

Workshop on Employment Creation in the Lebanese Formal Private Sector

Economic and Social Commission for Western Asia



UNITED NATIONS

الاستسقا
ESCWA

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Cluster 2 : Gender justice, population and inclusive development cluster

Outline

I. Supply Side Analysis

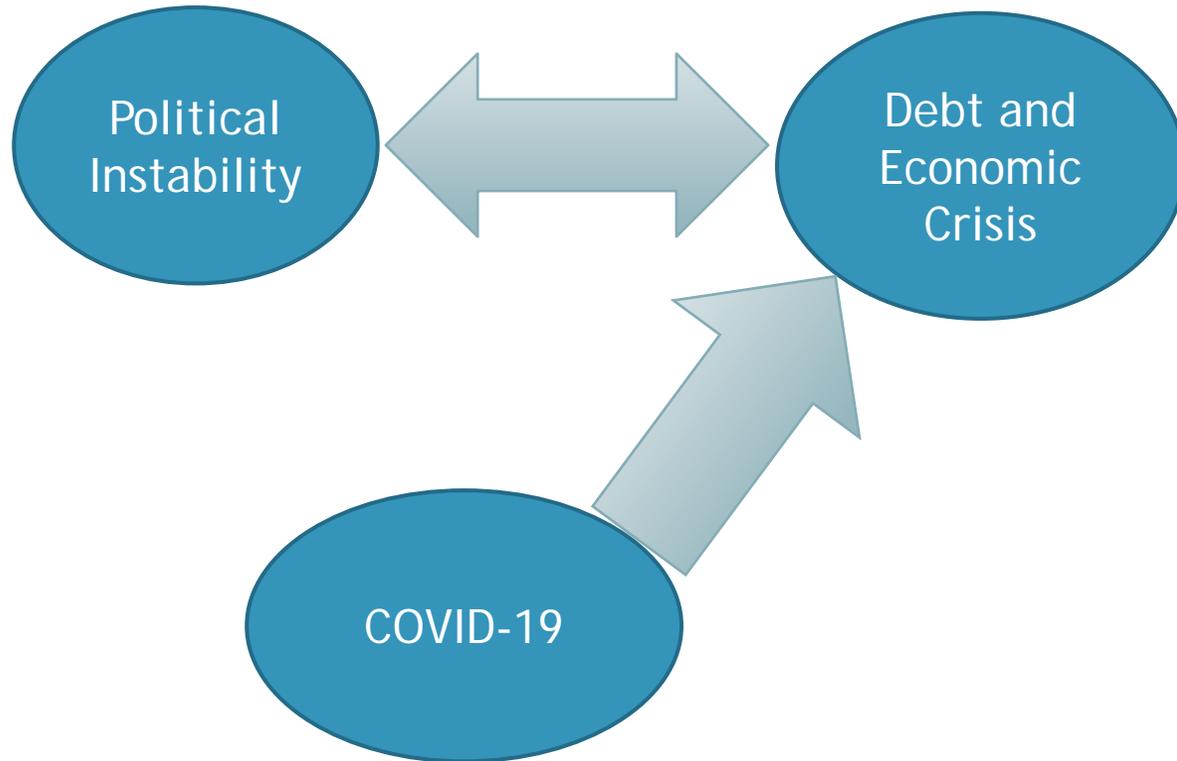
1. Population Trends and Demographic Analysis
2. Labor Force Participation
3. Employment and Unemployment
4. Output Growth and Productivity

II. Demand Side Analysis

1. Employment Creation in the Formal Private Sector
2. Workforce Composition of the Formal Private Sector
3. Capital and Wage Share and TFP
4. Length Of Top Managers' Experience in Years in the Private Sector
5. Biggest Obstacles Facing Private Firms
6. Informality in the Private Sector

III. Recommendations

Background

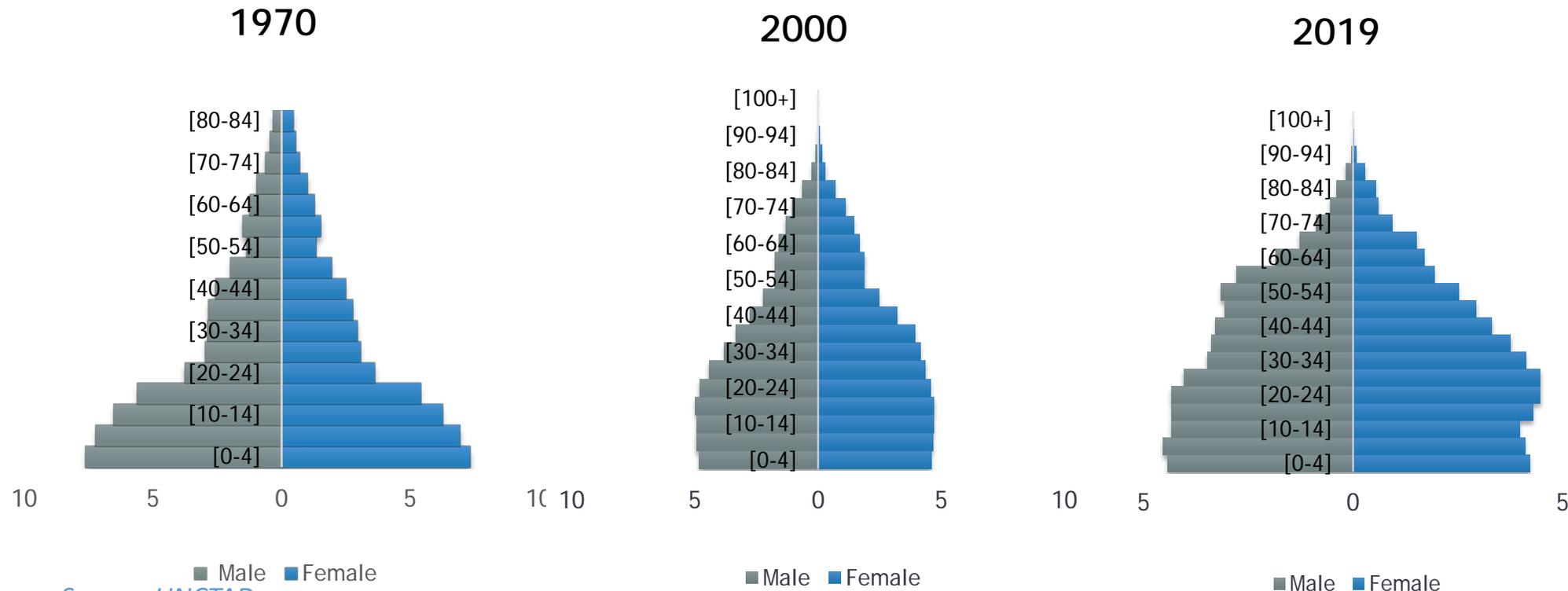


Does the new economic reality create more jobs?

