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Employment and Labour Market Analysis (ELMA)

Lebanon

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Content

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List of abbreviations

ALI	Association of Lebanese Industrialists
BDL	Banque Du Liban
BT	Technical Baccalaureate
CAS	Central Administration of Statistics
CGTL	The General Confederation of Lebanese Workers
DGVTE	Directorate General for Vocational Training and Education
DS	Dual System
ELMA	Employment and Labor Market Analysis
ETF	European Training Foundation
FARO	Fonds d'Amorçage de Réalisation et d'Orientation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GNP	Gross National Product
IDAL	Investment Development Authority of Lebanon
ICT	Information and Communication Technology
ILO	International Labour Organization
ISCE	International Standard Classification of Education
ISF	Internal Security Forces
LBP	Lebanese Pound
LT	Licence Technique

MEHE	Ministry of Education and Higher Education
MENA	Middle East and North Africa
MoET	Ministry of Economy and Trade
MSME	Micro, Small and Medium Enterprises
NEET	Neither in employment, nor in education or training
NEO	National Employment Office
NGO	Non-government Organization
NSSF	National Social Security Fund
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio at Risk
PPP	Public Private Partnership
PRS	Palestine Refugees from Syria
P4P	Partnership for Prospects
RCDL	Rassemblement de Dirigeants et Chefs d'Entreprises Libanais
SCC	The Syndicate Coordination Committee
STEP	Subsidized Temporary Employment Programme
TS	Technicien Supérieur
TVET	Technical and vocational education and training
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
USAID	United States Agency for International Development
VAT	Value added tax
VC	Venture capital
WEF	World Economic Forum

1. Economic, demographic and political framework conditions for employment generation

Lebanon is a country where economic, demographic and political framework conditions interact very strongly with each other. Despite the fairly small size of the country, these conditions are highly complex, and it is difficult to separate one from another. A few repetitions between subchapters therefore cannot be avoided. Also, aspects mentioned in one subchapter may also be of relevance for another subchapter.

1.1. Geographical situation

Situated in the Middle East, Lebanon is a small country on the eastern shore of the Mediterranean Sea. It has a narrow coastal plain along the Mediterranean Sea, which is 225 kilometers long and is bordered by Syria on the North and East and by Israel on the South. The second smallest country after the State of Palestine in continental Asia, Lebanon's total area is only 10,452 square kilometers. The country is slightly larger than Cyprus, similar in geographical size to Jamaica, and not quite as "large" as Qatar and Montenegro. Its general location along a major thoroughfare between Europe, Asia, and Africa has subjected the region to different empires and cultures over several millennia.

Beirut, the capital city, is located in the center and overlooks the Mediterranean Sea. It is also the key central node in the historical development of the country. The independence of Lebanon is a culmination of several hundred years of economic development of the area of Mount Lebanon, the geographical area Beirut is associated with. Mount Lebanon thrived on its own success of exporting raw silk and at the same time benefited very much from being the conduit of grain and other goods from Syria and reciprocally the funnel by which imported goods (mainly cotton fabrics and manufactures) could be channeled from the Mediterranean to the Syrian hinterland. During the later period of the Ottoman empire, the economic (and increasingly political and cultural) strength of Beirut led to the creation of a Wilayet of Beirut which stretched along the coastline all the way from Lattakia (now Syria) in the North to Nablus in the South (now Palestine) and thus represented a geographic gateway between the "Mediterranean" and the "Arab" worlds.

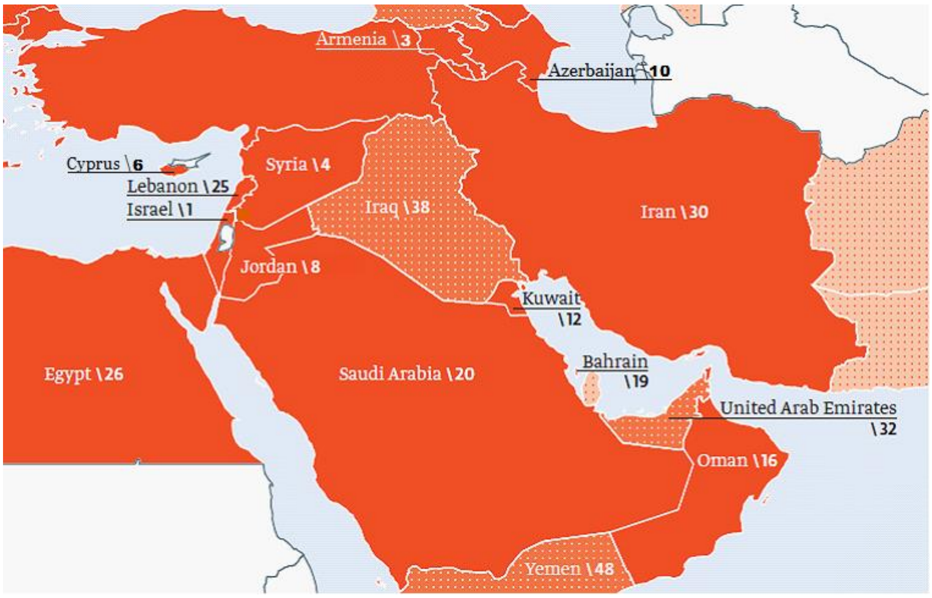
The non-coastal areas of the country, such as the Beqaa valley or Hirmil, were not really considered to be a part of "Lebanon" until "greater Lebanon", which represents the country in its current shape, was created under the mandate of the French and their partition of Syria in 1920 (into Lebanon, an Alawite State, the Sanjak of Alexandretta, and the State of Aleppo in the North; and the State of Damacus and Jabal Druze to the East). Greater Lebanon therefore did not represent any local geographic concept, but was conceived along French considerations how to best control the Arab provinces of the former Ottoman empire (as agreed with Britain in the Sykes-Picot Accords of 1916). From the viewpoint of economic geography, the partition, despite the expansion to the Orontes valley up to the Anti-Lebanon mountains, cut off Lebanon from its economic hinterland and thereby reinforced a pattern of economic activity that favored banking and trade over agriculture and industry.[1] Its primary function as a regional hub for trade and finance also creates incentives for running illicit trades.

[1] The function as a regional hub for trade possibly is still reflected in trade openness indicators where external trade figures are compared with GDP, fluctuating between 95 and 120% over the last decade, though this ratio had fallen to 50% for a period of 5-7 years at the turn of the century. Jordan and Tunisia have similar ratios, though slightly lower than Lebanon, reflecting a commonality of being dependent on external trade, including on petroleum imports.

The border to Syria effectively only came to existence after the independence of Lebanon as a nation state in 1943. Many Lebanese therefore have relatives in Syria and many Syrians have relatives in Lebanon. Beirut still functions as the primary access to the Mediterranean Sea for Damascus. Agricultural seasonal and construction labor from Syria has a significant presence in Lebanon's economy all along, i.e. also following independence. The rather mountainous border to Syria also has always been somewhat porous, and has been made ample use of for contraband.

The border to Israel, on the other hand, is closed since the Arab-Israeli war. The war also had caused some 100,000 Palestinians to flee to Lebanon and not being able to return ever since.[2]

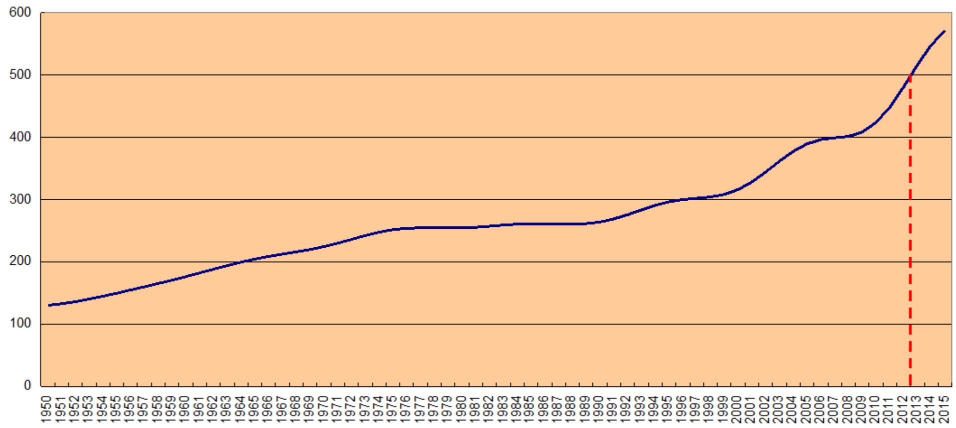
From the regional geographic perspective, Lebanon lies at the center of a highly volatile and therefore highly militarized region, on the border of historical Palestine and in the midst of a region that is highly sensitive to confessional and sectarian issues. This places it among the most highly militarized countries of the world, albeit at a lower level than Israel, Armenia, Syria, Cyprus, Jordan and Azerbaijan that top the BICC militarization index. This geography has direct implications both for the degree of uncertainty under which businesses can operate and levels of resources (public and private expenditures, military personnel) that are tied down for the purpose of defense even during relatively peaceful periods.



G.01 Militarization Ranking of Lebanon and countries in its vicinity.
Index range: 1-152. Map extract, slightly supplemented.
Source: BICC 2014: 7, map 1.

Lebanon has a rather high population density (higher than Rwanda and the Netherlands and similar to South Korea) with an average of around 449 inhabitants per square km of land in 2011, at the outset of the Syria crisis, that has increased to 572 since then. Around nine-tenths of the population reside in urban areas. The vast majority of the population is concentrated in the coastal cities of Beirut, Sidon, and Tyre, while other parts of the country, e.g. the Beqaa Valley, remain sparsely populated.

[2] This also goes for their descendants (second, third ... generations) who consequently can neither "return" and are therefore also registered as Palestine refugees (cf. UNWRA 2009) in Lebanon and other host countries.



G.02 Population density of Lebanon 1950-2015.
(Dotted red line at the 500 inhabitants per sq km data point only for better orientation.)
Source: Own calculations on the basis off UN DESA population statistics.

This high population density (combined with lack of awareness and adjustment of behaviors) creates significant environmental and infrastructural pressures. The forested areas of the country have significantly diminished (to ca. 14% of the total), and regeneration of forests is an urgent ecological priority. Another area where environmental stress is becoming visible is the disposal of solid wastes because the country is running out of areas for landfill sites.[3] The absence of adequate public transport systems (despite the high rate of urbanization), moreover, exacerbates the demand on road infrastructure and the green house gas intensity of the economy.

While many discussion partners in Lebanon emphasize the economic opportunities that developing the petroleum extraction sector on the basis of recent finds in adjacent waters could generate, it needs to be emphasized that leaving petroleum in the ground (on a worldwide scale) may increasingly be required to preempt self-reinforcing climate change to occur during coming decades and thus should not be considered a valuable geological asset anymore.

1.2. Patterns of economic development in the past

Lebanon is considered an upper middle-income country and traditionally considered one of the most active Arab economies in the Mediterranean region with a GDP per capita exceeding USD 11,000 in 2015 (estimated).[4] This economic level has been attained during decades of uncertainty, including war and civil war.

The economic success has been accompanied by strong income inequalities, e.g. a Gini coefficient of 84.8,[5] and significant regional disparities. The poverty incidence remained broadly unchanged for the past 25 years (extreme poverty hovering around between 7.5 to 10%; ca. 28% of the population is poor). Poverty levels are highest in the North and South, and in small, dense pockets in the suburbs of large towns. Monetary inequality is exacerbated by non-monetary dimensions of poverty.[6] When the inequality adjusted income index[7] is taken as a measure for comparison, Lebanon scores lower than Turkey, which is at

[3] At the time of the field research for this ELMA, the Syrian government was actually offering to assist Lebanon with solid waste disposal.

[4] Global Finance: https://www.gfmag.com/global-data/country-data/lebanon-gdp-country-report [21.10.2015].

[5] Credit Suisse 2015: 102.

[6] World Bank 2015: 41, 62, drawing on arlier studies by UNDP, CAS, MoSA. = World Bank 2015x: 97498.

[7] Cf. HDR 2015.

a similar per capita income level, and lower than Egypt, Tunisia, and Jordan which are at significantly lower per capita income levels.

Between 2007-2010, economic growth varied between 8 and 10% annually, however, fell to around 1.5% by 2014.[8] It needs to be emphasized, however, that the economic downward trend commenced before the "Arab Spring" and the Syria crisis began. This fact is fully acknowledged by representatives of Lebanese enterprises who do not blame falling of growth rates on the Syria crisis.

In 2014, the gross domestic product (GDP) reached USD 45 billion. The service and banking sectors accounted for more than 75% of the country's gross national product (GNP), the industrial sector for 20% and agriculture for the remaining 5% in 2015.[9]

Lebanon's economic development, albeit relatively short in terms of an independent nation state, is influenced by a fairly complex political economy that has slowly emerged on the basis of the Emirate of Mount Lebanon, longstanding Ottoman rule, and Anglo-French colonial partition of the Middle East. This political economy, though evolving, still determines the patterns and course of present-day economic development. In Lebanon, it is therefore rather difficult to disentangle political, administrative, and economic processes.

The country's economy has been significantly shaped by two specific non-economic features that distinguish it from other countries in the region, (a) the relative larger size of its Christian population and (b) the strong exposure to Western influences, for which seeds, arguably, were already sown during the times of the Crusades where links between the Franks and Maronites were established due to their common allegiance to the Pope in Rome. Their combined effect results in recurrent narratives that characterize the country

- as sectarian (based on the institutionalization of sects in its political system),
- as a liberal economy (based on the service sector that is oriented toward the exterior),
- and as a country placed in a difficult regional setting.[10]

The sectarian element is based on and cemented by power sharing foreseen under the Lebanese constitution. This element has been utilized in order to preserve a monopolistic or oligopolistic concentration of economic power in the hands of three dozen (mainly Christian) families since the country's independence. These families had accumulated their original wealth as a result of the previous silk economy of Mount Lebanon and import trade privileges under the Ottomans, income obtained from allied troops during World War II, and repatriated emigrant earnings. They consciously practiced endogamy in order to preserve or increase family wealth.

While endogamy and using of relationship networks (*wasta*[11]) certainly is not unusual in the region, it is capable of raising tensions with other sects in a willfully sectarian context, especially if accompanied by strong inequalities. After all, a liberal economy usually reinforces the concentration of assets, and this concentration process is reinforced where corruption levels are high. Corruption perceptions for Lebanon are far higher than for other

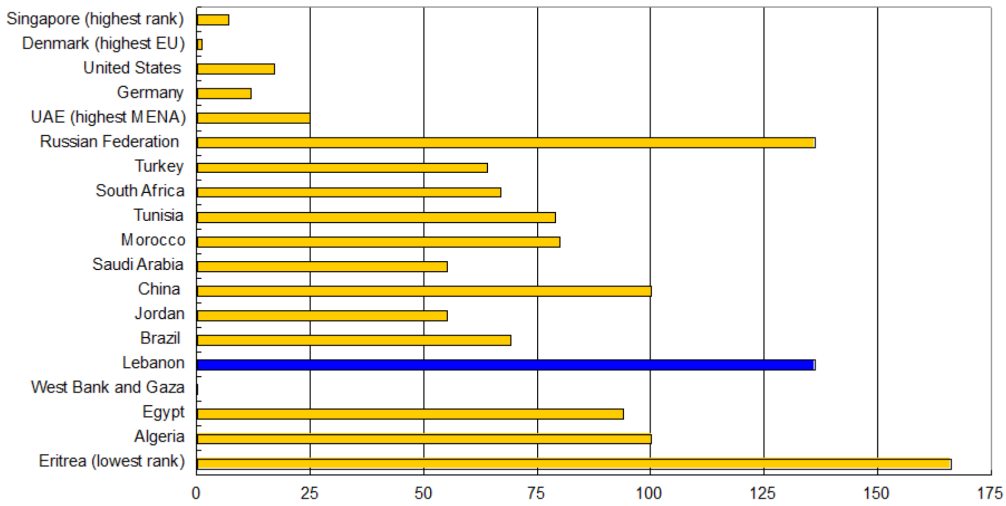
[8] BankMed Market & Economic Research: Lebanon economic outlook, 2014.

[9] World Bank: http://www.worldbank.org/en/news/press-release/2015/04/13/remittances-growth-to-slow-sharply-in-2015-as-europe-and-russia-stay-weak-pick-up-expected-next-year.

[10] Cf. Traboulsi 2012 who offers an excellent introduction and overview.

[11] Traditional term, not necessarily carrying a negative connotation, but suggesting that go-betweens are being made use of and that persons (of the same family, tribe, social group) look after each other, in a context of reciprocity. It is a mechanism that certainly is conducive to or reinforces nepotism. But it may also provide a degree of certainty in a relatively uncertain or even unpredictable environment.

countries in the region where *wasta* is also an important element of economic and political life.



G.03 Corruption Perception Index Rank: Lebanon compared.
Range of ranks: 1-175, from very clean to highly corrupt.
Sorting of countries in the table according to Doing Business index ranking 2015.
Source: CPI 2014: 4-5.

The Lebanese civil war strengthened and/ or added a further layer of forceful stakeholders, sectarian militias, to the political economy which substantially led to an erosion of the central state that had lost its monopoly on violence. Militias, on their side, transformed sectarian "autonomy" into sectarian "control" (including sectarian cleansing), substantially reconfigured economic space, and are known for developing predatory behavior (e.g. collection of protection money) that is difficult to rein in. (From systemic perspective, the civil war itself may have at least partially been a mechanism of redistributing resources in an otherwise ossified sectarian economic structure.)

The difficult regional setting has its own impact on the economy, among which

- spillovers of the Palestine conflict
  - refugees from Palestine[12]
  - Israeli military interventions
  - interference by diverse foreign actors interested in influencing the shape and outcome of the Palestine conflict
  - the closed land border to the South

- the long-standing complex and often conflictive relationship with Syria, including

[12] As elsewhere in the region, Palestinian refugees were not allowed to return to their places of origin following the ceasefire and needed to integrate into the economy of their host countries. As refugees, however, they were barred from over 70 occupations until 2005. Since 2010, Palestinian refugees have the same rights to work as other foreigners in Lebanon.

Numbers of Palestinian refugees residing in Lebanon were estimated at 260,000-280,000 for 2010 (UNWRA 2015b), while the number of registered Palestinian refugees amounted to 452,669 in January 2015, of which 249,410 in the 12 official camps (UNWRA 2015a). Besides the waves of displacement from Palestine and Jordan to Lebanon (1948, 1967, 1970), more than 100,000 Palestinians left Lebanon during the civil war.

Crisis within the crisis: The Syria crisis has led to a new influx of Palestinian refugees who lived in Syria prior to the crisis (Palestine refugees from Syria, PRS), of which 45,000 recorded as current in 2015 (UNWRA 2015b). As a result of restrictive regulations for the entry of PRS announced in 2014 by the Lebanese government, there are also unrecorded Palestinian refugees who have no access to humanitarian assistance they are in need of.

- family relations across borders, including a long-established Syrian population in Lebanon estimated to number 500,000[13]
- joint emergence of both nation states under French mandate
- earlier notions of a common future in a Greater Syria (*bilad al-sham*)
- monetary and customs union for several years following independence
- a porous border
- decades of both welcome and unwelcome power brokering and control by Syria including covert and overt, political and military intervention
- hosting of Lebanese refugees by Syria
- naturalization of an estimated 94,000 of Syrians by decree in 1994[14]
- established patterns of migrant labor in agriculture and construction (allegedly, at high times, amounting to similar numbers as currently floated for the Syria crisis[15])

These regional factors have significantly influenced the way the country subsides, moving from one external shock to the next, in economic speak.

Other features that have had major impact on shaping economic patterns and that may not prevail at all times but bear potential to resurge, if the settings are conducive, include

- trade (and trafficking[16]) in arms given sufficient surplus of arms in the market due to the diverse violent conflicts;
- production and trafficking of narcotics (including the processing of imported opium and production of synthetic drugs) that can be traced back to officially sanctioned tradition of hashish production in the Beqaa valley during Ottoman times, with 40% of cultivated of Beqaa areas being occupied for this purpose during conflict periods (estimated value of 6 billion USD to producers/ 150 billion USD in final markets);[17]
- underground finance and trade-based money laundering for diverse purposes and clients, more foreign than domestic, drawing on the facilities the banking sector is providing[18] or financial systems outside the formal financial sector as established by Lebanese expatriates in Africa and South America
- more recently also the trafficking of conflict diamonds and diamond trade fraud

These essentially illegal and therefore largely undocumented trades, may be considered sources and sinks of the legal economy, in systemic terms. They could also be integrated into a unified analysis of the whole economic or political economy system if there is any interest in identifying areas triggers for more systemic, long lasting, i.e. sustainable changes. To this date, such an analysis is not available.

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[13] Thibos 2014.

[14] Decree of Naturalization, no. 5247 of 22 June 1994, on the basis of which 157,216 persons were naturalized, 60% of whom Syrians. Cf. El-Khoury and Jaulin 2012: 11 and 15, n.34.

[15] 1.5 million - cf. Gambill 2005.

[16] The 2013 Small Arms Survey was able to establish a clear link between illicit market prices for arms in Lebanon and conflict deaths in Syria.

[17] During the 1970s Lebanon was considered the world's largest single transit hub in the international trade in narcotics. The Lebanese government has been trying to eradicate the cultivation of crops several times, also since the end of the civil war, but the campaign reportedly ended in 2012 due to the growing instability on the Syrian border. Militias are said to all benefit from this trade to finance their activities.

[18] Lebanon scores 7.06 on a scale from 0-10 applied by the Basel Anti-Money Laundering (AML) Index. This places it in the top quintile of countries running money laundering/terrorism financing risk. Cf. Basel Institute on Governance 2015.

A recent country diagnostic by the World Bank, partially drawing on binding-constraints theory, quite candidly summarizes the current state (or stalemate) of economic development:[19]

- Lebanon's political development has been primarily influenced by its confessional system. Originally established to balance the competing interests of local religious communities, the system is increasingly seen as an impediment to more effective governance because it has resulted in a paralysis in decision-making, a general hollowing out of the state, and proven very vulnerable to external influence, which has both bred and exacerbated local conflicts.

- The Lebanese economy has grown at a moderate pace over the past decades, but growth has been uneven due to large, frequent and mostly political shocks, to which the economy has been comparably resilient.

- With low growth quality and uneven development, Lebanon has struggled to reduce widespread poverty and to generate inclusive growth. Job creation has been weak and of low quality.

- Low employment-growth elasticity reflects a lack of inclusive economic growth. Job creation has significantly trailed the growth of the labor force.

- At the root of Lebanon's failure to generate inclusive growth and jobs, the diagnostic sees the presence of two mutually reinforcing and pervasive, overarching constraints:
  (1) elite capture hidden behind a veil of confessional governance, and
  (2) conflict and violence (partially as a result of broader Middle East conflict dynamics).

  The cost of confessional governance is estimated at 9% of GDP annually. Illegal activities are not sanctioned by the state when involving politically/ confessionally connected and/ or wealthy actors, exacerbating elite capture and patronage. Elite capture and corruption is endemic and undermines the achievement of development goals. The cost of conflict and violence is large and recurrent.

- Other sustainable-growth-related constraints nested within the two overarching constraints include macroeconomic instability, a weak business environment, insufficient investment in infrastructure (especially in lagging regions), skills mismatch with labor market needs, and weak institutions and regulatory framework. Absent the destabilizing impact of confessional governance and domestic and regional conflicts, these nested constraints are believed to be significantly less binding than they currently are.

The World Bank sensibly concludes that strategies (1) directly aim to lessen the overarching constraints themselves; and (2) work on lessening the nested constraints by designing a reform program that is incentive-compatible with the existing overarching constraints.

The following opportunities have been identified by the World Bank for materially improving Lebanon's development prospects:

a. reducing macro-fiscal vulnerabilities;
b. improving governance and effectiveness of public institutions;
c. addressing energy gaps to increase productivity of enterprises and to reduce the macro-fiscal burden;

[19] World Bank 2015 [97498].

d. strengthening ICT so that Lebanon may be fully connected to the global economy and develop jobs needed in the 21st century;

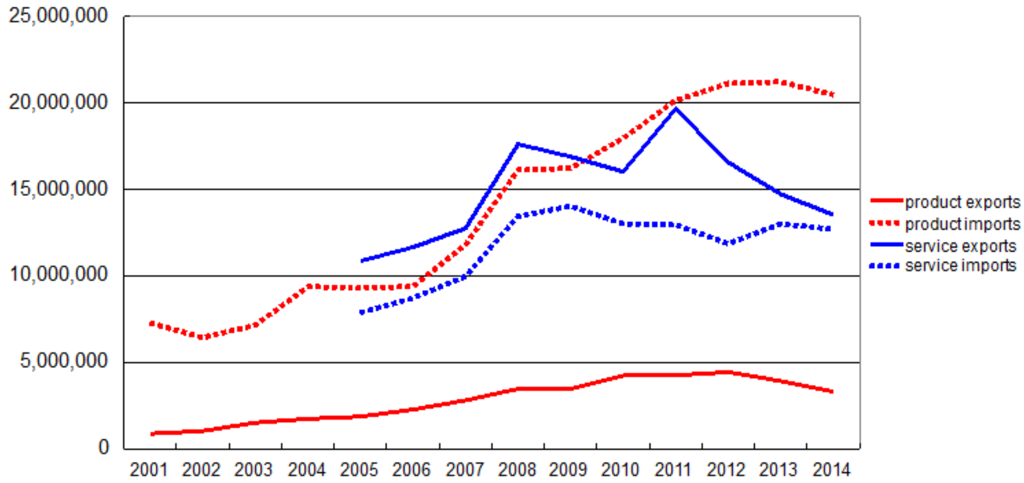
e. modernizing the education sector to ensure youth have skills relevant to employers;

f. improving the business climate to ease the burden on firm creation and operation;

g. increasing investments in transportation so people and products can move more efficiently; and

h. addressing environmental issues to protect Lebanon's natural resources, including water.

Within the confines of the political economy thus sketched, the country has developed an external structure that is marked by a positive service trade balance and a highly negative product trade balance. This representation is correct to the extent that it acknowledges that product imports are largely financed by remittances from Lebanese who have migrated abroad, temporarily or for good, and are mainly used for consumption. Alternatively, the trade structure could be described as comparably unique in that product imports are largely traded against service exports while product exports are insufficient to finance service imports.



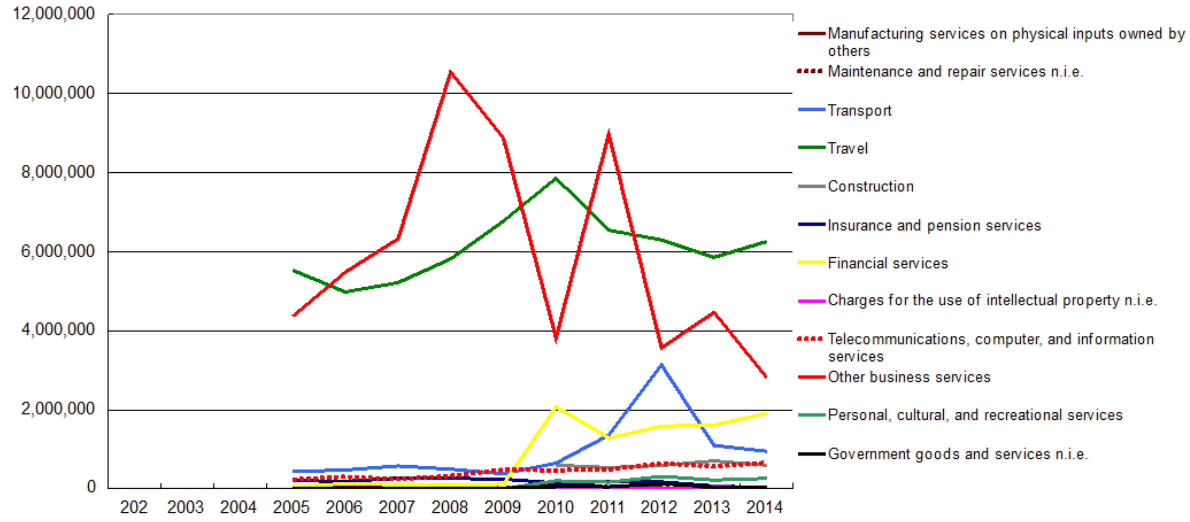
G.04 Total value of exports and imports of products and services 2001-2014 in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

The trends for international trade as recorded by the ITC show that since the beginning of the Syria crisis in 2011 service exports decreased dramatically while product exports show a lower absolute decline as of 2012, yet substantial in relative terms. What is more intriguing is a decline in product imports as of 2013 when, arguably, the population has significantly swollen as a result of the refugee influx (two-thirds of the total who fled to Lebanon arrived by that time). From this perspective, it is possible that the balance of trade has been significantly affected by the Syria crisis.

The shift in export and import figures, of course, does not imply that production levels of services and products have been affected to similar extent. It is possible that more products were sold in the domestic market (including to refugees) and/ or that shifts occurred to illegal products such as narcotics that are not reflected in official trade figures.

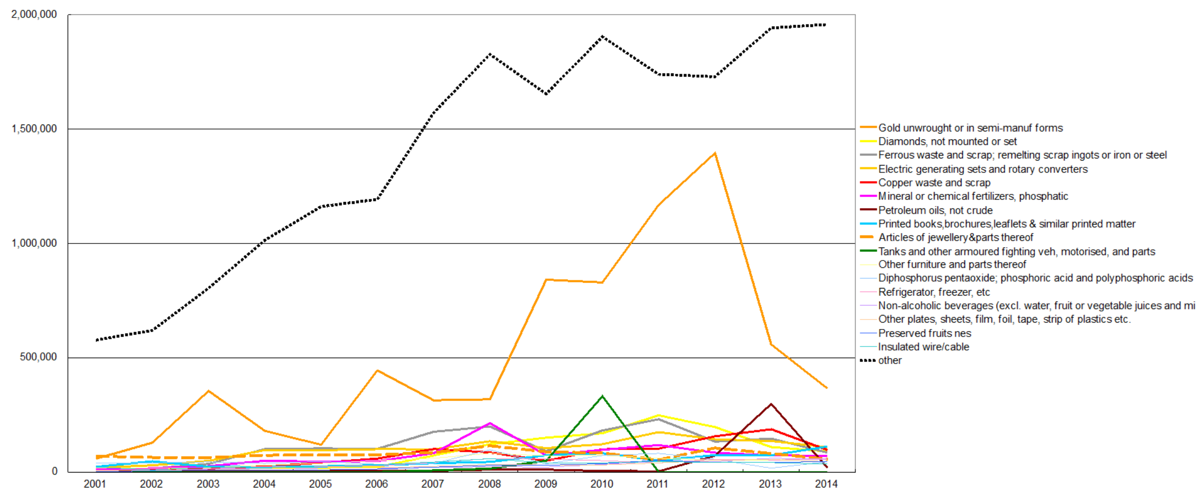
Industry representatives have also reported that contraband products from Syria are being dumped on the Lebanese market. It is therefore difficult to conclude from international trade figures on the performance in the production sphere.

Trade in services is a topic that does not have as long a history as the trade in products. Therefore, information on services is not as easily available as information concerning other goods. At the same time, services may not yet have reached the same amount of technical complexity as products in sphere of manufacturing have and are therefore still more easily categorized. The following graphs provide a rough overview of the Lebanese trade structure at individual service and product levels.



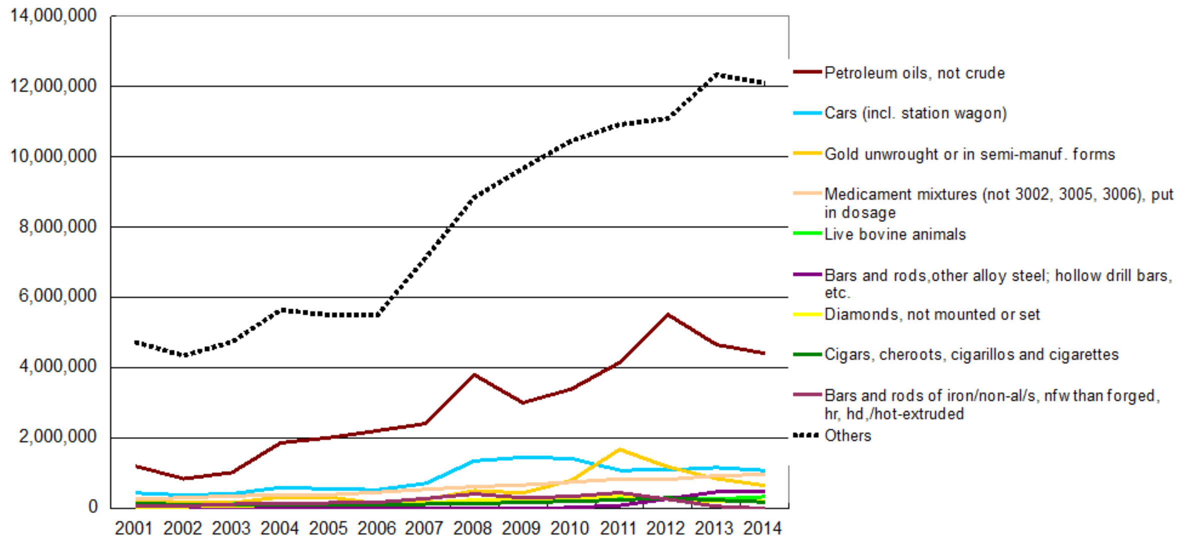
G.05 Value of service exports 2005-2014 by service in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

Service exports which by combined value amount to a three to fourfold of product exports are structured as predominantly related to travel (46.2 % in 2014), financial services (14.1%) and transport (7%). There is the more general category of other business services, however, which rises to occasional hights that may warrant further in-depth analysis because it may provide hints as to which areas of services may possibly expanded for further exports. Traditional thinking usually emphasizes thinking in goods more than in services when it comes to trade given that many basic needs usually are foremostly satisfied by using goods. However, in the advent of the green economy and the increasing importance of combining products with services so as to fulfil specific functions, there may be interesting potential for a country that generates a comparably well-educated footloose population. (Why not draw on an obvious strength?)



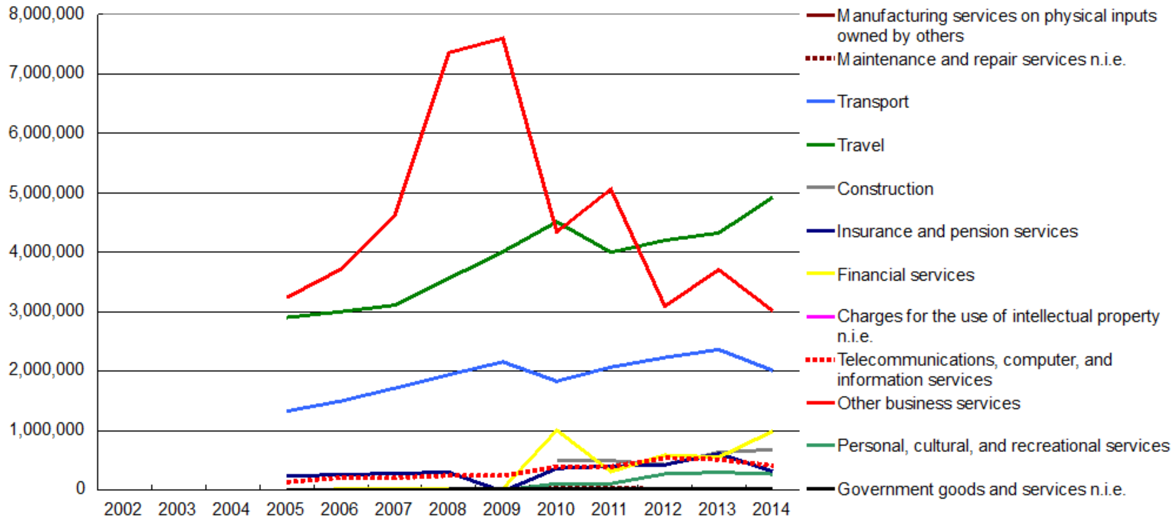
G.06 Value of product exports 2001-2014 by product at 4-digit level in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

Lebanese product exports, on the other hand, are comparably well diversified, i.e. not dominated by a mere few categories. The only exception to this rule is the sector of unwrought gold in semi-manufactured forms that has strongly evolved over the past decade and represents 21.4% of product exports in 2014. The next highest share, at the 4-digit product level is only 4.0% and belongs to not mounted or set diamonds. Other products taking shares of 2-4% are, in decreasing order of importance, ferrous waste and scrap/ remelting scrap ingots or iron or steel; electric generating sets and rotary converters; copper waste and scrap; phosphatic mineral or chemical fertilizers; petroleum oils, not crude; and printed books, brochures, leaflets and similar printed matter. This export palette reflects the complete lack of agricultural products and does not boast any higher level manufacturing products other than electric generating sets and rotary converters. While this may indicate that there is ample opportunity for expansion (from low levels), it may just as well indicate that more complex export products are currently not within the Lebanese production frontier.



G.07 Value of product imports 2001-2014 by product at 4-digit level in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

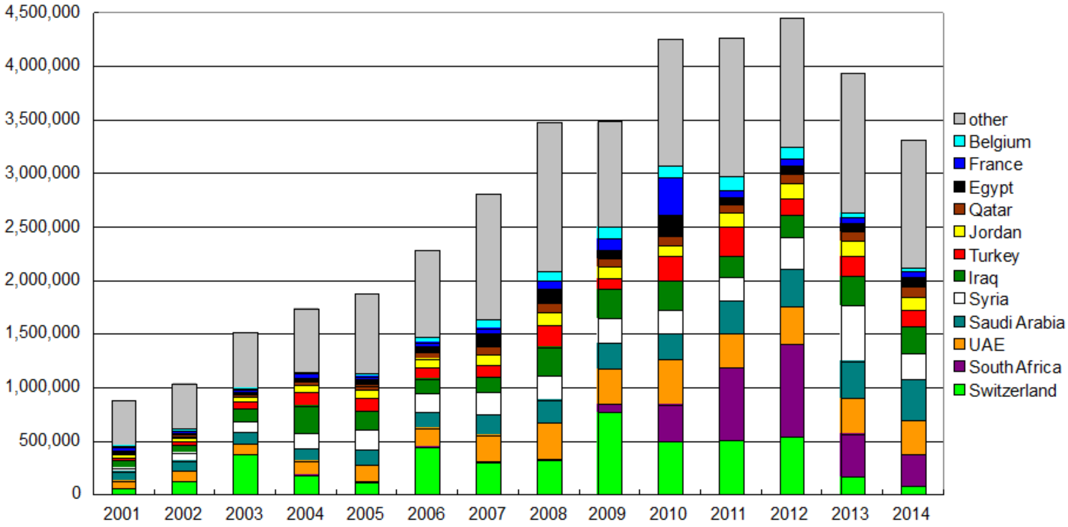
When it comes to the import side, there are four products that have shares higher than 4% in 2014: petroleum oils, not crude (21.9%); cars, incl. station wagons (5.8%); gold unwrought or in semi-manufactured forms (5.1%); and certain medicament mixtures, put in dosage (4.3%). The palette is also quite diversified, corresponding, presumably, to universal importation needs. It is interesting to note, in this context, the absence of agricultural and food products with the exception of bovine animals, suggesting that trade between Syria and Lebanon does not enter international trade statistics.



