

the business year



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GUIDING HAND



Solid performance of Lebanese banks

➔ **MEASURED BY** the aggregated assets of banks operating in the country, banking sector activity grew by 13.5% to reach the equivalent of USD250 billion at end-2018. Confidence in the banking system and the sticky deposit base, coupled with banks' sound liquidity at hand, have allowed the sector to withstand difficult times and post a net growth in deposits, its traditional engine of growth. Customer deposits, accounting for 70% of total balance sheets, rose by a moderate 3.3% in 2018, the equivalent of USD5.6 billion. Total deposits, including customer deposits, financial sector deposits, and public-sector deposits, rose by USD6.8 billion in 2018, while Lebanese banks' foreign liquidity position relatively strengthened during the year. In particular, non-resident deposits grew by USD2.6 billion, against USD1.2 billion in the previous year. The growth in foreign currency deposits raised the dollarization ratio from 68.7% in December 2017 to 70.6 % at the end of 2018. Bank loans to the private sector stood at USD61.7 billion at end-2018, almost the same as in December 2017, with the loan dollarization ratio witnessing a slight decrease from the previous year.

Banque Du Liban, Lebanon's central bank, remains a calm steward for the economy in turbulent times. **Regional instability, including civil war in neighboring Syria, has isolated Lebanon, cutting off a key export artery.** The turmoil has also led to a sharp drop in tourist arrivals, with the country's refugee population, already hefty, swelling to 1.5 million and putting strain on public finances. Other factors behind the current economic slowdown include a high debt-to-GDP ratio, budget deficit, and historical trade deficit, as well as high interest rates on deposits. **But it is not all doom and gloom, with various factors supporting a somewhat rosier outlook.**



Growth in level of capitalization

➔ **IN TERMS OF** capitalization, banks in Lebanon reached a capital adequacy ratio of 16%, exceeding the requirements of Basel III and complying with International Financial Reporting Standards (IFRS9). The Lebanese banking sector's regulatory and supervisory frameworks are in line with international standards, thereby preserving its resilience and ability to withstand any contingencies.



Stimulating financial inclusiveness, employment, and SMEs

BANQUE DU LIBAN has maintained its position in stimulating the Lebanese economy by continuing to foster growth and employment while upholding its commitment to the banking sector and its soundness. The central bank has revitalized various economic sectors by means of subsidized credit, which has been sustained by a yearly renewal of its stimulus packages since 2013. Subsidized credit under these packages has so far amounted to more than USD7 billion.



Stimulating knowledge economy and start-ups through Circular 331

THE DEVELOPMENT OF the knowledge economy remains a priority for the central bank, which persists in encouraging the growth of the ecosystem as a whole and in steering private equity in that direction. According to the Global Entrepreneurship Monitor (GEM)'s Lebanon National Report 2018, Lebanon ranked fourth globally (among 49 world economies), and first within MENA, in terms of the level of total early-stage entrepreneurial activity. It also ranked 2nd globally for both new business ownership and established business ownership and fourth for innovation in entrepreneurship, based on the same report. Banque Du Liban strongly believes that the fourth industrial revolution rests on innovation and human capacity as fundamental elements to foster greater competitiveness. In the same context, an electronic trading platform is expected to start its oper-

ations within one year. This platform should provide the necessary equity and liquidity for SMEs and should facilitate the access of people from around the world to the Lebanese market, thus boosting investment in the local knowledge economy. It will be operated by a private company controlled by the Capital Markets Authority. Moreover, it is necessary for Banque Du Liban to remain electronically dynamic and abreast of the latest developments in this area in order to facilitate a smooth transition toward the inevitable widespread adoption of digital currencies. To this end, the Lebanese Parliament recently passed a law on electronic transactions and personal data (Law No.81/2018). This long-awaited law represents a great opportunity for the financial sector as it admits the use of electronic documents and signatures, an essential step forward in the digital era.



Forecast for 2019

MACRO FORECASTS FOR 2019 are based on a 2.5% real GDP growth forecast (with 6% nominal growth) on the assumption of successful cabinet formation, along with slow progress in CEDRE reforms and implementation. In parallel, money supply (M3) will grow by 4% on the back of an 8% growth in financial inflows that will generate an almost equilibrated balance of payments. It will generate, at the banking sector level, a USD7 billion growth in deposits, of which circa 30% would be in Lebanese pounds and the remaining in foreign currencies. There is no financial instability foreseen in 2019. This expectation comes on the back of strong monetary and financial buffers related to large hard currency (FX) reserves (standing at 80% of domestic currency money supply) and abundant bank liquidity (standing at 50% of FX deposits).



TRANSFORMING THE INSURANCE SECTOR **IN LEBANON
TO BECOME A NATURAL PLATFORM OF INSURANCE
SERVICES **FOR THE ENTIRE REGION.****



THE BUSINESS YEAR: LEBANON 2019

There is a common saying among Beirut's expat community that goes something along the lines of: "If you can understand Lebanon, you can understand the world." No country can boast the cultural diversity or match the historical complexities of Lebanon. Diversity permeates the political tissue of the country as well as its business environment, with members of varying cultures, creeds, and beliefs living together on a geography of just 10,500sqkm. Tradition and the status quo are often perceived as insurmountable barriers to progress, with the political and economic situation chained to a balance of power that, if altered, risks triggering the end of this delicate balance.

At the same time, the country's business community has shown consistent initiative and the capacity to adapt to circumstances that, in most cases, it has little influence over. Throughout our research, our interviewees invariably highlighted that Lebanon's biggest strength is its human talent, shaped by one of the best education systems in the region. Elsewhere, the Lebanese diaspora has spread to all corners of the world and is well known for its adaptability, flexibility, and entrepreneurship. In Beirut, there is very much a sense that, regardless of how challenging circumstances become, the Lebanese always prevail.

In this regard, 2019 represents a particularly interesting year for the country. After years of economic hardship and regional instability, the country's business elites are looking to 2019 as a year of change that has the potential to jump-

start a long-awaited economic recovery. Encouraged by the private sector, the public sector has begun to show, for the first time, a genuine willingness to innovate, reform, and digitalize. Lebanese entrepreneurs, however, remain cautiously optimistic about the opportunities on Lebanon's horizon. Many look forward to the enactment of two important reforms: the budget reform, aimed at curbing public debt, and electricity sector reform, which aims to provide a stable 24-hour electricity supply. Opportunities for economic growth include the transition to renewables, the digitalization of government functions, the development of the knowledge economy, the upcoming gas industry, and the bulk of infrastructure investments agreed during the CEDRE Conference in Paris, held in April 2018. Far from being abstract hopes, these sectors can all count on the concrete support of the finance sector, which has traditionally been the backbone of the Lebanese economy.

The Business Year has been particularly privileged to conduct its annual research in such a pivotal year for the Lebanese economy. Counting on the strong support of the American Lebanese Chamber of Commerce and RDCL World, our local team conducted over 100 interviews for this publication, highlighting economic trends and investment opportunities for the coming year. While covering a broad range of sectors, *The Business Year: Lebanon 2019* features a special focus on the finance sector, reflecting the important role played by local banks continue to play in financing and supporting the Lebanese economy. ✖

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Image: Diplomedia

EXECUTIVE SUMMARY

Following years of economic hardship and regional turmoil, 2019 is considered by many as a year of change for **Lebanon**. The government, formed in January 2019 and led by PM Saad Hariri, has shown strong willingness to welcome change and respond to public demands.

A STRONG BANKING SECTOR

The banking sector stands as the economy's most solid motor of growth. Despite adverse macroeconomic conditions, the sector has always maintained monetary and financial stability. Lebanon's central bank currently holds USD37.5 billion in foreign reserves and the banking sector as a whole boasts savings worth around USD180 billion, equal to 3.5 times the country's GDP.

HIGH INTEREST RATES

Local banks, which hold almost the entirety of the all-time high public debt (152% of the GDP), have been vocal about the need for the public sector to reduce the burden on their shoulders. Reflecting the rise in the budget deficit and the global increase in interest rates, interest rates on deposits have been on the rise since 2018, reaching

an unprecedented high of 10% on the dollar and 15% on the Lebanese pound. High interest rates, coupled with the underlying lack in business-enabling infrastructure, has severely impacted FDI and local investment. All eyes are now set on the government, which will be responsible for turning the situation around.

INVESTMENTS ON THE HORIZON

During the CEDRE Conference, held in Paris in April 2018, international investors pledged USD11 billion in loans and grants to Lebanon. This was deemed a necessary measure to avoid a failed state scenario, with detrimental consequences for the region and Europe, in light of the burden Lebanon has shouldered in terms of the Syrian refugee crisis. The promised cash will be invested over the coming years primarily in

infrastructure projects. Lebanon is also welcoming Chinese investments in the north, which is set to play a role in the Belt and Road Initiative. Given the current investment climate, there are high expectations in the air. However, CEDRE investments are conditional on the enactment of a series of reforms that aim to ensure responsible governance.

