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# LPSN POLICY ASKS



*Developed by*

**LCPS** المركز اللبناني للدراسات  
The Lebanese Center  
for Policy Studies

*Reviewed by*

**Executive**

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## OVERVIEW

For three decades the Lebanese economy was working from year to year in reasonable order, although disrupted by the many external shocks of a volatile region and shaken internally by the countless business tremors that characterize the “ordinary business of [economic] life.”<sup>1</sup> Every day, business was on countless people’s minds and logically so, as it is always the rational concern of many to not just barely make ends meet, but to improve their living standard and be able to accumulate modest wealth.

That has changed with a bang that was loud enough and bad enough to put the economy foremost on Lebanese minds. Global experts have analyzed the magnitude of the crisis and voiced astonishment at its historic severity. International agencies with intentions to help youth and all working people have given incessant warnings about long-term repercussions of the current crisis, such as emphasizing that “Young people in Lebanon represent over 30 percent of the population, and the crisis is preventing them from investing their potential in the economic development of their country.”<sup>2</sup>

In the course of the crisis, national economic concern has reached fever pitch. The calls for rescue naturally have become a storm and the search for a good economic plan has become a frenzy. This is a moment to understand deeply that the economy is a societal and social organism that needs purpose, structure, and a concerted direction. The economy is not just a machine with many small cogs and wheels. It lives, and as any living organism, it needs tangible and existential inputs; it cannot exist without producing outputs, and has to strive for balance.

In the past model of political economy, imbalances were allowed to accumulate: imbalances of internal consumption and external trade, imbalances between the real and financial economy, disequilibria in production and economic rents, climate and environmental costs, and imbalances of societal, human investments, risk and rewards, are just some of the imbalances

that have been building up and creating dangers that accumulated to the point of a devastating implosion of the economy. In this regard, the Lebanese Private Sector Network invites all to look for new balances in the economy as a shared social organism and its important economic sectors, overarching macroeconomic policies, and frameworks for a shared purpose and collaborative new economic direction. As we ourselves take this step, please join our assessment of political economy needs. The main concern of our vision for micro- and macro-economics is with the human being who is compelled to change and progress.<sup>3</sup>

Strategic planners have pointed out that the private sector is the only sustainable engine that can create employment for Lebanese youth. However, citizens’ willingness to incur risks associated with investing, launching, and managing businesses is tied to their trust in government efficacy.<sup>4</sup> Fundamentally, national, regional, and local government institutions in Lebanon need to shift to multi-stakeholder initiatives to tackle the challenges confronting the private sector. As a prerequisite for economic growth and poverty reduction, a conducive business environment largely depends on good governance, the rule of law, political will, the infrastructure of the economy, and regulatory frameworks, among other factors. From this perspective, the country is lagging behind. Referring to the World Bank’s Doing Business 2020 Indicators, Lebanon ranks 143 out of 190 countries in the [Ease of Doing Business](#); details on specific sub-pillars are presented in Table 1.<sup>5</sup>

Given the aforementioned obstacles to doing business in the country, the private sector calls for a strong political commitment and effective coordination among government agencies to push forward. A comprehensive evaluation of the business environment faced by the private sector in Lebanon today would go beyond firm-level analyses and cross-country assessments

<sup>1</sup> Marshall, Alfred (1890). *The Principles of Economics*, Macmillan and Co., London

<sup>2</sup> ILO and UNICEF launch reports on labor market needs to improve skills training and employment prospects in Lebanon

<sup>3</sup> Marshall, Alfred (1890). *The Principles of Economics*, Macmillan and Co., London

<sup>4</sup> Maddah, L. (2022), *Entrepreneurship in Rural Areas: A Framework for Local Economic Development in Lebanon*, Policy Brief, The Lebanese Center for Policy Studies. Available at: [Policy-Brief-eng-RURAL Entrepreneurship.pdf](#)

<sup>5</sup> The project provides objective measures of business regulations and their enforcement across 190 economies. For more details, see: [LBN.pdf \(doing-business.org\)](#)

**TABLE 1. LEBANON: DOING BUSINESS 2020 INDICATORS AND REGIONAL COMPARISON**

INDICATOR	DESCRIPTION	RANK <i>(out of 190 countries)</i>	REGIONAL COMPARISON/RANK
Starting a Business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company	151	Saudi Arabia: 38 Turkey: 77 Jordan: 120
Dealing with Construction Permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system	164	Saudi Arabia: 38 Turkey: 53 Jordan: 138
Getting Electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply, and the transparency of tariffs	127	Saudi Arabia: 18 Turkey: 41 Jordan: 69
Getting Credit	Movable collateral laws and credit information systems	132	Jordan: 4 Turkey: 37 Saudi Arabia: 80
Paying Taxes	Payments, time, total tax, and contribution rate for a firm to comply with all tax regulations as well as post-filing processes	116	Turkey: 26 Saudi Arabia: 57 Jordan: 62
Trading across Borders	Time and cost to export the product of comparative advantage and import auto parts	153	Turkey: 44 Jordan: 75 Saudi Arabia: 86
Enforcing Contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes	131	Turkey: 24 Saudi Arabia: 51 Jordan: 110

of Doing Business indicators. More specifically, it includes areas of policy that either directly or indirectly affect the standard of the business climate over time.

Encouraging job creation in Lebanon is a key development challenge and entails a comprehensive and synchronized strategy that emphasizes the necessary steps to foster an enabling business environment. We accordingly start by proposing one approach to developing such a national strategy by utilizing the concepts of product space and smart specialization.

This first identifies sectors and industries where Lebanon has a comparative advantage and potential for growth. The second draws on successful practices from both developed and developing countries, initially developed by the EU and grounded in the classical economic theories of economic growth.<sup>6</sup>

Adapted from other countries' experiences and to be adopted in Lebanon, smart specialization should revolve around four core elements:

- (1) **Entrepreneurial discovery process:** a collaborative process in which the private sector discovers and produces evidence about main economic activities and assesses their potential, and the government provides conditions to empower these actors to grasp the potentials;
- (2) **Economic activities:** the issue is not to target sectors in isolation but activities that can be tied to particular technologies, specific capabilities and available assets (relevant to a product space analysis);
- (3) **Strategic and specialized diversification:** where unex-

<sup>6</sup> *Smart Specialisation is an essential part of EU's cohesion policy: a place-based approach characterized by the identification of the strengths and assets of each region and on an Entrepreneurial Discovery Process with wide stakeholder involvement. For more details, see: Smart specialisation strategies are a cornerstone of EU's sustainable recovery (europa.eu)*

pected discoveries of activities might arise within certain parts of an innovation structure leading to “specialized” diversification;

**(4) Monitoring and evaluation:** where policymakers perform evidence-based monitoring and respond to policy design.

In light of the multiple crises Lebanon faces, we urgently need to transition to a more sustainable and productive economy and help create the business environment that the country needs. To foster economic growth and attract investment, it is crucial to create an enabling business environment. Here are some technical policy recommendations structured around the following interrelated pillars:

## RATIONALIZE REGULATORY FRAMEWORKS AND INTEGRATE NECESSARY ADMINISTRATIVE REFORMS

Regulatory reforms affect the innovation process and job creation. Particularly, necessary administrative regulation reforms include regulations relating to taxes, business operations, distribution systems, and intellectual property rights.<sup>7</sup> Regulatory reforms should be targeted to “pick winners” and facilitate and support firms within these sectors. Digitizing all these practices is the path to creating needed time and cost efficiencies:

- > Simplify and harmonize regulations to reduce bureaucratic hurdles (time and costs) for businesses.
- > Establish clear guidelines and procedures to facilitate ease of doing business, such as administrative fees, obtaining permits, licenses, and approval.
- > Introduce more time and cost-efficient steps to facilitate starting a business;
- > Eliminate the minimum capital requirement;
- > Creating a one-stop shop at the Commercial Registry;
- > Introducing a flat fee for the registration of property and licensing;
- > Introduce online license applications and electronic processing of documents;
- > Allow electronic submission and processing of trade documents;
- > Tax payments: completing the implementation of electronic

payment and online filing systems;

- > Lower registration fees, standardize sale-purchase contracts, and implement fast-track procedures to streamline processes and cut costs;
- > Reduce bureaucratic hurdles and time to import and export by allowing pre-arrival customs clearance and extending hours of operation of customs.<sup>8</sup>

## ENHANCE RULE OF LAW: STRENGTHEN THE LEGAL FRAMEWORK AND ENSURE EFFECTIVE ENFORCEMENT

Rule of law needs to be addressed on several levels:

- 1) constrictions on government powers
- 2) absence of corruption
- 3) open government
- 4) fundamental rights
- 5) order and security
- 6) regulatory enforcement
- 7) civil justice
- 8) criminal justice.<sup>9</sup> Additionally, the following laws need to be prioritized to support the private sector:

- > Public procurement law and E-Procurement: fostering a level playing field for bidders. In a 2022 policy brief on transitioning to e-procurement, Ali Taha argued that, “digitizing public procurement is considered a key tool to ensure ‘best value for money,’ by enabling transparency, efficiency, and overall integrity of the procurement regime.” He observed, however, that, “on its own, digitization is not sufficient, as it depends on an enabling environment that can facilitate its wide adoption and ensure its continuity.”<sup>10</sup>
- > Fair competition law: The government must integrate solid competition laws to ensure the market is dynamic. Regulatory reforms need to foster fair competition and offer incentives and support for formally innovative firms to scale up their businesses.
- > Judicial independence: a fundamental feature of the separation of powers and essential in preventing undue political influence over the judiciary. This independence is crucial for

<sup>7</sup> OECD (2022) *Regulatory Policy: The world has changed and so must rule making* (oecd.org)

<sup>8</sup> Haidar, J. (2017), *Business Regulatory Reforms: Recommendations for Lebanon, Working Paper Series, Economic and Social Commission for Western Asia (ESCWA)*.

<sup>9</sup> *Rule of law | Government at a Glance 2019 | OECD iLibrary* (oecd-ilibrary.org)

<sup>10</sup> Taha, A. (2022), *Transition to e-Procurement: Are the Municipalities Ready?, Policy Brief, The Lebanese Center for Policy Studies*.

the legal system to effectively fulfill its role in ensuring fair trials, resolving commercial disputes, and maintaining a competitive market environment. The lack of trust in the judiciary has far-reaching implications for the investment climate and the court's credibility in areas such as intellectual property enforcement, arbitration, and mediation. Comprehensive judicial reform is necessary to restore investor confidence in the court system.

> National Social Security Fund (NSSF) amendments and automation: by enhancing transparency and stakeholder engagement including private sector representatives, prioritizing capacity building, and ensuring a more efficient and responsive social security system for all stakeholders involved. Policymakers need to promote transparency, accountability, and integrity within public institutions to combat corruption.

## IMPROVE PRIVATE SECTOR ACCESS TO RESOURCES AND INFRASTRUCTURE

Facilitating access to all needed resources such as infrastructure and public services, adequate incentives for innovations and R&D expenditure, access to financing instruments sources and channels, and access to skills that are transversal such as digital skills. Policymakers need to integrate necessary banking reforms to provide sector-specific business loans to targeted sectors. A solid banking sector is needed to enable the financing of productive sectors. Additionally, awaiting the banking reforms, the government can support and facilitate access to a diverse range of non-conventional financing instruments, by enhancing the growth of microfinancing institutions and specialized funds (in the form of private equity funds, energy funds, agriculture funds) that can support the private sector. Also, enhancing infrastructure entails making investments in vital sectors like telecommunications, energy, transportation, and digital connectivity. However, ensuring accessibility entails making sure that the utilities and services required for the private sector to run effectively are convenient and reasonably priced. Equally necessary is support for the private sector in its digital transformation through improving access to digital infrastructure, and its transition to sustainable business models and green practices in line with the circular economy needs and Sustainable Development Goals (SDGs).

## TARGETED LABOR MARKET REFORMS

The existing information in the Ministry of Labor and Ministry of Education and Higher Education is not useful for planning the labor market and employment projections. In light of this, we call for developing the needed databases to formalize the labor market planning: (1) An employer's survey, conducted yearly; (2) A survey on occupational needs; (3) Demographic surveys that are consistent to highlight demographic concerns and the impact of demographic imbalances.

In addition, the role of the National Employment Office needs to be revisited, as this can be the main platform for matching labor force demand and supply if effectively coordinated with local and regional administrative data in Lebanon. Moving such an institution from its initial stage is necessary to align job seekers with employers, taking into consideration local labor market characteristics and economic sectors.<sup>11</sup> Furthermore, it is essential to revise labor law, and make employing workers easier by allowing longer durations for fixed-term contracts, substituting the "ex-ante" requirements for an "ex-post" mechanism concerning redundancy termination, and rationalizing dismissal and re-employment priority rules<sup>12</sup>. Flexibility should be increased to allow for necessary changes in the labor market. The labor law should be reviewed and updated accordingly.

## FISCAL INCENTIVES TO CREATE AN ENABLING ENVIRONMENT

**Tax incentives:** This can include reduced corporate tax rates for specific sectors or regions, tax holidays for businesses, accelerated depreciation allowances, and investment tax credits. These incentives can lower the overall tax burden on Lebanese businesses and improve their cash flow.

**Research & Development (R&D) tax credits:** offer tax credits or deductions for expenditures related to R&D activities. This can incentivize businesses to invest in innovation, technology development, and product improvement to pursue innovation-driven growth.

**Investment Allowances:** Introduce investment allowances

<sup>11</sup> For more details, see Maddah, L. (2023), *Labor Market Planning in Lebanon, Legal Agenda (forthcoming)*

<sup>12</sup> Haidar, J. (2017), *Business Regulatory Reforms: Recommendations for Lebanon, Working Paper Series, Economic and Social Commission for Western Asia (ESCWA)*.

that allow businesses to deduct a certain percentage of their investment costs from taxable income. This can incentivize capital expenditure and encourage businesses to upgrade their equipment, machinery, and technology, leading to increased productivity and competitiveness.