G.08 Value of service imports 2005-2014 by service in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

Service imports have slightly different structure from service exports, however, travel is the most important category (38.8%), other business services (23.7%) which experienced a surge during 2008 and 2009, and transport (15.8%). The steady rise in travel and transport service imports may be worthwhile to look into in order to review whether there are any ways by which Lebanese firms could participate more in the provision of these services, for which there is an obvious demand, so as to improve the balance of trade and services. It will also be useful to look in more detail into other business services that are being imported in order to see whether there is potential for Lebanese firms to substitute for them.

When it comes to destinations for export, Lebanon's structure is quite diversified. Other than countries like Tunisia or Jordan which have developed strong trade relationships with specific countries, products by Lebanon cater to markets in many different countries. The share of exports going to France, for example, is comparably low even though France had found it, at the time, beneficial to colonize the area. The same goes for Turkey which had dominated the region for a long time, and even for neighboring Syria, although some of Syrian bilateral trade may not be fully accounted for in the international trade statistics. South Africa (more recently), the United Arab Emirates, and Saudi Arabia are other important export destinations with respective shares of 9.0, 9.7, and 11.4% in 2014. This diverse structure is certainly a reflection of the small volume of product exports, but may also be an outcome of liberal, unfocused trade policies.



G.09 Product exports by destination 2001-2014 in USD 1,000.
Source: http://www.trademap.org/Product_SelProductCountry.

Many discussion partners in Lebanon see the country's competitive advantage as a producer for niche markets. While this notion does have some appeal and exports should remain sufficiently diverse so as to not entail strong dependencies on particular destinations, there are many markets Lebanon is exporting to that are growing faster than Lebanon's exports to these markets are growing. This indicates that product export potential is not sufficiently exploited for existing export products.

Annex 1 provides an overview of products at the 6-digit level which may help identify sectors that would merit more specific support policies. Structural instead of dynamic presentation has been selected because the dynamic presentation is usually calculated since 2002 and it would not be reasonable to include periods where wars have occurred into the analysis. Clearly, there are no product categories that seem to excel as champions (strong in growing sectors) in international markets, however, it is noteworthy that there are no products that appear to underachieve either. Most products exported are just about competitive. (Part of that may possibly be explained by re-exports and relatively low value-added contents even though Lebanon has also developed some capabilities in equipment manufacturing.)

1.3. Demographic development

Lebanon's society is divided along both religious and confessional lines. In 2001 Muslims were believed to have accounted for 60% of the population, whereas Christians form the second largest group in the country. For fear of setting up fragile confessional balances, no official population census has been conducted since 1932.[20] It is possible, however, to work with the usually rather accurate estimates of UN DESA in order to gain an understanding of the basic demographic features of the country.

The population of Lebanon is estimated at 5.85 million in 2015 with a median age of 28.5 years.[21] This median age is significantly higher than in countries as Iraq, Jordan, State of Palestine, or Syria, and more similar to Turkey (29.8), indicating a relatively "advanced" stage of the population pyramid, i.e. the population curve it is already beyond the inflection point on the way to the peak. Lebanon also has the highest life expectancy (78.9 years,

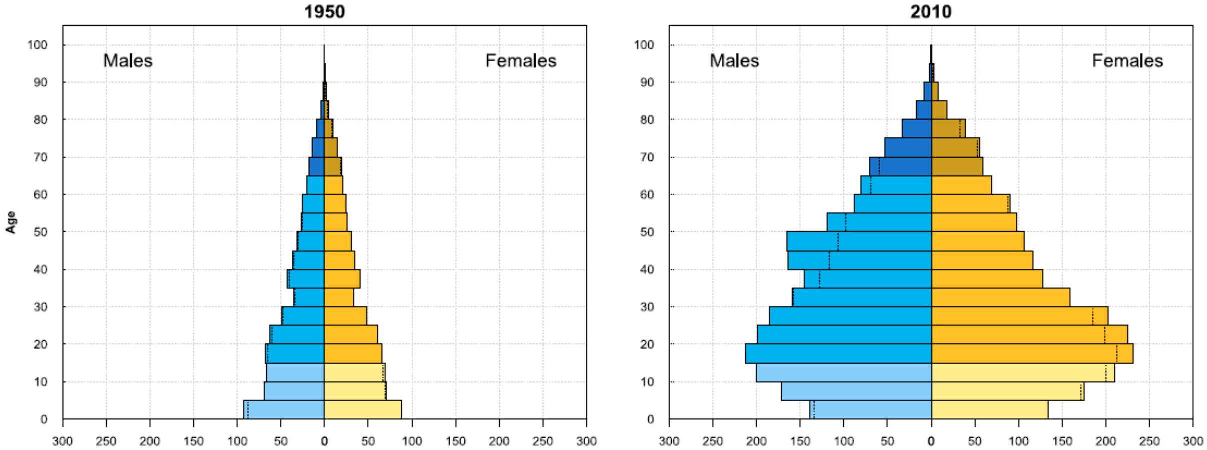
[20] Lebanese Information Center Lebanon: The Lebanese Demographic Reality, 2013.

[21] UN DESA 2015.

2010-2015) and lowest total fertility (1.72 children per woman, 2010-2015) compared to the same countries.

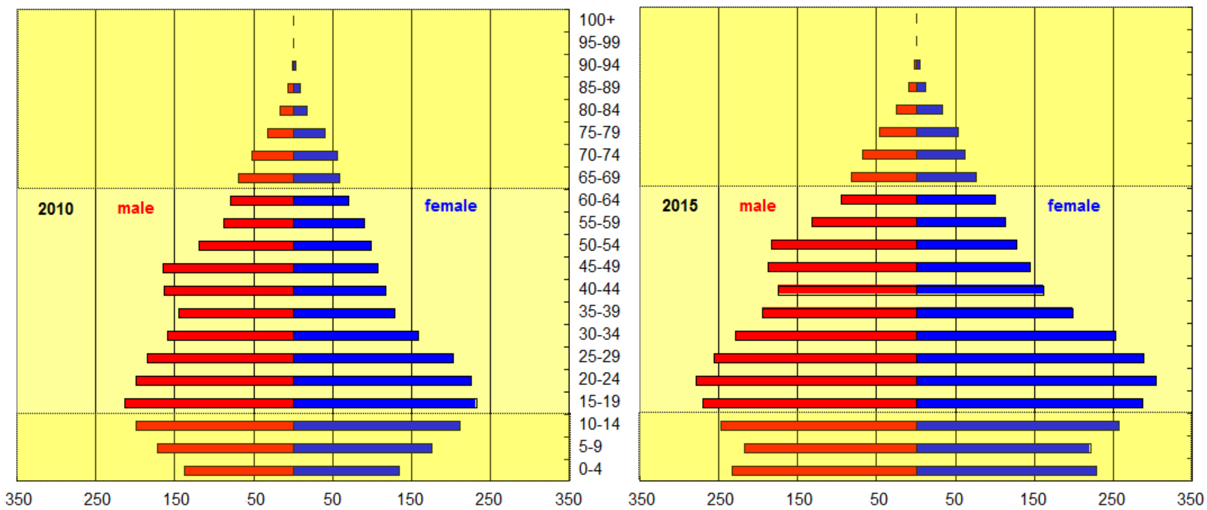
The low rate of population growth certainly is not a reason of concern when considering the prevailing population density, resulting environmental stress and the "endemic" difficulties in the region to find sufficient employment for youth.

Because population figures include refugee populations and migrants, the previous estimates of UN DESA[22] are presented here because they are helpful for illustrating the demographic impact of the Syria crisis on Lebanon. More detailed information on the distribution of refugees from Syria is presented in the subchapter on labor mobility because there is a widespread concern that many Syrian refugees have become, de facto, migrant labor.



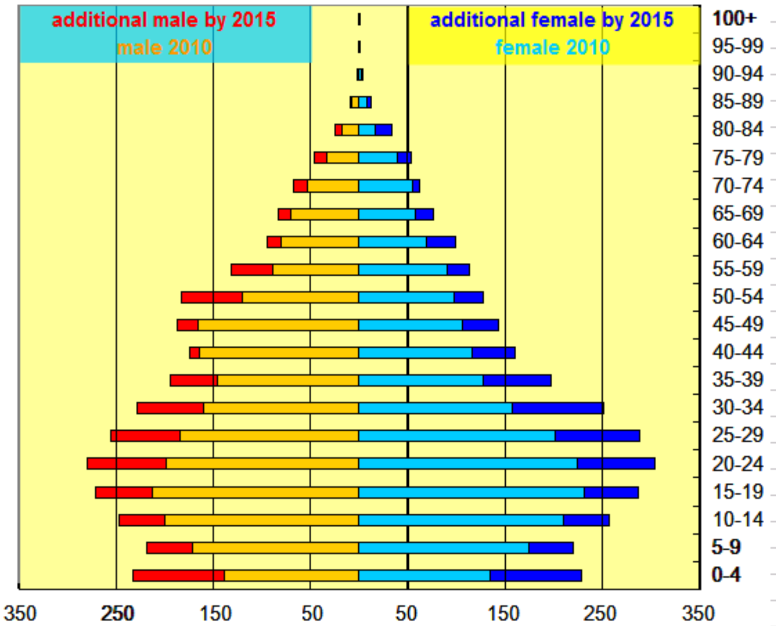
G.10 DESA 2012 estimates for age pyramids in 1950 and 2010.
Source: UN DESA 2013. World Population Prospects: 2012 Revision, Volume II: Demographic Profiles, No.443.

The population pyramids above represent the estimates made in 2012 for the population of Lebanon in 1950 and 2010. The total population for 2010 was estimated at 4.341 million, the median age was estimated at 28.5 years, life expectancy of 78.3 years, and a total fertility of 1.58 children per woman (2005-2010). The pyramid for 2010 already revealed the declining number of births. Projections made for 2015 at that time were a population 5.054 million, a median age of 30.7 years, life expectancy of 79.8, and total fertility of 1.51 (2010-2015).



G.11 DESA 2015 estimates for age pyramids in 2010 and 2015.
In thousand persons by age groups. Unshaded areas approximate the working age population.
Source: UN DESA. World Population Prospects 2015. Tables POP/DB/WPP/Rev.2015/POP/F07-2 and F07-3.

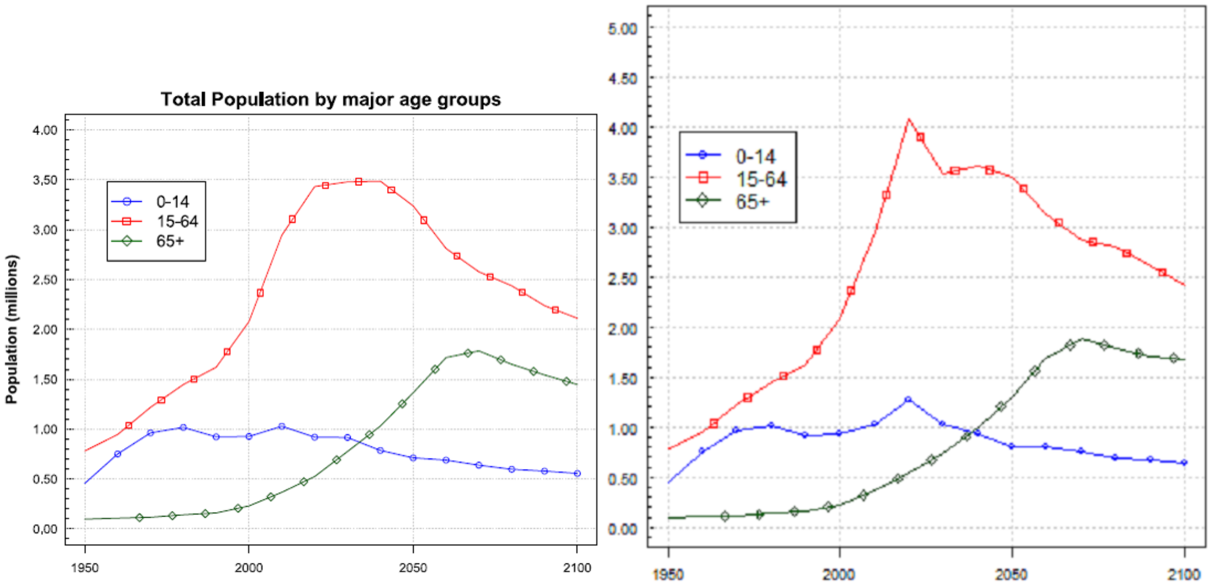
[22] UN DESA 2013.



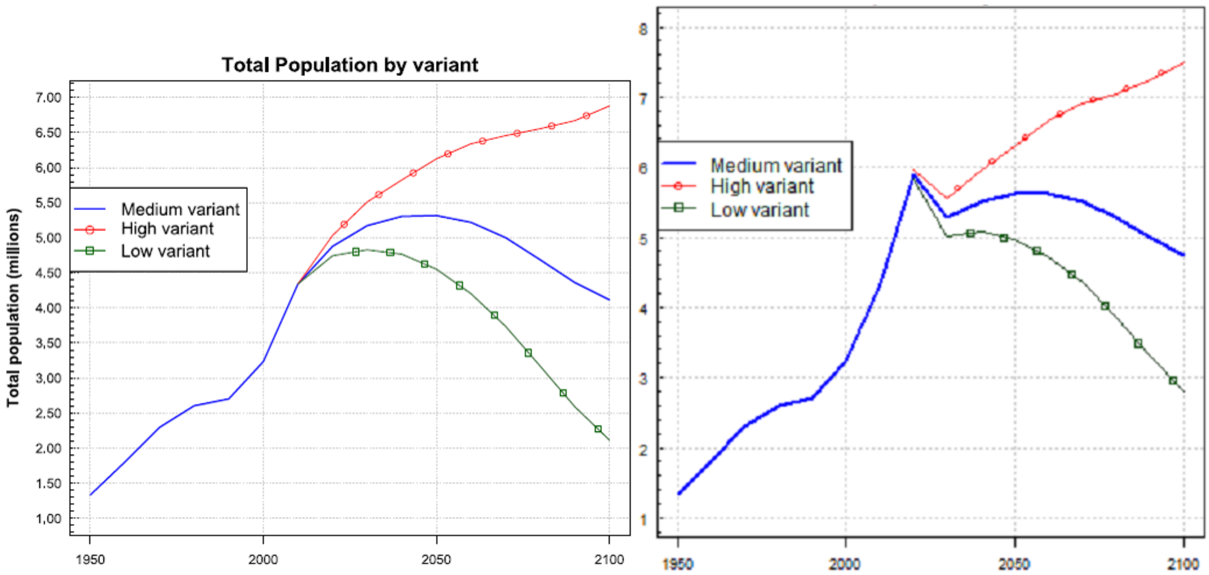
G.11a DESA 2015 estimates for age pyramids in 2010 and 2015 [alternative presentation].
In thousand persons by age groups. Pyramid for 2010 overlain with pyramid for 2015.
Source: UN DESA. World Population Prospects 2015. Tables POP/DB/WPP/Rev.2015/POP/F07-2 and F07-3.

The pyramids above are derived from the most recent estimates of UN DESA. They show an essentially congruent pyramid for 2010, and a drastically changed one for 2015. Compared to the previous population shocks (Palestine refugees), the Syria crisis has left a much stronger mark. The difference between 2010 and 2015 are tremendous both in absolute as well as in relative proportions and affect all age groups.

Both due to the different population features of Syria and Lebanon and the typical structure of refugee populations which usually include a high share of children, the population pyramid is expanding again at the lower end. The working age population has expanded by 1.027 million since 2010, i.e. by twice the amount it would have expanded without the refugee influx. More importantly, as can be seen from the juxtaposed population curves below, Lebanon's working age population would have reached its peak by the end of the current decade and then leveled off (thereby drastically reducing the need to create jobs for new labor market entrants). Along the same line, the peak of the total population curve has been shifted to the future by a decade, based on the current DESA projections (which actually include an anticipation of the return of the Syrian refugees to Syria).

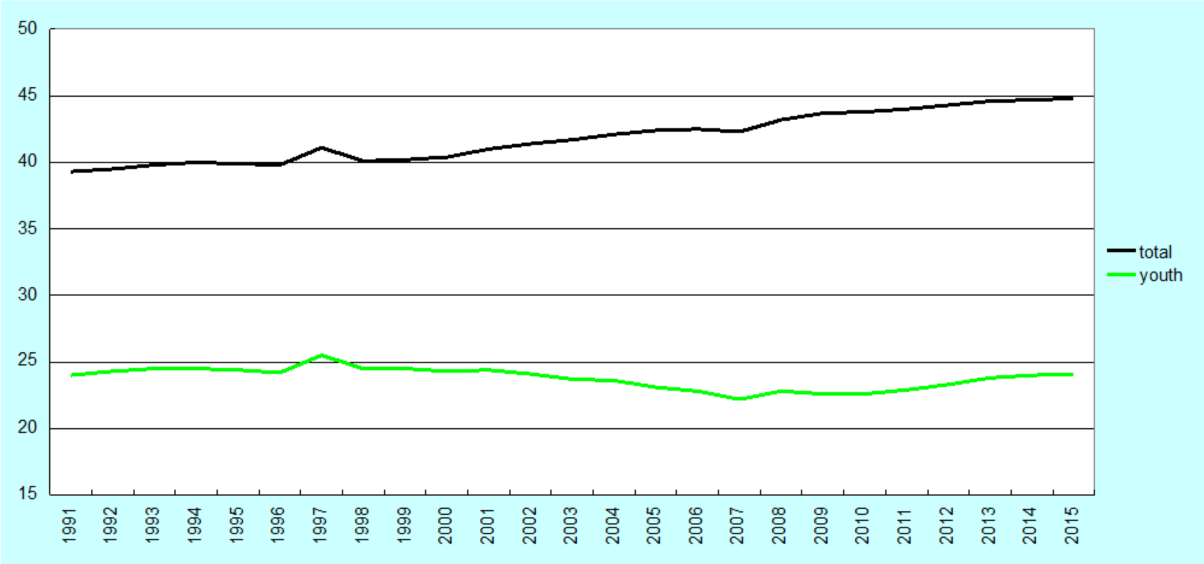


G.12 DESA 2012 and 2015 estimates for age groups of population 1950-2100.
(For purposes of illustration, given that the two estimates are not entirely comparable.)
Source: UN DESA 2013 and 2015.



G.13 DESA 2012 and 2015 estimates for total population 1950-2100.
(For purposes of illustration, given that the two estimates are not entirely comparable.)
Source: UN DESA 2013 and 2015.

The employment-to-population ratio in the most recent KILM edition, as calculated on the basis of econometric models by the ILO in the absence of better information, is based on the DESA's 2015 population estimates. Despite the magnitude of the change in the working age population, no change in the trend of the ratio is observed (cf. the following graph). The ratio actually continues to increase modestly over the years the Syria crisis has been affecting the Lebanese economy. If the econometric model of the ILO is reliable, this would seem to indicate, prima facie, that the large influx of Syrian refugees has not had a negative impact on the capacity of the Lebanese economy to generate jobs, but rather left that (relatively low) capacity unaltered.



G.14 Evolution of employment to population ratio 1991-2015.
Source: ILO KILM 2015, table 2.a.

1.4. Labour migration and labour mobility

Mount Lebanon already had a substantial history of migration abroad since the last quarter of the 19th century when, between 1860 and World War I, roughly one-third of the inhabitants left the area. It is being argued, however, that emigration in Lebanon has become much more "intense" since the 1990s by becoming qualitative rather than quantitative.[23]

> "Since its attachment to the world market, Lebanon has been characterised by a demographic flux in which rural migration and emigration carry out a permanent reconstruction of the country's social stratification. Emigration is the process by which Lebanese society hides its high rates of unemployment and rids itself of the human surplus. (...) While the local labour force was exported, non-Lebanese labour was brought in to replace those who left, or those who refuse to be reduced to wage labour."[24]

Push factors for emigration in recent decades have been described as generalized insecurity, economic crisis, progress in education, an increasing number of graduates and lack of opportunities for youth. Misalignment between supply and demand, lack of job growth, and low salaries compared to those in the Gulf countries, Europe, and North America play their part. One-quarter of Lebanese youth desires to migrate abroad, with the highest intentions recorded in Mount Lebanon (40%) and the lowest in Nabatiyeh (14%).[25]

In official speeches, Lebanese officials appear to encourage Lebanese to leave the country. Out-migration is officially supported because it leads to a large reflux of remittances into the country. The exact amount of remittances is unstable and varies from quarter to quarter, but for 2014 the figure was about USD8.9 billion.[26] In other words, remittances were roughly

[23] Kiwan 2010.

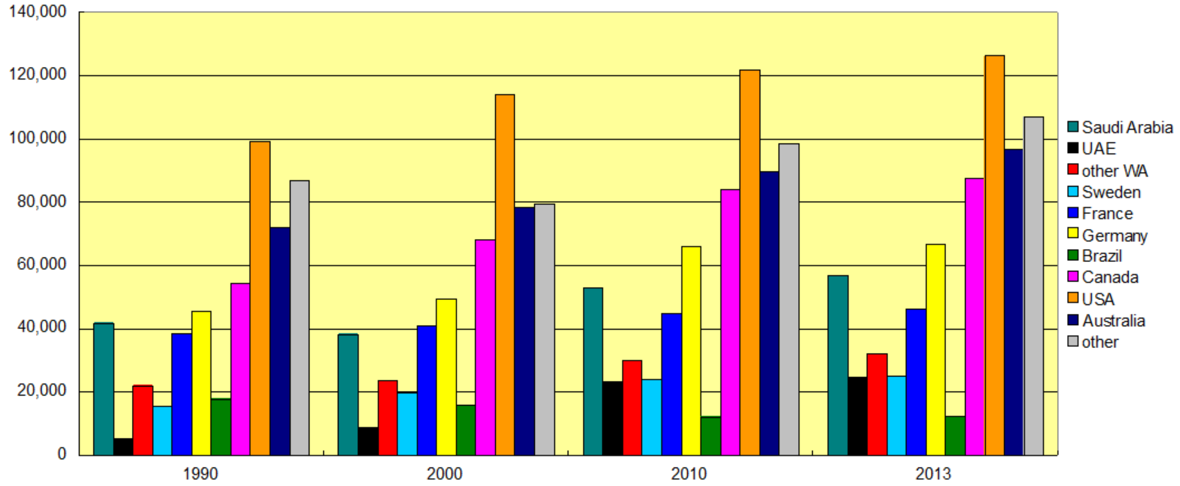
[24] Traboulsi 2012: 160.

[25] Kasparian 2010.

[26] Unpublished World Bank study cited at http://imtconferences.com/lebanon-remittance-inflows-outflows/. The bank attributes part of the increase in remittances to the rise of remittances from the Syrian diaspora to Syrians residing in Lebanon.

twice the amount of official exports and thus help close the trade deficit and generate hard currency for the country.

Data on the number of Lebanese emigrants and their characteristics is fragmented and unclear. During the period 1991 - 2009, estimates of outmigration ranged between 200,000 and 400,000.[27] UN DESA figures for Lebanese migrants in different countries ("stocks") are displayed in the graph below with totals amounting to 500,895 in 1990 and 683,061 in 2013. There are estimates that are much higher, too: 4-6 million, or, for example, 894,717 net emigrants for the period 1975-1990 (on the basis of a population of 2.6 million in 1975).[28] The differences are attributable to different estimation methods and often to differences in the understanding of what constitutes a migrant, notably when it concerns second-generation migrants who are usually are not considered migrants in migration statistics. (A "diaspora", which is a term often referred to in Lebanon, usually includes new generations born abroad.)



G.15 Number of Lebanese migrants abroad by host country 1990, 2000, 2010, 2013.
Source: UN DESA, Trends in International Migrant Stock: Migrants by Destination and Origin.

Lebanese emigrants are well known for being widely dispersed across the world. However, the destinations of migration have changed largely in favor of English-speaking countries that are generally open to migration (USA, Australia, Canada). While earlier generations have also migrated to Africa and South America, this trend is strongly reduced. According to UN DESA, in 2013 18.5% of Lebanese emigrants were found in the USA, 14.2% in Australia, 12.8% in Canada, 9.8% in Germany, 8.4% in Saudi Arabia, and 6.8% in France.

Almost four-fifths of the emigrants are youth (18-35 years of age), and they tend to be "more married" (half of the males, and almost 85% of the females) than the resident Lebanese of the same age group. Two-thirds of the young out-migrants are male. 70% of the males emigrate to work, 11% to study abroad while 68% of the females emigrate for reasons of family and only 17% and 5% for work and studies respectively.[29]

Lebanese migrants are mainly employed in highly-skilled occupations: e.g. professionals and technicians (29.2%), senior officials and managers (15.7%) and clerks (10.3%).[30] The share

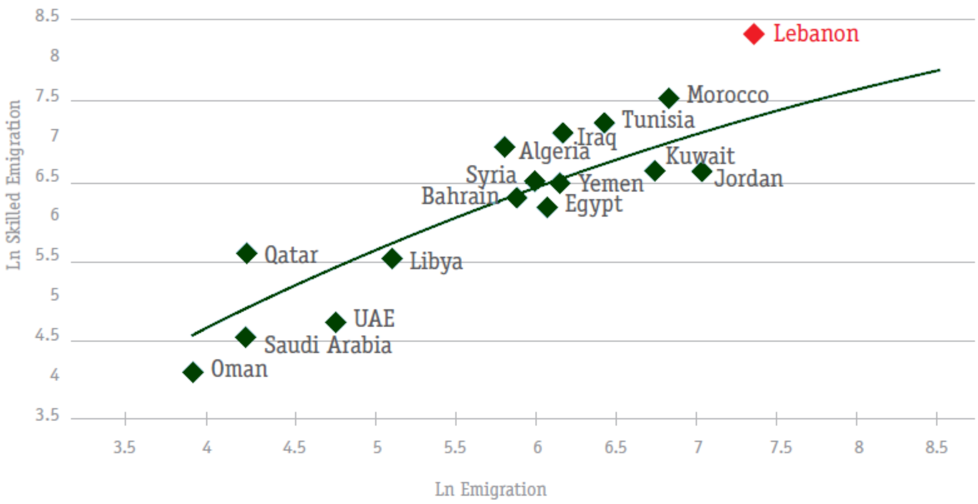
[27] World Bank 2012.

[28] Kiwan 2010: 1.

[29] Kasparian 2010.

[30] Robert Schumann Center for advanced policy studies: MPC - MIGRATION PROFILE Lebanon, 2013.

of tertiary graduates in migration is higher than for other countries in the region. One study found that 43.4% of the migrants had completed a university degree.[31]



G.16 Emigration of tertiary education graduates compared to overall emigration rates.
Source: Kawar and Zannatos 2013: 28, fig.13.

The Lebanese diaspora is an important element in Lebanon's success as a banking center. The diaspora as a whole tends to show a noteworthy attachment to Lebanese banks, and it is estimated that it accounts for between a third and a half of all deposits in the Lebanese banking system. The global recession of 2008-2009 actually led to growth in Lebanon, largely because the diaspora moved billions of deposits into Lebanese banks. As a result, Lebanon became awash with cheap credit, leading to an investment and construction boom.

Members of the diaspora also come to visit Lebanon regularly, generating important tourism revenues. Additionally, the diaspora provides an important network of contacts and information for Lebanese aiming to do business abroad. This is highly visible in Africa, where the Lebanese diaspora is often quite influential in business and finance.

That being said, Lebanese abroad still appear to be an insufficiently tapped resource for Lebanon in at least two respects. First, they are a relatively small source of foreign direct investment (FDI) and, secondly, they would appear to represent an unexploited market for Lebanese exports, especially food, clothing, jewelry and fashion. Relatively few Lebanese businesses seem to be niche marketing directly to the diaspora despite the notion that Lebanon is catering to niche markets.

On the other side, there are immigrants to Lebanon. Their profile is different from the out-migrants in that education levels are lower and that they usually perform in jobs that Lebanese are not interested to work in. This includes domestic helps and low-skill professions, such as work in fuel stations.

There is very little published information and analysis available on these in-migrants and UN DESA statistics may not have captured all of them. Figures for the numbers of Palestinians and Syrians do not dovetail with discussions held in the field. This suggests that a portion of the in-migrants is not properly registered.[32] Alternatively, it may imply that figures for these

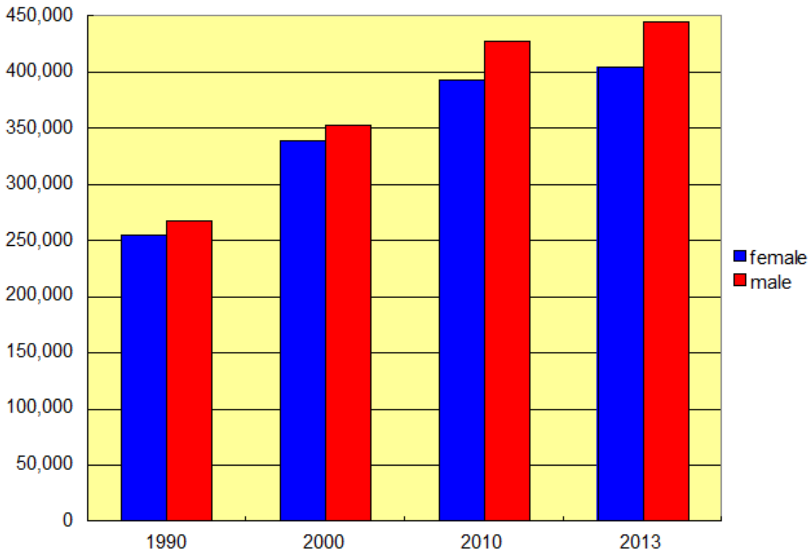
[31] Kasparian 2010.

[32] There are some reports about human trafficking, but the scale is unclear, as is the degree to which migrants affected have been deluded about their destination and working conditions.

politically more contentious groupings (Palestinians and Syrians) are more tightly controlled.[33]

Nationalities with more than 1,000 migrants in Lebanon recorded by UN DESA are Palestinians, Iraqi, Egyptians (72% male), Syrians, Sri Lankans (89% female), Bangladeshi (73% male), Indonesians (96% female), Chinese (86% female), Indians (88% male), Saudi Arabians (68% male), Philippinos (90% female), and Pakistanis (60% male).[34] The largest group from countries that are or were not affected by violent conflict (such as Palestine, Iraq, Syria) are Egyptians (102,507).

The in-migration has been increasing over the years, suggesting there is increasing demand in the Lebanese economy for such migrant labor and that there are few prospects to substitute foreign migrant labor in Lebanon with local labor. From this perspective, it is likely that some of the competition in the labor market resulting from the Syria crisis may occur between Syrians and other foreign migrants, in professions that require lower qualification levels. There is anecdotal evidence, for example, that Syrian males are displacing migrant labor from Egypt.

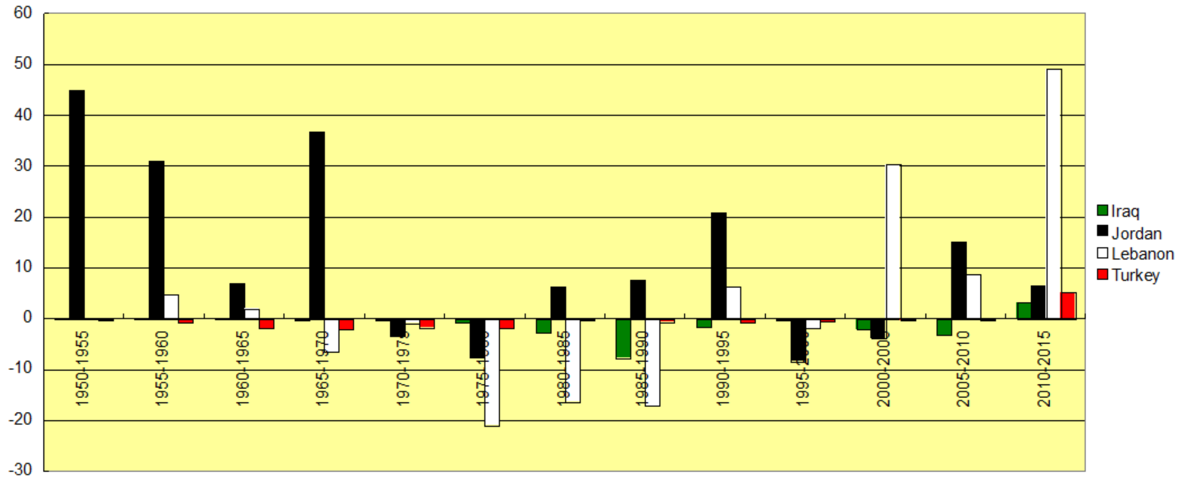


G.17 Migrant stock in Lebanon as recorded by UN DESA 1990, 2000, 2010, 2013.
Source: UN DESA, Trends in International Migrant Stock: Migrants by Destination and Origin.

It should also not be forgotten that Lebanon's migration rates, despite the long-standing tradition of migration, have not been constant over time, essentially as a result of the instabilities or conflicts in Lebanon and the region more generally. The following graph displays net migration rates for Iraq, Jordan, Lebanon and Turkey over the last decades as estimated by UN DESA. These are the four countries bordering Syria (where the net migration rate currently stands at -41 per 1,000). It is clearly visible, for example, that the civil war in Lebanon led to a massive exodus that cannot be compared to the out-migration patterns under more peaceful circumstances.

[33] The Ministry of Labor was not in a position to issue a list on currently registered migrant workers during our time in the field.

[34] Trends in International Migrant Stock: Migrants by Destination and Origin (POP/DB/MIG/Stock/Rev.2013).



G.18 Net migration rates 1950-2015 for Iraq, Jordan, Lebanon, and Turkey per 1,000 population.
Source: UN DESA, POP/DB/WPP/Rev.2015/MIGR/F01.

Note on Syrian refugees

Officially, the Syrian presence in Lebanon is administered through a bilateral agreement of 1993 relating to Economic and Social Cooperation and Coordination. This agreement mutually grants freedom of stay, work, employment and economic activity for citizens of Lebanon in Syria and vice versa. However in reality, the implementation of the agreement remains disorganized and confused, even before the Syria crisis.[35]

A significant portion of the refugees had worked in Lebanon as migrant or seasonal workers at the time the crisis began and continued to work in these jobs. However, they brought their families from Syria who naturally registered as refugees whereas the family head did not. This explains part of the discrepancies in registration within families.

Legally speaking, Syrians have the legal right to work in Lebanon during the first six months of arrival. As other non-nationals, they require a work permit, however only need to pay 25% of the work permit fee. There is a section at the Ministry of Labor that is exclusively dedicated to deal with Syrian labor. According to the ILO,[36] in 2011 only 390 Syrian workers applied for a work permit for the first time and 571 work permits were renewed.

This number, obviously, is far too low compared to the real numbers even without the crisis and is indicative of the low level of enforcement of the work permit with Syrians. According to the Lebanese Minister of Labour Sajaan Kazzi, only 2,067 Syrian workers had applied for work permits since the beginning of 2013.[37] Held against a total Syrian refugee working age population of ca. 440,000 at the time of this pronouncement (2014), this corresponds to a work permit application rate of not even half a percent.

Since the beginning of the Syrian crisis, Lebanon has maintained an "open border" policy, so that Syrian refugees can work in Lebanon. While formally insisting that work permits are a precondition for employment and that the refugee status is incompatible with employment, the government has shown lenience towards those who have not regulated their stay in Lebanon as required by law or those who are working without work permits. Likewise it has shown considerable tolerance towards the opening and operation of unlicensed businesses in the country.

[35] ILO, 2013.

[36] ILO, 2013.

[37] Al-Arab (2014) Lebanon Suffers Competition with a Million Syrians in the Labour Market (Ar), Al Arab, 21 May 2014.

During our discussions, it has been mentioned that Syrians who register their residence in Lebanon usually now need to sign a declaration that they are not entitled to work. Though many of the Syrians subsequently need to present their residence registration when applying for a job with a Lebanese employer, employers, apparently, do not feel obliged to apply for a work permit on behalf of their employees, and presumably also do not mind saving on social security contributions they would usually need to afford.

Based on a field survey and data collected from 400 Syrian refugee households in the regions of Akkar, Tripoli, Bekaa and the South during 2013, ILO has estimated that 47% of working-age refugees from Syria are economically active. In theory, they require work permits to work in Lebanon, but practically, the vast majority of working refugees work in unskilled jobs in the informal sector, such as agriculture, construction, street trades, domestic and personal services, and small, unlicensed businesses. 92% of these workers have no work contracts, 56% work on a seasonal, weekly or daily basis, and only 23% work for monthly wages.

The unemployment rate among Syrian refugees stood at 30% among men and 68% among women. The average monthly income recorded for refugees was 64% of the minimum wage for males and 42% for females while host community members earned slightly more than the Lebanese minimum wage.[38] Most of the refugees had to rely on several sources of income, including UNHCR, in order to be able to get by.

While it may be argued that the lack of work permits forces the refugees directly into the informal sector, it is difficult to imagine how the formal sector would absorb these large numbers. Considering the potential political repercussions of officially granting work permits to all Syrian refugees, the lenient approach may therefore be the most effective way for the government to deal with the crisis. It also would not have the capacities to enforce work permits across the board.

1.5. Labour market trends

The most prominent and contentious labor market trend that tends to dominate discussions concerns the unemployment rate. The rate is often politicized (particularly when promises are made relating to its reduction) and at the same time frequently technically misunderstood as a measure. Thirst for additional unemployment related information in the light of the worldwide issues related to employment has led to increased differentiation in measuring unemployment, i.e. specific underemployment or labor underutilization rates, however, national statistics authorities have not necessarily been able to implement labor force surveys as yet that use the most recent, more differentiated ICLS categories. Lebanon is a case in point, and deep hesitation to reveal information that could affect the existing confessional balances have not necessarily encouraged data collection and analysis.

CAS, nevertheless, is currently in the process of administering a labor force survey which should be ready during 2016 and hopefully will shed a more current light on the employment situation in Lebanon. Until this survey is available, interested parties will still need to base their assessment of labor market trends on back-of-the-envelope calculations or recent studies that by their nature cannot have been as accurate as a labor force survey can be.

