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Foreign direct investment (FDI) is considered as one of the important contributors of economic growth and development especially for developing countries. FDI leads to an increase in domestic capital and the enhancement of efficiency through the transfer of new technology, marketing and managerial skills, innovation, and best practices.

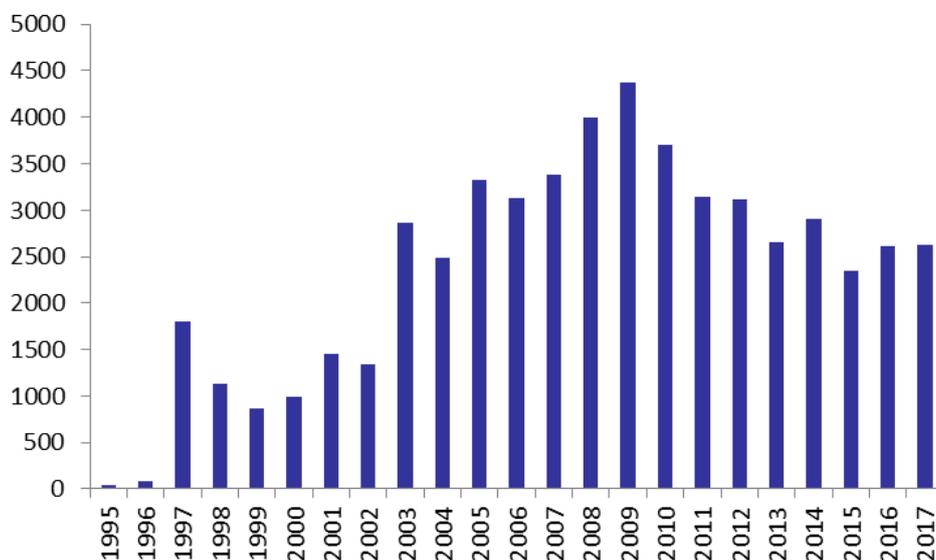
Since the civil war, Lebanon has been trying to attract foreign investments especially after year 2000 when new laws for privatization arose. The government has been seeking foreign investors to privatize the state-owned enterprises starting by telecommunications, electricity and water. Foreign investments in tourism, industry, and other sectors were also highly welcomed in Lebanon especially since 2001, when a new investment and real-estate laws were implemented. Moreover, authority was given to the Investment Development Authority of Lebanon (IDAL) to grant investment licenses and permits.

In recent years, FDI in Lebanon started to slow down due mainly to the international financial and economic crises, political instability in the region, the drop in the oil prices and most importantly the Syrian Crisis and the influx of refugees. However, it is important to highlight the effect of the regulatory framework and institutional weaknesses in the development of investment policy.

In fact, in its report, the "UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT" (UNCTAD) gives an Investment Policy Review (IPR) which aims to assist the Government in its efforts, to improve the business environment and achieve the sustainable development goals (SDGs). In the first chapter, the report analyzes the key regulatory aspects of investment in Lebanon in the following areas: "Business establishment and liquidation", "Access to land and property rights", "Taxation", "Labor", "Environment", "Competition" and "Governance" and in each segment several recommendations are given to improve the investment climate. In the second Chapter, the report proposes a range of contemporary investment promotion tools and techniques, as well as institutional mechanisms that can be implemented in a phased approach and progressively built upon to increase the effectiveness of investment attraction efforts.

The purpose of this study is to go over the whole report and most importantly highlight the main steps needed to implement a successful investment strategy in Lebanon.

FDI inflows to Lebanon (M USD)



Source: UNCTAD

In 2001, Investment Law No.36 was enacted to reinforce the organization’s mission (IDAL) and to provide a framework for regulating investment activities in priority sectors in Lebanon. The Investment Development Authority of Lebanon (IDAL) is the national investment promotion agency that was established in 1994 with the aim of promoting Lebanon as a key investment destination, attracting and facilitating investments in the country. Lebanon's investment legislation is simple and transparent seeking to facilitate the establishment of new businesses in Lebanon, and to ensure their viable growth and expansion. The multiple trade agreements and investment treaties signed over the last few years have further improved the investment climate in Lebanon, accelerating its integration into regional and global economies. While several laws are modern and in line with best practice, a series of outdated and sometimes unusual processes and regulations affect business operations. Moreover, although the e-signature law was recently passed by the parliament it needs to be implemented soon.

