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**LEBANON ENTERPRISE
DEVELOPMENT PROJECT**

ECONOMIC FRAMEWORK

**FOR THE CREATION OF SUSTAINABLE
PRIVATE SECTOR EMPLOYMENT IN LEBANON**

EDITORIAL

Economic Framework - Spring 2021

■ To suffer the slings and arrows of outrageous fortune

Economic democratic principles are built on contracts and agreements. The functioning of such an economy needs all its participants' adherence to policies and procedures. Companies of all types therefore must be accountable, reporting to internal and external auditors, and obeying legal and regulatory authorities that monitor and reinforce commitment to governance standards and take to task all those who breach the law and violate stakeholders' rights. This is what builds trust, attracts capital and nourishes innovation and trade.

How can a corporation preserve the value that it built over years of hard work, retain the talent and pursue profitability in an environment where those in the highest political instances have demonstrated their disregard for all those principles? That is the main question that our roundtables attempted to answer.

The Lebanese constitution is clear in laying down the principles of democratic governance and the responsibility that those who wish to hold office have towards economic democracy, social equality, human rights and more.

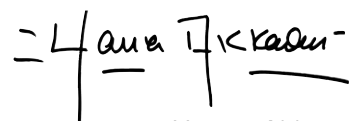
It is obvious that political systems will be degraded and finally fall utterly useless if they produce public servants that use the constitution as a tool to grab power and gain unfair advantages for themselves. Without the accountability that comes with their office, the public servants will consider office as a privilege, not a responsibility. They will slide down the slope of corruption, extracting economic value without adding any in return. Pursuing this model of constant depreciation, the culture of public corruption crowds out those who want to play by the rules. Instead of being the agency of growth for private economic actors, such a dysfunctional public system simply exhausts the remaining economic performers, be they employers or employees, consumers or producers.

Up to its full breaking down, the Lebanese system was one of special interests colluding with the sovereign interest. But there is no future for this and the Lebanese private enterprise can and must build its capacity to rise above it. In an increasingly connected and globalized world, the Lebanese private enterprise will evolve, adapt and persist in its pursuit of value creation. Its talents will always be recognized and valued for their creativity and innovation.

The purpose of this series of roundtable discussions, this publication and all still-to-come action is to trigger constructive private sector thinking for sustainable job creation and productivity. As catalyst of such thinking it aims to identify alternative solutions that allow for progress anchored in principles of economic democracy and a culture of industry which, beyond all recent local reality, practices standards of accountability and builds trust and productivity.

We hope our approach triggers your participation in the thinking.

Looking forward to receiving your suggestions.



Yasser Akkaoui
Editor-in-chief

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ECONOMIC FRAMEWORK REPORT

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Breaking the wheel of economic karma

With no discernible forward motion and no convincing desire for creation of a reform government being exhibited by the parties to Lebanon's latest and most severe political vacuum, the year to date has been largely void of options. Generally it offered people from the humble worker to the most resourceful entrepreneur two choices: succumb to despair over lack of electricity, lack of money, lack of national political will and leadership, and rail against their unjust fate, or construct, with all mental resources, a space where awareness of this country's assets of human and social capital creates realistic hope and practical economic solutions. Executive has had no choice in the matter. This magazine's identity is based on the cognition of the real assets of Lebanon and on the idea of activating these assets for the economic and social good of the country and its people. Thus it was our ordained path to cross over barriers of international collaboration and engage in a mutually beneficial partnership with the United States Agency for International Development (USAID) on the opportunity to organize a journalistic project focused on employment creation and productivity improvement in five select industries. If there is such a thing as journalistic predestination, that was it. The project, strategically aligned with our Executive Economic Roadmap vision of the past five years, was twice fortuitous. It enhanced our roadmap concept by adding emphasis on practical ventures that can serve as models for success under duress. It delivered also a perfect fit with Executive's new community model of inclusion of business leaders, future leaders, and dynamic stakeholders. Aligned with



the thought platform of Executive's new business strategy and allocation of our precious human capital, the project of the five industry roundtables was kicked off in February. Its entailed the diligent selection of a steering committee (SC) of experts and thought leaders, and a foundational meeting where our consultative approach determined the five industries the project would focus on. The SC discussed industries from luxury fashion to waste recycling, from traditionally under-reputed and financially non-profit maximizing ventures in communication and media to obvious choices of exportable products and exportable concepts. When the roundtables convened on March 30 and 31, the first outcome was an affirmation. Although it is no secret that Lebanon has a wide diversity of finance and investment experts, consultants and industrial practitioners, the energy that these experts invested into the roundtable deliberations left behind an almost giddy assurance the these dynamic stakeholders in the private sector economy are not just knowledgeable and experienced but also dedicated to constructing a better economy. The valiant efforts of these roundtable

participants to discuss constructively demonstrated their readiness to inquire about uncommon opportunities and to challenge their own positions and preconceived notions. A second result of the deliberations was that industries appeared to have as yet underused potential for coordination in the current crisis. At every roundtable, the discussants addressed the same challenges from gaining market access to absence of productive government interaction and finding the right finance model. Executive gained the impression that such cross-sectorial collaboration – perhaps with involvement of a supra-industrial steering and evaluation mechanism – could be unleashed with even more efficiency if pooling of plans across the five diverse industries was augmented by developing and monitoring a coherent policy on environmental, social, and governance as well as finance (ESGF). As a third conclusion and implication of untapped potential, the roundtable discussions have hinted at vertical and horizontal opportunities of supply chain development and innovative pairings of industries for mutual benefits. Local industries that in the past did not withstand the pressures

of de-facto subsidization of imported goods have opportunities to explore. One could even make a case to pursue external lessons from in geography and size distant producers. Wine insights, such as the impact of fake products on the reputation of Austrian wine and the uneven boost triggered by the Argentinian economic collapse of 2002 for that country's makers, or the difficulty of Lebanese content creators to compete in Arab markets against massively state-funded production houses, seem to hold many lessons that are not yet exploited. In this context, it is in order to add observe the experience of Executive Magazine with new publishing entrepreneurship: adaptation to the new models under preservation of our journalistic virtues has been a challenge until the economic crisis and the drying up of retail channels for print magazines coerced us to open up to the challenges. This project made the magazine break new ground as part of our response to the economic crisis and challenges for journalism, wherein the overall adaptation of our business model in the recent past has involved a retooling of our organization. Roles like customer care, community building, and sponsor outreach, were redrawn from previous emphases on distribution, circulation, and public relations. Roles in digital outreach and technology adaptation were newly filled or expanded. On the editorial and general management layer, Executive applied its ethical policy to new partnership and sponsorship concepts, in addition to tackling the new community building program of the Executive Circle, driven by fundamental agreement that this program will reach far beyond a marketing ruse or subscription campaign. The powerful show horses of industry and entrepreneurship are running up against triple-bar oxers as soon as they enter the Lebanese economy arena. These oxers comprise ascending obstacles of bureaucratic red tape, partisan self-in-

terests, and ego-barriers. Flashback: a mental tug of war has been raging in Lebanon for a year. National rescue through reform and economic restructuring was the rope. Everyone was pulling on it. As with every tug of war, the game plan did not allow for a win-win outcome, and so the most concerned parties were dedicating all their efforts in order to win this competition. "The only way out [of economic free fall] is to regain the trust of the Lebanese people and the international community together, and to refuel and rebuild an economy living on productive and high added-value sectors," argued one year ago the then government of Hassan Diab who was pulling to win from the angle of a forceful restructuring that put the blame and shame for the Lebanese crisis on the financial sector and proposed to save the country by means of state-induced focus on productive forces in the economy. The private sector party most-at-risk from the government plan was the banking industry. Diametrically opposed to the government's attempt, the industry pulled just as hard as the government. "Lebanon is a cash-poor but asset-rich country that owns assets worth well in excess of what is needed to restore financial stability," the Association of Banks in Lebanon argued in its proposal for national rescue. It took the perspective of blaming the crisis on irresponsible government spending but largely sought to absolve the financial sector from blame and concentrate on a solution that would keep banking power intact and allocate the reform burden differently, away from a forced banking restructuring. Whereas a win-win solution is not coded into a tug-of-war, one other outcome, besides win-lose, is a lose-lose scenario when the rope snaps. The rope of any orderly plan for national rescue snapped first when the

pandemic disrupted the nation with a few hundred daily infections, and then, much more violently, when the criminality of the negligent governance "system" of wasta-crazy in Beirut Port shook the capital with the mother of all blasts and then with the resignation of the Diab cabinet. Thus, the Lebanese will never know if either rescue plan could have kept its promises. This 2020 season story of a doomed plan for national recovery is the most shocking of many cautionary tales in the annals of Lebanese plans. Only about two years prior, another of those painful lessons on the vanity of politically induced plans for the Lebanese economy was provided with the delivery of a million-dollar plan called Lebanon Economic Vision commissioned by the Ministry of Economy to consultancy McKinsey for a very proud amount. By the time this plan was debated from its revealed power-point slides, the first milestone targets in its design had already passed. And so forth. Plans, all the way back to the Horizon 2000 vision in the 1990s,

■ Survival [is] a miracle of the people's solidarity and ability to function while under attack from all sides

have a habit of becoming old before they become real. But inaction is not an option for Lebanon's economic actors. Surviving this polity is on one hand a miracle of the people's solidarity and ability to function while under attack from all sides, from patronizing foreign politicians and self-interested diplomatic aggressors, from pontificating neocolonial activists that sell their intrusions into Lebanese life as civil society interventions, local elites that dream of living in the 18th century, and a gun-happy bomber of civilization that has held onto power for too many decades. ■




ROUNDTABLE 1/5

MANUFACTURING

Overcoming rising financial barriers by leveraging competitive skills
and new labor cost advantages

March 30, 2021 | 3:00 p.m. – 5:00 p.m.



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MAYA DADA	<i>Banking Professional, Credit Risk Specialist, ESG Expert</i>
RAYANE DANDACHE	UNDP/MoET (former)
PAUL ABI NASR	Polytextyle, <i>Owner</i>
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By Thomas Schellen

DAMN THE TORPEDOES AND FULL SPEED AHEAD

Lebanese manufactured products have a future but better access to financing is crucial for continued growth and development



Initiating the deliberations on the real economy stalwart sectors of manufacturing industry and the food-processing and agro-industrial enterprises, Yasser Akkaoui, Executive Magazine's editor-in-chief, outlines the session's structural design as one that combines a first part of qualifying and quantifying the size and economic impact of industrial manufacturing in Lebanon with participants' proposals for solutions and builds towards an action plan for development of manufacturing as industry and for individual enterprises. "De-risking industries and manufacturing today is not an easy task especially when we're doing this in the absence of any government," he acknowledges the roundtable's challenge.

As a preamble, Thomas Schellen, Executive Magazine's editor-at-large, cites two quotes, the first from a paper by the Trade and Investment Facilitation initiative that is affiliated with the United States Agency for International Development (USAID), emphasizing that "manufactur-

ing is in position to push creativity by developing innovative products." From the Executive Magazine's brief on manufacturing, the moderator further paraphrases a quote saying that development of manufacturing industries is crucial for growing employment, growing productivity, fixed capital formation, and for improving exports and overall GDP of Lebanon. "In this spirit I invite you to give us your views if manufacturing is the glass which is half full or the glass that is almost empty but has a lot of room to be filled," he says.

Paul Abi Nasr, board member in the Association of Lebanese Industrialists (ALI), and CEO of an industrial company, cites well-known challenges of past 15 years including bad infrastructure and deficient legal framework but adds that a special challenge for manufacturers was the subsidization of imports by way of the dollar peg. "When you subsidize your imports it makes it much harder for your local manufacturing to pick up," he explains. Many weaker players are forced to withdraw from the market and only a few champions of manufacturing who could by innovation to make up for the additional cost created by subsidization of imports, by the lack of ecosystem, and the lack of infrastructure.

Manufacturing has a very high multiplier effect in terms of jobs, adds financial expert Maya Dada, by creating direct jobs in the sector but also indirect jobs that support the sector and induced jobs from the growth and value added that manufacturing contributes to the economy the economic model in Lebanon. This makes it very important to enhance the manufacturing industry, she emphasizes: "[we have to] think how we can improve and focus on the sector, recreate, redesign, and support it in all ways possible."

OPPORTUNITIES OR NOT?

Adding that he experiences economic realities from the diverse sides of being a private equity manager, investor, shareholder as well as board member of several Lebanese banks, Romen

Mathieu zooms in on the role of finance. “Industries need funding in order to grow, and the question of finance in Lebanon today its dual,” he says, highlighting that the presence of lollars and dollars which manufacturers need translates into local and external funding requirements. Although political barriers stand against the inflow of foreign investments hinging on a political solution in the country, some 70 billion lollars could be deployed as investments into manufacturing industries, notwithstanding current discounts on lollar values, and used to pay down old debt or purchase local manufacturing inputs. “Bankers are looking to [keep] this money and depositors want to take it out [...] So I think the best thing today is to focus on finding solutions on how to remove part or all of these billions,” he says.

Different stakeholders in the manufacturing industry, including associations, are in agreement on many needs, such as creating new export promotion channels but are not engaged in active collaborations, explains Halim Choueiry, who has been involved with USAID’s Trade and Investment Financing (TIF) project research. “What really struck me is that there is no collaboration between the people. Everyone is in his own cocoon. They all come up with great ideas but they don’t fully divide those efforts, in order to really come up with something that really can work,” he says. This means that vast knowledge of long-standing problems and prudent solutions exists in the industry circles but the open question remains on who will carry those solutions onward, Choueiry points out.

Investing lollars into industrial projects would be prudent, Nada Rizkallah, vice president of the board of bank Credit Libanais, concurs with Mathieu in returning to the finance problem. Investor participation in financially distressed small and medium enterprises could bring win-win solutions for investors and SMEs but will require “more governance, [and] more transparency,” she points out. Getting manufacturing industries of all sizes better prepared for environmental, social and governance (ESG) requirements by investors and international financial institutions such as the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) would be a good start even before an eventual political solution in form of a trustworthy government will come into play, she says.

As discussions continue to circle around the access to finance issue, Dada affirms that lollars can be activated for some needs of the manufac-



turing industry but that those industrial enterprises will still be in want of fresh investments. “Financing is a big challenge these days, but I look at it as an opportunity to explore other options, other channels,” she says in reference to alternatives to bank lending.

Following her remarks, Wissam Ghorra, manager at the Cedar Oxygen ESG Fund, says that the young fund is indeed addressing many of the issues that had been under discussion at the roundtable until

this moment. “So today, I’m happy to say that we have a partial solution, let’s be accurate, it’s a partial solution for

■ Manufacturing has a very high multiplier effect in terms of jobs

Lebanese industrialists sourcing fresh funds facilities,” in the financing pillar of Cedar Oxygen, he says, in addition to which the fund is engaged with the organization of the first virtual fair of Lebanese industry in Europe, in partnership with the ALI and Investment Development Authority of Lebanon (IDAL).

Economic policy expert Rayane Dandache takes the discussion onto the territory of job creation and productivity by noting how manufacturing industry had on one hand been resilient in the many long years in which the past Lebanese rentier economic approaches had been detrimental and littered with public sector mistakes, but how this industry on the other hand has missed out on so many opportunities. The current opportunity to focus on according to Dandache is the temporary comparative advantage created by the depre-

Overview

ciation of the Lebanese currency. “I want to hear from industrialists how they see us benefiting from this small window of opportunity,” she says.

Tech industrialist Fadi Daou responds to the question of missed or underused manufacturing opportunities by outlining his experience as maker and exporter of ICT cloud infrastructure products that have next to local market at all. “We have survived the challenges and are still producing and exporting high-tech equipment that is designed in Lebanon. On weekly basis, we ship four to five thousand high-tech items to China, Japan, US, and Europe,” he says. Emphasizing that while one can build a business case for such a company in Lebanon as he did and succeed in with dedication and determination on an interesting personal journey as entrepreneur, access to finance and investment issues that manufacturers need to think about, relate fundamentally to the question if they are building products for the local economy or the global economy. If one aims to produce for the size-wise very limited local economy, one cannot be very innovative or build what can be considered an industry and scale production, Daou says, but if one wants to be innovative on industry level, an addressable global market is needed. Finance according to him is not the issue as much as the need to identify and build an industry that can address global markets and is suited to Lebanese knowledge-based economy and educated workforce.

“I believe what is happening globally today is a great opportunity, for building up the [Lebanese] industrial sector, especially with high-tech companies, and impacting the market,” Daou says but cautions that he sees the biggest problem standing against this industrial expansionism in

“the system that we are in,” namely corruption and weak laws. Thus the real opportunity for Lebanese industry in his view is to create a model that can operate outside the local jurisdiction, attract many international companies, and focus on multinational companies in high-value industry.

DIRE FINANCIAL STRAITS

Wajih Bizri, industrialist in the chemical sector and head of the International Chamber of Commerce for Lebanon, in turn emphasizes the role of existing manufacturers and the many problems that they face. According to him, the majority of the manufacturers are facing problems and the need is to bring them together under one umbrella rather than having weak manufacturers with limited capacities. “All manufacturers are facing basically financial problems. If they stay fragmented the way they are today, you will find most of them shutting down within a few years. Instead of waiting to see this happen, one of the ideas is to bring them [together], which is not easy, with the Lebanese mentality where everyone wants to be the president,” he notes.

Lebanese SMEs which have been starting to export and participate in international markets encounter difficulties when receiving follow-up orders, says Dani Elias, a manufacturing consultant specialized in SMEs. “When the second order comes, they have an issue in understanding and evaluating their capacity. So it’s not only about opening in your market; it’s about sustaining the levels of operation and managing them,” he says.

He concurs with the views saying that clustering, better or perhaps joint capacity utilization, and changes of ego mentalities are key needs of Lebanese manufacturers today, including SMEs. “It’s now the time for Lebanese industries to work together to sustain, build the system and deliver a more productive management system and product so that we can sustain our export markets,” he says.

Concluding the first round of deliberations, Nabil Makari, sections editor at Executive Magazine, sees the dominant issue in the discussion as the contradiction between manufacturing opportunities specific to the economic realities in Lebanon and the full absence of public sector reform.

FOCUS ON DEVELOPMENT

In response to Akkaoui’s request for naming solutions, Mathieu emphasizes that in the environment of absent will for funding from foreign investors and after divesting of expectations for



a quick government formation, private sector industries need to rely entirely on their own powers for resolving problems. Specifically he proposes to return banking to an investment banking business model, saying this could be done very quickly. Doing this smartly would over time transform Lebanese banking dollars to real dollars with benefits for all involved. Expecting it to be difficult and time intensive to unite diverse industries under an institutional umbrella of mutual interests as proposed in the first part of the discussion, he suggests to prioritize creating a private sector export agency. SMEs being hard pressed by cost of sending own marketing experts overseas, he says such an entity would serve both solely export-oriented Lebanese manufacturers and locally-focused industries with small export ambitions.

The discussion, turning to the question of which manufacturing industries are best for development, and what measures have been suggested by the ALI, Abi Nasr reiterates that the dollar peg was subsidizing cost for manufacturers who relied on imported inputs. He reminisces on his participation in numerous export promotion initiatives and says that export propositions have become stronger since the effectual end of the dollar peg but juxtaposes this recent advantage with longer time needs for unlocking specific export markets after many years when most Lebanese companies were not present there.

While agreeing that private actors can do many things together as they understand those needs, Abi Nasr also sees large needs that cannot be met by private sector initiatives, first among them creation of currency stability. He adds that dollar funding was seen as an option in 2020 but as the manufacturing sector was slow to act and not ready for it then, he currently does not see dollar funding as viable solution of investment needs in manufacturing. Maya Dada, who concurs with Abi Nasr that the use of dollar is not a universally strong value proposition for all manufacturing enterprises, tells manufacturer to look at sustainability and generally adopt a long view of seeking to compete internationally not on labor costs but on “quality and uniqueness and sophistication.”

Sharing images from a report and recommendations with his peers, TIF's Choueiry says that a large need and solution for the manufacturing sector exists in the creation of research laboratories and centers. Countries that are leaders in product development show significant allocations to research, something that is missing in Lebanon.

Basing herself on observation of customs data, finance and ESG expert Nada Rizkallah points out large trade imbalances in areas such as prepared foodstuffs and live animals. These negative balances should be addressed by development of synergies between manufacturing and agricultural producers, as well as focuses on collaborations between manufacturing branches such as packaging and industrial manufacturing. Acknowledging that there has been loss of trust in the banking sector, she notes that with all the need to restructure banking and implement a full reform of the economy on all levels, in the end banks – which have provided much financing to industry before the current crisis – “have to re-take their roles.”

According to Dandache the current search for solutions in manufacturing industry will focus on quick wins and prepare the stage for long-term gains. “We need to focus on the firms or the industries that were able to stay resilient despite all the crises, because the lessons learned from those industries are going to help us look into medium term and long term plans,” she argues.

As the Lebanese economic model of the past 30 years has not been conducive for fixed capital formation, the best path to the future will have to comply with the basic economic equation of achieving growth by ways of investments but will also be requisite of a government that can secure an enabling environment of a strong legal and regulatory framework, in addition to an agreement with the International Monetary Fund. The government is not the only blameworthy party, she adds: “Talking bluntly, [...]

Lebanese people are corrupt as well. I'm [talking about] the majority, whether we like it or not.”

Needs of manufacturing development mentioned in closing remarks of participants included adoption of lean manufacturing principles for improving competitiveness and productivity, preparing draft laws for addressing ESG priorities, and activation of research partnerships between industry and academia. In a concluding comment, Georges Frenn of USAID, complimented participants for their dynamic engagement with the roundtable, saying: “There is a great need to work together and this is exactly what we are trying to facilitate.”

■ “We need to focus on the [...] industries that were able to stay resilient despite all the crises”



WHAT THEY CRAVE

Brands and synergies matter to them, but manufacturers place top value on another brick in the industrial ecosystem



Following the roundtable discussion on Manufacturing, we quizz the chief executive officers of two high-profile companies that are adding value to the real economy of Lebanon: cloud infrastructure component maker Multilane in high-tech manufacturing, and paints producer Sipes International, a stalwart player in the chemicals sector. With all the infrastructure shortcomings of Lebanon, fulfillment of one practical want would set these industrialists' minds onto steeper growth: the implementation of dedicated manufacturing zones or "special economic zones" (SEZs) as building blocks of a real-economy industrial ecosystem.

Chief executive officer of Multilane, Fadi Daou, sums up how he perceives the fundamen-

tal problem of manufacturing in Lebanon. "All the existing laws in our system center around a consumer industry and none of them focus on the export sector," he says.

Like approximately 90 percent of systemic industrial manufacturing problems, this battle over the creation of industrial zones or SEZs is nothing new but all the more enmeshed in sticky interests. According to a World Bank report from 2018, Lebanon has had a program for establishing industrial zones "for several decades" and a strategy for such zones was developed in 1995 by the Investment and Development Authority for Lebanon (IDAL). More recent by comparison was that some five years ago, a program for SEZ master-plans and pilot zones was heaved onto

the political table as result of a collaboration between UNIDO and the Ministry of Industry. This occurred after several years during which the topic of industrial zones in context of the Syrian refugee crisis had been shouted by UNIDO from the country's development rooftops. Back in 2009, the Lebanese Parliament started to discuss the establishment of a SEZ in Tripoli which was enacted as a law but until now has never seen the light of day. A certain plot of land allotted for the creation of this zone and the appointment of its chairman are all that has been done in this direction so far.

Daou comments that "the Tripoli SEZ was founded as a quasi government organization and it won't be able to operate as an independent free market industry sector."

Daou stresses the need for a private sector-driven SEZ to operate outside the local jurisdiction, saying, "We need to create an echo system or a legal setup that will allow a competitive operation of multinational companies in Lebanon which have been able to operate in the SEZs of Dubai, Vietnam, Tunisia, Malaysia and Thailand." He tells Executive: "SEZs will help us export products rather than export people and will become the foundation for creating jobs."

Wajih Bizri, president of Sipes Group, echoes Daou's views by saying "the best lobby we can do as businessmen and as industrialists is to put an effort to create the SEZs which should be completely independent from anything related to the government bureaucracy."

He continues, "There is a need to have multi SEZs in different areas geographically and demographically to be available for different sectors." According to him, future SEZs will serve as a hub for IT export and for exportable services, adding that "On top of that we can open hubs for small and medium size businesses in these zones and let them develop."

"If we succeed in that then we can talk about developing the five sectors we talked about at the roundtable especially IT, Intelligence, other industrial sectors and even service sectors," Bizri says. He moreover suggests merging some of the industries discussed at the roundtable or having a common export bureau for these industries.

While he considers lobbying with the current public sector a waste of time unless it is restructured according to the International Monetary Fund (IMF) demands, he advocates for bringing in



■ "SEZs will help us export products rather than export people and will become the foundation for creating jobs"

European experts who can assist industrialists and show them the way to export to Europe, especially with the devaluation of the Lebanese pound and the drop in salaries in Lebanon.

LEBANESE BRAND

When asked about how important the brand of Lebanon is to his enterprise, Daou says, "For me as a manufacturer it is not very critical. In our sector our end customers don't necessarily care where the product is coming from. They care that the supplier, us in this case, is not at risk of delivering a high-quality cost-competitive model on time."

