USAID/LEBANON

LEBANON INDUSTRY VALUE CHAIN DEVELOPMENT (LIVCD) PROJECT

LIVCD SECOND QUARTERLY PROGRESS REPORT
JANUARY 1ST TO MARCH 31ST, 2013
APRIL 15, 2013

APRIL 2013

This publication was produced for review by the United States Agency for International Development.

It was prepared by DAI.

Program Title:	**USAID/ LEBANON INDUSTRY VALUE CHAIN DEVELOPMENT (LIVCD) PROJECT**
Sponsoring USAID Office:	**USAID/Lebanon- Office of Economic Growth**
Contract Number:	**AID-268-C-12-00001**
Contractor:	**DAI**
Date of Publication:	**April 2013**
Author:	**DAI**

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INTRODUCTION

1.1 OBJECTIVES AND KEY RESULTS

The LIVCD Project aims to increase the competitiveness of selected value chains. It will expand the number of Micro and Small and Medium Enterprises (MSMEs) that can compete in selected markets; improve linkages between those firms and other actors throughout the value chain; increase the gross value of products and services in local and export markets, and expand exports. The net effect of these activities will contribute to improved economic stability and food security for Lebanon, especially in rural areas, and decrease migration from rural to urban areas. Building on recent support to the rural sector through agricultural and other related economic development projects, LIVCD will partner with local private sector companies to select value chains that have the potential to compete in regional and international markets. It is expected that by the end of the project, as a result of project interventions throughout Lebanon there will be:

Floriculture is one of the seven considered value chain, which could contribute to an increase of Lebanese annual exports

- A minimum of seven fully functioning, competitive value chains.
- An increase of at least 700 businesses or micro-enterprises benefiting from horizontal and vertical linkages.
- At least 12,000 small and medium commercial growers benefiting from the dissemination of improved production and post-harvest technologies.
- At least 30 new export markets, niche markets, or distribution channels for selected value chain products.
- An annual increase of at least 10 percent in the volume and value of exported agricultural products of selected value chains for each value chain. If, for some value chains actual and potential export is limited, displacing imports with domestic production may be considered.

1.2 OVERVIEW OF QUARTERLY REPORT

This second quarterly report documents project activities from January 1st and March 31st, 2013

Section One describes the Initial Value chain assessment, as per the following components of the contract:

Component one: Initial Assessment- Analyse Prospects and Select Target Value Chains

Activity 2: Perform Market Analysis and Intelligence Gathering (Phase 2)

Activity 3: Reconcile Market Intelligence with Capacity of Rural Economy
Component two: Value Chain Activities to Increase Competitiveness of Lebanese Value Chains
Component three: Accessing Value Chain Finance

In the past three months, LIVCD conducted intensive assessments of twelve value chains, identified through a selection process completed in December 2012. The team analysed an extensive database of reports comprising more than 250 references, and met with over 200 experts, consultants, stakeholders, producers and farmers, syndicates, and organizations' representatives.

The outcome was a series of reports focused on ten key value chains. Other desk studies and reports were prepared per the LIVCD contract on the following topics: Macro Assessment Report, NGO Capacity Building Assessment, Access to Finance Assessment, and a Value Chain Synthesis Report.

During the quarter, the Project was also requested by USAID to initiate immediate income generating activities for Lebanese communities impacted by the Syrian crisis. Details summarizing the preparation and a potential list of quick impact projects developed through a rapid assessment in January are included in the report. LIVCD submitted a proposal to USAID detailing several activities, under the existing scope of work, aimed at increasing income of targeted communities.

Section two summarizes administrative operations including recruitment and major procurements completed.

Section Three summarizes key deliverables shared with USAID.

Section Four examines the emerging challenges and opportunities from this quarter's implementation that may affect how the Life of Project and 18-month Work Plan strategies and activities will be carried out in ensuing quarters.

Finally, **Section Five** provides an overview of the key activities and expected results for next quarter's implementation, in particular the Work Plan preparation and the implementation of upgrading strategies for the value chains.

1.0 SIX MONTH INITIAL ASSESSMENT

2.1 VALUE CHAIN ASSESSMENTS AND ANALYSIS

During the first six months of the project, LIVCD initiated the assessment phase, with the objective of defining seven to nine value chains that would achieve LIVCD's economic and project objectives. The following activities were completed under Components One and Two:

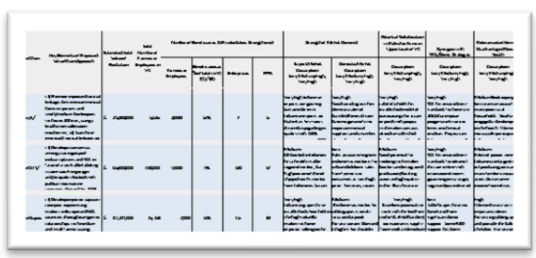
Component One: Initial Assessment- Analyse Prospects and Select Target Value Chains
- *Activity 1: Analyse Current Environment for Rural Value Chains in Lebanon (Phase 1)*
- *Activity 2: Perform Market Analysis and Intelligence Gathering (Phase 2)*
- *Activity 3: Reconcile Market Intelligence with Capacity of Rural Economy (Phase 3)*

Component Two: Value Chain Activities to Increase Competitiveness of Lebanese Value Chains
- *Activities 1 & 2: Building Partner Networks for Targeted Value Chains*
- *Activity 3: Build Fully Functional Value Chains*
- *Activity 4: Business and Ancillary Services*

2.1.1 VALUE CHAIN SELECTION AND ASSESSMENT METHODOLOGY

LIVCD's selection process started with an initial listing of potential value chains as well as an initial selection of evaluation criteria, refining the three key categories included in the proposal: 1) Competitiveness, 2) Development Impact, and 3) Feasibility. Phase 1 of the selection process ended with the submission of LIVCD's Value Chain Selection Report to USAID on December 12th.

