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Abstract

Besides the fiscal policy card, a government anywhere in the world has a less "popular" yet equally powerful tool to preserve and nurture national economic growth. It is the ability to design, run, and enforce an inclusive "business climate" that can kick-start business cycles, to render the economy more self-sufficient and investors more confident, all within the contemporary framework of cross-border exchange and cyber openness.

The 'Doing Business' Project of the *World Bank Group initiated since 2002 offers quantitative measures of business regulation at international, regional, and subnational levels. Recently, it published the report 'Lebanon's Doing Business 2018', alongside interesting national datasets evaluating the business and regulatory environments in Lebanon in 2017 and 2016. This study analyses the measures in 10 regulatory areas that are key to the functioning of the private sector. They help assess Lebanon's "ease of doing business" (EODB). The study's key inferences reveal an unhealthy deterioration in the ranking of Lebanon since 2016 to-date on almost 10 out of 11 indicators measured, compared to past years as well as to its regional peers. The deterioration may also be linked to the slowdown witnessed in the economy today.*

The Ease of Doing Business (EODB)

The World Bank (WB) Group assesses the regulatory environment for a new business in any economy using the "ease of doing business" (EODB) indicator. The EODB indicator can be measured in two ways, using the worldwide "ranking" or by the distance to frontier (DTF) "score". The EODB ranking assesses how simple (or complex) it is for an entrepreneur to conform to national laws regulating the lifecycle of his/her small-to-medium-sized business by ranking the country from 1 to 190, knowing the sample studied is made up of 190 economies. By measuring 10 sub-indicators of doing business (detailed hereafter), the EODB rank allows policy-makers to monitor what has changed in the economy's "business friendliness (ease)" over the years as well in comparison to regional averages and regional peers. Meanwhile, the WB's "distance to frontier (DTF)" benchmarks the ease of doing business in a country against a "best practice" score inferred from the 190 sampled economies. The DTF uses a score range of 0 to 100, whereby "0" represents the worst performance and 100 the frontier. The closer the DTF is to the frontier (100), the better the business climate compared to the sample's best performer(s).

First, Lebanon's ranking on the WB's EODB ranking has been worsening over time. In its 2018 Doing Business Report, the World Bank Group ranked Lebanon 133 out of 190, while the country ranked 126 of 190 in 2017, and better yet 122 of 190 in 2016. The lower EODB ranking indicates the country is associated with simpler regulations for businesses, thus, more room to nurture new businesses and ultimately the economy, and vice versa. As such, Lebanon's track record of deterioration on the EODB ranking may affect foreign investors' confidence and trust in the local market. This also signals that Lebanon has not attempted to introduce needed business reforms nor amend business regulations or cut red tape to nurture a healthy business climate and lure in entrepreneurs. The 10 quantitative sub-indicators of 'doing business' are the following:

