



UN
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BUILDING RESILIENCE IN A PROTRACTED CRISIS:

**TRANSFORMING CHALLENGES
INTO OPPORTUNITIES FOR THE
YOUTH OF LEBANON**



DISCLAIMER

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ACRONYMS

CAS	Central Administration of Statistics
CSO	Civil Society Organization
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft fuer internationale Zusammenarbeit
GNI	Gross National Income
IMF	International Monetary Fund
ICT	Information and Communication Technologies
ILO	International Labor Organization
KfW	Kreditanstalt fuer wiederbau – Germany’s state owned Development Bank
MEHE	Ministry of Education and Higher Education
MSMEs	Micro, Small, Medium Enterprises
NGO	Non Governmental Organization
NEET	Not in Education, Employment or Training
OECD	Organisation for Economic Co-operation and Development
RCA	Revealed Comparative Advantage
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCWA	United Nations Economic and Social Commission for Western Asia
UNFPA	United Nations Population Fund
UNHCR	United Nations Higher Commision on Refugees
UNICEF	United Nations Children’s Fund
UNIDO	United Nations Industrial Development Organization
YLP INC	Youth Leadership Incubation Programme

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EXECUTIVE SUMMARY

The current economic crisis in Lebanon is creating long-term scars on the country, making chances of imminent economic recovery unlikely. Lebanon's main advantage - its human capital, especially the skilled youth population - is deteriorating, further endangering the country's future. The youth in Lebanon, from all backgrounds, have come under immense financial and mental pressure which has taken a toll on their health, safety and future employment prospects. They are experiencing rising unemployment rates (48 percent in 2022)¹, increased poverty rates and growing deprivation across all dimensions, especially health. This has led to an unprecedented brain drain and increase in migration of not only the skilled but also low-skilled youth. Skills mismatch is anticipated to worsen with time as the country is facing a major education crisis that is depriving children and youth of their right to learn and reducing their future employment options. Moreover, youth are prioritizing livelihoods and survival over education, resulting in them dropping out of schools and technical training programmes. The entrepreneurship support ecosystem is shrinking, and state institutions are crumbling, while the banking system is dysfunctional. The youth of Lebanon are therefore left alone and are struggling to find ways to sustain their livelihoods.

This technical paper starts with an analysis of the situation of youth amidst one of the worst financial and economic crises in the world. The paper goes on to examine the coping and adaptation strategies that youth entrepreneurs have adopted over the last two years to survive. A thorough assessment of the impact of the financial crisis on the major economic sectors is then provided along with the identification of emerging trends and opportunities in each of those sectors. Based on a quantitative analysis, the paper scores the sectors according to (1) their recent contribution to GDP, (2) their level of skills readiness and availability in the sector and (3) level of inclusivity (i.e., what is the sector's potential for job creation for women and other vulnerable groups).

The study uses primarily desk research and latest available statistical data to analyze the current status of youth employment and entrepreneurship opportunities in Lebanon, and to understand the impact of the economic crisis on the entrepreneurship ecosystem. Statistical data were mainly collected from national sources (mainly the

Central Administration of Statistics) and International Organizations such as the International Labor Organization (ILO) and the World Bank.

The desk research was complemented with an online survey commissioned by Arabnet, a leading media and innovation programmes organizer, with 70 Lebanese youth entrepreneurs aged 18 to 40 years old, to understand existing challenges and potential growth opportunities. Using a referral sampling approach, the online survey sampled founders, co-founders, or partners of youth-led enterprises in Lebanon. The survey was conducted between May and June 2022. The companies were contacted through Arabnet's database, and network of investors and community partners, and through push marketing via social media posts. The survey findings were further validated in a roundtable discussion with key stakeholders from the youth entrepreneurship ecosystem.

MAIN FINDINGS OF THE PAPER

Despite challenges, several sectors have shown better resilience to crisis than others and still offer feasible economic opportunities for youth entrepreneurs. The quantitative analysis prioritized the following sectors as economic activities with high potential of job creation for youth: **The wholesale and retail trade sector**, while considered a low-productivity sector that employs mainly low-skilled youth, is one of the top sectors that contributed to GDP growth in 2020 and is one of the largest employers of youth with 19 to 20 percent of youth employment concentrated in this sector alone². Moreover, the sector demonstrates high potential to employ youth from disadvantaged groups. For all these reasons, the sector was considered of high priority to support youth job creation. One of the most important trends in the sector is the digitization of trade services and the flourishing of e-commerce after the pandemic. This can be capitalized on to move to higher value creation and better job prospects.

The manufacturing sector comes second in terms of potential high employability for youth. This is due to its projected growth potential with various sub-sectors leading this growth, such as agri-food processing and cultural and creative industries.

The ICT and business professional services is another promising sector that has great potential for youth employment and entrepreneurship. The

country's natural assets such as a well-educated and multi-lingual workforce, along with its relatively low-cost structure and strong linkages with the diaspora network, are the main enablers for this sector.

Travel and tourism is the fourth sector to be prioritized for its potential to create jobs for all youth in the country. The sector dealt a severe blow during the pandemic, but started showing signs of recovery as the country reopened and visitors flocked in again since 2022.

The agriculture sector, while an important sector for job creation, is not on the priority list in this paper. The sector suffers from structural weaknesses and exhibits high levels of informality and poor working conditions for youth.

The financial services sector has traditionally been the backbone of the Lebanese economy, but given the systemic crisis, it is unforeseeable that the sector will play a major role in the upcoming economic recovery. Therefore, it was not prioritized as part of the analysis.

The sector selection analysis has helped in identifying promising economic activities that could be leveraged to rebuild the country. However, productive sectors cannot grow without policy reforms that create incentives for production and investment, through the stimulation of the demand for labour and the enhancement of the employability of the youth.

¹ ILO, Lebanon Follow-up Labour Force Survey, January 2022

² Ibid



INTRODUCTION

Youth³ unemployment is one of the greatest global challenges of recent decades. However, it is more pronounced in developing and fragile countries. Based on UN estimates, more than 600 million jobs need to be created globally by 2035 to match youth employment needs.⁴

When they are employed, youth are more likely to be working in precarious jobs, with mostly informal arrangements and without decent work conditions. More than 96 percent of youth employed in developing countries are estimated to be working in the informal economy.⁵ When young people do manage to secure contracts, they are more exposed to work arrangements that put them at a disadvantage. This is especially true with the rise of the gig economy and the proliferation of short-term contracts, through which youth are hired as freelancers or self-employed workers rather than as employees, enabling companies to avoid taxation and regulations.

The picture for youth in Lebanon is bleaker as the country has been witnessing, for more than three years, a compounded economic and financial crisis that has undermined the already precarious economic and social prospects for youth. The crisis is so severe that the World Bank ranked it as one of the worst economic crises since the mid-nineteenth century. Lebanon's GDP contracted by 56 percent from an estimated US\$52 billion in 2019 to US\$23 billion in 2021.⁶ The burden of this brutal contraction is largely falling on the most vulnerable, who already suffered prior to the crisis from unequal access to resources and opportunities.

The youth of Lebanon are a vital asset and can lead the way to economic recovery. However, there is serious threat that this human capital might be subject to irreversible deterioration amid the protracted economic and financial crisis, the COVID-19 crisis, and the unprecedented brain drain that the country has been witnessing over the last three years. There is also an imminent danger that youth become radicalized and seriously disengaged the longer the crises continue. Based on the Fragile States Index developed by the US-based Fund for Peace, which measures the level of fragility around the world, Lebanon had the fourth largest increase

in fragility in 2022, ranking as the 27th most fragile country out of 179 countries.⁷

Current literature demonstrates that the long-term impacts of youth unemployment and the delay to entering the labour market are significant and include negative effects on earnings and employment opportunities, that could last over 20 years.⁸ In addition, long periods without a job can reduce civic engagement of youth, reduce their trust in society and potentially make them more radical and susceptible to committing crimes and violence.

OBJECTIVES OF THE STUDY

The main objective of this technical paper is to provide a detailed assessment and mapping of issues that have been affecting Lebanese youth entrepreneurs and workers since the onset of the financial crisis, the COVID-19 pandemic and the Beirut blast, understand adaptation and mitigation measures adopted by youth entrepreneurs during the crisis, and identify the economic sectors with high potential for youth entrepreneurship and employment opportunities. The paper is part of the regional "Empowering Youth through Transformative Entrepreneurship Support" project implemented by UNDP and funded by the Big Heart Foundation in Lebanon and Palestine.

RESEARCH METHODOLOGY

The study uses primarily desk research and latest official statistical data to analyse the current status of youth employment and entrepreneurship opportunities in Lebanon, and understand the impact of the economic crisis on the entrepreneurship ecosystem.

The desk research includes review of previous studies developed by international organizations such as ILO, UNICEF, GIZ, UNESCWA as well as government official statistics and policy documents related to youth.

The desk research was complemented with an online survey commissioned by Arabnet with 70 Lebanese youth entrepreneurs, aged between 18 to 40 years, to understand existing challenges and potential growth opportunities. Using a referral-sampling approach, the online survey sampled founders, co-founders, or partners of youth-led enterprises in Lebanon. The survey was conducted between May and June 2022. The companies were

³ The United Nations defines youth as people between the ages of 15 and 24 years while the National Youth policy in Lebanon that was endorsed by the Council of Ministers in 2012 defines youth between the ages of 15 and 29 years. In this paper, youth statistics refers to all young people in Lebanon between the ages of 15 and 24 years from the various nationalities and backgrounds.

⁴ ILO, Global Employment Trends.

⁵ UN, 2020.

⁶ World Bank, Lebanon Overview, November 2022.

⁷ <https://fragilestatesindex.org/wp-content/uploads/2022/07/22-FSI-Report-Final.pdf>

⁸ OECD, Policy Brief on Recent Developments in Youth Entrepreneurship, 2020.

contacted through Arabnet's database and network of investors and community partners, and through push marketing via social media posts. Details on the sample size can be found in the appendix.

The added value of the survey is its ability to capture insights within the entrepreneurship ecosystem in Lebanon especially among the young entrepreneurs. It allowed to reach a diverse group of entrepreneurs (women, people with disabilities, etc.) and highlighted challenges and aspects that are not captured by larger surveys.

The survey findings were further validated in a roundtable discussion with key stakeholders from the youth entrepreneurship ecosystem. The 16 attendees included entrepreneurs from various industries, such as agri-food, information and communication technologies, food & beverages and hospitality, and marketing and creative industries. Also present were representatives from leading institutions in the startup support ecosystem, including investors and funding organizations (VCs, micro-lending, and SME lending), local and international NGOs, business incubators and co-working spaces, academic institutions, and relevant government entities.

The sector selection methodology was based on the findings from the desk research, survey, roundtable discussions and Key Informant Interviews (KII).

RESEARCH LIMITATIONS

The lack of reliable and up to date statistics, especially disaggregated at youth level, prevents solid conclusions being drawn on the state of youth employment and entrepreneurship in Lebanon.

The implementation of the survey was equally challenging given the current economic context where businesses are struggling to make ends meet. Many businesses had already closed or had been forced to relocate, so contacting companies was difficult. While the survey was first disseminated to more than 200 businesses, the response rate was low at the beginning, and it required many follow-ups to reach an acceptable sample size.

In addition, the referral sampling approach, commonly used in qualitative research and quite useful in certain situations, presents several limitations. It can introduce bias into the sample since participants tend to refer individuals who share similar characteristics or opinions. The sample may not be representative of the broader population or target group and hence it may be challenging to draw broader conclusions or generalize based on the findings. The referral sampling tends to rely on

existing social networks, which may also exclude certain hard-to-reach populations that are not well-connected within those networks.

STRUCTURE OF THE PAPER

The paper includes three distinct sections. The first section of the paper provides a situation analysis of the youth in Lebanon by highlighting their key challenges, namely unemployment, informality, brain drain, poverty rates, illegal migration, skills mismatch, and lack of government support.

The second part of the paper summarizes the adaptation strategies and mechanisms adopted by youth to mitigate the effect of the crisis on their livelihoods. The third part then delves into an assessment of the impact of the economic crisis on the main sectors, to understand their current performance and their future potential for job generation among youth entrepreneurs, and their contribution to a new economic model for Lebanon that would be based on productive and high value-added sectors.



SITUATION ANALYSIS OF THE YOUTH IN LEBANON

The youth of Lebanon from all backgrounds have come under immense financial and mental pressure which has taken a toll on their health, safety and future employment prospects.

Despair and loss of hope has become a common trait of the youth of Lebanon, raising fears of the loss of a complete generation due to the challenging macroeconomic conditions that have been worsening since 2019. Based on a UNICEF survey with youth, one in four reported feeling often depressed, and over half of the respondents claimed that their lives worsened over the past year.⁹

While the economic situation was already frail starting 2011, exacerbated by the influx of Syrian refugees, the economic collapse only started to be felt by the end of 2019. In October 2019, massive demonstrations erupted in Lebanon to protest the worsening economic conditions, prevalence of corruption and increased inequalities. Since 2019, Lebanon has been exhibiting the symptoms of contractions usually associated with conflicts or wars. Between 2019 and 2021, GDP per capita dropped by 36.5 percent, and by mid-2022 Lebanon was reclassified by the World Bank as a lower-middle income country, down from upper middle-income for 25 years.¹⁰ The drop in income was accompanied with hyperinflation averaging at 155 percent in 2021 and 186 percent in 2022¹¹ and a severe currency depreciation, all deeply cutting the purchasing power and disproportionately affecting the poor and middle class. The banking sector informally enforced capital controls and ceased lending, with the most significant burden falling on small depositors and Small and Medium Enterprises (SMEs) that find it increasingly challenging to do business in Lebanon since. The lack of a credible crisis management plan by the government since 2019, and a lack of consensus among legislators and policymakers on a clear reform plan that would be aligned with the International Monetary Fund (IMF) demands, have further exacerbated the situation. This has disproportionately affected the poor and most vulnerable, including vulnerable youth such as women, migrants, refugees, persons with disabilities and youth in rural areas. The World Bank described this policy inaction as the deliberate depression

in which the elite's capture of the state resources continues despite the magnitude of the crisis¹².

EXPLOSION IN UNEMPLOYMENT AND INFORMALITY

One of the most dramatic impacts of the multiple crises, compounded by the global impact of COVID-19 on employment prospects, is the skyrocketing of unemployment, which laid bare the volatility of the Lebanese economic model and the presence of deep structural issues. The national unemployment rate jumped from 11 percent in 2018-2019 to 30 percent in January 2022, implying that almost one-third of the labour force was unemployed during this period.

Disproportionate effect on women and youth.

Female unemployment rate reached 33 percent compared to a male unemployment rate of 28 percent. Women have not only been affected by high unemployment rates but have been exiting the labour force altogether. Labour force participation for women, already low before the crisis, became even more acute with the protracted crisis, reaching 22 percent in 2022 down from 29 percent in 2018. Equally, youth unemployment rate (15–24 years old) increased from an already higher base, going from 23 percent in 2018-2019 to 48 percent in January 2022; almost double the adult unemployment rate.¹³

Increasing regional disparities. Unemployment became more pronounced in the periphery and rural areas especially in places with a large concentration of Syrian refugees. Baalbek-Hermel Governorate witnessed the highest increase in unemployment, growing by 30 percentage points over three years, from 11 percent in 2018-2019 to 41 percent in January¹⁴.

