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SPECIAL REPORT

WEALTH MANAGEMENT

- Equities and financial markets
- Real estate investment
- Currencies, bonds, gold, and emerging assets
- SME financing

By Thomas Schellen

RITUALS OF WEALTH

Asset management in Lebanon

The problem of our age is the proper administration of wealth, so that the ties of brotherhood may still bind together the rich and poor in harmonious relationship. The problem of Lebanon in the current period of economic scarcity and political austerity is the proper administration of wealth in the interest of empowering society to improve its productivity and prosperity.

Read those two sentences again. Do they contradict or complement each other? Are they true or false, or is it somewhere between the two? Whatever your answer, our editorial perspective is that the latter is a contemporary adaptation of the first. The first is actually a quote, concealed for the purpose of this story. It is the opening sentence in a 130-year-old essay, colloquially known as the gospel of wealth, in which the richest American male at the turn of the 20th century, Andrew Carnegie, presented his sincerest convictions.

PROTECTING WEALTH IN TIMES OF GLOBAL DANGERS

Making sense of great individual wealth, as Carnegie's essay was a prominent example of attempting to do, is never easy. In the specific context of personal and familial circumstances confronted with a dysfunctional economic environment under scary global conditions, making sense of and protecting wealth is more than difficult. The situation of a Lebanese wealth owner seems to entail not one, but three problems, two of which are hot and immediate, and one that is ethical and fundamental. The first of the three problems are risks for wealth produced by the widening cracks in 70-year-old global frameworks that are under strain from political, economic, social, and environmental threats.

On the levels of politics, and economic and social instabilities, the world's rich and poor alike are confronted with aggregations of risks that rarely, if ever, had been experienced, even in the form of military threats by the last two or three generations. These unprecedented elements of financial and economic warfare range from information and IT attacks to fake news, state-sponsored cyberterrorism, and currency conflicts.

In the latter, the weaponization of the dollar could have consequences as uncontrollable as violations of the mutually assured destruction (MAD) doctrine in the days of ICBMs and the superpower arms race. This is no exaggeration in the views of observers and analysts (also found in Lebanon) who point out that the global regime anchored by a US-controlled reserve currency—as has existed in different varieties since Bretton Woods—is incompatible with the unilateral use of this currency as a weapon in economic warfare.

But this dangerous contradiction notwithstanding, American tweets and messages of trade wars and currency wars abound. The socioeconomic threat of such wars for large and small nations is huge, with the only difference consisting in the knowledge that the large economic powers can unleash mutual havoc with unpredictable outcomes, while small nations have no defense at all. Lebanon has just received another reminder on August 29 that an act of financial attack by a very powerful, self-interested and ruthless aggressor can inflict incalculable social devastation and destruction of finance.

But beyond these global threats of the unleashing of economic weapons of mass destruction (WMDs)—no need to send a UN investigative commission from New York to Washington, these WMDs exist—there are also domestic dangers lurking in the US that could devastate the world, such as the alleged death spiral in the country's public debt (for one of many discussions on this issue, see book review page 38). Even as this threat may well be overblown, it is no joke that the recession signals from the world's largest economy this summer have been making daily headlines, that American central bankers are worried about their independence, and that the US government's political saber rattlers ply their noisy trade in the Middle East.

The aggregation of US-related risks is not made prettier by the sudden emergence of new fault lines in the European political and economic house. The EU appears increasingly prone to contribute its share toward flooding the twitter spheres—and the minds of international investors—with panic signals.

LEBANESE OPTIONS FOR WEALTH PRESERVATION

The Lebanese wealth holders of 2019 are, at first glance, confronted with very poor prospects of being able to preserve their native wealth in a country suffering from job scarcity and weakening economic stability. Even if a brave wealth owner here knows that such prospects are possible, what are the priorities that they have to set in this environment where global markets turmoil meets local volatility and forced austerity?

As it turns out, much the same as in the previous periods when Lebanon's fundamental problems were festering under pretty rugs.

Wealth management experts tell Executive that the best things to pay attention to for a Lebanese investor are basic truths. They recommend, as both first-line and follow-on remedies for wealth fears, the magic pill of diversification.

Youssef Dib, general manager of Saradar Bank, leaves no ambiguity on the table. "In wealth management, more than ever, we need diversification by country, by asset classes, [and] by currency."

Toufic Aouad, general manager of Audi Private Bank, prescribes for wealth clients healthy baskets of assets for each portfolio. Queried on why this is the case, he presents an immediate perspective on the global situation. "International markets have been shaken by the Fed's speech at the last Federal Open Market Committee (FOMC) meeting, as it qualified its rate cut by 'mid-cycle adjustment' rather than a reversal of the tightening cycle/a start of an expansionary monetary cycle," he tells Executive. "Market participants, having priced in four interest rate cuts for the next 12 months, were spooked by this neutral position. President Trump's reaction the next day added another layer of nervousness, as he revived trade war uncertainties by launching another round of tariffs—mainly on consumer products—effective September 1."

He adds, "We expect markets to remain data-dependent and to move in a wide trading range until we have more clarity on both fronts. Wealth management starts with a proper asset allocation that caters to client's needs and requirements. Every portfolio should include a wide basket of assets that are diversified by type (equities, fixed income, commodities, FX), geography (domestic, developed markets, emerging markets), and maturity."

Charles Salem, assistant general manager and global director of the private banking at Banque Libano-Française (BLF), offers BLF's assessment of half a dozen event clusters and risks in his answer on how local investors should respond to worrying global developments. Citing the situations relating to China/US trade wars, Hong Kong, Brexit, Italy, Argentina, and the Global Purchase Managers' Index (PMI), he also advises diversification. More specifically, he says, "Local and international investors alike should focus on diversification in their portfolios to manage uncertainty and preserve capital. We still advise investors to remain prudent in their asset allocations during the last quarter of 2019 and maintain an exposure to fixed income through our LF Total Return Bond Fund, which is currently up 6.83 percent as of end of July 2019. We also recommend tactical allocation into assets such as gold, which have proved good protection against volatility. Investors should be ready to add exposure to equity if the picture above brightens and recession fears fade."

> "In wealth management, more than ever, we need diversification by country, by asset classes, and by currency."

When asked if there is any transparency in Lebanese investment opportunities such as equities, Saradar's Dib emphasizes that the real estate markets and opportunities in Lebanon have upside potential and that the market for equities is not marked by opacity as such, but is under-researched. "Lebanon overall is facing a lot of challenges today, and hopefully, in terms of valuations, whether real estate or other, I think we are more at a low point than anything else," he says. "It is definitely a market that an investor should be looking at, given that its environment has been difficult for some years now, and hopefully will turn around when politicians start moving in the right direction in substance and not just form."

Endeavoring to drill down into the anatomies of wealth management opportunities in Lebanon at this moment, Executive asked the experts about the wealth preservation prospects in real estate (see story page 26), equities and financial markets (see story page 20) and presently almost untapped realms of impact investing, including startup entrepreneurship and micro-finance (see story page 32).