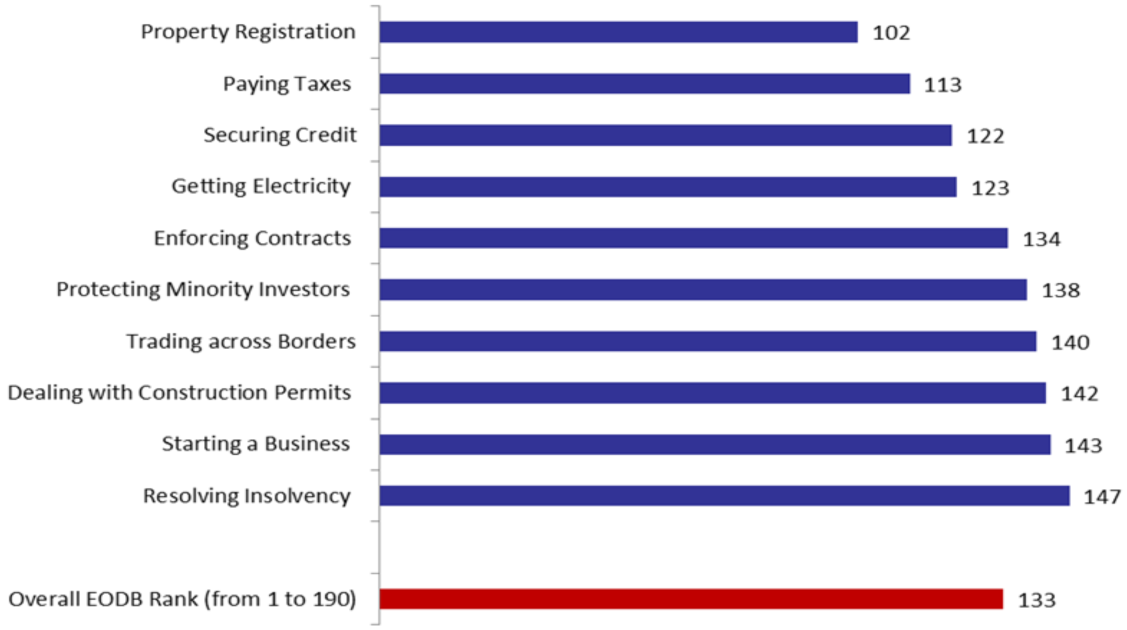
The Evolution of Lebanon's "EODB" Ranking per Sub-indicator (out of 190 Economies)

	Starting a Business	Construction Permits	Electricity	Property Registration	Obtaining Credit	Minority Investors	Taxes	Across Border Trading	Contract Enforcement	Resolving Insolvency
2016	124	128	117	101	109	145	66	132	127	143
2017	139	135	122	103	118	145	67	134	127	143
2018	143	142	123	102	122	138	113	140	134	147

Source: Doing Business 2017 and 2018; the World Bank Group Data

It follows that Lebanon's overall "distance to the frontier" or DTF score also deteriorated, revealing discouraged investors. Lebanon's overall score out of a 100 on the DTF also fell by 2.5% to 55 as per the WB's 2018 EODB report, compared to two years ago. Regionally, as the study will explore, the country only slightly exceeds the MENA Average on two sub-indicators: securing credit and trading across borders for new businesses. Moreover, in time-series, the country ranking worsened in 2018 on all 10 EODB indicators studied except on "protecting minority investors".

Summary: Lebanon's EODB Ranking on the "Ease of Doing Business"

