capital Markets Authority (CMA) and provide it with the necessary resources to go beyond monitoring and assessing the markets and to have a market development function. The CMA should be responsive and facilitate enquiries to private investors and put in a system of communication that is user friendly and efficient.

Measure 4.1.3

Proceed with the privatization of the Beirut Stock Exchange (BSE) and the Electronic Trading Platform (ETP).

Measure 4.1.4

Introduce incentives and regulatory frameworks to encourage the proliferation, financing of, and investment into SMEs and startups.

Measure 4.1.5

Ensure adherence to international best governance principles.

Measure 4.1.6

Introduce efficient and attractive regulatory frameworks and incentives for green investments.

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Strategize

Agenda Priority 5

STRATEGIZE EDUCATION

Lebanon possesses a comparative advantage in terms of the quality of higher education. However, the education sector, from kindergarten to high school, to universities and vocational schools, is essentially operating without a strategy or stated objective. Public education institutions operate with minimal resources and attention, and private schools function with little oversight. Lebanon's schools are producing an ever-increasing pool of graduates that cannot find jobs or are inadequately trained to be competitive and enter labor markets here or abroad.

The situation at the Lebanese University is also alarming. Politics interfere with the appointment of college deans when experience, knowledge, and merit ought to be the sole criteria. The university lacks the resources to make the required giant leap to produce world-class research, which is the reputational backbone of any higher educational institution.

The internet is finally creeping into public schools, but students and researchers still do not have access to international publications, research, and new ideas for innovative teaching methods. Public libraries only recently opened their doors to the general public, but resources are limited, and so is the amount of books. Lebanese from all walks of life have an information gap, and as such the country can no longer claim to be a beacon of knowledge.

A concerted effort leading to the adoption of a well-defined national strategy is warranted and is, in fact, critical if Lebanon wants to regain its pioneering role in education in the region and generate new knowledge to fuel innovators and entrepreneurs.

Relating to teaching and learning, research demonstrated several benefits from using technology by educators and students, including access to rich and diversified content from a large pool of resources, enabling communication and collaboration locally and globally, supporting students' different learning styles, and providing additional learning opportunities via e-learning.

The Ministry of Education and Higher Education must build on best practices and existing programs to adopt a reform plan in which information and communication technology is a central component in the overall reform of all components of the educational system to improve the quality of education for students in order to ensure their continuous improved academic achievement.

Focusing on technology and excluding the core components of teaching and learning—content, curriculum, instruction, and assessment—has been repeatedly tried across the globe—and it has repeatedly failed. Successful educational reform must focus on the core components of teaching and learning—leadership at national, regional, and school levels; reforming curriculum to align with what is known about how students learn and the types of skills necessary to succeed in a highly competitive global economy; improvements in recruiting, hiring, and paying qualified teachers, and then continually improving their skills and holding them accountable to standards of professional behavior; using instructional practices that have been shown to help students master content; and aligning the assessment system with the instructional system.

POLICY PRIORITY 5.1

DEVELOP AN EDUCATION STRATEGY

Main Challenges

- *National curricula*
- *New knowledge and national libraries*
- *Exploit existing networks and best practices*

Proposed Measures

Measure 5.1.1

Set up a task force grouping concerned government entities, the Lebanese University, private universities, experts and academics to develop a long-term education strategy within a set time frame.

Measure 5.1.2

Expand the international agreements to initiate new university exchange programs and strengthen existing ones that can foster joint business partnerships.

Measure 5.1.3

Assess all licenses for universities/colleges and impose review of accreditation every five years to move from the current policy of having no revision after initial establishment, and ensure this is supervised by a national accreditation board.

Measure 5.1.4

Establish a politically and religiously independent committee entrusted with updating and standardizing the curricula for all public schools (grade 1 to high school) every five years.

POLICY PRIORITY 5.2

DEVELOP A SKILLED LABOR FORCE

Main Challenges

- *Education diversification*
- *Lifelong learning*

Proposed Measures

Measure 5.2.1

Develop and support technical schools and incorporate alternative training, and develop night school programs at secondary, technical, and university education levels to provide workers with the opportunity to develop their skills.

Measure 5.2.2

Develop external programs at universities in collaboration with ministries, academic organizations, and other relevant parties to develop skill sets relevant to the private sector.

Measure 5.2.3

Subsidize software and language classes to part-time and full-time workers above the age of 50 and those employed at enterprises with 10 or fewer workers.

Strategize

Agenda Priority 5

POLICY PRIORITY 5.3

STRENGTHEN PUBLIC EDUCATION

Main Challenges

- Ministry of Education and Higher Education
- Lebanese University

Proposed Measures

Measure 5.3.1

Create a politically and religiously independent committee grouping universities and line ministries, in collaboration with international experts with the objective of creating a National Accreditation Board to revise licenses of academic institutions and to ensure continuous monitoring.

Measure 5.3.2

Amend governance and the legal framework of the Lebanese University to increase its independence with regard to the selection of all administrative posts, recruitment policy of professors, and research administrative autonomy.

Measure 5.3.3

Empower the Lebanese University to seek non-governmental sources of funds (e.g., endowment).

Measure 5.3.4

Provide incentives for professors at the Lebanese University to seek research funding (e.g., reduce teaching load and incorporate into promotion policy).

Measure 5.3.5

Amend laws and regulations to transform the Ministry of Education and Higher Education into a policy-setter, allowing greater operational and management autonomy to education facilities.

POLICY PRIORITY 5.4

SUPPORT MEDICAL TRAINING AT UNIVERSITIES & INCENTIVIZE EXPORTS OF MEDICAL SERVICES AND KNOWHOW

Main Challenges

- Research grants and medical laboratories
- Intellectual property
- Export of medical knowhow
- Medical centers and poles

Proposed Measures

Measure 5.4.1

Provide tax credit to university hospitals that introduce a research unit.

Measure 5.4.2

Charge no fee for registering a new medical innovation or trademark, and provide free information services for innovators on how to register their invention abroad.