Does the Lebanese workforce have the right skill sets for these newly created jobs?

I. Supply Side Analysis

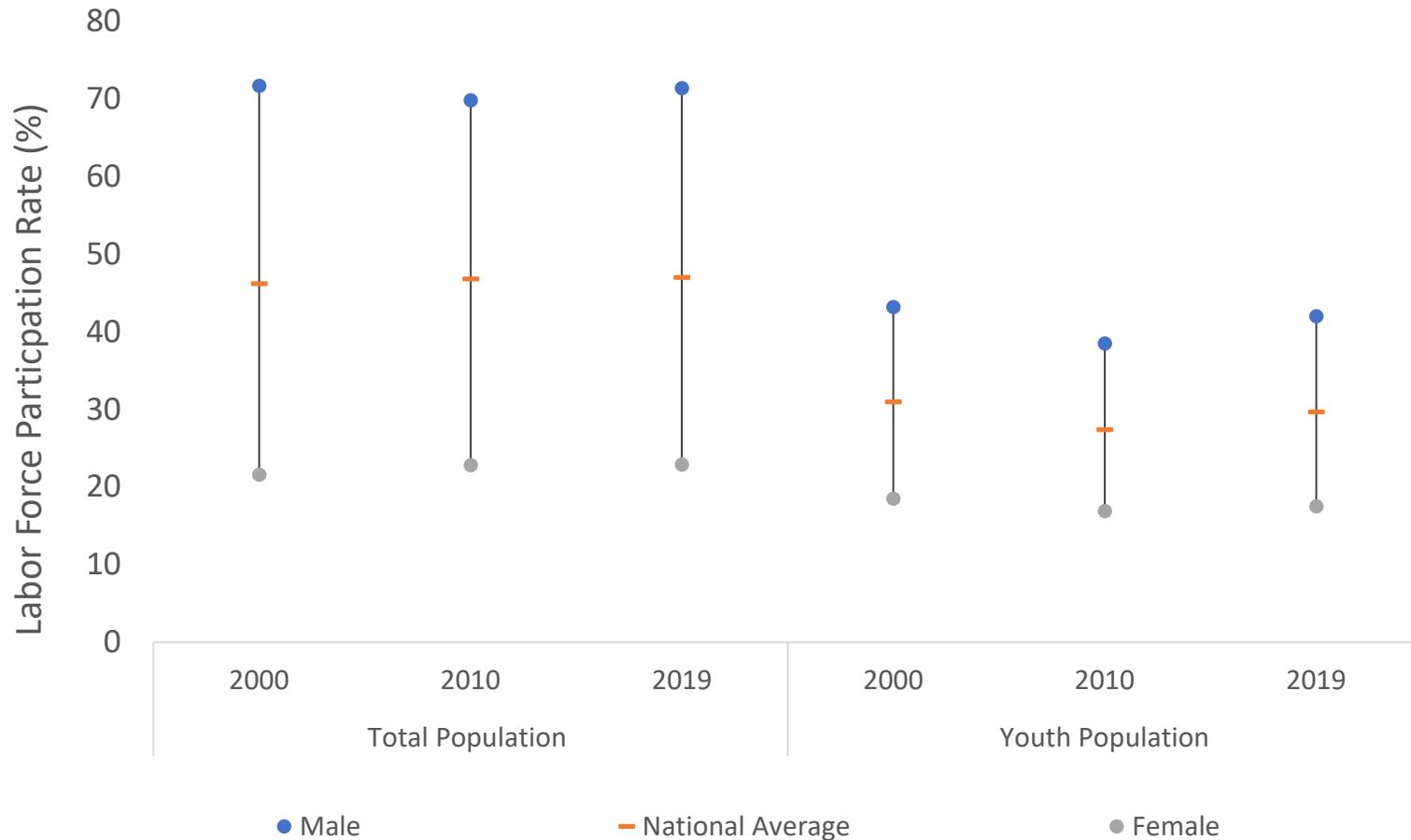
1. Population Trends and Demographic Analysis



Source: UNCTAD

In the last three decades, Lebanon has been witnessing a decrease in fertility rates and an increase in life expectancy shifting Lebanon demography towards higher age brackets.

