

Economic Opportunities and Job Creation AGRO-FOOD Sector

DRAFT FOR DISCUSSION

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1. Sector overview

Linking to key sectors in the economy and presenting a high potential for exports, Agro-food is the largest subsector of the industrial sector in Lebanon with total contribution to GDP in 2013 amounting to LBP 1,715 billion. In 2013, Agro-food contributed around 20% of the value added of the industrial sector and around 2.4% of the GDP¹. The Agro-food sector grew at a compound annual growth rate of 10.87% from 2009 to 2013, showing a continuous and steady development. The sector relies heavily on the small but stable agricultural sector and on imported raw materials. The Agro-food sector offers possibilities for expansion, growth and increased exports and thus employment at different skill levels.

Trade data show a slight increase in exports of Agro-food products till 2014, however, Agro-food imports still largely exceed exports with an import to export ratio of 2.98. Import substitution strategies for Agro-food products need to be considered to help develop the sector potential in the domestic market.

Table 1. Agro-food Imports and Exports (Lebanese Customs, Millions of LL)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Agrofood Imports	2,477,462	2,630,957	2,630,133	2,536,409	1,008,019
Agrofood Exports	678,235	802,536	879,933	848,710	342,056

* Jan-May 2016

In 2015, Agro-food exports were mainly composed of meat & fish (25.8%), bakery and pastry products (17.8%), dairy products (11.5%), fruits and vegetables (10.9%), confectionary (10.1%), oils (8.4%), grain, starches & starchy products (8.1%), and alcoholic drinks (6.9%)².

Export data shows that 65.9% of total agrofood exports go to Arab countries, 11.3% to European countries and 22.7% to the rest of the world³. Possibilities for market expansion, especially to countries with an important Lebanese diaspora are considerable. According to experts in the field, Lebanese producers already rely heavily on international markets with Lebanese diaspora for export. Reports from the Ministry of Economy and Trade note that Lebanon has finally started negotiations with Mercosur (large Lebanese expatriate community) to promote trade.

The main enterprises in the Agro-food sector by type of production is Bakery and pastry products (23% of total), followed by confectionary and dairy products (16% and 8% of total, respectively). While for many years, bakery and pastry products enterprises has been the top

¹ Numbers compiled from the Lebanese National Accounts including manufacturing of food products, beverages and tobacco

² Lebanese Customs, 2015

³ Lebanese customs, 2015

subsector, confectionary and dairy products have moved up in the ranks, reflecting bigger interest and investments in this subsector.⁴

Table 2. Distribution of Agrofood enterprises by type of production (in percentage, 2015)

Subsector⁵	Percent of total
Bakery/Pastry products	23%
Confectionary	16%
Dairy products	8%
Grain, starches...	7%
Alcoholic drinks	6%
Nonalcoholic beverages	6%
Fruits and vegetables	4%
Oils	4%
Meat and fish	4%
Other industries	22%

The majority of Agro-food establishments in Lebanon are located in Mount Lebanon (45% of total), followed by the Bekaa (17% of total) and North Lebanon (14%)⁶.

Agro-food is the leading sector in the number of establishments in industry (736 registered establishments constituting 18.2% of total), and an estimated workforce of 20,607 representing 24.9% of total industrial labour⁷. Agro-enterprises are still mostly family owned and operated and employ a sizeable part of the population, especially in rural areas⁸.

2. Government priorities

As described in both the Agriculture and Manufacturing sector briefings, the MoA 2015-2020 strategy and the MoI 2025 vision both present a focus on improving quality of Lebanese produce and products as well as capitalize on opportunities for integration to develop the Agro-food sector in order to increase exports, create jobs and contribute to growth in the economy.

3. Challenges facing the sector

The Agro-food is a key sub sector of the Lebanese economy with important contributions to the industrial output and labour force. The sector is perceived with high potential for trade growth and job creation. However, the sector is faced with key challenges that hinder its development, which affect cost of production, access to market, and employment.

⁴ The Directory of Exports & Industrial Firms in Lebanon, 2015-2016

⁵ The directory of exports and industrial firms in Lebanon, 2015-2016

⁶ The directory of exports and industrial firms in Lebanon, 2015-2016

⁷ MoI, 2007

⁸ The European Union's assessment of the agrofood sector in Lebanon. 2015

This section provides a brief overview of key challenges facing the Agro-food sector, and related on-going assistance; it is based on desk research that covered various reports/studies/assessments and consultations with key stakeholders.