Rampant Informality. The severe economic contraction has further pushed people into the informal sector with employment in the informal sector registering a 13-percentage points hike, going from 35 percent in 2018-2019 to 48 percent in January 2022.¹⁵ Informality significantly increased in the last three years. This is partly because of the collapse of the financial system and the resulting inability of banks to open new accounts - a key requirement to register a new business in Lebanon - but is also due to the increasingly challenging business environment that has put a strain on the financial performance of companies.

Rising informality of youth employment among the disadvantaged groups. Youth are one of the largest groups that are prone to be employed in the informal economy. A survey done by ILO¹⁶ in 2021 –targeting the most vulnerable population groups among Lebanese citizens, as well as Syrian and Palestinian refugees residing across eight governorates-, highlights the high likelihood of youth from disadvantaged backgrounds to work in the informal economy. The survey revealed that informal employment was highest among youth registering 92 percent of total youth employment, compared to 65 percent among those aged 65 and above¹⁷.

Growing risk of a lost generation. The share of the youth population (15-24 years old) who are not currently registered in employment, education, or training in relation to the total youth population, referred to as NEET, has equally increased for both male and female youth following the economic crisis. Almost one third of young women (32 percent) were not in employment, education or training in 2022, compared to 27 percent in 2018-2019. On the other hand, for young men, the NEET¹⁸ rate reached 26 percent in 2022, up from 17 percent in 2018-2019. This alarming trend indicates that there is a growing young population that is at risk of becoming socially excluded and without means or skills to improve their situation and reintegrate in the labour market.¹⁹

Trapped in low productivity jobs. Youth in Lebanon have traditionally been employed or work in low productivity and low-paid jobs. In 2019, 47 percent of young employees were mostly working in elementary occupations or as services and sales workers (Figure 1). The largest sectors employing youth are the domestic work sector (17.8 percent of total youth employment, comprising mostly non-Lebanese youth²⁰) and the wholesale and retail trade (17 percent of total youth employment, dominated by Lebanese youth) (Figure 2). These sectors were highly²¹ affected by the economic crisis²² contributing to the trapping of youth in precarious and volatile economic activities.

Figure 1: Youth (15-29 years old) Employment by occupation in Lebanon, 2019

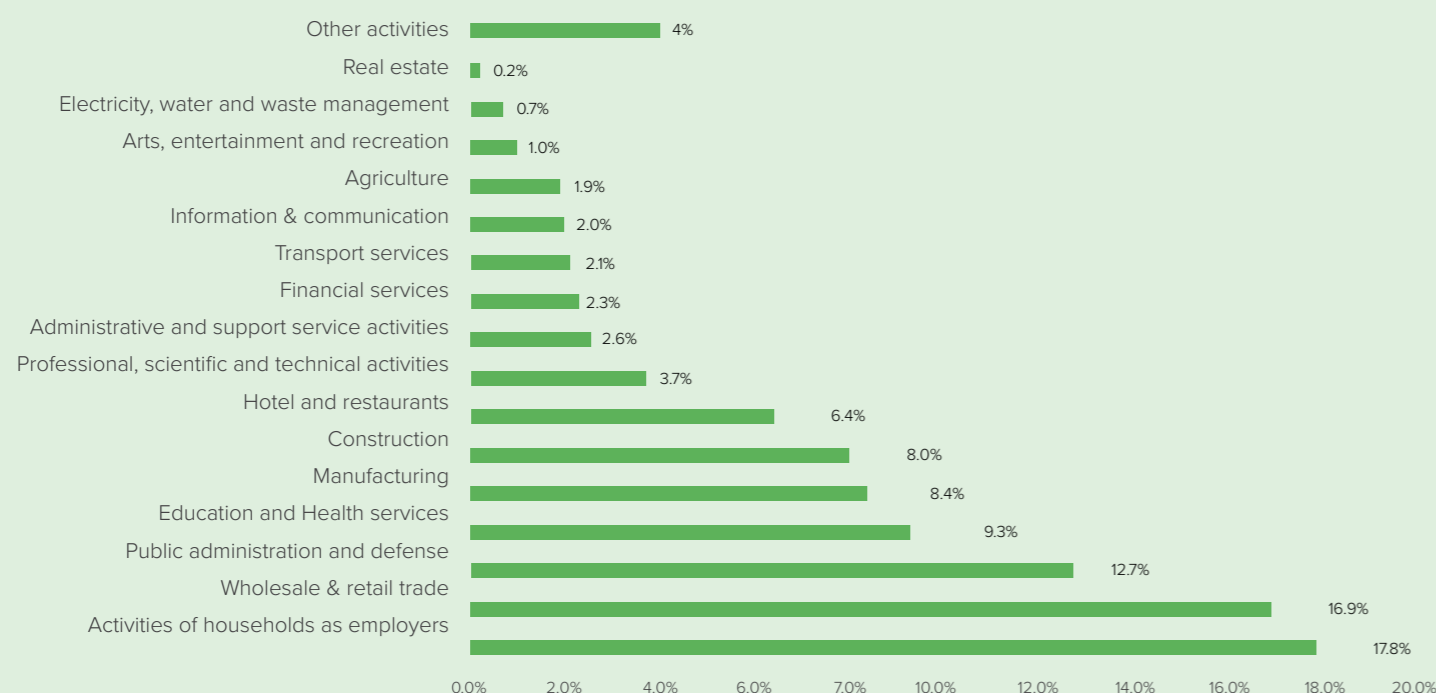


Source: ILO, Labour Force Survey, 2019

9 UNICEF, 2021.
10 The World Bank, Lebanon Overview, November 2022
11 Central Administration of Statistics, 2022
12 World Bank, Lebanon Economic Monitor, Fall 2021
13 ILO, 2022.
14 ILO, Lebanon follow-up Labour Force Survey, January 2022
15 Ibid

16 5009 residential households were surveyed between 23 July 2020 and 29 September 2020 in the 251 most vulnerable cadastres of Lebanon, as identified by a 2015 United Nations inter-agency assessment and reported in the Lebanon Crisis Response Plan 2017–2020. Identification of the most vulnerable localities was based on the Multi-Deprivation Index (MDI)
17 ILO, Assessing Informality and Vulnerability among Disadvantaged Groups in Lebanon, 2021
18 NEET rate, includes discouraged youth jobseekers and those who are outside the labour force as a result of disability and engagement in household chores, among other reasons
19 ILO, Lebanon Follow-up Labour Force Survey, January 2022
20 "Non-Lebanese residents had a higher concentration in household activities and the industrial sector, construction, and experienced a highly disproportionate amount of employment in elementary occupations for their main job (50.2 percent versus 5.4 percent for Lebanese workers)". ILO, Labour Force and Household Living Conditions Survey (LFHLC) 2018–2019
21 Expected impact of the crisis on economic output qualified as "high" for the wholesale and retail trade and "medium-high" for domestic work (ILO, 2022)
22 ILO-UNICEF, Synthesis of the crisis impact on the Lebanese labour market and potential business, employment and training opportunities, 2022

Figure 2: Youth Employment by Economic Activity in Lebanon, 2019



Source: ILO, Labour Force Survey, 2019

State collapse and youth run-away from public service. Youth working in the public sector, estimated at 13 percent of total youth employed, have seen their purchasing power erode the most. Inflation reached triple digit rates (averaging 186 percent in 2022 – one the highest in the world) and their salaries in Lebanese pounds losing almost 90 percent of their value with the currency depreciation. This has led youth working in critical public functions such as the army and Internal Security Forces²³ attempting to resign from their positions and seek jobs in the private sector, which was better at adapting to the crisis by partially indexing salaries to inflation and partially providing salaries in cash USD dollars²⁴. Talented youth in administrative offices have been actively looking for a way out to be able to secure their livelihoods.²⁵ Based on a rapid assessment done by the Institute of Finance in 2021, 56 percent of surveyed administrations reported that their employees requested unpaid leaves (an unusually high number compared to previous years), in particular staff responsible of technical and sectoral service delivery such as doctors, teachers, IT professionals and engineers²⁶.

High self-employment level driven by necessity reflecting prevalence of precarious and irregular employment for youth.

The 2019 ILO data shows that 88 percent of youth (15-24 years old) are employees in Lebanon, while eight percent are self-employed and two percent are employers²⁷. In Lebanon, the majority of young self-employed individuals and entrepreneurs are primarily motivated by necessity rather than opportunity. This implies that their decision to pursue self-employment is not a matter of choice, but rather a result of limited employment opportunities. Due to the challenges in finding suitable employment, they are compelled to take on entrepreneurial endeavors and establish their own businesses. Based on the 2017 Global Entrepreneurship Monitor, Lebanon demonstrates the highest percentage of entrepreneurs starting their business out of necessity in the Arab world, hovering at 40 percent. Among those entrepreneurs, very few employ others alongside themselves. Among the self-employed in Lebanon, 61 percent work in low-productivity sectors²⁸ (mainly

wholesale and retail trade, repair of motor vehicles, transportation and storage, hotel and restaurants, and real estate activities - Figure 2)²⁹. The self-employed seem to be less educated with only 13 percent having achieved tertiary education.³⁰

INCREASED POVERTY, INEQUALITIES AND VULNERABILITIES

While poverty and inequality were very much prevalent in Lebanon before the economic crisis, this has further been exacerbated, especially among the most vulnerable. Long before the 2019 crisis, Lebanon was considered one of the most unequal countries in the world with the top one percent richest adults receiving approximately a quarter of the total national income, while the bottom 50 percent of the population receiving 10 percent of the national income.³¹ Income inequality has widened even further after the economic crisis due to the regressive nature of the crisis that is impacting mostly the poor and vulnerable³².

Decreasing income trend long before 2019. The Gross National Income (GNI) per capita has been gradually decreasing due to several factors, among them the recent economic crisis that started in 2019, and the low economic growth that Lebanon has been witnessing since 2011, paralleled by a 36 percent increase in the population between 2010 and 2021 due to the influx of refugees³³. In 2021, the GNI per capita was estimated at US\$3,450 down from US\$7,380 in 2019, downgrading Lebanon to a low middle-income country after being classified as an upper-middle income country for 25 years.

Increased poverty in all dimensions. The loss of purchasing power due to currency depreciation and inflationary pressures coupled with rising unemployment rates have led to increasing poverty rates in Lebanon, especially in vulnerable areas that host large number of refugees and migrants. Based on official government statistics, the proportion of households living below the 50 percent of median income – which is the proxy measure of poverty – stood at 22 percent in the 2018-19 period. However, the World Bank estimates that this rate has risen by 13 percent by the end of 2020 and 28 percent by 2021. UNESCWA calculated that the multidimensional

poverty rate, which covers access to healthcare, education, public utility, housing, employment and assets, has grown from 42 percent in 2019 to a striking 82 percent in 2021.

Poverty incidence- not the same across the board. Poverty is more acute among women, youth, children, refugees and people in rural areas. While the poverty rate was estimated, based on the Central Administration of Statistics data from 2018-2019, to be 16 percent for Lebanese, it was estimated to be 51 percent for non-Lebanese, 54 percent for non-Lebanese women, and 62 percent for young non-Lebanese women under 15 years old³⁴.

The Invisibility trap. Despite rampant poverty in the country, it is hard for people to see it, especially in urban centers. This is because the various forms of vulnerability, especially the new emerging ones after the crisis, are mostly hidden and often go unaccounted for. A series of individual fixes were adopted by residents in the country to adapt to the new situation that have contributed to their invisible impoverishment. Such fixes include installing their own private generators or solar panels, reverting to cheaper imported products or going all the way to cutting meat from their diets. Getting out of the poverty trap is becoming harder as the country resorts to quick and unsustainable solutions to hide the effects of the economic collapse.³⁵

UNPRECEDENT BRAIN DRAIN AND IRREGULAR MIGRATION

The protracted economic crisis has pushed people and youth to opt for jobs that will enable them to survive, further increasing the migration to jobs in low value-added sectors. In parallel, the highly skilled labour force including doctors, nurses, engineers have been for the last three years taking opportunities abroad leading to an economic and social loss for the country as its human capital is being permanently depleted. Based on findings by the World Health Organization (WHO), around 40 percent of skilled medical doctors and around 30 percent of registered nurses have already left the country either permanently or temporarily.³⁶ . The Centre for Educational Research and Development (CERD) estimates around 10,000 teachers have left

23 <https://today.lorientlejour.com/article/1277984/soldiers-are-increasingly-deserting-the-lebanese-army.html>

24 <https://blog.blominvestbank.com/41904/isnt-it-time-to-adjust-lebanese-wages/>

25 <https://today.lorientlejour.com/article/1316973/lebanons-civil-servants-are-leaving-in-droves-they-arent-being-replaced-soon.html>

26 Institute of Finance, Rapid Impact Assessment of the Crisis on Lebanese-on-Lebanese State Institutions, 2021

27 Compared to 80 percent and 98 percent of youth being employed in Egypt and UAE respectively. High-income countries tend to have very low self-employment levels. For example, the United states has a 97 percent of its youth working as employees vs. only 3% percent working as self-employed. (ILO Stats).

28 Based on the World Bank, high-productivity services in Lebanon include information and communication technologies, finance and insurance services, professional, scientific and technical activities as they are intensive in skilled labor (Good jobs needed, 2012).

29 Based on the World Bank, high-productivity services in Lebanon include information and communication technologies, finance and insurance services, professional, scientific and technical activities as they are intensive in skilled labor (Good jobs needed, 2012).

30 World Bank, 2012

31 <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713/>

32 Kawthar Darra, Marginalization Cost: Regional Disparities Fueling Lebanon's Fragility, Carnegie Middle East Center, September 2020

33 World Bank, Lebanon Economic Monitor, Fall 2022

34 Central Administration of Statistics, The Life of Women and Men in Lebanon, Statistical Portrait Between 2004 and 2019

35 <https://www.synaps.network/post/lebanon-poverty-crisis>

36 WHO, Joint statement by Dr Tedros Adhanom Ghebreyesus, WHO Director General, and Dr Ahmed Al Mandhari, Regional Director for the Eastern Mediterranean, on Lebanon, September 2021. <https://www.emro.who.int/media/news/joint-statement-by-dr-tedros-adhanom-ghebreyesus-who-director-general-and-dr-ahmed-al-mandhari-regional-director-for-the-eastern-mediterranean-on-lebanon.html>

since the crisis started.³⁷ This will have major long-term consequence not only on productivity and the ability of companies to compete, but also on the ability of Lebanon to transform its economy into a sustainable economic model based on high value-added sectors.

