

## Beirut RDNA – Commerce and Industry Report

### A) Sector Summary

**Damage – (US\$ XXX million).** Damages amount to US\$ XXX million, and losses to US\$ XXX million in the commerce and industry sectors. About 56 percent of commercial and industrial facilities were affected (100 percent privately-owned establishments), including business such as gas stations, food and beverage, construction material, services, furniture, car dealers, clothes, plastics and chemicals, paper, and manufacturing (medium to large size). 52 percent of all damaged facilities are either clothing or furniture and home accessories stores. In absolute terms, the highest costs are also incurred by these clothing and furniture and home accessories stores. In relative terms, over 90 percent of all medium to large manufacturing industries within a 3 km of the blast site have been damaged at varied rates. Approximately 3 percent only of the damaged facilities are destroyed and will need to be rebuilt. Damage to businesses in this sector is not restricted to physical damage, it also includes significant loss of goods stocked in the port and onsite. It must be noted that destroyed goods in the port affect a much larger number of commercial and industrial businesses in the country than those in the direct perimeter of the explosion, significantly impacting firms' balance sheets and affecting operations across many value chains.

**Recovery and Reconstruction Needs – (US\$ XXX million).** Immediate commercial and industrial reconstruction and recovery costs are assessed at US\$ XXX million while they are estimated at US\$ XXX million in the short-term. In the immediate term, US\$ XXX million in financial support should be targeted at firms experiencing physical damages, particularly the ones that can provide vital services for the population or could assist in reconstruction efforts (e.g. mills and importers of food products; firms in the construction sector). Additional short-term measures amounting to US\$ XXX million are also needed as the majority of commercial and industrial firms suffer from loss of stock and inventory that were located at the port and they will require access to working capital to ensure flow of funds and resumption of operations. While the recovery efforts will start by targeting firms that need to invest in rehabilitation works, over the short-medium term, the larger set of damaged firms will also need sustainable access to finance to avoid foreclosure.

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

Industry and manufacturing account for 7.6 percent of GDP<sup>1</sup> employing 196,000 people in Lebanon, whereas commerce and services activity account for 15 percent of GDP and an approximate 280,000 jobs<sup>2</sup>. Driven by growth of travel and tourism, service exports far outweigh product exports. The top exporting industries include food processing, scrap and basic metals, machinery and household goods. Competitiveness of manufacturing is low due to high operating costs that result from multiple business environment constraints and high operating costs for SMEs (transport, land, labor, electricity, and water). As a result, Lebanon is a net importing country with a large trade deficit of US\$ 15.5 billion.

---

<sup>1</sup> World Bank Database

<sup>2</sup> Lebanon Economic Vision. [https://www.fes-lebanon.org/fileadmin/user\\_upload/documents/Mckinsey\\_Plan/Summary\\_of\\_the\\_Economic\\_Vision.pdf](https://www.fes-lebanon.org/fileadmin/user_upload/documents/Mckinsey_Plan/Summary_of_the_Economic_Vision.pdf)

This section focuses on affected firms active in retail, wholesale, industry and other related business and customer support services. It does not cover tourism and financial sectors firms. The baseline data<sup>3</sup> includes only 863 firms, the majority of which operate in construction, retail of clothes and shoes, furniture retail and other household goods, and exported services (marketing, online services) such as advertising. For the purposes of this rapid assessment, the distribution of the sample was extrapolated to the estimated 3,000 firms operating in Beirut and Greater Beirut Area, with a further addition of the industrial firms in Karantina to ensure full representation. Institutionally, the sector is well structured with private sector associations<sup>4</sup> and other institutional actors such as the Ministry of Economy and Trade, the Ministry of Industry and Kafalat.

Businesses in these sectors had already been hard hit by the financial crisis that started in October 2019. Confronting a parallel exchange rate that has diverged from the official exchange rate, firms find it difficult to access foreign funds to cover their import needs. This drove up the prices in local currency thus impacting the overall business activities. According to Beirut Trader's Association, about 25 percent of commerce shops closed during the first 6 months of 2020 with a negative outlook due to the deepening recession. Companies with high dependency on imported raw material and intermediate goods have also shut down, reporting more than 160,000 jobs lost in the country by January 2020.