Measure 5.4.3

Increase the budget for medical research at the Lebanese University.

Measure 5.4.4

Provide fiscal incentives for the creation of medical research centers in cities (outside Beirut) to promote inclusiveness in low-income municipalities.

Measure 5.4.5

Provide state grants or tax breaks for private sponsors of medical research projects.

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Strategize

Agenda Priority 6

STRATEGIZE HEALTH

A check up on the overall robustness of the nation's health infrastructure would show the vital signs of the country's health sector as generally good, albeit with some lingering concerns, such as reports of malpractice and medical insurance fraud.

This examination is in the context of Lebanon's impromptu multi-year stress test—the unplanned influx of Syrian refugees that began accelerating in 2013, placing strain on its medical centers, hospitals, and primary health facilities—during which the health system has not buckled.

The overall diagnosis is that the healthcare sector requires coordinated development between the public sector, and for-profit, and nonprofit private sectors. The private sector needs to learn and develop from the experiences of public health institutions and the Ministry of Public Health (MoPH) in the last few years, adopting lessons learned and best practices.

On the public sector side, there are any number of improvements that still need to be made. This should begin with a restructuring of the MoPH, where manpower seems to be overstretched and has thus far not been reorganized due to political interference. Developing the issues that the ministry has not addressed—in terms of closing coverage gaps and eliminating structures that are producing inequalities in these areas—must also be prioritized. The ministry must also hone its ability to regulate and supervise, and it has made progress on that front.

Both public and private health institutions need to create a better popular understanding amongst the population of the connections between their work and mutual collaboration and the benefits to overall public health. The public relations in this regard seem to have not been coordinated between stakeholders, and private stakeholders are stuck in a sort of family business mentality when it comes to communication, or the lack thereof, with the media. Awareness building within the general population must become a greater priority, necessitating clear communication strategies and greater transparency from the private sector, the MoPH, and public health institutions.

POLICY PRIORITY 6.1

MODERNIZE LEGISLATIVE AND INSTITUTIONAL FRAMEWORK

Main Challenges

- *Role and mandate of the Ministry of Public Health*
- *Pharmaceutical sector*
- *Hospital supervision*
- *Patient rights*

Proposed Measures

Measure 6.1.1

Organize a health forum where stakeholders can contribute to strategy, and manage expectations and a platform to communicate policy direction and outcomes with the media and public.

Measure 6.1.2

Assess and revise licensing of health facilities and identify new criteria for medical centers to operate under.

Measure 6.1.3

Establish an autonomous regulatory agency that collaborates with the Ministry of Public Health to regulate the pharmaceutical sector, with main objectives of ensuring high standards, fair competition, and equitable accessibility.

Measure 6.1.4

Engage with the Order of Physicians to introduce sanctionary mechanisms regarding the handling of medical malpractice lawsuits or complaints.

Measure 6.1.5

Digitize personal medical records starting with first contact at primary health care centers and ensure their dissemination and use at secondary and tertiary medical facilities.

POLICY PRIORITY 6.2
UNIVERSAL HEALTH COVERAGE
Main Challenges

- *Public funds and social security*
- *Military health funds*
- *Private insurance*

Proposed Measures
Measure 6.2.1

Activate the role of the intra-agency technical committee that represents all healthcare related funds to map the current situation, identify overlaps and forms of abuse, and present a set of recommendations. Publish the report and hold parties accountable to implement the recommendations.

Measure 6.2.2

Finalize the automation of the NSSF and introduce web-enabled services starting with tracking applications and direct wiring of refunds for eligible beneficiaries.

Measure 6.2.3

Empower the Insurance Control Commission (ICC) and transform it into an independent regulatory agency.

POLICY PRIORITY 6.3
LAUNCH AN EDUCATIONAL AND CIVIL SERVICE CAMPAIGN
Main Challenges

- *Preventive health*
- *Volunteering and civil service*
- *Awareness raising*

Proposed Measures
Measure 6.3.1

Offer wellness packages at primary healthcare centers for free to individuals who fit the criteria of extreme poverty. Subsidize an annual general check-up at select hospitals to citizens of low-income status and to all citizens above the age of 50.

Strategize

Agenda Priority 6

Measure 6.3.2

Introduce nursing programs and a Faculty of Nursing as part of Lebanese University curricula, and provide internships in hospitals in rural or impoverished areas, or within mobile clinics (i.e., in vehicles).

Measure 6.3.3

Launch year-round media campaigns targeting seasonal and non-communicable diseases, ways to prevent and combat them, and explain rights and access to healthcare.

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STRATEGIZE ENERGY

Lebanon's power sector is essential to economic development, yet it has turned into a heavy burden due to inefficiencies. If properly run and operated, it could easily become a major target of foreign direct investment, and a primary catalyst for economic growth.

Over the past decades, the power sector—primarily because of the public utility, Electricité du Liban (EDL)—has consumed billions of dollars from the treasury, due to causing annual deficits of \$1.5-\$2 billion, depending on fuel prices, thus contributing up to 40 percent of the public debt. Meanwhile, service provision and the electrical grid has worsened over the years.

The situation is alarming and necessitates immediate, yet sustainable, action. Lebanon is moving forward on oil and gas exploration and hopefully the country will find and extract enough natural gas resources to at least fuel domestic power generation, even if the country might not be able to develop exports to foreign markets.

While the power sector requires that sustainable solutions be implemented sooner rather than later, switching to natural gas not only prepares the power sector for that phase, but it is also cheaper than the oil fuel currently being used, and more environmentally friendly, reducing the sector's greenhouse gas emissions. Lebanon must continue to invest in renewable energy generation, taking advantage of the country's abundant renewable resources, thus diversifying the country's energy sources and decreasing its dependence on fossil fuels and their price volatility, and improving the country's energy security.