Migration trends hitting businesses as well. Even young innovative startups and entrepreneurs have taken the desperate option of relocating abroad to ensure business continuity. In a 2022 Arabnet and Konrad Adenauer Foundation study, more than half of surveyed startups (54.3 percent) had moved at least some part of their operations abroad. Based on the same survey, finding and retaining talent was found to be a significant challenge for the startups and businesses who are still in the country. The brain drain was primarily linked to the pursuit of better living conditions abroad. In addition to the loss of specific skill sets and know-how, the talent exodus is leading to the formation of an experience gap – demonstrating a decline in the quality of available talent in the country.³⁸

Lebanon, highest immigration desire of youth across the region. While youth exodus is a common challenge in the Arab region, Lebanon topped the list in 2020 with more than 77 percent of Lebanese aged between 18 and 24 wishing to migrate³⁹. Based on the Arab Barometer Survey that was conducted between 2020 and 2021, Lebanese were the most pessimistic about their country's economic future⁴⁰. The survey demonstrated that around half of the population wanted to emigrate (around 48 percent) citing corruption and security considerations as primary reasons for emigration. The survey also reveals an imminent brain drain threat with 61 percent of youth surveyed with college degrees wanted to emigrate compared to only 37 percent of youth that have a secondary degree or less. A similar survey conducted by the Lebanese Center for Policy Studies with 500 youth aged between 21 and 29 years old in Beirut revealed similar conclusions regarding youth's despair and alienation. A staggering 75 percent of respondents admitted considering permanent emigration for political or economic reasons.⁴¹

Brain drain's contribution to the current deadlock and political impasse. Brain drain is sometimes associated with long-term negative impact on growth and productivity in the country of origin. Moreover, the highly skilled workers are usually the people who advocate and lobby for improvements in the business and investment climate and oppose corruption. With their departure, there is a threat that the country becomes a passive recipient of remittances with a large majority of the population uninterested in challenging the situation.⁴² This explains partially what has been going on in Lebanon since 2019, with the unprecedented wave of migration of skilled professionals. The remaining residents in the country depict a kind of "negative resilience" that is stabilizing a poor state of governance.⁴³ With remittances estimated to represent around 38 percent of Lebanon's GDP in 2022, Lebanon becomes the second most remittance-dependent country in the world⁴⁴.

Low-skilled youth's flight through dangerous routes. On the other hand, the low skilled labour and youth from deprived areas are attempting to leave the country by taking the illegal and dangerous sea crossing. UNHCR has reported that the number of would-be migrants leaving by boats to reach Europe has more than doubled in 2022. These irregular boat trips are no longer only taken by Syrian or Palestinian refugees but an increasing number of Lebanese, given the depressing economic situation. In 2022, 24 percent of the individuals who departed irregularly from Lebanon were Lebanese compared to 12 percent in 2021.⁴⁵ This is further confirmed by a UNICEF survey with 900 youth aged between 15 and 24 in 2021, where 41 percent of them felt that their only chance to survive is to travel and seek opportunities abroad.

Reversed trend and reduced import of low-skilled labour. Before the crisis, youth migration was concentrated among skilled youth with 47 percent of Lebanese migrants being between the age of 23 and 40 years old and holding a university degree.⁴⁶ On the other hand, the outflow was offset by a major inflow of low-skilled labour, the majority from neighboring Syria. This "replacement migration paradigm" distorted the level of skills in the country and contributed to the low productivity and reduced competitiveness of Lebanese firms. After the 2019

crisis, there was a new trend where the low-skilled workforce – especially the foreign one - was also leaving *en masse*, creating major gaps in the labour market. Based on the Central Administration of Statistics (CAS) labour force data for 2022, there was a more than five percent drop in employment in the activities of households as employer, which refers to persons who are hired as domestic workers by households. This applies mainly to low-skilled foreign labour.⁴⁷

SKILLS MISMATCH AND LACK OF PREPAREDNESS FOR THE FUTURE OF WORK

While the economic crisis was one of the main factors driving the youth unemployment rate up, skills mismatch remains a major barrier for youth to access employment opportunities. In 2022, the level of education of more than half (57 percent) of the employed population was considered to not correspond to the level of education required to perform the job, growing from 50 percent in 2018-2019.⁴⁸

Less over-education and more under-education. An interesting trend following the crisis is that there are now fewer over-educated people and more under-educated people. Over-education fell from 24 percent in 2018-2019 to 18 percent in 2022, while under-education increased significantly from 26 percent to 38 percent over the same time period. This indicates that more over-educated people lost their jobs following the crises than under-educated people⁴⁹ and hence increasing the skills mismatch in the job market.

Low attractiveness of vocational and technical training and outdated university curriculums behind skills mismatch. The skills mismatch is rooted in labour supply trends that favor university/academic studies over vocational and technical trainings. This has created an abundance of graduates for a small number of occupations, and a lack of qualified labour on the lower end of the skills spectrum. Moreover, curricula in traditional education establishments were never updated with labour market demand trends, aggravating unemployment rates⁵⁰.

Skills misinformation and lack of policy guidance on labour market needs, another hinderance for youth employment. The UN ESCWA launched with the Ministry of Labor in Lebanon in 2020 an initiative

that aims to provide free-of-charge certified courses on the Coursera e-learning platform. A total of 25,000 users completed 44,377 courses of their choice. The initiative revealed that out of the first 260 most demanded skills in the Lebanese market, course in these areas represented only 42 per cent of those taken by applicants. This demonstrated the need of a labour market information system that would reduce the information gap and guide the labour force on the reskilling and upskilling opportunities needed to meet the demand of the market.

Job demand in Lebanon still stuck in the past. ESCWA Skills Monitor⁵¹ collects real-time information from regional online Job posting platforms and offers an overview of the region's labor market demand and skills and employment prospects. It revealed that in Lebanon skills related to the future of work such as artificial Intelligence, machine learning, blockchain, cloud computing, and augmented virtual reality are still not as in demand as might be expected, as the Lebanese labour market is still dominated by traditional sectors.

Brain drain and decreased access to quality education exacerbating the already existing skills mismatch. Most people leaving the country are young and educated, creating a major gap in skills needed - especially at the level of middle managers⁵². Another factor that is likely to exacerbate skills mismatch and affect the quality of labour force supply in the future is the decrease in access to education and deterioration of the quality of the education sector in general. Based on a UNICEF youth assessment survey conducted in 2021, more than 4 in 10 young people in Lebanon reduced spending on education in order to buy other essentials such as food and medicine, and 3 in 10 people stopped education all together. This indicates that there is a serious threat to the youth's long-term employment prospects as they drop education and learning to take low paid and precarious jobs that support the needs of their families.

The crisis endangering the whole education sector and exposing its vulnerability. The economic crisis has created major disruptions to schools and universities in Lebanon, especially public ones, as teachers and administrators have gone on long strikes to demand salary adjustments to reflect inflation and the devaluation of the currency. Public education infrastructure is facing increased pressure

37 World Bank, 2022. Lebanon Public Finance Review
38 KAS, Arabnet, 2022, Braving the Storm: Safeguarding the Lebanese Innovation Economy
39 <https://www.thenationalnews.com/arab-youth-survey-2020-young-people-plan-exodus-amid-dismay-at-region-s-corruption-and-economic-failure-11089153>
40 Arab Barometer, Half of Lebanese consider migrating, 2022, <https://www.arabbarometer.org/2022/04/what-lebanese-citizens-think-about-migration/>
41 <https://www.lcps-lebanon.org/articles/details/4709/survey-economic-collapse-and-government-failure-drive-lebanese-youth-to-emigrate>
42 IMF, 2021.
43 <https://www.middleeasteye.net/opinion/lebanon-economic-crisis-why-not-collapsed>
44 KNOMAD Database
45 <https://today.lorientlejour.com/article/1312253/the-new-routes-and-rising-numbers-of-would-be-migrants-leaving-lebanon.html>
46 UNDP, 2015.

47 CAS- ILO, 2022.
48 Ibid.
49 Ibid.
50 GIZ, Employment and Labor Market Analysis Lebanon, 2019.
51 <https://skillsmonitor.unescwa.org/>
52 GIZ, Employment and Labor Market Analysis Lebanon, 2019.

as more people move to the public schools given the deteriorating economic conditions and reduced ability to fund private education. In the 2020–21 school year, around 55,000 students (11 percent of public sector students) shifted from private to the public schools.⁵³ Private education establishments are also suffering due to the currency depreciation and decreased purchasing power in the country. The American University of Beirut, for instance, reported having lost 1,500 faculty and staff over the past two years, and over 250 students leaving the establishment following the Beirut port explosion.⁵⁴

POOR PUBLIC AND PRIVATE SUPPORT SYSTEMS

Before the onset of the economic crisis, youth entrepreneurs in Lebanon had a relatively burgeoning support ecosystem that helped them to scale and grow. By 2019, Lebanon boasted 11 major incubators and accelerators as well as several co-working establishments that supported entrepreneurs across all areas of Lebanon in technical assistance and networking. Several Lebanese universities also set up innovation centers to help students develop patents and bring their business ideas to life. Entrepreneurship-focused majors and master's degrees were also available to support the youth in growing their business ideas.

Government-sponsored financing with limited reach. Before the crisis, access to finance was facilitated through government support, albeit with limited reach. A breakthrough came in 2013 with the introduction of Circular 331 by the Central Bank to accelerate the growth of the digital startup ecosystem and fuel innovation in the economy. Circular 331 facilitated access to finance for Lebanese entrepreneurs and paved the way for the creation of various venture capital and private equity funds dedicated to finance tech startups. Within three years from the launch of this initiative, investment deals in the startup ecosystem had crossed 100.⁵⁵

In addition, a series of subsidized loans and tax incentives schemes targeted at entrepreneurship were made available. Kafalat, the public guarantee agency, provided loan guarantees for Small and Medium Enterprises (SMEs) in productive sectors including industry, agriculture, tourism, traditional crafts and high technology. While no longer available today, the portfolio of Kafalat remained limited, not exceeding three percent of overall outstanding loans to the private sector.⁵⁶ On the other hand, the

Investment Development Authority of Lebanon (IDAL) offered tax breaks and incentives to entrepreneurs in productive sectors upon meeting certain eligibility criteria. However, the application process and stringent requirements were often criticized as major barriers to access those benefits by SMEs.

A hostile business environment. Public support to entrepreneurship remained restricted and the business environment was considered hostile to innovation and SMEs development. Lebanon's Doing Business indicator from the World Bank continued to deteriorate with the country ranking 143 out of 190 economies in 2020, dropping by 17 spots from its 126th place in the 2017 index.

The downsize of the entrepreneurship support ecosystem after the crisis. The financial crisis turned things around and severely impacted the ecosystem support service provider's landscape. According to a study by the Konrad Adenauer Foundation and Arabnet,⁵⁷ ecosystem support services have been experiencing serious issues, particularly related to talent retention and productivity. Namely, business incubators, NGOs and education institutions have unanimously stated that the worsening conditions of financial and infrastructure services have challenged their ability to operate effectively. Starting in 2019, the ecosystem witnessed a drop in business support services to youth entrepreneurs, with some major accelerators closing down and relocating to other countries, including Flat 6 Labs, Speed@BDD, and the UK Lebanon Tech Hub in Lebanon. Only four remain operational across Lebanon today. This decrease in the number of available business incubators leaves Lebanese entrepreneurs with fewer pathways to start and nurture their businesses.

In contrast, the number of co-working spaces has increased. This can be attributed to the deteriorating infrastructure conditions that have heightened the demand for locations that are capable of supplying adequate connectivity and electricity. Also, support for entrepreneurship at universities has been increasing, with literature noting that the proliferation of university incubators could be the result of new demands placed on higher education, namely, the cultivation of job-ready skills.⁵⁸

Government support halted after the crisis. The severe liquidity crisis and political paralysis in Lebanon have significantly reduced the Lebanese government's ability to support entrepreneurs and businesses. While the government issued several tax

relief mechanisms including suspending filing and payment of all taxes during the COVID-19 lockdown period, this did not help in limiting the number of business closures.

International and local non-governmental organizations as well as the donor community have stepped in during the crisis to fill the gap in terms of technical trainings and financial support to small businesses and youth-led enterprises. However, these initiatives remained small in impact and could not compensate for the absence of government policies and legislations that support entrepreneurship and private sector development.

Little progress on policy and legislation reforms to support youth. While the Lebanese Government approved in 2012 a National Youth Policy developed by the Ministry of Youth and Sports, little action was taken or progress made regarding its implementation. This is mainly due to the lack of funding as well as the lack of political will from policymakers to approve laws that support youth political and economic participation.

The National Youth Policy identified legislative reforms that need to be undertaken to eliminate discrimination against youth and increase their economic and political participation. Among the legislation to be amended were the legal candidature and voting age in the elections law, and the legal age to form and take part in associations. Also, the policy established the youth forum that advocates for reforms and policies that support youth development.

In 2022, an operational framework was developed by UNICEF and UNFPA and presented to the government that prioritized interventions to address youth issues and support their development.

53 World Bank, 2021. Foundations for Building Forward Better. An Education Reform Path for Lebanon.

54 <https://www.icwa.org/lebanon-exodus/>

55 Arabnet, 2019.

56 World Bank, 2012.

57 The survey surveyed key support units in 2022 – including local VCs and funds, incubators and accelerators, co-working spaces, universities, banks, internet service providers, government entities, and relevant NGOs.

58 <https://hatchery.emory.edu/articles/university-incubators.html>



COPING AND ADAPTATION MEASURES BY YOUTH DURING CRISIS

Despite the grim economic outlook, Lebanese youth entrepreneurs are using various mitigation techniques to adapt to the situation and focus on opportunities rather than challenges. Those who were determined to stay in Lebanon diversified their services and product offerings to match new demand trends and engaged in new activities such as e-commerce to mitigate the downturn.

In order to understand existing challenges and potential growth opportunities, this study was supported by an online survey conducted in June 2022 with 70 Lebanese youth entrepreneurs, aged between 18 to 40 years. The survey's findings show that 29 percent stated that they had diversified their business and invested in new sectors, 27 percent focused on exporting or franchising overseas and 24 percent had moved to e-commerce to sustain their operations (Figure 3). The top three mitigation measures were related to business development rather than restructuring or divestment.

