

LEBANON'S FORMAL PRIVATE SECTOR: the **BITTER** reality of **2020**



Shared Prosperity Dignified Life



E/ESCWA/CL2.GPID/2021/POLICY BRIEF.1



© S1photography



© PhoThoughts

© Ridofranz

Introduction

The Lebanese economy is in free fall, resulting in higher unemployment and extreme poverty. After the recent Beirut Port explosion, revisions of economic contraction reached -20 per cent following reductions in private sector activity that slashed Lebanese gross domestic product (GDP) and tax revenues. Recent data have revealed that around half of private sector sales stopped between 2019 and 2020, and 23 per cent of full-time employees in key sectors have been laid off. Further contraction in private sector activities is expected in 2021 if the COVID-19 vaccine is not rolled out on time, and political and economic reforms are not implemented.

-20% ECONOMIC CONTRACTION

2019 2020
1/2 private sector sales STOPPED

23% of full-time employees laid off



Impact assessment

- 1. A Large decrease in Lebanese private sector activities led to a large drop in both GDP and tax revenues.** For the first nine months of 2020, the Lebanese Government lost around 17 per cent in tax revenues from all forms of private sector contributions. This loss is expected to be significantly higher for the full year owing to the most recent tax deferrals granted by the Government.
- 2. By the end of 2020, the pandemic had reduced formal private sector sales by 45 per cent compared with 2019.** The Lebanese private sector reached a significantly low level in 2020 because of a significant drop in sales, irrespective of whether firms were impacted by the explosion.
- 3. Compared with 2019, employment in 2020 decreased by an average of 23 per cent in key sectors among full-time employees in the formal private sector.** Among high-emplying sectors in Lebanon, the highest loss in full-time employment was observed in the construction sector (-40 per cent), followed by the hotel and restaurant sector (-31 per cent) and the manufacturing sector (-27 per cent). Firms impacted by the explosion suffered higher losses in full-time employment, with women losing out the most.