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One noteworthy finding from our inquiries concerns the company at the intersection of real estate and equities. In our conversations, not everyone is convinced that Solidere, which is as entwined as intimately with Lebanon's fortunes as no other enterprise of importance in this country, is already at its pinnacle as far as downside potential. However, Ziad Abou Jamra, the company's deputy manager tells Executive that recent measures would inevitably make Solidere shares catch up with the company's fundamentals (without defining a moment for this to happen).

"The price of the share today is around $6 and the book value is $10. However, the book value does not reflect the real pricing of the current land bank portfolio and other properties owned by Solidere," he says. "What reflects the reality is the Net Asset Value (NAV). An assessment of the NAV, taking into account current deeply depressed prices of land which should be temporary, will reveal a much higher figure than the book value, maybe something above $20 per share." (See interview, page 31)

What the most skeptical observer of Solidere can be assured of is that the company has not been the target of qualified scrutiny by local equity analysts, as neither FFA nor Blominvest, who in previous years tracked Solidere, have lately produced such reports. Solidere actually has not been covered much by financial wires in the past 13 months since a new board of directors assumed the reigns at the company. When Executive looked for news coverage of Solidere by Reuters, the agency's page on Solidere entailed a single short news item and the list of board members still featured as current the names of the board that was correct up until July of last year.

IS THERE A PURPOSE TO WEALTH

That leaves the third problem: How do we define the purpose of wealth? There are no absolute answers to this question and perfect formulas for the management of wealth for the social good in sight (Carnegie's answer has been challenged from many angles). But for the investor community in Lebanon, one worthwhile point in seeking meaningful uses of wealth might arise from awareness of increasing probabilities that investments in carefully selected real estate opportunities and, even more so, investments via high-function Lebanese capital markets have a potential to contribute to national economic improvements and help preserve the investors' wealth in a rational way. Moreover, even as a financial institution noted as pioneer in micro-finance involvement with poor population groups in rural Lebanon was just targeted by a missile salvo of sanctions by the US Treasury, investors could very well stand to benefit from investigating new and locally underutilized investment opportunities under the paradigms of impact investing (see page 32) that is aligned with environmental, social, and governance outcomes.

> How do we define the purpose of wealth? There are no absolute answers to this question and perfect formulas for the management of wealth for the social good in sight.

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PIKASSO

By Thomas Schellen

THE NEW CLASS IN PREMIUM ECONOMY

Reinvention of Lebanese equities and the coming capital market

Metaphorically, the asset class of equities, based on trading claims of minuscule ownership slices in listed enterprises, is the ballroom dance queen and king in the palace of financial markets. Historically—the joint stock company that is the precondition for the trading of shares being as young as four centuries—this asset class is a spring chicken when compared to assets such as bonds, gold, and real estate. Equities started gradually, with the development and institutionalization of stock trading in bourses of 17th and 18th century Europe, or, in the later English term, on stock or securities exchanges.

Over the past century or so, as exchanges burst to become central dance arenas of advanced economies, information and agility became mantras for investing in equities, regulation became the operating floor, and liquidity became the secret of success for the asset class. Trading in shares as a highly interactive social and economic pattern has evolved in spurts and pivots under the impact of technical progress in long-distance communication and information transmission in tandem with the development of laws and regulations. It has been heavily influenced by models, theories, and narratives of economists who would often be celebrated at one particular time only to be regarded as, to use Keynes' term, "defunct" by the next generation of economists.

Except for times of war and supreme ideological silliness, consistent rules and operational safety were understood to be of utmost importance to the functioning of stock markets, and thus exchanges were protected by their governments from ideological follies and insulated from vain politicking. Operators of exchanges during the rise of capital markets in the 20th century have been doing their best to secure unfettered information flows that comply with principles of symmetry, to conscientiously practice and improve governance, and adopt the most productive technology that facilitates and enhances human control and ethical behavior.

How existential it is for the success of an equities exchange to be well-managed and regulated, technically kept at the top of the game, and insulated from political plays has been demonstrated impressively by the track record of the Beirut Stock Exchange (BSE) between 1996 and 2019. This year, the rulers over the nascent Lebanese capital markets saw no other option but to initiate the Electronic Trading Platform (ETP) that would incorporate these virtues after the BSE had failed so miserably in matters of attracting liquidity and operating in the needed independence from the inertia of Lebanese politics and legislation.

At this time, emerging from summer 2019, and the political, monetary, and fiscal turmoil that came with it, into the business season that promises being fueled by the first meaningful reforms that the country has seen in years and will hopefully culminate in offshore resource confirmations and also witness the state's initiation into sane electricity generation patterns, Executive asked local investment professionals what to make of Lebanese equities and what to think of the coming ETP.

AMBIGUITY, OPTIMISM, AND INDIFFERENCE

The headline result is threefold: ambiguity, optimism, and indifference. The investment banking emirs, wealth management princes, and prime movers of financial things in Lebanon view the existing equities with ambiguity, neither greatly condemning nor enthusiastically praising them. They anticipate the reinvention of a reliable home for Lebanese securities trading and capital market activities with great optimism and hope. But they are mostly indifferent or pessimistic in their assessments if the BSE has a future.

To focus first on the most promising bits of the capital markets equation today, the ETP is being traded as the future champ. Wael Zein, chairman and general manager of Lucid Investment Bank is full of praise for the regulatory infrastructure and institutional diligence that underpins the ETP. "The ETP platform is an excellent way to institutionalize this market, and I can say that everything which has been done so far in terms of rules and regulations [for capital markets], is really very advanced," he says. "We feel this because we rely on [these rules] the most when it comes to private equity and investment structures."

According to him, the ETP is a very important step toward creating what he calls the alternative part of equity, meaning equity for middle- and small-sized companies that pursue corporate growth. "This is where the equity is needed in Lebanon," he tells Executive. "It is needed to fund those companies with risk money instead of funding them with loans and subjecting all these companies to huge risk at their stage of growth. The ETP platform itself is an excellent way."

For Youssef Dib, private and investment manager at Saradar Bank, the drivers and motives behind the ETP are the same as those behind the support for the knowledge economy by Banque du Liban (BDL), Lebanon's central bank. "In my view [the ETP] is a very good initiative by BDL Governor [Riad] Salameh to try and ignite dynamism in private sector financing," he says. "This was the initial idea [behind the ETP], as it was the idea when he launched [Circular] 331. [The Circular] 331 created the technology ecosystem in Lebanon which encouraged many entrepreneurs all around. Now is the time for a midlife assessment to see what worked well and what not so much. Once the overall system is more mature, there will hopefully be exits and once we get to exits, the option of listing on the ETP would be one possible conduit."

> "The most important thing is the impact the ETP will have on the financial market, and today this is more important than before."

For Fadi Osseiran, the general manager of Blominvest bank, the ETP cannot come soon enough. "The most important thing is the impact that the ETP will have on the financial market, and today this is more important than before because the cost of debt is so high due to the interest rates that we have," he says. "[These rates] today are so high that many companies are not able to borrow, and it also does not make sense to borrow."