REFORMS

The first steps of the newly formed government were to cut the budget deficit from 11.5% of GDP in 2018 to 7.6% in 2019 and to reform the electricity sector, which accumulatively costs the government 40% of the public debt. These measures have been welcomed by the international community as a first step in the right direction, though they have been criticized domestically due to the increase in taxation and the severe cuts on public spending in education and other areas. Many believe Lebanon’s real issues can only be tackled once corruption and sectarianism are properly eliminated.

THE RIGHT INFRASTRUCTURE

Distrustful of the public sector, Lebanese entrepreneurs prefer relying on private initiative. There is general consensus among interviewees that, in

order to attract investments, Lebanon must boost its infrastructure. Throughout our field research, we identified several basic requests, principal among which were the provision of stable 24-hour electricity and the abolishment of privately generated energy, which is considerably more expensive. This goal includes the transition to cleaner sources of energy, such as natural gas and renewables. In this regard, the Ministry of Energy has set an ambitious 30% renewable target for 2030. Elsewhere, the establishment of an efficient road network that can accommodate the increase in vehicles in the country and respond to trade and industry needs is considered crucial, as is the establishment of fiber optic networks to provide rapid internet access nationwide, a necessary precondition to achieving digital transformation and nourishing a healthy tech and start-up scene.

OPPORTUNITIES FOR THE FUTURE

Once the infrastructure is set in place and the proper reforms are carried out, Lebanon will be able to take advantage of a number of opportunities. These include the establishment of a gas industry offshore, the digitization of the economy and governmental offices, the development of Lebanon as a regional hub for the reconstruction of Syria, and an increase in tourist arrivals. ✖

GDP PER CAPITA (2017)

SOURCE: WORLD BANK

USD8,523.75

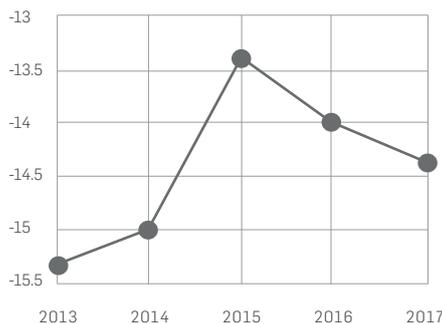
INFLATION (2018)

SOURCE: BLOMINVEST BANK

6.07%

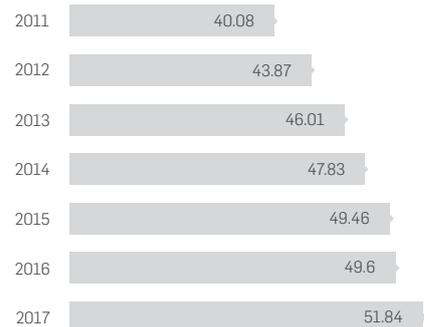
TRADE BALANCE (USD BLN)

SOURCE: FOCUS ECONOMICS



GDP (CURRENT PRICES, USD BLN)

SOURCE: WORLD BANK



SEPTEMBER 2018

Electricité du Liban (EDL), Lebanon's public-owned electricity utility, **launches the second phase of the Beirut River Solar Snake (BRSS) project**, a tender for a 7MW photovoltaic plant.



OCTOBER 10, 2018

With the enactment of Law No.81/2018 on e-transactions, e-signature, and data protection, **Lebanon embarks on a path toward digital transformation.**



FEBRUARY 2019

Saudi Arabia lifts the ban on its citizens traveling to Lebanon.

JANUARY 31, 2019

Lebanon announces the long-awaited formation of a new cabinet led by PM Hariri after nine months of political wrangling. **For the first time in Lebanon's history, four women hold a ministerial portfolio.**



APRIL 4, 2019

The Lebanese Petroleum Administration (LPA) **launches the 2nd bidding round for offshore gas exploration, opening Blocks 1, 2, 5, 8, and 10 to bidders.** This will complement activities in Blocks 4 and 9, already awarded to a consortium formed by Total, Eni, and Novatek.

APRIL 8, 2019

The Lebanese government approves a long-awaited plan to reform its electricity sector, which, according to Minister of Energy Nada Boustani, will finally enable Lebanon to attain reliable 24-hour electricity provision.



JUNE 2019

Lebanon welcomes rosy prospects for the best summer tourist season since 2010, with a predicted 50% growth in hotel occupancy rates compared to 2012.



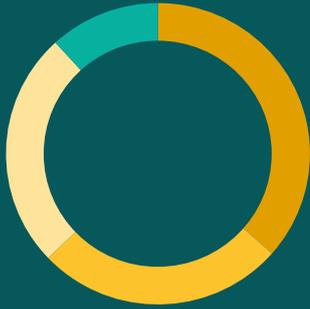
MAY 27, 2019

The government approves a budget plan for 2019. This includes deep spending cuts to narrow the projected deficit from 11.5% of GDP in 2018 to 7.6%.

President Michel Aoun at the presidential palace in Baabda, near Beirut. Aoun was elected in 2016.

SPREAD OF SYRIAN REFUGEES ACROSS LEBANON (MAY 2019)

SOURCE: UNHCR



- 341,475 Bekaa
- 246,501 North Lebanon
- 237,126 Beirut
- 110,352 South Lebanon

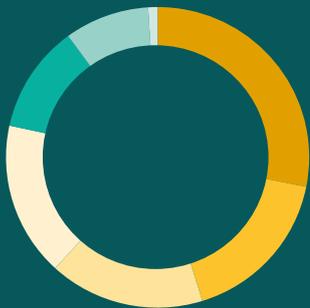
SYRIAN REFUGEES: ANNUAL VOLUNTARY RETURN TO SYRIA OR RESETTLEMENT IN A THIRD COUNTRY

SOURCE: UNHCR

2016	5,006
2017	11,853
2018	1,082

FOREIGN ASSISTANCE BY SECTOR/PURPOSE 2018 (USD MLN)

SOURCE: USAID



- 56 Humanitarian
- 34 Health and population
- 33 Economic growth
- 33 Education
- 23 Governance
- 18 Administrative costs
- 2 Other





Diplomacy

SHIFTING ALLIANCES

With the formation of the new Cabinet led by Prime Minister Saad Hariri at the beginning of 2019, Lebanon finally saw an end to months of political deadlock, which followed the May 2018 elections. The renewed political stability, coupled with an increasingly secure Syria, has increased expectations on the country's readiness to face its most pressing challenges, i.e. economic stagnation and the refugee crisis. The involvement of the international community will be vital to support Lebanon in both endeavors. However, Lebanon finds itself at the heart of a difficult region, with shifting alliances and uneven balances of power.

Lebanon has long been a contentious battleground for Saudi and Iranian interests. One of the most significant steps in 2019 was the normalization of relations with Saudi Arabia, after the controversial episode of Sunni PM Hariri's resignation in Riyadh in November 2017. After two years of difficult relations, in February 2019, KSA lifted the ban on Saudi tourists visiting Lebanon, thus reconfirming Lebanon as a preferred destination for Saudis and one of the main beneficiaries of Saudis' investments. The reaffirmation of Saudi's involvement in Lebanon—with USD1 billion committed during the CEDRE Conference in Paris—unsurprisingly coincided with the gradual strengthening of Iran's grip over the country. Iran openly supports and finances Hezbollah. During the 2018 general elections, Hezbollah secured the majority of the popular vote and registered a moderate increase in substantial electoral votes, while the Future Movement, led by Hariri, traditionally supported by Saudi Arabia, shrank by 40%. The strengthening of Hezbollah has also worried the UAE, one of Lebanon's main business partners. The Emirates have kept some distance from the Mediterranean country, abstaining from participating in the round of investments agreed during the CEDRE conference. Taking advantage of the

UAE's absence, in January 2019 Qatar stepped in, promising to buy 500 billion in Lebanese dollar-denominated bonds.

2019 will be a challenging year for relations with Israel and the US. The dispute over the Israeli-Lebanese marine border will threaten exploration activities in Block 9, endangering the future of Lebanon's gas industry. The situation further worsened in March 2019, when President Trump announced the decision to recognize the Golan Heights as part of Israel, which coincided with the visit of US Secretary of State Mike Pompeo to Beirut. A few days later, Lebanese President Michel Aoun was in Moscow, discussing new possibilities for Russian investments in Lebanon with President Putin. In June 2019, PM Hariri rejected the Middle East Peace Plan championed by Trump's senior advisor Jared Kushner, which envisaged USD50 billion in investments to Palestine and the Levant. Besides overlapping with existing plans from international investors, the deal was feared to be a ploy to get Lebanon to absorb more refugees and naturalize the existing Palestinian diaspora.