Many restrictions to FDI exist. First, foreign participation is not permitted in some sectors such as defense and weapons, political newspapers, media... In addition, FDI is restricted in companies such as “Joint Stock Company” (JSC) since it is required to have Lebanese Majority on the boards.

Summary of FDI restrictions in Lebanon

| Field | Restriction | Exception |
|--|---|-----------|
| Defense and weapons | Only Lebanese can obtain a license to manufacture and trade | No |
| Political newspapers and broadcast media | Fully owned and managed by Lebanese nationals | No |
| Banking, insurance and organized freight | Lebanese majority in the Board | No |

| | | |
|--|---|----|
| Real estate | Foreigners cannot own more than 3 per cent of land in each districts (10 per cent in Beirut) and in total in the Lebanese territory | No |
| Legal services | Legal professions are reserved for Lebanese nationals | No |
| Landline telephone and Energy transmission | SOE monopoly | No |

Worth mentioning, that Lebanon has no restrictions on the transfer of capital, profits and dividends which is an important component to increase FDI since foreign and non-residents can open bank accounts in LBP or other currencies.

Lebanon faces important problem in the area of "Business Establishment". According to the 2018 "Doing Business report", Lebanon ranks 143 out of 190 in the Starting a Business indicator due mainly to the following reasons:

- Establishing a company takes time and is costly. For example, it takes, on average, over 15 days involving eight procedures and costing 42% of (the economy's) income per capita to establish an LLC with 15 employees or more in Beirut. This is double the number of procedures in comparator countries, where no fees are charged. Moreover, offshore companies should have a Lebanese lawyer and must have annual services fee at a minimum of \$6K per year.
- Online Company establishment is very difficult since the required documents and fees are not available online.
- Even if the company is formed the difficulties remain in its liquidation. In fact, it needs three years to resolve insolvency at a cost of 15 % of the estate, with a recovery rate of 31.4 cents on the dollar.

In this context, UNCTAD proposes the following recommendation:

- Develop the "Information and Technology Sector" (ITC) sector and establish effective e-registration procedures.
- Review all the required documents and facilitate the legalization procedure.

Registering a business in Lebanon and comparator countries

| Country | Ranking | Procedures | Time (days) | Cost (per cent of income per capita) | Paid-in minimum capital (% of income per capita) |
|-----------|---------|------------|-------------|--------------------------------------|--|
| Lebanon | 143 | 8 | 15 | 42 | 42.3 |
| Morocco | 35 | 4 | 9 | 8 | 0 |
| Singapore | 6 | 3 | 2.5 | 0.6 | 0 |

Corruption has become a vital issue in Lebanon preventing its development and prosperity and affecting several business-related areas. Settling a business requires contract's enforcement. In fact, due to the understaffed institutions, political interference and corruption a judgment requires at least 3 years which results in a large judicial backlog.

Reforms are starting to be implemented in the customs post. In details, a new automated information system "NAJM" has been put in place to organize the data and make sure to be compliant with the regulations. However, obstacles remain in the online payment and the delays in procedure.

An Investment Policy serves as a strategic guide to the planning and implementation of an investment program. When implemented successfully, the Policy anticipates issues related to governance of the investment program and plan for appropriate asset allocation.

One of the most important and challenging element in the Investment Policy is the promotion strategy. In fact, a strategy helps IDAL to set up its objectives and ensure that they are implemented professionally. The key elements of a successful FDI promotion strategy are: "Secure stakeholders' participation to develop an FDI strategy", "Identify subsectors where IDAL can have the greatest impact", "Design policy and promotion activities specific to the needs of each priority sector or subsector", "Set impact indicators to measure success and revise the strategy if needed", "Plan the structure, systems and resources needed for implementation".

A successful strategy needs a detailed plan in order to identify its goals and objectives. In Lebanon the investment law focuses on 8 main sectors: agriculture, agro-industry, industry, tourism, IT, media, technology and telecommunications. Moreover, the sectors' performance needs to be reviewed on a regular basis especially from the FDI attraction view. Developing such a strategy involves coordination between ministries and agencies which is not the norm in Lebanon.