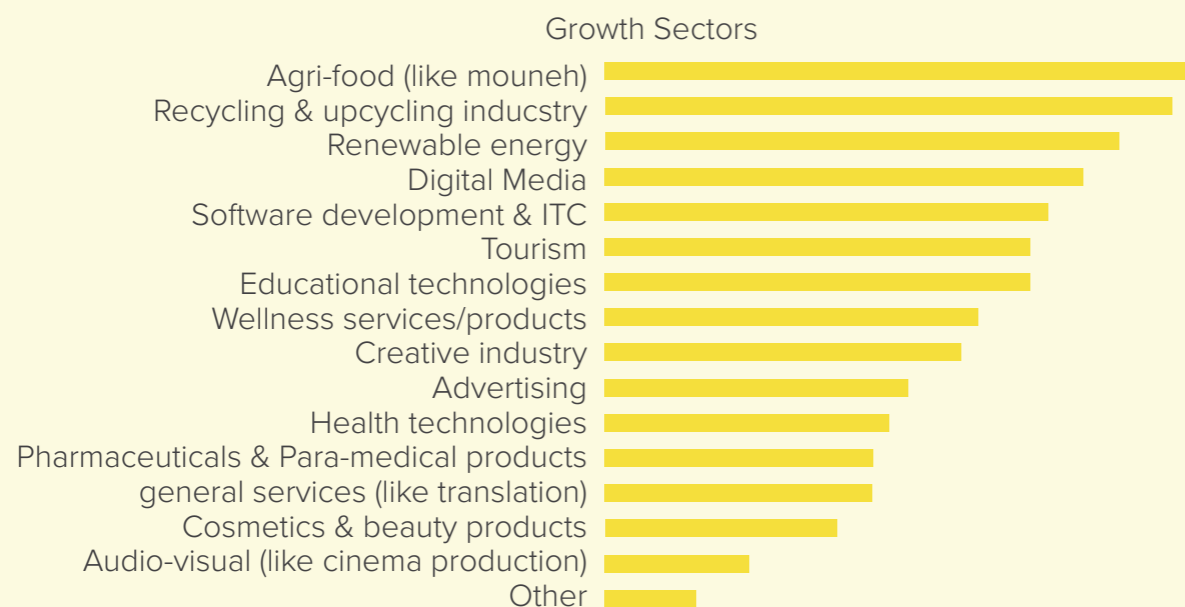
Figure 3: Coping Measures adopted by Surveyed Youth Entrepreneurs, 2022

			F	M	Beirut	Others	Advertizing & Creative	Agriculture & agri-food	ICT/IT	Other
PRODUCT DEVELOPMENT	Diversified business & Invested In new sectors	29%	8	12	6	14			3	11
MARKET DEVELOPMENT	Focused on selling or franchising overseas	27%	12	7	10	9	2	4	3	8
MARKET DEVELOPMENT	Developed an e-commerce platform	24%	9	8	6	11	4	4	2	6
DIVESTING	Discontinued product lines	19%	7	6	2	11	3	6	2	6
DIVESTING	Laid off employees	17%	5	7	5	7	4	1	4	4
MARKET DEVELOPMENT	Opened account or representative office abroad	14%	5	5	5	5	2	2	3	6
FUNDING	Raised funds from local & international investors	14%	5	5	4	6	0	1	2	7
RESTRUCTURING	Outsourced work to freelancers	14%	6	4	2	8	0	1	3	1
RESTRUCTURING	Shared or moved to less expensive office space	13%	5	4	3	6	3	3	2	5
RESTRUCTURING	Found cheaper suppliers/vendors	13%	5	4	4	5	1	1	3	2
	Other	17%	5	7	5	7	1	3	2	6
							2	2		

Source: UNDP and Arabnet 2022 Survey

In terms of sectors mentioned by youth as having growth potential, approximately half of the surveyed entrepreneurs agree that growth sectors are concentrated in two main industries: agri-food processing (47 percent) – such as *mouneh* - and the recycling and upcycling industry (46 percent). Given the infrastructural setbacks, such as electricity shortage and internet connectivity cuts, 41 percent of surveyed participants believed that renewable energy (like solar and wind energy) will witness sector growth. On point with the global trend of digital transformation, founders predict that digital media (39 percent) and software development and ICT services (36 percent) will serve as further opportunities for growth (Figure 4).

Figure 4: Growth Sectors Identified by Surveyed Youth Entrepreneurs



Source: UNDP and Arabnet 2022 Survey

Outsourcing is another trend that youth in Lebanon have engaged in to generate income and mitigate the impact of the crisis. Several initiatives were launched to support the promotion of Lebanese skills to foreign-based companies. *Jobs for Lebanon* is one example of a platform that was launched after the economic crisis to connect Lebanese talent to employment opportunities in companies abroad. The outsourcing initiative by the Lebanese company [Bridge, Outsource and Transform \(BOT\)](#) was also another example of civil society contributing to support youth in Lebanon finding employment opportunities through outsourcing.⁵⁹

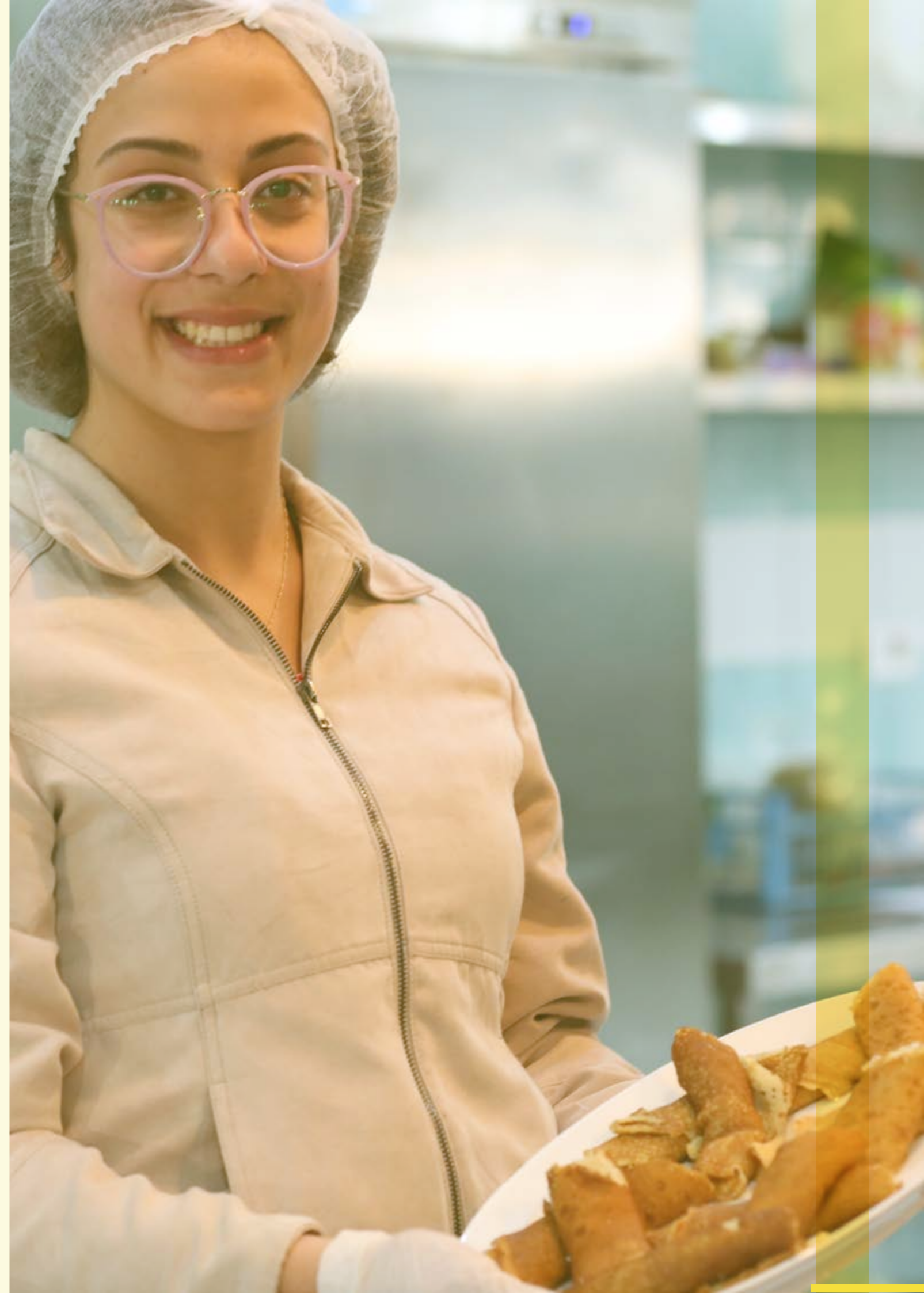
The last three years equally saw an increasing trend in investments in Social and Solidarity Enterprises (SSE)⁶⁰ given the mounting challenges facing Lebanon. For example, in 2022, *Fabric aid*, a Lebanese social enterprise that resells used clothes to vulnerable communities, closed its seed round at 1.6 million dollars, making it one of the largest seed rounds for a social enterprise in the region.⁶¹ Based on a survey by the Lebanese Social Enterprise Association (LSE) in 2021, social enterprises have been growing in numbers with 36 percent of surveyed firms having been established in 2019 compared to 19 percent in 2018 and only 14 percent before 2010. 37 percent of surveyed social enterprises were working in production and manufacturing (mostly food products). The sample of surveyed enterprises supported over 135,000 beneficiaries directly with 59 percent of them supporting vulnerable women while 46 percent are supporting long-term unemployed.⁶²

⁵⁹ <https://blogbaladi.com/the-lebanon-outsourcing-initiative-by-b-o-t/>

⁶⁰ Social and Solidarity Enterprises are defined by the ILO as enterprises that engage in economic, social, and environmental activities to serve the collective and/or general interest, which are based on the principles of voluntary cooperation and mutual aid, democratic and/or participatory governance, autonomy and independence, and the primacy of people and social purpose over capital in the distribution and use of surpluses and/or profits as well as assets.

⁶¹ <https://www.fabricaid.me/pressrelease220110/>

⁶² LSE. Social Entrepreneurship in Lebanon Impact Assessment 2019-2020, 2021

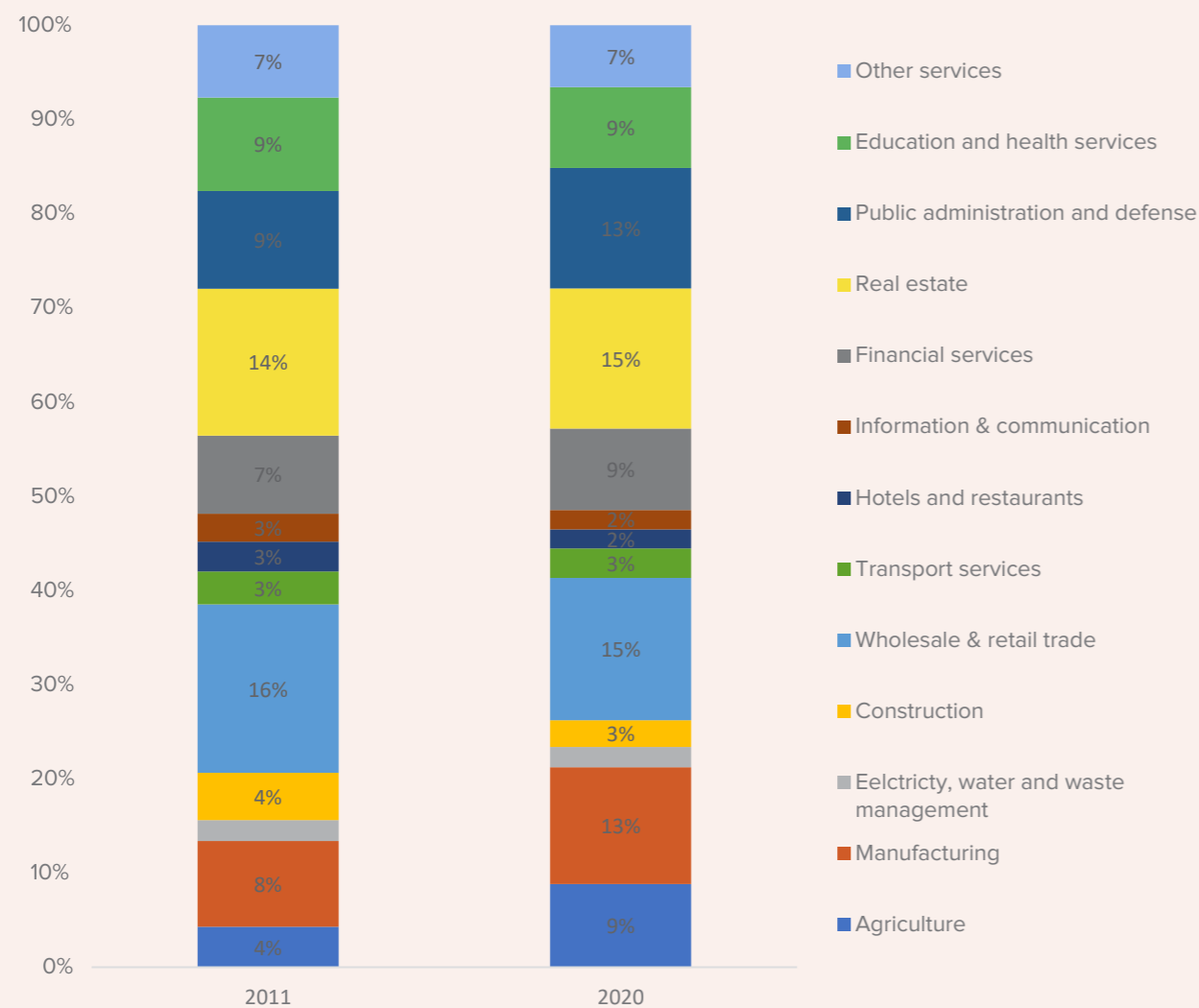


OPPORTUNITIES FOR YOUTH ENTREPRENEURSHIP AND EMPLOYMENT IN THE CURRENT CRISIS CONTEXT

While the economic crisis has had devastating effect on most economic sectors, some niche sectors have managed to grow and attract more capital and people.

The latest available data from the Central Administration of Statistics shows that the composition and structure of GDP slightly changed in 2020, with the agriculture sector witnessing the highest growth, increasing its share of GDP from 4 percent in 2011 to 9 percent in 2020 and the manufacturing sector also witnessing increased investments to substitute expensive imports with local products (See figure below).

Figure 5: Composition of GDP, 2011 and 2020



Source: Central Administration of Statistics, National Accounts 2020

The aim of this section is to understand which sectors have fared relatively better than others and proven their resilience against external shocks, and which ones could be potential generators of jobs for Lebanese youth either in entrepreneurship or employment.

An overview of the current performance of the main economic sectors during the crisis in terms of their GDP contribution, employment generation (in particular for youth) and export performance is provided, followed by an outlook on emerging opportunities that can shape the future performance of the sectors. A selection of priority sectors is then provided in the summary.

It is important to note that several sectors were dismissed from further analysis and assessment, either because their current contribution to youth employment is minimal (such as transport and administrative services, utilities, etc) or because the sector is not strategic per se (i.e., contributes to a limited share of GDP and not prioritized in any government strategy) and is undergoing restructuring (such as public administration and defense), or that the sector is of very low value-added and does not represent any decent employment prospects for youth. This includes the activities with individual households as employers – this sector has a very high youth employment, estimated at 17 percent, but it is mostly composed of foreign migrants who work as domestic helpers in private houses.



IMPACT OF THE CRISIS ON MAIN ECONOMIC SECTORS

AGRICULTURE

The agriculture sector was among the few sectors in the economy to witness considerable growth and contribute positively to GDP growth in 2020. It registered a striking 40 percent growth in 2020 from 2019 levels and increased its contribution to GDP from three percent in 2019 to nine percent in 2020⁶³. This is largely due to a better-than-expected export performance in parallel to a decline in performance of other economic sectors, such as tourism and wholesale and retail trade during the COVID-19 period.

Lebanon is characterized by a diverse agricultural output. Crop production represents 60 percent of agriculture output versus 40 percent for livestock production. Lebanon's major agriculture products by volume include fruits (citrus, apples, grapes, bananas) vegetables (potatoes and tomatoes) and roots and tubers⁶⁴. According to FAO, 9 of these crops are used in food processing.

In 2022, the top 3 agriculture products categories exported from Lebanon based on the Harmonized Classification (HS) codes of the Lebanese Customs are the following: Grapes (47 million US\$), apples and pears (47 million US\$) followed by Apricots, Cherries and peaches including nectarines (30.4 million US\$).