While being committed to these standards, Daou's high-tech manufacturing venture could build a Lebanese brand, a brand which, according to him, "has been damaged because Lebanon is viewed as a country of risk." For some other industries, namely fashion or food products, Lebanese branding could be relevant "for sympathy purchasing," he says.

Vignette



Daou adds, “The brand of Lebanon can best be improved by us being able to create a more competitive environment in which we can meet the delivery needs of our customers. I believe what we really need to do is to mitigate the risk by removing the financial risk to our market segment to be able to freely transact in the banking sector as we would in any other country and we need to eliminate the historical barriers that have existed in our sector and have prevented us from growing or creating or helping or enabling other companies in our sector to grow in this country.”

For Bizri, the brand of Lebanon has suffered a lot in the past three to four years. However, he says, “It is still an important brand in the agro industries where it has an advantage. Other than agro industries, the brand of Lebanon does not have an added value in the present circumstances because of the lack of transparency linked to Lebanon and its government.”

“To best improve the brand of Lebanon, it is a must to have a transparent government. And we have to start moving forward with the IMF. Besides, we need to have political stability which will eventually lead to some economic stability. You cannot put all your efforts on branding something which cannot be branded,” Bizri concludes.

SYNERGIES

Regarding the creation of synergies with the other industries that were discussed at the roundtable series, Daou says, “I don’t necessarily see from my industry a relevant collaboration with an agro or fashion or hospitality industry which is completely unrelated in terms of their needs. However there are common principles for operating any business in that there needs to be a synergy, for example the most critical thing is the banking sector. Today, we are underwriting the banking sector and it is not as effective and efficient as it used to be. Another area could be rendering the labor laws to be more compatible with the free market economy.”

He emphasizes that access to finance is not what is holding him back but cautions that the current system is not viable for the creation of new industries, adding that the formation of an ecosystem will achieve more than subsidizing the sector. However, the banking sector needs to be stabilized by creating mergers. “There is a need for creating a hybrid model system, a crypto currency for that matter. Any way that will let us be able to transact with our people and to receive money from abroad without being charged a huge amount of money,” he says.

For Bizri, Lebanese industries face daunting

but surmountable barriers of finance. "Accessing finance today is very difficult with all the question marks about the Lebanese economy. But it is not an impossible mission. We need to concentrate and depend somehow on the Lebanese diaspora by offering them interesting investment opportunities," he says.

This, however, relates to a bigger challenge that exceeds private sector bargaining. "It is a very difficult mission today to access the money markets and convince them to invest in Lebanon before the government does something very transparent with the IMF," he adds.

SURVIVAL AND GROWTH

Some segments of the manufacturing industry that managed to survive the financial and economic crisis in the country so far are considered a hub for future growth.

"I strongly believe that our industry segment can be a cornerstone for the creation of tens of thousands of jobs in the country," Daou enthuses, citing the success of Multilane in reaching as clients top-shelf names in the knowledge economy and purveyors of global cloud services. "In this sector, manufacturing is becoming competitive and the labor costs in Lebanon have become more competitive and affordable," he says.

Mismatches of supply and demand are in favor of companies that supply quality components to cloud computing infrastructure and create new opportunities for Lebanese high-tech manufacturers with their recently improved cost structures. "What we need to do is create a demand model for these jobs in Lebanon through enabling an ecosystem," Daou explains.

In addition to the tech industry, the agro, pharmaceutical, cleaning and personal care industries are doing very well according to Bizri. "These industries can improve their exports even with the crisis hitting Lebanon. They are working with very high capacities and their possibilities for export are very high," he says.

Export opportunities nonetheless do not automatically solve challenges that have arisen in the past year of domestic distress for Lebanese manufacturers. "My field [of paints manufacture] is down since it is related to construction which is on hold in Lebanon nowadays. So we are facing real problems like not having demand for any construction material," Bizri explains.

PLAN B, SORT OF

Industrial companies that survive the current crisis are considering a plan B in case things become worse.

"We have survived because in our business we don't depend on local consumption. Our market focuses primarily on exports. We are getting fresh dollars and we are able to grow but the risk is the country risk," Daou says. This perception of Lebanon is a measurable impediment and will not just disappear tomorrow. "In the global economic and banking sectors Lebanon is seen as a risk country. Our company, which is growing at a 25 percent rate per year, has mitigated the country risks by having operations in different parts of the world like the Far East, Silicon Valley, Munich, and Dubai," he explains.

The litany of potential disruptions is familiar. Daou cites airport closures, the inability to buy diesel for the company's generators, the loss of all governmental electricity supplies, the cutting off of internet access, and the blockage of the company's imported raw materials or banks' ability of receiving fresh dollar transfers from Multilane's foreign customers as obvious risks.

But if the company's ability to supply its customers from its plant in Lebanon were to be paralyzed by any of those potential impediments, it would adapt - just not from Lebanon.

"We have plans that enable us to click the switch and start operating and manufacturing completely from places outside Lebanon so the supply to our customers will keep flowing," Daou says, adding the sobering view that transacting out of Lebanon is becoming increasingly difficult even for agile manufacturers with strong exports.

For companies that don't have overseas operations like Bizri's company, the situation is still more complicated. "We are trying as much as possible to reduce our overheads and to diversify into different businesses like anything related to chemical industries. Besides, we are trying the possibilities of export today," the industrialist explains. His Plan B is survival of the core, preservation of manufacturing capacity even if hardships strangle the sector further. Bizri says, "In case the situation gets worse, we have to reduce further our overheads and to reduce our working period from six days per week to three days."

■ Transacting out of Lebanon is becoming increasingly difficult even for agile manufacturers with strong exports



ROUNDTABLE 2/5

FOOD PROCESSING AND AGRO-INDUSTRIAL PRODUCTION

Helping the agro-food sector contribute to building a productive economic system

March 30, 2021 | 6:00 p.m. – 8:00 p.m.



PARTICIPANTS

IMAD ABI CHAKER	Confexia, <i>Owner</i>
MOUNIR BISSAT	Syndicate of Lebanese Food Industries, <i>Owner</i>
ZAFER CHAOUI	Ksara, Chaoui Group, <i>Chairman</i>
NADINE CHEMALI	Lebanon Trade and Investment Facilitation (TIF) Project, <i>Deputy Chief of Party</i>
FADI FAYAD	Fayyad Food Consulting, <i>Consultant</i>
ATEF IDRIS	Mena Food Safety Associates MEFOSA, <i>Owner - General Manager</i>
BOURHAN KREITEM	Chemonics, USAID Lebanon Enterprise Development (LED) Project, <i>Director of Monitoring, Evaluation and Learning</i>
GEORGES FRENN	USAID, <i>Economist and Senior Development Specialist</i>

FROM LOCAL TO GLOBAL

Loss of imports benefited the agro-food sector locally, but going global is a necessity that requires better understanding of tastes and standards



The agro-food sector is highlighted as a defensive value proposition that has many under-used development potentials in the contexts of satisfying local demand and achieving exports.

Food safety and certification barriers need to be surmounted and challenges of breaking from ethnic niche markets into mainstream markets with Lebanese exports were confirmed, with the upside crisis risks of temporary cost advantages on labor and local produce inputs presenting opportunities will erode with time but can be maximized with decisive action in the short term. “We want to go beyond advocacy and actually see things happen,” says Executive’s editor in chief Yasser Akkaoui in the welcome note and introduction to the discussion.

As noted by Thomas Schellen, Executive’s editor at large and moderator, the steering committee of the roundtable project, which had been quick to agree that food processing and agro-industries warrant inclusion in the selection of industries with high job generation and productivity gain potentials, pointed to the wine and spirits sub-sector as specific area of interest for discussion by this roundtable.

In opening the deliberations on the sector’s issues and concerns industrialist Imad Abi Chaker confirms that the agro-food industry has room to grow. His enterprise Confexia – specialized in the manufacture of chocolates – was confronted overnight with growth potential that exceeded its production capacity which was established a few

years ago. “The setback was that we would have planned a bigger capacity if we had known. When we originally planned we did not expect the growth to be what it is today,” he points out, citing fast growing demand to compensate for the loss of imports. He says a second growth challenge for his enterprise is to develop further products “that can be good substitutes for imported products that demanding and often spoiled Lebanese consumers are used to but can no longer afford.”

BY THE MENU

Outlining the situation of the Lebanese wine producers, Zafer Chaoui of leading Lebanese winemaker Chateau Ksara and head of the Lebanese Wine Importers Association, describes Lebanon’s annual wine production as being worth “around 50 million dollars a year in products of which 40 percent are exported.”

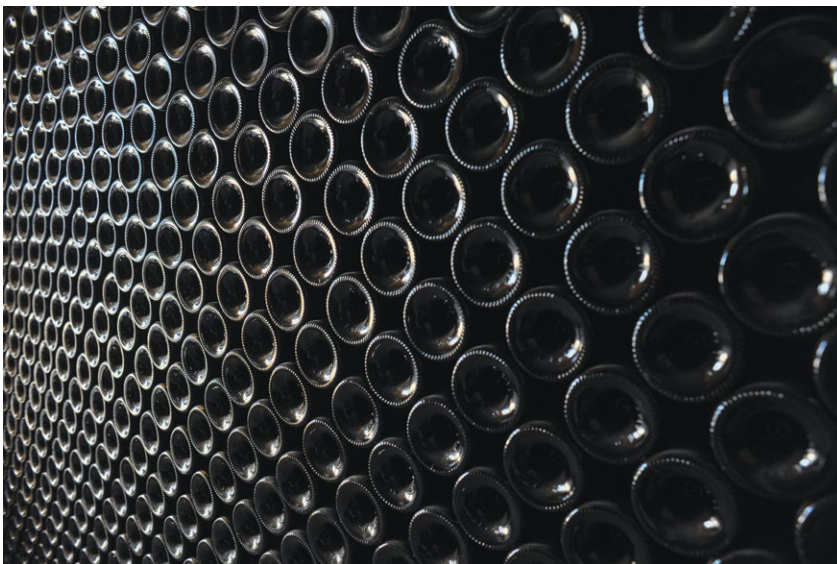
While emphasizing that Lebanese wine is internationally competitive on quality and price, he cautions that this promising sector has to “solve administrative problems” to reach full potential. Pointing to global influences of the coronavirus pandemic and the lower purchasing power of the Lebanese consumer as factors behind his expectation that the economy in future will be very different from the years before 2020, Chaoui nonetheless sees persistent handicaps that Lebanese winemakers have to deal with. “The main handicap is that prices for vines to produce grapes is higher than other countries; the second handicap

is that our equipment and habillage (bottle, cork,) are imported,” he says.

Mounir Bissat, president of the Syndicate of Lebanese food Industrialists and manufacturer of sesame-based ingredients that are widely used in Lebanese kitchens, concurs that the Lebanese food processing industry is one of the industrial sectors with the highest potentials before and during the ongoing national economic crisis. Consistently among top exporters, the food industry employs a quarter of the industrial workforce and ranks top by value added, he says. Acknowledging that sector challenges have pre-existed the sudden disruption of liquidity and international transfer activities in fall 2019, he highlights new financial threats that existentially challenge food industrialists. “As industrialists, we are in need of credit facilities, and in agro-food there is a three to six months cycle,” he says.

While some food industrialists found themselves during the crisis in less unfortunate positions of having working capital largely in form of inventories and receivables that they could cash out, the disruption of the agro-industrial financing cycle meant that agro-industrial businesses could not securely finance their credit facilities, which created a massive challenge to working capitals. Companies were in need to obtain new working capital to finance export activities and operations.

Delving further into his description of food industrial specificities, Bissat adds agro-industrial exports are a real success story but that the Lebanese exporters’ product niche to date is concen-



■ The Lebanese food processing industry is one of the industrial sectors with the highest potentials before and during the ongoing national economic crisis

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■ “A lot of work needs to be done with compliance standards and making new products”

trated in ethnic markets. Widening of the product reach to mainstream products in national markets of developed countries requires bridging of these gaps with the collaboration of academia and consultants. “There are three phases: we need to upgrade the existing products, develop new products derived from the existing products, and we need product upgrading and adaptation to the taste and products of foreign consumers,” he says.

As he describes the situation, there are appropriate infrastructures as far as academia and consultancies, but a gap of communicating industry needs must be closed as a basis for new success stories. “Made in Lebanon” provides a value premium to Lebanese foodstuffs in Arab markets and elsewhere, but there are gaps in market perception and product design as products need to be better aligned with preferences of non-Arab consumers.

With regard to the experiences and challenges in finding access to finance, Bissat says that important funding barriers stand in the way of agro-industrialists attempting to activate holdings in Lebanese dollar (lollars) for the purpose of investing; he points out that such holdings are not suitable for acquisition of machinery and equipment by import, unless there is a substantial discounting.

According to Akkaoui, the financial idea on the table for its fit with the needs of Lebanese agro-industries today is the role of private equity and banks. A second key possibility to develop

agro-industries is “your role in upgrading compliance and international best standard practices, whether its environmental impact, social sustainability, and governance, along with a development curve from family-run enterprises to corporate mentalities,” he advises. Funding barriers exist if agro-industrialists want to activate lollar holdings; Bissat points out.

EATING AT THE SAME TABLE

As Nadine Chemali, deputy head of the Trade and Investment Facilitation (TIF) project, funded by the United States Agency for International Development (USAID), confirms, the relative resilience of agro-food processing in context of the current crisis and its important role in employment have reinforced the agency’s attention to the sector. “We believe that the impact [of economic achievements] will not only be on the industry but it has a value chain impact, so on the whole food sector,” she says. In addressing challenges from the current crisis to the need for research and development in this industry and the move from ethnic to mainstream markets, she underscores that “a lot of work to be done with compliance standards and making new products.”

Noting that the TIF project has received a new authorization to work on issues of wine and arak trade facilitation because of its newly increased export potential, she tells roundtable at-

tendeers: “We can put our resources together to try to find a solution for this sector. We would love to collaborate to have an impact on the wine and the whole agro-food sector.”

According to Atef Idriss, agro-industry expert and food safety consultant, collaboration on industry level is in great need of intensification. With knowledge of food safety impediments and repercussions on consumer health not communicated between industrialists, consultants, and other stakeholders, long-standing quality issues in the industry need to still be resolved and in some cases re-addressed.

“Addressing markets, consumers, [and] addressing our trade partners’ priority are core [issues]. In this age of economic meltdown, I am not talking about the Lebanese economic meltdown; I am talking of value chain changing because international trade is changing,” he emphasizes. Value chains that stretch across economies with very diverse food safety regimes must be understood and the process by which Lebanese agro businesses are integrating different ingredients in value-added products must be elucidated further, Idriss admonishes.

Pointing to the fact that he has been involved for years with devising plans for agro-industry development that are updated every few years, he asks why the importance of interaction in Arab trade agreements, or of understanding drivers and restrictive influences in intra-regional Arab trade, is mostly still obscure. “This is the market where we are most prone to succeed and deliver,” Idriss says. According to him long-standing biosafety issues must be addressed at the places where they occur and cannot be deflected, “otherwise we will always think that the problem is somewhere else.”

Commenting on the access to finance challenges of the agro-food industry, Abi Chaker notes that the pressures of losing banking facilitation of trade had advantages by turning the entire market into a cash market as temporary solution where long lead times have vanished. This underlines the need to find new financing solutions and diversify products as to more effectively reach markets.

“Today, the problems are not different than before [the economic crisis],” observes Fadi Fayad, consultant and expert of food entrepreneurship. Some capacities for manufacturing value chain components such as glass bottles and caps, which had been present in Lebanon, were eroded or disappeared entirely, causing the need to import all packaging materials, he points out. “We

lost something that we had, because we did not look well after our sector. We need to reestablish the infrastructure, [and] build back those factories so that we can have the basis for the food industry operating,” is how he describes one key present problem of agro-industry. “The second [key problem] is that since we do not have the financial resources, and import, we need to find this relationship between the agricultural sector and the industrial sector,” he adds.

Common infrastructures for electricity etcetera have to be built. Temporary advantages such as lower labor costs and good exports in some agro product categories are not sustainable as platform for a strong agro-industry. “We need to do more than this to be able to succeed in the agro-food sector, we need to work in a professional way. We cannot hope to build an agro-food sector if we cannot build the things needed to have such a sector. We need to have this infrastructure; this requires solidarity between the sectors and especially on [the level of] the Association, who has representatives on this panel,” he emphasizes. If infrastructures are built and greater international competitiveness is achieved, the agro-food sector in Lebanon is very promising, he concludes.

■ Modernizing the food safety system in Lebanon is essential for improving both domestic and export market access

SAMPLING GLOBAL OPPORTUNITIES

Participants presented what solutions they thought viable for the needs of their industry. For Bissat, the overdue implementation of the Lebanese food safety law and activation of official accreditation council Colibac are priorities, along with adoption of laws that ease doing business and enable access to finance, by transforming incorporation requirements and making mergers or acquisitions less costly.

Chaoui, who reiterates that the wine sector has seen tremendous improvements in producer diversity and more-than-doubling of total annual wine production over the past three decades, sees the wine sector’s top priority and biggest target for the coming years in the development of exports. From the perspective of the consultant Idriss, efforts should be concentrated in the area of confidence creation within the food industry as well as in relations between academia and the private sector overall. Creation of strong aware-

Overview



ness on consumer rights as well as building of a Lebanese consumer culture, secure compliance with food safety standards nationally and internationally, and protection of the environment, are his further priorities.

Modernizing the food safety system in Lebanon is essential for improving both domestic and export market access, Fayad concurs. He points out, however, that the Lebanese agro industry has already been put on a track of progress in the area of regulations and compliance with food safety standards, and expresses his view that the financial challenges of the monetary and liquidity crises of Lebanon will increase the food industry's appreciation of donor funding and make use of financial resources more prudent and rational. As to placing greater priorities on research and development, he says, "We have a lot of potential in our country because of our universities, also some research industries, but we need to focus on our applied research, on our needs, and these needs to be determined by the industry." Infrastructures and supply chain components need to be rebuilt, often from zero, he agrees, but besides seeking solutions in export growth, as proposed

for the wine sector, Fayad says that focus also needs to be directed to the local market, reasoning that without the mass of the local market, better economies of scale are not achieved and products cannot become competitive.

As the discussions circle back into further detailing the proposed approaches for developing crucial aspects of an agro-food industrial ecosystem in Lebanon, Wissam Ghorra, a member of the management team of the Cedar Oxygen ESG Fund, makes a brief intervention to say that an "interesting percentage" of the fund's portfolio is in agriculture and that development of financing tools for this sector is a priority of the fund's management. "Agro-food is one of the main pillars that we are working on and ready to finance. The facilities of Cedar Oxygen are structured to cater to either local sellers of agro-food, or food industry in general and to exports. This is a crucial sector in which we believe, because it affects other sectors," he enthuses.

As Ghorra asserts, and as Chemali and Bisat agree with regard to the question of in-sector communication and collaboration barriers, or "ego-issues," the agro-food sector is growing.

Chemali asserts that the sector “has the nicest people” as industrial decision makers and enjoys close-knit employer-employee relations on the levels of the factory floors and the farms. Bissat concedes that there are communication issues within the sector for which there are “endless examples,” yet emphasizes like Chehadi that ego issues are not festering in the agro-food industry to the detriment of productivity.

More detailed interventions on agro-industrial priority needs, such as had been alluded to in the roundtable to this point, elucidated participants on problems such as quality and certification deficiencies that pose reputation risks or block exports of some produce and agro-industry products to important markets.

FOOD SAFETY POLICIES IN FOCUS

Geographical and quality certifications – with wines being a prominent example – could be advanced much more, to the benefit of products from olive oils to jams and pickles, and thus give a big boost to local production. “There are projects and initiatives that should be adapted if you want to introduce a game changer in our industry,” Bissat emphasizes.

As several participants agreed, the lack of agricultural policy and the lack of trust in Lebanese agro-food products constitute bigger and more deeply seated problems for this industry than the national economic and political crises that have been charring the country in the recent past. However, fighting through the policy and trust crises will afford the stakeholders in the agro-food industry to demonstrate “proper leadership,” Akkaoui opines. “[Past governments] did not promote any collaborative effort among different stakeholders. I think the crisis should bring everybody together, to introduce these principles. Across all industries, there should be bridges built with the financial industry, consulting firms, [and] branding companies, making our products mainstream,” he says.

In addressing fears of distressed Lebanese consumers, discussants showed confidence that local suppliers have enough capacity for serving their domestic markets but admitted to having fears of devaluation and purchase power erosion.

Representing USAID, Georges Frenn commented on the roundtable that the agency has witnessed, over many years of working on development projects, that it could succeed on the enterprise level more strongly than on sector or

value chain levels and also did not achieve success on the micro level of farming. “There are still many issues to deal with. The sector has not been growing or has not grown as much as potentially could have,” he says, continuing that the recent changes in the situation of the agro-industrial and food production sector need new collaboration and initiatives. “We would definitely need a lot of your insights and to be able to prioritize and focus where support and assistance would be most useful, and most efficient,” he adds, confident that roundtable participants could all work together in continued

networking efforts or collaborate in other ways to address the needs and opportunities that roundtable participants had elaborated on.

His peer Bourhan Kreitem added as his impression from the roundtable deliberations that, in light of the lived tragedy of Lebanon, there is a need for a clear plan. “What should the sector, and the supporting sectors [adjacent to] this sector, should do first in order to get out of the problem? There should be a plan,” he says, because many stakeholders in the community of donors will be ready to support many initiatives. Once a government of some sort were to be established in the country, a plan should be ready for discussion and financing. “I would hope that the recommendations [resulting from the roundtable] will really highlight a need for some sort of plan and activity that might be of interest to us as the Lebanon Enterprise Development project and, obviously, USAID, and also to other donors,” he concludes.

Closing remarks from roundtable participants Idriss and Chemali emphasize the need, on the side of industrialists, and readiness, on the side of agencies, to restart projects and programs under the umbrella of USAID. Bissat points out how the industry has made substantial progress in certification to standards such as ISO 22000 which has been achieved by more than 50 manufacturers over the past 30 years.

Abi Chaker in his closing remark emphasizes the need for the private sector to lead new initiatives – possibly with support of international organizations – but without waiting for governmental action.

■ “The private sector [needs to] lead new initiatives [...] but without waiting for governmental action”



Vignette

By Thomas Schellen

INSPIRING LIBATIONS

Seeking a proper Lebanese drinks equation against a flood of worries



Of the specialized economic activities that the 10 members of the steering committee for the project on private sector employment creation and productivity – organized by Executive Magazine in partnership with the United States Agency for International Development (USAID) – agreed on when determining the five industries that would be the focus of the roundtable series and report, the activity of wine and spirits production as sub-sector of the food processing and agro-industrial sector, is perhaps the most consistent and at the same time a most ambivalent choice.

The latter appears to apply in the cultural context that this activity is not accepted unequivocally as constituent of a desirable national economy of Lebanon but also in the sense that it relates to some products that are strongly established on domestic and export markets and some products, such as liquors made from domestically produced ingredients, that arrived on the market just a few years ago. It is certainly a convincing proposition from the perspective of a taste shared by many and one that is easily memorable.

When compared with niches such as content production in the media sector [see story page 37] or the digital outsourcing proposition in the tech

entrepreneurship and knowledge enterprises sector [see story page 50], Lebanese wine making is an established cultural good. From the agro-economic development perspective, it has, together with olive oil production, since the 1990s commanded attention by international development advocates as one of the economically “low-hanging fruits” in the country’s most traditional sector of agricultural production.

Production of flavorful spirits, firstly the distilling of Arak from grapes and aniseed, is just as traditional an activity as cultivation of wine in Lebanon and the Eastern Mediterranean but not one that has been able to break reputation barriers that kept Arak confined to a niche of connoisseurs. Thus distilling of liquor from local ingredients, and notably the production of gin, is a recent and more promising niche of spirits production. A “2020 Factbook” published by the Investment and Development Authority of Lebanon (IDAL) names two spirits ventures (gin and vodka) among a short list of nine announced investment projects in the agro-food sector for 2018-19, albeit without citing investment amounts. Surprisingly the changing economic conditions and social trends of Lebanon appear to have boosted this promise.

COUNTING BOTTLES

The wine industry in Lebanon does not only have roots dating back millennia, its modern incarnation is highly mature by comparison to other real economy niches under discussion at the five roundtables. Put in numbers, the industry has a total output of 9 million bottles per year according to Zafer Chaoui, current president of industry body Union Vinicole du Liban (UVL) and chairman of leading winery Chateau Ksara. In terms of registered enterprises, the industry advanced from five wineries in the early 1990s to 56 registered at the Ministry of Agriculture, Chaoui informed his fellow participants in the Executive roundtable on food processing and agro-industry.

According to numbers which IDAL cited from Lebanese customs, wine exports have grown annually from 2010 to 2019 to reach a total of \$21.3 million – an increase of 71 percent over the decade.