POLICY PRIORITY

DEVELOP AND IMPLEMENT A SUSTAINABLE ENERGY POLICY

Main Challenges

- Power generation
- Renewable energy
- Electricité du Liban
- Offshore exploration
- Onshore exploration
- Regional partnerships and grid networks
- Competition in the gas and fuel import markets
- The share of gas in the energy mix and boosting local gas demand

Proposed Measures

Measure 7.1

Reduce the fiscal deficit in the power sector, through the reduction of non-technical losses, and gradual removal of subsidies that are in line with an increase in power generation, coupled with significant reduction of illegal connections and efficient bill collection, so that all Lebanese have equal access to electricity and pay their fair share.

Measure 7.2

Fully implement Law No. 462 (2002) by appointing an independent regulatory authority to regulate the sector and restructure EDL. The electricity utility should be unbundled and separated into generation and distribution companies, potentially keeping the transmission component with EDL. The strategy should draw on lessons learned from previous policies and studies to develop and implement solutions to modernize the sector and turn it profitable by, among other initiatives, involving the private sector through public-private partnership. This may reduce the size of the workforce needed at EDL, while making clear what the utility needs in terms of skills and manpower.

Strategize

Agenda Priority 7

Measure 7.3

EDL's master plan for grid reinforcement must be quickly implemented. The national electricity grid is weak and cannot handle additional capacity, as evidenced by the 2018 hook up of a second power barge in Zouk Mosbeh, which could not generate at full capacity. Electrical load capacity of the grid will only be aggravated by additional intermittent power generation, such as renewable energy.

Measure 7.4

Implement plans to import natural gas that is cheaper and cleaner than the fuel oil currently used (until Lebanon produces natural gas, if applicable) and develop infrastructure for the supply and distribution of gas—building a pipeline connecting coastal power plants, for instance, or contracting the necessary gas import technology where needed.

Measure 7.5

Develop an energy strategy that increases power generation and distribution efficiency at optimal cost to secure Lebanon's long-term energy needs and improve overall sector governance. The strategy should draw on lessons learned from previous policies and studies to develop and implement solutions to modernize the sector and turn it profitable by, among other initiatives, involving the private sector through public-private partnership.

Measure 7.6

Fully integrate Lebanon into the six-nation power grid and regional gas pipelines in addition to networks linking the Middle East with the European Union. This presents vast opportunities for Lebanon in terms of imports, future exports if Lebanon discovers oil or gas, and electricity generated from renewable energy for better grid integration and balancing of the systems.

Measure 7.7

Provide fiscal incentives to private and public entities that install solar energy panels (e.g., lower municipality tax for households using solar panels) and enable them to sell excess electricity back to the public utility.

Measure 7.8

Take action on possible oil or gas offshore and onshore by designing a petroleum policy that would forecast different scenarios and assess them based on: market prices and conditions, sizes of discoveries, types of hydrocarbons found, development solutions for fields, costs of exploration and production, market conditions, geopolitics and domestic politics, and potential export markets.

Measure 7.9

Implement plans to enhance transparency and improve competition in the downstream gas and fuel import markets.

Measure 7.10

Incentivize the development of an upstream market and develop services and logistics across the entire value chain, promoting Lebanon as a regional hub for international companies active in the Eastern Mediterranean.

Measure 7.11

Increase the share of gas in the energy mix, starting with power production. In case of commercial gas discoveries, encourage consumption of local gas in the transport sector and in the development of a petrochemical industry.

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Strategize

Agenda Priority 8

STRATEGIZE WATER

The development of the water sector and related transportation infrastructure is crucial to the future diversification of the Lebanese economy and to the creation of jobs. Although Lebanon is blessed with substantial water reserves, the state has done little in way of conservation or sustainable exploitation of the resource. The construction and maintenance of an efficient water distribution system would improve delivery to citizens. Lebanon has been a signatory to international treaties concerning transboundary issues and water management. Respecting this context, it is urgent to strategize surface storage and management of water storage facilities, ground water, and virtual water (the hidden flow in trade).

POLICY PRIORITY

DEVELOP A WATER POLICY

Main Challenges

- *Water as a source of energy and agriculture development*
- *Drinkable water: Licensing, distribution, and health regulation*
- *Dams, wells, and water storage*
- *Water authorities*
- *Regional partnerships and networks*

Proposed Measures

Measure 8.1

Create a more coherent water master plan, building on last national water policy (2010).

Measure 8.2

Assess and strategize optimal efficiency of water transport infrastructure.

Measure 8.3

Review and assess the capacity of the existing water distribution systems in urban centers to reduce waste, transport cost, and improve usage efficiency.

Measure 8.4

Review and assess the capacity of the existing water distribution in rural centers to reduce waste, transport cost, and improve usage efficiency.

Measure 8.5

Assess and optimize efficiency of water use by factories and industry.

Measure 8.6

Assess and optimize efficiency of water use by farms and the agricultural sector.

Measure 8.7

Follow up on the consolidation of the Water Authorities and define their organizational structure and mandate.

Measure 8.8

Modernize existing hydro-power generation units and study potentials for additional power generation in the context of development plans and ecological needs.

Measure 8.9

Enforce the prohibition of illegal well drilling and incentivize efficient management of groundwater resources in urban and rural settings.

Measure 8.10

Revise all licenses granted to mineral water firms and introduce quality control and regulatory criteria. Manage all potable water companies under this regime.

Measure 8.11

Support and modernize water-based energy plants such as the Qadisha dam and identify other opportunities to generate power.

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Strategize

Agenda Priority 9

STRATEGIZE TRANSPORT

Lebanon must develop motorway and rail networks. Internally linking Lebanese ports and cities, and improving connections to neighboring countries would not only create important direct revenues, but also make Lebanon a regional hub in the Eastern Mediterranean.

POLICY PRIORITY

DEVELOP A TRANSPORT POLICY

Main Challenges

- *Public transport: Inner-city and intra-city*
- *Public safety: Driving code and public parking*
- *Maritime, air, and commercial transport*

Proposed Measures

Measure 9.1

Develop a comprehensive public transportation policy that will regulate intra-city and inter-city transport. Policy will include taxi and bus service licensing, public parking, and a penalty system for reckless driving to be implemented across the country.