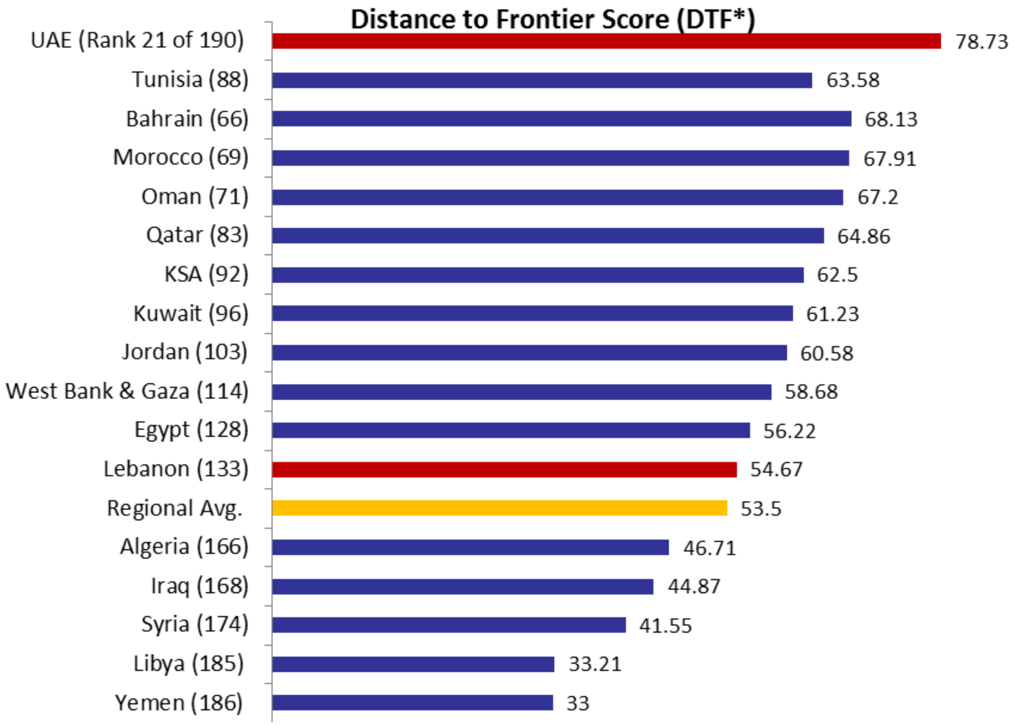


Source: BLOMInvest Bank; Data: WB Group 2018

Regional Comparison

Lebanon lags behind the regional MENA average in 8/10 indicators according to the 2018 WB report. All indicators, except for the ease of "securing credit" and "trading across borders", slacked below their respective regional MENA averages, as broken down in the next sections of the report. Meanwhile the two gainers recorded improvements in rank and in DTF (performance closer to the frontier) in 2018.

How economies in the Arab World rank on the 'Doing Business' Indices



Source: Source: BLOMInvest Bank; WB "Doing Business"-Arab World

In the category of "starting a business", Lebanon ranked 143rd of 190 in 2018 and had deteriorated from 139 in 2017 and 124 in 2016. In countries where governments facilitate the registration of businesses, entrepreneurs are encouraged to participate in the formal sector, thereby benefitting the country by creating job opportunities i.e. lower unemployment and additional revenue to the authorities. Against this context, Lebanon's regional peers: Egypt, Jordan, Syria, and the KSA earned better ranks, as they came in 103rd, 105th, 133rd and 135th out of 190, respectively, in terms of starting a business. Meanwhile, Lebanon's DTF on starting a business stood at 78 out of 100, below the MENA average of 82, while Egypt scored a high of 85 of 100.

It became more costly to start a new business in Lebanon since 2016. In a nutshell, it takes approximately 15 days to start a business in Lebanon, 8 procedures, and it costs 42% of income per capita, as per the WB group who calculates the official costs (no bribes or their likes). Yet, Lebanese public entities are known for high degrees of corruption and inefficiencies. Still, in the MENA region on this dimension, 19 days are needed to perform 8 required procedures costing 19% of income per capita. Meanwhile, Lebanon lags behind the OECD, where a business can legally register in 8.5 days by completing 4.9 procedures and incurring costs that do not exceed 3.1% of income per capita.

It is important to observe that the costs incurred on entrepreneurs in Lebanon rose from 34% and 41% of income per capita in 2016 and 2017, respectively, to 42% in 2018, which reveals the first aspect of the difficulty of doing business.

On the sub-indicator "dealing with construction permits", Lebanon ranked 142nd of 190 in 2018, worse than past years. Complying with building regulations on public safety and so forth, whilst building needed structures and warehouses to support the firms' main operations is essential for a new business owner. The World Bank Group concluded it takes a company in Lebanon 249 days, 19 procedures, and it costs 5.6% of the warehouse value. In contrast, the building context for MENA startups is easier, with fewer days or 132, and 16 procedures, and costing less, at 4.3% of warehouse value. Meanwhile, in the OECD, 155 days are needed which makes it even less cumbersome for new companies as the number of procedures also falls to 12.5 while the cost shrinks to 1.6% of warehouse value.