Figures currently floated regarding the unemployment rate in Lebanon vary somewhat and therefore tend to generate considerable discussion. The table below provides an overview of those which have been mentioned to us. Effectively, the variations are due to slight differences in methods.

[38] ILO, 2013.

T.19 Different figures discussed in Lebanon for the unemployment rate.										
	1990	**2000**	**2004**	**2007**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
CAS			8	9	6					
WB							6.2	6.2	6.2	6.4
ROAS	8.75	8.30				8.93				
MILES						11%				

Sources:
CAS ... CAS 2011; WB ... World Bank website [retr. 2015]; ROAS ... ILO 2015; MILES ... World Bank 2012M.

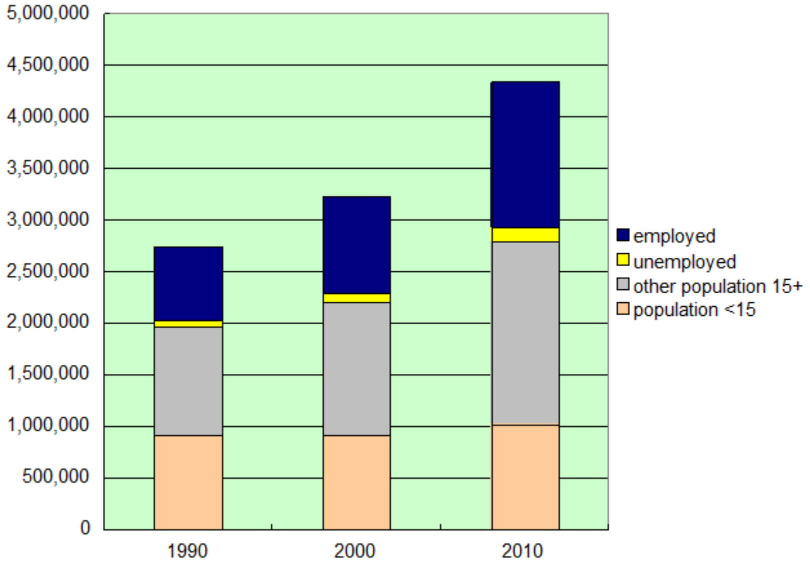
- For example, the World Bank's "MILES" study,[39] which is the most frequently mentioned one in the discussions held with the team and has calculated the unemployment rate for 2010 to stand at 11%, bases its estimations of diverse labor market proportions, including unemployment rates, on a self-administered *employer-employee survey* of 2010. While the survey, as described in the methodological section of the study, was based on an acceptable sampling method for Lebanese conditions that is likely to have led to a representative household sample and while the overall sample size was sufficient to allow for reasonable confidence in the results, the selection of respondents within the households surveyed was neither complete nor random by design. Therefore the survey does not lend itself to calculate unemployment or other labor utilization rates according to international standards as agreed within the framework of the ICLS.[40] Its results, thus, cannot and should not be compared with surveys following international standards as usually conducted by national authorities, and often in consultation with the ILO.

  That being said, the results of the MILES study should certainly be valid for the sample taken,[41] and may be compared with any studies conducted along the same methodology. The results of the survey probably also reflect more general proportions prevailing in the Lebanese labor market, albeit with certain biases (e.g. exclusion of government employees).

[39] World Bank 2012

[40] The statement that the "analysis is based on a new survey of the <u>labor force</u> and employers" (World Bank 2012: 8; our underlining) is inaccurate if the prevalent, internationally agreed definition of the term "labor force" is applied.

[41] Our assumption. The report omits to mention estimates of coverage and measurement errors, while the nonresponse error, based on the tables presented, has been within acceptable range for the overall sample.

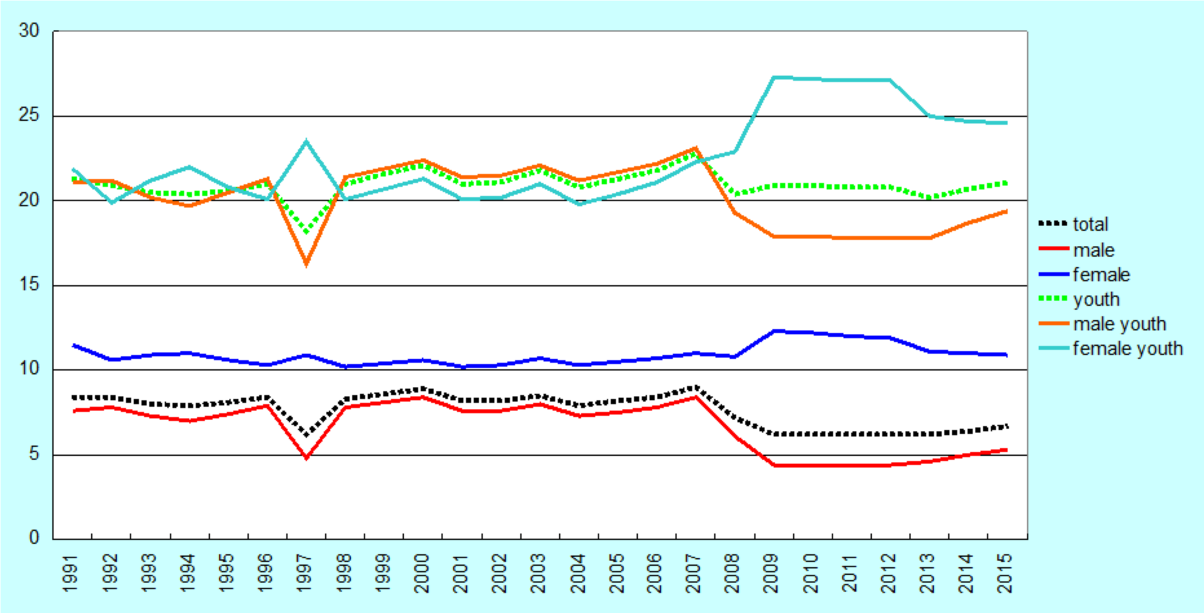


G.20 Population <15 years, and 15+ (employed, unemployed, not economically active) 1990, 2000, 2010.
Source: ILO 2015: 20, table 10.

- The ILO Regional Office for Arab States has estimated unemployment rates for 1990 (8.75%), 2000 (8.30%) and 2010 (8.93%)[42] based on population proportions as displayed in the graph above. These were based on the population estimates for the years in question made by UN DESA in 2012. The study has drawn on ILO KILM indicators for estimating the respective labor force and total employment figures relating to the population data. (KILM indicators are econometrically developed for countries that do not have all the survey data available to calculate all labor market indicators that have commonly measured.) It was not possible for us to reconstruct the exact method from the methodological information contained in the study, however. The important point the study makes, however, is that unemployment rates need to be interpreted jointly with demographic information because the size of the working age population varies over time, not only due to fertility rates, but also due to migration. In other words, high numbers of unemployed persons can also result from relatively low unemployment rates (as in the graph above).
- The current World Bank website listing for the unemployment rate in 2014 stands at 6.4%, with a rate of 6.2 prevailing in 2011, 2012, and 2013.[43] The World Bank website listing directly draws on ILO's KILM 2013 edition. We present a longer timeline from the new KILM edition of 2015 below, that we suggest is the best possible approximation of the national unemployment rate in the absence of the results of a new labor force survey. Looking at the longer trend figures is important for understanding that unemployment in Lebanon has not suddenly emerged in the wake of any recent crises. As in many other countries, it is a structural problem that has existed for a long time and that has not been paid sufficient attention to.

[42] ILO 2015.

[43] http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS.



G.21 Unemployment rates for Lebanon 1991-2015 (total, youth, disaggregated by sex).
Source: KILM 2015, tables 9a and 10a.

- CAS has published unemployment rates for the years 2004 (8%), 2007 (9%), and 2009 (6%)[44] making use of data from a multiple indicators clusters survey (MICS3) conducted in 2009 in partnership with the UNICEF-Beirut office and using ILO standards for calculating unemployment rates. KILM trends are usually adjusted according to empirical measurements if these are madeaccording to ILO standards. It is therefore not surprising that CAS and KILM data are in consonance.

Ultimately, decisions relating to employment promotion in Lebanon are not going to depend on the accuracy of the numbers behind the decimal point, or even the column before the decimal point of the unemployment rate. After all, the discussion is not about fine tuning the labor market in line with the most recent movements of macroeconomic variables, but about structural factors that need to be addressed in order to break away from an existing unemployment pattern. Therefore, all information that has been assembled and produced is valuable and differences in results need to be constructively used to deepen the understanding about the Lebanese labor market.

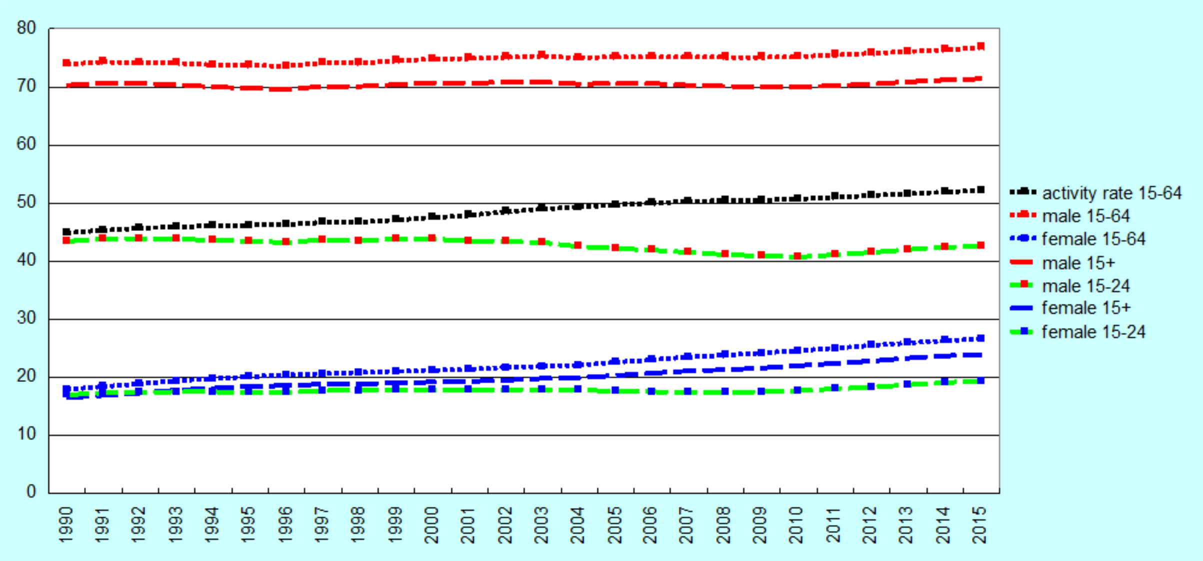
It is impossible for the team, within the framework of the resources accorded to the ELMA, to review every data point that has been produced regarding the labor market in Lebanon. Information therefore is presented selectively in line with what the team feels is important to highlight in preparation of further German government development interventions.

The graph above not only highlights that unemployment is an issue that has been present over decades. It also reveals that

- the youth unemployment rate systematically is 3-4 times higher than the total unemployment rate
- the male unemployment rate is slightly lower than the total unemployment rate and its pattern rather identical
- the reduction of the total unemployment rate as of 2007 seems to be accompanied by an increase of the female unemployment rates (both youth and total females), part of which is probably attributable to increased labor force participation of female youth while the

[44] CAS 2011.

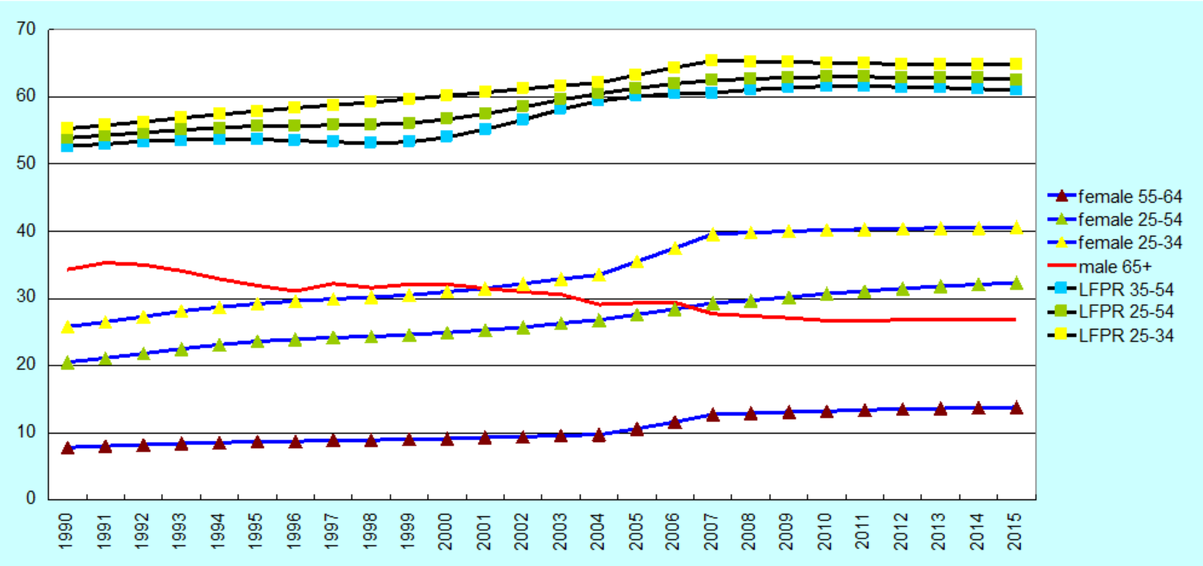
number of jobs accepted for female employment (e.g. in the public sector) remains limited



G.22 Labor force participation (activity) rates for Lebanon 1990-2015 (total, youth, disaggregated by sex). Source: KILM 2015, table 1.a.

Labor force participation in Lebanon is gradually increasing as displayed in the graph above, however, it is not increasing for youth. Whether it is not increasing for youth because well educated youth migrates abroad or because youth more generally is discouraged to participate in the labor force would require further research. Probably it is a combination of both.

The graph below presents labor force participation rates for selected groups where participation have changed more significantly over the past two and a half decades and that are concealed by the overall trends. The strongest rise in the labor force participation rate occurred with young females (age 25-34), followed by females aged 25-54 (which includes the former group). Aged males (65+) are slowly retreating from the labor force whereas women aged 55-64 have increased their participation.

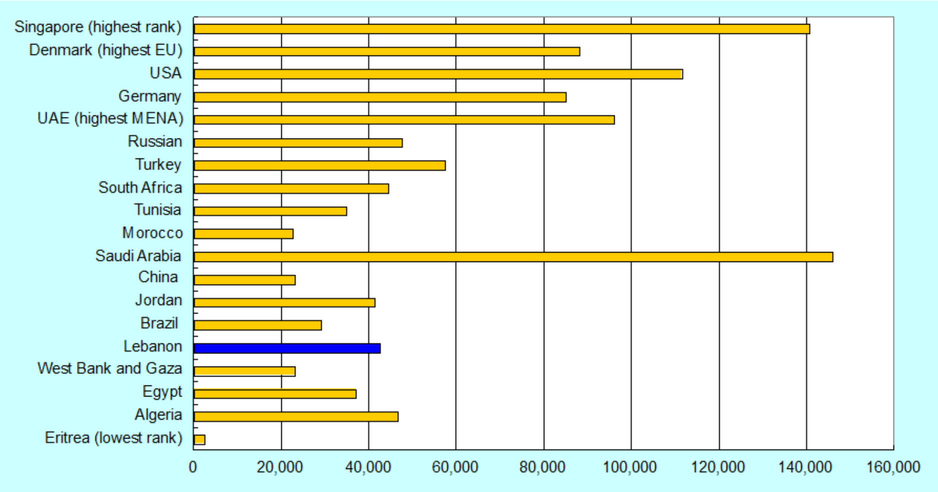


G.23 Labor force participation (activity) rates for Lebanon 1990-2015 (selected subgroups). Source: LO KILM 2015, table 1.a.

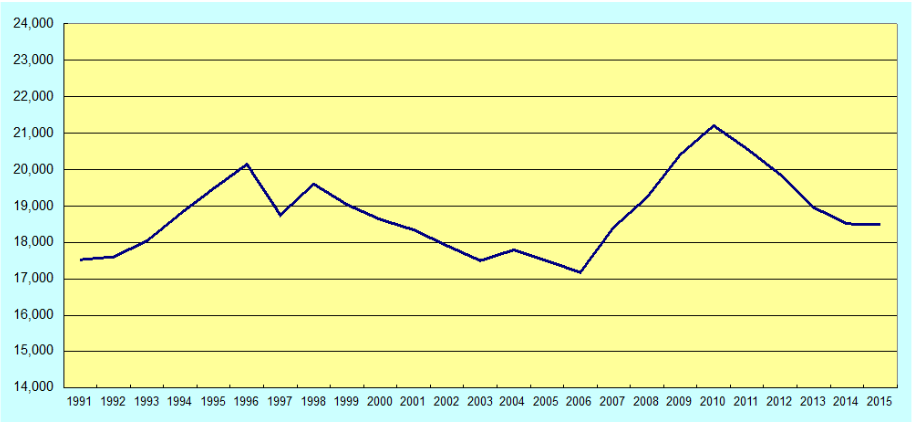
The trend for female labor force participation of young women (aged 25-34) to increase is not exclusive to Lebanon. It is slightly higher in Tunisia (quite similar trends with Lebanon since

1990). Both Algeria and the West Bank and Gaza also show the same trend, however, have started from a much lower base (14 and 13%). For Jordan and Saudi Arabia the slopes of the curves are more gently inclined. Turkey's rate has accelerated only during the last decade and now reaches the same level as in Lebanon. On the other hand, Egypt's rate used to be five percentage points higher higher 25 years ago and has dropped below Saudi Arabia's level.

As far as labor productivity is concerned, Lebanon is currently at par with Jordan. Output per worker is somewhat higher than in Tunisia. It is almost twice as in Morocco and the State of Palestine. Given that a large share of the economy is related to services, trade, and finance, however, this average may not necessarily reflect productivity levels in industry.

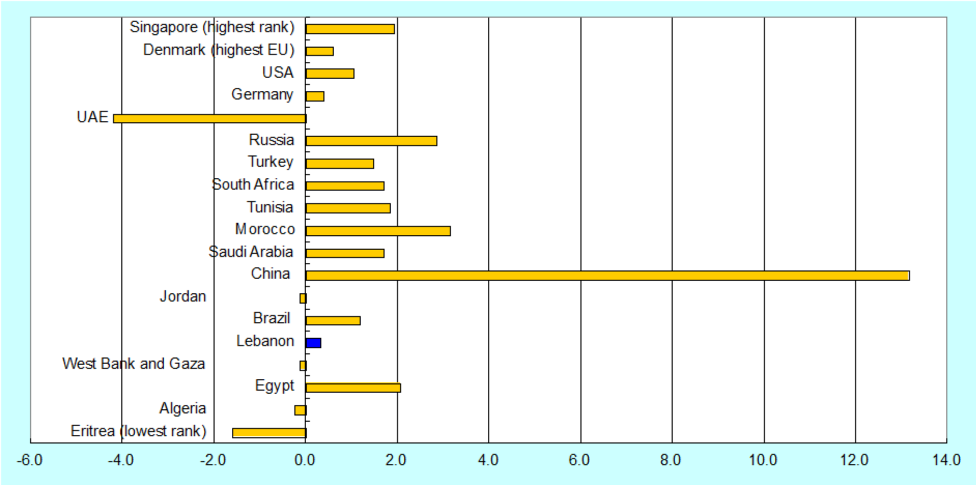


G.24 Labor productivity 2015 (output per worker, in 2011 international ppp dollars) compared.
Sorting of countries in the table according to Doing Business index ranking 2015.
Source: ILO KILM 2015, table 16.a.



G.25 Evolution of labor productivity 1991-2015 (constant 2005 USD).
Source: ILO KILM 2015, table 16.a.

When reviewing the longer term trend of labor productivity, it emerges that labor productivity is not increasing substantially. It rather seems to widely fluctuate around USD18,000 (constant 2005 USD). When calculating average annual labor productivity growth over the last decade (as displayed in the graph below) Lebanon emerges on the positive side, but is not able to keep up with Morocco and Tunisia.



G.26 Averaged annual labor productivity growth 2004-2015 in percent 2015 compared. Sorting of countries in the table according to Doing Business index ranking 2015. *Source:* ILO KILM 2015, table 16.a, own calculations.

Slower growth of the Lebanese economy is named as one of the reasons, why not enough employment for the newcomers on the Lebanese labor market was created in recent years. The approximately 23,000 yearly new entrants to the labor market over the next decade go beyond the recent job creation rates - 12,000 to 15,000 new jobs per year over the last 10 years. Moreover, if the aspirations of female youth to venture into employment are to be looked after, this will require additional jobs.

The majority of jobs created in the last decade were in trade, services and construction. Between 2004 and 2009, trade contributed to job creation by 61%, services by 33%, followed by construction with 10%, and a decrease in the agriculture and industry sectors.[45]

According to the World Bank and the ILO, most of the jobs created are located in low productivity sectors (wholesale and retail trade, repair of motor vehicles, accommodation and food services, and real estate). The low productivity service sector provides employment to 35% of workers and 61% of self-employed whereas the high productivity sector (transportation, financial services and insurance) provides employment to only 14% of workers and 3% of self-employed.[46]

According to OECD findings even workers with a university degree can be found among those who are active in the low-productivity sectors and therefore not just school drop-out or those with lower qualifications are affected by a lack of decent employment opportunities, low wages and low return of investment in education.[47]

Approximately 20 to 25% of Lebanon's active population is involved in agricultural activities. Many of Lebanon's poorest families depend on agriculture as their primary source of income and employment.[48]

In general the Lebanese labor market is male dominated. Men are economically more active than women (71% and 23% respectively of the potential workforce in 2013).[49] Women's professional activity tends to peak around the age of 25 and to steadily decrease, while

[45] World Bank 2012.

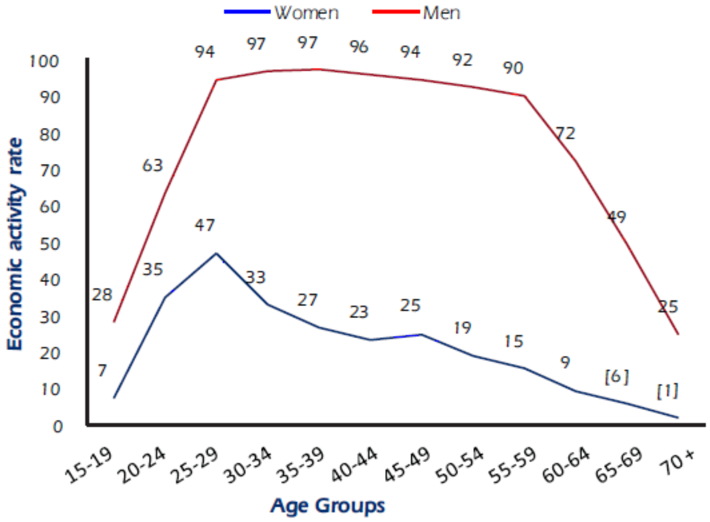
[46] Republic of Lebanon: Good Jobs Needed, David Robalino, Haneed Sayed, December 2012 - Document of the World Bank, p. 15.

[47] Nabil Abdo: Lebanon Skilled workers for a productive economy?, document of the OECD.

[48] Lebanese Ministry of Agriculture, 2010.

[49] Ibid.

men's activity remains steady around 90% until the age of 60.[50] This is a labor market pattern not uncommon to the MENA region.



G.27 Economic activity rates by age groups and sex.
Source: CAS 2011.

Female participation is directly linked to the level of education: 45% of university graduates work as opposed to a range of 13% to 20% for the less educated women. Higher education is directly correlated with female labor participation.[51]

	Labour participation rate in 2007		
Attained educational level	% female	% male	% female & male
Illiterate	4.3	43.2	16.5
Elementary	13.2	78.7	49.5
Intermediate	13.1	76.9	45.5
Secondary	20.4	59.0	38.9
University	45.4	62.5	54.0
Pre-school and read and write	6.8	52.2	31.0
Undefined education level	12.4	45.7	28.6
Total	21.1	66.9	43.4

T.28 Labor participation rates by educational level 2007.
Source: Charbel Nahas | Economic Research Forum: Financing Higher Education in Lebanon, 2009 (p. 47).

There are 250,000 resident female workers in Lebanon, out of whom, 195,000 are employed on a monthly basis.[52] On the other hand, official statistics show that 87,700 working permits were issued or renewed for maids who are overwhelmingly female monthly employees.[53] Foreign domestic workers thus represent one-third of the female labor force (and almost 45% of the female employees recruited on a monthly basis), bringing down the rate of Lebanese domestic female labor market participation from 21% to about 16%, that is its same level as in 1970. The availability of domestic workers is most probably a significant factor for the work participation of married women with school age children.

Furthermore school timetables include many holidays and, since the war period, have been shortened until 1400 hrs. Such timetables are incompatible with common working hours,

[50] CAS, The Labor Market in Lebanon, 2011.

[51] Charbel Nahas | Economic Research Forum: Financing Higher Education in Lebanon, 2009.

[52] CAS 2004 Living Conditions.

[53] CAS 2007 Yearbook.

except in public service were work ends at 1400 hrs, as well. This makes work in the public sector and/ or in the education sector particularly attractive for married women with children.

The absence of reliable schemes to provide care to the elderly puts heavy responsibilities on the women.

One can conclude that, under the prevailing institutional conditions the additional cost incurred by a married woman with school age children for going to work exceeds the minimum wage to pay for a housekeeper or to pay for a nursery, not even considering the opportunity cost of educating the children.

As a result female labor force participation, apart from the two extreme tails of the income distribution, with the poor who do not have any choice and the very rich for whom work is a personal fulfilment, ends being restricted to specific age brackets (before birth of the children) or to specific professional niches (teachers), or depends on high income levels (that require high professional skills and education).

1.6. Political situation and economic policy orientation

Lebanon's political situation is in dire straits and there is no effective and reliable economic policy orientation.[54]

Political and security unrest have weakened the country's infrastructure and destabilized its institutions. Lebanon continues to suffer from the prolonged effects of the civil war of 1975-1990, the consequences of the 2006 conflict and by the economic crisis that severely hit major parts of the world in 2008. The deepening armed conflict in Syria since March 2011 poses an additional threat to Lebanon's political order and economic stability. The security situation deteriorated in 2012-2015 with violence spilling over contributing to weigh in on growth prospects.

The complex social structure of Lebanon and the underlying tensions between confessional groups and political loyalties remain a major issue in decision-making and policy implementation at national level. Almost all persons interviewed mentioned a quasi-paralysis at the government level and a blockage of all institutions. The delays in the formation of a new government have weakened governance and delayed public authorities' decision making and left draft laws stagnant in the parliament.

- Parliamentary elections scheduled for mid-2013 were delayed until 2014 then to 2017 due to a political deadlock over redesigning the electoral law. In addition, the government has been acting without approved budgets for many years, which can also be attributed to the political polarization in parliament.
- Since May 2014, more than 30 attempts have failed to elect a new president, which explains why many initiatives and bills that were widely debated and submitted to Parliament have been blocked.[55]

Political instability is also contributing to declining economic activities, decreasing consumer confidence, delay of investments, reducing touristic flows, and weakening external trade.

As the International Crisis Group summarizes,[56]

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[54] Lebanon's political economy has been described in section 1.2 above because it is the setting against which economic patterns of the past have evolved. This section focuses on the current political situation that is embedded in the country's political economy.

[55] http://www.albawaba.com/news/lebanon-fails-elect-president-30th-time-757742.

[56] ICG 2015.

- Lebanon keeps functioning by containing a slowly unfolding crisis through increasingly polarising security measures and informal arrangements between political rivals. These must compensate for the absence of a president, an efficient executive, a parliament that actively upholds the constitution, an independent judiciary, an economic vision and a refugee policy. While still holding up to external threats and pressures, Lebanon is so absorbed by this strenuous challenge that it is allowing itself, slowly but surely, to decay.

- A number of factors play to Lebanon's advantage, among which the fact that it ceased to be a primary arena where attempts to shift the regional balance of forces play out (roles currently assumed by Syria, Iraq, Yemen and Libya) and bitter memories of the 1975-1990 civil war that inoculate polity and society against a recurrence of serious domestic strife.

- The militia culture of old, which on the face of it dissipated as armed groups were partially absorbed into the state, is resurgent. Longstanding socio-economic disparities are deepening.

- A large Syrian refugee influx evokes the earlier wave of Palestinian refugees, whose rejection by wide segments of society and subsequent politicisation gradually turned what started as a concern into a major security threat.

- Social and sectarian tensions are rising, as the quality of public services declines dramatically for ordinary Lebanese, and opportunities for jobs and personal fulfilment are available for a decreasing few. A weary population has lowered its expectations, circumventing the state apparatus and resorting to survival strategies.

- Public institutions are sometimes ineffective as political affiliations hinder accountability.[57]

That being said, crises also provide opportunities. One of the opportunities that possibly may be seized is an increasing readiness to, even if timidly, move away from laissez-faire and agree the implementation of specific policies. Developments in the promotion of the economy and industry point in this direction. Industry representatives even acknowledge that it may be important to agree on a social floor.

Working with national government authorities, nevertheless, is fraught with the significant risks of paralysis discussed above. The slow disbursement of funds from the donor trust fund administered by the World Bank and made available to the Lebanese government in the wake of the Syria crisis is a symptom of the political situation.

1.7. Impact of the Syria crisis

Since the beginning of the crisis, Lebanon has maintained an "open border" policy, despite the fact that it is not a signatory of the 1951 UN Convention relating to the Status of Refugees.

As a consequence, there is no country in the world that has been stronger affected by a refugee in-migration than Lebanon. The share of the population of concern to UNHCR in the total population of the country reached almost 21% during 2014. Roughly every fifth person

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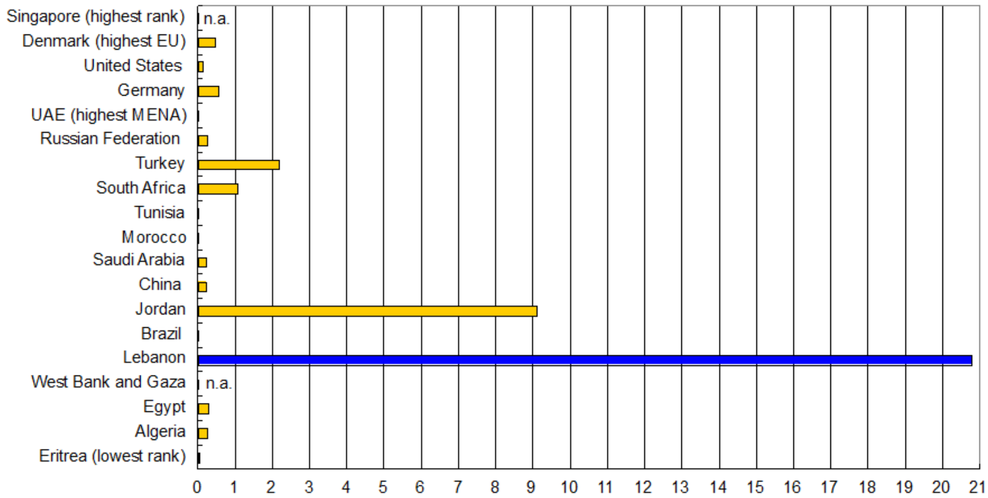
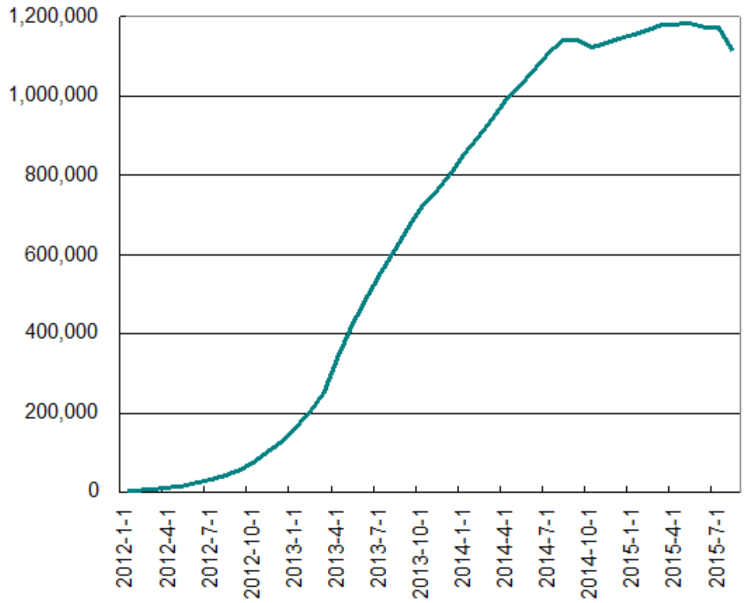
[57] As discussion partners summarized it candidly, it is easier to work with the Syrian government even under the current conditions of war than with the Lebanese government in peace because the Syrian government has a structure. For working with Lebanese government institutions, stakeholders need to identify and link up with effective individuals in these institutions because there is no structure.

in Lebanon thus has migrated to the country as a result of, now mainly, the Syria crisis.[58] This figure, inter alia, completely dwarfs the ratios for any high-income economies that are accepting refugees (see the graph below), even as Germany is beginning to make more substantial efforts to receive refugees from Syria since the second half of 2015.



G.29 Share of populations of concern to UNHCR 2014 of total population 2014.
Sorting of countries in the table according to Doing Business index ranking 2015.
Source: http://popstats.unhcr.org/PSQ_DEM.aspx

As opposed to Jordan where the shares of the population of concern to UNHCR have remained at relatively comparable levels (8.2% in 2013, 9.1% in 2014), Lebanon has still seen a substantial increase in the refugee population (2013: 15.2%) from the Syria crisis until the second half of 2014. In absolute numbers, Turkey has seen the largest increase since 2013, from ca. 660,000 to 1,700,000 in 2014. However, its total population of 77 million inhabitants still cushions the relative impact (0.9% in 2013, 2.2% in 2014).

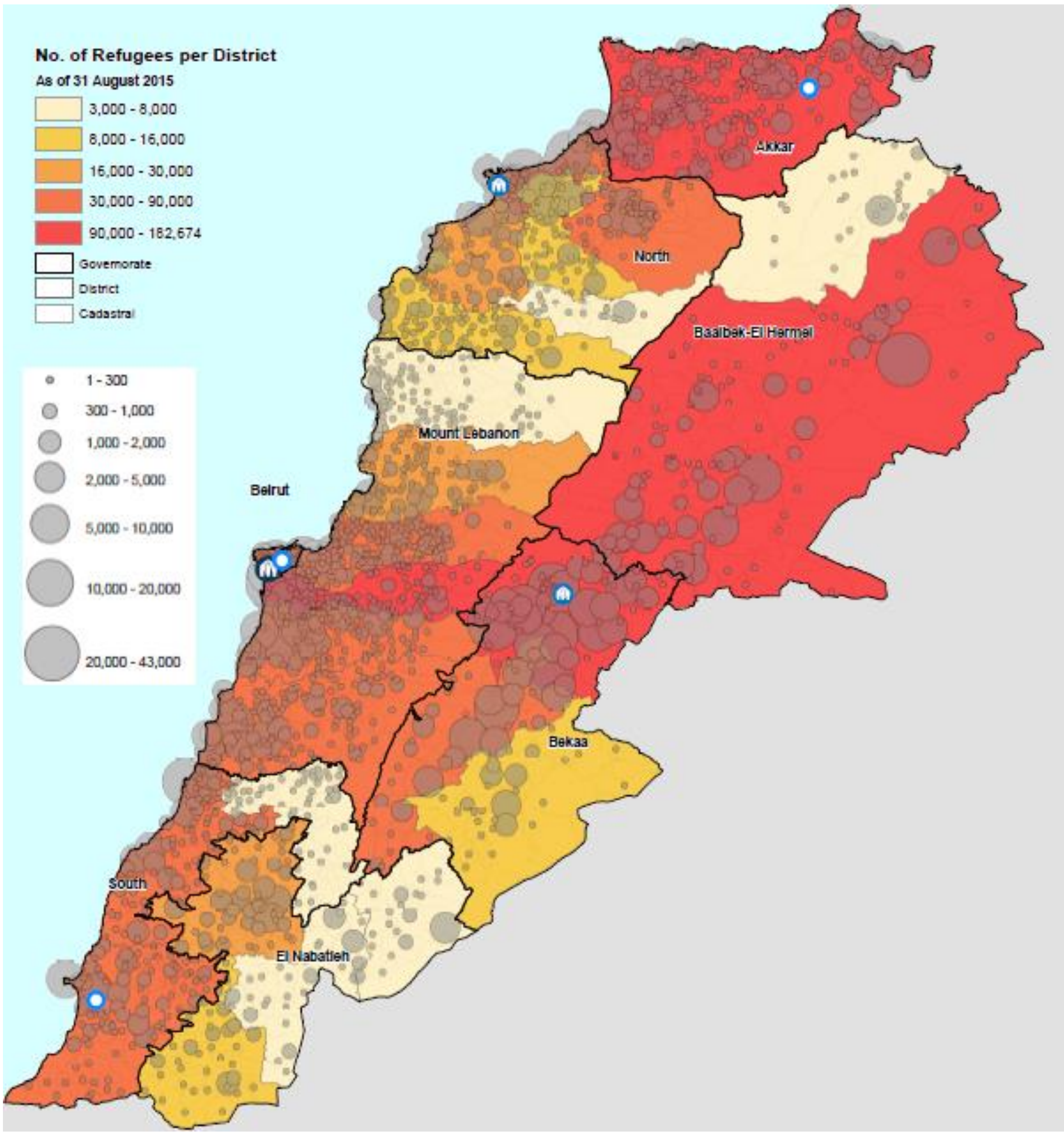


G.30 Monthly UNHCR registration trends for refugees from Syria 2012-2015 (cumulative count).
Source: UNHCR.org chart.csv [retr. 2015-Nov].

[58] If the number of 1.5 million which is frequently mentioned holds, and which would need to include unregistered refugees, the share would amount to 27%, and every fourth person would be a refugee from Syria.

The following graphs summarize some of the demographic features of the Syrian refugee population currently residing in Lebanon.