**Export Promotion Incentives:** Provide tax incentives for sectors, and specific economic activities, engaged in export activities. This can include exemptions or reduced tax rates on export earnings, exemptions on imported inputs used in export production, and support for export credit insurance. These incentives can help boost exports, enhance competitiveness in international markets, and diversify the economy.

**Regional Development Incentives:** offer fiscal incentives to support the formal private sector in agriculture and manufacturing in economically disadvantaged regions or areas with high unemployment rates (Bekaa, Akkar). This can include tax reductions, grants, or subsidies for businesses operating in the designated development zone. Such incentives can create jobs, and promote balanced regional development.

**Training and Skills Development Incentives:** provide tax credits or deductions for firms that invest in employee training and skills development programs. This encourages businesses to prioritize human capital development and enhance workforce capabilities.

**Green Incentives:** introduce fiscal incentives to promote the integration of a circular economy, environmentally sustainable practices, and technologies. This can include tax credits for investments in renewable energy and energy-efficient equipment. Incentives can also be provided for businesses that adopt environmentally friendly practices or obtain rele-

vant certifications. Policymakers need to create the enabling conditions for the transition to a circular economy to happen: identify the regulatory instruments that need to be adapted to foster the transition to the circular economy, help mobilize financial resources and allocate them efficiently, adapt human and technical resources to the challenges to be met, and support business development, and generate an information system and assess results.<sup>13</sup>

It is essential to integrate fiscal incentives carefully, ensuring they are targeted, transparent, and aligned with economic development goals.<sup>14</sup> Regular evaluation and monitoring should be conducted to assess the effectiveness and efficiency of these incentives and make adjustments as needed. Collaboration between relevant government agencies, industry stakeholders, and the private sector is crucial to creating a robust fiscal incentive framework that supports a thriving business environment. Additionally, promoting political stability, addressing corruption, and improving governance would complement the fiscal incentives in creating a favorable business environment for Federal Direct Investment (FDI) and private sector development in Lebanon. Maximizing the potential of all firms in the private sector requires organized governance at several relevant geographic scopes, along with the concerned ministries of Economy and Trade, Industry, Youth, Social Affairs, Labor, Education and Higher Education, and Agriculture, to create better synergies that support cooperation and uncover existing and potential interrelations and interdependencies. This cannot be achieved without formulating and integrating a progressive vision for productive economic sectors.<sup>15</sup>

<sup>13</sup> *Getting the governance of the circular economy right: Checklist for Action and Scoreboard | The Circular Economy in Cities and Regions : Synthesis Report | OECD iLibrary (oecd-ilibrary.org)*

<sup>14</sup> *Successful examples include Portugal during the European debt crisis, Ireland during the 2008 financial crisis*

<sup>15</sup> *Maddah, L. (2022), Entrepreneurship in Rural Areas: A Framework for Local Economic Development in Lebanon, Policy Brief, The Lebanese*

## ▶ INTRODUCTION

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Lebanon's economic crisis, exacerbated by the effects of the COVID-19 pandemic and the Beirut port explosion, has caused a devastating ripple effect, wrecking the well-being of its citizens with skyrocketing unemployment rates and widening economic gaps. A new economic model, where the private sector becomes the driving force in the market and the center of the economy, is urgently needed to ensure balanced growth across all sectors. This multifaceted strategy should leverage Lebanon's comparative advantages in different sectors and areas to create jobs and secure sustainable growth.

## ▶ AGRICULTURE

### *Sector Overview*

Agriculture as a constituent of Lebanon's real economy has unused potential for serving domestic needs and generating exports. The sector is defined through land surfaces available for cultivation that are fertile, but by international comparison small in aggregate, as well as being fragmented among smallholders. The sector is beset with natural and cultural limitations and not included in the 20th century national priorities under the prevalent, trade-and-services-focused political mindset, which has undervalued agriculture as a vital national resource for at least 60 years.

With anecdotal private exceptions during the 1975 to 1990 conflict period when some industrialists encouraged their workforce to cultivate areas with crops while other economic production was stifled, the entire industrial and agro-industrial sector seems to have been overshadowed by the services economy that accounted for most economic growth starting from the 1960s. Policy support and institutional (ministerial) support for agriculture and industry was paltry since the beginning of reconstruction in the early 1990s and innovation needs of agriculture and agro-industry until today did not enjoy the political currency that would have boosted the sector. International collaboration agreements and agricultural export institutions in the post-conflict reconstruction period and throughout the 2000s and 2010s allegedly have been mired in waste, inefficiency and corruption.

Lately, agriculture has been an inadvertent beneficiary of crisis factors from the impact of Covid-19 on Lebanon, to the collapse of the financial economy and escalating impoverishment of the population. Moreover, global factors related to climate concerns and international crises, most prominently the Ukraine-Russia war, have put agriculture into the spotlight as a lever for the improvement of Lebanon's food security, alleviation of social problems, and creation of rural livelihoods and jobs.

The role of agriculture for cultural integrity and environmental protection is also receiving more attention than in preceding decades, but more tangibly, the contribution of agriculture to

Lebanon's GDP has been elevated in recent years by more than a percentage point to an assumed 5 percent.<sup>1</sup> Between 20 and 25 percent of the resident population derive some income from agriculture, estimates say, through stable jobs (12 percent of the labor force), and in the form of subsistence or occasional activities where 13 percent of the economically active engage in unpaid agricultural labor, day-labor, or seasonal labor. According to the International Labor Organization, agricultural labor is dominated by informality to the tune of over 90 percent; the highest rate of informality among all sectors.

While rural areas do not account for a large share of overall GDP, up to 80 percent of the GDP of rural areas is derived from agricultural activities (Akkar, Dinniyeh, Northern Bekaa). The Food and Agriculture Organization (FAO) identified the agro-food sector as a source of growing employment in the country, contributing an estimated 5 percent to GDP in 2021. Earlier estimates for 2018 say that agro-food accounted for 38 percent of industrial output and 2.9 percent of the nation's GDP, making it the largest single contributor to the industrial sector's output. The majority of Lebanon's industrial firms, roughly 1,245, are in the agro-food sector, with Mount Lebanon Governorate housing almost half of them. In 2019, agro-food exports made up 12.4 percent of industrial exports and 11.7 percent of all exports.<sup>2</sup>

### CHALLENGES

Antiquated farming techniques, lack of sophisticated machinery, financial co-dependencies on suppliers of imported inputs such as seeds and pesticides, weak infrastructures, and inequities in trade organization further along the food value chain have for a long time hurt agricultural producers and society through food loss, food waste, and needless restraints on productivity and profits. Further obstacles have been imposed by the lack of regulatory support, policy support, political sup-

<sup>1</sup> Food and Agriculture Organization, Lebanon: <http://www.fao.org/lebanon/fao-in-lebanon/lebanon-at-a-glance/fr/>.

<sup>2</sup> IDAL - Sectors in Focus - Agri-Food ([investinlebanon.gov.lb](http://investinlebanon.gov.lb))

port, and institutional support on various levels from irrigation networks over testing labs, and domestic market organization to export and trade credit insurance.

Starting in 2019, the multiple crises in Lebanon have posed major new difficulties for farmers and agro-food producers. A temporary competitive advantage for producers and exporters arose through the lowering of labor costs around 2020 and 2021 but has since largely been eroded. Substitution of imported foods through domestic production – a potential and coping strategy that was hotly debated immediately after the collapse of import finance and purchasing power – was outpaced by economy-of-scale factors and exploding costs of inputs. In more recent debates, the importance of addressing the water-energy-food nexus has been highlighted by the increased cost of fuel and water.<sup>3</sup>

The reorganization of finance, the activation of insurance policies such as crop insurance, and attracting investments have become pressing needs. Production of seedlings, cooperative processing capacities and market access (domestic and outbound) are in need of improvement. Agricultural credit and financing structures, which have been degraded through cash-on-hand and dollarization trends, are in total disarray and the sector is beset with dangers of foreign aid dependency. The social inclusion and protection of smallholder producers, part-time farmers, and rural laborers needs to be developed.

Agro-food processing firms face specific challenges, gaps in supply chain infrastructure, inadequate primary processing, storage, and distribution facilities, insufficient linkages between producers and the market, inability to forecast fixed and operational production costs, alongside labor and skills shortages, especially for semi-skilled and skilled workers in the agro-food sector.

Entry barriers to agricultural entrepreneurship include high start-up expenses, fragmented rural infrastructure, unfavorable working conditions, and the unfavorable perception of farming as an occupation.<sup>4</sup>

## OPPORTUNITIES

Adoption of organic farming, digitization, increased use of renewable energy, improved supply chain transparency, and development of sustainable irrigation systems are all areas that present opportunities for growth.

An increasingly sophisticated agro-food industry with a growing number of sustainability-focused producers creates a demand for workers with advanced entrepreneurial, technical, and managerial abilities, digital savviness, marketing and business expertise, and knowledgeable of quality assurance procedures and equipment maintenance.

Cross-sectoral fertilization can boost private sector growth in rural areas: on this premise, private sector enterprises can capitalize on opportunities of eco-tourism with niches such as wine and olive tourism and traditional crafts, as well as cultural activities that include creativity and innovation.

From the perspective of economic diversification, the agricultural sector has potential to increase the average complexity of the country's production. A paper by LCPS identified seven complex target products in the foodstuff communities that are attainable given the country's productive knowledge (ice-cream, sausages, preparations of animal feed, extracts of coffee, tea, or maté, cigars, cotton, seed, and oil cake).<sup>5</sup>

Private sector enterprises and new entrepreneurs can (and have been found in recent years to) engage in exploration and development of new verticals in the agricultural economy, such as legumes and preserves, spirits, durum wheat products, Mediterranean herbs and spices, and other niche products. The sector has proven export potentials in areas such as wine, olive oil, dried fruits and nuts, chocolate, and dairy products.<sup>6</sup>

<sup>3</sup> *Executive Magazine*, November 2022

<sup>4</sup> Maddah (2022), *The Impact of Multiple Crises on Necessity-Driven Entrepreneurs in Lebanon's Rural Areas – Rashayya, Hidab and Fnaidek*, Policy Reports, The Lebanese Center for Policy Studies (LCPS).

<sup>5</sup> Ezzeddine, N. (2017): *Missed Opportunities amid Great Potential in the Agro Food Sector*, The Lebanese Center for Policy Studies (LCPS)

<sup>6</sup> IDAL - Sectors in Focus - Agri-Food ([investinlebanon.gov.lb](http://investinlebanon.gov.lb))

## POLICY RECOMMENDATIONS

Past and current master plans such as ministerial strategies have iterated abstract insights and theoretical targets. Current strategies are void of promise due to absence of budgetary certainty. Private sectors should engage the public sector under a viable agricultural vision and strategy that includes bottom-up, top-down, and middle-out approaches:

**AGRICULTURE SECTOR**

1. Prioritize the agriculture and agro-food sectors, and their human capital, to ensure a sustainable and competitive sector.
2. Enhance agriculture's reputation as a field that can provide career opportunities supported by R&D in innovation and technology, thereby attracting young minds to enter the sector.
3. Through collaboration of industry with academia and technical education providers, ensure a better alignment of education and skills to the evolving needs of the agro-food sector, which is critical for the sector to be sustainable and competitive, including entrepreneurial and digital skills.
4. Reinforce and enlarge the capacity of local policy-makers (mainly municipalities) to meet the current and future demands of the agriculture and agro-food sector.
5. Introduce innovative smart agriculture strategies that promote the adoption of new technologies and automation of processes, to encourage young people in rural areas to enter the sector, coupled with specialized training programs and financial incentives.
6. Apply sustainable practices with high international marketing appeal, such as organic farming, circular agriculture, inclusive social practices, and alignment of Lebanese agro products with standards such as the FAO's Codex Alimentarius and the Good Agricultural Practices certification (GAP) in order to address concerns of developed agro-destinations about Lebanese agricultural products.
7. Implement a human-centered strategy that promotes smart diversification and sustainability in agriculture practices and investment. This diversification is related to breeds, species, varieties, and types of production.
8. Review and update a comprehensive agricultural calendar for Lebanon.
9. Develop enabling policies to support the agriculture and agro-food sectors' development particularly through improving infrastructure.
10. Apply water-energy-food (WEF) nexus insights and create policies that support positive WEF applications by favoring investments in renewable energy and water conservation technologies.
11. Legislate laws for sustainable agricultural development with incentives for agricultural finance and insurance and enable social safety frameworks for rural entrepreneurs and workers. Encourage formalization of rural and seasonal labor through social security incentives.
12. Focus on R&D to support innovation, market and marketing research to promote expansion, and training and funding to encourage compliance with international safety and quality standards.
13. Review and recalibrate existing bilateral trade agreements with regional and international target markets; address concerns in regional target markets such as abuse of agro-trade for drug smuggling, or concerns in developed agro-destinations such as the Lebanese overuse of pesticides, lack of testing and weak compliance with standards such as GAP and Codex Alimentarius, reliance on unfair labor practices and discrimination of migrant workers.
14. Activate networks to increase international market access through aggregation.

### POLICY RECOMMENDATIONS

#### AGROFOOD SECTOR

1. Establish a string of third-party accredited and certified laboratories across the board, facilitating testing and improving product development.
2. Revive existing and form new certifying bodies that attest to all locally sourced raw materials ensuring compliance with international standards.
3. Set up national traceability programs that break export barriers and facilitate market entry.
4. Consolidate vocational schools to hone skills for the agrofood sector in key districts and secure their funding.
5. Encourage contract farming to link farmers to the agrofood industry.
6. Enhance collaboration for innovation and R&D with academia and industry.
7. Develop enabling policies that improve infrastructure and utilities and ensure the availability of financial resources.
8. Implement e-government services, reduce bureaucratic hurdles for import/export activity, and streamline the processes for obtaining licenses and permits.
9. Review and recalibrate existing bilateral trade agreements.
10. Create incentives for the industries that follow or work towards Sustainable Development Goals.