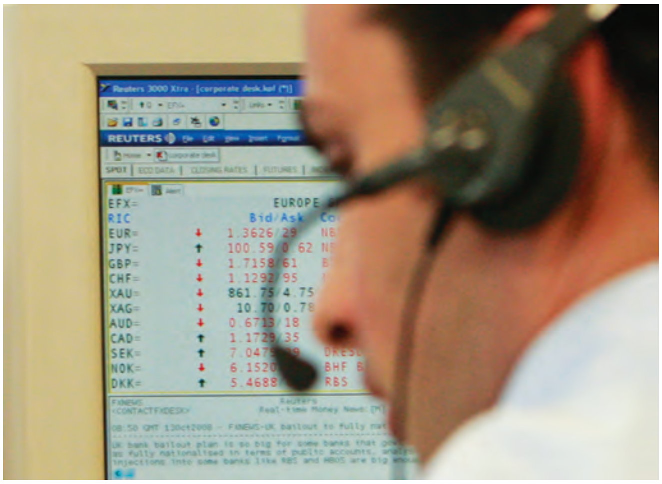
Having been involved in a leading role with a consortium that entered a bid for being granted the license for the ETP but was defeated by the winning bid of Bank Audi Group and Greece's Athens Exchange (Athex) Group, Osseiran has frequently expressed high enthusiasm for the ETP project in the past and says he is certain that the operation will be a win for Lebanon. "There can be plenty of reasons why a company would need equity," he says. "The point is that today you do not have the proper mechanism and trading platform if you want to raise equity. But an ETP that functions in the way we see as proper and that is liquid and has market making, creates such an option, and that is why I am saying the ETP will be good for the country and good for the companies that are raising money." He tells Executive that his top priority as an investment banker lies in having the ability of helping companies to go onto the capital market, "To have the proper platform and get companies on the exchange, that is the job I want to accomplish."

Raja Abdallah, who is engaged with the development of investment advisory service at FX trading specialist firm Royal Financials, dismisses fears that companies are still far from ready for flotations on the ETP. "Skeptical views that Lebanese companies, either SMEs or large companies, are not ready for listing, will change," he expects. "Lebanese companies will adapt to the new ETP, and the transformation of their governance will happen quickly as companies realize that they will need to be up to standards to be listed. We are all waiting for the ETP. The governor [Riad Salameh] has placed his word and personal weight on it and owes it to the startup community and [venture capital] funds to deliver, and also to the many private companies who would like to go public."

Royal, which was a member of the Blominvest-led consortium in the ETP bid, will, in Abdallah's estimate, come to play a role in the ETP only as a matter of time. "We are leaders in the technology commonly deployed on an ETP," he tells Executive. "We use it in our trading platforms. We know how to manage this technology, use it, sell it, we know the dynamics and how it works. We do not want to anticipate things as to what the role of Royal Financials on the ETP will be, but we know [that] we have sufficient expertise in the area of electronic trading to make us a credible player or a tech [partner] in the operation of the ETP."

Toufic Aouad, general manager of Audi Private Bank (which is a unit of ETP-winning Bank Audi Group), tells Executive that setting up of the ETP is "expected to be a major development in the direction of improving the liquidity conditions of the Lebanese equity market. By listing new companies and attracting new investors, we will be increasing the number of players and participants in this market, hence improving its efficiency. Corporates will also have access to a new source of capital, which could revive investments/expansion projects and bring new life to the Lebanese capital markets."

Jean Riachi, chairman and general manager of FFA Private Bank, was not part of a bidding consortium for becoming the ETP licensee. This notwithstanding, or perhaps because of the distance he has kept to the ETP ownership and operator issue, he delivers his assessment of the project with notable passion. "The ETP is a great idea and a great achievement for the CMA," he says. "They were right to take this step because we have had enough with the Beirut Stock Exchange, its red tape and bureaucracy. Now we will have a modern market with dynamic people running it because the operator is here to make money. As we know, the volumes in a market are important for investors because this is what creates the depth [of the market]. As an exchange, they will do whatever it takes to make the exchange active."



"Lebanese companies will adapt to the new ETP, and the transformation of their governance will happen quickly."

THE IMMEASURABLE RATIO OF HANDICAPS TO EXPECTATIONS

All expectations for the ETP as a magnet for liquidity and capital-seeking companies of course have a time-handicap of six to 10 months affixed to them, and fortunes of the platform will also be co-determined by factors that are still sitting in the dark, from the operator's strategy for activation of trading and inclusion of stakeholders in the Lebanese financial markets, to the readiness of state-affiliate enterprises (SAEs) for an eventual flotation, and the appetites of prominent family-owned companies for opening their capital structures.

But there is an alignment of views among the investment bankers and wealth professionals who talked to Executive. They think that the ETP, albeit very significant for the future of the venture capital—private equity sphere in the Lebanese entrepreneurship ecosystem, and for maturing tech startups in need of exit opportunities, cannot count on this sphere for its sustainment. The number of prospective beasts of mythos, whether miniature-unicorns or some Arabian breed of billion-dollar valuation potential, is too small and too far in the future to speculate on. In the term of the first years of ETP life from 2020 onwards, the stakeholders in the financial sector and prospective capital markets anticipate that launch clients and first-wave listing candidates on the ETP will come from the realms of SAEs and existing family companies in the medium- to large-size categories.

OUR EQUITIES

When the question turns to wealth manager's perspectives on equities traded currently on the BSE, the enthusiasm for most stocks by Audi's Aouad seems strictly ruled by the facts on the ground as he says, "The Lebanese market suffers from both breadth and depth (ability to sustain relatively large market orders without impacting the price of the security). Accordingly, it is more linked to the political developments rather than the actual underlying fundamentals. Current valuations are severely distressed, especially those of banks which are trading at P/BV lower than ~0.4x, while profits as well as dividends have been stable [or] sustained at the minimum."

For Riachi, the investment propositions of existing Lebanese equities are not enticing in the current market. He names as reasons why FFA domestically are "no big fans of equity investments for the time being" the vagaries of investing in real estate company Solidere on the one hand, because of the company's debts and relative uncertainty about management performance, and subdued outlooks for the banking sector on the other. Although banking stock trade at up to 50 percent discount to their book value and thus look attractive, it is to him not a valid argument for acquiring Lebanese banking stocks because such ratios are today the case with banking stocks in many international markets. "In the banking sector it has become the new normal to buy below book value. This is not the criteria to

use as reason for buying Lebanese banking stocks today. The criteria are the quality of the assets and the expectation of future profitability," he explains, but denies both as buying reasons because he expects decreasing profitability and sees asset quality to mean nothing for the current time. "So there is no incentive on this front that would make buying bank shares logical. At one point you might want to buy, but not today," he says.

For Osseiran at Blominvest, the share prices of Solidere stock show that the company has been paying the price for the level of uncertainty that is beyond its power to influence. As a major company in Lebanon, it has borne the brunt of global pressures on the country and, as a highly politicized company from the way it was designed, also been affected by who is in power in Lebanon and the question of how much support it received under the domestic political uncertainties. The company in Osserian's view in the past also made both good and bad management decisions that were reflected in its share price, but the stock to him has not much to fear. "I would not say that it has big downside potential and see the political handicap today as small," he says. "The cycle is changing, and they made the right move to decrease prices. A major handicap today is their loan level. Even though they have decreased it, the price of the loan is still substantial because of the interest rates which affect the company. But I agree that between negative impact from increasing interest rates, and the positive effort of management structuring, [Solidere] should become better."

