

SUMMARY OF **LEBANON ECONOMIC VISION**

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Introduction

On October 20, 2017, the Council of Ministers approved the launching of a study aimed at setting a National Economic Plan (NEP) (Decree 2017/13669). On January 20, 2018, the cabinet tasked global consulting firm McKinsey & Company with the NEP. Five months later on July 4, 2018, McKinsey & Company presented Lebanon with a report on the ideal economic model it should follow, entitled “Lebanon Economic Vision, and ways to achieve it”. The Vision is pending ratification by the new cabinet.

The vision rests on a series of approximately 185 semi-structured interviews with Ministers, Director Generals, Members of the Parliament (MP), NGOs, and representatives of the private sectors. Following the data collection, the study team embarked onto the analysis of macro-economic challenges and opportunities, selected five high-potential productive sectors, and identified four enabler requirements and three flagship initiatives.

The Vision comprises six sections :

- I. Context and Diagnostic
- II. The Vision: Lebanon’s Economic Aspirations
- III. Sectoral Engines for Lebanon’s Economic Growth
- IV. Required Enablers to Support the Aspirations
- V. Institutionalization Mechanisms
- VI. Flagship Projects

I. Context and Diagnostic

Vicious Economic Cycle

Lebanon witnessed a period of high economic growth between 2006 and 2010 (9.2% GDP growth) that turned into stagnation between 2010-2017 with an average GDP growth of 1.3%. This situation was coupled with a growing public debt that increased from 137% of GDP in 2006-2010 to 149% of GDP in 2010-2017. This period was also marred by a worsening business environment, whereby Foreign Direct Investments (FDI) dropped from USD 3.9 bn in 2006-2010 to USD 2.8 bn in 2010-2017. In the past 40 years, Lebanon’s GDP per capita registered a growth of 30%, compared to 120% world average growth.

The country is characterized with volatile growth based on diaspora inflows and intermittent funds from donors. Inflows tend to be funneled into less productive sectors such as consumption, real estate, and banking as well as into financing the growing public debt. For instance, between 2005 and 2015, more than 70% of remittances went into consumption and real estate. Also, 25% of total banking deposits or USD 22 bn have come from the diaspora. Volatility is exacerbated by the concentration of inflows in the GCC: UAE, Qatar, and Saudi Arabia rank first in terms of remittances inflows. KSA, UAE and Kuwait capture the majority of total tourism spending in Lebanon with respective shares of 13%, 15%, and 14%.

In the past decade, only 4% of the budget was allocated to capital expenditure. Government revenues tend to be constrained by low tax collection: Government revenues make up 20% of GDP as opposed to 33% in Switzerland and 43% in Iceland. Moreover, 71% of government revenues consist of tax revenues, while the rest relates to non-tax revenue and treasury receipts. On the expenditure front, interest payments accounted for 32% of expenditures in 2016, while wages made up 33% of total expenditures. Indeed, wages and salaries captured on average 46% of annual government revenues between 2012 and 2017.

Limited capital expenditure resulted in sub-par infrastructure and an uncondusive business environment. According to the World Economic Forum, in 2018 Lebanon ranked low in terms of quality of electricity (134 out of 137 countries), roads (121), air transport (100) and ports (91). According to the World Bank Ease of Doing Business, the overall business environment in Lebanon has deteriorated and the country lost 46 ranks in a decade (down from rank 87 in 2007 to 133 in 2017). As a result, foreign and domestic investments dropped with FDI decreasing by around 30% and gross capital formation by 6% between 2010 and 2017. This uncondusive business environment implied an underdeveloped productive sector: It is estimated that productive sectors contributed 16% of GDP in 2016 compared to 20% in Jordan and 32% in Morocco. More precisely, manufacturing's contribution to the GDP was 10%, while agriculture, and hotels and restaurants contributed around 3% each, knowing that these sectors employ around 26% of the labour force (or a total of 496,000 jobs in both the formal and informal sectors).

Sector Diagnostics

Oil and Gas

Due to delays, Lebanon has not yet tapped into its possibly significant oil and gas resources. It is estimated that 1.7 billion barrels of recoverable oil and 122 trillion cubic feet of recoverable natural gas may be found in the Levant Basin Province. The recent achievements on that level include the award of exploration and production licenses for 2 out of 9 blocks to the Total-Eni-Novatek consortium in December 2017, as well as the drafting of the regulatory and governance framework along with the passage of several related laws.