Newer figures cited by Chaoui put wine exports for 2020 up to the month of November at \$14.5 million. The wine sector has also increased in geographical diversity and sophistication when comparing the early 2020s to the early 1990s. There have been even a few forays into development of building a wine making ecosystem from biologically responsible and chemicals-free cultivation of grapes to programs that were brought into the country some six years ago under a collaboration of Chateau Ksara and the UK-based Wine and Spirits Education Trust (WSET), a specialized education and certification provider.

Notwithstanding the fact that wine making in some form is one of the oldest human preoccupations practiced in the hill country of the eastern Mediterranean and has seen an economic rise over the past 30 years, it would be difficult or even preposterous to claim that local wine culture is firmly on the way of fulfilling its utmost potential and reaching superior maturity. Its market power in terms of per capita wine consumption is minuscule by comparison with the old-established European wine countries but also by lateral comparison to production and per capita consumption in up-and-coming wine making and exporting countries of the 21st century like Argentina, Chile, Australia, or South Africa.

Furthermore, noting a data deficiency on wine and spirits as part of what still appears as an endemic data gathering weakness of the Lebanese economy, it would be an illusion to think that this sector is fully transparent in terms of its economic role. This opacity unfortunately extends to absence of knowledge on the number of viable enterprises and their output capacity as well as the number of sustainable jobs that are created by the sector directly and indirectly. Lastly, from the supply chain and talent perspective, wineries and their non-viticulture input needs, appear to be hardly integrated with either the manufacturing industry or native vocational or university education.

On both wine and spirits, it is notably easier to find information on the participation of Lebanese producers in foreign trade and taste fairs and the accolades that they received at those occasions than to find economically relevant data. Chaoui discloses to Executive that Chateau Ksara as the largest single producer in the wine sector has 160 permanent employees but cannot provide granular information on either permanent or seasonal employment figures for the Lebanese wine industry. Compared with estimates on the wine industry, however, the annual performance of the country's new spirits, such as



vodka and gin, seems still invisible even to analysts and industry insiders. When Executive inquired with the owners of the Three Brothers gin brand about the total domestic market in terms of production and their share in the market, Ralph Malak, chief taste developer and partner in the enterprise, said it was too soon have studies on this market niche.

With data on wine often being estimations and data on gin barely on the radar, the non-existence of a local supply chain even as a manufacture of suitable bottles, and with neither oenology nor viticulture visibly entrenched in the education sector, the potential of the wine and spirits sub-sector is a proposition that has yet to be amplified.

THE YEAR THAT RESHUFFLED ALL CARDS

No person even most fleetingly informed about the recent economic fortunes of Lebanon should be surprised to hear that the 2020 crisis brought immense disruption to the wine and spirits sector. "What happened in Lebanon consequent to the devaluation of the Lebanese pound is terrible," Ksara's Chaoui confirms to Executive in a follow-up conversation to the agro-industry roundtable. "Wine, gin, whatever, will become luxury products. And

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the poorer we will become, the more they will become luxury products,” he warns ominously.

“2020 [has been] a life-changing year,” summarily sighs Three Brothers’ Malak, who was not a roundtable invitee, when asked by Executive about last year in an interview on the situation of the spirits niche.

While by Chaoui’s expectation the crisis on one hand will open development opportunities for national industries, the flipside of this coin and driver of domestic wine prices to him will be higher cost for producers that rely on imported materials. “In the wine industry, what we call *habillage*, meaning the bottle, label, capsule and cork, are imported. Also 90 percent of the equipment, which has to be kept at the highest level, has to be imported. These inputs will follow the price logic of the devaluation and lead to substantial price increases,” he reasons.

From the perspective of Malak, whose gin making interest is part of a group that includes wine making, distilling of gin and arak, as well as operations of nightlife venues and resorts, the most direct expression of last year’s malaise was the closure of the group’s hospitality venues that in his assessment annihilated business for six to eight months of 2020.

In the same breath with which he reminisces on the pain of 2020, however, Malak adds an interestingly upbeat twist to the story of the forced inactivity of their pubs. “We took this time to focus on alcohol production. We doubled the production of the Three Brothers, doubled the production of our wine, and we limited our production of arak,” he says, explaining that a target line for restricted monthly output of arak was set in connection with the group’s aims to approach markets mainly with socially accessible wine and gin.

The counter experience to the closure of Lebanon’s nightlife and its severe repercussions for the so-called on-trade of Three Brothers gin within bars and pubs was a huge boost of demand in the digital off-trade. Simply said the nightlife clientele’s thirst for this local gin found its expression in a spike of e-commerce and delivery business. “The demand for Lebanese products and especially the Three Brothers [gin] went up so much. We focused on delivery and on the people who deliver,” Malak says. According to him the spike in demand was entirely unexpected but a group-owned alcohol sales outlet, “The Bottle Shop,” with a proprietary e-commerce platform as well as distribution via third-party ecommerce platforms helped to sweeten the pain of the on-trade slump.

This explains why the course of the gin maker over the past months has included new investments in semi-automatic machinery and production venues (Malak declined to name the size of the investment) and new product development of a dry gin – that he says is soon to be brought to market – and also of another liquor product distilled from a local agricultural produce that is often going to partial waste. This is without even mentioning the ambition of the enterprise to access export markets in Dubai, Germany, and North America where certifications for Three Brothers have already been obtained. “The plan is to take it abroad while keeping base and operations in Lebanon. We want all the world to know about the brand,” Malak says. However, the changes for the outlook in both niches, like the situation of wine and spirits in overall societal context, are not lacking ambiguity.

SEEKING THE TRUTH IN EXPORTS

If you want to forget all about the Latin “*in vino veritas*” phrase (suggesting that wine consumption makes you speak the truth), it certainly appears as if it is the shared truism of the day of most if not all Lebanon’s wine and spirits producers that their future is in exports.

“Exports are the main guarantee of the future of wine industry,” emphasizes Chaoui. In his view, one major barrier to improvement of exports for members of the industry is the reliance of most wineries on diaspora connections as export channel. It would be better for the industry to penetrate national markets in export destinations and transcend the niche of an ethnic product found in a Lebanese restaurant. However, while exports would secure wine makers’ ability to pay for imported inputs and maintain their equipment at high output – quite the rationale for focusing on exports even if this comes at the expense of local affordability of Lebanese wines – Chaoui notes that export potential is overhyped and restricted by the smallness of the supply that producers can bring to export markets. “In my opinion the whole sector sells in value between 50 and 60 million dollars annually,” he says.

His bigger fear for the wine industry is the emigration of qualified employees, he adds, before mentioning fear factors that range from bureaucratic and political barriers at regulatory body Institut National de la Vigne et du Vin (INVV) to reputation risks for Lebanese wine in case any producer starts to peddle a fake or unhealthy product.

In collaborative potentials with adjacent industries, Chaoui cites the capacity of chocolate makers that he saw at the Executive agro-industry roundtable, because the combination of wine and chocolate is a culinary theme that has been explored elsewhere but not yet in Lebanon. He disapproves of persistent barriers against effective collaboration among wine makers in the UVL where “many of my colleagues have opinions that are opposed to the ideas of some other colleagues.” He also mentions “terrible individualism” that can obstruct progress through collaboration at a time when the greater good might be the industry’s better interest. “It is high time that we believe that we can do better together than each one individually,” he says.

For Malak, the question of the pricing of and demand for Lebanese products in the pressure cooker-scenario of the Lebanese crisis entails significant positive experiences of seeing solidarity-driven demand, where people voted with their purchases to help one another. When asked if the enterprise has become an economically serious business after all partners contributed to an increase in capital, he says that the idea of the company is that of a brotherhood of bartenders and that “We never want to be serious” – sounding more like a social entrepreneur of the Ben & Jerry type than a ruthless profit maxi-

mizer. As to the pricing policy of the venture, he says enthusiastically: “We have settled on a strategy that will be good for us and for the people. All the people in what I call the tribe understand why prices have to be a little higher. At the end of the day, we are more than fair with our prices.”

The anecdotal impression of price developments in the off-trade of Lebanese wine and spirits since the beginning of the lira crisis is one of shrunken imports and growing retail prices. These accelerating retail prices might only very imperfectly reflect the fact that, as noted by Chaoui, producers since the start of the crisis had advantages in costs of grapes and labor. It has to be acknowledged that, as Chaoui further notes, these temporary advantages will erode and disappear with time, but the price trajectories of Lebanese wine look uncertain from a consumer perspective.

The wider cost-benefit computation of wine and spirits might indeed benefit from stakeholder considerations that include more than export-import equations. Street wines of local vintage that, as Malak puts it, one can enjoy without consuming a steak or shrimp dinner are not only appealing from the perspective of being generally preferable over questionable hard liquors that pretend to be whiskeys or Lebanese vintages that have crossed price thresholds of becoming prohibitive for all local earners. Also importantly for the consideration of a future national wine market, these local street or table wines are starting to meet on supermarket shelves with imported table wines in similar price categories. To be sure, some imported wines have even more mind-blowing price tags for a local earner than the priciest local name but it could be a shaky move for Lebanese producers to set price points in disregard of the fact that by far not all of their needs are focused in importation of bottles and ink to print labels.

The trajectory of prices for wine and spirits, which appear to intersect with divergent economic and social narratives in the significant Lebanese communities of wine drinkers and nightlife aficionados, thus hints that the potential of this industry is yet undecided from a job creation, social development and communal cohesion perspective. There are signs, however, that development of this sub-sector could be beneficial beyond aspirations of job creation and economic productivity.

■ Export potential is overhyped and restricted by the smallness of the supply that producers can bring to export markets




ROUNDTABLE 3/5

MEDIA, PUBLISHING AND CONTENT CREATION

Taking media creativity, integrity, and professionalism to new heights of regional prominence

March 31, 2021 | 11:00 a.m. – 1:00 p.m.



PARTICIPANTS

GABRIEL CHAMOUN	The Talkies, <i>Chief Executive Officer</i>
MARK DAOU	RPR, <i>Chief Executive Officer</i>
ALIA IBRAHIM	Daraj, <i>Journalist</i>
ELI KHOURY	Quantum Communications SAL (Saatchi), <i>Chairman and Chief Executive Officer</i>
AYMAN MHANNA	Skeyes, <i>Executive Director</i>
DANY RICHA	Impact BBDO, <i>Chief Executive Officer - Middle East and Africa</i>
BOURHAN KREITEM	Chemonics, USAID Lebanon Enterprise Development (LED) Project, <i>Director of Monitoring, Evaluation and Learning</i>
GEORGES FRENN	USAID, <i>Economist and Senior Development Specialist</i>

By Alexis Baghdadi

WITH THE WIND IN THEIR SAILS

The media sector knows how to ride the current to its advantage, but it needs to plot its course carefully and watch out for pirates



While the Lebanese Media, Publishing, and Content Creation industry appears to have been largely resilient to the disruption caused by the COVID-19 pandemic, it has had to review its operational models and strategies under pressure from an economic slowdown, inflation, and lack of government support.

Yasser Akkaoui, Executive Magazine's editor in chief, notes that in the past two decades, the industry has outgrown its domestic borders – a key factor in its survival. The industry has succeeded so far in maintaining its reputation as a pool of talent and quality in the region, despite important technological and financial advantages its neighbors possess. On the journalism front, Thomas Schellen, Executive Magazine's editor-at-large, mentions the most recent World Press Freedom Index that showed Lebanon in a higher position than other countries in the Middle East. But this competitive edge needs to be carefully looked after and nurtured by the very professionals who forged it and wield it at home in order to preserve its core strengths, namely quality, creativity and

freedom, before it can be thrust in new directions and markets to reap benefits.

Laying the tone for the discussion, Akkaoui says: "We can think outside the box to outsmart hopefully the situation and the establishment and to be able to make sure that this space has a chance to strive and continue to be, a success story, a Lebanese success story around the world."

Participants seem confident in the skillset of Lebanese talent, a skillset that can be leveraged to develop promising opportunities. It is worth noting that media and content professionals invested themselves in acquiring their skills and knowhow to offset the limited capacity-building opportunities locally and the near-total absence of government support for the industry. As an example, Gabriel Chamoun, chief executive officer of The Talkies, cites the growing number of talented writers developing their skills through script writing workshops and study abroad programs. "This was lacking for a long time, I wouldn't say today that we have a huge pool of good writers but we're getting there," he enthuses. This type of self-development is essential to grab an early share of what seems like a promising Arabic-speaking content creation market. Despite Arabic being one of the fastest-growing languages on the internet, the language is extremely underserved, and in varying degrees of quality. "While 7 percent of Internet consumers are Arabs, only 1 percent of Internet content, or less, is in Arabic," says Eli Khoury, chairman of Quantum Communications. "International media companies are 'arabizing' their content while every study in the world, including the EU report, show us that people like localized content, they don't want translated content anymore," adds Alia Ibrahim, co-founder of Daraj Media. In her view, taking advantage of relatively lax censorship laws and combining this with talent can help produce much-desired high-quality content in Arabic whether in terms of journalism, arts, marketing or communication. Even if local talent is unavailable, it has become much easier

for the media and content production industry to work remotely with best-in-class professionals, noted Ibrahim. The COVID-19 global lockdown provided just the right conditions to jump headfirst into this model. Additionally, inflation in Lebanon has resulted in a relatively low cost of living for professionals earning “fresh dollars,” which could help media companies with access to this type of income attract top talent to Lebanon – provided the country can offer one day present enough incentives in the form of security and safe living conditions. This will allow Lebanon to compete globally and sell productions to services like Netflix and Amazon.

ROCKING THE BOAT

After painting such a rosy picture, one might be tempted to think that the industry has a bright future ahead of it, but the reality is that getting there will not be entirely smooth sailing. Several factors threaten the cruise if the self-appointed navigators do not plot their course smartly.

First among the common challenges faced by the industry is the loss of income, brought about by the economic crisis, and consequently of operations and growth capital. Traditional media suffered from the drying up of advertising revenue, increased printing and production costs, and the loss of subscribers who either left the country or didn't renew their subscriptions. Additionally, the relatively well-established traditional media outlets and production companies, either fall under direct political ownership or rely on political funding from local or regional political forces or advertising agencies linked to these forces. “All these models are today in a deep crisis,” argues Ayman Mhanna, executive director of Skeyes, as most of them are unable to think in terms of creative business models and build creative links between quality and monetization. The near absence of dedicated investment funds have further aggravated these dire straits, forcing companies to downsize and turn to external markets and fresh dollars to ensure their survival. The issue of revenue is slightly more complex when it comes to journalism proper. “Initially journalism as we all know is very expensive and it's very unlikely to make any profit. So our business model right from the beginning was based on the idea of creating content that can be monetized to fund our journalism,” says Ibrahim. Uniquely within the industry, traditional print journalism incurred additional income losses from the COVID-19

pandemic as newsstands closed down due to lockdowns and movement restrictions, forcing these outlets to move to online-first or online-only models – a strategy that wasn't necessarily well-planned ahead.

A second challenge is the state's neglect of the industry, reflected in an antiquated legal environment and zero state-led initiatives to support the sector. Intellectual property laws are largely insufficient, for example. “When it comes to feature films and big international productions, the role of the state or the government is very important. And no country has managed to develop this without an active role from the public sector,” says Chamoun, citing examples from Morocco, such as the Centre Cinématographique Marocain (the Moroccan cinematographic center) and the Royal Film Commission in Jordan which offers a 25 percent cash rebate incentive to international productions filming in the Kingdom. For news journalism, the repercussions are on freedom of speech again. “Defamation laws, libel and slander are written in an extremely vague way that is interpreted by the judicial bodies based on the political balance of power of the moment,” comments Mhanna.

To be fair, the state has paid some attention to some aspects of the media sector, which brings us to the third challenge: the threat to freedom of expression. This asset is one of the pillars of the industry, without which creativity and quality analysis – but also accurate information – cannot exist. True, Lebanese media professionals enjoy relatively better leeway than their Arab counterparts, but this a statement we should be wary of, warns Mhanna: “It is that very statement that our authorities use to justify new limitations on freedom of speech, arguing that we are ‘still better’ than Egypt, Jordan or Turkey [...] That's an argument we will never accept.” In the past two years since the start of mass protests in Lebanon, attacks on freedom of speech have intensified, he laments, painting a dark picture. “Unfortunately, we had to wait for a tragic event, the assassination of [journalist and activist] Lokman Slim, to understand that we live in a country governed by impunity at every single level, not only when it comes to killing journalists or writers, but also impunity in terms of financial management,” he says, adding that figures from 2019 to March 2021 showed an unprecedented increase in the number of attacks on journalism and freedom of expression, not matched even at the height of the Syrian

Overview



occupation and other crises since 2005. Speaking on behalf of Executive Magazine, Akkaoui states, “We are independent in our journalism, and we have been paying the price quite dearly for the last 20 years, the frequency and intensity of attacks has increased. And we see and feel that oversight.” Limitations on freedom of expression are not restricted to journalism, but extend to other related industries, not least of which in the Arts and Culture fields, noted Mhanna. Theater productions have been denied a stage – literally – since the COVID-19 lockdown and have therefore not come under the radar, but other forms of artistic content have been the target of censorship and attacks by polarized media outlets and so-called electronic armies.

Lastly, the fourth challenge concerns the Lebanese talent pool itself and the infamous “brain drain.” One problem that aspiring media professionals face is the shortfall of academia and training centers when it comes to equipping them with up-to-date and in-demand skills. In a country facing a severe economic crisis, with limited local employment opportunities and insufficient investment in media companies, many fresh graduates and even seasoned professionals are left with the choice between expatriation and freelancing with overseas clients in order to secure “fresh dollars.” This is a highly competitive arena and getting there requires the right connections but most importantly the right skills which, as mentioned above, many Lebanese look beyond the borders to acquire. In journalism, the issue is twofold. Some universities do not offer their students enough quality education and tools. “In the context of journalism, the content creation that journalism does in Lebanon, leaves a lot of room for quality improvement and it has been so for many years,” echoes Schellen. Other universi-

ties fall short in terms of preparing and adapting them to the Lebanese context. “They become the local correspondents of the largest newspapers from the United States because they know how to write really well, and they master the tone that appeals to foreign audiences, but they don’t actually have such a strong connection with the ground in Lebanon,” says Mhanna. For Khoury, the talent pool in Lebanon is in danger of drying up: “The ones who remain are three kinds: those who are not really up to it and therefore have no chance to leave; the diehards who love the country and are willing to stay here; and those who don’t have the means to move. Otherwise, the good talents, I’m afraid are almost about to finish.” Chamoun adds that over 50 percent of people in the production field are now in the United Arab Emirates, Saudi Arabia, Qatar or elsewhere.

A SAFE HARBOR?

Some coastlines promise safe harbors for Lebanese media, publishing, and content creation companies, and consist primarily of niche markets targeted to the Middle East region. Dropping anchor in these ports will require collective efforts on the parts of the private sector. Alexis Baghdadi, Executive Magazine’s managing editor, addressed the panelists saying “It’s time to pass the torch of pioneering journalism and by running media content, content creation to another generation while you take on another role, which is not very different from your role, but more advanced, as guides.” Speaking for the United States Agency for International Development (USAID), Georges Frenn reasserts the importance of the sector in terms of the objectives set by donors, namely quality job creation for Lebanese and economic support and diversification. “Usually donors focus on agriculture, manufacturing, tourism, rural tourism and environment, but the [media, publishing and content creation] is very much interesting and this is why we are analyzing this and USAID is putting this sector as one of the sectors to partner with and support with partnerships,” he explains.

Consensus seems to be the need to produce quality content. Chamoun finds it necessary to reiterate the need for additional investment in content creation, “I think there should be an investment fund developed in Lebanon. When it comes to TV series, development is very important. It’s the name of the game. How to develop content from a concept, from an idea, and hav-

ing what we call 'a bible' that could be then taken by Netflix, Amazon and the other big streamers." Commenting on the small quantity of Arabic content online, Ibrahim finds that it is mostly of poor quality, and identified this as an opportunity for Lebanon. "Today the production that makes money is drama, where we cannot compete on the production level because everyone is doing it," she says, "We have an edge in what we've always been good at, becoming, or re-becoming the hub of the best writers, the best archivists and researchers and storytellers, and produce high quality content for this type of production. I genuinely believe we would first be contributing to closing this gap of Arabic content that is very sellable to international audiences, we can even do it in English." While Arabic is important, Khoury notes that content should not be exclusively in Arabic. "Out of 10 million pages roughly consumed on the internet, 54 percent are in English. So I wouldn't shackle myself with language. I would push for the authenticity and locality of the story, irrespective of the language." Mhanna mentions the availability of international funds for quality content and journalism that could be targeted by local companies, asking "[Are] the owners and CEOs of the very established TV stations in Lebanon ready to actually introduce some real new type of content that is truly high quality journalism even if it would put [them] at odds with some of [[their] previous friends and sponsors?"

Mark Daou, chief executive officer of RPR, leads the exploration of examples for collaboration within the sector. Among those are "free zones," such as in the United Arab Emirates, which could give creative industries room to develop their financial capabilities, offer them financial and legal facilitations, and probably create new employment opportunities. Another idea he discussed involved infrastructure and technology clusters that would solve a lot of technical difficulties for players in the industry. "Those centers will create a lot of knowledge that will create impact and it will allow a lot of young people to aspire to belong to a community that is physically present or at least virtually present," he says.

For Dany Richa, chairman and chief executive officer of BBDO Middle East, Africa, and Pakistan, winning at the future of the industry requires having the necessary future skills: "You'd be surprised how talented the people that we have are. We don't have enough of them, and this is where we need to work with universities to grad-

uate more people in neuroscience, in data, analytics, coding, instead of grooming them unfortunately for the jobs of the past that we're trying to hang on to." Daou agrees that the private sector should actively engage educational institutions. "We should make sure we continue to get the flow of talent into our institutions to be able to flourish, because the reality is, we will not be able to recruit from abroad to Lebanon." Here Akkaoui is prompt to point out that in the absence of public policy and safety net, "the disparity between professionals with access to 'fresh dollars' and those still getting paid in Lebanese pounds will increase, and with it the misery."

The public sector remains very largely absent from the discussion, amidst calls for more collaboration with the industry. "We need to contribute to building a strong public sector but we don't have the luxury of time for it. We have been trying to push cultural actors to start thinking in terms of policies for the sector instead of only asking for money for their performance," concedes Mhanna. Akkaoui adds: "We're not as disappointed as the primary, secondary and tertiary industries, who depended on public policy, or public initiative [...] which allows us to get organized, it's most probably the industry where we can see much more cooperation between different stakeholders." Ibrahim in-

tones, "We need a strategy because, we're really functioning in a vacuum; there's no state, there's a failed state and we're literally doing the job of the state so this could also be an opportunity. Money alone will not solve the problem [we need] an overall strategy to educate properly and to keep them in the country, create an ecosystem where they can function. With some strategizing, it's doable." According to Richa, Lebanese people around the world are willing to help by commissioning work to Lebanon and employing Lebanese outside Lebanon. "It's really encouraging that the diaspora is creating a platform where like-minded people can closely collaborate with one interest in mind, the interest of our people, because honestly we're the only ones thinking about our people, our government aren't thinking about our people, they're thinking about staying in power and it's sad, it saddens me," he concludes.

■ The public sector remains very largely absent from the discussion, amidst calls for more collaboration within the industry

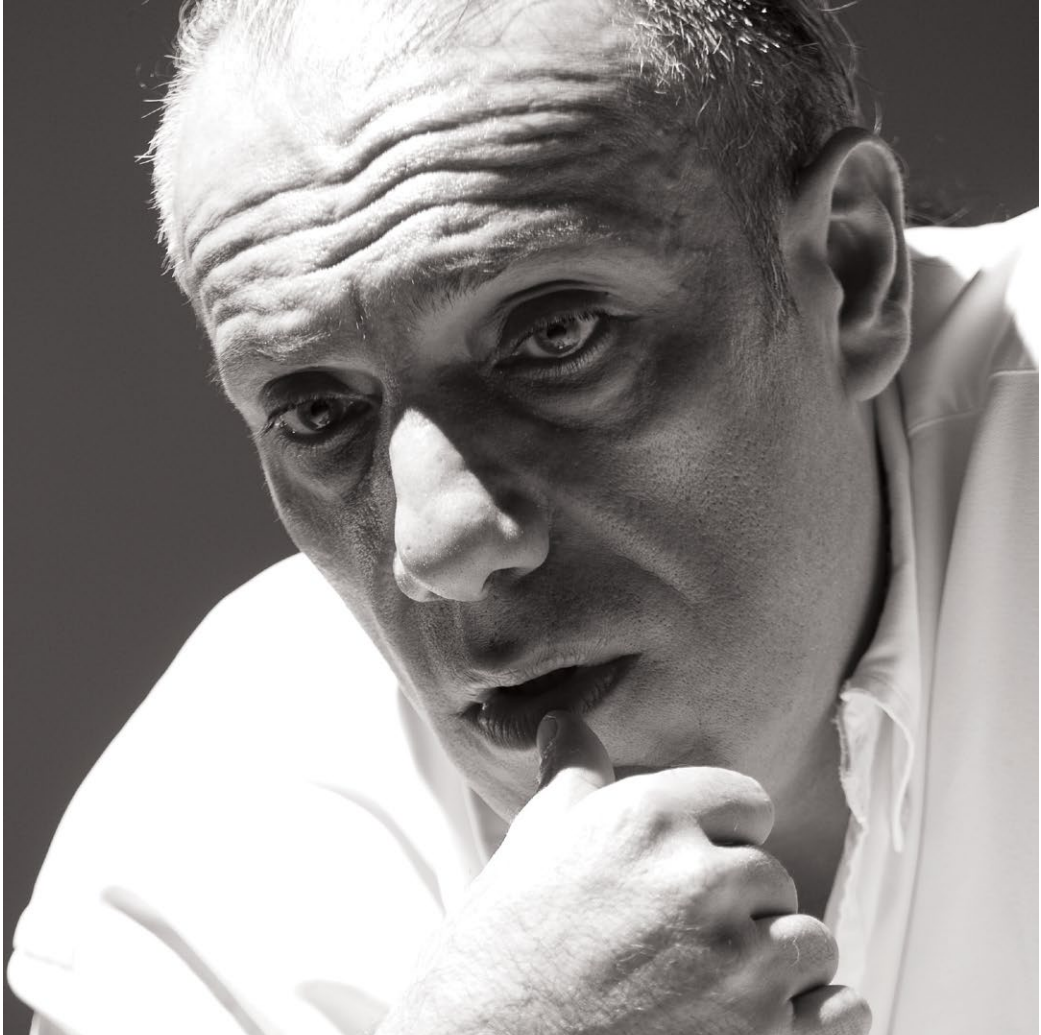


Q&A

By Alexis Baghdadi

FORGING A SILVER BULLET

By articulating their priorities, Lebanon's darling medias can mobilize huge support from their many friends abroad



Lebanese advertisers, journalists and content producers who took part in the Media, Publishing and Content Creation roundtable discussion organized by Executive Magazine in partnership with the United States Agency for International Development (USAID) were unanimous in agreeing they have a strong competitive edge over their regional peers,

but also warned against the risk of losing this edge due to the continuous brain drain and the difficulty of accessing finances amidst an increasingly inhospitable business environment.