Measure 9.2

Prioritize intra-city transportation development with a strong public transport component for the Beirut metro area, based on implementing the \$300 million World Bank public transport plan that was adopted as Decree No.66 (2017) by the Council of Ministers.

Measure 9.3

Empower the national police force and municipal police departments to strictly enforce the 2012 traffic law by installing speed cameras at major intersections and on highways. Amend the law to penalize littering and automate the public safety monitoring and enforcement mechanism for prosecution of traffic violations.

Measure 9.4

Develop the ethics of traffic control officers, whether municipal or national police, and incentivize ethical behavior by introducing performance metrics and a feedback mechanism for motorists.

Measure 9.5

Open the Rene Mouawad Air Base as a commercial airport and link the terminal to the Tripoli Seaport and the planned Tripoli Economic Zone via a rail and road network. Complete the railway between Tripoli and the city of Homs, Syria, and link the network with the Rene Mouawad Airport.

Measure 9.6

Regulate the valet parking industry and impose heavy penalties on restaurants whose valets monopolize residential parking spots or drive unsafely.

Measure 9.7

Introduce Build-Operate-Transfer (BOT) financing for underground public parking projects, to be covered by greenery and gardens or other public spaces, and that meet environmental, urban planning, and urban living standards in cities. Standardized rates for long-term and residential parking.

Measure 9.8

Require of all municipalities for all urban streets and authorities supervising highways to maintain road safety maintenance in every sense, including: upkeep of security barriers, development and maintenance of signage, and upgrading road surfaces and filling potholes.

Measure 9.9

Require Beirut municipality and adjacent municipalities to develop and accommodate safe pedestrian environments, such as by clearing sidewalks and enforcing their use for pedestrian traffic by removing vehicles and other structures that impede pedestrian movement on sidewalks. Municipalities must impose and enforce pedestrian passage right-of-way in all urban areas with zebra crossings and places for pedestrians to cross major thoroughfares in order to improve walkability and safety.

Measure 9.10

Protect non-motorized traffic spaces, whether for bicyclists, baby strollers, or pedestrians. Develop infrastructure for rentable e-bikes and spaces for maneuvering in traffic on a municipal level to connect cities by bicycle.

Measure 9.11

Develop frameworks organizing commercial transport and integrating all Lebanese ports and airports into advanced digitized traffic management and future-proof traffic networks.

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Combat

Agenda Priority 10

COMBAT GENDER INEQUALITY

Violations of basic women's rights are not just detrimental to society, human rights, and the dignity of women, but also extremely damaging to the prospects of sustainable economic development. Lebanon has made some inroads to correct the injustices inflicted on women, but substantial work is still needed. Lebanon has a reputation for "openness," but in reality the country lags behind other countries in the region, such as some North African Arab states that have introduced laws that have considerably improved the social and economic status of women. There are some positive indicators concerning Lebanese women's level of education, but these do not reflect their real status or participation in the labor force, their role within the family, or the general attitude of society. Lebanon still lacks proper civil laws guaranteeing equal rights for women, and there are various legal constraints that discriminate against women at home and work. Societal attitudes and perceptions continue to subordinate and outcast women, suppressing innovation, creativity, productivity, and—most importantly—their basic freedoms. Lebanon still has reservations about some major international conventions and has yet to reform domestic laws, change unfair customs (e.g., unequal employment opportunities and family status laws), and combat gender-based violence, including harassment in schools, universities, and the private and public sectors. There are insufficient laws protecting the rights of women, and insufficient institutional support when women are facing the judiciary. Lebanese laws must be brought in line with international conventions, and stakeholders must work together through a grassroots campaign to cement equality in practice. Empowering women is not only a fundamental social and human right, but also a pillar of sustainable economic development—we need gender equality at all levels to develop the country further.

POLICY PRIORITY 10.1

RAISE AWARENESS ON WOMEN'S ISSUES AND COMBAT VIOLENCE

Main Challenges

- Women's rights
- Discrimination and equality
- Violence against women, including domestic violence and harassment

Proposed Measures

Measure 10.1.1

Reinforce the implementation of the 293/2014 law against domestic violence.

Measure 10.1.2

Support and develop projects within civil society to raise awareness of women's issues (e.g. the wage gap, personal status, sexual harassment in the workplace and public spaces) and to train and support women for merit-based advancement in the workplace.

Measure 10.1.3.

Mandate by law an increase to parental leave and allow flexible work schedules for parents.

Measure 10.1.4.

Build the capacity for women to reach leadership positions in public and private institutions. For example, staffing police departments with trained policewomen and social workers to provide assistance and protection against any kind of harassment, discrimination, and gender-based violence.

POLICY PRIORITY 10.2
REFORM LAWS AND ELIMINATE DISCRIMINATION

Main Challenges

- *Capacity building*
- *Anti-discrimination laws*
- *International conventions*

Proposed Measures
Measure 10.2.1

Introduce capacity building measures to train judges, law officers, journalists, and other professionals on women's rights, international conventions, and cultural discrimination.

Measure 10.2.2

Introduce new legislation or amend the criminal code to outlaw gender-based violence (e.g., marital rape and sexual harassment).

Measure 10.2.3

Adopt international conventions such as CEDAW, the Convention on the Elimination of all forms of Discrimination Against Women.

Measure 10.2.4

Launch a long-term technical assistance project for the Ministry of Women's Affairs to revamp laws and regulations regarding women's issues. The ministry must develop and publish an action plan to amend or abolish legislation and regulations that discriminate against women.

POLICY PRIORITY 10.3
EMPOWER WOMEN AND ENCOURAGE PARTICIPATION

Main Challenges

- *Economic empowerment*
- *Increased participation*
- *Institutionalize women's issues*

Proposed Measures
Measure 10.3.1

Empower the Ministry of Women's Affairs by allocating money to the institution in the 2019 and subsequent state budgets.

Measure 10.3.2

Establish a ministerial committee with additional stakeholders from the judiciary, private sector, and civil society to develop and monitor the progress of a National Plan aimed at women's empowerment.