The value of Lebanon's resources depends on several factors including the volume of resources, oil prices and their volatility, advances in gas extraction technology and their impact on extraction cost, and finally the impact of geopolitical changes and the development of new pipelines on export market options.

Exploration is expected to begin in 2019, followed by the first round of development between 2025 and 2029, and finally trailed by the onset of oil extraction in 2029. The development phase is expected to be capital-intensive as it involves construction of off-shore platforms. This phase is expected to spike job creation by approximately 10,000 jobs.

The role of oil and gas in Lebanon remain unclear. Three different scenarios are expected: 1) oil plays a negligible role in the economy due to its limited volume or high costs of extraction; 2) oil is used as input in the power sector with limited financial gain; or 3) oil generates significant financial resources leading to fiscal stabilization.

Agriculture

Agriculture accounts for a trivial share of GDP which amounted to 3% in 2016. This sector is characterized by informality. Out of the 212,000 jobs in agriculture in 2016, 92% are informal, excluding seasonal workers. Agricultural exports include apples, bananas, citrus, and grapes, raw tobacco, spices and live sheep, and amounted to USD 180 million in 2017.

The agriculture sector in Lebanon faces structural constraints including small average holding sizes (1.4 ha), an ineffective cooperative system (around 1200 cooperatives, 2/3 of which are inactive), and the hegemony of wholesale markets and distributors. Agriculture in Lebanon also suffers from limited modernization (technology adoption lacks in the harvest and post-harvest phases) and the overuse of fertilizers and pesticides (452 kg/hectare as opposed to 131 kg/hectare in OECD countries). In this context, the support of the government is portrayed as insufficient and poorly targeted, whereby research services are scant, controls on food safety and quality are poor and access to financing is limited.

Industry

The value of the industrial sector's GDP remains small (USD 2.79 bn). Industrial exports, which include processed food, scrap and basic metals, machinery, generators and printed material, decreased by 20% between 2012 and 2017. The sector accounted for 194,000 jobs in 2016, 39% of which were in the informal sector.

Industry is marred by low competitiveness coupled with external market shocks. The high cost of factors of production such as private electricity generation, rising land and labor costs, and the ineffective transportation network are the top challenges of this sector. These conditions are aggravated by the recent constraints on land transportation since the onset of the Syrian crisis in 2011.

Tourism

The tourism sector attracted 1.9 million tourists (mainly from Iraq, France, USA and Canada) in 2017 compared to 1.3 million in 2013 and 2.2 million in 2010. The sector accounted for 3% of GDP in 2016 compared to 2.4% in 2005.

There is a shortage of data on tourism which hinders informed decision making. Other challenges to the sector include the absence of a brand image of Lebanon, limited flight connectivity and high airfare prices, a highly fragmented eco-system lacking collaboration between key stakeholders, and low occupancy rates in hotels.

Knowledge Economy

Business services and ICT contributed around 10% of the country's GDP while employing around 4% of the total employed population. In the context of Lebanon, the knowledge economy is defined by four sub-sectors: Digital and technology, business services and outsourcing, creative industries, and education.

Technology software and services is an emerging and highly diversified market segment in Lebanon with a significant export potential. Several companies have established themselves as leading developers with global reach. Moreover, Lebanon's start up ecosystem has been quickly growing in the last few years with a significant number of deals and investors.

In terms of starting a business, Lebanon ranks last on starting a business compared to regional peers and 143th worldwide. In respect to access to financing, the support from the central bank has allowed the sector to thrive. However, despite recent efforts, access to funding remains challenging at the seed stages: Venture capital funding standing at 0.12% of GDP is in line with the benchmark average of 0.15%. However, 68% of tech start-ups rely on personal savings to finance their projects.

Other challenges include the limited access to talent which hinders the development of the sector. The skills mismatch exists mainly due to a lack of coordination between government, universities, and companies.

The technology sector lacks key regulatory requirements and suffers from a sub-par judicial system. Most startups face issues with business registration process. Shareholder-related laws are either missing or sub-par. The judicial system lacks training and awareness and judiciary processes are lengthy.

