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INCREASING ENTERPRISE GROWTH AND JOBS IN LEBANON

**OPTIONS TO INCREASE SME GROWTH AND JOBS
ASIA & MIDDLE EAST ECONOMIC GROWTH BEST PRACTICES
PROGRAM**

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PROGRAM

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ACRONYMS

ACC-VET	Advisory and Coordinating Committee for Vocational Education and Training steering committee
ADR	Alternative Dispute Resolution
AMEG	Asia Middle East Economic Growth Best Practices Program
AOU	Arab Open University
AUB	American University of Beirut
BEE	Business Enabling Environment
BT	Baccalaureate Technique
CAD/CAM	Computer-aided Design / Computer-aided Manufacture
CCIAT	Chamber of Commerce Industry and Agriculture of Tripoli
CIT	Centre International Des Sciences Techniques
CNAM	Centre régional associé au Conservatoire national des arts et métiers
DGVTE	Directorate General for Vocational and Technical Education
DS	Dual System
EBRD	European Bank for Reconstruction and Development
EU	European Union
ETF	European Training Foundation
FDI	Foreign Direct Investment
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
GoL	Government of Lebanon
ICSID	International Center for the Settlement of Investment Disputes
ICT	Information and communications technology
IECD	European Institute for Cooperation and Development
IDLO	International Development Law Organization
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ITC	International Trade Center of the WTO
IQS	Indefinite Quantity Services
MEHE	(Lebanese) Ministry of Education and Higher Education
MoET	(Lebanese) Ministry of Economy and Trade
NEO	National Employment Office
NGO	Non-governmental Organization
PPD	Public-Private Dialogue
PPP	Public Private Partnership
SEZ	Special Economic Zone
SME	Small and Medium Sized Enterprise
TVET	Technical / Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development

UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
WFD	Workforce Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

In January 2015, USAID engaged the USAID Asia and the Middle East Economic Growth Best Practices Project (AMEG) to examine impediments to private sector growth — particularly the growth of small and medium sized enterprises (SMEs) — and opportunities for USAID to remove or alleviate these impediments in the future. The assessment examined enterprise development challenges and opportunities across five areas to propose recommendations to support:

1. Advocacy for an improved business enabling environment
2. Demand-driven business development services (BDS)
3. Increased trade and export linkages
4. Enhanced workforce development
5. Opportunities for growth in special economic zones.

The assessment examined the needs of SMEs and high-growth lead firms within key sectors and value chains to identify specific bottlenecks to growth as well as to identify strategic interventions to support SMEs developing goods and services for which demonstrated demand and commercial matchmaking opportunities exist. The scope of work for the assessment can be found in Annex I.

The AMEG assessment was conducted in Lebanon over a period of six weeks in February and March 2015 by a team made up of experts from Chemonics International, Banyan Global, and the Pragma Corporation. Desk research was followed by interviews with more than 200 representatives of chambers of commerce, business associations, government ministries, donors, universities and vocational training institutes, banks, incubators, as well as business owners and experts. Included in the total number were 55 interviews with SMEs representing 11 different industries. The assessment team also held two focus groups with small, medium, and large enterprises to ground truth findings. In addition, the team hosted a large public event to share findings and build consensus around next steps for USAID.

Policy and regulatory constraints and advocacy for reform. While at least 11 laws pose real challenges to the business operating environment and are in need of updates, most businesses cited non-regulatory issues such as electricity outages, poor internet, poor transport infrastructure, corruption, and customs delays as their main constraints to growth. Lebanon remains in a state of political paralysis due to the inability to elect a President, but the development of a new SME Strategy 2020 by the Ministry of Economy and Trade (MoET) is helping to reinvigorate dialogue around reforms to support the business enabling environment. The SME Strategy has identified six areas for reform, and MoET is assembling committees led by public officials and business leaders to spearhead them. This structure is a significant step toward a formalized advocacy process, and presents an opportunity for USAID to support reform by providing selective advisory and research expertise on an as needed basis. USAID can also work with private sector advocates to structure compelling platforms for reform.

Business development services. Of the 55 SMEs interviewed, the vast majority were relatively advanced and sophisticated, sometimes world class in their industry/sector, but were either the only one, or part of a very small group of enterprises active in their sector or sub-sector in Lebanon. Of the 55 SMEs the assessment team interviewed, at least 20 percent were poised to grow immediately and hire new workers with targeted technical assistance. These firms needed help identifying and developing strategies to: enter new export markets; implement new technologies and more efficient production techniques; and conceptualize, research, and test new products. Many of the firms are in high-growth sectors and sub-sectors as identified by the assessment team: agro-processing; pharmaceuticals/medical; light manufacturing; alternative energy and recycling; information and communications technology and media; and ready-to-wear fashion and accessories. These businesses need highly individualized and specialized coaching, mentoring, and technical assistance to grow and hire significant numbers of new employees. As such, USAID should employ a development approach that works directly with individual medium to large firms to identify new buyers, develop strategies to enter new markets, and increase sales and jobs. Target firms will be committed to working with USAID to achieve growth. Strategies for growth will be developed and driven by the firms themselves with mentoring and technical assistance provided by a USAID-funded program to help address bottlenecks in production, overcome constraints to export, and hire and train additional workers. Firms participating in the program will be expected to pay for a portion of the technical assistance costs, implement recommendations, and report progress toward new sales and employee targets.

Enhancing trade and exports. Many firms and business support organizations expressed a lack of access to information to trade information and the need for help understanding foreign markets and export requirements. While Lebanon has a well-developed consulting industry, the assessment team could not find consultants specializing in trade/export support and facilitation. In addition to assisting individual firms to meet export requirements, USAID can build on existing USAID best practices and tools to support high-functioning chambers of commerce and business associations to prepare their members to export to new markets. For example, a USAID-funded program can strengthen the capacity of chambers to provide training and online toolkits aimed at members in sectors with high export potential. It can also co-fund participation of member firms in trade fairs and facilitate matchmaking with potential buyers. Exporting involves a wide range of service providers, such as customs brokers, freight forwarders, distributors, bonded warehouses, and the like. A USAID-funded initiative could also help chambers connect first-time exporters to service providers who have demonstrated flexibility and openness to dealing with new market entrants.

Workforce development. The sixth most mentioned constraint for SMEs in a 2009 World Bank Report was “skills and education of available workers,” with 55 percent of enterprises listing a general lack of skills, including problem solving, creative thinking, and management skills, among employees as a serious matter. There are also significant gaps between the skills that employers demand and those that workers have. Neither universities nor vocational and technical training institutes are currently providing the

skill sets demanded by employers. As USAID works with individual firms, it can identify the skill sets needed to fill immediate job vacancies and work with university and technical vocational education and training (TVET) career centers, as well as support more targeted job fairs to identify appropriate candidate pools. A USAID-funded program could also work with existing training providers and employers to design and implement post-employment training programs that enable new hires with some, but not all of the desired experience, to master the skills most critical for their new jobs.

Special Economic Zones and Industrial Parks. Special Economic Zones (SEZs) are special geographical regions, designated by law, where certain laws (typically on taxation, trade, and certain sorts of regulation) are suspended or amended in order to allow the rapid growth and development of enterprises. SEZs have been engines of development and growth in a number of countries across the region. SEZs have attracted much attention and discussion in Lebanon in recent years, establishing an SEZ is a complex and lengthy process that may or may not prove unsuccessful in the end. In addition, prior to any engagement on development of an SEZ in Lebanon, the SEZ law must be amended. In light of the current political situation, it is unlikely that any amendments to the law will be passed in the near term. There are a couple of municipalities which have started the process of creating Industrial Parks. Initiatives in Saida and Terbol have advanced with the support of local mayors and chambers. USAID could help support those municipalities and chambers in the planning process.

Youth and gender considerations. In Lebanon 42.4 percent of the population is below the age of 25. Youth aged 15-24 are currently experiencing a 24 percent unemployment rate. This rate is even higher in regions outside of Beirut. Lebanese youth are highly educated, but Lebanon produces far more educated job seekers than the domestic labor market needs. For more disadvantaged, and less educated Lebanese youth, the presence of migrant workers depresses wages for low productivity/low skilled jobs. There is no national strategy being implemented to support youth employment, and youth are at a disadvantage resulting from the lack of guidance provided on study and career pathways. Poor opportunities exist for apprenticeship-style practical work within the school context. USAID can support job fairs, work with firms, universities, and TVET centers to establish more internships and hands-on learning opportunities for students, and co-finance post-employment trainings to help recent graduates' develop relevant skill sets on the job. USAID's approach should also consider regional distinctions into consideration when designing programs to affect youth employment opportunities.

Lebanon benefits from a high volume of experienced female entrepreneurs relative to other MENA countries. With respect to business development and financial services however, women-owned business in Lebanon are disproportionately less served. There is a high demand among female business owners for greater access to information and training on topics such as general business management skills, using financial products such as SME lending products or equity capital, exporting, accounting and financial management, and selling to large, multi-national corporations. By taking an active approach to seeking out female business owners and entrepreneurs, USAID can

positively affect women's access to untraditional employment and increase opportunities and chances for success in growing their businesses.

Program recommendations. The AMEG team's mandate included the development of specific, actionable recommendations for USAID assistance in Lebanon. Criteria used for assessing potential assistance included:

- Contribution to sustainable job creation;
- An identified market demand;
- Existence of a capable implementing partner;
- Activity leverages prior or current assistance by the U.S. Government and/or other donors and/or represents a good opportunity for a Public Private Partnership;
- Impact extends beyond area of Greater Beirut;
- Activity positively impacts women and/or youth.

The three program recommendations below could be implemented as three separate activities, but would likely be more effectively implemented as three components in a larger, five-year, integrated enterprise and workforce development program. This three-faceted program could leverage lessons learned and identify synergies across components to have greater impact on enterprise growth and job creation at lower cost. All three proposed options should focus activities in Beirut, Bekaa Valley, North, and South Lebanon.

1) Firm-Level Technical Assistance to Enterprises

Objective: Achieve business growth leading to incremental employment, increased exports, and improved competitiveness through providing targeted technical assistance to partner enterprises in Beirut, Bekaa Valley, North, and South Lebanon.

Scope of Work: Over the course of a 5-year USAID funded activity, a team of 5-6 local business advisors with extensive work experience in the private sector will work with medium to large partner firms (20-100+ employees) to provide coaching and mentoring, identify new opportunities for growth and job generation, and develop technical assistance plans to take advantage of those growth opportunities. To be successful, the approach must remain "by business people for business people." This means that technical assistance activities will largely be driven by the firms themselves. Assistance will be cost-shared and will be implemented via subcontracts with local consulting firms. In select cases where highly specialized technical assistance is required that cannot be found in Lebanon, the program will pair international consultants with local consultants/firms to build capacity. While firms in any sector would be eligible for assistance, business advisors will begin by seeking out firms in sectors with high-growth potential such as: agro-processing; pharmaceuticals/medical/health care; light manufacturing; alternative energy and recycling; information and communications technology and media; and ready-to-wear fashion and accessories. The assessment team

estimates that with ideal conditions and staff, this type of program could work with 500 enterprises to create more than 10,000 jobs over a five-year period.

2) *Export Promotion*

Objective. Facilitate SME entry into new regional and international markets and increase SME export sales by strengthening the export promotion capacity of businesses through associations and chambers of commerce.

Scope of work. Driven by challenges and issues identified through the development of firm-level assistance agreements, this program will help partner SMEs to identify and capitalize on opportunities to export products to new regional and international markets. Business advisors will work with firms to address specific challenges and opportunities to export at the firm level. It will also utilize lessons learned through firm-level assistance and partner with business associations and chambers of commerce to strengthen and consolidate tools to help SMEs in sectors with high-export potential familiarize themselves with new markets, identify specific buyers, and develop strategies to export. This would involve co-sponsoring relevant export trainings and online toolkits, SME participation in regional and international trade shows, and market studies for sectors with high export potential. The assessment team estimates that this type of program could work with three to four chambers and create 780 jobs over a five-year period.

3) *Workforce development and job matching*

Objective. Foster more demand-driven education and facilitate job matching to ensure that new jobs created as a result of growth of partner firms can be filled.

Scope of work. The program will work with firms receiving individualized assistance to identify job vacancies and candidates with appropriate skill sets. The program will also work with business associations and Chambers to improve job fairs (in-person and virtual) and sponsor attendance at job fairs for SMEs. The program will work with university and TVET career centers to help them understand the types of skills in high-demand, advocate for integration of more practical learning opportunities into curricula, and to strengthen job-matching programs, tools, and events. In addition, the program will work with employers and local training providers to develop short-term, post-employment training programs for new hires with less experience. Additionally, the program can work through existing training providers to target trainings to mid-career professionals in need of skills upgrading. The assessment team estimates that this type of program could help match 2,250 job seekers with new jobs.

Overall, these three proposed activities are estimated to create a total of 13,230 jobs at a cost of roughly \$2,645 per job.

SECTION I: INTRODUCTION

The Lebanese economy faces challenges in the areas of competitiveness, diversification, and modernization, as well as the overall capacity to absorb a large existing pool of unemployed labor and the continuous addition of young graduates seeking to join the workforce. Over the next 10 years there will be an average of 19,000 new entrants into the Lebanese labor market annually. To absorb them, the economy would need to create more than five times the number of jobs it currently offers, which is estimated at only 3,800 net jobs per year. (Robalino & Sayed, 2012)

Using the proposed Ministry of Economy and Trade (MoET) definition of firms with 10-100 employees, small and medium enterprises (SMEs) make up more than 93 percent of registered businesses in Lebanon and employ roughly half of all workers. (Inventis, 2014, p. 14) Therefore, growth of the SME sector is essential to developing a diversified, dynamic, innovative, and competitive economy in Lebanon capable of providing the required quantity and quality of employment opportunities.

MoET's SME Strategy further makes the case that "Lebanese entrepreneurship can become an essential lever for economic development and the fight against unemployment." As compared to other countries in the region, Lebanese entrepreneurs are highly educated and employable. Roughly 82 percent of Lebanese entrepreneurship is driven by the desire to capitalize on opportunities rather than driven by necessity to generate one's own employment. And these entrepreneurs are typically successful in building sustainable, high-growth businesses with high-employment potential. (Inventis, 2014, p. 15) Additionally, a growing group of incubators, accelerators, venture capitalists, and entrepreneurial support organizations has cropped up to support them.

Recognizing the potential of Lebanon's SMEs to become critical drivers of job creation and economic development, MoET developed a series of strategic thrusts and proposed initiatives under each to address constraints to SME growth. The six thrusts are:

1. Evolving Business Leaders
2. Facilitating the "Right" Funding
3. Improving Access to Markets
4. Enhancing Capabilities and Innovation Capacity
5. Developing a Conducive Business Environment and National Environment
6. Ensuring Coherence and Effective Coordination. (Inventis, 2014, p. 37)

A. Purpose of Assessment

Recognizing the opportunity to support and build upon momentum generated by MoET's new SME strategy, in January 2015, USAID engaged the USAID Asia and the Middle East Economic Growth Best Practices Project (AMEG) to conduct an assessment of the prospects for enterprise growth and job creation in Lebanon. The assessment examined enterprise development needs across five areas to report on the current situation of SMEs in Lebanon as well as propose recommendations to support:

- Advocacy for an improved business enabling environment
- Demand-driven business development services (BDS)
- Increased trade and export linkages
- Enhanced workforce development
- Opportunities for growth in special economic zones.

The assessment examined impediments to private sector growth — particularly the growth of small and medium sized enterprises — and opportunities for USAID to assist in removing or alleviating these impediments in the future. The assessment examined the needs of SMEs and high-growth lead firms within key sectors and value chains to identify specific bottlenecks to their growth. The assessment also attempted to identify strategic interventions to support SMEs to produce and market goods and services for which demonstrated demand exists. Furthermore, the assessment examined the potential for public-private sector partnerships to leverage resources to contribute to increased SME productivity, sales, and exports.

B. Methodology

The AMEG assessment was conducted in Lebanon over a period of six weeks in February and March 2015 by a team made up of experts from Chemonics International, Banyan Global, and the Pragma Corporation. The team conducted initial desk research – reviewing relevant national strategies, government and donor reports, statistics, etc. (see Annex A) – to gather data on key sectors and sub-sectors, identify key public and private sector interviewees, and understand past and present donor and government programs to support job generation and economic growth.

The desk research was followed by interviews with more than 200 representatives of chambers of commerce, business associations, government ministries, donors, universities and vocational training institutes, banks, incubators, as well as business owners and experts. The assessment team also hosted two focus groups with small and medium enterprises to ground-truth findings and a larger public event to share findings and build consensus regarding next steps. The interviews made it possible to gain an in-depth understanding of policy and regulatory challenges in Lebanon, high-growth and emerging sectors and sub-sectors, the Lebanese labor market and skills shortages, and ongoing efforts by the government, USAID, and other donors to support economic growth. Interviews were conducted in Beirut, Mount Lebanon, Saida, Tripoli, and the Bekaa Valley. The team spoke with and visited 55 Lebanese private sector enterprises across 11 sectors and industries, including:

- Cosmetics
- Energy
- Fashion/garments/footwear
- Food production and processing
- Franchises
- Furniture and home goods

- Information and communications technology (ICT), including media, film, and advertising
- Industrial manufacturing
- Packaging and plastics
- Tourism and hospitality
- Waste management and recycling.

The assessment team used structured interviews to gauge SME needs, willingness, and ability to grow with targeted technical assistance. Focus group meetings with SMEs in Beirut provided an opportunity to understand specific and pressing challenges faced by business owners, particularly in those sectors with potential for growth and job creation. A discussion of major types of technical assistance necessary in Lebanon is included in Section III.

C. Special Considerations

The team was asked to focus recommendations on interventions that would help create jobs for Lebanese workers in Lebanon. However, the large number of Syrian refugees living in Lebanon as a result of the conflict presents a significant challenge for the government that must be addressed. While more recent restrictions limit Syrian refugees' ability to obtain formal employment in Lebanon, many refugees are engaged informally or in seasonal, weekly, or daily low-skill, low-wage positions in agriculture, domestic services, and construction. The team did not specifically examine employment opportunities for refugees as part of this assessment, but did try to take note of opportunities in sectors that could impact the availability of new jobs, both high and low-skilled, for all those residing in Lebanon.

The team also examined the issue of high rates of youth unemployment and potential interventions to generate additional employment opportunities and match them with youth with less experience in the workforce. In addition, the team examined barriers to employment for women and constraints to growth of women-owned enterprises. Section VII highlights some of the team's findings around youth and gender constraints and potential options for addressing them. The team also took these considerations into account when designing its recommendations for increasing overall enterprise growth and job creation in Lebanon.

SECTION II. POLICY AND REGULATORY CONSTRAINTS FOR SME GROWTH AND INSTITUTIONAL CAPACITY TO ADVOCATE FOR CHANGE

A. Overview of Policy and Regulatory Constraints to SME Development

The policy and regulatory constraints to SMEs in Lebanon are well documented. Whether they are immovable at this stage in Lebanon's development remains a subject of some debate. Most interviewees who participated in the assessment, in both the public and private sectors, believe the political paralysis that currently grips the country will not be resolved in the near term.¹ Nonetheless, a few people were at least hopeful that some regulatory changes continue to be possible. But it is clear such changes are conceivable only if they are addressed within an individual ministry and with the strong support of that particular Minister. Broad or systematic regulatory reforms are not believed to be feasible at this time. For the situation to change, at least two things need to occur: a president must be selected to help normalize Lebanon's political structure and a culture of organized public-private dialogue must develop.

B. Findings: Policy and Regulatory Constraints to SME Growth

The recently completed SME Strategy 2020, produced by the Ministry of Economy and Trade, offers an overview of the regulatory environment and reform areas critical for economic growth. Five laws – of the many awaiting passage – are highlighted in the strategy as particularly important to help move toward a more supportive regulatory environment for small and medium-sized enterprises:

- The Code of Commerce
- The Insolvency (Bankruptcy) Law
- The Public Procurement Law
- The Domestic and Foreign Investment Law
- The Labor Law. (Inventis, 2014)

In most of these cases, outdated legislation will be replaced. The Code of Commerce, Bankruptcy, Public Procurement and Labor Laws, for instance, are intended to replace anachronous laws from Lebanon's colonial past. The Domestic and Foreign Investment Law was introduced to address a legislative gap in the ways of doing business during the 21st century, particularly reflecting the advent of globalization.

In addition to the above, there is general consensus about several other laws and reforms which should also be included among the reform agenda's early priorities:

¹ At this writing (April 2015), the political paralysis is particularly extreme: Lebanon has not had ~~no~~ a President for several months, and each of 24 ministers has de facto veto power over proposed legislation. While it is not expected that this situation will last for years, even with a President in office it will not be easy to pass new legislation.

- A Secured Transactions Law
- The Anti-Corruption Strategy
- The National Energy Efficiency Action Plan
- The Competition Law
- Establishment of a Trade Promotion Agency
- The Law for Tax Reduction on Exports (passed but not implemented).

These laws are commonly found in other developed and developing countries, and are fundamental for Lebanon’s evolution toward a friendlier legal and regulatory environment. For instance, a secured transactions law is important to further improve the flow of financing while offering creditors greater protection in the event of debtor bankruptcy. The Anti-Corruption Strategy presents a way forward to combat the pervasive graft and corruption amongst Lebanese governmental entities, which now significantly adds to the cost of doing business. The Competition Law is intended to establish parameters limiting the monopolistic practices and oligopolistic collusion that has so greatly concentrated wealth in the country today.

A set of 69 laws, including most of these and several other useful commercial laws, was prepared for presentation to Parliament several years ago. (UNDP) However, this package was never advanced. The general consensus is very few of these laws will be reviewed or passed until a new president is in place. Even then, the “package of 69 laws” has itself become somewhat controversial and many of the laws are unlikely to move forward unless they are first reformulated.

Table 1. Legal and Regulatory Reform Priorities for SME Growth and Job Generation

Law	Priority Level	Considerations
The Code of Commerce (Commercial Code)*	1	Critical to improve legal transparency for commercial relationships and contracts. Will improve the investment climate.
The Insolvency (Bankruptcy) Law*	1	Important to allow companies to liquidate without criminal proceedings and seek protection during restructuring for continued economic contribution. Allows for continued use of productive assets.
The Public Procurement Law*	1	Needed to improve transparency and encourage broader access to lucrative government contracts, particularly for SMEs.
The Domestic and Foreign Investment Law*	1	Facilitates secure investment in Lebanese entities thereby fostering growth. Important to clarify recourse for all investors especially for FDI.
A Secured Transactions Law*	1	Reduces lending risk by allowing lenders to take a secured interest in collateral; also, works in parallel with an effective bankruptcy law for liquidations or restructuring, and protection of creditor's rights.
The Anti-Corruption Strategy*	1	An important first step to establish a roadmap to fight endemic corruption and the cost burden to private enterprises.
The National Energy Efficiency Action Plan	1	A roadmap to address the dysfunctional system of energy use, its high cost to business (reducing competitiveness) and the resulting environmental degradation.
The Competition Law*	1	To foster a level playing field for all enterprises and reduce

		the heavy concentration in two-thirds of Lebanese industry sectors, wherein 70% of all economic activity is controlled by three firms.
The Labor Law	1	This law needs review but should be directed at reducing the outdated and restrictive termination regulations, which act as disincentives to new hires. In tandem with the social security law amendments, it should also offer a statute of limitations for company liability to ex-employees and damages thereof.
The Law for Tax Reduction on Exports (passed but not implemented)*	1	One of several important laws to encourage exports, which are a key component to economic growth for the country, especially for companies in the 50+ employees category.
Law to establish an export development (promotion) agency*	2	Another important law to incentivize exports (see above). While an export development agency is not a panacea for export development, if well-resourced it offers a starting point for SMEs without export experience.
Commercial registry regulations*	1	Important to enact in parallel with a secured transactions Law for lower risk lending.
Collateral Law*	1	Also, important to enact in parallel with a secured transactions Law for lower risk lending.
Law for foreign trade and licensing*	2	Needs review but should work in harmony with the law to establish an export development agency and function.
Six Laws pertaining to IPR protection and registration of marks*	2	The content of these laws have not been examined and will need thorough review and harmonization. However, the need for IPR protection is clearly a priority, particularly for the ICT, agro-processing, consumer goods and light industrial sectors.
Draft Law on public private partnership*	2	A vital component to ensure initiatives like the SME Strategy 2020 have the legal framework to implement well-structured PPPs through public-private dialogue.
Amendments to the monetary and credit Act*	2	Needs review but should be harmonized with secured lending, commercial registry and collateral laws.
Law on contracts lending instruments and financial instruments*	2	Needs review but should be harmonized with secured lending, commercial registry and collateral laws.
Electricity Law*	2	Needs review but should work in harmony with the National Energy Efficiency Action Plan to normalize the generation and distribution of electrical power reliably and cost effectively.
Three Laws for social security system amendments and reform*	2	Should be harmonized with the Labor Law and directed toward reducing the employer paperwork burden, establishing a statute of limitations on company liability for ex-employees and eliminating inspector harassment – while offering protection for pensioners. These actions will increase incentives to hire people while improving social protection.

**Included in the list of the 69 laws*

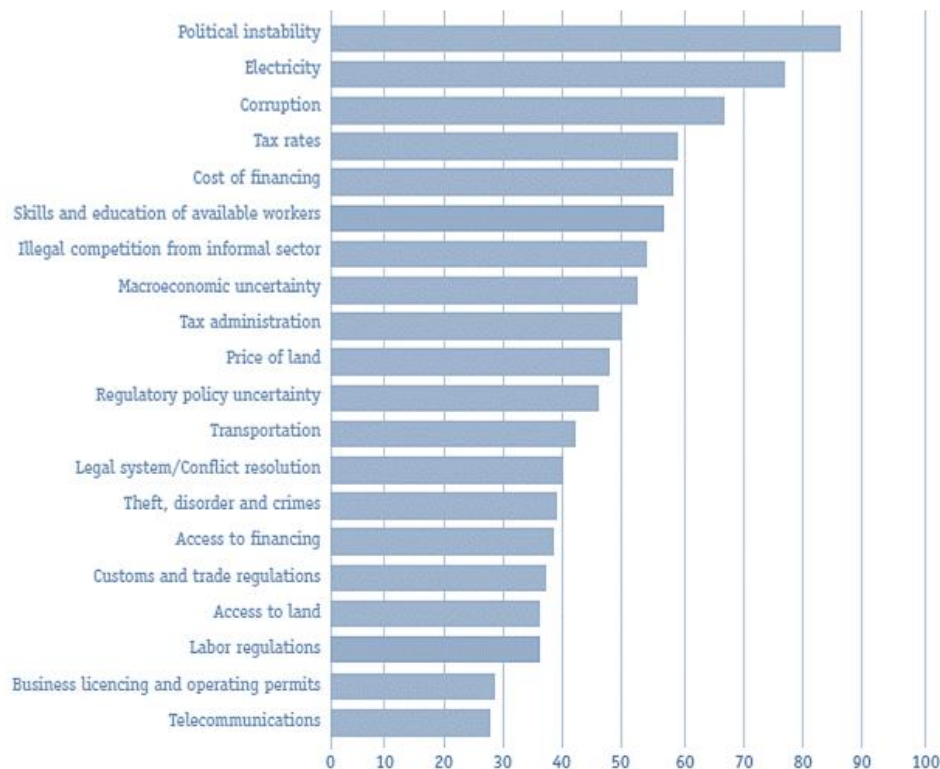
C. Findings: Non-Regulatory Barriers to SME Growth

The legislative process in Lebanon has been at a virtual standstill for years. As noted above, no major commercial laws have been passed since 2006; in addition, few relevant regulations have been passed or amended, and few Ministries or agencies have undergone a review and reform of existing policies.

For businesspeople, this has necessitated finding circuitous ways of avoiding obstructive regulations. The business community has done this very effectively. In fact, most

business owners and managers interviewed downplayed regulatory barriers and asserted that other factors in the operating environment were typically more problematic as business impediments. Some of the above operating environment factors can be dealt with through improved regulations. However, most do not require anything more than resources and the will to implement existing laws and regulations. As several interviewees put it [paraphrasing]: We don't expect regulations to change, we just want government to get out of the way. Those most commonly cited included the following issues.

Figure 1. Leading Constraints to Lebanese Enterprises (% of firms identifying constraint as major or very severe)



Source: World Bank, 2009.

Electricity outages and cost of auxiliary power generation. This is perceived as the most serious of the top three impediments to SMEs in Lebanon, particularly SMEs involved in industry and/or manufacturing. The state-run utility Electricite du Liban (EdL) sells line power at a very low, subsidized price of about \$0.07 per kilowatt-hour.² However, brownouts and blackouts are common, especially outside of central Beirut, undermining security of electrical supply in small and medium size industries. Most SMEs compensate

² It costs EdL about \$0.20 per kilowatt-hour to produce the electricity it sells for \$0.07. By way of comparison, line electricity in the United States typically costs between \$0.10 and \$0.15 per kilowatt-hour. In most large European countries, prices range between \$0.15 and \$0.20. A full discussion of EdL's problems is beyond the scope of this report, except to note that they are severe, and include problems with production, distribution, transmission, administration, and finance.

by purchasing diesel generators. Generators are an expensive investment in their own right and the electrical power from them is also quite costly, between \$0.35 and \$0.60 per kilowatt-hour, depending on the size and type of the generator. The use of generator power varies from place to place, but most of Lebanon's businesses get at least one-third of their electricity from privately operated generators. The regular use of generators forces SMEs to operate under a higher cost structure than foreign competitors. Photovoltaic solar is gradually being introduced, notably by the EU-funded CEDRO program, which is piloting green villages and solar array farms. However, as yet, use of solar and other renewables is not widespread. (UNDP-CEDRO, 2015)

Internet speed, reliability and cost. This is another of the top three most cited impediments to Lebanese SMEs. Considering Lebanon's income level and technical prowess, the lack of fast, reliable and affordable internet service is somewhat surprising, and it places Lebanon at a significant disadvantage vis-à-vis rivals from competing countries. Over 90 percent of telecommunications are government controlled and telecommunications remain a large source of government revenue. Historically, the government has tended to underinvest in the network, and has not emphasized bandwidth, reliability, or quality control. The situation impedes all businesses, but particularly those that rely on social media, e-commerce, and those with heavy bandwidth requirements and/or needs for high-quality connections.