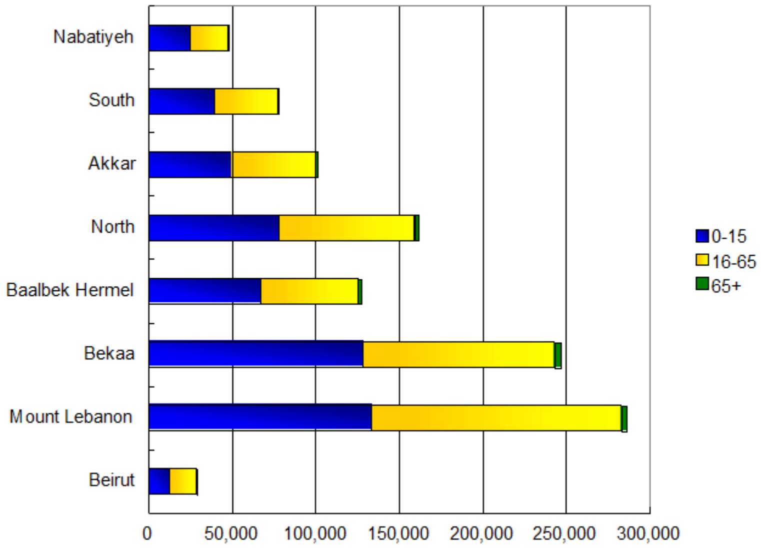
- The refugee population is widely dispersed and does not live in camps, as is partially the case in Jordan and Turkey, for example. This is due to several factors. On the one hand, there are long-standing cross-border family relations and there are seasonal migrant labor patterns that lead to a stronger familiarity between Syrians and Lebanese and facilitate integration; an existing Syrian resident population also provided opportunities for "temporary chain migration". On the other hand, the Lebanese were not keen to repeat the experience they had with the Palestinian refugee camps, and the availability of mobile phones allowed UNHCR to keep track of refugees even as they resettled within Lebanon. Moreover, during the initial phases of the conflict, some refugees passed across the border in order to avoid conflict and returned when the situation would allow. Even in the present situation, refugees may select to return to Syria, often temporarily, to support relatives left behind, some taking the risk of crossing back into areas controlled by Daesh, as Raqqah, for this purpose.



G.31 Regional distribution of refugees from Syria across Lebanon 2015.
Source: UNHCR.org [retr. 2015-Dec].

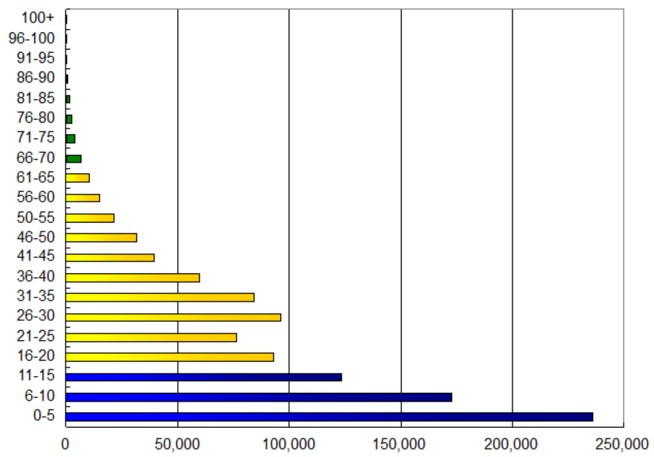
The following graph presents the figures for the Syrian refugees according to governorates and age groups. Independent of the locations, the refugee population is roughly split in half between refugees that are of working age and those who are below working age. Only in

Mount Lebanon and Beqaa are the ratios slightly different: Mount Lebanon 47% (Beqaa 52%) below working age vs. 52% (47%) of working age.



G.32 Refugees from Syria as tracked UNHCR by broad age groups and governorate as of 31 Oct. 2015.
Source: UNHCR, LEB_AliasGovernorate_Age5yrs_Registered_Syrians_31Oct2015.xls.

Currently there is a serious risk refugee youth at a critical age turn into NEET and/ or petty criminal activities to survive. By keeping, for example, all registered Syrian youth refugees aged 16-20 in school or in schemes of vocational training, e.g. on the basis of subsidies tied to school attendance, it would be possible to relieve the labor market of the pressure exerted by 9% of the refugee population, i.e. 93,000 refugees eager to earn an income and busy themselves. If those aged 21-25 could also be included, it would relieve the labor market of the pressure of a further 7% of the refugee population (ca. 76,000). Likewise, if the cohort of those aged 26-30 were tied into cash-for-work or similar schemes to develop local infrastructures, it could help to keep another 96,000 refugee youth from becoming idle and, on top of that, provide them with work experience that can be used to rebuild their country following the end of the crisis.



G.33 Total refugees from Syria as tracked UNHCR by age groups as of 31 Oct. 2015.
Source: UNHCR, LEB_AliasGovernorate_Age5yrs_Registered_Syrians_31Oct2015.xls.

Generally, the age cohorts 16-20 and particularly 21-25 are less represented in the refugee population than one would expect from the shape of the population pyramid. Presumably, these are either age groups that are directly involved in the conflict in Syria or have been left behind to take care of properties left behind. As this indentation of the population pyramid is particularly pronounced for Mount Lebanon, it is also conceivable that some members of these cohorts have chosen not to register as refugees and directly merged as migrants into the local economy.

Some of our discussion partners have suggested that some Syrians may have selected not to register as refugees in order to remain eligible to work, given that refugees are not allowed to do so. The Ministry of Social Affairs estimates unregistered refugees to amount to ca. 500,000. We were not able to verify this information from any other angle. There are reports, however, that some Syrian refugee children are working because this is more easily concealed than if their refugee parents worked. Hence, avoiding registration may be rational for those who are able to find work more easily.

Many refugees experience extreme poverty and living conditions, especially the 85% who are hosted in the most vulnerable areas of Lebanon that originally already accommodated 68% of poor Lebanese.[59] 12.5% of refugees live in 400 informal tented settlements, the rest is distributed across urban and rural areas and Palestinian camps in Lebanon. Many pay exorbitant rent for their poor dwellings.

The exceptional high number of refugees, combined with internal political and economic challenges, has contributed to increased instability throughout Lebanon. The majority of interviewees stated, that they have the impression that refugees are competing with Lebanese citizens for jobs, access to public services and infrastructure. Many young refugees are also prioritizing paid work to support the family income.[60] This is not surprising given that subsidies made available to refugees have been halved because donor pledges have not been fulfilled, and refugees need to find other sources of income to survive.

Before the Syrian crisis, labor market conditions in Lebanon were already dire. High unemployment numbers coexisted with a skills mismatch in the labor market and a high prevalence of low-quality and low-productivity jobs. The influx of Syrian refugees appears to increase labor supply in the area of low-quality and low-productivity jobs with major impacts on women, young people and unskilled workers. The majority of immigrant workers is also unskilled, working in low-productivity economic activities as house-maids, construction workers, car repair staff or fuel station attendants and therefore may also feel the impact of the influx more strongly.[61]

Due to the dramatic development of the conflict in Syria and the increasing refugee influx, the World Bank, in collaboration with the UN, the EU, and the IMF, undertook, in a highly commendable effort, a rapid Economic and Social Impact Assessment (ESIA) of the Syrian conflict on Lebanon for the 2012-2014 period.[62] This assessment is unique to the extent that it united the combined efforts of the stakeholders in a very short time while going into considerable detail on a broad range of issues during a period of uncertain change. The effort made is related to the fiscal stress imposed by the Syria crisis on the Lebanese government because it affects the position of Lebanon vis-à-vis its international creditors, and serves as a reference for respective negotiations. It also served as a basis for the creation of a trust fund that provides external funds for addressing the needs identified. The general conclusions from the ESIA are summarized as follows.

- With the escalation of the Syrian conflict, spillovers onto Lebanon have rapidly moved beyond the humanitarian to the economic and social spheres. During the 2012-2014

[59] MEHE: Reaching all Children with Education (RACE) Lebanon, Ministry of Education and Higher Education Government of Lebanon, 2014.

[60] UNFPA, UNICEF, UNESCO, Save the Children and UNHCR (2014) Assessment of the situation of young refugees in Lebanon, April 2014.

[61] ETF: Labor Market and Employment Policy in Lebanon, 2015.

[62] World Bank 2013.

period, the conflict

- may cut real GDP growth by 2.9 percentage points each year, entailing large losses in terms of wages, profits, taxes, or private consumption and investment;
- push approximately 170,000 Lebanese into poverty (over and above the 1 million currently living below the poverty line) and drive the unemployment rate to above 20 percent, most of them unskilled youth; and
- depress government revenue collection by USD1.5 billion while simultaneously increasing government expenditure by USD1.1 billion due to the surge in demand for public services, bringing the total fiscal impact to USD2.6 billion.

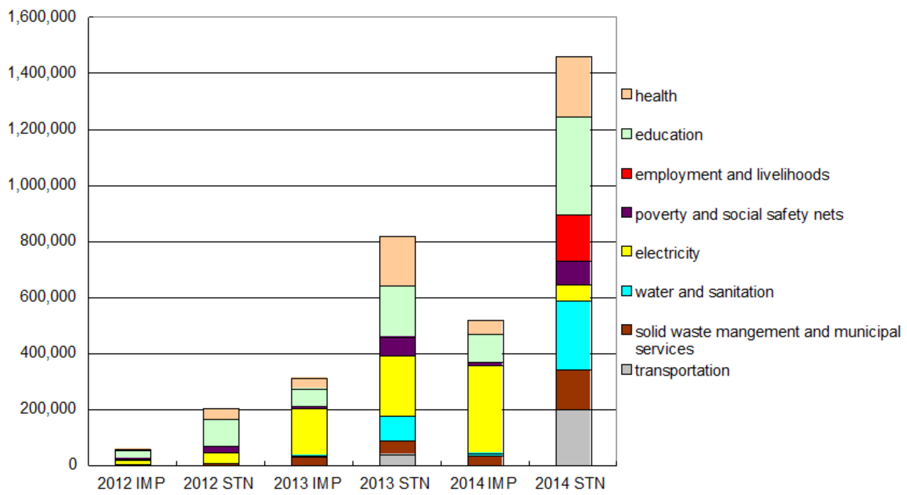
- Across all key public services, the surge in demand is currently being partly met through a decline in both the access to and the quality of public service delivery. An estimated additional spending of USD2.5 billion would be required to reinstate the access to and quality of public services to pre-Syrian conflict levels (stabilization).

- The largest impact arises through the insecurity and uncertainty spillovers which profoundly and negatively affect investor and consumer confidence. The resulting lower economic activity is putting downward pressure on government revenues which, combined with rising demand for public services stemming from the large refugee influx, is damaging Lebanon's structurally weak public finances.

- The impact of the Syrian conflict is also particularly pronounced in the trade sector, affecting goods and services trade, and in particular the large tourism sector. Lebanon is significantly exposed to Syria not only due to its role as a trading partner, but also because a sizable share of Lebanese trade transits through Syria and because of the risk a destabilized Syria creates for Lebanon's large services exports, especially tourism, with the number of international visitors having steadily declined since 2010. The first half of 2013 witnessed sharp reductions in trade flows, particularly for food products and consumer goods. While Lebanon was traditionally a net food importer from Syria, the country posted its first food trade surplus in 2012. Conversely, trade disruptions are pushing up domestic prices of some staples such as wheat flour, which has important implications on welfare, particularly for poor households.

- Lebanon's public finances were structurally weak prior to the Syrian shock and are now becoming severely strained, with the deficit estimated to widen by USD2.6 billion over the 2012-14 period.

The needs estimated in the ESIA for the 2012-14 period are summarized in the graph below. They include both current and capital expenditures. Education, health, electricity were estimated to require the highest and most immediate expenditures, with water, waste and employment and livelihood support following.



G.34 World Bank - United Nations Syrian refugees impact estimate for 2013 in USD 1,000. Baseline influx scenario assuming a total of 1.56 million Syria crisis refugees (independent of status and registration) and (Lebanese) returnees by end of 2014; IMP ... direct impact; STN ... stabilization needs. Source: World Bank/ UN 2013.

It was not possible to verify within the framework of this exercise to which extent the estimates have anticipated actual developments with sufficient accuracy. (Establishing the estimates was fraught with considerable uncertainties.)

When international aid is being made available in substantial amounts, the economic impact of the aid merits attention, in particular because aid may crowd out private initiative and distort local markets. It is also useful to assess to which extent international aid is able to cushion the impact of the crisis itself.

More recently, UNHCR and UNDP have commissioned an analysis of the impact of humanitarian aid on the Lebanese economy in order to assess the impact of the combined aid of UNHCR, UNICEF, WFP, and UNDP (direct cash 44%, in-kind purchases 40%, payroll 14%) used to assist the Syrian refugee population.[63] The analysis, using a social accounting matrix developed on the basis of CAS' input-output table, concluded that

- every USD 1 spent on humanitarian assistance has a multiplier value of USD 1.6 in the economic sectors (USD 800 million disbursed in 2014 corresponded to injecting USD 1.28 billion in the Lebanese economy);
- the multiplier is insufficient to set off the negative effects of the Syria crisis (when taking into account decreases in tourism and exports);
- the highest share of aid was allocated to food products (27%), followed by real estate, which includes rents (14%), chemicals incl. pharmaceutical products (9%), and education services (7%).

The World Bank, furthermore, in 2015 has submitted an assessment of the impact of the Syria crisis on trade as far as observable until the end of 2014.[64] The results from the study are that

- The conflict has reduced demand for goods and services in Syria, including of Lebanese origin. On average an exporter of goods to Syria before the war lost around a quarter of the average pre-crisis export level to Syria by 2012. The effect of the war on aggregate exports to Syria has been smaller for Lebanon than for Turkey and Jordan.
- This effect has been heterogeneous across exporters, mainly affecting exporters who are highly exposed to the Syrian market. Lebanese exports to Syria in the beverages

[63] UNDP 2015.

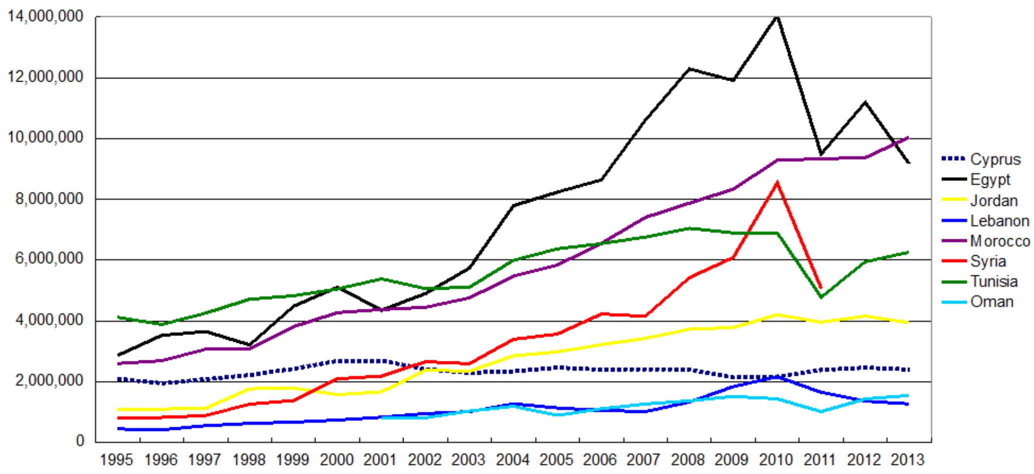
[64] World Bank 2015.

and tobacco sector and to some extent food benefited from the war as they replaced some of the lost production in Syria. (Exports of wheat to Syria increased 14-fold between 2011 and 2013.) Exporters of manufactured goods and of mineral fuels were negatively affected.

- The war has also increased the cost of trading through Syria, which is the only overland connection with the rest of the world for Lebanon. This effect has led to significant re-direction of the trade through the port of Beirut (switch to sea freight) which has helped contain the effect of the increased trade costs.
- The conflict has also spurred some exports to Syria among Lebanese exporters that were not previously exporting to Syria. This replacement effect was large enough to offset the negative effect of the war for Lebanese export trade.
- Excluding Syrian and Lebanese nationals, the number of visitors into Lebanon declined by 23% between 2010 and 2011 and further 15% in 2012 and 2% in 2013. The first four months of 2014 witnessed a further decline of 16% vis-à-vis the same period in 2014. To a large extent, this reflects bans that several countries have placed on travel to Lebanon.
- While tourism receipts have suffered from the Syria crisis, other services sectors have mostly proven resilient to the war. Contrary to most economies in the region, Lebanon's services exports do not rely exclusively on exports of transport and tourism, but rather expand to cover modern sectors like financial, real estate and business services. Overall, non tourism services exports have grown unabatedly during the Syrian war. Even the real estate sector that contracted in 2010-12, most likely from the spillovers of the Syrian conflict, rebounded in 2013. And the financial sector has remained resilient through the crisis despite some loss of profitability of the Syrian affiliates of major Lebanese banks.
- Part of the resilience of the services exports and production is related to the increased demand for Lebanese services spurred by Syrian refugees. Independent of other impacts, a 1% increase in refugees' stock increases services exports by about 1.5%.
- As a result of the study, the World Bank suggests
  - providing support to affected firms and workers, e.g. assisting firms with diversification toward other markets and supporting workers laid off by firms negatively affected by the conflict;
  - assisting with the development of alternative transport arrangements (improving port infrastructures);
  - more formal integration of the refugees in order to maximize the benefit of their presence on the Lebanese economy.[65]

The World Bank trade study has already compared impacts to other countries hosting Syrian refugees. For tourism, the following graph sheds some light on the impact of the "Arab Spring" and the Syria crisis on tourism in the region. From this perspective, despite the very significant decline, Lebanon has been similarly affected as countries with stronger exposure in the tourist market such as Egypt and Tunisia. The latter, however, experienced much more dramatic declines in the absolute number of inbound tourists due to their strong tourist sectors. Turkey (not shown) and Morocco, on the other hand, have seen continued expansion until 2013 while Jordan seems to be able to maintain the level.

[65] While there is nothing to be said against more formal integration of the refugees, it is unlikely that this would maximize the benefits of their presence. In particular, it is unlikely to significantly affect their economic situation (poverty levels) and lead to more formal employment because there are no enforcement capcities, and the size of the informal sector is large. Were the conditions of employment the same, it would be difficult for Syrian refugees to displace Lebanese employees. See also the discussion in World Bank and UNHCR 2016: 144ff.



G.35 International inbound tourists 1995-2013 compared.
Source: International Tourism Organization.

2. The labour demand-side: the impact of business and sector development on employment generation

Intrinsic reasons preventing the Lebanese economy from not demanding more labor are mainly related to weak business environment conditions and a slow GDP growth rate in general, a small and saturated local market and the incapacity of local companies to meet the challenges of increasingly competitive international markets.

The labor demand trends which are due to intrinsic factors are currently exacerbated by the influx of Syrian refugees. The Syria crisis has slowed the Lebanese economy as a whole because of the increased volatility of the security siituation, a drop in confidence and consumption, a drop in investment and FDI, higher cost of exports, and loss of tourism activity. These impacts have not been fully compensated by increased demand and investments resulting from the refugee influx. As a result, access to employment has become a challenging issue for both refugees and host communities.

That being said, discussions with the Association of Lebanese Industrialists (ALI) confirmed the ability of the industrial sector to create more jobs provided the business environment is improved.

2.1. General factors influencing the business environment

Lebanon's economic competitiveness has declined significantly in recent years, despite a slight improvement in 2015, not only in the World Economic Forum (WEF) global ranking of competitiveness but also compared to other countries in the region. Latest records show that Lebanon ranked 101 out of 140 in the WEF Global Competitiveness Index for 2015-2016,[66] and 91 out of 144 in the Arab World Competitive Index in 2013.[67]

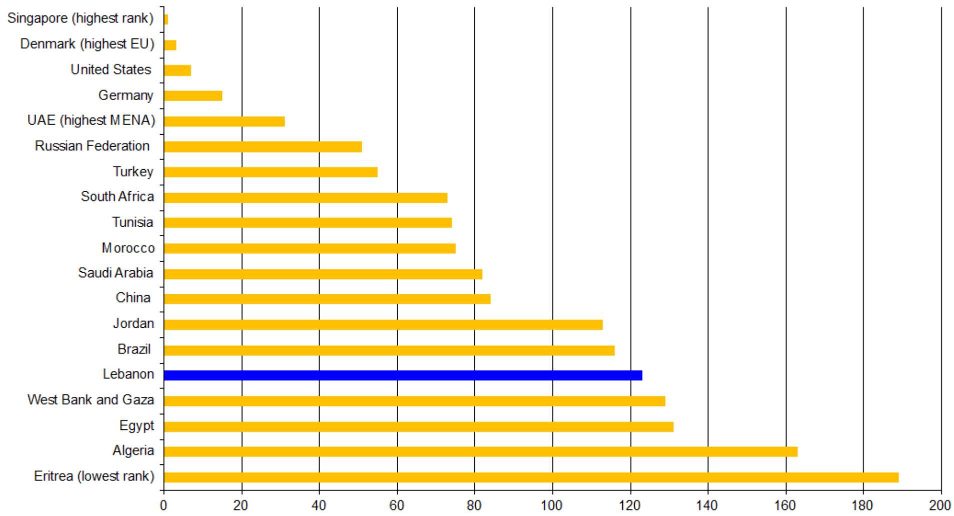
While Lebanon benefits from a relatively strong educational pillar, small market size as well as low levels of innovation are major challenges for the economy particularly as it moves towards diversification and more advanced stages of development. Business development in Lebanon would benefit from a stronger institutional framework as well as from less

[66] WEF World Competitiveness Report 2015-2016.

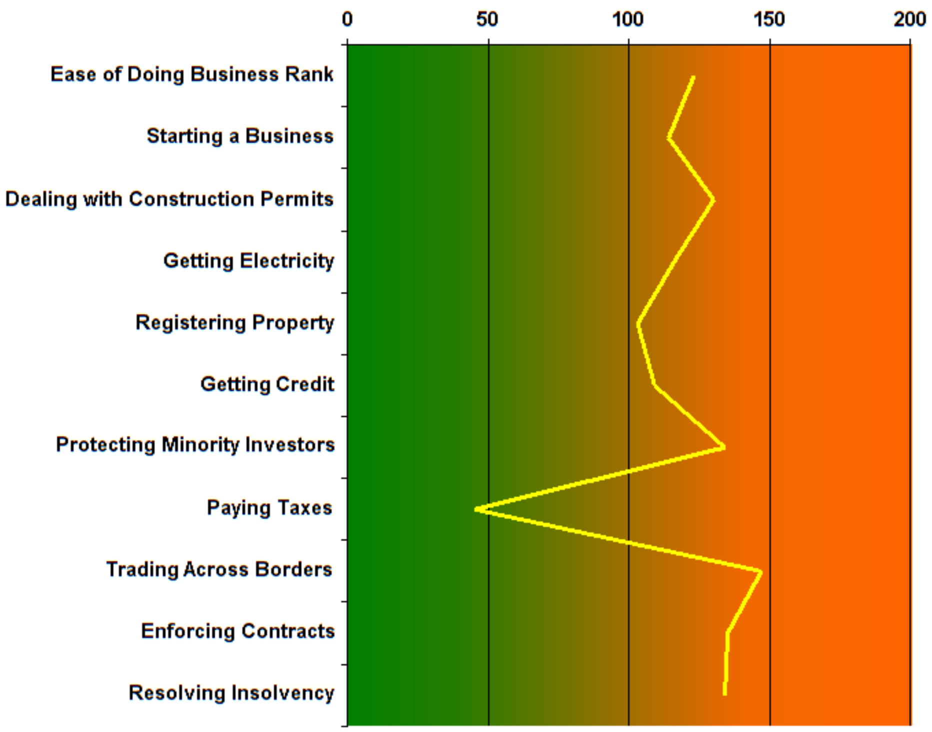
[67] WEF Arab World Competitiveness Report 2013.

bureaucracy and corruption and more political stability. Access to finance is a problematic factor as well, ahead of restrictive labor regulations and the inadequately educated a workforce which despite a strong educational pillar is not educated in line with skills required in the labor market. (See graphics below.)

The WEF indicators are in line with the World Bank (WB) doing business indicators, where Lebanon ranks 124 in 2015 and 122 in 2014 out of 189, due to comparable factors such as government and political instability, infrastructure shortages and access to finance.[68]



G.36 Ease of Doing Business Rank.
Range: 1-189. Source: http://www.doingbusiness.org/rankings [retr. 2015-Nov].

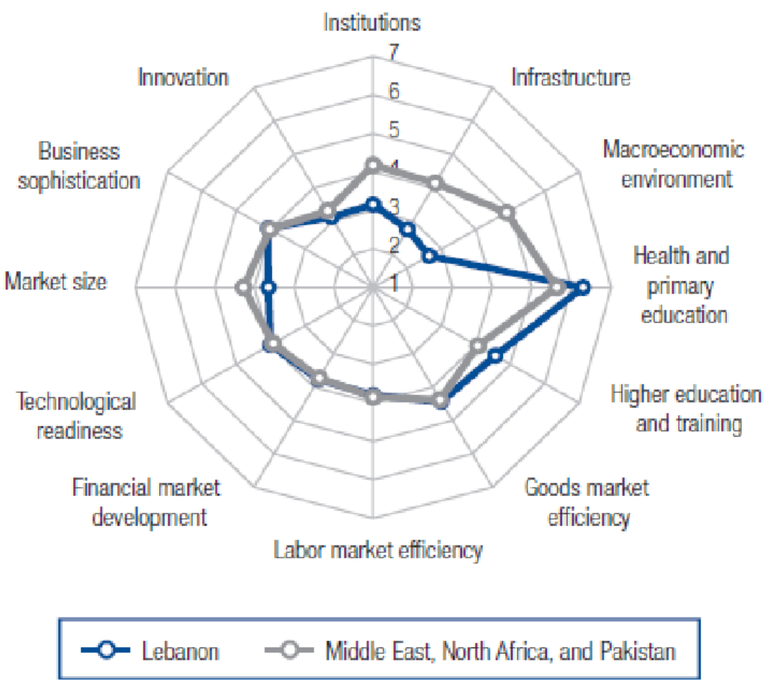


[68] World Bank Doing Business 2015, Economy Profile 2015 Lebanon.

G.37 Ease of Doing Business Rank by sub-indices.
Range: 1-189. Source: http://www.doingbusiness.org/rankings [retr. 2015-Nov].

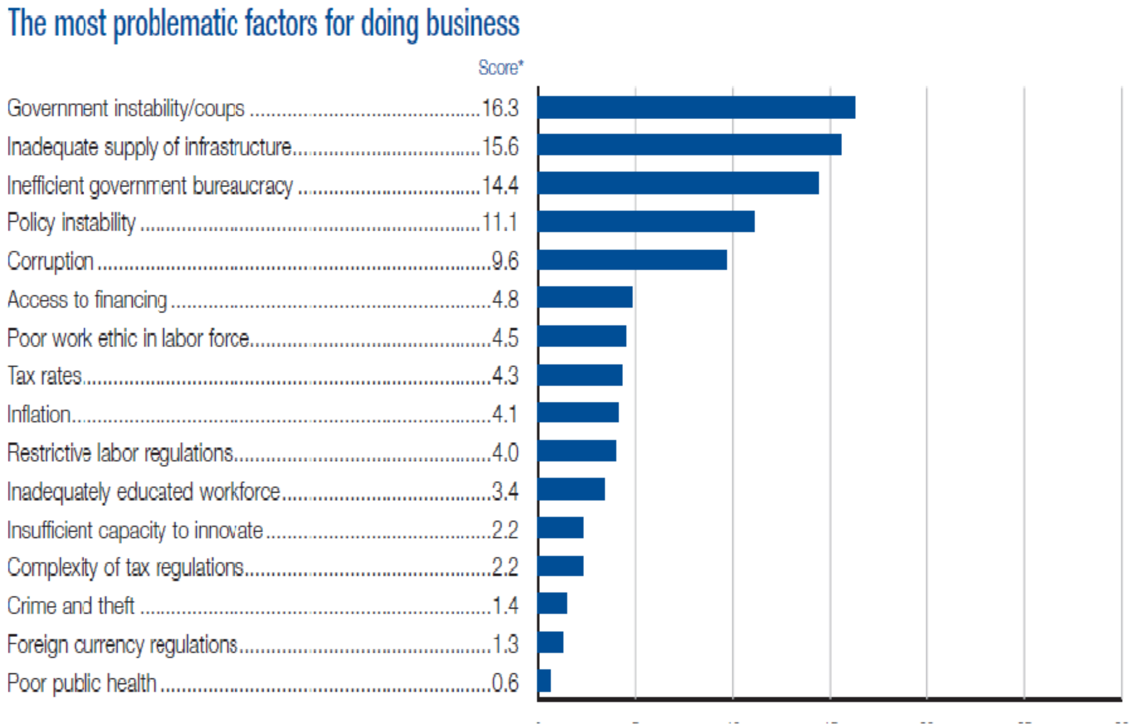
Reasons behind this decline in competitiveness are well described in the latest Ministry of Economy and Trade (MoET) SME strategy document published in 2015,[69] which best highlights recent key challenges that have shown a high impact on the development of Lebanese SMEs, namely:

- At the entrepreneur level an entrepreneurship culture suffering from limited institutionalization and a family centered approach to owning and managing a business.
- At company level, in terms of availability of human capital, capabilities are reported to be not systematically developed, with large gaps in middle management due to emigration and poor talent retention, in addition to a mismatch in human capital supply and market requirements. With regard to capital availability, the MoET report highlights a capital mismatch and limited access to external investors.
- At industry level, uncompetitive market practices and trading inefficiencies prevail, and enterprises are disadvantaged by an unfavorable legal regulatory and taxation framework. Other challenges include an untapped research and innovation potential, and poor statistics and market research to guide enterprise decision making.
- At national level, incentives for formal job creation and for knowledge transfer are not existing in the current employment and labor law, financial markets are still underdeveloped, and increasingly poor and costly infrastructure hinders the ability of enterprises to operate.



G.38 Lebanon's competitiveness compared with MENA and Pakistan.
Source: WEF, The Arab World Competitiveness Report, 2013, p. 22.

[69] MoET 2015. Lebanon SME Strategy, A Road Map to 2020.



G.39 The most problematic factors for doing business in Lebanon.
Source: WEF, The Global Competitiveness Report, 2015-2016, p 232.

From a more global perspective, the general factors influencing the business environment have been summarized as follows: "Going forward, the key challenges for Lebanon remain the weak institutional setup, underdeveloped infrastructure and the country's difficult macroeconomic environment. Institutions suffer from corruption (135th), inefficient government agencies, (129th) and a judiciary that does not meet the needs of business (114th) and is subject to influence by others (131st). At the same time, the security situation imposes important costs on the business community (103rd), mainly due to the prevalence of terrorism (135th). Upgrading the infrastructure in the country will necessitate stabilizing electricity supply (144th) and investing in roads and railroads (115th and 124th)."[70] (WEF Global Competitiveness Report 2015-2016.)

Global Competitiveness Index

	Rank (out of 140)	Score (1-7)
GCI 2015–2016	**101**	**3.8**
GCI 2014–2015 (out of 144)	113	3.7
GCI 2013–2014 (out of 148)	103	3.8
GCI 2012–2013 (out of 144)	91	3.9
Basic requirements (34.8%)	**121**	**3.7**
1st pillar: Institutions	128	3.2
2nd pillar: Infrastructure	116	2.7
3rd pillar: Macroeconomic environment	139	2.6
4th pillar: Health and primary education	30	6.3
Efficiency enhancers (50.0%)	**71**	**4.0**
5th pillar: Higher education and training	58	4.5
6th pillar: Goods market efficiency	56	4.4
7th pillar: Labor market efficiency	109	3.8
8th pillar: Financial market development	78	3.8
9th pillar: Technological readiness	66	4.0
10th pillar: Market size	77	3.6
Innovation and sophistication factors (15.2%)	**67**	**3.6**
11th pillar: Business sophistication	61	4.1
12th pillar: Innovation	95	3.1

T.40 Sub-indices of global competitiveness index for Lebanon.

[70] WEF World Competitiveness Report 2015-2016.

Source: WEF, The Global Competitiveness Report, 2015-2016, p 232.

2.1.1. Infrastructure conditions and policy

> "Lebanon needs to spend at least USD20 billion to improve its basic infrastructure… Today, our main problem against future growth is basically the infrastructure and if we do not sort out the infrastructure, this growth that we're witnessing today is going to dwindle and will vanish... " [71]

Lebanon suffers from a poor infrastructure, ranking 116 over 140, especially compared to its neighboring countries.[72] The lack of infrastructure spending, which has declined as a share of GDP in the last decade, had a negative impact on safety, business activity and growth. Since 1991, efforts to rebuilding the infrastructure remain insufficient, as the government has been unable to make any major investments because of lack of funding and difficulty in getting major policy decisions passed. The Syria crisis and the influx of refugees have strongly exacerbated the strain on existing infrastructures.[73]

	2nd pillar: Infrastructure		
2.01	Quality of overall infrastructure	2.4	138
2.02	Quality of roads	2.8	119
2.03	Quality of railroad infrastructure	N/Appl.	n/a
2.04	Quality of port infrastructure	3.9	80
2.05	Quality of air transport infrastructure	4.3	68
2.06	Available airline seat km/week, millions*	154.2	73
2.07	Quality of electricity supply	1.6	137
2.08	Mobile telephone subscriptions/100 pop.*	88.3	109
2.09	Fixed-telephone lines/100 pop.*	19.4	56

T.41 Infrastructure pillar of global competitiveness index for Lebanon.
Source: WEF, The Global Competitiveness Report, 2015-2016, p 233.

The road infrastructure. The Council of Development and Reconstruction (CDR) is responsible, along with the Ministry of Public Works, for road construction and maintenance in the country. The road network was severely damaged during the civil war. It remains in poor condition and congested, especially within Beirut and Mount Lebanon, as the traffic rate is increasing rapidly. (Lebanon has one of the highest car/ people ratios in the world with one car for every three people.)

A highway links the entire coast, from Tripoli all the way to Tyr, passing through Beirut. Beirut is also directly connected to the Beqaa valley, Lebanon's main agriculture zone, by the Damascus Road, which continues all the way to the Syrian border. There are four operating corridors with Syria: Masnaa (for Damascus), Abboudiye (for Aleppo), Al-Qaa (at the northern end of the Beqaa Valley) and Aarida (on the coastal road from Tripoli to Lattakia), which are open all year long.

Road transport. The country's public transport system needs to be modernized. The unstable political situation and weak finances had so far delayed the endorsement of a public transportation strategy plan aimed at easing traffic jams in Beirut and remote areas by circulating new buses to serve Beirut and its suburbs, link the capital to the main cities in the various governorates, and by building a railway to the north, which should have been instituted in parallel with new traffic law amendments implemented in 2014.

[71] Statement by Mohammed Safadi, Minister of Finance, at the Reuters Middle East Investment Summit. Source: The Daily Star, http://www.reuters.com/article/2010/10/20/us-mideast-summit-lebanon-infrastructure-idUSTRE69J3MB20101020#HcLahBMWxcPFVxLl.97

[72] WEF World Competitiveness Report 2015-2016.

[73] Cf. chapter 1.7 above.

The port of Beirut was an important trading hub before the civil war. Managed by a private company, it was rehabilitated and expanded in the early nineties and still serves as a commercial hub with the surrounding Arab countries. Facilities such as warehouses, a free zone, a logistic free zone (LFZ), silos and general cargo equipment are available. Since 2005, the extension of the Beirut Port and its equipment with advanced container handling technology and related software has attracted new commerce activities and positioned the Beirut Port as a regional hub for water transport.

Electricity supply. Four decades ago, Lebanon used to export power to Syria. Today, due to the lack of major investment in production, transmission and distribution, power production falls short of actual demand and the power system is subject to repeated shortages and blackouts. A legacy of the 1975-1990 civil war, the power crisis has developed as a core economic crisis with a widely perceived corruption around its management and the absence of political will to solve it. As a result, homes and businesses are heavily reliant on more expensive, unregulated, diesel-run generators. Electrical power is mainly supplied by the state-owned Electricite du Liban (EDL) all over the country, except in the city of Zahle and Jbeil which have built and maintained private power plants to provide power during the EDL cuts.

Telecom. The growing demand for IT and mobile services in Lebanon and the MENA region has driven massive investments in Lebanon's telecom infrastructure, estimated to amount to USD 500 million by 2016. The sector has achieved growth in the past few years, driven by various policy initiatives and government decisions to modernize and support its expansion. The "Lebanon 2020 Digital Telecom Vision" project, launched on July 1st, 2015, is a 5-year plan which aims to revamp the telecommunications infrastructure in the country. Despite the Lebanese economy being amongst the most liberal in the region, the public sector controls most operations in the telecommunications sector with the Ministry of Telecommunications owning and regulating both fixed and mobile telecom networks. Today, mobile broadband services cover around 90% of Lebanon.[74]

Policy and recent Initiatives

The lack of clear and comprehensive economic policies was cited by several persons interviewed who mentioned that Lebanese Government has been lacking a global long-term strategy aiming to support economic activities or to reduce social and regional imbalances.

The institutional framework for economic policy remains relatively underdeveloped. However, at the ministerial levels, a number of policy initiatives are being introduced with positive expectations about their implementation. Recently the government has achieved progress in several infrastructure initiatives aiming at facilitating business, such as the establishment of free market zones in the Tripoli and Beirut ports, progress in the development of ICT structure with Beirut Digital District, the appointment in April 2015 of a new management structure to reactivate the Tripoli Economic Zone. A few important projects are cited below, as an exhaustive overview of these initiatives does not exist.

Beirut Digital District (BDD) was launched in September 2012 Beirut as a government facilitated project established with the support of the Ministry of Telecommunications; acting as a facilitator and providing broadband internet and telephone infrastructure at preferential rates. The project aims at providing state-of-the-art infrastructure and superior support services for ICT businesses at competitive and affordable rates.[75]

The Tripoli Special Economic Zone (TSEZ). Adjacent to the port of Tripoli, the Special Economic Zone was first outlined in a Cabinet decree in 2009. The project, relaunched late 2015 will, along with the Council for Development and Reconstruction, oversee the

[74] IDAL Telecom Fact Book 2015.

[75] http://beirutdigitaldistrict.com

reclamation of some 550,000 square meters of sea off Tripoli's coast, which is expected to be completed within two years.

Basic infrastructure then needs to be developed and completed before investors are invited. Potential investors will be offered a wide range of incentives, including, income tax exemptions, VAT exemptions, tariff exemptions, property tax exemptions and exemptions on foreign workers and on social security. What types of industries are needed is not yet clear, pending update of the feasibility study and master plan drawn up in 2000 by USAID.