In December, LIVCD worked intensively with the Value Chain Training Specialist, the Value Chain Assessment Facilitator, and Value Chain Assessment Team Leader, to align ideas and the methodology to create a consistent scientific methodology for selecting the value chains and for conducting the assessments (Value Chain Assessment Methodology submitted on January 3rd with an analysis of STTA and LTTA required for the six month assessment.)



The scoring matrix rating twelve value chains according to several criteria (available in annex)

A list of eight priority value chains was identified to undergo a full assessment: Grapes, Pome Fruits, Olive and Olive Oil, Honey (First set was submitted by March 8th), Stone Fruit, Rural Tourism, Processed Foods, and Floriculture (second set was submitted by April 20th).

In addition, four value chains were selected for less detailed assessments: Agricultural Basket Desk Study (submitted on February 26th), Handicrafts Desk Study, Citrus Desk Study, and Banana Desk Study (second set was submitted by April 10th).

LIVCD focused on researching and analysing reports, on-line and desk research, interviews with key stakeholders, and conferring with other USAID projects when relevant. Efforts also included reviewing relevant reports and conferring with the USAID COR on specific topics in order to prepare deliverables in conjunction with the contract requirements noted below:

- Initial phase of collecting and analyzing all available qualitative and quantitative data;
- End Market Analysis (domestic and export markets), through exporters, distributors and retailer interviews;
- Mapping value chain functions and relationships through the different actors at the six levels of the value chain, and the vertical and horizontal interactions between them: producers and input suppliers; collectors and traders; wholesalers, packers, and exporters; processors; distributors; and retailers;
- Analysis of the business enabling environment and effect of public policies;
- Analysis of opportunities and constraints;
- Analysis of major dynamic trends taking into consideration the competitive forces among actors in the value chain; and
- Developing a value chain upgrading plan, where the study team formulates major conclusions and solicits the input of value chain actors to evaluate them.

2.1.2 RANKING AND GRADING

Upon completion of the individual value chain assessments, a summary matrix with the most salient characteristics of the 10 value chains was developed (including the agriculture basket and handicrafts), and assigned numerical rankings to assess its “fit” with LIVCD priorities and the likely impact of project activities identified in the upgrading plan in each value chain report. The 12 criteria considered included:

1. Total value of production;
2. Number of farmers/employee beneficiaries expected to be reached;
3. Number of farmers/employee beneficiaries reached as percentage of their number in entire value chain;
4. Projected cumulative 5-year sales of LIVCD beneficiaries;
5. Projected sales of LIVCD beneficiaries in year 5 as a % of total VC output in base year;
6. Projected Cumulative 5-year export sales of LIVCD beneficiaries;
7. Projected exports of LIVCD beneficiaries in year 5 as a % of total VC output in base year;
8. Strength of export market demand;
9. Strength of domestic market demand;
10. Potential for collaboration with Anchor Firms;
11. Synergies with GOL or donor activities and investments;
12. Relevance to women, disadvantaged groups and youth.

Other criteria were also taken into consideration for the analysis of Secondary Value Chains.

This section describes the major highlights in each of the eight value chains, including the final grading attributed and upgrading strategy recommendations. In addition, each value chain includes a summary of the key stakeholder meetings held to obtain relevant data, insight, suggestions, and recommendations, and to analyze the market, production costs, pricing, market size, and export opportunities. A list of the established contacts was shared with USAID on April 10th, related to the value chains identified as priorities. Some of the cross-cutting meetings included:

- Elie Massoud, Head of the Agriculture & Agro-industries at Beirut's Chamber of Commerce and Industry, to discuss potential interventions and value chains that showed potential for improved competitiveness.

- Moon Valley Agricultural Exports, a project which aims to source agricultural products from farmers in Lebanon to leading supermarkets in the UK market. Currently, Moon Valley purchases products from farmers in Palestine. LIVCD is considering supporting the export of agricultural products from border regions affected by the Syrian crisis.

- Mr. Ali Daouk, President of the Agriculture and Environment Commission, who is also the Head of the Citrus, Bananas, and Tropical Trees Cooperative in South Lebanon, to discuss particular competitive advantages in export markets and suggestions to increase export volumes. The meeting was also attended by several farmers and exporters of citrus, bananas, and avocados in the south.

Biomass' greenhouses produce organic fresh fruits and vegetables which face a growing demand in Lebanon

- Messrs. Joseph and Mario Massoud, from Biomass, a leading and pioneering organic farming company, which provides farmers with raw materials (seeds at cost or for free), technical training, and certification support (with both IMC/Libancert). Biomass's business model also integrates collecting production, packaging, sales, marketing, and distribution data. According to Biomass, the market for organic products is growing fast, as Mario Massoud noted: "Due to high retail prices, even in a period of crisis, we observed double digit growth in the past few years."

2.1.3 VALUE CHAINS ASSESSMENTS

1) HONEY VALUE CHAIN ASSESSMENT

Honey is the highest scoring value chain based on LIVCD's scoring model as it is a key revenue source for a large number of poor rural households, and could lead to supporting 3,000 beneficiaries. With a current value of production of $25.8 million, the demand has steadily grown, both in domestic sales, at prices well above lower cost imports, and in export markets. A sustained rise in Lebanese exports to KSA has been witnessed in the last few years driven by upgrading in quality with increasing prices since 2007; initial penetration of U.S. and European markets with good potential for expansion is also an important aspect of honey.

a. Upgrading strategies

1) Promote improved vertical linkages between commercial honey exporters and small/medium beekeepers with over 20 hives, using a lead farmer collection mechanism; 2) Use these improved vertical linkages to facilitate investments to expand beekeeper capacity and train new beekeepers with cooperatives; 3) Provide training and technical assistance to professionalize exporter operations; 4) work with laboratories on quality certification linked to labeling with third party control.

b. Key stakeholders meetings

- Agricultural engineer, beekeeping expert, and author Dr. Rami Ollaik to discuss the challenges faced by beekeepers in Lebanon and worldwide: environmental deterioration, quality testing, breeding, and the role of actors such as the MOA, NGOs, and cooperatives. Also reviewed the upgrading strategy of the honey value chain with Dr. Ollaik.
- Dr. Khalid Omari, Laboratory manager at the Tripoli Chamber of Commerce and Industry, discussing the testing standards and norms of Lebanese honey for export markets and the main clients and required specifications (U.S., Europe, the Gulf, Australia, and Brazil).