## **C) Sectoral Damage and Loss Assessment**

### **1. Aggregate sector analysis**

Lebanon's commerce and industrial activity is highly dependent on the Port of Beirut (PoB), as this handles 80 percent of total trade activity<sup>5</sup>. Trading firms operate most of their trade activity through the PoB due to its size and proximity to the city. The disruption to the Port site will greatly impact the flow of goods to the commerce and industrial firms in the months to come and the stability of the sector will greatly depend on the timeframe it will take for the PoB to return to full capacity or supporting logistics firms to operate through alternative ports in the country<sup>6</sup>. The PoB operates now at 60 percent of its full operational capacity, with alternatives planned for developing interim warehousing options<sup>7</sup>. The productivity of the private sector will be reduced due to the disruption in value chain caused by the delay in the trade activity.

The area of the port hosts a high concentration of commercial and industrial establishments (low intensity manufacturing, such as metal and wood workshops). Approximately 56 percent of commercial and industrial establishments assessed in Beirut have been directly impacted by the explosion both in terms of physical damages and loss in inventory. The baseline collected data indicate that 3 percent of

---

<sup>3</sup> From drone and infrared imaging.

<sup>4</sup> Association of Lebanese Industrialists (ALI) includes the following syndicates: Marble, Granite & Cement Products Industrialists; Lebanese Tanners; Paper and Packaging Industries; Chemical Industries; Food Industries; Jewelry; Electrical Fixtures; Textiles Industries; Paint Manufacturers in Lebanon; Alcoholic Beverages Industries; Socks & Stocking Industry in Lebanon; Properties of Wooden Furniture Factories; Importers of Foodstuffs, Consumer Products and Drinks.

<sup>5</sup> Lebanese Customs Data

<sup>6</sup> A few logistics firms have a license to operate through Port of Tripoli and Port of Saida.

<sup>7</sup> To check Port section of the RDNA

establishments have been destroyed, 32 percent partially damaged, and 21 percent minimally damaged, while 44 percent have not been affected at all. Key highlights from the assessment are:

- There is a high concentration of commercial activity in the impacted area, with an estimated 1,500 shops located in the Center and East Part of Beirut<sup>8</sup>. Most stores are microenterprises with less than 5 employees, accounting for 80 percent of all establishments, whereas 13 percent are small, 5 percent are medium and 2 percent large. The majority of the businesses are located within residential buildings. The area also hosts four large commercial malls with shopping alleys, two of which are close to the port site and have been heavily damaged.
- While several small sized industries and workshops are scattered around the city, the largest affected cluster of industries is concentrated just north of the port site, in Karantina. The Karantina area hosts around 10 to 15 medium-to-large sized industries including mills<sup>9</sup>, food packaging, cement packing, mattress factories and furniture workshops and others. Critically important for food security, the three main mills (accounting for 55 percent of market share) are within the 3 km radius to the port site, the area with the highest reported damages. Many industries reported high level of physical damages but minimal to partial damage to machinery and equipment.
- The warehouse in the port site also hosted several shipment containers pertaining to both the commerce and industrial firms, some of which have been completely destroyed causing losses in inventory for importers as well as a delays and disruptions to the value chains.<sup>10</sup>

## 2. Quantification of Damage and Loss to Assets and Infrastructure

Total damages for commerce and industry amount to **US\$ XXX million**, and losses to **US\$ XXX million**. Disruption to service delivery is caused by the halting of operations for the severely damaged firms, as well as due to the loss of stock. The severely damaged firms which account for 3% of firms have completely stopped their operations and are unlikely to resume soon. Staff has not been heavily impacted overall with few fatalities and many injuries reported.

**Damage Inventory Table – (in US\$ Million)**

	Asset Types	Baseline	Total Damaged	Completely Destroyed	Partially Damaged	Minimally Damaged	Total Cost
<b>DAMAGE</b>	<b>Gas station</b>	55	21	7	5	9	
	<b>Food and beverage</b>	436	291	15	164	112	
	<b>Construction material</b>	604	89	11	67	11	
	<b>Services</b>	183	123	7	67	48	
	<b>Furniture</b>	540	358	19	201	138	
	<b>Automobile and vehicles</b>	75	52	4	30	19	
	<b>Clothes</b>	790	525	26	294	205	

<sup>8</sup> Including Downtown, Saifi, Ashrafieh, Mar Mkhayel, Gemmayzeh, Karantina Bourj Hammoud – the heavily impacted part of Beirut.