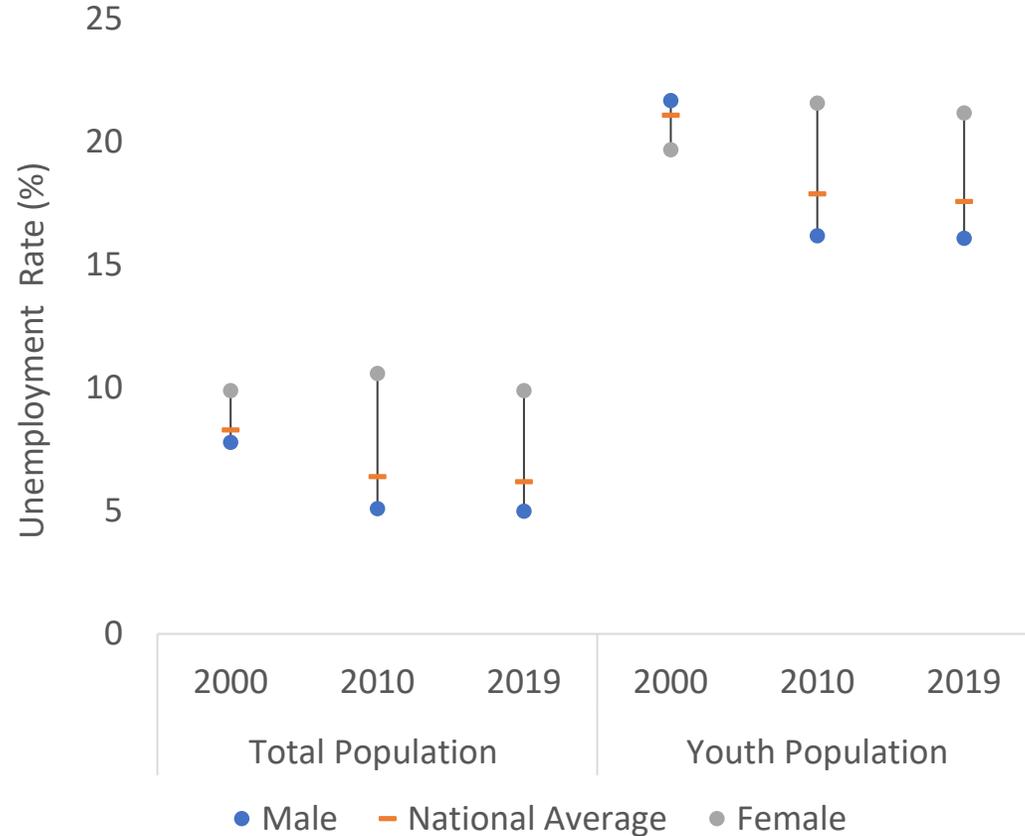
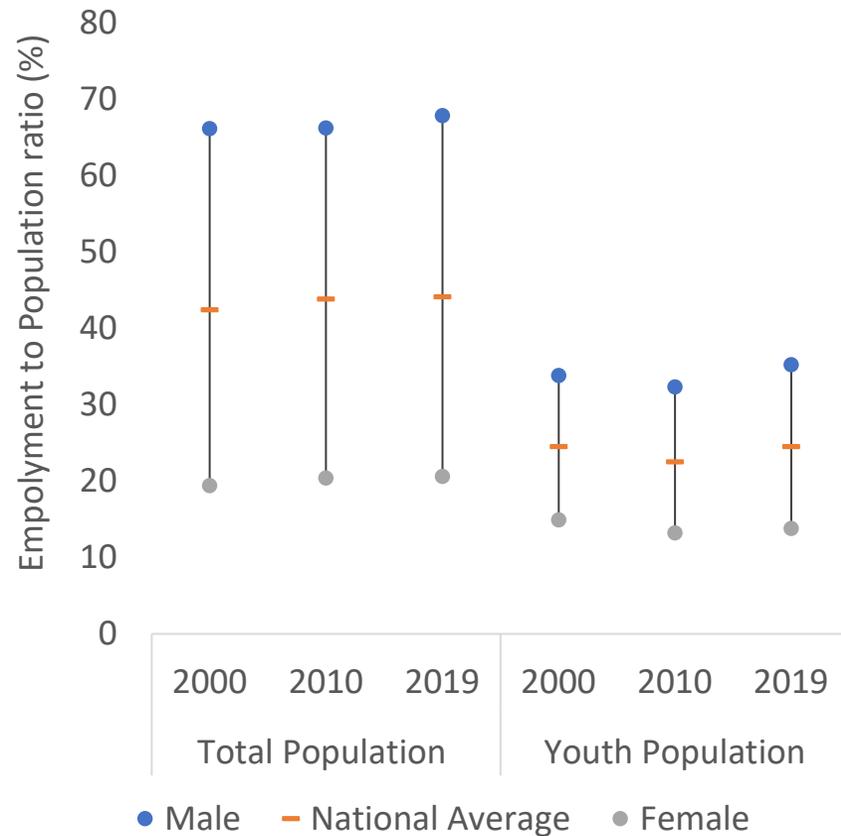
2. Labor Force Participation



Source: ILOSTAT, ILO modeled estimates

- ***LFPR in Lebanon increased minimally from 46.2% in 2000 to 47% in 2019 due to the increase in female participation.***
- ***LFP is expected to drop due to the triple crisis (political, health and economic crisis) facing Lebanon.***

3. Employment and Unemployment



Source: ILOSTAT, ILO modeled estimates

In 2019, ILO estimates of unemployment is 6.5 %, official unemployment figures for the same year (labor force survey 2018-2019) are 11.4 % while Covid-19 Rapid estimates by the ILO goes up to 37 percent unemployment for 2020. This number is expected to increase after the recent port blast.

Causes of the current economic instability

- Repercussions of the Syrian war
- Decline in the global oil price in 2014-15
- Hike in interest rates.
- Poor Governance : corruption, lack of transparency , absence of checks and balances Poor public financial management
- Excessive and irresponsible government spending.
- Lira devaluation due to shortage of US dollars banknotes in circulation and the government's default on its Eurobond payment.
- COVID-19 and the recent Beirut port explosion exacerbating the situation