As to banking stocks on the BSE (which include the stock of BLOM, the parent of Blominvest), Osseiran regards them as "correctly valued" with reference to the negative outlook for profitability and their generous price-to-book value. Noting in his interview with Executive just before the August announcements of sovereign ratings that effects have already been priced in, he says, "As the bad news are already priced in, any pocket of good news would be positively reflected. There are several pockets of potentially good news, for example through budget implementation and through reforms. Upside [in equities] will be there. If you want to invest in Lebanon, things to look at is what is cheap, and thus there is a big potential in the banks."

With the optimism about the coming trading platform and the potentially positive outlook for existing stocks being both codependent to each other and located in the future, Lebanese investment experts' anticipatory predilections with the markets and trades that are to come leave the question over the fate of the BSE relegated to an afterthought. For Riachi, a burial is called for. "They should close it. The Beirut Stock Exchange will die. I can tell you from now," he says. For Osseiran, the BSE could have a future if it gets energized into new vigor by having to stand up to a competitor, but he asks if the question of its life is even justified. "It depends on how the ETP will work. But if you worry over the question if the BSE were to die, you would have to ask if it is alive today," he cautions. For Royal's Abdullah, the existential point is clear. "Nobody has any regard for the BSE. Let's be honest," he says.

> "They should close it. The Beirut Stock Exchange will die. I can tell you that from now."

It seems that the BSE, irrespective of any possible nostalgia for the institution—in an irony of history, the BSE's initial year of establishment was 1920, a century before the impending start of operations of the ETP that is expected to substitute it—has exhausted all emotional capital and operational appeal with the makers in our financial markets. Regardless of how its operations will play out once the ETP is up, running, and hopefully successful, however, one could reason that there would be room and need in Lebanon for a hands-on museum covering the past and future of finance, from the history of commodity money to fiat money and cryptocurrencies, the role of banking and central banking, and the functioning of capital markets, including an active learning environment where people can get a feel and acquire a taste for being investors in equities.

By Thomas Schellen

QUE SERA, SERA

Questioning Lebanese real estate as an investment proposition

In the beginning, the land was empty and without borders, but then came people who settled on the land and built upon it. The people divided the land into plots large and small and invented rights of ownership to the land, all that was built on it, the water and resources beneath it, and the airspace above. They drew up title deeds, named the plots and all that was built on them real estate, called them commercial and residential, and deemed that it was a fantastic asset class.

Any thorough understanding of Lebanon recognizes that land in this country, when compared to most other countries and also considering the density of the population, is both desirable and scarce. The Lebanese link their identities to their villages, and ownership of private homes is as pronounced as the inclination to invest in domestic real estate.

But is real estate in Lebanon a good investment today? The ruling assumption for over 20 years in post-1992 Lebanon was that while investments in this asset class might not always appreciate in value, they would never be losing propositions. Property prices, so the assumption goes, might stagnate, but never drop. The investment conditions and views on real estate in 2019, meanwhile, have become more nuanced.

Nuances about the current state of property investing in Lebanon are, however, far from the message of Beirut-based real estate developer, businessman, and investor Georges Chehwane. "When it comes to any kind of investment in real estate, I, Georges Joseph Chehwane, do not advise anybody to invest a penny in Lebanon," Chehwane tells Executive. "In terms of investment and business, [Lebanon] is the worst place on earth."

In an outburst that appears almost calculated, the chairman of real estate developer Plus Properties and communications media venture Group Plus cites the lack of government support for property owners in Downtown Beirut, alongside persistent public corruption, slow permit processes, and increasing costs of dealing with public administration units. He further lambasts the rising interest cost of bank loans, which he says has risen to 13.5 percent per year for developers like him, and the lack of incentives that Lebanon offers to overseas investors in local real estate.

Chehwane then juxtaposes these with investment incentives for property buyers in Cyprus—specifically European residency advantages—and the reliability and transparency of permit processes for Cypriot real estate. Plus Properties currently owns and develops more than 25 apartments in Cyprus, and the country, according to Chehwane, is attracting Lebanese property investors. "I am selling many apartments in Cyprus to Lebanese who do not want to keep their money in the Lebanese banks," he says.

On the other hand, from the vantage points of the financial and wealth management profession in Lebanon, the picture is not fundamentally grim.

Toufic Aouad, general manager of Audi Private Bank, says that MENA investors remain keen to invest in real estate assets in general, and selectively in Lebanese real estate As he explains it, peculiarities of the local market, such as the tendency for real estate prices to adhere to a stairway trajectory of hikes and stagnations "can be explained by the scarcity of land, especially in Beirut, which puts a cap on new supply, and therefore acts as a floor for prices." He adds that more recent downside developments of property prices can bring benefits to alert investors, "The drop in real estate prices mostly concerned flats, not land, and has been a function of several factors—size, location, developer's financial situation, etc.," he tells Executive in an email. "Such conditions present attractive investments especially when dealing with a distressed seller. We remain open to selective opportunities in the real estate sector in Lebanon."

> "When it comes to any kind of investment in real estate, I do not advise anybody to invest a penny in Lebanon."

Fadi Osseiran, the general manager of Blominvest, assures Executive in person that "nothing is fundamentally wrong with real estate in Lebanon."

He continues, "Within the property space, one can discuss many investment plays, but one has to differentiate as some real estate is income generating, and some is not. [Investing in real estate] is a question of timing and of the cycle, a question at which point in time to enter and when to exit. Overall, the value of real estate is preserved over time."

When comparing Lebanon regionally in terms of attracting investment in real estate, Youssef Dib, general manager of private and investment banking at Saradar Bank, sees no alternative in the Arab world to Lebanese properties if an Arab or expatriate Lebanese investor seeks to find desirable locations with a sea view, not to mention the other numerous selling points. "In the medium- to long-term, I would definitely bet more on Lebanon than on Cyprus," Dib says, adding that while it is impossible to give wholesale advice on how much of an investor's total portfolio should be allocated to Lebanon, diversification is key. "Someone who is in Lebanon should, if he can afford it, look at real estate where the market today is a buyer's market," he says.

Mincing no words on real estate's potential is Jean Riachi, chairman and general manager of FFA Private Bank. "The problem with investments is that people tend to follow trends," he tells Executive. While he says there is no demand on real estate in Lebanon today, he notes, "It is a buyer's market. This means you have time, you have choice, and [you] can get very good deals. This is one reason to invest. The second reason is [that] I am contrarian. When everybody thinks that something is bad, it usually is a good sign that things are going to get better."

According to Riachi, observation of long cycles in Lebanese real estate investments show that despite manifold disruptions of the country's fortunes, from devaluations in the fourth quarter of the last century to wars and impacts of neighboring conflicts in this century, real estate values have tended to recover after every crisis and improve beyond their readings before the crisis. He acknowledges that recent years have seen the price of real estate in Lebanon go down in contradiction to assumptions that they never do—often heard well into the 2010s. Riachi attributes such losing bets to investor behaviors of succumbing to buying instincts, however. "Everybody wanted to buy real estate from around 2008 to 2011, but it was not the right thing to do," he says. "[The right move] is the contrary: Do what others are not doing."