# ▶ CULTURAL AND CREATIVE INDUSTRIES

## Sector Overview

Cultural and Creative Industries (CCIs) have become a significant part of the Lebanese economy. Projects led by organizations such as the United Nations Industrial Development Organization (UNIDO) and international non-governmental organizations (INGOs) have supported the development of Lebanese craft and creative clusters in the past decade. Lebanon's creative industries span several sectors: media (TV, cinema, radio, music production, publishing), art and design (advertising, architecture, graphic design, jewelry, fashion, photography, writing, performing arts, visual arts, and crafts), in addition to activities related to cultural heritage. Before the crisis, CCIs accounted for almost five percent of the country's GDP, a market value of more than \$2 billion<sup>1</sup>, and 4.5 percent of national employment, with an average annual growth rate of over 8 percent and an estimated number of direct employees above 60,000 according to a 2015 UNIDO report.<sup>2</sup>

## CHALLENGES

Enterprises in the CCI space, like other firms, are challenged by Lebanon's economic and political instability, the absence of government support, blocked access to finance, loss of talent, and shrinking local demand. The damage to the CCIs alone is estimated to be as high as \$1 to \$1.2 billion.<sup>3</sup> The impact of purchase power losses due to the depreciation of the Lebanese pound on artisans and creatives was no less severe than on other income earners. A survey of Lebanon's creative economy by the German Gesellschaft fuer Internationale Zusammenarbeit (GIZ) found that 57 percent of freelance creative workers experienced a drop in earnings of more than 75 percent in 2020.<sup>4</sup> The precarious drop in earnings combined with structural deficiencies, namely a high degree of informality and lack

of access to the state's safety nets and medical insurance, impair the livelihoods of creative workers and especially the high share of freelancers among them. A mutual fund for the insurance of artists was passed by legislators in 2012 under Act No. 7535/2012, but it has not yet taken effect. Besides social safety, protection of intellectual property is another legal challenge for the sector. New expressions of creativity have yet to be protected by laws. Moreover, the Lebanese Intellectual Property Rights (IPR) law of 1999 is oriented on salient standards that govern the IPR protected trade but enforcement of the law, which has long been criticized as weak, has in the past few years been further impaired by staffing and budget shortfalls at the Ministry of Economy and Trade.

Skills gaps, the small size of the domestic market for crafts and CCI products, regulatory barriers on cultural and creative exports, and difficulties in accessing international markets pose another set of challenges to CCI entrepreneurs, micro and small enterprises (MSMEs).

## OPPORTUNITIES

Potentials for CCI exports appear positive because of increasing international recognition of Lebanese design (fashion, furniture, and digital), particularly in light of the growth of digital platforms in the region.

The growth of remote work and expanding networks that link international and diaspora clients to Lebanon as outsourcing destination, generates new freelance and remote employment opportunities for Lebanon's creatives and price-competitive designers.

<sup>1</sup> *The Contribution of Cultural and Creative Industries to the Lebanese Economy (2020) Institut des Finances Basil Fuleihan (institutdesfinances.gov.lb)*

<sup>2</sup> UNIDO. (2015). *Mapping of Clusters in Cultural and Creative Industries in the Southern Mediterranean*

<sup>3</sup> World Bank Group, European Union, & United Nations. (2020). *Beirut Rapid Damage and Needs Assessment*

<sup>4</sup> GIZ. (2021). *Voices of Creatives: Scenarios for the New Normal in the Creative Industries of Sub-Saharan Africa and the Middle East after Covid-19* <https://www.nighwme.org/voices-of-creatives/>

For artisans, freelancers, and MSMEs in the labor-intensive creative industries, the Lebanese economic crisis, due to the severely depreciated currency, has opened windows of competitive pricing of skilled labor and cultural products and services.

Specific CCI subsectors, such as the publishing and jewelry, stones and precious metals sectors, have demonstrated their sig-

nificant potentials by achieving positive external balances by 2020.

Entrepreneurs and employers seeking to leverage the power of creatives will be able to rely on growing labor supply. According to one assessment, the “potentially creative” population can reach around 360,000 people, or 20 percent of the total working population.<sup>5</sup>

<sup>5</sup> *The Contribution of Cultural and Creative Industries to the Lebanese Economy, October 2020, Basil Fuleihan Institute of Finance (institutdes-finances.gov.lb)*

### POLICY RECOMMENDATIONS

CCIs have a significant economic weight and can play a role in local development in Lebanon, regeneration of cities and fading rural economies, and employment growth. CCIs also have a positive impact generated from multiplier effects, and can robustly influence innovation in the wider economy. As Lebanon struggles to find a way out from economic, financial, and social crises, it is critical that the country focuses on supporting and promoting this sector where Lebanon has a comparative advantage.

1. Improve the legal, syndical, and financing frameworks by establishing a national framework for cultural statistics.
2. In order to ease the formalization of the creative sector and its economic activity, review the legal rights and social protection framework for “artists,” including legislated but dormant mutual funds, and introduce tax incentives and exemptions for CCI firms.
3. Enhance the budget and widen the function of the Ministry of Culture in line with best international practices in fiscal support of culture, review fiscal and customs duties on creative exports, and simplify customs requirements.
4. Strengthen institutions and programs offering education, vocational training, soft skills, and business literacy to persons seeking CCI careers.
5. Aid creative workers and CCI MSMEs in transitioning to digital technology to increase competitiveness.
6. Improve access to finance through support of cooperative banking, ring-fenced microcredit offerings for artisans, and non-conventional financing tools such as crowdfunding initiatives, impact funds and specialized creative funds.
7. Create associations for CCI enterprises and individual workers and establish and integrate chapters for artisans and designers into aspiring private sector organizations such as the Lebanese Private Sector Network (LPSN).
8. Support the creation of dedicated services for MSME companies in the CCI realm. Such services should include investment and funding specializations, co-working spaces, digital working hubs, and CCI-focused incubators and accelerators.
9. Develop mini-culture hubs where creative workers can have secure digital work environments and physical spaces that support networking, co-working, and collaborative initiatives between talents from the digital and creative worlds.
10. Identify local niches and specialization with high potential of CCI, adopt municipal and governorate-level

### POLICY RECOMMENDATIONS

el policies that promote CCI activities and allocate municipality resources to specific creative industries that have been identified as adding value to the respective towns and communities.

11. Integrate urban and rural hard infrastructures with cultural and creative spatial targets: In urban centers and big cities, leveraging cultural heritage sustainably to create collaborative spaces.
12. Upgrade rural infrastructures to highlight and protect spaces of local cultural importance and places that exemplify community characteristics.
13. In acknowledgment of the high cultural and creative role of Beirut, support the audiovisual and multi-media sector that has made its home in the Beirut

Creative Cluster and extend needed support to other clusters with notable activities, especially sustained operations during the economic and social crisis, in publishing, fashion design, jewelry, and contemporary art.

14. Dedicate special efforts to identifying “anchors” such as vibrant collectives or outstanding businesses, that make a cluster culturally and economically viable. Having identified different CCI-subsector-specific clusters, find and leverage synergies for developing shared thematic visions of interrelated clusters (for example, media clusters, instead of dividing cinema, music, TV, radio, advertising, and video games). Create infrastructures and back-office structures that can serve common needs of these interrelated clusters.

## ▶ FORESTRY

### *Sector Overview*

Forestry, while vital for environmental integrity as well as environmental justice and livelihoods in Lebanon, is not a low-hanging fruit in the economic mix. As with so much in this country, the story of Lebanese forests and their human contemporaries is long, complex and sated with economic value but also fraught with ecological and societal disruptions.

The modern country's mystifying national tree, *Cedrus Libani*, has made an appearance as deforestation victim in the Gilgamesh epic. In the Pentateuch, ritual use of cedar wood is mandated on several occasions and in later scriptures, both economic and symbolic references to the cedar make appearances. Overuse of Lebanese cedarwood as natural resource has been reflected upon literally millennia ago, as lyricized in a famed poem by the Roman empire's literary celebrity, Ovid.

Closer to modernity, forestry constituted an important factor of social and economic development under Ottoman hegemony since at least the 17th century. In the 19th century, one species of tree, the mulberry tree, became the base of sericulture as silk spinneries rose from the mid-19th century as both income generators and catalysts of trade and finance in the transition of the territory's subsistence agro-economy to marginally industrial activities in the trans-Mediterranean supply chain of the luxury fabric, silk.

However, cultivation of forest resources and extractive forestry were concurring developments throughout. On the downside of the use of forest resources in the Ottoman era, silk producers relied on wood for heating water in the silk industry's processes up to the early 20th century. Other drivers of deforestation in the past two centuries were the competition between conflicting uses of both scarce natural assets and land as a scarce resource in the densely populated territory. Albeit interspersed with periods where reforestation and responsible use were pursued, persistent factors contributing to deforestation included consumption of forestry assets as firewood by private households and illegal logging by local communities, urbanization and construction activities, wildfires and sub-national armed conflicts but also World War I.

Later in the 20th century, responsible forestry was impeded by what the Food and Agriculture Organization of the United

Nations described in a 2016 study as "two decades of civil war and the subsequent rapid economic and population growth that placed increasing demands on the country's natural resources. The population, in fact, continuously exploited trees and forests and inflicted serious damage to the country's fragile environment." Pests affecting *Cedrus libani* and other trees as well as ecologically imbalanced reforestation activities were further detriments.

Still, a first-ever assessment of forestry and arboreal wealth of Lebanon carried out by the FAO showed in the early 2000s that Lebanon's forests and tree resources were covering over 13 percent of the small country, about double what had been previously estimated. Reflecting the increased interest in natural preservation elsewhere, reforestation initiatives in Lebanon's post-conflict period of the 1990s and up until the 2010s, were motivated by diverse environmental and social ambitions, with focuses from preservation of the "Cedars of God" copse of trees to environmental youth activities by Lebanese student volunteers and corporate social responsibility drives with additional aims of female empowerment, national inclusion and expatriate identification with the homeland. Over recent years, reforestation activists and conservationists have increasingly wized up to the importance of responsible forestry in addition to the primary concerns over forests as environmental treasures.

This led to a widening regard for forestry under aspects of circular and sustainable economic use. Yet, at the same time, the stress of the Lebanese economic and social crisis in the 2020s has exacerbated the detrimental impacts of climate factors and human interference at large. A 2021 study by the Lebanese Reforestation Initiative (LRI) estimated the total economic value of circular and responsible forestry in Lebanon as being in excess of USD 100 million across four specific forest ecosystems. The value propositions are \$53 million from production of forest honey, followed by \$15.5 million through forest tourism: \$13 million to 17 million from carbon sequestration and storage under two scenarios, and 2.3 million as enhancement of air quality.<sup>1</sup>

<sup>1</sup> Charbel, E. and Rahal, L., 2021. *Mapping and Valuing Forest Ecosystem Services in Lebanon. Study completed under the USAID-funded Livelihoods in Forestry Project. Lebanon Reforestation Initiative (LRI), Beirut.*

Concurrent with optimistic projections, entrepreneurship and formation of micro-and-small enterprises (MSMs) with innovative foraging and forestry-related products has been notable in the past three years but cannot be described as anything other than a niche activity. The challenges to activation of such economic potentials in the context of a revitalized and sustainable economic development drive by Lebanese private sector stakeholders range from the historically undervalued role of forestry in the overall agro-economy and a small number of internationally supported programs to crowding out of viable forestry jobs and absence of tertiary education programs and research in the sector.

## CHALLENGES

### *Forestry*

- Lack of awareness and public participation
- Forest fires and illegal logging
- Limited financial resources allocated to this sector; this restricts the scale and scope of reforestation efforts and impact of

the long-term sustainability of projects

- High ramification within the value chain actors
- Private sector may face challenges in accessing and acquiring the necessary expertise.

## OPPORTUNITIES

- Jobs for qualified professionals in forestry and agroforestry.
- Livelihoods in ecotourism
- Sustainable reforestation activities that generate jobs and incomes as they contribute to carbon sequestration and storage in alignment with national targets for greenhouse gas emissions
- Ecological niche developments with economic potentials in five agroforestry verticals (according to LRI <sup>2</sup>):
  - > mushroom production
  - > beekeeping
  - > sericulture
  - > aquaculture
  - > herbs, and medicinal plants

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<sup>2</sup> LRI (2022). *Guidelines for Implementing Agroforestry in Lebanon*.140p

## POLICY RECOMMENDATIONS

1. Develop reforestation incentives: implement financial incentives and subsidies to encourage private companies, NGOs, and local communities to engage in reforestation activities.
2. Create a national forestry database and a proper reporting system for all forestry stakeholders to generate data that can: 1) showcase the actual sector's contributions to the GDP; and 2) guide decision making processes on gaps and improvements.
3. Establish training programs, higher education programs in forestry, and vocational courses focused on reforestation and sustainable forest management.
4. Foster collaborations between the public and private sectors to leverage resources, expertise and networks.
5. Encourage the growth of "green" jobs by supporting the development of sustainable enterprises related to ecotourism, such as nature guides, ecotour operators, forest rangers and land handicraft productions.
6. Implement resource management by bridging science and practice to ensure that practices are based on scientific research and studies and incorporate sustainable management of natural resources into national policies and budgets.
7. Enhance the regulatory environment to encourage the private sector involvement in reforestation (facilitate access to permits, licenses, and compliance requirements). Streamlining regulatory procedures and providing clearer guidelines can encourage private sector participation in reforestation.
8. Emphasis on ways to improve the value chain for smallholders to encourage their participation in reforestation practices.