Leaving aside Lebanon's complicated relations with its neighbors, in an interview with *TBY*, Minister of Economy Mansour Bteish explained that the government's current priority is to strengthen productive synergies with countries that can jumpstart economic growth. Lebanon's top trading partner and investor is the EU and its member states, with France, Germany, and Italy playing the lion's role. This edition of *TBY* will feature an interview with Gretchen Biery, the Head of Lebanon for the European Bank for Development and Reconstruction (EBRD), and a speech from Giuseppe Conte, Prime Minister of Italy. Lebanon is also looking to strengthen relations with its second trade partner, China, by participating in China's Belt and Road Initiative. Investments from the Asian giant will target especially infrastructure in northern Lebanon and Tripoli. ✖

INTERVIEW



Saad Hariri
PRIME MINISTER OF LEBANON

A NEW *beginning*

Lebanon's key focus is on working to improve the country in order to offer better opportunities for all.

BIO

Saad Hariri, the second son of former Lebanese Prime Minister Rafic Hariri, has been the leader of the Future Movement party since 2005. He served as the Prime Minister of Lebanon from November 2009 to June 2011 and since December 2016 to the present. Prior to entering politics, Hariri was the chairman of the executive committee of Oger Telecom, chairman of Omnia Holdings, and a board member of Oger International Entreprise de Travaux Internationaux, Saudi Oger, Saudi Investment Bank, Saudi Research and Marketing Group, and Lebanese television channel Future TV.

How would you describe the commitment of the newly formed government to the country's development?

Lebanon managed to form its Cabinet nine months after elections; however, before that, we had to wait 10 years for those very elections to take place. Thus, forming the government was not an easy task. The most important thing is that we have set a clear roadmap with all the necessary reforms to attract more foreign investments into Lebanon. We struggled for a long time with corruption, waste, electricity shortages, and other issues such as outdated laws from the 50s or 60s. The focus of this government is to set the path to modernize the country and bring long-awaited development. The CEDRE conference, supported by players such as France, the IMF, and the World Bank, has played a pivotal role in establishing a roadmap for the top priorities to tackle. For example, one of the most pressing recommendations from the IMF was to lower our budget deficit, which is one of the first actions the government will undertake. We are working with the World Bank to pass new laws to enhance transparency and fight corruption. We have already passed some nine of the 15 laws recommended after CEDRE, while the remaining will be part of the cabinet statement. Political affiliations must be left aside to carry out the necessary reforms to save the economy. All parties agree on the importance of implementing the CEDRE reforms, and all the political parties are united in their will to fight corruption. We are excited to introduce and implement all the preconditions for a healthy investment climate. One thing is clear: investors want political stability. The unity of the political powers in this cabinet provides the required stability.

What is your stance on the inclusion of women in Lebanon's political and business landscapes?

Supporting women is not just a matter of human rights or humanitarian reasons. Women represent half of Lebanese society. Not including women in the workforce and politics is a huge loss for our GDP. For this reason, this cabinet has for the first time in Lebanon's history four women in leading ministerial positions. The choice of Interior Minis-

"All parties agree on the importance of implementing the CEDRE reforms, and all the political parties are united in their will to fight corruption."

ter Raya el Hassan was particularly crucial in the framework of the direction we want to give to this government. Raya is a reformist, and what we need most now is reforms. Lebanese people should get used to the idea that women can handle high positions in the government and even become prime minister, president, or the head of parliament.

Do you blame the refugee crisis for the economic and political situation in Lebanon?

Many Lebanese people might blame all the problems on migrants; however, they are lying to themselves. Before blaming others, we need to change our own system and laws that prevent us from doing trade or having the transparency that we need. The massive presence of migrants certainly constitutes a challenge. We are not in the position to solve situations of regional instability and war by ourselves; however, we can work on improving our country so we can offer better opportunities to everyone. With each challenge comes a wave of opportunities. In Lebanon during 1996 and 1997—a prosperous era in Lebanon's history—we had over 800,000 Syrians working in Lebanon on infrastructure projects. If our economy was to work smoothly now, we could absorb the foreign workforce in a similar way today. Therefore, the focus of this government is to reform the economy and develop infrastructure projects. This will be the key to solve all other problems, including the Syrian refugee crisis. In the end, migrants will return to their countries. We cannot just sit and wait and say we have 1.5 million migrants in Lebanon and thus cannot do anything. We should change ourselves. ✘

Sourced from a speech made during the World Government Summit in Dubai on February 10, 2019.

A NEW DAWN

A new cabinet is now set to bring debt under control, fix the electricity infrastructure, restore political stability, and much more.

AFTER A NATIONWIDE POLITICAL DRAMA that kept Lebanon in limbo for nine months following the general election in May, the new cabinet lineup became clear in January 2019. Now, the new cabinet, heralded by Saad Hariri, is expected to bring Lebanon back to normalcy, putting an end to the country's winter of discontent which was marked by protests against corruption and unemployment.

Some of the 30 newly appointed cabinet ministers have expressed their determination to initiate a series of—long overdue—political reforms, while Prime Minister Hariri has named the economy as the government's focus.

The new cabinet has a lot on its plate. Lebanon's mostly service-based economy has been suffering since the beginning of the Syrian civil war in 2011, with the annual GDP growth rate dropping from an enviable 8-10% between 2007 and 2010 to 0-2%.

With no government in charge, the economy declined further between May 2018 and January 2019, though the new cabinet's formation acted as a minor positive stimulant for the economy.

Every Lebanese ethno-religious group is represented in the new cabinet, though some believe that the rise of Hezbollah and its Christian allies is threatening the long-established balance. The new players' insistence on receiving the control of more ministries in Lebanon's pan-sectarian government was one cause behind the prolonged limbo, and some critics claim that the cabinet's lineup is not quite reflective of the nation's votes in the parliamentary elections of 2018, meaning that Hezbollah now has a bigger say in the way the country is run.

In any case, the cabinet has won a vote of confidence in the parliament. There have been some welcome changes in the cabinet's makeup, too: with four female ministers, this cabinet is less male-dominated than any government in the history of Lebanon. Raya Haffar Hassan from Future Movement was hailed as Lebanon's first-ever female Minister of Interior. This was a progressive appointment as no woman has ever held such a senior post in the Arab world thus far.

Whatever their political affiliation, ethno-religious loyalties, or gender, the new ministers seem to be more technocrats—in a positive sense of the word—than political figures, as most ministers

have some work experience or educational background in the area of their designated posts.

April 2018 saw an important international conference centering around the development of Lebanon, CEDRE. Hosted in Paris and attended by Emmanuel Macron along with representatives from the US, Saudi Arabia, and Russia, among others, the conference succeeded in securing approximately USD11 billion worth of international support for the Lebanese economy. Over USD10 billion of the aid will come in the form of loans and an additional USD860 million will be given to Lebanon as a grant. The country already counts on the aid to revive its ailing economy and improve its far-from-ideal credit rating. However, the donation will come with strings attached. The donors expect Lebanon to spend the aid on economic reforms. Saad Hariri has accepted the deal, promising to reduce the country's budget deficit by an agreed rate over the next five years.

The aid will also be used to rebuild the nation's infrastructure. Lebanon still bears the wounds of its civil war (1975-1990), while the country's problems are compounded by an even-more ruinous civil war in neighboring Syria, which has forced over a million refugees to cross the border.

For reasons beyond the scope of this article, Lebanon's electricity sector has remained underdeveloped after the war. The country's aging electricity infrastructure is inefficient, forcing the government to spend USD1-1.5 billion—and even USD2 billion if some estimates are to be believed—on fuel for power plants alone. Even this does not guarantee 24/7 reliable electricity, which harms tourism and industry.

Lebanon's excessive spending on electricity is, in part, responsible for the accumulation of debt, and a reform in the sector cannot be delayed any longer, according to the World Bank. The new cabinet has realized as much and wants to stabilize the country's budget deficit by prioritizing the renovation of the electricity infrastructure as well as other measures such as raising certain taxes and putting in place austerity measures.

In doing so, the cabinet will be motivated not only by an urge to prove itself but also by the fear of losing some of the promised aid if reforms fail to progress as planned. ✖



A FRIEND *indeed*

With Italian enterprises making large investments in a range of sectors in the economy, Lebanon and Italy are expected to continue pursuing mutually advantageous relations.

BIO

Giuseppe Conte is an Italian jurist and politician, serving as the 58th and current Prime Minister of Italy since June 1, 2018. He started his academic career as professor of private law during the 1990s. Conte is currently professor at the University of Florence and at LUISS of Rome. In 2018 Conte was selected as the head of a coalition government between the Five Star Movement and the League, also known as the Government of Change. Conte's government has professed a strong involvement in reforming the tax system, reducing corruption, and fighting illegal immigration. Conte holds a degree in law from the Sapienza University of Rome and carried out further postgraduate studies at Yale Law School and the International Culture Institute in Vienna.

