

Executive

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SPECIAL REPORT

LABOR

- > Prioritizing job creation amid government upheavals
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In collaboration with

 **KONRAD
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LABOR IN LEBANON



As existential as it gets

Executive Magazine is honored to present our readers with a special report on the issue of Lebanon's labor market, job creation, and the policy-making and financing solutions needed to boost the domestic job market. What emerges in these pages is a mosaic of job preservation and creation opportunities, where even the smallest saved or newly created job is worthy of support and respect, as the sum of such jobs will be instrumental in building a new model for the Lebanese economy. This report has been developed in coordination with the German Konrad Adenauer Stiftung Foundation, KAS.

As international labor economist Zafir Tzanatos points out, the business community in Lebanon is not well positioned for competitive development, given that it is composed of many small and very few dominant players that are wasta-shielded against innovative local challengers. Besides this structural weakness, the economy ails under the

fact that the job market equation in Lebanon, just before the outbreak of the 2019/20 economic woes, was as unpropitious as it had been 30 years prior: neither the educated nor the menial workforces in Lebanon enjoyed salient prospects for making a decent living and improving their socioeconomic lots in domestic environments. This meaning that the only hatch left open for upward mobility and success was, and remains, emigration and brain drain followed by praise of diaspora achievements.

THE IMPORTANCE OF PRESERVING AND CREATING JOBS

Maroun Keyrouz, economist and senior staff at the World Economic Forum, admonishes that the exodus of the young and most able threatens Lebanon's long-term economic potential, even if growth is somehow resurrected. Job creation therefore needs to be at the apex of policymakers' agendas, a

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difficult task compounded by the fact that neither employment nor emigration data are compiled and published in reliable formats by the government. The country, according to Keyrouz, needs to clean up its banking sector, address the problem that it exports too little, reform its civil service system, equip its young with tomorrow's useful skills, and improve the labor force participation of women.

The lucid exploration of the genesis, barriers, and needs for a national labor market by these analysts provides pointers on structural and policy priorities, the pillars of which can be transformed into load-bearing policies that will create a stronger labor market. To augment these big-picture perspectives, Executive invited the most prepared voices in the country to explain the roles that the knowledge industry; the agriculture and agro-industries; and the manufacturing sector, can play in short and long term job creation.

UPSKILLING THE YOUNG, UPSCALING THE ECONOMY

Adel Afiouni, Lebanon's to date sole former minister of state for investments and technology, argues the compelling case for prioritizing the knowledge economy, which is asset-light and skill-centric. As Afiouni explains, his short ministerial tenure resulted in an action plan and vision for the Lebanese knowledge economy that was developed in coordination with local stakeholders and international partners. The plan's original targets included a doubling of employment in the knowledge economy sector by 2025 along with growing this sector's investments, number of startup enterprises, share in exports, and overall contribution to GDP.

Ziad Bekdache, manufacturer and vice-president of the Association of Lebanese Industrialists (ALI), highlights that despite all setbacks, long-standing and newly arisen challenges in this sector can be acted upon to create jobs. Under such a vision, ALI seeks to engineer a new system for manufacturing added-value products in Lebanon and distributing them around the world in cooperation with the Lebanese diaspora.

Mounir Bissat, the secretary general of the Syndicate of Lebanese Food Industrialists, tells Executive in his comment that the agro- and agro-industry sector in Lebanon should focus more on job preservation than job creation in the short term. According to Bissat, the sector to this end can, despite financial barriers to international transactions, upgrade and develop export capabilities and secure jobs through its ability to focus on import substitution. The agro-industrialist further emphasizes that the sector will not be able to overcome the current barriers and create jobs unless there is active state intervention in reviving the economic cycle in Lebanon.

The preeminence of the need to preserve Lebanese jobs in the near and intermediate future as a platform for eventual growth of private sector companies, especially small and medium sized enterprises, and the concomitant creation of employment opportunities is finally emphasized by Romen Mathieu, a private equity, corporate governance, and investment specialist who is co-founder and managing partner of the regionally active EuroMena Fund. Mathieu tells Executive in his interview how his team and international financing stakeholders are devising convertible-lending and financing solutions for endangered Lebanese SMEs. ■

POLITICS AND THE LABOR MARKET



Lebanon's Constant Inconstants Since the 1990s

I first came to Lebanon in the late 1990s to lead a development organization's mission on labor and social protection. Since then, a lot has happened: in 2000, Israel pulled back from southern Lebanon to the international borderline; in 2005, prime minister Rafik Hariri was assassinated, and many others were murdered before and after him; the year after, Israel tried to turn "[Lebanon's clock back 20 years](#)" with the Second Lebanon War, which ended without a defined military victory; then came the 2008 global financial crisis, the IMF remarking that "[Lebanon \[had\] mocked the doomsayers, \[as its\] ongoing economic resilience bolstered the banking system, with deposit inflows...growing at nearly 20 percent annually](#)"; and from 2011 onwards, the Syrian war that brought over 1.5 million refugees into Lebanon.

Most importantly, by 2014, the last pretext of democratic governance since the end of the civil war, came to an end. The masks fell when, in addition to the political impasse resulting in not being able to elect a new president for the following two years, practically all (98 percent) of the parliamentarians who were present in the relevant vote in November that year, agreed to extend the parliament's term without new elections. This explicitly brought Lebanon down to the level of dictators who reappoint themselves after their term has ended. The difference is that dictators have individual names, while Lebanon has religious-political sects.