Tapping into the Lebanese diaspora and international donors were among the solutions proposed at the roundtable to finance operations. Following the discussion, Executive talked with

Eli Khoury, chairman of Quantum Communications and a veteran of the media landscape in Lebanon, to pick his brain about more or less concrete proposals the sector needs to align behind and join efforts to achieve.

E Do you have any comments on the Media, Publishing and Content Creation roundtable by Executive Magazine in which you participated?

The gathering was nice and pertinent, and I thank you for it. If there is one thing that left me hungry, is the fact that the discussion revolved too much on preserving the industry itself and not the challenges we have to contend with in this country, to maintain any kind of industry; from destroyed purchasing power to utilities and other basic needs. It is easy to get stuck in our comfort zone and maneuver through the difficulties to get by. I would say that, to ensure our survival we only need to spend around 25 percent of our efforts on the industry, and 75 percent on fixing the damn place.

E What are the specific competitive talents that Lebanese professionals have in the media, content, and publishing industries among their regional peers? Why do they have this edge?

Traditionally, we have dominated the communications and media industry in the region for generations, even during the civil war. The later Gulf boom metamorphosed it into a combination of Lebanese and British knowhow. While they brought in the technical skills and a global language, we brought in an almost seamless multicultural sense due to an indigenous and intuitive “marketeer” DNA that we seemed to possess. Today we may have lost our edge but not necessarily our fundamentals. However, we are fast running out of time.

E Do you think, given the reduced access to education and tools as a result of the financial situation, that the local talent pool will be able to continue to evolve its skillset and retain its competitive edge?

I keep telling students and newcomers that the lack of facilities in academic institutions is not an excuse, especially since the Internet offers so many answers. When we were learning our trade back in the days, we too faced magnificent crises and wars – I wish we had the Internet back then, we had to learn through the limited press articles and books we could find or afford. Today, those who really want to learn and perfect their skills can easily do so, as long as they have the will to do it.

E What is needed at the local institutional/vocational training level for the Lebanese talent pool to continue growing its skillset?

The issue is twofold in my view. We now have an unprecedented brain drain at both levels; the faculty and the students. Many of the best teachers, mentors and professionals are either already gone or they are not as available as before because they are busy surviving. Additionally, many potentially kick-ass students, those who are dedicated to learning their craft, have already “swum” abroad or are awaiting the first chance to do so, for they have access to the best universities and scholarships offered by embassies. Even the best of mentors, professionals or students who insist on staying, are not able to produce, train and progress properly due to the environment which is not in the least conducive to retaining talent.

E There is a stated need for a community or hub of professionals to close ranks and support the sector. How do you see the role of such a hub concretely?

Any good deed nowadays is certainly most welcome, even if it just means fixing a window after the Beirut Port explosion. Any good citizen is bound to contribute wholeheartedly to any initiative. But I must admit that I am somewhat against such an approach, as I increasingly feel as if we keep doing it in vain. Intruders run the place to the ground, we rise to patch it up, only for them to destroy it again, and so on – and it gets worse every time. The thing is, we as a society and a republic are not bankrupt, we have all the capital and assets that this wonderful country, our long history and our hardworking parents have endowed us with. We are merely a cashless hostage. We media professionals, for instance, remain very well equipped with the knowledge and tools, even now, but to be really effective, we must agree on one diagnosis, we might not agree on the remedy, as good doctors sometimes do, but we must agree on the assessment at least, if we ever want to truly relieve the environment and go back to a lasting normality.

We must let go of personal and communal egos and stop beating around rotten ideological bushes – or avoiding them altogether. The one and only reason why we cannot agree on the di-

■ “We have all the capital and assets that this wonderful country, our long history and our hard-working parents have endowed us with. We are merely a cashless hostage”

Q&A

agnosis, remains the fact that we do not agree on who we are. If we, one day, tackle this core issue, we can then rain hell on those who destroyed our country and those who might wish to in the future. The remedy may be disputed left or right, but the diagnosis cannot be, else the patient dies. Some may justifiably lack the courage to grab the bull by the horns, that's fine, but let them not pretend they are doing the best they can. I will go farther and say that more of us should have the balls Executive showed, when it published with a black cover or with nothing but blank pages. We need guts.

E *Do you believe in the power of the diaspora to support local or Lebanese professionals in the media, content, and publishing industries. Are we talking about individual access to markets and funding only? Can you think of examples?*

I might sound controversial, but I will say that COVID-19 gave me hope. It transformed us into a Zoom and online society. Today, not just in Lebanon, people around the world are connecting online to discuss how to reshape the world we live in. With enough momentum, this can create a gigantic power. We can collect millions from the diaspora, we can support the industry and other industries, while over the head of the corrupt government without letting it lay its bloody hands on a single penny. But again, we need to stop giving out fishes and start giving out fishing poles. We do not need Band-Aid we need ER.

E *Are there larger-scale ways the diaspora or the hub can support these industries, with policy reforms for example?*

If we as civil society don't do something to fix the problem, nobody else will. But for that, you need a local anchor, not only the diaspora, and large scale action – all conditions considered. There are many good, small and large but fragmented attempts by the diaspora and NGOs; though varying in focus, as a result of varying in diagnosis, hence with little to no effects, and sometimes damaging ones. Otherwise, yes a lot can be done and at worthy scales.

To recap, is there a concrete plan to help the sector?


We need to lobby and continue fighting for our rights, on the streets or with the tools of our trade. That is a given. I would also propose build-

ing a center that defies the situation and provides the basic needs for professionals, from electricity to technical facilities, tools and access to multinational or even bitcoin financing. My guess is that there are many who would be willing to back such a project, including embassies. I read of several funds calling for [requests for proposals] for such kinds of projects. But one must tell people how one wants to be helped.

E *Might the diaspora or international community withhold support to large-scale initiatives in these industries, or impose stringent conditions due to the political crisis and government mismanagement of the economy and other factors?*

It all comes down to why someone wants to help us as a nation, how they see us. There are some who want to help preserve the simple things they hold dear in this country, like the food, nightlife, beauty or freedom, etc. It is a love affair with many ingredients; but when the ingredients that make it up get degraded, there comes a time for one party to end it. If their heart is in the right place, then they will continue to help, but we also have to put in the work and give them hope. This isn't always easy. Many, myself included, almost lost hope after the August 4 explosion, but I am not ready to give up yet. I guess it becomes instinctively unavoidable for some.

E *Do you believe there is hope for the sector yet? Does this hope extend to the rest of the country?*

People have often accused me of over-optimism. I believe there is big hope, and for a reason I will explain. Our problem is one of identity. Today, there are those who would like us to believe that before sects and ideologies, Lebanon was nothing but a void or a negligible fragment of anything but a nation. This is what is wrong first. This is why our constitutions have never been respected or implemented, like any decently successful country. This is why unwritten or written pacts don't last and get broken at the first sign of change in balance. To deconstruct one's tradition and history for any rational or emotional reason, be it mythical or cast-in-stone factual, is not modernism – in fact quite the opposite. A rich multicultural mosaic that thrives on the exchange of ideas, values, art and assets, this is who we were and still are and will be. History speaks louder than politics. Decades of regional conflicts didn't end us. 30 years of war didn't end us. Our nation and history seem to be stronger than religion, ideologies and tyranny, most importantly, despite many of its own people. 

■ “We need to stop giving out fishes and start giving out fishing poles. We do not need Band-Aid, we need ER”

Vignette

By Thomas Schellen

HARD CASH FOR HARD TALK?

Content's economic potentials of dystopian challenges

If you contemplate how local creativity has fared in the past 20 to 30 years, and especially if you contrast Lebanese creative and cultural content productions with productivity and innovation in the real economy, content has traversed a very long road in a very short time indeed. There could hardly be greater diversity, for example, between a 2007 play on the glory and fall of heroic Queen Zenobia and a 2021 animation movie on the fictitious Arab dictatorship of Alephia, nor could their creative pathways be more constructively conflicting.

The first production, *Zenobia*, being a Mansour Rahbani tale set to music and dance, extols the near-mythical queen of the fleeting Palmyrene Empire of third century AD fame and her tragic desire to build an identity. The second, *Alephia 2053*, being an hour-long animation movie in the dystopian genre, advocates a very young-adult message of fighting corruption, martyrdom for the cause of freedom, and ridding the world of yet another hereditary, oppressive (and of course male) tyrant dynasty in the mid-term future.

CASHING IN ON CREATIVITY

The sole common touch point of these two content productions – diametrically opposite to each other in terms of artistic style, visual language and narrative, technology and target audience, and historical projection line of past and future – is their shared ingredient of Lebanese creativity. Both were concocted in the creative cauldron of overlapping, fragmented, contradictory, and complementary belongings that arguably distinguish this country and set it apart from much larger states in the Arab world and from your average small society anywhere.

Thus, in order to test the hypothesis that content creation is one of the economically potent sub-sectors of a media and communication industry that could help pull Lebanon out of its self-inflicted swamp of job insecurity and sub-standard productivity – the topic that was on the agenda of the third roundtable organized at the end of March 2021 by Executive Magazine and the United States Agency for International Development USAID) – Execu-



tive inquired about the economy of their latest content production with Spring Communications. This digital agency is the company whose unit Spring Entertainment launched *Alephia 2053* online at the start of astronomical spring on March 21 and witnessed more than 8 million YouTube views of the feature by end of April.

At the start of his conversation with Executive, Rabi' Sweidan, the head of Beirut-domiciled Spring Communications, creator and co-producer of *Alephia 2053*, is full of exultation over the achievements of his new production, which he dubs the "first-ever dystopian entertainment in the Arab world." According to him, the animated feature's reception by audiences in Arab countries over its

Vignette

■ The conflicts of competing ideas and the intensive discussions that are endemic to Lebanon [are] a fount of creativity rather than an obstacle

first month has not been varied in response to the dominant political ideologies of said countries but rather reflects national demographics and internet penetration. In other words, it is digital entertainment that, once released and

having gained momentum, eventually goes on to move following its own trajectory.

However, while Arab and other viewers of *Alephia 2053* would easily be reminded of fairly recent and even some ongoing totalitarian experiences (according to Sweidan, viewers from countries

such as Algeria, Iraq, Syria, Yemen, Sudan and others said that the story resonates with them as a home story with elements of their reality), the tale's dystopian-totalitarian framing in the perspective of its creator also has elements of purposeful departure from content obsessing over a falsely glorified past into content that speculates to a more productive future.

"If you are always looking at the past, [you are] walking backwards and we believe that you will tumble in the present [time] and fall in the future," Sweidan says, conceding that for him as content creator and producer this future also is one of hoped-for economic and commercial rewards. "We are basically a strategic content and communication agency [that is] driven by a purpose. Content is one way of what we believe is the future of communication. We are a content-driven agency and believe that we can make money out of it," he tells Executive.

Sweidan fundamentally holds the view that

conflict, meaning first of all the conflicts of competing ideas and the intensive discussions that are endemic to Lebanon, is a fount of creativity rather than an obstacle to it. Consequently, he has no problem at all in associating the Lebanese paradigm of abundant conflict with creativity and the potential for marketable content that to him seems to follow creativity as surely as the vernal equinox follows upon the winter solstice. He cautions, however, that this market potential for Lebanese content is not in Lebanon but from Lebanon, meaning directed at other markets. "The big question for me is not if there is potential. The big question is the challenge whether it can be monetized to benefit the creators of the material, and the creative community and industry in the wider sense. The potential is there for the Lebanese, the challenge is how you can monetize it," he says.

In this regard, his recipe for finding acclaim and pulling viewers to the firm's content has been to follow the circuit of international creative festivals around the – mostly developed – world that provide conventional or digital content of Lebanese origin with exposure which financially restrained content creators could never buy with their own means. According to Sweidan, Spring made its bet on the pull-potential of such exposure more than ten years ago and scored award nominations and awards for several productions.

This vision and the fast success of his latest production in terms of high viewership notwithstanding, Sweidan admits that the forward-going potential of Lebanon-based production houses is limited by the cowardice of capital in the face of uncertainty. "The more the situation is uncertain in Lebanon, the less people are willing to come and invest in this talent," he says.

DRAINS ON CREATIVITY

In terms of barriers faced by Lebanese communications and ideas-focused enterprises, Spring's experiences as outlined by Sweidan show that content creation as industry in Lebanon today is in the same boat with journalistic media and marketing communications agencies. This entire industry is assailed by challenges of a small native market, difficulties in access to finance and risk capital, intense commercial competition from rivals with deeper pockets in regional and international markets, and uncertainty pressures that push creative talents into seeking stability away from Lebanon – a burning problem in 2021 inadequately subsumed under the long-standing moniker of brain-drain.



Notably, although the latter point of the industry's sensitivity to adverse developments in the country's living environment must be assumed to be a universal deterrent to anyone's will of accepting the laborious burden of rebuilding this country's economy, the vulnerability of minds was during the Executive roundtable series of March 2021 highlighted more in the media and knowledge economy roundtable contexts than in the roundtables dedicated to real economy and hospitality sectors.

Acting as a content focused and purpose driven enterprise, the Spring Communication venture moreover shares another key denominator with the, by no means excessively large, realms of quality-oriented marketing communication and authoritative journalistic media in Lebanon: a fierce determination to be independent.

On the other hand, content creatives face a contradiction that is inescapable when local origin-content seeks to compete with others in a global or even Arab village of content consumption. This is the question of what actually is Lebanese content or Lebanese creativity. "I don't know how one can identify Lebanese content per se in an era where identity is seen as a personal self-assessment or choice in a fluid universe of identity choices," Sweidan notes.


In this sense, Alephia 2053 might be seen as neither fully Arab nor fully dystopian but as a work of anti-totalitarianism that draws inspirations from many diverse sources which are as far apart in time and space as 1917 Petrograd, 1934 Nuremberg, 2003 Baghdad, or 2021 Pyongyang. Thus the particular production value of Alephia 2053 is perhaps not that is part of a by now well-established and almost tired genre of dystopianism – after all, the last decade's myriad dystopian fantasies in their end-of-world rationales did not anticipate the universal infodemic and overwhelming infections of social media as the most damaging and consequential geo-dystopian experience of this age. Rather, the appealing element from the regional cultural perspective might be that the production is not ignorant of the Arab experience and approach in seeking for a culturally acceptable solution to the universal problem of human tyranny.

FUEL FOR CREATIVE JUICES

However academic this discussion of Arab contributions to the dystopian genre could be, and how far or near a global content culture and such a culture's aggregate wealth of diverse local inputs

might reside in the future, the content entrepreneur Sweidan has experienced concrete disadvantages not because of global-local identity conundrums but because more powerful and organized states in the Arab sphere have entered the competition over influencing global perceptions of their societies – and thrown financial resources at the task. "Creativity for us is a form of soft power and a driver of social influence. Arab countries around Lebanon have realized the importance of creativity and are spending 100s of millions of dollars [on their creative industries]. What is very difficult is that I am competing with investments from countries that have a lot of money and have decided on policy level, government level, that this is very important for them," Sweidan says.

On this uneven playing field of Arab content production, Spring largely auto-financed the production of Alephia 2053 by contributing to the venture an – undiscovered and even uncharted but very large – number of man-hours. Taking such efforts forward into a monetization model for a Lebanese content creation industry will require mobilization of investors into digital-era technology, prominently including artificial intelligence, Sweidan says. And it will not be something that any one niche content company should go alone. "There will now be a need to work in an ecosystem that can complement the work of the creatives while ensuring the most important aspect for creative companies, which is independence," he emphasizes.

Creation of this ecosystem of content creation and communication-driven companies in Lebanon, however, requires something beyond private sector sharing of interests. Here, Sweidan is not bashful: "Our homegrown talent, for whatever reason, is world class. Our digital content is world class. At the same time, the competition in the region is starting to copy us and move with great speed. In the short term, if you ask me, we need a bit of stability just to know where we are standing. This is not something that the private sector can do. This is something that the public sector can do. In the longer term, if there is one thing that I would love, it is for the government or the public sector to designate the content creation industry in Lebanon as a strategic pillar for the country." 

■ "What is very difficult is [competing with] countries that have a lot of money and have decided on policy level [...] that this is very important for them"




ROUNDTABLE 4/5

FOOD & BEVERAGE AND HOSPITALITY

Aiming to export successful F&B concepts and develop job-creating quality hospitality ventures

March 31, 2021 | 2:00 p.m. – 4:00 p.m.



PARTICIPANTS

MAYA BEKHAZI	Syndicate of Owners of Restaurants, Cafes, Nightclubs and Patisseries
JOUMANA DAMMOUS SALAMA	Hospitality Services, <i>Chief Executive Officer</i>
ANTHONY MAALOUF	Lebanese Franchise Association (LFA), <i>Vice President - Casper & Gambini's, Owner and Chief Executive Officer</i>
ROMEN MATHIEU	Euromena, <i>CEO</i>
GEORGES OJEIL	Four Seasons, <i>General Manager</i>
AREF SAADE	Shogun, <i>Owner</i>
BOURHAN KREITEM	Chemonics, USAID Lebanon Enterprise Development (LED) Project, <i>Director of Monitoring, Evaluation and Learning</i>
GEORGES FRENN	USAID, <i>Economist and Senior Development Specialist</i>

By Wissam Assouad

PLANNING THE POST-COVID19 FEAST

As pandemic restrictions ease out, hopes rest on tourism amid larger economic uncertainties



The fortunes of the Lebanese hotel industry and of enterprises in the hospitality sector have been entwined not only with the economic problems that erupted in late 2019 and coincided with the people's outcry for systemic change when the Lebanese community took to the streets protesting yet another increase of taxes and demanding a change to their fragile status quo way of living. Losses of purchase power of the disenfranchised population and the demand for ousting corrupt decision makers in political class came together with the pandemic of Covid-19 and the physical destruction wreaked by the August 4, 2020, explosion at Beirut Port to in a ruinous deluge that shook the hospitality sector of Lebanon from the bottom to the top.

THE FOOD & BEVERAGE AND HOSPITALITY INDUSTRY

The food & beverage business has always relied on tourism with its backbone being the internal Lebanese community purchasing power. Figures from the Ministry of Tourism show that 1,592,301 visitors entered Lebanon so far in 2017 (until October 2017).

Since 2017, the F&B industry has been on a slow decline, reaching its tipping point and rapid fall with the revolution in 2019, and then a bigger decline due to the COVID-19 pandemic in 2020. According to Yasser Akkaoui, Executive Magazine's editor in chief, the F&B and hospitality industry "is reliant on physical contact, is reliant on physical movement, which puts you (the industry) at a specific risk that is beyond other industries. And of course the attractiveness of Lebanon to tourism has been diminishing in the last few years, not only because of COVID-19, pre-COVID, it has been impacted due to certain political and geopolitical lines that Lebanon has adopted, and of course because of the purchasing power and the economic situation which diminished the propensity of consumers to spend on restaurants."

Maya Bekhazi Noun from the Syndicate of Restaurant Owners in Lebanon says that "It's very important to note that the F&B business in Lebanon was at one point mainly sustaining on tourism, on tourists or, on Lebanese expats who would come to Lebanon to spend in Lebanon money; and people in Lebanon also, a lot of people used to. The spending power came also from families who used to send to their families money from the outside in order to spend."

The main challenge the sector is facing, she explains, is one being faced across the Lebanese economy: the dollar liquidity crisis and increased price of the dollar in the unofficial foreign exchange market, which is impacting both the ability of businesses to secure necessary funds to pay importers and their bottom lines. "Today, as restaurant owners, we spend most of our day identifying which suppliers take Lebanese pound

versus dollar or checks versus cash,” Bekhazi says. “Most of them are now asking for cash in dollars while very few of our customers are paying their restaurant bills in dollars anymore—and when they do it is by credit card, not cash. So, we are having to buy dollars at the market exchange rate, which can reach 2,400 Lebanese pounds to the dollar on some days, while as restaurants we follow the official rates of 1,515 Lebanese pounds on our POS.” She explains that restaurants cannot increase their prices by much for fear that consumers will no longer dine out, and so this is a losing situation for the sector.

It takes a drastic approach and steps to revive an industry relying on physical and social contact. The political instability severely keeps impacting the internal Lebanese market and the purchasing capacity of the Lebanese community. Also, the tourism sector is struggling mostly in terms of safety in Lebanon due to political unrest; while travel restrictions due to the pandemic came in as the cherry on top of the downfall.

Diving a bit deeper on the political side, the fluctuation of the Lebanese pound is also seriously crippling the F&B industry and not helping the stability of the products and services offered to the public. While the official rate in the banks is still fixed, the market and organizations face a different reality buying much needed material and products with rates up to 15,000 Lebanese pounds per dollar. This instability continuously affects product and service prices which is showing a gradual increase in monetary value, and unfortunately a decline in the overall quality. Several brands and products have become scarce such as baby milk formula, medicines ...etc.

According to data tallied by the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIA-BML), 280 food and beverages producers are presently registered as members of the CCIA-BML and employ a total of 17,149 employees according to an estimate based on the classification of companies in each category. Total registered capital, at incorporation, of these firms stands at around USD 290 million. The majority of producers, nearly 79 percent, are small and medium enterprises.

Joumana Dammous, chief executive officer of Hospitality Services, voices her concern and optimism emphasizing that “it’s quite breathtaking, I mean it’s really, how can I say, it’s really very heartbreaking to see how difficult and how many challenges we all have to face, but as just said, we

are, I think there’s something about us as people that makes the whole situation different, we react, we are proactive people, and if you will go through all of us, through each and every one of us, you’ll see we’re all creating new solutions. Honestly, the events industry has been totally devastated, events have totally disappeared from the equation at this time, we’ve been suffering as event organizers for the last year and we had to reinvent ourselves totally.”

WHAT NOW?

To move forward, industry stakeholders have to collaborate on finding new and better ways to get the industry out of the slump. As Georges Ojeil, general manager of Four Seasons hotel in Beirut, puts it: “We are so proud of Lebanon, we are so proud of the people of Lebanon, and we will never be cheap. We are full of heritage, we are, you know, full of history, and then full of knowledge, and then even promoting Beirut as an accessible destination, this would bounce back eventually with time because we’re going through economic collapse that would eventually balance in some time when the demand would be here.”

The optimism is here, the Lebanese resilience is rooted in its culture and history. Our cuisine made it around the world with an astounding reputation mainly thanks to our large diaspora and to the attractive Lebanese tourism, culture and history.

Akkaoui’s approach to moving forward was in line with many of the participants at the roundtable. Looking forward to reviving and helping both the industry and the job market need a new and upgraded approach. “We need to look at how this disruption has impacted us. Lebanon has always been the country where we validate ourselves. Where young people or maybe less young people would also as entrepreneurs always venture into new concepts, and there was quite a turnover on these concepts, a lot of them succeeded, a lot of them grew in Lebanon and outside of Lebanon and we can name many.”

“And this is the biggest disruption, first Lebanon being this entrepreneurial hub where young

■ It takes a drastic approach and steps to revive an industry relying on physical and social contact [...] the tourism sector is struggling mostly in terms of safety in Lebanon due to political unrest, while travel restrictions due to the pandemic came in as the cherry on top of the downfall

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people or concept developers would have the courage to go and launch their concepts out of Lebanon, refine them through user experience or consumer experience, and once they reach a certain maturity within the local market, it was time, and a guarantee for success outside of Lebanon, because the Lebanese consumer is sophisticated enough for them to take, to crash-test if you will, these concepts, that's why somehow, if you succeed in Lebanon you can succeed anywhere else in the region, and so this is the first disruption," Akkaoui adds.

