



EXECUTIVE SUMMARY

Jobs For North Lebanon

September 2017



WORLD BANK GROUP

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Overview of Report Objectives and Methodology

This report provides an assessment of constraints and opportunities for the creation of more and better quality jobs for Lebanese in the more fragile and conflict-affected regions. The geographical focus is North Lebanon, including Tripoli. This analysis, accompanied by further dialogue with the key public and private sector professionals, can serve to inform the design and development of a jobs-focused program of financial support for North Lebanon. This diagnostic and program development approach can also be replicated in other high-priority, lagging regions of the country.

The diagnostic followed a three-pronged approach in order to assess the gaps that need to be overcome to respond effectively to job opportunities, foster productivity, and increase earnings: 1) an assessment of the investment climate in North Lebanon; 2) a value chain analysis (VCA) of selected sectors and the interventions required to unlock competitiveness and job creation; and 3) a review of the supply of labor and skills in the region, a stock-taking of training providers. Enterprise surveys were conducted of the key agents in two targeted value chains, as well as a household-level skills survey of the working age population in North Lebanon. Complementary semi-structured interviews and focus group meetings were also undertaken. Consultations with the Government and other stakeholders took place from May through August, 2016.

Social and Economic Characteristics of the North

The North of Lebanon faces significant structural, socio-economic challenges. The economy of North Lebanon is largely split between agriculture, dominant in Akkar and Minieh-Danniyeh, and the urban industrial and services economy centered in Tripoli. Productivity in these different sectors is relatively low. Decades of political, community, and social insecurity have impeded investment, curtailed growth, job creation, and fostered out-migration of talent. According to the latest poverty data, 36 percent of the population in the North are poor, significantly above the national average of 27 percent. This is second to the Bekaa, which has a lower absolute number

of poor. Areas of Tripoli and its immediate northern hinterland including also areas of Akkar are assessed as some of the most vulnerable localities in the country. The evidence suggests that this region has high levels of inequality.

Employment challenges for the Lebanese in this region have been exacerbated, particularly for the poorest segments, by the country's fragility and history of conflict, and more recently by the influx of more than 1.5 million Syrian refugees. This is strongly impacting Tripoli and the North, where the ratio of refugees to population is almost 32 percent and which houses 29 percent of total refugees (or 445,000 individuals). This represents an increasingly unsustainable stress on social services and the job market.

Key Findings

A. The Jobs Challenge in North Lebanon

The working age population in the North is estimated at 610,000 individuals, of which 53 percent are inactive, leaving a total labor force of 289,000. Within the participating labor force, 20 percent are employers and 22 percent are self-employed – both largely informal. Just 49 percent of the labor force are wage employed and, of those, only 15 percent are formal wage workers. The remaining nine percent are unemployed.

Among those who are working in North Lebanon, the vast majority are in poor quality, low productivity jobs working in enterprises of less than ten employees. The majority of workers are employed in the wholesale and retail trade sector, characterized by low productivity.

The total labor force in the North is expected to increase from 289,000 to 362,000 people by 2025, due to existing trends in the growth rate of the Lebanese working age population and current labor market participation rates. This implies that the regional economy would need to create an average of 8,000 jobs each year simply to maintain a steady state situation in the labor market.

Addressing the employment gap in North Lebanon to bring performance in line with the national average requires substantial job creation. Closing the employment rate gap to the national average would require almost 14,000 new jobs in the region – or around 2,800 annually if a five-year target was set to reach this goal. An employment rate above 60 percent, typical of upper middle income countries, would require more than 120,000 jobs or 24,000 per year over a five-year period. To improve the quality of jobs and bring the region in line with the national average of 62 percent of the employed in waged jobs, an additional 21,000 waged jobs (or more than 4,000 per year over five years) would need to be created to replace existing self-employment.

The number of unemployed is relatively small (around 22,000 or nine percent of the active workforce) and they are younger and better educated than the population as a whole. This highlights a demand side problem – i.e. not enough good jobs are being created. But it also suggests that this group may be well-positioned to shift into employment with appropriate support.

B. The Labor Market in North Lebanon

The low labor force participation rates and low education levels limit both the quantity and quality of the workforce in North Lebanon. The participation rate in North Lebanon is amongst the lowest in the country, while the actual labor force is amongst the biggest given that the majority of its population is of working-age. This high inactivity is driven by the very low participation rates amongst women and youth in the labor market. Amongst those who are active, the majority has low levels of education, especially amongst the adults. Forty five percent of the active population has elementary education or below, while 31 percent have completed tertiary education. Youth and adults less than 34 years of age achieve higher levels of education with 31 percent (youth) and 42 percent (adults), respectively, having a bachelor degree or higher.