NEW REAL ESTATE INVESTMENT PLATFORM BECKONS

Investors looking to seek out domestic real estate investment opportunities that come attached with a value proposition of beating the interest offers that banks have been extending to their big-ticket depositors do not need to despair. According to Wael Zein, chairman and general manager of Lucid Investment Bank, a new property investments "platform" (the structure is not a fund for reasons of legality in Lebanon) will offer just this opportunity very shortly under the name Legacy 1, for which Lucid is the financial administrator and lead placement agent.

Launched in the Lebanese market under this name in October 2018, a precursor concept of Legacy 1 was being kicked around in the real estate sector for several years and first alluded to by the idea's fathers, real estate developers and consultants Namir Cortas and Massaad Fares in a 2016 interview with Executive (see end-of-year issue). What, at the time, appeared to this magazine as a vague and rather unstructured plan has since been melded into a structure with two core constituents—an entity called Legacy Central as sponsor and investment manager, and Lucid—plus a complex organization entailing an investment committee, a board of directors, legal counsel, and an external auditor, in addition to a management team that includes known actors from the Lebanese real estate sector.

The platform was licensed by the Capital Markets Authority of Lebanon (CMA) with components of equity and debt bonds and a scalable range, Lucid's Zein tells Executive. It is designed for buying a number of apartments in Beirut and selling them to a market whose participants are mainly members of the Lebanese diaspora, but also local investors. "They want to buy from a credible platform. They want good prices and possibility for easy loan arrangements," he says. "We believe that this fund is very important because it will probably be the only sizeable movement on the [real estate investment] front."

Since Lucid joined the structure last year, developments in both politics and markets have made it prudent to adjust the business model to attract investors who are faced with the lure of high interest rates on deposits from Lebanese banks. The business model and value proposition of Legacy 1 thus has been upgraded, Zein explains. To hopefully achieve competitive returns, the platform is targeting a specific segment of the real estate market in Greater Beirut, namely two- to three-bedroom units in quality buildings where a majority of units have been sold and have people living in them. Such units, identified by Legacy 1, would be acquired in bulk after approval by the platform's investment committee. "This is a return-generating model, because you are buying at a discount and selling at prevailing retail price," Zein says. "The margin created by this practice should create a return to investors, and all the adjustments that we have made are basically designed to create a return to investors that can add a premium above what they are taking [in interest] from deposits. The timeline is raising money, buy, and then start selling. Fundraising will be in multiple phases and multiple closings, and we are shooting for the first closing in the third quarter of 2019 or a little bit later."

A TWISTED JUNGLE

However, despite the broad consensus among local wealth management professionals on the virtues of investing part of a portfolio in real estate and doing so in Lebanon, developer Chehwane has a point in being wary about real estate in this country. The story about Beirut being a buyer's market for real estate has been bandied around in this country for six or seven years, with growing insistence by those who tell it. Nonetheless, any stroll through the streets of areas such as the "golden triangle" in Ashrafieh or alongside the new complexes in the Downtown vicinity of Martyr's Square will lead the observer past residential mid- and high-rise buildings that have plenty of empty windows. (Chehwane, whose Plus Towers sits just to the south of Martyr's Square, says he has not sold a single apartment at the address in the past five years.)

Moreover, many fancy buildings in Downtown and the golden triangle exude all the ostentatiousness and charm of million-dollar ghettos. They do not breathe the air of urban productivity that Beirut would need. Similar vibes of emptiness and sub-optimal property designs waft freely through districts of Beirut that are less prominent and pricey than the aforementioned core districts. Furthermore, all the districts of Greater Beirut appear to remain cloaked in pollution and congestion, undesirable for any buyer or tenant when measuring this city by standards for a livable metropolis in the 21st century. The lack of green spaces and safe walkways, which are not just for improving the health of an urban environment but also make good sales arguments when dealing with conscious investors, is as overpowering as ever, and the new parks that could be developed exist merely as architectural landscape design studies.

On the fronts of urban planning and information on real estate prices and occupation rates, economic planners, real estate industry players, property investors, and information seekers remain in the dark of data deficiency and obfuscation (many numbers that Executive were given to questions about the real estate sector for this report were described as "estimates," just as they had been five and six years ago), infrastructural gray zones, and buildings that are hidden in shades skirting the law, ducked away from transparency and legal clarity.

■ All the districts of Greater Beirut appear to remain cloaked in pollution and congestion, undesirable for any buyer or tenant.

All these problems, plus the sociopolitical diseases of administrative inefficiency and corruption, have been weighing down the minds of property owners, developers, and real estate investors for decades of post-conflict reconstruction and urban growth in Beirut. And for more than six years now, property owners, developers, and investors have been bearing these pressures mostly without the relief that comes from making an honest buck or a big sale.

It further stands to reason that not every landlord and investor with commitments in Lebanese real estate, never mind how determined a contrarian, is able to shrug off operational costs and temporary losses. FFA's Riachi concedes in his interview with Executive that real estate, while representing 10 to 15 percent of the group's revenues, currently produces a measurable drag on profits. "The consolidated profit is very good, but the real estate activity in Lebanon is losing a lot of money," he says. "We are covering the losses [because] we are committed to service our clients. We therefore do not care [if we lose money on real estate operations for a time]. We make enough money in other areas of our business."

Even if the scheme of Legacy 1 were to score high on its aim of providing a profitable platform for investors with the envisaged rate of return that can compete with deposit interests, it will only indubitably benefit those investors. According to Zein, the buildings targeted for acquisition of apartment units by Legacy 1 will number in the lower double digits—compared with a count of buildings examined for investment opportunities that is at least 20 times larger. "Legacy 1 have reviewed 504 buildings in the Beirut area and will select probably between 20 and 25 buildings [to buy units in]," he informs Executive. An enticing initiative and exhausting exercise, but small numbers indeed when hearing him say that estimates see vacant apartment units for sale in Greater Beirut as running into several thousands.

DISTORTIONS OLD AND NEW

From the history of the territory and communities in Lebanon, one can easily surmise that barriers against the formation of a halfway efficient urban real estate market in Beirut have long created distortions by ways of external pressures, bombardments, and invasions, as well as homespun biases and communal fragmentations. Wandering anywhere in the compact city of Beirut, moreover, strongly supports the judgment that distortions of the Beirut real estate market have been exacerbated over generations, and that these distortions at the current pace of market development will need further generations of conscientious detoxification before they will recede and eventually vanish.

In the perception of Blominvest's Osseiran, speaking on this issue as an economist rather than a banker, a specifically fateful development in the Lebanese real estate market started as far back as the legislative intervention in the rental market that froze rents, and thereby gradually eliminated incentives for developing rental properties in the last century. "That created a distortion," he says. "Later, because of what happened with the [rent] law, we substituted rent with incentives to buy housing. As an economist, I am of the view that this was wrong in the sense that [by incentivizing home buying] your target is to make everybody an owner."

> "We definitely first need a housing policy that does not lead to [wrongly] subsidizing everyone who wants to buy a house."