The conclusions of the report I wrote on Leba-

non 30 years ago still hold today. In that report, I had compared the level of wages with prices, especially the rising prices of real estate. There was no way families earning an average income could maintain their "average" (middle class) status over time, let alone afford to buy "an average" house. I also examined unemployment by education, using education as an indicator of socio-economic status. My research made clear that domestically, the better-off Lebanese did not have better prospects than the less fortunate. The alternative is well-known to all: emigration and brain drain followed by praise of the achievements of the Lebanese Diaspora.

UNEMPLOYMENT LINKED TO POLITICAL GOVERNANCE

Another characteristic of the economy back then was the structure of production, a structure still present today. The majority of establishments were small, while only a few major players dominated the field, primarily through uncompetitive practices sustained by clientelistic and political patronage (*wasta*). Moving from the micro to the macro, Lebanon was on course for an economic disaster for decades that few in power wanted to address.

Persistent government budget deficits and rising public debt could not have lasted forever, as a time would eventually come when the government would have to pay back what it had spent without earning. The interest rate paid on deposits cannot but reflect global market conditions in an open economy: the rates offered by Lebanese banks were dictated by what was needed to postpone a sovereign default - the bankruptcy that eventually followed - instead of what the economy could sustain, and what the international financial markets offered. Finally, the exchange rate could not have remained constant (at LBP 1,500 to \$ 1) for long, as imports consistently exceeded exports by a [factor of five or even more](#). The myth that Bank du Liban had a secret formula that could defy widely accepted economic rules is now busted.

This is all to make a simple point: the majority of employment problems originate from the perils

of the economy and political governance, not from the labor market itself. This is conveniently forgotten by politicians who try to find scapegoats: blaming youth for not trying hard enough, teachers for not imparting good quality education, and companies for not training their employees adequately.

All in all, the labor market has been the victim of Lebanon's political elite, a group driven by sectarianism, nepotism, corruption, and clientelism. This has created a private sector whose uncompetitive practices have failed to create new jobs, let alone decent employment. It has also ignored ordinary citizens' welfare. Lebanon is perhaps the only upper middle-income country without an effective social security system for the private sector, a critical element for the labor market and prospective workers.

By October 2019, the inconceivable became inevitable. While addressing the issue of reducing public debt had long been on the table, it was never taken to heart by governments since the 1990s. Still before the 2019 fiscal crisis and the massive demonstrations that followed, Bank Audi stated in its quarterly report that [“there \[was\] still room for a soft-landing scenario in public finance conditions rather than harmful measures with long-lasting adverse effects such as devaluation or debt restructuring.”](#) Half a year after that report, massive devaluation has turned into reality and Lebanon has become bankrupt.

Lebanon's development partners, including the IMF, have put forward specific proposals for the prioritization, intensity, and sequencing of policy reforms that would be required as preconditions for providing financial assistance. These conditions are not much different from what politicians have been promising to do in return for recurrent generous external support, but failed to carry out for decades. Before 2019, Lebanon had repeatedly promised to undertake more than one hundred reforms in several meetings in Paris, Rome, Brussels and all over the GCC - promises and reforms spanning public expenditure, the energy sector, water, pensions, the social safety net and the labor market. In fact, most of the [current French-endorsed plan](#) for Lebanon's recovery has been included in past documents, including very recent statements by Prime Ministers Hassan [Diab](#) in 2020 and Saad [Hariri](#) the year before.

The impending economic prospects on the labor market are known: the [debt-to-GDP](#) ratio may pass the 350 percent mark by end 2020. Lebanon is now experiencing the first episode of hyperinflation in the Middle East North African Region (MENA) with a [50 percent monthly inflation rate recorded this summer](#).

Under such conditions, economic recovery, and with it job creation and poverty reduction, will take decades. The labor market creates jobs from new hires either by the public sector or the private sector. The former can be excluded for now. The latter can learn from the Greek experience. Greece has better functioning political institutions and relatively better economic and social protection indicators, and it is now where it was in the mid-[1990s](#) and it will take it another 20 or so years to get back to where it was before its 2009 crisis.

[A recent study](#) has estimated that Lebanon's GDP may return to its 2019 level not earlier than 2043. This implies that the next generation of Lebanese would face labor market conditions that would be worse than those that existed at the end of the civil war.

Moving forward, the international experience [suggests](#) that to succeed, a rescue program like the one that is on the table for Lebanon now must have clear strategy and objectives laid out from the beginning. If adopted, such a program could minimize the effects of austerity and put the economy onto a sustainable and inclusive growth path. Still it will take decades to address the heavy social costs the program will inflict on citizens in-

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cluding in the form of slow employment growth and poor quality of jobs.

The implementation of such an economic program requires domestic political will that at present is lacking,

as it has been for decades. Here, one is tempted to say that politically, Lebanon needs a [Dayton Accord](#) a-la Bosnia. Relevant elements of that Accord include a transparent constitutional court; an independent central bank; international oversight of what was agreed upon; an Office of High Representative charged with the task of civil implementation, and another international body that would be in charge for organizing elections. Most of these elements, suitably adjusted, can contribute to rebuilding the economy. This may prove to be easier than building a Lebanese State that will be transparent and accountable and will serve the interests of the citizens, not those of the politicians and clerics. ■

Professor Zafiris Tzannatos has been Chair of the Economics Department at the American University of Beirut and advisor at the World Bank and International Labor Organization.

FIVE IMPERATIVES THE NEW GOVERNMENT WILL NEED TO TACKLE TO CREATE JOBS



From a Dynamic Private Sector to the Participation of Women in the Labor Force

A second wave of Covid-19 is now battering Lebanon, a country reeling from an unprecedented financial and economic crisis, and still grappling with post-port explosion realities. As a result of these compounded calamities, Lebanon's economy is likely to end up a fifth smaller by year's end, as the International Monetary Fund (IMF) had estimated it would shrink by 12 percent even before the blast. The unemployment rate might have already reached 40 percent according to some [estimates](#) (bizarrely, the government does not publish unemployment data). While some countries battered by the pandemic have sought to shore up their citizens with emergency public spending exceeding 10 percent of GDP, Lebanese officialdom has responded in a manner both lethargic and haphazard.

