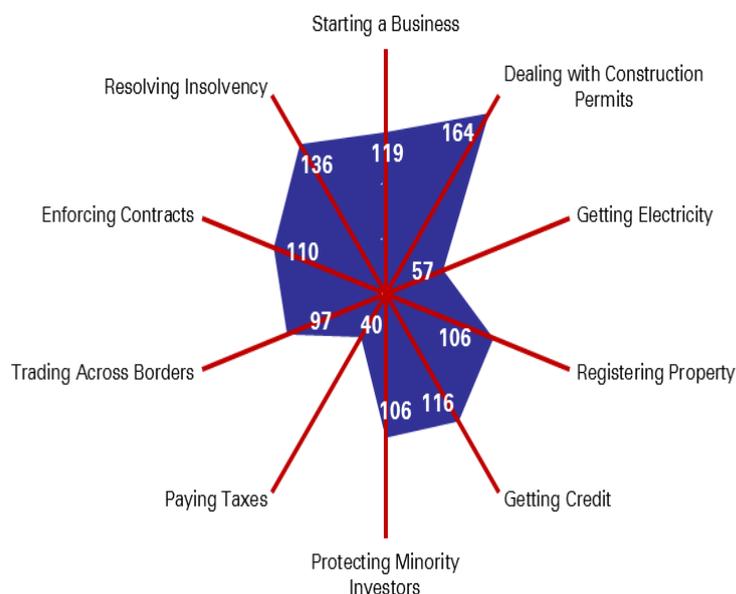




Lebanon Rankings on Doing Business Topics



November 22, 2014

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Source: Doing Business 2015

Besides risk and pay-off perspectives, investment climate remains the most primordial aspect for entrepreneurs during their hunt for compelling new opportunities. As a matter of fact, investors' main concern continue to be largely dependent on the current and expected economic condition of the country as well as the political, social and security factors. In this context, the World Bank periodically issue its annual "Doing Business Report" for all countries that are members of the institution and among them Lebanon. The report "sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations". The index of doing business comprises eleven sub-indices representing eleven areas in the life cycle of a business namely, starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency and labor market regulation.

Lebanon's ranking on the ease of doing business in 2015 declined by 2 notches compared to the previous year. The country ranked 104 over 189 countries for which the index is computed against 102 in the doing business of 2014. Lebanon's ranking fared better than the regional average of the Middle East & North Africa (MENA) of 106. The United Arab Emirates (UAE) stood as the best performer in the region with a ranking of 22, while Saudi Arabia recorded 44 and Turkey 55. In contrast, Jordan and Syria respectively scored 117 and 175, which is worse than the average.

Despite the decline in Lebanon's ranking, the economy remained subdued. Since the doing business benchmark measures the performance of an economy against all other economies, a decline in the ranking does not necessarily mean that the country's business environment has deteriorated. In fact, an economy's business environment could have improved on a yearly basis, however if the ease on doing business in other countries has improved more, than the ranking of this economy will worsen.

In this context, this year's report included 2 aggregate measures: the distance to frontier (DTF) score and the ease of doing business ranking. The former determines the score of each country based on a scale from 0 to 100, where 0 represents the worst performance while 100 is the frontier. Lebanon revealed no change in its DTF between 2014 and 2015 at 60.6%,

which is higher than the regional average of 59.23%. Accordingly, Lebanon is still standing at the same distance “from the best performance achieved by any economy”.