The ease of doing business also depends on a reliable "electricity supply", but in Lebanon it is governed by complex and unevenly enforced regulations. Having a good electricity connection and transparent tariff rates are essential tools that can enable any business to conduct its most basic operations. Nevertheless, Lebanon seems to be notorious for its complicated connections and multiple regulations attached to electricity. In fact, Lebanon ranked 123rd of 190 scoring a 60.07 out of 100 on the electricity service extended to new firms. The breakdown of the data in the report reveals that a new firm in Lebanon needs an average of 60 days and must complete 5 procedures, and would cost an average of 113% of income capital per capita for the needed installations and utility contracts in the past three years.

Moreover, new firms in Lebanon incur electricity costs that are higher than past years for an electric supply that is less reliable compared to regional averages. The uneasiness of securing needed electricity for a new firm in Lebanon appears more flagrantly in the 'cost of electric supply' indicator which climbed from 94% of income per capita in 2016, to 115% and 130% in 2017 and 2018, respectively. In addition, while the costs in the MENA stood at 780% of income per capita, the OECD's were as low as 63% of income per capita. Nevertheless, firms starting up in Lebanon are extremely worried about the low "reliability of supply and transparency tariff index" (reflecting the quality of the electricity service) on which Lebanon scores "0" out of 8 in 2018, compared to 4.2 out of 8 in the MENA and 7.4 out of 8 in the OECD's high income economies.

Regionally, only conflict-stricken Syria in the studied sample lags behind Lebanon on the "electricity supply" facet. Lebanon ranks 123rd of 190 on electricity supply, with a score of 60 of 100 so 40 p.p away from the frontier. Meanwhile, Jordan, KSA, and Egypt rank 40th worldwide, 59th and 89th scoring 83 of 100, and 80 of 100, and 71/100, respectively. Syria in its turn ranked 153rd and scores 52/100.

Ease of "registration of property" in Lebanon remains costly to-date, which triggers more evasion, less registrations and less access to finance. A new business needs to formally register property. Doing otherwise would jeopardize the firm's access to finance because registered property can serve as collateral (for creditors, banks). Over the past three years, Lebanon ranked 102nd on the ease of registration property and scored an average of 59/100, which is below the regional MENA average score of 61 over 100. Therefore, it is complicated and worrisome for a new entrepreneur in Lebanon to transfer property, especially knowing the process requires 8 procedures, 34 days, and costs 5.9% of property value compared to 30 days, 5.7 procedures and 6% in costs in the MENA, and even better conditions in the OECD, where it takes 22 days for 4.6 procedures costing no more than 4.2% of property value. Even more so, in 2016, Lebanon complicated the property transfer by extending the time required for property registration.

New businesses in Lebanon had simpler, easier, more facilitated "access to credit" in past years. Credit extended to new businesses necessitates strong national credit information systems in addition to adequate bankruptcy and collateral laws designed to facilitate lending decisions and access to financing. In fact, the clearer the collateral and bankruptcy laws, the higher ratios of private sector credit to national output (GDP). As such, Lebanon ranked 122nd, scoring 40/100 on the ease of getting credit aspect; however, Lebanon's credit systems had performed better in previous years when it ranked 118th and 109th of 190 in 2017 and 2016, respectively. Hence, room is improvement remains large.

Nonetheless, Lebanon scores above the MENA average on the "ease of securing credit" for new businesses, so it performs better than some peers in the Arab World. The ease of getting credit for a new firm in Lebanon not only exceeds the regional MENA average score of 32 of 100 against Lebanon's 40/100, but it also does not fall far behind the 50/100 scores of each of Egypt and the KSA who rank 90th worldwide on this dimension. This is mostly attributed to Lebanon's high score (6 out of 8) on the "depth of credit information index". This last is a measure of the availability and quality of all the information available and distributed for the borrowers and lenders involved in securing credit for the new firm. As such, the higher credit information index in Lebanon facilitates lending decisions of the concerned parties which explains its slight superiority in the region.