The exodus of the young and able (official emigration data is notoriously unreliable) resulting from the dire situation threatens the country's long-term economic potential, even if growth can somehow be resurrected. Therefore, job creation

and preservation should be at the apex of policy-makers' agendas.

Setting aside now-exhausted lip-service to reforms, this will not be possible without facing some hard truths. In particular, a serious government would need to tackle five imperatives head on, presenting difficult trade-offs and hard choices that do not lend themselves to easy fixes.

First, job creation requires a dynamic private sector. Even in communist China, [80 percent of new jobs are created by private companies](#). And the lifeblood of business is access to finance. Therefore, cleaning up the banking sector to allow it to focus on credit to finance business investment should be a priority. This will not be easy. We have reached a point where an inherent contradiction has emerged between the income of the majority of the salaried masses and the interests of depositors. The idea that public finances can be sanitized and banks' balance sheets bolstered without one form or another of a haircut on deposits is fanciful. In this context, the mantra of "protecting deposi-

tors' rights" is also misleading: around 53 percent of Lebanese are unbanked and 86 percent of deposits by value are in the hands of a mere 8 percent of depositors. To reignite growth, the government cannot afford to keep dedicating 35 percent of its outlays to service its debt; it is also impossible to reduce this burden without affecting its final beneficiaries, i.e. major depositors who have benefited from high interest rates in the past.

Second, the genesis of an export-oriented economy. On this, it is important to address the arguments raised by some leaders who have harangued citizens about the country's "elevated imports bill" and who blame their consumption choices for depleting its foreign reserves. Lebanon came 117th globally in 2019 in the [ranking](#) of countries by imports to GDP. The problem is not that the country imports too much, it is rather that it exports too little. This is because of its limited ability to compete globally and regionally; it ranked 88th of 141 countries in the World Economic Forum's [2019 Global Competitiveness Report](#). This is in no way a call for the government to adopt industrial policy. Rather, what is needed is to create an enabling environment where entrepreneurship can thrive. To achieve this, we need the private sector to take the lead on electricity generation to provide reliable, affordable and sustainable energy; to stop treating the telecommunications sector as the public purse's cash cow, but rather focus on improving quality and minimizing costs; and to invest in the country's derelict transport infrastructure (for instance, Lebanon is the standout amongst middle income countries to rely on a single airport).

Third, the current civil service system needs to be reformed to stop being a deterrent to job creation. Too many young people prefer waiting for a comfortable government job rather than toil in the private sector. Currently around 50 percent of formal employment is soaked up by the public sector, a rate higher than in some oil-exporting countries. These jobs are better paid (per hour of work), more secure and more protected than most jobs in private employment. Still, Lebanon ranks 177th in 2019 on the World Bank's [Index for Government Effectiveness](#). Civil service reform is urgently needed to normalize public jobs away from lifelong, cosseted employment with limited accountability.


Fourth, preparing young people with the skills they need to succeed in the workplace of the future. Lebanon has for too long rested on the laurels of its vaunted education system. Even as unemployment stubbornly persists, finding people with the needed

skills remains a top concern for executives in Lebanon and the broader region. This paradox can partly be explained by a study last year that showed that Lebanon came [second](#) amongst MENA countries in the percentage of 8th grade students asked to memorize science facts for every lesson (58 percent). Education reform should focus on equipping students with the soft skills that enable them to thrive in the job market of the future, not of the past. Critical thinking, problem solving, teamwork, conflict resolution and computer programming - the likely lingua franca of the rest of this century - should replace rote-learning and conformism. This has become even more crucial, as the pandemic accelerates the digitization of the global economy. Likewise, technical education needs to be revamped by bringing in relevant companies to partner in the design of programs and curricula. For example, successful hotels and restaurants could be brought in to design and help run a hospitality/culinary program, or shipping giant CMA-CGM could design a program on logistics.

Fifth, the labor force participation of women needs to improve. At [23](#) percent Lebanon has a lower proportion of women in work than every country in the Gulf Cooperation Council, bar Saudi Arabia. This is due in large part to structural factors, such as the lack of publicly funded (or at least, subsidized) child and social care. It will be an uphill struggle for a bankrupt state to fix this. However, an easy place to start could be to reform labor, social security and other laws that do not treat women on equal footing. Introducing paternity

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leave could also help institutionalize burden-sharing at home. The country will not be able to compete globally, if half of its talents remains untapped.

Realizing Lebanon's full potential requires responsible leadership to take on these five imperatives. The pandemic only makes this more pressing. At a time of global turmoil and where most countries are looking inwards, we need responsible, agile and transparent governance to enable a transformation of our economic model and social contract that allow self-realization for the many instead of rewards for the few. Realizing this amidst a colossal crisis will not be easy. But to paraphrase Churchill, it would be an immense mistake to let this crisis go to waste. 

Maroun Kairouz is Deputy Head for the Middle East and North Africa at the World Economic Forum (WEF).

THE KNOWLEDGE ECONOMY



A Strategic Priority for Economic Growth and Job Creation in Lebanon

When I was appointed Minister of State for Investments and Technology (MSIT) in February 2019, I was thrilled to champion the most promising and vibrant economic sector in Lebanon. Technology is often reduced to mean “iPhone” or “app”, but the term can also refer to a rocket, a vaccine, a driverless car or a smart mattress. Technology, embedded in and propelled by the knowledge economy, has skyrocketed over the last 100 years, enabling societies to leapfrog across sectors. And leapfrogging is exactly what Lebanon needs. The country faces colossal problems: rampant poverty, the economic crisis, health, environmental, educational and infrastructural failures. Our success, our triumph, is dependent on centering and strengthening the rise of the knowledge economy in Lebanon.