## ▶ HEALTHCARE

### *Sector Overview*

Health services for the Lebanese resident population are organized as a puzzle of private and public providers. Specialized and tertiary healthcare administered by qualified physicians and hospitals has been increasingly available since the end of the Lebanese conflict's violent phase at the end of the 1980s, but for many subsequent years, equitable access to healthcare has not progressed in line with the population's needs. Throughout the 2010s, health cost inflation, ageing, lifestyle diseases and expensive new treatments of critical diseases have been juxtaposed with a need to rationalize the public health system and widen access. Increasing accessibility required equitable financing and insurance schemes such as universal health insurance that was advocated for as private-public partnership by various private sector stakeholders and the Insurance Control Commission of Lebanon in 2018.<sup>1</sup>

According to the Ministry of Public Health (MOPH), the health expenditure as share of GDP was 7.8 percent before 2020. While the MOPH accounted for nearly 48 percent of the total, private and mutual schemes covered slightly more than half of health expenditure along with out-of-pocket expenditures. However, out-of-pocket expenditures, which were keeping a lid on some aspects of health cost inflation, urgently needed to be decreased from the level of 33 percent of total health expenditure, which was incurred to citizens pockets in 2017, the MOPH said.<sup>2</sup>

Up until efforts for structuring the national health system were extended in the past 20 years from the creation of new government hospitals to a widening of primary healthcare (PHC) networks, the tertiary healthcare network of public and private hospitals – with overweight of private providers – dominated national awareness. Their approaches were marked by curative care and patients' vocal preferences for imported brand medication irrespective of cost and efficacy considerations. As the MOPH's Vision 2030 notes, the system was marked by a "health coverage paradox" where weak preventive, palliative, and primary care was juxtaposed with universal coverage for tertiary care and sophisticated treatments.

In terms of numbers, by 2021 approximately 140 hospitals could be found in the country, including public, private and specialized hospitals. As of the same year, it was estimated that there were around 5,000 registered physicians. A comprehensive network of private pharmacies spanned 4,000 outlets. Twelve domestic manufacturers, many operating under international licensing agreements, were producing medical drugs and achieving modest exports.

### PRE AND POST CRISIS STRESSORS

The Lebanese health system has been noted for its resilience during the Syrian refugee crisis of the 2010s and during the Covid-19 crisis of 2020/21. This surprising resilience notwithstanding, the system has been greatly stressed by deterioration of access due to the population's sharply reduced ability to pay for escalating costs of medications, doctor visits, and hospitalization. Other stress factors are the out-migration of the healthcare workforce, which extends from double digit losses in the number of nurses and physicians to medical technicians, administrators, and staff at the MOPH as nexus of the health administration. Market shortages and price hikes in the supply of imported medications have seen people resort to coping strategies such as buying smuggled medicines while the number of private pharmacies contracted by about 15 percent in the first two years of the crisis.

On the upside, reliance on Public Healthcare Centers (PHCs) by not only resident refugee populations but Lebanese citizens has exploded, with PHC consultations increasing tenfold from around 20,000 (mostly refugee visitors) in 2013 to some 200,000 visits in 2022. On the side of industry, the 12 pharmaceutical manufacturers that form the sector and are represented by the Syndicate of Pharmaceutical Industry in Lebanon (SPIL), have seen a surge in local demand that

<sup>1</sup> Interview with insurance commissioner Nadine Habbal, June 2018, *Executive Magazine*

<sup>2</sup> *Lebanon National Health Strategy: Vision 2030*

boosted their aggregate manufacturing output far beyond the estimated \$1.2 billion value achieved in 2019. From no more than 8 percent of the local market before the crisis, the pharmaceutical manufacturers' rate of satisfying local demand for pharmaceutical products rose to more than 34 percent in 2021. SPIL estimates the coverage of domestic pharmaceutical demand, at 80 percent for products in the manufacturing portfolios of member companies.

## CHALLENGES

The ongoing economic crisis has exhausted an already brittle system, leading to a lack of medicine and a brain drain of medical professionals. The health system's most severe challenge, which is the issue of residents' access to universal health coverage, preventive care, and affordable treatments, however, is beyond the reach of private sector and even current public sector capacity. Thus, the health system in its entirety, as the MoPH notes, "is increasingly dependent on financial donors, including international and local NGOs."

On the side of financing access to health for the privately insured – either through fully commercial insurance providers or through a variety of mutual funds or quasi-funds – coverage conditions and offerings for the same diagnoses can vary between providers. The lack of coordination between multiple providers and the reluctance to pool funds needs to be resolved. People with chronic illnesses face both cost and availability barriers, even if the latter seem to have become less severe.

As mentioned above, the brain drain of medical professionals has been severe: since 2019, a large number of physicians and nurses have relocated abroad in search of employment.<sup>3</sup> About 1000 doctors and 2000 nurses have left the country according to latest estimates, with the majority traveling to other countries in the Middle East or to Europe.<sup>4</sup> For example, at Mount Lebanon Hospital University Medical Center, 120 physicians and about 150 nurses have left since 2019.<sup>5</sup>

Among medical skills shortages, the highest shortage is for workers with Technical Vocational Education Training backgrounds in hospitals, followed by shortages in nurses, mainly in hospitals and primary healthcare institutions. Shortages in hospitals were most common among nursing departments (half of the nursing departments in South Lebanon suffer from shortages in labor).<sup>6</sup>

As access to healthcare is typically based on a person's ability to pay, an estimated 80 to 85 percent of the population has none or vastly insufficient coverage of medical needs. Before the crisis, a sizable portion of the population was insured as employees of enterprises in the private sector. However, they face a massive funding gap when having to obtain medical services. The National Social Security Fund (NSSF) is the core provider for private sector employees, but it has not effectively adjusted its funding and disbursement frameworks to balance the Lebanese pound's approximately 98 percent depreciation. The lack of NSSF and government co-payment coverage, combined with the rising costs of hospitalization, are leading to out-of-pocket expenses for hospital services even for the gainfully employed, not to mention endangering the access to care for the underprivileged, and the uninsured population.

The pharmaceutical industry, which has not been strongly incentivized to develop its local market and export potentials over years before the economic crisis, is disadvantaged vis-à-vis regional competitors. National market access regulations in Lebanon are experienced by these companies as less stringent than the barriers they face when accessing other markets in the region. The capital stock of enterprises is suffering from a lack of infrastructure, dedicated industrial zones, and specialized services such as hazardous waste removal options. Investments in research and development have been halting, putting Lebanon as a location of pharma manufacturing in a comparatively fragile position of being unable to claim significant regional roles in innovations, technological advancements and R&D. Anecdotally, a spring 2023 list of 100 Arab health industry and health leaders by Fortune Middle East magazine included a high count of regional executives of pharmaceutical multinationals (mostly based in the Gulf region) along with industry leaders from countries in Southwest Asia and North Afri-

3 WHO director: Lebanon's brain drain threat to health sector | Al Arabiya English

4 Lebanon's healthcare on brink of collapse amid crisis, says minister | Reuters

5 Private health care at risk: challenges and solutions - Executive Magazine (executive-magazine.com)

6 Synthesis on the crisis impact on the Lebanese labour market and potential business, employment and training opportunities (2022) ILO UNICEF Synthesis report EN.pdf

ca – but noted among them only one Lebanese health industry leader, whose startup venture was based in France.

### OPPORTUNITIES

Comparative advantages of producing pharmaceuticals in Lebanon include, according to industry sources, the comparatively high developed human capital base and economic positioning of Lebanon (at least as existed before the crisis) that allows manufacturers here to market and price their products profitably in regional markets.

Although human resources in the sector have been altered by the migration of many practitioners and health professionals, the educational supply chain of new graduates from medical schools continues to function. This existing opportunity of training new professionals could, according to a study by UNICEF and ILO, collate with the health system's need to fill sectoral vacancies. Based on effective policy making, the health system could provide aspiring and qualified individuals with many job opportunities in fields such as nursing (different specializations), laboratory science and technology, radiology, and health administration. The need for professionals also extends to food safety inspectors and health inspectors, as well as to persons with substantial experience in several other technical and administrative specializations.

The pharmaceutical industry in Lebanon has potentials to expand into new areas of production for drugs that are needed in the domestic market but currently not covered by SPIL member companies. Furthermore, governmental support for pharmaceutical manufacturers, improvements in specialized infrastructures for sector companies, and easing of access to finance and investments would vastly improve Lebanese pharma companies export potentials in regional and developing markets.

Increased research of medical cannabis varieties and eventual cultivation seems to be a somewhat ambiguous opportunity in the face of legal and cultural complexities but in 2020 some new legislative ground has been broken after discussions over the possible cultivation and processing of cannabis for medical use captured the public's imagination in the late 2010s.

Given an internationally noted track record of Lebanese academic medical researchers, it seems counterintuitive that R&D for pharmaceutical drugs has hitherto not been more prominent in the country. Medical R&D is a potential growth field for private sector enterprises, academia, and – especially – partnerships between enterprises and academia.

The entrepreneurship ecosystem has produced a number of health-tech startups that have won accolades for innovating new e-health applications and niche solutions to healthcare needs in markets outside of Lebanon. A health entrepreneurship ecosystem could attract and foster new health-tech startups. While wellness tourism and medical tourism are fields seeing fierce competition on company and country levels, health and hospitality professionals have agreed that Lebanon still harbors underused potentials in both areas.

In consideration of Lebanon's aging population profile, the realm of healthcare for the elderly, including numerous niches such as home care and residences, provides opportunities to private sector providers. Likewise, the underserved mental health sector is in need of new regulations, new solutions and new services providers. With affordable access to healthcare being among the biggest challenges for the Lebanese people, public and private insurance and financing solutions for dignified health access in form of universal health coverage, mandatory auxiliary insurance, or even universal health insurance is the greatest need for long-term viable solutions.

### POLICY RECOMMENDATIONS

1. Support existing central and regional labs by upgrading their facilities and implementing quality control mechanisms, encourage the use of generic medicines and promote prevention measures through mandatory healthcare education.
2. Initiate the comprehensive digital transformation of the health information and services delivery systems that digitizes the sector and cuts through the prevailing bureaucracy.

3. Develop and implement a comprehensive health system funding strategy aimed at achieving universal health coverage for generations to come, while simultaneously reducing Lebanon's reliance on external donors in prioritizing people-centered primary healthcare. This strategy should also prioritize efforts to guarantee nationwide access to and availability of essential medications.
4. Support the pharmaceutical industry through empowerment of specialized infrastructures, dedicated economic zones, adequate regulation and favorable trade agreements as well as through development of specialized hazardous waste removal services.
5. Establish a national strategy to retain healthcare workers by expanding training for key roles like medical science liaison, regulatory specialist, and more, while integrating digital skills into health education curricula. This initiative addresses brain drain and ensures a sustainable healthcare system. Additionally, match qualified individuals with job opportunities in nursing, laboratory science, radiology, and health administration to meet sectoral needs.
6. Improve the soft infrastructure of the healthcare system to guarantee ongoing high-quality care.
7. Develop a national strategy for healthcare innovation and technology building on digital solutions used in context of Lebanon's exposure to the Covid-19 pandemic, enforce legal frameworks that are necessary for the health sector's digital transformation.
8. Support the growth of the health-tech sector by providing tax benefits and incentives for facilities engaged in pharmaceutical production, health tech startups, and services such as homecare and medical tourism, thereby encouraging innovation and investment in e-health solutions and applications.
9. Prioritize adherence to pharma trade policies in the region and globally so Lebanese medicines can have a competitive edge in both quality and price.
10. Promote and protect private hospitals as the historic backbone of the healthcare system in Lebanon and the leading attraction for medical tourism in the region.
11. Increase control over borders and implement strict measures and penalties against illegal medicine importers, smugglers, traders, and facilitators.
12. Regulate, fund and license management and production of medical cannabis.
13. Lobby Parliament to waive NSSF contribution requirements where a comprehensive employer health policy scheme exists.
14. Invest in digital transformation, technology-driven innovation, and skills development of workforces.
15. Improve retention of employees, incentivize female employment and careers through adoption of financial rewards, non-financial recognition, and anti-harassment strategies, and institute family-friendly corporate policies.
16. Develop partnerships with academic institutions in medical R&D.
17. Create syndicates and industry associations with transparent organizational profiles, best-in-class governance and ethical commitments for health tourism, for mental health, for home care and resident care of the elderly.
18. Contribute to the creation of a health-tech entrepreneurship ecosystem.
19. Collaborate closely with the private sector, syndicates, and civil society organizations to ensure that the Ministry of Public Health's (MOPH) 2030 vision remains solid, and an action plan is rolled out for delivery.

## ▶ HOSPITALITY AND TOURISM

### *Sector Overview*

Hospitality and tourism have provided major economic growth to Lebanon, and for good reasons. Although one of the smaller destinations for tourism in the Mediterranean, Lebanon's diversity of micro-climates and geographic features, leisure and recreation options, cultural and religious treasures, ethnic traditions and culinary offerings have proven attractive to tourists pursuing a wide range of interests. Given Lebanon's natural and cultural offerings, the hospitality and tourism sector has provided notable contributions to job creation, foreign exchange earnings, and overall economic growth. In a period hailed by some as the "golden years" of the 1960s, the availability of upmarket hotels and—by the standards of the time and in comparison with Arab cultural environments—liberal leisure options that included state-licensed gambling, were a significant draw for well-off revelers coming from Arab and European countries. While tourism stalled in the second half of the 20th century due to the country's entanglement in serial internal conflicts and regional warfare, the inbound-tourism and hospitality industry grew back and expanded from the 1990s, functioning as major conduit for hard currency inflows and providing high, albeit primarily seasonal, employment. This established hospitality and tourism as a pillar of the post-reconstruction economy, even as incidents of terrorism and episodes of conflict around the Eastern Mediterranean caused gaps in tourism growth and fluctuations in the sector's importance for GDP and job creation. Tourism disruptions and inconsistencies in policy making hindered niche tourism verticals such as religious, rural, environmental, and adventure tourism. Operators thus relied heavily on relatively short seasonal business from well-off leisure and business travelers from some Arab origin countries, middle-class visitors from nearby Arab countries, visitors with Lebanese diaspora roots, and individual tourists from other source countries.