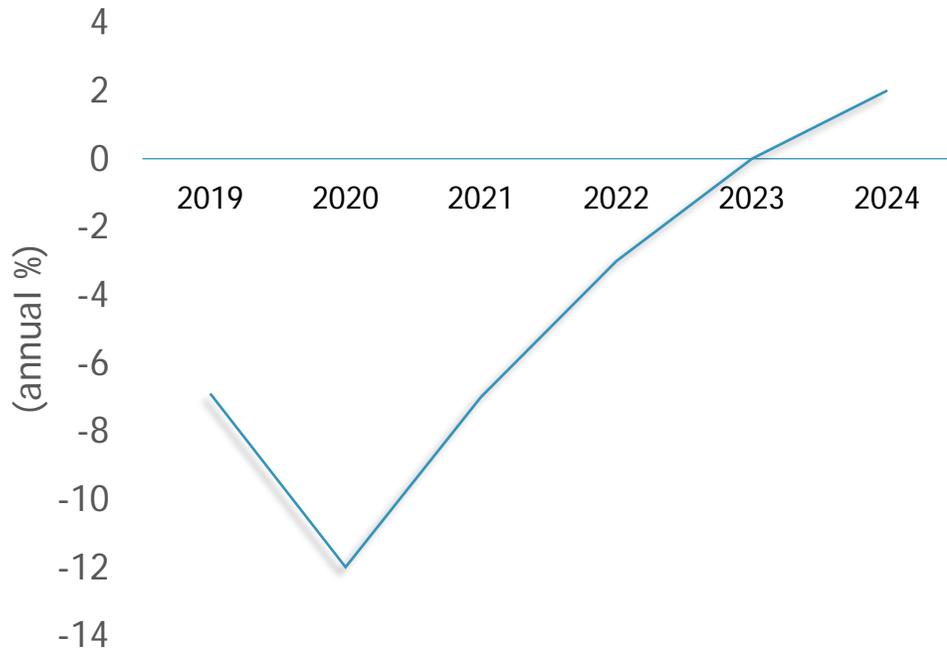
Causes of the increase in unemployment

- Limited fiscal space for more public employment
- Limited capacity of the formal private sector to absorb new entrants
- Low wages in the informal sector
- Severe Lebanese economic downturn
- Road blockage, protesting and the deterioration of citizen's purchasing power that reduced economic activity

4. Output Growth and Productivity

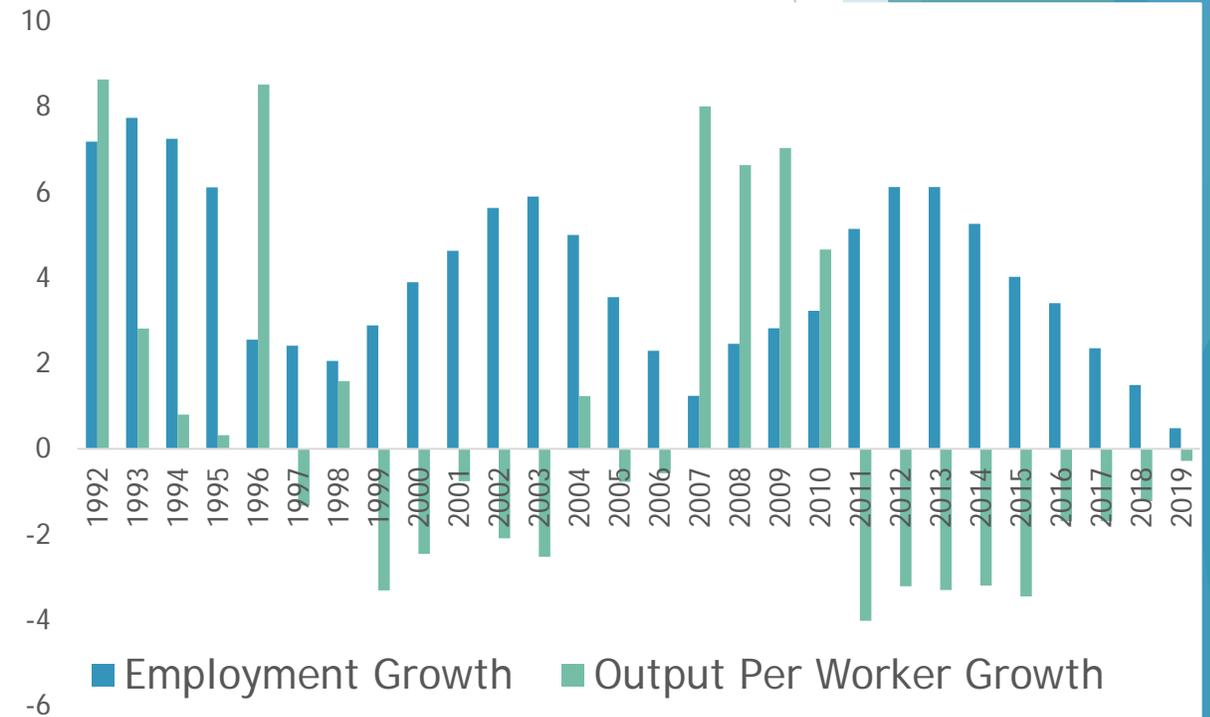
Lebanon has been witnessing the worst economic downturn since World War-II impacted by the combined effect of the COVID-19 the debt and financial crisis and political instability.

GDP GROWTH IN LEBANON (ANNUAL %)



Source: Lebanese Government Reform Plan (2020)

EMPLOYMENT GROWTH AND OUTPUT PER WORKER



Source: ILOSTAT, ILO modeled estimates

4. Output growth and productivity

EMPLOYMENT AT RISK IN LEBANON: A SECTORAL APPROACH

Economic Activity	Current impact of crisis on economic output	Lebanese Sectoral Shares of Employment (%)
Education	Low	8.6
Human health and social work activities	Low	4.4
Public administration and defense, compulsory social security	Low	9.9
Utilities	Low	0.7
Agriculture, forestry, and fishing	Low-medium	3.6
Construction	Medium	8.9
Financial and insurance activities	Medium	2.5
Mining and quarrying	Medium	0
Other services	Medium-high	3.2
Transportation , storage and communication	Medium-high	6.6
Accommodation and food service activities	High	4.4
Real estate; business and administrative activities	High	3.5
Manufacturing	High	10.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	High	19.9

Half of the Lebanese workforce work in high risk sectors.... ILO

350K jobs were lost between October 2019 and June 2020. 1/5 of the companies closed so far due to COVID-19.

The COVID-19 Pandemic impacted employment mostly in Lebanon's wholesale, tourism and manufacturing sectors.

II. Demand Side Analysis

1. Employment Creation in the Formal Private Sector

Lebanon's Enterprise Surveys for 2013 and 2019 are used to have an overview on the structure of the formal private sector and how it has changed over time.

These surveys cover firms in the manufacturing, agriculture and services sectors in six regions throughout Lebanon: Beirut, the Beqaa Valley, Mount Lebanon, Nabatiyeh, North Lebanon, and South Lebanon.

They provide information on private sector development and employment creation factors that shape the business environment and employment demand.