The first question is how do we make sure that these young entrepreneurs can still be incentivized to launch these concepts out of Lebanon? And second, does the consumer have the purchasing power to take these concepts for a test drive? It is all about innovation. The Lebanese restaurateur has also been innovative, not only in the recipes, but also in the systems that they are using, and they are even innovative in the legal frameworks they use to export these concepts, so franchising.

COLLABORATING FORWARD


First, we need to get the ball rolling, to find and act on initiatives that revive the Lebanese Industries. Following that step, there are many maneuvers and funding opportunities from the Lebanese diaspora and from donors such as the United States Agency for International Development (USAID).

"USAID has the partnership opportunity open for the actors of this sector and the associations including the restaurants association so we can invite you to propose your ideas for partnerships where we can put our resources together and bring some donor funding to support initiatives on

the short term on the medium term and maybe later also on the longer term ... we've mapped the stakeholders, we've mapped the chains, we've mapped the systems and we've put all the numbers that we had knowing that a lot of the statistics can be missing particularly the last 2 years but with the help of all the stakeholders I think we can help rebuild this together, put the baseline but especially put the plans for the future to regain the maximum share and the maximum growth that will support the economy of the country," says Georges Frenn from USAID.

Involving the private sector to take part in the reforms of the F&B and hospitality sector is a must nowadays as Bekhazi mentions: "We can't even prepare our own profit and loss statement with this current situation. However, all this is still a survival mode; what would make it a long-term recommendation would be definitely to have the private sector take some, a share in reforms, without reforms the whole sector would not be able to survive on the long term."

"There's always hope. There's always hope, and as Lebanese we hope, hope is something that pulls us and drags us. So yes, there is hope but as everybody said, as we are all in this together we need to pass this moment, this very tough moment we are all facing in order to rebuild ourselves, and while we are doing that use this time to train our teams, to organize ourselves, to take this moment at the moment to be ready when things are better," says Joumana Dammous emphasizing the need to keep moving even in tough times like these. While the funding is scarce, she says the focus and efforts should shift to planning and strategizing, and when opportunity comes knocking again on the Lebanese hospitality's door, the sector will be ready to get back into action.

Akkaoui's vision falls in line with most of the participants in spreading hope and the call for action. His perspective is that "COVID-19 will release its grip on us most probably within the coming few months or early 2022 and this will be the right time to go out there maybe and seek investors or present to investors in order to invest in these concepts' expansion outside of Lebanon. So I see these synergies and I see this is the perfect time to launch initiatives that allow entrepreneurs that have really invested a lot in the last few years in making sure and validate during which they validated their concepts, this is the right time to accompany them to help them creating a platform that we can share experiences that will allow them to capture a lot of these concepts." 

Q&A

By Hadi Abou Chaaya

PUSHING FORWARD AND OUTWARD

Focus on resilience and initiatives to protect social security



At a time when Lebanon is witnessing the most severe political, economic and even security crises, the ambitions of entrepreneurs in Lebanon refuse to surrender to this reality.

In this context, Anthony Maalouf, chairman and chief executive officer of ANT VENTURES International and vice president of the Lebanese Franchise Association (LFA), points to a number of factors that have prevented the progress of this

sector, but lists initiatives taken to protect it and preserve human capital. In his opinion, the Summer season will be a promising one, unprecedented and prosperous for several reasons and factors.

E *There is no doubt that the hospitality and food sectors depend on basic factors, most notably tourism, which is its mainstay, which has declined due to several factors, which we will mention in the course of the*

Q&A

interview. First of all, what is your assessment of the reality of the sector today?

Very difficult. I used to say, from experience, that this kind of industry, especially our type of industry (casual dining), is the most resilient in facing challenges and the fastest to recuperate. It is human behavior to go out and have coffee or drinks. So the problem now is how long the crisis will last. Entrepreneurs need to be patient and take a long breather, especially as there is a growing array of difficult and complex crises. Certainly, this crisis that we are living in today is the most difficult of all for many reasons.

E If the situation remains unchanged and threatened with more difficulties, this will put additional pressure on you as entrepreneurs and as owners of the company?

In fact, the crisis can be divided into two main parts: the COVID-19 pandemic, which has exhausted the whole world and Lebanon of course, and the economic crisis that has afflicted Lebanon and is still draining it. With the COVID-19 pandemic beginning to recede, movement is gradually returning, especially since we have ventures abroad, specifically regionally. But at the local level, the crisis still exists, especially with the decline in purchasing power.

E What are the most prominent political and economic factors that have prevented the sector from developing to a large extent?

There are many political and economic factors that hinder the progress of all economic sectors, especially our sector, which depends heavily on tourism and its multiple seasons. There is no doubt that the absence of political and security stability plays a fundamental role in the lack of progress in the economic sectors, in addition to the complete absence of

the State and the absence of a medium- and long-term action plan and vision for the advancement of Lebanon and putting it on the right track to achieve prosperity, growth and success. Everyone knows that 70 percent or more of restaurants, cafes and tourism establishments have closed as a result of the crisis that began before the demonstrations of October 17, 2019, and worsened after that due to several factors. But in particu-

lar, and being affiliated with the Lebanese Franchise Association (LFA), we work on the principle of pushing the internal crisis abroad. This is what happened during the July 2006 war, when Lebanese businessmen went to open businesses abroad to protect their interests inside Lebanon. Today we are out again, otherwise we would not have been able to survive. For a large number of actors in various economic sectors, the emphasis is on individual initiative and starting again after every strong shock and constantly searching for solutions to problems and crises.

E Several companies have witnessed the dismissal of a large number of their employees, and this certainly applies to your sector. How was this reflected on your performance in terms of service and the quality of the products you offer?

In fact, we had two options: to initiate layoffs between 30 and 40 percent and continue with the rest of the staff, or to reduce salaries and keep up to 75 percent of staff in some cases. Especially during the beginning of the crisis and in cases of complete lockdowns, we were not able to pay salaries. The good thing is that with the return of the dynamics of the franchising process, we decided to pump part of the financial returns from it to our branches in Lebanon, and we called it the "Currency Depreciation Correction Program" (CDC), as we were keen to raise wages and salaries between 35 and 40 percent to enable employees to pass this stage with minimal possible losses.

As for the quality of the products that we offer, the matter may not apply to us directly, but the hospitality, food and drink sectors suffer from it, as there is no longer a qualified workforce to manage the sector as a result of the terrible devaluation of the currency, which prompted some professionals to migrate in search of job opportunities that match their aspirations and the way of life that they were used to in the past. In fact, a large number of competent people migrated, especially to the Gulf countries, even if the offers they received were 50 percent less than what they were in the past.

E Being an entrepreneur, what initiatives will you take, in terms of re-employment and job creation, to avoid a societal explosion? Starting with promoting abroad in search of promising markets that protect the survival of companies, and how will this be reflected in creating job opportunities for the Lebanese citizen?

We must definitely take steps in the interest

■ "70 percent or more of restaurants, cafes and tourism establishments have closed as a result of the crisis that began [in 2019]"

of the workers. The simple solution is for most companies to increase sales as much as possible and cut costs to keep the business running. Personally, we pursued a policy of diversification, as we have entered into the coffee business and now we have the Caspresso brand that we sell to supermarkets. Therefore, we must diversify our business and distribute our workforce in popular branches in order to achieve a material return to remain resilient, as there are no other solutions for us. On the other hand, in regards to re-employment, we are constantly looking for qualified employees who have sufficient knowledge and experience to move forward in managing this sector and improving its services, knowing that we are looking for a long-term relationship, creating careers and offering salary packages that are in line with market requirements and maybe more. Our company has taken the initiative to improve the value of low wages due to the economic crisis, through the CDC program that allowed us to raise wages by 30 to 40 percent as an incentive for employee self-sufficiency and empowerment. We must continue to work to preserve our human resources.

In addition to the above, we redoubled efforts to open new branches in Baghdad, Iraq and Libya. This aligns with one of our primary areas of focus by giving employees career development opportunities that allow for the continuous advancement of our employees and senior positions. This gives us the opportunity to send our employees to work for our franchisees. We are also conducting training abroad, especially in countries that now have large branches such as Egypt and others, or at branches under opening, which allows us to send a team from Lebanon to provide staff with sufficient expertise, similar to what happened after the opening of our branch in Syria last December.

In short, we are working on correcting salaries and sending employees from Lebanon to our branches abroad to earn fresh dollars.

E *In light of the fluctuations in all world economies as a result of the COVID-19 pandemic. Is it possible to talk about future plans in the medium and long terms?*

There is no doubt that the COVID-19 pandemic had severe economic and financial repercussions, and this was reflected in the countries in which we are active throughout some 40 branches, but with the beginning of

the recovery we have witnessed a significant improvement gradually removing the lockdown, because people naturally like to go out to restaurants and cafes. It is true that all world economies have been affected by the crisis, but this has not significantly affected our business sectors.

E *What does Lebanon need today to revive the sector in terms of the necessary infrastructure?*

The State has many duties that it must perform in terms of infrastructure, from electricity to the Internet, roads, bridges, tunnels and many other things. But I think that relying on the State to manage its simplest duties is a waste of time, especially since State institutions are completely absent. We are used to taking individual initiatives. I think that the summer season will witness unprecedented tourism activity for several reasons, most notably the depreciation of the Lebanese currency's value, which will increase the appetite of tourists from different nationalities to come to Lebanon, as well as Lebanese expatriates. In the hope that a regional political settlement will be reached in the region to remove this uncertainty that burdens all sectors.

■ “We are working on correcting salaries and sending employees from Lebanon to our branches abroad to earn fresh dollars”

E *To what extent is the launch of new concepts in the world of hospitality and F&B in line with the markets you target? Is it permissible to talk about launching concepts specific to each market separately?*

Certainly, and I will give you two examples of that, one local and the other regional.

At the local level, the Batroun region is witnessing a large and unprecedented turnout, similar to what the Faqra region witnessed about two years ago. Therefore, the products that we offer for a specific region differ from others in proportion to the demand.

At the regional level, we allocate special concepts for each country separately according to need and demand. There is always a launch of new concepts due to the continuous development that the world is witnessing; with the difference between generations, the requirements differ, so any new development that you present to people at the global level is considered promising if the requirements are met.






ROUNDTABLE 5/5

TECHNOLOGY AND KNOWLEDGE ENTERPRISES

Enhancing core strengths and specializations in the digitized knowledge economy landscape

March 31, 2021 / 6:00 p.m. – 8:00 p.m.



PARTICIPANTS

ELIE ABOU SAAB	Creapix, <i>Owner</i>
BASSEL AOUN	Kafalat sal, <i>Program Manager</i>
JIHAD BITAR	Smart ESA, <i>General Manager</i>
GABRIEL DEEK	ISOC, <i>President</i>
FARES KOBEISSI	BlueRing, <i>Chairman and Chief Executive Officer</i>
MICHELLE MOURACADE	Alfanar, <i>Country Director</i>
NICOLAS ROUHANA	IM Capital, <i>General Manager</i>
NASSIF SHALHOUB	Credly Advisors, <i>Business Advisory, Partner</i>
WISSAM YOUSSEF	CME Offshore, <i>Chief Executive Officer</i>
BOURHAN KREITEM	Chemonics, USAID Lebanon Enterprise Development (LED) Project, <i>Director of Monitoring, Evaluation and Learning</i>
GEORGES FRENN	USAID, <i>Economist and Senior Development Specialist</i>

WE CAN REBUILD IT, WE HAVE THE BRAINS — BUT FOR HOW LONG?

Hanging on to Lebanon's professionals in the technology and knowledge enterprise industry should be the number one priority



According to the United States Agency for International Development (USAID) Trade and Investment Facilitation (TIF) project report, related to the Information and Communications Technology (ICT) sector in Lebanon, around 500 companies are active in the technology sector in Lebanon, among them 300 ICT companies and 200 startups, with the ICT workforce being estimated at between 15,000 and 18,000 persons. The report mentions that “Lebanese ICT companies are highly export-oriented.” However, these numbers are likely been affected by the economic crisis.

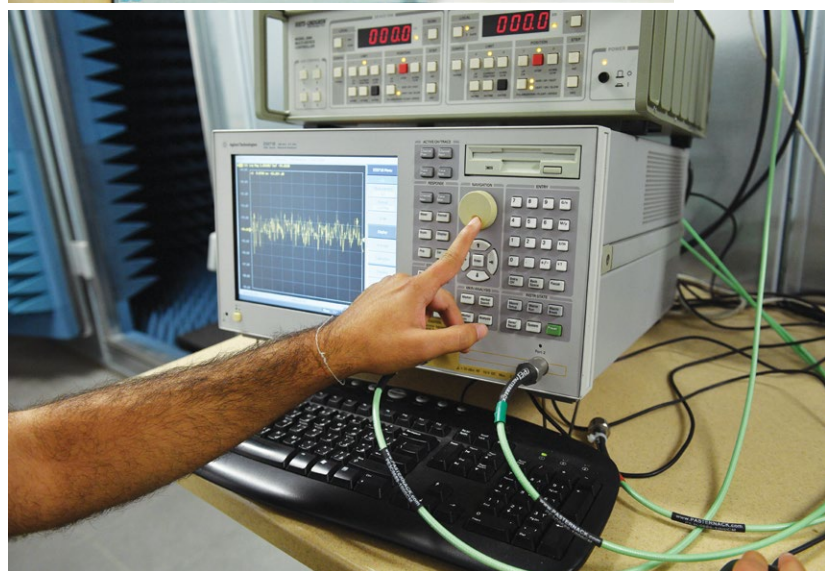
The first problem, which was expanded on, was the lack of finance for technological companies in Lebanon. Nassib Shalhoub, partner at Credly Advisors, mentions that, “In terms of

startups and the ecosystem, we are currently witnessing a significant downturn.” For him, after the “significant crowding out effect” due to high interests rates in banks on depositors’ accounts, the ecosystem in Lebanon is currently struggling, and many companies are migrating to regional hubs, to the United Arab Emirates in particular. Fares Kobeissy, chairman and chief executive officer at Bluering, mentions the fact that many companies are leaving Lebanon, and that the biggest challenge, in his view, is “still how to access capital and financing,” not only in the form of equity but also from banks. Summing up, for Kobeissy, the two biggest challenges are the access to finance and helping companies reaching new markets. This was also confirmed by Gabriel Deek, president at ISOC, in his belief that Circu-

lar 331 of the Central Bank of Lebanon (BDL), which guaranteed partially banks' investments in startups, was a good idea but "could have been much, much better." In addition, for Deek, one of the main issues is to access capital. With regards to the same circular, Jihad Bitar, general manager at SmartESA, comments: "the good side of 331 is that it changed the culture," but on the negative side "it brought some laziness and a habit of not being very professional and of overspending money to a lot of the ecosystem." For Bitar, with regards to startup financing, the main issue is at the seed stage and pre-seed where, according to him, it is extremely difficult to access capital: "You are going to get lollars, not dollars, if you move to angels." For Bitar, the moment that Kafalat stopped giving grants was the moment "this started to slowly kill the ecosystem."

FIREWALL FOR FINANCE AND MARKETS

For Bassel Aoun, program manager at Kafalat, "access to finance is a common major point," and venture capital funds are, like most businesses, suffering from lack of access to capital. For him, startups and funds, emboldened by circular 331, are currently moving to other ecosystems, believing they can capitalize on their know-how and launch second funds in the region. According to him, historical players on the venture capital scene in Lebanon have managed to raise new funds but outside of Lebanon, due to their track record in the industry: "This is the situation today. Access to finance is a problem on the level of the startup and it is a problem on the level of intermediate players, people that bring the money into the ecosystem." In addition, according to Aoun, the investment tools needed for the financial advisors (for example safe agreements and convertible notes) are not available due to Lebanon's lagging legal infrastructure. This mention of the legal framework was echoed by Karl Naim, managing director at StartechEUS, for whom the legal framework is "completely inexistent in Lebanon" for the tech industry. According to him, Circular 331 "unfortunately did not help the Lebanese startups at the time." Due to this lag in legal infrastructure, it would be very hard to compete with other ecosystems in the region, taking into account that seed or series A funding in the UAE, funding is reaching between \$5 million and \$10 million, compared to only hundreds of thousands three years ago. Nicolas Rouhana, of IM Capital, confirmed this view by adding that



venture capital (VC) and 331 funds are currently moving to Dubai, and that the lack of financing would hinder growth for companies.

The second issue mentioned by the guests of the roundtable has been the lack of support in accessing new markets. For Shallhoub, we are witnessing a migration and value deterioration for successful Lebanese companies, as most of them "established prototypes and validated their concepts" in Lebanese market and therefore still suffer from the local risk, while these companies are, for some, exportable, and others not. For him, there is a temporary decline in the local tech and entrepreneurship ecosystem, which would require access to finance in order to regain its previous strengths. For Kobeissy, Lebanon lacks institutions whose entire purpose is to help local

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companies access new markets, and this lack of export promotion is, in his opinion, a big deficiency. For Deek, this lack of access to markets is more important than lack of finance, and for Bitar one of the main impediments to this growth in Lebanon is a lack of talents and soft skills. Bitar, on the other hand, sees the crisis as an opportunity as “only the professional and serious people will continue” their activities in Lebanon,

■ The need to access new markets [...] requires talents, which are leaving due to a brain drain

which would rout out those he deems as “not very serious.” Echoing Shalhoub and Kobeissy’s opinions, Michel Mouracade, country director at Alfanar, laments this lack of technical assistance to entrepreneurs, deeming that such support is given only

in accelerator programs but lamenting that they are not, in his opinion, getting help at the business plan level and their cash flow projections.

This need to access new markets nevertheless, requires talents, which are leaving due to a brain drain. For Deek, though the human capital is present, “we are not competitive in terms of educations as we should be,” and he adds that imperfect education in ICT is why “access to talent is a problem and an issue for startups.” This is echoed by Naim, for whom, though the Lebanese speak three languages, which he deems important, when it comes to “real skills today, digital skills, digital marketing, software development,” he sees Lebanese universities as uncompetitive in comparison to their counterparts in Dubai or in developed markets.

FENDING FOR ONE’S SELF

A first solution proposed by the roundtable participants is to focus, with regards to the technology and knowledge sectors in Lebanon, on premium outsourcing. This was first mentioned by Mouracade, deeming that Lebanon could be an outsourcing destination for the digital sector. For Wissam Youssef, chief executive officer at CME Offshore, there are three models for the ICT sector: the Silicon valley model, which he deems impossible to replicate in Lebanon due to the current situation, the mass outsourcing, which he deems difficult to implement due to the fact that Lebanon lacks economies of scale, and the premium outsourcing model.

A general opinion, shared by most panelists and first mentioned by Deek, is the need for self-reliance and not to count on the Lebanese State to implement reforms: “Never rely on the government, never rely on the public sector.” For Rouhanna, the Lebanese crisis cannot be solved by the technology sector, but stakeholders can work towards fixing and solving the SME and startup crises.

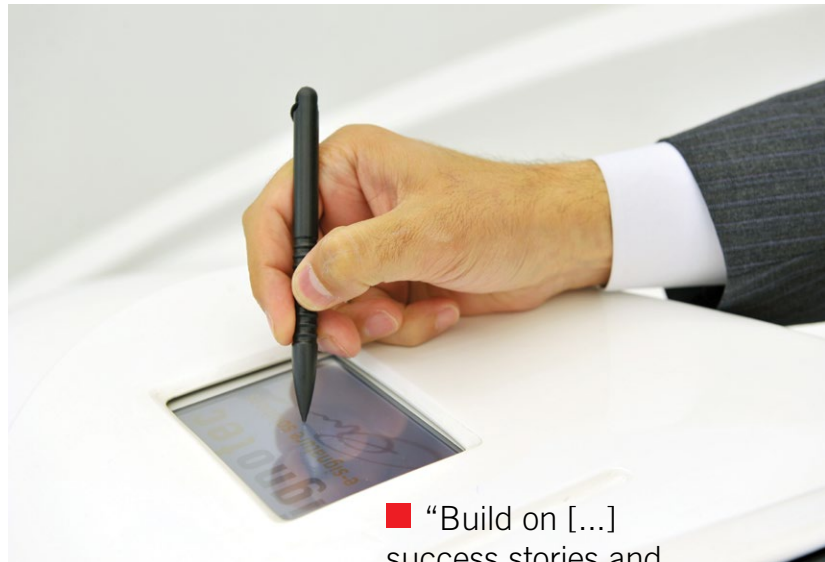
One measure to solve the access to finance, according to Mouracade, is “to encourage businesses in Lebanon to have a social impact, measure it and communicate on it,” as according to studies she mentions, consumers are more likely to spend on a product or service from a social enterprise versus a product or service from a regular enterprise. Mouracade, cited the example of BOT, an outsourcing social media enterprise that Alfanar supports. In 2020, their income, grew by 230 percent because of their focus on outsourcing digital services and because of a pool of 2000 freelancers on their platform: “this is a social impact because many young people will not have other opportunities if it weren’t for BOT.” According to her, such organizations, which have a social impact and are focused on supporting youth in the digital sector, are also strengthening the social impact sector of Lebanon and this could attract potential investors, adding the global market for impact investing is worth \$715 billion, according to the global impact-investing network. For her: “If a company is providing vulnerable communities and SMEs and MSMEs with access to affordable products and services, there is a huge potential as well. In her opinion, this would also help relieve the brain drain as it would attract potential talents and entrepreneurs if they believe their work would have a social impact.”

Amine Ghorayeb, consultant at Alfanar, mentioned that he would like to “encourage all companies in Lebanon that think that they have a genuine social impact.” This would, according to him, help mobilize the diaspora and to support local companies having a social impact “by either introducing them to people or by delegating some of its activities to Lebanon.” Indeed, for Ghorayeb, the first question is for those who are vulnerable communities that still have access to technology: how can they access services that are otherwise difficult to access? According to him: “Lebanon is a poor country and getting poorer by the day, and affordability is a key barrier to technology.”

GIVING HOPE TO SUPPORTERS

Another solution mentioned is the need to leverage the Lebanese diaspora for better market access. For Youssef, it is necessary to build on the “emotional connection” between the Lebanese diaspora and the Lebanese community living in Lebanon, since Lebanon has what he deems to be “success stories” in order to “build on those success stories and then approach the Lebanese diaspora with a model that creates jobs in the Lebanese market.” In addition, due to lower cost of operations, he recommended cuing candidates “without having real concrete projects” as this would release these companies doing outsourcing from a turnover problem due to a brain drain. For Shalhoub, this need to reach the diaspora is important, citing quasi government bodies and others, such as the World Lebanese Cultural Union, to enable connectivity between members of the diaspora, thanks to an application called diaspora ID, which connects all the “national councils and continental councils and connections of the Lebanese diaspora in the world.”

Shalhoub, with regards to access to capital, has also highlighted what he sees as a need to change the local mentality: “We have been raised over the past 6,000 years on being traders, and traders are greedy.” For him, valuations made by Lebanese owners in the ICT sector are too high and well above market benchmarks in the rest of the world, and this needs to change. “Why seek immediate relief? Why do you want to be Elon Musk without going through Elon Musk’s journey?” Highlighting the fact that Lebanon is already a risky environment, he recommended building more deferred options for investors to come invest in Lebanon. For Aoun, access to markets requires access to finance, and this could be



done by working on brand name, including working on impact investing.

For George Frenn, from US-AID Lebanon, access to market requires first to stabilize, then to “explore and find niches of growth, particularity on exports, and support them on enterprise level and sector level.”

Thomas Schellen resumes what he sees as the potential for the solutions expressed during this roundtable, with regards to the potential of impact funding, cultural union, and the Lebanese entrepreneurial spirit. The roundtable then moved to final words with participants, with Ghorayeb encouraging all companies in Lebanon to think that they have a genuine social impact, in order to help mobilize the diaspora, as the MENA region is catching up on social impacting with the rest of the world. Rouhana, on his part, hints that IM Capital is working on funds for startups, growth stage companies that have a potential to scale and weather the crisis. Kobeissy mentioned his wish to see the tech community collaborate more. Elie Abou Saab, owner of Creapix, also proposes to use the platform v-expo for an event to enable all tech companies who export their services.

The final note belongs to Yasser Akkaoui who believes that in entrepreneurship, the value is “in the ideas, and so that the ideas continue to flow, we need to create for them an enabling environment.”

■ “Build on [...] success stories and then approach the Lebanese diaspora and Lebanese community with a model that creates jobs in the Lebanese market”

RENAISSANCE PEOPLE OF ICT

Betting on a multitasking, multidisciplinary workforce to increase competitiveness of quality services



In light of the economic crisis affecting Lebanon, and with the country's talented workforce leaving the country, resulting in a brain drain, Executive sat down with Wissam Youssef, chief executive officer at CME, a multinational technology consulting firm based in Beirut, to discuss the Information and Communication Technology (ICT) sector, the possible new business model for the technology sector, and the role-models that Lebanon could develop. This Q&A follows the Technology and Knowledge Economy roundtable held on March 31, 2021, and the preparation of Executive Magazine's action plan for reinforcing this and other sectors.