Combat

Agenda Priority 11

Measure 10.3.3

Regularly appoint women to political posts such as minister and director general.

Measure 10.3.4

Encourage the private sector to appoint women to senior posts.

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COMBAT POVERTY

Due to fiscal, monetary, or political constraints, successive governments have failed or overlooked to devise a comprehensive social-safety plan, dumping most of the workload to NGOs and international donors, and intervening only to meet the bare minimum of needs, with limited resources allocated to line ministries. Lebanon's government must detail policy covering the human and social development in its Ministerial Declaration with clearly defined objectives and concrete proposals with timelines for poverty reduction.

POLICY PRIORITY 11.1

TARGET AND SUPPORT THE EXTREME POOR AND THE DISADVANTAGED

Main Challenges

- *Disadvantaged segments of society*
- *Equal opportunity*
- *Targeted support schemes and micro-finance*
- *Role of civil society*
- *Legislative framework*

Proposed Measures

Measure 11.1.1

Re-launch cooperation work with the World Bank to devise and enact viable safety net programs including direct payment to the extreme poor.

Measure 11.1.2

Establish a permanent ministerial committee including civil society and international development organizations to develop and implement a poverty reduction strategy.

Measure 11.1.3

Combat illegal child labor and trafficking and abuse of children by cracking down on violators.

Measure 11.1.4

Introduce with the collaboration of the World Bank, the Central Administration of Statistics and the Ministry of Social Affairs direct support schemes to the poor, with a particular focus on the elderly and the physically impaired.

Measure 11.1.5

Implement (i.e., pass implementation decrees) the ratified law on disability.

POLICY PRIORITY 11.2

DEVELOP FISCAL AND PRIVATE SECTOR FINANCIAL MECHANISMS FOR SUPPORT OF THE POOR

Measure 11.2.1

Develop and enhance social safety nets for populations living below the extreme poverty line.

Combat

Agenda Priority 11

Measure 11.2.2

Update and incrementally increase social safety for population living below the upper poverty line.

Measure 11.2.3

Develop mechanisms to alleviate old age poverty by improvement of social security and health or medical care provision schemes for those in the age group above 65.

Measure 11.2.4

Improve economic mobility and provide incentives to the poor for benefiting from nano- and micro-finance schemes.

POLICY PRIORITY 11.3

ESTABLISH IMMEDIATE MEASURES FOR LABOR INFLUX

Main Challenges

- Database and job matching
- Special employment projects

Proposed Measures

Measure 11.3.1

Restructure and strengthen the mandate of the National Employment Office (NEO) to collect information from Lebanese residents and those returning from abroad as well as Syrian and Palestinian refugees and create a file for each applicant.

Measure 11.3.2

Qualify and quantify the labor pool as well as its social development levels, match it with available demand for labor and with the planned public works projects under CEDRE, and provide employment incentives to Lebanese workers returning from abroad.

Measure 11.3.3

Develop a participatory framework involving ministries for approved employment programs. Ministries should implement special fiscal incentives to new enterprises registered by returning Lebanese expats and should apply preferential treatment in approving foreign licenses, degrees, and specialists (e.g., tax holidays, no registration fees) and revise and approve foreign licenses and university degrees for Lebanese expats seeking to open a business or provide specialized services.

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COMBAT CORRUPTION

Corruption—generally defined as the misuse of public posts for personal gain—is a popular and recurring talking point in Lebanon. It regularly finds its way into political speeches, media reports, street demonstrations, and the day-to-day small talk of the Lebanese at home and abroad. Corruption in Lebanon is pervasive and holding the country back, and something must be done to curb it. Nonetheless, little is done to achieve concrete progress in this regard, or to start a serious dialogue on the matter. Instead, corruption is often viewed as someone else’s vice. When public figures are confronted with evidence implicating them, the standard response is political manipulation against the backdrop of prevalent public complacency (“Everybody else is doing it!”). This chronic lack of self-reflection and systemic inaction is enabled by a combination of factors, including serious legal loopholes, persistent institutional failures, blatant political interference, and the systemic exploitation of confessional and regional identities. All this creates a perpetual state of impunity that fuels corruption and sends the wrong message to Lebanese society and the world at large. Despite the limited engagement of politicians, state institutions, and international partners on anti-corruption since the end of the civil war, the last two years have witnessed Lebanon taking some steps in the right direction. Those steps include the passage of new laws (e.g. access to information) after more than a decade-long process and the announcement of the country’s first national anti-corruption strategy after nearly seven years of incremental work behind the scenes. As they stand today, however, such steps are not likely to induce a visible change for Lebanon, especially given the country’s notorious reputation for poor law enforcement and the fact that the national strategy has neither been formally adopted, nor provided with the necessary financial and human resources to be implemented.

Meanwhile, the longstanding realities on the ground do not seem to be encouraging either. For instance, it is still the exception rather than the rule for politicians assuming office to limit conflicts of interest by resigning from a post, suspending the exercise of a profession, or freezing membership in a club.

This is not to mention bribery and *wasta*, which are the most commonly known forms of corruption. Notwithstanding the discussion on the degree of their pervasiveness in Lebanon, they are unfortunately perceived as an ordinary occurrence, including in public procurement and other transactions that involve the state, such as the cadaster, customs, taxes, licensing, quality regulation, law enforcement, and even access to justice and basic public services. Bribery has even found a regular place in the democratic process, where candidates for general or municipal elections may be able to buy votes.

Combat

Agenda Priority 12

POLICY PRIORITY 12.1

COMBAT CORRUPTION BY PROMOTING TRANSPARENCY

Main Headings

- Access to information
- Disclosure policy

Proposed Measures

Measure 12.1.1

Support and regularly monitor compliance with the Right of Access to Information Law, including the appointment and training of information officers in all administrations and the publication of all information required by the law.

Measure 12.1.2

Set up an independent permanent committee grouping governmental and non-governmental experts to track and publicly report on Lebanon's implementation of the UN Convention against Corruption and make recommendations for enhanced implementation.