Giuseppe Conte
PRIME MINISTER OF ITALY

How would you define the ties between Italy and Lebanon?

First, I would like to extend my warmest wishes to the recently formed Cabinet, which in many ways resembles Italy's own current governmental contract. Our two countries are linked by a profound and ancient friendship, based on mutual respect and a common Mediterranean identity. We both share a strong interest for peace and stability in the region. Italy stands side by side with the Lebanese population to offer its own contribution to the process of peace, dialogue, and social cohesion in the country. We are proud of the role played by Italian forces in the framework of UN-led missions, in particular of the UNFIL mission that Italy is directly coordinating. I have already had the chance to offer my gratitude to the efforts of the Italian contingent under the guide of General Del Colle. At the moment, Lebanon finds itself facing a set of important challenges. However, I have seen Prime Minister Saad Hariri determined to implement the economic and social reforms that the country needs to sustain its positive record of development and distance itself from regional instability.

Which are the main channels for bilateral cooperation between Italy and Lebanon?

During a meeting with Prime Minister Hariri in 2019, I had the chance to discuss a number of topics for bilateral cooperation in-depth. First, with regards to the Blue Line, we want to encourage all involved parties to engage in constructive dialogue, which we see as the only solution to solve international tensions. I confirm Italy's availability to act as a mediator. We have also examined opportunities for bilateral partnerships and trade. In recent years, Italian enterprises have made huge investments in a range of sectors in the Lebanese economy, including oil and gas, wastewater management and electricity. The Lebanese government has committed to fulfill demands by the international community so that the inflow of loans and grants agreed upon during the CEDRE conference can be facilitated. I warmly reiterate PM Hariri's invitation to welcome the

“I intend to reaffirm Italy’s commitment to support the Lebanese government through an approach that is strictly inclusive and never invasive, respecting the sovereignty and policy guidelines determined by the Lebanese government.”

participation of Italian companies and businesses in this investment plan and build partnerships with the Lebanese private sector. We are pleased to contribute to the growth of Lebanon's economy through the competences and technological capabilities of Italian businesses. We have established a series of plans and technical committees to assess the impact of Italian investments and evaluate the possibilities of involvement of Italian companies. We have also discussed the main regional crises and agreed on ways to promote mediation, always under guidance of the UN. It is crucial to proceed in a way that avoids exacerbating the weight of sanctions on the regions' economies. Finally, we discussed the impact of the presence of refugees on Lebanon's economy. Lebanon currently hosts the highest percentage of refugees in the world, equal to around 30% of its population. Italy has continually shown solidarity to Lebanon through a number of humanitarian initiatives and development projects. Once again, I intend to reaffirm Italy's commitment to support the Lebanese government through an approach that is strictly inclusive and never invasive, respecting the sovereignty and policy guidelines determined by the Lebanese government. ✖

Sourced from a speech made at a press conference in Beirut on February 7, 2019



A man waves the Lebanese flag during a demonstration in Beirut in November 2018

FOCUS

Toward a stable Levant

COME TOGETHER

The Levant is once more in the process of reinventing itself, with positive prospects emerging in Syria and Iraq.

A SERIES OF TRAGEDIES IN THE 20TH CENTURY, including the Lebanese civil war and numerous Arab-Israeli confrontations, stained the Levant's reputation as a historic mosaic of cultures conducive to trade. However, the worst came in 2011 with the outbreak of civil war in Syria, which would go on to burn centuries-old Levantine towns and villages to ashes, and lead to the rise of the so-called Islamic State in 2014-2015.

Today, the conflict's intensity has decreased from its bloodiest days, but the Levant, from the borderlands of Egypt to Iraq, is left in a state of uncertainty. The situation is far worse for Iraq and Syria, the scene of much conflict, though Lebanon and Jordan, among others, have not remained immune to the repercussions of war, while also hosting a sizeable population of refugees.

There is no denying that, to embark on reconstruction, both Iraq and Syria are in need of international aid and investment, but potential investors are still eyeing the region, as a whole, with some apprehension. This has a negative impact on the business ecosystems of countries such as Lebanon, which was not directly involved in the conflict, but feels its effects nonetheless.

Lebanon held general elections in 2018, and though the new government was not formed until January 2019, now that the new cabinet is up and running, it can use Lebanon's leverage in the region to create a better Levant. In particular, as the new cabinet is one of the most pluralistic in Lebanese history, it will be in a position to engage with various stakeholders in the region, including those forces that are closer to the West and those with ties to Iran, at least informally.

At the current critical juncture and despite the ebbing of conflict in Syria and Iraq, the threat of a backslide to tit-for-tat warfare is never completely out of the question. Such a threat could cancel out the little progress that has been made so far. No player in Lebanon or elsewhere in the Levant is now looking for a fight, but one has also to allow for the possibility of "black swans" and errors of judgment quickly escalating into fully fledged warfare. An unexpected breakout of hostilities between Hezbollah and Israel, for example, could set back Lebanon's development irreparably.

One should not despair, however, as there are positive prospects, too. Since the discovery of the Leviathan gas field in 2010, major international oil and gas companies such as Noble Energy and Total have been drawn to the region. Meanwhile, the Italian oil giant, Eni, struck gas off the coast of Egypt in 2015.

Though this may be a case of wishful thinking, some analysts believe that Israel's determination to discover and export hydrocarbons will force it to restructure its relationship with Egypt, Jordan, and Turkey—and even the Palestinian Authority—in order to achieve more stability in the region.

Since 2018, Lebanon, too, has been looking for potential oil and gas reserves with the help of a consortium comprising Total, Eni, and Russia's Novatek. The progress was somewhat slowed by Lebanon's political limbo, but it is expected to gather momentum now that a new Minister of Energy is in office.

In Syria, hostilities are fading, though Assad has managed to stay in power. Syria's exhausted economy will eventually return to the regional scene, but will quite probably remain subdued for years to come. At the same time, the world will remain wary of hostilities resurfacing in the country in some new form. At least, however, Islamic State and its reign of terror has met its end. By March 2019, the last remaining fighters faithful to the so-called caliphate were killed or captured. The extremist group that once controlled the cities of Mosul and Raqqa and threatened the entire region has now lost its last shreds of territory.

This is definitely an improvement for regional peace, but the ISIS ideology is an ongoing threat that regional leaders will need to continue taking seriously.

With ISIS out of the picture, Iraq too will have to begin rebuilding its economy. The process will undoubtedly be long given the presence of sectarianism and the influence of foreign powers in the country. However, the country's parliamentary and provincial elections in 2018 are good omens, provided that they are followed by economic reforms and anti-corruption measures to create a more stable Iraq and Levant. ✖



GROWTH IN SIGHT

As reform efforts ramp up, the country can rely on these stewards to keep the ship steady.

The nation's financial institutions are some of the most consistent and stable actors in a fast-moving and often unstable political and economic landscape. As a result, foreign donors and creditors, on whose contributions Lebanon's near future depends, have a special interest in the health of the nation's banks and regulators. The Business Year has compiled the thoughts of a number of the key players whose actions are especially important in 2019 as the nation makes a sincere attempt at reform.

Riad Salamé
GOVERNOR,
BANQUE DU LIBAN

Freddie Baz
VICE-CHAIRMAN OF
THE BOARD AND GROUP
STRATEGY DIRECTOR,
BANK AUDI

Joseph Torbey
PRESIDENT,
ASSOCIATION OF
BANKS IN LEBANON

Farid Chedid
CHAIRMAN & GROUP
CEO,
CHEDID CAPITAL

Gretchen M. Biery
HEAD OF LEBANON
OFFICE,
EUROPEAN BANK FOR
RECONSTRUCTION AND
DEVELOPMENT (EBRD)

Jamal Itani
MAYOR OF BEIRUT



Riad Salamé
GOVERNOR,
BANQUE DU LIBAN

THE LEBANESE CENTRAL BANK, like other central banks around the world, has a mandate to ensure stability. Based on this mandate, the central bank has worked, often by anticipation, to maintain a high level of reserves. That has proven to be the right approach because of Lebanon's political—and therefore economic and social—volatility. This is especially true with the Syrian war and its implications for Lebanon in terms of the high number of refugees, the economic slowdown, and the resulting difficulties in exporting and attracting consumers from the Gulf. Given this atmosphere, Banque Du Liban has continuously introduced tools to fulfill its objective. The central bank will shift to a conventional approach when it feels things are in order. That will be determined when it sees what happens with the budget deficit on the one side and with the implementation of CEDRE on the other, because if we want a productive economy, we need infrastructure. We cannot predict an outlook given the volatility of the region. However, Lebanon has shown resiliency because the country has lived through wars and internal security issues and has continued to perform despite all that. Any good news could trigger more growth in the country.