Transport infrastructure. Export shipments by land are currently impeded. The border to Israel in the south is closed, while to the east and north the war in Syria makes export into or through that country very difficult as well.³ Most export shipments have little alternative other than embarkation from the Port of Beirut. The physical infrastructure of the Port has been modernized and should be capable of handling all of Lebanon's import, export, and transshipment needs. The Port however, appears to be somewhat understaffed, leading to occasional bottlenecks. More seriously, there are regular problems with Lebanese Customs, which has a negative reputation for inefficiency and corruption (see below).

Internally, there have been no functioning rail links in the country since the 1970s. (Ghazi, 1997) All in-country transportation must thus be handled by truck. Outside of Beirut and Mount Lebanon, Lebanon's roads are poorly maintained for a country of its income level; this is a particular problem in rural regions. Stops by authorities are frequent, ostensibly for security. All of these cause delays and damage to goods – in addition to the issue of unofficial payments [bribes] being demanded for continued passage.

Additionally, Lebanon's trucking sector is extremely fragmented and badly undercapitalized. This has led to a situation where margins for the industry are low, yet

³ Although, not quite impossible. At this writing (April 2015), land trade with Syria appears to be continuing, though at a reduced level. Land trade *through* Syria, to Jordan or Iraq, does still occasionally take place, though the dangers are quite high, as are the corresponding costs. Informal interviews with freight forwarders suggest that land trade with Syria has dropped by about 50% to 75%, while land trade with Jordan and Iraq has dropped by 90%-95%.

costs to the consumer are high. For instance, moving a single 40-foot container from Mount Lebanon to the Port – a distance of just 10 miles – can cost over \$200.

Customs clearance. Related to the transport problem, but deserving of its own section, is the often difficult customs clearance process. While the situation at Customs has generally improved in recent years, in part due to donor interventions and training, many SMEs still struggle with delays and/or unpredictable actions by Customs officials. For example, at the beginning of February 2015, Lebanese Customs increased inspections to 100 percent for incoming and outgoing shipments, creating severe backlogs. (Reportedly, this was done as a means to increase flagging revenues.) If SMEs cannot obtain inputs in a timely manner, or if customer shipments are delayed, their competitiveness will naturally be decreased.

Surprisingly, there was by no means a consensus on the general customs issue. One interviewee stated that they have no problems with Lebanese Customs and are routinely able to clear incoming and outgoing goods in 24 to 48 hours. This seems to be the exception, however, as other SME interviewees firmly stated that 8 to 15 days and even longer is more the norm. The Bertelsmann Stiftung Transformation Index paints an even bleaker picture with an average time to export of 22 days and an average time to import of 30 days. Some companies are able to maintain excellent relations with customs, routinely benefitting from rapid clearance of goods, while others stand in the queue with paperwork and inspection delays. Our conclusion is the average duration of delays is directly related to the relationship a company has with Customs, which may in turn depend on the size and importance of the company.

High land prices. Lebanon is a very small country in geographic terms. Its population density is high, ranking 21st of 221 countries and territories, and is effectively even higher given that most of the population lives either in the greater Beirut area, Mount Lebanon, or on the narrow coastal plain. (World Bank, 2013) Land is very often sold without basic infrastructure like water, sewerage, electricity, or internet connectivity. Even when these problems have been addressed by private land owners, facilities expansion may not be possible due to limitations stipulating that roughly half the calculated land area must be left structure-free. The end result is SMEs face very high costs to acquire land, build on it, and install infrastructure. It is a particular problem for space-hungry businesses such as industrial production and warehouses. Thus, land in Lebanon will always be in short supply and expensive. This situation has been made much worse by a steady flow of capital into land, bidding up land prices and causing construction booms, particularly in Beirut.⁴

Corruption cost and time lost. Corruption is a pervasive problem in Lebanon. In the absence of strong government, corruption is even more rampant and few checks or balances exist to slow its pervasive reach. The World Bank ranks Lebanon at just 146 out

⁴ The underlying causes of this are beyond the scope of this report, but include an abundance of capital – the Lebanese banking system has over \$160 billion in deposits – combined with unwillingness on the part of Lebanese banks to make loans unless backed by land as collateral. Foreign capital also plays a role; almost all FDI in Lebanon goes towards the purchase of land.

of 202 countries in terms of effective governance, with one reason being the high rate of corruption. (Transparency-Lebanon.org, 2015) Corruption shows up in the usual places: regulatory inspections of businesses; customs clearance; administrative procedures and filings; and judicial processes. In December 2014, the Lebanese Transparency Association released the results of the 2014 corruption perceptions index. The causes behind the rampant corruption in Lebanon are said to include: the lack of awareness about corruption; its causes and consequences; the absence of key anti-corruption institutions; the weak legal framework; the lack of proper legal implementation mechanisms; and the post-war structure in Lebanon, which has led to a power-sharing formula among political and confessional groups resulting in competition for state resources. One pharmaceutical firm we interviewed said it is not uncommon to be harassed by inspectors sent to check on their production processes mainly to seek compliance violations. This in itself is not a problem for them; however, the inspectors are not knowledgeable and add no value, they only threaten penalties in hopes of personal enrichment.

High import fees. Lebanon is overwhelmingly an import intensive trader. The high cost of import fees naturally have a major impact on the cost of goods produced because so few raw materials are available in country. Import of containerized goods is particularly expensive. One example for the food industry cited \$385 in agent fees and another \$735 to the government for port fees to import a 40-foot container. (These costs were in addition to routine import tariffs.) The combined total of over \$1,100 is a significant cost, especially if the goods are in bulk and of relatively low value. (Teeny & Gedeon, 2015)

Country/region risk and the perception of risk to outside business relations. The risk of instability to the country and the region is two-pronged. It serves as a strong disincentive to domestic investment by Lebanese firms afraid their outlay will be pointless. Meanwhile, foreign customers, investors and partners are frequently reluctant to invest in Lebanon or trade with Lebanese firms.⁵ The war in Syria shows no signs of abating. Additionally, the regular pattern of Israeli incursions weighs heavily on the minds of Lebanese businesspeople contemplating investments in new buildings and equipment. This was a recurring theme among private sector firms and a significant impediment to continued business growth.

Difficulty finding and retaining qualified employees. Despite some successes with career development centers and job fairs, the vast majority of companies continue to struggle with the prospect of finding and keeping qualified people. There are several reasons for this. The most commonly cited is the phenomenon known as *exporting of talent*. Simply put, young people with the most ambition and ability are drawn to foreign markets where salaries are higher and where there are more opportunities for upward and lateral mobility. Lebanon relies on its current pattern of letting about 32,000 of its citizens go abroad every year and continues to be the regional Arab leader in terms of both emigration and skilled emigration. (Atallah, 2015) Another problem, most notably for the

⁵ In this context, it should be noted that FDI in Lebanon is quite low for a country of its income level – about \$4.5 billion in 2013, with most of that going to direct investment in real estate or construction and less than 10 percent (<\$300 million) going to greenfield investment.

technology industries, is that the universities are unable to keep up with changing trends. For example, we heard about universities teaching programmers outdated programming languages that are no longer even used by private companies. This challenge is discussed in more detail in Section IV.

D. Findings: Institutional Capacity for Advocacy

At some future point, the existing legislative paralysis will be addressed and steps will be taken to normalize law making in Lebanon. A key component in this process will involve reworking the way in which government and private industry talk to each other.

There have been instances where the Lebanese government has attempted to set up and run institutions supportive of private sector development, subsequent to private sector lobbying. Unfortunately, the implementation is often flawed to the point of being useless to the vast majority of firms that need the assistance. A case in point is the Investment Development Authority of Lebanon (IDAL). On paper, IDAL makes perfect sense. Its mandate includes several components critical to Lebanon's legal reform objectives: 1) assistance with operating permits and approvals; 2) tax incentives; and 3) export promotion. According to the law establishing IDAL, it is empowered to bypass the bureaucracy of any ministry that handles these activities and offer assistance directly. The authority to achieve this however, was never specifically granted by the Prime Minister when IDAL was established, nor by any Prime Minister since. IDAL is able to offer tax incentives, but assistance with permits or any export development activities is not happening at this time because IDAL was never explicitly empowered in these roles.

This dysfunctional situation is perpetuated by Lebanon's political culture. Most Ministries receive new Ministers on a regular basis, and there is a strong tradition of discontinuing one's predecessor's programs and changing all appointees once a new Minister enters office. This practice all but ensures lack of continuity in programs from year to year. Reversing this culture and developing a professional civil service is critical to the success of advocacy efforts over the long term.

Advocacy in Lebanon is not structured or systematic. It is not even well understood. When interviewees were asked which organizations are most active in putting forth private sector advocacy proposals, there was limited understanding regarding what that would entail. The answers often included references to various government ministries or the Central Bank proposing reforms. In other words, many interviewees did not grasp that those governmental bodies should be the recipients of reform proposals as opposed to the ones delivering the messages.

From the government's perspective, agencies and officials often stated that the private sector is not capable of formulating and presenting coherent advocacy proposals with components such as a problem statement, underlying reasons for the change, a way forward, and expected impact. There may be some truth to this. On the other hand, the local talent certainly does exist to build well-constructed lobbying platforms and proposals. What is lacking is a systematic and inclusive means for advocacy with both private and public sector representatives regularly engaged in two-way discussions. For

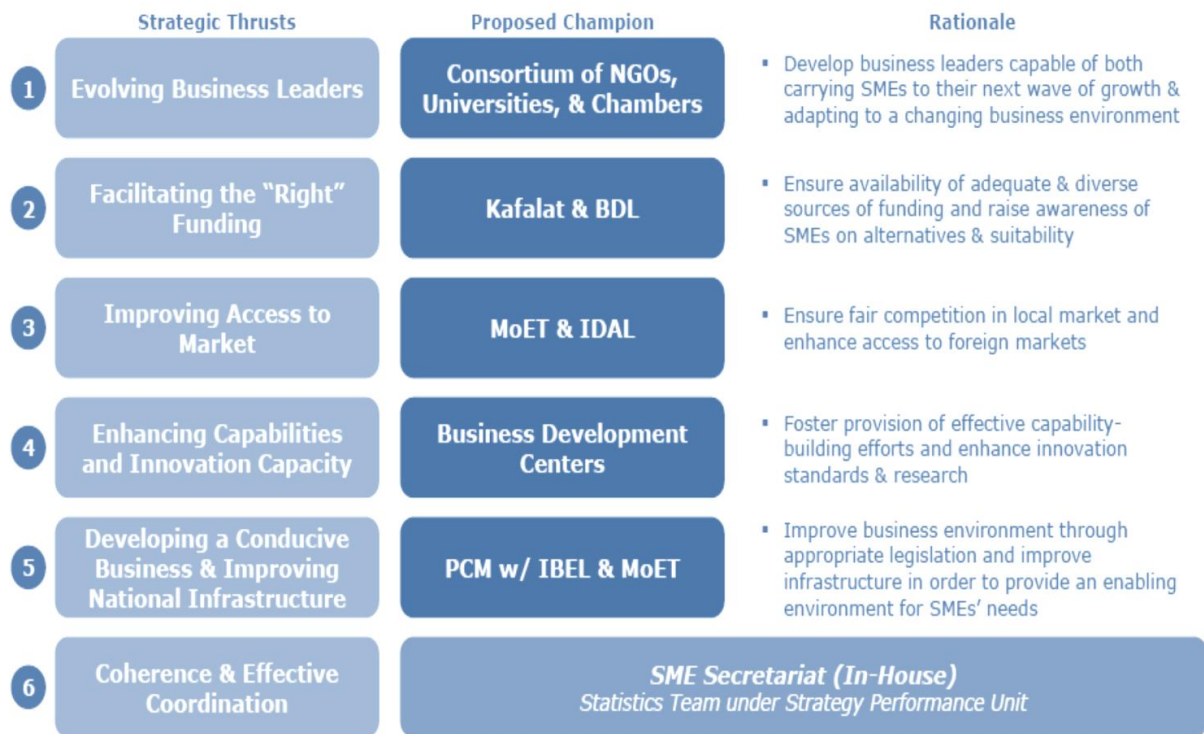
example, the Syndicate of Lebanese Food Industries and the Association of Lebanese Industries represent two of the most active private sector groups in terms of generating reform suggestions and presenting them directly to government officials. Yet by their own admission their lobbying process is ad hoc and not representative of a broad cross section of viewpoints.

Instead of utilizing systematic advocacy and public-private dialogue (PPD), as described above, Lebanon has fallen into the all too common trap of relying on influence peddlers to propose regulatory and legislative changes. This is done via personal connections at the ministerial and parliamentary levels. Well-connected, usually wealthy business leaders have access to policy makers; they use this access to promote specific regulatory changes that benefit their particular business agendas and perhaps those of their associates. The Syndicate of Food Industries, mentioned above, relies on individual relationships and social settings – luncheons and other events – to get their point across. However, when asked if their activities had led to any systemic change in the past several years, the answer was no. Without a formalized PPD process, this situation is inevitable as people vie for their own business interests in competition with one another. Even the most articulate and thoughtful business and NGO interviewees see this as a fact of life at this stage in Lebanon’s transition to a more stable political state. Altering the culture of advocacy away from relying on wealth, influence and connections as a means to pressure policy-makers requires a strong government willing to create PPD structures – and at least channel the influence peddlers through the established process.

SME 2020 strategy. Holistic regulatory reform benefitting a large cross section of any country’s economy only occurs when the advocacy process is inclusive. This means there must be at least one strategic, multi-party advocacy group, well represented by diverse interests from both the public and private sectors to address regulatory changes within a broad reform framework. Up until now such a group has not existed in Lebanon. The advent of SME Strategy 2020 could change this; the Strategy recommends precisely the sort of public private dialogue tool that should allow broad-based and strategic reforms. The SME Strategy identifies six strategic thrusts, each representing a reform area to strengthen the ability of SMEs to develop and grow their businesses. A working group or committee will be formed around each strategic thrust, made up of relevant actors from both the public and private sectors, and led by a key public sector official or a private sector business leader. This structure would be a significant step toward a formalized advocacy process. The public and transparent nature of the process would also represent a positive step. Discussion fora like those proposed under the SME 2020 strategy have been successful in other countries in bringing public policymakers and private sector business leaders together in regularly scheduled face to face meetings to advance reforms.⁶

⁶ Examples include Armenia, Tanzania, Georgia, and Egypt.

Figure 2. SME Strategy 2020: Six Strategic Thrust Committees and Champions



Source: MoET, 2015.

Private sector chambers, associations, and other advocacy organizations. In terms of private sector advocacy capacity, the essential elements already exist in Lebanon. Refreshment in certain skills would be beneficial, especially developing well-constructed change proposals, as would support for in-depth studies to validate proposed reforms. Of the 20 private sector chambers, associations, and other organizations interviewed, 15 are in roles that could involve advocacy on behalf of private sector interests. Seven of the 15 (including the Association of Lebanese Industrialists) view themselves in an advocacy role and possess at least the basic interest, resources, and influence to lobby on behalf of their constituents. These seven should be sufficient for a country the size of Lebanon provided the Strategy 2020 advocacy process is indeed formalized and functioning soon.

Table 2. Chambers and Associations with Advocacy Capacity (In Order of Potential Influence)

Association of Lebanese Industrialists	The largest and most influential of the Lebanese private sector associations; it has the advantage of being multi-sector in membership and includes most of the largest employers.
Chamber of Commerce Beirut & Mt. Lebanon	Perceived as the second most influential private sector institution in terms of advocacy; it has the largest and most diverse membership of any organization in the country.
Lebanese Businessmen Association	Invitation only association of CEOs and former CEOs, many of whom are well known, influential and also members of other prominent associations.
Lebanese Contractors Syndicate	Well-resourced and large association in a capital intensive industry representing about 20% of GDP.
Syndicate of Lebanese Food Industries	Under-resourced but an active lobbying association representing a strategically important assemblage of industry sub-sectors.

American Chamber of Commerce	Well-connected and diverse membership; they have demonstrated success leveraging their relationship with US interests to effect change in Lebanon.
Syndicate of Jewelers	Important industry association that remains active in discussions with policymakers.

Note: For additional association competencies see section III.B.

Advocacy capacity building should largely be done in parallel with the setup of the Strategy 2020 structure and working groups, and need not be a major focus of USAID. More important is to play an active role in the working groups (see recommendations below) and assist the SME 2020 Secretariat to keep the process moving forward.

E. General Recommendations to Support Regulatory Reform

Support PPD through SME 2020 Strategy.

The question of BDS advocacy capacity in Lebanon is less about the existence of competent players and more about the lack of an appropriate communication vehicle. Now that the vehicle has at least been designed (SME Strategy 2020), there is a need to make it happen, which means donors have a role to play in guiding the process forward. Assuming UNDP and others are able to help the SME 2020 Strategy gain traction, the early stages will involve forming working groups or committees to address the six key strategic thrusts of the strategy. Each strategic thrust will be overseen by a Board Member who will have several working groups at his or her disposal. Board members will be prominent public officials and private sector leaders to ensure those with influence and those with power to effect reforms are properly channeled together. Proposed SME Strategy Board members include top ministry officials, chamber heads, business association directors, prominent bankers, key incubator leaders, equity fund heads, and others.

SME Strategy 2020 Board

Representation

- Both public & private sectors
- Chaired by the Prime Minister
- Members: Minister of Economy and Trade, Minister of Finance, Minister of Industry, Minister of Agriculture, IDAL, CCIB, ABL, Kafalat, ALI, Berytech, plus 3 others (nominated but awaiting approval by PM & MoET Minister)

Role and Responsibilities

- Own the strategy
- Provide strategic direction and guidance on high level initiatives and SME policies
- Push for the implementation of initiatives
- Approve decisions, e.g., launch a new program
- Coordinate inter-ministerial and agency efforts, including those from private sector and NGOs
- Lobby for funding and resources
- Follow up progress and monitor performance of SME strategy and achievement of objectives

Frequency of Meetings

- Quarterly

Given USAID’s interest in facilitating policy reforms that directly benefit SME growth and generate employment, we believe it would be appropriate for USAID to position itself as a supporter of the structured reform process laid out in the SME Strategy. In practice, this is best done by providing selective advisory and research expertise on an as needed basis – articulated through the committee process. Ensuring meetings take place, offering neutral facilitators for discussions, and making sure thematic experts are available, as needed, are all important roles. It is recommended the assistance be through

direct implementation support to two of the strategic thrusts: *Evolving business leaders* (first bullet) and *Improving access to market* (third bullet). Both are fundamental to growing SMEs and building firm level capabilities through consulting services and technical expertise. The first is centered on developing human capital in SMEs and the latter addresses expansion of SME access to new markets, including exports.

It will also be prudent to lend in-kind support to the SME Strategy 2020 board's secretariat – ensuring timelines are met and meetings are held while carefully monitoring the early stages of the strategy's implementation – to add impetus as an influential but neutral third party to the continuation of the PPD. Such support would not be costly, especially if USAID's project office possesses one or two staff members with advocacy process knowledge and skills. In parallel, a degree of soft pressure applied by USAID's leadership, and even at the Ambassadorial level, could prove very effective to maintain momentum and ensure the newly structured process moves forward. This recommendation can be implemented even if no improvements in the political situation are to be seen in the near future. An additional element of support would include provision of a specialist to offer advocacy process overview training for the secretariat and working groups. The purpose would be to ensure an understanding of the context and importance of developing well-structured advocacy platforms (see text box on next page).

Educate private sector advocates to structure compelling platforms for reform.

It is considered best practice to educate both sides in their appropriate roles: the private sector to structure platforms which clarify why the proposed reforms are desirable, how they might be carried out and what impact they are likely to have, and the government to hear, comprehend, and find value for constituents in business lobby proposals. In Lebanon's case, both roles are in need of some strengthening,

particularly on the side of the government. Interviewees routinely stated that ministerial staff and parliamentarians are not attuned to processing even well-articulated messages for change unless they are able to see a near-term political benefit. While some of this behavior is correctable with training and capacity building, some involves changing a deeply ingrained political mindset, a considerably longer term proposition. While direct government intervention is not likely for USAID Lebanon in the foreseeable future, there may be instances where supporting the public sector's ability to accept advocacy messages, and the private sector to build well-articulated platforms, could reap long term benefits. Some options for such interventions will be discussed in a forthcoming section.

Address non-regulatory constraints. The high cost of doing business is more often than not the first impediment to growth noted by SME owners/managers. This is often followed by two others: difficulty penetrating new markets, especially for export, and difficulty hiring and retaining qualified employees. The two latter constraints will be

Four-stage Training in Scoping, Analyzing, and Presenting Advocacy Platforms

1. **Clear problem description** with main sub-issues.
2. **Prioritized list of recommended options** to address the problem/issues.
3. **The likely impact** of each recommendation including social, economic, environmental and political considerations.
4. **Sequenced implementation plan** with enough detail enabling policymakers to direct near-term actions.

addressed in greater detail in subsequent sections of this report. The following table highlights potential USAID interventions to address some of the other non-regulatory impediments to growth and job creation.

Table 3. Illustrative Interventions to Address Non-Regulatory Constraints

Business Environment Impediments	Possible Local BDS Provided Services	Possible Additional USAID Interventions	Expected Outcomes
Electricity outages	<ul style="list-style-type: none"> • Energy efficiency programs and other cost reduction techniques • Productivity training • TA in new technology adoption • Photovoltaic solar and other renewable energy solutions 	<ul style="list-style-type: none"> • Provision of foreign and Lebanese experts in each of these areas for firm level assistance in parallel with consultant capacity building 	<ul style="list-style-type: none"> • Reduced cost base • Higher productivity • Reduced negative environmental impact • More reliable production
Poor, costly internet	<ul style="list-style-type: none"> • Consulting in outside webpage hosting • Consulting in expanded use of cloud services • Training in market research techniques 	<ul style="list-style-type: none"> • Local BDS capacity exists for these services, to be contracted locally as part of a technical assistance program 	<ul style="list-style-type: none"> • Improved productivity for office staff • Improved market research capabilities • Enhanced marketing
Customs clearance	<ul style="list-style-type: none"> • Consulting in supply chain management training and • Consulting in logistics planning and distribution (planning for delays) 	<ul style="list-style-type: none"> • Provision of foreign and Lebanese experts in each of these areas in parallel with consultant capacity building 	<ul style="list-style-type: none"> • Improved product quality (better inputs) • Improved delivery performance • Lower cost structure
Country risk	<ul style="list-style-type: none"> • Organization of B2B missions to Lebanon • Diaspora linkages assistance • Industry specific “buy Lebanese” campaigns 	<ul style="list-style-type: none"> • Co-sponsoring of B2B missions to Lebanon through chambers and associations. Provision of marketing and promotion experts. Partnerships with Lebanese diaspora organizations. 	<ul style="list-style-type: none"> • Improved image in export markets, increased export market penetration
Finding employees	<ul style="list-style-type: none"> • HRM consulting: compensation, staff development (avoiding the downward low skills spiral), internships & job fairs in partnership with associations and universities 	<ul style="list-style-type: none"> • Consulting in HRM techniques and tools with Lebanese consultants • Assisting career development centers with outreach and professionalism • Co-sponsoring association job fairs (face to face and virtual) 	<ul style="list-style-type: none"> • Lower recruitment costs • Greater employee retention
Other high cost items: transport, land, corruption, import fees	<ul style="list-style-type: none"> • Training in cost reduction techniques • Productivity training • Consulting in new technology adoption 	<ul style="list-style-type: none"> • Provision of foreign and Lebanese experts in each of these areas for firm level assistance in parallel with consultant ToT 	<ul style="list-style-type: none"> • Lower cost base • Improved productivity

SECTION III. ENHANCING PRIVATE SECTOR GROWTH THROUGH BUSINESS DEVELOPMENT SERVICES

A. Overview of Business Development Services in Lebanon

Lebanon's market for business development services (BDS) is increasingly sophisticated and supports some 200 Lebanese consulting entities (firms, individual consultants and trainers). Of these, perhaps 15 are larger firms with more than ten full-time consultants on staff. The largest of these employs 14 full time people and is presently using five contracted associates. Most firms, however, are small with one to two full-time consultants. As expected, the larger the firm, the more diverse the competencies and expertise. Smaller one and two person firms are generally quite specialized, which is a positive sign for the consulting market as this indicates some industry maturity. Less mature consulting markets tend to have a substantial number of small firms and sole proprietors mainly assisting with business planning and whatever actions result from it.

Part time consulting expertise is also sometimes found in the university system, both by consulting firms seeking subcontracted associates and SMEs looking for lower cost alternatives to consulting firms. Universities as additional sources of consulting expertise will remain important to fill gaps in consulting partner rosters for firm level assistance programs. For example, the Lebanese American University's Institute for Family and Entrepreneurial Business performs research and consulting through the university system for SMEs directly and in coordination with other entities and firms.

B. Supply-side Findings: In-Country Capacity to Provide Specialized Technical Assistance and Business Development Services to Improve Competitiveness

Despite some pricing distortions and a relatively unknown consulting industry association (see box), a dynamic BDS industry does exist in Lebanon. A key indicator is the relatively high degree of consulting specialization and niche services offered, something which typically only occurs in more mature consulting markets. Most private Lebanese consulting and training firms encountered are specialized to some degree, either by service line or industry sector. And while not always well-resourced, associations and chambers providing these services are, for the most part, active and serious in supporting their constituencies.

Private consulting firms. The consulting firms in the following table and associations in a subsequent table represent only a sample of the broader industry. Of the approximately 200 consulting firms in Lebanon, this study interviewed 12, which were selected to ensure

New Consulting Industry Association

A Lebanese consulting industry association, The Society of Management and Development Consultants, was formed just one year ago. The association's founders have wisely elected to reach out to the International Council of Management Consulting Institutes (ICMCI), the international association for all consulting associations. ICMCI not only offers excellent networking opportunities to other consulting associations around the world, they also build capacity via Certified Management Consultant (CMC) programs. Consulting associations with CMC programs, who train and certify their own membership, rapidly upgrade the professionalism of their industry as a whole, because being certified is a competitive advantage for industry practitioners and others soon follow suit.

diversity in size (number of employees), activities, and services offered. The Lebanese consulting industry is varied in its skill sets and sufficient in overall number to address local market needs. Some specialized foreign expertise will be required to augment expertise and build local industry capacity, especially in rapidly changing technologies and sector methodologies.

Table 4. Services and Potential of Private Consulting Firms Sampled

Consulting Firm	Services Mix	Firm Specifics	Tier (1 or 2)	Implementing Partner Candidate?
Inventis Partners	Strategy, business planning, launch management, business set-up, product design & development, marketing & networking, seed funding.	Accelerator with 2 full time partners/staff.	2	Maybe - For advocacy or SME financing support, if required.
Beyond Reform & Development	O&D, strategy, HRM, Leadership, intra-company relations (branches), training programs, economic development, and public management and policy research.	15 partners, "plus couple of full-time staff and interns, majority are female."	1	Yes – For entrepreneurship support, setting up local economic development councils, or for advocacy.
Endeavor	Offers full range of gratis, high level consulting services.	Non-profit that works like a consulting firm.	1	Not directly – But willing to provide support to donor programs.
EI Bacha	Feasibility studies, master plans, impact assessments and consulting/training.	Sole proprietor with 2 office staff.	2	Yes - For firm level assistance, especially with firms that are slightly larger.
Koualty Associates	Technical, legal and financial consulting specializing in the franchising industry.	2 full time staff, both experienced consultants.	2	Maybe – Specifically for franchising firms.
MAP Consulting	Supply chain optimization, process re-engineering, ISO, HRM.	2 full time staff relying heavily now on subcontracts.	2	Yes – For a variety of assistance approaches.
Management Solutions Experts	Quality management, org restructuring, strategy, HR, planning, IT security, cost reduction, outsourcing, value chains.	14 full time staff and 5 contracted associates. 98% revenues from outside the country.	1	Yes – For broad start to finish SME consulting.
MCA People Solutions	Extensive HR consultancy services, customer service and team building workshops, effective communications, sales success, marketing, business planning, and organizational development.	4 full time and 4 outsourced professionals. Quoted junior daily rate of \$250 - \$800 / day.	2	Yes – For HR, organizational development, and marketing.
ISO Liban	ISO quality standards implementation and management consulting and training, food safety training, business process reengineering, management diagnostics, and HR.	4 full time and several outsourced consultants. Quoted rates of \$350 - \$800 / day.	2	Yes – For ISO-related support.
TAG Consultants	Feasibility studies, market research, business and strategic plans, organizational restructuring, HR, financial forecasting, quality management, accounting, audit.	8 full time consultants. Quoted rates of \$300-\$950 / day.	1	Yes – For a broad range of services.
T&A	Quality management, food safety,	2 full time	2	Yes - For specialized quality

Consulting	business process improvement, engineering (pipe technology).	consultants. Fees vary.		systems and related business process improvements.
Likwid Marketing	Web design, mobile apps, advertising, media booking, social media, branding, graphic design.	12 full time consultants. Quoted of \$250 - \$450 / day.	1	Yes – For specialized marketing and promotion.

*Note: Tier 1: tend to be larger, sophisticated, typically higher priced, well resourced
Tier 2: smaller, specialized, often sole proprietorship or small partnership, can be lower cost*

Business associations and chambers of commerce. As one would expect, there are many services performed by chambers and associations. The Chamber of Commerce for Beirut and Mount Lebanon, for instance, provides practical, fee-based assistance for paid members on local certifications, administrative inspections, export processing, border passes (trade fair participation), labor law, structuring legal contracts and English training. They also hire local consulting and training firms to offer seminars in management, exhibition participation, food safety, and other topics. These are offered at reduced rates for firms without large training budgets, and the seminars are generally well attended. The training seminars tend to be useful, if not generic, and they are an important complement to the more tailored services provided by the Lebanese consulting firms. The seminars also benefit the development of the BDS/consulting services market by presenting an opportunity for consultants to demonstrate their value to SME managers who may never have considered the use of consulting services.