Measure 12.1.3

Adopt and support the effective implementation of legislative amendments that modernize the country's highly ineffective system for the declaration of wealth by public officials to make it more efficient and to ensure that the declarations are submitted periodically, made more comprehensive, and open to be audited for completeness and correctness.

Measure 12.1.4

Establish and train a working group in each administration to regularly assess corruption risks created by the lack of transparency in procedures and costs and to propose ways to mitigate those risks, with an annual progress report aggregated by the Office of the Prime Minister for all administrations and submitted to the Council of Ministers for adoption and publication.

POLICY PRIORITY 12.2

COMBAT CORRUPTION BY STRENGTHENING ACCOUNTABILITY

Main Headings

- Legal framework

Proposed Measures

Measure 12.2.1

Amend the Anti-Illicit Enrichment Law to introduce a proper definition of the crime in line with the UN Convention against Corruption and an adequate sanction thereto, while also eliminating barriers for triggering and conducting related investigations.

Measure 12.2.2

Amend the laws and regulations necessary to lift bank secrecy on Lebanese public officials, including the president, members of Parliament, ministers, and judges.

Measure 12.2.3

Maintain existing central bank policy on money laundering and introduce a random investigation mechanism of accounts and transactions.

Measure 12.2.4

Provide the Central Inspection Bureau and the Audit Bureau with ICT-supported systems to track complaints and files from beginning to end and double the number of their inspectors and auditors respectively, while providing them with certifiable training and proper financial incentives.

Measure 12.2.5

Use corruption convictions as a factor in denying an individual a job or an entity a contract and other privileges.

Measure 12.2.6

Support the implementation of the whistleblower protection law and adopt the needed regulations and complementary legislation to bring it into force, including the establishment of the National Anti-Corruption Agency.

POLICY PRIORITY 12.3
COMBAT CORRUPTION BY ENHANCING INTEGRITY IN THE INTERFACE BETWEEN THE PUBLIC AND PRIVATE SECTORS
Main Headings

- *National corporate Governance program*
- *New values*
- *Awareness and learning campaign*

Proposed Measures
Measure 12.3.1

Set up an independent national corporate governance program that is aligned with international best practices and incentivize those corporations that adopt and adhere thereto.

Measure 12.3.2

Require corporate staff and civil servants to take part in regular awareness raising and training activities prepared in coordination with civil society and international organizations.

Measure 12.3.3

Finalize and adopt the law on conflict of interest, including the establishment of a national committee that reviews existing and proposed legislation to mandate limits to potential for conflicts of interests and proposes the introduction of clauses to identify and manage them if they emerge.

Combat

Agenda Priority 12

Measure 12.3.4

Introduce transparency and accountability measures in all public-private partnership (PPP) contracts and arrangements, including the establishment of independent project-based audit committees to ensure compliance with those measures.

Measure 12.3.5

Establish and maintain a portal, supported by a mobile application, to publicly report in a timely manner on the receipt and expenditure of all international funding for projects that will be financed by contributions made based on CEDRE.

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COMBAT AIR, WATER, AND NOISE POLLUTION

Upon leaving the country, when a tourist or foreign investor is asked what their impression of Lebanon is, many will mention noise or air pollution first, in addition to traffic and reckless driving, of course. For a resident of Keserwan, acid rain has become part of everyday life thanks to the Zouk power plant; for a resident of greater Chekka, asthma and allergy rates are increasing.

Car emissions, in particular from red diesel-powered vehicles, is a primary source of pollution despite a law prohibiting their use. The law must be enforced and should be amended to remove the exemption for commercial vehicles or agriculture machinery. Lebanon also suffers from a waste management crisis. The country dumps its waste at facilities located along the seashore, polluting the water. This has health consequences for humans and marine life, and among other effects, has negatively affected the country's fishing industry. Open air dumps destroy Lebanon's natural beauty, contaminate drinking water, and threaten the environment and wildlife, while the burning of garbage fills the air with contaminants that make life unbearable for residents living nearby.

Over the last 25 years, Lebanon bore witness to the rapid degradation of the environment—from the seashore to the mountain top, as well as the sad destruction of all symbols of Lebanese heritage. It is equally unfortunate to realize that in both cases, Lebanese citizens, blinded by easy money, are to blame. The number of traditional homes and buildings across major cities is dwindling, in fact neighborhoods are being erased to be replaced by vertical structures, and there are few public spaces in the capital. In a nutshell, Lebanon is in a catastrophic state, whereby partial or ad hoc measures will not suffice. The government must declare the state of the environment a national emergency and act swiftly by introducing a comprehensive and bold strategy to address every aspect to minimize the loss and avoid reaching the point of no return.

POLICY PRIORITY 13.1

COMBAT AIR AND WATER POLLUTION

Main Challenges

- *Car emissions*
- *Industrial dumping*

Proposed Measures

Measure 13.1.1

Adopt and enforce legislation regulating acceptable fuels for use in vehicles and introduce incentives for the adoption of more environmentally friendly vehicles.

Measure 13.1.2

Adopt legal code setting standards for limiting and regulating emissions and solid waste emittance for all industries.

Measure 13.1.3

Make it mandatory for industrial producers to be located at licensed zones equipped for treatment of pollutants.

Combat

Agenda Priority 13

POLICY TARGET 13.2.

COMBAT NOISE POLLUTION

Main Challenges

- *Construction and public works noise*
- *Nightlife related noise*
- *Private events and fireworks*
- *Road and traffic noise*

Proposed Measures

Measure 13.2.1

Introduce legislation regulating noise pollution levels for nightlife, private households, and traffic.

Measure 13.2.2

Enforce the prohibition of fireworks inside urban centers and in residential areas.

Measure 13.2.3

Set up a hotline for complaints of noise pollution in municipalities.

Measure 13.2.4

Train and raise awareness of police officers on noise pollution regulations and enforce laws by issuing citations.