Freddie Baz
VICE-CHAIRMAN OF
THE BOARD AND GROUP
STRATEGY DIRECTOR,
BANK AUDI

BEYOND ITS SIZE, STRONG REGIONAL FOOT-PRINT, wide diversification, and universal banking offering, which positions the group at the forefront of Lebanese banking sector and among the top-20 Arab banking institutions, Bank Audi enjoys a number of additional visible competitive edges. The sustained growth and reinforcement of its financial flexibility over the past decades bears witness to a solid risk governance coupled with best corporate governance and compliance practices as well as an insightful management vision supported by a clear strategy. The bank also has implemented best practices in the realm of corporate social responsibility while having one of the best disclosure and transparency practices in the region. Bank Audi is a management-driven institution, which relies on a pool of qualified staff, 87% of whom are university graduates and whose main purpose is providing a dedicated service to all customers. Yet, what continuously differentiates Bank Audi is its willingness to always innovate and advance. The international community, in particular rating agencies, has acknowledged all these competitive advantages. The group's main purpose remains to achieve quality growth by efficiently meeting the needs of both businesses and individuals in the various countries in which we are present and ensuring long-term sustainable value to all stakeholders.



Joseph Torbey
PRESIDENT,
ASSOCIATION OF
BANKS IN LEBANON

THE FORMATION OF THE NEW GOVERNMENT CONSTITUTES an important milestone in the restoration of consumer and investor confidence in Lebanon and is vital for the country's decision-making processes, the proper functioning of its institutions, and the implementation of the necessary reform measures, paving the way for unlocking the pledged funds during the CEDRE conference. The effective execution of the pledged reforms, along with tangible progress in the oil and gas sector and the adoption of other initiatives to boost economic growth and mend the country's ailing public finances, will lead to an era of economic prosperity, which would include all sectors of the economy, including the banking sector. In fact, banks' operating environment would undoubtedly improve, with the pressure caused by heightened political and economic uncertainties gradually dissipating and lending opportunities blooming. Nonetheless, such a rosy canvas can only see the light if the government effectively honors its commitments to the pledged reforms, which could even prompt international rating agencies to reconsider their recent rating actions on Lebanon. Without these reforms, the risks and challenges that have been plaguing the Lebanese economy and its banking sector throughout the past year will most likely prevail.



Farid Chedid
CHAIRMAN & GROUP
CEO,
CHEDID CAPITAL

IN SEPTEMBER 2018, we celebrated 20 years for the first company in the group, Chedid Re. We started as a reinsurance broker and soon became a major player in the region. In the last few years, Chedid Re has become the largest reinsurance broker in MENA and one of the top 20 in the world. In June 2015, we were registered as a Lloyd's broker—an important accomplishment and a seal of approval to our longstanding collaboration with Lloyd's. Aside from the reinsurance business, in 2010 we launched our insurance business and insurance brokerage business, developing them along the regional footprint of Chedid Re. International diversification is key to success, as the best strategy for expansion comes from providing regional solutions to economies of scale. Our group today comprises 45 countries, from Pakistan to the UK, and employs over 500 people. We provide reinsurance solutions for all lines of business across the whole region, counting on a highly qualified team in all sectors, from legal to economists, engineers, or actuaries. The insurance brokerage side is focused on the Gulf, Levant region, Mauritius—a recently opened location from which we cover East Africa—as well as supporting our clients wherever they develop through our network and alliances.



Gretchen M. Biery
HEAD OF LEBANON
OFFICE,
EUROPEAN BANK FOR
RECONSTRUCTION AND
DEVELOPMENT (EBRD)

EBRD PROMOTES THE DEVELOPMENT OF the private sector and entrepreneurial initiative in 38 economies across three continents. EBRD investments are aimed at making economies in their respective regions competitive, inclusive, well governed, green, resilient, and integrated. In 2018, EBRD financed 395 projects worth a total of EUR9.5 billion. The bank is well on its way to meeting a target of 40% of its annual investments to the green economy by 2020, up from its present share of 36%. Lebanon is EBRD's newest country of operation. Interestingly, EBRD's arrival in Lebanon coincided with a rather critical timing, both politically and economically, as the country faces macro and fiscal challenges that necessitate reforms. This is an important period for the Lebanese people and Lebanon's economy. The country is facing macro and fiscal challenges that necessitate reforms. This would ultimately allow Lebanon's high-capacity private sector to grow and help the people of Lebanon who have been greatly impacted by a period of slow economic growth. We have come at the right time. We will focus on the private sector, but we see a useful role for our institution helping the government with core infrastructure to provide lasting benefits to the country.

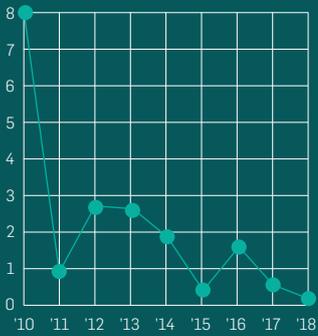


Jamal Itani
MAYOR OF BEIRUT

THE ECONOMY AND DEVELOPMENT OF the city are directly related to its infrastructure, which has been one of our major focuses, for example, separating the sewage and storm water systems, upgrading streets and walkways, and doing environmental projects to make Beirut greener and more sustainable. Our target is for Beirut to have a fully sustainable infrastructure that is all connected in four years' time. Two wastewater treatment plants are about to be constructed, which will help clean the waters of the Mediterranean. With respect to cars and traffic congestion, we are increasing public spaces and providing more off-street car parking, developing a plan with the World Bank to create a bus rapid transit (BRT) system by 2020, and provide better public transport as well as discourage people from driving. We are tendering for a bicycle lane around Beirut and will encourage people to use electric cars to protect the environment. In addition, Beirut requires 600-650MW of power, though we only receive 450MW. We have worked with an international consultant and came up with a solution to generate 150-200MW to overcome the deficit. This plan complements the Ministry of Power and Water's plan for a 24/7 power system.

ANNUAL GDP GROWTH (%)

SOURCE: WORLD BANK



PERSONAL REMITTANCES, RECEIVED (USD BLN)

SOURCE: WORLD BANK

2010

6.91

2011

6.88

2012

6.67

2013

7.57

2014

7.19

2015

7.48

2016

7.61

2017

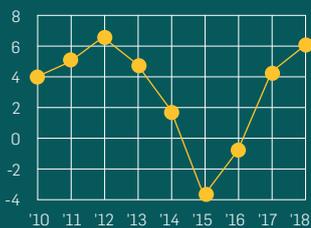
7.08

2018

7.2

ANNUAL INFLATION, CONSUMER PRICES (%)

SOURCE: WORLD BANK



Beirut City Hall was built in 1924 and is a landmark in the downtown area



Image: Pierpaolo Crivellaro



Economy

REFORM THE NEW NORM

2 019 is a pivotal year for Lebanon’s economy, which finds itself teetering between crash and recovery. Lebanon kicked off the year on a positive note—the formation of a cabinet led by Prime Minister Saad Hariri put an end to several months of political stasis. This has nurtured expectations that the government is finally in a position to tackle challenges in the economy, which has been somewhat neglected during years of political and regional instability.

Lebanon’s economy is affected by several issues, which include the third-highest public debt in the world (152% of GDP in 2018), low GDP growth (1% in 2018), and a historical twin deficit (i.e. the coupling of budget deficit and trade deficit). Although the country’s economy requires a complex and multifaceted solution, there is unanimous consensus that mismanagement in the public sector is the first issue to tackle. According to Dr. Fouad Zmokhol, President of RDCL World, “while the private has been forced to restructure and adapt to survive in the absence of an enabling environment, the public sector holds the key to turning the economic situation around and kicking off growth.” Thus, everybody’s eyes are now set on the government’s next move.

Summing up the results of our research, the government’s strategy for 2019 should include three main pillars: tackling the budget deficit, stimulating growth, and fighting corruption. In May 2019, the Minister of Finance finalized the highly demanded budget reform, which includes measures to reduce the fiscal deficit, from 11.47% in 2018 to 7.59% in 2019. While in the eyes of the international community the plan represents an important first step in the right direction, it has been subject to criticism domestically due to the strong focus on taxation and increasing tariffs rather than downsizing public administration.

In an interview with TBY, Nassib Ghobril, Head

of Economic Research and Analysis Department of Byblos Bank, explained that the government’s strategy risks penalizing the most resilient and profitable sectors of the economy and may ultimately hold back growth. Therefore, the second pillar of the government’s strategy should be stimulating growth. There are a number of exciting projects in the pipeline. The country is feverishly awaiting several infrastructure investments, some of which are a result of the CEDRE Conference, a large gathering of investors held in Paris in April 2018.