E During our roundtable, you mentioned that due to the brain drain and the lack of economies of scale it is nec-

essary to focus on premium outsourcing services. Could you expand on what types of services are needed?

Let's start with a little brief on the outsourcing landscape in general. Usually you have two different levels of outsourcing needs. The first level is outsourcing for low-cost resources, which is typical for South America, Asia, and Eastern Europe. It's more about focusing on obtaining low-cost mass scale resources, and they are available in countries like India, China, Vietnam, the Philippines, and others. This is a good market. However, in Lebanon we don't have the scale to serve a similar market, we don't have a massive workforce, the whole Information and Communications Technology (ICT) sector is currently employing around 10,000, even less, skilled resources. So to serve this market it's going to be

really tough on the Lebanese ecosystem. That's why I don't think it's necessarily our main advantage, although today we are competitive on the cost side, but not necessarily on the availability of resources. That's why I prefer to stay away from similar markets, unless there is a special opportunity of course. So this is where it comes to the low-cost layer of the outsourcing market. Then you have the more advanced layer, more focused on the added value, the technology added value, this is when outsourcing occurs not just for low cost but also for availability of skilled resources, and this is when companies look for skilled resources. This is happening all over the world because of the lack of skilled resources. It's not just about low cost but also about skills and efficiency in terms of cost, the balance between quality and cost. This is where Lebanon has a real opportunity because we have skilled resources. This is not about mass, this is not about serving a need of 10,000 or maybe 1,000 resources, this is not the main target for premium services, it is more about filling a gap for a specific innovation product, innovative product or a niche company. This is where I think Lebanon has a real opportunity.

E *During our roundtable, CME was hailed as a success story. Can you tell us what CME is about? And also do you think that others could replicate this business model in Lebanon?*

Let me give a little briefing of what we do and how we started. I think it is relevant and could be a case study for any new business. We are a technology company; we provide services, including outsourcing, but also products we develop, solutions, in different industries. We serve more than ten different industries, from Telecom, retail, healthcare, digital wallets, market research, insurance etc. It is really diversified, and we have a pretty diversified portfolio of technologies because of our scale. We have been serving customers throughout the past 17 years. We deliver for the whole supply chain system for Subway, everything that starts from the point of sale all the way to inventory management, procurement, operations, sales, compliance etc. Our solutions are deployed in more than 35,000 locations for Subway specifically, and other branches of course, all designed and engineered from Beirut. We also have a support team, 24/7, serving customers all over the world. We also worked with PayPal in the past; we developed for them the next generation mobile payment system that they currently use to compete with Apple

Pay and Google for digital wallets. Thomson Reuters was also one of our customers, we supported them in deploying large billing systems for law firms, and we also served Allen & Overy (one of the biggest law firms in the world), White and Case and other big names in the law industry. This is the type of products and services for customers that we served in the past years.

One of the main capabilities that we have now is all-around diversification in terms of industries and technologies. We are also what we call the end-to-end solution provider, because we are not only software vendors, we are also hardware vendors, we design and manufacture hardware. It is not just about the software itself, and this is really unique because when I talk about hardware, it is not about large-scale hardware manufacturing, it is more about the Internet Of Things (IOT), smart devices. This is all engineered here in Lebanon. We are talking about product design, mechanical design, electronic design, and certification [such as the] Federal Communications Commission (FCC), all we can imagine. It is all engineered in Lebanon, prototyped and manufactured in China, and sold mainly to the US market. So this is the model that we have now. I think the main standpoints of CME today are first diversification, and second the track record that we have because it helps us acquire additional customers. The third one is what I call the end-to-end engineering services which is hardware and software, which is pretty unique and is similar to the model that Apple has actually. And the fourth one is about the resources, because all IT knowledge is about the resources. This is what is really unique about Lebanese talent; it's multidisciplinary aspects and mindsets. This is a true differentiator, and this is why we are able to succeed in the premium services as well. And the real case study is around this point, because [we have] a tangible example of this. If we go to India or to the Philippines or China, usually we find someone who is really good; you can definitely find smart people and good developers, but they are more focused on a specific technology or industry. They do not really know how to make the link between the domain expertise and the technology, so it's not just about technology or about writing code. Let's say you are developing an insurance software, it's

■ “Today we are competitive on the cost side, but not necessarily on the availability of resources”

Q&A

pretty complicated, the insurance industry is not a straightforward industry, so if you deal with a developer focused on coding, then you need someone else who is going to do the analysis for him, to make the business case. Another resource, a third one, is going to test his work, so you end up hiring three instead of one. Whereas in Lebanon thanks to the academic background we have, [which is] one of the advantages we have, we are multitasking, multidisciplinary, so when faced with a challenge we really have the package, the background, to deal with this and to really play three roles in one: analysis, development and quality assurance. This is exactly what I call premium services: when you deal with someone who is really professional. If you go today and ask a developer to send you a username and password of a production system, one of the options is that he sends everything in one mail, and this is not professional. You will get the information but it is not really professional. A professional developer would have everything stored in a secure location and would send you a link that requires your authentication. This is exactly what I think Lebanon is capable of.

E *Do you believe the Lebanese ICT sector's credibility has been reviewed downwards? If yes, do you think it can come back again?*

There are different problems for the sector's credibility. The Lebanese brand in particular. The first part is related to the government itself, and the way the country is run. When a high-level ranking officer in the government, minister or general director, goes on public media and claims that we [will not be able to provide] Internet by end of January, and this video reaches our customers in the US or the Arab

countries, what do you think they will think about this? They will think their business is at big risk. They have huge operations that rely on the Lebanese talents in Lebanon. [That same day] one of the customers received a

video on WhatsApp saying that Lebanon will "go dark" at the end of January. Imagine a company is going bankrupt in the next three months [...] do you think the CEO will go on the news and say the company is going bankrupt in three months? Or [will he do] his best to make sure that everything will be managed properly to avoid the chaotic environment? This is really hurting us, and the same happened with electricity as well. I had

to cover for our risks, to find solutions to provide our customers with plans B, C and D. Murex are offering to relocate their team to Cyprus, I read an article about it in the Commerce du Levant a few weeks ago. They are doing this because of the noise; financially it makes zero sense because we can operate here.

The second part, and it is also not contributing to build a real plan for Lebanon, is coming from the private sector, because whenever we are successful we go outside of Lebanon, and we claim success from a country outside of Lebanon. And this is not helping. I think we really need to convince the private sector that companies can go wherever they want, have offices anywhere. We are present in all continents, but we always take pride in our presence in Lebanon, we are not trying to hide it at all, this is our identity and we want to create a brand for the Lebanese ICT [industry], and I'm not blaming them, but we need to fight a little bit and create this brand.

E *How do you see the ICT sector in Lebanon building synergies with other industries?*

I think there is a huge opportunity here. It's a great question. I'm going to specify a set of industries that are really on the edge, and the mix between these industries and technology will create a huge advantage [money-wise].

The first one is healthcare. We have the best doctors, until now. The ICT [industry] might help them to stay in Lebanon, because most of the ICT companies pay in fresh dollars, because they sell outside Lebanon. One of the solutions we are developing now is a healthcare or wellbeing practice application. Soon we will be hiring doctors, just to give you the scope of this. [...] If we really want to compete in innovative products, healthcare is a great resource for the ICT sector in Lebanon to create this edge.

Then you have the education sector. We also have really strong academic institutions in Lebanon, [like] the American University of Beirut (AUB), Université Saint Joseph (USJ), the Lebanese University, with hundreds of years of experience. We partnered with USJ to build an education system, an information management system for the students, and it's going to be a partnership between CME and USJ. The ownership of the property is for CME but USJ has royalties in this. This is also going to add value to our offering. When we develop software for an institution like USJ, you really know it is going to be a Class A product, because it is one of the top universities

■ "We don't really have an umbrella where all the [...] key players of the [ICT] industry are collaborating"

not just in Lebanon. Theirs are actually the same needs as universities in France and Canada.

I just gave you two examples but there are many others like supply-chain, insurance, banking.

E *You mentioned bench lining during the roundtable? Can you elaborate on it from a policy view? Are you still hiring? How?*


I talked about the bench lineup, that is similar to that of sport teams, the bench support for the football team. One of the main challenges in our industry, the outsourcing industry, [is the] speed of mobilization. Whenever you have a customer, the first question is the cost, and then how much time you need to staff the team. Is it a week? Immediate? Three months? If it's three months I am not interested because other vendors can furnish the same service in a shorter time. So it's not just about quality and cost but also availability and mobilization. This is something we struggled with in the past. Again, because of the lack of economies of scale in Lebanon, we don't have a massive workforce. To mitigate this risk, we decided to develop the bench lineup: resources that are hired but are not necessarily assigned to production or an existing customer. There are what I call "overstaffed resources" without them being really aware of course, so they don't really feel the difference between someone who is on the bench and someone who is really on production. So when you do that, you have an availability of resources to engage immediately with your customers. So it's adding up to our real edge now on top of what we have now in terms of cost advantages and quality advantage. This is the main advantage of having a bench lineup, and the reason we couldn't do it before is the cost. Due to the currency devaluation and all that is happening in Lebanon, we are much better on cost so we are able to have an overstaffed team to a certain extent of course.

E *Globally speaking, do you see a role model for the sector in Lebanon for the moment? You said the Silicon Valley model would not work. Do you only see premium outsourcing as a role model for now?*

You mentioned a key word here, "for the moment." You know, if you really want to be successful in this field, you have to have a step-by-step approach, and not an aggressive one. I really like Circular 331 [announced by the Lebanese central bank in August 2014] as an initiative of course; I have a lot of comments on the way it was executed. But 331 was more into building a "Silicon Valley," and right now we don't have funds, and people are

not interested in bringing funds into the country. So if you really want the Silicon Valley model you need funds, because it's all about investing in startups. And all of the startups are living on funding, so this is not possible in Lebanon today, it is impossible I would say [...] The only chance today is to focus on services, the real added value, the premium services, even if we need to go into the low cost let's do it. If there is an opportunity we will do it. We need to create jobs. People want work. This is the real economy we need to build now. If we start now promoting the professional services business for the ICT sector, then with time the same model that happened with CME will happen with others. Whenever we gain domain expertise, whether from insurance industries, banking or others, we are going to develop our own solutions, and not just be limited by what we provide to customers. When you do that you have a chance to become a Silicon Valley. Maybe in five or ten years.

E *Thank you for having been part of our roundtable discussions. How do you evaluate the idea of Executive's action plan? What would you like to see in it?*

I think, the more we talk about this, it's better. As an ecosystem. One of the main challenges in our ecosystem is we don't really have an umbrella where all the ICT companies, the key players of this industry, are collaborating or communicating. Because we always look at each other as competitors, which is fine, this is the nature of the business. But for the benefit of the country it is necessary to have similar gatherings to brainstorm, throw ideas, even if there is no tangible outcome but it is good to keep the discussions open. Most of the points were discussed three years ago with Adel Afouni (former minister of technology), with the Investment Development Authority of Lebanon (IDAL), exactly the same model. We did not do anything but I don't blame anyone. At least if we maintain this communication, if we don't give up, we will give hope for others to start. I know that many will give up, but these roundtables, especially if we capitalize on them, regardless of the agenda, regardless of the outlook, if we capitalize on them and send positive stories to the Lebanese people, to the Lebanese youth, the upcoming engineers, to give them a little bit of hope, that's it. I don't blame anyone for leaving Lebanon, emigrating, but today it's being promoted as the only solution, which is not true, at least for the software engineers and the technology sector. We need the other side of the equation, that's it. 

GETTING COZY

Can Lebanon position itself as a global digital outsourcing destination?



There are occasions where it is hard to walk a mile in another person's shoes in order to understand and not judge them – simply because the shoes of the other stand under a very distant bed. In the outsourcing scenario this observation is fitting. For a unionized worker in the US state of Georgia (not that there would be high shares of unionized workers there – a political candidate would statistically have to shake 15 employees' hands before meeting one union member) the concept of outsourcing might easily convey an existential threat of job loss that means economic despair and social bleakness for her and her children. For a young knowledge worker in the Transcaucasian country by the same name (but with roughly 7 percent in nominal GDP when compared to the US state), the concept of outsourcing by contrast might flag a personal economic hope to score an outsourced job. She or he would enjoy the opportunity of capturing a slightly larger slice of the global income pie.

In this context of globalized competition for jobs among legally and socially very differently positioned and physically dissociated labor markets, outsourcing in the late industrial and information age has acquired an ambiguous flair depending on how and from where one looked at it. From the Lebanese perspective the idea to attract outsourced ICT services jobs such as call centers, which was theorized at some points in the reconstruction and development era around the turn of the millennium as natural opportunity for multilingual Lebanese providers, was hampered by the disadvantageous cost and unreliable access to required communication infrastructures. Another barrier against applying the outsourcing model locally was the in comparison with Asian outsourcing destinations non-competitive cost of Lebanese human capital in the dollar-pegged country.

But things are very different now. Outsourcing, once a practice of manufacturers which

■ Outsourcing is maturing into well-regulated and strategic digital outsourcing, a globalized application of [...] division of labor for improvement of productivity



notoriously externalized not only parts of their supply chain to low-cost industrial locations but also their social obligations, has become services-oriented. Business process outsourcing (BPO) is something that the economy-hugging folks at Investopedia neutrally describe as “a method of subcontracting various business-related operations to third-party vendors.”

THE EVOLUTION OF OUTSOURCING

Advanced from early-globalization era manufacturing practices, the application of BPO in services industries has become diversified. It furthermore appears to be in the process of emancipating itself from the seesaw of inconclusive zero-sum economic logic, by which the job gained in one new manufacturing location is the job lost in an established center of industry.

Instead of just a job being replaced by just another job – at best a questionable temporary gain in the age of rising AI and automation – the

emerging paradigm of outsourcing could become a new non-zero-sum employment play as a huge range of digitally interconnected, complex jobs are globally realigned on a socially aware global playing field.

This implies that outsourcing is maturing into well-regulated and strategic digital outsourcing, a globalized application of the fundamental economic behavior of relying on division of labor for improvement of productivity. This incarnation of outsourcing comes with the promise and necessity of compliance with both productivity optimization objectives and high ESG standards, and lately also involves strategies of inclusiveness and social justice for disadvantaged groups.

Naming digital outsourcing as a specific opportunity in the context of new tech entrepreneurial and knowledge enterprise developments at the focus of the fifth roundtable organized this March by Executive Magazine in partnership with the United States Agency for International Development

Vignette

■ The social enterprise angle of the Lebanese Outsourcing Initiative could contribute to attracting currently untapped investments from the growing global pool of impact investment funds



opment, it was prudent for Executive to investigate if the economic play of digital outsourcing is demonstrating a specific potential for Lebanon in context of the national convergence of economic need of underemployed or unemployed professionals, a current if temporary comparative edge owed to the depreciation of the Lebanese lira, and an ongoing trend of proactively tapping into the diaspora and their wider economic networks for creation of economic opportunities for remote professional work from Lebanon.

A practical example that is currently seeking to prove this proposition of creating a digital out-

sourcing destination identity in Lebanon is the Lebanon Outsourcing Initiative (LOI) launched by the platform Bridge. Outsource. Transform. (B.O.T.). Launched this year by its young parent B.O.T. – a startup company of 2018 vintage that saw very strong revenue growth in the crisis year of 2020 but has yet to write profits – LOI is a directory of outsourcing services that Lebanese providers of such services – individual freelancers and small enterprises – can enroll in, says Charbel Karam, development and marketing manager at B.O.T.

“We took some of our expertise in outsourcing and put it into the Lebanon Outsourcing Initiative. We knew that the need existed for companies and freelancers in Lebanon to acquire clients from abroad. [We] also knew that we could access the Lebanese diaspora across the world. So we created an action plan for Lebanese diaspora to engage with service providers and freelancers in Lebanon,” he tells Executive, emphasizing that the reason why B.O.T. launched this initiative at the beginning of January 2021 was “to give back” to the community in Lebanon.

Marianne Bitar Karam, managing director of B.O.T., describes the LOI directory as a campaign that evolved from a marketing idea for the company into a wider effort of trying to attract attention to SMEs that provide services – which differ from B.O.T.’s portfolio – under the common theme of Lebanon as outsourcing destination. The company, which is supported by social enterprise builder Alfanar and the Lebanese International Financial Executives (LIFE) network, took the initiative of developing the website and starting to populate it with names of services providers after setting up a publicity campaign anchored on a video that features actress Zeina Makki.

“We consider it as a directory of services. Client companies who want to use a service that B.O.T. does not provide, can find [this service] from the website. We do this out of empathy with the Lebanese economy and did not want to do it by ourselves,” Bitar Karam says. According to her, the initiative for the time being is a standalone marketing activity of social enterprise B.O.T. and not incorporated as a separate enterprise, which means that there is no vetting of providers or brokering of services of the listed providers by B.O.T. All due diligence and negotiation over provision of services is done directly between the directory-listed Lebanese provider and the client who seeks the service, she confirms.

GOOD SAMARITANS

The website of B.O.T. and the services directory by LOI share their base domain (<https://letsbot.io/> and <https://loi.letsbot.io/home>) but the list of categories in the directory goes significantly beyond the seven digital service categories offered by B.O.T., with the latter extending from AI training data and data management to transcriptions and market research.

There is no financial fee or revenue sharing between B.O.T. and entrants in the LOI directory, says Charbel Karam. LOI is an activity that does not generate any income and the intention is to keep it this way. “Today this is an activity by B.O.T. As we develop further into future, we might change its legal status into something more incorporated and get the conversation going. In the future it might become transactional, or ad-base or free and subsidized and funded by organizations. We don’t know but we definitely hope that it continues to be free of charge,” he says.

The funding journey of B.O.T. since 2018 entailed financing support by UNICEF, which has now ended, and current funding commitments by Alfano that entail technical assistance and also have allowed the enterprise to set its sights on expanding into Jordan.

Current projections for reaching a break-even point should be discussed at the end of this year, adds Bitar Karam, who hopes that success in this year will demonstrate that B.O.T. can access markets and attract international clients. “Today our priority is to prove that our model is scalable abroad,” she says but after achieving such milestones the company would seek to attract investors in the following two years of 2022 and 2023.

With B.O.T. still in its early stages, its ability to prove the value proposition of Lebanon as digital outsourcing destination has still to be tested in the new economic realities of a changed global labor environment but Michelle Mouracade, the Lebanon country director of Alfano, never tires of advocating for this proposition. She points out that B.O.T. saw a 230 percent revenue increase between 2019 and 2020 and asserts firmly, “We believe that Lebanon can become an outsourcing hub.”

GROWING NUMBERS AND PROPOSITIONS

In Bitar Karam’s and Charbel Karam’s view, the proposition will, however, require governmental support “on all levels” from revision of taxation schemes for freelancers that agree to formalize their activity and adoption of a tax

formula that is suited for the building of social enterprises to infrastructure improvements and support of outsourcing initiatives by the Ministry of Foreign Affairs and Lebanese embassies.

On the upside of the aspiration of elevating the country to an outsourcing destination, the social enterprise angle of the Lebanon Outsourcing Initiative could contribute to attracting currently untapped investments from the growing global pool of impact investment funds that prioritize ventures which aim to provide economic opportunities for marginalized groups and disadvantaged communities, and measure the impacts they have in this regard, adds Mouracade, who also addressed this topic as participant in the Executive-United States Agency for International Development (USAID) roundtable on tech entrepreneurship and knowledge enterprises.

As noted at the tech roundtable but also at preceding roundtables, the past year’s indications of the increased job engagement with the diaspora and remote work angles cannot be expected to last. The tremendous labor cost advantage under the depreciated local currency scenarios of lira and lollar is already being eroded by demands of creative workers to be compensated in hard currency for their remote services. Outsourced labor to Lebanon will have to adjust its remuneration demands upwards in predictable alignment with the real exchange value of the work done here.

The remote working propositions of outsourcing will (as will every proposition of long-distance employment contracts from Lebanon) more importantly need to be embedded in a social arrangement of long-term safety of such work and satisfactory social insurance, which is a tall but inescapable order for the next global social contract and stabilization of Lebanese life. By today’s visibility, the aspiration for creating the outsourcing destination Lebanon appears to open an attractive but temporary window of opportunity that calls for initiatives to urgently commence and anticipate growing impacts. “The more we have private initiatives [in ICT and tech entrepreneurship] and the more we work together, the more we can change the image of Lebanon and get support from the government,” says Bitar Karam. ■

■ The past year’s indications of the increased job engagement with the diaspora and remote work angles cannot be expected to last

Lebanon: time to think sustainability



Exploring financing vistas through sustainable, export-led models

Lebanon's financial and economic collapse - and failure of the economy's institutional pillars - present an opportunity to rethink the country's economic model and raison d'être, repair the causes, and modernize the way we think about and do business. Putting this within the context of Lebanon's private sector, and in light of the challenging, unstable and negative environment in which private enterprises operate, there is an urgent need to explore alternative operating models, funding options, and business strategies that gear companies for growth while de-risking the operation. In order to do that, private enterprises will have

to initiate a qualitative transformation that embeds sustainability at the core of their values and decision making: sustainability to ensure economic viability; improve institutional resources and capacity; respond to the ecosystem in which the business operates; and satisfy consumer-led demand.

Fundamentally, the private sector in Lebanon has always had the right ingredients for success: commercial wit – possibly inherited from our ancestors and facilitated by our geographic positioning – agile businessmen & business acumen, highly skilled labor or potential to produce the skilled workforce, and a busi-

ness community that survived in doing business under harsh conditions despite the continuous absence of a business conducive environment and supportive policies and policymakers. Whilst fundamentals are there, challenges are numerous. Two crippling challenges have emerged for private enterprises following the financial collapse. The first is the absence and complete stoppage of funding from traditional commercial banks, considered to be a main inhibitor for growth and threat to private sector survival. The second is the scarcity of foreign currency in the local market, a necessary resource for obtaining raw material, and preserving income and value.

EVOLVING FAMILY BUSINESSES

With the absence of lending from commercial banks, other channels will have to be tapped for access to capital, such as local or foreign private investors, development banks, or funds, which – on top of their commercial incentives – may have developmental & social incentives. Moreover, capital may not be restricted to loan-based products, but can include a whole array of simple or blended products from equity to senior debt. Funding may be in local dollars, in which case there is ample supply but less demand, or 'fresh' dollars, in which case there is ample demand but less supply. Investors, particularly institutional ones, offer important networking, technical assistance, synergies, opportunities for reaching out to other markets, connections to potential customers and suppliers – but most importantly offer long term value and position the

company for growth, modernization and better resiliency.

Most institutional investors nowadays are responsible and socially conscious investors, who will require the companies in which they invest to comply with their environmental, social and governance (ESG) standards. Therefore, to be able to access capital from such investors, family-owned businesses in Lebanon must transition to an institutional mindset and embed ESG standards that reflect their own values and those of their potential partners. Owners will have to understand that their decisions must not only create value for their family, but also their employees, value chain, community and other stakeholders. Sustainability issues will be at the core of decision making for institutional investors when considering investing in any company.

What does that mean for most Lebanese companies? It means that the issue is not only to have a convincing story about the company's economic feasibility and viability; owners must go beyond. To transition from a family mentality to an institutional one, it implies that family members must accept to institute a functioning and effective board of directors that provides discipline, accountability, and objective and expert opinions from independent members. Lebanese enterprises that wish to access capital are advised to develop written policies and procedures to ensure transparent decision making based on the company's values and principles, integration of checks and balances, a code of conduct that clarifies rules and standards, and very importantly transparent and accurate reporting. Written policies and procedures ensure commitment and adoption across the firm. New partners would be looking at a corporate governance structure that promotes trust between stakeholders, better risk management,

and sound decision making to ensure long term sustainability.

Companies are required to understand the impact of their decisions on the community in which they operate, and manage their environmental and social impacts to support sustainable value creation. Energy use and their implications, proper waste management and disposal of hazardous waste, toxic emissions, natural resource conservation, adequate working conditions, health and safety measures, diversity and inclusion, engagement with community, among other issues are ones that must be understood, assessed and addressed.

The earlier Lebanese companies incorporate ESG concerns into their framework and decision making, the better they are positioned to access capital, overcome the credit constraints in the local market, and ensure smoother onboarding of new partners and long-term value creation.

EXPORT-LED RECOVERY

Most Lebanese companies cannot operate without access to foreign currency, a scarce resource nowadays. Foreign currency is used to import raw material, make required investments, and preserve value in an environment with a depreciating currency. To access foreign currency, Lebanese companies must focus on an export-led recovery. Are we ready for exports?

Despite the devaluation, there generally does not seem to be an opportunity for Lebanese products to compete on account of price – because economies of scale are lacking – but rather to compete on quality, uniqueness, and sophistication. This

comparative advantage is important because it does not only position Lebanese enterprises for exports into more sophisticated markets, but also creates more highly skilled jobs, opportunities for economic growth, and prospects to transforming the econo-

■ The issue is not only to have a convincing story about the company's economic feasibility and viability; owners must go beyond

my into a more modern economy.