Lebanese honey production amounts $25.8 million and potential of growth is very high in both domestic and export markets

2) POME FRUIT (APPLES AND PEARS) VALUE CHAIN ASSESSMENT

A medium scorer, the pome fruit value chain has a high value of production of $183.2 million, a growing export demand for high quality well sorted apples and for non-traditional varieties of pears, in MENA and regional markets. There is low potential leverage with anchor firms since specialized apple and pear packers/exporters work mainly in the declining low quality market segment.

a. Upgrading strategies

1) Identify farmers, exporters/packers and retailers who are interested in sourcing Grade 1 apples and pears and link them with organized small farmers; 2) work with farmers and BDS service providers (nurseries, input suppliers, extension agents) to upgrade orchards and production practices and supply high quality markets; 3) Support new international market penetration through improved grading and packing and marketing with targeted exporters.

b. Key stakeholders meetings

- Managing Director Nayef Kassatly, from Kassatly Chtaura, a major producer of apple juice- discussed market prices and opportunities and the impact of the Syrian conflict.

- Toufic Abou Alwan from the Barouk Farmer’s Cooperative, which includes 78 members, covering 1.8 million square meters of planted land- collected information related to production and processing of pome fruits and stone fruits.
- Mr. Khaled Sinno, owner and manager of premium fruit export company Karma, who buys fruits from about 40 to 50 farmers and sells mainly to GCC countries, though also Africa, North America, and Europe.
- Mr. Sari Kassis at his family-owned apple juice factory in Mechmech, to discuss potential opportunities to improve apple juice processing and develop marketing strategies.

3) GRAPES VALUE CHAIN ASSESSMENT

A high scorer in LIVCD’s analysis, $81.2 million of production, and the table grapes value chain has the potential to employ 2,000 farmers or employees as part of LIVCD’s upgrading strategy. Lebanese grapes have established a foothold in the high-value EU market, and demand in this segment is very high, as Lebanon enjoys a favorable early seasonal window for such exports. Both domestic and export demand is growing for higher quality and new varieties of grapes. This value chain also offers excellent potential to work with lead firms to increase their supply from small and medium farmers.

a. Upgrading strategies

1) Develop exporter’s capacity to export to promising markets in Europe and GCC countries; 2) work with farmers, exporters and service providers to develop needed pre-cooling and post-harvest systems to prolong shelf life for top quality export grapes; 3) work with small farmer cooperatives to improve production and marketing practices and guarantee product quality for domestic grapes to provide improved market conditions for less sophisticated small farmers unable to meet EU protocols.

b. Key stakeholders meetings

- Members of the Rachaya Agricultural Cooperative for Fruit, including the president, Mr. Kamal Saikali, to provide a clearer understanding of the cooperative’s operations, the services provided, and several challenges and opportunities.
- Major grape molasses processor Bahaa Kadamani in the Bekaa, to identify local and export market potential of various traditional products prepared with grape molasses.
- Dr. Adel el Tini, Medigardens’ founder, one of the few and probably largest Lebanese grape producer, and also some smaller quantities of

Mr. Saikali's land in Rachaya. The growers in the region produce 4,000 tons of grapes, of which 90% is exported, and have been replacing old vines with new varieties.

cherries trader and exporter accessing EU markets, in particular the UK, and also Russia and South East Asia. Based in the Bekaa, he procures from around 80 farmers.

- Six farmers, exporters, and input suppliers in the Bekaa, to discuss production quantities, varieties, export markets, export and local sales values, selling prices, costs of production, and the cooperatives' challenges and benefits.
- Dr. Roger Bassit, who was referred by Hassan Istayitiyyah, Farmer to Farmer Program Country Director, is investing intensively in his region Rachaya Al Fakhar, in South Lebanon mostly in grapes; he already owns 120 dunums planted with innovative seedless varieties. He has a keen interest in extending his investment to different sectors including olive oil and its derivate products, and food processing, through the initiation of a cooperative. Dr. Bassit is also considering initiating a PPP that would combine handicrafts with bed and breakfast accommodations, to support rural tourism in Rachaya Al Fakhar.

4) OLIVES VALUE CHAIN ASSESSMENT

A low scoring value chain based on LIVCD's criteria, olive oil ranks high in the following: $65 million worth of production, potential to support 4,000 farmers or employees (more than any other value chain), and it has good market prospects with U.S., Canadian, and Australian specialty and ethnic importers who pay very high prices that cover the cost of producing a pure Lebanese product. These growth prospects are linked to successes of new origin and quality labeling, reinforcing the MoA's initiative. Domestic market suffers from the recent wave of Syrian imports, and from the lack of consumer's confidence in bottled oil.

In Koura, olive growers and traders expressed the need for marketing efforts and product differentiation based on quality

a. Upgrading strategies

1) Develop a consensus among a core group of industry players and the GOL supporting a verifiable labeling system certifying origin and/or quality backed with publicity to increase consumer demand for 100 percent Lebanese olive oil products in both export (ethnic) and domestic markets; (2) Build marketing capacity of exporters adhering to the new labeling strategy; (3) Support quality improvements through better storage and milling with farmers/mills linked to "quality" bottlers; (4) Develop BDS production service providers offering improved practices to farmers in key zones.

b. Key stakeholders meetings

- Mr. Tony Maroun, General Manager of Atyab SAL, a manufacturing and trading company that owns several brands including Zeit Boulos, a large brand in the market, Al-Baraka, an olive oil, pickles, and food label, and Virgo, an organic olive oil brand. Several topics were discussed, including the production and milling process and the company's main area of expertise which includes olive oil collection and storing, packaging, and marketing and distribution.

- Mr. Joseph Khoury, owner and General Manager of Willani Co., a large and modern olive oil mill in Zgharta, which also produces and exports two olive oil brands. The team was briefed on Willani's operational model and the ways to improve the olive and olive oil sector.