Figure 1. Drop in sales between October 2019 and the average sales of 2020

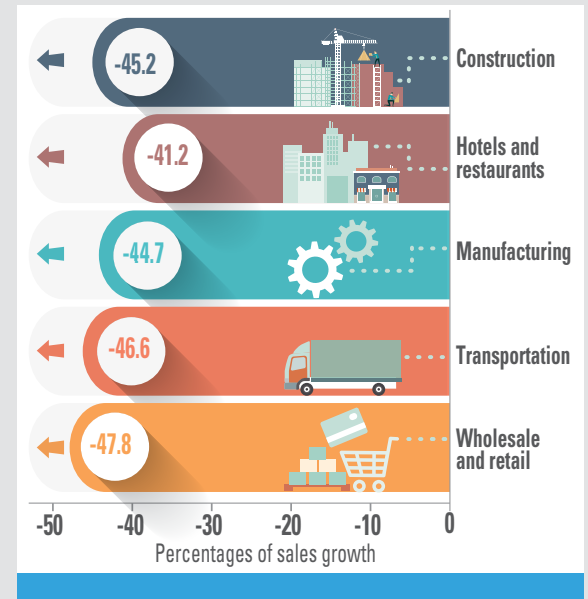


Figure 2. Drop in employment between October 2019 and 2020

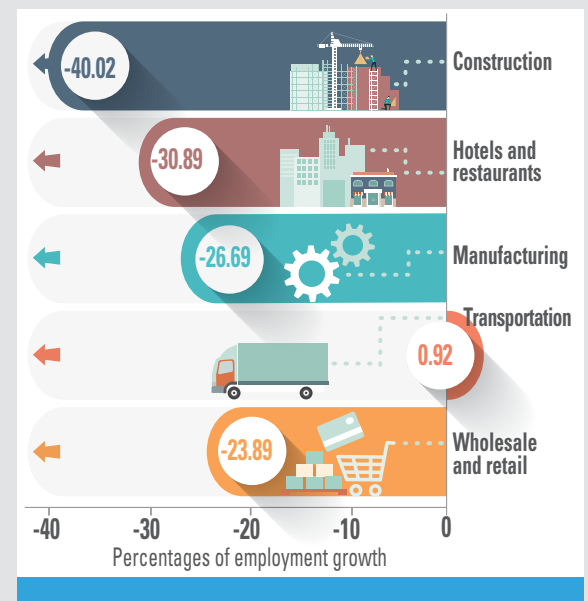
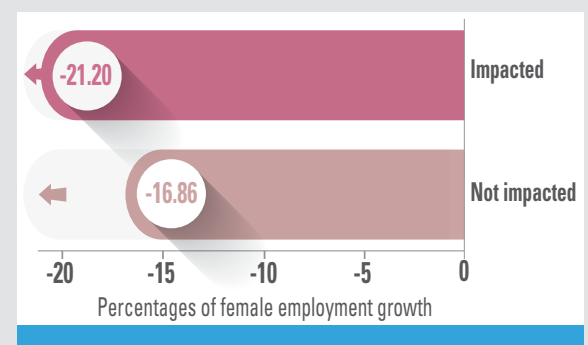


Figure 3. Female employment growth in firms impacted by the explosion and those not impacted



Source, figures 1, 2 and 3: ESCWA calculations based on the World Bank Enterprise Survey, COVID-19: Impact on firms.

4. The pandemic decreased demand for full-time employment in micro and small enterprises, which hire the majority of poor and vulnerable groups. Employment demand dropped by almost a half in microenterprises and by a fifth in small firms. Although they are the most vulnerable to shocks, micro and small enterprises shut down for an average of nine weeks owing to the pandemic in 2020, putting many of them on the brink of bankruptcy. Micro, small and medium enterprise (MSME) employees constitute around 91 per cent of full-time employment, but 45 per cent of these employees are multidimensionally poor.

5. Non-exporting firms witnessed almost double the employment loss compared with exporting firms, and experienced lower sales. Comparing full-time employees between December 2019 and 2020, demand for employment in non-exporting firms dropped by more than 30 per cent. In contrast, demand for full-time employment in exporting firms dropped by only 14 per cent, owing to an accommodative exchange rate and less than expected losses in international demand.

6. In 2020, the majority of formal private sector firms in Lebanon had debt in United States dollars, exposing them to exchange rate risks, especially for non-exporting firms. Formal private sector establishments have more than 50 per cent of their debt in dollars, with those impacted by the explosion reaching almost 80 per cent. The highest level of dollar debt is in the construction sector (which is also performing the worst), followed by manufacturing, wholesale and retail, and the hotel and restaurant sector. The impact of dollar debt is lower on indebted exporting firms.

Figure 4. Percentage of firms' debt in United States dollars for firms impacted by the Beirut explosion

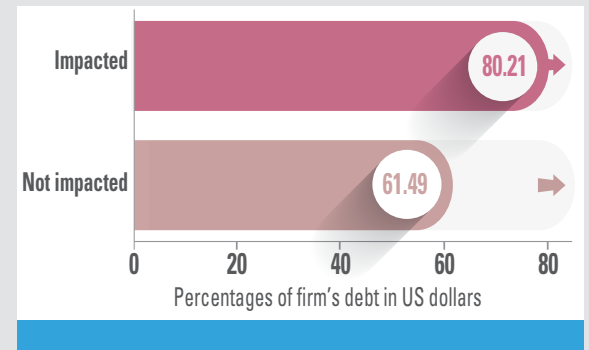
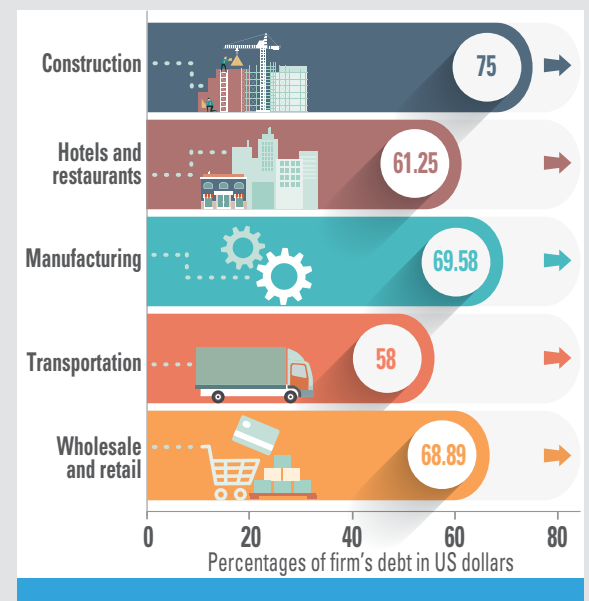


