



2022 THE ROAD TO RECOVERY



2022

The Road to Recovery

How the industrial sector can save Lebanon

Chairman Note

Lebanon has been navigating one of the worst socio-economic crises in the world and a proper assessment of what took us down this path is crucial to formulate a strategy that will lead us back to prosperity and growth

Decades of economic mismanagement, political instability and a lack of vision has taken its toll on the country.

The unmanageable trade and state deficits have resulted in a chronic balance of payment problem. Meanwhile the central bank continued implementing a currency peg of the Lebanese Lira to the US Dollar, in an apparent effort to keep a semblance of stability.

The result of these policies has been an indirect subsidy of imports, an increase of interest rates and a crowding out of the private sector.

Cost of production was driven to unsustainable levels which, in turn, resulted in more imports, exacerbating the trade imbalance.

Subsequent governments and the central bank were basically burning through deposits to sustain a deeply flawed system.

The association has long been lobbying and fighting for the adoption of a more balanced economic model, centered around the productive sectors.

It has released a multitude of position papers and communicated them to all the echelons of government hoping for a change of course before reaching the point of collapse we have dreaded.

It is now clear to all, that our approach was not that of a sector looking to increase its profits but rather one that was meant to grow the whole economy, improving every sector in the process.

While we acknowledge the depth of the economic and financial crisis, we also believe we can turn it around.

Lebanon can recover, Lebanon will recover.

Throughout this document, we have tackled the necessary policy reforms to take the country out of its vicious spiral and unto a virtuous cycle.

If we implement them swiftly and decisively, the manufacturing sector will rapidly expand, generating GDP growth and creating thousands of jobs in the process.

The only way to solve the currency conundrum is by addressing the large trade deficit. We believe that a strong, resurgent sector will be able to exponentially increase its exports while offsetting some of the imports by producing them locally.

Lebanon has a limitless manufacturing potential; these policy proposals will unleash it. The private sector, with the industrialists at its forefront, is the only one capable of rebuilding an economy that grows continuously and fairly. An economy that leverages the incredible energy of our youth and their entrepreneurial spirit.

Salim Zeenni
Chairman of the Board



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Executive Summary

How the industrial sector can save Lebanon

The postwar economic and political reconstruction was based on a fiscal and monetary policy mix that enriched a rentier economy¹ while neglecting the productive sectors. The post war reconstruction demands required significant public sector expenditures in infrastructure projects. The increased spending partnered with corruption resulted in public sector deficit financing which was supported by a finance-based Banque du Liban (BdL) monetary policy determined at maintaining foreign exchange stability through a dollar-pegged system, which was more or less controlled by inflation. Additionally, the system was fueled by a constant inflow of foreign capital into the country. The results of policies past were an increasing loss of competitiveness of the exporters sector of the Lebanese economy. The expansionary fiscal and monetary policies implied high real interest rates and high real exchange rates because of an ever-increasing public sector deficit funded by the Banque du Liban (BdL) regular purchases of Government Bonds at increasing real interest rates. The inflow of foreign capital allowed the central bank to maintain a fixed nominal exchange rate regime over the years; however, this all changed in the past year. The large size of fiscal deficits and the growing amount of funding requirements “crowded out” the private productive sector that was unable to afford competing for credit at high real interest rates and an overvalued real exchange rate. Local industry was placed at a disadvantage as a result of the artificial overvaluation of the Lebanese pound, making local production more expensive and imported goods seem cheaper.²

¹ ‘Rents’ as defined by Adam Smith, are based on the ownership of land or resources, and unlike wages do not require to be labored for. A rentier economy relies on the regular supply of a large amount of external rents, which are in turn defined as rental paid by foreign individuals, concerns or governments to individuals, concerns or governments in a certain country.

The Central Bank of Lebanon set high interest rates which hampered investment in all productive sectors except real-estate and banks assets such as deposits, favoring rent-seeking activities over productive investments.

According to McKinsey, Lebanon attracted over USD90 billion between 2005 and 2015, 70% of which (USD72 billion) was used to purchase real estate and imported goods. Around USD22 billion were deposited in banks at high interest rates that ultimately was invested in Government Bonds aimed at financing public sector deficits.

² Government of Lebanon Economic Plan.

³ A Eurobond is a debt instrument that is denominated in a currency different to the home currency of a country or market in which it is issued.

⁴ Lebanon Economic Monitor.