There are important variations in labor market outcomes between different population groups, especially among women:

- Only one in five working age women participate in the labor market, compared to 73 percent among working age men.
- The majority of active women are wage employees, while self-employment is more prevalent among men. For women, 80 percent are wage employees and only 20 percent are self-employed or employers, while the latter is 40 percent among men.
- Twenty-three percent of youth below age 25 are not in Education, Employment or Training (NEETs), and 13 percent are unemployed.

C. The Investment Climate for Job Creation in North Lebanon

Lebanon fares poorly in eight out of ten different dimensions of the doing business life-cycle measured in the Doing Business Indicators. Even in the two areas where Lebanon has made some progress — starting a business and getting credit — it remains far from the frontier of the best performers. Moreover, Lebanon has not made progress in any other Doing Business Indicator since 2006. Many investment climate constraints are more acute in the North:

- Informal competition and corruption represent major obstacles to investment in both formal and informal firms. In the North, 84 percent of firms indicate they compete against informal firms versus just 57 percent of firms nationally. In terms of corruption, 62 percent of firms in the region report they expect to pay bribes to public officials compared with 21 percent of the firms for the rest of Lebanon.
- The infrastructure constraint is greater in terms of electricity access and quality. Electricity connections in the North take almost twice as long as for the rest of Lebanon (which is already cumbersome). Additionally, firms in the North

also tend to have a higher number of electrical outages and a greater reliance on generators.

- Access to finance does not appear to be a leading constraint in Lebanon, however this finding conceals some critical gaps. In Lebanon, as in many other countries in MENA, smaller and more informal enterprises have significantly less access to finance than large firms, disproportionately impacting a region dominated by such firms.

Myriad constraints restrict firms in the North from taking sufficient advantage of exports as a source of growth and job creation. Close to 60 percent of all jobs in Lebanon are accounted for by large exporters. Yet just six percent of firms in the North export even one percent of their sales directly, around half the national average. Despite a strategic position and a production structure that aligns well with Lebanon's trade comparative advantage, firms face constraints in logistics, trade facilitation, and quality standards, along with disruption to traditional trade routes. This contributes to anemic levels of foreign direct investment in the region.

D. Value Chains as Sources of Inclusive Job Creation

Two value chains were selected in consultation with the Government of Lebanon to assess their potential to drive inclusive job creation in the North: potatoes and solid waste/re-cycling. The potato sector is one of the largest agricultural activities in the North. It has a strong reach into the rural areas of the region (particularly Akkar), while also connecting to urban areas through trade and processing. Whereas, the solid waste and recycling sector offers the opportunity to leverage substantial investments being made through the Office of the Minister of State for Administrative Reform (OMSAR) (funded through the European Union) in solid waste and sorting facilities across the North.

Potatoes

Around 9,000 jobs exist across the potato value chain, including 1,800 permanent and around 7,200 seasonal jobs. Converting seasonal workers into full-time equivalent (FTE) positions (40 hours a week, year-round) results in close to 3,000 FTEs in the value chain. The majority of these jobs are in farming, accounting for two-thirds of permanent jobs and 85 percent of seasonal jobs. Traders also account for a sizable number – more than 500 FTEs and almost 400 permanent jobs.

Lebanese occupy almost all high-skill jobs across the potato value chain, as well as the large majority of low-skill permanent positions in processing and trading activities. There is over 40 percent Lebanese female employment in permanent positions in input suppliers and processors. Most of the jobs for Lebanese youth are in trading (more than 80 percent of low-skill, permanent jobs). Foreign workers dominate seasonal employment and low-skill employment in potato farms.

The assessment of the jobs creation potential for Lebanese at the higher skill end

of the employment spectrum resulting from growth in the potato value chain was based on two scenarios:

- An expansion of exports: Where Akkar farmers take half of the EU quota of 50,000 Metric Tons (versus none at present) over and above existing domestic and other export markets. This can create an estimated 350 additional permanent jobs and another 1,550 seasonal jobs. Around 70 percent of jobs would be in farms. The remaining jobs would be in trading and inputs.
- New large-scale investments in potato processing: At the high end of the scenario, close to 2,200 new permanent jobs can be created. This includes 1,200 in processing, trading, and input supply that tend to employ largely Lebanese workers, including significant skilled positions.