Considering the economic positioning of people in relation to real estate under a life cycle theory of economics, tilting of the market toward ownership in Osseiran's analysis placed unnecessary burdens of seeking to buy larger homes on couples at very early stages of their economic lives. Young income earners were stuck over-paying for living space and led onto a path of increasing household debt. "Rental solutions are accepted all over the world, [whereas] we in Lebanon are substituting rental-based economy with one where the primacy is buying houses, which are not affordable," he says. "If we want to solve problems in housing, we definitely first need a housing policy that does not lead to [wrongly] subsidizing whoever wants to buy a house or even several houses."

This analysis leads back to the need of a housing policy, informed institutions, and coherent policy-making in the interest of a functioning society and functional economy, before the proposition of investing in real estate, however beneficial or risky for the investor, can be ascertained to be economically smart, or at least not be to the detriment of productivity and quality of life in the country.

The conference room in the management floor and its furnishings with an emphasis on functionality are the same. Even the espresso cup with colorful design looks very familiar. But the faces and, most strikingly, attitudes of those sitting down across from Executive to discuss the state of progress at the Lebanese company for the development and reconstruction of the Beirut Central District, or Solidere, appear different. These individuals no longer evoke reminiscences in this journalist of having been granted an audience with the lord of the manor or his majordomo of communications. They are talking and walking straight business here.

The opening topic of discussion on this late August morning is, logically, real estate prices in Lebanon. Factors behind the downtrend that real estate prices in Lebanon experienced in the past few years have mainly been caused by events in Syria and the broader region and have recently also been influenced by the ongoing escalation between Iran and the United States, says Ziad Abou Jamra, deputy general manager and secretary of the board at Solidere. "Moreover, the increase in interest rate in Lebanon has reached a level that competes with other investment opportunities. This has created somewhat of a liquidity squeeze leading to an immediate and direct negative effect on real estate prices," he says.

"The good news is that when Solidere decided to lower the prices of the plots that are available for sale from its land bank in line with a board decision toward the end of 2018, the company rapidly attracted many buyers," Abou Jamra tells Executive in a rare interview. "We thus achieved a large number of sales, amounting to $204 million in the first quarter of 2019 alone. Selling at discounted prices for a limited quantity of plots will continue for a short period."

He assumed his position on the Solidere board of directors just over one year ago, when seven individuals were newly elected to the 12-member board headed by long-standing chairman of the company, Nasser Chammaa. Observers in the financial and governance scene say they regard the new board as more diverse and balanced in terms of communal allegiances of its members, although advocates for the advancement of more inclusivity on Arab corporate boards note that the new board is still composed entirely of males.

Besides renewing its board, the company, according to Abou Jamra, took steps to adapt to the worsening economic situation that had come to affect it both locally and regionally. This series of administrative changes led to a 14 percent decline in general and administrative expenses as compared between 2017 and 2018, in addition to which clients were granted discounts for repaying their promissory notes earlier than scheduled.

"The result of all this can be seen by the fact that we owed banks and financial institutions $529 million at the beginning of 2018, whereas today the level has been brought down to around $280 million," Abou Jamra explains. "This represents a drop of slightly more than 47 percent mainly due to the sales achieved in the first three months of 2019. Subsequently, more sales were booked with the objective being to close the year with around $200 million in loans on our books. A further reduction of around $80 million in the amount of debt is expected between now and the end of 2019."

He confirms that all sales achieved in the first quarter of 2019 were sales of land in the Waterfront district and goes on to emphasize that Solidere exclusively sells land to buyers who demonstrate the intention of developing them. "We are working to attract new land buyers who have the ability and the willingness to pay more than $20 million for a piece of land as this is more or less the minimum ticket. These are not small-ticket sales," he adds.

Separately, allowing land sales partially paid for using Solidere shares was discussed in the general assembly of 2018. "We thought at the time that it would be very interesting to offer lands for sale in exchange for a percentage in cash and a larger percentage in Solidere shares," he says. "After discussing it several times in the board of directors, we decided that it is not in the best interest of the company and the shareholders to initiate such a scheme for the time being. The concept is on hold for now, but I think we will reconsider it after some time." Abou Jamra adds that the current strategy of Solidere is to prioritize new land sales and complete the administrative changes that are all aimed at strengthening the balance sheet, boosting the liquidity situation, and reducing debt eventually to zero.

"The economy is weak and this is reflected in real estate prices. However, we saw a significant pick-up in demand when prices were lowered. This is a very good sign indicating that people continue to believe in Beirut, our company, and the Waterfront area," Abou Jamra says. "Importantly also, additional land sales need not exceed $200 to $250 million as that will be sufficient to eliminate our debt. Once that is achieved, we will cease selling at discounted prices. At that point, the chairman and the board of directors will reassess the issue and increase prices to levels that we deem prudent in the interest of our shareholders. Such a price hike should, in my opinion, lead to a stabilization of land prices in the entire Beirut area."

By Thomas Schellen

TO NOT GET FOOLED

Currencies, bonds, gold, and emerging assets

The mundane reality of human wealth advisories is keeping investors in the purgatories of risk. Thus, it seems proper for the investor to track the evolutions of asset classes in a world where comprehensive wealth narratives begin with traditional asset classes—gold, bonds, and cash—and also venture into non-traditional stories of investing in infrastructure, entrepreneurship, and environmental, social, and governance (ESG) assets.

Gold, bonds, and currencies are classics in representing the asset classes of commodities, fixed income, and cash. They differ widely in their characteristics, and being cogent of them is good for anyone interested in wealth management.

Whereas the asset classes of equities and real estate (see stories pages 20 and 26) can be reasoned to have significant local provinces for retail investors with interests in Lebanon, global trends determine investment strategies for commodities, fixed-income, and cash asset classes to such a degree that local wealth holders need to stay 100 percent observant of developments in the respective international markets.

GOLD

For gold bugs, but also for international commodities consultants, the outlook for gold prices has strong upsides that, as of the middle of 2019, are expected to be realized earlier than previously thought—in tandem with economists' recent expectations (see the National Association for Business Economics [NABE] survey coverage) that a global recession could be impending in 2020 or 2021. In a recent newsletter by German precious-metals firm Degussa, its head economist Thorsten Polleit says an increasing number of factors suggests that globally "the upward trend in prices of gold and silver" will continue, and he advises investors with long-term orientations to expand their positions. Lebanese wealth management professionals concur. "We believe in gold, and we think the upward trend of gold has started and is far from ended," Jean Riachi, the chairman and general director of FFA Private Bank, tells Executive.

"Many analysts believe today that gold will rise, and it does not have to be a doomsday scenario to believe so. Gold trend is up because of geopolitical risks and the issue of trade war," says Fadi Osseiran, the general manager of Blominvest. He notes that a fund product designed by Blominvest's asset manager a while ago with 30 percent bonds, 50 percent equities, and 20 percent allocation to gold has been outperforming because of gold.

Youssef Dib, general manager for private and investment banking at Saradar Bank, explains that three of the most highly used portfolio strategies in the bank's offerings today include relatively strong proportional allocations to gold at 5 percent.