The top three destination countries for Lebanese agriculture products in 2022 were Egypt, United Arab Emirates and Iraq. Saudi Arabia used to be the largest export market for Lebanese agriculture products (22 percent of Lebanese agriculture products were imported by Saudi Arabia in 2019⁶⁵). However, an import ban was imposed in 2021⁶⁶ that pushed farmers to look at other markets to sell their products. Nevertheless, diversification remained limited given the myriad of technical and non-technical barriers imposed by major trade partners on Lebanese agriculture products especially from the EU.

Exports in the agriculture sector increased by an impressive rate of 168 percent between 2020 and 2021, mainly due to an unprecedented increase in exports of fresh grapes in 2021 that reached US\$230 million, representing more than 50 percent of all agriculture exports in 2021. Moreover, agriculture exports were concentrated in one single market: 52

percent of total agriculture exports were received by the United Arab Emirates alone.

Although the agriculture sector is a minor employer of youth, with ILO estimating that only 9,000 youth formally work in the sector, representing only 1.9 percent of total youth employment, the sector is a major employer of migrants, refugees and women - though usually informally and most often in indecent working conditions.⁶⁷

Despite the multiple crises and the growing challenges stemming from lack of access to financing and to deteriorating infrastructure, the sector managed to continue as a major source of livelihoods, especially for people in rural areas.

Donor financing in the last years has contributed to keeping agriculture volumes stable and compensate for the lack of public spending. For example, the World Bank and FAO provided vouchers for farmers to buy seeds and fertilizers through a loan agreement with the Lebanese Government in 2021.⁶⁸ Investments in the sector are expected to continue increasing in the short to medium-term, with increasing concerns for food security. The World Bank has approved another loan agreement to support wheat imports in Lebanon while the Lebanese Government has launched a wheat cultivation strategy that aims to boost production of wheat and other cereals. FAO will be providing, as part of the plan, wheat seeds to farmers and support them in technical assistance.⁶⁹

Although technology usage in the sector is still in its infancy and research and development remains very limited, the sector is still considered strategic to the Lebanese Government and has major potential to support economic recovery if the right policies are put in place to incentivize investment in the sector. The sector is considered strategic due to its potential to achieve food security, create employment, increase exports and support rural economic development. The McKinsey Lebanon Economic Vision developed in 2018 clearly puts the sector as top priority to support. This was restated again in the government economic plan developed by the Ministry of Economy and Trade in 2020⁷⁰.

EMERGING OPPORTUNITIES IN THE SECTOR

Most of the Lebanese agriculture products have gained comparative advantage in international markets in the last three years due to reduced local labour cost as well as reduced cost of local services and local import taxes on agriculture inputs such as seeds and equipment (in real dollar value). However, this advantage is diminishing as the Government starts to adopt a new exchange rate to collect customs and other taxes, and the economy becomes fully dollarized - including salaries. Therefore, the focus on high-value added crops remains the most viable option to export Lebanese agriculture products, as Lebanon cannot compete on economies of scale and volumes, but rather must compete on quality.

To understand which agriculture products have high potential for job creation and entrepreneurship, especially for youth, the Revealed Comparative Advantage (RCA)⁷¹ Indicator was calculated for 2021 for the top exported agriculture products. Most of these products listed below have been prioritized and selected by various international organizations for support (e.g. USAID, CBI) which further demonstrates their high added value potential.

Table 1: Revealed Comparative Advantage (RCA) for Top Exported Agriculture Products in 2021

	RCA (2021)
Apricots	390.03
Table Grapes	140.4
Apples	17.58
Oranges	15.6
Bananas	15.40
Cherries	6.07
Avocadoes	3.65
Onion	3.26
Potatoes	-23.34

Source: ITC Trade Map, Author Calculation

Integrating technology in the agriculture sector in Lebanon is growing, albeit at a modest rate. Several large farms are using precision agriculture and digital innovation to increase productivity and as a result have a better yield. Some vineyard owners are also using drone-based technologies to assess growing conditions and vine performance.⁷² An

agri-food innovation acceleration programme was developed by Berytech - the largest accelerator in Lebanon - to support farmers and entrepreneurs in the agriculture sector in innovation. In the two years since its inception, more than US\$700,000 of grants were disbursed to 16 newly established agritech startups.

Post-harvest facilities including sorting, packaging, cooling and processing are another investment opportunity that are attracting investors as the sector becomes more export-oriented and moves towards a more sophisticated supply chain that meets the demand of international markets. The biggest investment in this field was undertaken by CMA CGM - the global shipping company that in 2022 set up a modern packing, cooling and processing house in the Bekaa region in Taanayel area to support local farmers to export their products by meeting the highest international standards.⁷³

63 CAS, National Accounts, 2020

64 UN FAO, Agricultural Sector Review in Lebanon, 2021

65 Investment Development Authority of Lebanon, Sectors in Focus Agriculture, http://investinlebanon.gov.lb/en/sectors_in_focus/agriculture

66 <https://www.reuters.com/world/middle-east/saudi-import-ban-deals-another-blow-reeling-lebanese-industry-2021-11-05/>

67 ILO, 2021.

68 <https://lebanon.un.org/en/127314-world-bank-supports-small-scale-lebanese-farmers-reeling-under-pressure-lebanons-multiple>

69 <https://www.fao.org/lebanon/news/detail-events/ar/c/1616263/>

70 <http://www.leadersclub.com.lb/Newsletter/13/MinistryofEconomyEconomicPlan.pdf>

71 The Revealed Comparative Advantage Indicator is calculated by dividing the proportion of Lebanon's exports of the product studied by the proportion of world exports for the same product. If the index is above 1, it means Lebanon has a comparative advantage and if less than one, it means Lebanon has no comparative advantage or a comparative disadvantage in this product and should discontinue producing it.

72 FAO, Agriculture Sector Review in Lebanon, 2021

73 <https://www.cevalogistics.com/en/ceva-lebanon-packing-house>

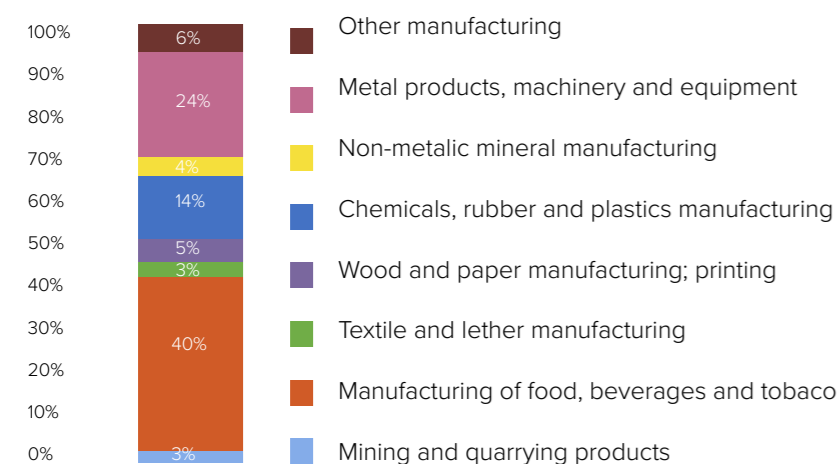
MANUFACTURING

The manufacturing sector was hard hit during the economic crisis. Increasing production costs, forced closure due to lockdowns and deteriorating infrastructure have all contributed to the further decline of the sector output. According to CAS, the manufacturing sector contributed to the negative GDP growth in 2020 by a negative 3.9 percentage points.

The sector performance was already deteriorating since 2014 with the energy-intensive industries such as metal products and machinery witnessing the worst performance. In 2020, its output decreased by 69 percent compared to the year before – the highest decrease among all manufacturing sub-sectors.⁷⁴

The main manufacturing sub-sectors are (1) the agri-food processing sector including food and beverages production representing 40 percent of the total manufacturing output in 2020; followed by (2) metal products, machinery and equipment and (3) chemicals, rubber and plastic manufacturing, representing 24 percent and 14 percent of the manufacturing output respectively (Figure below).

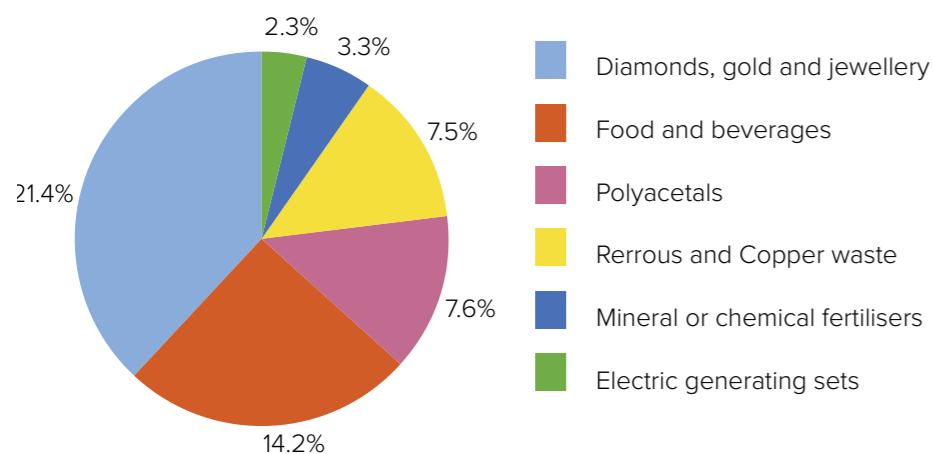
Figure 6: The main manufacturing sub-sectors in Lebanon



Source: Central Administration of Statistics, National Accounts 2020

Top industrial non-food exported products in 2022 include diamonds and gold and jewelry valued at 748 million US\$ and representing 21 percent of total exports from Lebanon. This is followed by Polyacetals which is a raw material used in the plastic industry (267 million US\$ or 7.6 percent) and Ferrous and copper waste with a value of 262 million US\$ and contributing to 7.5 percent of total exports.

Figure 7: Top 5 Lebanese exports in 2022



Source: Lebanese Customs, 2022

The sector is amongst the largest employer of youth after wholesale and retail trade and public administration. The sector accounts for 8.4 percent of total youth workforce. However, the sector has a high rate of informality, and the amount of youth workers in the sector is therefore expected to be much higher than official data suggests.⁷⁵

The competitiveness of the manufacturing sector in general is continuing to diminish as the country struggles to rehabilitate its infrastructure and enact policies that enable enterprises to do business in Lebanon. Lack of industrial zones, unreliable access to cost-effective and clean electricity, issues in water provision and lack of financing facilities are among the top barriers for the growth of the sector. Moreover, production is concentrated in low-complexity products with little diversification, ranking Lebanon 48 out of 127 economies on the Economic Complexity Index.⁷⁶ However, some sub-sectors are showing more resilience and potential for growth than others especially sectors that do not require sophisticated infrastructure and rely more on innovation and talent.

Despite all the challenges, Lebanon's productive capacities are considered relatively high. Based on the UNCTAD Productive Capacity Index, Lebanon ranked first in the Eastern and South Mediterranean region in 2020, with an index of 33.7 - ahead of Tunisia which came second. The index measures a country's productive capacities by looking at the productive resources, entrepreneurial capabilities and production linkages.

The Ministry of Industry has developed a vision for the sector that aims to increase the industrial sector contribution to GDP to 18 percent and increase industrial exports by five percent annually, and create up to 35,000 jobs within five years of the implementation of the plan.⁷⁷ However, the implementation of the plan is contingent on obtaining the necessary financing and enacting the policies to support industrial development and growth.

AGRI-FOOD PROCESSING

The agri-food processing sector had a slower decline in its performance compared to other sub-sectors in the manufacturing sector due to its ability to export and expand into overseas markets. In fact, the agri-food processing is the top exporting sector in the economy with US\$ 546 million in exports in 2021 – a three percent increase from 2020.⁷⁸ **The agri-food sub-sector is the largest employer in the manufacturing sector** with

⁷⁵ ILO, 2021, Assessing Informality and Vulnerability among Disadvantaged Groups in Lebanon: A survey of Lebanese, and Syrian and Palestinian Refugees.

⁷⁶ <https://oec.world/en/profile/country/lbn>

⁷⁷ <http://www.industry.gov.lb/getattachment/PublicationsAndStudies/Industry-Strategy-Implementation-Plan-2020-2025-v4-7-EN.pdf?lang=en-US>

⁷⁸ Lebanese Customs data



around 20,000 employees and accounting for 25 percent of the industrial workforce,⁷⁹ and has the largest contribution to industrial GDP. In 2021 the sub-sector output contributed to 30 percent of the total manufacturing sector GDP, and is characterized by the dominance of micro and small companies that employ less than 10 people (95 percent of total establishments). However, the sector also suffers from widespread informality in business establishments: only less than 15 percent of total agri-food establishments are formally registered with the Ministry of Industry.⁸⁰

The agri-food sector is also one of the largest employers for youth and women especially in cooperatives. Based on ILO data, 27 percent of all cooperatives in Lebanon - around 1,200 cooperatives in 2017 - are specialized in agri-food processing. One hundred and twenty-five of them are registered as women cooperatives that produce Lebanese traditional food products.⁸¹

CULTURAL AND CREATIVE INDUSTRIES

The cultural and creative industries which include jewelry design, fashion design, printing and publishing are a major sub-sector of the manufacturing sector. The publishing sector is the largest among all cultural and creative industries, generating half of total revenues of the sector in 2016. It is also the largest employer in the sector, employing 39 percent of the creative workforce and representing more than 50 percent of the total creative and cultural exports of Lebanon.⁸² The media sector is another promising sub-industry that represented 3.75 percent of Lebanon's GDP in 2014⁸³. The sector includes mainly television broadcasting, advertising services, audio-visual production, publishing, music production and digital media. There are an estimated 450 companies working in these sectors and employing around 3.2 percent of the labour force.⁸⁴

EMERGING OPPORTUNITIES IN THE SECTOR

The Ministry of Industry plan for 2025⁸⁵ identifies a list of sub-sectors with high potential for growth and productive support. The main criteria used to select the sub-sectors include their ability to exhibit high growth in recent years and high competitive

advantage. Moreover, the sectors selected need to support food, health, economic and industrial self-security, and need to create enough employment for the working population.

Two types of industries are targeted in the plan of the Ministry: traditional industrial sub-sectors and value chains, as well as knowledge-based and technology-driven sub-industries.

Under the traditional sub-sectors, the following industries were prioritized for support:

- Food industries
- Light industries and assembly (electric bicycles, minibuses assembly, cars assembly, etc.)
- Construction material
- Fashion, textile, clothing, leather, and furniture design
- Jewelry design
- Pharmaceuticals, medicine, nutritional supplements, and medical equipment
- Petro-chemical and oil derivatives industries (given the planned oil and gas exploration activities)

For the knowledge-based industries and services, the following sub-sectors were identified with high growth potential:

- Digital, knowledge and technology industries (fintech, CreativeTech, EdTech, and HealthTech)
- Creative and visual effects industries
- Outsourcing services, financial, creative and consulting services

To validate this selection, we have computed the Revealed Comparative Advantage (RCA) for the top exported industrial products of 2021 (Table 2).