Summary of the Business Environment in Lebanon

Indicator	Rank		DTF	
	2014	2015	2014	2015
Starting a Business	112	119	80.25	80.80
Dealing with Construction Permits	159	164	54.16	54.38
Getting Electricity	53	57	80.22	80.24
Registering Property	104	106	63.67	63.69
Getting Credit	111	116	35	35
Protecting Minority Investors	102	106	49.17	49.17
Paying Taxes	35	40	82.75	82.44
Trading Across Borders	96	97	72.3	71.96
Enforcing Contracts	110	110	55.4	55.4
Resolving Insolvency	133	136	33.08	33.03

Source: Doing Business 2015

When analyzing the “Starting a business” sub-index where Lebanon ranked 119th with a DTF of 80.8%, it shows that the cost of starting a business (73.0% of income per capita) and the paid-in minimum capital required (33.0% of income per capita) are the two components that partly drove down the ranking of Lebanon despite its satisfactory standing from the best economy’s performance. Yet, the country did well in the number of procedures (5) and the time necessary to start a business (9 days) as revealed by its relatively high DTF. On the brighter side, Lebanon initiated in 2010 some reforms to facilitate starting a business by eliminating the requirement of stamping company books. Yet, the government increased the cost of starting a business in 2013 making starting a business more difficult.

On a comparative scale, New Zealand ranked first with a DTF of 99.96%, while Hong Kong that grasped the 8th rank posted a DTF of 96.38%. In contrast, Indonesia and Paraguay that respectively rank 155 and 126 posted corresponding DTFs of 68.84% and 77.52%.

As for “Dealing with construction permits” sub-index, Lebanon could well improve its ranking of 164 and a DTF of 54.38% that are below the respective regional averages of 98 and 64.3%. Lebanon has to reduce the number of days it takes to get a construction permit to build a warehouse stands at 244, while the number of procedures stands at 18 and the cost is equal to 4.4% of the warehouse value. In Saudi Arabia, getting a construction permit to build a warehouse requires 8 days, 5 procedures with a 0% cost. Meanwhile, Syria, for example, imposes 28% of the warehouse value to get a construction permit through 4 procedures that take around 19 days.

Four other areas where Lebanon did badly are related to Lebanon’s legal system and its outdated laws. These are “Resolving insolvency”, “Enforcing contracts”, “Protecting Minority Interest” and “Registering Property” where Lebanon ranked 110, 136, 106 and 106 respectively.

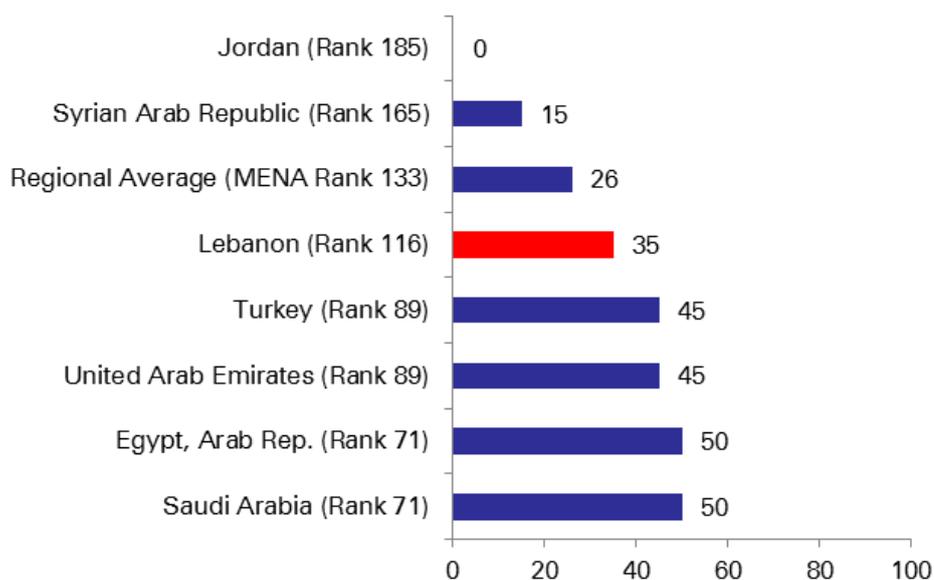
First, Lebanon ranks 136 out of 189 economies on the ease of resolving insolvency with an average DTF of 33.03%, whereas the regional average of Middle East and North Africa rank 123 with an average DTF of 33.04%. “Resolving insolvency” or closing a business constitutes a major issue for Lebanon where it takes 3 years and costs 15 percent of the debtor’s estate with an average recovery rate of 32.3 cents on the dollar. This compares to an average of 10

months in Canada and 2.5 years in Bahrain to close a business. As for the recovery rate, it is at 70.5 in Cyprus and 26.6 in Egypt.