In 2018, the sector's total contribution was estimated to be \$10.4 billion, or 19.1 percent of the country's GDP, ranking second in the Middle East<sup>1</sup>. For the same year, the sector's cap-

ital investments reached \$1.3 billion, with investment growth projections for a compound annual growth rate of 2.7 percent to \$1.7 billion. Data cited by the Lebanese Ministry of Tourism stipulate a combined direct and indirect average annual contribution of 19 percent to the country's GDP for the period 1997 to 2019, but the data show significant fluctuations in direct GDP contributions of tourism in peak and trough years.

### CHALLENGES

The way in which hospitality ventures and operators in inbound tourism have been experiencing the crisis years from 2019, was in some regards more severe and in other regards counter-cyclical to sectors in the real economy. The impact of Covid-19 related lockdowns and travel restrictions was heavy. By November 2020, the occupancy rate in Beirut's 4 and 5-star hotels had slipped to 16 percent, down from the previous year's recorded 69 percent during the same period<sup>2</sup>. Hotel industry managers and board members in the Syndicate of Owners of Restaurants, Cafes, Night Clubs and Pastries reported that the Covid pandemic impacted their sectors also into the first and second quarters of 2021, without the financial relief that operators in developed economies could access. Inversely, the resurgence of summer visitor flows from the Lebanese diaspora and tourists softened establishments' purchase-power related funding perils.

A wave of closures of hospitality establishments was juxtaposed with new openings from cafes and budget eateries to rural and urban guest houses; upbeat occupancy and revenue performances have been observed in the main tourism seasons, such as during the summer of 2022. While most tourism and hospitality ventures could be seen as offering food, drinks, and accommodation at substantial discounts to pre-2020 prices during 2021 and deep into 2022, investments into venue

<sup>1</sup> IDAL - Sectors in Focus - Tourism ([http://investinlebanon.gov.lb/en/sectors\\_in\\_focus/tourism](http://investinlebanon.gov.lb/en/sectors_in_focus/tourism))

<sup>2</sup> Samer Hajjar and Laurent Yaacoub (2021) Check-up or check-in? - Executive Magazine ([executive-magazine.com](http://executive-magazine.com))

openings and trends of new price diversification and alignment with, or increases of, pre-crisis dollar prices became apparent from the second and third quarters of 2022. Structurally and operationally, the sector continues to face challenges:

Political instability, internal conflicts, tensions and protests, and security concerns, and a high influx of refugees from neighboring countries, are all factors that contributed to a perception of safety risks deterring potential tourists from visiting Lebanon. This was coupled with the Arab embargo on Lebanon, where countries warned their citizens against traveling to the country.<sup>3</sup>

More recently, the events of October 2023 and their belligerent repercussions have led to a grave new security state within the country and a surge in travel advisories from various embassies cautioning against travel to Lebanon and in some cases urging foreign residents to leave the country. Ernst and Young reported a drop in hotel occupancy in Beirut from 62.2 percent in September 2023 to 31.8 percent in October 2023, while room prices tripled<sup>4</sup> in the latter month. The following months have led to a precarious “new normal” wherein as of March 2024, nearly 100,000 residents have been displaced from southern Lebanon<sup>5</sup>. Additionally, Lebanon’s residents and visiting expats cautiously arrange their outings and visits with the understanding that plans can be subject to immediate security-related cancellations.

Lebanon’s inadequate infrastructure (transportation systems, roads, and public services) requires significant renovations to improve the overall visitor experience and accessibility to tourist sites. The burden of damages from the Beirut port explosion on infrastructure, retail stores, museums and galleries, and heritage buildings in the affected districts in and near to the Beirut central district caused a further setback to the growth of the industry. While domestic tourism has an increased cost advantage over outbound tourism in times of currency depreciation and losses of purchase power, hospitality operators are challenged in serving their native clientele due to severe electricity outages and the difficulties in obtaining fuel to keep operations smooth and to provide amenities such as air conditioners. High lira inflation rates reduce the purchasing

power of local tourists and make the pricing strategies of hospitality business more complicated. There have been inadequate private investments, such as the absence of tour programs in cultural tourism. Present and longer-term detriments to the country’s ability of attracting visitors and meeting concerns of health-and-environment conscious domestic tourists are rooted in increased pollution of water resources and land due to illegal/improper dumping of solid waste and sewer water. Unlocking of new tourism opportunities is hindered by severe budget problems on the national government’s level and by failures of municipalities and unions to work together in creating a tourism master plan with a common objective and a wider perspective.

## OPPORTUNITIES

The experience of the last three decades indicates that positioning Lebanon as a potent tourism destination from the perspective of environmental integrity, cultural heritage, communal and religious diversity, and absence of pollution and eyesores in urban and rural settings will require recurrent environmental cleanup campaigns, awareness building from school ages, incentives for behavior change, and enforcement of relevant laws as well as fining and prosecution of small to large violations. Encouragingly, numerous initiatives by public, civil, and private sector stakeholders have shown successes and at the same time hold further expansion and intensification potentials. Added together, they can boost contributions to GDP and economic growth from international tourist arrivals and domestic holidaymakers. Opportunities that can boost profitability and job creation in this sector include:

- **Medical tourism:** leveraging quality healthcare facilities and expert medical professionals (plastic surgery, dentistry, cardiology, orthopedics, oncology, and fertility treatment, among others). Lebanon is renowned for its health services and has always been considered the Middle East’s top destination for medical tourism. New investment opportunities can exist in wellness and alternative medicine, elderly care centers, rehabilitation centers, and sports and health centers.

<sup>3</sup> Saudi Arabian nationals recorded the largest share of tourism spending in Lebanon in 2017, accounting for 14% of total spending, followed by the UAE (12%) and Kuwait (7%).

<sup>4</sup> Ernst and Young 2023 Middle East Benchmark Survey

<sup>5</sup> OCHA reports in its “Lebanon: Flash Update # 14- Escalation of hostilities in south Lebanon, 21 March 2024,” that 90,491 persons have been displaced from south Lebanon due to ongoing hostilities

- **Rural, green, and sustainable tourism:** Additional to the 190 hotels with a capacity of around 12,300 rooms<sup>6</sup> a significant opportunity exists for boutique hotels, guest houses, youth hostels, and furnished apartments in rural areas of Lebanon.
- **Cultural tourism** (film, festivals, arts, entertainment): Lebanon has a wide range of cultural tourism choices, including 5 UNESCO World Heritage sites. During the summer season, Lebanon hosts more than 15 international music and entertainment festivals - such as the Byblos, Baalbeck, Beiteddine, Ehdeniyat, and Batroun.
- **Food Tourism:** world-class gastronomy and a leading destination for nightlife and entertainment catering to a variety of tastes.
- **Religious Tourism:** religious sites could play a substantial role in reviving the tourism sector by endorsing staycations and micro-holidays. Such initiatives can grow even in times of crisis.
- **Dark tourism:** visiting sites of conflict, terror, torture, tragedy and mass suffering – which require extreme care and ethics in developing as tourism destinations. Studies have shown that there are 21 potential urban dark tourism sites, the majority found in Beirut, that could be incorporated into a new dark tourism product as part of the recovery of Lebanon, with lessons on the traumas of conflict and the varied outcomes of reconciliation efforts.<sup>7</sup>

<sup>6</sup> IDAL - Sectors in Focus - Tourism ([http://investinlebanon.gov.lb/en/sectors\\_in\\_focus/tourism](http://investinlebanon.gov.lb/en/sectors_in_focus/tourism))

<sup>7</sup> Anouti, A. and Kennell, J. (2022), "Dark Tourism and Destination Recovery: Prospects for Lebanon", Mohanty, P., Sharma, A., Kennell, J. and Hassan, A. (Ed.) *The Emerald Handbook of Destination Recovery in Tourism and Hospitality*, Emerald Publishing Limited, Bingley, pp. 177-194.

### POLICY RECOMMENDATIONS

1. Enhance the ecosystem for rural entrepreneurs, starting with legalizing local guides' work and training them at the municipal level, and enforce and implement the statute on rural accommodations and guesthouses (the decree was issued in 2011 and is yet to be implemented and enforced).
2. Facilitate connectivity with rural areas (signage, directions, and public transportation) and provide cost-effective mobile services tailored to tourist needs.
3. Restore safety and security as a top priority, coupled with assisting vulnerable tourist locations and firms that are struggling with labor shortages, investment, and access to capital.
4. Reinforce the tourism ecosystem's resilience by encouraging tourism SMEs, their access to finance (for example rural funds as non-conventional financing tools or reactivating subsidized bank loans to the sector) and developing talent and capacity.
5. Promote cooperation among players in the tourism ecosystem so that they can react and adapt to events, share knowledge and experiences, and better understand risks and opportunities.
6. Update classification systems for tourism related services and facilities.

7. Create more tourism routes that are themed by agro-tourism specificities (olive, honey, farm-stay and harvest) or by culinary and social qualifiers (e.g. guest houses offering unique cultural and familial environments, social enterprises in host-refugee cooperation, and restaurants with authentic organic food specialties) and ascertain that establishments, when so classified, receive incentive (tax or technical support) and are quality controlled.
  8. Implement a variety of evidence-based policies with a focus on high-impact interventions along the tourism value chain to increase awareness, control pollution and encourage investment, and create job opportunities for the educated youth across the tourism value chain (mainly in branding, marketing, and digital activities).
  9. Recognize the Ministry of Tourism as a sovereign entity within the government, focused on managing and promoting Lebanon's tourism and utilize the government's role as a catalyst for the green transition and arrange for acquired tourism infrastructure to support the development of resilient touristic communities.
  10. Additionally, it is vital that private and civil society stakeholders collectively grab the chance to address long-term priorities and reconsider the tourism industry, preserving, restoring and promoting Lebanon's cultural and historical heritage, while transitioning to more robust, equitable, and sustainable models of tourism development.
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## ▶ INDUSTRIAL MANUFACTURING

### *Sector Overview*

In 2015, the Industrial Manufacturing sector generated \$8.8 billion in total revenue or roughly 17 percent of Lebanon's GDP. But the story starts around a century and a half earlier. The origins of industrial manufacturers in Lebanon reach back to the mid-19th century. Involving linkages with European manufacturing supply chains for luxury fabrics, the industrial spinning of silk constituted a move towards a more developed industrial economy when compared with the previous, low-scale farming and processing of Mulberry trees and silkworms in the supply chain of French producers of silk and luxury fabrics. In those days, Lebanon's move from a small agricultural producer country into silk processing also provided decisive transformation impulses towards a more productive national economy, in the form of maritime shipping houses, organized financial intermediaries (money dealers) and banks.

Using machinery and know-how imported from Europe, manufacturing expanded and intensified in the first half of the 20th century. However, the grand political shifts of the age, which on the Lebanese stage included but were not limited to World War I and II, were not conducive to imperial European – quasi-colonial but industry-supportive – infrastructure projects such as penetrating the Eastern Mediterranean region with railways from Istanbul. As the economically virgin territories around the Arabian Gulf in the days of the Cold War were increasingly attracting industrial ventures with their energy resources and embryonic markets, Lebanese industrialists proved a strong ability to set up in those markets, aided by cultural affinities and language. For a period, Beirut was a true singular hub in the economic and industrial development of the Arab West Asia region.

In the second half of the 20th century and the first decades of the 21st, Lebanon's orientation towards the growth of its services economy was for local manufacturers a detriment to the industrial sector. Lack of governmental support in areas such as provision of affordable electricity to their establishments were frequently cited by manufacturers as crippling disadvantages,

along with, in regional comparison, high labor costs, slow transportation, cumbersome customs requirements, and insufficient legal protections of manufacturing industries. The insight that historically no high-performing services economy has been able to thrive in absence of a strong manufacturing industry, seemed lost on Lebanon's policy makers, at least in the country's post-conflict reconstruction and development years, which favored construction, banking, and other avenues of rentier income generation.

Lebanon entered the third decade of the 21st century with significant geographical, sectoral, and financial concentration of industrial market power. Agro-industrial food processors and manufacturers are the strongest sub sector in manufacturing (see figure 1). Five percent of the manufacturing firms generate 71 percent of the total industrial revenues. Geographically, the religiously and communally diverse yet majority Christian Mount Lebanon governorate (which embraces the urban Beirut governorate from all sides but the sea) is home to three out of five manufacturing establishments with notable strengths in the sectors of agro-food and paper and packaging materials.<sup>1</sup> On the other hand, diverse ownership with a duality of family-owned and small-to-micro businesses, and high complexity of manufacturing gave resilience to the country's economic fabric.

In 2015, 4 percent of the Lebanese labor force was employed in the manufacturing sector with an average individual annual income equal to \$10,400 (higher than the 2015 average \$7,800 GDP per capita).<sup>2</sup>

However, the industrial contribution to GDP has been given as significantly differing figures in different studies at different times. According to the government agency Investment Development Authority of Lebanon's (IDAL) report from 2019, the industrial sector contributed about 8 percent of the GDP (\$4.2 billion), and employed about 318,000 people, or about

<sup>1</sup> ALI Industrial Indicators, March 2017, <https://ali.org.lb/indicators/ali-indicators-march-2017/>

<sup>2</sup> ALI Industrial Indicators, March 2017, <https://ali.org.lb/indicators/ali-indicators-march-2017/>

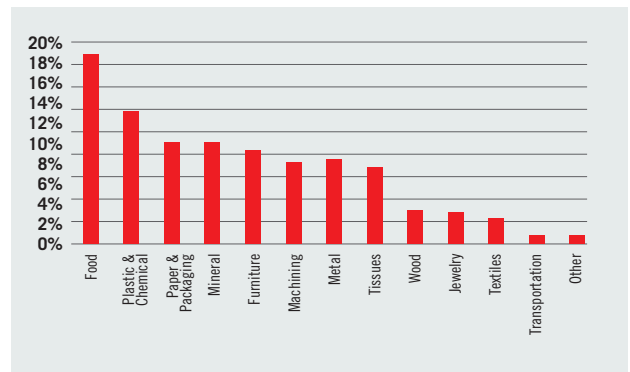
20 percent of the labor force. These figures above anything else cannot but lessen confidence in data if one notes that the 2015 data cited above differ from the 2019 IDAL report by a whopping eight percentage points in terms of GDP contribution. This data – which suggests a more than 50 percent lower cumulative revenue of the manufacturing industry in 2018 when compared with 2015 – stands opposed to a \$5 billion reported increase in Lebanon’s GDP (to nearly \$55 billion).