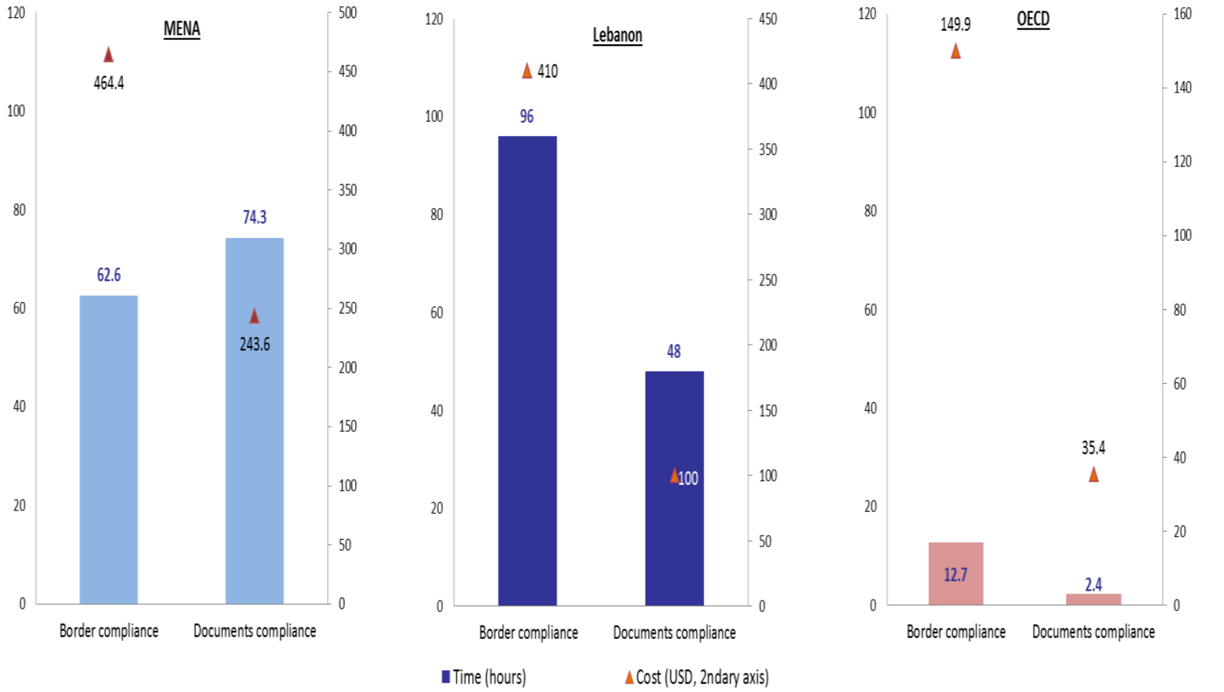
"Protecting minority investors" in a country like Lebanon remains a huge challenge. This sub-indicator measures the extent of protecting shareholders from all forms of abuse that could be conducted by the directors for personal gains, like misusing the business assets or violating corporate governance and single-handedly taking decisions. Lebanon ranking 138th of 190 with a score of 42/100 falls behind most Arab economies in the sample. Its low score is below the MENA average score, while the KSA (as well as Turkey and the UAE) scores a 75/100, while Egypt and Syria score 55 and 53, respectively. Jordan in its turn scores a low of 40/100.

"Paying taxes" is a prime concern for new businesses in Lebanon, given that complicated schemes (tax rules and tax administration) and non-transparent payment systems could become

burdens. Lebanon's "paying taxes" dimension was facilitated in 2016 compared to today, given it ranked 66th of 190 worldwide compared to 113th today. In summary, an entrepreneur in Lebanon is expected to settle 20 tax payments per year and these necessitate 181 hours per year, albeit constituting 30% of its total profits. In contrast, the MENA's tax bracket entails less payments (18 per year) but they demand 203 hours a year and contribution totals 33% of profit. As for the OECD tax dimension on new businesses, it demands 11 payments a year over 161 hours spent on those, and totaling 40% of total profits.