- Mr. Paul Khoury's modern mill in Zgharta, which operates as a service mill. Mr. Khoury explained his operations process, which includes purchasing oil from a selected number of growers, bottling, and exporting to Kuwait and the U.S.

Willani is one of the large olive oil industry players, and integrates production, milling and export activities.

5) FLORICULTURE VALUE CHAIN ASSESSMENT

A medium scorer on LIVCD's scale- floriculture benefits from a steadily increasing worldwide demand and from a strong interest from Exotica a leading integrated producer/ retailer/ exporter in developing a network of smaller suppliers. Due to the highly perishable nature of the product, geographic proximity is an important advantage for Lebanon in accessing regional markets. However, this value chain ranks poorly in terms of number of beneficiaries and, due to the large capital investment required for greenhouses, floriculture producers are generally not drawn from among the poor.

Raidan Floriculture, producer and wholesale business, exports 40% of high end products to the Gulf

a. Upgrading strategies

1) Work with upper level value chain actors, to develop direct supply relationship to smaller greenhouse producers, thereby bypassing the few dominant wholesalers; 2) Work on production-upgrading with financing for new investments to allow producers to improve quality and increase efficiency- lowering unit costs; 3) Develop new export relationships to MENA countries to relieve pressure on domestic market; 4) Promote indigenous Lebanese flower species as a unique competitive advantage.

b. Key stakeholders meetings

- Exotica (Debbane Group), CEO Marc Debbane and Technical Manager Mr. Marwan Akkary shared data on the domestic market, the opportunity to displace imports, production costs, and the main industry players. Mr. Akkary supported LIVCD as an STTA to assess the domestic and export market opportunities.

- Hanna Azzi's leading wholesale market, which trades about 80 percent of locally bought products, and deals with over a hundred farmers. Mr. Azzi shared data on margins, prices, and challenges and expressed his views on the potential creation of a new wholesale flower market.
- Hariri Foundation's Agricultural Development Program Director Mr. Ibrahim Hariri and Technical Agricultural Engineer of the Addousieh Nurseries in Zahrani, South Lebanon, Mr. Emile Lebbos, provided details on the sector's actors, volumes, prices, and opportunities.

Mr. Nemer's farm in Jbeil: "power is in the hands of the wholesalers, who control the prices and volumes purchased."

- Mr. Roger Mouawad, President-elect of the Flowers and Potted Plants Syndicate, and also the General Manager of Floris, both a nursery and an export company. With forty dunums of land in Jbeil, Mr. Moawad is able to produce all of his flowers using local seedlings, without importing mother plants. Mr. Moawad also shared his sector development plan as the Syndicate's President, mentioning: "I intend to support the annual floriculture wholesale market and the farmers' participation at the Garden Show, workshops, and trade events."

6) STONE FRUIT VALUE CHAIN ASSESSMENT

A medium scorer, cherries and avocados benefit from high demand in the EU, Russian and MENA markets, while Lebanon has many competitive advantages: early season availability, privileged geographic position, and important potential investments from exporters to develop the needed market linkages. Yet, these value chains represent a very low absolute value of expected exports and involve a relatively modest number of potential beneficiaries.

Hass avocado trees, one of the most appreciated variety

a. Upgrading strategies

1) For cherries, capitalize on Lebanon's unique availability window to increase exports to the EU and Russia. Avocados should focus on expanding and supporting the current trend for converting citrus orchards to avocado production of highly-demanded varieties; 2) Link small farmers to exporter/packers or large farmer commercial orchards through supply agreements

revolving around improved production practices; 3) Help exporters with market access to develop new market linkages and deal with non-tariff barriers in the EU.

b. Key stakeholders meetings

- Saida's wholesale market, met a small group of traders, and discussed avocado production and sales. Mr. Khodr Harbi, one of the wholesalers, explained: "Saida market receives about 50 percent of total Lebanese avocado production, of which 80 percent are resold to Beirut and Tripoli. As wholesale operators, we receive a 10 percent commission on the sales price, based on the fruit's size, appearance, and time of year."
- Mr. Adnan Khayyat in Saida, who introduced avocado seedlings to Lebanon in the 1990s and currently owns the largest orchard in the country, with around 7,000 trees. According to the orchard's manager, "Avocados are the only trees that do not lose money." The farmer also shared detailed information on avocado varieties, production costs, and opportunities for increasing yields.

Cherry orchards on Barouk's highs

- Mohamed Hijazi, one of the largest growers in the country who harvests about 180 tons a year, and converted the orchards he rents from citrus to avocado, which requires great care and skill, though is more profitable. He has completed extensive experimentation with numerous varieties of avocados and citrus, including some extremely successful grafting. Mr. Hijazi noted the prospects for avocados: "Today production stands at about 10,000 tons, half of it being exported, while Lebanon consumes around 5,000 tons per year, mainly though juice stands, households, and hotels. There is great market potential for industrial use of avocado, in particular the cosmetics industry."

7) PROCESSED FOODS VALUE CHAIN ASSESSMENT

The Processed Foods report will be submitted on April 20th to USAID.