1. Employment Creation in the Formal Private Sector

EMPLOYMENT GROWTH BY SIZE, TRADE AND SECTOR

	2013	2019
<i>Employment Growth</i>	<i>Percentages</i>	<i>Percentages</i>
By Firm Size		
Small	8.5	-2.10
Medium	5.0	-0.87
Large	10.0	-0.9
By Trade		
Exporter	9.1	0.6
Non-Exporter	5.2	-2.1
By Sectors		
Manufacturing	8.7	-1.0
Hotels and restaurants	-6.0	-3.0
Transport	1.9	-8.0
Construction	14.8	-17.0
Wholesale and retail	6.7	1.2

- ***The growth in employment demand in Lebanon is negative with only exporting firms surviving in 2019.***
- ***In Lebanon, large firms are always the winners with small firms growing less.***
- ***For more stable employment, Lebanon should move to sectors with more employment stability.***

Source: ESCWA calculations based on the World Bank Enterprise Survey.

Note: Exporting firms here is based on 10 per cent and above of sales going to direct export activities.

Note: *number of observations less than 50.

1. Employment Creation in the Formal Private Sector

PRODUCTIVITY BY TRADE AND SECTOR

	2013	2019
<i>Productivity</i>	<i>Log Productivity</i>	<i>Log Productivity</i>
By Trade		
Exporter	11.13	10.88
Non-Exporter	11	10.71
By Sector		
Manufacturing	10.9	10.7
Hotels and restaurants	10.1	10.3
Transport	10.7	11
Construction	11	10.7
Wholesale and retail	11.4	10.9

Source: ESCWA calculations based on the World Bank Enterprise Survey.

Note: Exporting firms here is based on 10 per cent and above of sales going to direct export activities.

Note: *number of observations less than 50.

Productivity in Lebanon is comparable with regional average and income per capita peers, with higher productivity of exporting firms.

1. Employment Creation in the Formal Private Sector

SALES GROWTH BY TRADE AND SECTOR

	2013	2019
<i>Sales Growth</i>	<i>Percentages</i>	<i>Percentages</i>
By Trade		
Exporter	7	-4.008
Non-exporter	3.97	-11.04
By Sector		
Manufacturing	9.45	-7.71
Hotels and restaurants	-17.03	-7.06
Transport	-0.47	-16.46
Construction	15.11	-11.84
Wholesale and retail	4.31	-11.97

Exporting firms experienced a better growth in sales and was more resilient to the downturn in 2019.

Source: ESCWA calculations based on the World Bank Enterprise Survey.

Note: Exporting firms here is based on 10 per cent and above of sales going to direct export activities.

Note: *number of observations less than 50.

1. Employment Creation in the Formal Private Sector

EMPLOYMENT ELASTICITIES BY TRADE AND SECTOR

	2013	2019
<i>Elasticities</i>	<i>No Unit</i>	<i>No unit</i>
By Trade		
Exporter	0.51	0.48
Non-Exporter	0.16	-0.04
By Sector		
Manufacturing	0.36	0.11
Hotels and restaurants	0.5*	-1.1
Transport	1.66*	-0.14*
Construction	-0.28*	0.68
Wholesale and retail	0.23	0.19

Most sectors in Lebanon have an employment elasticity below one (some even below 0.5) indicating that an increase in output by 1% is increasing employment by less than .5%.

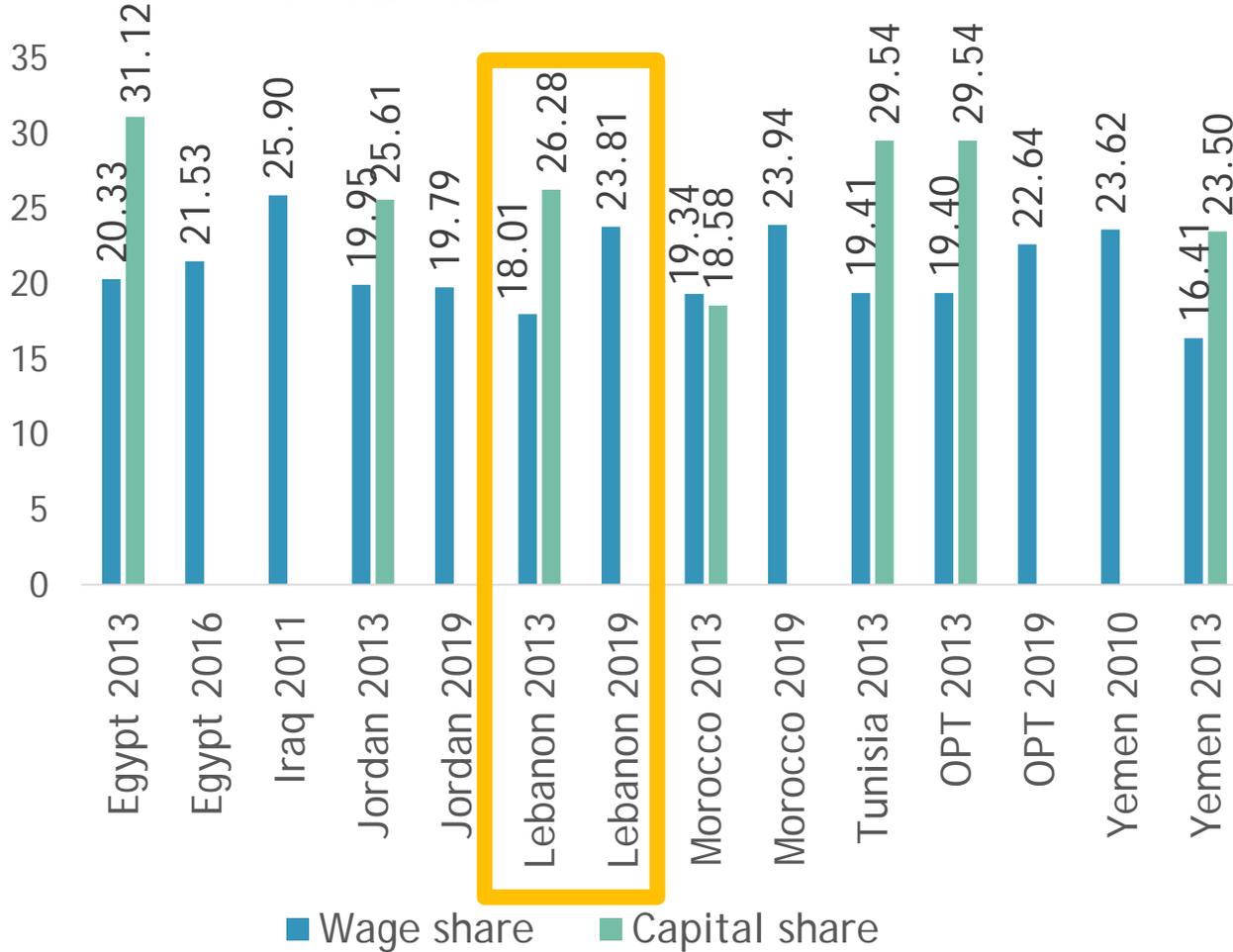
Source: ESCWA calculations based on the World Bank Enterprise Survey.