The Beirut Chamber also fulfils some needs for data by helping address the vacuum of official economic and business information in Lebanon. The Chamber oversees the Center for Economic Research as well as the Center for Enterprise Development. The Chamber has also become involved in an important workforce development component by helping universities design programs of greater relevance to the rapidly evolving ICT, banking, and insurance sectors (a study is now underway). In addition, the Beirut Chamber acts as an intermediary for Kafalat and other subsidized loan programs. One such program links innovative start-ups with financing of up to \$20,000 at an interest rate of just 1 percent. The Chamber however, has had some difficulties in the past in attracting credit-worthy applicants. The Chamber is also examining the possibility of facilitating credit guarantees for exporters in agro-business and industry to expand and enter new markets. This last one is of interest to this assessment as it addresses firms poised for business growth rather than start-ups.

The nascent Society of Management Development Consultants, if it further develops and matures, represents an important potential BDS partner for USAID in a new firm level SME support program. They acknowledge a gap in services to Lebanese SMEs exists – due to the consulting industry’s pursuit of more lucrative foreign based assignments – and propose to establish a *discounted services task force* with resources set-aside for Lebanese SMEs. This is the sort of program that will help sustain and grow the availability of BDS for Lebanese SMEs.

The assessment team met with more than twenty associations, chambers, incubators, and other support organizations. Collectively they represent a fully functioning and capable

group, and one that is able to represent the interests of the private sector once the political paralysis subsides. As with most emerging and maturing civil societies, Lebanon's chambers, associations and other supporting institutions exist in sufficient numbers and strengths to assist with: sector specific promotion and image building, informing members of industry trends, publishing statistics, engaging in capacity building, and of course, lobbying on behalf of members' interests. A few of the BDS institutions in the following table undertake all of these activities but most engage in only a few of them.

Table 5. Associations, Chambers of Commerce, and other BDS Providers

Association, Chamber, or Other Provider	Services Mix for Members	Capacities	Implementing Partner Candidate?
Lebanese Franchise Association	Knowledge and best practices sharing, starting the franchising process, food safety training, B2B.	Strong leadership, full time administrative unit. No grant experience.	Yes – For franchising focused assistance. They are also willing to expand into donor work.
Chamber of Commerce Beirut & Mt. Lebanon	Assistance border and transportation certificates, financing, public tenders, export assistance, training, publications, exhibitions, arbitration, advocacy.	Board with 24 members, 100 employees, and 15,000 members. They are influential and well-resourced with considerable grant experience from donors, especially the EU.	Maybe - The chamber is well resourced but stretched thin with donor and other programs. Reputation with SMEs is mixed in terms of relevance vs. actual needs
Beirut Creative Cluster	ICT creative content development, B2B, career fairs, internships, participant training in UK with parallel firms, marketing, supply chain, innovation.	1 full time Director (EU funded) no other staff, not sustainable without EU support. Received over \$100K in member in-kind contributions. Grant experience with the British Council.	Maybe - They have the vision and interest to work with USAID. Good experience in the workforce development arena for ICT / creative SMEs. Most members are very small.
Chamber of Commerce Industry and Agriculture of Tripoli (CCIAT)	Provides services to 17,000 member companies, of which 5,000 have a permanent status. Serves enterprises in the regions of Tripoli, Akkar, Batroun, Koura, Zgharta, Dannieh, Becharre and the towns and villages surrounding them.	Facilities and services include a food quality testing and research facility; transaction department that issues certificates of origin and other required attestations; bar-coding; a web portal for standards and norms required in foreign markets; and a network of contacts with trade offices in Consulates and Embassies and foreign Chambers.	Yes - Could potentially coordinate with the Chamber to establish a Trade Support Center within the Chamber to be staffed by Chamber staff. See Annex H for concept.
Junior Chamber of Commerce	Basic training, advisory, networking, community, international links, targeting young entrepreneurs.	230 members, and 3 active Beirut chapters. Not well resourced and activities are on a volunteer basis. Little capacity without funding and coordinating partners.	Maybe/No. Yes as a coordinating partner to reach out to youth, as necessary. They do not have the capacity to act as a full-fledged implementing grant recipient.
Rene Moawad Foundation	Incubator development, gender programs, micro credit, business planning, coaching, cold chain financing, eco-tourism, irrigation, food processing, green villages.	14 employees, 90% funding from donors, well-equipped facilities, full time admin staff. Experienced as a USAID and EU funds recipient. Programs running in multiple regions.	Maybe - While they do have capacity, they are stretched. Any agreement would need clearly defined indicators and targets. They would also need to assign staff who have 100% dedicated time.
Lebanese	Basic networking.	180 members, 7 Board	No - Activity has been

League for Women in Business		members. Have been largely inactive for several years.	virtually non-existent recently.
BeryTech	Incubator offering grants for woman-owned start-ups, B2B matching, coaching, legal services, informal advocacy.	15 full-time employees, 90 members in three main regions. Good revenue and strong outreach and experience working with donor grants.	Yes - A strong local development organization with excellent capacity. Only possible negative is the narrow focus on ICT.
American Chamber of Commerce	B2B linkages with US firms, networking among Lebanese firms, informal advocacy.	200 paying members, 17 member board, 2 full time staff. Has collaborated with USAID and NGOs on trade issues. No direct grant experience. Strong member outreach.	Maybe/No - If US based B2B is required, has the ability to reach out and make contacts. Do not have the capacity for direct grants.
Lebanese International Businessman's Association Network	Promotion, marketing, export linkages, B2B matching.	2 employees. Small but decent offices, no meeting space other than President's office. Everything revolves around the energetic efforts of the President to network and garner support of diaspora.	Maybe - If a basic B2B networking partner is needed, especially with diaspora, this organization has strong linkages. They lack the capacity for grant accounting but USAID could co-fund events.
Euro Lebanese Center for Industrial Modernization (ELCIM) & Center for Innovation and Technology (CIT)	Quasi-governmental enterprise support unit offering QM to market access, R&D services to bridge gap between academia and private sector.	Nice facilities and access to university infrastructure. Testing and R&D labs on premises. EU funding is waning and they are lacking funds. Are not sustainable without continued support.	Maybe - Funding this institution is not likely an option for USAID. However, coordination with them as a source of companies for assistance may be possible.
Chamber of Commerce Industry and Agribusiness - Saida	Completing a master plan for an industrial zone with developmental (non-profit) objectives for 100-200 SMEs.	Relies on registration fees from members and some fees diverted from Beirut Chamber. President is very well resourced and likely covers any shortfalls.	Maybe - If the industrial park is able to attract investors and show signs of life, it could be an excellent vehicle to deliver services through.
Lebanese Businessmen Association	Advocacy, legal drafting, high-level advocacy.	Unclear source of funding, though seem to have adequate resources.	Maybe/No - If the program becomes involved in advocacy, they are a group who should be channeled into the PPD process. They do not require funding and many are oligarchs.
Chamber of Commerce of Industry and Agriculture Zahle and Beqaa	Cluster formation, labs for micro-biotic testing (USAID-assisted), training center with many programs: Microsoft, English language, ISO, CPE.	About 20 employees, charges fees for services but operating at a \$50,000 annual loss. Have worked with USAID and European donors. Strong outreach.	Yes - Their range of services and dedication to local development is clear. They also have donor coordination, grant experience and reach.
Federation of Crafts	Represent and support the hand crafts industry by negotiating space at trade shows, study tours, networking. The crafts industry does not support huge employment but it is an important piece of the overall tourism picture.	No full-time staff. Has 8 paying members who keep the association going. About 300 non-paying members overall.	Maybe/No - If tourism is targeted, could be a trade show partner. Do not have capacity for grants currently.

Syndicate of Lebanese Food Industries	Association representing food processors whose main function is lobbying (EU issues, trade, regulations).	2 part-time, 2 full-time staff, 12 board members, 140 regular members who represent about 90% of processed food exports and 70% of total output. Revenue comes from member dues and donations. No grant experience.	Maybe/No - Possible to coordinate with them to reach the food processing industry. Not an appropriate target for grant funding. Requested several years of "seed funding."
Syndicate of Jewelers	Networking, informing about exhibitions, gem testing, advocacy. Envisions establishing a vocational training center to get young women into the jewelry industry.	2 full time and 2 part time staff. Members represent 80% of gross industry revenues. Revenues come from member dues (\$200/year) but majority Good outreach, no grant experience.	Maybe - Willing and capable candidate to coordinate with other donors though they have no grant experience. Would only be possible if they strengthened their administrative capacities/unit.
Lebanese Contractors Syndicate	Maintain database of statistics, find construction opportunities for members, lobby, and act as administrative liaison with inspectors.	About 15 full-time staff. Industry includes about 450 contractors who are all members.	No - The numbers in this industry are impressive but their worker base is almost exclusively Syrian.
Hospitality Services	A for-profit firm acting in many respects like an NGO. Major tourism event organizer, host industry round tables.	30 full time employees, revenue generation from event corporate sponsors and advertising in their three publications.	Maybe - Well-qualified for-profit BDS partner with excellent capacity to deliver event organizing services. Capable of managing donor funding under contracts. Predominance of foreign labor makes this industry potentially problematic for job creation.
Society of Management Development Consultants	New organization with few services currently offered. Intend to offer discounted consulting to SMEs.	Part-time President and Vice President. Are co-located in Beirut Chamber so premises are low cost and largely shared. 40 members, and aspire to 200 in one year.	Maybe - Association could help line up qualified consultants. At this stage in its development it does not have the outreach or administrative capacity to be a partner. However, it does possess the ambition to develop and offer needed services to SMEs and should be monitored.
Consultation and Research Institute	Research firm doing economic, labor and market studies.	About 10 full time staff, Well qualified economists and researchers on staff. Hired by donors, government and the private sector. Well-known and respected owner.	No - If regulatory reforms become a priority for USAID, it is well suited to undertake policy research. Does not currently provide firm level assistance with the exception of research for very large private sector entities.

Challenges. Past donor interventions involving BDS in Lebanon have left their mark, some positively but too often in a way that has distorted the market for consulting services. For example, the European Union (EU) funded Euro-Lebanese Centre for Industrial Modernisation (ELCIM) did good work with about 400 enterprises, but also heavily subsidized consulting assignments leading to demand-side distortion. ECLIM's client SMEs were typically paying just 20 percent for services received. The result, on the demand side, is a reduced number of SMEs now willing to pay even competitive prices for consulting or hired expertise. (Abi Zeid, 2015)

The demand side distortion creates other problems as well. One of the consulting firms interviewed explained they had completed 16 ISO certifications with SMEs through the ELCIM program, each one having paid for the services received. However, some SMEs received free certification services under the EU Support to the Quality Unit of the Ministry of Economy and Trade Programme (Qualeb), and according to the interviewee, many of those never became certified. (Abi Zeid, 2015) This is a situation that has repeated itself in many countries, and by many donors, yet it continues. SME beneficiaries must demonstrate commitment and pay for services of value; if not, the services provided will more often than not be in vain.

Consulting firms involved in this and other donor-funded programs that were paid inflated rates out of sync with local market rates have done their best to maintain these rates despite the fact that few local SMEs can afford them.⁷ The end result is many Lebanese consulting firms spend much of their time consulting as subcontractors to larger international firms (e.g. Booz Allen Hamilton and KPMG) on assignments in Gulf States and in north and central Africa. The Society of Management and Development Consultants claims only about 10-30 percent of Lebanese consulting industry revenues are generated in Lebanon with the remainder coming from work billed out of the country. The portion billed back in Lebanon is viewed as *leftover utilization* and at rates the firms consider well below their worth. (El Hajj, 2015)

C. Demand-side Findings: SME Needs for Business Development Services in High-Growth Sectors and Value Chains

Lebanon is unusual in the fact that a very large number of companies are relatively advanced and sophisticated, sometimes world class in their industry/sector but are either the only one, or part of a very small group of enterprises active in their sector in Lebanon. Lebanon is estimated to have about 150 homegrown brands with a regional and/or international presence. (Lebanese Franchise Association, 2015)

C1. SME Technical Assistance Needs

Through in-depth discussions and site visits to 55 small and medium enterprises in Lebanon, the assessment team identified the following areas in which SMEs are in need of individualized technical assistance.

Cost reduction strategies, lean manufacturing and improvements to production. The high-cost operating environment in Lebanon is the most frequently cited impediment to business growth. Despite this, most SMEs interviewed believed they had already exhausted all avenues for cost cutting. The long-term damage is continually strained cash flow, reduced competitiveness, inability to invest in technology, and lack of resources to

⁷ Rates quoted by several consultants and firms fell in the range of \$800 - \$1,500 per day for senior consultants working outside the country and anywhere from \$450 - \$1,200 per day for senior people working inside the country. Junior consultant rates ranged from \$250 - \$500 for work in Lebanon. These billing rates may be inflated and represent rates only occasionally received (at the higher end).

grow and indeed hire more people. Experienced sector specialists however, would likely be able to identify additional cost reduction areas or even products with the price elasticity to increase sales prices that are often completely overlooked by SME managers.

Market research and marketing and branding strategies, including social media, labeling, and packaging to enter regional and international markets. Several business owners and experts, including the head of BLC Bank emphasized the need for specialized assistance to help SMEs identify and enter new international markets successfully. This could involve assistance with market research, segmentation, and new market entry strategies as well as pilot testing strategies in select markets. Branding assistance may then be an important next step for those companies with the consistent quality and the financial resources to sustain a brand image. The resulting ability to differentiate themselves from competitors elevates such companies to entirely new strata with enhanced pricing flexibility and clearly communicated competitive advantages.

B2B linkages with new international markets and buyers. Key to gaining entry to those new markets is securing specific buyers and understanding their product specifications. This could involve assisting SMEs to develop strategies and materials for attendance at regional and international trade shows or facilitating B2B networking events to link Lebanese businesses with buyers overseas. In cases where large client firms could be empowered to hire significant levels of new employees, direct B2B linkage prospecting may be warranted.

Product improvements and research & development. Also important for entering new markets is the SME's ability to introduce innovative products that offer competitive advantages and capture consumers' attention. A footwear manufacturer discussed the need to develop improved soles and incorporate new technical textiles or fabrics to enhance the performance of his shoes. Interviews with SMEs involved in food processing indicated that they would be interested in developing better packaging that would lead to better tasting products and longer shelf life. SMEs could also look at extending product lines to similar products with growing demand. For example, a peanut butter manufacturer could look at introducing additional nut butters such as sunflower or almond butter. These would be a first for Lebanon.

Supply chain management and logistics. To meet larger orders from new buyers overseas, Lebanese SMEs will need to secure high quality inputs at more competitive prices on-time and without interruption. Supply chain management will be crucial to lower input costs, improve quality, enhance image, and shorten production cycles. In a country such as Lebanon where transportation infrastructure is poor and obstructions abound (e.g. customs delays slowing incoming and outgoing shipments), it is crucial to effectively manage relationships in supply and distribution chains. This may mean helping SMEs evaluate their supply chain and/or install basic supply chain management systems. These systems will enable an SME, for instance, to forecast its needs for inputs while factoring processing and transit times (including customs delays) to achieve on-time deliveries.

Information technology, including e-commerce and website development. Point of sales systems would help Lebanese SMEs improve the availability of data on inventory, alert producers to the need to replenish items at retail outlets, and decrease the possibility of “stock outs” and lost sales opportunities. Stock control systems would also help SMEs better manage stock aging by stockkeeping units, and help them understand which stockkeeping units sell better and faster, and at which locations. The program could also help Lebanese firms structure customer loyalty or rewards programs to enhance “presence of mind” of their brands, leading to additional sales.

Human resources, management, and leadership. SMEs in Lebanon are primarily family-owned and family-run businesses. They tend to have more informal management structures and processes for making and implementing decisions, and often lack formal business training and good governance practices. Once companies begin to grow, managers need training and a foundation to understand the skills required to successfully manage staff as well as the business. They must learn how to demonstrate the kind of leadership that engenders respect and inspires subordinates to succeed in line with clear objectives. Human resources management can also be an important tool for managers to improve morale and employee performance, and prevent turnover of highly-qualified employees to companies with perceived better working environments and pay scales.⁸

Improving bank finance for growing SMEs. Lebanon’s banking system remains conservative, highly risk averse, and reluctant to accept alternatives to traditional real estate collateral. The advent of SME guaranteed loan programs, such as Kafalat, are easing the *growth financing* burden but demand for finance using alternatives to traditional real estate collateral still well outstrips supply. (Abi Habib, 2015) Many SMEs also have no concept of how to prepare the kinds of documentation banks require. (Lama, 2015) (Azour, 2015) On the demand side, SMEs can use help in presenting applications for financing including realistic sales and cash flow projections, accurate financial statements, and compelling business plans. On the supply side, banks can use assistance to develop new products and services geared to meeting the needs of growing SMEs with limited collateral, such as purchase order finance, factoring, and reverse factoring.

C2. SMEs in Sectors with High Growth Potential

It should come as no surprise that the agro-industrial sector is a major contributor to the Lebanese economy. Agro-food exports increased by 36 percent from 2012 to 2013. This is in part due to the Syrian crisis and Lebanon’s ability to export to traditional Syrian export markets such as Iraq, Egypt, and Jordan. Another notable trend is Lebanon’s increase in exports to the African market. (IDAL, 2010) Tourism and hospitality is also a critical sector, although conflicts in the region have resulted in declines in the industry over the last few years. Still, tourism contributes more than 25 percent of GDP and 24 percent of total employment. (IDAL, 2014)

⁸ It should be noted that these weaknesses are in line with the business development weaknesses noted for Lebanon in the 2014 – 2015 Global Competitiveness Report of the World Economic Forum.

Table 6. Contribution of Sectors to GDP, Employment, and Growth (Sorted by value added to GDP)

	Value Added Millions USD	As % of GDP	Number of workers	% of total workers	Growth rate 2004- 2011
Construction and real estate	3,500	8.80%	130,000	10.20%	150%
Banking and financial services	2,900	7.30%	30,000	2.40%	122%
Agriculture and food processing	2,700	6.80%	110,000	8.60%	178%
Education	2,420	6.10%	82,000	6.40%	64%
Tourism and hospitality	2,200	5.50%	90,000	7.10%	124%
ICT and media	1,500	3.80%	45,000	3.50%	64%
Transport and logistics	1,300	3.30%	58,000	4.50%	88%
Health care	1,100	2.80%	40,000	3.10%	63%
Consultancy / professional services	1,050	2.60%	35,000	2.70%	64%
Energy and water	1,000	2.50%	37,000	2.90%	31%
Fashion and accessories	850	2.10%	25,000	2.00%	150%
Green industries and waste recycling	400	1.00%	16,000	1.30%	90%
Total	20,920	52.30%	698,000	54.70%	99%

Source: Central Administration of Statistics, 2011.

In addition to these two key sectors, the assessment team looked at several other sectors with growth potential. While SMEs with high-growth potential crossed a wide variety of sectors, we found some sectors with greater potential for growth given opportunities for expansion to international markets, resources available in the country, and/or the quality of production already demonstrated by SMEs in Lebanon.

Pharmaceutical/medical. On the manufacturing side, this is still a small sector, with an estimated 20 manufacturers producing about 900 prescription and over the counter products. (Ministry of Health) This is, however, a fast growing industry with several dynamic enterprises acting on opportunities in international markets, and starting their own advanced labs in genomics and new technologies. These pharmaceutical manufacturers are exporting a growing number of products to new markets, primarily in Africa and the MENA region.

Given the potential for expansion of SMEs in this sector, we estimate that several hundred jobs could be created in the span of 1-3 years in the pharmaceutical sector alone. Several new manufacturing plants are currently under construction or renovation for state-of-the-art medical products such as ocular lenses, contact lenses, catheters, and medical implants. Additionally, several new, modern mid-size hospitals and medical facilities are expected to open in the course of the next few years, such as the 200-bed, \$70 million MEDRAR medical center in Choukine. (MEDRAR, 2015)

Information and communications technology. The ICT sector is growing in Lebanon, employing anywhere from 12,000 – 20,000 employees (depending on how the value chain is defined). (BankMed, 2014) Included in the assessment team’s definition of the ICT value chain are pure ICT products, media, telecommunications, computer consultancy, information services, printing, 3-D printing, motion pictures, and software

publishing. Production and post-production services have emerged as profitable industries, and Lebanese companies are able to export high-quality content creation at reasonable prices to the Gulf region, European markets, and some African countries. ICT start-ups are considered attractive investments for local and regional venture capital funds since the capital required to start an ICT company is relatively small, and Lebanese entrepreneurs are considered to be reliable, innovative, well-connected, and imbued with good business sense. The majority of Lebanese software firms are concentrated in the Beirut and Mount Lebanon area. Tripoli in North Lebanon is starting to develop an appealing environment for technology companies where just three percent of software firms country-wide are currently located. Several well-known IT companies and call centers have established offices outside Beirut to develop and create jobs in the regions.

Green/alternative industries. The “green” sector is small, and the total number of people employed is difficult to estimate. The sector covers recycling, waste management, and alternative energy. Most of the firms in this sector have stayed in Lebanon and have not expanded outside of the country, as they are not yet ready to grow quickly and create jobs. However, due to market demand, this is going to be a very fast growing sector in the course of the next five years, and a lot of focused, specialized technical expertise will be needed. Exponential growth in this sector is anticipated.

Fashion/garments. Lebanon mainly exports women’s wear, which has increased by an average annual rate of 7.5 percent over the period of 2009-2012, reaching a total value of \$40.8 million in 2013. The sector is mostly represented by two categories of fashion brands: high fashion brands like Elie Saab, Reem Acra, and Zuhair Murad (encompassing about 10-15 enterprises); and “bridge” brands, sitting between moderately-priced ready-to-wear and expensive high fashion (approximately 20-25 firms). Roughly 90 percent, of fashion and accessories firms are based in Beirut. This sector has growth potential, given the quality, reputation, and sophistication of existing brands, but Lebanon’s fashion infrastructure does not yet support the production needed for ready-to-wear, to which consumers are trending. Designers generally go to Europe to manufacture their ready-to-wear lines, and only come back to Lebanon to make one-of-a-kind couture gowns. The machines, factories, and spaces necessary to create ready-to-wear do not yet exist in Lebanon. (d’Arc Taylor, 2013) With strategic investments, proper financing, and workforce training however, some newer Lebanese designers could be prompted to move production of their ready-to-wear lines back home.

Manufacturing/light manufacturing. The manufacturing sector is estimated to employ approximately 130,000 people in Lebanon. Of the 740 members of the Lebanese Association of Industrialists, 260 of them have more than 10 employees. (Gemayel, 2015) Potential in this sector is to have manufacturers expand local operations, as well as to open showrooms internationally, because of their proven expertise in their specific sub-sectors. Most of them have established international quality standards, supported by official certifications. The Lebanese Association of Industrialists is a very professional, world class association which is very active in helping its members improve their products, their quality standards and their offers.

D. General Recommendations for Technical Assistance to Enterprises

Of the 55 SMEs interviewed, 20 percent were found to be prime candidates for immediate support. This means that these firms are capable of rapid growth, have clearly defined needs, and are willing to receive technical assistance. Approximately half of the remaining 44 firms were also plausible candidates for technical assistance support, but either their potential for growth could not be verified during the course of the assessment or more time was needed to fully flesh out their specific BDS needs. In speaking with these SMEs about their needs and looking at existing BDS providers in Lebanon, we recommend the following as elements of future BDS support programs.

Local Economic Councils

The consulting firm, Beyond Reform and Development, is using a practical approach to regional economic development under a UNDP program designed to work in partnership with municipalities to support SMEs. The program touts its ability to “turn municipalities into incubators” by creating Local Economic Councils with 6 to 8 local businesspeople who hold business concept competitions in the community. Selected awardees are offered consulting and mentoring support plus assistance with financing options and linkages thereto. Their programs have resulted in 15 new business ventures to date, many in the agro-processing sector. A variation on this with a focus on business expansion ideas for ongoing businesses – also by way of competitions with entries submitted to councils created in new regions – would likely yield rapid employment growth, especially if employment generation through business expansion is an explicit selection criterion.

Focus on needs at the sub-sector and firm level. The assessment team found that firms with the most potential for growth in Lebanon were highly sophisticated, often cutting edge, and on the premium end of their market. In addition, many of these firms were the only ones of their type in their sector or industry. Given this and the need to rapidly create new jobs in Lebanon, an approach that tailors technical assistance to specific firms and helps them overcome specific bottlenecks to growth may be the most effective. While elements of USAID’s value chain approach will be critical to fostering SME growth – such as a focus on end markets – an approach that does not limit implementation to a few pre-determined value chains, but rather that maintains a flexible approach to addressing specific constraints of SMEs in a variety of value chains will likely be more effective at capitalizing on opportunities to generate sales and employment in Lebanon. Many of the experts we spoke with, including the director of Kafalat, also emphasized that technical assistance must be tailored to address firms’ constraints to reaching identified buyers in new markets. The Lebanese Association of Industrialists expressed real interest in a program that focused on specific firm-level needs, as both the large and small enterprises in its association could benefit.

Engage and build on capacity of local consulting firms and organizations. The Lebanese consulting industry is well equipped to handle a majority of Lebanese SMEs’ assistance needs. If there is a gap in BDS expertise in Lebanon, it mainly involves specialized, firm-specific services. There was also a general complaint that previous programs relied on too many foreign experts and not enough on local consulting expertise. This not only drives up program costs but is also unnecessary considering the consulting talent pool available in Lebanon. Any foreign experts used should be highly specialized and up-to-date in their respective fields. They should also be willing to work with and build the capacity of local experts.

The market distortion caused by previous donor programs in Lebanon – resulting in higher than natural local consulting rates – will present challenges to USAID when seeking qualified consultants to work under the constraints of USAID rate scales. This may be mitigated, however, by presenting several tangible and intangible benefits that Lebanese consultants will receive from USAID program participation. These include:

- A reliable platform for consulting work over a five year time horizon
- The ability to bring and propose their own client assignments
- Market development – an excellent means to obtain new, long-term clients who may never have used consulting services (in the absence of the USAID program)
- Capacity building of their junior and mid-level staff with on-the-job experience
- Capacity building of their mid-level and senior staff working alongside international experts
- The fact their competitors will be benefitting from the program.

Focus on high-growth sub-sectors and firms for job creation. While micro and small enterprises (firms with 10 or fewer employees) make up 90 percent of firms in Lebanon, they have far fewer resources and less capacity to make drastic contributions in terms of hiring new staff. Practical experience from similar projects in Mauritius, Tunisia, and Egypt have shown that medium to large enterprises are better positioned to finance capital acquisitions or innovations or enter new markets, allowing rapid job creation. In addition, the “value chain spillover effect” (on suppliers, contractors, other companies active in the same value chain) tends to be greater with larger SMEs. Given that the basic cost of technical assistance remains the same whether a company has 2 or 200 employees, working with a larger SME able to increase its workforce by 10 percent with technical assistance makes the cost per job much less than when working with smaller firms. The “sweet spot” in Lebanon is likely to be with firms that have between 20 and 100 employees.

Ensure SMEs have “skin in the game.” Lebanon is a country with considerable economic activity and maturity, and companies with growth tendencies can and should be prepared to pay for valuable services. Many medium-sized companies in Lebanon said they are willing to hire consultants as long as their outputs contribute to the bottom line relatively quickly. As such, SMEs should be required to pay for a portion of the costs of technical assistance, according to their size, sales, and type of assistance required. Program co-payments should be structured in a manner to phase out with continued use. Each SME should sign a “partnership agreement” prior to receiving technical assistance that outlines 1) What assistance they will receive from the program; 2) Their cash and/or in-kind contributions to the program; 3) Staff member(s) assigned to oversee and guarantee implementation of recommendations; 4) Commitment to creating a pre-determined number of jobs (ranges can be used); and 5) Commitment to tracking and reporting on program indicators including sales, jobs created, firm investment, etc. This would ensure SMEs participating in the program are committed to implementing program recommendations.

Engage *associations, chambers, and universities*. Associations and chambers can act as catalysts to bring stakeholders together during the early and mid-stages of the program. They should be the primary liaison institutions for outreach efforts to target SMEs as possible beneficiaries of assistance. Associations and chambers can host, co-sponsor and promote training programs, as well as assist in offering sector and non-sector specific technical assistance. They will also serve as advocacy partners in coordination with the SME Strategy 2020 working group efforts. Universities can host, co-sponsor, and promote training programs. They can also serve as sources for consulting, training and technical assistance expertise. As described in Section IV, they can be very valuable members of alliances to improve career development centers, job fairs and matching events, and continuing professional education programs for managers.

SECTION IV. TRADE AND EXPORT LINKAGES

A. Overview of Trade and Exports in Lebanon

Exports have played a surprisingly small role in Lebanon's economic success. Lebanon's GDP is about \$45 billion. As of 2013, formal exports were about \$3.5 billion, less than 8 percent of GDP, and one of the lowest figures in the region. Imports, on the other hand, were about \$21 billion. Lebanon imports much more than it exports. And this has been true for many years; Lebanon has been running a trade deficit every year since the end of the civil war. Lebanon's largest exports in dollar terms are gold, jewels, and jewelry, followed by food and beverages, mineral fuels and oils, electrical machinery, equipment, and parts, boilers, machinery and mechanical appliances, and copper. (MoET, 2013) Its major export markets are Syria, South Africa, Saudi Arabia, the UAE, and Iraq.⁹ (MoET, 2013) (See Annex F for import and export data by sector.)

In terms of geography, it is centrally located within the region and has an excellent port. The large banking sector means the country is relatively awash in credit (although exporters do not always have the access to finance that they need, a point which is elaborated upon below). The country has a skilled, multilingual, and sophisticated workforce that is well adapted to cross-border trade. Lebanon has a positive image or brand in several sectors, including fashion, jewelry, and a number of different food products.