Lebanon ranks well above the regional MENA average on the "ease of trading across borders", even though it lost 8 ranks in the past three years. In a globalized world, trading cross-border is key for businesses that aim to expand and run sustainably on the long term. Therefore, very demanding paperwork, vague custom-dealing, and inefficiencies in port operations can be burdensome to traders, given they'd also hamper the trade potential. Unfortunately, Lebanon had ranked 132nd of 190 in 2016, but it stands today 140th, taking into account the time, costs, and a number of procedures attached to the logistics of importing & exporting goods in Lebanon, as demonstrated below.

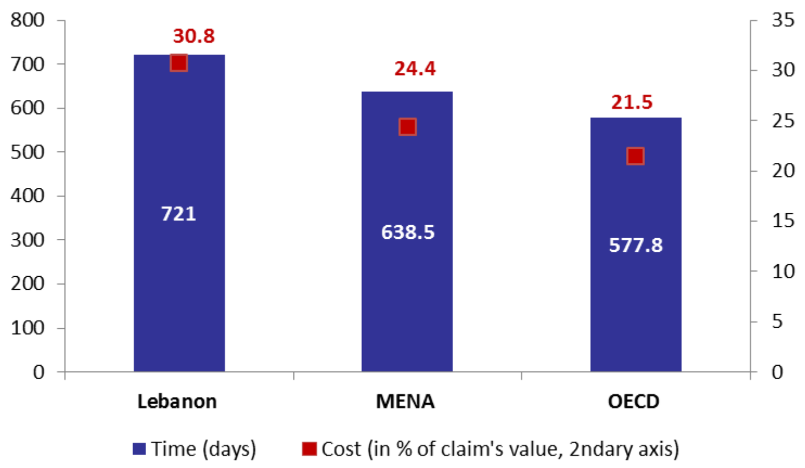
Benchmarking Lebanon's "Ease of Trading across Borders"



Source: BLOMInvest Bank; Doing Business-World Bank Group 2018

On another note, resolving a commercial dispute to ensure the "enforcement of contracts" in Lebanon is lengthy and expensive, which drives new businesses away. An efficient judicial system interprets the market rules and protects the economic rights of entrepreneurs, which in turn nurtures and enhances new business relations as owner of the businesses feel supported and protected. Resolving a commercial dispute through court in Lebanon is a lengthy, complicated, and inefficient process when compared to the MENA and the OECD.

Ease of "Enforcing Contracts" in Lebanon



Overall, Lebanon fell to rank 134 of 190 from rank 127 in 2016 and 2017 according to the World Bank Doing Business report 2018. This is best justified by the weak "quality of the judicial processes index[1]" measured, which scores 6 out of 18 in Lebanon and 5.9/18 in the MENA, while it rises to highs of 11/18 in the OECD.

Last but not least, "resolving insolvency" in Lebanon lags behind and renders "closing the business" quite cumbersome. Basically, it takes a firm in Lebanon 3 years to recover the debt at a cost of 15% of the estate, while it would take a business in the OECD 1.7 years for debt recovery at a cost of 9% of the estate. As such, it is important to note that robust, fast, and cheap insolvency procedures can preserve the survival of economically-efficient firms and reallocates the resources of less efficient ones; however, Lebanon stands at 147 of 190 economies on the ease of resolving insolvency. In addition, closing the business in Lebanon is complicated, very costly, and requires lots of documentation from the National Security, the MoF, and multiple parties. Therefore, most companies end up filing for "ceasing of operations" with the MoF without reaching a final closure verdict and thus become "dormant".

Ways Forward

[1] The quality of judicial processes index measures the extent to which the economy has adopted a set of good practices in its court proceedings, case management, court automation, and alternative dispute resolution as per the WB.