WHAT ARE WE WAITING FOR?

We desperately need to reinvent the Lebanese economic model: to focus on productive sectors, producing and exporting more. This collapse is a pivotal opportunity for the Lebanese, and its youth in particular, to use the knowledge economy to create a new economic reality.

The knowledge economy is a sector that is asset-light and talent and skill-centric; its benefits spanning across all other economic segments. Lebanon does not have a tremendous amount of natural resources. Our strength and primary asset is

our human capital: Lebanon has a highly educated, multilingual, multicultural, and entrepreneurial talent pool, as well as a global and successful diaspora network. In 2017-2018, Lebanon was ranked 4th in quality of education in maths and sciences in the World Economic Forum Global Competitiveness Index. The knowledge economy is therefore precisely the one productive sector where we can boast our competitive, scientific advantage. With our human capital, we can and should aim to become a regional leader, as well as a thriving hub for economic prosperity.

As such, when I embarked on my ministerial journey, I set an ambitious vision and a concrete plan to execute our road to the knowledge economy.

WHAT IS THE VISION?

The MSIT vision is to drive the digital transformation of our economy, boost the contribution of the knowledge economy to GDP and job creation, and transform Lebanon into a regional hub for technology and innovation.

Thanks to technology, our abilities can begin to draw near our ambitions, for the first time in history. Imagine a Lebanon with clean water, nutritious food, affordable housing, personalized education, top-tier medical care, and non-polluting energy. Imagine a Lebanon with digital government, electronic transactions, transparency, efficiency and without corruption. The knowledge economy can help us meet these challenges head-on.

TRANSLATING POTENTIAL INTO REALITY

This is precisely the objective of the MSIT action plan, [The Roadmap Towards Digital Transformation](#). The plan was built as a result of consultations with major stakeholders in the private and public sectors, and crafted with support from major international institutions, in particular the World Bank.

The action plan is high impact, actionable and concrete, combining short and long-term initiatives and strategic projects. Job and value creation are the first priorities.

We set the following as 2025 targets:

- Double the contribution to GDP of the knowledge economy sectors from \$1.5 billion to \$3 billion
- Grow the knowledge economy exports contribution to 25 percent of total exports
- Grow yearly VC funding to \$190 million a year
- Grow the number of start-up ventures from 50 to 200 per year

The action plan is divided into two tracks. The first is inward-looking and focuses on improving the local tech ecosystem and creating a stimulating and competitive business environment in Lebanon. The second is outward-looking and focuses on global markets, on the reforms and policies needed to increase business and investment appeal, and how to grow cross-border investment and trade. As part of the plan, we identified seven areas of focus, the [“Seven Pillars of Lebanon’s Roadmap to Digital Transformation.”](#) These are the areas we need to tackle to unlock the full potential of the knowledge economy.

WHAT ARE THE SEVEN PILLARS OF MSIT’S ACTION PLAN?

The Business Environment: An “Ease of Doing Business Reform Plan” in 40 action points was prepared and submitted.

The Investment Environment: Address the funding gaps in the ecosystem, mainly at the early ideation stage and at the later scale-up stage, by creating public-private investment matching schemes and by establishing a comprehensive set of fiscal incentives to stimulate investment.

The Education Environment: Fill the knowledge gaps between the academic curriculum and the industry and business needs by launching a national “Digital Up-Skilling and Awareness” program.

Transforming Lebanon into a Regional Knowledge Economy Hub: Launch an outreach campaign, a comprehensive business reform, and incentives agenda aimed at attracting international companies and entrepreneurs to Lebanon.

Boosting Exports: A strategy to boost and promote services exports, complemented by reforms to increase e-commerce and digital payments.

Regional Development: Decentralize the tech ecosystem and develop thematic “Special Digital Zones”, for example, the Tripoli Knowledge and Innovation Center, which is ready to launch. The Knowledge Economy is a major agent for the reduction of regional inequalities and for fostering job creation and economic development across all Lebanese regions.

Research and Innovation: Launch a major overhaul of our research and innovation programs, and radically upgrade our legislative toolbox in order to accompany and stimulate innovation.

While we did not get the chance to implement our action plan because the government resigned in October 2019, we still managed to pass important reforms in Summer 2019 to stimulate job creation and skilled-labor hiring in the tech sector.


Our plan has the merit of providing the foundation of a detailed, structured, and comprehensive roadmap. Crucially, we centered the knowledge economy as a strategic priority for Lebanon and we set the stage for the next government or any future decision maker to hit the ground running.

MSIT was the first ministry in Lebanon dedicated to the knowledge economy. Our ambition was to convert the state ministry into a permanent ministry for the digital economy. Unfortunately, the next government dropped the mandate and the knowledge economy sector fell back through the cracks of various ministries, and so did the MSIT action plan.

But I hope this dream will come true one day. I hope that the momentum that we initiated will continue. I hope that Lebanon will build the knowledge economy needed and deserved by our citizens and our youth, and that our country will enter resolutely into the fourth industrial revolution.

FINAL THOUGHTS

I cannot deny how challenging it was for me to come back to Lebanon after 31 years abroad working in banking and finance, and dive straight into the treacherous waters of the Lebanese public sector. I also cannot deny how difficult it was for me to weather the numerous political storms in the background and to try to progress against a backdrop of severe economic and financial crisis. I was appointed into a “start-up” ministry, with no allocated resources, no funding, and no existing projects, just an office and a desk.

