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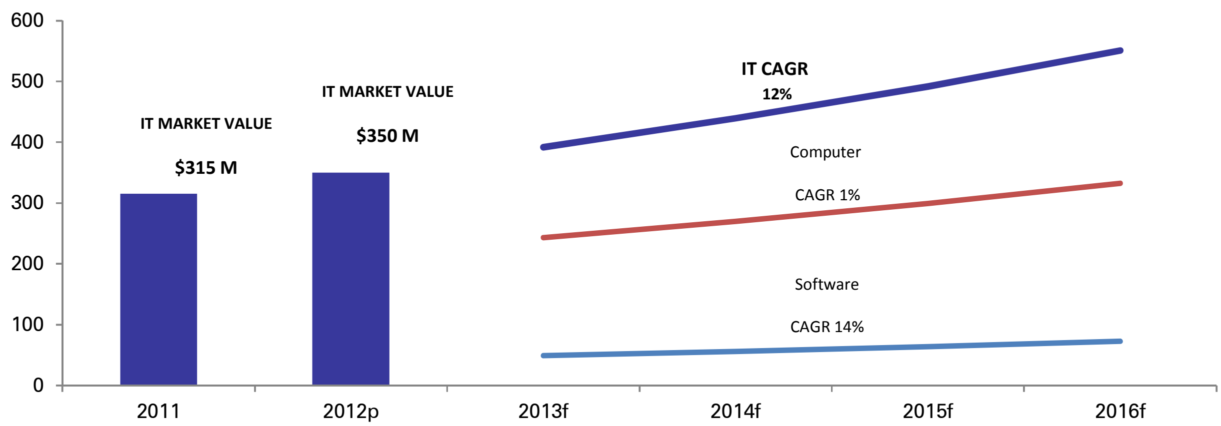

Source: Business Monitor International, Blominvest Research Departmetn
* the IT sector comprises the computer market, the software market, and the services market

The value of the IT market in Lebanon (excluding communication) is estimated at $315 million in 2011, and prospects for the sector are strong [1]. The IT sector is undergoing a recovery phase since the aftermath of the conflict that arose in 2006 and that has hardly hit the market. The total size of the sector has hence been scaling up steadily and is expected to reach $350 million in 2012, recording a record double digit growth, prompted by new investments in telecoms infrastructure initiated in 2011. The market CAGR expectation for 2012-2016 stands high at 12%[2].

Sub-Markets Performance

The IT sector comprises the computer market, the software market, and the services market, all of which own a strong healthy prospect on improved infrastructure, high economic growth, and effective government programs. Salaries vary widely according to the position within the field but the average pay for the sector stands at 2,168,526 LBP, falling short on the average salary in Lebanon for all jobs of 2,315,421 LBP. The PC market in Lebanon as in the region is dominated by international players with the top five brands, including HP, Acer, and Dell, capturing 50% of the market. HP, the top vendor of the Middle East, alone has a share of more than 20%[3].

Lebanese computer sales are projected to post a 10% y-o-y growth rate in 2012 to reach $219 million, and to grow at a CAGR of 11% by 2016 driven mostly by enhanced multimedia functionalities in areas such as MP3 functions, digital photography, global positioning system applications and wireless internet access[4]. The local computer market has a very low penetration of about 20% and is thus far from saturation. Opportunities to enter the market and boost its performance are hence highly existent but mostly dependent upon the government's ability to introduce and implement effective reforms that would target for instance higher fixed and mobile broadband penetration and provide means of funding for small businesses that are key players to the industry.