Finally, although the sector typically suffers from poor infrastructure, newly formed "districts" and telecom projects should address this gap. Several initiatives such as the Beirut Digital District, were recently launched, but Lebanon still need additional clusters around anchor institutions.

Outsourcing covers four sectors: customer relationship management (CRM) is the contracting of voice processes such as call centers; Business Process Outsourcing (BPO) such as accounting and HR, Knowledge Process Outsourcing (KPO) such as research and analytics, and IT outsourcing (ITO).

The outsourcing sector is not well established as it offers a restricted number of jobs (around 5000 jobs in 2017) mainly in BPO and ITO. For comparison, the total number of jobs in outsourcing stands at 212,000 in Poland, 100,000 jobs in Morocco, and 90,000 jobs in Egypt.

The outsourcing sector is affected by sub-par infrastructure and business environment as reflected by location readiness indices. More precisely, physical and virtual infrastructure is characterized with low broadband speeds and high mobile connectivity costs. Similar to other sectors, outsourcing is affected by the low ease of doing business environment, the lack of required laws such as bankruptcy law, competition law, and IP protection law, absence of zones offering tax-incentives and lower infrastructure costs such as telecom and rental costs. Overall, Lebanon has a high-country risk profile due to its low macro-economic and political stability which is a key input to outsourcing location criteria.

Financial Services

Lebanon's financial services sector contributed to around 9% of GDP and employs around 3% of total labour force. The sector also contributes to 30% of the government's income tax. The sector has demonstrated continuous growth at 10% between 2005 and 2010, higher than overall economic growth, and 6% between 2011 and 2017.

The banking sector is endowed of a large number of banks (50 commercial banks and 16 investment banks) and total banking assets of around USD 220 billion in 2017. This sector has managed to develop a regional and global footprint with around 360 banking units in foreign countries.

Lebanese banks achieved an average return on equity of around 12% with some banks reaching levels higher than 15%. Return on equity has however been declining. On another level, indicators show that the Lebanese market is overbanked: 32 branches for 100,000 adults versus 21 globally or 81,000 people per bank versus 720,000 regionally.

Currently, non-banking financial services are scant: out of total financial sector assets, 95% are banking assets with 5% contribute by non-banking services: The insurance sector, private equity, and venture capital, and capital markets. Capital markets are underdeveloped and characterized with lack of incentives and scant foreign investments. Market capitalization stood at USD 12 billion and make up 24% of GDP versus 60% regional benchmarks. Lebanon has only 10 listed companies versus 227 in Switzerland.

Enablers of this sector include the need for:

- Dynamic and commercialized credit bureau as well as a collateral registry
- Continuous modernization and digitization of underlying payments infrastructure
- Modernization of legal framework (lack of e-signature law)
- Complete regulatory framework for capital markets
- Independent Insurance Control Commission
- Retaining talent and expertise

Education

The quality of primary and secondary education system is ranked poor and classified behind other Arab countries (68 out of 77 benchmarked countries according to the Universal Scale score in 2015 created by McKinsey and Company based on PRLS scores). The national school curriculum has not been updated since 1997. Public expenditure per student remains below USD 1000.

In terms of the tertiary sector, two Lebanese universities rank among the top 500 universities in the world. The sector faces serious regional competition in attracting international tertiary students: Only 10% of total students in 2016-2017 were international students compared to 14% in 2011-2012. It should be noted that out of all international students in 2016-2017, 62% are Syrian and Palestinian nationals. Finally, recent studies have identified a significant skill gap between labour demand and supply.

Healthcare

The healthcare sector is characterized by a high share of uninsured people, a fragmented hospital network and a lack of specialization. One of the key challenges of the healthcare sector is that almost 40% of total population remains totally uninsured. Another challenge is the highly fragmented hospital network whereby 65% of hospitals have less than 100 beds. Hospitals are rarely specialized which hinders the advantages of the economy of scale.

Summary of Lebanon Economic Vision

The performance metrics reveal an average life expectancy at birth of 81 years compared to 80 in OECD countries, a neo-natal mortality of 5 per 1000 live births compared to 4 in OECD countries and a maternal mortality of 14 per 100,000 live births which is a similar rate to that of OECD countries. Lebanon is in line with its peers when it comes to the number of hospital beds and doctors (respectively 3.4 and 3.2 per 1000 population).