Second, “Enforcing Contracts”¹ in Lebanon requires 37.0 procedures, takes 721.0 days, and costs 30.8% of the value of the claim. Based on the figures mentioned, Lebanon’s economy ranks in the 110th place out of 189 economies regarding the ease of enforcing contracts with a score of 55.4%. The MENA average stood at 117th, with a score of 52.62%, reflecting Lebanon’s advantage compared to neighboring economies in facilitating the process of enforcing a contract. However, and even though the average number of procedures required in the MENA stands at a higher number of 44 procedures, contract enforcement in Lebanon still requires much more days to be completed than the average number days entailed in the MENA region that stands at 658 days. Similarly when it comes to the price, the average cost is 6 percentage points less in the MENA region as it reaches 24.8% of the cost of the claim.

On the strength of minority investor protection index, which measures the extent to which minority investors are protected from conflicts of interest, Lebanon has a score of 49.17%, ranking 106 out of 189 economies and standing ahead of the regional average that hovered around 47%. Noting that protection of minority investors is important for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Lebanon posted a rating of 9 out of 10 on the extent of disclosure index, while 1 out of 10 on the extent of director liability index. Moreover, Lebanon scored 7.5 out of 10 on the extent of shareholder rights index and 5.5 out of 9 on the extent of corporate transparency index.

Ease of Getting a Credit (Distance to Frontier)



Source: Doing Business 2015

Out of 189 countries, Lebanon ranks 116th on the ease of getting credit, with a DTF of 35% compared to regional average of 26% with the MENA region ranking 133rd. This low score comes as a result of the weak collateral and bankruptcy laws, as shown by Lebanon’s “strength of legal rights” index that stands at 2 out of 12. However, Lebanon scores 5 out of 8 on the “depth of credit information index”, indicating the availability of more credit information from either a credit registry or a credit bureau. On a comparative scale, Mexico that ranked 12 in terms of “ease of getting a credit” marked an 8 out of 8 in terms of “depth of credit information index”, while Libya that ranked 185 in terms of “ease of getting a credit” marked a 0 out of 8 in the same index. Back to Lebanon, in 2011, the government facilitated access to

¹ The “Enforcing Contracts” indicator measures the efficiency of the judicial system in resolving a commercial dispute before local courts through inspection of three main components: number of procedures required to enforce a contract through the courts, calendar days required to complete procedures, and the cost required to complete the procedures as a percentage of the claim.

credit by improving its credit information system through giving banks online access to the public credit registry's reports.

Time Needed to Register a Property in Selected Countries (In Days)



Source: Doing Business 2015

In Lebanon, registering a property requires 8 procedures, takes 25 days and costs 5.9% of the property value. On the ease of registering property, Lebanon ranks 106 out 189 economies with an average DTF score of 63.69. Lebanon's standing remains below the regional average of the MENA region which ranks 89 with an average DTF of 66.35. Lebanon posted a lower number of days to register a property than Iraq (51 days), Brazil (32 days) and France (49 days). However, it was outpaced by UAE (2 days), Denmark (4 days) and Greece (20 days).

In Lebanon, obtaining a new electricity connection is relatively easy. It requires 5.0 procedures, takes 75.0 days, and costs 93.2% of income per capita. Based on the figures mentioned, Lebanon's economy ranks in 57th place out of 189 economies regarding the ease of getting electricity with a DTF of 80.24. The MENA average ranks 79th in the same rankings with a 76.03 DTF, reflecting Lebanon's advantage compared to neighboring economies in facilitating for entrepreneurs the process of getting electricity to start a new business. The Lebanese government has also facilitated getting electricity by reducing the cost of obtaining it. Application fees and security deposits for new connections were decreased in 2012. However, getting electricity in Lebanon remain more expensive than that in Morocco and Sweden where it stands at 3.7% and 36% of income per capita while it surges to 242% in Spain and 496% in Romania.