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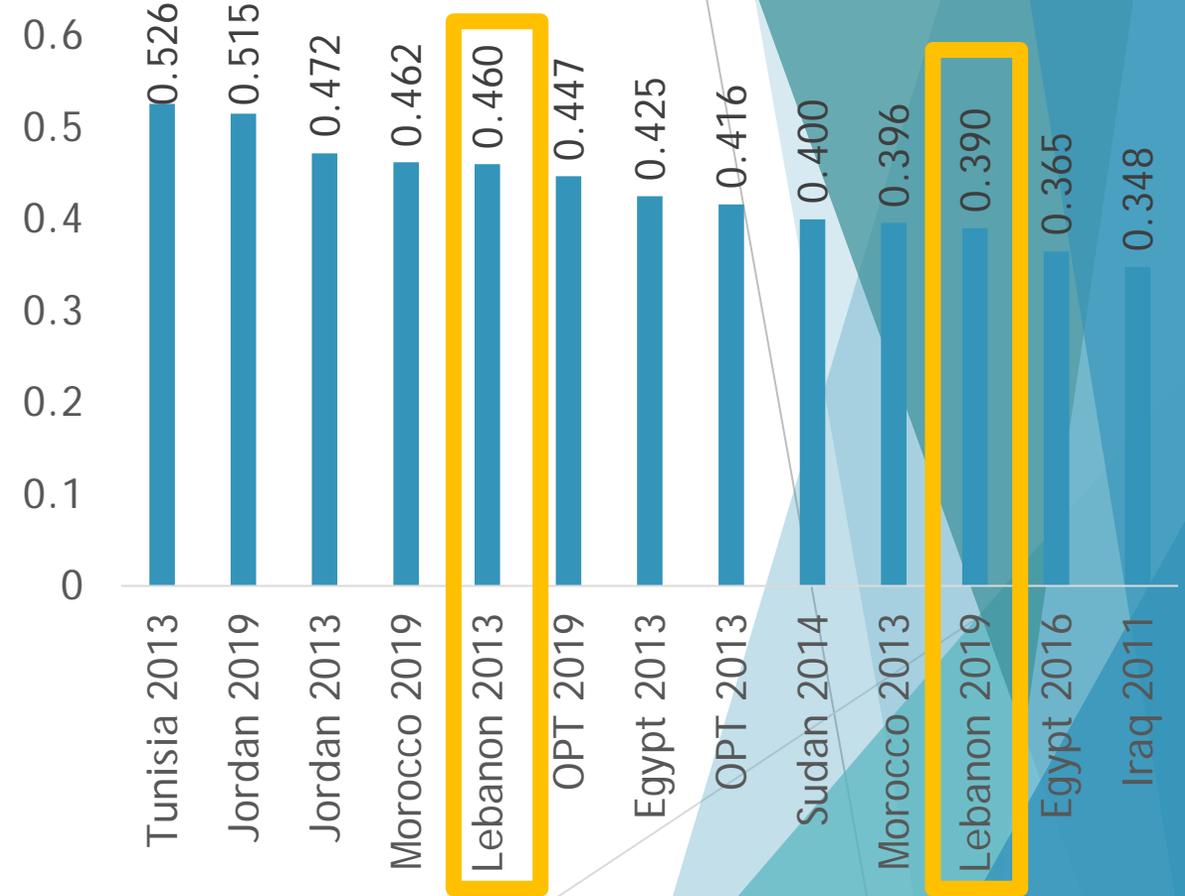
Note: *number of observations less than 50.