This high scoring value chain has a total value of $229.7 million, engages over 3,250 farmers and employees in the sector (of which a large segment are women and youth), raises the interest for collaboration of multiple processed food manufacturers and with syndicates, and has high synergies with GOL strategies. Very high export demand exists in particular for pickles in Europe and U.S. specialty and ethnic markets and for fruit jams in the MENA region.

a. Upgrading strategies

1) Work with the processed foods syndicate (SLFI) to assess export market potential for key processed food products in the targeted categories: ready to eat foods, pickles, and jams; 2) Collaborate with local service providers such as pilot plants and regional chambers of commerce to put in place product development capacities at local processing plants and to offer training and support food safety certification; 3) Support individual processors to conduct efficiency audits and develop financing alternatives (including PPPs) to facilitate investments needed to develop new products or realize efficiency gains for existing products.

b. Key stakeholders meetings

Food processing facility at a women's cooperative in South Lebanon

- Several cooperatives that mentioned their underused capacity of production and their need for marketing efforts since their unique point of sale outside the region is at the Namlieh retail shop in Beirut: Jdeta Association for Processing of Agricultural products, which commercialized products under the label 'Ain el Wardeh' to retail shops in the region and in Beirut, restaurants, and friends; Ain Ataa Association for Processing of Agricultural products, which includes 21 women members, and produces prepared meals for catering along with traditional mouneh; Ayta el Fekhar Association for Processing of Agricultural products, one of the few to produce dairy products and grains.
- Raja Cortas, Partner at Foodability; Joe Faras, Owner and General Manager of Junal; Samir Al Mir, Director of SLFI; and Lena Dergham, LIBNOR Director. Export opportunities of Lebanese products were discussed, in particular the necessity to broaden the target markets from ethnic to high value mainstream channels. In addition, SLFI explained that they would like to encourage their members and the food industry in general to use innovative strategies and campaigns in order to reach new markets and expand their businesses.
- In the Bekaa, Mr. Nicolas Abou Fayssal, General Manager of the Lebanese Company for Modern Food Industry that produces, markets, and distributes their large scope of products under the 'Gardenia' label. Mr. Fayssal stated he purchases all of the locally available produce from Lebanese farmers and also currently works with Caritas to support a women's cooperative. He added: "We are working on constructing a 5,000 square meter factory for drying herbs, as there are tremendous growth prospects in this area and farmers can grow herbs instead of hashish."
- Mechaalany's factory in Zahleh, a major producer of traditional quality Lebanese pickled vegetables, jams, syrups, olive oil, arak, wine, 'halawa', 'tahina', and other specialty products. Head of Operations Mr. Bernard Mechaalany provided a cost breakdown of pickles and jam production, as well as details on Mechaalany's business, the percent of export versus local sales and the company's plans for future products.

8) RURAL TOURISM VALUE CHAIN ASSESSMENT

LIVCD's ranking process is probably inadequate for ranking rural tourism due to the multiplicity of actors and the disparate nature of the sector, this value chain only ranks high in the following areas: Potential collaboration with Lebanese Tour Operators at the upper level of the value chain; high synergy with GOL strategies and previous USAID and EU projects where LIVCD can build to strengthen a coalition of local actors and ensure that economic benefits from rural tourism stay in rural areas. This value chain is also highly relevant to women and youth, who play a large role in general tourism-related services, such as food service and housekeeping, since 99 percent of the guesthouses, youth hostels, and small hotels in rural areas are run by women.

Shouf Biosphere Reserve: Illustrated guide book, Ecotourism strategy plan, bed and breakfast brochures, and other sightseeing printed marketing material detailing the project

a. Upgrading strategies

1) Work with municipalities to develop local tourism plans to support rural tourism; 2) Improve links between Lebanese tour operators and rural tourism product providers; 3) Create linkages between travel agents serving major market segments and Lebanese tour operators offering rural tourism products; 4) Work to strengthen networks of lodging and restaurants in key rural tourism locations, possibly with quality certification.

b. Key stakeholders meetings

- Association for the Protection of Jabal Moussa, which produces mouneh and prepared food (grape juice, tomato paste, and jams), as well as handicrafts (embroidery, carved wood, and ceramics.) The Association presented their ecotourism and nature conservation programs, focusing on interacting with local inhabitants.
- Shouf Biosphere Reserve's Director Mr. Nizar Hani shared detailed statistics on the number and types of visiting tourists in the past years, which are valuable to analyze the success of this pilot project. Many opportunities were also mentioned such as the development of tourism packages related to agriculture, the improvement of guesthouses, and linkages with other touristic sites such as the Ammiq wetland reserve situated on the Bekaa side of the mountain.
- DHIAFEE USAID-funded program team, Mrs.

The DHIAFEE website facilitates access to alternative lodging in rural areas across the country

Samar Al-Yassir, Country Director and Mrs. Martine Btaich, Program Manager to discuss the current objectives of the program, and its intention to develop a quality labeling and an accreditation system for lodges. Mrs. Al-Yassir mentioned: "We hope to make the DHIAFEE label a core reference in Lebanon and the region's hospitality business in terms of rural lodging standards, and extend this expertise to traditional restaurants, culinary recipes and organic or traditional farming and food processing. The objective is to support SMEs in rural areas and to facilitate marketing linkages with international rural lodging platforms."

- Lebanon Mountain Trail Association's President, Mr. Karim el-Jisr, who presented its activities, related to the trails' conservation, marketing, and support, through international linkages and the production of a magazine and other printed and web-based material. Potential project interventions were discussed such as supporting existing guesthouses along the trails according to quality standards and their listing to target the different segments of clients. Marketing issues and the capacity building of professional guides were also mentioned as necessary to support the LMT ecotourism activities.

9) SMALL SCALE "RURAL SET" OF AGRICULTURAL PRODUCTS DESK STUDY

The four products presented in the agriculture set – Lebanese thyme, free range eggs, pine nuts and, to a lesser extent, capers are currently being produced by rural families in the poorest areas of Lebanon. There are opportunities to improve and increase production for families actively producing these products and to bring new producers into the market. There is an opportunity to package these products and sell them together through the same households or by a cooperative since products can be combined with other complimentary products such as olive oil, honey, and traditional processed dried foods. Cooperatives, municipalities, and other community organizations can serve as a resource for multiple producers in one area and can invest in production equipment, help supply production inputs and serve as a market for products. Many cooperatives export through friends and relatives in GCC, Europe, USA, Canada and Australia. Potential upgrading strategies include the following:

LIVCD met seven women's cooperatives in South Lebanon that work in food processing and handicrafts in villages near Marjayoun, Bent Jbeil, and Nabatiyeh

In Assia, Batroun, women make pottery in a traditional way, using raw material from the surrounding area. Many craftsmen strive to sustain family traditions.