In practice, the number and nature of jobs created in any growth scenario for this value chain will depend to a large degree on the type of investment driving growth (e.g. expansion versus greenfield investment), as well as the decisions by firms on capital and labor mix.

Solid Waste and Recycling

A fully operational solid waste management and recycling supply chain infrastructure has an estimated employment capacity of close to 4,600 versus approximately 1,300 workers currently employed in this value chain. Female participation is low, only 6.7 percent of the labor force across the entire value chain. Foreign workers account for about 30 percent, mainly in low-skilled jobs.

Based on an annual growth rate of 1.6 percent, the estimated number of jobs along the entire value chain can be projected to reach 5,000 by 2020 and 5,400 by 2025. This calculation is based on the assumption that waste management facilities in North Lebanon are fully operational, accounting for the collection of at least 99 percent of municipal waste, and all sorting lines are operational with a functioning supply chain infrastructure for recyclable products.

The highest number of jobs is expected to be concentrated around traders of recyclable material (more than 1,900 jobs by 2025), followed by steel processing (more than 750 by 2025). A further breakdown of jobs according to type indicates that nearly one quarter of new jobs (approximately 475) would be permanent high-skilled jobs, while 70 percent would be permanent low-skilled jobs. The highest concentration of permanent high-skilled jobs (around 30 percent) is expected to be in the trading sector, followed by the paper sector (25 percent).

Analysis of these two value chains indicates both have significant potential to create better quality jobs for Lebanon, with further induced job creation effects through the impact of wage expenditures in the local economy. These value chains represent a relatively small share of the overall economy in North Lebanon. So, it is not a 'silver bullet' to solving the jobs challenge. Moreover, substantial investment

and other interventions across the value chain would be required to have a pronounced impact on job creation and quality.

Conclusions and Recommendations

As elucidated in this report, job creation challenges in North Lebanon are substantial. The North is a very informal, high poverty-level, regional economy facing significant and prolonged external shocks compounding an existing situation of persistent internal insecurity. It is a region that has a strong sense of neglect from the central government that has been unable to progress with the key reforms required to provide a broad-based competitive improvement to its economy. Nor has it been able to provide sufficient targeted support to this lagging region. This sense of marginalization was confirmed during the unexpected reversals that the leading political parties suffered in the recent 2016 Tripoli municipal elections.

In a labor market providing just one salaried job for every five working age adults, the crux of the problem lies on the demand side – a private sector that fails to generate productive jobs. Tens of thousands of relatively educated, working age adults are unemployed or outside of the labor force completely. More still are stuck in low quality jobs. The available evidence suggests a market dominated by small and micro businesses - too many in the informal sector with limited job creation capacity. Together with the limited growth potential currently prevalent among SMEs, future employment creation in the absence of new investment is highly constrained. Some inroads can be made through better job search and matching facilities, particularly for those better skilled unemployed workers. But substantial improvement will prove elusive without more being done to mobilize demand side investment.

This report highlights where opportunities exist. But it also recognizes there is significant distance still to be travelled to bring the supply and demand sides of the market into more effective partnerships. This effort needs to be undertaken with a keen sense of what is possible and where the regional economy can advance over the short, medium and long term. It also requires innovative enticement of private sector risk-taking and investment in fragile settings that are traditionally seen as antithetical to private investment.

There will be no one “transformative approach” to the jobs challenge in the North. A series of actions – calibrated to what is politically possible and a bit beyond – will need to be taken and implementation sustained over an extended period. Many of the significant constraints to business entry, growth, and job creation are long-standing problems in Lebanon. The solutions are well known but have not, for whatever reason, been implemented. While efforts should continue to promote such reforms, solutions to the regional jobs challenge should not depend in any way on these macro, national-level reforms coming to fruition.

Different strategies will be required over time. Over the shorter term this entails

a focus on SMEs, taking as given the current policy and infrastructure environment. Over the longer term, an increased focus on higher potential value chains – through selective (i.e. “not-so-politically sensitive”) sector-specific reforms and supporting investments – can mobilize marked new private investment. In both cases, there are specific labor market and skills issues to be addressed and outcomes to be achieved.