Nevertheless, the challenges to exporters, particularly manufacturing exporters, are quite severe. There is very little effective policy support for exporters. Lebanon is very unusual in that it lacks an export promotion agency, and there is no coherent government policy to encourage exports.¹⁰ Some Ministries do pursue export promotion activities, but on an ad hoc basis. There is little advocacy for export policies, and what little does exist is not coordinated across industries. For example, Lebanon struggles to be competitive in manufacturing, in part because neighboring countries such as Turkey and Jordan have significantly lower manufacturing costs but also because the Turkish and Jordanian governments have coherent policies in place to encourage and support exports.

Two recent developments have added further challenges. First, the war in Syria has cut Lebanon off from most trade by land. While a few trucks do still manage to pass into and even through Syria, formal trade across the Syrian border has dropped by about 60 percent since 2010, while transit trade via Syria (to Iraq, Jordan and beyond) has fallen by over 90 percent.¹¹ (Siryani, 2015) The Syrian war has also destroyed the market for many Lebanese goods in Syria, which up until 2011 had been Lebanon's third largest

⁹ South Africa – along with Belgium, Switzerland, and India – are largely taking re-exports in the precious metal and jewelry trade.

¹⁰ Lebanon appears to be the only country in the region without one. A “Lebex” promotion agency has been proposed on at least two occasions, but has never been enacted. IDAL has a small internal division that is dedicated to export promotion, but it does not appear to be very active or effective.

¹¹ Since this assessment was completed, Jordan has closed its border with Syria, and any transit of goods from Lebanon via land has ceased.

trading partner. Second, the Lebanese pound has risen against most major international currencies. This has made Lebanon's imports cheaper, but its exports have become more expensive, and thus less competitive internationally.

B. Findings: Trade and Exports

Lack of access to trade information. Lebanese businesspeople have relatively limited access to information about exports. There is no government website that provides useful information about where or how to export goods and not all of the Chambers of Commerce are currently providing export-related courses or training.¹² While Lebanon has a well-developed consulting industry, the assessment team could not find consultants specializing in trade/export support and facilitation. Only a few large businesses (such as the pharmaceutical industry) appear to be doing market research for exports. In other countries at Lebanon's level of income, Export Trading Companies (ETCs) and Export Management Companies (EMCs) exist to fill this gap; however, Lebanon seems to have only a few ETCs and no EMCs at all.

Currency pegged to the Dollar hurts competitiveness. The Lebanese pound is informally but very firmly pegged to the dollar, and has been since 1994.¹³ The peg has survived multiple wars and invasions, significant swings in the value of the dollar, and at least one speculative attack. It is widely considered to be a key element of Lebanon's economic stability, and a clear majority of Lebanese are in favor of continuing the peg indefinitely.

Certainly the peg brings real and significant benefits. Lebanon is a heavily dollarized economy; if the currency were not pegged, exchange rate fluctuations would add an alarming new element of uncertainty to all business transactions. The peg also facilitates trade with other dollarized economies, most notably the GCC. The peg is perceived as giving Lebanon a relatively "hard" or attractive currency – something of a self-fulfilling prophecy, but nonetheless one with real economic effect. Despite the country's high debt burden and low credit rating, both foreigners and Lebanese are comfortable buying pound-denominated Lebanese T-bills; after all, the Lebanese government has never defaulted on a bond payment, and the peg means that they will not devalue their way out of their obligations. The peg has probably helped the Central Bank keep inflation under control, and has certainly played a major role in the perception of Lebanon as a stable economy. That said, the peg has drawbacks as well. Pegging the pound to the dollar means that Lebanon's currency rises and falls for reasons that are completely out of the government's control, and that have nothing to do with the pound's actual attractiveness or lack thereof. When the dollar falls, the pound falls, and Lebanon's imports become more expensive. And when the dollar rises – as it has in 2014 and early 2015 – Lebanon's exports become less competitive. If the dollar continues to stay strong, it will produce significant economic pressure on the country's export sectors.

¹² This is in sharp contrast to many developing countries in Africa and (particularly) Asia, where trainings in such matters as export finance or freight forwarding are part of every large Chamber's curriculum.

¹³ The peg is not formal, and very small swings – usually of less than 0.2% -- do occasionally occur. Since 2010, the pound has consistently traded in a narrow range of 1500 to 1510 to the dollar.

Lebanese Diaspora is untapped. Tens of thousands of Lebanese work abroad and send remittances home. For 2014, remittances totaled \$8.9 billion, up from \$7.86 billion in 2013.¹⁴ (Cuevas-Mohr, 2015) In other words, remittances were roughly double the amount of formal exports. From a purely macroeconomic point of view, remittances help close the trade deficit and bring large amounts of hard currency back into the country. There are of course very significant negative social effects, which are beyond the scope of this report.

Lebanon also has a very large diaspora of Lebanese and emigrant Lebanese living abroad.¹⁵ The Diaspora is a significant element in Lebanon's success as a banking center. The Diaspora as a whole tends to show a noteworthy attachment to Lebanese banks, and it is estimated that it accounts for between a third and a half of all deposits in the banking system. The global recession of 2008-9 actually led to rapid economic growth in Lebanon, in large part because the diaspora moved billions of deposits into Lebanese banks in a "flight to quality." As a result, Lebanon became awash in cheap credit, leading to investment and construction booms. Members of the Diaspora also come back to visit Lebanon regularly, generating significant tourism revenue. Additionally, the Diaspora provides an important network of contacts and information for Lebanese wishing to do business abroad. This is particularly noteworthy in Africa, where the Lebanese Diaspora is often quite influential in business and finance.

However, this group appears to be an untapped resource for Lebanon in at least two respects. First, they are a relatively small source of foreign direct investment (FDI). As one interviewee put it, "They're happy to put money in Lebanese banks, but never to put money in Lebanese businesses." Second, the diaspora would appear to represent a large unexploited market for Lebanese exports, especially food, clothing, jewelry, media, and fashions. Relatively few Lebanese businesses seem to be marketing directly to the Diaspora, and many of those that do seem to treat it as an afterthought.

Lebanon's export industries tend to be undercapitalized. While the gold, gem, jewelry, and pharmaceutical sectors have easy access to capital, most exporters, especially in manufacturing sectors, struggle to find operating capital and have difficulty persuading banks to finance new investments. Several forms of trade finance are underdeveloped or entirely absent. While every bank in Lebanon is ready to write and receive letters of credit (LOCs) for imports and exports, not one Lebanese bank has a specialized export finance department. Purchase of accounts receivables (factoring) or trade receivables (forfaiting) are products not widely offered, and there is no system of trade credit insurance. Various forms of supply chain finance, such as purchase order finance, do exist, but they seem to be quite rare and do not usually follow the supply chain beyond the borders of Lebanon. Lebanon also has no Export Credit Agency (ECA).¹⁶ Finance

¹⁴ The World Bank attributes part of the increase in remittances to the rise of remittances from the Syrian diaspora to Syrians residing in Lebanon.

¹⁵ The exact numbers are very unclear, but there are certainly more people of Lebanese descent living outside of Lebanon than inside it. There are several million in Brazil, roughly a million apiece in Argentina and Mexico, and several hundred thousand each in the United States, Venezuela, Australia, and France.

¹⁶ ECAs can be either governmental bodies, private institutions, or mixed public-private entities. Most wealthy and middle income countries have an ECA or equivalent, and they are common across the MENA

leasing (which is particularly useful for truckers and for exporters who need to purchase vehicles or containers) does exist, but it is rare, and is not directed towards exporters.

Trade and exports are hindered by a struggling transportation sector and slow customs clearance. Lebanon traditionally had a large trucking fleet which moved goods from its ports to Syria, Jordan, Iraq, and beyond. The Iraq War and the Syrian Civil War both had dramatic negative impacts on Lebanon's trucking industry, as these regional conflicts have significantly diminished demand. Currently, the trucking sector is badly undercapitalized and is shrinking. At least one large operator has simply gone out of business, selling off its fleet and closing its doors. Today most trucks are owned either by independent operators or by small (<10 trucks) fleets. The number of trucks on the road has declined by at least a third, and the average age of a trailer in Lebanon has risen from 7.5 years in 2000 to 20 years old today. (Siryani, 2015) Older trucks are heavier, break down more often, and need more fuel, making them less competitive. Since most of the trucking fleet is fully depreciated, and the market for trucking services is still shrinking, banks have not been enthusiastic about lending towards the purchase of new trucks. This means that, even if the Syrian crisis resolves in the near future, Lebanon's trucking industry will need significant investment in order to recover.

Lebanon had a rail system dating back to Ottoman times, which included a coastal line extending the length of the country, a second line up the Bekaa Valley, and a spur across the Anti-Lebanon Mountains to Damascus. The rail system was severely damaged by the civil war and has not functioned at all since the 1980s. It is unclear whether it would be possible to revive the rail system; certainly it would require a very large investment along with a massive commitment of political will. Neither of these seems remotely likely at this time.¹⁷

There is one civilian airport in the country: Rafik Hariri International Airport, 10 km from downtown Beirut. Rafik Hariri airport is primarily a passenger airport but does handle modest amounts of cargo; it is serviced regularly by three cargo airlines including Turkish Airlines Cargo, Ethiopian Airlines Cargo, and Cargolux. A fourth cargo service, the Beirut-based TMA Cargo, ceased operations at the end of 2014.

Lebanon has a large, modern container port in Beirut, a smaller container port in Tripoli, and several smaller non-containerized ports (Tyre, Sidon) and oil jetties. The Port of Beirut is one of the largest and busiest ports on the Eastern Mediterranean. Since the end of the Civil War, the port has gone through two major upgrading and expansion programs, including the rehabilitation of existing port facilities and the construction of a new container terminal. Today it stretches for 3.6 kilometers (2.3 miles) along Beirut's waterfront and has a capacity of approximately 1.5 million twenty-foot equivalent units

region. Sometimes this is a separate institution, like Turkey's Export Credit Bank; sometimes it's a part of a larger institution, like Jordan's Export Credit Guarantee Department, which is a division within Jordan's Loan Guarantee Corporation.

¹⁷ A group of businessmen led by Mr. Elias Maalouf has declared an intention to reopen the rail line between Byblos and Batroun as a commuter service, but nothing has come of it yet. The EU's European Investment Bank is funding a feasibility study into re-opening the Beirut-Tripoli line, the results of which should be published in 2016.

(TEU) per year. This is well beyond Lebanon’s current needs, but the Port of Beirut is also an important center for transshipment. In 2014, it imported approximately 675,000 TEUs for local consumption, exported about 120,000 TEUs, and transshipped about 650,000. It is expected that in 2015 transshipment will surpass imports, and by the end of 2016 it is expected to surpass imports and exports combined.¹⁸

While the port is modern and efficient, port fees are high by regional standards. Many importers and exporters encounter issues with customs and with health and other regulatory authorities. The Customs Law has not been updated since 1992 and is no longer consistent with modern best practices; for instance, it does not provide for pre-clearance (a practice that has become much more common in the last 20 years), nor does it allow the electronic exchange of documents.¹⁹ The World Bank rates Lebanon 97th out of 189 economies in the world in terms of “Ease of Trading across Borders.” Most of the reason for this low rating comes from the paperwork and time involved in dealing with Customs.

Foreign direct investment is low. Formal FDI in Lebanon is about \$2.5 billion and falling. In a middle income country with a \$45 billion GDP, this is remarkably low. Greenfield FDI is even lower: as of 2013, it was estimated at less than \$300 million. (IDAL, 2013) In other words, foreigners are very happy to deposit money in Lebanese banks, or to buy Lebanese government debt, but they show little interest in direct investment in Lebanon. The bulk of FDI in Lebanon appears to be coming from the GCC and to be directed towards the real estate and construction sectors. One interviewee described FDI as “Gulf investors raising luxury apartment buildings in Achrafieh for other Gulf investors to buy luxury apartments in.” This may actually be a reasonably concise description.

Unlike most countries in the region, Lebanon shows little interest in encouraging further FDI. This is unusual – most countries seek to increase FDI as much as possible – but under Lebanon’s

Limited Potential for Job Growth in Jewelry

Gold and jewelry businesses mainly import precious metals and stones and turn them into jewelry, along with parallel but separate lines in working gold and setting gemstones. Although this is a high value-added sector, the multiplier effect appears to be low. Most of the businesses involved are small (often a single family); the Lebanese Syndicate of Jewelers, for instance, has over 400 members, of which almost all have between 5 and 10 employees. (Moughanni, 2015) While the amounts of money involved can be quite large, few of these businesses are likely to add large numbers of jobs. There are several reasons for this. The industry involves a set of highly skilled crafts that require years of training, so there is a reluctance to train craftsmen who are not family or long-term associates. Also, the industry is highly reputational; large sums of money are often committed or exchanged on a handshake. These factors mitigate against expanding and formalizing small family businesses in the precious metal and jewelry sectors.

¹⁸ Beirut transships cargos to a variety of Eastern Mediterranean, Red Sea, and even Black Sea ports. (The Turkish government discourages transshipment at the Port of Istanbul because it does not want the extra traffic in the narrow Bosphorus, so Beirut has been able to compete for the Black Sea market.) Unfortunately, while transshipments can be quite profitable to the port, they do not provide significant knock-on benefits to Lebanon beyond a slight decrease in shipping charges thanks to increased competition.

¹⁹ It should be noted that pre-arrival clearance could be undertaken without a change to the existing Customs law. Some discussion of this can be found in ESCWA’s 2013 report, Business Regulatory Reforms: Recommendations for Lebanon (Jamal Ibrahim Haidar), page 9.

circumstances, it actually makes a certain sense. FDI could double and then double again, and it would still be tiny compared to the country's immense banking sector. Furthermore, as long as FDI is concentrated in construction and real estate, more FDI would tend to raise Lebanon's already high land costs, possibly contributing to a real estate bubble.

There is little momentum for Lebanon to join the WTO. Lebanon is not a WTO member. This is unusual for a country at Lebanon's income level, and doubly so for a country that is so well integrated into the international trading system. Lebanon applied for membership in 1998, and began the accession process in 2006, but it has proceeded very slowly and has been effectively stalled for the last several years. The original reason for delaying accession was that Lebanon had been devastated by the civil war and needed time to recover before joining an open trading system. This is certainly no longer the case. Lebanon has probably been "ready" in the sense of being able to deal with (and profit from) WTO membership since at least the turn of the century. Nevertheless, Lebanon is still not a member, and almost certainly will not be any time soon.

There are several reasons for this. First and foremost, WTO membership requires the passage of several fairly technical laws, along with accompanying regulations. In Lebanon's case, it was agreed that a package of 19 laws needed to be passed. Eleven of the 19 were passed by 2006, but none have been passed since. Indeed, as noted elsewhere in this report, Lebanon has passed almost no commercial legislation of any sort since 2006. Second, WTO accession seems to be suspect in some quarters by being associated with the "illegitimate" administration of former Prime Minister Fouad Siniora. And third, a number of powerful actors within Lebanon do not support WTO membership. The pharmaceutical industry, for instance, is concerned about the possible impact of TRIPS. Agricultural producers enjoy the protection of high tariffs on imported agricultural goods. On the other side, there is no organized group within Lebanon that offers more than lukewarm support for WTO accession.

Relationship between export and job growth in Lebanon is a complex one. On one hand, exports face many challenges, and the country's single largest export sector (precious metals, gems, and jewelry) is not a strong candidate for job growth (see box). On the other hand, the relatively small size of Lebanon's internal market means that any firm that grows past a certain point will inevitably have to look abroad. Thus, while exports are not likely to be a primary driver of job growth in Lebanon, any job growth strategy will have to at least be aware of the importance of export markets.

C. General Recommendations: Trade and Exports

Support chambers and industry associations to deliver standards trainings to constituents. Export standards to the EU and US are not widely known by SMEs or Chambers. The assessment team recommends that donors work with chambers and industry organizations to deliver instruction and training, particularly in agriculture, to assist local enterprises to meet international standards. The EU-funded Qualeb project is already working along these lines, but there is clearly room for more than one donor here. To give a single example, there is certainly a need to upgrade Lebanon's existing quality

labs, particularly for agricultural exports, including both additional equipment and additional training.

Support trade missions to target markets. Trade missions are a popular tool for export promotion projects around the world. Although they are sometimes misused, they can be quite powerful when undertaken properly. A well-developed set of best practices exists. One practice is not to use trade missions to introduce new exporters, but rather to give businesses that already have experience in exporting the opportunity to meet potential customers, learn about the business environment, and investigate opportunities in target markets. Trade missions are not a simple or cheap intervention, especially if they are undertaken repeatedly. However, they are an intervention that can lead quite directly to dramatically increased exports, and thus to job creation.

Conduct Lebanese export market studies. Provide for a set of targeted market studies examining the prospects for particular Lebanese export products in given foreign markets. Interviews showed that although Lebanese businesspeople are quite sophisticated, they face a daunting lack of information about export markets. “I would be happy to try to sell my product in Turkey,” said one, “except that I know nothing about the market for my product in Turkey, nor where I might go to find out.” Market studies are a commonly used tool around the world, and there are entire consulting industries devoted to them, along with a generally recognized set of standards and best practices. Market studies are a moderately costly but relatively straightforward intervention. Like trade missions, they can lead quite directly to increased exports, and thus to job creation.

Provide export training courses. Potential exporters are often deterred by the various types of specialized knowledge needed to market, sell and transfer goods abroad. In other countries, courses on export marketing, export finance, and the mechanics of exporting (i.e., how to use a freight forwarder, how to pack various sorts of goods for export, how a bill of lading works, how to order and use a Letter of Credit) have shown good results. The Chambers (especially the Bekaa Chamber) are already accustomed to offering training courses to their members, so it would be fairly simple to add export training courses. Various courses of this sort already exist in many places around the world, complete with curricula and materials. This is a relatively simple and low-cost intervention, and one that is likely to lead directly to increased exports and thus to job creation.

Connect exporters to service providers. Exporting involves a wide range of service providers, such as customs brokers, freight forwarders, distributors, bonded warehouses, and the like. A relatively simple and low-cost intervention would involve connecting first-time exporters with service providers who have demonstrated flexibility and openness to dealing with new market entrants. This has been done successfully by USAID projects in a number of different countries including Uganda, Senegal and Moldova.

Following-up on the First Sale. Most export promotion programs focus on preparing exporters to enter a new market and execute their first sale. Then, upon that sale,

technical assistance ends. However, without further prodding and guidance, many fail to adequately follow-up their first sale in a new market and eventually pull out after making costly mistakes. Experience shows that if a program guides exporters through their learning curve (which may last a year or longer), the assistance can achieve can result in higher exports than similar resources spent on training another unprepared producer.

Expand and augment existing online export toolkits. Export toolkits are found in many countries around the world. A partial version of this already exists in Lebanon at the IFC's online SME Toolkit site.²⁰ However, the IFC version is very limited and does not provide much in way of forms, links, or training. A more appropriate model for Lebanon might be the much larger and more successful AGOA Export Toolkit.²¹ There are multiple models to choose from. A wide range of information can be provided easily, including country-specific information such as country standards, import regulations, major importers, etc. This would be a quick, simple and low-cost intervention.

Support banks and lenders to expand export finance offerings. Most of Lebanon's banks are not strongly engaged with exports, and do not offer products designed to help exporters produce and sell their goods. Many of these financial products are well developed in other places around the world, so that transplanting them to Lebanon would be fairly straightforward. For example, export factoring and forfaiting both have large international associations, and many banks currently present in Lebanon offer these exact products elsewhere in the world. This would be a fairly simple and low-cost intervention, though it might require some technical assistance and some time for banks to adjust to marketing new products to SMEs. By way of comparison, a USAID initiative to introduce export factoring in Armenia in 2008-2009 resulted in approximately \$10 million of additional exports over a period of 18 months.

²⁰ <http://lebanon.smetoolkit.org/lebanon/en>

²¹ <http://agoa.info/toolkit.html>

SECTION V. ENHANCING PRIVATE SECTOR GROWTH THROUGH WORKFORCE DEVELOPMENT

A. Overview of Workforce Development in Lebanon

In an effort to gain a broad and in-depth understanding of the Lebanese labor market, the assessment team conducted extensive research, literature reviews, and interviews with local actors, including micro, small, medium, and large enterprises, public and private universities, government agencies charged with workforce development issues, and public and private TVET institutions. The interviews provided the assessment team with a chance to fact-check and confirm the findings of previous workforce development reports in Lebanon, such as USAID's Workforce Development Assessment, and investigate whether consensus exists among actors of various sizes and sectors on workforce development. Specific topics of review in this section are: skills shortages faced by local companies, labor market oriented training programs, and placement strategies.

Lebanese workforce. Lebanon boasts educational attainment and literacy rates amongst the highest in the Middle East, and the quality of its educational institutions is quite high by regional standards. While estimates of unemployment rates in Lebanon vary widely, one number that is not disputed is the youth unemployment rate of approximately 34 percent, a number that will likely grow. According to various estimates, between 19,000 and 23,000 people will enter Lebanon's workforce each year over the next decade.²² (Atallah, 2015) Young people, and especially young women, are joining a particularly difficult labor market, with most new jobs being created in lower-productivity services. Informal wage workers and the self-employed make up around 50 percent of employment. (FHI 360, 2014) The return on educational investment in Lebanon is low, considering an average starting salary of \$1,200 per month for academics. On average, families spend close to \$1,800/year on education, or 13 percent of family expenditures.

Services hold the biggest share of employment, followed by trade and manufacturing. Women are predominantly employed as professionals, service/retail workers, and in elementary occupations, while men lead in senior official roles and in craft and trade professions. Syrian workers are increasingly prevalent in Lebanon, especially in low and unskilled occupations in agriculture and construction and now in hospitality and other services. (FHI 360, 2014)

The results of all of the above dynamics are high levels of skilled emigration, a low female participation rate, and unemployment rates that are higher for those with higher levels of education, for women, and for youth. Unemployment is also higher in the North

²² In addition to graduates and students of universities and TVET establishments, school dropouts from intermediate and secondary education as well as baccalaureate degree holders are considered to be potential new entrants to the labor market. The total number of new entrants to the labor market from schools as baccalaureate degree holders who do not pursue their studies in addition to intermediary and secondary education drop outs is estimated at 17,600.

and may be increasing nationally, particularly in areas with large numbers of Syrian refugees. (FHI 360, 2014)

Workforce development in Lebanon. The educational structure in Lebanon is divided into basic education, vocational and technical education, and higher education. There are 59,000 students registered in 430 vocational schools. Roughly 192,138 students were enrolled in 41 universities and institutes of higher education during the 2010-2011 school year, with 32,603 graduating. (NCLW, 2014) During 2013, Lebanon's drop-out rate reached 15.64 percent at the secondary education level. (UNESCO Institute for Statistics, 2013) Roughly 23.7 percent of students at the secondary level were enrolled in TVET. (UNESCO Institute of Statistics, 2013)

Upon finishing school, entrance into the labor market is not easy – whether youth have graduated from high school, vocational school, college, or with a post-graduate degree, the average time for finding a job is seven months. Only half of those with minimal education had permanent jobs in comparison to 74 percent of the university degree-holding youth in Lebanon. Limited career guidance often means that even those students who graduate tend to enter fields for which they are unsuited. The ratio of the number of graduates with degrees in social sciences, business, law and humanities compared to that of graduates with degrees in sciences and engineering is around 2:1. (Yaacoub & Badre, 2012) Most university programs tend to follow the French model. This means that course work is usually highly theoretical, and employers note that few graduates have practical experience with work. Focus group discussions revealed that once companies find suitable candidates, in-house trainings are sometimes offered to make new recruits familiar with company specifics. Unfortunately, these in-house trainings rarely get into the technical depth often needed by new employees.

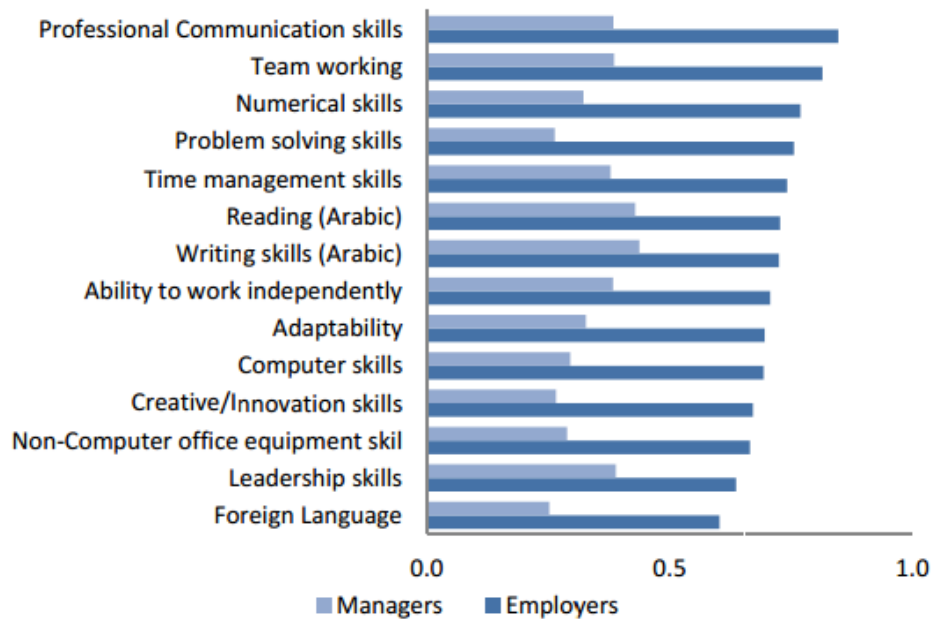
B. Findings: Workforce Development

Continuing professional education programs are not consistently provided. Currently, there are few examples of successful continuing professional education (CPE) programs in Lebanon. Among smaller companies a perception exists that upgrading employee skills is unwise, especially at the managerial level, because it leads to their departure for higher paying jobs. Unfortunately, this perception, whether true or not, simply serves to perpetuate inadequately managed, under-performing companies. Additionally, because these services are not in demand, they are not in ready supply either.

One CPE program, run by the Lebanese American University (LAU) in Bekaa in partnership with the Chamber of Commerce for Industry and Agriculture, is successful because it is responsive to the needs of local business owners. Programs are designed to fit well with business owners' difficult schedules. Courses are typically run four weeks at a time but just two days per week including one weekend day. The program offers a wide array of courses from quality management, marketing, and HRM to English and public speaking. Last year 140 local professionals/managers completed the program. Unfortunately, this is one of the only such CPE programs found that impart managerial skills in short, intensive (1-6 week) training programs. Masters programs do exist, such as the 18 month MBA offered by AUB.

General skills mismatch exists. The sixth most mentioned constraint for SMEs in a 2009 World Bank Report was “skills and education of available workers,” with more than half (55 percent) of enterprises listing a general lack of skills among employees as a serious matter. The most difficult positions to fill are skilled technicians, engineers, and managers. (World Bank, 2009) There are also significant gaps between the skills that employers demand and those that workers have. In the case of managerial positions, the main gaps are related to skills to operate computers and other office equipment, the ability to work independently, and the lack of a foreign language. For the non-managerial positions, main gaps include: ability to work on a team, foreign language skills, professional communication skills, and problem solving skills. (Robalino & Sayed, 2012) In sum, neither universities nor vocational and technical training institutes are currently providing the skill sets demanded by employers. Yet the demand is growing for well-trained specialists and middle management. Education and training therefore play a key role in the Lebanon’s economic development.

Figure 1. Skills Employers Want versus Skills Managers Actually Have



Source: World Bank, 2009.

Skills mismatch in higher education. The higher education system in Lebanon is not, in general, responding to domestic employer needs, but rather to social norms that place value on certain professions, regardless of local demand. Broadly speaking, Lebanon’s labor market suffers from an overabundance of workers at the high and low ends of the skills spectrum and a “missing middle.” The mismatch between the orientation and output of education and training institutions and the demands of the labor market aggravates the country’s already poorly functioning labor market dynamics.

Table 7. Degree of Relation of Alumni's Job to their Major Field of Study

Degree	Very related	Somewhat related	Not at all related
Education	100	0	0
Humanities and the arts	59	24	18
Social sciences, business, and law	42	41	18
Science	70	18	12
Engineering, manufacturing, and construction	52	38	10
Agriculture	0	100	0
Services	43	43	14
Health and welfare	50	29	21
All majors	51	34	15

Source: Kawar & Tzannatos, 2013.

Outside of the few certified and licensed occupations (i.e. doctors, lawyers, practicing engineers, etc.), the correspondence between the educational fields people choose and the jobs they perform after graduation is quite weak (see Table 7).

Skills mismatch in vocational education. Public, private, and NGO-sponsored technical vocational education and training (TVET) providers have also not responded to the needs of the local labor market. Coursework is outdated by 30 years, as in most cases the Ministry of Higher Education (MEHE) has been very slow to revise or introduce new curricula. In fact only a handful of revisions have taken place since the end of the Lebanese Civil War.

Furthermore, vocational training tends to be overly theoretical. Manufacturers that operate expensive or complex machines often complain about the low quality of TVET, stating that the lack of practical competencies of graduates is crucial when it comes to the use of high-end technology. Unexperienced graduates can break machinery and/or interrupt production processes, offering a major disincentive to hiring students without practical work experience. (FHI 360, 2014) It is in this, and other examples that demonstrate a lack of market linkages and responsiveness to market trends on behalf of TVET organizations.

The Torino Process, launched in 2010 as a bi-annual review of TVET worldwide, noted that the lack of a clear vision or specific strategy for TVET and the Lebanese economy in general, the poor performance of teaching staff, and weakness of public TVET institutions are the three main challenges to TVET education in Lebanon. (ETF, 2015) It states further that TVET curricula needs updating and that an improved business sector contribution would lead to more relevant training programs and greater competitiveness in the labor market, especially in the rapidly-evolving sectors.

Successful vocational training approaches in Lebanon. International Center for Technical Sciences (CIT) in Dora Square is a well-respected private TVET institute in Lebanon providing training in business computing, accounting, hotel management, and interior architecture. The tuition fees of \$2,500 are much higher than the \$300 cost of public TVET schools. However, CIT Dora workshops and trainings are better equipped, and more oriented towards the local labor market as well as student preferences and

needs. CIT Dora offers programs in the evening, allowing students to pursue jobs during the day. Consequently, the hiring rate of graduates is high.