Table 2: Top 10 Exported Industrial Products in 2021 and their Revealed Comparative Advantage and Product Complexity Index

Exported products	RCA (2021)	Product Complexity Index
Gold (including gold plated with platinum) unwrought	6.2	-2.26
Diamonds, whether or not worked,	20.2	-0.99
Other furniture and parts thereof.	5.4	0.3
Ferrous waste and scrap;	16.9	-0.54
Articles of jewellery and parts thereof,	5.9	-0.43
Copper waste and scrap.	18.9	-0.92
Mineral or chemical fertilisers, phosphatic.	13.1	-0.89
Electric generating sets and rotary converters.	15.3	0.38
Unwrought lead.	43.2	-1.73
Diphosphorus pentaoxide; phosphoric acid; polyphos	53.8	-0.13

Source: ITC trade Map, Author's Calculation based on the ITC Trade Map

The analysis in the table above shows that Lebanon indeed has a positive revealed comparative advantage in all its top 10 exported products, however the highest advantage is within low complexity products like unwrought lead, used in construction material such as plumping pipes and roofing, etc. and diphosphorus pentaoxide which is a component used in fertilizers and cleaning detergents. The lowest advantage is surprisingly in furniture manufacturing (RCA of 5.4), though this product is one the most complex and knowledge intense of all top exported products by Lebanon, along with electric generating sets.

Medicaments exports although not in the top 10 of exported products had an estimated value of US\$31 million in 2021. This product also has a positive RCA with a value of 19.25. The sector is expected to continue growing in the future as the government prioritizes the local drug manufacturing sector in order to ensure drug security for Lebanon's population.

NEW BUSINESS MODELS

A new type of business model - that of the social enterprise - is emerging following the economic crisis, especially in the agriculture and agri-food sectors focused on social and solidarity entrepreneurship and clustering. Many new firms are being established as social enterprises supporting rural women and disadvantaged youth in employment opportunities through food production and manufacturing. Based on recent data, there were already at least 200 enterprises



79 https://api.icps-lebanon.org/content/uploads/files/153~1491312807-policy_brief_23.pdf

80 UNIDO, 2019.

81 ILO, 2018.

82 IOF, 2020.

83 Culture and Creative Industries in Lebanon, Creact 4 MED, Nov 2021

84 Ibid

85 <http://www.industry.gov.lb/getattachment/PublicationsAndStudies/percentD9%percent5Dpercent%86percentD8%PERCENT4%Dpercent%88percentD8%PERCENT1%Dpercent%A7percentD8%PERCENTA-%PERCENT9%8percent%D8percentAF%Dpercent%B1percentD8%PERCENT7%Dpercent%B3percentD8%PERCENT7%Dpercent%AApercent%D9percent85%PERCENT8%A%PERCENT%D8percentAA%PERCENT9%8percent%D9percent1%Dpercent%A9percentIndpercentstrpercent-Stpercentatepercenty-Ipercentlepercentpercentiopercent-Pipercentn-Final.pdf?lang=ar-LB>

in Lebanon in 2017 considered social enterprises.⁸⁶ This number is expected to have increased following the economic crisis and increasing challenges, as more entrepreneurs were interested in addressing challenges facing their communities and society. The Syrian refugee crisis also helped in increasing interest in social entrepreneurship.⁸⁷

Based on a recent study by the Lebanese Social Enterprises association, it was revealed that the majority of social enterprises were recently established: around 36 percent of interviewed firms launched in 2019 and 19 percent in 2018 while only 14 percent were founded before 2010.⁸⁸ The study also found that 53 percent of the social enterprises surveyed employed people who were in long-term unemployment while 41 percent hired vulnerable women and 27 percent hired vulnerable youth. The top three sectors in which the surveyed social enterprises operate are production and manufacturing (37 percent) followed by creative industries (27 percent) and recycling (24 percent).

The crisis has helped in creating economic opportunities in the agri-food processing as domestic production became a cheaper alternative to imports. In 2020, the majority of new industrial licenses issued by the Ministry of Industry (57 percent) were in agri-food and beverages production.

WHOLESALE AND RETAIL TRADE

The wholesale and retail trade sector has traditionally been the main economic sector contributing to Lebanon's GDP. The sector is characterized by low productivity and low-added value, with most of the employed in the sector working informally and with low-paying jobs.

The wholesale and retail trade sector was on average contributing around 13 percent of Lebanon's GDP between 2004 and 2019 – the second highest contribution after the real estate sector whose contribution averaged at 14 percent for the same period. The wholesale and retail trade sector was heavily affected by lockdowns and forced closures, but also by the economic crisis and currency depreciation that limited the ability of businesses to import. The sector encountered a 54 percent decline in its economic activity in 2020 based on official government statistics. This contributed to a -5.9 percentage points in the GDP growth rate.⁸⁹

Despite the decline in the sector's growth, the wholesale and retail sector remains the second largest sector in the Lebanese economy, generating 14 percent of total GDP in 2020, second only to the real estate sector (which accounted for 15 percent of total GDP in 2020).

The sector is the second largest employer for youth, with 17 percent of youth employment concentrated in this sector alone.⁹⁰

EMERGING OPPORTUNITIES IN THE SECTOR

Retail trade in Lebanon is moving digital, with more businesses engaged in online selling on e-commerce platforms (whether via their own website or on an online marketplace) especially after the outbreak of COVID-19 and lockdown measures. Based on the UNCTAD B2C e-commerce index of 2020, Lebanon ranked 64th, improving by five positions from its 2019 rank⁹¹. However, e-commerce is being hampered by informal capital controls that limited the ability of individuals to pay online with their bank accounts. Indeed, according to the financial inclusion database from the World Bank, 14 percent of internet users were using the internet to buy something online in 2017 although this rate decreased to seven percent in 2021. This indicates that most e-commerce transactions are happening through cash on delivery rather than through online payment gateways.

TRAVEL AND TOURISM

The tourism sector along with financial services were previously considered the backbone of the Lebanese economy. However, both sectors were heavily affected by the economic crisis and the pandemic. While the tourism sector has been picking up and trying to bounce back since 2020, the financial services sector does not show any sign of immediate recovery, given the need for a restructuring plan to overhaul the sector.

Due to COVID-19 measures, the tourism sector witnessed a decline of 76 percent in 2020 in its output negatively affecting national GDP and bringing it down by 2.3 percentage points⁹². However, the sector was already suffering from sub-optimal growth since the start of the Syrian crisis in 2011.

Tourism rebounded in 2021 with tourist arrivals growing by 132 percent while hotel occupancy rates reached on average 42 percent in 2021 compared to 19 percent in 2020.⁹³ However, the sector is still not fully recovered and was not able to reach the level of its peak performance in 2010 where international arrivals reached 2.1 million tourists. International arrivals reached 890 thousand in 2021 compared to an extremely low base of 414 thousand in 2020 and down from 1.9 million in 2019.⁹⁴

The sector is a significant employer for youth with youth employment in the sector representing 6.4 percent of total youth employment – higher than total employment in the sector compared to total employment (4.4 percent) and indicating the high potential of youth employment in tourism.⁹⁵

Employment in the tourism sector is estimated to be much higher when taking into consideration other sectors directly linked to the travel and tourism industry, such as transportation, retail trade, culture, sports and recreational activities. Based on World Travel and Tourism Council (WTTC) data, the travel and tourism sector contributed 18 percent to total employment in 2019 and 2021 while it contributed 2.5 percent to total GDP in 2021 (including direct and indirect impact of the industry on the economy) compared to 19 percent contribution to GDP in 2019.

The high dependence of the economy on tourism receipts has made the Lebanese economy highly susceptible to external political and security shocks, leading to volatile economic growth that deterred domestic and foreign investors. While diversification of revenues for the Lebanese Government is important, the sector remains a strategic asset and is considered one of the main pillars for economic recovery.

Tourism was identified as the sector with highest economic potential for Lebanon in the 2018 McKinsey study, with the main vision being to transform Lebanon into an up-and-coming 'Mediterranean Riviera' destination. Moreover, the Government economic plan of 2020 reemphasized the role of the tourism sector as a major source of value creation and national comparative advantage, along with the agriculture and manufacturing sectors.

EMERGING OPPORTUNITIES IN THE SECTOR

Rural tourism, eco-tourism and agro-tourism comprise a growing niche in the tourism sector that has flourished following the pandemic and continues to exhibit strong growth potential. This is in part because type of tourists coming to Lebanon keeps changing,

86 <https://berlytech.org/how-social-entrepreneurship-might-save-lebanon/>

87 <https://dash.harvard.edu/handle/1/40621393>

88 LSE, 2021.

89 CAS, National Accounts, 2020

90 ILO Stats, 2019

91 <https://economics.creditlibanais.com/Article/210287#en>

92 Central Administration of Statistics, National Accounts 2020

93 World Bank, Lebanon Economic Monitor, Fall 2022

94 WTO, 2022.

95 ILO, 2019.



and the types of experiences they are looking for are changing too. Tourists are now considered more environmentally conscious, and are increasingly booking farm stays, farm-to-table experiences and eco-friendly holidays. The Lebanese tourism sector is adapting to profit from this trend.

Amid the crisis, entrepreneurs in the sector are rethinking how to reshape the industry and how to make it more sustainable. Various social enterprises in the agro-tourism sector have been set-up to provide opportunities for vulnerable communities. UNICEF has recently partnered with Souk El Tayeb – the leading farmer’s market in Lebanon and social enterprise that promotes food and hospitality in Lebanon – to provide vocational and technical skills to youth to develop their own social enterprises in the agro-tourism sector.⁹⁶ Several other associations are building tracks, investing in infrastructure and supporting communities to stimulate eco-tourism and nature experiences. One of the main champions is the *Lebanon Mountain Trail* which is an association that established a long-distance hiking trail in Lebanon and works on supporting the communities around this trail.

CONSTRUCTION

The construction sector was another sector severely hit by the economic crisis. Most public infrastructure projects were put to a halt and housing loans were no longer available through the commercial banks given the systematic banking crisis.

On one hand, construction permits and cement deliveries declined by 27 percent and 45 percent respectively during the first 10 months of 2020. On the other hand, the real estate sector grew due to rising sales as depositors tried to utilize their savings in the banks which they can’t access to purchase property. This has led real estate registration fees to increase by 105 percent in 2020.⁹⁷

The construction sector output decreased by 50 percent in 2020 on the back of a 28 percent fall in 2019 while the real estate sector output remained stable. The real estate sector was the largest contributor to the GDP growth in 2020 with a 15 percent share, while construction sector contributed three percent. However, both sectors only employed nine percent of the total labour force and eight percent of the youth workforce.

The construction sector in particular is a major employer of the low-skilled labour force, usually provided by foreign labour and migrants (as construction is one of the few sectors that the Lebanese government has allowed foreigners and migrants to be employed in along with agriculture). The economic growth in recent years driven by high growth in construction and real estate sectors did not translate into enough employment gains for the Lebanese. Moreover, the construction sector has one of the highest rates of informality with more than 90 percent of workers informally employed⁹⁸ with short-term and precarious contracts, increasing their vulnerability to exploitation by employers and exposing them to major health and safety risks.

The real estate sector was since the 1990’s supported by the Lebanese Government and the Central Bank through stimulus programmes that provided subsidized loans and affordable mortgages to households to purchase houses mainly⁹⁹. However, the sector was characterized by high level of speculation which inflated real estate prices and hence made it unaffordable for the majority of the Lebanese population.¹⁰⁰ Following the crisis all the housing loans programmes were stopped until very recently when Banque de L’Habitat (Lebanon’s semi-public housing agency) announced in 2022 that it will again resume offering subsidized loans for housing and purchase of solar panels to support low-income youth in purchasing their first property or renovating their existing dwellings.¹⁰¹

EMERGING OPPORTUNITIES IN THE SECTOR

The construction sector is expected to rebound once an economic reform plan is put in place. Before the crisis, the construction sector was forecast to experience high growth potential with the implementation of mega infrastructure projects under a capital investment programme that was announced during the CEDRE conference in Paris. The plan estimated an investment need of US\$20.4 billion for 250 strategic projects that could generate around 178 million labour days.¹⁰² While the plan was put on halt as the Lebanese Government failed to commit to the needed reforms, there is still demand and high need in the immediate short to medium term to invest in infrastructure especially at the municipality levels to be able to provide basic public services for the communities and vulnerable populations. This includes energy-efficiency projects as well wastewater and solid waste treatment plants.

Re-initiating public infrastructure work could create much needed short-term employment opportunities, especially for the vulnerable youth, in the sector.

Another opportunity in the immediate term is the cash-for-work programmes that are being developed by international organizations to support in the rehabilitation of small-scale productive infrastructure such as irrigation canals and agriculture roads, while providing short-term employment opportunities for vulnerable youth. The largest cash-for-work programme being implemented in Lebanon as part of the Lebanon Crisis Response Plan is the ILO project Employment Intensive Investment Project (EIIP) which is funded by the German Development Bank KfW.¹⁰³ Until April 2023, the project created more than 765 thousand workdays and more than 10,000 jobs of which 22 percent were created for women. More than 20 infrastructure projects were completed in 55 municipalities¹⁰⁴.

A longer-term opportunity is in the reconstruction sector once political stability is restored in neighboring Syria and Iraq. Various studies (World Bank, 2016 and McKinsey, 2018) have indicated the potential benefits that the Lebanese economy and firms could have as a result of peace in the region. Lebanese firms are well-positioned to play a key role in the reconstruction efforts estimated at around US\$300 billion in infrastructure deals.

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) AND PROFESSIONAL BUSINESS SERVICES

The Information and Communication Technology (ICT) and business services sectors were not shielded from the impact of the economic crisis either. Those high-added value sectors that generate employment for the skilled labour force saw their output decrease as a result of major divestments and loss of clients. Many large ICT and business services companies relocated part of their operations overseas given the deteriorating infrastructure, especially internet connectivity and electricity that became increasingly unreliable. Moreover, the sectors were losing talent as skilled people decide to move abroad seeking better quality of life.

The ICT sector witnessed a drop of 29 percent in its output in 2020 while professional services, which include outsourcing and consultancy, dropped by 14 percent. Losses in each of those sectors contributed

to a 0.5 percent drop in the national GDP.

Although ICT and professional services represent only two percent and four percent respectively of total GDP, they are a major employer for the skilled labour force and major generator of services exports. In 2020, business and professional services exports were estimated at US\$978 million – second only after personal travel exports estimated at US\$2.3 billion.¹⁰⁵

Youth employment in the ICT sector represented two percent of total youth employment in 2019. This percentage is slightly higher than total employment (i.e. youth and adults) in the ICT sector, as a share of the total employment in all sectors (1.6 percent) demonstrating a comparative advantage for youth in this sector. Youth employment in the professional services sector was estimated at 3.7 percent¹⁰⁶ in line with total employment levels at the whole workforce level.

Based on Central Bank data, there were around 800 technology startups in Lebanon in 2017, providing around 6,000 jobs and injecting around US\$1 billion into the local economy.¹⁰⁷ However, this is expected to have decreased significantly since the economic crisis and the closure or exodus of many companies from Lebanon.¹⁰⁸ This has greatly hindered the productivity of the sector, not only driving away existing companies but deterring new companies from opening.

Despite the currency depreciation and reduction in operating costs such as labour, taxes and office rent (at least in the first two years of the start of the economic crisis), this did not translate into increased competitiveness and output level for the ICT and business services sector.

