

Beirut RDNA – Tourism Sector Report

A) Sector Summary

Damage – (US\$ xxx million). Damages amount to US\$ xxx million, and losses to US\$ xxx million in the tourism sector. About 65 percent of tourism facilities were affected (2,141 privately-owned establishments), including from bars, hotels, restaurants, travel and tour operators, and car rental agencies. 70 percent of all damaged facilities are restaurants. In absolute terms, the highest costs are incurred by hotels, resorts and furnished apartments owners. In relative terms, 80 percent of all bars, pastries and night clubs have been damaged. Approximately 28 percent of the damaged facilities are destroyed and will need to be rebuilt. Service delivery will be extremely hard to restore in the next three months. It is estimated that one of five employees may lose their jobs.

Recovery and Reconstruction Needs – (US\$ xxx million). The 2020 summer season is now considered lost. Immediate tourism reconstruction and recovery costs are assessed at US\$ xxx million while they are estimated at US\$ xxx million in the short-term. The most urgent requirement for the tourism sector is to gradually reopen facilities and support information campaigns to reach out to foreign visitors and Lebanese expatriates. Over the next 12 months, infrastructure reconstruction will amount to US\$ xxx million for the rehabilitation of damaged facilities and rebuilding destroyed ones while service delivery restoration will require an additional US\$ xxx million for debris removal, loss in revenues and promotional campaigns. Over the medium term, businesses operations in tourism will need sustainable financing solutions, otherwise illiquidity will lead to insolvency and the destruction of jobs.

B) Background: Baseline (Pre-Explosion) Conditions and Trends

The tourism sector is one of Lebanon's most important: with 1.7 million visitors annually the past decade, it represented a major source of foreign currency inflows, employment and opportunities for MSMEs. Tourism in Beirut has been on a sharp decline since October 2019, particularly foreign visitors whose spending represent over 80 percent of the sector revenues (about US\$ 7.5 billion annually the past decade). For example, tourism contributed an estimated 19.1 percent of GDP in 2018 (US\$ 10.4 billion, of which international tourism receipts at US\$ 8.7 billion) and employed directly and indirectly 18.4 percent of the workforce (394,300 jobs).¹ Two third of tourism jobs are in Beirut. Pre-explosion, one of five tourism employees have lost their jobs and two of five were earning reduced salaries. Apart from Beirut International Airport issue operating at 10 percent capacity due to measures to mitigate the spread of COVID-19, tourism challenges are perceived insecurity for tourists, conservation and pollution of natural or cultural heritage sites, limited public transportation system, and high operating costs for businesses (land, labor, electricity, and water). The sector is well structured with private sector associations² and key institutional actors such as the Ministry of Tourism, the Investment Development Authority of Lebanon (IDAL), and Kafalat S.A.L.

¹ IDAL: https://investinlebanon.gov.lb/en/sectors_in_focus/tourism

² Lebanese Federation for Tourism & Hotel Associations; Lebanese Hotel Association (LHA); Syndicate of Furnished Apartments; Union of Travel and Tourism Owners Offices; Syndicate of Maritime Tourist Establishments; Syndicate of Owners of Restaurants, Cafes, Night-clubs & Pastries in Lebanon (Syndicate RCNPL); Association of Travel and Tourist Agents in Lebanon (ATTAL); Syndicate of Car Rental Companies; and Tourist Guide Syndicate.

Beirut is a central destination for tourists in Lebanon and the gateway to visit the rest of the country. Most visitors to Lebanon decide to stay in Beirut and to book day trips to other parts of the country. Tourism in the capital city is driven by a vibrant network of lodging, food, and drinks services with over 9,500 rooms (hotels, resorts, and furnished apartments), 2,225 restaurants, and 247 bars, pastries and night clubs, as well as other tourism professionals such as 375 travel and tour operators and 182 car rental agencies. These 3,279 tourism establishments were generating directly and indirectly over 105,000 jobs (excluding foreign workers) at the time of the explosion.

C) Sectoral Damage and Loss Assessment

1. Aggregate sector analysis

The explosion has badly damaged most of Beirut's must-see neighborhoods, which are within a 3 km radius of the Port of Beirut. Tourism facilities are privately owned, with limited insurance coverage (apart from high end establishments). Many may never recover due to the overbearing costs of reconstruction combined with the expected lower tourism inflows because the damages will undermine the recovery from the COVID-19 pandemic. Out of 3,279 tourism facilities assessed, 65 percent (2,141) have been negatively impacted by the explosion. Most affected tourism facilities have either partially or temporarily closed. Bars have been the most impacted by the explosion, with damages affecting 80 percent of all establishments in Beirut, followed by two third of hotels and restaurants, and about half of travel and tour operators, and car rental agencies.

A wide range of touristic activities are hard hit by the explosion. From the total of 3,279 tourism facilities, an estimated 607 facilities are destroyed (19 percent), 506 partially damaged (15 percent), and 506 minimally damaged (31 percent); 1,138 continue to operate without interruption (35 percent). The room stock of 9,500 has seen an estimated 3,000 rooms destroyed (32 percent of the stock) in about 163 lodging facilities. All other tourism businesses (particularly restaurants) have suffered great damages. In addition, the loss of equipment and inventory are important across all segments, including over 500 damaged vehicles for car rental agencies and severe service interruptions for all businesses are expected until next year. Finally, there has been fatalities and injuries, and loss of intangible assets. Service delivery will be extremely hard to restore in the next three months. It is expected that one of five employees (over 21,000) be further affected by the explosion in immediate to short term.