NGOs and donors have gotten involved and have been successful in the field of vocational training as well, especially when they have partnered with the private sector. In the field of electrotechnics, the European Institute for Cooperation and Development (IECD) added value to existing curricula by inserting practicums for students during their 3-year training period. So far, 700 students have enrolled in the program, and a major private sector collaborator, Mitsulift, is paying tuition fees for 12 of its employees to become more highly skilled.

A similar close collaboration is happening with the Dual System. Introduced by GIZ, the Dual System is a unique combination of classical school training and traineeship in a company. Simultaneously, students are learning the theoretical essentials and on-the-job skills over the course of three years. During the first year, students spend all five days a week in one of the now 33 technical institutes. After the first nine months, the school will guarantee a practicum for the student in one of approximately 800 training companies. In the second and third years, students continue theoretical training in school, but only on a part-time basis. The rest of coursework is conducted on the job with training companies, offering the chance to experience first-hand the tasks and environments of future workplaces. According to focus groups, the Dual Program is appreciated by business representatives, who consider it a good method of creating a labor force with skills applicable to private sector demand.

Additionally, there are a number of NGO initiatives (e.g. Makhzoumi foundation, Safadi foundation, Injaz, etc.) that offer short-term trainings in technical and soft skills. However, their placement offices are often understaffed and overburdened with the load of resumes they receive from job seekers. The varieties of workplace-oriented trainings leads to some duplication of services and neither the organizations nor potential students have a clear overview of who is providing what training. As a result, “the impact of these initiatives is unclear owing to their fragmentation and the absence of clear policy direction.” (ETF, 2015)

Career counseling services. With few exceptions, higher education and TVET institutions provide little career counseling guidance and job placement support. While the MEHE maintains a department of orientation and guidance, it employs only ninety teachers, who are on temporary leave from their teaching duties, to provide counseling and advisory services to 1,281 schools across the country. (ETF, 2015) To help ease this shortage of career counseling support, IECD has supported its affiliated TVET institutions in establishing career guidance desks. TVET school personnel have received training on career counseling, establishing links with the private sector and placement of interns and graduates. The success of this measure will only become clear in the future.

Some Lebanese universities and TVET providers do operate job placement and career counseling offices. However, their quality varies from institution to institution. Whereas large, well-reputed universities, such as AUB, Université Saint-Joseph, and Lebanese

American University employ several staff members who link students with job vacancies in the private sector, most TVET schools and smaller universities do not have personnel supporting job placement outcomes.²³

Labor market needs are not readily communicated. There are no structured and consolidated mechanisms in place to identify skills needs and to match skills supply. There is no labor market information system nor are labor force surveys completed regularly. While the Chamber of Commerce of Beirut and Zahle performs specific surveys at the central and national level, there are limited mechanisms in place to feed this information on into the education and training system. Most of the surveys and analyses that do exist are performed with the financial support of donors, particularly the International Labor Organization, however a labor market needs analysis has not been completed since 2004.

The National Employment Office (NEO), under responsibility of the Ministry of Labor, was created to conduct research to inform employment policies to improve the employability and skill level of new entrants to the labor force through accelerated vocational training. NEO also aims to reduce unemployment rates by linking job seekers with job opportunities through the Employment Bureau and to build the capacities of people with disabilities to increase their employability. Unfortunately, the NEO does not have either the resources or the institutional capacity to complete its overambitious mandate. The NEO has a stagnant annual budget of \$1.3 million, and is seriously understaffed (it had 29 employees in 2014). (Abi Fadel, 2015)

Furthermore, limited dialogue with social partners and the business sector in particular remains a key problem in defining and implementing effective measures to address skills development and skills mismatch. There is increased awareness of the importance of cooperation between business and education, but there has been little progress so far in developing a clear policy framework for the concrete and structured involvement of business representatives in educational governance. The majority of companies interviewed are not in active cooperation with the academia.

Job fairs are not optimized for effectiveness. Most universities in Lebanon host job fairs. The most popular university job fair in Lebanon is AUB's Annual Job Fair. In 2012, 146 firms reserved stands for the event, and over 270 students/alumni found job outcomes as a direct result. While 270 job matches is a success, the daily cost of a stand varied between \$500 and \$6,000 per day, which was cost-prohibitive for many SMEs. Furthermore, no data was collected on the number of attendees. Without collecting this data, it is impossible to measure whether 20 percent or 1 percent of attendees found jobs, and moreover, no way to measure the overall effectiveness of each job fair implemented. Similarly, privately organized job fairs, like the annual FORWARD Recruitment Forum do not monitor actual job matches.

²³ It is important to note that job placements rates at AUB, Université Saint-Joseph, and the Lebanese American University are not known at this time.

E-recruiting is growing but not necessarily creating jobs. E-recruiting is growing quickly in Lebanon, but is not necessary resulting in major job growth. Traditional forms of recruiting required more of an investment in time. E-recruiting has opened up job-seeking to passive job seekers – individuals who already have a job but would apply for what appears to be a better one that is advertised on the internet.

Of all the jobs currently posted on bayt.com – one of the main important job seeking platforms in Lebanon – 133 companies are currently hiring for 336 vacancies in Lebanon. 39 percent of the companies looking to hire employees in Lebanon are in the size range of 10-49 employees. This group is also hiring the largest number of employees (128 out of the 336 vacancies, or 38 percent). Fewer firms in the 50-99 employee or 100-499 employee size range seem to be hiring people. In the 500+ employee size range, a smaller number of larger firms seem to be hiring a proportionally larger number of people (29 percent of all vacancies, the second highest after the 10-49 size range). This provides some further validation that the 10-49 employee sized firms show the most potential for engagement in terms of the number of potential firms seeking to grow relative to the others.

The top six employers are coming from the retail/wholesale (14.8 percent), employment placement/HR (14.2 percent), ICT/telecom/computer hardware/e-commerce (8.3 percent), medical/pharmaceutical/healthcare (6.5 percent), and agriculture/forestry (3.5 percent) and catering/food services/restaurants (3.5 percent) sectors.

C. General Recommendations: Workforce Development to Enhance Private Sector Growth

In order for workforce development support to be effective, any future programs should employ multiple, integrated interventions that utilize practical training, e-recruiting, job fairs, and other tools to ensure that as many sectors, locations, employers, and job seekers can be beneficiaries.

Support local efforts to upgrade the TVET system. In the last few years, local efforts to improve the TVET system have gained steam. In 2014, the Advisory and Coordinating Committee for Vocational Education and Training steering committee (ACC-VET) was created, with the intent to facilitate public-private sector dialogue around needs for vocational education and training. The committee aims to:

- Provide support and assist in policy advisory services and systems to develop vocational education training;
- Assist and support governing bodies in setting priorities, as well as planning and implementation of activities such as curriculum development, examinations, occupational and job analyses, teacher and instructor qualifications;
- Assist in identifying human resource development needs and labor force demands;
- Facilitate the design and implementation of public relations campaigns in order to inform youth and parents to increase trainee recruitment;

- Facilitate instructor in-service education through arranging exchanges and exposure to actual workshop and work environments, new technologies, and professional developments.

Additionally the Ministry of Education and Higher Education recently announced the Strategic Multi-Annual Action Plan for vocational and technical education in Lebanon of 2011-2014. The plan centered around four building blocks:

- Review and modernization of VTE’s structure and administration;
- Strengthening the partnership and cooperation with social partners and other stakeholders and enhance the image of VTE,
- Revision, updating and improvement of the vocational specializations (including their geographical distribution) and curricula, and
- Ensure and increase human and financial resources.

Despite these local efforts, the TVET system is struggling to keep pace with changing times and needs to come to grip with the new realities by reforming its governance framework, improving teaching and learning conditions, updating curricula and enhancing public perception of TVET education. It is our recommendation that USAID provide support to these, and other local efforts to improve sustainable, home-grown vocational education improvements in Lebanon.

Work with private sector training providers. It is recommended that USAID seek future cooperation with private training providers as they have shown to be more flexible and capable of forging sustainable cooperation with international agencies than public sector-funded providers. Public sector institute funding must be channeled through a government budgeting process, and donors cannot advise as to the allocation of donations. Due to these, and other factors, the bureaucratic hurdles prevent public-sector institutions from acting nimbly, reforming quickly, and responding to market trends. The following providers have potential to support a USAID-funded initiative and have the availability of resources to offer trainings.

Table 8. Overview of Additional Potential Training Providers

Training provider	Training Subjects	Duration
Al Kafaat Foundation	<ul style="list-style-type: none"> • Hospitality and Catering • Automotive Repair and Garage Management • Electrical Installation • Appliance and HVAC Repair • Computer Maintenance and Repair • Fashion and Jewelry • Hair Styling and Aesthetics • Graphic Design and Printing • Accounting and Financial Management • Nursing 	Programs range from several months for technical training to several years for university degrees
Makhzoumi²⁴	<ul style="list-style-type: none"> • Business and Enterprise Skills 	Up to 2 months, part time

²⁴ Graduation certificates issued by the Makhzoumi Foundation are eligible for legalization by MEHE

	<ul style="list-style-type: none"> • Personal Development and Soft Skills • English • Digital Literacy and IT Skills 	
Don Bosco	<ul style="list-style-type: none"> • Solar PhotoVoltaic (PV) Systems • Electropneumatics • Surfcam Training Courses: Mill and Lathe CNC, CAD, CAM • Automation Courses for PLC/HMI • Air conditioning and refrigeration • Executive Secretary & Accounting Assistant • Solar Thermal Systems • Car Mechanics 	Between 3-9 months
YMCA	<ul style="list-style-type: none"> • Agricultural Mechanics • New Agricultural Techniques • Cottage Industry Food Processing • Office Administration • Welding • Plumbing • Electrical house wiring • Pastry Chef • Aluminum maintenance 	Short-term afternoon courses
Safadi Foundation (region Tripoli only)	<ul style="list-style-type: none"> • IT • English • Plumbing • Welding 	Short term
CNAM	<ul style="list-style-type: none"> • BT+ Electrotechnic (elevator maintenance) 	1 year evening courses

Support the implementation of regionally and technically-focused job fairs. Job fairs in Lebanon, with few exceptions, have been large, catch-all, and geographically centered in the Beirut region. Furthermore, data collection has been sparse, and measurement on effectiveness has been all but nonexistent. The assessment team recommends that USAID support the implementation of additional job fairs through local organizations that are nuanced and tailored to optimize effectiveness. Job fairs shall:

- Include cost-shares from the private sector
- Be implemented in up to four different regions (Bekaa, Beirut/Mount Lebanon, North Lebanon, South Lebanon) up to four times annually
- Have different job sector/responsibility foci
- Be measured, analyzing the costs per job matched, success rate for job seekers, and success rate for employers, so that future fairs can be optimized and improved.

Cost-share post-employment training. Work-based learning approaches require an up-front and ongoing investment of resources by employers. They also require that employers take some risk in bringing undertrained and/or inexperienced personnel into the firm. Employers repeatedly mentioned that they usually do not undertake post-employment training as they are concerned that other firms will lure away their newly skilled workers before they can fully recover their investment. However, a major advantage of work-based learning strategies is that employers have trained workers with

the specific skills they need, which can help the employer increase productivity and improve the quality of their products.

A donor-funded project could operate as workforce intermediary between the supply and demand sides of the labor market, serving as integrators and facilitators for an effective industry engagement in short term training programs. The project could work with businesses that are ready to hire more employees but would not be able to make this investment without assistance. Additionally, a project can facilitate recruitment and training of personnel to ensure that newly hired or promoted staff have the attitude and skills required to be a productive members of the staff. The project could offer to co-finance 3-6 month trainings in soft skills or basic technical skills in order to compel employers to hire candidates that mostly meet their criteria, but who may not be a 100 percent fit. For example, candidates identified from a career fair who show strong potential, but who may lack directly relevant work experience may be more marketable to interested SMEs if supported through this approach. The project should cooperate with businesses that:

- Consider job creation to increase their productivity, competitiveness, and ability to do business in Lebanon and abroad;
- Make a commitment to provide significant co-investment in training for the duration of the grant.

Support existing university/TVET career centers job-matching programs. There is a growing awareness for the need of early vocational and career counseling at TVET institutions/universities and sound job placement centers operated by qualified staff. Yet existing placement offices are mostly understaffed and people are not qualified to provide client-oriented counseling and liaise with Lebanese industries. Meetings with university career counselors indicated that students have little to no information about labor market needs or career options either when choosing a university during secondary school, or once at university, when choosing a major. Based on the identified key sectors/industries in this report, the project may do some research to determine which TVET institutions and universities offer educational programs and topics that are in line with the occupational profiles of cooperating companies. Subsequently an analysis should take place about which of those educational institutions already operate job placement desks and how successful they are in placing students.

SECTION VI. SPECIAL ECONOMIC ZONES

A. Overview of Special Economic Zones and Industrial Parks in Lebanon

The assessment team assessed the current and potential effectiveness of Special Economic Zones and Industrial Parks in Lebanon, their future feasibility in the Lebanese context, their ongoing and potential impact on SME growth and competitiveness, and the role that USAID may play through future programming in their growth and development.

Special economic zones. Special Economic Zones (SEZs) are special geographical regions, designated by law, where certain laws (typically on taxation, trade, and certain sorts of regulation) are suspended or amended in order to allow the rapid growth and development of enterprises. Typically an entire SEZ is overseen or managed by a single entity, which may be either public or private. SEZs have been engines of development and growth in a number of countries across the region. The most prominent example worldwide is China, which has built several massive SEZs, most famously the Shenzhen Economic Zone in Guangzhou, adjacent to Hong Kong. The most prominent regional example is Turkey, which has created numerous SEZs over the last 25 years, leading to the creation of hundreds of thousands of jobs and billions of dollars of exports. Lebanon’s neighbor, Jordan, also has several successful SEZs.

There are several types of SEZs. The chart below gives some of the more common sorts, along with a brief description. Most of these have been proposed for Lebanon at one time or another. Lebanon’s only current SEZ (the Tripoli Economic Zone, or TSEZ) is a fairly typical Export Promotion Zone; it was created by law in 2008, but has not yet begun operations.

Table 9. Types of Special Economic Zones

Type	Objective	Size	Typical Location	Typical Activities	Markets
FZ/FEZ (Free Zone / Free Economic Zone)	Integrated Development	Usually large, > 500 Hectares	Anywhere	Multi-use	Internal, domestic, export
FTZ (Free Trade Zone)	Support Trade	Usually small, <50 Hectares	Port of entry (port or airport)	Entrepots, transshipment, other trade related activities	Domestic, re-export
EPZ (Export Promotion Zone)	Export Manufacturing	Any size	Anywhere, usually near port	Manufacturing, processing	Mostly export
Urban Enterprise Zone	General Enterprise Development	Any Size	Urban area	Light manufacturing, warehouses, startups	Mostly domestic

When undertaken properly, SEZs are a potentially useful tool that can lead to job creation, increased tax revenue, and environmental benefits. However, SEZs are not a cure-all. Some, like Shenzhen and the larger Turkish SEZ, are great successes; but many others never got going, are poorly run, or end up exploited by investors who took tax and regulatory breaks without producing substantial employment or export earnings. Africa

and India have dozens of failed SEZs, and even China has produced several disappointments. Worldwide, the record of SEZs can fairly be described as “mixed.”

Tripoli Special Economic Zone. In 2008, the Lebanese Parliament passed the Tripoli Special Economic Zone (TSEZ) Law No. 18, establishing Lebanon’s first SEZ on a 50 hectare site adjacent to the Port of Tripoli. The Law allows the creation of an SEZ and exempts firms doing business there from certain Lebanese laws and regulations. In 2011, USAID contracted Sibley and Associates to research and write a report on the Tripoli SEZ. (Sibley and Associates, 2011) Soon thereafter, discussion began on appointing a Board (formally known as the TSEZ Authority) to oversee the implementation of the Law and the development of the Zone. These discussions went on for almost three years, and included at least one unsuccessful attempt to appoint a Board. Agreement was finally reached in April 2015 and a Board was named and appointed. The Board will have a range of authorities, including the ability to hire employees, find and evaluate a developer for the TSEZ, draft a master plan, and enter into contracts with a developer and other entities. As of this writing, the new Board has not convened. No other actions have been taken to implement the law.

Key Facts about Industrial Parks. Industrial parks are similar to SEZs except that they do not involve a special law. The term is often used loosely – journalists and even businessmen may refer to “industrial parks” when what they really mean is just a real estate development that is zoned for industrial use.²⁵ The United Nations Industrial Development Organization (UNIDO) defines an industrial park as “a tract of land developed and subdivided into plots according to a comprehensive plan with or without built-up (advance) factories, sometimes with common facilities and sometimes without them, for the use of a group of industrialists.” A number of European countries have large and productive Industrial Park systems,

including Hungary, the Czech Republic, and Turkey (see box). The Turkish model relies on local committees that are de facto public/private partnerships; the Hungarian model, by way of contrast, draws more support from a powerful association of the industrial parks. The key points, however, are that an industrial park system should provide investors with easy access to land that has clear title, access to infrastructure, and permitting that is either streamlined, pre-approved, or both. Although it is not part of the

Industrial Parks: The Turkish Experience

Industrial parks have been an important part of Turkey’s economic development plan since the 1990s. Turkey has three types of “special economic zones,” of which “Organized Industrial Zones” – more commonly known as industrial parks – are the most common. There are about 120 OIZs across Turkey, involving more than 40,000 firms and employing nearly 1 million people. Turkish Law sets OIZs up as non-profit legal entities operating at either the provincial or municipal level, and overseen by an “entrepreneurs committee” comprising local stakeholders, both public and private. OIZs provide access to high-quality land, superior infrastructure, and pre-screened compliance with environmental and other regulations. Infrastructure connections, permits, and licenses can all be obtained much more quickly in an OIZ than elsewhere. Turkey’s system of industrial parks is considered such a success that several neighboring countries have either attempted to copy it (e.g. Jordan, Georgia) or have simply asked the Turks to come in and help them set up industrial parks of their own (e.g. Egypt, Ukraine). Turkey and Israel have also cooperated on joint industrial parks (many following the so-called “Tefen Model”) within both countries.

²⁵ This seems to be a particular issue in Lebanon, where the term “industrial park” is thrown around quite freely.

formal definition, the normal practice is that an industrial park should be “plug and play”, with zoning, permitting and utility issues are resolved in advance. This usually requires that the park be organized by a single developer. Industrial parks usually emphasize manufacturing, though other types exist.

Like SEZs, industrial parks are a regularly recurring topic in Lebanese media and policy discussions. Two large industrial parks are currently under consideration in Lebanon: one each in Saida and in Terbol. A smaller one is under consideration in Batroun.

B. Findings: Special Economic Zones and Industrial Parks

Lebanese businesspeople and policy makers have become intrigued by the notion of SEZs and industrial parks. The reasons for this are not difficult to understand. Land in Lebanon is extremely expensive, businesses often face challenging infrastructure problems, and industrial businesses are often located near or in residential and retail areas. Many Lebanese are aware that neighboring countries such as Jordan and Turkey have enjoyed success with SEZs. As a result, discussions of SEZs and proposals for new industrial parks appear regularly in Lebanese media. There are a few things to keep in mind with regards to SEZs and IZs in Lebanon:

Setting up SEZs and IZs is a difficult, often unsuccessful process. While enticing, SEZs and IZs can be implemented incorrectly, and can even have opposite, unintended results. For example, Morocco had an elaborate and complex system of “special investment zones” which included industrial parks. However, the legal framework was drafted in such a way that multiple agencies and branches of government had conflicting responsibilities for the administration of the parks. The result was that the parks were actually less attractive to investors than ordinary construction land. In the middle 2000s, after years of amending the law and fruitless attempts to re-arrange the system, Morocco finally scrapped the whole legal framework and designed a new system. The lesson here is that an industrial park system needs to be carefully designed and drafted, with willing cooperation from multiple government actors, or it will not be effective and may end up making matters worse.

Developing SEZs and IZs (especially SEZs) takes time. In the case of the Tripoli Special Economic Zone, it has taken seven years to move from a law to the appointment of a Board. Optimistically, it will probably take at least another five years before the SEZ is ready for business. In theory it could take much less time; SEZs in neighboring countries have gone from initial Board appointment to opening their doors in less than half that time. In this case, though, given the number of actors involved, and the GoL’s track record in resolving complex and politically sensitive issues, five years seems optimistic – and it also seems entirely conceivable that the TSEZ will never happen.

Tripoli SEZ’s experience is likely indicative of future struggles. The long delay in appointing a Board is symptomatic of the issues that will probably make development of the Tripoli SEZ (and any future SEZs) very difficult. It is very difficult for the Government of Lebanon (GoL) to take decisive actions. If the GoL only needed to take the single action of appointing the Board, then there would be no more problems.

Unfortunately, several other state actions will be required before the SEZ can open for business. These include (but are not limited to):

- Amending the TSEZ Law No. 18 as discussed above.
- Reissuing Lands Decree No. 1791, which has expired, to include permission to grant a 30 year lease to the SEZ developer.
- Engaging in diplomatic discussions with trade partners. Some WTO and GAFTA members do not extend free trade to goods produced in SEZs. This could potentially deter firms from locating in the SEZ until this issue is resolved, so this issue needs to be resolved before the TSEZ opens for business.

This of course does not include the many actions that must be taken by individual government agencies in order to allow development to move forward. As with other large developments, the SEZ will need an environmental impact review; will require the development of a master plan which must be reviewed by the relevant authorities, so that road and utility links can be set up; will need permits for a wide range of activities; and so forth. All of these will require intensive and often coordinated activity by a range of government actors.

Prior to any engagement on development of the Tripoli SEZ, the law must be amended. Unfortunately, the developers of the Tripoli SEZ Law overlooked several important issues, which require amendment before any meaningful steps can occur. These issues include:

- The TSEZ Law has minimum capital requirement (MCR) of \$300,000. This is not consistent with international best practices, and will put the TSEZ out of reach for most SMEs.
- The TSEZ Law does not provide a clear mechanism to give TSEZ products a national certificate of origin.
- The TSEZ Law is silent on the treatment of local versus foreign content of goods produced in the SEZ. Either the TSEZ Law, or Customs Decree No. 2220, needs to be amended to include an explicit clause exempting the value of local content of goods in the TSEZ from paying import duties when sold inside Lebanon. Either the Law or the Decree should include clear procedures to trace foreign content in TSEZ-produced goods.
- The Law does not make it clear that the Board has power to utilize TSEZ land in any manner deemed appropriate to stimulate investment.
- The Law does not provide for any mechanism to coordinate (or compel) assistance with the many other government ministries and agencies whose cooperation will be required.
- The Law allows firms to set wages and overtime at will, notwithstanding Lebanon's existing labor law. This probably violates Lebanon's ILO commitments.

Limited land supply in Lebanon. An additional complication for industrial parks is that there are very few large, continuous tracts of undeveloped land in Lebanon's coastal plain

or in the Bekaa Valley. Most flat land in Lebanon is already being used, whether for agriculture, industry, or housing. The few large tracts still available usually belong either to a municipality, to the GoL, or to a religious group.

C. General Recommendations: Special Economic Zones and Industrial Parks

Generally speaking, Special Economic Zones and Industrial Parks are not attractive targets for immediate USAID assistance from a job creation lens. Based on the challenges outlined above, it is not recommended that USAID begin supporting Special Economic Zones or Industrial Parks in Lebanon in the short-term. USAID can support chambers and other private sector organizations as they plan, prepare, and start making steps towards their development, but until legislative gridlock at the central level is eased, major efforts will yield minimal results.

While investments in SEZs and IZs may support economic growth, they do not show great potential to create jobs. The 2011 USAID feasibility study projected that the TSEZ would eventually create 3,220 jobs by direct employment inside TSEZ, and another 1,935 indirect jobs outside of it, along with a number of construction jobs ranging from 30 to 245 per year. However, this process would be gradual; direct jobs would be created at a rate of about 200 jobs per year, with the figure of 3,000 not reached until around Year 15.²⁶ (Sibley and Associates, 2011, pp. 5-1) The cost per job would also be quite high, as the initial outlay by the government (or donors, if donors choose to assist) would be in the range of \$15 million in the first three years. Likewise, IZs are unlikely to be significant engines of job creation. In 2012, Booz Allen Hamilton conducted a study of several potential industrial zones across southern Lebanon. It estimated that the largest zone would create 2,220 direct jobs over 20 years with a total rise in employment (including indirect and construction jobs) of 4,504. (Booz Allen Hamilton, 2012) While these numbers are not negligible, the long term scales and uncertainties involved do not make these zones an attractive target for donor investment. Therefore, if USAID's main goal is job creation, there are cheaper options which result in more impact.

Assist private sector participants to properly plan industrial parks. If the legislative environment shows serious signs of positive change, co-financing the development of an industrial park with shared administrative services, supported by technical expertise, might be considered. When the assessment team met with the President of the Saida Chamber of Commerce, and then in discussions with the Mayor of Terbol in the Bekaa, it became clear that industrial parks are a useful commodity to spur local economic development. Land with electricity, water, sewerage and communications infrastructure is cost prohibitive for most SMEs to acquire, and remains one of the most significant impediments to development and growth. Both the Saida Chamber and the Mayor of Terbol possess a development vision for their proposed industrial parks. They each

²⁶ The majority of jobs created are defined as "Skilled" (defined as welders, machinists, carpenters, and the like) with about 75 percent of projected jobs falling in this category. The other 25 percent would be "Unskilled," "Technical," and "Managerial" jobs. Article 33 of the TSEZ law states that Lebanese workers must make up at least 50 percent of employees in the TSEZ, which suggests that up to half of these jobs could go to non-Lebanese.

foresee offering facilities and land below commercial market rates that benefit the local municipality with new revenues and taxes, but more importantly, address regional employment generation and its social benefits. USAID could support private sector actors involved in planning the development of IZs through assisting in regulatory reform efforts, drafting specialized regulations to accommodate these zones, and ensuring that international best practices are considered in their development.

The Saida Chamber of Commerce, is focusing its efforts primarily on the creation of an industrial park. They propose to open the facility with a non-profit orientation – juxtaposed against a local incubator by a commercial property developer commanding premium fees for occupancy. The Chamber is working with the local municipality and the Ministry of Finance to find financing for a piece of property, which has already been identified. They will equip it with all necessary, up-to-date infrastructure then rent it to start-ups as well as growing businesses at below commercial rates. They also plan to offer on-site consulting services and technical assistance to help grow the companies.

Criteria for Successful Industrial Parks
<p>USAID can help private sector actors in dialogue around industrial parks to answer key questions and considerations:</p> <ul style="list-style-type: none"> • Are SMEs in the region concentrated in several sectors and are any non-actionable impediments inherent to them (e.g. key export markets closed due to political reasons)? • Do the SMEs likely to inhabit the industrial parks possess competitive advantages over those of others, either Lebanese or competing countries? • Do the industrial park's organizers have a plan to establish strong collaborative relations with growth financing institutions for affordable SME lending instruments? • Are matching funds available from local public and private sector interests to demonstrate commitment? • Does the park have a public private partnership model with a Board consisting of public and private sector members (private sector majority)? • Does the municipality have a strong track record of working with the private sector / local chamber toward development objectives? • Has a thorough feasibility study been completed by a neutral third party?

Another interesting candidate is the Terbol industrial park which is being developed by the local municipality, on municipal land, and which has already advanced to the point where it is laying out a master plan for the park. The fact that this is being done without input or assistance from the GoL or any donor suggests that the municipality is serious and motivated. Problems may still arise, and the obstacles listed above will still have to be overcome. However, the Terbol park warrants watching, and might perhaps be an interesting activity for USAID engagement at some future date.

SECTION VII. YOUTH AND GENDER CONSIDERATIONS

A. Youth Considerations

Lebanese youth are a critical target group for USAID/Lebanon in the context of SME competitiveness both as active job seekers available for hire by SME firms, as well as potential entrepreneurs and SME owners. Underpinning USAID's Youth in Development Policy, is a philosophy that "young people must be given the skills, resources and opportunities to succeed through quality education and the promise of good jobs. If so, they can be proponents of prosperous economies. If not, there is another, less hopeful vision: where a large part of the population is unemployed, frustrated, and volatile." (USAID, 2012) This sentiment is echoed by former Lebanese Prime Minister, Najib Mikati, who recognizes that "one of the major challenges facing the Lebanese economy is the creation of jobs for the youth, and namely for the graduates. Making use of the skills, expertise and talents in Lebanon is an absolute necessity in order to reach high and sustainable growth rates to improve the productivity, reduce the migration and reinforce coexistence and civil peace."

In Lebanon 42.4 percent of the population is aged 24 or below, and youth aged 15-24 are currently experiencing a 24 percent unemployment rate. (CIA, 2015) (Atallah, 2015) The high youth unemployment rate can be partially explained by the following conditions:

- On average Lebanese youth are relatively high skilled, yet the economy remains locked in a low productivity and low-wage equilibrium due to macroeconomic uncertainty. As a result, Lebanon produces more educated job seekers than the domestic labor market can currently absorb and educated youth feel they have little opportunity of entering the job market under conditions that are satisfactory to them. (Atallah, 2015)
- For more disadvantaged, and less educated Lebanese youth, the presence of migrant workers depresses wages for low-productivity/low skilled jobs, makes non-Lebanese workers more attractive compared to Lebanese nationals, and results in unwillingness among employers to pay higher wages or train new employees. (Atallah, 2015)
- There is no national strategy being implemented to support youth employment, and youth are at a disadvantage resulting from the lack of guidance provided on study and career pathways. Poor opportunities exist for internships or apprenticeship-style practical work within the school context, and low teaching quality and the *wasta*²⁷ system also have also an impact. (ETF, 2015)

USAID/Lebanon has the potential to positively affect youth unemployment in two primary ways: job creation through investment in growth industries, and fostering

²⁷ Wasta is an Arabic word that loosely translates into nepotism or "who you know." It refers to using one's connections and/or influence to get things done, including getting hired for or promoted in a job.

entrepreneurship. USAID has already begun to support youth entrepreneurship activities through the MENA Investment initiative, which provides support to early stage businesses that are often managed by and/or hire young entrepreneurs. MENA II's focus on innovation and entrepreneurship will offer youth and recent graduates additional opportunities to establish their business and become self-employed. In the next phase of USAID programming, USAID/Lebanon should focus on fostering growth industries in the private sector that have the greatest potential for job growth in Lebanon. Strategic investments and deployment of firm-level advisory services, particularly at the premium end of markets, are expected to result in business growth leading to skilled job creation. A heightened focus on creating employment opportunities within established firms poised for growth is likely to result in an increase in job opportunities for recent graduates in some industries, while also serving as a pull factor for highly skilled Lebanese emigrants wishing to return to Lebanon.