1) Find sources of investment with low interest loans to finance the cost and training needed to enter a new line of production; 2) Provide

institutional and technical training for cooperatives, which face challenges in administration, sales, marketing and distribution; 3) Strengthen market linkages, to bring naturally produced, traditional products to the high-end and niche retail market in urban locations, and to export these products internationally; 4) Promote organic certification to add value to Lebanese products in the growing domestic market for these products, and in the global export market.

10) NON-AGRICULTURAL BASKET – HANDICRAFTS DESK STUDY

Although handicrafts are produced by a very small number of families, fewer than 1,000 according to the Handicraft Syndicate, they represent an important component of Lebanese cultural heritage. It is an asset that can empower youth, bring fractured groups together, and create economic gains for individuals, as well contribute to entire industries, such as tourism.

Metal embosser in Zouk Mosbeh: "We wish to participate in fairs and exhibitions in Europe and the Gulf, since the Lebanese market and local tourism have reduced drastically."

Given the wide variety of handicraft products and the difficulty of designing interventions for each one, a viable upgrading strategy for the handicrafts sector would be to approach it on a case by case basis in relation to rural tourism, working where there are direct links to rural tourism products or services that are being upgraded. Activities could include the following:

1) Establish a trusted database of Lebanese craftspeople and the retail outlets supporting them, encourage craftspeople to form associations and groups. 2) Assist craftspeople in building a marketing and packaging strategy of products, and help establish new regional and international retail opportunities, 3) establish a strong connection with tourism operators and closely link craft interventions with the LIVCD Tourism Value Chain. 4) Provide overall training to craftspeople on design upgrading, finishing elements, and financial management to produce consistent and high quality products to ensure sustainability in new markets, 5) Support Lebanon's craft fairs and exhibitions and encourage craftspeople to attend regional and international exhibitions.

11) CITRUS DESK STUDY

Overall citrus production in Lebanon has declined by over 45 percent since 2007, since farmers have been replacing citrus orchards with higher profitability crops. Over half of all citrus production is exported, primarily to the GCC countries; however, producers do not utilize best practices, which can lead to lower yields as well as smaller, lower quality fruits, and lack of ability to meet international product specifications. Potential upgrading strategies include the following:

1) Improve market intelligence and capacity for strategic decision making for adopting new varieties and timing of harvest, and improve production practices in order to increase yields, quality, and prices of products; 2) Strengthen citrus enabling environment, particularly producer organizations and extension services; 3) Expand end-market options, in particular for lower quality oranges.

These hand-picked oranges will be sorted and washed mechanically at the center, disposed in cooling rooms, and packed for local or export markets.

12) BANANAS DESK STUDY

Bananas are an important crop successfully cultivated in the south over an area of approximately 3,000 ha. Lebanese bananas are destined for both local consumption and export, mainly to Syria, which is the major export market, and Jordan. Current market prospects for bananas with the conflict in Syria are poor due to lack of overland export routes and cost differentials with major exporting countries such as Ecuador. Potential upgrading strategies include the following:

Bananas production characterizes with high production costs and a declining export market since the beginning of the Syrian conflict.

1) Application of good agricultural practice, investment in an integrated facility for collection and post-harvesting services for better yields and quality; 2) Marketing related intervention, through launching a national and international awareness campaign to promote Lebanese production and build a brand and image of quality; 3) Encourage differentiation of Lebanese bananas based on origin, special variety, certification and labeling such as ISO 22000, organic, and fair trade for exports to Europe would also enhance appeal.

2.1.4 KEY RECOMMENDATIONS

RECOMMENDATION 1: Include seven value chains in the upcoming LIVCD workplan: Honey, Processed foods, Table grapes, Pome fruit (pears and/or apples), Floriculture, Cherries, and Avocados.

RECOMMENDATION 2: Include rural tourism as a targeted value chain, which can play a catalysing role with other value chains due to the existing synergies, and can enhance the value and image of crops such as fruit trees, honey, and olive oil.

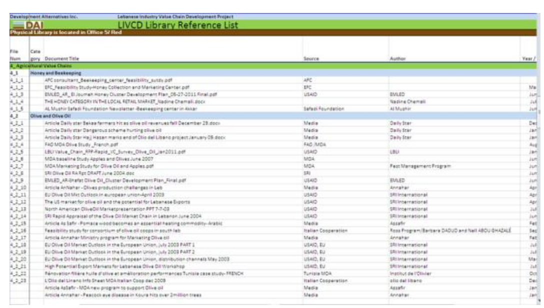
RECOMMENDATION 3: Include Olive oil on a conditional basis. Despite its low score, olive oil remains a critical sector, since it has the potential to support 4,000 beneficiaries. Yet, the market obstacles to increasing olive oil sales are very real, in particular the questionable demand in the domestic and export markets for bottled branded olive oil. LIVCD plans first on pilot testing ideas by organizing workshops with value chain participants (including major players in the bottling/exporting business) to evaluate the assessment report propositions of creating a common labelling solution, and then measuring the potential return on investment.

RECOMMENDATION 4: Engage in opportunistic support for products in the "Rural Agricultural Set" and Handicrafts. Among the minor value chains, there is great market demand for rural products such as free range eggs, thyme, and pine nuts, which can provide important added sources of revenue especially to poorer families and women in rural areas.

2.1.5 MONITORING AND EVALUATION STRATEGY

LIVCD is developing its Draft Performance Monitoring Plan and Targets. On March 28th, the Performance Management Program for Lebanon (PMPL) team visited LIVCD's office to discuss performance monitoring and evaluation. The LIVCD DCOP and Knowledge and Performance Management Advisor met with the PMPL COP, Harvey Herr and other staff. Mr. Herr provided an overview of the role of the PMPL project, and described the ways in which PMPL supports USAID and LIVCD in performance management. Specifically, PMPL will provide guidance on developing the LIVCD Performance Management Plan (PMP), including selection of appropriate indicators. Mr. Herr described the USAID/Lebanon Country Development Cooperation Strategy (CDCS) and Results Framework, and spoke about the importance of integrating CDCS indicators into the LIVCD PMP.