When it comes to trading across borders, Lebanon ranks 97 out 189 economies on the ease of trading across borders with an average DTF of 71.96. The regional average of MENA is ranked 92 with an average DTF of 70.15. Exporting a standard container of goods from Lebanon requires 4 documents. It takes 22 days and costs \$1080. Unexpectedly, China, the world's top exporter, requires 8 documents to export while 2 documents to export are just required in France. On the import side, importing the same container of goods to Lebanon requires 7 documents, 30 days and costs \$1365. Both imports and exports require the following documents: Bill of lading, commercial invoice, customs declaration, and a packing list. In addition to that, exporting goods require cargo release order, certificate of origin, and technical standard/health certificate.

Paying taxes in Lebanon appeared to be one of the indicators to post the best performance in terms of DTF. Lebanon ranked 40 out of 189 economies with an average DTF of 82.44 well above the regional average of Middle East and North Africa that took the 66th place with an average DTF of 78.45. The UAE topped the list of countries with an average DTF of 99.44. Albeit, Lebanon performed better than several developed countries such as the United States that revealed an 81% DTF, China with a 67% DTF and Germany (77% DTF). In Lebanon, firms make 19 tax payments a year on average. While filing, preparing, and paying taxes takes about 183 hours a year, total taxes almost amount for 29.9% of profit.

Aiming to simplify the payment of taxes, Lebanese Authorities, in 2010, consolidated filings, reduced the frequency of payments or offered electronic filing and payment. Lebanon also eliminated the requirement to obtain permission to use accelerated depreciation and introduced electronic payment.

However, tax or mandatory contributions defer in number of payments made and time required. Social security contributions on gross salaries at a 21.5% statutory tax rate, requiring 12 payments to be made and need 100 hours. Corporate income tax on taxable profit at a 15% statutory tax rate requires 1 payment and needs 40 hours. Value added tax (VAT) requires 4 payments and needs 43 hours, while vehicle and stamp duty taxes represent small amounts and require only one payment. Social security contributions on employees are paid jointly at a statutory rate of 6% with gross salaries being the tax base.

For the first time this year, the report provided a special focus on the labor market regulations as it directly impacts employment procedures in any new business. The new annex does not provide rankings but offer a wrap up on the overall status of the market regulations in each country. Identical assumptions² were used to allow comparison and 6 out 188 conventions of the International Labor Organization (ILO) were covered: employment termination, weekend work, holiday with pay, night work, protection against unemployment and medical care and sickness benefits.

According to the report, the weaknesses of the Lebanese labor environment appear to be mainly entrenched in some areas related to wages, working hours and unemployment and redundancy. The ratio of minimum wage to value added per worker stands low at 0.38 similar to that in Shanghai- China and Finland. The labor market in Lebanon is also characterized by rigid working hours with an average of 6 working days per week, no premium for night work, a similar paid annual leave of 15 working days either years if tenure were 1, 5 or 10 years. The absence of unemployment protection scheme and the allowed dismissal by law due to redundancy are other obstacles to be fixed.

Finally, lessons to learn are that only few measures are necessary to drastically improve the ranking of Lebanon. The country can easily reduce the cost of creating a business and the minimum capital required in addition to the cost for getting a construction permit. Lebanon can also manage to reduce the number of days it takes to register a property and to get a construction permit as well as the procedures required to enforce a contract.

When resolved, these bottlenecks have the potential of improving the image of Lebanon in the eyes of foreign investors which will increase the amount of foreign direct investments that flow into the country each year. Consequently real economic growth will rise and unemployment will decline.

Other issues may demand more work and revisions of the existing laws to deal with commercial and business related issues like resolving insolvencies and enforcing contracts.

² The Worker: a Full-Time Cashier in a supermarket that is not member of the labor union
The Business: Limited Liability Company (60 employees) in the economy's largest business city

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