POLICY TARGET 13.3

STOP ENVIRONMENTAL DEGRADATION & PROMOTE GREEN LEBANON

Main Challenges

- *Public spaces*
- *Green parks and forestry*
- *Quarries and recycling*
- *National treasures and heritage*

Proposed Measures

Measure 13.3.1

Preserve forested areas, outlaw any construction in areas ravaged by fires, and regulate wood collection and charcoal production.

Measure 13.3.2

Develop public parks, public spaces, and playgrounds, particularly in Beirut and residential suburban areas and provide tax credits to municipalities that secure green areas.

Measure 13.3.3

Outlaw quarries permanently, and revoke temporary licenses and special exemptions.

Measure 13.3.4

Provide incentives (tax credits) to entities that recycle and municipalities that introduce recycling plants or recycling programs.

Measure 13.3.5

Enforce laws protecting historic buildings and sites (e.g., neighborhoods in Beirut or the natural rocks in the Keserwan-Faitroun mountains) and introduce more requirements on parties requesting any demolition.

DEVELOP COMPETITIVENESS

Lebanon has been active in negotiating a large number of framework trade agreements with Arab states, as well as Eastern European countries. However, trade agreements have not gone beyond simple tariff reductions, which have been demonstrated by economic literature to offer little to no gain. Moving to eliminate tariffs is not the main objective: Non-trade barriers remain the main obstacle facing the flow of merchandise, and these barriers have been erected by both Arab and EU trading blocs, which constitute over 60 percent of Lebanese export destinations. Moreover, the liberalization of agriculture and services, two sectors that are more important to Lebanon and other developing countries, has been put on hold by developed countries, starting with the EU.

At the multilateral level, Lebanon has held observer status at the World Trade Organization (WTO) since 1999 but effectively launched the accession process in May 2001. The WTO, contrary to what is often argued, is a mechanism to protect small economies and to resolve international trade disputes, in addition to ensuring that small economies are not marginalized in a globalized world. The accession must be completed before the Doha Round ends in order to avoid facing new conditions and commitments that may ensue.

Deeper integration offers dynamic long-term benefits and provides opportunities, notably to developing economies with the potential to grow, such as Lebanon. However, integration and harmonization under globalization carries with it challenges that require major reforms and efforts to upgrade and improve efficiencies that are inherently costly, especially to sheltered sectors or firms hidden behind protectionist measures that are not exposed to fair competition.

The international trade liberalization process must thus be accompanied by internal measures to increase competitiveness. Because the Lebanese economy is overwhelmingly composed of micro, small, or medium enterprises, any long-term plan to promote economic growth must target SMEs and include *mise à niveau* programs to upgrade national competitiveness and enable local producers to penetrate foreign markets.

The factors behind the high cost of production and resulting lack of a competitive edge in Lebanon are many. A rise in the price of petroleum or the lira-dollar peg implies more expensive imports (inputs), and the high cost of services (telephones, power, transport, etc.) and an uncompetitive internal market translates into economic inefficiencies and, therefore, above-market prices. All these factors, and others, increase the burden on producers. The remedy lies mainly in major structural reforms, such as introducing competition or improving access to capital for SMEs. Protectionism and other state measures to shelter domestic producers cause more harm than good.

Develop

Agenda Priority 14

POLICY PRIORITY 14.1

MAINTAIN FREE AND FAIR TRADE POLICY

Main Challenges

- Trade policy: Domestic and international
- Bilateral and Arab agreements
- Partnership with the European Union
- Accession to World Trade Organization

Proposed Measures

Measure 14.1.1

Set up a new inter-ministerial and sectoral committee, under the leadership of the Ministry of Economy and Trade, to reassess bilateral trade agreements.

Measure 14.1.2

Adopt legislation relating to WTO accession. Negotiate new agreements with the GCC and emerging economies, such as Africa, China, and India, that go beyond merchandise trade to include services, investment promotion, and natural resources.

Measure 14.1.3

Establish an EU unit—linked directly to the prime minister, and which would include representatives of all relevant ministries—to strengthen cooperation, and stress issues such as market access, transfer of knowhow, and regional infrastructure networking (e.g., power grids, maritime, etc.).

POLICY PRIORITY 14.2

UPGRADE COMPETITIVENESS OF NATIONAL ECONOMY

Main Challenges

- Law on competition
- Anti-cartel/monopoly laws
- Ease of access to markets (port, airport, etc.) (competing on time in/out)
- Financing and insuring exports
- Create a national board for competitiveness
- Identification and development of niche markets
- Export-led growth policies

Proposed Measures

Measure 14.2.1

Set up a committee grouping public and private sector representatives to develop a five-year and two-year and five-year plan (*mise-à-niveau* programs) to improve competitiveness, and identify targets and performance indicators.

Measure 14.2.2

Reduce the costs of manufacturing and production temporarily, through, for example, providing solutions such as low power rates during off-peak hours for energy-intensive industries, or other innovations that are not distortive measures.

Measure 14.2.3

Set up an agency focused on export promotion and research in foreign markets, and in the immediate term, train staff and diplomats across the globe to promote Lebanese businesses.

Measure 14.2.4

Build the capacities of Lebanese specialized institutions, namely the standards entity LIBNOR and the Industrial Research Institute, to provide support services to all industries and incentivize development of export-oriented enterprises.

Measure 14.2.5

Identify (and support) sectors with high-value added or Lebanon-brand value to promote exports or services.

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Develop

Agenda Priority 15

DEVELOP ENTREPRENEURSHIP SUPPORT

Since independence, Lebanon adopted liberal economic policies whereby market forces dictate the behavior of economic agents. During the country's 15-year civil war, state intervention in the economy increased, though often in a chaotic manner. Instead of adopting a regulatory and facilitating framework, the state created obstacles for the private sector, imposing a heavy burden on the fiscal budget, and indirectly reducing economic efficiency and productivity. Over a quarter century after the war's official conclusion, the outcome for Lebanon can be summarized as follows: Economic infrastructures have fallen behind, living standards have declined while poverty rates have increased, wealth distribution has become polarized and inequitable, the economy has become less diversified, markets have become dominated by oligopolies, the behavior of all agents have been marred by corruption, and the government has failed to play its proper role as a visionary and a market regulator.