The flight of startups and technology companies from Lebanon, looking for more reliable infrastructure and more stable and predictable business environment, took a toll on the sector output. Bank closures and informal capital controls have limited the ability of companies to receive and send transfers, and to carry out online payments to purchase software, licenses and other services from third parties.

In a recent study conducted by Arabnet and the Konrad Adenauer Foundation in 2022 to assess the impact of the crises on the innovation ecosystem, all aspects of a startup’s functioning – operational, financial, and legal – were found to have been hampered by significant challenges.

96 <https://www.unicef.org/lebanon/press-releases/souk-el-tayeb-partners-unicef-launch-ahlan-new-approach-create-opportunities-youth>

97 World Bank, Lebanon Economic Monitor, Spring 2021.

98 ILO, 2022.

99 Triangle, A New Financial Deal for Lebanon, 2018

100 UNDP, 2015.

101 <https://www.thinktriangle.net/smoke-and-mirrors-housing-loan/>

102 <https://www.executive-magazine.com/cover-story/whats-in-the-capital-investment-plan>

103 https://www.ilo.org/global/topics/employment-intensive-investment/countries/WCMS_543588/lang-en/index.htm

104 <https://www.eiplebanon.com/results>

105 OEC, 2020.

106 ILO, 2019.

107 <https://www.wamda.com/2017/02/Arabnet-beirut-digital-economy>

108 Based on an Arabnet report (2021) on the impact of the crisis on the innovation ecosystem in Lebanon, between 2017 and 2021, yearly total investments in startups in Lebanon shrunk by more than 70 percent, decreasing from 54 million US\$ to 16 million US\$.

The Lebanese infrastructure – electricity and connectivity – has been severely degraded. In the same study, more than 9 out of 10 surveyed startups mentioned that infrastructure challenges had affected their productivity, while 37 percent had missed targets as a result. Furthermore, the study also found that younger startups (i.e. established in the last five years) in particular were more likely to lack the wherewithal needed to overcome these challenges.

The study also revealed that access to capital has been severely affected and is considered as the most detrimental challenge to business, further exacerbated by a significant decline in investor appetite, particularly from foreign investors. Between 2017 and 2021, yearly total investments in Lebanon-based startups dropped by more than 70 percent -- from US\$54 million to US\$16 million respectively. The number of deals dropped from 56 to 12, a drop from 2nd place among 18 MENA countries to 14th place.

From a policy perspective, the technology and knowledge economy sectors in general have been at the forefront of policy makers' priorities. The sector was prioritized in all recent government plans including the 2018 McKinsey Economic Vision Plan, the 2020 Economic plan, and was recently selected by the Ministry of Economy and Trade and UN ESCWA as a priority sector that will support rebooting the economy.¹⁰⁹ The recent enactment of the digital transformation strategy¹¹⁰ by the Lebanese Government also indicates the important role that technology will play in the future of the country.

EMERGING OPPORTUNITIES IN THE SECTOR

Despite all the challenges, the ICT and technology sector in general have high potential for creating high-added value jobs with high pay and decent working conditions for skilled youth from all backgrounds, and helping to reverse the brain drain.

Since the start of the economic crisis in 2019, various new outsourcing and recruitment platforms were established by diaspora organizations to support local professionals and consultants to find outsourcing opportunities in foreign companies. *Jobs for Lebanon* was one such platform that connects freelancers and business professionals from Lebanon to employment outsourcing abroad. *Outerpond* was another platform that aimed also

to connect service providers from Lebanon to outsourcing opportunities abroad.¹¹¹ An awareness campaign called *Lebanon Outsourcing Option* to promote Lebanon as an outsourcing hub was launched with various stakeholders from the private sector in April 2022. Those initiatives indicate the potential of high added value business services in driving economic recovery and providing employment opportunities for the local population.

To address the loss of skills and know-how due to the brain drain, various organizations have started working on reskilling and upskilling initiatives specifically targeting digital skills for youth. In this context, the World Bank launched in 2021 the Skilling Up Lebanon project, with the Beirut Digital District (BDD), which is a self-financed, private sector-led digital skills program. The World Bank already worked on several other pilots with BDD that aim to equip youth in the workforce with digital skills to increase their employment prospects.¹¹² The project so far reached more than 1600 beneficiaries in its labor market programs against an initial set target of 700. 930 women participated in those programs against an initial target of 350 women¹¹³.

Digitally enabled services are another emerging opportunity in the technology sector. Capitalizing on Lebanon's comparative advantage in the services sector especially health and education, several startups have developed apps and technology-enabled solutions to reinvent their industry. For example, Basma is a digital dentistry startup that received US\$3 million in seed funding and uses digitally equipped clinics to produce certified invisible teeth aligners to aid moderate cases of teeth crowding and spacing.¹¹⁴ The delivery app Toters raised US\$18 million in 2022 from International Finance Corporation (IFC), March Holding, and B&Y Ventures.¹¹⁵ The company employs around 3,500 drivers from marginalized youth communities and has around 250 full time permanent jobs in its offices in Lebanon serving around 4,000 small and medium enterprises in Lebanon. Those recent capital raising success stories by local startups demonstrate the sector's ability to still attract investment despite all the uncertainty.

FINANCIAL SERVICES

The financial services sector, or more specifically the banking sector, along with real estate were the backbone of Lebanon's post-war economy. The banking sector played a major role in the financing of the reconstruction needs and the public debt of the country after the end of the civil war.

However, the increased exposure of banks to sovereign debt had a detrimental effect on the sector's sustainability which led to its collapse.

On average, the financial services sector represented eight percent of total GDP between 2004 and 2020¹¹⁶ and accounted for 2.4 percent of the total workforce and 2.3 percent of the total youth workforce. By end of 2013, the banking sector alone employed around 23,000 employees of which 58 percent were below 40 years old (8.8 percent under 25 years of age and 49.2 percent between 25 and 40 years).¹¹⁷ The majority of employment in this sector is for skilled labour.

However, after the crisis, there were massive layoffs as well as resignations from employees looking for opportunities either in different countries or in other sectors. It is expected that around 4,500 employees from the sector have been laid off since the beginning of the crisis.¹¹⁸

EMERGING OPPORTUNITIES IN THE SECTOR

The financial services sector is heavily concentrated in the commercial banking sector with very little diversification and a very small non-banking financial services subsector (such as Microfinance institutions, capital markets, leasing, factoring etc). Before the crisis, commercial banks in Lebanon represented 97 percent of the financial services assets and accounted for 375 percent of GDP – abnormally large for a middle-income country.¹¹⁹ However, following the crisis, banks have not been

playing a major role in financing the economy and most financial transactions have been happening through cash and via money transfer operators.

Micro finance institutions although heavily impacted by the economic crisis (as most of their funds were stuck in the commercial banking sector and the number of their non-performing loans increased a lot) remain a source of micro credits for small institutions and individuals. The sector received a major boost from the World Bank as part of its US\$25 million B5 fund established after the Beirut blast. The fund provided grants to cover the operational expenses of five major micro finance institutions in Lebanon so that they could continue serving formal and informal small businesses.¹²⁰

Trade financing which was usually a core service of the banking sector is now being provided by other modalities such as peer to peer lending and by foreign suppliers themselves. For industrialists, a new platform called Cedar Oxygen Fund was established in 2020 to support them import raw material and finance their exports.

Money transfer providers boomed during the crisis as they replaced the commercial banks by offering many services beyond just transferring remittances from abroad.¹²¹ Money transfer companies now pay salaries for employees in companies or pay suppliers in the local market and disburse cash for refugees and vulnerable people through the humanitarian assistance of the UN. Many of those providers got approved for a digital wallet license from the Central Bank that allows clients of those money transfer companies to store cash in their wallet and use them later for their purchases. Digital payment gateways have equally experienced increased demand especially after the COVID-19 and the boom in e-commerce.¹²²

109 <https://lebanon.un.org/en/201878-ministry-economy-and-trade-escwa-kick-start-project-short-medium-term-economic-revival>
110 <https://www.nna-leb.gov.lb/en/percentD8%PERCENT3%Dpercent%8ApercentD8%PERCENT7%Dpercent%B3percentD8%PERCENT9/5percent028percent/mikati-during-launch-of-national-strategy-for-digi>
111 <https://outerpond.com/index>
112 <https://blogs.worldbank.org/arabvoices/skilling-lebanon-opportunity-lower-unemployment-rates-lebanon-amid-major-financial>
113 <https://projects.worldbank.org/en/projects-operations/project-detail/P176444>
114 <https://thestartupscene.me/INVESTMENTS/Lebanese-Digital-Dentistry-Startup-Basma-Scores-3M-Seed-Funding>
115 https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/tech-start-ups-funding-boost

116 CAS, National Accounts, 2020.
117 Mercy Corps, 2018.
118 <https://www.arabnews.com/node/1964196/business-economy>
119 World Bank, 2016.
120 <https://www.worldbank.org/en/news/press-release/2021/08/05/us-25-million-grant-to-build-beirut-businesses-back-and-better>
121 <https://www.arabnews.com/node/2155856/middle-east>
122 <https://www.gzeromedia.com/economic-empowerment/what-were-watching-digital-payment-lifelines-for-cash-strapped-lebanon-digital-solutions-for-overcoming-covid-fintech-the-war-in-ukraine>

PRIORITIZED SECTORS

The above analysis has shown that many economic sectors hold employment opportunities for youth. However, in order to unlock those opportunities, various policy reforms need to be enacted and investment projects need to be developed and completed to make those opportunities feasible. Policy reforms on the demand side and supply side of labour are needed to make those opportunities materialize.

In Table 3 below, the assessment of each sector in terms of economic impact, level of skills and employment inclusivity is summarized.

Table 3: Summary of Sectors Economic and Employment Indicators

	Contribution to GDP in 2020	Percentage of existing skills/ workers with tertiary education	Percentage of Employment for Vulnerable Lebanese	Percentage of Employment for Refugees and Migrants	Percentage of Employment for Women
Agriculture	9 percent	0 percent	5.80 percent	14 percent	1.30 percent
Manufacturing	13 percent	3 percent	9.70 percent	12.5 percent	9.50 percent
Construction	3 percent	1 percent	4.50 percent	23.90 percent	0.40 percent
Travel and Tourism*	5 percent	10 percent	11.30 percent	10.80 percent	4.80 percent
Wholesale and Retail Trade	15 percent	10 percent	34.40 percent	22.50 percent	15.20 percent
ICT and business services**	6 percent	11 percent	10.1 percent	3.80 percent	9.8 percent
Financial Services	9 percent	11 percent	1.20 percent	0 percent	4.80 percent
<i>Data Source</i>	CAS, 2020	World Bank, 2012	ILO, 2021	ILO, 2021	CAS, 2022

Source: Author's analysis

*Including hotel and restaurants, transport services, arts, entertainment and recreation

**Including information and communication technology, professional, scientific and technical activities and other services activities.

To be able to compare and rank the sectors by priority, a standardization of the above values was conducted. Table 4 below shows that four sectors stand out and score relatively higher than others and should be prioritized in the short to medium term to support job creation for all youth in Lebanon: (1) wholesale and retail trade by focusing on digital trade, (2) manufacturing sector with focus on agri-food production and other high added value sub-sectors such as creative industries and knowledge-intense industries, (3) ICT and business services sector with focus on outsourcing and technology enabled services for their potential ability to create high value-added and high paying jobs for youth, (4) the travel and tourism sector with a specific focus on sustainable community-based eco-tourism. This analysis does not mean that the construction, agriculture and financial services sectors should not be considered in the future as potential levers for economic growth. However, given the limited availability of financial resources and the urgency to create jobs in the immediate and short-term, it is valuable to support the prioritized sectors through legislation and policy reforms while in parallel working on a long-term vision for the development of the other sectors so that they create the needed value-added and jobs for all youth in Lebanon.

Table 4: Prioritization of Sectors based on Standardized Values

	Contribution to GDP in 2020	Level of existing skills/ workers with tertiary education	Employment for Vulnerable Lebanese	Employment for Refugees and Migrants	Employment for Women	Total Score	Prioritization in the short and medium-term
Agriculture	0.49	0.00	0.14	0.59	0.06	1.27	Medium
Manufacturing	0.78	0.27	0.26	0.52	0.61	2.44	High
Construction	0.00	0.07	0.10	1.00	0.00	1.17	Low
Travel and Tourism	0.19	0.90	0.30	0.45	0.30	2.15	High
Wholesale and Retail Trade	1.00	0.90	1.00	0.94	1.00	4.85	High
ICT and business services	0.29	1.00	0.27	0.16	0.64	2.35	High
Financial Services	0.47	1.00	0.00	0.00	0.30	1.77	Medium

Source: Author's analysis

Table 5 below summarizes the main identified opportunities in each main economic sector based on the above sector analysis.

Table 5: Identified Opportunities in the Main Economic Sectors

	Opportunities in the sector
Agriculture	High added value crops; cold storage and packing houses; Agritech
Manufacturing	Agri-food; Cultural and creative industries; knowledge- based industries
Construction	Public and municipal infrastructure projects. Reconstruction in neighboring war-torn countries.
Travel and Tourism	Cash for work Eco tourism and gastro-tourism
Wholesale and Retail Trade	E-commerce
ICT and Business Services	Outsourcing Edutech, health tech
Financial Services	Digital financial services Micro finance Digital wallets

Source: Author's analysis



FINAL REMARKS

The youth of Lebanon have been deprived for a very long time from equitable access to resources and employment opportunities. Lebanon's rentier economic model has proved to be unsustainable, benefiting only very few and failing to create enough jobs for the youth entering the labour market. Between 1997 and 2009, national GDP grew by an average yearly rate of 3.7 percent but employment grew by only 1.1 percent. Between 2004 and 2007, it was estimated that only 3,400 jobs were created annually while the economy should be creating six times this rate in the next 10 years to be able to absorb all the new entrants to the job market, expected to reach 23,000 annually.¹²³

In conclusion, this technical paper focuses on the challenges faced by young entrepreneurs and the barriers to youth employment amid the protracted economic and financial crisis that started in 2019. Through a participatory approach, combining survey insights from youth entrepreneurs and roundtable consultations with key players in the entrepreneurship ecosystem, the paper identifies economic opportunities with high growth potential in which the youth can actively engage to increase their economic participation.

Specifically, the wholesale and retail trade sector, manufacturing (including agri-food processing and cultural and creative industries), ICT and business professional services, and travel and tourism sectors are identified as priority sectors to support youth job creation. These have shown better resilience to the crisis and offer feasible economic opportunities for young entrepreneurs.

A series of policy reforms need to be undertaken from the demand and supply side of labour to be able to support decent and inclusive job creation opportunities for youth.

Further coordination needs also to be achieved between the various stakeholders involved in youth employment and entrepreneurship policies and programmes. Currently, there is no single public entity that is leading on this agenda and pushing for reforms to unlock opportunities for all the youth of Lebanon. Responsibilities are fragmented, lacking execution of strategies and enforcement of new laws and decrees. A champion entity needs to be designated. This entity will then be assigned with formulating a clear youth employment and entrepreneurship strategy that will take ownership of monitoring the development and implementation of

the youth-led strategy, and will work on establishing a youth entrepreneurship task force that coordinates on all fronts.

The significance of the paper's findings lies in their direct application to the Youth Leadership Incubation Programme (YLP INC), which seeks to empower youth by enabling them to establish their own businesses and refine their business models.