2.1.6 DOCUMENTATION AND LIBRARY



LIVCD library contains over 300 reference reports, studies, and press articles relevant to the project.

During the six-month assessment phase, LIVCD collected and relied on a large number of references from several sources, in particular previous USAID programs, the EU, GOL, the FAO, and press articles. These reports included various marketing studies, strategic recommendations, baseline reports, statistical data, and historical prices and market trends related to various potential value chains such as the agro-food sector, fresh fruits and vegetables, and ecotourism, in addition to sections relative to the Lebanese Business Environment and Gender and Youth.

Based on the request of the USAID COR, and with many documents provided by USAID, the LIVCD library was created that includes an extensive catalog of assessments, reports, studies, and press articles. A filing system was developed to summarize all of the documents by category allowing for easy searches of the compiled material. LIVCD will continue to maintain library over the life of the project and will host it under TAMIS.

A LIVCD library folder was shared with USAID on January 9th, 2013. LIVCD will continue to maintain library over the life of the project.

2.2 OTHER ASSESSMENTS

2.2.1 NGO CAPACITY BUILDING

Activity 5: Building Capacities of Local Organizations

LIVCD met Nathalie Chemaly, President of the 'Namlieh' Cooperative, which works with about 36 rural women's cooperatives located throughout the country. The retail shop exhibits traditional handicrafts and mouneh utilizing common branding.

The capacity building component of LIVCD aims at building critical skills of Lebanese stakeholders, and leaving in place a permanent cadre of skilled local firms, associations, foundations, and organizations that can support the development and long-term stability of Lebanon's rural economy. The LIVCD NGO Capacity Building Assessment Report was prepared and submitted to USAID on April 3rd, assessing the capacities of NGOs related to all considered value chains, with a wide geographical coverage and among organizations from various sizes, and structure. The Capacity Building component and recommendations included three main parts: 1) Program Management Institutional Capacity Building: 2) Technical Capacity Building: Awareness building on Gender and Youth.

2.2.2 ACCESS TO FINANCE

Component three: Accessing Value Chain Finance

Activity 1: Assess Demand for Agricultural Finance

Activity 2: Assess Supply of Product Offerings

In conjunction with the initial six month value chain assessments, the project is also closely examining cross-cutting issues that can enhance the rural economy, including access to financial services. An Access to Finance report was prepared and submitted to USAID on April 4th, aimed at assessing the financial needs of MSMEs in Lebanon, evaluating existing providers of financial services, analysing the gap between the supply of and demand for these services, and making recommendations on how to improve access to finance for those enterprises that are capable and willing to utilize available products.

In addition, the team met with Mahmoud El Zein, COP of the USAID funded Lebanon Investment in Microfinance (LIM) Program, that provides grants and supports selected microfinance institutions (MFI) and other providers of micro-credit loans, while improving their technical assistance and building their capacities. As Mr. El Zein explained, "There is a need for human resource development in the sector, specifically in advisory services. MFIs require training on best practices in credit methodology especially for SME loans and marketing." LIM also provided MFI statistics useful for the Access to Finance Report.

2.2.3 GENDER AND YOUTH COMPONENT - TRAINING

The Gender and Youth component is included at all stages of value chain interventions. An action plan for each value chain is under preparation, including collaborating with international subcontractor Making Cents and raising awareness with implementing partners. Making Cents' Senior Youth and Gender Assessment Specialist, David James-Wilson, visited LIVCD for the week and worked closely with the NGO Coordinator to develop an NGO extension strategy and an approach for Youth and Gender inclusion. On March 21st, Mr. Wilson held a training for all LIVCD staff focusing on ensuring youth and gender efforts became integrated with project activities.

2.3 QUICK IMPACT PROJECTS FOR LEBANESE COMMUNITIES AFFECTED BY THE SYRIAN CRISIS

Field trip to Wadi Khaled, the most impoverished community in North Lebanon, where revenues have dropped by 50% since the beginning of the Syrian conflict.

The Syrian crisis has had negative effects on Lebanese communities. First, the influx of refugees has made heavy demands on infrastructure and has altered normal economic relationships throughout the country. There have also been direct economic challenges especially in the border regions. Many Lebanese communities were more firmly integrated into the Syrian economy than the Lebanese economy. With border closures, the livelihoods of many families and, indeed, entire communities along the border have disappeared.

On January 15th, USAID Lebanon Economic Growth Director Heath Cosgrove visited LIVCD's office to brief the team on the necessity to address the economic challenges faced by Lebanese communities in the border regions. LIVCD conducted a quick assessment though field trips and meetings with several organizations in Wadi Khaled, Tripoli, Minieh, and the Bekaa: North LEDA- Local Economic Development Agency, the President of Dannieh Municipalities Union, and Safadi Foundation in Tripoli, mayors from six municipalities and the Agriculture Cooperative President in Wadi Khaled, and Arc en Ciel Center, in Taanayel in the Bekaa.

A proposal was submitted to USAID on Friday March 22nd, presenting activities to be implemented, within the parameters and scope of work for LIVCD (beekeeping, baladi egg production, crop cultivation, providing agricultural equipment for farmers and municipalities, and handicraft training and manufacturing), taking into consideration feasibility criteria, budget, and monitoring and evaluation. A preliminary Monitoring and Evaluation matrix was also developed to measure the impact on increasing revenue and job creation in the Lebanese communities affected by the Syrian conflict receiving USAID assistance.

North LEDA and Caritas were identified as implementing partners for the first phase priority projects, which consist of chicken stock distribution for free-range eggs production in Akkar, and providing feed and beekeeper training in Akkar.

Grants requests were sent to USAID and approved and technical activities will begin in April.

2.0 STAFF AND ORGANIZATION

3.1 STAFFING

LIVCD recruited a certain number of key positions in early January, including the Access to Finance Specialist, Value Chain Leaders, the Operations Manager, and five Value Chain Assessment STTA Consultants.