CASH

When it comes to cash, often-cited data points to a near-term disappearance of physical banknotes and supports the interests of financial services corporations facilitating electronic transfers and other stakeholders that stand to benefit from physical money's decreased use. While expectations for the great cashless global society tend to ignore or downplay countertrends, the businesses of trading and speculating in currencies are not predicted to experience death until the world's end.

It is logically no shock that Lebanese wealth managers see strong prospects of currencies as an asset class for local investors. "In terms of currencies, I would again stress diversification," Dib says. "We are in a dollar-based country in Lebanon and also in a dollar-based [region] area of the world. But as one sees volatility in the dollar, one can [observe] that safe-haven currencies and [precious] metals are going up, and [diversify one's portfolio into] Swiss Franc, Japanese Yen, and gold."

Raja Abdallah, the investment adviser of Beirut-based currency trading specialist Royal Financials, says that currency trading offers sufficient sophistication and choices so that investors see currencies as an asset class in itself. "[As a banker working in Switzerland], I had clients who played nothing but currencies for managing their wealth, either in the form of speculation or hedging," he explains, adding that Royal Financials is in the process of launching a capital-protected structured product linked to foreign exchange. "We have a track record at our trading desk that has outperformed many indices for a long while; as this is our forte, [Royal decided] to offer a yield-enhanced structured product that can potentially beat the bank yield of deposits in Lebanon, and do so with capital protection," he tells Executive.

BONDS

The expectations for international bond markets appear to shift in ways not yet seen in this century. "On bonds, I think we are reaching the end of the long bull market that started in the early 1980s under [then Federal Reserve Chairman] Paul Volcker when he increased rates dramatically to tame inflation," Saradar's Dib says. "What followed was a cycle of almost 40 years during which the interest rates were coming down, a period of deflation trends, [to the point that] now there are $14 trillion [worldwide] of negative-yielding bonds. I would be careful with bonds now, especially given that liquidity [in bond markets] today is less than in 2007 and 2008."

For Charles Salem, assistant general manager and global director of private banking at Banque Libano-Française, there are pro-bond arguments due to their reputation as safe-haven assets despite their yields at historical lows across the board. In his view, investors could nonetheless leave this market for greener return pastures if turnarounds in the global Purchasing Managers' Index (PMI) and other signals point to improving growth. "With a continued slowdown in global growth on the horizon, the bond market is hovering around current levels," he says. "In the case of a reversal in the current downward trend of global PMIs and renewed confidence and growth occur, we would expect a shift from bonds to higher yielding equity markets."

Royal Financials' Abdallah sees the first and central question on bond markets in investors' need to gauge the state of mind at America's Federal Reserve. He argues this is because interest rates determined at the Fed influence bond pricing in many parts of the world, before he alludes to underdeveloped bond innovation potential among emerging markets issuers. "I would like to see emerging markets become more creative rather than offer [bonds] that are either very speculative or very boring," he says.

THE SIGNIFICANT OTHERS

Some asset classes other than the big ones mentioned above could suddenly rise to local prominence and help produce social benefits and good returns for investors in Lebanon. One that would require national reform before entering into the market is private investing in infrastructure projects.

Internationally, infrastructure investment is an asset class that has captured the imagination of investors in positive correlation with the tendencies of governments around the world to open infrastructure developments to private participation mainly through public-private partnerships (PPPs) but also via partnerships with multilateral development banks (MDBs). As a 2017 World Bank blog notes, the potential of unblocking private capital for infrastructure investments in emerging economies is great and, in the context of the UN's 2030 sustainable development goals agenda "an asset class approach could open a door to massively employing the financial markets to promote sustainable development, especially in rapidly-growing urban centers in emerging markets."

> "As one sees volatility in the dollar, one can observe the safe-haven currencies and precious metals are going up."

With hoped-for PPP schemes for infrastructure investment projects in Lebanon, the future thus might see local and expatriate investors presented with infrastructure investment opportunities via financial markets and also see Lebanese investment bankers and wealth professionals rise to important facilitators in realization of the envisioned infrastructure assets in a country that sorely needs them.

The first two investment ideas to be assessed in the realm of private sector entrepreneurship are investments into the private equity/venture capital sphere and direct investments in knowledge economy enterprises and startups. A main consideration before investing is the riskiness of the activity. "Tech startups carry a high amount of risk, as fast burgeoning ideas do not always make it to operating profit and market expansion," explains Toufic Aouad, the general manager of Audi Private Bank, noting a preference for diversified funds over direct investments due to the difficulty of determining success in the early stages of a startup. "The BDL Circular 331 initiative has encouraged the setup of new funds and has fueled job creation, with the objective of supporting private sector initiatives, especially tech startups," he says. "We have been exposed to such managers who have managed to attract suitable clients able and willing to bear the risk, liquidity, and time horizon constraints of such investments."

For Riachi at FFA, the path of investments in the tech ecosystem is not only less-trodden but should remain so. Lamenting the track record of tech investment, he notes: "Most companies in the ecosystem did not make it, and some [became] big messes. Investing in startups is not for everybody, and we do not recommend our clients invest in startups. We do not even recommend investing in venture capital funds as we do not think this investment is suitable for most people. Yes, if you are a huge family office with 100s of millions of dollars, you can allocate part of this to the area of venture capital and investing in startups. But otherwise, I do not think it is a good idea."

Private equity and startup investing takes a nuanced approach for Blominvest head Osseiran. According to him, the bank generally sees the best way for such entrepreneurship investments for a rich person in Lebanon is in taking the route of specialized funds rather than placing direct investments, but there are some investors in Lebanon where an approach for direct investments is right. "We are not advising clients to invest directly in startups, but we are helping some startups in raising money," Osseiran says. "As private banker I do not advise my clients to invest in startups directly, but as an investment banker, I go and look for investors. However, I only [seek out] very sophisticated ones who are more educated than private banking clients need to be." He adds that such potential investors could be a family office with its own due diligence procedures to assess such an investment opportunity. "I can do that, but this is not an advice to a private [banking] client. For me, VC [investing] and startup equity has potential as an asset class in Lebanon, but this is still early," he says.

ATTRACTING POTENTIAL

Fawzi Rahal is a stakeholder in the entrepreneurship ecosystem as managing director of Flat6Labs in Beirut, a startup program and seed fund of $20 million. In his experience, the idea of attracting investors to the funds in the ecosystem—prudent as the financing modalities created under the system of Circular 331 need increasing supplementation and replacement in the coming years—has so far seen first positive impulses of funding inflows through negotiations with MDBs. "To attract investor money into the Lebanese ecosystem would not be a proposition of an economic benefit for the investor, due to our situation in Lebanon, as much as a proposition for a business benefit because of the value that Lebanese startups are capable of creating," Rahal says. He adds that it was feasible, in his experience, to channel what were small commitments for tech funds abroad into startup tech companies in Lebanon or organize contributions from international institutional investors into a fund like Flat6Labs' Lebanon Seed Fund, but that some foreign investors encountered technical barriers and regulation-related difficulties when trying to deposit funds into an account of a startup in Lebanon.

> "Tech startups carry a high amount of risk, as fast burgeoning ideas do not always make it to operating profit."