But to have been given the opportunity to serve my country, even in such testing times, was a unique honor and my only drive. I will be eternally grateful to all those who trusted me and supported me during my short tenure. The encounters and the collaborations with so many bright Lebanese minds, successful entrepreneurs, high-spirited youth, and hard-working and determined women and men were all a true inspiration, and the reason I will always have a strong faith in the potential of our country, Lebanon. 

Adel Afiouni is former minister of state for investments and technology (2019-2020) for the Lebanese government.

INDUSTRY: ITS ROLE AND PERSPECTIVE IN LEBANON'S ECONOMIC GROWTH



Untapped Potential to Compete in Global Industry

The manufacturing industry is a core engine of economic growth for developed and developing countries; a fact reconfirmed by [recent studies](#). On this premise, it is natural that the Association of Lebanese Industrialists (ALI) play a major role in economic and social policy. As Lebanon faces the worst economic crisis in its history, ALI is committed to surmounting the challenges ahead, while continuing to foster the development of Lebanese industries and supporting their response to new challenges in global competition and international integration.

Faced with the prospect of globalization, ALI has long determined core objectives of improving the business environment, reducing the various burdens placed on industrial firms, and reforming Lebanon's labor market. Achieving these goals will help to accelerate the structural reforms needed to create growth and employment and make a major contribution to the modernization and globalization of the Lebanese economy. In this regard, supporting the internationalization of Lebanese SMEs stands out as one of ALI's most important strategic tasks.

In our association's perspective, the main challenges facing Lebanese industries prior to the financial crisis and the port explosion are listed below, and they still persist:

- Loss of state dignity and respect.
- Excessive number of unemployed graduates, as well as brain-drain.
- Negligence of vocational and technical education, which are condemned as socially inferior, while the country is in dire need of these skills and sectors.
- High rate of unemployment.
- High rate of poverty and extreme poverty.
- Deadly bureaucracy.
- Increased balance of payments deficit despite contraction of trade deficit.
- A large trade deficit that from the industrialists' perspective is often fueled by unfair reciprocity with countries, where Lebanon signs trade agreements despite imports being much higher than exports.

LEBANON'S GLOBAL POTENTIAL

Many of these challenges have been exacerbated by the financial collapse, the ramifications of the port explosions, and the Covid-19 pandemic. These new challenges are:

- The destruction of jobs in many vital sectors of the economy, such as food and beverage (F&B) and tourism
- The drop in the value of the Lebanese lira, which led to a decrease in Lebanese salaries and wages, with the following results, based on ALI's analysis:
 - The minimum wage has fallen from 450\$ to 90\$ per month due to continuing devaluation.
 - The Informal economy now covers 60 percent of the whole economy.

Listing the challenges, ALI sees the need to address the current state of the Lebanese economy on the national level. Lebanon has unmatched financial potential in the global economy, and distinctive human capital: skilled and specialized people, educated youth, entrepreneurs and businessmen and women who uphold Lebanon's image locally and internationally.

Facing up to the challenges, ALI took the initiative back in 2014 to propose a socio-economic program which would allow Lebanon to overcome the stalemate, and the porosity of the economy due to the prevailing conditions in the region. This initiative is coherent with actions taken by the government in the past few years.

The Lebanese government hired McKinsey to prepare a study about the Lebanese economy requesting specific recommendations in order to boost the business cycle. The recommendations submitted by McKinsey, published under the [Lebanon Economic Vision](#) report, clearly pointed to governmental mistakes in implementing economic policies during the last decades, because the government's policies did not rely on Lebanon's productive sectors. Unlike the negative view taken by policy makers on the productive sectors and their role in the national economy, the McKinsey study recommended for the Lebanese government to focus and rely on productive sectors, such as industry and agriculture. Moreover, the study mentioned four sectors capable of enhancing growth: tourism, agriculture, industry, and technology.

In our meeting with persons responsible for undertaking the McKinsey study, we agreed that all industrial firms who continue to survive despite the lack of governmental attention and support, are capable of becoming economic levers.

In addition to our collaboration with McKinsey, ALI and the Lebanese Center for Public Studies (LCPS) cooperated in 2017 to prepare a study about Lebanese export capacity. This study found that it is possible to increase Lebanese exports by \$1 billion in different industrial sectors, such as agro food, pharmaceuticals, jewelry, clothes, furniture, leather, and electrical and industrial equipment.

Undoubtedly, the Lebanese economy has the potential to achieve more growth, and create job opportunities for the Lebanese youth. It is worth noting that the Lebanese industrial exports expanded from \$800 million in 2000 to \$3.6 billion in 2012 according to Lebanese customs statistics, and only started to witness a decline in light of the region's political and economic reality.

It is the vision of ALI that Lebanese industrial businesses will lay the foundation of a new system that relies on design, creativity and innovation, aiming at manufacturing added value products in Lebanon and distributing them around the world in cooperation with the Lebanese diaspora. Industrial investment cooperation agreements could furthermore be signed with countries such as Iraq, Iran, and African countries, where opportunities are available and factors of production are low. Cross-border collaborations will ultimately pave

the way to a holistic economic system that Lebanese industrialists will be well positioned to lead.

It is our position that the Lebanese industry can motivate the whole economy just as agro food industries motivate the agriculture sector. The manufacturing industry is able to create sustainable jobs, further expanding an economic sector that contains 195,000 employees, per the United Nations Industrial Development Organization.