2. Quantification of Damage and Loss to Assets and Infrastructure

Total damages for the tourism sector amount to **US\$ xxx million**, and losses to **US\$ xxx million**. The peak season is considered lost for all damaged businesses, and immediate efforts for the remainder of the summer and in autumn will focus on rebuilding and restoring the industry capacity in the short term. Average damage per establishment ranges from US\$ xx k for travel and tour operators to US\$ xx k for hotels with most of the damage in infrastructure. Losses include removal of debris and expected decrease in revenues at firm level as well as expenses for promotional efforts at sector level.

Damage Inventory Table (in US\$ Million)

	Asset Types	Baseline	Total Damaged	Completely Destroyed	Partially Damaged	Minimally Damaged	Total Cost
DAMAGE	Bar	247	197	15	116	66	
	Hotel	250	163	19	67	77	
	Restaurant	2,225	1,500	568	197	735	
	Travel and tour operator	375	188	0	94	94	
	Car rental agency	182	93	5	32	56	
	Total Damage		3,279	2,141	607	506	1,028
LOSS	Revenues losses						
	Cost of promotion campaigns						
	Rubble removal						
Total Loss							

D) Sectoral Needs Assessment

The explosion abruptly ended the touristic season which was already suboptimal due to the COVID-19 pandemic. The explosion exacerbated the pre-explosion situation because tourism establishments had already suffered 9 months (since October 2019) of economic contraction and informal capital controls which had led to partial or full closure of many businesses in the greater Beirut area by August 4, 2020. While structural issues cannot be addressed by this disaster response, businesses that were viable prior to the explosion are being pushed to insolvency due to the scale of the damages and losses. In the absence of grants or concessional funding, many small and medium enterprises (SMEs) will not be able to reopen.

Immediate infrastructure reconstruction and service delivery restoration will cost **US\$ XXX million**. Businesses needs in the tourism sector are immense and will require funding as well as restoring trust and visibility. In the short term, additional support of **US\$ XXX million** is needed until the next summer season to help tourism facilities retain jobs and restore their services by mid-end 2021.

Partial or full reopening of tourism activities by Spring 2021 will not take place in the absence of funding mobilization for affected businesses to cover the following costs: (a) debris removal, demolition, temporary works, repairs and reconstruction; (b) equipment and inventory losses, and (c) working capital needs. Funding needs to be available in United States dollars to mitigate the risks on exchange rate which could defeat reconstruction and restoration efforts. At sector level, promotional campaigns will be needed to promote Lebanon as an attractive tourism destination, as such all players would benefit from a gradual recovery of international tourism receipts.

As earnings and balance sheets were already under tremendous strain on account of the pandemic and domestic economic downturn, businesses will need a lifeline to compensate for the physical losses and sustain livelihoods and employment for the next 12 months. Financial assistance to cover the priority needs should be targeted to informal and formal firms in the form of grants for the most vulnerable ones and concessional financing for those businesses that will be able to generate income in the short term (particularly in United States dollars). Assets that need to be reconstructed in priority are those that were not insured, those with heritage significance, those that are owned by businesses for which there is a business case to reopen, and those that can generate revenues for the business owners in order to sustain

jobs, maintain the asset (maintenance, amortization/rent, taxes, insurance) and build resilience moving forward to face upcoming crisis. Services restoration is expected to be gradual, with both a degradation in the quality and the availability of services offered to tourists.

Prioritized and Sequenced Needs Table (in US\$ Million)

Category	Total (over 0-1 year)	Immediate term (0-3 months)	Short term (3-12 months)
Infrastructure Reconstruction			
Service Delivery Restoration			
Grand Total			

E) Recommendations and Limitations

Reviving the tourism sector is a priority for the local economy to recover. Ensuring the return of services in the tourism sector to non-disaster conditions will require a mix of interventions which can help affected businesses reconstruct and bridge the gap in earnings until the 2021 high season.

Key priority recommendations include:

- **Recovery and Reconstruction Grants.** The provision of grants or concessional financing to businesses for rebuilding and recovering is necessary. As the explosion will eliminate the expected earnings during the summer season, and slow the return of visitors, businesses will require some level of income support to retain workforce and cover other costs.
- **Foreign Exchange Line of Credit.** For forex generating businesses, a revolving foreign currency facility can help support working capital financing in the immediate and short term until more sustainable financing solutions can be found for businesses.

Given limited resources, a prioritization of the assets to be reconstructed will be needed. Additional assessments in September 2020 will specify the number of beneficiaries, and define proposed eligibility criteria, eligible expenses, grants and loans conditions and size, the selection process, and mechanism for a transparent and efficient flow of funds through credible organizations. An attention will be given in assessing the needs of informal businesses which could not be properly captured in this assessment.

Another recommendation, which is non-financial, is the organization of a **Communication Campaign** to help restore trust of visitors and promote Lebanon as a touristic destination in a period where there is high uncertainty about the outlook for global tourism.

While the three above mentioned recommendations are essential for the survival of Beirut's businesses and jobs in the tourism sector, these should be complemented by wider policy efforts that support Lebanon in addressing the COVID-19 and economic crisis, and thus allow businesses to thrive beyond surviving the blast.