Youth in the workforce. Our assessment team discussed issues related to youth in the context of how well youth are positioned to respond directly to private sector demand for skills in SMEs and lead firms. Our preliminary research revealed that Lebanese employers are the most vocal in the Arab region with regards to complaints about skill shortages among the youth. (Atallah, 2015) These complaints appear tenuous when considering that:

- Skilled Lebanese citizens are an abundant factor of production to the point that they constitute a significant export “commodity.” Skilled emigration in Lebanon is among the highest in the world.
- Despite the fact that young and well-educated Lebanese emigrate and employment in Lebanon is dominated by older and less-educated cohorts, the profile of the labor market is an educated one. One in five Lebanese men has a university qualification. The corresponding figure for women is even higher with more than two of five working women possessing a university qualification. Female employment in Lebanon is dominated by young women because older women are generally not in the labor force. (Atallah, 2015)

Accordingly the issue of youth employability in Lebanon is not solely a supply-side issue. Lebanon is in no short supply of young and (over) qualified/educated job seekers, however some educated Lebanese youth may not be equipped with the necessary on-the-job skills for certain jobs, or lack the experience needed to make them attractive to employers. Perhaps more appropriately, Lebanese employers use the term “lack of skills” to mean lack of experience. (Atallah, 2015) This issue is not unique to Lebanon. Globally youth often face greater labor market barriers than adults due to their lack of prior job experience and lack of links to professional networks and contacts. (USAID, 2012)

To address this issue, the Government of Lebanon launched a pilot program with the World Bank, entitled New Entrants to Work (NEW) program, aiming at improving the employability of young Lebanese first-time job seekers. The Ministry of Labor ~~will~~ is the implementing agency, in coordination with the National Employment Office. “The NEW

program will offer Lebanese first-time job seekers who enroll in the program an integrated program of 50-hours of life skills training, counseling, and placement services combined with a 2-year on-the-job training (OJT) in a private sector firm. Employers hiring NEW participants will receive a wage subsidy for a period of 12 months and will also be reimbursed for the NSSF-contribution of participants for a period of up to 24 months; the NSSF-reimbursement will be paid in full in the first year and decrease in the second year. The target group consists of first-time job seekers with no prior work experience between the ages of 18-30. Fifty percent or more of the participants will be women. (World Bank, 2012)

Issues around the lack of relevant skills can also be partly explained by socioeconomic inequalities and cultural perceptions of respectable professions:

- Lebanese youths from poorer backgrounds have a lower completion rate of primary education, less access to private schools that produce higher quality education, much lower learning outcomes, and lower rates of university enrollment than students from more advantageous socioeconomic backgrounds. As a result, substantial differences exist in education outcomes between rich and poor families that relate to regional disparities. These inequalities are accentuated by public education spending rates that are much lower than those of private spending. (Atallah, 2015)
- Lebanese parents, along with parents in many other Arab nations, seem to want their children to become lawyers, doctors, or engineers. Lebanese parents and peers often consider it embarrassing and even shameful if their children pursue lesser or different degrees. As a result, the country produces far more of these professionals that it can absorb. (FHI 360, 2014)

Regions outside of Beirut are more disproportionately affected by youth unemployment. In particular, North Lebanon is a region of the country that is currently facing significant social, economic and political challenges and unemployment is on the rise, particularly among young people estimated at up to 25 percent; drop-out rates in the poorer areas are estimated at up to 50 percent. (Tripoli Chamber of Commerce, 2012)

The duration of unemployment also varies across regions. In a 2009 survey of graduates from the four major universities in Lebanon, namely the Lebanese University (LU), American University of Beirut (AUB), Université Saint-Joseph de Beyrouth (USJ) and Beirut Arab University (BAU), responses revealed that those living in Beirut found jobs quicker than their counterparts in peripheral areas such as the Bekaa (4.8 months for people looking for their first job in Beirut contrasted with 9.7 months for the same demographic seeking their first employment in the Bekaa). While the average time for finding a job was seven months, some declared they were facing difficulties finding their first-time employment having to endure as long as 17.7 months of job hunting. (AUB, 2009) USAID's approach should take these regional distinctions into consideration when designing targeted programs to affect youth employment opportunities.

Outside of the two primary objectives of job creation through investment in growth industries, and fostering entrepreneurship, other recommendations to support enhanced youth employability are:

- Establishing career guidance offices in public and private universities and vocational schools
- Encouraging companies to adopt more internships and training opportunities for students and graduates;
- Establishing mentorship programs and/or alumni networks between former graduates and students seeking jobs; and
- Linking youth to training programs that correspond to public and private market needs.

B. Gender Considerations

By taking an active approach to seeking out female business owners and entrepreneurs, USAID/Lebanon can positively affect women's access to untraditional employment and increase opportunities and chances for success in growing their businesses.

Women in the workforce. While Lebanese society considers itself developed — in terms of women's status and rights — compared to other societies, challenges faced by female entrepreneurs are largely related to cultural or social issues. Women have difficulties balancing work and personal life, which dissuades many. “Women don't know that they can have a husband, a baby, and can continue to work. They think they are bad wives.” (Saouma, 2015) A closer look at the characteristics of unemployed people shows that women are most likely not to look for jobs despite the fact that they are really available to work if a job is offered. (CAS, 2009) Roughly 77 percent of Lebanese women of working age are not economically active (unemployed and not looking for a job) compared to 27 percent for men, according to a survey issued by the Central Administration of Statistics in 2009. (Saouma P. , 2014) Women's activity reaches its peak before the age of 35, and men remain active even after official retirement age. During their active years, women dominate traditionally female programs such as education, nursing and social work. Even though the number of working women in Lebanon is less than that of men, 26 percent of working women have specialized careers, such as medicine and engineering, in comparison to 8 percent of men.

There is a large gender pay gap in many sectors in Lebanon. In the industrial sector this gap hits 23 percent, while it is 21 percent in the agricultural sector, 10 percent in the trade sector, and nearly 38 percent in the transport sector and the postal and telecommunications services sector. According to the Survey of the Household Living Conditions 2007, which was issued by the Central Administration of Statistics, the gender pay gap in all sectors is 6 percent. (Saouma P. , 2014) These statistics may partially explain why emigration among women almost tripled from previous levels between 1995 and 2005; women, just like men, seek better employment opportunities. (AUB, 2009) The recent trend amongst women has been to seek better salaries and more lucrative employment packages even if it means emigrating. In a 2009 survey of graduates from the four major universities in Lebanon, responses revealed that the percentage of women,

working abroad (45 percent of respondents) has increased by almost threefold in the past seven years. (AUB, 2009)

Women-owned enterprises. Lebanon benefits from a high volume of experienced female entrepreneurs relative to other MENA countries. According to an IFC survey, women in Lebanon and Bahrain are the most experienced business owners in the MENA region. “On average, the women in Lebanon have owned their businesses for 10.6 years, in Bahrain for 10.2, in Tunisia for 8.6, in Jordan for 6.1, and in the UAE for 5.9 years.” (IFC, 2011)

With respect to business development services, including financial services, women-owned business in Lebanon are disproportionately less served. Across MENA, a 2011 IFC study showed that women-owned SMEs grow more slowly than their male-owned counterparts and that one of the key factors for this was access to finance. (Vital Voices Global Partnership; MENA Business Women's Network, 2012) Gender-specific challenges such as lack of collateral and less control over assets are concerns frequently cited as key contributors to this issue. In Lebanon, only 3 percent of bank loans go to female entrepreneurs. (IFC, 2013) According to a representative from the Lebanese League of Women in Business, women typically run small and informal firms and either lack awareness of or feel apprehensive toward obtaining sources of financing outside of their family or other private sources of funding. (Al Zein & Saab, 2015) Most female business owners meet their capital needs through private sources, such as personal savings, family, and friends. Few rely on financial institutions or outside investors for business needs. (Vital Voices Global Partnership; MENA Business Women's Network, 2012)

Some banks' initiatives in Lebanon have been designed to specifically target women. For example, the WE initiative at BLC Bank has implemented programs to curb lending bias towards women. “In addition to instituting a collateral-free loan that looks at a woman's capacity to repay rather than her assets, BLC has also implemented policies to educate their employees to stop stereotyping women and belittling their capacity to run businesses.” (IFC, 2013) International organizations such as Vital Voices are also directly targeting female entrepreneurs with grant funds and mentorship to help them develop and grow their businesses.

Gender barriers differ from community to community, but generally speaking, Lebanon affords women greater freedoms than other MENA countries, and female entrepreneurs have a variety of resources and business support services to draw on. As noted by one female entrepreneur, “Despite the barriers, if a woman has the will and ability to break through social stigmas — of varying intensity — she has the potential for success in Lebanon.” (IFC, 2013) USAID/Lebanon should leverage the success of several well established initiatives targeting women and work in collaboration with them. In particular, there is a high demand among female business owners for greater access to information and training on topics such as general business management skills, using financial products such as SME lending products or equity capital, exporting, accounting

and financial management, and selling to large, multi-national corporations. (Vital Voices Global Partnership; MENA Business Women's Network, 2012)

As detailed in the following section, USAID/Lebanon should leverage the success of several well established initiatives targeting women and work in collaboration with them. In particular, there is a high demand among female business owners for greater access to information and training on topics such as general business management skills, appropriate financial products, accounting and financial management, and exporting.

SECTION VIII: PROGRAM RECOMMENDATIONS AND OPTIONS

The AMEG team’s mandate included the development of specific, actionable recommendations for USAID assistance in Lebanon. Criteria used for assessing potential assistance included:

- Contribution to sustainable job creation;
- An identified market demand;
- Existence of a capable implementing partner;
- Activity leverages prior or current assistance by the U.S. Government and/or other donors and/or represents a good opportunity for a Public Private Partnership;
- Impact extends beyond Beirut;
- Activity positively impacts women and/or youth.

Based on the findings and recommendations in each of the five areas examined, the team developed recommendations for future interventions to support economic growth and job creation in Lebanon. Each option is focused on fostering growth of SMEs and supporting their needs for high quality employees.



While these programmatic options could be viewed each as separate programs, they are highly inter-dependent and would no doubt be more effectively implemented as components of a larger program.

A. Program Recommendation 1: Firm-Level Technical Assistance to Enterprises

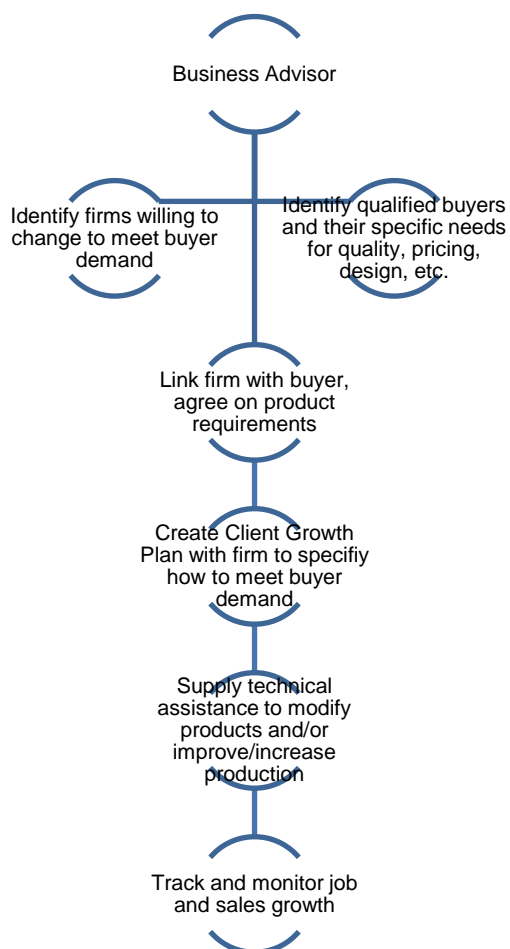
Objective: Achieve business growth leading to incremental employment, increased exports, and improved competitiveness through providing targeted technical assistance to partner enterprises in Beirut, Bekaa Valley, North, and South Lebanon.

Scope of Work: Over the course of a 5-year USAID funded activity, a team of local business advisors with extensive work experience in the private sector (see Annex G for qualifications and attributes of business advisors) will work with medium to large partner firms (20-100+ employees) to provide coaching and mentoring, identify new opportunities for growth and job generation, facilitate buyer-seller relationships, and develop Client Growth Plans. Technical assistance activities will largely be driven by the firms themselves and will solve specific problems that stand most in the way of meeting specific buyers' (with first and last names) requirements. To be successful, the approach must remain "by business people for business people." This means that solutions, technical assistance, and training provided to partner firms will not be "pre-packaged," but will be targeted and tailored to address each firm's critical constraints to growth. The core goal of the assistance will be business growth leading to employment creation. The diagram below summarizes the assistance process.

To determine whether firms are suitable partner enterprises of the program, program business advisors will use a set of pre-defined criteria to estimate the return on USAID's investment in terms of increased sales and jobs. Illustrative criteria include:

1. Owner and management mindsets – openness, flexibility, vision, enthusiasm
2. Potential to hire additional employees within one year
3. Export/sales growth potential
4. Firm level competitive advantages
5. Gender and youth impact – new employment and upgraded employment
6. Degree to which existing sector impediments are actionable – without regulatory changes.

Firm-level Technical Assistance Process



The business advisors will engage in a rapid process for engaging with local firms. In past examples of successful firm level assistance in Tunisia, firms have applied for assistance via a 1-page request form, the project has contacted applicants within 24 hours, and conducted site visits within one week. This rapid application and vetting process would likely be even quicker in Lebanon – a country smaller, denser, and with better infrastructure than Tunisia. Business advisors will work with each firm to address their self-identified needs, and also determine whether additional, innovative support may be necessary to achieve maximum growth potential for each partner enterprise, leading to more jobs.

Reaching Women-Owned Enterprises

In order to reach larger numbers of women-owned firms with growth potential, the program can link its business advisors to associations and/or programs for women-owned entrepreneurs, such as the League of Women in Business, and work with them to develop specialized outreach strategies and materials. The program can also work with financial services providers such as BLC Bank and Kafalat to identify women-owned businesses receiving their services or to link women-owned businesses receiving program assistance with new lines of credit. Business advisors can also pay special attention to potential partner firms in sectors with high levels of women in the workforce, such as agro-processing, garments, and tourism.

Upon finding and assessing suitable partners, the business advisors will formalize assistance with partner enterprises through Client Growth Plans, which will clearly state:

1. Technical assistance to be provided to the SME by the program and rationale
2. Local and/or international consultant profile
3. Partner SME investment in cash and in-kind
4. Partner SME staff assigned to oversee implementation of recommendations
5. Timeline
6. Commitment on the part of the SME to report against measurable and quantifiable monthly goals and targets for:
 - a. Increased sales
 - b. Increased employment.

The agreements will be signed by each partner enterprise, the activity manager, and the service provider / consultant hired to provide technical assistance. Over the first year of the program, approximately 20-30 partner enterprises can be engaged through such agreements. For each subsequent year, 100-120 firms will be engaged. Technical assistance will be provided, and the business advisors will provide continuous follow-up, ensuring that technical assistance is properly utilized, partner enterprise needs are met, and that resulting business growth occurs in a proper, effective, and measurable way.

Target Beneficiaries. The Central Administration of Statistics most recent 2004 census estimated that there were 1,629 registered SMEs with between 20 and 100 employees and another 230 firms with more than 100 employees. (CAS, 2004) Assuming that 25-50 percent of these firms would be poised for growth and interested in partnering with the program, there are likely 500 SME candidates with which a USAID-funded program could work. This is further corroborated by Endeavor, the internationally renowned, socially motivated financier of high potential companies in emerging markets, who found and screened a total of 360 companies potentially of a suitable profile for their services

(leaning toward companies at the larger end of the scale); and by a large Lebanese consulting firm who believes there are about 250 Lebanese SMEs willing to pay *unsubsidized prices* for consulting services.

As shown in section III, specific sectors and sub-sectors in Lebanon have been found to have high-growth potential. While business advisors may look to those sectors to identify new SME partners, technical assistance will not be limited to any set of sectors or sub-sectors. The activity business advisors will be able to work with any firm which meets the standards set in the criteria developed by the program for identifying partner enterprises. The program will provide targeted technical assistance exclusively to enterprises which are officially registered, but will be willing to provide targeted assistance to unregistered firms looking to register officially with the Lebanese government. Officially, this will also create job growth.

- | Areas of Assistance for SMEs |
|---|
| <ul style="list-style-type: none">• New Technology Adoption (Specialized expertise targeted to varying sectors' needs for new technology)• Lean and Efficient Manufacturing• Branding• Product Design/ Research and Development• International market data and linkages (Identify specific buyers, product specifications, and compliance with trade standards; better market segmentation to assess characteristics of demand in different target markets) |

Team structure. The team will be made up of a chief of party, 5 to 6 local business advisors, monitoring and evaluation specialist, and operations team, supported by large numbers of short-term local and international technical experts with high-level, specialized expertise in areas relevant to partner firms. All technical experts should have significant experience in the private sector working in or running global companies, or advising SMEs, as through incubators, accelerators, or strategy consulting firms. Local consulting firms as well as individual consultants can be engaged through flexible Indefinite Quantity Services (IQS)-type agreements that would allow the program to compete out requests for services and take advantage of local expertise on an as-needed basis. The most advisable firm candidates are listed in Table 4 in Section III.

While emphasis will be placed on utilizing Lebanon's vast pool of local consulting talent, in select cases the program will need to recruit international experts with highly-specialized experience in niche areas. These international advisors should be teamed with local consulting firms or consultants to help build local consulting capacity. This type of twinning of local and international expertise during SME support interventions will attract more Lebanese consultants to participate as well as leave sustainable capacity in place.

Following experiences on the Business Reform and Competitiveness program (See Annex D for more details) in Tunisia, Lebanese consultants and firms could be pre-qualified based on their area of expertise and depth of experience. Consultants may enter or leave the qualified list at any time during the program's duration and beneficiaries will participate in the selection process for their individual work orders. To ensure a continual flow of beneficiary clients to the Program, prequalified consultants could submit projects for consideration in addition to responding to requests for proposals for work orders. Pre-

established consulting rate categories would be created for transparency and to avoid disinterested consultants embarking on lengthy negotiations.

Work orders for consulting services under the larger IQS should be structured to provide embedded advisors for several weeks, with periodic follow-up. This is very important to ensure SMEs, particularly the smaller ones, work on and fully absorb what they are being asked to do. Consultants merely guide the process, the beneficiary firms need to be making the changes happen.

Cost share. Partner firms participating in the program will be expected to contribute to the costs of technical assistance on a sliding scale depending on their technical assistance needs, size, etc. Co-payments for services should be substantial enough to ensure a strong commitment to implement recommendations. The subsidies should be structured in a manner to phase out with continued use. For example, during the first year, an SME may be expected to contribute 20 to 50 percent of the costs of technical assistance. In later years, that contribution may be 50 up to 90 percent of technical assistance costs.

To help fund the costs of technical assistance and support sustainability of the assistance program, USAID could investigate with Kafalat, the MENA Investment Initiative (implemented by Berytech), or others the potential of structuring a fund to finance technical assistance. Structured similar to the World Bank's SME revolving fund in Mauritius (see Annex E), this fund will increase the sustainability of assistance after the program ends by fostering a mechanism to support future technical assistance by local consulting firms. If established as part of MENA II, it may also help USAID recover a portion of all funds disbursed to Lebanese partner enterprises for technical assistance. Funds spent on technical assistance would be paid back by each partner SME, based on a royalty calculated on the incremental business growth of each enterprise, for each successive year. This is a substantially more complex approach, since a lot of ground work has to be done and a lot of preparations completed. This can only be implemented if the following elements are in place:

- A local, Lebanese financial partner is on board.
- This partner will be directly responsible for disbursement of all funds and ultimately for all annual financial follow up reports and recovery efforts.
- This local partner will eventually be able to take over the project upon its completion.
- A detailed operation manual is developed, stating the responsibilities of each party.
- A long term sustainability and "handover" plan is drafted with the local, Lebanese financial partner (Repayment from partner enterprises can take as long as 4 to 6 years, and it is therefore crucial to have a handover plan to a local partner.)
- Budgets are set and funds allocated for the full life of the project.

Anticipated Indicators and Results. Some illustrative indicators attributable to this type of firm-level assistance program include:

- Number of new jobs generated
- Cost per job
- Increases in sales
- Increases in exports
- New dollars in salaries injected into the economy per USG dollar invested
- New capital investments by participating firms
- Dollars leveraged from private sector and other non-USG sources to support enterprise development
- Number of private sector firms that have improved management practices as a result of USG assistance
- Number of firms receiving USG assistance to invest in improved technologies
- Number of days of USG funded technical assistance in private sector productive capacity provided to counterparts or stakeholders.

While the assessment team could not estimate increased sales or exports with any accuracy due to limited information about the firms, below is a rough estimate of the possible number of jobs that could be created by this type of SME assistance program. While experience in Tunisia working with large firms has typically created an average of 20-25 jobs per partner enterprise, there are fewer large firms with which to work in Lebanon and firms are typically smaller. As such, 10-15 jobs per firm in Lebanon may be a safer estimate. A team of 5-6 local business advisors can work with 20-30 enterprises in its first year, and 100-120 enterprises in each subsequent year of operation. High and low-end estimates of partner enterprises and jobs created using solely a firm-level approach are detailed below.

Table 10. Estimated Number of Jobs to be created by Firm-Level Assistance

Year	Number of SMEs	Number of Jobs	Year	Number of SMEs	Number of Jobs
Low-end estimate			High-end estimate		
Year 1	20	200	Year 1	30	600
Year 2	100	1000	Year 2	120	2400
Year 3	100	1000	Year 3	120	2400
Year 4	100	1000	Year 4	120	2400
Year 5	100	1000	Year 5	120	2400
Total		4,200	Total		10,200

B. Program Recommendation 2: Export Promotion Assistance

Objective. Facilitate SME entry into new regional and international markets and increase SME export sales by strengthening the export promotion capacity of business associations and chambers of commerce.

Scope of work. Driven by challenges and issues identified through the development of firm-level assistance agreements, this program will help partner SMEs to identify and

capitalize on opportunities to export products to new regional and international markets. Business advisors will work with firms to address specific challenges and opportunities to export at the firm level. It will also utilize lessons learned through firm-level assistance and partner with business associations and chambers of commerce to strengthen and consolidate tools to help SMEs in sectors with high-export potential familiarize themselves with new markets, identify specific buyers, and develop strategies to export.

As a first activity, the program will work with high-functioning chambers of commerce such as the Tripoli Chamber of Commerce, Chamber of Commerce of Industry and Agriculture Zahle and Beqaa, and the Chamber of Commerce of Beirut and Mt. Lebanon to either establish or strengthen export promotion units within the Chambers. One or two program export specialists could work with staff assigned to the export promotion unit to develop an action plan based on members' needs, as seen during the course of assistance at the individual firm level. As it works with individual firms to address bottlenecks and challenges to identifying and exporting to new regional and international markets, the program will capture lessons learned that may be relevant for other SMEs in high-growth sectors. For example, for the large percentage of members involved in agro processing, the program could help the Chambers' export promotion units to develop export manuals for Lebanese exporters highlighting the legal steps to export, trade standards, sanitary and phyto-sanitary guidelines, and labeling requirements for the US and key regional and European markets. The program could also co-sponsor relevant export trainings in these and other subjects for Chamber members and facilitate the creation of online toolkits where members can readily access this information.

The program can also work with Chambers, business associations, and the League of Women in Business and their members to co-sponsor attendance at regional and international trade shows, prioritizing women-owned businesses whenever possible. Program export specialists would work with Chambers and partner SMEs to identify the two to three top trade shows to attend, and work with SMEs to develop materials and strategies for maximizing sales at these trade shows.

In addition, the program can work with Chambers to identify market studies that would benefit a large number of their members in sectors with high export potential. These market studies would help SMEs in these sectors better understand consumer segmentation and preferences in new markets and inform marketing strategies including segmentation, pricing, packaging, product placement, etc.

Target beneficiaries. While all members of Chambers could potentially benefit from the export promotion unit and tools developed, trainings, toolkits, studies, and other activities will largely be targeted at SMEs in sectors with high export potential, such as agro processing, manufacturing, fashion/garments/accessories, and ICT.

Cost share. Chambers would be required to provide cash and/or in-kind contributions to support the establishment of export promotion units. For example, the Chamber may need to hire a new staff member to head up this unit, or assign dedicated time of existing staff members to establish and manage the unit. Chambers would also be expected to host

trainings, but they could potentially charge members an additional fee for their participation in training or purchase of hard copies of export toolkits. SMEs would also be expected to co-finance their participation in trade shows. For example, they may finance the development and printing of materials, while the program and the Chamber could contribute to financing their trip.

Anticipated indicators and results. Some illustrative indicators attributable to this type of firm-level assistance program include:

- Dollar value of exports of program-assisted firms
- Number of men/women trained
- Number of new markets entered by program-assisted firms
- Number of firms receiving USG capacity building assistance to export (e.g. trade shows, buyer/seller match making programs, market analysis and information, trade finance assistance, and guidance on how to comply with foreign country customs regulations and procedures)

While potential export sales could not be estimated with additional information, the team estimates that roughly 780 new jobs will result from export promotion activities.

C. Program Recommendation 3: Workforce Development and Job Placement

Objective. Foster curriculum and training relevant to the workplace and facilitate job matching to ensure new jobs created as a result of growth of partner SMEs and other firms can be filled.

Scope of work. The program will work with both SMEs receiving firm-level assistance, as well as larger firms to identify job vacancies and candidates with appropriate skill sets. To do this the program will support targeted job fairs through existing training providers in Beirut, Bekaa Valley, North, and South Lebanon. The program will work with business associations and Chambers to sponsor attendance for SMEs. Job fairs will be more targeted to get only firms with real vacancies in the room, and to match them with candidates with relevant skill sets. The program can likely sponsor several of these in each region, up to three or four per year.

The program will also work with university and TVET career centers to strengthen job-matching programs. A program workforce development specialist will help build relationships between local businesses and these centers to help schools understand the types of skills in high-demand and to help staff at those centers to advocate for vocational relevance in coursework. Key to the activity's implementation is the comprehensive training of existing placement officers in:

- Delivery of social marketing;
- Networking with employers and the creation and maintenance of a database of vacancies, occupational outcomes, projected employer demands, and wage levels;
- Organizing information sharing sessions with industries;

- Career counseling services for students.

Career center staff would be supported by project staff (1-2 days per week) in the respective educational institution for:

- Development of relationships with the private sector;
- Registration of job seekers;
- Cataloguing of job vacancies in key economic sectors;
- Providing job preparation services for job seekers;
- Follow-up services for successfully placed graduates.

The goal will be to help those centers to become “go-to” locations for businesses looking to fill positions. The program can also help career centers develop searchable, online resume databases, networking events with students, and “interview days” whereby businesses can interview many students in the course of one day.

Recognizing that recent graduates identified through job fairs or career centers may not have all of the skills desired, the program can work through existing training providers to develop 3-month, post-employment training programs. These training programs could be offered on-site during or after work hours, or off-site on the weekends to address specific firms’ needs. This is particularly important to address the issue of unemployment among educated youth who have some skills, but lack experience. For example, a manufacturing firm with a call center may want to train students in customer service and product troubleshooting. Additionally, the program can work through existing training providers to target trainings to mid-career professionals in need of skills upgrading. For example, programs could be developed to prepare newly promoted staff for management positions through job shadowing and training.

Target beneficiaries. Beneficiaries will include current students and recent graduates.

Public-Private Alliance to Support Workforce and Job Placement for Youth in Lebanon

With the approval of Lebanon’s Ministry of Labor, Microsoft recently decided to launch its Ta3mal employability platform in Lebanon. Ta3mal provides youth in the Middle East and North Africa with access to online job postings, career counseling, and training. Microsoft has requested USAID’s assistance to help expand use of the platform among youth, employers, university and vocational training centers, and others in Lebanon. Ta3mal could be a highly cost-effective tool for university career centers and vocational training centers to match their students with jobs. Additionally, by acting as a virtual career fair, Ta3mal could help employers fill jobs with qualified youth. Ta3mal can even help provide employees with pre- and/or post-employment training to prepare them for new jobs. By providing a full-time outreach coordinator and web administrator to train potential employers and partners in how to use the platform and support its maintenance, USAID can help Microsoft immediately roll-out the platform to additional employers and partners and match more youth with jobs.

Cost share. Firms will be expected to pay for their employees’ participation in post-employment trainings. SMEs will also be expected to pay between 30 and 50 percent of the costs to host recruiting and networking events, such as job fairs. Training providers and career centers will be expected to assign staff to work with the program and to provide space for trainings developed with program support. SMEs receiving firm-level assistance will be required to estimate the number of new jobs created as a result of program assistance.

Anticipated indicators and results. Illustrative indicators for this program include:

- Number of men/women trained
- Number of persons receiving new or better employment (including better self-employment) as a result of participation in USG-funded workforce development project
- Cost per job placement
- Average salary of new hires
- Number of days of USG funded technical assistance in workforce development provided to counterparts or stakeholders.

The assessment team estimates that roughly 2,250 job seekers can be recruited through the job fairs supported by the program at a net cost of less than \$500,000.