Next Steps - Ways Forward for Job Creation in Lagging and Vulnerable Regions in Lebanon

1. Short-Term Agenda: Supporting SMEs and Self-Employment

Starting with a shorter 3-5 year period, no significant policy change can be expected to take full effect. This represents the time period before potentially growth-inducing new infrastructure investments – including the Tripoli Special Economic Zone and port and railway developments - come into effect. The challenges will be to support SMEs to improve market performance and develop new market niches. This focus should also include the informal sector where the majority of North Lebanon’s work force is concentrated. Micro-level, informal, locally oriented businesses dominate the employment landscape but lack the means to absorb even the relatively small active labor force. Some of the potential solutions to address short-term job creation and inclusion needs are:

- Delivering new forms of finance that can improve access to key inputs needed to start and expand MSMEs in ways that foster job creation and help mitigate lending risks;
- Supporting MSME and BDS/entrepreneurship;
- Developing targeted programs to support female and youth business start-ups.

Respondents in the labor market survey indicated access to finance and wage subsidies are some of the most critical elements in strengthening the performance of this sector and, ideally, in providing the inducement for firms to formalize. Getting the incentives right in developing such products and mitigating against market distortions - but recognizing that jobs created in highly fragile, policy constrained regions bring with them significant additional social externalities - requires distinct innovative approaches to address the heightened investment risks.

2. Long-Term Agenda: Sustainable Jobs Through Value Chain Investments

Efforts to bring about national level policy reforms in politically fragmented fragile settings often fall short, as the weight of politically vested interests takes its toll. This perspective - held even by senior Lebanese policy makers and almost all private sector stakeholders engaged in the preparation of this report - led to the focus on value chains. It builds first on the notion that targeting sub-sectors from production to end-market offers a more tractable reform context and more targetable and measurable

investment opportunities. It also allows for a better calculation of winners and losers. In other words, it is less threatening to the political and institutional rigidities that block wider change efforts.

The value chains analysis also indicated that while not a panacea, substantial job potential for Lebanese exists in selected value chains, provided that downstream value-adding activities can be instigated. To be successful, this requires clear determination of market opportunities, associated with new investments in facilities, labor force skills development, and some core infrastructure improvements. Far greater attention is also required to establish effective partnerships and networking within value chains and clusters operating in the region.

Interventions to support the development of competitive value chains need to be complemented with efforts to bring labor force supply closer to private sector needs. This means raising skills levels and making them more relevant to the evolving demands of the private sector. It also requires improving matching between workers and jobs through more effective registration and profiling of the labor force and improved information flows between public employment and training institutions and the private sector.

The value chain development approach proposed as part of a multi-phased job development program recognizes the specific enabling conditions on the ground in the North. To achieve larger-scale job creation, private sector investors willing to invest in the North as a base to serve wider markets are needed. This means building on sources of comparative advantage in the North. These include its strategic geographical position where the port of Tripoli provides connectivity to the wider region, as well as specific value chains (mainly agricultural). Serving wider markets is not simply about exporting, but also serving markets nationally and within the region. This, too, requires increasing connectivity (including to Beirut) and re-establishing Tripoli's central role in the regional and national economy.

3. Ongoing Imperative: Strengthening the Competitive Position of North Lebanon

It will be critical to build on the new infrastructure investments already underway and then look to the region's other key economic assets. This includes the further development of a relatively deep-birth seaport that can strengthen the region's longer-term competitive edge in terms of the GCC export market and the previously mentioned future reconstruction of Syria. Solutions to reinforce the strategic positioning of Tripoli and the North include:

- Continued investments (including customs) to develop the Port of Tripoli as a leading container terminal for regional shipping and, to the extent feasible, expanding private investment in various aspects of port development and operations;
- Investments in transport infrastructure to improve connectivity between Tripoli and other regions of Lebanon, as well as between Tripoli and key districts in the North;

- Investments in industrial infrastructure, such as special economic zones and industrial parks, to support a competitive manufacturing sector;
- Investments in urban infrastructure and municipal capacity to promote improved “livability” for residents of Tripoli;
- Investments to position Tripoli to support post-conflict reconstruction in Syria.

At some point, value chain development and associated targeted infrastructure development will experience diminishing returns, both in terms of private investment and jobs. Further attracting investment to establish and expand outward-oriented businesses in Tripoli and the North will, eventually, require addressing significant, long-standing investment climate constraints. This includes issues of governance and, most notably, electricity. Operating competitively without a robust and supportive investment climate is almost impossible, particularly for firms attempting to compete in export markets.