

## Lebanon's ICT sector: Great potential inhibited by government control



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The Lebanese ICT sector holds a lot of economic potential given its fast-growing pace and its vast reach to the different aspects of consumers' daily life, health, transport, etc. In fact, the sector's added value amounted to \$1.3 billion in 2013 and is estimated to have reached \$1.7 billion in 2016, hence contributing to more than 3 percent of gross domestic product. The ICT sector is considered the fastest-growing sector of the economy after recording a 7 percent compounded annual growth rate (CAGR) in the last two years alone. According to Business Monitor International, the market size of information technology, which is an expanding segment of the ICT sector, registered a 12.6 percent CAGR in the last 10 years and is expected to hit \$436 million in 2016 and \$466 million in 2017.

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The wave in favor of data usage seems to be modifying the ICT market's dynamics in Lebanon. Between 2013 and 2015, according to the Telecommunications Ministry, the number of subscribers for broadband internet more than doubled, going from 480,000 to 1.24 million. Similarly, mobile data subscriptions hit 2.92 million in 2016 as compared to 2.02 million in 2015.

In the same context, low-cost Voice over Internet Protocol services through mobile devices boosted demand for data services at the expense of the standard calling services. Considered as the most successful technology of the last decade, VoIP services such as Skype, Viber and recently WhatsApp are becoming more popular among the Lebanese population as they provide a cheaper alternative for communication services. In fact, revenues deriving from voice calls are witnessing a double-digit decline simultaneously with data usage growing at a double-digit pace. "In fact, more than 50 percent of Alfa's revenues are derived nowadays from data services rather than voice" said Marwan Hayek, chairman and CEO of Alfa.

The ICT sector fares barely better than the average compared to international and regional peers. The ICT Development Index, which monitors and compares developments in ICT, ranked Lebanon 66th out of 175 countries, while Turkey and China respectively took the 70th and 81st places in 2016. The index also revealed that Lebanon grasped the 8th rank among Arab countries, outperforming Jordan and Tunisia and standing just after each of Kuwait and Oman.

ICT still has a long way to go, as the poor infrastructure of the sector keeps on hindering the quality and speed of internet connections. Even though fiber optics is already installed in big cities but not yet operational, Lebanon actually relies on copper cables to have access to the internet. However, these cables have limited capacity in terms of data transfer and speed. Based on the latest data released by Akamai, a global provider of content delivery network services, the average connection speed in Lebanon stood at 1.8 Mbps in Q2 2016, compared to 4.0 Mbps in Egypt and 4.3 Mbps in Jordan. South Korea topped the list with an average connection speed of 27.0 Mbps and was trailed by Japan (17.2 Mbps) and the United States (15.3 Mbps). It was also noticeable that, while the global average connection speed grew by a yearly 14 percent in Q2 2016, Lebanon's slipped by 0.8 percent over the same period.

Another major issue faced by the ICT sector in Lebanon is the lack of competitiveness due to the government's tight control over the sector. Despite the sequential declines in communication prices since 2014, the fact that both telecom companies Alfa and touch are publicly owned entities, operated by private companies for the benefit of the government, creates a sort of duopoly agreement between the two

companies. According to World Bank sources, "limited competition in telecommunications and broadband is stifling growth of the sector. The fixed-line and broadband market sees the dominant position of Ogero, while the mobile sector, unlike most countries in the world, is under the control of the government." Besides inhibiting growth and innovation, government control is keeping tariffs high and limiting product differentiation. According to Arab Advisors Group, Lebanon ranked 17th in 2015 out of 19 Arab countries in the Cellular Competition Intensity Index.

The current pricing of 4G data/voice packages is still high, despite the recent price cuts. Maroun Chammas, chairman and CEO of Berytech, believes that "wholesale prices need to be revised in order to provide more capacity and a better reflection of accurate demand and cost. More gigabytes should be offered for users at the current retail prices while pricing to ISPs [internet service providers] and MISPs [mobile ISPs] should be brought down to reflect a fair policy."

The continuing extensions of management contracts are another barrier for state-owned mobile operators in Lebanon. In reality, Charbel Cordahi, economist and finance leader in the ICT sector, explained that "the one-year agreement granted in January 2012 by the government to touch and Alfa has been extended 22 times since that time." This is limiting the implementation of business strategies, long-term planning and technological development. However, according to Cordahi, "the two operators were able to introduce the latest technologies in difficult economic times."

Public negligence and corruption proved to be capable of hindering the sector far more than expected. In reality, the latest Ogero scandal was another impediment for Lebanon's ICT sector following the discovery of four unlicensed internet providers earlier this year that are supplying illegal internet services from foreign-based connections at reduced prices. The exposed corruption in the illegal sharing of bandwidth profits is estimated to have caused around \$200 million loss per year, according to Lebanon's finance minister. Moreover, an increase of 15 percent in sales came after the revelation of the scandal.

In light of these deficiencies, the first step to improve the sector would be revamping its infrastructure, given its huge potential and capability of reshaping the Lebanese ICT market. Economically speaking, it is assumed that Lebanon's GDP will increase by 0.3 percent every time the broadband doubles. Hence, the installation of fiber optics has gradually started in Lebanon and it is expected that 85 percent of the population will have access to the service by the end of 2017. "The current copper infrastructure provides a maximum internet speed of 8 to 20 Mbps depending on the regions; the [Telecommunications Ministry] should immediately open the local loop, so that the users can benefit at once from a better internet experience. While fiber-optic internet provides a speed up to 100 Mbps, infrastructure should be completed so that internet traffic is shifted to the fiber-optic infrastructure, and ultimately complete the work of fiber to the home [FTTH] and fiber to the office [FTTO]. This will provide a radical and definite improvement in internet connection's speed and user experience," Berytech's Chammas said.

Another suggestion that, however, might be politically controversial would be the liberalization of the sector from the government's grip to boost competition. For instance, privatization would have many benefits in terms of prompting higher inflows of capital and expertise into the sector. In this context, Alfa's Hayek stated that "partial privatization might be a solution through the addition of strategic partners, not necessarily foreigners, with management experience and where the government can become a shareholder." Similarly, according to World Bank sources, "one of the potential measures is the implementation of comprehensive reform, aiming at bringing competition in the market, on the model of Eastern European countries such as Lithuania, which now has the highest FTTH penetration in Europe, or Romania, where the average internet speed is higher than that of France and Italy."

Also, even though some initiatives were formed to boost the sector, they still need to be former embraced and implemented. While telecommunications minister, Boutros Harb launched his 2020 Agenda that aims at modernizing the national telecoms infrastructure. The \$600 million worth project is expected to install 4.5G services and develop 5G services. The project will also plan, over 3 stages, for the upgrade of the internet infrastructure from copper cables to fiber optics by 2020.

Finally, a thriving ICT sector is a necessity for countries looking for prosperity and growth. As for Lebanon, the industry has a huge potential to grow given the well-educated workforce and the readiness to shift toward a more digitized environment. In reality, and as stated by former Telecommunications Minister Nicolas Sehnaoui, "the ICT sector is multifaceted: On one hand it is an enabler of the economy, and as such it boosts productivity and innovation of all sectors, and on the other hand it is a sector of its own that will thrive and export its goods and services regionally and globally." In this context, insuring a healthy environment for the ICT sector to grow is essential for the success of Central Bank Circular 331, which aims at boosting the knowledge economy by supporting startups and especially tech businesses.

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