IDAL. The Investment Development Authority of Lebanon (IDAL) is the national investment promotion agency that was established in 1994 with the aim of promoting Lebanon as a key investment destination, and attracting, facilitating and retaining investments in the country. In addition to its role as investment promotion agency, IDAL is entrusted with the active promotion and marketing of Lebanese exports including agricultural and agro-industrial products. IDAL has the authority to grant special incentives, exemptions and facilities to large projects. Among projects implemented are Export-Plus, Agri-Plus with financial and marketing/promotional resources to qualified exporters. It further extended support to IT service sector.[76]

Kafalat is a Lebanese financial company with a public concern that provides loan guarantees to assists SMEs to access commercial bank funding. Loans are to be provided by Lebanese banks to SMEs operating throughout Lebanon under the Kafalat programme. Kafalat targets SMEs and innovative startups belonging to the industry, agriculture, tourism, traditional Crafts, and high technology sectors. Kafalat is currently managing the recently announced USD 30 million fund earmarked by the World Bank for the Ministry of Finance to finance seed and early growth Lebanese SMEs through public private financing schemes (2013).[77]

Central Bank Initiative (2014) provides incentives for Lebanese Commercial Banks to directly invest in start-ups, funds, accelerators and incubators by guaranteeing up to 75% of their investments in start-ups.[78]

Focused on the technology sector, "Insure & Match Capital" (IM Capital) launched by **USAID and Berytech** (2015) will direct investment initiatives up to USD15 million over a five-year period into three investment support components: matching capital, equity guarantee, and technical assistance.

The Lebanese landscape has recently witnessed the surge of incubators and VC funds offering entrepreneurs with seed and growth capital to grow their business, such as the Berytech Fund,[79] FARO Lebanon fund (2013),[80] along with the expansion of micro-credit schemes targeting micro entrepreneurs, mainly in the informal sector.

Government policy

The Government continues to express a strong commitment to improving the business environment as well as encouraging domestic investment and public private partnerships.

SME Policy. The Ministry of Economy and Trade (MoET) has revitalized efforts to support SMEs and startups, and has designed a full strategy with concrete initiatives proposed until 2020. Nevertheless some efforts have slowed down for example the amendments to the code of commerce seeking to streamline business and intellectual property legislation are still pending parliamentary approval.

[76] http://investinlebanon.gov.lb/en/about_us

[77] www.kafalat.com.lb

[78] BDL Circular 331.

[79] http://berytechfund.org/

[80] FARO Lebanon "Fond d'Amorçage, de Réalisation et d'Orientation" for SMEs, was stablished in the framework of the "Union for the Mediterranean" and aims to providing financial support for innovative projects and enhancing competitiveness and openness to global markets. http://www.ccib.org.lb/en/?p=post&id=56

Industrial schemes. According to a recent report, an estimated 5,000 industrial enterprises employ 90,000 workers in Lebanon.[81] The country's laissez faire economy and the liberalized trade system have dominated, with little focus on adapted and comprehensive industrial policy. Currently the industrial policy is limited to a number of specific laws,[82] programs and incentive schemes, some of them embedded within UNIDO's integrated program for Lebanon aiming at strengthening capacities of the ministry, enhancing the competitiveness of the industry, promoting partnerships, and enhancing quality of products. The Ministry of Industry has developed an integrated vision for the Lebanese industrial sector called "Lebanon Industry 2025" that has defined strategic and operational objectives, steps to achieve them and selected tools and suggested partners to work with and is in the process of preparing for implementation.

Trade agreements and facilitation schemes. Lebanon has signed bilateral and multiple trade agreements with many Arab and European countries as part its trade liberalization agenda: the Euro-Mediterranean Partnership Initiative, 2002; the Free Trade Agreement with the European Free Trade Association (EFTA), 2004; member of the Greater Arab Free Trade Area (GAFTA), 2005; bilateral Free Trade Agreements with Egypt, Iraq, Kuwait, Syria, and the UAE; Lebanon is also an observer in the World Trade Organization (WTO) since 1999 and actively negotiating accession.

The Ministry of Economy and Trade's amendments to the Code of Commerce to further streamline business and intellectual property legislation are still pending parliamentary approval.

Public - Private Partnership. The Lebanese government has identified PPP as a potential tool for procuring essential infrastructure investment, and has taken steps to raise awareness about the importance of PPP for infrastructure development, including the establishment of the Higher Council of Privatization (HPC), an authority in charge of planning and implementing a privatization program, and the drafting of a new PPP law in 2007. However, further steps are necessary before privatization becomes effective, such as the ratification of a revised PPP law, which is still being discussed in the budget and finance parliamentary committee.

Ratification of the PPP legislation could open new opportunities for local and international private sector investment in Lebanon. However, long-term decisions such as privatization or reform of infrastructure, such as electricity and water were not yet taken and are pending to the law to be passed by parliament. The only sector with immediate potential to be privatized would be the telecoms sector.

[81] ETF 2015: 2.

[82] See Ministry of Industry's website http://www.industry.gov.lb/Pages/Lawsandregulations.aspx.

G.42 Export destinations and trade agreements.
Source: MoET Lebanon SME Strategy, A Road Map to 2020 (2015).

At another level, efforts to improve SME access to external markets include the MoET internationalization support initiative to subsidize Lebanese firms to participate in international fairs and events, IDAL's export initiatives (Export Plus, Agri Plus Agro Map programs), MoET quality programs (Qualeb) , and various private institutions such as chambers of commerce, professional associations, entrepreneurship programs.[83]

2.1.2. Regulatory framework for businesses

Traditionally Lebanon is considered to have benefited from a liberal, clear and flexible legal system, providing investors with a sound and secure basis for their businesses. The legal framework is based on laws that guarantee the private ownership of property, the free flow of funds and the freedom of contract between parties.

Over the last two decades, however, the regulatory environment has been progressing at a slow pace as a result of instabilities in the political and security spheres as well as due to an absence of good public governance. This has led to a delay in the decision making process of government entities, and hence for modernization of laws and regulation. For instance, the law on electronic transactions is still under preparation in a parliamentarian committee.

Several approaches have been undertaken to curtail the difficulties experienced in approving a law, most notably of approving articles by including them in the government budget. However, since the government budget has not been approved since 2005, even these methods have failed to deliver a solution to the obstacles presented for the implementation of laws and decrees.

During the last three years, the Lebanese parliament has managed to ratify some laws such as the Capital Markets Law, the Oil and Gas Law, and a few fiscal laws. But these reforms were considered as timid steps and far from sufficient to give a boost to business activities.

[83] For a detailed mapping of support structures http://www.entrepreneurslebanon.com/pillars.php - http://www.economy.gov.lb/public/uploads/files/8698_4576_6285.pdf

B.43 Recent steps in regulatory reform.

The Central Bank of Lebanon (BDL) is independent from the government and issues its own laws. The BDL grants licenses for the establishment of banks, financial institutions, brokerage firms, money dealers, foreign banks, leasing companies and mutual funds in Lebanon so that the entire regulation of the financial and banking system is covered by BDL decisions. (See also: http://www.bdl.gov.lb/laws-and-circulars.html.)

Labor law. A new code of labor offering more flexibility and proposed since more than ten years remains un-ratified by parliament, along with other proposals to upgrade the legislative framework for the labor market.

Investment Law No.360 (2001). reinforced IDAL's mission, providing a framework for regulating investment activities in Lebanon, and providing local and foreign investors alike with a range of incentives and business support services.

Law on Privatization (no.228 of May 5, 2000) . sets up the general privatization framework by regulating its operations and defining its terms and fields of implementation.

Code of Obligations and Contracts (1932). general law that governs relations between individuals in all civil and commercial matters for which no special private laws have been set forth by legislators.

Law on the Protection of the Environment (no. 444 of July 7, 2002) , The Ministry of the Environment has drafted an Environmental Framework Law, a Framework Law for Protected Areas.

Law on Protection of Intellectual, Literary, Artistic, Industrial Property (No. 75 of April 3, 1999) This law protects Copyright and Related Rights (Neighboring Rights), Enforcement of Intellectual Property and Related Laws, as well as Intellectual Property Regulatory Body.

Law on the Protection of the Consumer (No. 659 of Feb. 4, 2005) The Consumer Protection Law ensures the highest quality service for consumers in Lebanon.

Income tax law and company regulations. Corporations and limited partnerships are subject to corporate tax on profits of any business carried on in Lebanon at a flat rate of 15% of their business income. Individuals and partners in a private company are subject to tax on profits, after deduction of family allowances, on a progressive scale starting at 4% for the lower net income portion (below 9 million LBP) up to 21 % for the higher net income portion (above 104 million LBP).

2.1.3. Financial market conditions and policies

Monetary stability has been a determining factor in Lebanon's economic attractiveness: the closely managed exchange rate and absence of foreign exchange controls and restrictions on the movement of capital has fostered financial stability and enabled to maintain a strong and highly liquid banking industry. The Lebanese banking sector has a reputation for strong solvency and solid capitalization levels. The sector has been a major source of financing for the private economy and for the Lebanese government, retaining more than 50 percent of the country's LBP-denominated debt. It has proven resilience in spite of the aggravated political turmoil in Syria which exacerbated uncertainties and risks surrounding Lebanon's operating environment.

Lebanese banks are governed by an extensive set of laws, regulations, and periodical circulars issued by Banque Du Liban (BDL).[84] The central bank is increasing pressure on banks to comply by its regulations, particularly with regard to money laundering under the provisions of Law No.318 dated 20 April 2001, detaining the exclusive right to lift banking secrecy when deemed essential.[85]

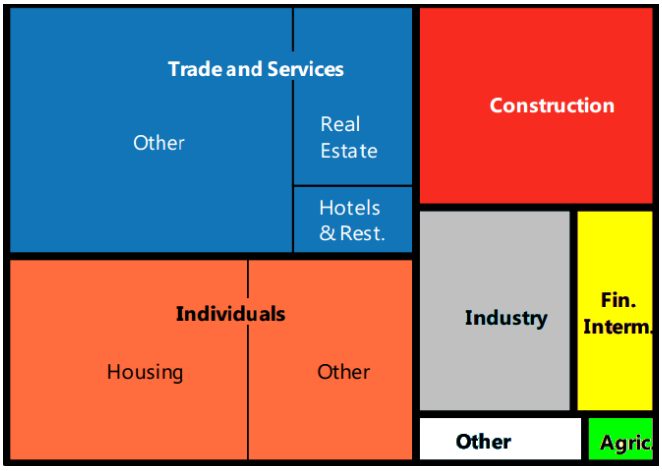
Measured by share of GDP, the Lebanese banking sector is the largest in the MENA region and one of the largest in the world. Aggregate assets exceed GDP by a 3.5-fold. Credit to the

[84] In 2011, the BDL issued three circulars for corporate governance in the banking sector, and in January 2013 , it issued a comprehensive circular with more stringent regulations on compliance in banks and financial institutions. In 2014, the Banking Control Commission created a new unit in charge of the full implementation of "Consumer Protection" based on the circulars issued by the BDL (in 2010) and by the BCC (in 2012). Source: US Department of State: 2014 Investment Lebanon, June 2014 http://www.state.gov/documents/organization/227353.pdf

[85] http://www.sic.gov.lb/law.shtml.

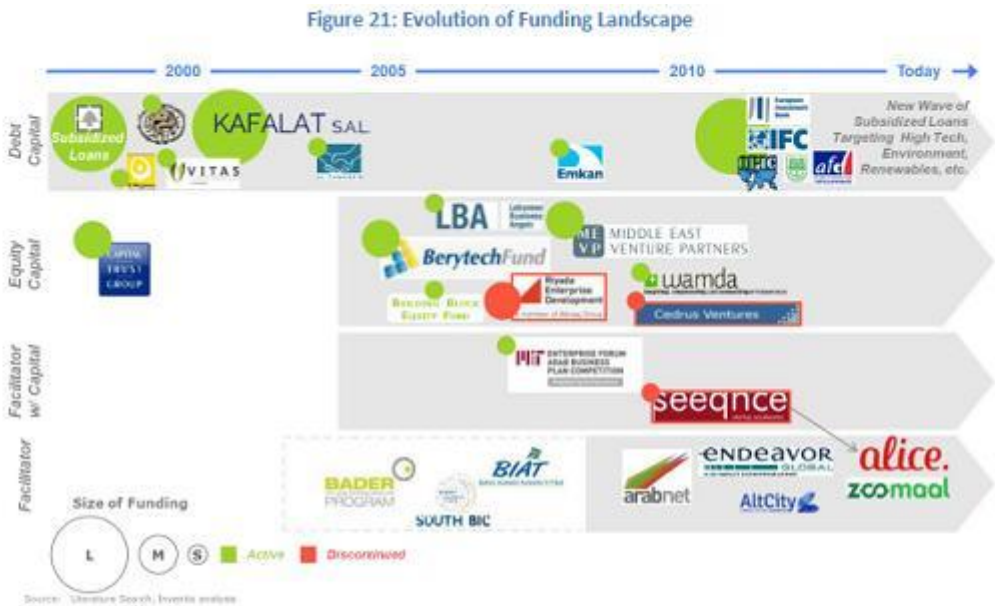
nonfinancial private sector stands at 91% of GDP. As the banking sector is managed based on conservative business models, private leverage is less of a concern than risks resulting from its strong link with the sovereign. Major threats from the perception of the IMF are potential spillovers from the Syria crisis, continuing fiscal deterioration due to political stalemate and stalled structural reforms in the economy.[86]

Lending to the private sector is summarized in the graph below. A sizeable fraction of the loans has gone to the real estate sector.



G.44 Bank loans by sector in June 2014.
Source: IMF 2015: 11.

Access to finance for small businesses has improved considerably over the last decade. For entrepreneurs looking to finance their business, Lebanon now offers a wider range of financial support schemes ranging from classical commercial loans, loans at preferred rates, micro credits, to VC Funds (as mentioned above). However there are still challenges for SMEs to fund their business such as capital mismatch and limited appetite of foreign investors.[87]



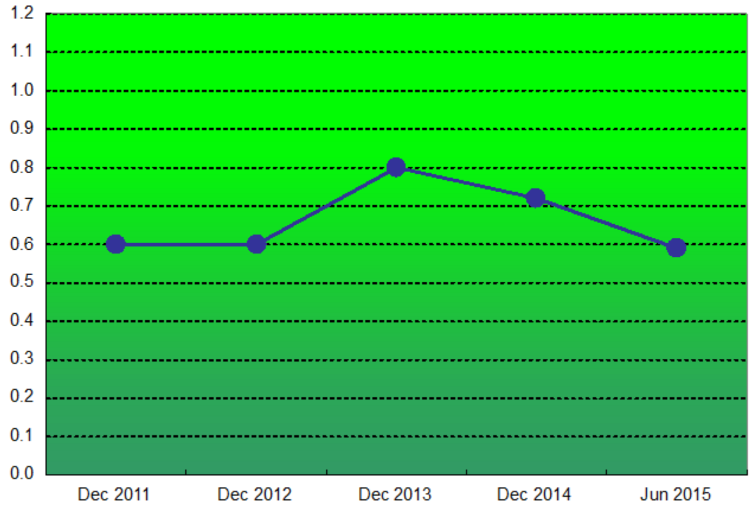
G.45 Evolution of funding landscape.
Source: MoET Lebanon SME Strategy, A Road Map to 2020.

[86] IMF 2015: 10ff.

[87] MoET Lebanon SME Strategy, A Road Map to 2020.

B.46 Crisis? What crisis? Using a proxy to assess the economic impact of the Syria crisis.

We can try to make use of the evolving financial infrastructure catering to small business clients in order to assess the impact of the Syria crisis on the economy. Normally, in any economic crises, a noticeable amount of businesses should get into financial trouble and be unable to repay or service their loans. Therefore a crisis should be felt by financial institutions that have sufficient exposure to businesses that are vulnerable to the crisis. Independent microfinance institutions cannot only depend on their own and the financial sector's strength, but need to ensure that business operations yield sufficient income to cover expenditures. If their clients fail, there is little that can save them.



G.47 Portfolio at Risk (PAR), in percent of total portfolio, of the largest microcredit organization in Lebanon. Source: INFOPRO/ Al Majmoua Lebanese Association for Development.

The graphic above displays the portfolio at risk of the largest microcredit organization in Lebanon during the years since the Syria crisis has begun. This organization has a portfolio of more than 40,000 loans per year. One-quarter of its clients are located in the Beqaa governorate and two-fifths in rural areas. In other words, it is not only operating in Beirut and Mount Lebanon or the coastal areas, but also in regions which are poorer and strongly affected by the influx of Syrian refugees.

Throughout the period in question, the portfolio at risk never exceeded one percent. While there has been a slight increase from 0.6 to 0.8 percent between 2012 and 2013, this value has dropped back to lower levels. Besides the question to which extent the increased risk was attributable to the Syria crisis, the variation is quite insignificant and does not seem to indicate any severe or larger economic crisis. For the clients of this organization, at least, we can assume that the impact of the Syria crisis either was quite manageable, that clients have not been negatively affected, or that positive and negative effects canceled out.

It is, of course, also possible that the economic impact has not made itself felt so much for small or micro enterprises in Lebanon, and that impact was stronger with larger businesses that are not clients of microcredit organizations. It is also conceivable that microlenders are lending to the best among the small and micro enterprises, and that the best have naturally been able to more successfully deal with any effects the Syria crisis brought.

Nevertheless, the little repercussion felt at this large microcredit organization should caution analysts to not overestimate the economic impact of the Syria crisis. Sound research at firm level in different locations is the only way to properly assess the net impact of the crisis.

2.2. Identifying important sectors for employment generation

Identifying economic sectors with potential for growth and employment generation can only be rough in the absence of recent and detailed figures related to output and employment by sector and subsector, which are also obviously affected by the events in Syria.[88]

Going back to 2001 when IDAL was established, Investment Law No.360 [89] identified a set of priority sectors that showed the most promising opportunities in terms of their investment potential and impact on socio-economic growth. The identified sectors that were since then granted investment incentives are industry, agriculture, agro-industry, tourism, ICT, and media, and they continue to be in IDAL's focus.

On the basis of more recent publications and on opinions of experts interviewed within the framework of the ELMA, the above sectors were confirmed as vectors for growth and employment and further specified based on quantitative and qualitative criteria such as the sector contribution to the Lebanese economy, how easily these industries can be developed, the availability of local talent and infrastructure to develop them, and what is the potential for new job creation for Lebanese.

From these discussions and studies, the following sectors respectively some of their value chains would be the most promising:

- agriculture and agro food,
- construction and real estate,
- transport and logistics,
- banking and financial services,
- tourism and hospitality,
- health care,
- ICT and media,
- fashion and jewelry,
- green industries/ renewable energies, and
- waste recycling.

They are estimated to account for more than 50% of GDP, to employ more than 50% of the workforce, and are also considered to have potential for employment and growth because most are labor intensive.

Sectors where employment opportunities for Syrians could be offered (subject to agreement of the Lebanese government) are mostly:

- agriculture and agro-food in areas where Syrian refuges are concentrated, mainly the Beqaa;
- construction as this sector is already traditionally employing Syrians;
- solid waste industries as there are increasing needs for recycling and waste management in all regions coupled with the reluctance of the Lebanese to enroll in garbage collection and sorting;
- tourism and hospitality eventually, where an increasing number of informal seasonal jobs are being filled by Syrians -- however, interviewed persons pointed out that in this case Syrians would displace Lebanese labor;

[88] CAS latest GDP estimates are from 2012-2013, and the latest CAS labor market report was published in 2011.

[89] https://investinlebanon.gov.lb/Content/uploads/SideBlock/130308125455184~IDAL-INVESTMENT%20LAW%20360.pdf.

- specific services traditionally employing Syrians before 2011 as well as jobs open to foreign workers from other countries such as domestic services, cleaning and maintenance services, employees of gas stations, etc.

Below is a more detailed overview of selected sectors.

Agriculture and agro-food: The agricultural and food processing sector contributes to 7 % of the GDP and employs around 9% of the Lebanese workforce. The food and beverages activities generate more than 25% of the manufacturing output, with an annual growth rate of 9% between 2007 and 2010.[90]

Agrofood is a key sector from a development perspective as it establishes backward linkages with the traditional agricultural sector and is labor intensive with the potential of creating employment opportunities, particularly for women and rural communities. The agricultural sector could be a key driver of employment both for vulnerable Lebanese and Syrian households according to the persons interviewed.

While Lebanon is able to export high value added/ highly profitable niche products and services and benefits from a strong country brand awareness and growing regional markets for Lebanese food and booming of the organic food market, it has difficulty to adjust to the increasing food quality and control requirements and to adjust to the organic food/ products required norms and certifications. It also suffers from a difficult regulatory environment, limited efficiency of supporting, poor/ inadequate, transport infrastructure.

A detailed overview of agriculture and the agro food sector is presented in IDAL's fact books.[91]

Specific niche activities/value chains by region were considered by persons interviewed as still undervalued and having high potential.[92] In the Beqaa: fresh juice from unsold fruits, bread from local wheat, milk products in particular made from goat milk. In the South: fresh juices with long shelf live, onshore fish farming with emphasis on need for marketing support; in the North: agriculture extension in various crops (olive, stone fruits, pomme fruits, green house production), post-harvest, and agro-food processing (jams, pickles).

Construction and real estate: The Lebanese construction industry has an important outcome on the country's social and economic growth, through the position it holds in the nation's economy. It consists of over 35,000 operators employing 130,000 people in a multitude of roles, especially if we include people indirectly involved in industry, e.g. economic agents involved in the supply chains of products and services.

The sector is witnessing the emergence of different sub-sectors like design and engineering services, specialized real estate services like property management and related services, along with construction management and maintenance.

The sector's potential strengths are existing niches with high value added (tiling design, specialized decoration works, landscaping etc.), high opportunities for the establishment of new companies in various services/ niches (promotion, marketing, financial services, legal services, etc.), existing funds from Arab countries for real estate development.

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[90] According to IDAL's factbooks that rely on latest CAS indicators (2010-2011): The Agriculture sector generates around 4.7% of GDP. It employs roughly 10% of the Lebanese labor force, and is the 4th largest employer in the country. The Agro-Industrial sector generated in 2011 an estimated 26.3% of the Industrial sector output and around 2.2% of the country's GDP. It currently has an estimated workforce of 20,607 and accounts for 25% of the Industrial sector workforce. It is the largest employer in the industrial sector.

[91] http://www.idal.org/en/sectors_in_focus/agro_industry - http://www.idal.org/en/sectors_in_focus/agriculture.

[92] Several sub-sectors or value chains have already been heavily supported by the international community such as olive oil, honey, pickles and jams, cow dairy products.

The general trend to focus on property management services, increasing demand of middle-income housing projects, increased demand for real estate development projects in the regions (ski resorts, leisure and amusement centres, shopping malls, marinas, etc.), and existence of substantial housing loan schemes by the Central Bank constitute other opportunities for the sector. However, the risk of a real estate bubble due to large speculative investments and the sensitivity to political and security turmoil remain the major threats to the sector.

The construction sector is labor intensive with the potential to employ Syrians, in accordance with an already existing sector employment trend.

Tourism and hospitality: According to economic reports and expert feedback, Lebanon can be a leading regional provider of hospitality and tourism services, with strategic niches such as medical and wellness tourism, ecotourism, high-end tourism, business and event tourism. Lebanon has as well a high potential to develop traditional Lebanese and high end international cuisines. The different sub-sectors generate around 10% of the GDP and employ around 9 % of total workforce.[93]

Lebanon's educated and multilingual workforce is one of the major strengths of the tourism and hospitality industry. However the investment climate which was until 2011 very favorable to foreign as well as local investors, has been seriously affected by the events in Syria. However, the sector can pick up as quickly as it closes down if a trained workforce is in place, and there is untapped potential in regional and internal tourism. Expansion of the sector could be implemented as talents are available, provided existing facilities are upgraded. This sector where low and medium level skills are required is labor intensive and could offer employment potential for Syrian refugees because Syrians are generally accepted in this business.

More recent estimates of the travel and tourism activities available in the latest World Travel and Tourism Council report on Lebanon confirm the above trends.

WORLD TRAVEL & TOURISM COUNCIL

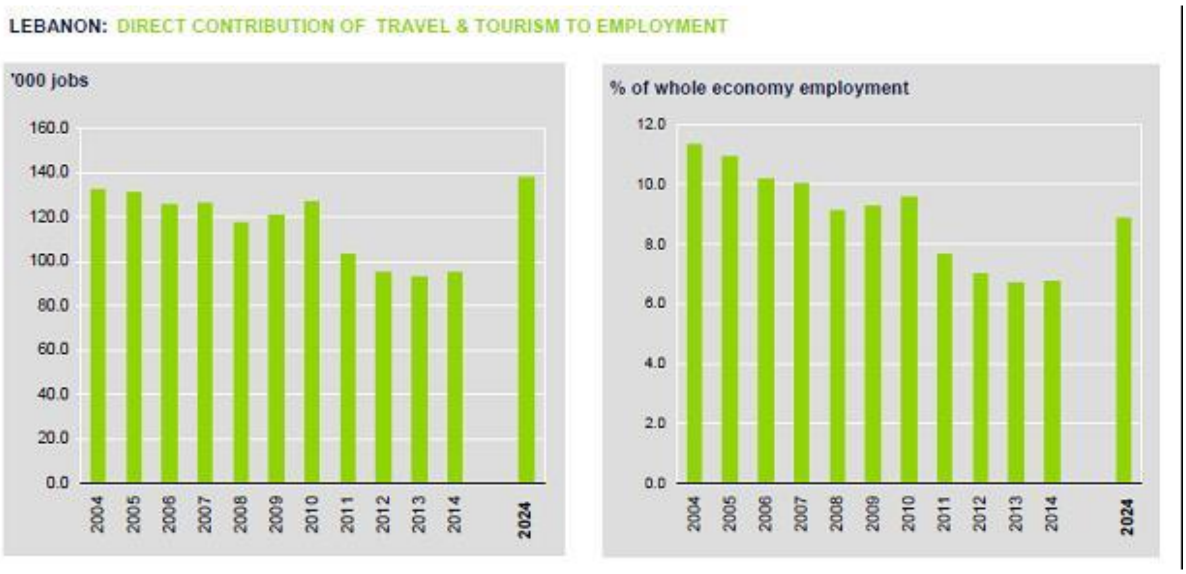
Travel & Tourism's contribution to employment

Travel & Tourism generated 92,500 jobs directly in 2013 (6.7% of total employment) and this is forecast to grow by 2.7% in 2014 to 95,000 (6.8% of total employment).

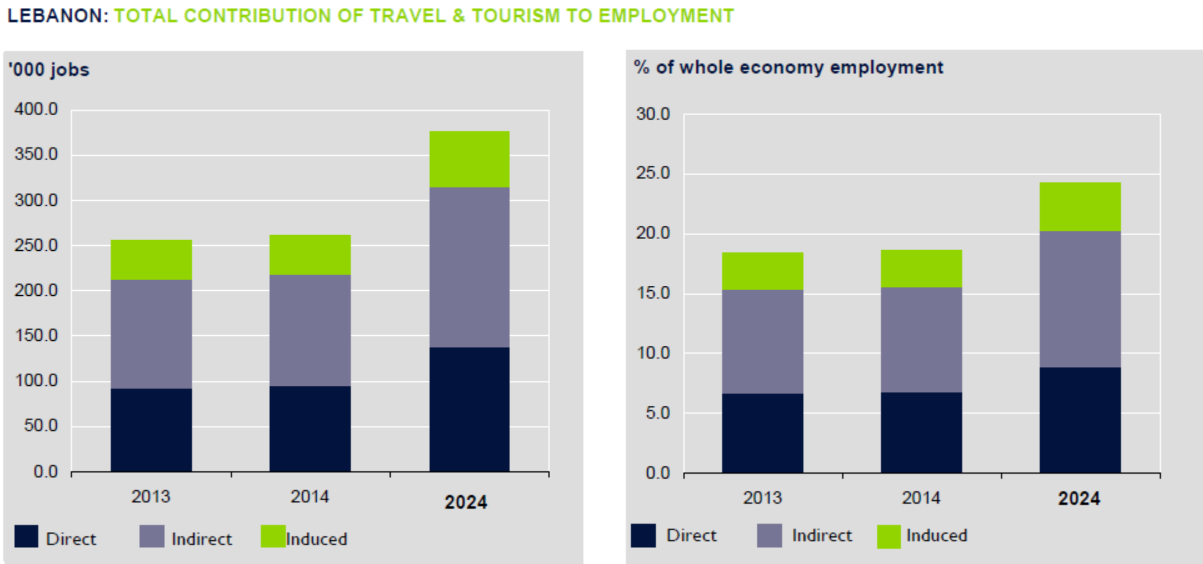
This includes employment by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

By 2024, Travel & Tourism will account for 138,000 jobs directly, an increase of 3.8% pa over the next ten years.

[93] IDAL factbook http://www.idal.org/en/sectors_in_focus/tourism.



pa over the period.



G.48 Contribution of travel and tourism to employment 2013-2014.
Source: World Travel and Tourism Council Travel and Tourism Economic Impact 2014 Lebanon.

Fashion and jewelry: Beirut is considered to be "the capital of fashion of the Middle East". Lebanese people are known to be creative, innovative, and to have a big talent to market their brands. The fashion industry in Lebanon is emerging as a revitalized market with the development of niche markets, larger profit margins, and the penetration of the luxury export market.

The haute couture and the high-end ready to wear are in particular the main drivers of the industry. Activities and services also contribute to the growth and the success of the sector; mainly fashion accessories, shoes and bags, lingerie, fashion shows and modelling, e-trade, fashion publications, fashion photography. Fashion and jewelry in the luxury niche are promising all along the value chain, from creation to manufacturing then to marketing and sales and promotion.

The sector has a promising potential of growth. It benefits from an excellent reputation in both the Arab and the Western markets. However, according to experts' opinion, the industry needs overall to become more aggressive and competitive in production, quality control, and marketing plans and strategies.

The Lebanese jewelry sub-sector, is a closed, large, and unregulated market. The local production ranges from fine jewelry with expensive stones, to more affordable designs made of semi-precious metals and stones.

According to the Syndicate of Expert Goldsmiths and Jewelers in Lebanon, the sector is employing 8,000 people with 2,000 qualified and specialized jewelers. The opacity of the business makes it extremely tough for an outsider to reach skillful artisans. For fashion activities the number of workers is scattered and dispersed due to the large number of activities and branches. However, the sector professionals estimate its workforce between 17,000 and 20,000 persons.

In the absence of countrywide official surveys, one can refer to the reports published by private research units in banks.[94]

ICT and media: Lebanon can continue to be a leading provider of IT services, of software and high quality Arabic content, a leader in media content creation and production, and a producer of talents. The different activities of the sub-sectors are booming and were estimated to generate more than 8% of GDP in 2013, and employ more than 5% of labor force.

Expansion of the sector could easily be implemented as talents are available and Lebanese providers are able to develop technologically advanced affordable tailor made IT solutions, adapt contents and applications into Arabic to meet regional demand, and due to the existence of highly qualified media and creative agencies, serving the domestic and regional markets.

However, the sector suffers from weaknesses such as the small size of the domestic market, insufficient business support environment (incubators, technology hubs, etc.), high growing local and regional competition, high costs for telecommunication, low capacity of the ICT infrastructure, poor regulatory framework to support media and intellectual property, and high brain drain.

This sector is considered to be promising in all regions, including remote, rural areas where small IT shops are expanding, is appealing tp the young and the women, is made easy with improved data communication, and has a high value added and a strong export potential.

G.49 ICT and media sector.
Source: IDAL Factbooks.

A detailed overview of the ICT and media sectors are presented in IDAL's corresponding Fact Books 2014 and in other sector reports.[95]

[94] Bankmed Analysis of Lebanon's Apparel Market , March 2014; Blominvest Bank Focus in Brief: The Lebanese Jewelry sector, May 2012.

[95] http://www.idal.org/en/sectors_in_focus/information_technology; http://www.idal.org/en/sectors_in_focus/media; Bank Med Analysis of Lebanon's ICT Sector, April 2014; Bank Med Analysis of Lebanon's Media and Advertising Sector - May 2014.

Table 3.1b

Gross domestic product **GDP**

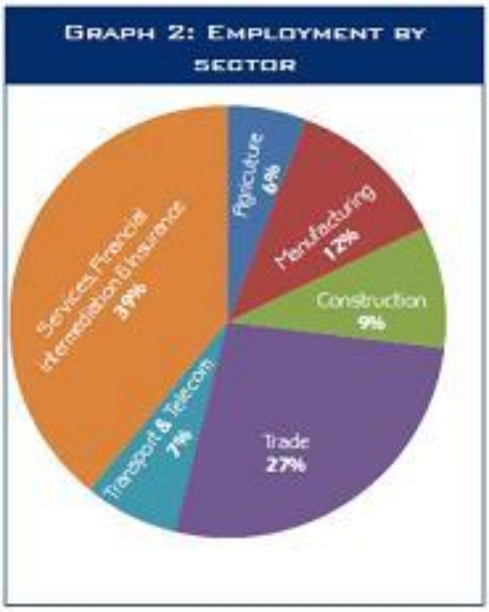
By activity

At current prices

Percentage share of GDP

Description		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross domestic product at market prices		**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Taxes on products		14%	13%	12%	13%	13%	14%	13%	12%	11%	11%
less Subsidies on products		-2%	-3%	-4%	-4%	-6%	-2%	-3%	-4%	-4%	-4%
Gross value added at basic prices		**87%**	**89%**	**92%**	**91%**	**93%**	**89%**	**90%**	**92%**	**93%**	**93%**
Agriculture & forestry	A1	2%	2%	3%	3%	3%	2%	2%	2%	2%	2%
Livestock & livestock products; fishing	A2	2%	2%	1%	2%	2%	2%	2%	1%	1%	1%
Mining & quarrying	B	0%	0%	0%	1%	0%	0%	0%	1%	0%	1%
Manufacturing of food products	C1	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%
Beverages & tobacco manufacturing	C2	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Textile & leather manufacturing	C3	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%
Wood & paper manufacturing; printing	C4	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Chemicals, rubber & plastics manufacturing	C5	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Non-metalic mineral manufacturing	C6	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Metal products, machinery & equipment	C7	2%	2%	2%	3%	3%	3%	3%	2%	2%	2%
Other manufacturing	C8	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Electricity	D	2%	2%	2%	2%	2%	1%	1%	1%	2%	2%
Water supply & waste management	E	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Construction	F	4%	4%	4%	4%	5%	5%	4%	4%	5%	6%
Wholesale & retail trade	G1	10%	11%	12%	12%	14%	14%	14%	15%	14%	13%
Vehicle maintenance & repair	G2	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Transport	H	3%	3%	3%	3%	4%	4%	3%	3%	3%	3%
Hotels & restaurants	I	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%
Information & communication	J	3%	2%	3%	3%	3%	2%	3%	3%	3%	3%
Financial services	K	6%	7%	8%	7%	7%	7%	7%	7%	7%	7%
Real estate	L	15%	16%	15%	14%	13%	12%	13%	14%	14%	14%
Professional services	M	3%	3%	3%	4%	4%	4%	4%	4%	5%	4%
Administrative services	N	2%	2%	2%	2%	3%	2%	2%	2%	3%	2%
Public administration	O	10%	10%	10%	10%	10%	9%	9%	9%	10%	9%
Education	P	7%	7%	7%	7%	6%	5%	6%	6%	6%	6%
Health & social care	Q	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Personal & community services	R,S,T	3%	3%	3%	3%	3%	3%	4%	3%	3%	3%

G.50 GDP by economic activities 2004-2013. (Percentage shares.)
Source: CAS Lebanese National Accounts 2004-2013, December 2014.

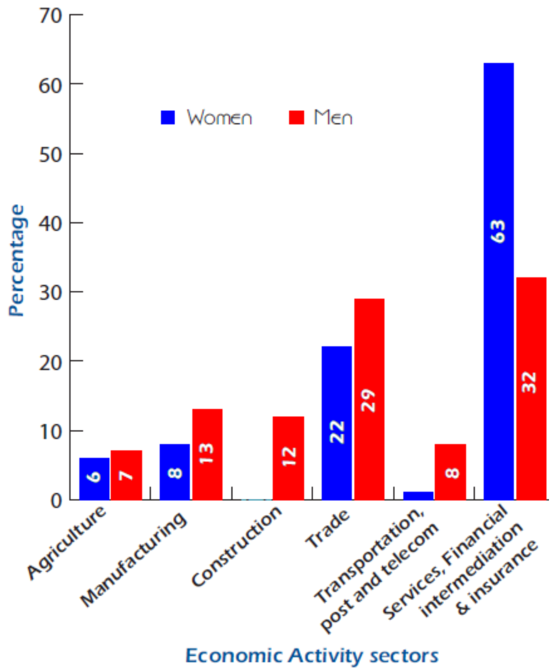


G.51 Employment by sector, 2009.
Source: CAS The Labor Market in Lebanon, 2011.

2.3. Sector specific analysis of labour demand conditions

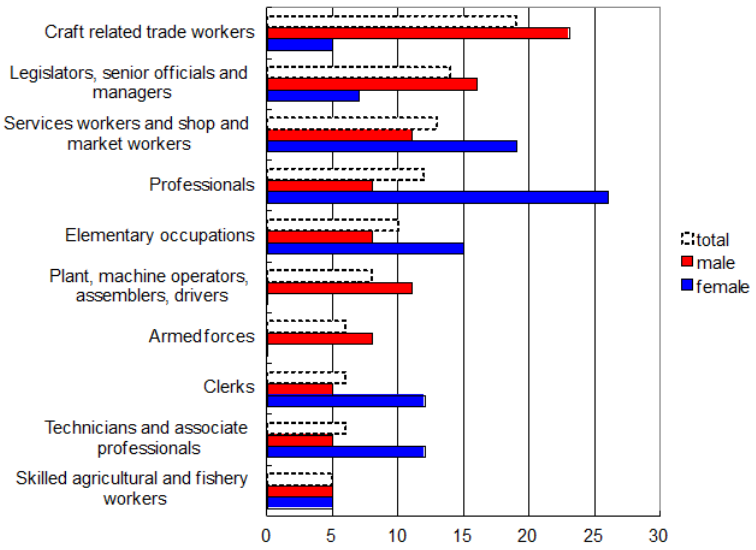
The ELMA was not equipped to take a closer look at sector-specific issues of labor demand. There are also no studies available that look into sector-specific issues. This may be a result of a lack of sectoral policies and laissez-faire approaches as well as an absence of more developed and formalized match making mechanisms in the labor market.

When looking at sectors, however, labor demand (and supply) conditions may invariably be affected by gender issues. The graphic below displays major economic sectors according to female and male participation. The most balanced distribution of jobs between the two sexes exists in agriculture. However, agriculture does not attract as many people (cf. the graph below). It is a sector where seasonal labor from Syria has traditionally played a strong role and its potential for employing more Lebanese citizens would seem limited. Trade would be the next most gender-balanced sector. In manufacturing, there are still substantial opportunities for female employment. While transportation and construction sectors are completely male dominated, females on the other hand dominate in office related sectors.