2. Capital and Wage Share and TFP

COST OF CAPITAL AND WAGES AS A PROPORTION OF TOTAL SALES

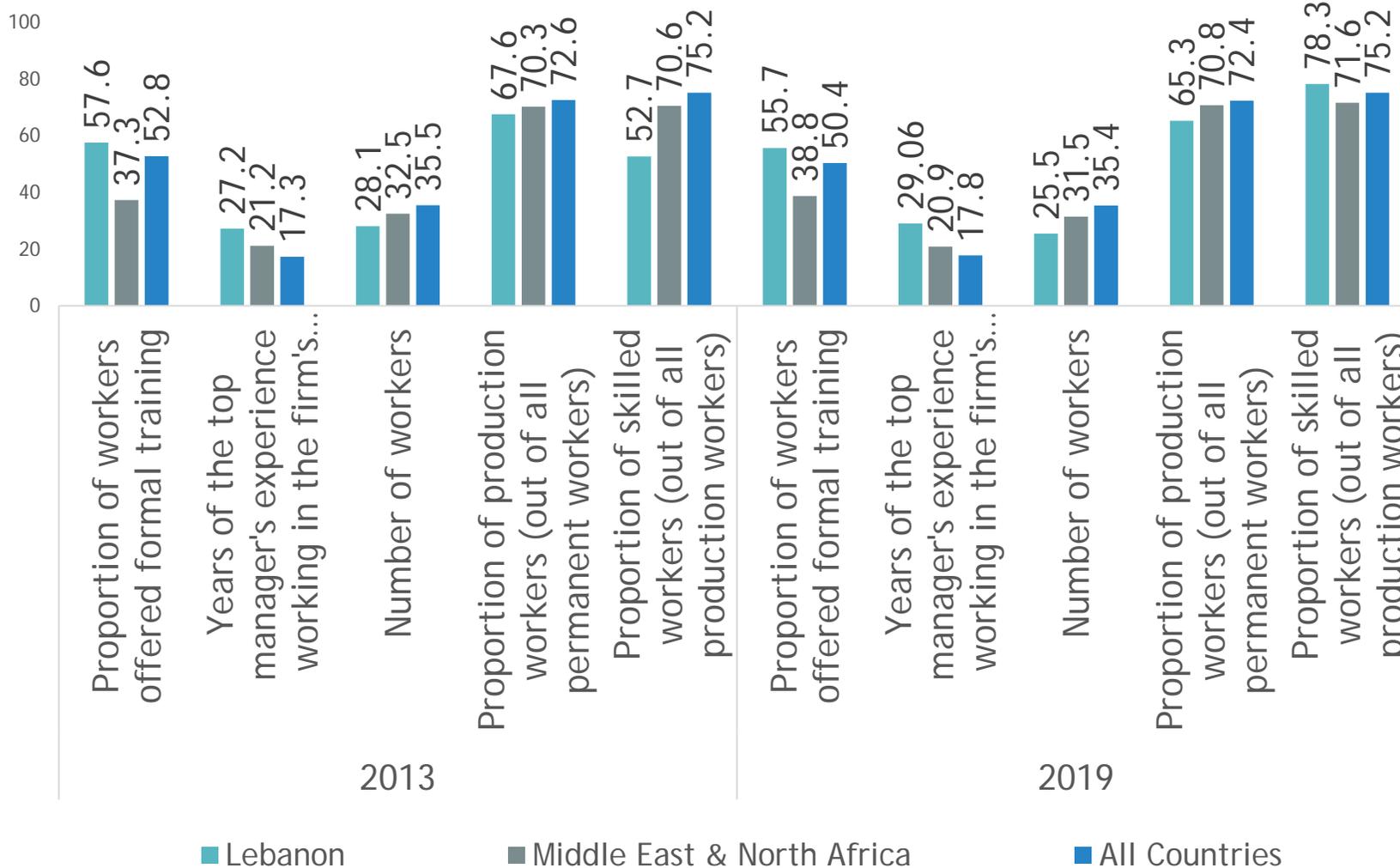


PERCENTAGE OF FIRMS WITH A TFP ABOVE THE COUNTRY'S INCOME GROUP AVERAGE



3. Workforce composition of the Formal Private Sector

EMPLOYEE'S COMPOSITION IN PRIVATE FIRMS



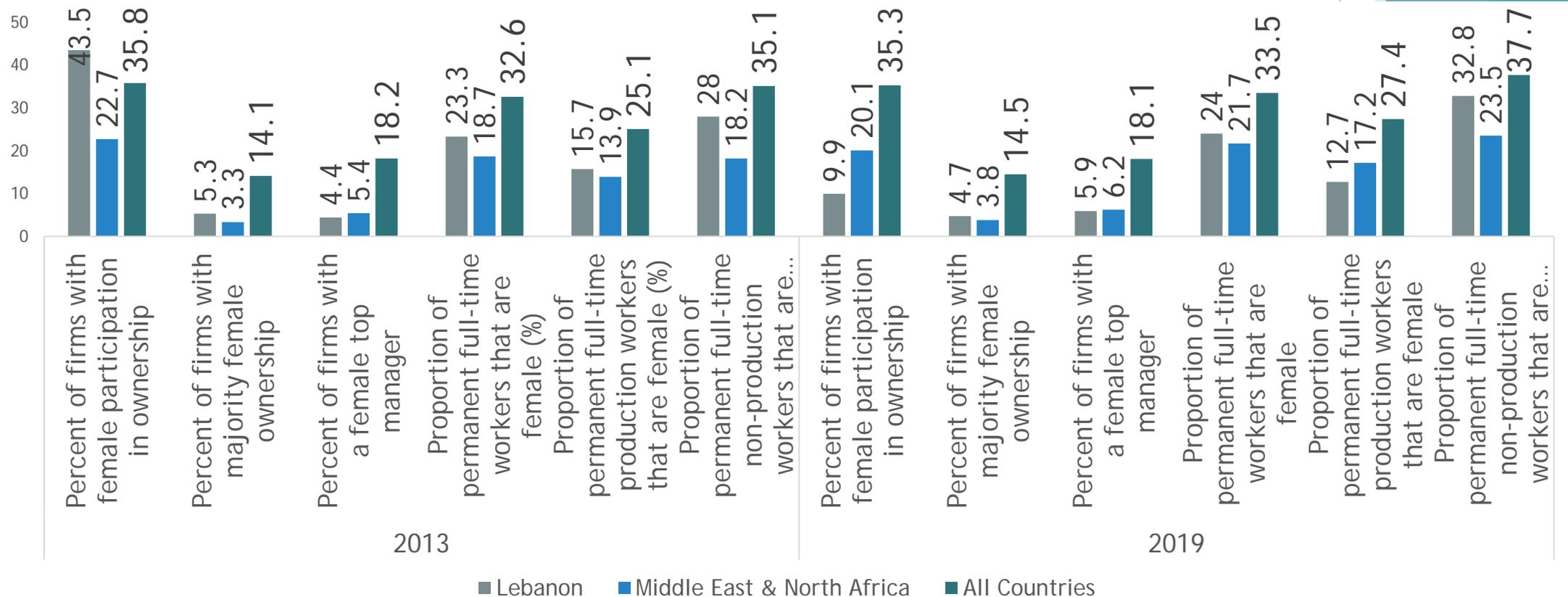
1- Lebanon is providing more trainings for their employees relative to other countries.

2- Since the number of demanded employees is lower than other countries, Lebanese production could be more capital intensive than the rest of the region.

3- Lebanon is hiring more skilled workers than the rest of the region.