In the current cash crisis, each \$1 million worth of locally produced industrial goods will preserve 70 percent of scarce cash in Lebanon (the remaining 30 percent spent on importing raw material) and boost the economy. On the other hand,

importing \$1 million worth of wafer (the food-stuff), for example, leads to 80 percent drainage of scarce cash to the country of origin, while only 20 percent of this money stays in Lebanon. In addition, according to UNIDO, each job created in the industrial sector creates 2.5 jobs in other sectors. This shows the importance of Lebanese industry in revitalizing the economy.

■ It is possible to increase Lebanese exports by \$1 billion across sectors, such as agro food, pharmaceuticals, jewelry, clothes, furnitures, leather...

ated in the industrial sector creates 2.5 jobs in other sectors. This shows the importance of Lebanese industry in revitalizing the economy.

Approaching the current crisis, ALI envisions a path for creating new jobs that can be summarized as follows:

1. Adopt a package of new economic incentives covering all sectors to secure growth, sustain jobs for the Lebanese, and create new job opportunities.
 - a) Adopt solutions to the issue of energy intensive industries.
 - b) Encourage international investment in new industries, like the automobile industry, or in new industrial cities, like Tripoli, or in new private investments.
 - c) Adopt an action plan in partnership with traders to increase exports from Lebanon and to reduce the trade deficit
 - d) Prioritizing Lebanese nationals in the process of recruitment.
2. Taking necessary measures to develop public private partnerships.
3. Develop a clear vision for the exploitation of oil and gas.

Ziad Bekdache is the Vice President of the board of the Association of Lebanese Industrialists.

LEBANON CAN SUPPLY ITS OWN FOODS



Boosting the Food Industry to Preserve and Create Jobs

The Lebanese food industrial sector is capable of supplying most of the basic products that were imported into Lebanon before the onset of the 2019/2020 crisis. The sector's output encompasses a wide variety of products, ranging from poultry and processed meats, to the whole range of dairy products (except butter and processed yellow cheese), jams, pickles, spices, nuts, coffee, edible oil, confectionery and snacks, bread and pastries, without forgetting a range of juices, mineral water, spirits and wines. Due to the financial crisis and LBP devaluation, imports are becoming increasingly expensive and unaffordable. Exports represent one of the few sectors that maintained a steady growth in volume since the early 2000s, and even when the economic decline started in 2011, exports stood still, or decreased modestly. I want to address two primary points in regard to the food industry. First, how Lebanon can leverage the food sector to create jobs, and second, how the agro-industry can be improved.

What is the best way to create jobs in the food sector, overcoming perceived obstacles, and creating synergies in job creation with adjacent or even distant sectors and industries, from packaging to marketing and logistics?

I believe we should focus on job preservation rather than job creation.

The food sector, similar to other sectors in Lebanon, is under great risk, and subject to real threats of extinction... However, we cannot undermine the strong points that should be built upon to reinforce our chances for survival. Export capabilities should be upgraded and improved, by creating new tools to finance export activities and import of raw materials (the [Cedar Oxygen Fund](#) may be one way to do this), and settlement of pending, unpaid bank facilities. Moreover, focusing on import substitution is another important factor to keep the sector's productivity high, despite the decreasing local purchasing power. Recent United Nations Industrial Development Organization (UNIDO) studies showed that every job opportunity in the industrial sector will help create 2.2 jobs in adjacent sectors. This could also be true in the case of the agro-food industry: for, in addition to boosting activities in support sectors like packaging, services, insurance, shipping, etc..., the agro-food industry will directly boost another vital sector: agriculture. Therefore, upgrading the expertise and knowledge of the agriculture sector, and encouraging the adoption of crops that can be processed as the essential raw materials for agro-food units, will create a circle of job creation across both sectors.



■ The agro-food sector is a major growth engine for the economy, considering its competitive advantages.

Can the agro and agro-industry sector be improved, and can it create new jobs, without having to rely on state action?

No sector is able to overcome the current “impossible” situation without relying on active state intervention in reviving the economic cycle in Lebanon. We are very well aware that the state has very limited and scarce resources to support the productive sectors, agro-food among them, however, many initiatives can be launched that do not cost a single dime. All it takes is ratification of new laws, and the application of existing ratified laws and decrees. The Food Safety Law, *Appellation Controle*, and Safeguard measures are few examples of a very long list of relatively easy actions that can improve the performance of the sector, helping eventually to preserve and create jobs.

Any financial and economic recovery plan that does not include any stimulus and support measures is doomed to fail in attaining its objectives. The focus in all draft plans that were made public was to reduce debt to GDP ratio to acceptable limits, and all the measures taken were centered around



reducing debt, which is understood and acceptable. However, the same ratio can also be reduced by increasing GDP, and this can only happen by including stimulus measures to re-ignite the exhausted economy. According to many previous reports, most importantly the [newest one by McKinsey](#), the agro-food sector is a major growth engine for the economy, considering its competitive advantages that need to be reinforced and emphasized. ■

Mounir Bissat is the Secretary General Syndicate of Lebanese Food Industrialists and Managing Director-Partner of Mounir Bissat Factories.

LEBANON'S LAST CHANCE TO SAVE JOBS

Q&A with investment expert Romen Mathieu

In the context of Lebanon's existential crisis, Executive inquired about the country's new economic and social barriers – a mountain of problems formed around a nexus of poverty, unemployment, and colossal need for investment, that at first (and second) sight appear impossible to scale. In seeking to chart financial and economic pathways across this agglomeration of challenges, Executive sat down with Romen Mathieu, co-founder and managing partner of regionally active EuroMena Funds.