G.52 Employment in major sectors by sex 2009.
Source: CAS The Labor Market in Lebanon, 2011.

Given these gender-based differences, it may be worthwhile to explore, for purposes employment creation, if there are not any service activities that relate to either economic sectors and thereby foster increasing female employment, e.g. services to manufacturing enterprises, to transportation, and to construction enterprises. Given the higher qualification profile of female labor market entrants, production-oriented services should be a discipline that is not out of reach, though boosting female participation may require, as elsewhere, that facilities exist that provide for child care or after-school activities are available.



G.53 Major occupations by sex 2009.
Source: CAS The Labor Market in Lebanon, 2011.

Similarly, a look at occupations may provide some ideas how to give a boost to the female share in employment. Sectors which are in need of professionals, service workers and shop and market workers, elementary occupations, clerks, and technicians and associate professions are more likely to find suitable employees of the female sex. Sectors that require craft related trade workers as well as plant and machine operators, assemblers, and/ or drivers are also likely to offer more jobs deemed suitable to men in present Lebanese society.

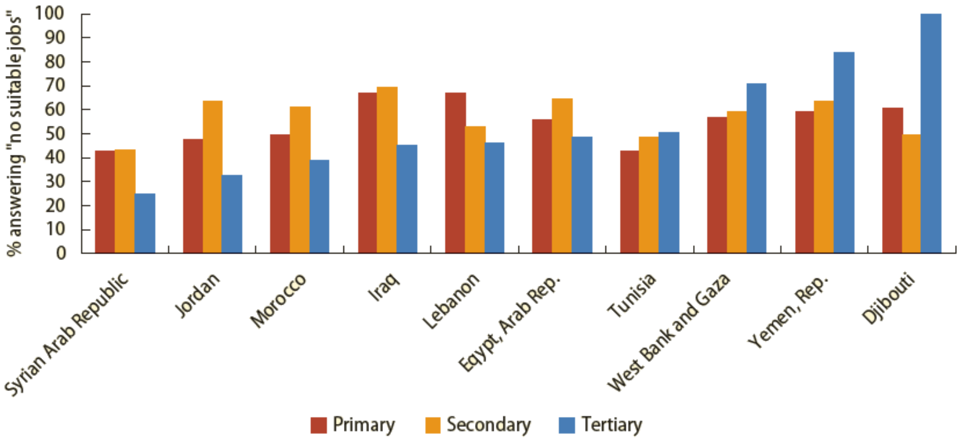
2.4. Employment prospects in MSMEs (including informal economy)

There was insufficient time to more specifically assess employment prospects in MSMEs for this ELMA. MSME in Lebanon, however, do have the same important role in the economy as in other countries. It is one of the reasons why the MoET emphasizes SME development and why the financial structure is currently evolving (or being expanded) in order to address the financing needs of micro and small businesses.

SME in Lebanon represent 90% of the registered enterprises and affect the livelihoods of half of the declared employees in the country. The Lebanon SME strategy points out that a lack of SME-specific incentives for formal job creation has led to a sustainable informal labor market where employees are not declared or recruited as freelancers.[96] This is where labor market and other regulation can help SME development and SME development can improve the quality of employment.

The other way around, those who decide to start a business in Lebanon often are persons who find they cannot find any suitable job in the labor market. This is particularly pronounced for persons who have entered the labor market after completing primary education, also in comparison with other countries in the region (cf. the following graph). The associated profile of entrepreneurship is one that is driven by necessity rather than by entrepreneurial spirit. Therefore a high share of micro and small enterprises should operate in a survival mode, hopefully providing a sufficiently decent livelihood to their owners, but who often enough are likely to be on the edge. MSME support would need to ensure to have special service and finance windows accessible to these types of entrepreneurs and not only for those who have a strong potential even without support ("success to the successful").

[96] SME Strategy 2014: 48, 78.



G.54 Motivation for starting a business.
Source: World Bank 2013.

As in many countries, young start-up firms create a large amount of new jobs. According to the World Bank[97] micro enterprises between 0 and 4 years of activity generated some 66,000 jobs in Lebanon between 2005 and 2010. At the same time, entry rates for new firms were relatively low (9% for service and 7% for manufacturing).

Ensuring that fast-growing entrants ("gazelles") will not subside but prosper is also important. According to the same study, one percent of of increase in firm productivity raises job creation by 3.9%. Services for them need to be tailored accordingly and differentiated from those to support survival entrepreneurs.

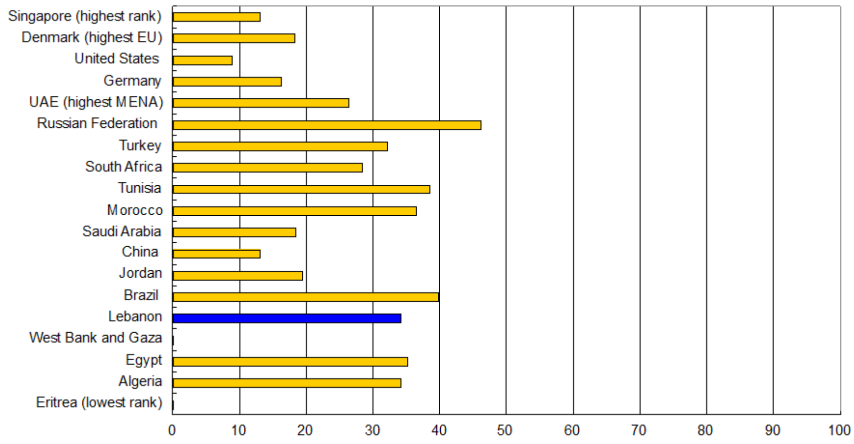
Improvements in the business environment are likely to benefit MSME accross the board.

When it comes to the informal economy in Lebanon, it is very important to specify exactly what informality implies.

- The country is confronted, time and again, with illegal transactions, including narcotics production and trade, arms trafficking, as well as moving other types of contraband. These transactions all occur in informal contexts and therefore form part of the informal economy. The extent of this informal economy can be significant in Lebanon, depending on the enabling environment, yet obviously cannot (and need not) be supported in order to create employment opportunities. It partially constitutes a fall-back position for entrepreneurs in times of distress.
- In the international development discussions, the informal sector describes activities that usually are legal in nature, but not registered and therefore invisible in national accounts and to support services. Often, informal businesses also get into conflicts with authorities, due to their informality. Usually, there is also an inverse relationship between the quality of the regulatory environment and informality. Good regulation can reduce the level of informality. Working with this segment which according more global estimates (see graph below) generates almost 35% of GNP in Lebanon,[98] certainly is useful.

[97] World Bank 2015: 24ff.

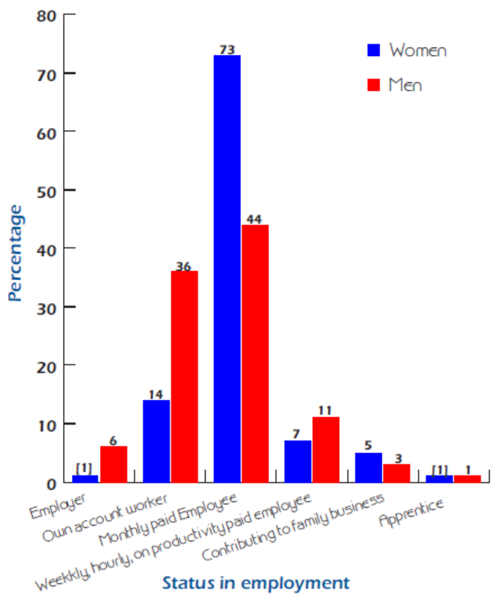
[98] The IMF estimates the share of the informal economy in Lebanon to represent 30%, i.e. a similar level.



G.55 Informal economy as percentage of GNP in 1999/2000.
Sorting of countries in the table according to Doing Business index ranking 2015.
Source: Schneider 2002.

As a percentage of the GDP, the World Bank estimates the level of informal employment in Lebanon to stand at 50%, and that 71% of all employees do not contribute to any social security system.[99]

From the perspective of decent work, the informality of employment is a crucial decision criterion for distinguishing the informal sector because it leads to vulnerable employment, including self-employment. Given the slow growth trap that has been identified for Lebanon,[100] it may important to find ways out of the trap by working with the small business sector. If employment conditions in these enterprises become decent, this may possibly affect the readiness of Lebanese to accept more jobs in this sector. Such a process, naturally, will require quite some stamina, and will require dedicated efforts for at least one decade.



G.56 Employment status by sex 2009.
Source: CAS 2011.

Working with the informal sector implies working with own-account workers. Women in Lebanese society appear to be less inclined to work on that basis, at least only half as much

[99] FHi360: Lebanon WorkforceDevelopmentAssessment August 2014.

[100] ILO 2015.

as men. Where gender balance is an objective or increasing economic participation of women, safeguards need to be conceived of in order to ensure equal female participation in programs targeting the informal economy.

2.5. Employment in the public sector

The potential for the public sector to absorb or generate employment is very limited. The public sector employs 110,000 workers, of whom only 30,000 are formally recruited through the Civil Service Board (CSB). The remaining 80,000 employees are recruited on a contractual or day-to-day basis. According to the CSB, 69.5% of formal civil service posts are vacant. The public military and security services employ 86,000 people and they also have many vacancies.[101]

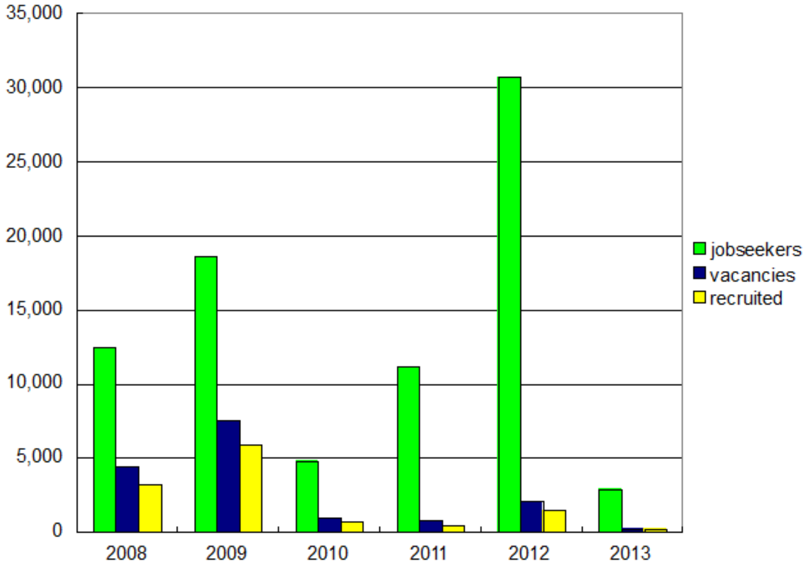
While recruitment into the public or military service usually is associated with public spending and therefore a potentially costly exercise, there are a number of opportunities the country foregoes by not filling its vacancies. Understaffing usually reduces the efficiency and effectiveness of the public administration, thereby increasing the cost of public services per unit to the country's citizens.

Presuming that vacancies are justified and not created in order to be distributed to family and friends, sooner or later, the citizenry pays for the damage caused by incomplete recruitment and the absence of respective public services. Not servicing the public road infrastructure, for example, leads to increased vehicle operation costs for road users. Not providing sufficient teachers to the public schools is paid for by parents sending their children to private schools. Not properly planning for solid waste disposal leads to additional cost for for acquiring waste disposal services elsewhere, or increased cost for creating new landfills.

Another reason for filling vacancies is that public sector employment usually is attractive for females. <u>Every vacancy left in the public sector is a potential lost job for female employment</u>.

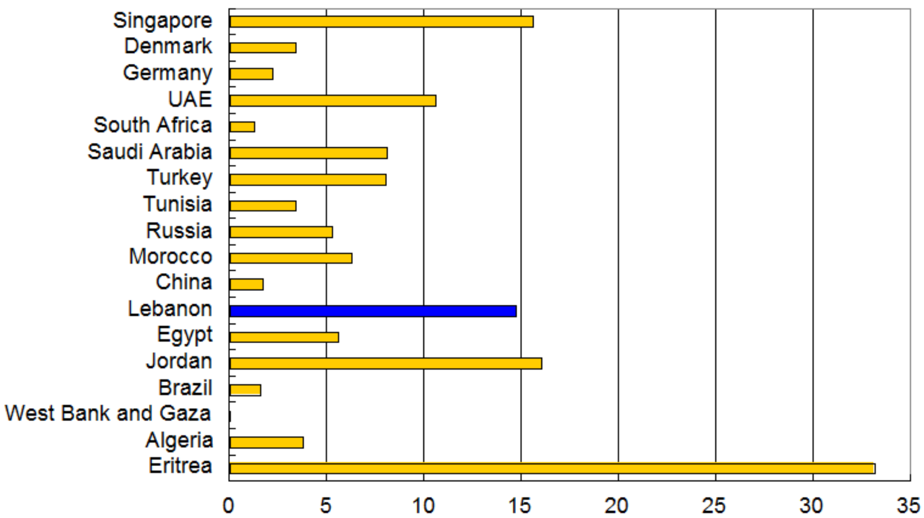
The public sector can also create employment by drawing on capital expenditures. This is not uncommon practice and when properly implemented is also cost-efficient. On the basis of the severe infrastructure needs, there are thousands of <u>job opportunities that could materialize if infrastructure projects were implemented on the basis of labor-based or local resource based techniques</u>. Once the economy has the infrastructure it needs to increase its competitiveness, it will be able to create additional jobs outside the public sector.

[101] ETF 2015: 7. According to the source, the underlying formal reason appears to be a decree of 1996 under which formal civil service recruitment was stopped in a bid to reduce the budget and prevent ministers from recruiting without the approval of the CSB. Formal recruitment resumed on a small scale in 2008.



G.57 Recruitment trends in the public sector (2008-2013).
Source: ETF 2015: 4, table 2.1.

The figures for the military usually do not form part of common labor market analyses as countries usually do not reveal them. In Lebanon, however, there are several reasons to keep them in mind because of the fairly high militarization rate of the country. For one, if basic security is given, the use of a large standing army is a drain on public sector resources. Secondly, the army can also be used, in idle times, to assist with needed infrastructural works inasmuch as it usually equipped to deliver infrastructural repairs, repairs that have been lagging in Lebanon. Moreover, where militaries have a strong role, there is the possibility of political capture in order to maintain military expenditures. Alternatively, if the forces are going to be reduced, labor market measures need to be in place to absorb this large group. Currently, unfortunately, the instability of the country does not allow for any significant reduction in forces. The potential peace dividend is still on hold.

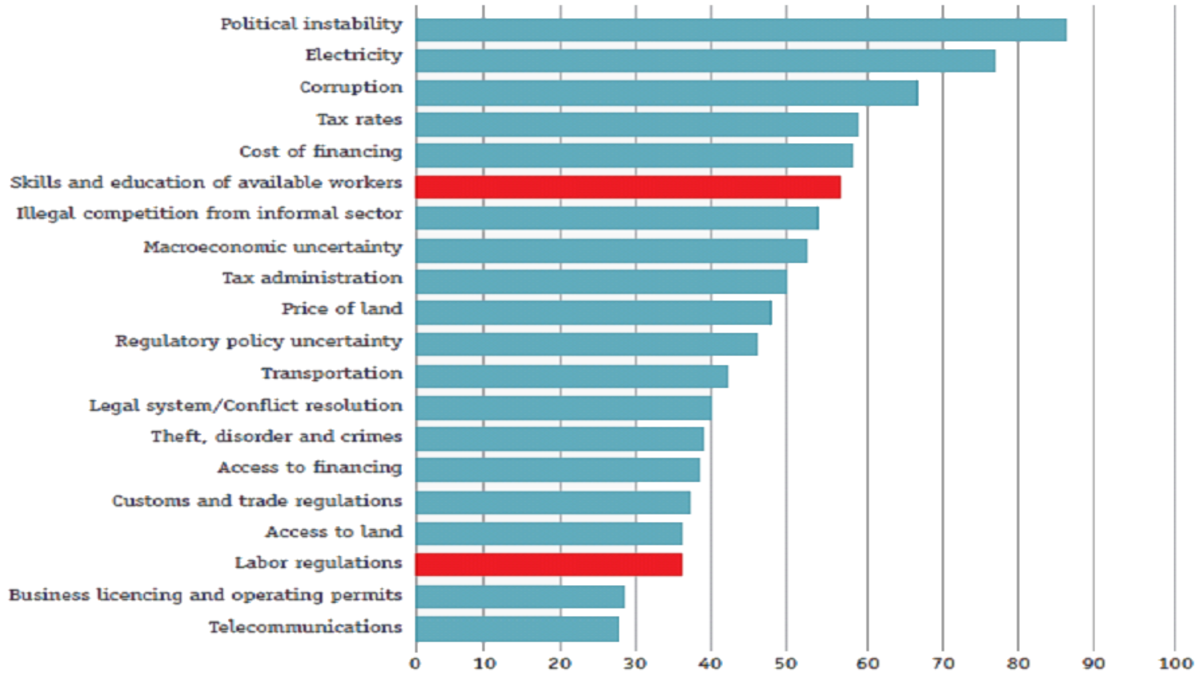


G.58 Number of military personnel on active duty that are currently serving full-time in their military capacity per 1,000 members of the population.
Sorting of countries in the table according to Doing Business index ranking 2015.
Source: Sourced from 2012 edition of "The Military Balance" published by IISS.

3. The labour supply-side: the qualitative dimension of labour force development

3.1. Qualification of the labour force

In 2010, the World Bank asked Lebanese enterprises to list the most important constraints to their businesses. Political instability occupied the top position, followed by electricity supply problems. Corruption ranked third before tax rates and the cost of finance. The sixth most mentioned constraint was "skills and education of available workers", with nearly half (55%) of enterprises listing a general lack of skills among employees as a leading constraint.[102]



G.59 Leading constraints to Lebanese enterprises during 2009.
Percentage of enterprises identifying the constraint as "major" or "severe".
Source: LCPS 2013. Youth employment in Lebanon: Skilled and jobless, p.16.

The World Bank report states that the most difficult positions to fill are skilled technicians (7-8 weeks), engineers, and managers (nearly 3 months in hotels).

There are also significant gaps between the skills that employers demand and those that employees have. In the case of managerial positions, the main gaps are related to skills to handle computers and other office equipment, the ability to work independently and the lack of a foreign language, although Lebanese are usually keen to point out their superior foreign language skills compared to neighboring countries. For the non-managerial positions, the main gaps are in terms of the ability to perform in a team, foreign language skills, professional communication skills, and problem solving skills.[103]

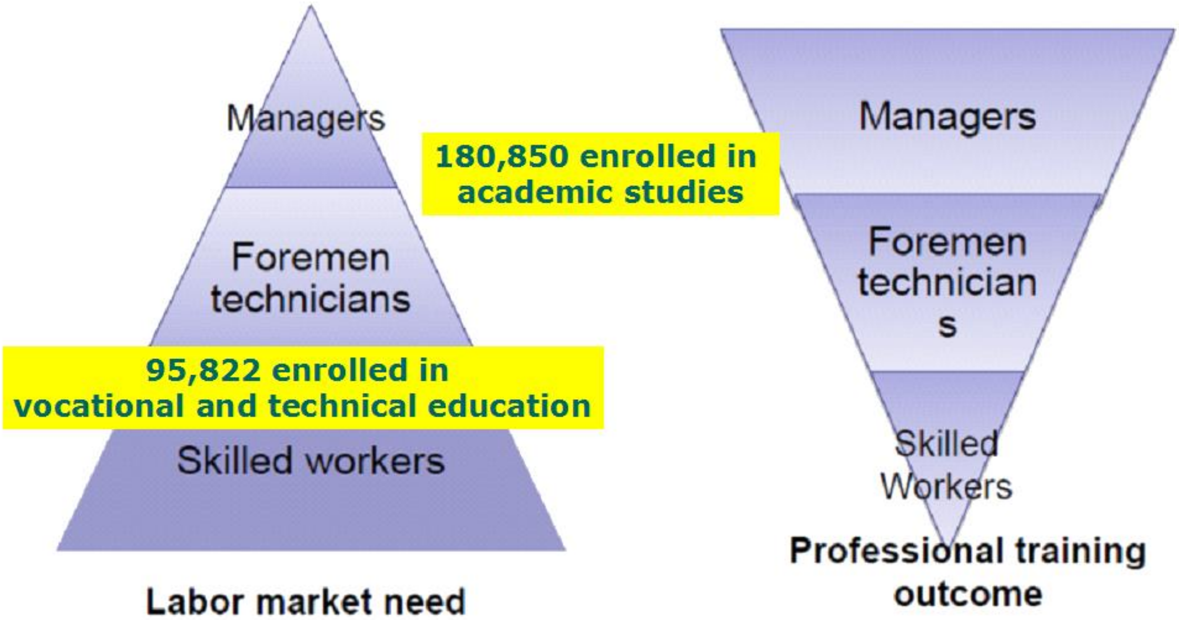
More broadly speaking, Lebanon's labor market suffers from an overabundance of workers at the high end (180.850 enrolled in academic studies)[104] and a lack of qualified labor at the lower end of the skills spectrum (76.269 enrolled in vocational a technical education in

[102] World Bank 2012.

[103] Ibid.

[104] Central Authority of Statistics Lebanon: The Lebanese education System, 2010.

2011/12).[105] The percentage of working people with no or basic education stands at 30% while the percentage of employed holding secondary or university degrees is 43%.[106] Focusing on skilled working persons, 43% of working women are holding university degrees, while working men with university degree account for 20%.[107] The mismatch between the orientation and output of education and training institutions and the demands of the labor market aggravates the country's already poorly functioning labor market dynamics.



G.60 Labor market need vs. professional training outcome.
Source: As suggested by discussion partners in Lebanon.

According to a World Bank survey, 41% of wage earners perform jobs that are not within the scope of their education and skills. It found that education in its current form is an impediment to employment.[108]

Yet in a situation of high unemployment and a large number of migrants as currently the case in Lebanon the fact that vacancies cannot be filled adequately, cannot be automatically attributed to a skills mismatch, as conditions of work and lower wages may not be acceptable for a number job seekers. Some of the current business models may not be profitable if they were to offer a proper living wage. Other businesses simply prefer to keep looking for the inexpensive skilled staff, and share the tasks between existing ones in the meantime.

In parallel because of the high cost of education, graduates expect and demand wages that provide an adequate return on their investment and ask for higher wages than set by the Lebanese market. This explains why a high numbers of skilled graduates migrate for job opportunities outside of Lebanon. The majority of workers who remain (employees and self-employed people) have only secondary education or less; around 40% have no education or only primary education.[109]

Lebanese people in general and Lebanese young people in particular are also not willing to compromise and to adapt to the reality of the domestic labor market. This widens the gap between jobseekers and job opportunities.

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[105] Based on information by the Rehabilitation Department of DGVTE.

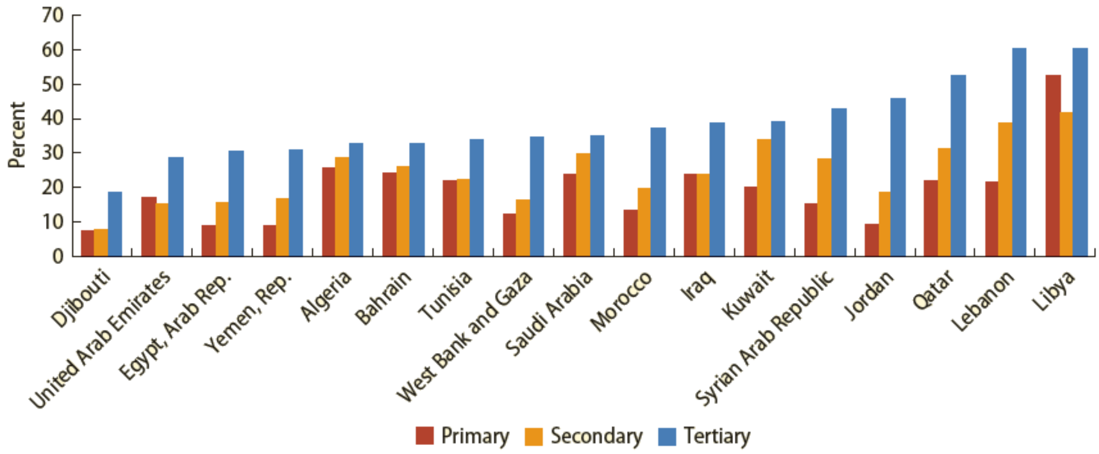
[106] CAS: The Labor Market in Lebanon, 2011.

[107] Central Authority of Statistics Lebanon: The labor market in Lebanon, 2011.

[108] World Bank 2012.

[109] ETF: Labor Market and Employment Policy in Lebanon, 2015.

As to the level of payment and the conditions at work, certain dispositions appear to be related to the level of education as the cross-country graph below reveals: Lebanese graduates of tertiary education are more likely to refuse jobs than those in other countries in the region. This mirrors the graduate's position towards employment conditions in Lebanon and the choices they believe to have abroad.



G.61 Prevalence of refusing a job in selected MENA economies by educational level 2009.
Source: World Bank (2013): 78/83, figure 2.14..

Moreover, Lebanese young people generally have a negative attitude towards manual labor. Liberal professions, such as law, medicine and engineering are the most attractive professions due to their social value and status. The number of people wishing to work in these "attractive" professions, however, exceeds labor market demand. Unemployment therefore is higher among higher-educated youth: 21,8% among upper secondary graduates and 36,1% among university graduates.[110]

At the same time, medium-level technical expertise (e.g. skilled workers, technical assistants) is scarce at all levels and in a lot of occupations in the Lebanese labor market. The lack of organization and the negative value attributed to occupations in that require vocational education and training are the major obstacles preventing Lebanese people from learning these professions and practicing them. In reality, the income levels of those performing these jobs are higher in the meantime than for most of the jobs attributed to university degree holders.

Vocational and technical education has traditionally been stigmatized in Arab societies owing to the lowly image of manual work. In Lebanon, VET also has a low social status in society. Lebanese parents do not believe TVET qualifications add value to professional and personal development and rather want their children to become lawyers, doctors or engineers. Much of this appears to be due to societal pressure and the need to impress others. They do not aspire to VTE-related occupations. Vocational education is seen as a last resort for students who fail in general education and who, in most cases, are not even in a position to select a training path appropriate to their capacities and potential. As a result, the country produces far more "white collar" professionals that it can absorb.

This also explains why despite the recognized "job ticket" value of the Baccalaureate Technique (BT), most students graduating from the BT envision to pursue a higher qualification, like the Licence Technique.

[110] ETF & AFD: Youth employability and the role of VET and entrepreneurship in Lebanon, 2014.

On the other hand, recent tracer research conducted in Mount Lebanon/ Beirut, Beqaa, and South Lebanon concerning graduates of heating/ sanitary plumbing, car mechanics, industrial electricity, industrial mechanics, and restaurant service/ production cooking specializations indicates that the Dual System (DS) approach implemented in Lebanon is very well tailored to direct transition into the labor market. Interviewed companies were very satisfied with the competencies of DS graduates. DS graduates also consistently scored higher than other graduates on each of 14 categories of soft skills when assessed by employers. This would suggest that despite the overall patterns and prevailing attitudes, there is still room for enhancing the effectiveness of TVET, e.g. by extending the DS approach to further specializations.

Qualifications of foreign workers

As mentioned above, Lebanon also hosts a relatively large number of regular temporary migrant workers, coming mainly from Syria, other Asian countries, and Egypt. In 2013, the Ministry of Labour issued 158.000 work permits to foreigners.[111]

Among the Syrian refugees in Lebanon, educational attainment is generally of lower level with three-quarters having completed primary education or below and only 3% having obtained a university education. This is very much due to their rural origins. Males and females seem to have similar educational levels, although slightly less females than males completed secondary or university education.[112] Syrians with higher education levels who have left their country via Lebanon usually also migrate onward to destinations which offer jobs corresponding to their education levels and often need not register as refugees because they can find employment.

3.2. The education system in the country

Education in Lebanon is very much valued by the population, and parents make great efforts to provide their children with the best input possible. Yet since the civil war in 1975, the quality of the Lebanese public education system has declined.

The Constitution attributes a key role to education in socio-economic development, stating that "the even development among regions on the educational, social, and economic levels shall be a basic pillar of the unity of the state and the stability of the system" (Preamble, Section g). The document further states that "education is free insofar as it is not contrary to public order and morals and does not interfere with the dignity of any of the religions or creeds. There shall be no violation of the right of religious communities to have their own schools provided they follow the general rules issued by the state regulating public instruction" (Chapter I, Article 10).

There are one million students enrolled in schools in Lebanon. Two in every three students now attend private schools, where the quality of education is higher than that offered by the public schools. More than half of the students are enrolled in private schools while the remaining students are enrolled in public schools, free private and UNRWA schools. The one's registered in public education, are so mostly because they are unable to afford private school.[113] As data shows, the majority (74%) of students in Beirut are enrolled in private schools.

[111] ت قرير وزارة العمل عن الا عمال، الا نشاطات وال Ministry of Labour 2013.

[112] ILO, 2013.

[113] UNICEF, MEHE, UNICEF and UNHCR: LCRP Sector Response Plan, 2015.

Enrollment rates in public education are declining due to low public school achievement that is directly related to teaching, administrative staff's low qualifications and lack of suitable infrastructure and equipment.

The educational structure in Lebanon is divided into general education, vocational and technical education, and higher education. There are 59.000 registered students in 430 vocational schools, and 192.138 students were enrolled in 41 universities and institutes of higher education during the 2010-2011 school year with 32.603 graduating.[114] Lebanon's enrollment rate in higher education comes second in the MENA region with 46% compared to an average of 33%.[115]

The dropout rate has lately improved regarding primary education, but has worsened for intermediate education. During 2012, Lebanon's drop-out rate reached 17,3% at the intermediate education level, a number that can be considered high by most standards.[116]

Although the expected years of schooling are 13.2 years, mean years of schooling are 7.92. Adult literacy is 89.6%, with 54.2% of the population having at least some secondary education. The average pupil to teacher ratio is 14:1. The expenditure on education, as a percentage of the GDP is 1.65.[117] Education in Lebanon is doing well in terms of pre-primary enrolment, primary enrolment and gender parity in primary education.

Mean years of schooling	7.92
Expected years of schooling	13.2
Adult literacy rate (% ages 15 and older)	89.6
Population with at least some secondary education (% aged 25 and above)	54.2
Gross enrolment ratio: pre-primary (% of children of pre-school age)	91
Gross enrolment ratio: primary (% of children of primary school age)*	107
Gross enrolment ratio: secondary (% of children of secondary school age)	74
Gross enrolment ratio: tertiary (% of population of tertiary school age)	46
Primary school dropout rates (% of primary school cohort)	6.71
Pupil-teacher ratio	14
Expenditure on education (% of GDP)	1.65

T.62 Education related indicators.
Source: HDR 2014 Lebanon http://hdr.undp.org/en/countries/profiles/LBN [15.11.2015].

The National Education Strategy in Lebanon emphasizes the right to education for all. It ensures the accessibility and equality in opportunities and requirements of education to all. The strategy includes efforts to reform public and higher education, developing and strengthening vocational and technical education to meet the country's development needs, and revising/ developing curricula. However, the stigma associated with vocational education and training with manual labor continues to be a barrier for students to follow this path.[118]

Once employed, teachers are not formally assessed and there is therefore no link between performance and career progression. There are no performance-based incentives and no effective system for evaluating teacher performance in place. Spending on the public education sector therefore is relatively ineffective due to inefficient resource distribution and a too high number of civil servant teachers (1,600)[119] who are not qualified according to current technological and pedagogical developments.

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114 Committee on the Elimination of Discrimination against Women: Report on Lebanon, 2014 .

115 Banque Bemo: Industry Report - Education in Lebanon, 2014.

116 UNESCO Institute for Statistics, 2014.

117 UNDP: Human Development Report Lebanon, 2014.

118 Vlaardingerbroek B. & El- Masri Y.: Student transition to upper secondary vocational and technical education (VTE) in Lebanon: from stigma to success, 2008.

119 Based in information from the Rehabilitation Department at the DGVTE.

While standards for state employees are not established, the qualifications expected of civil servant teachers are specified in the legal framework, and formal entry to permanent state employment is dependent upon success in the civil service board examination. However, it has been some years since the last round of competition.

As a result, part-time teachers are contracted (9,600)[120] without undergoing the established process as there is no specific legal framework defining the mechanisms for contracting teaching staff. Political loyalty and family ties tend to play an important role in the choice of contracted teachers.

The education sector constitutes one of the main contributors to Lebanon's GDP, with total expenditure on education rising due to increased awareness of its importance. In 2011 the expenditure for public education was USD 641 million and USD 1.783 million for private education. Hence, the education sector has contributed to 6.6% of GDP during the year 2011.[121]

In terms of access to education, there are no reported gender gaps in Lebanon. The ratio of girls to boys in primary, secondary, and tertiary education are 0.97, 1.10, and 1.16, respectively and female students account for 46% in VET. At the tertiary level, female students outnumber male students. Out of the total number of students in all universities 53% were women and 47 % were men.[122]

Disabled people trying to access education in Lebanon continue to be marginalized. Despite everyone in Lebanon having a right to an education by law, the lack of equal access continues, with disabled people being deprived of gaining basic knowledge and skills. There is a lack of teachers in schools trained specifically to teach disabled students.[123]

The percentage of the population aged 15 or above that are considered literate stands at 89 % in comparison to the average literacy rate for the MENA region (79 %). However gender disparity is apparent in Lebanon, whereas the literacy rate among adult females is 85,96% compared to 93,37% for males adults. The adult literacy was witnessed to be the highest in Beirut, at 93,9% while in Nabatieh and Beqaa the literacy rate plunges to 83,3% and 83,2% respectively, stressing a regional disparity.[124]

Regional disparity is also evident in the Lebanese education pattern: one third of the total number of students are concentrated in Beirut, followed by the North hosting one quarter of the student population. Mount Lebanon absorbs the smallest number of students. However, looking in to the student/ school ratio, Beirut holds the highest concentration ratio at 450, followed by the south at 323, while Mount Lebanon's student/school concentration remains relatively low at 283. Beqaa has the lowest student/ school ratio at 323.[125]

The education system

Education in Lebanon is regulated by the Ministry of Education and Higher Education (MEHE). English or French with Arabic are taught from early years in schools and education is compulsory from the age 6 to age 14, corresponding to the basic education cycle.

Education is divided into 5 cycles split in 3 phases:

- Pre-school cycle
- Primary cycle I (EB1, EB2, EB3)

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[120] Ibid.

[121] BankMed: Analysis of Lebanon's education sector, Lebanon 2014.

[122] Ibid.

[123] IRIN: Lebanon: Disabled remain marginalised, study finds, 2006.

[124] UNICEF & CAS: MICS 3 Multiple-Indicators Cluster Survey Lebanon, 2009.

[125] Banque Bemo: Industry Report - Education in Lebanon, 2014.

- Primary cycle II (EB4, EB5, EB6)
- Complementary cycle (EB7, EB8, EB9)
- Secondary cycle (secondary, baccalauréat 1, and baccalauréat 2 or final)

At the end of EB9 students can pass an official examination to obtain a *Brevet* certificate. In the end of the 3rd year of the secondary cycle students take another official exam in order to obtain a Certificate of General Education. Students who have successfully completed EB7 level can pursue professional education and after 2 years obtain a *Brevet Professionnel* (BP certificate).

Secondary education consists of three years education, and consists of general education and technical/ vocational education. Students holding a BP certificate or a *Brevet* Certificate may continue to technical education and obtain a *Baccalauréat Technique* (BT) or the Dual System Certificate (DS) after sitting for an official examination. When students complete the three years of education, they take official Lebanese Baccalaureate exams in their respective tracks. BT Students who finish examinations successfully obtain the Lebanese Baccalaureate Certificate of Secondary Education or the Technical Baccalaureate. The BT or General Education Certificate grants access to higher technical education. DS graduates can additionally to their DS exam take the official test in the general subjects (which is normally not foreseen) in order to be entitled to continue with higher education.

The studies take two years and end in the title of *Technicien Superieur* (TS). The *Licence Technique* (LT) takes one more year of studies and an official examination.

Tertiary education in Lebanon is provided by Technical and Vocational Institutes, University colleges, University Institutes and Universities.

In terms of further professional education, graduates have the possibility to study the *Meister* program.[126] To become a *Meister* student, any prospective applicant must hold either the DS certificate and a minimum of 2 years practical experience, or the BT certificate and a minimum of three years practical experience, or an Academic Baccalaureate plus a minimum of five years practical experience.

Higher education

Lebanon's higher education is the oldest in the region and dates back to 1866, when the American University of Beirut (AUB) was founded.

In 2002, the Directorate General for Higher Education was established to regulate the private higher education sector and supervise and coordinate all actions related to it. The Directorate is in charge of the 41 private higher education institutions currently in operation in the country, while the only state Lebanese University (LU) enjoys clear autonomy with its own system of governance.

The student population in higher education is around 195,000 according to figures for the academic year 2010/ 2011, with 39 % of the students enrolled in the Lebanese University.[127]

Tuition fees at the Lebanese University are USD 83, but admission is controlled by a quota system involving examinations and requirements that favor financially advantaged people. Students who are not admitted to the Lebanese University will have to pay a minimum tuition of USD 6,400 for higher education in one of the many private institutions.