Contextualized with pre-crisis economic developments, the shocking data divergence suggests the presence of either substantial changes in parameters and methodologies used in data evaluation or massive deficiencies in data collection. In the important area of employment data, the supposed data on the manufacturing headcount as share of the labor force vary by 16 percentage points between the two cited data sets.

In other numbers, around 4,700 industrial manufacturers were registered in 2019, among which 26 percent are agro-food processing firms, followed by construction materials (12 percent) and chemical products (8 percent). In 2015, the manufacturing sector’s output was split between domestic consumption, which accounted for 83% of the total, and exports, which accounted for 17 percent of the total.<sup>3</sup>

**Figure 1 - The distribution of Lebanese manufacturers by the number of firms per specialty**

This figure shows the distribution of Lebanese manufacturers on different specialties. The food and beverage industry has the largest number of firms followed by the chemical and plastic industries. The paper and packaging industry, the mineral, and the furniture industries come in at around 11 percent each. There is a significant drop when it comes to wood, jewelry, textiles, and transportation industries with the latter having the least, with only 2 percent of total Lebanese firms.



Source: Maddah, Maddah & Gharios (2023)<sup>4</sup>, data adapted from ALI

## CHALLENGES

Challenges confronting manufacturers seem in part rooted in policies that limited expansion of manufacturing when compared with the services economy over the past 50 years. This first occurred through disruptions of the flow of goods and lack of internal security, and then by policies that factually disincentivized industrial investments, by absence of capital markets and by disallowing competitive alignment of the currency with conditions governing export markets. In the crisis context of the early 2020s, the sector is being severely impacted by previously unseen problems, including a lack of liquidity, severe disruption of all financial transactions, constrained domestic purchase power and decreased consumption, worsened barriers to export, and crumbling infrastructures. The exacerbated set of challenges entails:

- Complicated licensing and permit processes (involving different ministries) limit the ease of doing business<sup>5</sup> and hinder the industrial sector’s growth.
- Slow and costly customs procedures and logistical obstacles hamper industrial imports and exports.
- By comparison with most producer countries in the MENA region, the labor market pool is small and the cost of labor is high.

<sup>3</sup> Atallah, S. Ezzeddine, N. and Mourad J. (2019). Lebanon must develop an export strategy to create jobs. LCPS Policy Brief, <https://www.lcps-lebanon.org/articles/details/2169/lebanon-must-develop-an-export-strategy-to-create-jobs>

<sup>4</sup> <https://api.lcps-lebanon.org/content/uploads/files/Policy-Brief-76-eng.pdf>

<sup>5</sup> Lebanon’s rank in the 2020 Ease of Doing Business report was 143 out of 190 countries

- The high cost of tapping into reliable energy sources surges manufacturing costs. Due to collapses and unpredictability in state electricity supply, manufacturers have to allocate scarce resources to diesel generators (on which they relied previously as auxiliary sources of electricity) or/and solar energy installations that require high initial investment while still awaiting regulations under the Decentralized Renewable Energy Law that would optimally support decentralized power generation.
- The manufacturing sector is marked by high reliance on imported inputs, from machinery to raw materials. Price inflation in global markets, fluctuating cost of shipping, supply chain disruptions, and political sanctions or market closures pose outsized challenges.
- The liquidity crisis of 2019 and the protracted banking crisis of the following years has created particular challenges in external financing and increased transaction costs of industrial producers. Loss in export financing options and blocking of credit lines impacted all manufacturers, especially MSMEs. The cost of funding for imported inputs has also increased.
- Domestic pricing faces challenges of consumers' purchase power erosion on the back of currency depreciation and explosive inflation of Lebanese pound prices, inventory imbalances, and inefficiencies in local supply chains.
- Mismatches between training of youth for labor markets and needs of employers have worsened further in the crisis into labor shortages due to the emigration of skilled workers.
- Reduced efficiencies, living-cost related absences, and electricity-disruption related reductions in operating hours at various ministries and public administration units are disrupting business for industrialists on top of their production and labor challenges.
- Unequal passing of social obligations and sudden increases of tax and non-tax burdens on industrial producers by the state have boosted informality of work and enterprises, which distorts the economic playing field to the disadvantage of law-abiding manufacturers.

## OPPORTUNITIES

- Industrial production combines enormous potential for job growth with potentials to gradually improve the long-standing imbalance of external trade that is to the severe detriment of Lebanon.<sup>6</sup> The manufacturing industry, with its cumulative labor force of 195,000 (according to the most cited calculations), its job preservation achievements and contributions to GDP of recent years, has a pivotal role in shaping the future of the real economy.

This has been highlighted during the economic crisis. Success stories of manufacturers and agro-industries in the 2020s have already been written in prevailing against pandemic-related international supply-chain shocks, conflict-induced wheat shortages, and domestic liquidity and financing problems.

Industry can be a job creation motor for other sectors of the economy<sup>7</sup>. It can leverage its recent successes by firming up commitments to digitization and creation of sustainable jobs in a digitized economy; it can commit to gender equity, Environmental, Social and Governance (ESG) standards, future-proof climate goals and today has a wide-open window for changing the narrative of the Lebanese economy.

- Industrialists have billions of dollars of untapped exporting potential in each of several industrial sectors, such as agro-food, pharmaceuticals, jewelry, clothes, furniture, leather, and electrical and industrial equipment.
- Young firms and startups are engines of job creation in Lebanon. Reflecting on a 2010 data report from the World Bank, micro startups – firms between 0 to 4 years of activity and with less than 4 workers – generated about 66,000 jobs in Lebanon between 2005 and 2010.<sup>8</sup> Due to emergence of important gaps in entrepreneurship ecosystems and discontinuation of various acceleration programs, industry as a broad sector and through focuses on important verticals such as agro-industrial food processing, today has an op-

<sup>6</sup> USAID Lebanon Trade and Investment Facilitation (TIF) Activity: Sector Selection and Prioritization, October 2020 [PA00X97M.pdf \(usaid.gov\)](#)

<sup>7</sup> “each job created in the industrial sector creates 2.5 jobs in other sectors” [Industry: Its role and perspective in Lebanon's economic growth - Executive Magazine \(executive-magazine.com\)](#)

<sup>8</sup> Chapter II in the complete 2014 World Bank Regional Report: “Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa”

portunity to invest intangible resources (and tangible ones) and leverage untapped entrepreneurial potentials of startup entrepreneurs and young firms.

### POLICY RECOMMENDATIONS

1. Create a unified advocacy group in manufacturing to push for overdue legislation aligning with Sustainable Development Goals and global ESG practices. Develop an SDG-compliant vision and national strategy for the manufacturing industry, lobbying with the government to review and renegotiate trade agreements to protect Lebanese manufacturers. Incentivize eco-friendly practices with soft loans for adopting green energy, ensuring fair treatment of compliant manufacturers through equitable enforcement of regulations.
2. Attract investment in the manufacturing sector by providing tax incentives, fast track licensing and permit processing, streamlining regulations and creating a one-stop shop for investors.
3. Develop comprehensive export strategies and provide market intelligence to help industrial manufacturers identify opportunities and overcome export barriers. Strengthen trade promotion agencies and provide targeted assistance to manufacturers to explore new markets, participate in trade fairs, and engage in export-oriented activities.
4. Assure governmental commitments to the creation of Special Economic Zones (SEZ) for industries and present SEZ projects that meet climate mitigation goals and financial standards promoted by, among others, the World Bank, International Finance Corporation, and the Bank for International Settlements, and/or that qualify for funding under programs such as the UN Green Climate Fund.
5. Improve and expand transportation networks, ports, and other logistics to enhance and facilitate the movement of goods.
6. Make efforts to recover or further increase support from the community of global donor countries and UN Organizations for development projects in promising industrial verticals and deserving locations such as design and crafting of furniture in North Lebanon.
7. As the industrial sector and as individual companies, pledge to the creation of a new, fairer and socially just economy in Lebanon in fulfillment of corporate responsibilities and in correction of structural weaknesses. Acknowledge and invest in new technologies and innovations, pursue proven benefits of a digital transition of industrial producers.
8. Partner with the public sector in a non-sectarian and merit-based, transparent public procurement culture, and facilitate collaborations between universities and industrialists in research, knowledge transfer, matching education and training programs with the needs of the sector, the achievement of higher education graduates' greater employability, protection of labor and human rights, and fair rewards in increasingly inclusive corporate cultures.

## ▶ KNOWLEDGE ECONOMY

### *Sector Overview*

The term “knowledge economy” refers to an economic system that is built upon information and knowledge as core resources and relies on highly skilled human capital and technological innovation as its enablers. Constituting a key driver of the global economy since the second half of the 20th century, the core digital aspects of information societies and knowledge economies have been fueled by a wave of new information and communication technologies (ICT), including hardware, computer operating systems, and software; the growth of the internet and creation of the world-wide-web in the 1980s and ‘90s, the “New Economy” of the late 1990s, the escalation of mobile telephony, mobile data and smartphone applications in the 2000s and 2010s, and lately by innovations such as machine learning and internet-of-things that have by the World Economic Forum been described as constituents of the Fourth Industrial Revolution.<sup>1</sup>

In light of the accelerating speed and impact of knowledge economy developments over the past half century, it cannot be assumed that the process of digital transformation of human economy and society has reached its peak at the time of this brief characterization. Lebanon benefits from the presence of enterprises in many knowledge economy specializations, from ICT to telecoms operators, internet services providers, mobile application specialists, cybersecurity vendors, and platforms for social media, e-commerce, food, and goods deliveries, and, very notably, remote working on international and domestic grounds.

In 2016, the ICT industry, located at the center of the knowledge economy, reached a size of \$436.2 million, making it the third principal contributor to the country’s GDP, following the banking sector and emigrant remittances<sup>2</sup>, with the sector being differentiated by its dynamism and innovation. Between 2014 and 2016, the market grew at a compounded annual growth rate of 7 percent and the sector’s value-added reached \$2.2 billion in 2017, up from \$1.9 billion

in 2013, contributing 3 percent to Lebanon’s GDP<sup>3</sup> (up from 0.73 percent in 2011). The ICT sector is mainly composed of small and medium enterprises (SMEs) and relies heavily on retail and wholesale activities, except for its main actor in knowledge production; the software development and services subsector.

Software firms operate across three major activities: 52 percent being software producers, 36 percent web solution providers, and 12 percent mobile services and applications developers. Together, they employ around 5,000 individuals in direct jobs (2017).

The number of SMEs in the ICT sector before the crisis was given by Investment Development Authority of Lebanon (IDAL) as approximately 550. Estimates on the number of companies in the combined ICT sector and the IT services sector range up to 800. Number of ICT workforce according to the Lebanon Economic Vision released by the McKinsey & Company consulting firm was 2 percent, or 44,000, in the total Lebanese employee base. However, industry representatives have given substantially lower estimates for the existing number of enterprises and jobs in ICT as of 2021.

Before the crisis, estimates on the annual salary per worker in the software sector were \$19,300 as compared to \$12,200 in the manufacturing sector, and the majority of its labor force were young when compared to other sectors of employment (64 percent of total employment in the software sector require good technical skills and 12 percent require highly technically skilled engineers and graduates)<sup>4</sup>. Additionally, software firms generate high-value ideas, innovation and copyrights, that contribute to other sectors’ growth and competitiveness (such as industrial innovation), and have multiplier effects evident in the increase in the income driven by any sectors’ growth.

Offering positive notes for inclusiveness of women and integration of youth, a wide dispersion of ICT-relevant education

<sup>1</sup> See *The Fourth Industrial Revolution*, 2016 book by Klaus Schwab and numerous references by the WEF

<sup>2</sup> UK Lebanon Tech Hub (2016), *The Future of Lebanon’s Knowledge Economy*, UK Lebanon Tech Hub, Beirut, Report

<sup>3</sup> IDAL (2017), *ICT Sector in Lebanon*, Available at: <https://investinlebanon.gov.lb/Content/uploads/Publication/181205011004908~IDAL-ICT%20FACTBOOK%202018.pdf>

<sup>4</sup> World Intellectual Property Organisation WIPO, 2017, *Study on the Economic Contribution of the Software Industry in Lebanon*, Available at: [https://www.wipo.int/export/sites/www/copyright/en/performance/pdf/econ\\_contribution\\_lb.pdf](https://www.wipo.int/export/sites/www/copyright/en/performance/pdf/econ_contribution_lb.pdf)

and training – such as school-level coding initiatives and STEM education – as well as a not-negligible number of women-led tech startups (in some years upward of 20 percent) indicate that the ICT sector of Lebanon has development potential when viewed through the lens of SDG priorities.

Given the presence of extreme economic uncertainty, the outlook for the Lebanese knowledge enterprises is foggy but overall upbeat. Acknowledged weaknesses in previous state dealings with telecommunication assets and SOEs of knowledge economy relevance notwithstanding, a November 2021 statement by the office of the Presidency of the Council of Ministers stipulates optimistically: “The Government believes that under the right policies, Lebanon can become a global hub in the provision of e-services, hence creating a substantial number of high value added jobs, increasing the productivity of the Lebanese economy, and boosting GDP growth.”

## CHALLENGES

Though Lebanon has a well-educated and skilled workforce, and the country has positioned itself as a regional hub for software development, with a significant number of startup incubators and accelerators, still, its knowledge economy faces several challenges, which are partly systemic and partly related to the country’s economic and political crises of the 2020s.