To bolster support for youth in implementing their innovative concepts, UNDP Lebanon launched the YLP Incubation in 2019. In 2022, the YLP INC announced its second cohort supported by the Big Heart Foundation and UNDP RBAS. The second cohort was implemented by several UNDP Lebanon Youth Serving Organizations including Injaz Lebanon, Riyada for Social Innovation, and DOT Lebanon and focused on the economic sectors identified in the technical paper.

By targeting SMEs within the sectors identified in this technical paper, YLP INC can capitalize on the sectors' growth potential and foster a conducive environment for youth entrepreneurship.

YLP INC has used this paper's insights to design tailored support mechanisms for young entrepreneurs venturing into the identified priority sectors. By aligning the programme's efforts with the economic opportunities outlined in the paper, the impact on fostering sustainable youth employment and entrepreneurship can be maximized. More specifically, the programme has used the paper's findings to develop and implement an intensive training program focused on boosting the export readiness of youth-led SMEs in the ICT and Creative Industry sectors, as part of its efforts to support in the long-term economic recovery of the country. The programme has leveraged the Lebanon Export Academy already developed by UNDP and UNIDO as part of the Productive Sector Development Program (PSDP) to develop new export courses that youth-led SMEs can benefit from in the future. The program has gone a step further by supplementing the academic training with a direct access to market program, where SMEs will leverage their training to enter international markets. The objective is to roll out this programme to the other sectors which can support in the economic recovery of the country and foster youth employment.

¹²³ World Bank, 2012.

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ANNEX: THE SURVEY

The Methodology

This research assesses the challenges and opportunities facing the youth entrepreneur ecosystem.

The survey targets Lebanon-based startups in agriculture and agri-food, creative industries (e.g. design), ICT/IT, hospitality and tourism, manufacturing (e.g. production of furniture), advertising, and media and communication, among other sectors. Using a referral-sampling approach, the online survey sampled startup founders, co-founders, or partners. The startups were contacted through Arabnet's startup database, Arabnet's network of investors and community partners, and through push marketing via social media posts. Survey data was collected from May 2022 through June 2022. The sample size was 70 entrepreneurs, and confidence level was 90 percent - 9.8 percent margin of error.

Profile of Sample Size

Fifty-six percent of respondents were aged between 25 and 34 years old and 26 percent between 35 and 40 years old, while the rest were between 18 and 24 years old. Seventy-one percent of respondents had fewer than 10 employees while 29 percent had more and 83 percent are currently operating in Lebanon, with 10 percent partially relocating their operations overseas. Thirty-five percent of survey respondents are located in Beirut while the rest are spread across the other governorates. Twenty-four percent of survey respondents were from the agri-food sector, 14 percent in creative industries, 13 percent in ICT, 6 percent in hospitality and tourism, 6 percent in manufacturing, 4 percent in marketing and communication and 33 percent are in other sectors.

The survey centered around five central themes: Overall Obstacles Facing Youth Entrepreneurs, Ease of Access to Talent, Ease of Access to Consumers and Entry into New Markets, Ease of Access to Finance, Opportunities and Solutions to the Mitigate the Current Situation.

Findings

Overall Obstacles for Lebanese Entrepreneurs

Survey findings indicate that enabling policies and regulations are the least concern for startup-ups and MSME founders in Lebanon reflecting a sense of complete hopelessness and limited expectations from the Government. . In fact, access to finance remains the number one concern with more than 60 percent of entrepreneurs citing it as the top obstacle for their business sustainability. This is followed by the absence of proper and reliable infrastructure such as electricity.

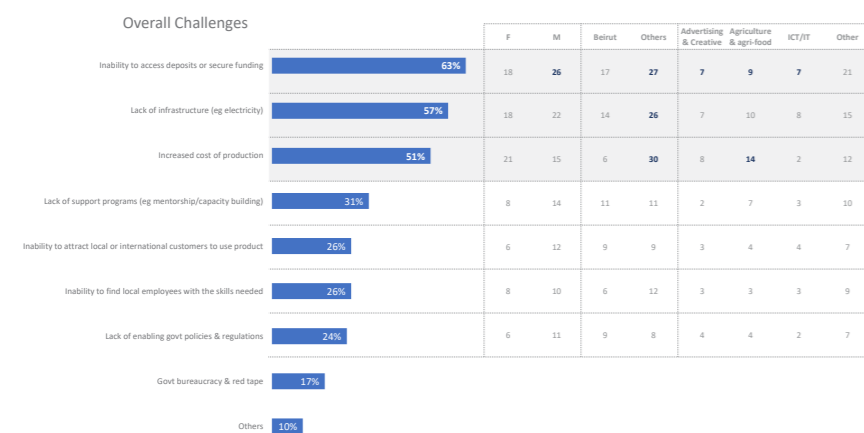


Figure A.1: Overall challenges affecting the Operations of Businesses led by Lebanese Young Entrepreneurs

Source: UNDP and Arabnet Survey, 2022

Access to Markets

Access to markets is mainly hindered by a lack of budget for marketing and sales as well as attending international fairs and exhibitions as most of the small businesses can't access their deposits in Lebanese banks. Moreover, In the past, the Government used to subsidize participation in fairs through the Investment Development Authority of Lebanon and various other ministries. However, this is no longer possible since 2019 after the start of the economic and financial collapse.



Figure A.2: Obstacles to access new customers by Lebanese young Entrepreneurs

Source: UNDP and Arabnet Survey, 2022

Access to Talent

Half of all survey participants agree that the main challenge faced in finding job candidates with the right skills was that talented job candidates require payment in fresh dollars, or demand very high salaries. However, what is interesting is that a quarter of respondents expressed that they do not face any challenges in finding job candidates with the right skills.

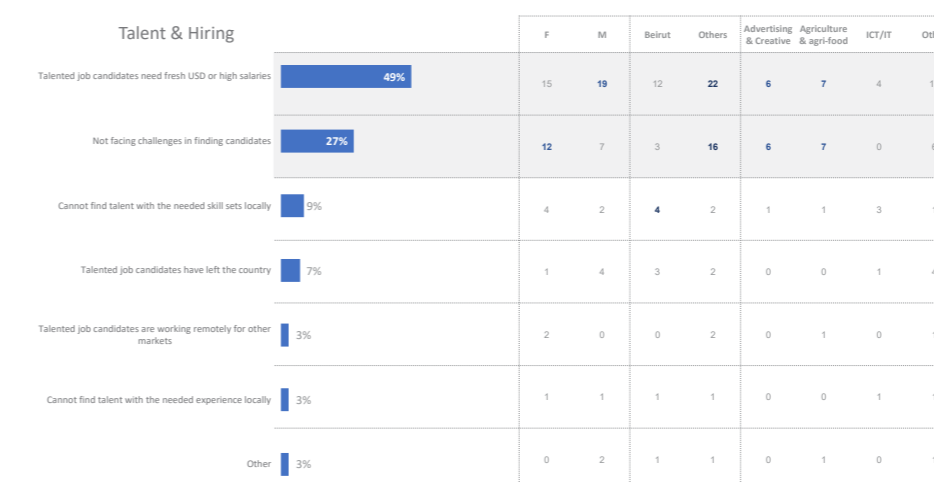
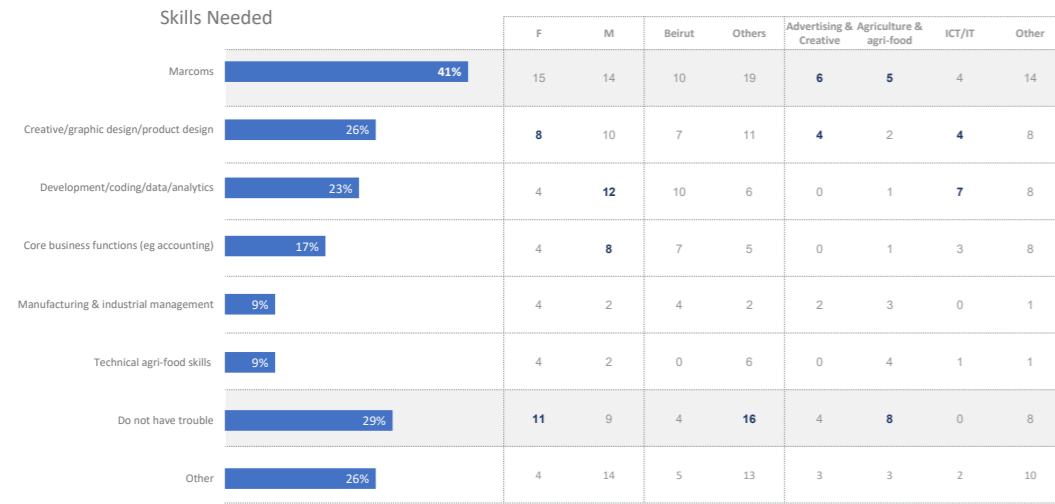


Figure A.3: Main Challenges to find the Right Talent by Lebanese Young Entrepreneurs

Source: UNDP and Arabnet Survey, 2022

Regarding the skills needed, 41 percent of surveyed companies expressed that they are finding it difficult to find talent that has marketing and communications skills. While 26 percent said that there is a lack of skills in creative, graphic design, and product design.

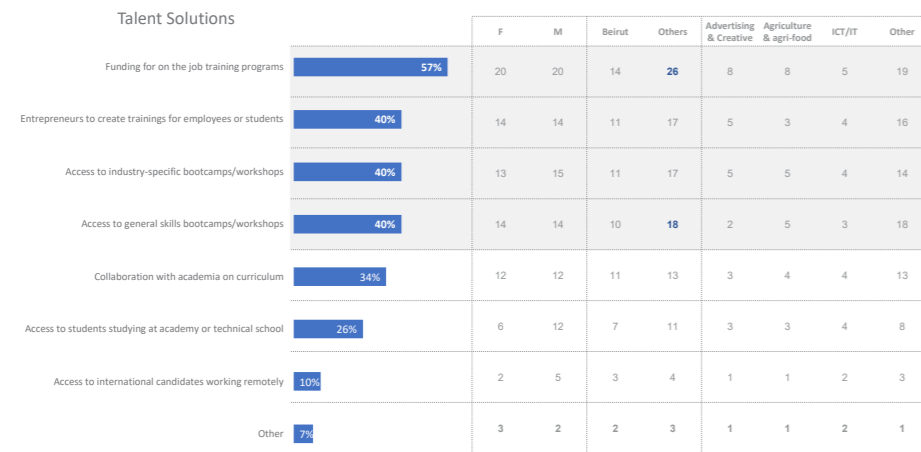
Figure A.4: Skills needed by Lebanese Young Entrepreneurs



Source: UNDP and Arabnet Survey, 2022

When questioned about suggested solutions to solving the issue of finding the right skills, it is interesting to note that collaborating with schools and universities on developing the curriculum was ranked quite low as a recommendation. Over half the entrepreneurs overwhelmingly agree that funding for on-the-job training programmes is the right way to go. The research shows that creating in-house programmes or participating in capacity-building workshops is what founders need.

Figure A.5: Potential Solutions to the Talent Issue in the Lebanese Market

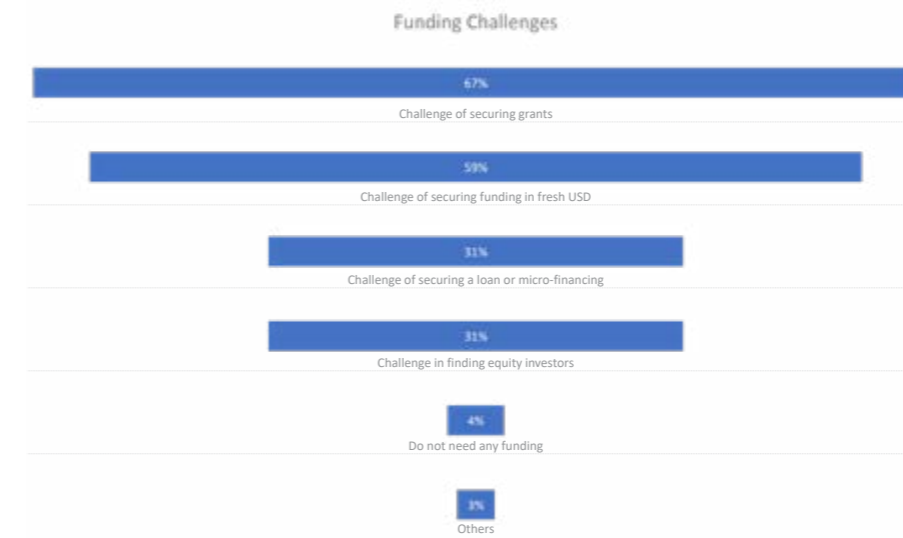


Source: UNDP and Arabnet Survey, 2022

Access to Finance

The top two challenges faced by the youth entrepreneurs are the challenges of securing grants or equity-free funding (67 percent) and securing funding in fresh dollars (59 percent).

Figure A.6: Challenges in securing Funding by Lebanese Young Entrepreneurs



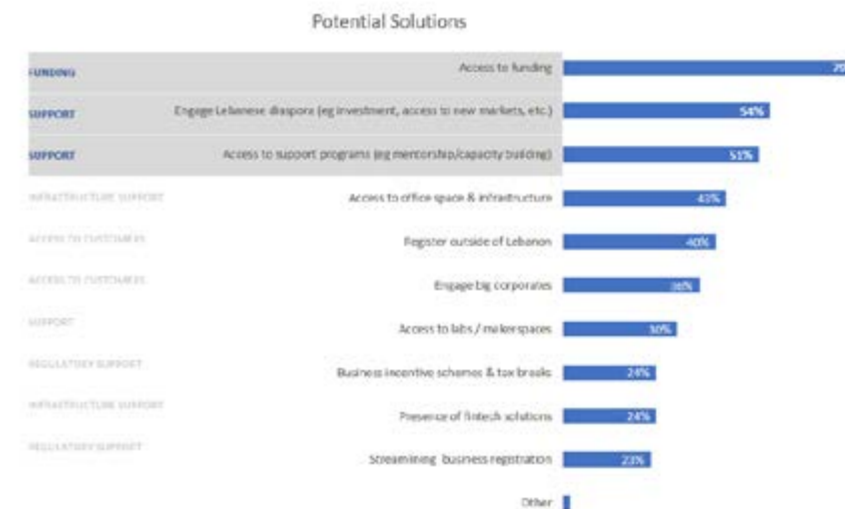
Source: UNDP and Arabnet Survey, 2022

Potential Solutions Suggested by Entrepreneurs to Ease Doing Business in Lebanon

Mirroring previous findings, most founders agree that access to funding, whether through loans, investment, or grants, would be their ideal solution (80 percent). Over half of the respondents feel that engaging the Lebanese diaspora (investment or access to new markets) and accessing programmes focused on mentorship / upskilling would help them pull through the crisis.

Additionally, approximately a quarter of respondents did suggest that small business incentive schemes along with tax breaks and streamlining the process of business registration could offer potential solutions to overcoming their operational challenges.

Figure A.7: Potential Solutions offered by Surveyed Lebanese Young Entrepreneurs



Source: UNDP and Arabnet Survey, 2022



UNDP is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries, we help nations to build integrated, lasting solutions for people and planet.