Additionally, exports help Lebanese enterprises de-risk by dissociating them from a contracting economy and a volatile currency. The key is to understand what products can make breakthroughs by understanding what consumers in offshore markets are looking for; then work on modifications, required certifications, and consistency.

There is no reason why Lebanon's private sector recovery cannot be export-led. Trade has been a pillar for prosperity for all people who have occupied our land many centuries ago. It all goes back to our history and geography. Lebanese are culturally diverse, having inherited aspects of different cultures and civilizations. Geographically, our land is unique in being accessible to the GCC, Europe and North Africa, with a Mediterranean that has made openness possible, and that has made trade our skill. We have a huge diaspora with reach to all continents. Sometimes we forget our potential. Sometimes we need a crisis to be reminded. Sometimes we need to look at our history – not our present – to build a future. ■

Maya T. Dada is a banking professional, credit risk specialist and ESG expert

A crash course to avoid the crash



The insufficient environmental, social and governance awareness in the Lebanese industry

Given the enormous investments needed to bring the Lebanese industry towards sustainable, low-carbon development, the financial sector will have to play a major role in allocating affordable and cheap funding to sustainable investments that shall contribute to the green transformation, while discontinuing any funding provided to activities that harm the environment. Indeed, awareness has been rising among central banks and regulators that the financial system has to take into consideration the environmental challenges and climate risks facing the real economy. In fact, the central banks play an important role as guardians of the financial and macroeconomic stability, as the climate change and environmental damages may have direct consequences on the prices stability and levels of inflation.

This included Banque du Liban (BDL) which developed a set of industrial and sustainable energy subsidized funds granted through the Lebanese banking sector, to deal with

this challenge in practice, prior to the unstructured sovereign default announced by the resigned government and the severe financial crisis still heavily weighing on all the Lebanese economic sectors. In this respect, the Lebanese banks provided long-term subsidized financing at low interest rates that were only eligible for disbursement, subject to sustainability assessments performed by accredited institutions and were monitored by both the banks and the regulators. This contributed earlier in the acceleration of the awareness and implementation of sustainable measures, to enable the funded industrialists to apply further enhancement of their sustainability policies and adopted measures.

NO ESG, NO MONEY

As a matter of fact, Lebanon suffers from one of the highest negative environmental, social and governance (ESG) scores, reflecting its severe exposure to environmental risks, extremely high social risk and weak governance measures.

The United Nations Development Programme (UNDP) estimates total solid and chemical waste arising from industry to be around 326,000 tons per year, with most of it generated in Mount Lebanon and the Greater Beirut areas. Many environmental issues like the chronic waste management crisis and the absence of any recycling measures, as well as water, air and noise pollution can be resolved if strict ESG measures are adequately implemented, by imposing on the government and companies to take due actions to enable them secure any future funding or equity investments.

In order to engage and implement strict ESG policies, a serious and trustworthy government has to be formed engaging action for the immediate execution of the long awaited political and economic reforms, including reinitiating the negotiations with the International Monetary Fund (IMF), in order to re-establish trust in the country and resume the path to financial stability that can revive economic activity and future investments in the country. The promised financial pledges from a number of foreign donors will bring economic aid to Lebanon. However the multi-development banks (MDBs) and other donors, such as the World Bank, International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Agence Française de Développement, etc. are only expected to offer financing that would be fully integrated to support reforms including sound environmental management, which would reflect the importance provided by them for supporting the environmental agenda in Lebanon. Nonetheless, this will not be enough

to solve all the country's problems, unless the authorities apply the necessary reforms and prioritize ESG factors as part of their full economic and financial recovery plan.

In parallel, joint initiatives by the Ministry of Environment, the Ministry of Finance and the BDL have to be closely incepted with the donors, in coordination with the Association of Lebanese Industrialists (ALI) to join efforts, with clear objectives to reduce the industrial pollution in targeted industrial companies. The Ministry of Environment will have to strengthen its monitoring and enforcement capabilities for all financial sectors to follow suit. In fact, they jointly need to set up several prerequisite mechanisms for financing the abatement of the industrial pollution within the industry sector and to provide the necessary technical assistance for ensuring the ESG implementation and the sustainability of these interventions. The banking sector will also have to resume its active lending role in the economy, by implementing transparent ESG policies in its lending criteria, otherwise it will not be capable of raising new direct cheap financing from MDBs. In fact, for previous loans granted by MDBs, local banks were required to implement strict social and environmental management systems (SEMS), consisting of assessing the environmental and social risks and opportunities arising from any borrowers' business activities, prior to granting or renewing any related facilities, that were regularly monitored by the donors.

RAISING THE ISSUE

The major issues and difficulties anticipated and previously faced are the weak participation and awareness of the industries in the implementation of pollution abatement measures which may affect achieving the set targets and the additional efforts that may be required to align the technical reports completed by the industries

to meet ESG requirements.

While Lebanon is still suffering from the regional political constraints and the continuous delays in the formation of a decent trustworthy government, it would be still recommended that the LIA initiate immediately more active and focused collaborations among industrialists to create and implement enhanced sustainability awareness, including practical measures and collaborations to improve the ESG implementation and proceed with the needed lobbying with some credible deputies to promulgate or at least prepare the needed regulations. In parallel, this would pave the way to pre-secure in due time the terms and conditions required to raise cheap financing and enhance their performance capacity, to meet the growing ESG and competition needs. The benefits could be immediately witnessed with potential cheaper production costs, higher exports raising fresh funds liquidity, obtaining fresh funds financing (e.g. through Cedar Oxygen), while awaiting political stability and reforms.

In fact, it would be a good initiative for the industrial sector to provide special attention and focus on how integrated supply chains opportunities may be initiated among stakeholders, in order to adopt local alternative resources to save on the import of raw materials and save on paying very high sums in foreign currencies. For instance, manufacturing industries of plastic packaging, nylon bags, water pipes and tanks, cartons, etc. that are importing most of their raw materials could eventually coordinate with the recycling industries and other concerned parties, to recycle existing plastic and paper waste in Lebanon to be used as part of their raw materials. This would have several benefit edges including the reduc-

tion of the cost of acquiring raw materials, cheaper and more competitive products that can be exported, attracting fresh funds and actively contributing to the ESG implementation, while maintaining a stable supply chain and contributing to lowering pressure on the Lebanese pound and inflation. This will eventually have spill-over effects that would benefit end-consumers and all the local economy.

Finally it would be worth highlighting that the absence of standardized data about business practices relating to social and environmental

■ It would be a good initiative for the industrial sector to [focus] on [initiating] integrated supply chains opportunities

concerns is a key barrier limiting the flow of socially responsible investments, especially in the MENA region. Another challenge lies in educating all relevant stakeholders about the importance of ESG standards in investment and lending decisions by training existing resources, communicating with clients and ensuring continuous board and management engagement. Some basic methods that could be used to create more public awareness are: regular roundtables among all stakeholders, lectures, seminars, TV spots and programs, fairs, cleaning campaigns and press releases. NGOs, academic universities and institutions could also contribute to sponsor initiatives, organize seminars and environmental fairs to combat pollution. The visual media and programs also play an important role in exposing the environmental problems with scientific documents broadcasted to introduce different pollution problems objectively. ■

Nada Rizkallah is the deputy general manager at Group Credit Libanais

Attracting capital to fintech in Lebanon

Fair value formulas guarantee continued investments - not unicorns

According to the Pulse of Fintech H2'20, a bi-annual report on global fintech investment trends published by KPMG, overall global fintech funding across mergers and acquisitions (M&A), private equity (PE) and venture capital (VC) was \$105 billion across 2,861 deals in 2020. The spending was reduced during the first half of the year but rebounded nicely in the second half, leading to the third largest investment period in Fintech ever.

In Lebanon, however, the story was different. What was once the MENA region's third most advanced fintech startup ecosystem, hosting 14 percent of the region's fintech startups, and the fourth most served market by fintech companies, with 27 percent of MENA fintech startups serving the Lebanese market back in 2015 and 2016 as per the Fintech Sector in Lebanon 2018 Factbook by the Investment Development Authority of Lebanon (IDAL), has lost several competitive advantages.

The banking failure and informal capital controls witnessed after October 17, 2019 threatened to put a sector that was heavily relying on payment innovations and banking solutions out of business. Security concerns after the August 4, 2020 Beirut Port explosion, as well as the need to live a normal life without worrying about how to secure basic needs, have also pushed a lot of talent to relocate.

BRIDGES TOWARDS FINANCING

But the picture is not all black. The currency devaluation is an opportunity to invest in a more cost-efficient talent base. The burn rate can be slower in real USD terms for startups that are able to

find export markets while keeping a considerable cost structure in Lebanon. If consultants are able to do it, then fintech companies should also be able to, provided that they secure bridge financing to help them alleviate the decrease in sales caused by COVID-19 travel restrictions and transition into new operating models.


Is this bridge financing easy to obtain? From my experience, investors do not shy away from risk, they shy away from non-matching risk/price formulas. Instant gratifications and unicorn dreams should be forgotten for the time being and serious Lebanese fintech players should be more rational and less greedy if they wish to attract capital.

Does less greed mean lower valuations? Adopting the simplest strategy indicates that, but if you position your venture properly from an M&A perspective and you structure the deal properly, then less greed means acknowledging the current situation and lowering the immediate consideration while building a higher future upside within a win-win framework.

The IFRS 13 standard defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The key principle is that fair value is based on the perspective of market participants rather than the entity itself, so fair value is not affected by an entity's intentions towards the asset, liability or equity item that is being fairly valued. A target requesting funding should be able to distinguish between fair value and a specific price to be achieved during a transaction, and should be aiming for the highest pragmatic price.

THE HIGHEST PRAGMATIC PRICE CAN BE ACHIEVED THROUGH:

- 1- Preparing well for your pitch and your audience. Not all investors are tech savvy and many find fintech propositions as an alien language;
- 2- Choosing a good timing: valuations are time specific, hence you see different prices for listed companies on a daily basis;
- 3- Building reasonable projections: no one likes to buy fish in the sea. Your potential is different from your history and different from what you can reasonably achieve while looking forward at each valuation date. You cannot attract investors by making them pay for the benefit they bring to you or the risk they take with you;
- 4- Acknowledging and incorporating the risk in your pricing: closing a transaction is mostly about building trust and this cannot happen if investors perceive you as living in denial or unable to realistically assess your situation; and finally
- 5- Building an efficient capital raising process: you cannot be in the market for too long and you cannot achieve the best price if you become the talk of the town! Any fund raising should be well structured with a clear process and timeline.

In conclusion, attracting capital to Lebanese fintech players has become difficult because of the macro situation, yet not impossible. Players with the right solutions can still attract funds if they plan and execute the process adequately. 

Nassif Shalhoub is a business advisory, partner at Credly Advisors

Opinion

By Josiane Fahed-Sreih

Lebanese industry: from productivity to prosperity

Encouraging more competitiveness in Lebanese industries

The Industrial sector in Lebanon is a major contributor to the Lebanese economy by employing a large number of workers, and by being the largest source of hard currency to the country especially after the major economic collapse and the scarcity of the dollar that started in 2019. The Industrial sector in Lebanon is becoming more and more innovative and sophisticated just like its counterparts in innovative countries, and will become one of the major sectors that will witness increasing investments. With the development of oil and gas and the reconstruction of Beirut after the August 4, 2020 explosion, the industrial sector is set to become more competitive and serve the needs of the country.

In 2018, the sector accounted for around 8 percent of GDP (\$4.2 billion) and employed 20 percent of the local labor force (around 318,000 employees). There are over 4,700 industrial firms in Lebanon the largest portion of which is in agro-food production (26 percent or 1,245 firms), followed by construction materials (12 percent) and chemical products (8 percent). Industrial exports stood at \$3.5 billion in 2019, accounting for 95 percent of total Lebanese exports. The top five Lebanese industrial exports in 2019 were pearls and precious stones (41 percent), mechanical machinery (6 percent), electrical machinery and equipment (5 percent), plastics (4 percent), and essential oils and cosmetics (4 percent). Key export destinations in 2019 included Switzerland (30 percent), the United Arab Emirates (12 percent), Saudi Arabia



(6 percent), Syria (5 percent), and Iraq (4 percent). The share of medium and high-tech manufactured exports of total manufactured exports had reached 21 percent in 2017, indicating promising technological capabilities in the sector, knowing that industrial permits increased by 16 percent from 375 in 2011 to 1,086 in 2018.

Knowing that Lebanon is part of several multilateral agreements, most notably the EU-Lebanon Association Agreement, the Taysir agreement, The European Free Trade Association (EFTA), the Greater Arab Free Trade Area (GAFTA), the US-Generalized System of Preferences (GSP) and others, this by itself is a trigger for open market competitiveness and for the sales of the locally produced products.

The industrial sector will become more competitive if some of these measures can be taken. Therefore, I recommend the following:

- 1- Encouraging private-public sectors partnerships.
- 2- Encouraging cooperation with academia by developing programs that can position Lebanon at the forefront

of innovation, such as green industries

- 3- Encouraging and supporting SME creation that would create jobs and position Lebanon as a pioneer in enterprise creation knowing that Lebanon's workforce is highly educated and savvy, compared to other Middle Eastern and gulf countries.


- 4- Offering technical support through the development of programs that encourage manufacturing.

- 5- Providing tax incentives to encourage people to invest in manufacturing.

- 6- Lowering the cost of manufacturing on all fronts from energy to land costs.

- 7- Creating industrial zones where the cost of land and other costs are low.

- 8- Advancing the transition towards a green economy while reducing the numerous environmental risks lying ahead and accelerating the shift away from carbon-intensive industrial production to more sustainable models.

- 9- Offering incentives to move to a green economy as per European circular economy developmental goals. 

Josiane Fahed-Sreih is the director of the Institute of Family and Entrepreneurial Business at the Lebanese American University

By Michelle Mouracade

Could social enterprises lead Lebanon's economic recovery?

When doing good translates as doing well for businesses

As Lebanon continues to sink into its worst economic and financial crisis, the ongoing political stalemate further undermines its ability to implement desperately-needed reforms and receive any kind of financial assistance. In such dire circumstances, attracting foreign investment is clearly a challenge.

There is, however, a significant and untapped opportunity in "impact investment." In addition to seeking a financial return, impact investors aim to support social enterprises, companies that generate a social and/or environmental impact that is measurable and scalable. In recent years, institutional donors have increasingly recognized the untapped potential

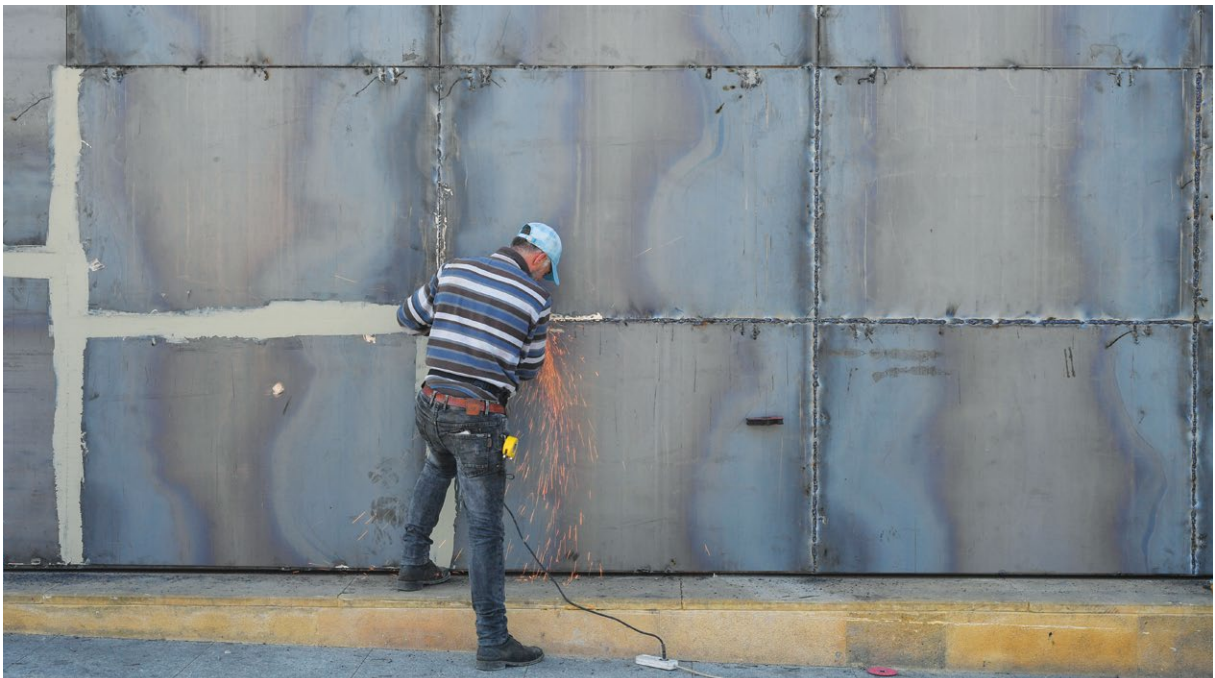
of social entrepreneurs as new actors seeking sustainable market-driven solutions to old problems. But support remains limited to short-term funding for start-ups, with a lack of longitudinal follow-up to ensure successful implementation. As a result, both growth-stage social enterprises and those graduating from accelerators are left struggling to survive with scarce resources. This is the funding gap that impact investors have their eyes on.

With the deteriorating socio-economic situation and the need to create economic opportunities with impact, there time is ripe for Lebanon to be a magnet for such impact investments, tapping into a global market valued by the Global Impact Invest-

ing Network at around \$715 billion.

Historically, one of the main factors hindering impact investment growth in Lebanon was the small pipeline of investment-ready social enterprises. The fact that social enterprises can only register as either regular companies or non-profits is also confusing and misleading. Although there are clear advantages for social enterprises to have a separate legal entity – including to benefit from tailor-made tax incentives – this has not prevented established social enterprises such as Fair Trade Lebanon, Souk El Tayeb, BOT and FabricAID, from operating as such and attracting impact investors.

Regardless of the legal entity un-



der which it's registered, three main criteria have to be met for a company to qualify as a social enterprise. First, it needs to be solving a social, cultural or environmental problem by applying private sector business principles (i.e. selling market-based products and services). Second, its impact should be measurable, scalable and clearly mentioned in the company's bylaws. Third, it should reinvest the majority of its profit into the growth of the business.

So is the pipeline of social enterprises in Lebanon small or are we simply not classifying and supporting "businesses with impact" the right way? We believe it is the latter, if we support "businesses with impact" in better modelling, measuring, scaling and communicating their impact, they could be classified as social enterprises and easily attract impact investors.

This is the mission of impact-focused accelerator programs and venture philanthropy organisations that


provide social enterprises with grant funding, training, management support and access to markets. However, there are very few ecosystem players whose mission is to support social enterprises in Lebanon – Makesense, Fondation Diane and Alfanar are the only ones entirely focused on this sector. Moreover, as social enterprises grow, their funding needs can no longer be covered by grants, and can only be matched by impact investments.

Such impact investments also offer great opportunities for competitive financial return. The average realized gross returns of private equity impact funds in emerging markets in 2020 ranged between 11 and 18 percent.

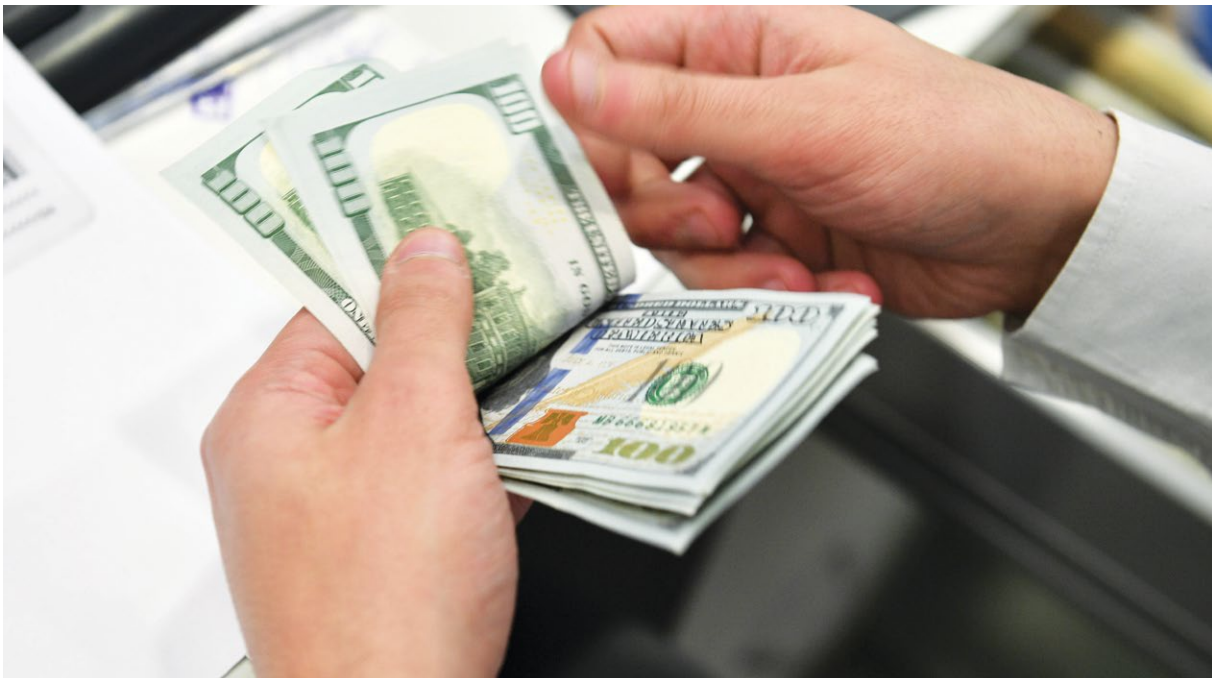
Today, there is a real opportunity to strengthen the impact sector in Lebanon and attract impact investors and their fresh funds, while helping solve ever-growing social challenges. This will take time, but if ecosystem players come together - including

social entrepreneurs, the diaspora, angel investors, institutional donors and foundations - the stage could be set for one of the most attractive impact investment markets in the MENA region, while supporting vulnerable communities in a more sustainable manner.

As Nobel Laureate economist Muhammad Yunus said, "When you hit the darkest part, you come up with the brightest ideas." In doing so, we need to "throw away the old thinking and be outrageously bold" to reshape society post COVID-19.

Impact investment can significantly contribute to saving Lebanon's socio-economic fabric. There has never been a better time to do this, by supporting social enterprises, paving the way for impact investment to be the norm, and building the foundations for a more equitable Lebanon that provides for its people. 

Michelle Mouracade is the country director at the Alfanar venture philanthropy organization



Estimations on Lebanon

■ Noting that due to the absence of any national census in the past 90 years there is a high degree of uncertainty of Lebanon's demographic and economic at the best of times, the below estimates illustrate the magnitude of the 2019-2020 impacts on the economy. World Bank projections for Lebanon in 2021 at this point see a further significant, near-double-digit, contraction in the national GDP with the implication that the Lebanese economic crisis has the potential to go down in history as one of the severest economic crises recorded in any country since measurements of recessions began in the mid-19th century.

PROJECTIONS FOR 2021 INCLUDE A 9.5 PERCENT CONTRACTION OF REAL GDP AND A 10 PERCENT CONTRACTION OF GDP PER CAPITA.

LEBANON TOTAL POPULATION

6.86 million (2019 estimate)

TOTAL LABOR FORCE

2019	2.42 million
2020	2.32 million

LEBANON NOMINAL GROSS DOMESTIC PRODUCT

2020	\$33.4 billion
2019	\$52 billion
2018	\$55 billion

GDP PER CAPITA*

2020	\$4,890
2019	\$7,380
2018	\$7,720

**World Bank methodology (Atlas Method)*

CONTRIBUTION OF SECTORS TO DOMESTIC GDP (%)

	2018	2019 (est.)	2020 (proj.)
INDUSTRY	12.0	10.6	13.5
AGRICULTURE	4.4	5.0	5.0
SERVICES	72.2	74.3	77.6

ESTIMATED REMITTANCES

	2018	2019	2020
	\$7.2 billion	\$7.5 billion	\$6.2 billion
Contribution of remittances to GDP	12.7%	12.7%	32.6%

Sources: World Bank, International Labor Organization, Statista.

Media

- The only readily quantifiable verticle in Lebanon's media, publishing and content creation sector is the advertising sub-sector, although the most recent figures for 2020 start from a previous low due to diminished overall spending and increased reliance on lower-cost social media advertising.

IPSOS 2020 VS. 2019 AD SPEND BY MARKET

Market	2019 estimate (rounded in USD million)	2020 estimate (rounded in USD million)	Difference
Pan Arab	622	527	-15%
Lebanon	133	57	-57%
UAE	741	526	-29%
KSA	1,055	769	-27%
Kuwait	317	269	-15%
Qatar	108	88	-18%
Bahrain	38	34	-10%
Oman	35	27	-23%
Egypt	370	328	-11%
Iraq	61	78	+28%
Jordan	74	51	-31%
Morocco	233	173	-26%
Pan Asia	35	25	-29%
Tunisia	60	45	-26%
Algeria	152	128	-16%
Syria	1.4	5.7	+308%
Total	4,033	3,127	-22%

Source: IPSOS.