In summary, Lebanon ranked poorly on both the regional and national levels when measured by the World Bank Group's barometer: the "ease of doing business"; yet, becoming a hub for entrepreneurs can help lift the economy. The presented rankings and scores already show Lebanon has large room for improvement on multiple facilities for new businesses. If Lebanon begins to gradually introduce and implement reforms that can support and attract local startups, it can lure entrepreneurs into the country at a time when economic growth is stifling and key growth drivers stagnating. Under the adequate framework, an improved business environment can create a level playing field for citizens and key economic players to involve both, the national private sector and non-resident investor-entrepreneurs. By creating a transparent business and regulatory environment to these stakeholders, the government can spur multi-faceted growth and/or guarantee the sustainability of their countries' economic models, and thus their thriving.

It seems that successive governments were not keen on putting active plans to invigorate the subdued business climate in the last two decades. The country's appetite to actively nurture new investing ideas or involve national and non-national entrepreneurs in the local market may be inferred by reviewing the number of reforms introduced in the past 10 years to improve the business environment. Since 2008, it seems the UAE has been the pioneer in attracting new businesses as it has worked on introducing reforms on multiple fronts, followed by the KSA who in turn has made big progress on slowly but steadily boosting its ease of doing business. In contrast, Lebanon has been almost passive on the reform dimension. Actually, in 2011 it increased the cost of starting a business and in 2016 it complicated and prolonged the process of registering property. However, it has not made any major progress on reforms since it enhanced credit information sharing and simplified tax payments in 2011 and reduced some of the fees to obtain electricity in 2012.

On the legal aspect, the code of commerce must be revamped and 'refurbished' to match the business needs of the 21st century. Lebanese policy-makers would greatly benefit from reviewing the experience of neighboring economies who have significantly improved their "doing business" indicators, namely, the UAE, Egypt, KSA among others. A next step for Lebanon would be revisiting the outdated code of commerce. For instance, the current code of commerce lacks a bankruptcy law similar to the USA's chapter 11 and has no law to protect minority shareholders- both of which are key to improve Lebanon's rankings and scores in the ease of doing business. In fact, some of the laws entailing modernized amendments to the code are already approved but lack implementation decrees, while other laws have implementation decrees but these last are not enforced.

In addition, introducing modern day e-transactions and bundling multiple procedures together can prove practical and less cumbersome to entrepreneurs. Doing so may even encourage new businesses to register their firms instead of operating in the "informal" environment. Reducing bureaucracy, unnecessary paperwork, and bundling multiple procedures together and/or referring them to a unified, designated public entity would largely attract new businesses into a country in need of capital, of job opportunities for its qualified youth, and higher revenues to help tie down the chronic fiscal deficit.

Developing Lebanon's capital markets can boost the national and regional business environment. Almost 95% of enterprises in Lebanon are small-to-medium-sized family businesses. These operate via a culture of family business which indirectly encourages less transparency in business accounting and less "openness" of the books for market scrutiny. However, such firms can be encouraged to go public with the right incentives, to become active contributors in improving the business environment. Moreover, the family members running those SMEs can easily secure credit to finance their operations from commercial banks which keeps them resistant to change and thus uninterested in listing stocks to raise capital.

Lebanon has the potential to be the central player in the regional financial industry. The financial sector in Lebanon has remained solid throughout years, which makes it a perfect candidate to encourage active capital markets. For instance, privatizing the Beirut Stock Exchange (BSE) can immensely boost the business climate not only in Lebanon, but also in the region. Yet, most businesses in Lebanon end up adopting a short-sighted attitude in "doing business" via short-term financing which in turn does not encourage existing or new companies to join the national market. Against this backdrop, privatizing BSE has the potential to drive Lebanon back to being a key player in the regional financial industry. Moreover, creating the needed independent authority to manage BSE and incentivize firms to go public can underpin greater transparency and credibility in the market making the business environment more attractive for new businesses or expansion of existing ones.

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