Market access

Lebanon's agrofood products face challenges with respect to international market entry due mainly to (1) non-compliance with quality standards, (2) current barriers to land trade routes due to the conflict in Syria, (3) the level of competition in the region, (4) the weak marketing structure of Lebanese products (with respect to design, packaging, branding and adaptation to international tastes) and (5) the lack of trade agreements, and need for renegotiation of old ones, with numerous countries. Whereas Mercosur countries and Algeria are promising new international markets for Lebanese products, Lebanon's main exports in agrofood are to Arab and GCC countries (totaling 72.4%) followed by Africa (12.2%) and Western Europe (6.2%)⁹ which shows a limited access to many neighboring markets.

At the level of the internal market, demand has been steadily increasing and is mostly higher than supply showing considerable potential for internal expansion. For a few goods, and depending on the season, the market is nonetheless self-sufficient especially for fruits, vegetables, poultry and eggs. Quality concerns are not a high priority for national market producers compared to exporters which are still hindering the improvement of quality for locally produced goods.

Quality concerns

Quality concerns with respect to agrofood products are present at every level of the agrofood value chain, from concerns that go back to the farming level especially at the level of chemical usage such as pesticides and antibiotic, water quality and sanitary and phytosanitary (SPS) norms, to those relating to processing of goods and SPS norms in the production. The non-adherence to quality standards is due to (1) the lack of enforcement of quality regulations for the internal market, (2) the lack of investment in quality improvements which are estimated to be at 7% of the total budget of companies in the sector¹⁰ and (3) the level and scope of product testing.

Quality concerns have a direct impact on market access for produced goods especially for international markets. Exports of dairy products for example could expand considerably if quality of goods is improved (dairy products are banned from the EU market due to sanitary concerns). Lebanon still has potential to benefit greatly from export markets contingent on respecting quality standards. This would allow on the one side for export to the EU to increase through the duty free nominated quota trade agreement, and on the other side to access other international markets.

⁹ Agrofood sheet, IDAL, 2014

¹⁰ INFOPRO and UNIDO

High cost of production

High cost of production is one of the main problems facing many sectors in the economy and agrofood is no exception. High cost of land, high cost of labour, and high operating costs are challenging the development of the sector and the competitiveness of goods both on the internal and external markets. The EU's calculations of farm-gate prices in Egypt for example are almost 50% less than in Lebanon which would hinder competitiveness of both agricultural and agrofood productions.

Access to financing

Access to finance for small non bankable entities in the economy still hinders the development of SMEs in many sectors amongst which agrofood. The EU's assessment of the agrofood sector in 2015¹¹ has concluded that blending grants with other sources of development finance has proved to be a successful way to increase access to finance; for example, through guarantee facilities such as Kafalat and microfinance funds, which are progressively increasing their activities in Lebanon. Those interventions are still limited though as many producers report inability to access funds and thus develop their business due to:

- Lack of knowledge on existing financial schemes¹²
- Lack of risk assessment capacity of bank branches
- Lack of a pro-active role of the bank branches

Lack of industrial zones

Industrial zones enable companies to reduce their cost structure by sharing costs of many components in production, and thus increase productivity. Lebanon is still lacking state-of-art industrial zones (and specialized industrial zones). Plans to establish three industrial zones are underway by the Ministry of Industry in collaboration with UNIDO.

Social perception of TVET

Sector experts report a strong need to develop TVET. But, the social perception of TVET is negative in the country, with TVET considered to be the last option for students who failed in academia. In the absence of a solid TVET program, this perception will not change and will keep negatively impacting training of people in agrofood and other industries.

¹¹ EC COM(2014) 263

¹² According to Kafalat and EU funded ARDP this is a major impediment.

4. Donor response to sector challenges

In the past years, there has been an increased response from donors to meet the challenges in the agro-food sector with the aim of creating more livelihood and employment opportunities and growing production. Importantly, the pipeline projects and planned support indicate increased assistance to the sector in the near term.

Below are summarily reviewed, responses to specific challenges and clusters of challenges. The projects listed include only donor support and only on-going projects (pipeline and planned projects are not included here). On-going donor support amounts to about 43 million USD.

Table 3. Ongoing financial support for agrofood provided by donors (US dollars)

Area of focus	Activity types	Budget (USD)
Production and productivity	<ul style="list-style-type: none">• Technology transfers• Capacity building• Innovative marketing	949,050
Access to markets	<ul style="list-style-type: none">• Value chain development• Establishing linkages with other sectors• Promotion of new technologies and best practices	20,850,000
Product safety and quality	<ul style="list-style-type: none">• Provision of equipment for quality production• Promotion of best practices	410,700
SMEs development	<ul style="list-style-type: none">• Provision of equipment and small grants for expansion	20,850,000
	Total	43,059,750

Production and productivity

To improve the economic opportunities and set the conditions to create additional jobs in the agro-food sector across Lebanon, the Ministry of Industry and the Ministry of Agriculture revived assistance (USD 949,050) to support MSMEs and cooperative with product and business growth solutions. Throughout this assistance, beneficiaries were supported with technology transfers, capacity building development and the introduction of creative and innovative marketing solutions that helped them access new markets and expand their capabilities to grow their business.