3. Workforce composition of the Formal Private Sector

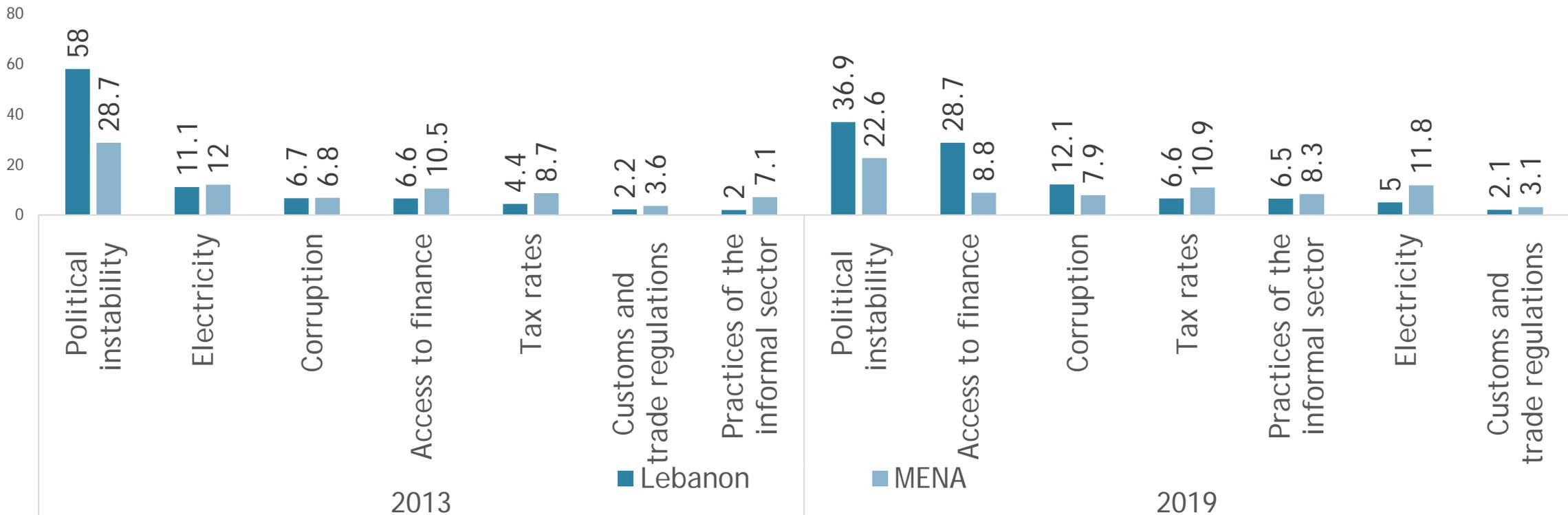
FEMALE WORKFORCE COMPOSITION IN PRIVATE FIRMS



Source: World Bank Enterprise Survey, Lebanon (2013) and Lebanon (2019)

Percentage of female's entrepreneurs decreased significantly between 2013 and 2019.

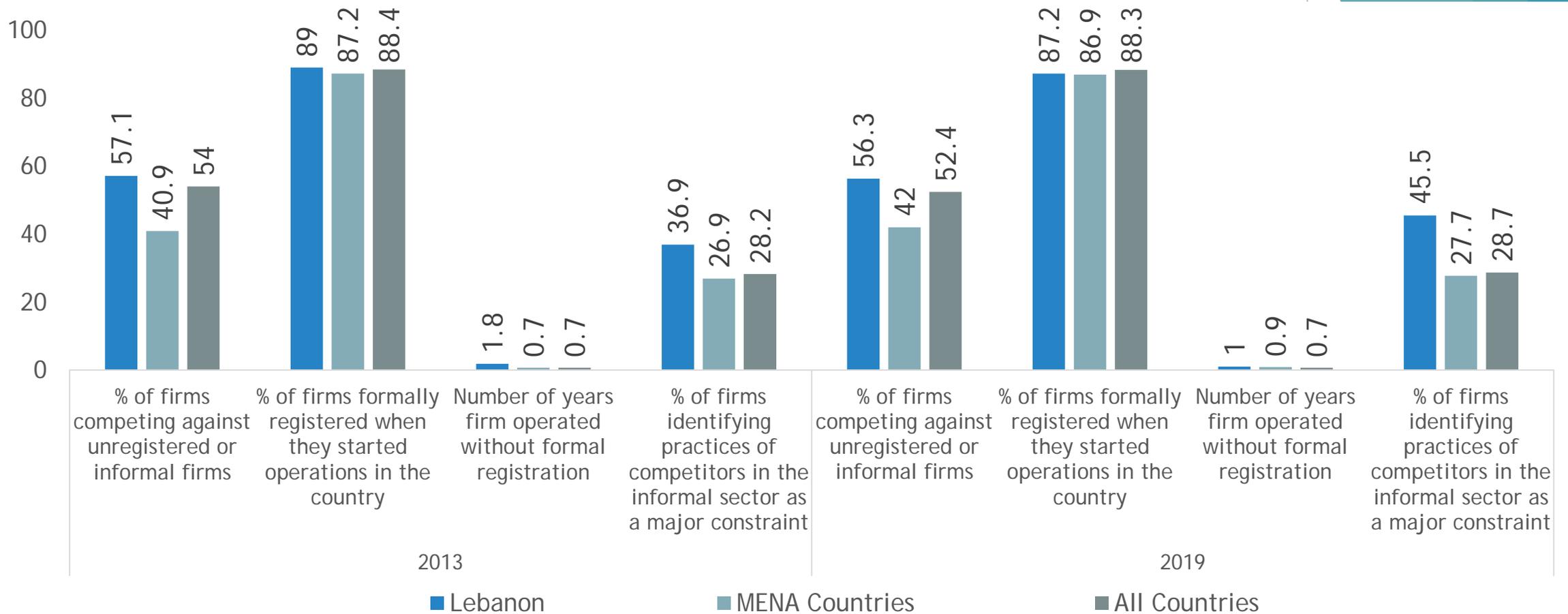
5. Biggest Obstacles Facing Private Firms (%)



Source: World Bank Enterprise Survey, Lebanon (2013) and Lebanon (2019)

Political instability, corruption, access to finance and lack of electricity are all time blockers of Private sector development.

6. Informality in the Lebanese Private Sector



Source: World Bank Enterprise Survey, Lebanon (2013) and Lebanon (2019)

Most firms in Lebanon face informal sector competition in economic activity. ²¹

III. Recommendations

Enact social protection policies and employment protection schemes

Provide an enabling business environment and revise the competition policy and investment climate

Enhance total factor productivity

Encourage additional gender inclusion in the production process, top management and firm's ownership

Create a national MSMEs rescue plan

Provide incentives to increase production in exporting firms/sectors

Provide incentives for job trainings

Thank you!

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