- Innovation:** Lebanon received a score of 33.82 out of 100 in the 2015 Global Innovation Index (GII), placing it 74th out of 141 nations (for comparison, the United Arab Emirates received a score of 40.06 and Jordan received a score of 33.78)<sup>5</sup>. Out of 132 economies, Lebanon dropped to 92nd place in 20216 (sub pillars are presented in Figure 2).

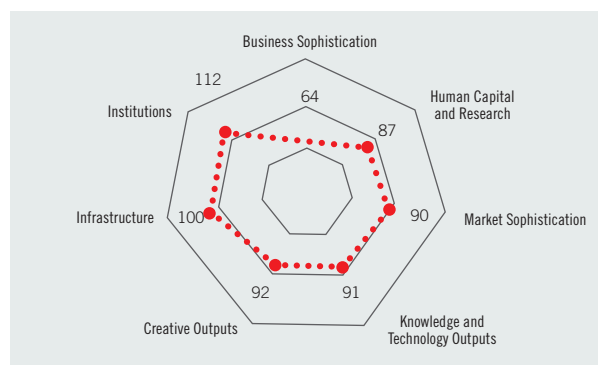
	GII POSITION	INNOVATION INPUTS	INNOVATION OUTPUTS
2020	87th	93rd	80th
2021	92nd	94th	97th
2022	N / A	N / A	N / A
2023	92nd	86th	95th

Source: Global Innovation Index Database, The World Intellectual Property Organization, Retrieved on 28/12/2023

- Failure of the government and institutions:** Businesses in Lebanon found it nearly impossible to function as a result of government institutions’ catastrophic failures on the local and national levels, particularly the central bank’s oversight of the financial sector. According to the World Intellectual Property Organization (WIPO), Lebanon fares very poorly in matters of the political climate and government (rated 129th out of 139 countries), which highlights two significant bottlenecks: political and operational instability and inefficiency, as well as government ineffectiveness. Regarding the regulatory environment, the nation ranked 115th in the sub-pillar “rule of law.” A long line of assessments by international development finance institutions and private sector organizations such as the World Economic Forum have for many years chastised bureaucracy, rigid centralized authority, and institutional inaction as detrimental to doing business in this country. In context of the importance of ICT and digital transformation for Lebanon, the subpar performance of institutions and government agencies has become an even greater obstacle to the knowledge economy as core constituent of economic recovery.

Figure 2 – The Seven Global Innovation Index Pillar Scores for Lebanon - 2021

This figure depicts WIPO’s seven Global Innovation Index pillar scores for Lebanon in 2021. It shows scores for the seven pillars that make up the Innovation Input Sub-Index. These pillars are Institutions, Human capital and research, Infrastructure, Market sophistication, Business sophistication. The scores for each pillar range from 0 to 100. A higher score indicates a stronger innovation environment.



Source: Maddah and Akar (2023)<sup>7</sup>

5 The Global Innovation Index 2015: WIPO Knowledge Repository, Available at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2015-intro5.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2015-intro5.pdf)

6 Lebanon: Global Innovation Index, Available at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2021/lb.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021/lb.pdf)

7 Maddah, L., and Akar, B. (2023): Lebanon’s Economic Crisis by Sector: The Knowledge Economy Loses its Balance, The Lebanese Center for Policy Studies.

Failures in the infrastructure: The provision of telecommunications networks for connectivity, energy supply, and transportation is generally considered to be a part of national infrastructure. All providers of these specialized infrastructures in Lebanon have been severely impacted by the crisis. Most knowledge economy infrastructures have been disrupted by theft, strikes, electricity shortages and funding problems, and some have deteriorated to the point of collapse. This deterioration is reflected in the fact that Lebanon's position in the Enabling Environment pillar of the Global Knowledge Index dropped from 111th position out of 138 countries in 2021 to 139th place out of 154 in 2022. Connectivity, which is crucial for practically all companies in the knowledge economy, has very markedly suffered. According to the Speedtest Global Index Lebanon's broadband connection speed in 2020 placed it in 161st place out of 177 nations, meaning a one-year drop of over 65 places from 2019.<sup>8</sup>

- **Brain drain:** Lebanon's ability to retain talent placed it 105th out of 137 countries in the world in 2018<sup>9</sup>. In the two years between 2020 and 2021, the number of people emigrating from Lebanon increased 4.5 times. This new significant wave of emigration was largely fueled by a high youth unemployment rate of 47.8 percent (almost twice the adult unemployment rate of 25.6 percent)<sup>10</sup> as of January 2022.

There has long been an annual oversupply of university graduates when compared with the absorption capacity of the domestic job markets – an oversupply that has been correlated with the out-migration desires of graduates. Youth unemployment (in Lebanon as in the Arab countries) was a noted problem throughout the last 30 years. Still, the loss of Lebanese talent in context of the ongoing crisis is damaging to the knowledge economy and its key industries, such as ICT.

- From the angle of seeing digital transformation as central to any economic system's development until the middle of the

21st century, Lebanon's digital transformation and the knowledge economy are facing grave challenges, as they have for almost the entire period since the end of the internal conflict. For example, past under-investment and extractive abuse of governmental provision of connectivity and mobile telephones as the government's "cash cow"<sup>11</sup> have been diagnosed in several governmental documents.

- Economic experts and tech-savvy policy makers have warned that the failure of digital transformation would translate into the widening of an already existing Lebanese digital lag behind middle-income countries and global markets.

- Quite recently, in addressing the problems of under-investment and inconsistent pursuit of digital priorities, the Lebanese government's 2022 digital transformation strategy stipulates three objectives: easing of citizen access to government services; enabling the private sector digital economy; and transformation of the public sector by way of paradigm shift to digital operations. In the document, which notes that the digitization strategy has been subject to frequent revisions at times of changes in government, the number of "challenges" and "risks" outweighs the listed opportunities and "success factors". The strategy called for addressing more than 10 legislative gaps and new downside risks "that have increased, grown and become more complex".<sup>12</sup>

## OPPORTUNITIES

- The human capital proposition for a knowledge economy development and digital transformation of Lebanon is anchored by the power of prestigious universities that produce skilled professionals in various fields including engineering, business and technology, think tanks and research centers offering opportunities for collaboration and innovation.

<sup>8</sup> The index ranks countries according to their internet speeds monthly, for more details See: *Rebuilding the knowledge economy - Executive Magazine* ([executive-magazine.com](http://executive-magazine.com))

<sup>9</sup> Ben Hassen, T. (2020), *The State of the knowledge-based economy in the Arab world: cases of Qatar and Lebanon*, *Euromed Journal of Business*.

<sup>10</sup> *Wave after wave: the Lebanese Brain Drain*, November 2022, AUB <https://sites.aub.edu.lb/data-visualization/2022/11/29/wave-after-wave-the-lebanese-brain-drain/>

<sup>11</sup> Member of Parliament and ICT expert Ghassan Hasbani in a 2022 interview with *Executive Magazine*

<sup>12</sup> 2022 edition of the *Lebanon Digital Transformation Strategy*

- The mindset that drives knowledge economy and digital transformation from the private sector is strongly present. It consists of the entrepreneurial spirit that provides a foundation for the growth of knowledge-based industries, particularly in the fields of technology, digital media, and creative ventures.
- Multilingual and cosmopolitan environment providing an advantage for global connectivity and cross-cultural collaboration.
- Diaspora engagement: extensive, and spread across the globe, with successful professionals in various knowledge-based sectors, the diaspora has many potentials for engaging with knowledge economy advocates and ICT industry stakeholders in Lebanon. Engaging with the diaspora can bring investment, expertise, and networking opportunities.
- Private sector companies have the potential to double the contribution of this sector to the country's GDP from \$1.5 billion to \$3 billion, and the exports to 25% of total exports.<sup>13</sup>

<sup>13</sup> *The Knowledge Economy - Executive Magazine (executive-magazine.com)*

### POLICY RECOMMENDATIONS

1. Prioritize telecommunication reforms as structural needs for a knowledge economy. Businesses and startups cannot survive, grow, or innovate without having access to fast, accessible, and affordable telecommunication. Municipalities and local governments should support the establishment of local hubs with sustainable electricity (solar panels) solutions and internet connectivity that businesses, especially those in creative and knowledge-based activities can benefit from.
2. Encourage digitization in education and the economy which can have quite many implications in the knowledge economy and innovation capacity of human capital and organizations.
3. Strengthen K-12 education in STEM, promote vocational training, cultivate soft skills, modernize research institutions, and encourage technology transfer from academia to industry in order to enhance human capital development.
4. Foster an enabling environment for R&D and innovation by establishing legal frameworks that encourage R&D in businesses, such as R&D tax credits and reductions. R&D tax credits support business investments by allowing companies to claim an enhanced corporation tax reduction on their R&D costs. Establish an active intellectual property help desk at the Ministry of Economy and Trade.
5. Join international agreements that strengthen innovation.
6. Prioritize data protection, implement a national digital ID, establish interoperable databases, enable digital payments, and digitize public services for data-driven innovation.
7. Build up the enabling environment for knowledge enterprises through coordination and collaboration among several actors. Universities, the CNRS, and the Ministry of Education and Higher Education should create incentives for researchers to collaborate with private firms. This can be achieved through research programs in universities (masters and PhDs).
8. Establish a comprehensive set of fiscal incentives to encourage investment, close the funding gaps in the ecosystem, particularly at the early ideation stage and at the later scale-up stage. In addition, offer legal protections, procurement preference, and streamlined access to investors and resources.
9. Promote and improve exports of ICT services, along with reforms to boost e-commerce and digital payments.
10. Implement strategies for monitoring progress, evaluating performance and data-driven policy adaptation.

# REAL ESTATE

## Sector Overview

The real estate sector has functioned as a reservoir of wealth and a motor of economic activity in the post-conflict reconstruction and development period of the 1990s. It accounts for 13.7 percent of GDP on average between 2004 and 2016, and throughout the (by gross national product) wildly fluctuating 2000s and 2010s.<sup>1</sup> As such, construction and real estate development has attracted domestic and foreign investments as well as state and quasi-state support in form of housing loans and stimulus packages.

One can argue that the legal feat of initiating the listed Lebanese Company for the Development and Reconstruction of the Beirut Central District (Solidere) was integral to the post-conflict trajectory of Lebanon as a services-driven economy, although spikes of development and profitable speculation were counter-productively distorted by corruption and regulatory failure. The large private investments in the construction and real estate sectors over the years, aided by extensive involvement of banks and financial intermediary companies, contributed to rentier economy structures that ruled the country. Real estate management and development services, housing loan providers, and urban professional services from think tanks to consultants, lawyers, doctors and academia benefited from the intensification of an urban economy.

In the early phases of the post-conflict real estate boom of Lebanon, questions over the oblique funding of projects from cash converged with questions over the sustainability of projects concentrated at the high end of the property market. With the progression of social and economic trends in the 2000s and 2010s, the focus of real estate developers shifted to suburban projects and smaller-sized apartment units. As native demand of young families in the burgeoning Lebanese demographic shifted towards more affordable units, and at a time when adverse

regional and geopolitical winds impacted the country's economy in the 2010s, real estate was the main focus of a quasi-state stimulus package administered by Banque du Liban (BDL), the central bank of Lebanon. According to BDL, the country's GDP growth rate, which was in the low single percentage points, was based to a substantial degree on the stimulus package, and thus attributable to the support for home financing. Cautionary voices warned at the time that while this subsidy strategy for real estate was propping up the economy, it carried a high risk.<sup>2</sup>

Notwithstanding the country's demographic needs, changing externalities and vacillating macroeconomic fortunes, the ills associated with the sector throughout the entire post-conflict period included an investment over-emphasis on non-productive real estate, absence of coordination, prevalence of corruption and weak supervision on municipal and larger levels, cyclical overproduction of units in periods such as the early 2010s, and failures to develop green urban spaces, efficient public transportation, and other urban infrastructures which are essential for making real estate investments useful for economic productivity gains and achievement of sustainable development. The real estate demand index of Byblos Bank reflects that interest of prospective buyers peaked more than 12 years ago, vacillated in the intervening years until 2018 with a slight downward bias, and fell to record lows by end of 2020.<sup>3</sup>

Real estate being a classic non-tradable good, the role of the sector in context of Lebanon's disingenuous balance of trade and balance of payments appeared limited to its ability to attract regional and expatriate Lebanese investment into high-end properties and stocks such as Solidere, with residential property and real estate receiving 70 percent of all foreign direct investment (FDI) as of 2010.<sup>4</sup>

<sup>1</sup> Deutsche Gesellschaft für Internationale Zusammenarbeit (2019), "Employment and Labour Market Analysis Lebanon", Available at: <https://bit.ly/3m23hzy>.