E *From your perspective as an expert on management and investment, is there potential to create jobs in Lebanon given the current situation, or would that be chasing a vain dream?*

I do not think the question today is if the country is able to create jobs in the forthcoming period. The real question is whether the country is able to preserve existing jobs. [We need to] forget about creating new jobs and find ways to preserve jobs. With regard to our situation, I believe that we are today in the heart of the storm. The government was due to be formed [in late September]. It didn't happen. Ad hoc we are hoping that the government will come up. The worst thing that can happen is that this government does not show up for the coming month, [October]. If we live in a country that will have no government in the coming month – which is a possible scenario because in Lebanon anything is possible – and if we see the first rains [of the winter season] and nothing done, I think the country will be in a catastrophe mode.

E *What would this scenario of no government imply and what do you see as better, alternative scenarios?*

So if there is no government in the month [of October], I think the harm of the coming 30 or 45 days will be tremendous, even if one month from now we have a good government. It will take years to get back to where we are now – which by the way is much lower than where we used to be. If there is a government, and a respectable govern-



ment as per international standards, [meaning] an independent government that will be able to pull in very quickly the IMF, Cedre, and the international institutions that can bring money and confidence back to the country, then the country will be able to preserve the existing jobs at least for the coming three, four, five months and then eventually be able to create new jobs afterwards.

E *Do you regard the need for using this small window to start a recovery more as a mental challenge or a financial challenge?*

I am not sure that [the problem] for Lebanese people is mental. I am 50. I have lived 42, no sorry, 47 years of my life in war or a warlike situation. I never knew a Lebanon without a war or a crisis. So my mental [constitution] is very strong. I can assure you. [If we take the situation] after the Beirut blast – and I was there; my family was in it – I am not sure if there are many countries that could [make a comeback] after that. It is a major catastrophe, and insurances are not paying, the govern-

ment is absent, and officials are not to be seen. And yet, people are starting to build back, shops are opening back up, etcetera. It is not a question of mental [resilience]. No one can say that the Lebanese population have a weak mental constitution. I am sure that we have the most powerful mental [resilience] in the world.

E So the urgent challenge is financial?

What is missing now is solid ground on which to build. If money and support does not come before the first rains to Mar Mikhael, Geitawi, and all those areas, if the port facilities and logistics companies are not supported very quickly, and if the hotels, restaurants and service companies are not supported very quickly to build back, you will have tens of thousands of jobs that will be erased completely. [This is] because these young people that were working there are today either already out [of Lebanon] or applying to be able to leave at the first occasion. And once they leave the country this time, you will not fool them again – they will not come back. So [the challenge] is about bringing very quickly the financial support to these companies, small SMEs, to be able to reopen shop, bring back their employees and start [operating].

E How is that best done from your perspective as a private equity player?

We as EuroMena [Fund] have proposed an initiative to our DFIs, our development finance institutions, that are our shareholders – International Finance Corporation (IFC), the European Investment Bank EIB (EIB), [France's] AFD Proparco, [Germany's] KfW [Group], the CDC [Group of the] UK, all of these. We told these DFIs that the businesses which we are talking about do not want grants. Grants are for individuals who have no one to help them. A business in Lebanon doesn't need a grant. It needs support. These businesses most probably each would need a very-long-term loan with a small interest rate and the possibility to convert [residual debt] into equity. If whatever remains of this loan is not paid back after six or seven years, it is converted into [lenders'] equity in the small businesses. And then we would have a premise for building a stock market for SMEs in Lebanon. That will create liquidity and create the ability for these

small companies to take money from the stock market, bring in new investors, etcetera. This is what Lebanon needs today.

This is the proposal that we are working with today with our institutions, in order to be able to take [such long-term lending] very quickly to the largest number of companies. I do not know if it will happen; it depends on the availability of funds

and this means it mostly will depend upon if we have a respectable government or not. If we do not have a respectable government, not one dollar will come. If there is a respectable government, there are huge funds that are willing

■ If money and support does not come before the first rains... tens of thousands of jobs will be erased completely.

to come to Lebanon with large amounts to support the economy, sustain the existing jobs and create new jobs.

E How far has your proposal been developed? Is this still in the design phase or have the international funds and DFIs received it, and have they responded?

It has been received and has generated a very good echo. I think it now is about waiting to see which track the country will take. Will it take the dark track – then there is nothing – or will it take the track of light? Then we definitely will have the support that we and others can bring. We as EuroMena are committed to [deploy] all the necessary efforts and all the needed human resources to be able to in the first stage maintain [jobs] and then create the largest number of jobs possible. This is how we will keep our Lebanon standing up.

E Do you have a target for how large this investment fund should be?

There is no minimum and no maximum. We know the amounts that are needed. It will take from \$50,000 to a few hundred thousand dollars per company, for tens of thousands of companies. When you have a situation like this, you don't count anymore. Whatever comes is welcome and whatever comes, you employ very quickly and put it to work. With this effort, you will save as many jobs as you can. It also depends on the ability of the [funding] institutions to move quickly.

Labor

E *Assuming for a moment there is money, a good government, and international institutional support for the scheme that you are advocating, what eligibility criteria would you use for Lebanese companies that want to benefit from a convertible loan?*

We talked a lot about that. I think there is no time to make a proper assessment of valuation [of an applicant company] with due diligence, lawyers, etcetera. A normal investment ticket for us is \$50 million and above. But for the specific situation, we are looking at investments ranging from \$50,000 to a few hundred thousand dollars. You will furthermore have to roll out [these investment amounts] as fast as possible to save the largest number of companies [and] businesses. We found that the best solution would be to make standard agreements whereby you probably would give a convertible loan to these companies, which is a loan with a long-term tenor of perhaps seven years. Also, because you are giving money in dollars, whereas most of these companies are local and their business is in Lebanese lira, or in lollars, they have to pay you in lollar – meaning you give them hard money and they have to pay you grosso modo in monkey money. Since you cannot ask them to pay you back in dollars in two or three years, you have to spread it out, hoping that - in the best case scenario - in the coming two or three years, things get back to normal and the lollar becomes a dollar and that the companies have the means to pay you back.