The software market is expected to grow at a slower pace than computer market as it faces severe piracy issues. The matter is being aggravated by the presence of locally assembled PCs in the Lebanese computer market who have little

[1] According to Business Monitor International (BMI)
[2] According to Business Monitor International (BMI)
[3] According to Business Monitor International (BMI)
[4] According to Business Monitor International (BMI)

incentive to install legal software as it would reduce their margins. The market is expected to reach $43 million in 2012 and grow at a CAGR of 14% up to 2016[5]. The hopes for high growth potential for the sector lie on the predominance of SME market with small companies mostly undergoing the developmental phase in terms of IT infrastructure. This is a big potential market for basic enterprise resource management (ERM) applications which implementation has grown over 2011. Banking is also a key opportunity for software vendors. Another booster of growth is the development of the software industry in Lebanon which is resulting in exports growth for the sector. While no data on the amount traded is accessible, the growing exports of Lebanese software and the enhancement of the branding and image of software products manufactured in Lebanon are guaranteed and reflect the development of domestic information technology. The government role, along with the support provided by IDAL and the Professional Computer Association (PCA) in combating piracy and enhancing the quality of products offered, is prime in driving up the growth of the market.

The IT services market is expected to grow as well to reach $88 million in 2012. Consumption of these services is projected to account alone for 24% of all IT spending in Lebanon during the year, and is predicted to grow further with the government's, telecoms companies', banks', and other customers' efforts to upgrade the sector[6]. Local firms are significantly competitive, providing technical workers with training certified by major technology vendors such as Microsoft, Oracle, Cisco, HP, Sun, Intel, Dell, and IBM. This helps enhancing the technical skills of the developers and endowing professionals and engineers with the latest technology. "The export of software requires a high quality of products in order to face the strong international competition, thus the aim of the capacity building is to render our companies productive, cost efficient and successful for exports", highlights Michel Nseir, Chairman of the PCA's software committee. However, further improvement in broadband infrastructure is needed to unlock the potential growth of the IT services market in Lebanon.

Historic Trend

Prior to 2006, the Lebanese IT market was strongly positioned, standing out in the region as the fastest growing markets for notebooks and as the largest of the Levant PC markets, capturing 40% of the region's total value, followed by Syria and Jordan. However the country has lost its status as regional IT hub it earned in the 1990s, due to political instability of the country that intensified with the assassination of Prime Minister Rafik Hariri in 2005. To make things worse, the arrival of the war in 2006 exerted a disturbing impact on the IT sector. Distribution channels were disrupted and some retail outlets closed. Furthermore, spillover effects of lack of order drove a revival of software piracy and "grey" market activity.

Since the end of the war, steps have been successfully adopted from several agents to improve the situation and promise a strong prospect for the sector although Lebanon still ranks today behind most of the countries in the region in ICT development. In 2007, broadband services have been relaunched and in 2009 the government provided one-year contracts to Zain and Orascom to manage the mobile operators MTC Touch and Alfa respectively. In 2011, a chunk of the telecoms sector's annual revenues that are estimated at $1.5-$1.8 billion has been assigned by the telecoms minister to be earmarked to develop IT and communications sector. Also, 2011 marked the year when new bandwidth arrived to the country, via fiber-optic cable from Egypt and Cyprus. Intentions to expand 3G mobile broadband to around 90% of the country are being worked upon.

Foreign investment and international aid had a pivotal role to push the sector into recovery phase. The EU pledged more than $500 million in funding post-war up to 2010. The country was also allocated EUR187 million in financial assistance from the EU's European Neighborhood Policy program between 2007 and 2010[7]. The funding is put to use for several purposes among which enhancing the competitiveness of the private sector through improved quality management, modernization of Lebanon's justice system and development in Northern Lebanon, and several IT related projects, including an IT risk management system for the customs service to speed up customs processing, lower the cost of business, and strengthen enforcement of trade rules.

The government initiated a campaign to draw the attention of foreign investors in the Information and Communications technology (ICT) sector which embraces several multinationals among which Microsoft, Cisco, and Oracle, and which expansion is key to unlock Lebanon's IT potential and help it catch up with the regional IT boom. For that, international

[5] According to Business Monitor International (BMI)
[6] According to Business Monitor International (BMI)
[7] According to Business Monitor International (BMI)

organization, including USAID and EU, are offering funds to back programs helping to drive ICT penetration. IT vendors and multinational entities have hence helped rebuild the distribution channels which contributed to the recovery of the sector.