Figure 5. Percentage of firms' debt in United States dollars per sector



Source, figures 4 and 5: ESCWA calculations based on the World Bank Enterprise Survey, COVID-19: Impact on firms.

Policy response

1. Invest in the survival of formal private sector firms.

Tax deferrals, tax relief, access to concessional loans and credit guarantees are effective policies to make firms less susceptible to the country's unprecedented levels of economic contraction. Although tax deferrals and tax relief in the emergency period negatively impact government revenues, sectoral recovery in the medium and long terms will outweigh short-term losses. The relief fund of the International Monetary Fund (IMF) will cushion formal private sector recovery. However,

such programmes should be complemented with various public financial management reforms.

2. Develop a national rescue plan for MSMEs to limit unemployment as a result of the pandemic.

In addition to debt payment rescheduling, concessional loans for urgent cashflow requirements are needed to avoid mass bankruptcies and more job losses. Granting an extension to payments deadlines for all utilities and taxes is also necessary to maintain

functionality during the emergency period. Taking the right measures to preserve MSME employment will reduce the odds of significantly increasing the 55 per cent poverty rate in Lebanon.

3. Develop crisis management and contingency plans, especially for small and medium enterprises (SMEs).

Almost all SMEs in Lebanon lack contingency plans and the ability to modify their businesses and production models, even in times of stability. The Lebanese Government should therefore provide them with technical assistance on crisis management to survive the current recession and better manage the recovery period.

4. Enact employment protection schemes to reduce the impact of the pandemic and the Beirut explosion on employment.

Given the current fiscal capacity of Lebanon, social and employment programmes require international and regional financing. The current World Bank social protection contribution should be increased and extended to cover employment protection schemes for those who are already unemployed and those who recently lost their jobs owing to the pandemic.

5. Incentivize production in exporting firms to boost output growth and employment growth, and ensure the inflow of foreign currencies.

Manufacturing exports and service exports are capable of maintaining a more balanced growth in sales and employment relative to other sectors. Consequently,

facilitating favourable financing options, enacting free trade agreements, setting free trade zones and reducing red tape could incentivize exports. Favourable political conditions should always be prioritized to facilitate trade.

6. Implement major reforms in the Lebanese business environment and investment climate, while prioritizing additional political stability, less corruption and more accountability.

Facilitating effective infrastructure for production, especially by providing sustainable and cheap access to electricity and Internet, and ensuring trade facilitation and less red tape, can enhance Lebanese competitiveness. Such reforms will also facilitate additional financing by the international community and put Lebanon on a more credible path to further investment. Ending corruption should underpin all reforms.

7. Facilitate upskilling and reskilling programmes for those who lost their jobs.

Young people and women should be at the heart of these reskilling and upskilling programmes. Given the extended spread of the pandemic, prioritizing online trainings is a viable solution in Lebanon. Online training from top tier education programmes can help people update their skills to meet the employment requirements of both domestic and global markets. ESCWA successfully facilitated a reskilling and upskilling programme for 25,000 Lebanese people, which can be duplicated on a larger scale.



Shared Prosperity Dignified Life



VISION: ESCWA, an innovative catalyst for a stable, just and flourishing Arab region

MISSION: Committed to the 2030 Agenda, ESCWA's passionate team produces innovative knowledge, fosters regional consensus and delivers transformational policy advice.

Together, we work for a sustainable future for all.

www.unescwa.org