IPSOS 2020 VS. 2019 AD SPEND BY MEDIA IN LEBANON

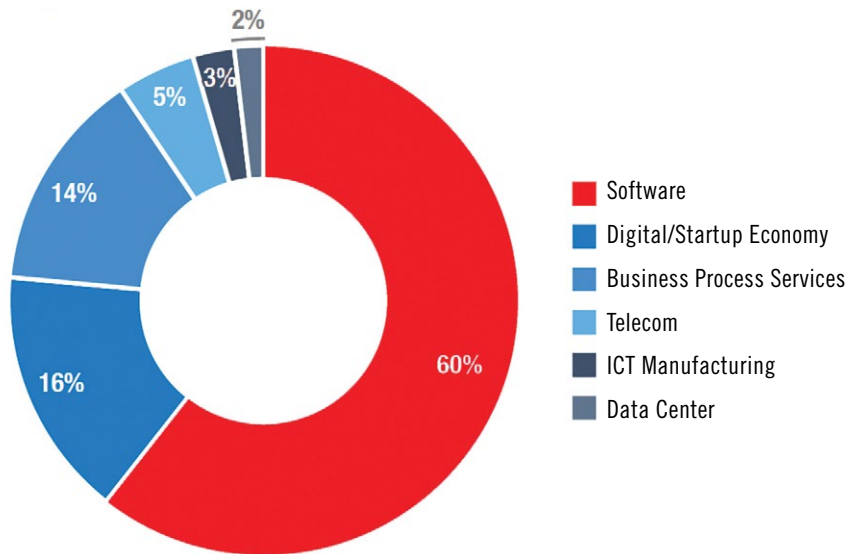
Market/Media	Estimated 2019 Ad Spend (rounded in USD million)	Estimated 2020 Ad Spend (rounded in USD million)	Difference
Cinema	1	0	-70%
Magazine	5	1	-75%
Newspaper	3	2	-47%
Outdoor	30	5	-85%
Radio	7	3	-60%
TV	62	25	-60%
Digital	25	22	-12%
Total	133	44	-57%

Source: IPSOS.

Technology

- Technology and knowledge enterprises held an important share of Lebanon's GDP up till 2018-2019. With GCC and MENA rivals enjoying better operating environments, Lebanese players have naturally honed a competitive edge in the less cost-intensive software development sub-sector.

ESTIMATED WORKFORCE DISTRIBUTION IN THE LEBANESE ICT SERVICES & MANUFACTURING SEGMENT (2019)



Source: IDAL ICT Database.

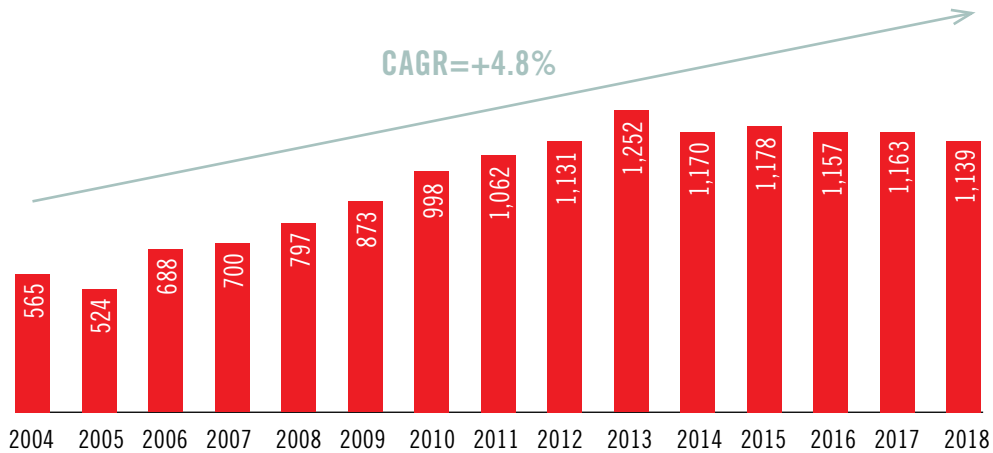
ESTIMATED NUMBER OF EMPLOYEES BY SUB-SECTOR IN THE LEBANESE ICT SERVICES & MANUFACTURING SEGMENT

SUB-SECTOR ESTIMATED NUMBER OF EMPLOYEES

Software	6,485
Digital/Startup Economy	1,699
Business Process Services	1,507
Telecom Services	531
ICT Manufacturing	282
Data Centers	198
TOTAL	10,702

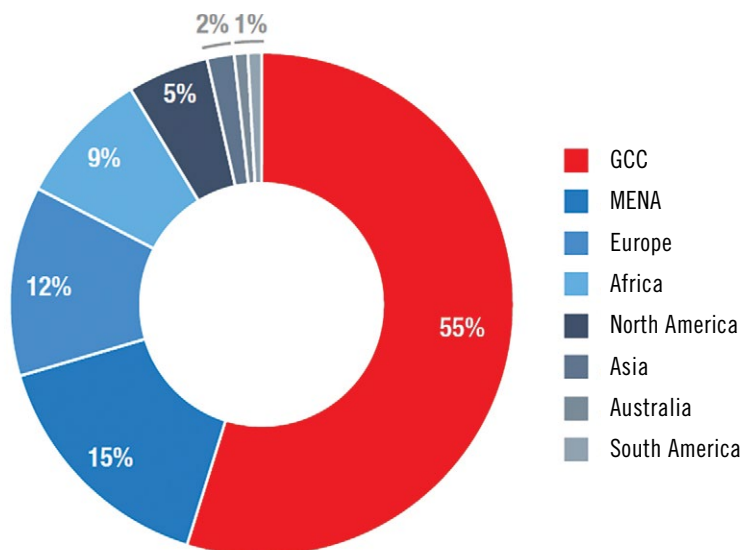
Source: IDAL ICT Database, Estimate.

LEBANESE ICT SECTOR GDP CONTRIBUTION (IN USD MILLION)



Source: Central Administration of Statistics, National Accounts (2004 – 2018).

EXISTING ICT EXPORT MARKETS FOR LEBANON

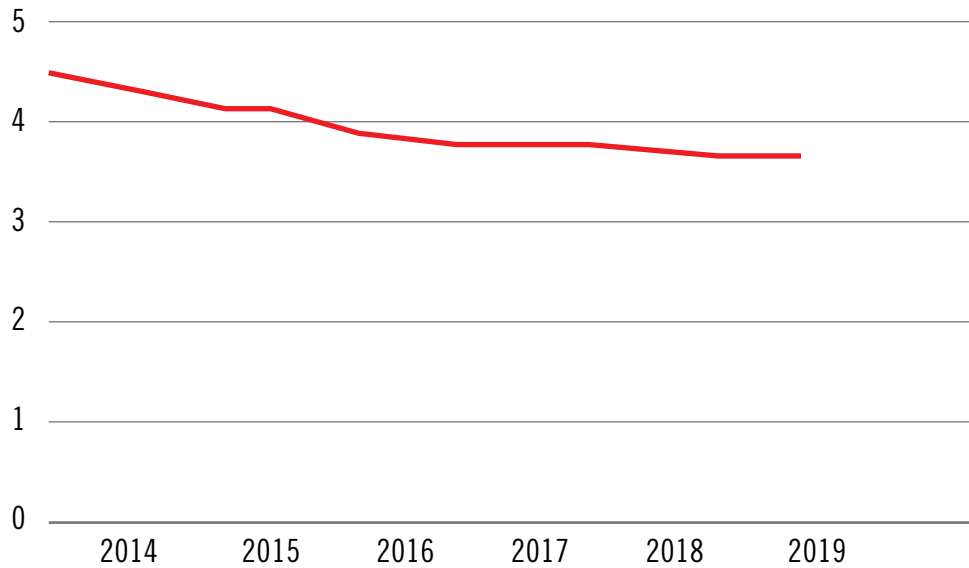


Source: IDAL ICT Export Survey 2019.

Manufacturing

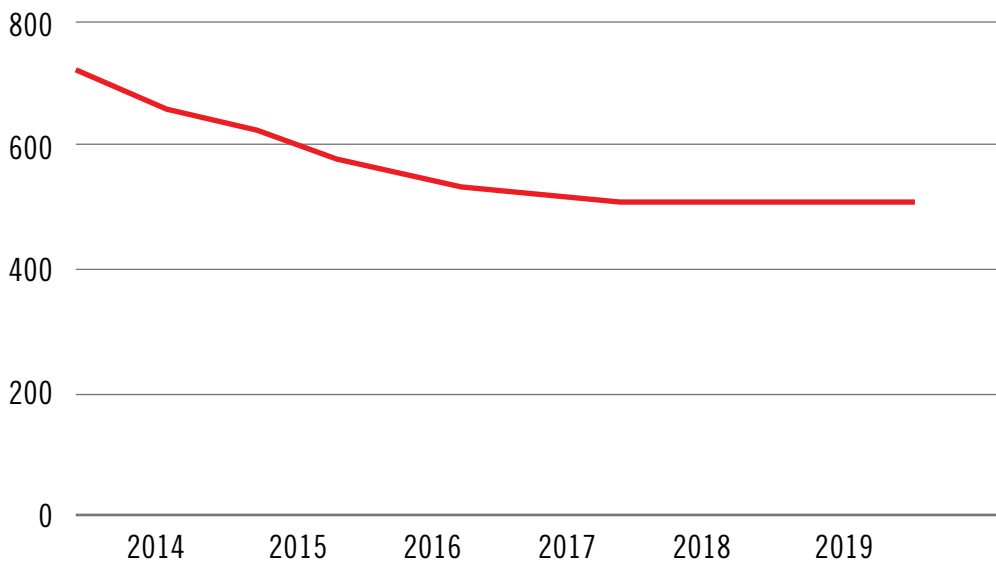
- Manufacturing value added (MVA) of an economy is the total estimate of net-output of all resident manufacturing activity units obtained by adding up outputs and subtracting intermediate consumption.

MVA IN USD BILLIONS (CONSTANT 2015)



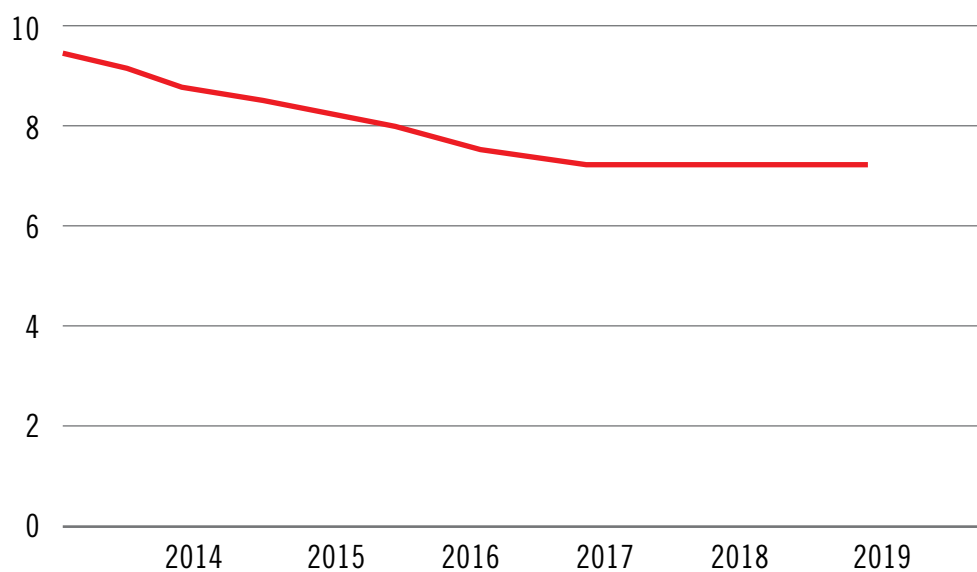
Source: UNIDO.

MVA PER CAPITA IN USD (CONSTANT 2015)



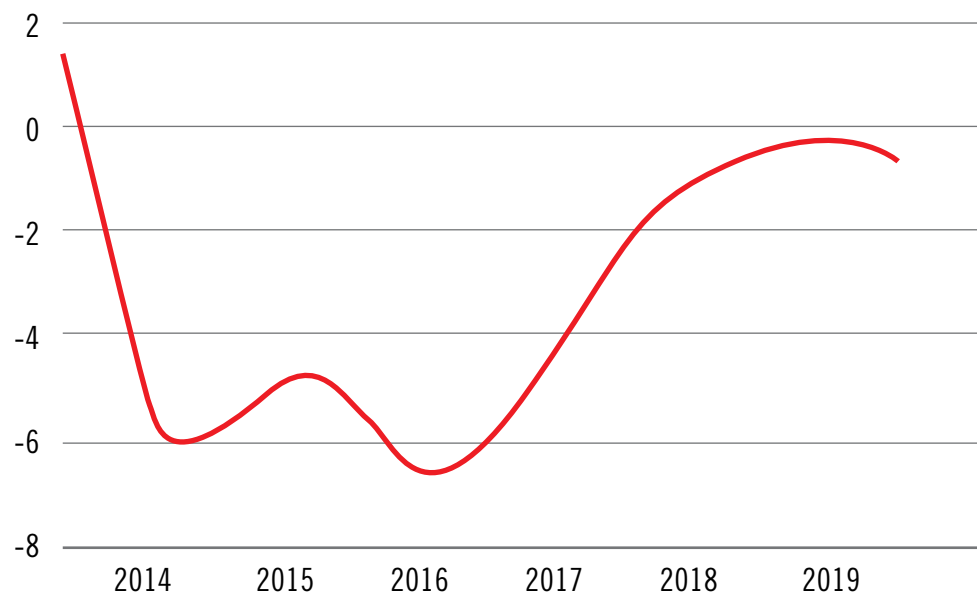
Source: UNIDO.

MVA SHARE IN GDP (%)



Source: UNIDO.

ANNUAL MVA GROWTH (%)



Source: UNIDO.

Agriculture

- Taking into consideration that current and accurate data on Lebanese agriculture is not evident, substitution of imports could increase the sector's contribution to GDP, especially if attention is given to exports.

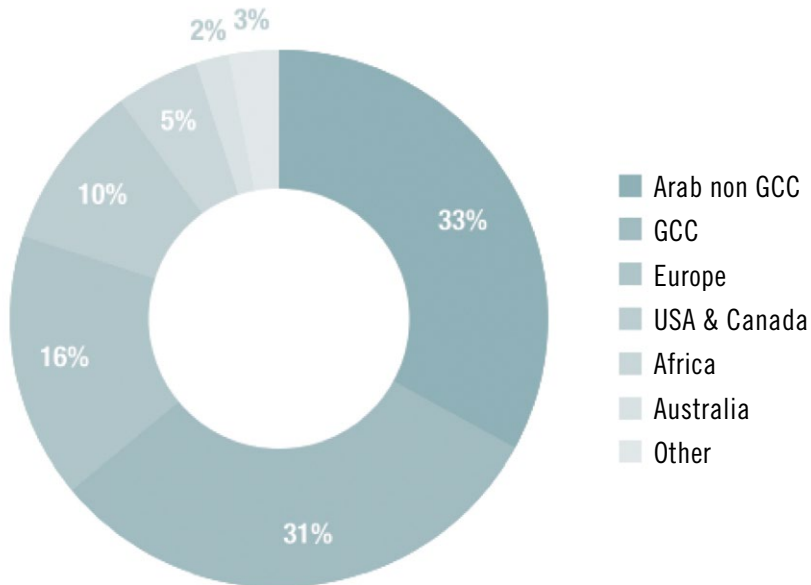
LEBANESE AGRICULTURE PRODUCTION (ESTIMATION JANUARY 2020)

Value of production (in USD)

	2018	2017
Field Crops	180,880,100	187,850,000
Industrial Crops	197,800,000	181,650,000
Vegetables & Flowers	294,750,000	211,500,000
Forest Products	7,200,000	3,720,000
Prohibited Crops	12,450,000	15,800,000

Source: FAFS AUB (Faculty of Agriculture & Food Sciences).

EXPORTS DESTINATIONS FOR AGRO-INDUSTRIAL PRODUCTS (ESTIMATION 2017)



Source: Lebanese Customs.

AGRO-INDUSTRY Sector Overview

The agrofood sector is one of the major contributors to the Lebanese economy. In 2016 (latest available figures) it generated an estimated 35% of the industrial sector output and around 32% of the country's GDP, with an estimated size of \$2.33 billion

As per a survey by the Ministry of Industry, the sector employs an estimated workforce of

20,607



Accounts for

25%

Of the Industrial sector workforce



22.6%

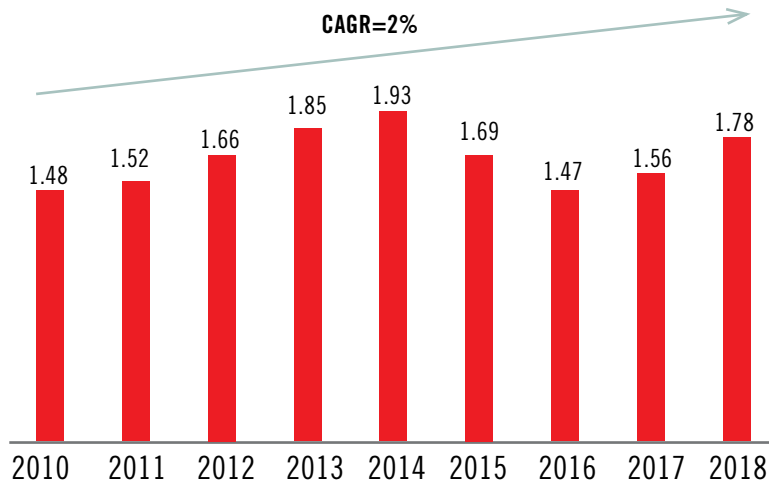
Of industrial enterprises are involved in agro-industrial activities



Source: IDAL.

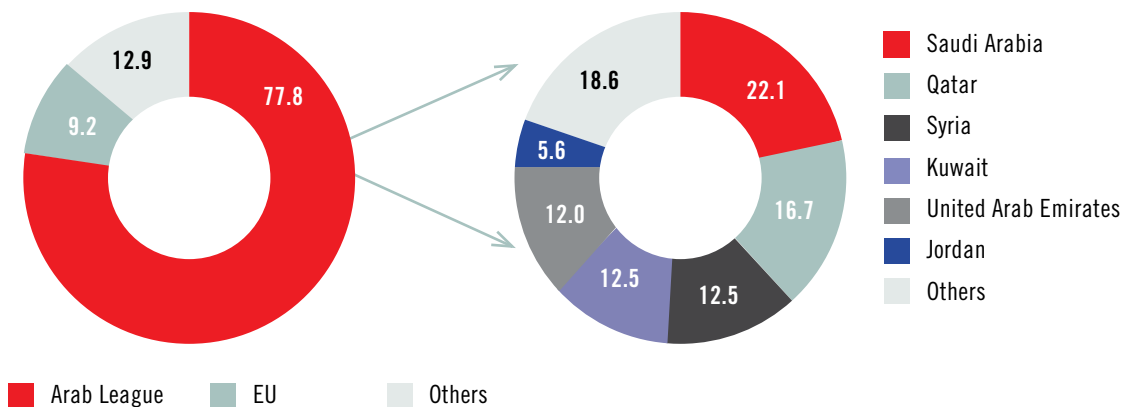
Agriculture

CONTRIBUTION OF THE AGRICULTURAL SECTOR TO GDP (% , 2010-2018)



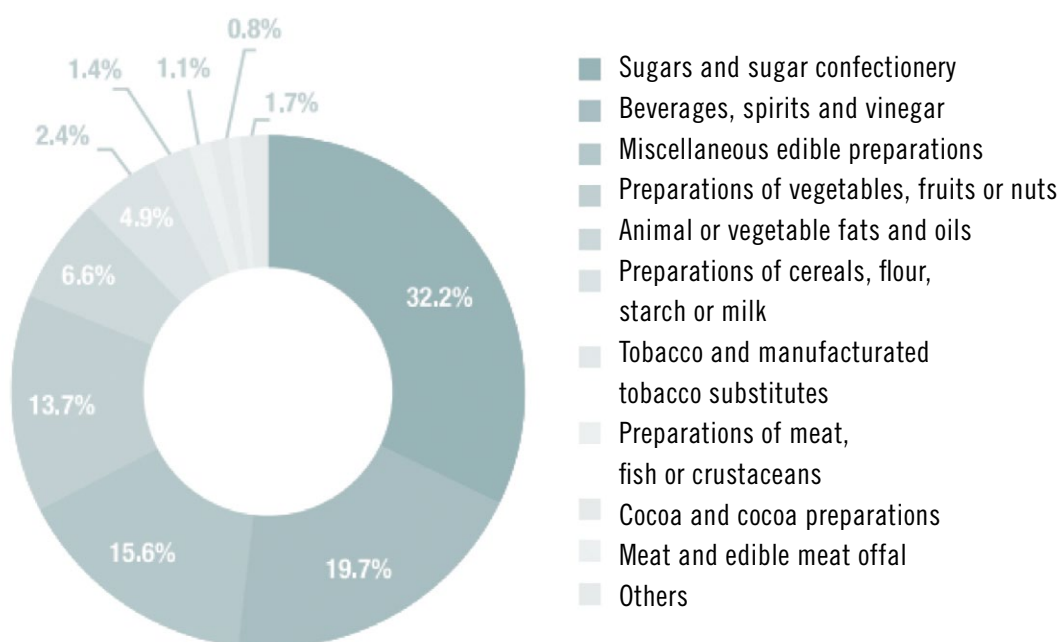
Source: CAS National Accounts Estimates, 2018.

TOP EXPORT DESTINATIONS OF LEBANON'S AGRICULTURE PRODUCTS (% , 2010-2018)



Source: Lebanese Customs.

COMPOSITION OF AGROFOOD EXPORTS BY CATEGORIES (% IN 2017)
% | 2017



Source: Lebanese Customs.

Food & Beverage

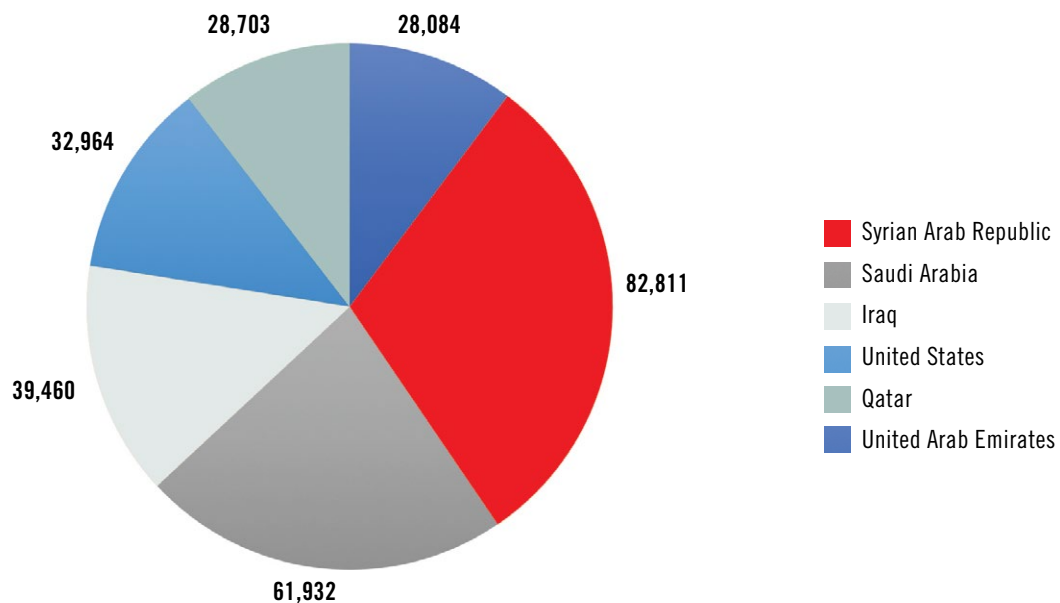
- While recent valid data is not in sight and the regional turmoil further affecting the F&B sector, focusing on growing exports would alleviate some of the financial duress experienced by players in the industry.

MAIN EXPORTS OF F&B PRODUCTS (IN USD THOUSAND)

Product description	2017
Dairy products, eggs, honey	6,127
Animal or vegetable fats and oils	35,938
Preparations of meat and fish	16,111
Sugars and sugar confectionery	68,891
Cocoa and cocoa preparations	37,316
Preparations of cereals, flour, starch or milk	43,805
Edible preparations	94,357
Beverages	60,020
Residues of F&B products	414
Tobacco	28,991
Total	500,235

Source: Chamber of Commerce Industry & Agriculture of Beirut and Mount Lebanon.

MAIN EXPORT MARKETS OF THE F&B INDUSTRY IN 2017 (IN USD THOUSAND)



Source: Chamber of Commerce Industry & Agriculture of Beirut and Mount Lebanon.



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