Unreached Market Potential

Since growth potential initiatives are not being fully adopted, the Lebanese market is far from saturated and stands as a great venture opportunity for global vendors. Several sectors are witnessing a growing demand for IT products and services. This encompasses the resilient and competitive local banking sector, telecoms, transport and logistics, retail and distribution, utilities and government. Additionally, large local companies and government entities are in urge to upgrade and replace PCs amidst changing administrative policies whereby the government propelled e-initiatives, such as in healthcare, which involves the computerization of medical records and mandatory health card. On the corporations' level, as stated above, numerous enterprises are initiating new enterprise resource planning (ERP) solutions, among which Qualco, a leading contractor, which is implementing the Coins ERP solution to offer an "Enablement Platform". Also, the switch to the Windows 7 operating system and new Intel core technology would help trigger a new cycle of hardware upgrade[8]. These stand as further elements to capture the eyes of global vendor.

Another attracting factor for vendors is the high reconstruction potential of the market, which is mostly being led by international entities. Small businesses are key players, as they make up the bulk of the country's 700,000 businesses amidst great arising regional business opportunities, and most of which are still in the developmental phase of IT infrastructure.

The landscape of the Lebanese IT market is healthy from the viewpoint of vendors and investors. The IT-literate, cosmopolitan, and linguistically skilled local workforce add up to the country's strategic position for the Levant markets, driving global companies such as Microsoft and Intel to position their offices here. The government eyed this trend and contributed heavily by offering licenses to a number of international call centers companies which could enhance the growing opportunity for IT vendors.

Also, if privatization materializes as planned, and the government initiates other steps to further enhance the development of the sector and improve its infrastructure and capacity, such as the expansion of 3G broadband, foreign investment would be heavily drawn into the market. This would help expand sub-sectors from computer market, to software market, to services market, and the IT sector would benefit from a huge potential growth.

It is estimated that if cited actions are adopted, the Lebanese broadband capacity could possibly be boosted by 250%[9].

Challenges Ahead

The potential IT market growth of Lebanon does not arise without challenges. The significant size of the informal sector and the "grey market", as well as underdeveloped distribution and retail sectors stand as significant hurdles for vendors. Most of PC sales in Lebanon are accounted for by local assembly, which limits the size of opportunities for foreign brands. Software piracy was estimated at 78% in 2008[10]. But the government along with Microsoft is well estimating the importance of the issue and taking active actions on that front.

Another vital matter is the underdeveloped telecoms infrastructure, with fixed-line penetration, as stated earlier, hovering around 20%, and lack of high speed and high cost of internet connection reaching around $400 in some rural areas[11]. Hence, Lebanon falls much behind the region in terms of broadband connectivity. The government is boosting its effort to propel growth in this area as broadband capacity upgrade is perceived key for the development of the sector as well as the whole economy.

Also, the low income level of the country stands as another difficulty for vendors, which explains partly the low national PC penetration rate, and reveals that the market is far from saturated. While this comes to bad news to vendors, it offers a

[8] According to Business Monitor International (BMI)
[9] According to Business Monitor International (BMI)
[10] According to Business Monitor International (BMI)
[11] According to Business Monitor International (BMI)

great opportunity for them that if captured properly would entice significant growth. Hence developments are being brought for instance through awareness campaigns being initiated by the government and the private sector to boost cognizance of business companies about the benefits of IT as currently most customers, being on a budget constraint, look out for affordability and disregard other sides of the products. Actions are sometimes accompanied by financial funding, for home and school use of PCs which would boost internet penetration and lead ultimately to higher IT demand.

While efforts are being put by several agencies to upgrade the conditions of the sector in Lebanon, the fate of IT, locally, remains dictated by the government's ability to move on with the required reforms and offer a stable and assuring political sector that is key for introducing a national ICT strategy to unlock the growth potential of IT on domestic grounds.

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