A central focus for the public is reform of the electricity sector, which currently makes up a significant portion of the budget deficit. There is also tangible excitement for upcoming projects in the renewable energy sector and PPP projects, which include an airport, a megadata center, and a hospital. The government has also commissioned a comprehensive report, titled “Lebanon’s Economic Vision,” by McKinsey to outline policy recommendations and economic strategies to boost productive sectors. Finally, as Nabil Itani, Chairman of IDAL, explained to TBY, the government should seek additional ways to attract FDI from the diaspora. While as high as 20% of GDP, the diaspora’s contribution has traditionally been limited to remittances and real estate investments.

The third pillar of the government’s strategy should be fighting corruption. According to Yasser Akkaoui, publisher of Executive Magazine, the preliminary condition to ensure the effectiveness of any economic vision must be the eradication of practices of corruption and patronage, which have chronically affected Lebanon’s economy. This has also been a central request by the international community, which has made investments and loans dependent on the government’s commitment to such reform. ✘

OPPORTUNITIES *abound*



The Minister of Economy and Trade strives to develop a socially inclusive, productive, competitive, and eco-friendly economy.

Mansour Bteish
MINISTER OF ECONOMY
AND TRADE

What should be the new cabinet's priority areas of reform?

After having recently adopted the electricity reform plan, our priority is to reduce the fiscal deficit to GDP from 11.47% in 2018 to below 7.59% in 2019. To do that, we have adopted measures to strengthen the fiscal framework and combat tax evasion; these measures are in fact part of an uninterrupted reform process that shall be reflected in the 2020 budget. Lebanon has a widening twin deficit, marked by a USD12.5-billion current account deficit that largely stems from a trade deficit of USD16 billion and a fiscal deficit that we have started to reduce. Besides having low exports of goods valued at less than USD4 billion, tourism has declined in recent years, which has also exacerbated our current account deficit and reduced net income from tourism. Yet, we are optimistic that the situation can be reversed, especially starting from 2H2019. Our present goal is to reduce the budget deficit from USD6.3 billion in 2018 to USD4.5 billion in 2019 and gradually shrink the trade deficit and increase net income from services in order to curb the current account deficit. It is imperative to adopt measures that will foster national production and exports, which requires bold decisions. We are currently working with an inter-ministerial committee toward that end, and a huge opportunity will be presented by PPPs, with at least three projects under consideration: an airport, a megadata center, and a hospital.

What is your position on the set of reforms demanded by the CEDRE conference?

The CEDRE reforms represent an absolute and voluntary commitment of the government toward reducing structural imbalances and creating sustainable growth. CEDRE is an important catalyzer of funds that will support the re-modernization of Lebanon's infrastructure. However, while we appreciate the support of the international community, it is important to note that the Syrian conflict significantly impacted our economic growth; between 2006 and 2010, Lebanon registered a cumulative positive balance of payments surplus of around USD20 billion. The massive influx of Syrian refugees aggravated the labor market conditions and

“The CEDRE reforms represent an absolute and voluntary commitment of the government toward reducing structural imbalances and creating sustainable growth.”

amplified the demand for the provision of public services, including health and education. Consequently, the quality of provided services has fallen, public finances have been weighed down, and, ultimately, the increase in the size of the public sector has generated a crowding out of private investments. While we have proven to be extremely open and welcoming toward Syrians, now that the country is transitioning to peace with around 90% of Syria safe, it is time to deploy repatriation efforts to secure the safe return of Syrians to their homeland in a humane and dignified manner. With all the required reconstruction, Syria will present plenty of opportunities in agriculture and infrastructure. Therefore, while the funds, concessional loans, and some grants extended by donors and the international community are welcomed, they should be integrated within the framework of a larger and crystal-clear plan to boost real economic growth, improve the quality of services, reduce the trade deficit, and create new value-added jobs in Lebanon.

Which are the most interesting trade partners and opportunities for Lebanon right now?

Today, Europe and China are the first and second major trade partners of Lebanon respectively, and we are working on other mutually beneficial trade agreements.

What is your outlook for 2019?

The first half of 2019 was relatively difficult. However, it paved the way for a serious beginning for reform that shall continue in the next couple of years. Therefore, the second half of 2019 will prove to be better than 2018. ✖

BIO

Mansour Bteish is the current Minister of Economy and Trade. He has a longstanding banking expertise spanning 45 years. Prior to his appointment as minister, he served as General Manager of Fransabank SAL. He has also assumed vital functions in economic bodies, such as the Association of Banks in Lebanon and the Economic and Social Council. He holds a master's degree in money and banking from Université Saint-Joseph in Beirut.

THRIVING city



Beirut Municipality has many plans in the works to improve the city's infrastructure and prepare it for the future.

Jamal Itani
MAYOR OF BEIRUT

What have been your major accomplishments thus far in reviving the city and improving livelihoods?

The economy and development of the city are directly related to its infrastructure, which has been one of our major focuses, for example, separating the sewage and storm water systems, upgrading streets and walkways, and doing environmental projects to make Beirut greener and more sustainable. We have contracted 15 projects in these areas, and our target is for Beirut to have a fully sustainable infrastructure that is all connected in four years' time. With respect to cars and traffic congestion, one of Beirut's major problems, we are doing three things. Firstly, we are increasing public spaces and providing more off-street car parking. Every day, some 500,000 cars come into the city, and we need to work on reducing this number as much as possible. We have developed a plan with the World Bank to create a bus rapid transit (BRT) system by 2020 to provide better public transport as well as discourage people from driving. We are tendering for a bicycle lane around Beirut and will encourage people to use electric cars to protect the environment. In addition, Beirut requires 600-650MW of power, though we only receive 450MW. We have worked with an international consultant and came up with a solution to generate 150-200MW to overcome the deficit. This plan complements the Ministry of Power and Water's plan for a 24/7 power system. The municipal solid waste issue is one of our main concerns, and we had to come up with a plan that is sustainable, environmentally sound, and financially feasible. The plan that we have approved will work on: reducing the amount of waste by introducing alternative products that can be used more often and recycled at the end of their lives; encouraging sorting from source, with

“If we have clean beaches, excellent infrastructure, a great airport, and a well-connected transportation system, tourism will grow.”

several initiatives being launched with universities, schools, and government offices to encourage, train, and sort material that can be recycled; and sending the remaining waste to a plant with a state-of-the-art sorting facility and convert the remainder into energy through a waste-to-energy facility. We have incorporated the EU experience with waste management into a tender and have qualified four consortia to build a plant based on a 25-year design, build, finance, operate, and transfer model (DBFOT).

Besides infrastructure, what are the city's priorities for 2019?

In 2020, we want to start turning Beirut into a smart city. We need to start by upgrading the municipality's own operations and processes, which are still based on paperwork. The population is not satisfied with our performance and transparency. The first step is to automate all our operations and office processes. We are also creating a city ID that residents can use to pay fines or fees without having to come into our offices. Our second step on the way to creating a smart city is to change all our streetlights to LED lighting with an IoT control system. That tender should be ready within 4Q2019.

What can the Municipal Council of Beirut do to boost the city's image and get more investors in?

The real estate business is a top priority for Beirut, and we are working with the Central Bank on it. Tourism is the second-biggest economy booster. If we have clean beaches, excellent infrastructure, a great airport, and a well-connected transportation system, tourism will grow. The airport and the infrastructure projects are in the pipeline. The municipality is organizing many events every season to encourage domestic and international tourism. We have held major events during Ramadan in addition to other summer events that have been extremely successful. More than 120,000 people attended the New Year mega parties downtown, and we had international television coverage from major stations. I am optimistic; in two or three years' time, I will be able to hand Beirut over to a new mayor in excellent condition. ✖

500,000 cars enter Beirut from the north every day

Beirut requires 600-650MW but gets only 450MW

BIO
Jamal Itani holds a BS degree in civil engineering from The George Washington University and a master's degree in transportation engineering from Pennsylvania State University. He started his career with an engineering consultant firm in Saudi Arabia and established multiple businesses in development and trade in Dubai. In 2001, late Prime Minister Rafik Hariri appointed him President of the Council for Development and Reconstruction of Lebanon. Between 2005 and 2009, as CEO of Abdali Company he initiated and led the development and management of Amman's new downtown, the Abdali Project. He then moved to Saudi Arabia to work with a leading Saudi construction company. In 2014, he returned to Lebanon and was appointed GM of Solidere. Itani was elected Mayor of Beirut in 2016 for a six-year term.

BETTING *on success*



EBRD is actively exploring possible investments in Lebanon to directly support local companies, energy projects, and key sovereign projects.

Gretchen Biery
HEAD OF LEBANON OFFICE,
EUROPEAN BANK FOR RECONSTRUCTION
AND DEVELOPMENT (EBRD)

SMEs account for

97%

of Lebanese
economy

Invested

EUR244

million in Lebanon
in 2018

BIO

Gretchen Biery has served as EBRD's Head of Lebanon since 2018. Prior to this, she held strategic and operational positions in the multilateral development banks and US Treasury Department. She worked for the World Bank in several countries helping governments improve their financial management and service delivery capacity. She was also a political risk consultant advising multinational companies on energy investments and started her career in the US Congress advising on policy issues such as banking and energy. Biery has a master's degree in international relations and economics from Johns Hopkins University SAIS and an undergraduate degree in international political science from the University of Louisville.