As they cannot start [making loan payments] immediately, you probably have to give them a holiday period of 12 or 18 months so that they start generating money as the country picks up and they will have the ability to pay you. You would probably charge a small interest, not a large interest.

I do not believe in free money – what comes easy is what you lose easy. So there has to be a small interest [charge of] one, two, [or] three percent. Most importantly, if there is a remaining amount that has not been paid after the [maturing of the loan] – whatever period it is, five, six, or seven years – the entrepreneur should know that this is not forgiven. This means that he will have to give up equity in his company towards the entity that gave him the money. That entity becomes his partner and enters the board.

Meanwhile, throughout this entire period, our duty is to upgrade these companies and [equip]

them with an investment grade corporate governance, accounts, transparency, [and compliance with] ESG and AML [standards on environmental, social and governance and anti-money laundering principles], educating them in all this. So that at the end, if you [obtain] equity in these companies, and list this equity on a stock market, [these newly listed companies] are eligible and attractive enough so that investors are coming in and you create liquidity for small enterprises in Lebanon.

E *Would this be a singular endeavor and fund where EuroMena would lead or would it be more of a consolidated effort involving everybody in town who has the requisite financial, investment and governance skills? Would a public-private partnership be involved?*

EuroMena is a regional private equity fund. We invest in the Middle East and Africa. Lebanon is one of 22 countries that we invest in. But it happens that we are here in Lebanon; we used to be in Lebanon because the environment was good, the sky was blue and you had nice food and nice people around you and a good banking system and a good tax system. Except the people who are still nice, all this is out. There is no banking system, no regulation, the sea is polluted and the mountains are not green; nothing anymore. When you, today, tell people that you are in Lebanon, they look at you [and say hmm, okay]. But we have to give

back to the country that has hosted us, for what the country has given us for 15 years. What we can give this country is the platform of EuroMena. We manage hundreds of millions of dollars and so are capable today to manage a

■ One million dollars could save an average of 10 companies, around 100 direct jobs, and 500 indirect jobs.

specific envelope for the urgent matter of Lebanon. We will enter the special alliances and special partnerships that we need on the ground to do that. But what we are saying is that EuroMena will not make money from this.

E *There are capable people in Lebanon who have knowledge and experience in structuring investments, assessing companies and so forth. Would you invite them to be part of the team for this effort of providing convertible loans to a large number of Lebanese enterprises?*

We would definitely be partnering with institutions that would be complementary to us and contribute to deploying these amounts in a faster and more efficient way. That is the objective. Again, this does not have the objective of publicity nor of making money. It has the objective of giving support to a country that has given us a lot and giving back to that country whatever is needed, while preserving the financial needs of our shareholders. Again, we are not into grants or throwing money down the drain. We are into investing responsible money with responsible people and responsible investors in order to sustain or create the largest number of jobs possible and make [Lebanon] pull up again.

E *How many jobs could a long-term, convertible loan sustain for each \$100,000 invested by one of your institutional partners?*

One million dollars could save on average 10 companies, and every company within that range would have on average ten jobs. What I am therefore saying is that a million dollars would probably save around 100 direct jobs but these [100] direct jobs would probably save 500 indirect jobs.

E *So we are hearing that around 600 jobs, a combination of direct and indirect jobs, could be saved over a period of three to five months, which would be a bridge period to reach a point where these companies will return to operational safe ground in economic terms?*

That is one million dollars. So if you think \$50 million, you are really talking about something very important.

E *How large would an investment team have to be to facilitate this wave of convertible lending, in terms of assessing companies, or even just signing the necessary paperwork? Could the latter process be automated?*

It takes a partnership with a law firm with a standard agreement, so that they know as much as possible. And it probably would require another agreement with a financial institution – not a bank but a quasi-bank – to use the IT systems of these [institutions]. We at EuroMena have the DNA of investors and so we are completely capable to serve this task, but we will definitely increase our team by capable young people. I think we have many in the young generation who today cannot find jobs outside [of this country] although all of them have degrees from great universities. They

are prisoners today in Lebanon so there will be a great opportunity to put them to work.

E *So there would be an element of job creation in this endeavor, generated by your own organization.*

I think so, yes.

E *Would you have a priority list of eligible industries or sectors, or would it be across all sectors?*

It depends on the willingness of the funders but I think there are no limitations; every dollar that is invested into something that creates a job, is a responsible dollar to invest. You have to see

it from this angle. The objective is not the financial return – the objective is to save the largest amount of SMEs and jobs as fast as possible.

■ Every dollar that is invested into something that creates a job, is a responsible dollar to invest. You have to see it from this angle. The objective is not the financial return – the objective is to save the largest amount of SMEs and jobs as fast as possible.

E *If we were to go below the SME range of enterprises to micro, small, and medium enterprises (MSMEs) and investments by micro-finance institutions (MFIs) into micro and nano businesses – meaning those enterprises that can benefit from micro-finance loans and employ very few*

or no persons outside the micro-entrepreneur's family – could micro-finance entities with loans in the range of a few thousand dollars plug into the platform that you are proposing?

I do not know. I cannot answer you on this question today. I think in this situation you have to be open to anything that can create jobs and sustain jobs and preserve at least the capital of the investment, not the financial return. But I would not say yes and would not say no; it depends on who is the counterpart, what is the proposal, and how we can put hands together.

E *If a Lebanese saver with many old dollars in their bank account would want to invest with the scheme of convertible loans at low-interest long range tenors, would the platform facilitate this participation?*

We will be definitely creative enough to use every single lollar, Lebanese lira, or dollar to save jobs.