Access to markets

Support is being provided (USD 20,850,000) to develop and operationalize key value chains specifically for agricultural producers, processors, and packers in the apples, pears, cherries, avocados, grapes, honey and olive oil, processed foods, and rural tourism sub sectors.

Product safety and quality

Ongoing support (USD 410,700) is being provided to women processors which aim to improve quality and safety of production through the production of sanitary traditional home-processed dairy products (laban, labneh, varieties of white cheeses). As well, these women headed households will be trained on best practices for milk hygiene and good dairy processing.

SMEs development

Through equipment and small grants (USD 20,850,000) support to SMEs seeking expansion opportunities, aims to increase farmers/producers income and create employment opportunities in rural areas, including those affected by the Syrian crisis.

5. Opportunities for job creation and growth

- **Develop value chains with high value added:**

Lebanon's industry cost structure and size is hindering the development of low cost mass production. Sectors need to develop specialized value chains with high potential and thus higher profit margins. Key value chains with high potential were reported by IDAL and other experts in the sector include:

- Extra virgin olive oil: showing an increase in exports (27% from 2014 to 2015¹³) with opportunity for production of variety of oils that meet the increasing taste trend in local and international markets.
- Dairy products: building on previous efforts in the sector (e.g. FAO) to meet the increase of interest in health and wellness including flavored, milks, yoghurts and dairy snacks.
- Nuts and dried fruits: showing an 8.5% growth in exports since 2012¹⁴, production has a potential to supply international markets through meeting quality standards.
- Wine and spirits: with an increasing trend in production and exports as well as potential for linkages with the tourism sector.
- Processed foods: with a 9.7% growth¹⁵ in exports since 2012, meeting quality and safety standards will strengthen expansion and growth.
- Lebanese specialties: traditional Lebanese products, manufactured by individual farmers and households including women cooperatives that are currently focused on meeting domestic market needs with some exports. These include food products generated from fruits, vegetables, dairy, meat, herbs and spices.

¹³ Lebanese Customs

¹⁴ Lebanese Customs

¹⁵ Lebanese Customs

- **Support initiatives to facilitate access of Lebanese agrofood products to new markets:**

Food quality standards and compliance assistance:

Lebanese production faces problems in its expansion to international markets, notably due to quality concerns. Working on developing the qualifications of Lebanese labour in agrofood, ensuring compliance with international standards and obtaining the seal and accreditation of quality will enable different products to be more marketable, both on the internal and external markets. Solving this bottleneck will require a combination of technical and policy measures including control over products and inputs and focusing on better quality production will allow market access of products and thus lead to an increase in production and employment.

Market linkages between agrofood and Agriculture as well other sectors: in the economy can help develop numerous sectors simultaneously with one building on the other. With the value chain of agrofood traditionally linked to production of fresh produce from the agriculture sector, strong linkages between the two will be highly beneficial including through giving farmers the benefits of modern technologies, quality control, marketing, and other modern services which will positively affect rural income and employment.

Another opportunity is to link agrofood with tourism (e.g. wine tourism) which will help promote agrofood products in rural touristic locations and develop both sectors. This would require a coordinated effort between the two sectors, establishing strategic alliances and marketing links beneficial to both.

- **Aggregation of post-harvest handling facilities**

Post handling facilities, including cooling, packaging and storing facilities will help reduce the cost structure of different companies working in agrofood through cost sharing and enable them to be more competitive. Creating localized post-harvest structures in different regions will employ labour for construction in the short term, and help better preserve agriculture products for post treatment and thus cut cost for companies, leading to a decrease in prices and lead to increased sales and further employment. In addition, shared storing facilities in different regions and at the airport will allow for preservation of goods in accordance with international quality standards and thus promote exports.

- **Promotion and integration of new technologies into the production process**

Promote and support the dissemination of new technologies and their adoption into production processes with an aim of reducing costs of production and increasing productivity. New technologies range from those aiming to develop (1) market activities such as trading, logistics and marketing tools, to (2) process activities such as process control and efficiency to (3) management decisions such as the utilization of new management information systems to facilitate and guide decision making processes in the firm and (4) the development of renewable energy and efficient energy solutions.

The below illustration provides a simplified image of the above identified opportunities presented by implementation time in relation with job creation potential. This figure illustrates the variation between the different types of interventions including those with a high potential to create jobs in the short term but limited structural impact on the growth of the sector as well as opportunities that remove barriers for growth in the longer term but have smaller immediate job creation potential.

Figure 1. List of opportunities in the agrofood sector by implementation time and potential for job creation