Can you give us an overview of the bank's presence globally and in Lebanon?

EBRD promotes the development of the private sector and entrepreneurial initiative in 38 economies across three continents. The bank is owned by 68 countries as well as the EU and the European Investment Bank (EIB). EBRD investments are aimed at making economies in their respective regions competitive, inclusive, well governed, green, resilient, and integrated. In 2018, EBRD financed 395 projects worth a total of EUR9.5 billion. The bank is well on its way to meeting a target of 40% of its annual investments to the green economy by 2020, up from its present share of 36%. Lebanon is EBRD's newest country of operation. Interestingly, EBRD's arrival in Lebanon coincided with a rather critical timing, both politically and economically, as the country faces macro and fiscal challenges that necessitate reforms. This is an important period for the Lebanese people and Lebanon's economy. The country is facing macro and fiscal challenges that necessitate reforms. This would ultimately allow Lebanon's high-capacity private sector to grow and help the people of Lebanon who have been greatly impacted by a period of slow economic growth. The EBRD's investments aim to help the Lebanese economy. We have come at the right time. We will focus on the private sector, but we see a useful role for our institution helping the government with core infrastructure to provide lasting benefits to the country.

What is your involvement on the front of the green economy and the energy sector?

Energy and the green economy are one of our main priorities in the country. In 2018, we closed our first corporate deal with a private electricity distribution services provider. In 2018, we invested in the first green bond in Lebanon with a partner bank and also introduced a program called the Green Economy Financing Facility with a USD100-million loan that provides financing through a local partner bank to invest in and incentivize the use of energy-efficient technologies

and renewable energies. Besides green financing, we are actively exploring key sovereign projects and PPPs, including for renewable energy as well as core infrastructure to improve the provision of electricity. We helped the government develop the first bankable PPA and will provide technical assistance to help develop the tenders for the upcoming solar plus storage tender for around 300MW. We also intend to assist the government with the tender for the second round of wind farms. Another interesting upcoming area of work will be a pre-feasibility study on the potential for a solar PV project in the Tufail region. Following previous work done by the American University of Beirut (AUB) that identified the potential for solar PV capacity in this region, EBRD decided to fund a study to assess the feasibility of such a project. We are still in the early stages, though we are hopeful of positive outcomes.

What is your commitment to support SMEs?

According to the World Bank, SMEs account for 97% of the Lebanese economy. Due to the high interest rates on deposits, SMEs all across the country experience difficulties in accessing financing, which in turn negatively impacts the economy. We have made SMEs one of our areas of focus through a multi-prong strategy. The first component is providing a SME credit line through local banks, which directly provides financing for local SMEs. The second component is an EU-funded advisory program called Advice for Small Business, whereby through a cost-sharing arrangement, we connect SMEs to local or international consultants to provide them advice on issues such as marketing strategies or accessing a foreign market. The cost-share model ensures a stronger commitment to the ultimate outcome on all sides. We can also directly finance larger SMEs. Finally, from a broader perspective, we will support SMEs by investing in the infrastructure, primarily in the transport and electricity sectors, which represent important preconditions to a healthy business environment. ✖

by the BOOK

One of the biggest law firms in Lebanon, Eptalex-Aziz Torbey Law Firm assists local and international clients in dealing with all aspects of business law.

Ramy Torbey
MANAGING PARTNER,
EPTALEX-AZIZ TORBEY LAW FIRM



How will the political situation impact the economy and business?

The formation of a new government, combined with other factors such as oil exploration and the removal of Saudi's embargo on Lebanon, boosts investor confidence. PPP Law No. 48 was enacted in 2017 and will act as a vehicle for carrying out infrastructure projects. This will instill confidence in the sector and market, provide more transparency, and reduce the level of corruption. Moreover, as Syria is transitioning to peace, there is a giant opportunity for Lebanon to play a role as the hub for reconstruction. We are getting numerous inquiries from clients about the market, tenders, and possibilities. One sector in Lebanon that could greatly benefit from PPPs is electricity, which has attracted widespread attention as one of the main points to tackle within the framework of reforms demanded during the CEDRE conference. The electricity sector was officially privatized 15 years ago. There were some decrees that were supposed to be enacted by the government to supervise the transition to privatization, but that were never started due to a number of political issues. This time, there is optimism regarding long-awaited changes to the sector.

What are the strengths of your firm?

We are a business law firm dealing with all aspects of business law. Outside of Lebanon, we have offices in Milan, Dubai, and Abu Dhabi. The rationale for the opening of our offices followed an organic pattern, reflecting current partnerships and clients. We count on partnerships with big firms, and our clientele mostly comprises foreign individuals and companies. We have several French, Italian, and Russian clients, as well as Algerians, Saudi Arabians, and Emiratis. A number of international law firms rely on our services to cover Lebanon and the region. We are able to close the cultural gap that may exist between these firms' clients and their regional counterparties, delivering the highest qual-

ity of service that they are used to, combined with local expertise and qualification. We always stay on the edge of innovation, coming up with new structures that can be interesting for the clients in terms of governance, taxation, and possibilities to grow locally and globally. We are also a paperless law firm and have put in place the technology to deliver fast and efficient legal services. One of our strengths is legal technology. We work with banks and financial institutions to provide services related to online payments, electronic payment gateways, credit card companies, and so on. We also deal with technical due diligence during takeovers and mergers. We have worked with several online platforms in terms of drafting all the documentation, from user agreements to public-private policies and putting the legal background in place.

How will Circular 331 impact the economy?

Circular 331 was an interesting initiative launched by the Central Bank to support start-ups and boost the knowledge economy. At first, it had an impact on the economy as it allowed banks to start considering investing with start-ups. Unfortunately, the conditions on the entrepreneurs did not allow it to strive and have a better impact on the future. It expected a number of guarantees that were not always available for small entrepreneurs. Thus, at the moment it is not as efficient as it could be.

Is there a piece of legislation that can benefit the business scene in Lebanon?

There are a few laws that are under debate at the moment in Parliament. One of the last laws that will change the situation on ground is the Commercial Code, which has not been changed for 80 years. Another step forward is the bankruptcy law. Previously, bankruptcy was more of a penalty that was imposed instead of the Chapter 11 model that allows the company to survive and pay its creditors. The law will also have a big impact on companies' governance in Lebanon. ✖

Offices in Beirut, Milan, Dubai, and Abu Dhabi

BIO

Ramy Torbey is the Chairman & Co-founder of Eptalex and the Managing Partner of the Eptalex Beirut office, Aziz Torbey Law Firm. He is an expert in corporate law, M&A, project finance, and international taxation law, advising financial institutions, holding companies, and international and local businesses across various sectors and industries. He recently co-founded the Lebanese Association of PPP to support and promote the efforts of the Lebanese authorities for the reconstruction of infrastructures in Lebanon through PPP models.

LEGAL COMMUNIQUÉ

New Lebanese code of commerce

Eptalex - Aziz Torbey Law Firm outlines the main changes to the code of commerce in Lebanon, which seeks to encourage a more conducive business environment.

A CLEARER WAY FORWARD

ON MARCH 8, parliament amended the longstanding Lebanese Code of Commerce (CC) of 1942. This amendment was considered a step forward to enhance foreign investments and transparency and build a conducive business environment in the country.

First and foremost, the criteria to form a limited liability company (SARL) has long been based on decree N. 35/ 1967, which required a minimum of three shareholders. In reality, however, many companies abided by this regulation by giving one main shareholder the largest share while allocating only one share to the two other shareholders. The latter is one of the many lacunas the new CC tackles by offering the possibility of establishing a SARL with only one shareholder.

As for joint stock companies (SAL), the law introduced flexible changes. The old CC mandated that half of the members of the board of directors (BOD) must be Lebanese nationals; the new CC reduces this requirement to one-third. The CEO can now be a foreigner and does not need a work permit. Second, the updated CC has developed and facilitated the work within and outside companies. Aside from introducing digital correspondence to the general assemblies and BOD meetings, the amended law promotes FDI by endorsing shareholders' use of electronic means to perform many offi-

cial procedures and formalities. Accordingly, two years following the entry into force of the new code, an online mechanism determined by the Minister of Justice will be created for the sole purpose of monitoring and simplifying a company's online registration process at the Commercial Register.