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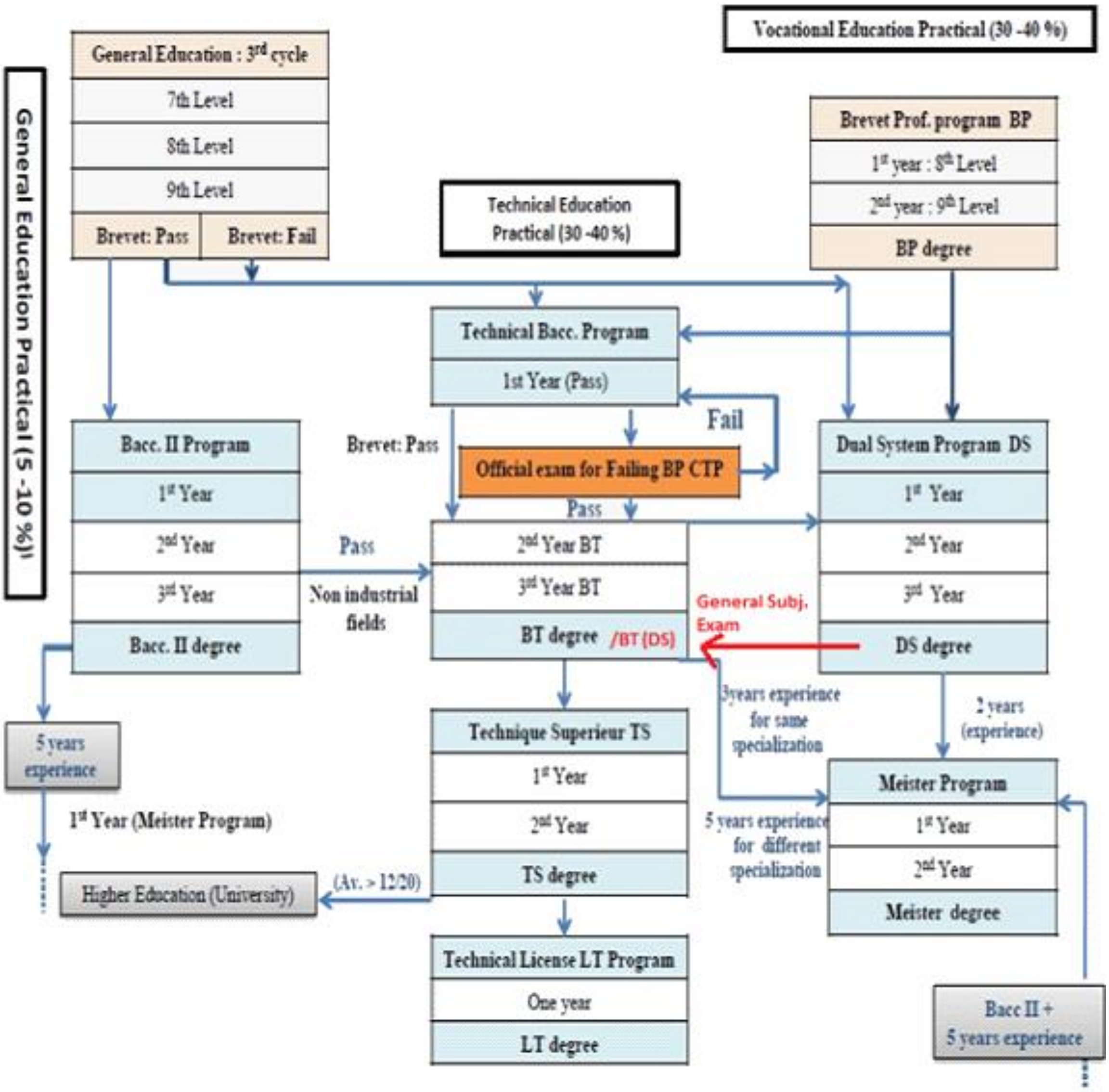
[126] The *Meister* ("master craftsperson") is a superior training program for advanced employees aiming to receive a certificate to become a Technical Supervisor.

[127] European Commission: Higher Education in Lebanon, 2012.

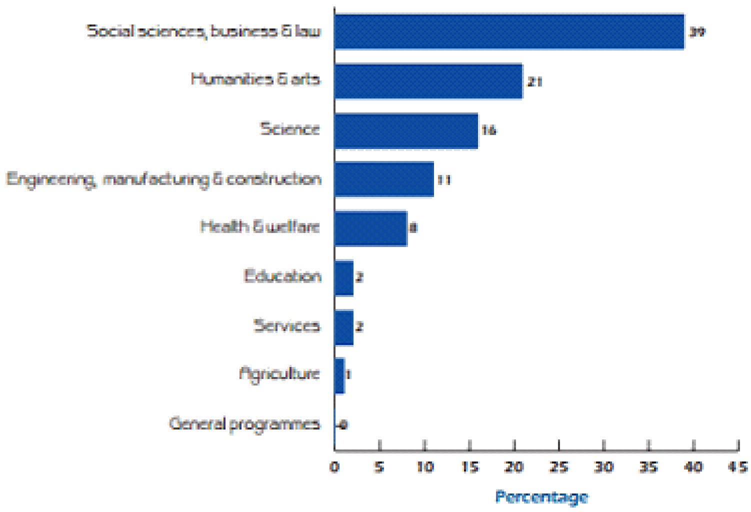
However, this is not to say that free higher education for all guarantees equality. When low-income students receive a poor quality education, it perpetuates income inequality.

In tertiary education the ratio of the number of graduates with degrees in social sciences, business, law and humanities combined to that of graduates with degrees in sciences and engineering is around 2:1 and most university programs tend to follow the French model.[128] This means that course work is usually highly theoretical, and employers note that few graduates have practical experience with work.



G.63 Structure of education system.
Source: ETF "Mapping VET Governance, Lebanon" | GEMM Report p.20.

[128] CERD 2009.



G.64 Fields of education in Lebanon by International Standard Classification of Education (2009-10). Source: CAS 2012, p.6.

The share of female students is very different across the various types of universities. It is the highest in the LU (67%) and then in the "classical" universities (where it is exactly equivalent to the average share), in the least and in the most expensive universities. The proportion of males is inverted in all the other categories. This simply means that, on the one hand, for the wealthy, there is no gender bias. Boys and girls go to the same universities. On the other hand, for the households who have to manage under serious financial constraints, boys tend to be sent to "community" and "commercial" universities that are perceived (wrongly in most cases) as better while girls tend to be sent to the free LU.[129]

Mainly female university students can be found in the field of education, but also in health, welfare and humanities. On the other hand the majority of men are enrolled in engineering; however they also share with women a number of fields where they are almost represented equally like in social sciences and business.[130]

In general it can be stated, that no systematic quality assurance and accreditation mechanism is in place at national level. However some higher education institutions have started to implement internal quality control within their structure and some are receiving accreditation from external international bodies in the USA and from Europe.

Also there is no structured cooperation between the university and the non-academic world. New efforts are made to implement some activities in this direction, where private universities place their students for internships in the private economy.

The national strategy for education (higher education being part of it) was drafted in 2007, approved by the government, but never ratified by the Parliament. Action plans designed by the subsequent Ministries have since been trying to follow the general orientations of this strategy, calling for the reinforcement of accessibility, the creation of a modern system of accreditation, the setting up of a national reference for evaluation and quality assurance, the enhancement of the quality of teaching at the Lebanese University, the promotion of university-enterprise cooperation, the support of research and the reinforcement of the institutional capacities of the public sector.

Vocational Education

The Lebanese educational system accommodated, in the academic year 2011/2012, 76.269 students for vocational and technical education. Of these students, the largest portion

[129] Charbel Nahas | Economic Research Forum: Financing Higher Education in Lebanon, 2009.

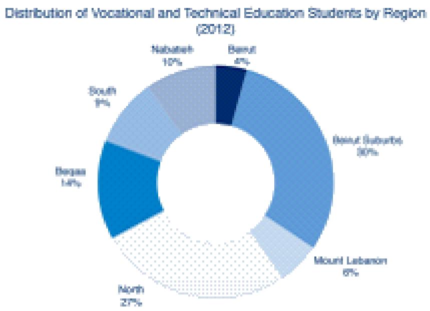
[130] Ibid.

(42,529 students) were enrolled in the BT certificate, followed by 17,862 students enrolled in the TS certificate[131] and approximately 1,700 students were enrolled in the Dual System and 70 in the *Meister* program.[132]

In vocational education, the proportion of males exceeds the proportion of females by far. This is because most occupations offered in vocational education are in professions that are socially considered male-oriented. Meanwhile, female students exceed male students in higher technical degrees like Technician Superieure (TS) and License Technique (LT), where females account for 57.8% of total students enrolled in that level, while males account for the remaining 42.2%.[133]

The regional distribution of students enrolled in vocational and technical education shows that Beirut's suburbs accommodate the highest proportion of students in TVET with 30%. Similarly, 27% of total enrolled students in Lebanon are located in the North region. It is followed by the Beqaa region where 14% of students are enrolled. The South and Mount Lebanon regions account for about 9% and 6% of total enrolled students. As for Beirut, it accommodates the lowest share of students in vocational and technical education with 4%.

Approximately 60% of all TVET institutions are private and the remaining share is public. These private schools are either subsidized by NGOs or private religious groups or wholly fee supported.



G.66 Distribution of Lebanese Vocational and Technical Education students by region 2012.
Source: Bankmed 2014, p. 21.

However in both kinds of institutions the centrally coordinated diplomas require that teachers partially follow curricula that have not been revised in many years.[134]

The difference in quality between private and public education prompts many families to resort to private schooling even if it requires a significant increase in expenditures. The majority (66%) of enrolled students are registered in private TVET institutions.[135]

Looking at the Lebanese education policy it becomes obvious that vocational and technical education has traditionally received less attention and resources than general education, limiting its reform potential and ability to offer relevant and high quality skills for the labour market.

A VET action plan was approved in 2011, but the current socio-political instability and limited resources (both financial and human) have resulted in delayed execution. The plan provides a clear sign of renewed interest in VET and constitutes a potential basis for more structured discussion with an extended group of VET actors. This could lead to the development of a more comprehensive and consolidated long-term strategy for reform.

[131] Haifa Hamdan: Education in Lebanon, War Child Holland, 2013.

[132] GIZ DSME M&E.

[133] Bank Med: Analysis of Lebanon's education sector, June 2014.

[134] ETF: Torino Process 2014 Lebanon, 2015.

[135] Haifa Hamdan: Education in Lebanon, War Child Holland, 2013.

3.3. Challenges in education and training

As indicated earlier the mismatch between labor supply and demand is mainly based on the insufficient responsiveness of educational programs to the needs of the labor market: For example most VET providers (public, private and NGO sponsored) are unable to manage information about the job market or track their program participants after completion of the program as the severe difficulties in gathering the data of graduates for this ELMA clearly demonstrated.

It can therefore be assumed that lack prevents providers from assessing what works and what not. The types of courses that are being offered also lack strategy as there is little emphasis on the trends in the market or how students might make use of their individual skills and interests to pursue a promising career path.

Yet the demand is growing for well-trained specialists and middle management. Education and training therefore play a key role in the Lebanon's economic development. Like other education and training systems in the MENA region, the Lebanese system is largely outdated and disconnected from current developments. Technical and vocational training is too theoretical.

On the one hand, the private sector finds it difficult to recruit skilled professionals. At the same time companies are just to a limited extent prepared to play a role in their training. For example, most SMEs do not have an HR or training department and are therefore not familiar with the benefits of training students according to the Dual System or simply taking in apprentices.

Lebanon's high rank (13th out of 122) in the World Economic Forum's Human Capital Index ranked for educational quality in 2013 often leads to the conclusion that educational quality in the country is high. However this ranking is subjective as it is based on the question "How would you assess the quality of math and science education in your country's schools?" which was asked to different Lebanese representatives. A more objective metric can be found in UNESCO's 2012 Education for All Development Index, which is based on universal primary education (net enrolment ratio), adult literacy, gender parity/ equality and quality of education; it ranked Lebanon at a medium EDI level with place 64 place in the world and the first place among those MENA countries, which were captured in the ranking.[136]

Ranking	Country
64	Lebanon
66	Oman
71	Syria
75	Tunisia
81	Egypt
84	Algeria
86	Morocco

T.67 EFA Development Index (EDI), MENA country ranking.
Source: UNESCO: Education for all development Index 2012,
http://en.unesco.org/gem-report/sites/gem-report/files/gmr2012-edi-tables.xls.

Educational quality is relatively high in the private system, but this is beyond the reach of many, and there are only few linkages between educational institutions and the private sector. Only 53% of the population holding university degree are in employment, the remaining are either inactive or unemployed.[137]

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[136] UNESCO: Education for all development index 2012 http://en.unesco.org/gem-report/education-all-development-index.

[137] MICS 3 survey - 2009 - CAS.

Additionally, the return of investment to education in Lebanon is low, considering an average starting salary of USD 1,200 for academics. On average, families spend close to USD 1,800 a year on education or 13 % of family expenditures. Yet this average hides a good deal of variation, due to differences in cost between private and public schools, the extent of scholarship received and the number of children a family has in school at the same time. Thus, for example the total tuition fee at the university level accounts up to more than USD 50.000 at a private institution (and USD 500) at the public university.[138]

Since university graduates are often unwilling to accept the low salaries offered to them in Lebanon, they prefer to seek better paid opportunities abroad.[139]

Also "…many jobs are only open to those with connections; hence more-educated Lebanese often prefer to remain unemployed, or occupy themselves with family and household duties, rather than work in a job that they consider beneath them. Services hold the biggest share of employment, followed by trade and manufacturing; women are predominantly employed as professionals, service/retail workers and in elementary occupations, while men lead in senior official roles and in craft and trade professions."[140]

Despite the fact that young and well-educated Lebanese emigrate and employment in Lebanon is dominated by older and less-educated cohorts, the profile of the labor market is an educated one. One in five Lebanese men has a university qualification. The corresponding figure for women is even higher; yet this is not being translated into higher female participation in the labor force as stated before.

The results of all of the above mentioned dynamics are high levels of skilled emigration, a low female participation rate, and unemployment rates that are higher for those with higher levels of education, for women, and for youth. Unemployment is also higher in the North and may be increasing nationally, particularly in areas with large numbers of Syrian refugees."[141]

3.3.1. Challenges in general education

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

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

3.3.2. Challenges in technical and vocational education and training (TVET)

Partnership and participation in VET governance remain limited. The system is highly centralized, schools have little autonomy and social partners are not really involved in decision making linked to skills development.

[138] Charbel Nahas: Financing and Political Economy of Higher Education in Lebanon April, 2009 Economic Research Forum.

[139] The Global Financial Crisis: Impact on Lebanese expatriates in the Gulf, Guita G. Hourani, 2009.

[140] FHi360: Lebanon WorkforceDevelopmentAssessment August 2014.

[141] Ibid.

The Torino Process, launched in 2010 as a bi-annual review of VET worldwide, noted that the lack of a clear vision or specific strategy for VET and the Lebanese economy in general, the poor performance of teaching staff, and weakness of public VET institutions are the three main challenges to VET education in Lebanon.[142] It states further that VET curricula need updating and that an improved business sector contribution would lead to more relevant training programs and greater competitiveness in the labor market, especially in the rapidly-evolving sectors.

3.3.3. Challenges posed by the Syria crisis

The significant increase in the number of school-aged children in Lebanon has put additional pressure on the Lebanese Education System. UNICEF estimates that there are approximately 275.000 Lebanese children in public schools with an estimated maximum capacity of 300.000.[143]

Since the onset of the Syrian conflict, and the influx of refugees, the Ministry of Education and Higher Education provided open access to refugees in its public school system.

In 2012, 40,000 refugee children were accommodated in public schools for a budget of USD 29 million. An additional USD 24 million in costs were financed by donors, channeled through UN agencies.[144]

These numbers continued to increase. In the academic year of 2013-14 90,000 refugees enrolled in 980 out of 1,365 Lebanese public schools, with 51% being female and 49% being male, and, in 2014 that number reached between 140,000 and 170,000. The latter figure corresponds to 57 % of public school students in Lebanon.[145]

These figures do not reflect the 65% of refugees who are not expected to enroll in formal schooling. Among these, adolescents are particularly left out of any form of education due to the following factors: high drop-out rates, having missed several years of schooling and inability to catch up in class while many are under pressure to financially support their families.[146]

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[142] ETF: Torino Process Study, 2014.

[143] http://www.unicef.org/lebanon/Programme_Factsheet.pdf.

[144] World Bank: Economic and Social Impact Assessment of the Syrian Conflict, Lebanon 2013.

[145] MEHE: Reaching all Children with Education (RACE) Lebanon, Ministry of Education and Higher Education Government of Lebanon, 2014.

[146] UNHCR: monthly Education update, December 2014.

Cohort	Current number of school-age children (3-18) (Sept. 2014)	Projected number of school-age children (3-18) in 2015
Syrians registered with UNHCR as refugees	502,000	655,000
Out of school Lebanese	40,000	40,000
Lebanese Returnees	6,400	16,000
Palestine Refugees from Syria (PRS)	11,100	11,300
Palestine Refugees in Lebanon (PRL)	52,000	53,000
Total	611,500	775,300

Education programs for 2014	Children Enrolled	% Female	% Male
Formal Education for 2013/14 school year	141,000	51	49
Non-Formal Education	88,000	51	49
Total Children in Learning	229,000	51	49

T.68 Children in Lebanon in need of access to education 2014-2015.
Source: LCPR Sector Response 2015-2016, p. 48.

Based on UNHCR reports, 400,000 Syrian children between the ages of 5-17 are registered in Lebanon and only 30% of them are receiving proper education. The UN state that, as of March 2015, "in Lebanon, there [were] more school-age refugees than the entire intake of the country's public schools."[147]

In order to ease the pressure on its education system in May 2014 the Lebanese Ministry of Education and Higher Education launched its "Reaching All Children with Education" (RACE) initiative, supported by the German government, that aims to enroll more than 400,000 children in education by 2016. RACE aims to bridge the needs of children displaced from Syria to ensure that the hopes of an entire generation are not lost, with the development objectives of the Lebanese education system. This holistic approach chosen by the education sector to support both host communities and populations displaced from Syria (Syrians registered as refugees by UNHCR, vulnerable Lebanese, and Lebanese returning from Syria as well Palestine refugees from Syria and in Lebanon) aims to help mitigate tensions between communities.

The first prong of the initiative was the creation of a second shift in public schools that will specifically target Syrian children and their needs. Another point, known as the "Accelerated Learning Program," is geared toward those Syrian children who have missed more than a year of school and need a more intensive catch-up on coursework.

In the 2013-2014 academic year, 79 public schools accommodated 32,000 Syrian students in the second shift following the ministerial decree issued by the Lebanese Minister of Education in November 2013.[148]

The second shift starts at 1430 hrs., once the first shift ends, and lasts for around 4 hours. A simplified and arabized version of the Lebanese curriculum is taught, which only includes English, Arabic, Math and Sciences. Lebanese teachers (contractual and permanent) exclusively staff the second shift due to legal regulations.

The accommodation of additional students in public schools proves challenging. For example in Arsaal (Nort Lebanon), the situation is of particular concern: According to different

[147] UNHCR: Syria Regional Response Plan Strategic Overview, 2014.

[148] MEHE: Reaching all Children with Education (RACE) Lebanon, Ministry of Education and Higher Education Government of Lebanon, 2014.

implementing partners in the area, all schools (public, private, Syrian-run…) have exhausted their capacities. The area needs more schools and teaching staff. Unfortunately, very few Lebanese (teachers) are willing to travel there for work and implementing partners are hesitant to work in the area due to security concerns as well.

Lack of space in public schools is not an issue everywhere in Lebanon but a full capacity mapping is not yet available. However bringing public schools to capacity with Syrian refugees in areas where they are not overcrowded could be a viable option to be thought of.

Nevertheless a major issue also reported is the recruitment of experienced, trained and prepared teaching staff. Teachers are reported to remain unable to respond to the complex psychosocial needs of Syrian refugee students.

Besides formal education, non-formal education approaches offered in Lebanon comprise a wide range of educational programs such as accelerated learning programs, community-based education, remedial classes, basic literacy and numeracy, catch-up programs and psychosocial activities. This type of education particularly aims to prepare children who have been out of school for 2-3 years to reintegrate into education and eventually return to formal schooling which is the preferred path for education.

According to UNHCR statistics, 33% of the educational response falls within the non-formal category.[149] Traditionally these non-formal programs tend to lack the option allowing students to re-enroll in formal education after reaching a certain level. This lack of accreditation can be one reason discouraging youth from registering.

Based on assessments and profiling of out-of-school children, the following are further barriers to learning for Syrian children: financial difficulties, differences between the Lebanese and Syrian curriculum, language barriers, lack of information on UNHCR's public school registration support, lack of transportation to access schools, increasing child labor activities among older children and bullying and limited psychosocial support to help children with specific needs.

Reason	Percentage
Cannot afford school fees	47
No places in schools or no schools nearby	27
Too late for school registration	25
Difficulty following the curriculum and the foreign language	19
Do not want to attend school	12
Consider school not safe or to avoid conflicts	9
Not registered with the UNHCR	8
Child is working	7
Other reasons, including convictions that school is not of value, work is more rewarding, or girls must not attend schools to take care of younger siblings.	5

T.69 Reasons for Syrian refugee children not to be enrolled.
Source: ILO 2013, p.22.

The importance and impact of these barriers differ from one geographical region to another. For example, while security - the fear of passing checkpoints - is an issue across Lebanon, the problem is particularly severe in certain areas such as Wadi Khaled and Aarsal.

As mentioned briefly above, a major reason for Syrian children to not attend school, is insufficient household income; they might feel the need or are obliged to participate in

[149] UNHCR: LEBANON - RRP6 MONTHLY UPDATE, 2014.

income generating activities to support their families in a country where the cost of living is higher than their country of origin.

During the interviews it was also stated, that older household members, registered as refugees, more and more shy away from working (informally) due to the possibility of inspection of their papers at checkpoints on their way to work. Children, on the other hand, are less likely affected by these controls.

According to an assessment by Global Communities in 2013, the average daily income for a Syrian refugee family is USD 15. Hence only a small minority of middle and upper class Syrian families can afford to register their children in Lebanese private schools.

Those who cannot cover fees have the option to register in Syrian private schools that are either free or charge a minimal fee, if circumstances allow.[150] In 2013-2014, the number of Syrian students registered in Syrian private schools reached 11,000. These Syrian schools in the North and the Beqaa are for the most part politicized schools of Islamic character, funded by certain states and/ or aligned with Syrian opposition movements. These schools are unaccredited, and hence, grade 9 and 12 students have to travel to Turkey to sit for the official exam and obtain a certificate which is not recognized in Lebanon.[151]

The need for official documentation is another key barrier for Syrian access to the Lebanese education system. For Syrian children to take the official government exam in grades 9 and 12, they must present proper certification from their schools in Syria proving that they attended the previous year. However, many refugees do not have these papers. Only 9% of them have access to documentation proving that their child attended school in Syria.[152]

Foreign language instruction is another major barrier to the educational inclusion of Syrian refugees. It is both a barrier to enrolment and an obstacle to retention. The language barrier remains a cross-cutting issue affecting Syrian children regardless of gender, socio-economic background or geographic origin.

From grade 1 to 9 all subjects should be taught in either French or English while Arabic is taught as a separate subject. By contrast, in the Syrian education system, Syrian pupils are used to being taught all of their courses in Arabic. Therefore, Syrian refugees are having severe difficulties performing in the Lebanese education system.

4. Matching demand and supply of labour: the impact of labour market institutions and policies on employment generation

> "In a World Bank (2014d) survey of country stakeholders, Lebanese revealed that social protection and job creation/ employment ranked second and third, respectively, in their development priorities behind public sector governance."[153]

Despite all socio-economic and political difficulties, initiatives are being taken to develop solutions to overcome these employment and labor market related problems. The drafting of the National Social Development Strategy of Lebanon in 2011 can be seen as an attempt to address the socio-economic problems. Under the leadership of the Ministry of Social Affairs, a joint effort was made by various ministries (Ministry of Education, and Higher Education,

[150] Global Communities: Rapid Needs Assessment -Lebanon Mount Lebanon Governorate, Chouf, Baabda and Aley Districts, 2013.

[151] Shuayb, M.: A Lost Generation? Education Opportunities for Syrian Refugee Children in Lebanon, 2014.

[152] UNHCR: Barriers to education for Syrian refugee children in Lebanon, 2014.

[153] WB 2015: 18.

Public Health, Labor, Interior and Municipalities, Finance, Economy and Trade and the NSSF) to finalize the strategy. Based on the Social Pact the strategy calls for a common vision of a citizenship-based civil state, social security on the basis of justice, and equal opportunities for all.

Linked with the National Social Development Strategy, an economic and social action plan was developed early 2012 under the chair of the Presidency of the Council of Ministers. Both strategy and action plan are still being discussed. In the Ministry of Labor, ideas to develop a National Social Dialogue Strategy exist, but there is no strategic medium or long-term plan based on clearly defined priorities, and social actors have not yet been meaningfully involved in the drafting.

Aggravated by the refugee situation in the country, the socio-economic conditions are increasingly becoming the center of attention and the need for law enforcement as well as new legislation in the field of social protection becomes more apparent.

4.1. Wages, labour law and regulations, collective bargaining system

Labor relations have not been smooth in Lebanon's history. The strong political and economic power acquired by merchant families following independence has had a one-sided impact upon these relations and the 1960s and 1970s have therefore seen their share of struggles and strikes relating to the conditions of work, the level of wages, and labor rights, both for farm workers as well as for workers in industrial enterprises. Lebanon has also become known for a pattern of collective bargaining whereby adjustments of the minimum wage are immediately followed by price rises in goods which nullified the gains made, and where parliament occasionally agreed to minimum wage raises while at the same time granting itself even higher raises. During certain phases, government very tightly controlled the social partners, notably the employees' organizations.

That being said, Lebanon is member of the International Labour Organization (ILO) and has signed most of its core conventions. The ILO Regional Office for the Arab States (ROAS) is located in Beirut and the ILO engages with the government on creating decent work opportunities and promoting labor rights throughout the country. The ILO is in continuous consultation with the Ministry of Labor in order to improve labor administration, labor inspection systems, as well as job placement services. It also focuses attention on the situation of foreign migrant workers in Lebanon, Palestinian and Syrian refugees, and issues of child labor that have surfaced. Progress on these issues, as for other policy fields, is hampered or delayed by political stalemates.

The General Confederation of Lebanese Workers/ Conféderation Générale des Travailleurs Libanais (CGTL) includes 50 major trade unions which are made up of 450-500 smaller syndicates. CGTL represents employees from public and private sectors, including banks, social security, electricity and water, taxi drivers, airport and airline staff, etc.

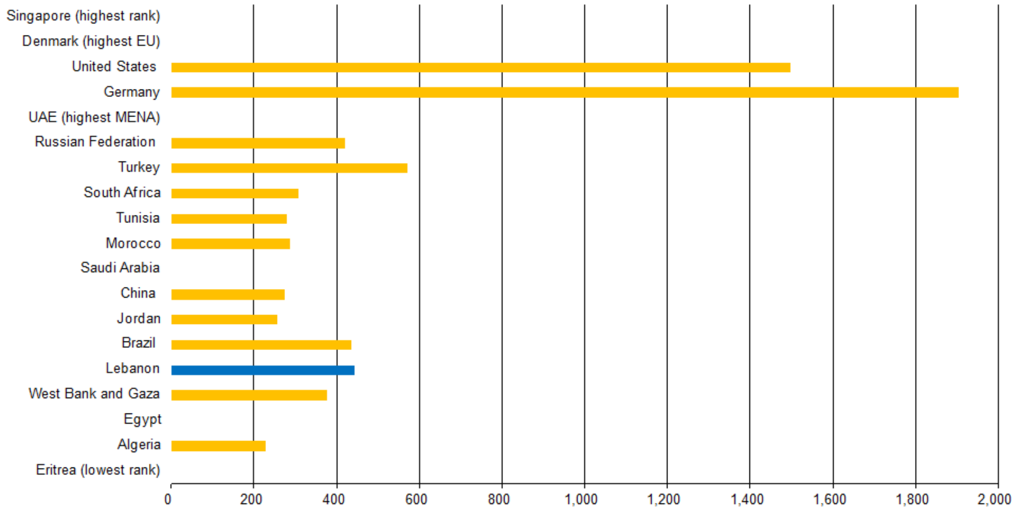
The Confederation is partner on all tripartite associations and government is also represented on the CGTL Board (6 members). The main topics currently being discussed by CGTL include pension scheme, health scheme, minimum wages and consumer prices. Among them, the pension scheme is the most intensely debated issue.

During the civil war CGTL managed to remain unified. After the war, the number of unions increased and they became somewhat fragmented under the new government. The CGTL can therefore not be considered to be a truly unified union.

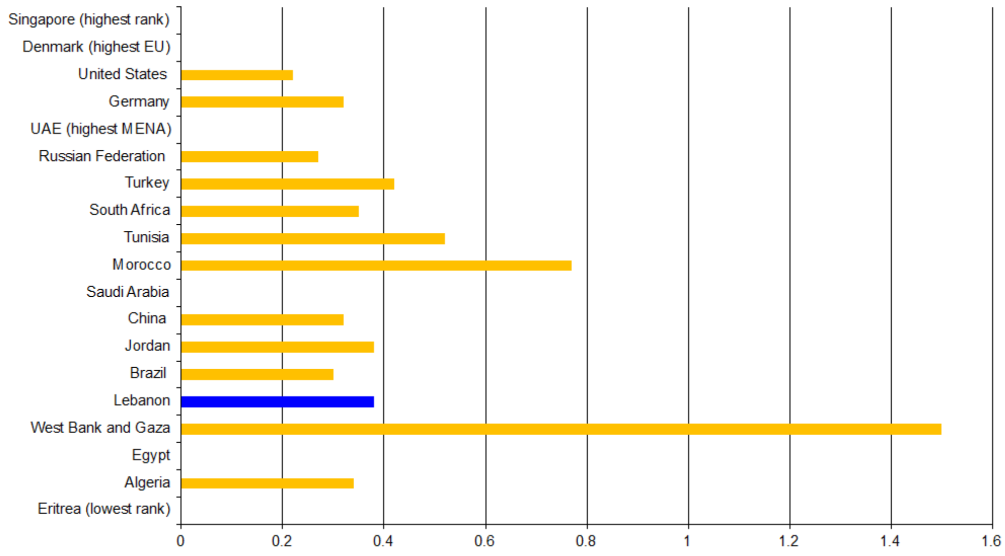
There is also a Syndicate Coordination Committee (SCC) has a membership of about 150,000 persons who are organised in six committees, and mainly represents teachers from both public and private schools as well as staff from state administration. Since there is no legal basis for public employees to establish a real syndicate, the employees of the public sector are organised in committees which have to be approved by the respective minister. It is noteworthy that not only active teachers but also retired teachers are member of the SCC. The key points of social dialogue such as health coverage, retirement/ pension plans and wages are discussed between the six SCC committees and state institutions (mainly ministries). Contacts with other social partners only take place occasionally and not in a formalised framework, i.e. the SCC is not involved in tripartite dialogue.

At the employers' end, the Lebanese Businessmen Association/ Rassemblement de Dirigeants et Chefs d'Entreprises Libanais (RCDL) was in established in 1986 and aims at providing Lebanese business men and women with a role within further developing the national political economy, and promoting economic liberalism. According to its representatives, the RDCL constitutes the only multi-sector employer organisation at CEO level and is fully private. The RCDL is run by an Administration Board and is strongly involved in developing concepts and draft laws relating to, for example, wage and fiscal policies.

The current level of minimum wages may be higher than in other countries in the region such as Jordan, Morocco, or Tunisia. However, cost of living in Lebanon, which is comparably high, naturally needs to be factored into its calculation. It is also compensated by higher output per worker. The ratio of the minimum wage to value added per worker is actually on par with Jordan and substantially lower than in Morocco and Tunisia, a little higher than the median of all countries in the Doing Business list.

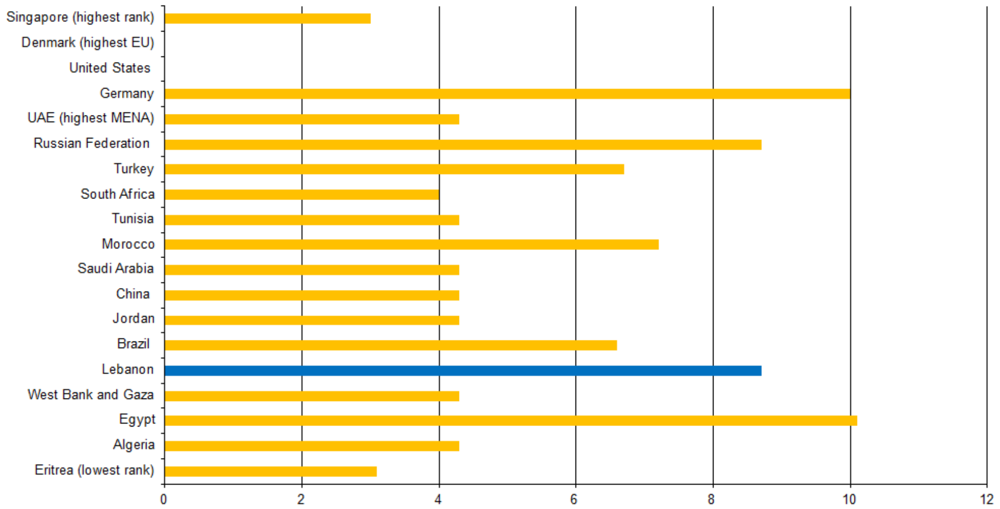


G.70 Minimum wage (USD per month) for a full time worker.
Range: 0-3,721.60. Median: 233.97.
Source: http://www.doingbusiness.org/data/exploretopics/labor-market-regulation [retr. 2015-Nov].

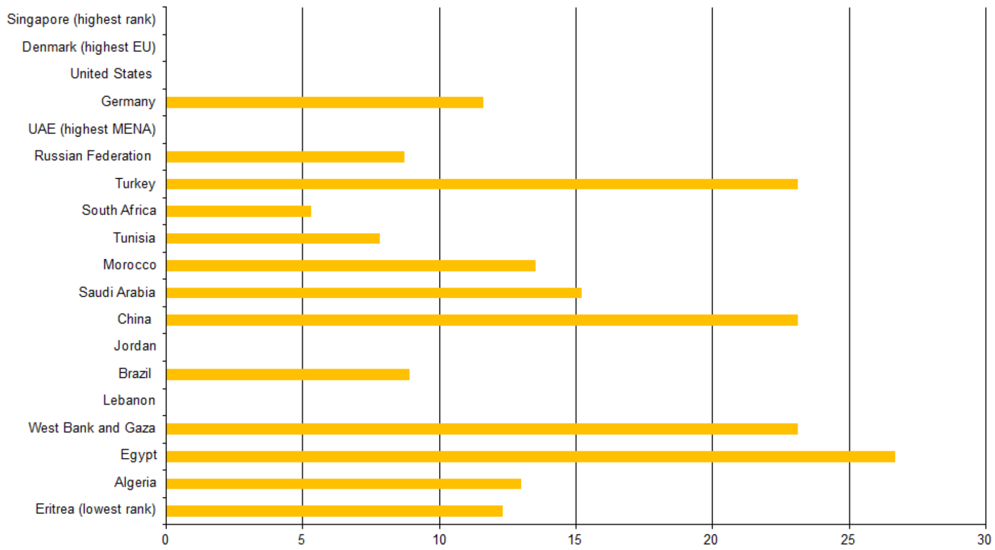


G.71 Ratio of minimum wage to value added per worker.
Range: 0.00-2.09. Median: 0.31.
Source: http://www.doingbusiness.org/data/exploretopics/labor-market-regulation [retr. 2015-Nov].

Average notice for redundancy is higher than in most countries in the region with the exception of Egypt. This partially compensates employees for a lack of other social security measures. The notice period is also not excessive by any means. Germany's notice period, for example, is longer. On the positive side, it may invite employers to think about long-term engagement with the employee before hiring in an economy that needs stability. As there is also no severance pay foreseen upon dismissal, the cost of redundancy dismissal are certainly contained.



G.72 Average notice period for redundancy dismissal (weeks).
Range: 0-26. Median: 4.3.
Source: http://www.doingbusiness.org/data/exploretopics/labor-market-regulation [retr. 2015-Nov].



G.73 Average severance pay for redundancy dismissal (in weeks of salary).
Range: 0.0-69.3. Median: 8.9.
Source: http://www.doingbusiness.org/data/exploretopics/labor-market-regulation [retr. 2015-Nov].

4.2. Active labour market policies and institutions

Lebanon has no established labor market information system. No official labor market needs analyses have been carried out for several years.

There are no structured and consolidated mechanisms in place to identify skills needs and to match skills supply. There is no labor market information system, there are no regular labor force surveys and there are no tracer studies that would have been completed. Most of the surveys and analyses that do exist are performed with the financial support of donors, particularly the International Labor Organisation (ILO). Currently CAS is implementing a labor force survey in coordination with the ILO.

There have been no labor market needs analyses conducted since 2004, although international organizations and donors (among them the ILO and GIZ) have conducted labor market and sector studies within the frameworks of their projects.

The National Employment Office (NEO) is a public institution under the responsibility of the Ministry of Labor. Its objectives include conducting studies and research to formulate employment policies for Lebanon, to improve the employability and skill level of new entrants to the labor force through accelerated vocational training, to find job opportunities for job seekers through the employment office in order to reduce unemployment rates and to build the capacities of people with disabilities in order to increase their employability. By law private labor intermediation services are not permitted, several such initiatives provide ongoing employment services.[154] This, in theory, provides the NEO with a monpoly of labor market intermediation, and would allow for substantial expansion (full coverage, large outreach).

However, NEO does not have the resources or institutional capacity to complete its mandate. It suffers the fate of many public services that not all of its vacancies are being filled. Of the foreseen 108 employees, only 27 vacancies are filled, out of which 12 positions are purely

[154] Some countries do not allow private providers to engage in labour market intermediation. Usually, the motivation is to ensure that labor legislation is being observed in recruitment processes, and that jobseekers are being guided by a neutral broker.

administrative.[155] As only outdated information on the labor market are available, the office is largely unable to present relevant responses to labor market challenges in terms of skills provision and the matching of demand and supply.

In a pragmatic approach given its own limitations, the NEO is generally open to cooperation with such services. Given they are not authorized, the NEO's mandate does not include the supervision and coordination of private agencies and NGOs providing placement services, resulting in somewhat scattered, unorganized, and undocumented practices all over Lebanon. A proposal for a revised decree has been under review at the Ministry of Labour since an unspecified amount of time.

The limited dialogue with social partners and the business sector in particular remains a key problem in defining and implementing effective measures to address skills development and skills mismatch. There is increased awareness of the importance of cooperation between business and education, but there has been little progress so far in developing a clear policy framework for the concrete and structured involvement of business representatives in educational governance.

The Chamber of Commerce, Industry and Agriculture implements specific sector and market surveys at central and national level, but there are only very limited mechanisms in place to feed this information into the design of active labor market programs, job placement, or matchmaking services.

Against this background, it is difficult for the education sector to assess and measure relevance to labor market needs and many graduates enter the labor market with inadequate qualifications, attitudes, and little awareness of what employers are looking for.

At this time, however, typical conventional labor market intermediation mechanisms, whether public or private, do not play a significant role in facilitating information exchange between employers and jobseekers, as Lebanese jobseekers rely more on their private relations to find a job. Educational institutions help only 5% of young jobseekers to find employment. The respective figure for the NEO is 1%.[156] Likewise, merely 1% of the jobseekers are employed through private recruiters. According to Kasparian approximately 55% of all young jobseekers rely to personal or family networks to find their first job, while another 3% are employed in family business.[157]

According to CAS, 36% of all job seekers search their jobs by going through acquaintances, friends, or relatives while 32% present themselves directly at the offices of potential employers. 30% of the job seekers searched jobs using the internet or looking for job advertisements in newspapers. Only 2% made use of employment agencies, public or private.[158]

Whereas most of the small enterprises do not follow any specific recruitment measures and mostly rely on the salary levels they can afford to pay, the majority of the medium-sized companies usually perform a search within their circle of contacts. After all, they are owner and family managed. It is only the large companies that advertise their vacancies and follow a set of conventional recruitment procedures.