In February, LIVCD published a call for resumes for several positions, in particular for a Finance Manager, an Accountant and staff members for the future regional offices. An ad was posted in two major Lebanese newspapers, Annahar and Daily Star on February 19th (Annex file), as well as on the Daleel Madani's portal.

An annex file details the LTTA and STTA staff with arrival dates, and days of LOE.

The LIVCD Field Operations Manuals were finalized and distributed to staff members early March.

In February, LIVCD published several job vacancies in newspaper and on Daleel Madani's website

3.2 FINANCE, REGISTRATION AND PROCUREMENT

LIVCD, with assistance from the DAI LWWSS project team, worked on establishing an accounting system and a bank account at Citibank in the first week of November. Project registration was initiated in November and was completed by end of January. Meanwhile, the LIVCD Power of Attorney was delivered to the COP and DCOP in mid-December. The LIVCD project received its Certificate of Registration from the Ministry of Economy in mid-February; the next step is securing work permits for the COP and DCOP.

Major procurement of project vehicles: LIVCD has completed the procurement process for purchasing five new project vehicles.

3.3 SERVER, IT TRAINING AND TAMIS

In February, DAI Home Office IT specialists arrived in Beirut to install and support IT and information systems and train local IT staff.

DAI Home Office Technical and Administrative Management Information System (TAMIS) Specialist, Virginia Tauss, arrived in Lebanon on February 25th to complete the setup of LIVCD's TAMIS and train all staff on utilizing this important project management tool.

3.0 KEY DELIVERABLES

DAI prepared and submitted for USAID approval a set of key documents per the contract:

- An updated six-month Start-up Plan and the Six Month Assessment Gantt Chart were submitted to USAID for approval on January 22nd, detailing the activities undertaken and those that will ensure the completion of tasks under each of the project's components, in particular the Value Chain assessment. This plan was approved on April 2nd.
- The LIVCD Subcontracts Management Plan was submitted and approved by the COR in October.
- An LIVCD Fact Sheet including a brief description of the project and its components was submitted; however the final Fact Sheet must be reviewed by USAID's Communications and Outreach team.
- Weekly reports: Since October 30, LIVCD submitted 22 weekly reports to USAID, highlighting completed and upcoming activities and other project updates. Twelve reports have been submitted during the second quarter.

- LIVCD submitted its first Quarterly Progress Report to USAID on January 15th, for the October to December 2012 period.
- LIVCD Value Chain Selection Report was submitted to USAID on December 12th
- LIVCD updated Value Chain Assessment Methodology was submitted on January 3rd.
- LIVCD Macro Economic Assessment was sent to USAID for review on March 31st.
- LIVCD NGO Capacity Building Assessment: April 5, 2013
- LIVCD Access to Finance Assessment: April 4, 2013
- Value Chain Assessments:
    - Honey Value Chain Assessment: February 1, 2013
    - Pome Fruit Value Chain Assessment: February 21, 2013
    - Grapes Value Chain Assessment: February 18, 2013
    - Olives Value Chain Assessment:March 8, 2013
    - Ag Basket Desk Study: February 26, 2013
    - Floriculture Value Chain Assessment: April 1, 2013
    - Non-Ag Basket Desk Study: April 6, 2013
    - Citrus Desk Study: April 5, 2013
    - Banana Desk Study: April 8, 2013

4.0 CHALLENGES AND OPPORTUNITIES

Challenges

- The Selection process of value chains necessitate to take into consideration many and disparate opinions from different stakeholders in the value chain
- Data collection from different sources was necessary to prepare accurate information, in a context of lack of accurate statistics.
- Stakeholders were generally responsive in providing information and sharing data with LIVCD, although some were reluctant to divulge some figures such as turnover and profits.
- Many agricultural value chains employ a high level of non-Lebanese labor.
- Lebanese behavior and lack of responsibility towards public property in particular related to tourism infrastructure.
- LIVCD’s inability to work with the Government results in lack of necessary support for some initiatives.

- In all value chains, many marketing, export, and wholesale constraints appear, in particular the exporters' lack of experience knowledge, and financial strength to develop export markets.
- In addition, prospects for sales both to the domestic and export markets are best in fresh products for the highest quality levels, which is rarely met due to the large number of fragmented producers and also the generally low volumes and multiplication of exporter/packers.
- Production and post-harvest constraints: Lack of appropriate cold chain infrastructure, lack of financial capacity to self-finance production upgrading, poor quality and high priced planting material.
- The ongoing crisis in Syria is complicating future projects' implementation in the border towns and villages.

Opportunities

- LIVCD was long awaited for and was favorably welcomed by the Lebanese development and agriculture community and potential partners.
- The project built a strong network of relationships, based on several meetings held and on the long experience of LIVCD staff members. This large list of stakeholders will help to create partnerships and collaboration across the project.
- The value chain assessments identified great growth opportunities for over seven value chains, which have the potential to improve income and create job opportunities for a large number of beneficiaries.

5.0 HIGHLIGHTS FOR NEXT QUARTER'S ACTIVITIES

Following the value chain assessment phase of the first six-month, LIVCD will pursue with next quarter's activities:

- Define the next 18 months workplan through a preparation workshop
- Organize stakeholders meetings among the network built in the first phase of the project to prepare the implementation of upgrading strategies of the assessed value chains and define future program partners.
- Identify the value chains for initial intervention along with the geographical areas where impact will be the most significant.

- Develop LIVCD performance monitoring plan (PMP) including tracking, measuring, and reporting project-attributable results. This deliverables, along with a baseline survey will be prepared and submitted for USAID approval.
- Start the implementation of the Lebanese Communities Quick Impact Projects as per the proposal approved in March, and initiate new grants for additional project and/or extended areas.

ANNEX

- Annex 1 : Scoring matrix for value chain selection
- Annex 2 : Lebanese Communities Project Proposals for Beekeeping in Akkar
  Lebanese Communities Project Proposals Free-range eggs in Akkar
- Annex 3: Call for resumes ad in newspapers and online portal
- Annex 4: List of LTTA and STTA staff hired by position, date and number of days and LOE table in the contract.