Overall, these three proposed activities above could potentially create a total of 13,230 jobs at a cost of roughly \$2,645 per job. While the cost per job is significantly higher than the cost per job seen on USAID Tunisia BRCP program, it reflects the fact that there are far fewer medium and large enterprises in Lebanon with which the program can work and that the average monthly salary in Lebanon is almost double that in Tunisia (\$2,167 in Lebanon as compared with \$ 1,242 in Tunisia). (Salary Explorer, 2015)

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ANNEX B. LIST OF INTERVIEWEES

Private Sector Firms

- Agriculture/Food Products
 - Al Rifai (nuts), Maysoun Al Rifai (Managing Partner), Moussa Al Rifai (Managing partner)
 - ATYAB s.a.r.l, Tony Maroun (Owner)
 - DEKERCO, Mr. Serge Dekermendjian (Representative)
 - Second House Products, Joyce and Francois Rizk (General Manager)
 - Widriss Holding SAL, Mr. Rabah Idriss (Head of Beirut Office)
 - Crown Flour Mills, Paul Mansour(Managing partner) & Eng. Christiane Jbeily (Head of Quality & Customer Service)
 - Fattal Holding, Talal Hakim (Operation manager)
- Clean Technology
 - Eco Friendly Sarl, Patrick Ardahalian (General Manager)
 - Panoramic Solar, Sami Madi and Fadi Madi (General Manager)
 - Cedar Environmental, Ziad Abichaker (Founder)
 - Open Link/ Energy Efficiency Group, Ronald Diab (Managing Director)
- Light Manufacturing, Paper, Plastic, Wood, Furniture, Paint
 - Power Steel, Mrs. Hilda Khoury (Representative) & Mr. Elias Bou Maroun (Representative)
 - INDEVCO Group, Naamat G.Frem (Former Chairman)
 - PINOs Sarl, Pino Massaad (Representative)
 - Carlama, Daniel Abboud (General Manager)
 - Colortek (Division of Kassaa Group), David Tham (Business Developer)
 - Ayoub Industries, Marco Ayoub (Owner)
 - Amaco Group, Ali M. El-Abdallah (Managing Director)
- Fashion/Jewelry
 - Chrystelle Atallah, Chrystelle Atallah (Owner)
 - Flat Fashion, Gaby Charbachy (Owner)
 - Rectangle Jaune, Charles Arbid (Owner) Joe Daher (General Manager)
 - TenTen, Hrair Hakimian (Owner)
 - Pellini, Dany Boutros (Owner)
 - AB Moughanni, Antoine Moughanni (Owner),
 - Arakelian, Patrick Arakalian (Managing partner, GM)
- Health/Pharmaceuticals/Cosmetics
 - Serum Products S.A.R.L, Mounir Tabbara (Owner)
 - Malia Group, Mr. Jacques Sarraf (Chairman)
 - Pharmaline, Carol Abi Karam (General Manager)
 - Beesline, Mohamad Arayssi (Managing Partner, GM)& Tarek Renno (Marketing Manager)

- Benta SAL, Bernard Tannoury (Chairman & CEO) & Moussa (Pharmacist, Plant Director)
- Hospitality
 - Hospitality Services, Ms. Joumana Dammous (Event Organization and Publication Manager)
 - iManage Outsourced Hospitality Services L.L.C./ Kebabji, Edmond Massaad (Managing Director)
 - Royal Gourmet, Karim Arakji (Owner)
 - Ant Ventures/Silverspoon, Roy Maroun (Franchising manager)
 - Food and Catering Processing Company (Second Cup), Issam Rahal (Owner)
 - Fig Holding SAL (Mayrig, Batchig), Leslie Menassa (HR Manger), Aline Kamakian (managing partner)
 - Ghia Holding, Fady Itani (Head of Franchise Department) & Jean-Claude Ghosn (Chairman of the Board/CEO)
- ICT/
 - National Instruments, Ms. Rima Lakkis (Human Resources)
 - Diginest, Ronnie Richa (Managing Director)
- Other (Advertising, Freight Forwarding, Engineering/Contracting)
 - Shift Production, Mr. Antonio Tarabay (General Manager)
 - Quant Analyst, Albert E.Nasr (Managing partner)
 - Abniah SARL, Maroun Helou (General Manager)
 - Gezairi Transport, Fouad Bawarshi (Deputy CEO)
 - Matec/Cortbawi, Elias Nasr (Representative)

Associations/Chambers of Commerce

- Syndicate of Agrifood Traders in Lebanon:
 - Arslan Sinno (President), Isam Ajouz (Executive Manager)
- Syndicate of Lebanese Food Industrialists
 - Munir Bsar (President)
- Lebanese Businessmen Association
 - Dr. Fouad Zmokhol (President)
- Lebanese International Businessmen Association Network
 - Mr. Robert J. Jreissati (Founder and President)
- Lebanese League for Women in Business (LLWB)
 - Mrs. Asmahan Al Zein (Acting President), Hannan Saab (Former President)
- Lebanese Management Association
 - Dr. Mohy Ghannoum (President)
- Lebanese Contractors Syndicate
 - Mr. Fouad Jamil Khazen (President)
- Lebanese Franchise Association

- Charles Arbid (President), Raja Habre (Executive Director), Yahya Kassaa (Secretary General), Narjess Wehbe (Public Relations Officer), Talal Hijazi (Advisor to the Board)
- Lebanese Shipping Agents Syndicate & Syndicate of International Freight Forwarders
 - Mr. Samir Siryani (President)
- Lebanese Jewelers Syndicate
 - Vasken Hadidian (President)
- Syndicate of Craftsmen
 - Kevork Khajerian (Board member), Mohamed Moallem (President)
- Association for Lebanese Software Industry
 - Fares Kobeissi (President)
- Association of Lebanese Industrialists
 - Dr. Fadi Gemayel (President---also President of Syndicate of Owners of Paper and Packaging Industries), Saaed Oueini (General Manager), Daniel Abboud (Board Member)
- Beirut Creative Cluster
 - Salim Tannous (Manager)
- American Lebanese Chamber of Commerce (AmCham Lebanon)
 - Salim Zeeni (President), Paola Chakhtoura (Director)
- Chamber of Commerce and Industry of Beirut and Mount Lebanon
 - Nabil Fahed (Vice Chairman), Rabih Sabra (Director General), Roger Khayat (Economic Advisor), Hana Haidar (Human Resources)
- General Union of Arab Chambers of Commerce Industry & Agriculture
 - Adnan Kassar (President), Carine Azkoul (Relationship Manager), Imad Amin Shehab (Secretary General)
- Junior Chamber International
 - Nadyne Ghanoum (National President)
- Federation of Chambers of Commerce, Industry and Agriculture
 - Irène Ballouz (Deputy Director)

Business Support Services/Consulting Firms

- Euro-Lebanese Centre for Industrial Modernisation (ELCIM) & Centre for Innovation and Technology Innovation Voucher Project
 - Nagi Abizeid (Director)
 - Fady Fayad (Senior Business Advisor)
- Economic and Social Fund for Development (ESFD)
 - Haitham Omar (Managing Director), Racha Chahine (?), Patrick Atme (Team Leader- Business Support)
- AltCity
 - David Munir Nabti (Founder)
- Berytech
 - Nicolas Rouhana (Executive Director)
- Lebanese Industrial Research Achievements (LIRA) program
 - Mr. Said Khalil Hamade (General Coordinator)

- Bader Young Entrepreneurs Program
 - Mr. Fadi Bizri (Managing Director)
- Endeavor
 - Tarek Sadi (Managing Director)
- Beyond Reform and Development
 - Nadine Asmar (Partner), Gilbert Doumit (Managing Partner)
- Lebanese Center for Policy Studies (LCPS)
 - Sami Atallah (Executive Director)
- Inventis
 - Jihad Azour (Managing Director), Chady Zein (Co-founder)
- El Bacha Consulting and Development
 - Andraos El Bacha (Managing Partner)
- Consultation and Research Institute (CRI)
 - Dr. Kamal Hamdan (CEO), Redha Hamdan (Senior Statistician), Lea Bou Khater (Social and Economic Development)
- Business Unlimited & Association of Consultants
 - Salim Hajjie (Regional Director), Samar Fares Kfoury (Sr. Management Consultant)
- Mefosa Consulting
 - Atef Idriss (Owner)
- Likwid Consulting
 - Rabih Kisserwani (Owner)
- T&A Consulting
 - Georges Atallah and Simon Tager (Owner)
- Talal Abu-Ghazaleh (TAG)
 - Waref M. Kumayha (Executive Director)
- i-Manage LLC
 - Wadih Malkoun (Business Development)
- Kouatly & Associates (also Franchise Engineers)
 - Yasser Kouatly (Partner)
- Management Solutions Experts (MSE)
 - Imad Moujaes (General Manager), Fadi Boutros (Associate)
- MAP Consulting
 - Ghassan Naaman (Managing Director)
- E Square S.A.L
 - Tania Eid (President)
- Phoenix Consulting
 - Zahi Mimassi (Managing Director), Yannis Kourelis (Managing Consultant)

Banks/MFIs

- Bank Audi S.A.L.
 - Bechara Nader (Head of SME Lending)
- BLC Bank (BLC Invest)

- Fouad Rahme (General Manager)
- BLC Bank
 - Benoit Eid (Head of Small Business), Karyl Akilian Momdjian (Head of Brand Management--"WE" team), Carine Fersan Choueiry (Brand Manager WE Initiative & Enterprise Banking)
- Al Majmou'a
 - Dr. Youssef Fawwaz (Executive Director), Alia Farhat (Business Development Manager)
- Vitas
 - Ziad Halaby (General Manager)
- Emkan
 - Dr. Mayada Baydas (Executive General Manager)
- Al-Bilad Islamic Bank for Investment & Finance
 - Hani S. Houssami (General Manager)

Donors/INGOs

- Institut Européen de Coopération et de Développement (Seeds of Hope)
 - Delphine Compain (?), Gabriel Teissier(?), David El Chabab (Program Manager)
- IFC
 - Thomas Jacobs (Senior Country Officer), Carol Khouzami (Mediation and Bankruptcy Project Manager)
- World Bank
 - Eric Le Borgne (Lead Country Economist for Lebanon and Jordan), Peter Mousley(Program Director), Lea Hakim (Macroeconomics & Fiscal Management Global Practice), Wissam Harake (Macroeconomics & Fiscal Management Global Practice)
- International Labor Organization (ILO)
 - Mary Kawar (Director), Patrick Daru (Regional Coordinator for youth employment),Rayann Koudaih (Project Coordinator),Lama Oueijan (Senior Employers Specialist),Annabella Skof (BDS expert), Rawan Yasmin(Enterprise Development Officer)
- United Nations Industrial Development Organization (UNIDO)
 - Cristiano Pasini (Representative and Director), Soha Atallah (National Project Coordinator), Nada Barakat Daou (National Project Coordinator)
- USAID, Lebanon Industry Value Chain Development Project (LIVCD)
 - Jane Gleason (COP), Mr. Nasser Lama (Technical Director for Agribusiness), Nadine Chemali (Technical Director : Marketing & Exports), Amer Jabarin (DCOP)
- European Union (EEAS-BEIRUT)
 - Virginie Cossoul (Trade Attache) , Alexis Loeber (Head of Cooperation Section)
- Injaz
 - Fayza Saad Mehanna (Executive Director)
- CEDRO (UNDP project)

- Hassan Harajly (Director), Jessica Obeid (Energy Engineer)
- United Nations Development Programme
 - Rola Rizk Azour (Senior Economic Advisor)

Government

- Kafalat
 - Dr. Khater Abi Habib (Owner), Basel Aoun (Project Manager)
- Office of Prime Minister (UNDP)
 - Salam Yamout (National ICT Strategy Coordinator), Yasmina el Khoury (Economic Officer)
- Trade Information Center (UNDP)
 - Ms. Rafif Berro (Project Manager)
- Ministry of Economy and Trade (UNDP)
 - Zeina El Khoury (Head of Enterprises Team)
- The Lebanese Center for Energy Conservation (LCEC)
 - Pierre Khoury (Director)
- National Employment Office (NEO)
 - Mr. Jean Abi Fadel (Director)
- US Embassy
 - Claude Basbous (Senior Economic Advisor) & Tim Forsyth (Economic/Commercial Officer)

Training/Workforce Development/Universities

- Moawad Foundation Technical Institute, Rene Moawad Foundation
 - Nabil Moawad (General Manager)
- Kortbawi Institute
 - Sister Souhaila (Director)
- Makhzoumi Foundation Training Center, Makhzoumi Foundation
 - Vartkes Keutelian (Deputy Manager), Samer El Safah (General Manager)
- Arab Open University
 - Andre Abi Awad (Head of Entrepreneurship Dept.), Ms. Rana Haidar Jabri (Head of Student Affairs)
- Lebanese American University
 - Josiane Sreih (Director, Institute for Family and Entrepreneurial Business)
- Modern University for Business and Science (Career Development Center)
 - Abed Chehab (Head of Career Development Center)
- Forward (job fair)
 - Tania Eid (Managing Partner)
- Saint Joseph University
 - Ms. Nisrine Lattouf (Director of Physiotherapie)
- European Training Fund (ETF)
 - Sabina Nari, Abdelaziz Jaouani (Head of TVET)
- YMCA
 - Tony Elmir (Operations Manager)

- Don Bosco Technique
 - Father Shady (Deputy Director)
- Pigier School
 - Toufic Tasso (Director)
- CIT Dora
 - Said Fakhoury (Head of IT Department)
- American University of Beirut
 - Dr. Maryam Ghandour (Student Affairs Career and Placement Services)
- High institute of Technology, Tripoli
 - Eng. Tony Kahaleh (General Director)

Key Experts

- Yasser Akkawi (Chairman), Executive Magazine
- Ramzi el Hafez (Managing Editor), Lebanon Opportunities Magazine
- Prof. Ahmad Houry, Lebanese Solar Energy Society
- Fadi Chedid, Expertise
- Gerhard Rettenbacher, GOPA TVET/SME Expert
- Roger Melki, Economics Professor at Saint Joseph University (former advisor to Min. of Economy and Finance)

Bekaa Valley

Private Sector Firms

- Agriculture/Food Products
 - Ethel Chocolate, Haikal Ethel (Owner)
 - Chateau Ksara, Mr. Elie Maamari (Export Manager)

Associations/Chambers of Commerce

- Chamber of Commerce and Industry and Agriculture of Zahle and the Beqaa
 - Mounir Teeny (Vice President)

Government

- Terbol Municipality
 - Fadi el Khoury (Mayor of Terbol)

North Lebanon

Private Sector Firms

- Agriculture/ Food Products
 - Wilco, Tony Boutros (Manging Partner)
 - Mackieh Sweets, Samih Mackieh (Owner)

- Msallem Food Tech, Wissam Msallem (Owner)

Associations/Chambers of Commerce

- Chamber of Commerce, Industry and Agriculture in Tripoli
 - Marcel Chabtini (President), Rana Mawlawi (Project Manager) & Khaled Omari (Food Lab Director)

Business Support Services/Consulting Firms

- Business Incubation Association of Tripoli (BIAT)
 - Mr. Fawaz Hamidi (Director)

Training/Workforce Development/Universities

- Safadi Foundation
 - Vanessa Yakan (Executive Assistant-General Manager and Senior Project Development Officer)

South Lebanon

Private Sector Firms

- Generators
 - Jubaili Bros, Ramzi R. Jubaili (Chairman /General Manager) & Hiba El Harakeh (Senior HR Officer)
- Light Manufacturing
 - Jouni Trading Contracting Co., Yeiha Jouni (Owner)

Associations/Chambers of Commerce

- Chamber of Commerce, Industry & Agriculture in Sidon
 - Mr. Mohamad Saleh (President)

Business Support Services/Consulting Firms

- South Business Innovation Center (SouthBIC)
 - Mr. Andraos Bacha (Director General)
 - Samir Zaarour (Facility Manager)

ANNEX C. SME PROFILE TIERS

CLIENT TIER	RATIONALE	IMPLEMENTATION FACTORS	ASSISTANCE FOCUS
1) Converting SMEs from informal to formal sector	Rapid means to create formal sector jobs and improve SME sector transparency.	These tend to be micro or very small, which are not otherwise targets. However, conversion to formal could be appropriate for formal employment gains. Mitigating factors exist, however. Currently, there are strong disincentives to move from informal to formal. The social security process is bureaucratic, taxes appear, and hiring becomes a risk due to difficult termination regulations. <i>Note: If these SMEs are assisted, the population of target firms grows substantially.</i>	Formalization advantages, eliminating mystery of registration, assisting with permits, incentivizing with low cost services, partnering with third party entrepreneurship training providers to help them.
2) Assisting ~10 employee firms to grow to 20 employees	Well known barrier and difficult to overcome without assistance. 20 person SMEs require more formalized management structure and SOPs without which employment growth is unlikely.	10 person firms can be difficult to reach because they usually don't belong to associations and have often never conceived of seeking assistance to grow. Requires outreach beyond usual chamber and association methods – public media for instance. They don't tend to buy consulting services so heavy initial subsidizing is necessary.	Basic management, HRM, business planning, SOPs, marketing.
3) Facilitating growth for companies with between 20 and 50 employees	This and the next category is where much of the employment growth in the program's target beneficiary population is likely to happen.	Can usually be reached through associations and chambers. More receptive to buying consulting services, though initial subsidization still necessary.	HRM, Value chain and logistics, market penetration/export assistance, quality standards, cost reduction, technology adoption, B2B matching
4) Facilitating growth for companies over 50 employees	Most likely to hire new employees if the assistance proves successful.	Easiest to reach, most likely to buy services with or without subsidies if they are persuaded of the value and ROI.	Advanced quality standards, lean manufacturing, process re-engineering, R&D

ANNEX D. OVERVIEW OF TUNISIA BUSINESS REFORM AND COMPETITIVENESS PROGRAM APPROACH TO SME GROWTH

The USAID-funded Tunisia Business Reform and Competitiveness Program (BRCP) began in April 2014. The approach of the BRCP project is to help and assist Tunisian enterprises become more globally competitive, create business growth and employment. Employment (jobs creation) is the core, measurable goal of the project.

BRCP is composed of three components:

- Component 1: Technical assistance to Tunisian enterprises as well as assistance for access to finance for Tunisian enterprises.
- Component 2: Training, job fairs and CDCs
- Component 3: Policy

Component 1 of the Tunisian BRCP project is the core element that leads to job creation with partner enterprises of the project. The original, official goals for Component 1 of BRCP project for year 1 (April 2014 to April 2015) was to work with 80 partner enterprises and create 2000 jobs.

Component 1 of the BRCP project has decided to take a “by business people, for business people” in order to have a high level of efficiency, and to bring professional coaching and mentoring to the project’s partner enterprises. Component 1 is therefore composed of a team of five Tunisian Business Advisors and one international expert leading them.

Each of the Tunisian business experts is required to have a minimum of 10 years of international business experience, preferably in a management position for a few of these 10 years. Each of them specializes in specific industries or sectors (IT, manufacturing, garments, electrical, retail, etc.).

The core strength of this “by business people for business people” approach is that the BRCP business advisors are truly able to advise local, Tunisian enterprises on their real needs. Many enterprises have their own perceived needs that are often misaligned with their real need, in terms of long term, global competitiveness. The key role of the business advisors is to coach and mentor the management of each partner enterprises about their real needs in terms of innovation, technologies, better products or services, new markets, critical certifications, etc.

In order to be more effective in terms of direct job creation, it was decided that priority would be given to individual Tunisian enterprises with good business growth and therefore employment prospects. Value Chain spillover effect would then come into play (downstream, horizontally and upstream) as soon as more than 3 to 5 enterprises of the same sector work with the BRCP project.

Each BRCP partner enterprise signs a “partnership agreement” with the project, stating clearly:

- Specific type(s) of technical assistance required
- Details of the expert(s) / consultant(s) hired for the task
- Monthly, measurable and quantifiable goals
- Expected business growth (new product lines, clients, etc.)
- Expected jobs creation.

By December 2014, the team of business advisors of Component 1 had signed a total of 112 partnership agreements for technical assistance, for a total of 3500 jobs created. These enterprises vary in size from small companies with 30 to 40 employees to large groups employing thousands of workers. The high quality of the project's business advisors helps create a "branding effect" for BRCP. The Business Advisors are seen as a source of quality, professional coaching and mentoring services.

The most popular areas of technical assistance detected and proposed by BRCP's business advisors in order to help each enterprise grow and create new jobs are: new markets development, lean manufacturing, improved efficiency, certification, quality standards, etc.

The cost per job varies very much from case to case and from enterprise to enterprise. It depends on the type of industry, the experts or services providers contracted, the number of jobs created, etc. The cost per job can range from a low of US\$800 to a high of US\$2,500. The average to date is US\$1,550 per job created.

The ratio paid by each partner enterprises also varies. It ranges from 80 – 20% (80% for BRCP and 20% for the enterprise) to 30 – 70%.

ANNEX E. OVERVIEW OF MAURITIUS BUSINESS GROWTH SCHEME

Mauritius Business Growth Scheme Activity (MBGS)²⁸ is a five-year World Bank funded program that began in 2012. It is designed to promote business growth. MGBS is built around a team of business advisors, who help local enterprises reach substantially higher business growth than they would otherwise have reached organically. Partner enterprises are selected by criteria that measure potential for business growth, and outcomes are measured a year and two years after each intervention. A total of 1,050 enterprises received mentoring from the business advisors of the project. Roughly 350 of those have reached the stage where a formal partnership agreement for technical assistance was signed with them.

MBGS' efforts have resulted in positive, incremental business growth with most of their partner enterprises. The project has created an average of 42 jobs per partner enterprise, for over 350 enterprises, in the course of the first three years of the project. The Government of Mauritius has taken over management of the program due to its success, so that it will continue beyond the horizon of the initial program scope. MBGS started on a "cost sharing basis" (50 – 50) for its first year of activity and moved to a "revolving fund" model beginning in year two.

One of the main challenges of the project is that official, audited accounts are requested from partner enterprises for each year of partnership. This is often seen as a negative point by local business people.

²⁸ Details at <http://mbgs.govmu.org/English/Pages/default.aspx>.

ANNEX F. LEBANESE IMPORT AND EXPORT CUSTOMS DATA OVER THE LAST 5 YEARS BY SECTOR (MILLIONS OF LBP)

Export Sector	Exports 2011	Exports 2012	Exports 2013	Exports 2014	Exports 2015	5-Year Total	Annual Average	Percentage of Total Exports
Live animals / animal products	34,361	35,465	43,973	45,663	33,802	193,544	38,709	1%
Vegetable products	263,431	263,822	332,162	322,683	122,290	1,304,390	260,878	4%
Fats and oils	32,505	46,543	55,413	49,449	24,143	208,053	41,611	1%
Prepared foodstuffs, beverages, tobacco	601,801	624,047	710,446	812,089	407,085	3,155,467	631,093	9%
Mineral products	747,557	808,078	1,242,482	695,702	206,846	3,700,664	740,133	11%
Chemicals / allied industries	626,642	552,960	529,719	614,193	347,247	2,670,761	534,152	8%
Plastics / rubber	228,572	247,496	245,517	228,263	105,888	1,055,739	211,148	3%
Raw hides / leather	21,590	24,118	29,793	31,666	11,813	118,981	23,796	0%
Wood products	23,127	34,201	31,257	20,404	10,586	119,576	23,915	0%
Paper, pulp products	328,569	276,595	266,122	318,047	119,017	1,308,351	261,670	4%
Textiles	204,533	186,483	196,222	200,467	88,166	875,871	175,174	3%
Footwear	35,856	38,534	31,350	41,807	16,302	163,849	32,770	0%
Stone, glass products	59,846	66,958	66,699	55,886	24,462	273,851	54,770	1%
Pearls, precious stones, metals	2,278,104	2,604,979	1,163,623	820,763	359,239	7,226,709	1,445,342	21%
Base metals	803,064	717,651	801,504	575,967	255,988	3,154,174	630,835	9%
Machinery, electrical instruments	1,328,748	1,321,114	1,391,055	1,106,321	562,283	5,709,521	1,141,904	16%
Vehicles	692,105	355,525	365,161	598,791	281,948	2,293,530	458,706	7%
Medical, optical, musical, photography instruments	76,343	54,061	77,681	82,310	34,920	325,314	65,063	1%
Arms and ammunition	1,200	623	430	604	169	3,026	605	0%
Misc. manufactured	146,651	164,018	174,824	180,085	84,879	750,456	150,091	2%
Artwork, antiques	6,574	44,653	40,542	57,791	6,975	156,446	31,289	0%

Source: Lebanon Customs, 2015.

Import Sector	Imports 2011	Imports 2012	Imports 2013	Imports 2014	Imports 2015	5-Year Total	Annual Average	Percentage of Total Imports
Live animals / animal products	1,308,466	1,242,796	1,345,365	1,584,549	639,824	6,121,000	1,224,200	4%
Vegetable products	1,282,119	1,309,161	1,392,085	1,459,212	753,441	6,196,097	1,239,203	4%
Vegetable and animal fats and oils	261,705	293,492	300,854	276,812	126,610	1,259,473	251,895	1%
Prepared foodstuffs, beverages, tobacco	1,905,026	2,086,186	2,135,375	2,138,051	1,007,220	9,271,857	1,854,371	6%
Mineral products	7,496,692	9,599,871	8,319,122	7,916,034	2,323,687	35,655,405	7,131,081	25%
Chemicals / allied industries	2,630,507	2,639,883	2,936,953	3,048,082	1,506,946	12,762,371	2,552,474	9%
Plastics / rubber	1,084,254	1,158,950	1,267,318	1,261,392	564,730	5,336,644	1,067,329	4%
Raw hides / leather	123,164	117,986	117,539	122,616	57,554	538,858	107,772	0%
Wood products	357,038	371,451	357,695	405,739	170,928	1,662,851	3321,570	1%
Paper, pulp products	665,142	565,859	574,616	575,641	251,232	2,632,489	526,498	2%
Textiles	1,065,490	1,138,195	1,200,309	1,249,550	601,985	5,255,529	1,051,106	4%
Footwear	204,034	210,453	237,087	239,854	123,297	1,014,724	202,945	1%
Stone, glass products	606,345	615,209	677,124	697,291	320,943	2,916,912	583,382	2%
Pearls, precious stones, metals	3,230,112	2,390,731	1,713,444	1,472,111	615,754	9,422,152	1,884,430	7%
Base metals	2,370,819	2,348,110	2,417,142	2,299,854	880,995	10,316,921	2,063,384	7%
Machinery, electrical instruments	3,509,956	3,425,826	4,190,549	3,538,972	1,590,963	16,256,267	3,251,253	11%
Vehicles	2,195,345	2,434,416	2,832,444	2,380,742	1,363,819	11,206,765	2,241,353	8%
Medical, optical, musical, photography instruments	451,070	490,654	519,024	526,849	249,644	2,237,241	447,448	2%
Arms and ammunition	42,419	30,083	35,047	34,637	11,615	153,801	30,760	0%
Misc. manufactured	466,958	570,609	608,242	617,812	300,319	2,563,940	512,788	2%
Artwork, antiques	34,850	53,348	34,381	29,506	21,665	173,749	34,750	0%

Source: Lebanon Customs, 2015.

ANNEX G. QUALIFICATIONS OF BUSINESS ADVISORS

Examples provided by James T. Riordan in his book *We Do Know How*, detail key qualifications and attributes of successful business advisors. (Riordan, 2010, pp. 285-286) These qualifications and attributes are listed below:

“Business sense and experience. The most effective advisors generally have had a number of years of hands-on experience in the private sector and can communicate effectively with the business community. They understand the businessperson’s point of view and can assess intuitively whether a business proposition is worth further probing. They have an idea of what questions to ask to identify the source of business problems and to develop solutions to those problems.

Analytical skills. A business advisor is called upon to prepare Memoranda of Understanding [Client Growth Plans] with client businesses. The MOUs spell out the key problems of clients and how to attack them at a favorable incremental cost-to-sales ratio. Business advisors must have the capacity to quantify the impact of assistance provided to a client, estimate the profitability of an activity, and work closely with clients to close transactions.

Problem-solving ability. Most instances of program support will run into unexpected obstacles and require creative problem solving, on the spot, by the business advisor. It is imperative that business advisors possess a demonstrated capability for effective and ad hoc problem solving.

People skills. One of the most important roles of the business advisor is to bring people together and cultivate trust along the market chain so that the commercial relationships in question do not require the continuing presence of the advisor in the future. This is a key element of the buyer-led approach to transaction sustainability.

Commitment to making the transaction work. Most cases of program support will require persistence and extra effort from time to time to keep things moving forward. A high level of energy and professional commitment is essential for a business advisor to achieve sales targets.

A robust professional network. This is a significant asset for developing new opportunities, evaluating potential clients, and making the business community aware of program capabilities and services.

Integrity and trustworthiness. These characteristics enable the business advisor to gain the confidence of clients to overcome mistrust and natural reluctance to enter into difficult business transactions with potentially high returns on investment.”