[155] Figures shared by NEO director. Given the issue of under-staffing appears to be cross-cutting in many Lebanese public sector institutions, it is likely that this matter relates to the management of government expenditures.

[156] ETF: Labor Market and Employment Policy in Lebanon, 2015.

[157] Kasparian, C. "L'entrée des jeunes libanais dans la vie active et l'émigration." Beirut: St-Joseph University, 2003.

[158] CAS 2011: 10.

4.3. Passive labour market and social protection policies and institutions

Access to passive labor market and social protection policies and institutions, almost non-existent, has been one of the most contested issues in struggles between the social partners, i.e. employers and employees. In the 1970s, for example, the Unified Syndicate of Tobacco Farmers demanded admission to the National Social Security Fund (NSSF) for peasants and farmers. Threats of general strikes by the CGTL during that period also forced the activation of medical coverage thru the NSSF.

The current national social security system in Lebanon provided by the National Social Security Fund does not cover all population groups. Approximately half of the Lebanese people do not belong to any social security scheme, neither health insurance, nor pension fund or end of service indemnity. The fact that the elderly population is increasing, puts even more pressure on the dysfunctional social security system.

The proportion of elderly people is already the highest in the Arab region, with the people over the age of 65 being estimated to make up more than 10% of the overall population by the year 2025. Since there is no broad social security plan in place for retired persons (covering pension and medical insurance), poverty among the elderly is prevalent.

The NSSF had been established by Decree No. 13955 in 1963 under the political and budgetary umbrella of the Ministry of Labour, but it is considered to be an independent institution. All social partners are represented on the tripartite NSSF Board of Directors, and the NSSF President is directly nominated by the President of Parliament. Effectively, the NSSF is effectively controlled by the employers due to parity representation. As for the cooperation between the MoL and NSSF, there seems to be no or only little coordination between the two, for example with regard to inspection activities.

The main responsibility of the NSSF is to provide employees with

- end of service indemnity;
- sickness and maternity insurance; and
- family and education allowances as explained above

The NSSF has 35 offices throughout the country and also inspects enterprises and work sites to verify that companies contribute to social security. Employers are requested to register all employees working for national or international companies, and are obliged to contribute an amount equivalent to 21.5% of an employee's salary to social security, while 2% are deducted from the employee's salary.[159] It has been reported, though, that a large number of companies either do not register their employees with the NSSF or only do so for a lower salary.

NSSF coverage ends at the retirement age of 64, which means that people either have to apply with the Ministry of Health for health coverage or join a private and expensive health insurance.

Employees covered by NSSF are entitled to the end of service indemnity payment, i.e. for each year worked the employee receives one monthly salary (on the basis of the last salary paid), but no additional compensation is provided thereafter. The indemnity payment may be sufficient to cover the costs of living for a few years, but is not enough to ensure a decent life, not to mention the impossibility to cover medical costs, for example, for serious illness.

Paradoxically, this group of employees loses medical benefits when they are most needed.

Furthermore, according to the law, occupational accidents and diseases should also be covered by the NSSF. However, this provision is not applied, and since the implementation of the social insurance law is not closely monitored and people are not aware of it, they do

[159] Mounir Rached | Lebanese Economic Association: Social Security and Pensions in Lebanon, 2012.

not raise complaints. Some syndicates and/or employer associations have already set up their own pension and health schemes or are working on introducing one. These schemes can only be afforded in the well-off sectors (e.g. engineers, lawyers, bankers) though.

Another point of contention is the depositing of NSSF funds in private banks at rates lower than normal which effectively converts social security resources into extra incomes in the banking sector.

It appears that there is increasing agreement between social partners that a social floor is required to ensure social stability. Representatives of industrial enterprises have presented concepts to us and the RDCL has described its efforts regarding the development, debating and tabling in Parliament of a new retirement plan/ pension fund law. The initiative dates back to the late 1980s. The draft law was developed in close coordination with main stakeholders and in cooperation with insurance companies. It stresses the importance of social security after retirement, and although the law would result in additional costs for the employers, the employers are ready to contribute because they can see the benefit of ensuring social stability. Unsurprisingly, the law was stopped several times, though, and a new draft proposed in 2011 is still pending.

In contrast to the NSSF system, employees in the public sector as well as employees of the army and the Internal Security Forces (ISF), comprising the national police and security forces, and their families, benefit from lifelong social security, i.e. from a pension scheme and health insurance.

The remaining population (more than 50%) are not covered by any (national) social security scheme, neither pension, nor health insurance or end of service indemnity. In serious cases they have to apply to the Ministry of Health for health coverage or they join private insurance providers (if affordable).[160]

5. Summary and conclusions

5.1. Summary of challenges and their relative importance to employment generation

The major challenges for employment generation in Lebanon at this time can be summarized as follows.

① The employment challenges as recently exacerbated by the Syria crisis cannot be met by common programs of employment creation. The inundation of the labor market with Syrian refugees can most quickly be addressed by making and fulfilling higher pledges in the support of the work of UNHCR. Providing refugees with a lifeline (sufficient means for survival) and getting refugee children into schools is the most important ingredient for keeping them out of the Lebanese labor market (and off the streets). The halving of their allocations in 2015 as a result of underfunding is not only a humanitarian catastrophe doing harm (including the emergence of child labor), it is also one of the main objective causes for the strong current imbalances in Lebanon's labor market.

Employment policies and initiatives cannot compensate or even substitute for a shortfall of humanitarian assistance of this magnitude. Employment initiatives are also not as quickly implemented as humanitarian support is (and needs to be) delivered. If humanitarian assistance and employment initiatives, however, go hand in hand, then a positive dynamic for the Lebanese economy may develop.

[160] http://www.ennonline.net/fex/48/characteristics.

Alternatively, to increasing humanitarian assistance to the country as a basis for creating the conditions for success of employment related measures, the German government could accept further Syrian refugees from Lebanon. It has become quite obvious over the last months, however, that the German government does not yet have the proper structures to deal with large numbers of refugees. Independent of this, humanitarian assistance in Lebanon for Syrian refugees is much more cost-efficient than in Germany.

② The second strongest challenge is to ensure that communities directly and severely affected by the influx of refugees are able to deal with the resulting local labor market and other challenges. Ideally, the crisis should be turned into an opportunity for developing underprivileged communities in the more remote areas of Lebanon.

③ Even with the necessary replenishing of resources available to UNHCR so that basic needs can be met, many Syrian refugees have already integrated into the Lebanese labor market and displaced both Lebanese as well as foreign migrant workers. It will not always be possible to re-extract them from their current activities, and it is doubtful that these processes can be meaningfully undone. The Ministry of Labor does not have sufficient capacity to inspect enterprises in order to enforce regularized the employment. Moreover, formal recognition of the right to work, while useful to reduce the vulnerability of refugees more generally, is unlikely to have any significant effect on reducing refugee poverty levels.

④ The abilities to develop and implement coherent labor market related policies and develop appropriate institutions appear to be very limited. This is related to fundamental weaknesses of the Lebanese state/ government which has been in a state of quasi-paralysis since several years. It also reflects the limited role of the government in a "confessionalist" setting which is, moreover, governed by personal relationships.

⑤ The same goes for the development of policies for economic development and employment promotion, although these may be generally easier to implement because the business community should be willing to lobby for them and contribute to these processes.

⑥ Although much research has been produced in recent years relating to employment issues in Lebanon, with the assistance of the international community, there is insufficient realtime and practical information available that can serve as a basis for managing employment related programs. Besides the need for more frequent labor force surveys according to latest ICLS standards, there is a need for establishing informational links between the education system and the labor market, between employers and the labor market, and for jobseekers.

⑦ Labor productivity in Lebanon has not significantly increased over the past decades. It is only with more permanent increases in labor productivity that Lebanon will be able to generate jobs that will be remunerated at decent levels. A crucial element in labor productivity are skills. The current education system is not yet providing the majority of the job seekers with sufficient qualification and hands-on experience to fulfill expectations of employers who seem to be willing to hire.

The technical and vocational education system of Lebanon has benefited from strong German support in the past and has established the nucleus of a dual system that could play an important role in raising productivity levels more permanently. It could also equip refugees from Syria with skills to rebuild the country once the violent conflict has come to an end or serve as a basis for their productive integration into the Lebanese economy.

⑧ The high levels of youth unemployment are of structural nature and will not disappear quickly. However, the peak of the working age population would have been reached by the end of the current decade had it not been for the influx of the refugee population which has pushed the peak one more decade into the future.

In the event of a settlement of the Syria crisis in the near future, it is to be expected that most Syrians would rather return to their homes in Syria than stay in Lebanon. This would entail the reverse effect and bring the peak of the working age population closer. Absent the Syrian refugees, it would therefore be high time to review which labor replacement is likely to be required in the future so as to ensure that the labor force is qualified to be able to replace those which are exiting the working age population.

⑨ Both active and passive labor market institutions are effectively absent, frail, and partially misconceived. They need to be very much built or rebuilt and successively strengthened and expanded in order to be able to perform any significant tasks. Whether this will be possible in the near future remains highly doubtful.

⑩ The higher level of female unemployment is of a structural nature. Reducing the female unemployment rate requires creating more opportunities for females to work despite the socio-cultural constraints they are tied into.

5.2. Possible options and approaches to take up the challenges

11 In order to alleviate the Lebanese labor market from the impact of the influx of Syrian refugees, positive measures need to be taken that are able to re-extract the Syrians from the labor market. The best approach to do this is to provide the refugees (again) with sufficient support, administered thru UNHCR. Providing refugees with a lifeline (sufficient means for survival) and getting refugee children into schools continue to be the two most important ingredients for keeping them out of the Lebanese labor market (and off the streets).

Generally, it will be important to ensure that Syrian refugees are not being treated more favorably than Lebanese poor living in the host communities. Therefore, measures need to be conceived to ensure that Syrian refugees will not displace Lebanese in the labor market while receiving full refugee benefits. This would lead to unfair competition and a downward spiral at the lower end of the labor market. Tying lifeline support to school or further education attendance and possibly community work or cash-for-work activities would be measures that can support the re-extraction.

12 In order to enable hosting communities directly and severely affected by the influx of refugees to deal with the resulting local labor market and other challenges, it is useful to provide direct support to them. Effective approaches would consist of cash-for-work activities that both the local population and the refugees should be entitled to benefit from. Examples would be local infrastructure works in order to address the infrastructural deficit of these communities and rehabilitating infrastructure that has been worn as a result of the refugee impact, ideally following local resource based and employment intensive approaches. The activities could also involve investments in local agricultural or agro-processing activities (or any other economic activities that may increase local incomes). In order to benefit females, this should also include services.

13 Turning a blind eye will be the only practical way of dealing with refugees that have merged into the Lebanese labor market and found a reasonably decent job. Removing them by force and punishing their employers is likely to increase social unrest which the situation cannot afford. It may also force these refugees to either return to Syria (a practical equivalent to *réfoulement*)[161] or move onward to other countries.

14 In order to achieve any lasting impact in the current state of quasi-paralysis when developing and implementing coherent labor market related policies and develop appropriate institutions, it will be important to identify talented and well-networked individuals (agents of change) who have an intrinsic interest in moving forward on these issues, independent of their organizational affiliation and confession. These individuals (in government, employer

[161] It is not uncommon for Syrian refugees to state they would prefer to die close to home to starving in exile.

and employee organizations as much as independents) could be trained and nurtured as a core group of experts that can push the development and implementation of those policies within and outside their own organization. As long as there are no reliable institutions to work with, it is better to build and cultivate personal relationships in order to move forward on issues. Identifying such agents of change needs to be considered a specific task and cannot be left to chance.

15 Developing policies for economic development and employment promotion will also be easier on the basis of working with selected individuals who have the capacity to influence processes. Given the structures and dynamics in this area of policy are stronger, it may also be feasible to work with a specific existing institution or service, e.g. employers organizations or selected business service providers and non-government organizations. Careful actor mapping exercises need to precede any interventions and appropriate resources have to be set aside for this purpose.

A useful technical focus could consist of working with sectors or value chains that are just about competitive in the world market, thus allowing for fairly quick wins. Given that the Lebanese diaspora is larger than the population of Lebanon itself, it would be useful to explore whether targeting the Lebanese diaspora with niche products could lead to relevant employment effects. In terms of needs, business development assistance to firms specifically affected by the Syria crisis, as suggested by the World Bank, could also be useful.

16 Developing informational links between the education system and the labor market, between employers and the labor market, and for jobseekers should be feasible, but will require a systematic approach and concept. The provision of such information is going to be welcome by all participants. The power of modern IT tools could be exploited both to ensure realtime information and to increase the attractiveness for users.

17 In order to tackle the issue of slow labor productivity growth, it will be important to invest some research into the reasons for the slow productivity growth. Labor productivity has been strongly fluctuating and may have been affected by external factors. Once the reasons are identified, it should be possible to develop specific measures that are capable of promoting productivity growth. At the same time, any activities that are productivity related (e.g. within the scope of industry policy) could be supported.

Given that labor productivity is usually affected by effective skill levels, expanding the existing dual system so that more students can be enrolled and developing further specializations in line with labor market demand should be an important factor to raise productivity in the medium and long term.

The dual system could also be opened to Syrians in view of the fact that this may prepare them for rebuilding their country following the end of the crisis. Where Lebanese enterprises feel that they would like to employ Syrian graduates, measures should be put in place that they are being hired at the same rates as Lebanese graduates so as to not undermine the existing cooperation between enterprises and the Lebanese dual system.

18 It would be important to survey enterprises in the near future regarding their expected labor replacement demand. There are no studies available that this information could be drawn from. This survey or study should be conducted at firm level and could also be made use of to discuss any more specific requirements for changes in the curricula of education with business managers.

19 Given the institutional setting (or rather the lack thereof), it is not to be expected that it is possible to build or rebuild any of the active and passive labor market institutions unless the leaderships of such institutions visibly desire changes. However, it may be possible to deliver selected advisory services (including actuarial studies for the NSSF or information on the setup of social security elsewhere in the world) so as to disseminate approaches that have worked in practice among the concerned stakeholders.

20 In order to make it more feasible for females to take up employment, their constraints need to be better addressed. Some could be addressed by developing kindergarten or after-school care at office hubs, developing flextime concepts and strengthening telework. Improving public transport networks should also help.

5.3. Conclusions and consequences for German development cooperation

21 German development cooperation will achieve the strongest positive impact on the Lebanese labor market if it, jointly with other bilateral and multilateral stakeholders, ensures that requests formulated for assisting Syrian refugees in Lebanon (appeals) are immediately and fully being met, independent of the bargaining strategies of other donors. Making subsistence and accommodation available to Syrian refugees and ensuring that refugee children and youth can go to school as long as possible will go a long way in taking pressures out of the Lebanese labor market.

22 German development cooperation should team up with UNDP and ILO in supporting local host communities in affected poor governorates of Lebanon, notably in the North of the country. Although it would be possible for German development cooperation to move into these governorates independently, UNDP already has ample information available about locations that have not yet received support which is useful for accelerated implementation. ILO could contribute by providing latest experiences on working with local resource based and employment intensive infrastructure approaches. Such measures could also be eligible for financing made available via the Partnership for Prospects (P4P) initiative of the BMZ.

The request of the Lebanese government for support of projects at municipal levels that create job opportunities and contribute directly to fighting poverty, as made on the occasion of the London Conference for Supporting Syria & the Region, reflects the suitability of this approach. The range of project needs specified, from solid waste management and liquid waste treatment to renewable energy and transportation infrastructure lends itself to the utilization of cash-for-work programs which can involve both members of the host communities and refugees. Besides the effects for the municipalities concerned, refugees could get exposure to practical infrastructural works that are being imlemented in ways to maximize employment outcomes and technlogies which they could take back to Syria once the violence has ended in order to rebuild the country. Joint collaboration with members of the host communities should boost social cohesion in these disadvantaged areas.

Moreover, properly organized cash-for-work programs are able to ensure decent work and occupational safety and health standards, providing participants with personal protective equipment and instructions how to protect themselves while at work. In order to ensure female participation, the respectiive works can be screened for physically suitable and culturally acceptable tasks for females (e.g. food provision, medical nurses, clerical work, cleaning, sorting of light-weight materials; possibly also painting and household plumbing).

Last not least, such programs should be combined with short-term qualification measures that will enhance the capabilities of participants not only for their own benefit but also for raising the quality and efficiency of implementation of the works. Participation and performance in (usually non-formal) training as well as in the works themselves may also be certified so as to provide participants with track records and certification they can present to future employers.

23 While the Lebanese government has stated, at the London Conference for Supporting Syria & the Region, that it will make work permits available as appropriate, the integration of refugees into the Lebanese labor market is a very sensitive issue not only

because of potential displacement of other laborers but because it may have implications for the perception of confessional balances in Lebanon, the details of which are to remain opaque, and needs to be seen in the context of the history of relations between Lebanon and Syria. Therefore, only if and when the Lebanese government so wishes and requests, is there room for officially providing assistance to Syrian refugee integration in the labour market.

In other words, German development cooperation should avoid suggesting to assist with the integration of Syrian refugees in the Lebanese labor market. Any political pressure to further the integration of Syrians is likely to be counterproductive.[162] At the same time, German development cooperation should avoid engaging with any activities that interfere with the factual integration of Syrian refugees in the Lebanese labor market, be the integration of legal nature or not. Certainly, German support can be leant to activities that facilitate labor market integration of Syrian refugees (as long as the Lebanese government does not object). The fields of vocational training and business development (as under STEP, see below) may provide opportunities for such facilitation.

24 In order to support the development and implementation of coherent labor market related policies and of appropriate institutions, German development could try to identify individuals who would, in the short and medium term be able to influence such processes. A group of individuals (agents of change) that reinforces each other across different stakeholders could be trained and supported. This approach is fundamentally different from normal development cooperation practices where usually a competent institution is identified as the counterpart that will ultimately carry on the production of project benefits and impact into the future.This should not be excluded, but for the time being it would seem that working with an institution is likely to infect the cooperation with institutional paralysis, and existing institutions are too weak to be able to guarantee project outcome.

The approach acknowledgedly may pose risks in terms of legitimacy. However, betting on the formal mandate of existing institutions that are ultimately influenced by political or sectarian affiliations of their members poses no less of a risk.

It should be one of the specific tasks of any project or program appraisal mission to identify potential agents of change and to map out the potential roles they could take in moving forward the development and implementation of coherent labor market related policies and of appropriate institutions.

25 The same goes for the development of policies for economic development and employment promotion. Given the structures and dynamics in this area of policy are stronger, it may also be feasible to work with a specific existing institution or service, e.g. employers organizations or selected business service providers and non-government organizations. However, careful actor mapping exercises need to precede any interventions and appropriate resources have to be set aside for this purpose.

The announcement by the Lebanese government, at the London Conference for Supporting Syria & the Region, that it will introduce a new flagship programme, the Subsidized Temporary Employment Programme (STEP), for job creation in labor intensive sectors should provide a good starting point for negotiating feasible interventions. Given STEP intends to provide finance and employment incentives accompanied with technical assistance that will encourage MSME to expand production and create new permanent jobs

[162] The reiteration of the statement that Lebanon "...will not abandon our demand that the refugees be allowed to return to their homeland" by Prime Minister Tammam Salam upon return from the conference in London is an expression of the prevailing fear of "naturalizing" the Syrian refugee population.

for Lebanese workers as well as temporary jobs for Syrians,[163] German development cooperation may draw on its wide ranging experience in this field to support such processes. The same would hold for the requested support to strengthen value chains and ensure that Lebanese products can reach international markets, in particular quality and standards of Lebanese agricultural products.

26 German development cooperation should support the availability and wider access and exchange of research and labor market information. This is particularly important because there has been a notion for a long time in Lebanon that "a number is a point of view", i.e. necessarily biased. Information is able to trigger changes, but this only happens when the information is reliable and ideally available in realtime. Given the lack of many interlinkages, the impact of such interventions should be noteworthy.

27 German development cooperation should seek to find ways to improve labor productivity in Lebanon because it is growing only very slowly. Given that Lebanese jobseekers expect adequate returns from their jobs, they will need to be sufficiently productive on their jobs in order to justify their expected earnings. Increasing labor productivity is key to escaping the slow growth trap.

Germany's historical long-term support to developing the dual system approach in Lebanon's technical and vocational education may provide German development with a competitive advantage for achieving fairly quick wins in what otherwise is would be considered a long-term development program. Moreover, they could benefit both Lebanese and Syrian participants.

German development cooperation could assist the Lebanese government in expanding the current portfolio of vocations that are available under the dual system approach in Lebanon. New vocations ideally would include such that are not only labor market relevant in Lebanon, but also important for rebuilding Syria once the conflict has been settled, e.g. relating to construction, installation and maintenance of renewable energy equipment, water pump mechanics, agricultural equipment mechanics, welding, or similar. Vocations relevant for female employment should also be identified, e.g. secretarial work/ office management, bookkeeping, medical nurses, technical drawing, landscaping.[164]

German development cooperation could also assist with developing modularized short-term trainings for participants in public infrastructure works as to be implemented in municipalities using cash-for-work or other approaches. These trainings could be certified so as to facilitate recognition of prior learning if trainees move onward, or successive accumulation of credits that will allow trainees to earn, ideally accredited, professional certification.

28 German development should support research in order to assess the labor replacement demand that is likely to be required in the future so as to ensure that the labor force is qualified to be able to replace those which are exiting the working age population. Stakeholders in Lebanon, possibly as a result of the general avoidance of discussing population figures, apparently are not aware that their working age population was to reach its peak by the end of this decade. As soon as the Syrian refugees move back to Syria, the peak will be quickly reached and it would be fatal if Lebanese graduates are not able to replace those who are exiting the labor force.

29 Lebanon needs suitable and functioning active and passive labor market institutions and German development cooperation should assist in developing them. At this time, it is not

[163] The Lebanese government has declared in London that Syrian workers may collect accumulated social security contributions under STEP upon completion and safe return to Syria, or resettlement to a third country.

[164] In this context, Lebanese graduates ultimately could also hope to find employment in Syria's reconstruction which will require tremendous efforts over the coming decades. Lebanese firms already expect to participate in Syria's reconstruction.

recommendable to commit to a specific institution because it is difficult to assess their potential during the current paralysis of state organizations. Therefore a flexible approach should be used that can contribute to the development of these institutions on the basis of successive activities that can be agreed with the most suitable stakeholder(s).

30 It will be difficult for German development cooperation to address gender issues in Lebanon because the social constraints are quite dominant. Gender issues therefore need to be addressed by specific activities where necessary and useful and treated as a cross-cutting issue wherever relevant. What is culturally acceptable for females may somewhat vary between Lebanese and Syrian beneficiaries, depending on places of origin and religious affiliations.

Appendix

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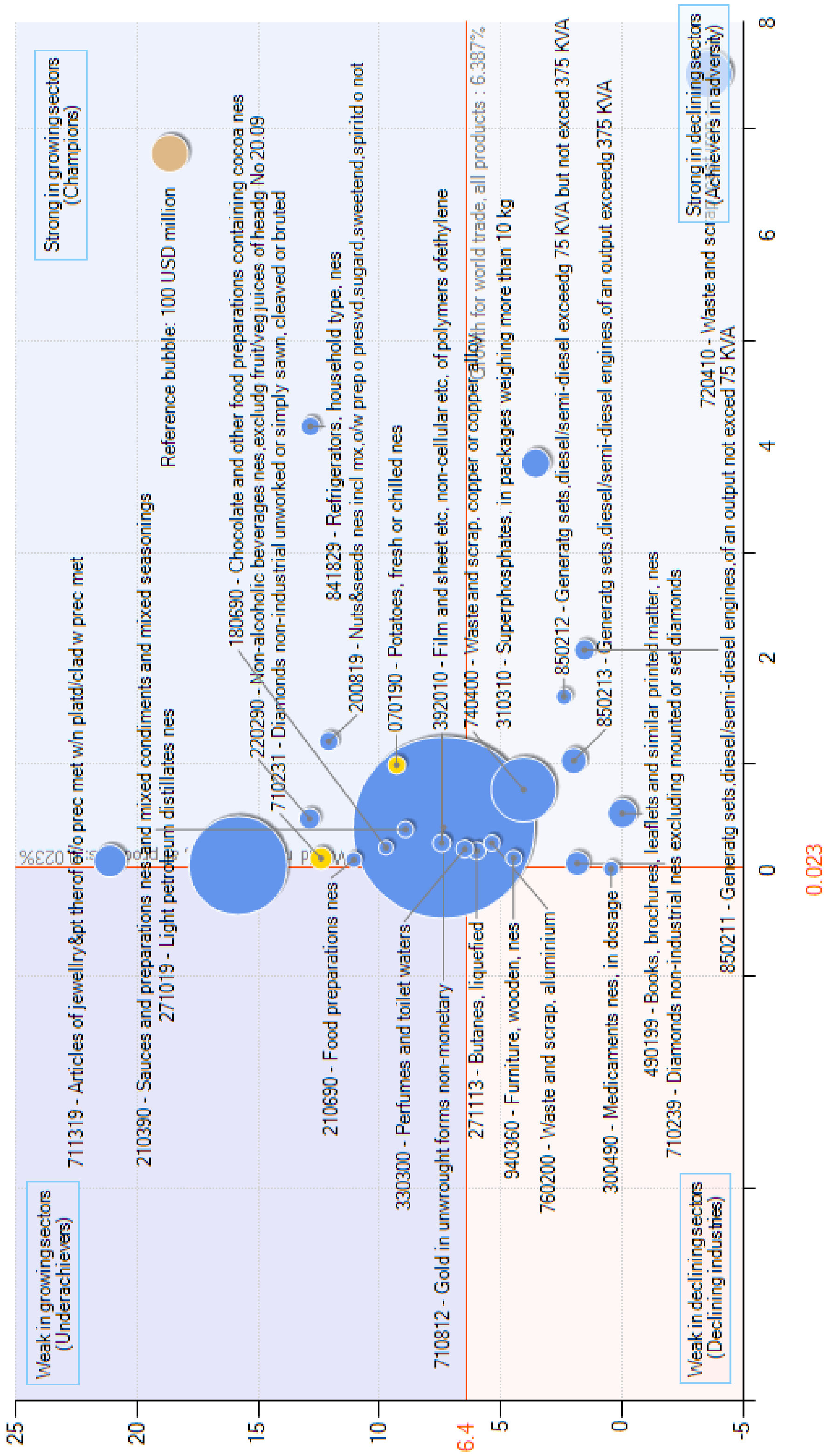
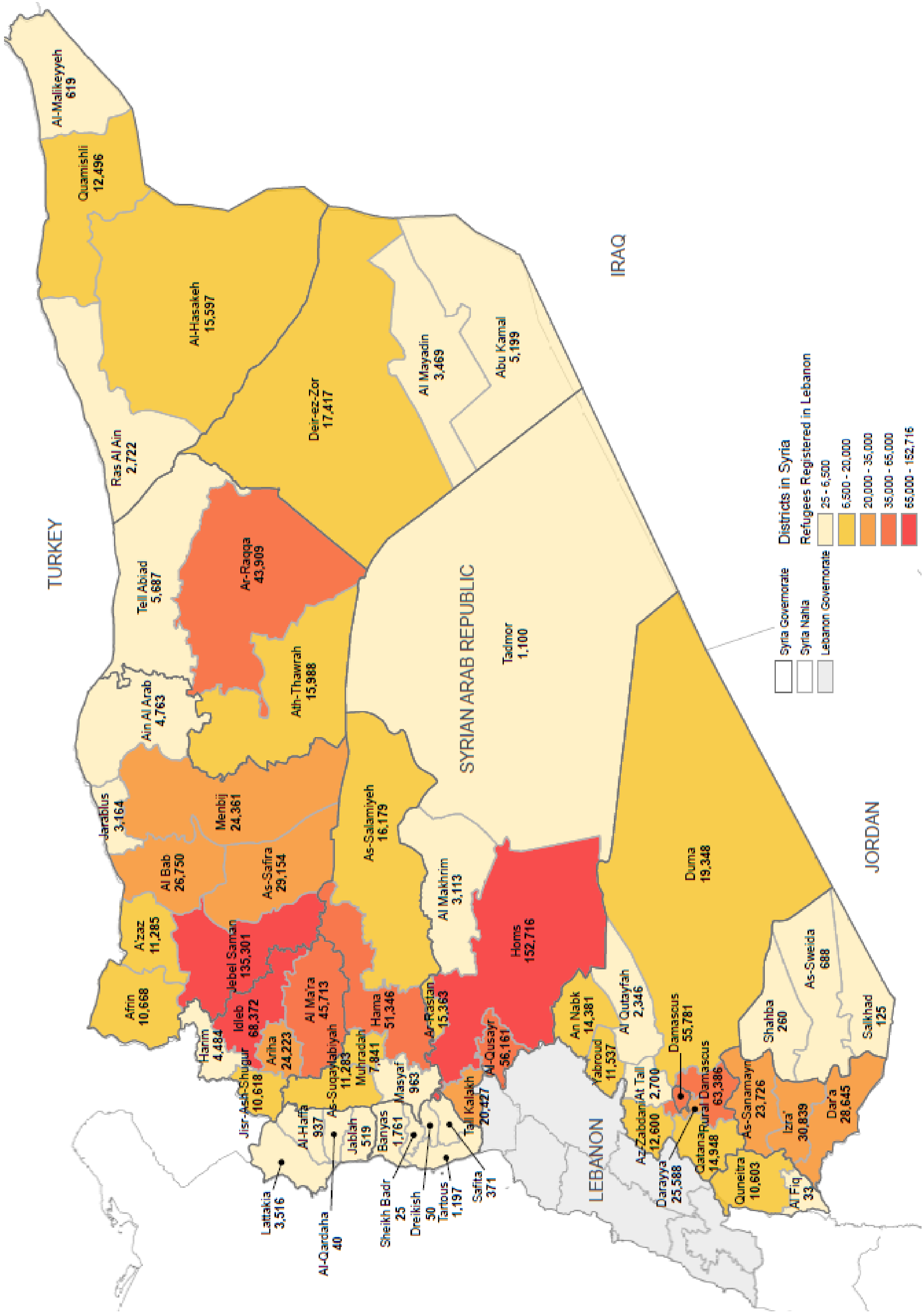
Annex 1: Structural analysis of exports of Lebanon 2013 by product (6-digit level)



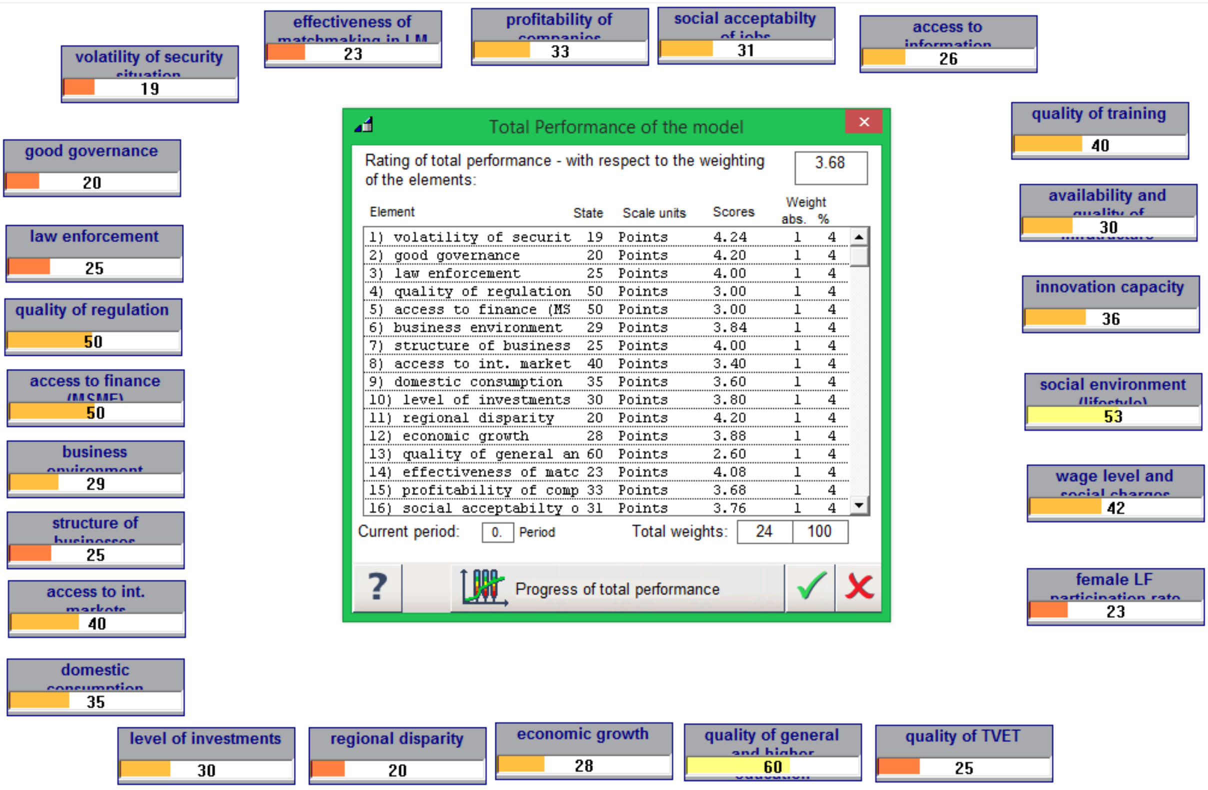
G.74 Global export growth since 2002 in percent (vertical axis; av. 6.4) vs. world market share of Lebanon in 2013 in percent (horizontal axis; av. 0.023).
Source: http://www.investmentmap.org/chart.

Annex 2: Origin of Syrian refugees in Lebanon



G.75 Lebanon: Places of Origin of Syrian Refugees Registered in Lebanon as per 2015-04-30.
Source: UNHCR Lebanon - Beirut Country Office.

Annex 3: Key factors identified for systemic analysis



G.76 Screenshot from preparation of systems analysis, here: Rating the current state of system elements.
Source: Workshop discussion.

This ELMA identified the factors displayed above as the key elements that affect employment in Lebanon during a workshop held in November 2015, jointly with selected experts from Lebanon. Unfortunately, the time available was insufficient to assess the cross impact between the different elements so as to be able to identify the most important triggers for systemic change. The screenshot above therefore documents work in progress.

Annex 4: List of persons met

Contact	Organization	Function
Robin NATAF	Agence d'Aide a la Coopération Technique et au Dveloppement - ACTED Lebanon	Country Director
Hart FORD	Agence d'Aide a la Coopération Technique et au Dveloppement - ACTED Lebanon	Deputy Country Director
Maryam Ghandour	American University of Beirut (AUB)	Career and Placement Services
Simon Neaime	American University of Beirut (AUB)	Director, Institute of Financial Economics
Fadi Gemayel	Association of Lebanese Industrialists (ALI)	President
Saad Oueini	Association of Lebanese Industrialists (ALI)	General Manager
Nassib Ghobril	Byblos Bank	Head of Economic Research & Analysis Department
Antoine Wakim	Caisse Nationale de Sécurité Sociale (CNSS)	Board Member
Maral Tutelian	Central Administration for Statistics (CAS)	General Director
Najwa Yaacoub	Central Administration for Statistics (CAS)	Statistician - Acting Head of Department of Coordination and National Accounts
Ghassan Ghosn	Conféderation Génerale des Travailleurs au Liban (CGTL)	President
Kamal Hamdan	Consultation and Research Institute (CRI)	Head of Economic Division
Elena Asciutti	Delegation of the EU to Lebanon	Relief and Recovery Attachée
Roger Nasnas	Economic and Social Council (ECOSOC)	President
Samir Naimeh	Economic and Social Council (ECOSOC)	Head of Presidency Cabinet
Roger Khayat	Economic and Social Council (ECOSOC)	Economic Advisor to CCIAB
Bret Saalwaechter	Embassy of the United States of America	Formerly Director for Education, Democracy Rights and Governance at USAID
Claude Knesevitch	Embassy of the United States of America	Senior Economic Advisor
Marina Chamma	Embassy of the United States of America	Economic Specialist
Ramzi el Hafez	InfoPro	General Manager
Mary Kawar	International Labor Organization (ILO)	Senior Regional Employment Policy Specialist
Lama Oueijan	International Labour Organization (ILO) Regional Office for Arab	Senior Specialist/ Employer's

Contact	Organization	Function
	States	Activities
Zafiris Tzannatos	International Labour Organization (ILO) Regional Office for Arab States	Senior International Consultant for Strategy, Policy and Research - Advisor to the ILO
Zeina el Sayed	Investment Development Authority of Lebanon (IDAL)	Business Analyst
Khater Abi Habib	Kafalat	Chairman and General Manager
Zeina El Khoury	Ministry of Economy and Trade (MoET)	Head of the Enterprise Unit UNDP Project
Fadi Yarak	Ministry of Education and Higher Education (MEHE)	Director General General Education
Ahmad Diab	Ministry of Education and Higher Education (MEHE)	Director General Technical Education
Toni Rached	Ministry of Education and Higher Education (MEHE)	Head of Rehabilitation Department
Dany Gedeon	Ministry of Industry (MoI)	Director General
Joseph Naous	Ministry of Labor (MoL)	Director General
	Ministry of Labor (MoL)	Head of Inspection
	Ministry of Labor (MoL)	Head of Deparhment for Syrian Workers
Jean Abi Fadel	National Employment Office (NEO)	Director General
Fouad Zmokhol	Rassemblement des Dirigeants et Chefs d’Entreprises Libanais (RDCL)	President
Andre Bacha	South Business Innovation Centre (South BIC)	Director General - South BIC & Economic Advisor CCIA Saida
Eric Le Borgne	The World Bank	Lead Economist - Macroeconomics & Fiscal Management Global Practice
Haneen Sayed	The World Bank	Program Leader - Human Development, Poverty and Gender
Wissam Harake	The World Bank	Economist - Macroeconomics & Fiscal Management Global Practice
Rola Rizk Azour	United Nations Development Programme (UNDP)	Senior Economic Advisor
Raghed Assi	United Nations Development Programme (UNDP)	Programme Manager Social & Local Development Programme
Mireille Girard	United Nations High Commissioner for Refugees (UNHCR)	Regional Representative for Lebanon
Jean-Marie Garelli	United Nations High Commissioner for Refugees (UNHCR)	Assistant Representative for Programme
Samir El Daher		Economic Advisor to former PM Mikati

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