<sup>9</sup> The wheat import activity is controlled by the Ministry of Economy and Trade, whereas the structure of the Silo is under the Port Authority, and accordingly are addressed in other sections of the Beirut RDNA.

<sup>10</sup> Insurance claims

	<b>Plastics and chemicals</b>	116	77	4	43	30	
	<b>Miscellaneous</b>	209	136	7	76	53	
	<b>Paper</b>	48	30	0	19	11	
	<b>Medium to Large Industries (Karantina Cluster)</b>	13	12	3	6	4	
<b>Total Damage</b>		<b>3,068</b>	<b>1,714</b>	<b>100</b>	<b>967</b>	<b>636</b>	
<b>LOSS</b>	Sales	Losses in sales due to disruption of business activity across the immediate and short term					
	Productivity losses	Losses in industrial value chain productivity caused by the delay in container clearances, and delay in restoring the trade activity and replacement of damaged goods					
	Rent for alternative location	Firms with heavy structural damage would need to pay rent for an alternate location.					
<b>Total Loss</b>							

**D) Sectoral Needs Assessment**

The core of the needs in commerce and industry will go beyond only material losses. The explosion came at a time when financial conditions of firms were already heavily strained, and the livelihoods of employees threatened. In addition to the urgency of addressing physical damage, there is a need to ensure enough working capital to fund the replacement of lost stock and the salary compensation for workers while business is disrupted. The majority of the needs would, in fact, be short term recovery funds targeting salary compensations, losses in sales, and damaged stock.

Immediate infrastructure reconstruction and service delivery restoration will cost **US\$ XXX million**. Businesses needs in commerce and industry sector are significant and will require funding as well as intangible inputs such as restoring trust and visibility particularly for businesses relying on imports or having to operate a production line. In the short term, additional support of **US\$ XXX million** is needed in the next 12 months to help commercial and industrial facilities restore their services.

The immediate support plan (within three months) should consider:

- (a) Reconstruction of physical damages to (i) greatly damaged commerce and industrial firms that are ensuring basic services and goods for the country including those critical to the reconstruction efforts, (ii) businesses with minor reconstruction needs that can resume activity fast.
- (b) Rental fees for alternate location in the interim time until reconstruction work has been completed, particularly for damaged warehouses.
- (c) Ensure the replenishment of the lost working capital equivalent to the lost stock whether at the port warehouse site, or in store to ensure enough liquidity is available to resume business activity.
- (d) Capital to cover salary compensation and lost sales.

In the short term (next 3 to 12 months) the efforts should focus on: (a) continuing the rehabilitation and reconstruction of severely damaged establishments not prioritized in the immediate term, and (b) targeted trainings and technologies that may be provided to businesses contributing to the reconstruction

efforts. There is no ruling out the human capital impact to restoring activity to the pre-explosion level. Several workers have been impacted by the explosion.

**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			
<b>Grand Total</b>			

**E) Recommendations and Limitations**

Reviving the commerce and industry sectors is a priority for the local economy as it sustains livelihoods of thousands of business owners and employees and contribute to critical services needed in time of reconstruction such business operating in the construction segment and the food industry. Ensuring the return of services of commercial and industrial establishments to non-disaster conditions will require a mix of interventions which can help affected businesses reconstruct and bridge the gap in earnings until these months of disruptions.

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 for the coming months and until trade flows have been restored to pre-explosion level, businesses will require some level of income support as well 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 capture in this assessment.

Other non-financial recommendations are **Business Environment Reforms** including those that can fast-track the processing import/export licenses allowing the recovery of trade flows through other ports in the country to decrease strain on PoB and decentralize trade flows.

While the three above mentioned recommendations are essential for the survival of Beirut's businesses and jobs in the commerce and industry sectors, 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.