The healthcare system is characterized by high out-of-pocket and pharmaceutical expenditures. The healthcare system constituted 3.8% of GDP in 2016 with USD 1.4 billion. Out-of-pocket healthcare expenditure stands at 37% of total expenditure. Almost half of total healthcare expenditure is allocated to pharmaceuticals (46%) which is higher than average share in peer countries. Health expenditure per capita stands at USD 1100, which is in line with peers.

Real Estate and Construction

The real estate and construction sector made up 21% of GDP in 2016 and registered a negligible annual growth rate of 0.5% between 2011 and 2016 compared to an annual growth rate of 13% between 2006 and 2011. This sector generates 8% of government revenues with a total of USD 782 million in 2015. Housing affordability indicators reveal that Lebanon has the highest house price to income ratio among benchmark countries: House price to GDP per capita ratio is 25-45 in Lebanon – meaning the house price is between 25 and 45 times the GDP per capita- as opposed to 22-36 in Jordan 14-16 in Greece, and 12-24 in Egypt. Real estate sales transactions have been decreasing since 2010: 32,000 transactions in 2016 compared to 44,000 transactions in 2010.

The drop in activity in this sector resulted in a stock of vacant apartments valued at around USD 9 billion mainly in luxury developments. The average value of real estate sales transactions more than doubled in the past decade going from around USD 48,000 in 2007 to USD 103,000 in 2017. On another level, the absence of strict enforcement of urban planning regulations has been detrimental to land availability and access especially in areas of high urban concentration, such as Beirut. This has aggravated the upward pressure on real estate prices.

Retail and Commerce

The value of retail and commerce stood at 13.9% of GDP in 2016 and employed around 280,000 workers. The growing segments of this sector are cosmetics, food and beverage, and sports and hobbies, whereas the declining segments include luxury goods, household goods, and fashion and clothing. Around 66% of grocery sales pertain to traditional outlets (small grocers) while on 33% pertain to modern ones (supermarkets).

The key challenges of this sector include high informality, inefficiencies across the retail supply chain, and limited regulatory frameworks. A high share of retail and commerce companies operate in the informal economy and account for a large share of informal employment. Moreover, this sector suffers from congestion and poor transport infrastructure as well as elevated time and cost associated with importing goods. Finally, the sector lacks enabling legislation due to the inefficiency of government in drafting and passing laws. More precisely, the reformed code of commerce proposal is pending since 2013, while a competition law has yet to be submitted to the parliament.

Summary of Lebanon Economic Vision

Lebanon lacks an e-commerce law which explains the small share of online retailing (1.2%) compared to store-based retailing which captures 98.8% of total sales.

Logistics and Transportation

The logistics and transportation sector constituted 3.6% of GDP in 2016. Around 70% of trade flows go through the Port of Beirut as opposed to 20% via Rafik Hariri Airport. However, there seem to be a high dwell time in Beirut Port where products seem to stay at the harbor for around 13 days. This sector suffers from an inefficient integration between ports and roads and an unclear differentiation approach between Beirut Port and Tripoli Port.

The sector is also hindered by a demand exceeding the capacity of the airport: a capacity of 6 million versus an annual demand exceeding 8 million. In addition, the sector is characterized by low-quality roads whereas only 15% of roads are in good quality. Finally, Lebanon suffers from a long-lasting problem of high traffic congestion on main highways.

Telecommunication

The telecommunication sector is characterized by high mobile prices coupled with low fixed network quality. Both data and voice prices are exorbitant, especially when compared with regional benchmarks. Mobile data and voice prices are around 2 to 3 times more expensive than Morocco and Egypt. Despite the prohibitive prices, Lebanon ranks 130th out of 133 countries worldwide in terms of broadband speed (the average broadband speed is around 6 mbps), behind Pakistan, Iraq and Syria. The mobile network 3G and 4G coverage reaches 99% and 98% respectively. Furthermore, telecommunications investment per capita are around 2.5 times lower than in peer countries.

The Information and Communications Technology (ICT) sector constituted 3% of GDP and accounted for 44,000 jobs in 2016. Telecommunications constituted 12% of government revenues or USD 1.3 billion in 2017 compared to 21% in 2014.