Based on the above, UNCTAD gives the following recommendations:

- Set the objectives of the strategy and ensure their coherence with existing sectoral strategies.
- Develop the coordination between CAS and the other governmental institutions involved with FDI data collection, BDL, MoET, MoF in order to ease the exchange of statistics and data.

One of the investment strategy's targets is to improve the overall economy. The idea is not just to increase the FDI inflows but to use it in the efficient sectors. The second step of the strategy would be to identify the subsectors especially the promising ones. IDAL has to find the sectors in which Lebanon has internationally competitive advantages based on volume production, quality, prices, growth, market motives...

Once the subsectors are identified, a "high-level" competitiveness analysis is conducted in which IDAL will be able to classify the subsectors in categories:

- Identify the subsectors that already attract FDI without investment promotion efforts.
- Single out the subsectors which are more suitable for domestic investors, but could grow if linked to FDI.
- Set aside the subsectors which are much less likely to attract FDI in the short term.
- Highlight promising subsectors where reforms are required to reinforce competitiveness and list these sectors for medium to longer-term promotion efforts.

Worth mentioning that some subsectors might need a "lower level analysis" in which a more detailed and broken down study is done to identify concrete opportunities. For example, in the tourism sector, studies can be made to see how the development in the "Eco-tourism" and "Medical tourism" can contribute to an increase in the FDI.

After identifying and grouping the subsectors, the latter should be scored according to consistent and detailed criteria. The idea is to be able to assess the performance of each subsector in order to determine the promising ones and most importantly to find the weaknesses and the areas where reforms are required and

even try to seek new targets. One challenge for the above step in Lebanon is to have reliable and updated data.

The time horizon of an investment strategy's initial results is normally between three and five years. The performance of the strategy should be monitored and reviewed whenever there is any change in circumstances and adjust the work plan accordingly. Moreover, the results have to be published to increase IDAL's accountability.

In order to implement the above strategy, a restructuring of the authority functions must be done.

Article 6 of Investment Law 360 describes 12 different functions for IDAL, several of which are not in line with international good practice such as cover export promotion, SME development....These additional functions can diffuse IDAL from its main focus.

Moreover, IDAL has to be autonomous and not affected by ministries and other government institutions. Therefore, the regulatory and promotional functions have to be separated within IDAL.

As for the IDAL staff, it is composed of 24 members noting that based on the fact-finding mission undertaken in September 2017 the team should be around 75 members. However, the team is well organized and the connections between the investors and stakeholders are good. In order to assign the resources available efficiently and be able to apply the FDI strategy, UNCTAD proposed to restructure the IDAL team into 5 departments and units: "Investment Promotion Department", "Investment Support Department", "Policy Unit", "Research Unit" and "Communications and Events Unit".

In the last section of the report, UNCTAD applies the FDI strategy to the "Information Technology" sector defined as: "The application of internet-based digital technologies to the production and trade of goods and services". In the recent years, many steps have been taken to develop the ICT and ICT-enabled sectors (grouping the sectors of IT, Media, technology and Communication). The initiatives have been adopted by different public and private institutions. The sectors' growth starts by a strategic investment and policy considerations in which all the risks and challenges are assessed and the policy should take into account all the e-commerce international rules and regulations. Moreover, an important step remains in investing in the related sectors such as telecommunication and infrastructure noting that the latter weaknesses can limit the business process...It is important to note that a key element for the successful strategy is the coordination among the institutions especially in this case where several members are involved.

Mobilizing investment and ensuring that it contributes to sustainable development is a priority for all countries. Improving FDI can't be realized without a detailed and efficient strategy. The latter includes identifying the subsectors in which FDI can contribute to the Sustainable Development Goals. Moreover, the strategy should be adjusted following any change or circumstance in the economy. Worth mentioning that, coordination between public and private entities is essential for a successful policy. Although Lebanon is considered to be an important investment hub in the Middle East, the country still has many restrictions mainly in the regulatory and legal framework for investment that need to be improved.

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