As Rahal explains it, diaspora investors and expatriate high-net-worth-individuals are not currently showing a lot of desire to invest in the Lebanon Seed Fund, but potential for attracting such investments could be developed further. Possibilities include initiatives such as a diaspora network of business angels, and credible, attractive return propositions. Presenting Lebanese entrepreneurship as an asset class could be worthwhile as the ecosystem is slowly maturing and would benefit from positive exit stories, such as a very recent one that was realized by Flat6Labs in Egypt, Rahal says. "We are giving commitment to our [limited partners] that we will give them anywhere from 20 to 25 percent [internal rate of return], and the way we do it is through the tried and tested model that we apply, which entails seed [funding of startups] and then follow up [funding]," he explains. "To use the example of the [mid-August] Harmonica exit: Harmonica is a matchmaking startup from Cairo and its acquisition by [US-based site] Match allowed Flat6 to get 16x returns—600 percent IRR."

CRYPTIC ON CRYPTOCURRENCIES

Most wealth management experts who Executive spoke with said that they are not touching cryptocurrencies for the time being. FFA's Riachi shared his skepticism by explaining that to him, the top entry in the crypto industry, Bitcoin, and similar concepts are not really currencies, and that the proposed cryptocurrency, Facebook-led Libra, is a payment system where it has to be seen what happens with it. "Why do you want to buy cryptocurrency? Go buy gold; it is the same thing. If you think that commodities will go up, then buy the commodity that exists since 3,000 years and that everybody knows, and where everything is clear about the way you transact and the way you safeguard [your investment]," he says.

"As for cryptocurrencies, we believe they are still at early stages. This nascent asset class should, however, become part of asset allocation in the next years," says Audi's Aouad. "So far, their complex nature coupled with regulatory authorities' rejection do not help wider adoption by the general public. Also, widely known companies such as Facebook are looking to enter the space (despite initial negative reactions by governments and officials), which is growing awareness about cryptos. It is though too early to have a proper basis for analysis, predictions, and recommendations at this stage."

Currency exchanges all over the world are facing new risks (Picture: Shanghai)

Most wealth management experts who Executive spoke with said that they are not touching cryptocurrencies.

THE IMPACT BUDS

A final realm that seems historically and presently underrepresented in the portfolio strategies of local wealth managers is impact investing, which can take several directions. According to a brief description by the International Finance Corporation, this activity is described as investing "with the intent to contribute to measurable positive social, economic, and environmental impact alongside financial returns." In the perspective of Saradar Bank's Dib, microfinance in Lebanon can be regarded as an asset class in this very context of ESG commitments and their growing global appreciation. "We have a growing sensitivity to impact investing among the younger generation, and there is hope in microfinance. There is a need for microfinance that banks do not address. We have good experience in the area, and there is real added value and also strong impact on advancing women in the workforce," Dib adds, referring to microfinance activities that are supported under the umbrella of Saradar Group on whose website it is classified as a sister company to Saradar Family Office.

The BLOM Bank group is experimenting with impact investing through a startup entrepreneurship initiative and competition, the Hult Prize. According to Osseiran, the prize has two ESG dimensions by its being directed at university students and by its coordinated theme that is the same all over the world. "When one watches impact investing, it is important and growing all over the world, [including] Lebanon, but the field is also still early here," he says. "If VC investing in Lebanon is still small and early, I would say that impact investing is the same, and even more so. Impact investing might gain track in Lebanon because so many things are socially needed, and in this sense impact investing is not far from mainstream thinking, but the entire VC investing realm is still distant from Lebanon investment perspectives."

By Roxana Mohammadian-Molina

USING FINTECH TO UNLOCK SME FINANCING

The opportunity of peer-to-peer lending in Lebanon

Through conversations with Lebanese entrepreneurs, business owners, bankers, and politicians, I have had a number of eye-opening discussions into the challenges and opportunities faced by Lebanon's SME ecosystem. Given the country's long-standing tradition in financial services and its large banking sector, I believe fintech—with solutions such as peer-to-peer lending, machine learning to personalize insurance solutions, and the use of artificial intelligence for wealth management—stands as a serious contender to unlock the funding challenges faced by Lebanon's SMEs.

OPPORTUNITY FOR LEBANON

So, what exactly are the factors that could see fintech—in particular peer-to-peer lending—transform Lebanon's SME and digital ecosystem? Lebanon has several interlocking strengths, namely: its strategic location, its favorable tax system and free-trade zones, its entrepreneurial spirit, a good network of highly successful diaspora around the world, its local talent pool, and an educated and multilingual population.

SMEs, particularly micro-enterprises, are the main economic drivers in Lebanon. They constitute 95 percent of companies and account for 50 percent of employment. Yet, access to finance represents a major constraint; 42 percent of Lebanese SMEs struggle to get finance, according to the 2014 World Bank Enterprise Survey.

Despite having a relatively large financial and banking sector, credit in Lebanon is mostly channeled to a small number of large firms, while SMEs struggle to access finance. Bank loans represent a modest source of real financing to SMEs with only 17.5 percent having access to this funding channel, often against mortgages and guarantees required by Lebanese financial institutions. Since financing of SMEs via the stock market is nonexistent and informal loans are not commonly used, self-financing is the main source of funding for the short- and medium-term. As a result, a large number of SMEs have disconnected from the banking sector altogether, and by doing so have lost growth opportunities.

Peer-to-peer lending could be the solution to the financing problems faced by Lebanese SMEs. In the US and the UK—the two largest peer-to-peer markets in the world by volume—the emergence of the peer-to-peer lending sector has been in response to difficulties in accessing finance in the aftermath of the global financial crisis. The model is a way to allow people to invest in small businesses belonging to their friends and peers. By comparison, the Middle East has one of the highest savings rates in the world, yet people do not use a lot of credit, and there are not many investment opportunities. The peer-to-peer model has the potential to place Lebanon at the receiving-end of savings to be channeled into a dynamic and exciting SME and startup ecosystem.

While Lebanon has more than its fair share of complex and long-term challenges, I truly believe that the country holds the potential to become the "Silicon Valley" of the Middle East. Of course, serious work still needs to be done. Lebanon still needs to continuously improve and enhance its business environment (mainly in infrastructures, world-rankings, ease of doing business, and legal system transparency).

The government has to play a pivotal role in further advancing the startup industry with measures such as: tax cuts for tech companies, removing bureaucratic obstacles to encourage hi-tech mergers, the creation of public-private partnerships to support homegrown venture capital, and high-tech incubator programs to support the sector. Entrepreneurial education is also an important component, and Lebanon's top universities need to increasingly focus on running entrepreneurship programs to look internationally for talent and target underrepresented local populations. Other initiatives, such as a visa pilot for foreign entrepreneurs, must also be considered.

Yet, underpinning it all is the emergence of a peer-to-peer lending sector that represents a serious opportunity to provide much-needed oxygen to Lebanese SMEs and help build a world-leading startup ecosystem. It also represents a practical solution to some of Lebanon's funding challenges.

Roxana Mohammadian-Molina is chief strategy officer and board member at fintech company Blend Network and advises fintech companies in MENA.