After years of slow growth, the economy picked up in 2004 and into 2010 with an average economic growth rate at 7 percent, only to suffer again from severe external and violent shocks that curbed growth and accelerated the rate of young talent leaving the country, the so-called brain drain.

In short, if the Lebanese economy is to recover and put in place a sustainable pattern for growth, efforts have to focus on regaining entrepreneurship spirit, and supporting innovation and the growth of small and medium enterprises.

POLICY TARGET 15.1

PROMOTE INNOVATION & DIVERSIFICATION

Main Challenges

- *Research and Development (R&D)*
- *Innovation funnel and value-chain*
- *Economy and export diversification*

Proposed Measures

Measure 15.1.1

Develop complementary projects to accompany BDL's Circular 331 and complete the knowledge economy building blocks across the country: set up hackathons, pre and post accelerators, incubators, angel/seed and VC funds and mentorship and coaching programs.

Measure 15.1.2

Support incubated and accelerated projects and new firms' move from ideation into phase two: enterprise building by providing access to early-stage finance (seed funding, angel investors) for successful graduating companies.

Measure 15.1.3

Provide fiscal incentives to firms that allocate a budget for Research and Development.

Measure 15.1.4

Provide incentives to first mover firms that export new products (i.e., not exported before by the firm or by Lebanon in general).

Measure 15.1.5

Develop schemes to subsidize pilot projects of new entrepreneurs and establish a coordination mechanism between universities, Kafalat, and state entities (e.g., the Euro-Lebanese Centre For Industrial Modernization, Industrial Research Institute) to support innovative ideas.

Measure 15.1.6

Enforce intellectual property protection through better laws and regulations to stimulate innovation.

Measure 15.1.7

Incentivize R&D budgets at universities and encourage the creation of technology transfer offices, with grants to support spin-offs and foster technology transfers between universities and the private sector.

Measure 15.1.8

Support increased links among actors in the Lebanese environment, particularly between actors and investment funds based in Beirut, incubators, the Chamber of Commerce, and growing enterprises nationwide, to enhance cluster development and promote investments in businesses in and outside of Beirut.

Measure 15.1.9

Facilitate broader reforms in the judicial and legal systems (bankruptcy law, PEVC law, ESOP plans, etc.), and support continuing education programs for lawyers on investor protections.

Measure 15.1.10

Tap into the diaspora for international market access, transfer of knowledge and knowhow (mentorship, coaching, etc.), and reverse brain drain.

Measure 15.1.11

Facilitate access for startups (and MSMEs) to bid in public procurement.

POLICY PRIORITY 15.2**SUPPORT SMALL AND MEDIUM ENTERPRISES****Main Challenges**

- *Small and medium enterprises*
- *Microfinance*

Proposed Measures**Measure 15.2.1**

Develop various schemes in support of micro and small enterprises, such as revolving and guarantee funds that build on existing schemes such as Kafalat and IM Capital equity guarantee schemes.

Develop

Agenda Priority 15

Measure 15.2.2

Develop incentives for investors to participate in microfinance institutions, an experience that proved successful across the world, and is profitable to the investor and beneficial to the microenterprise.

Measure 15.2.3

Create a one-stop-shop portal for MSMEs and startup entrepreneurs to access information and inquire about financial support and other incentives for startups.

Measure 15.2.4

Subsidize programs and nonprofit cooperatives aimed at consolidating small farmer communities and boosting their productivity, such as the olive oil projects.

Measure 15.2.5

Continue capacity building with Lebanese customs authorities to increase transparency and efficiency.

Measure 15.2.6

Facilitate access to advisory services, such as strategic and financial planning for SMEs.

Measure 15.2.7

Create a special legal form and structure for social enterprises. Introduce modality for incorporation of nonprofit and social enterprises.

Measure 15.2.8

Create sector-specific funds in promising sectors such as agro-food, film, and media, and social/impact enterprises.

Measure 15.2.9

Incentivize business associations and business chambers to strengthen governance and types of business services, including information sharing to foster business development and growth in targeted sectors, and sharing of market information.

• • •

DEVELOP OUTREACH TO THE DIASPORA

Each year Lebanon produces more university graduates and workers than its economy can absorb. The state may not be able to stop the brain drain, but it can make inroads toward helping more Lebanese find jobs in their homeland.

High-skilled job creation can help normalize the brain drain trend. Lebanon can benefit from its diaspora by maintaining strong links and networks to capitalize on the human capital talent pool, technology transfers and inflows of financial capital, creating opportunities in the country and widening the economic space of Lebanon beyond its geographic borders.

Connections between the diaspora and the homeland have not been fully captured by the formal economy and are mostly overlooked by government policy. Forums or state visits have helped strengthen some ties, especially with Lebanese in Brazil or Argentina, but this relationship, often characterized as the lifeline for the home economy, must be institutionalized and strengthened.

POLICY PRIORITY 16.1

CAPITALIZE ON DIASPORA RESOURCES

Main Challenges

- Knowledge transfer
- Networking
- Export and investment promotion
- Tourism

Proposed Measures

Measure 16.1.1

Incentivize the channeling of diaspora remittances to investment projects in Lebanon.

Measure 16.1.2

Provide fiscal incentives to universities and centers that link expatriates with Lebanon (e.g., hire Lebanese experts living abroad for short- or long-term contracts).

POLICY PRIORITY 16.2

INSTITUTIONALIZE RELATIONSHIP WITH DIASPORA

Main Challenges

- Role of embassies and Lebanese clubs
- Citizenship
- Registration and census
- Outreach campaign

Proposed Measures

Measure 16.2.1

Build e-governance access for the diaspora to easily apply for official documents.

Measure 16.2.2

Enhance ministerial support for Lebanese cultural clubs abroad and promote alliances and partnerships with foreign universities and think tanks.

ΕΕ



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