Power

Current power infrastructure suffers from a number of challenges at several links in the value chain. Generation-related problems include missing reserve margin, high generation cost, and limited share of renewables. On the grid level, there is a high share of Transmission and Distribution (T&D) losses (3.9% higher than global top quartile losses of around 6.6%), in addition to a high demand for grid built-out. Distribution-related challenges include high non-technical losses in the billing system, a low level of energy service quality, and a slow connecting process for new customers (56 days in Lebanon, twice as long as global benchmarks). Finally, tariffs are somewhat lower than similar peers and not reflecting production cost.

The performance improvement would eliminate the need for government subsidies. Improvement hinges on the following initiatives:

- Improving fuel mix (reducing diesel usage and installation of renewables) and generation efficiency

Summary of Lebanon Economic Vision

- Reducing grid losses to international benchmarks
- Improving distribution governance (eliminating non-technical losses and reducing connection time to 30 days)
- Adapting tariffs to peers (increase from 10 USD cents/kwh to 12 USD cents/kwh)

Diaspora

The Lebanese diaspora is estimated at around 10 million individuals of whom 68% reside in South America. The top diaspora countries are Brazil, Venezuela, USA, and Canada. The economic contribution of the diaspora in 2016 is estimated at USD 11.2 billion of which more than half are remittances (USD 6.9 billion), while the rest is translated into non-resident deposits inflow (USD 2.1 billion), real estate (USD 1.3-1.7 billion) and tourism (USD 0.2-0.5 billion).

Lebanon lacks an emigration policy and tracking system. The Lebanese state did not adopt so far a pro-active approach to reinforce the Lebanese identity abroad. In turn, the relationship with second and third generation of diaspora is slowly withering down. Lebanon suffers from an absence of planning to channel diaspora contribution towards productive areas.

Urban Efficiency

City planning and efficiency is considered a key enabler for economic development and growth. Several gaps exist within Greater Beirut's efficiency that should be tackled as part of a broad city vision. The city vision should address extra travel time of citizens, the limited share of public transportation (2%), and the large share of landfilled waste out of total waste (86%).

On that score, the key challenges to be tackled include the following:

- To enhance the overall livability of the city by addressing mainly pollution and waste management issues
- To focus on growing the offering and use of public transportation
- To develop a fully integrated urban plan, with clear land use allocation
- To reclaim illegally used land particularly on greater Beirut's seashore

Institutional and Policy Enablers

Public Finance

Lebanon has the third highest debt to GDP ratio (145%), exacerbated by long-lasting budget deficits. These deficits are maintained by limited revenues and increasing costs. The government revenues constitute less than 20% of GDP (USD 9.9 billion in 2016) and are driven by a low tax effort at 40% of total tax potential. In terms of expenditures (USD14.9 billion in 2016), less than 5% of the government budget is allocated to infrastructure, while more than 60% is allocated to salaries and debt service knowing that total government debt stood at USD 75 billion in 2016. Wages alone capture 46% of revenues, a share which is the highest among peers.

Ease of doing business

The government tends to be inefficient in drafting and passing business-related legislation and the last reform for the doing business environment was made in 2011. In the 2018 “Ease of doing business” overall rank, Lebanon dropped 24 ranks while UAE gained 12 and Morocco gained 25. Laws pertaining to business are outdated and proper legislation is lacking. The procedures for “doing business” are complicated and associated with high cost. The most problematic factors for doing business in Lebanon include government instability, corruption, inadequate supply of infrastructure, inefficient government bureaucracy, and political instability.

Monetary Policy

The Banque du Liban (BDL) has historically played a key role in preserving the country’s stability through supporting the currency peg and prudential policies. BDL has over the years borne much of the burden stemming from the economic and fiscal policies of the country, by operating as “policy maker of last resort”. BDL has surpassed its mandate and stepped in to support the country’s economic growth through stimulus packages. While BDL policies have helped maintain confidence, fiscal adjustments in government budget should be conducted to reduce risks to financial stability.