Source: Adapted from USAID/Caribbean Open Trade Support Program

ANNEX H: NORTH LEBANON SME COMPETITIVENESS AND JOB CREATION ACTIVITY CONCEPT NOTE

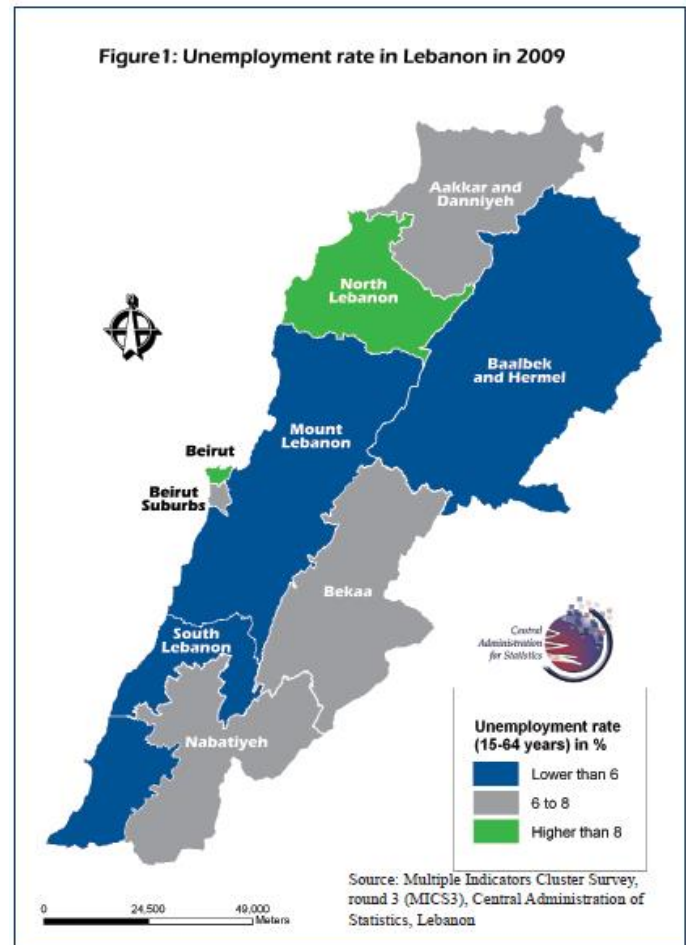
A. Background

North Lebanon has extensive infrastructure including an oil refinery, an airport, a train station, agro-industry potential, and a harbor. It also has several cultural and touristic sites that, in an ideal world, should lead to a vibrant and vivacious city. However, North Lebanon has been long neglected by the government since the 1970s. Most forms of investment in development have been concentrated in the country's capital of Beirut leaving citizens of the North at a great disadvantage. The North Lebanon region benefits from the existence of export opportunities by land due to the proximity to borders and existence of exporters serving the entire region. However, the Syrian crisis has tremendously affected export volumes, especially in fresh produce, which have been forced into costly air and sea shipments. This forced change has resulted in high volumes of damaged, and often disposed of, exports.

North Lebanon is a region of the country that is currently facing significant social, economic and political challenges that are threatening security and any form of progress. Unemployment is on the rise, particularly among young people estimated at up to 25%; drop-out rates in the poorer areas are estimated at up to 50%; delinquency and violent clashes characterize the daily life in many parts of the region. The majority of economic activity in the area is characterized by micro size enterprises run by families, which don't offer career opportunities to young graduates. Furthermore traditional hiring practices are commonly known to be characterized by nepotism and favoritism in business and employment relations. What is known as "wasta" can be interpreted as "connections"; obtaining a job only through your connections.

B. Scope of Work

To address these realities, the aim of this concept note is to provide technical assistance to SMEs who are willing and capable of increasing their sales and export potential, while



also committing to hiring additional Lebanese employees. The aim of the project is to create business growth leading to incremental employment. Specific activities are to include, but not be limited to:

Activity 1: Support the establishment of a Trade Support Center (TSC) at the Tripoli Chamber of Commerce Industry and Agriculture (CCIAT). The purpose of the TSC, which will be managed by selected staff of the CCIAT and two project staff members, is to provide technical assistance to Lebanese enterprises to improve their services and products, assist in creating niche or ‘super niche’ products and services for the regional, international, and global markets. Additionally, the TSC will support beneficiaries through providing assistance in business development, quality assurance, legal support in exporting, collecting and sharing trade data, and addressing requests from producers on local and international trade-related issues. The project will support the development of the TSC through providing technical support and guidance, procurement assistance, and outreach. The project will provide ongoing support through providing two specialized business advisors to work directly with select SMEs to offer firm level technical assistance.

Activity 2: Support SME identification and hiring of employees. To ensure that SMEs in North Lebanon are able to hire employees with necessary industry and basic skill requirements, the program will assist employers and job seekers through job matching activities as well as subsidizing job skills trainings through local career and training centers. During the first year of the project, the project team will aim to meet with 300 employer entities, identified in close collaboration with the Tripoli Chamber of Commerce and BIAT, and establish partnerships with at least 50 who will be able to select candidates for vacancies in their organizations. These entities will directly benefit from competitive and capable individuals that could be assets to their operations. 50 selected firms will undergo a needs assessment in order to identify, with a project business advisor, the skills they need to become more competitive. Following this assessment, the project will identify 300 job-seekers (with a focus on women and youth) through already established career fairs, online recruitment platforms, and university centers (ie. Continuing Education Program at the Lebanese American University—CEP--). On an as-needed basis, the project may sponsor job seekers enrollment in quick/intensive certificate programs at CEP, or basic language, ICT and professional training at Safadi Foundation’s English and ICT learning centers located across North Lebanon. These centers are located in 7 marginalized communities, offering easy and affordable access to training programs. This will allow for participants to successfully meet the minimum requirements for being hired.

Additionally, the project will embed a local project staff member in Lebanese American University (LAU) to proactively pursue local firms to post their job vacancies at the University and assist in job matching. At a minimum this will result in two key outcomes; 1) spreading awareness of this activity to local private sector firms, and 2) widening the network of local SMEs using transparent and competitive hiring practices by posting their vacancies with LAU, the Safadi Career booth, and other platforms.

Activity 3: Support the establishment of a “Career Booth” (both physical and online) housed within the Safadi Foundation. The project will work with the Safadi foundation to further their plans to establish a physical and online platform for companies to post their vacancies and for job seekers to submit their CVs. This activity aims at linking job seekers with the right skills and capabilities with jobs that fit their qualifications. It is anticipated that 200 visitors can benefit from the services of the booth and the website in one to two years. The booth will be open to all job seekers and employers across the country, but will have a special emphasis on those in North Lebanon in order to continue contributing to the enhancement of the workforce in the region.

The program will assist through the provision of technical assistance, procurement support, and ongoing embedded staff members if necessary.

Activity 4: Assist businesses of the informal sector become officially registered and legal. A large number of SMEs in Tripoli are informal and therefore their employees do not count as part of the officially registered workforce. In order to further boost job growth numbers through this activity, the project will take an opportunistic approach to guiding firms to convert their informal businesses into formal businesses, leading to increased formal employment. When appropriate, the project business advisors will coordinate efforts currently being undertaken by the International Labor Organization and promote the usage of key tools such as the *Resource Guide on Decent work*. This resource guide is a practical approach that demystifies transitions to formality, looking at all possible approaches that can present win-win situations for workers, entrepreneurs and enterprises, communities, and the State. The guide provides a one gate access to a comprehensive set of approaches that are grouped under seven broad policy areas and 28 practical Briefs. Each Brief details the challenges facing institutions, actors and enterprises within the informal economy, and highlights the range of policy innovations in facilitating transitions to formality.

Subsequent to these conversion efforts, these firms will be encouraged to participate in the job matching and career booth activities. Additionally, if project business advisors detect a strong potential for business growth and employment within those firms, they may ultimately become eligible for assistance via the TSC.

C. Target Groups and Beneficiaries

SME traders and exporters. The TSC will serve SME traders and exporters primarily the North Lebanon region; however, beneficiaries from other regions can be served as well. It is envisioned that medium and larger enterprises have more potential to create a higher number of jobs at a lower cost per job, however it will also provide greater opportunities to improve the small-scale productivity, quality, and quantity of products available for local and export markets resulting in higher income and reinvestment. Beneficiaries can be SMEs, cooperatives, farmers, processors especially in the furniture, food and beverage, metal products, textiles, wood and carpentry, paper and cartons, and chemical products sectors.

Job seekers and SMEs demanding skilled professionals in the private sector. The main targeted regions of the project are low-income areas of North Lebanon. This includes rural Akkar, Minnieh-Donnieh and the three cities of the region of Al Fayhaa – Tripoli, Mina and Beddawi. The targeted beneficiaries in this region are mainly unemployed youth between the ages of 20-35 and women 36 years and up. In addition, the project will also target, among youth, 4th year students and fresh graduates of the Public Lebanese University – North Lebanon campus. These students are at an observable disadvantage in terms of having competitive skills upon graduation in comparison to graduates of private universities across the country. Our project will directly benefit 50 private entities, and provide jobs for 500 women and youth job-seekers across North Lebanon.

D. Results Monitoring / Anticipated Results

The proposed results of the project, during a 1-2 year Period of Performance are:

- Employment Creation (500 job placements anticipated)
- Businesses Supported with Technical Assistance (50 businesses anticipated)
- Business Growth, by employee number, per business (TBD% anticipated)
- Increased Exports per business (TBD% anticipated)

Additional, non-measurable results:

- Improved Competitiveness
- Spillover Effect (investments, exposure to larger markets, equipment, machinery, indirect employment, etc...)

E. Partner Institutions

Tripoli Chamber of Commerce Industry and Agriculture. CCIAT is a nonprofit public utility organization, involved in trade and services, industrial and agricultural affairs. CCIAT currently provides services to 17,000 member companies, of which 5,000 have a permanent status. The Chamber serves enterprises in the regions of Tripoli, Akkar, Batroun, Koura, Zgharta, Dannieh, Becharre and the towns and villages surrounding them.

CCIAT will be responsible for the establishment of the Trade support Center. CCIAT already has some facilities and services that can be used to support the center; namely the food laboratory, the food research facility, the transaction department that issues certificates of origin and other required attestations, bar-coding, a web portal for standards and norms required in foreign markets, and a network of contacts with trade offices in Consulates and Embassies and foreign Chambers. Project Business Advisors will direct export oriented firms to the Trade Support Center for assisting in expanding and reaching external markets.

Safadi Foundation. Safadi Foundation is one of Lebanon’s leading development agencies based in Tripoli. It has extensive human capacities, infrastructure and social outreach to marginalized communities in several regions of the country. The foundation is one of

Lebanon's largest and most trusted NGOs with a long history of successful activity implementation.

Safadi Foundation will assist in the design and execution of the short-intensive training plans (basic language and ICT skills), and establish/host the career booth (both online and physical) recruitment platforms. In order to manage these activities, they will have a Project Management Unit (PMU) based at the Foundation's headquarters in Tripoli. This unit will be responsible for planning, monitoring, reporting (both financial and narrative), and field coordination. Safadi Foundation will also coordinate and ensure the full participation of all partners in every aspect of the project, and will coordinate with its US-based partner to establish a scholarship fund for at-risk youth who would like to take part in the activity.

Business Incubation Association in Tripoli. The Business Incubation Association in Tripoli (BIAT), is a nonprofit organization, established with the assistance and back up of the Integrated SME support program, an EU-funded project at the Ministry of Economy and Trade of Lebanon. BIAT is managed by a motivated, professional, experienced, and caring team ready to assist clients with their financial, technical, marketing, legal, accounting, exporting and training issues along with relevant authorities' connection. BIAT will recommend potential SMEs that the project can work with who are willing to grow and increase employment.

Continuing Education Program at the Lebanese American University. CEP at LAU aims to offer innovative learning opportunities for future business leaders of the community while enhancing performance, promoting professional advancement, and encouraging achievement. It gives adult learners necessary information through programs designed for the 21st century workplace, while acquiring pertinent knowledge and developing specialized skills. It strives to create an energetic learning environment that fosters both personal and professional growth. The CEP now offers 18 certificate-based programs at the post-secondary and post-baccalaureate level and well over 90 short courses for prospective students. Many programs culminate with the distinguished CEP certification granted by LAU.

CEP at LAU will implement short-intensive certificate based programs for youth and women supported by the project. When possible, CEP at LAU will also contribute to establishing strong linkages with potential employers and link those employers to the career booth to be established by the Safadi Foundation.

ANNEX I. ASSESSMENT SCOPE OF WORK

I. Objective

The objective of this SOW is to assess impediments to private sector growth — particularly the growth of small and medium sized enterprises (SMEs) — and opportunities for USAID to remove or alleviate these impediments in the future. In line with a “buyer-led” approach²⁹, this assessment will examine the needs of SMEs and high-growth lead firms within key sectors and value chains to identify specific bottlenecks to growth and to identify strategic interventions to support SMEs developing goods and services for which demonstrated demand and commercial matchmaking opportunities exist. The assessment will examine SME needs across five areas to provide a state of the field report on the current situation of SMEs in Lebanon as well as recommendations to support: 1) improved business enabling environment and institutional capacity of business associations and chambers; 2) demand-driven business development services (BDS); 3) increased trade and export linkages; 4) enhanced workforce development; and 5) opportunities for growth in special economic zones. Furthermore, this activity will examine opportunities that exist for potential public-private sector partnerships to leverage resources to contribute to increased SME, productivity, sales, and exports. This work should be coordinated and integrated with “Lebanon SME strategy, a roadmap to 2020” that was just released by the Government of Lebanon’s (GOL) Ministry of Economy and Trade.

The final deliverable from this scope of work, looking through a lens of increasing private sector competitiveness, will address all five areas listed above to identify needs, constraints, and opportunities in the short and intermediate term at the micro, local, and national level. Recommendations from the final report should reflect the parts of the new GOL SME strategy that USAID should help to implement.

Of particular cross-cutting interest across the components will be: the role of technological innovations to increase economic growth and private sector competitiveness; gender-focused programming; and synergies with USAID/Lebanon’s current economic strategy and ongoing portfolio. The team should compare and contrast findings from urban SMEs (Beirut) as well as rural SMEs (regions).

II. Background

Lebanon is a high-middle-income country with a population of around 4.2 million and a per capita (2012) Gross Domestic Product (GDP) of US\$10,310. Despite the global financial crisis, the country has managed to show positive economic growth and a

²⁹ The buyer-led approach, as explained in *We Do Know How: A Buyer-Led Approach to Creating Jobs for the Poor* by author and development practitioner James Riordan, focuses on identifying and supporting business opportunities for which there is market demand, abiding by the maxim, “produce what you can sell,” and *not* “sell what you produce.” The approach identifies business opportunities, as well as the ways to solve the specific problems (i.e. bottlenecks) that stand most in the way of local businesses meeting buyers’ requirements.

measure of stability mostly due to a strong banking system, continued foreign capital flows, and domestic private investment. However, the Syrian conflict has had a profound effect on the Lebanese economy since 2012. Lebanon, already a recipient of foreign aid, has seen an approximate 17% increase in the number of individuals living below the poverty line between 2012 and 2014 (approximately 1 million to 1.17 million). The unemployment rate doubled to 20% during that same period³⁰. In addition, as of September 17, 2014, 1,155,928 Syrian refugees are registered in Lebanon³¹ with several hundred thousand awaiting registration³², putting additional strain on the country's fragile economy. Due to these systemic issues, high migration of young educated Lebanese pose significant challenges for the Government.

Private sector-led growth is a crucial factor for the country and constitutes a core pillar of the national development agenda. USAID/Lebanon's economic growth priorities under its new country development strategy, currently in draft, are shifting towards enhancing economic opportunities that will support the strengthening of private sector competitiveness. Lebanon's private sector must grow and create more jobs for its young professionals and semi-skilled laborers. This has to occur through a growing and more competitive private sector.

III. Activities and Deliverables

A. Activities

This assignment will include the activities below:

Activity 1. Offsite secondary literature review and stakeholder mapping (January 15-February 6). The team will analyze the vast stock of current literature on Lebanon's private sector, including USAID data and assessments, the World Bank Doing Business Report, the World Economic Forum's Global Competitiveness Report, and Lebanese government reports to understand the general characteristics of the private sector and SME landscape in Lebanon, as well as governmental priorities and national strategies to support private sector competitiveness.

The team will: identify sectors and value chains with high rates of SME participation or with potential to contribute to significant future SME growth, trade, and exports; identify SME needs and constraints within those sectors and value chains; and conduct market and industry analysis to map key public and private sector actors within those sectors/value chains. Sectors to be investigated *may* include, but are not limited to: agro-industry, finance, education, tourism, handicrafts, transportation, and oil and gas.

The literature review will also identify and prioritize key public and private sector

³⁰ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/09/24/000333037_20130924111238/Rendered/PDF/810980LB0box379831B00P14754500PUBLIC0.pdf

³¹ <http://data.unhcr.org/syrianrefugees/country.php?id=122>

³² US State Department factsheet

organizations which support or contribute to SME growth. These organizations may include relevant:

- Lebanese government counterparts, ministries, export and trade governmental agencies
- Chambers of commerce and business associations
- Workforce development-focused counterparts
- Business development and specialized technical assistance service providers
- Stakeholders with a vested interest in industrial parks and special economic zones
- SME owners and operators and employees (at various levels of the organization).

The literature review will also identify policy and regulatory constraints to SME growth, trade, and exports.

Activity 2. Assessment methodology and survey design (February 9-11). From the literature review, the consultants will identify additional information needed to assess:

- 1) Business enabling environment for SME growth and competitiveness and local capacity to advocate for policy and regulatory improvements;
- 2) Private sector capacity to provide specialized technical assistance and business development services to improve competitiveness in key sectors;
- 3) Policy, regulatory, and operating environment for trade and exports;
- 4) Human resource skill constraints in key sectors and existing and potential strategies for workforce development to contribute to SME growth and competitiveness;
- 5) Effectiveness and potential of Special Economic Zones/Industrial Parks to contribute to SME competitiveness and growth.

The Consultants will design a methodology and series of questions for different types of interviewees (i.e. relevant chambers of commerce, business associations, government agencies and ministries, donors, SMEs, and lead firms in value chains) to gather this information during site visits.

Activity 3. Work Planning (February 12-14). AMEG and its consultants will draft a work plan in-country to carry out the five-pronged assessment of SME competitiveness in Lebanon. This activity will yield Deliverable 2: Work plan.

Activity 4. Assess opportunities to enhance private sector competitiveness across five key areas (February 16-March 20). AMEG Consultants will identify specific opportunities to increase SME competitiveness in Lebanon, analyzing the five areas of support below.

The assessment in each area will focus on those sectors, clusters, and value chains identified during the literature review and work planning that have high rates of SME participation and/or that have potential to contribute to significant future SME growth, trade, and exports. Analyses in each area should also assess how technology and innovation has (or has the potential to) affect productivity and competitiveness of SMEs in Lebanon.

AMEG will conduct an initial findings debrief with USAID/Lebanon immediately following the assessment of each area, and the final report will include written findings for all areas in this scope of work.

A1. Analysis of Policy and Regulatory Constraints and Institutional Capacity of Chambers and Business Associations to Advocate for Change

This portion of the assessment will include a two-pronged approach to assess the following areas: 1) business enabling environment; 2) institutional capacity of business associations and chambers to advocate for policy improvements.

Policy and Regulatory Analysis. As part of the literature review in Activity 1, the team will review the existing business enabling environment for SME development, as well as opportunities for policy and regulatory improvements to enhance SME trade and competitiveness. The team will analyze existing reports by USAID and other donors, Lebanese government data, the World Bank Doing Business Report, and the World Economic Forum's Global Competitiveness Report to identify constraints and opportunities that can be cross-referenced with interviewees during the field assessment. In-country the team will (1) confirm that the identified policies and/or regulations are hindering SME growth; and (2) identify opportunities for reform based on current political will.

***The team will look at the SME development authority/secretariat model and its applicability in Lebanon. The model will be derived from the model used in Pakistan by the USAID/FIRMS project.

Analysis of Institutional Capacity of Business Associations and Chambers to Advocate for Change. Through site visits and interviews, the team will conduct a rapid review of the institutional capacity of relevant chambers and business associations in key sectors to advocate at the national level for reforms and changes to improve the business enabling environment, particularly for SMEs. The team will gauge the organizations' leadership, services provided, membership, level of organizational development, and reputation within the business community to determine their capacity to serve as advocates for policy reform and change. The team will also review the administrative and management capacity of relevant business associations and chambers to receive USAID assistance as well as the types of assistance they need, based on organizational gaps identified in interviews and site visits. In addition, the team will attempt to gauge levels of member engagement (including participation of SMEs) and member willingness to contribute or leverage resources with USAID or other donors to create more effective chambers, associations, or business service organizations. The AMEG team will work with USAID/Lebanon to determine which associations to target.

A2. Enhancing Private Sector Competitiveness through Business Development Services

This component will focus on the availability of business development services that align

with the most common needs among Lebanese SMEs in key sectors. The team will analyze the current provision of business development services to SMEs in key sectors and value chains to determine whether more demand-driven, specialized technical assistance can help to make firms and value chains in those sectors more competitive. Survey data will be disaggregated by sector, geographic area (i.e. rural/urban), sex of owner, age of owner, ethnicity of owner, religion of owner, and other variables deemed appropriate by USAID.

Demand-side: SME Needs for Specialized Technical Assistance in Key Sectors and Value Chains. Through interviews and questionnaires, the AMEG team will first determine the needs and constraints of SMEs in Lebanon in key sectors, and identify areas where specialized technical assistance to these firms could potentially help overcome existing bottlenecks to growth. The AMEG team will work through the business associations and chambers it has identified in key sectors to interview and/or survey member SMEs about their technical assistance needs as well as services received through the chamber, association, or other provider. Questions will likely be refined based upon findings from the literature review and interviews with relevant public and private sector organizations. Questions will also provide insights on SMEs' willingness to pay for BDS services, and how they expect those services to impact their productivity, links to markets, and competitiveness.

Answers from SMEs, which will be disaggregated by sector, sex, age, ethnicity, religion, etc. of the owner/operators, will help identify specific technical assistance needs and will guide team recommendations on potential improvements to BDS services to improve their quality and relevancy. The team will also identify gaps between SME needs and expectations and provision of technical assistance from business associations, chambers, and other service providers. Answers will also help identify those organizations, firms, and individuals providing the highest quality, demand-driven assistance in areas like trade and exports, production support, job matching, etc.

Supply-side: Capacity of Business Associations, Chambers of Commerce, and other Providers, Particularly Private Sector, to Provide Specialized Technical Assistance and Business Development Services to Improve Competitiveness.. As part of the analysis of institutional capacity of relevant chambers and business associations described above, the team will assess technical assistance provided to SMEs in resource management, technology use and transfer, quality control, financial and risk planning, marketing and trade plan development, and other areas required to enhance productivity. Through the literature review and interviews with SMEs described above, the team will also identify other public and private sector providers of business development services, such as public agencies, consultants, private firms, and individuals.

The team will look at the overall number of chambers, associations, private consulting firms, individuals, and others delivering such services to SMEs. In addition, based on interviews and surveys, the team will analyze whether the range of services being provided responds to the needs of SMEs in key sectors. The team will review the mandates, willingness, capacity, and effectiveness of current BDS providers to provide

relevant, demand-driven, and affordable technical assistance to SMEs and any gaps that may exist in services.

Based on needs identified and the current provision of technical assistance from a variety of providers, the team will develop a series of recommendations for improving the quality and relevancy of BDS services in the short and intermediate term, as well as identify providers with the highest levels of capacity to provide quality services. In particular, the team will identify opportunities for chambers, business associations, and private sector providers can to supply technical assistance and market linkage services that integrate competitive Lebanese SMEs into national, regional, and international export or sales networks.

A3. Enhancing Trade and Exports

As part of the literature review, the team will examine Lebanon's export and import data, analyze trends in exports and imports, look at potential for increasing exports and/or substituting imports, and identify factors of competitiveness for Lebanon's SMEs vis-à-vis competitors in regional and global markets. The team will identify sectors having potential export competitiveness, sectors with significant potential for growth (local, regional and international), sectors creating more value add in terms of sales and employment, sectors supporting inclusive growth, and those sectors creating ripple effects on value chains and the economy. Through the literature review, SME surveys/interviews, and interviews with business associations and chambers of commerce, the AMEG team will also map the current policy, regulatory, and overall operating environment for trade and exports, and pinpoint the primary constraints to SMEs' ability to trade and export goods and services in each of the key high-growth sectors identified (e.g. regulatory constraints, management, financial, technology transfer, sales practices, and/or workforce constraints).

Once they have identified critical constraints to trade and exports in each key sector, the assessment team will review and recommend development assistance approaches at the enterprise-level as well as at the cluster and/or value chain-level to remove constraints to trade and exports (a priority of the Lebanese government). Approaches should be relevant to the Lebanese context and consider the stage of the value chains in which the targeted enterprises and clusters operate, the required national and international standards for products and services, and skills needed by workers to fill jobs in logistics, finance, marketing, etc.

A4. Enhancing Private Sector Competitiveness through Workforce Development

Foreign investors often determine where to open up new factories or offices based on the skills of the workforce in a given country. Likewise, when domestic firms seek to enter new export markets they often require skilled workers to either compete in an international marketplace and/or successfully scale their operations to succeed in these new export markets. Despite Lebanon's highly-skilled workers, SMEs struggle with attracting and retaining the right human capital for jobs. Brain drain as highly-educated,

highly-skilled workers leave Lebanon is part of the problem, but SMEs also need specific, practical skills from employees which are not taught in universities. Furthermore, SMEs are often not members of business associations and have little interaction with universities to help tailor curricula to fit market needs.

Building on the recent workforce development assessment conducted for USAID by FHI 360, the AMEG team will review current and best practices in workforce development in the key sectors identified as well as in other sectors such as finance, education, manufacturing, media, and telecommunications, etc. as time permits. To reduce duplicative efforts, the AMEG team will focus on the findings and any gaps uncovered by the FHI 360 research. Through SME interviews and surveys, AMEG consultants will identify challenges faced by SMEs and high-growth lead firms in the value chain when increasing production and/or serving new markets. The AMEG team will examine the potential for workforce development approaches, such as job creation and matching, on-the-job training, internship programs, and demand-driven vocational technical training, to address SME constraints to growth.

The assessment team will recommend approaches that target critical human resource skill constraints in key sectors. The team will evaluate opportunities to support on-the-job-training, job matching, and demand-driven vocational training initiatives that incorporate training in both “hard” technical/managerial skills and “soft” language and workplace socialization/teamwork skills required in modern efficient work settings.³³ The team will also examine the potential to apply new technologies (a la Microsoft Youth Works) that can enable workers to access available entry-level jobs, resources to develop and improve their skills, and job networks. Emphasis should be placed on approaches that respond directly to private sector demand for skills and that engage SMEs and lead firms in curricula development and cost sharing.

A5. Enhancing Private Sector Competitiveness through Special Economic Zones/Industrial Parks

The AMEG team will assess the effectiveness of Special Economic Zones and Industrial Parks Lebanon, their future feasibility in the Lebanese context, their ongoing and potential impact on SME growth and competitiveness, and the role that USAID may play through future programming in their growth and development.

During the literature review, the team will analyze existing SEZs and Industrial Parks within Lebanon to better understand the governmental vision, international best practices and lessons learned, and USAID’s role in SEZs more broadly.

³³ Job-matching support involves planning, promoting, and conducting job fairs where prospective private sector employers in growth-oriented sectors are convened with job seekers. It also includes assistance provided to career development centers or other platforms that link prospective private sector employers to new graduates or unemployed workers in key skill areas, and that provide training services to those entering the labor force. Demand-driven vocational training involves curricula development and instructor training focused on meeting needs of specific private sector partner industries and companies. Increases in job placement are a key outcome of both.

Through interviews with key stakeholders and site visits, the assessment team will examine the impacts of Industrial Parks and Special Economic Zones on SMEs, key sectors, and specific value chains in Lebanon. Additionally, it will assess the capacity of Lebanese public and private sector counterparts to implement these economic growth models and their impacts on regional and international trade. The team will also gauge the feasibility of creating more SEZs in Lebanon, the effectiveness of donor-funded efforts to promote them, and opportunities for future USAID interventions as well as public-private partnerships to support them (i.e. infrastructure development, visibility support, regulatory formation, etc.).

Activity 5. Development of final report (March 23-April 17). The Consultants will submit a draft final assessment report to USAID/Lebanon and to USAID/Washington staff within 30 business days of completion of the field assessment. The report shall clearly summarize the state of the field and identify clear and concrete opportunities to support private sector competitiveness in each of the five areas above. Recommendations will focus on future opportunities to support each area, highlighting specifics such as time frame, political will for change, required assistance to the Government of Lebanon, and required assistance to the private sector, and opportunities to leverage resources from the private sector. Recommendations will highlight potential short, intermediate, and long-term interventions as well as small, medium, and large-scale ones to support SME growth in Lebanon. They will also identify key actors and potential partners at the micro, local, and national level. The report will prioritize recommendations according to their potential impact and success. Recommendations shall also identify opportunities that promote synergies across areas.

The report should address gender considerations and detail specific opportunities to support women and youth in Lebanon. The report will also identify and/or recommend effective ways to invest in technology and innovation and specific practices that can be derived and scaled-up. The Final Report will be the fourth, and final deliverable of this scope of work.

****Political will.* Regardless of ways to measure and monitor USG efforts, without the political will of the host country, success will be limited. Political will is ideally coupled with a mobilized and vocal private-sector who can hold the government accountable for changes. The Mission should be tuned in to the frequency of cabinet-level changes, development of forward-thinking development plans and their implementation, and the reaction of the private sector and the citizenry at large to socioeconomic realities in Lebanon.

B. Deliverables

Deliverable 1: Stakeholder Map and Assessment Methodology. From the literature review of existing reports/documents from the government of Lebanon, USAID, other donors and organizations, the AMEG team will identify key sectors to investigate and map key stakeholders to be interviewed in those sectors, both inside and outside of Lebanon. The team will also develop and document the methodology to be used to carry out the assessment of each of the five areas. The AMEG team will submit the list of key

interviewees, assessment methodology, and list of questions for interviewees in key sectors. The list of interviewees, methodology, and questions will be shared and approved by USAID at the end of the team's first week in country.

Deliverable 2: Work plan. The work plan shall include timing for the assessment of each area, an outline of activities, a list of stakeholders to be interviewed, and a timeline for meetings and interviews.

Deliverable 3: Initial Findings Debrief (5x). After completion of the in-country assessments, but prior to departing Lebanon, the AMEG consultants will conduct briefings with USAID/Lebanon on the initial findings of each area assessment. AMEG will share each set of debrief notes and/or power point presentation with USAID.

Deliverable 4: Final Report. AMEG will submit a draft final assessment report to USAID/Lebanon and to USAID AMEG staff within 30 business days of their return from the last area assessment. The final deliverable will be a report that will clearly summarize findings, highlights key challenges and opportunities, details recommendations, and includes an annotated bibliography as an annex. The final report should include options and priorities for USAID to support Lebanon's SME strategy outlining different options and/or scenarios at different funding levels.

The Consultants will refine the report after receiving comments from USAID and key stakeholders (to be coordinated by USAID/Lebanon), and will submit the final report for USAID approval approximately 10 business days after receipt of USAID feedback.