Additionally, over the past few years, every company was entitled to obtain clearance from the National Social Security Fund (NNSF) valid for a year in order to register anything at the Commercial Register. Following the new CC, members of the BOD are exempted from this procedure. On another note, any notary public in Lebanon can now notarize the company's regulation, not just the one located at the same area as the company's head office. Thirdly, in terms of transparency and responsibility, one stride forward is adding new members, or "independent administrators," to the BOD that are not shareholders. Their role is crucial in terms of contributing experience and know-how to the benefit of the company. Moreover, the 2019 Code has set a clear separation between the usufruct rights and the bare ownership of one share in a company. This amendment's main purpose is to clarify the different rights and obligations falling upon each right holder and set explicit limits between each other and between them and the company.

Furthermore, on the basis of separation

of power, there is a clear differentiation between the positions of a chairman and a general manager; the latter is entitled to report to the chairman because he represents the interest of shareholders. In addition, while the liability of the sole shareholder is only limited to the company's capital, Article 167 increased the circle of people held responsible in the event of bankruptcy to include: the BoD, the chairman, and all other people involved in the management of the company, such as its auditors. Keeping in mind the auditors' capacity, especially in terms of transparency and fighting corporate corruption, the 2019 CC has amplified their liability by holding them accountable until proven otherwise. Nevertheless, it has given companies the choice on whether or not to appoint complementary auditors.

The fresh CC has opened many doors and perspectives for businesses in Lebanon, especially by addressing subjects such as M&As. The law defined significantly both mergers and acquisitions and their respective terms and implications toward the company, its partners, debtors, and creditors.

All in all, this reform is much needed for the advancement of the country as a whole. It has filled gaps wherever ambiguity and confusion dominated and established a better structure starting from the formation of an entity to running its daily business. ✖

working toward CHANGE



K Concept is convinced Lebanon will naturally become attractive to investors once it tackles corruption and seriously commits to global principles and standards.

Yasser Akkaoui
CHAIRMAN & GENERAL MANAGER,
K CONCEPT HOLDING

What is the vision behind Capital Concept?

Capital Concept is a corporate governance and ESG advisory firm; we advise our clients on complying with ESG principles and standards that uphold best-in-class business environmental, social, and governance practices. We have advised the biggest corporations in Lebanon and the region on how to comply with these practices. Our shareholder rights are proprietary methodologies developed with UN Lebanon, IFC, and EBRD. While they are anchored in UN Business and Human Rights Guiding Principles, they are also aligned with investor expectations. In 2014, we also launched a not-for-profit initiative, the governance and integrity rating (GIR), whereby we do research on corporate practices and open-source investigation of banks, collecting all publicly available information. Based on our findings, we rate them and advocate for change, holding corporates responsible for their behavior. To preserve our full independence, we do not give awards or glorify anyone. This triggers a positive inflection point in corporate practices. Among the 1,486 companies that we rated in 2015 and 2017, the ones that achieved excellent ratings sought to retain or improve their ratings while those with low ratings worked hard to improve them. We also have a whistleblowing mechanism; if any stakeholder feels their rights are being infringed, we investigate the violation and expose bad practices.

How would you summarize your findings?

The banking industry and finance sector are the quickest to adapt and adhere to best practices. All companies that do not belong in highly regulated spaces still drag behind, while banking and financial institutions generally work hard to demonstrate their commitment to the best environmental, social, and governance practices. These financial companies demonstrated a more resilient risk posture in the last 20 years and a stronger ability to absorb shocks. These companies were also able to grow in value faster than companies that are not ESG compliant. Our research exposed higher levels of volatility, turn-

overs, bankruptcy rates, and insolvency within companies that are not compliant. Thus, given the public administration reforms on the horizon, the banking sector can stand out as an example of transparency and efficiency for our policymakers, and it has been so at least for the last 30 years. Lebanon has to start with serious soul searching to understand that the cost of corruption is much bigger than that of virtuous practices, and that adherence to transparency brings undeniable benefits. The process of dismantling a system that is corrupt at the core will take a long time, though now is the moment to start.

What are your thoughts on McKinsey's Lebanon Economic Vision report?

The problem with the McKinsey report is that it was published at a time when people were expecting something totally different, i.e. an economic plan to save Lebanon with precise recommendations and a vision of the type of economy to adopt. Instead, the report serves as an analysis of the productive sectors in Lebanon. Moreover, the report did not take into account basic principles such as food sufficiency or energy independence, which are strategic for any nation but were left out in Lebanon's case. The report also ignores essential parts of the social contract behind state and citizens, such as poverty, education, gender equality, and so on. The government's priority is to fight corruption; unless we seriously tackle the problem of corruption, I do not see any chance of saving this country. The government should seriously demonstrate its ability to at least make sure judicial oversight is independent. If we can tackle corruption and seriously commit to these principles and standards, Lebanon will become attractive to investors. If we can commit to best-in-class practices and send the right signals to the international community, then we do not need the USD11-billion CEDRE loans and grants, as Lebanon has the potential attract so much more than this. I am pleased the international community is willing to lend us USD11 billion; however, I would rather be attractive to investors than lenders. ✖

Rates

1,486

companies for
governance and
integrity

BIO

Through Capital Concept, Yasser Akkaoui launched the Shareholder Rights initiative on environment, social, and governance (ESG) initiative in collaboration with UN Lebanon, IFC, and EBRD. He is a member of the OECD's Taskforce of MENA Stock Exchanges for Corporate Governance and the Chair of the Lebanon committee of Human Rights Watch. Akkaoui is a founding member of the Lebanese Center for Policy Studies and a business ethics instructor at the American University of Beirut.

FOCUS

Lebanon's economic vision

I HAVE A PLAN

The release of an economic vision for Lebanon in 2018 shed light on the failings of the present economy, though the report itself has been criticized as well.

IN 2018, THE MINISTRY OF ECONOMY unveiled an economic vision plan on its website. Developed by the New York-based McKinsey & Company at the cost of USD1.3 million, the report sets out to provide a diagnostic account of Lebanon's economy and its shortcomings, while offering a prescription that includes 160 recommendations to set things right.

The project was commissioned by the government to the American firm in 2017, so that the authorities could capitalize on the plan in the then-forthcoming CEDRE conference in Paris to attract international aid. Some have lashed out at the government for not having an economic roadmap of its own in the first place. Critics of the plan have also mocked the massive document for its over-reliance on visuals and graphs and its generous use of clichéd business buzzwords, with some calling the commissioning of the plan a classic case of throwing good money after bad.

In all fairness, being jargon filled is not enough grounds to discard the plan, though roadmaps, economic visions, and policy documents more often than not get thrown to the side anyway.

THE USUAL SUSPECTS

The report blames the absence of a robust wealth generation mechanism for the troubles of the country's economy and goes on to explain how the vicious cycle caused by this problem leads to the formation of a "highly volatile" economy. The list of the usual suspects also includes poor infrastructure and corruption, which discourage potential investors.

The country's volatile economy, according to the McKinsey report, is fairly unhealthy based on the cash injected to the economy by international donors and Lebanese living abroad. This cash flow often ends up in unproductive and unsustainable enterprises rather than kick-starting the local industry and service sectors and enabling them to stand on their own feet. In particular, over 65% of the country's budget is spent on the salaries of an unnecessarily large government.

The report maintains that while this dysfunctional arrangement has been the status quo in the country's economy for four decades, the situation has deteriorated since 2011, to the extent that productive sectors currently account for only 16% of GDP.

AN OVERSEEING UNIT TO THE RESCUE

The economic vision developed by McKinsey may agree that the government is already oversized, but it also maintains that the present chaos is, in part, due to the absence of a crucial entity in the government: a planning unit.

Truth be told, Lebanon did have such a government body—the Planning Ministry—but it was deemed unnecessary and closed down some 47 years ago. To right that wrong, the report proposes the formation of a Performance Management and Delivery Unit (PMDU) which will work under the Council of Ministers to oversee Lebanon's economic reformation and orchestrate the actions of other government bodies.

HOW WILL IT ALL WORK?

Once Lebanon has launched the PMDU, the unit can work on two national vision plans for 2025 and 2035, says the McKinsey document. The economic overhaul will be carried out over these vision plans, while PMDU will keep its focus on five areas in particular: tourism, financial services, knowledge economy, industry, and agriculture. A restructuring of these five key areas is expected to not only create jobs but also give Lebanon the incremental wealth generation engine it requires.

Opponents, however, have pointed out the generality of this game plan; with the exception of tourism, the plan's recommendations are extremely abstract and without much consideration for Lebanon's specific setting. Even in tourism, the McKinsey document pictures Lebanon as a kind of medicinal cannabis hub, which has raised angry voices already.

The report elsewhere predicts that Lebanon can count on its knowledge economy—as one of the aforesaid key sectors—to add USD2.2 billion to its GDP by 2025, though the steps the country needs to take remain largely unspecified, or at best are limited to general explanations laden with business catchphrases.

As of 2019, the government is behind schedule. Regardless of the McKinsey document's merits or lack thereof, the country's decision-makers should first decide if they want to engage in top-down government overhauls, particularly as strategic plans developed at the top level have a poor track record in this part of the world. ✘



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