Economic Development Activation

Economic development activation comprises investment activation, export promotion, SME support, and regional development. The main partners of the activation encompass IDAL, the Ministry of Economy and Trade, the Ministry of Foreign Affairs, and the Chamber of Commerce. Nevertheless, this activation faces several challenges:

- Incentive package for investors is outdated and not competitive compared to regional peers
- IDAL is not empowered to operate its one-stop shop to efficiently serve investors
- Export promotion efforts are highly uncoordinated across different stakeholders
- The budget allocated for export promotion is low
- The process for approval and improvement of export programs is lengthy
- The source of capital allocated to SMEs is volatile and dependent on external entities
- The support provided for access to market and talents is scant
- A clear approach to trigger economic growth in developing regions is absent
- IDAL’s proposal to reform the current existing scheme is pending approval

Trade Agreements

Another key enabler is the ratification of trade agreements. The major active agreements today include the Greater Arab Free Trade Agreement (GAFTA) which entered in force in 1998 and is perceived to have a positive impact on trade and commerce. The EU Association Agreement (2006) associated with a negative impact as it led to a short span boost to exports whereas imports continue to grow. The EFTA Free Trade Agreement (2004) is characterized by a neutral impact as it led to a balanced increase in both exports and imports but gains in both have been largely lost. There is also a lack of coordination between the different trade-related partners. On another level, the

private sector faces difficulties with technical and non-technical measures such as registration requirements. Currently, discussions are ongoing pertaining to the World Trade Organization Agreement, MERCOSUR Free Trade Agreements and Agadir Agreement.

II. The Vision: Lebanon's Economic Aspirations

In order to guide the development of the vision, McKinsey selected a number of benchmarking countries: Ireland, Honk Kong, Georgia, Switzerland, Singapore. These countries were selected based on the following criteria: small territory with large neighbors, limited population, limited natural resources, large diaspora (some countries)

Lebanon grapples with 3 major **challenges**:

- A highly volatile economy
- Limited government ability to ignite growth
- A non-conducive business environment

Lebanon needs to build its economy around consistent **principles**:

- Focus the government resources and efforts on priority areas
- Improve the business environment by reducing cost of doing business, addressing corruption in the public sector and improving overall business environment
- Diversify the Lebanese economy sectorally and by source of geographic inflows thereby reducing the volatility caused by exogenous factors
- Develop high value-added future-proofed productive sectors, relieving the distress that has been caused by a large current account deficit
- Ensure a healthy public sector through fiscal discipline including improved collection and rational spending, thereby controlling public debt

Mid-to-long term horizon Vision 2025: A re-ignited productive economy supported by overhauled business environment

- Fixed hygiene factors of economic competitiveness
- Fiscally disciplined and accountable government
- Jumpstarted target productive engines
- Demonstrated showcases of success

Long term Vision 2035: A high income diversified economy with a globally competitive and distinctive footprint

- A knowledge-based high-value economy with established areas of excellence
- Diversified source of inflows and economic contribution
- Healthy macro fiscal position

Summary of Lebanon Economic Vision

- Sustainable leveraging of scarce resources
- Global economic influence beyond borders

Three main criteria were adopted to select the priority productive sectors:

- Lebanon's comparative advantages in terms of endowments and competitiveness
- The size of regional and global opportunities in terms of size and diversification of inflows
- Lebanon's macro aspirations: economic aspirations (GDP growth and job creation), fiscal and monetary stability (limited deficit, reduced national debt), and social impact (regional balance and wealth distribution)

6 sectors were selected to receive priority government support:

- **Agriculture:** Lebanon has the largest arable lands in the Middle East, and a potential to become the main supplier of high-quality fruits and vegetation for the Levant and GCC
- **Industry:** Lebanon should capitalize on its creative edge to become a leader in high human value-added artistic products including jewelry, furniture and fashion
- **Tourism:** Lebanon should build on its strong natural endowments and strategic locations to tap into its fair share of inbound tourists (~4m tourists by 2025)
- **Knowledge Economy:** Lebanon should aspire to become the leading Knowledge Hub for the Middle East, serving as the region's KPO/BPO destination and the number 1 tech ecosystem
- **Financial Services:** Lebanon has the highest deposits relative to its GDP in the world, allowing it to become the financial hub for the Middle East and a gateway for financial transactions globally
- **Diaspora:** Lebanon should aspire to greatly leverage the large diaspora to further drive economic growth

III. Sectoral Engines for Lebanon's Economic Growth

Sector Deep Dives

Agriculture

Diagnosis:

- Dominance of **low-value crops**, including tobacco which is cultivated at a loss
- **Low productivity** for many crops (e.g. olives), due to outdated techniques and low investment in technology
- **Inefficient local markets** in which farmers are vulnerable to unfair practices (e.g. by markets & distributors), partly due to weak cooperative system
- **Poor access to global markets** such as the EU, largely due to non-compliance with international standards (e.g. SPS for potatoes) & weak post-harvest infrastructure
- **Illegal cultivation of cannabis**

Recommendations:

- A. Promote and support the application of **modern methods and technologies** to improve yield and quality of agricultural produce (finance R&D and facilitate financing of technology installations)
- B. Improve **local (and regional) food markets**, with a focus on transparency and efficiency (digital solutions to improve transparency, capacity building for cooperatives)
- C. Support transition towards **higher-value crops** and livestock (value chain analysis across all products, opt-in subsidy program for tobacco farmers, support R&D)
- D. Facilitate **access to international markets** (compliance with international standards, expansion of post-harvest infrastructure, identification of high-potential markets and adaptation of cultivation practices)
- E. Explore **legalization of cannabis** cultivation

Industry

Diagnosis:

- **Limited and unfocused government support**, with a decline in output and exports (except food products), largely driven by infrastructure-caused non-competitiveness
- **Absence of real industrial zones** which provide the infrastructure and services that are needed to achieve competitiveness

Recommendations:

- Prioritizing high-potential subsectors: food-processing, high-end design and marketing (jewelry, cosmetics, soaps, napkins), Syrian reconstruction (pre-fab, furniture), high-skill products (pharmaceuticals)

Summary of Lebanon Economic Vision

- Developing National Integrated Industrial Parks (NIIPs) to serve as areas of excellence which overcome comparative disadvantages (infrastructure, support services, regulatory one-stop shops)

Tourism

Diagnosis:

- **Unclear branding** of Lebanon and tarnished image in the media
- **Unfocused efforts in targeting source markets**
- **Lack of prioritization of product offering** and limited range of “ready-to-market products”
- **Lack of specialization** of hospitals in specific/medical services to attract medical tourists

Recommendations:

- Focus on attracting **leisure tourists** from 15 source countries (Arab countries, core European countries, Diaspora countries) by building core offerings (city and entertainment, sun and sea, culture) in three cities (Beirut, Byblos, and Sour) and develop ultra-luxury eco-tourism hubs
- Grow the **Meeting and Incentive** segment (with a focus on UAE, Qatar, Kuwait, KSA, and Iraq)
- Position Lebanon as a convenient destination for **regional medical tourists** by offering specialized services

Knowledge economy

Diagnosis:

- **Emerging but nascent technology** & digital industry, with limited access to global markets and **low digitization** across economic sectors & government
- **Small and fragmented outsourcing industry**, lacking regional recognition
- **Intrinsically competitive** in **creative** industries (fashion, movie) but facing several challenges
- **Strong tertiary education** system but **low** current **export potential** for the sector (e.g. low attraction of international)
- Lacking regulatory environment, digital & creative talent, limited access to funding and **sub-par sector governance** and **infrastructure**

Recommendations:

- Become a highly productive **digital economy**, acting as a digital talent hub
- Position Lebanon as a leading **regional outsourcing destination** for BPO services (finance and accounting, HR, marketing and sales) and a global hub for middle east research and analytics service desks (outsourcing park)
- Become a **regional creative hub** in a specific set of niches (branding, fiscal and non-fiscal incentives)

Summary of Lebanon Economic Vision

- Become an **educational hub**, attracting regional (undergraduate and medical studies) and international students (Middle Eastern and Arabic studies) (quality of education in public schools, decision tools/surveys)

Financial Services

Diagnosis:

- Financial services overwhelmingly dominated by banking (decreasing profitability and increasing risk), with limited to no participation of other services (Insurance, Funds, Capital markets)
- Low penetration of offshore AUMs with basic product offering (mainly deposits)
- Lack of regional & global recognition for specific centers of excellence
- Missing key regulatory enablers (e.g. PE Fund law)

Recommendations:

- Strengthen the **financial services sector** to enable the country's economic development agenda (beyond banking)
- Position Lebanon as an **investment management and offshoring hub** (diaspora, levant, Africa, and the Caspian region)
- Develop **centers of excellence in specific niches** (project finance, digital and analytics, actuarial studies, equity and investment research)

Diaspora

Diagnosis:

- **Low engagement effort** and withering relationships with second and third diaspora generations
- High share of **non-productive diaspora inflow** (consumption, real-estate)
- **Unorganized labor force immigration**

Recommendations:

- **"Seed"**: Prepare the next generation of Lebanese workforce and monitor emigration
- **"Radiate"**: Develop a solid diaspora database and promote national identity to strengthen the bond between Lebanon and its diaspora (vibrant communities in countries of residence)
- **"Reap"**: Leverage the diaspora network through encouraging productive investments, opening access to export markets, and transferring knowledge
- **"Advocate"**: Harness and formalize advocacy through establishing a diaspora advisory board (advise the GoL and advocate for Lebanon's interest)

IV. Required Enablers to Support the Aspirations

Beyond working on the five priority sectors, the government is advised to tackle three areas that are identified as necessary enablers of the Vision.

Infrastructure

1. Launch **infrastructure projects** including pre-planned projects (Beirut rapid-bus public transport, airport rehab, Ras Baalbek-Syrian border highway, fiber network) and new projects (construction technology zone focused on Syria and Iraq, Beirut Knowledge Hub Park, as well as Sour, Byblos, and Beirut walkway improvements)
2. Improve **Beirut's efficiency** by enhancing transportation, waste management, and pollution; improving governance; developing a comprehensive urban plan.
3. Reform the **power sector**

Government

1. Reform **public administration** (productivity measures, digitization, anti-corruption purge)
2. Reform **public finance** (1% reduction in fiscal deficit, expenditure ceiling, revenue growth in terms of tax level and tax collection effort)
3. Increase **legislative productivity** (business environment, laws related to the vision's priority sectors)

Country Branding and Export Promotion

This process requires close collaboration among MoET (trade analysis and trade agreements), MoA and Mol (develop sector strategies), IDAL (incentivize FDIs), BdL and Kafalat (incentivize production of prioritized products), and MoFA (promote Lebanese goods and services through a network of trade diplomats).

V. Institutionalization Mechanisms

The report proposes setting up a Performance Management and Delivery Unit (PMDU) that reports to the Council of Ministers and performs five key functions: strategic planning, program management (implementation oversight), performance management, delivery support (debottlenecking), and marketing and public relations (image of the vision and its projects).

VI. Flagship Projects

The report suggests three flagship projects to be launched immediately in order to jumpstart the momentum of the vision.

Seamless end-to-end tourism journey

The tourist journey currently suffers from: an unclear value proposition of Lebanon as a tourist destination, unorganized and unclear process at the airport, lack of 'tourist friendly cities.'

The report proposes: mapping the end to end tourist journey and understanding key pain points, designing the ideal journey and assigning owners to each part, and defining efficient data collection mechanisms.

Moreover, as part of the tourism specialty, 4 environmental initiatives are proposed:

1. Clean Lebanon's beaches and update water regulations
2. Develop and protect eco-tourism areas
3. Upkeep cleanliness in anchor destinations
4. Update solid waste management regulations and develop sustainable waste management solutions

Construction technology zone on the border with Syria

An analysis reveals that Syria's domestic construction capacity will only be able to meet 20-30% of demand, leaving an annual supply gap of at least 100,000 units while Lebanon's production capacity is 40,000 units. In other words, Lebanon would need to increase its capacity by 50% in order to capture 20% of the supply gap.

The Vision proposes creating an industrial construction zone in Lebanon that provides support services, dedicated infrastructure, as well financial and regulatory enablers. Industrial construction entails large-scale centralized production of units using automated and optimized industrial technologies. Following an assessment of four sites, they propose housing it at Al Qaa.

Smart Lebanon Knowledge Hub

Based on a preliminary assessment, the report advises developing physical clusters in Greater Beirut and Tripoli. The hub would be anchored around these two physical clusters and scattered virtual corridors. The Tripoli Outsourcing Park would host business and knowledge intensive outsourcing services, while the Beirut Knowledge Village would include digital, creative, education, and financial districts in partnership with leading institutions.