<sup>2</sup> June 2015, leader, *Executive Magazine*

<sup>3</sup> <https://www.byblosbank.com/byblos-bank-news-room/byblos-bank-real-estate-demand-index-in-third-quarter-of-2020>

<sup>4</sup> Investment Development Authority of Lebanon. (2010). *Annual Report*. Beirut: Investment Development Authority of Lebanon. <http://www.databank.com.lb/docs/Activity%20Report-2010-IDAL.pdf>

At the cusp of the economic crisis in 2019, about 25 percent of loans were extended to the private sector; of this amount, about 40 percent were made for real estate investments (including 19 percent for mortgages, 16 percent for construction, and 5 percent for real estate and rent services). “Non-housing” lending to households and industry activities accounted for only 12 percent of total loans. This translated into insufficient diversification of loans and investments, with the majority of the latter made in construction-related activities.<sup>5</sup>

The correlation between real estate and sustainable job creation in Lebanon has been very weak. Some analysts contend that investments into the real estate sector at the expense of more productive sectors contributed to a reduction of employment opportunities in the country. This is supported by the observation that the flow of foreign direct investment (FDI) was coupled with an intensification of real estate activity in Lebanon’s main cities (Figure 1). Fiscally, the growth of this sector has been stimulated by a biased tax system (capital gains tax on real estate was only introduced in 2017).<sup>6</sup>

In 2015, real estate activities contributed 15 percent to Lebanon’s GDP. However, this did not mean an equivalent creation of stable and dignified jobs in construction and real estate-related professions. High profits tended to be realized by developers in conjunction with low risks because of scarcity factors, alleged money laundering, and weak institutional control of building permits and property transactions. Use of technically obsolete and noise-polluting construction machinery, insufficient safety measures on project sites, corner cutting in many post-conflict developments, and reliance on informal labor involving non-Lebanese workers boosted profit margins further, at the expense of public and employee safety. The sector’s share in employment generation remained extremely limited: 0.4 percent. Migrant workers form a significant percentage of this employment and most of their earnings are channeled to their home countries.<sup>7</sup>

## CHALLENGES

Already in the years leading up to the crisis, and when subsidized housing loans from the central bank were suspended

in 2018, the real estate market was slowing down. The income destruction of the past four years, in combination with the disappearance of housing loans by commercial banks, has moved even modest “starter” apartment purchases far out of the reach of young families and public servants. Constructing a comparable advantage and competitive value proposition for Lebanese developments over international property markets could be a proposition only for upmarket apartments, villas, and mountain or seaside chalets as first or second residences that appeal to regional and international buyers.

However, while this market was significant as far as appealing to well-heeled regional buyers in the 1990s and to Lebanese expatriate buyers up to the 2010s, transaction data and political narratives suggest that much of the appeal to Arab buyers has broken away in the past 15 years. Moreover, competing with other property destinations around the Mediterranean is likely to be hindered not only by the country’s political, social, and economic instability but also in terms of micro-economic detriments, by the degradation of environmental assets, trends to privatize public spaces, uneven anecdotal records of building quality, and the failure to apply cultural integrity or exclusivity to luxury properties as defining factors of high-end developments.

Overall, a resurgence of the property demand and price boom as seen between 2002 and 2011 cannot be expected for many years, probably until the currently unpredictable time when (and if) a new peak of pent-up housing demand coincides with a surge in economic productivity and nation-wide creation of livelihoods. Demand for real estate as a rentier investment proposition seems unpredictable, due to open questions about trust in the Lebanese financial market, future property taxation and regulation, perception issues, domestic political stability and regional security.

In the crisis years, there has been a further significant slowdown in new construction, according to recent data on construction permits. At the same time, and except for some distressed sellers, the market seems sticky in terms of property prices, in line with the belief of many local stakeholders that real estate prices will hold their ground and will at worst remain

5 Awdeh, A. (2019). *Monetary policy and economic growth in Lebanon*. *Journal of Central Banking Theory and Practice*, 8(2), 147-171.

6 Abdo, N. (2018). *The Quest for Social Justice in Lebanon: The need for fair taxation*. Arab NGO Network for Development: Beirut. Available at: [http://www.annd.org/data/file/files/01%20ANND-TAXJustice2017-Regional\\_Lebanon.pdf](http://www.annd.org/data/file/files/01%20ANND-TAXJustice2017-Regional_Lebanon.pdf)

7 *Land Policy Dialogues May 2022 Report published by the Lebanese Association for Taxpayers Rights, Land-Policy-Dialogues\_Final-Synthesis-Report\_English\_May-2022-1.pdf (aldic.net)*

stagnant but never decline. This creates a self-reinforcing cycle where developers refuse to lower their prices in the hope that markets will rebound, which further reduces demand.

A lengthy hesitancy and downward trend in desire to seek ownership of an apartment or home is visible from the real estate index of Byblos Bank showing more than 90 percent reductions in real estate demand in the third quarter of 2020 when compared with demand at peak times (in the year 2010) and the average demand in the 2010s. Month by month survey results in Q3 of 2020 showed that less than one percent – exactly 0.6 percent – of polled Lebanese residents had plans to buy or build real estate in the coming six-month period, 4.1 percentage points less than in the third quarter of 2019 and a fraction of peak demand seen in the third quarter of 2010.

Further along its downward spiral, the sector posted a yearly contraction of 18 percent during the first seven months of the year 2022, and the number of sales operations fell by 15 percent year-on-year for the same period. This was juxtaposed with a 34 percent increase in 2021, but according to analyst views, these temporary rises in real estate transactions have not been not organic.<sup>8</sup>

### OPPORTUNITIES

Against these challenges stand unmet opportunities, even as, and partly perhaps because, cost inflation factors

have been impacting international building material supply chains and as urgent climate targets internationally mandate capital expenditure-heavy shifts to greener, energy-saving, and smarter urbanism in line with theSDGs, such as SDG 11.

In this regard, entirely new real estate development and property management opportunities can be developed from addressing such issues as, for example:

1. The large stock of unsafe and crumbled apartment buildings in Beirut (noting shocks of collapsed buildings which predate the August 20, 2020 port explosion)
2. The need for heritage preservation and cultural integrity in cities
3. The need for alignment of Lebanese municipalities and cities with UN Habitat targets, such as creation of urban green spaces
4. The need for improving urban economic productivity in the highly urbanized country of Lebanon
5. The need for pursuit of climate targets on the levels of energy preservation of housing and redesign of urban infrastructures

<sup>8</sup> Raissa Batakji, *March 2020, Real Estate: A Safe Haven During the Crisis?* LAU News

## POLICY RECOMMENDATIONS

1. Implement legislation that supports the recovery or upgrading of dilapidated housing units whether impacted by the Beirut blast or eroded due to age and heavy residential use
2. Update the rent law, enforce compliance with environmental regulations, and increase supervision of building codes in rental properties and all multi-party dwellings
3. Eliminate as much as possible corruption and perverse incentives in public sector real estate administrations
4. Enforce and update heritage preservation laws, enforce land use regulations and restrictions on private development of seafront properties
5. Update building codes, for example mandates for climate relevant damming and earthquake safeguard requirements for high and low rises
6. Update and enforce building, construction, and property insurance laws
7. Eliminate value and time gaps in assessments of properties and registration of property transactions, collect gains tax and property taxes in transparent and equitable manner
8. Incentivize investments, e.g. through tax breaks, in green construction machinery, green building technology and smart buildings
9. Strengthen, democratize and make more transparent associations such as the real estate association and the real estate developers' association
10. Establish clear quality certification standards and training for real estate and construction companies and professionals.
11. Improve working conditions on construction sites and communication with companies and sites on exemplary labor practices
12. Formalize hiring of construction workers and fulfill social safety network obligations
13. Invest in employee safety training and green certification
14. Invest in less polluting machinery

## ▶ WASTE MANAGEMENT

### *Sector Overview*

Waste management is a sector that combines urgency of finding practical solutions with the need to redesign cycles of consumption and resource optimization. It is a sector where previous approaches of confrontation between absolutist green ideology and primitive economic greed have proven useless. As such, waste management in Lebanon carries a heavy burden of negative local perceptions in addition to the sector's too often unsavory international image.

The average consumer of Hollywood lore associates the notorious “waste management consultant” of Tony Soprano fame with doubly unclean practices, under connotations of the waste haulers' literally unsanitary working environment and the business's infestation with criminal energy. In Lebanon, the image of solid waste collection and processing has been one of deep cynicism, or *wasta*, and corruption in the awarding and remuneration of public contracts since the 1990s.

Whether all accusations leveled in the 2000s and 2010s were substantiated or not, allegations of corruption as well as reports of inefficiency at the time engulfed all aspects of waste management from street-cleaning and collection of solid waste to its transporting, sorting, recycling, composting, and land filling. Against a history of two huge waste dumps that marred the coast in West and East Beirut during the civil war period of the 1970s and 80s and widespread, informal waste dumping in towns and villages, the need for sanitary landfills was only partially answered when a single such facility with limited capacity was established to the south of the Beirut conurbation in 1997.

Attempts at aligning household waste collection practices with international standards were made from the 1990s but failed to permeate urban cultures and broadly change household behaviors. Contradictory legislative moves on waste incineration, opaque corporate behaviors, civil campaigns against environmental pollution and allegedly unreliable implementation of filtering technologies made the quest for economical-

ly, socially, and environmentally friendly waste treatment more difficult. Bottom-up, urban cleanup initiative of touristy areas, recycling initiatives and education on waste avoidance and reduction was pursued by civil society actors and also by way of corporate social responsibility campaigns.

In the 2010s, a national garbage crisis sparked civil society outrage and protests against the accumulations of waste on the streets. The situation with large political conflict potential was exacerbated economically by the high cost of waste treatment in Lebanon relative to other countries in the Middle East and North Africa region and in terms of governmental expenditures dedicated to combating environmental degradation. Between 1996 and 2015, solid waste management expenditures totaled \$2.2 billion.<sup>1</sup>

In frantic and determined attempts to ease the waste management crisis, new recycling initiatives were launched by civil society organizations and non-profits. Social entrepreneurs and tech startups presented imported and homegrown micro-solutions on many occasions and corporate Lebanon sought to remedy accumulations of electronic waste.

However, although finding solutions for decades of accumulating garbage and recurrent waste management emergencies involved public, corporate, and civil stakeholders in the second half of the 2010s, including conceptualization of integrated urban reduce and reuse strategies with waste-to-energy facilities, only temporary fixes of the waste management problems were applied. Further attempts suffered disruptions with the outbreak of the economic malaise in the early 2020s. Important resource extraction opportunities from solid waste remain underused while studies on waste treatment in the previous decade have shown that a large proportion of reusable and recyclable materials in solid waste offers a great opportunity for improving waste reuse and recycling.<sup>2</sup> To this day, waste management is a serious development challenge in Lebanon, a

<sup>1</sup> [Impacting policies: Waste management and advocacy in Lebanon – Arab Reform Initiative \(arab-reform.net\)](#)

<sup>2</sup> Abbas II, Chaaban JK, Al-Rabaa AR, Shaar AA (2017) Solid Waste Management in Lebanon: Challenges and Recommendations. *Journal of Envi-*

main source of environmental degradation, as well as a potential threat to public health.<sup>3</sup>

Combining the need for solutions to considerable per-capita generation of organic – including food loss and food waste in agriculture, retail, households and hospitality ventures – and non-organic wastes with the imperative to improve baselines of public health, environmental protection and adaptation to climate impacts, Lebanon’s private sector enterprises are cognizant of the responsibility of creating commercially viable, well-governed, transparent and affordable waste management solutions that maximize the conversion of wastes into profitable resources while serving environmental and social mandates.

## CHALLENGES

- Poor infrastructure, shortage of waste treatment facilities, including recycling plants, composting facilities and sanitary landfills, leading to improper practices such as open dumping or burning. This has severe environmental and health consequences. (See Figure 2)
- Corruption, lack of human resources and suitable facilities and inadequate technical skills are responsible for inefficient municipal solid waste management.<sup>4</sup>
- Lack of comprehensive waste sorting and segregation system
- Financial constraints and barriers to investment
- High prevalence of illegal dumping and uncontrolled burning of wastes which pollutes the environment and undermines formal waste management systems.

- The presence of informal waste sector, with scavengers collecting and sorting recyclable materials from waste, adds further complexity to waste management practices.

## OPPORTUNITIES

- Developing an urban infrastructure of waste collection services that integrates financial accountability for high levels of waste generation with solutions for waste disposal which encourage reduction and sorting at source
- Unbiased adoption of least-damaging waste treatment technologies in public-private partnerships in creation of industrial solid and liquid waste management facilities for sorting, composting, recycling, and further treatment
- Creation of secure facilities for treatment of hazardous wastes such as biological and chemical waste from production of pharmaceuticals
- Extraction of valuable metals and raw materials from high-tech waste
- Establishment of a central Waste-to-Energy facility with international partners
- Improving circular economy structures and incentivizing social enterprises that create and re-establish jobs<sup>5</sup> through efficient waste management practices and integration on municipal and provincial levels
- Provision of higher and technical education that matches growing demand for qualified labor such as machine operators, wastewater technicians, and safety experts<sup>6</sup>.
- Exploitation of waste as source of biomass, recycled materials, and energy.

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ronment and Waste Management 4(2): 053-063.

3 [UNDP and the EU Partner on Waste Management Support in Lebanon 2022 | United Nations Development Programme](#)

4 Abbas II, Chaaban JK, Al-Rabaa AR, Shaar AA (2017) Solid Waste Management in Lebanon: Challenges and Recommendations. *Journal of Environment and Waste Management* 4(2): 053-063.

5 ILO brief on roundtable with European Parliament, March 2018, [Circular economy a source of job creation and re-creation](#)

6 [ILO UNICEF Synthesis report 2022: Synthesis on the crisis impact on the Lebanese labour market and potential business, employment and training opportunities.](#)

### POLICY RECOMMENDATIONS

1. Create a comprehensive waste management strategy by developing realistic action plans, enforcing the implementation of different laws, decrees and decisions to sustainably manage solid wastes.
2. Simplify and streamline the regulatory and permitting processes related to waste management projects. Formalize businesses in the sector to allow for easier and wider access to market and promote Lebanon's nature-based products on the international scene.
3. Promote the development of waste-to-energy projects that convert waste into electricity or other forms of energy. This creates job opportunities in waste collection, sorting, and energy generation.
4. Invest in the development of recycling infrastructure, including material recovery facilities and sorting centers. Expand and modernize the systems for collecting and transporting solid waste.
5. Organizing public awareness programs, which could start from the schools, increasing efforts for recycling, resource recovery, strengthening capacity of municipalities and encouraging public private partnerships.<sup>1</sup>
6. Reemphasizing the role of municipalities to support (and benefit from) the private sector at the local level, by being in charge of collecting, transporting, treating, and finally disposing solid wastes.

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<sup>1</sup> Abbas II, Chaaban JK, Al-Rabaa AR, Shaar AA (2017) *Solid Waste Management in Lebanon: Challenges and Recommendations*. *Journal of Environment and Waste Management* 4(2): 053-063.

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