Over the past year, Lebanon’s macro-economy has been bombarded with several crises, from the financial and economic crisis, followed by COVID-19 and lastly the explosion at the Port of Beirut. The economic crisis has by far been the most persistent and most damaging to the economy, with exchange market pressures stifling trade and corporate finances in the highly dollarized economy. This has restricted the importation of capital and final goods, and prompted disruptions across the supply chain. A multiple exchange rate system that has discounted the Lebanese Lira by as much as 80 percent reigns as a result of foreign exchange shortages, Eurobond³ default that took place in March 2020 prevents access to international markets for foreign financing, all the while the local banking system is paralyzed and marred. Real GDP growth is expected to shrink to -19.2 percent in 2020, after a -6.7 percent contraction in 2019. Additionally, COVID-19 has impaired the tourism sector, with tourist arrivals falling by 71.5 percent, year-on-year, over the first half of 2020. The BLOM-PMI index, which captures private sector activity, averaged 40.4 over January-September 2020 (<50 represents a contraction in activity), the lowest recorded. At the same time during the first half of 2020, construction permits and cement deliveries, indicators of construction activities, suffered a contraction of 60 and 52 percent respectively.⁴



Executive Summary

The Road to Recovery

With that being said, Lebanon desperately needs and aspires to shift the economy to a productive, innovative and competitive economy, as opposed to its previous rentier one. In order to do so, a focus on the comparative advantage approach and knowledge based industrial activities is needed. This approach requires a collaboration between the government and the private sector, whereby government policies can aid this transformation and the pioneering private sector can propel it forward. This is a crucial development that needs to happen in order to achieve sustainable, diverse and inclusive economic growth in a fair and just manner, in order for the Lebanese citizen to enjoy adequate living standards and fulfil their aspirations in their home country. Such growth should come mainly from productive sectors with knowledge-based activity and innovation being projected to be the main engine for growth around the world.

The Association of Lebanese Industrialists (ALI) presents this comprehensive reform agenda aimed at helping transform the Lebanese economy and aid in resolving the economic crisis. The agenda tackles 10 fields: Fiscal Policy, Access to Finance, Monetary Policy, Infrastructure Development, Human Resource Development, Legal Issues, Customs Policy, Boosting Exports, E-government, and Industry 4.0. The agenda highlights the issues that the industrial sector is facing within each field, along with short term and long term priorities and recommendations. The purpose of the reform agenda is to set the stage for a fairer, more efficient and robust economy that prioritizes its productive sectors, and the industrial sector in particular. This policy reform agenda is meant to propel an open discussion between government officials and the industrial sector in order to enrich collaboration and enforce the industrial sector's position.



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FISCAL POLICY



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Fiscal Policy

How the industrial sector can save Lebanon

BACKGROUND

Lebanon has endured a series of crises in the past year, namely, the economic crisis, COVID-19, and the Port of Beirut (PoB) explosion, all which have impacted economic activity in different magnitudes. The crises have further deteriorated Lebanon's already perilous fiscal positions, with revenues expected to decline severely as both tax and non-tax revenues plummet in absolute value as a result of the sharp contraction in economic activity. Total revenues in 2020 are projected to decrease to reach 11.5% of GDP, as compared to an average of 20.7% from 2013-2018, whereas total spending is expected to decline to reach around 17.3% of GDP, due to the decline in primary expenditures and lower interest payments on debt.⁵ In the first 6 months of 2020, total revenues declined by 19.8% year-on-year (yoy), driven by 49.8, 44.4, and 32.4 percent yoy decreases in VAT, telecoms and customs revenues, respectively.⁶ Total expenditures over 6M-2020 have decreased by 16.2%, which is largely due to cuts in interest payments on debt, with an 87.6% yoy reduction in interest payments on foreign debt in the same period. This resulted from the decision to default on Eurobonds⁷ in early March 2020, while interest payments on domestic debt decreased by 26.1%. However, primary spending remained largely unchanged in nominal terms (with a slight decrease in real terms as inflation spiked). The economic crisis has caused an acute deterioration in Lebanon's public debt ratio, which has been on an unsustainable path for a long time. By the end of 2020, the debt-to-GDP ratio is projected to reach 194%, as opposed to 171% at the end of 2019.⁸

The Lebanese economy and its public finances have had to pay a high cost for the fiscal policies adopted in the past two decades that focused primarily on maintaining currency stability without taking into consideration the ever increasing twin deficits and the overvalued exchange rate. Commercial banks' benefited the most from this form of rentier economy, where a rentier income is defined as commercial banks' profits as a result of normal banking operations and also from holding financial assets with very high yields. The Banque du Liban (BdL) fed this rentier income by raising real interest rates and lowering domestic inflation. Expansionary fiscal policy raised the rates and increase the amount of interest payments from the government to the rentiers. High interest rates hampered investments in all productive sectors, except real estate and banks assets such as deposits, favoring rent-seeking activities over productive activities.⁹ About 36% of government expenditures pay services, 58% pay salaries and only 7% goes to urgently needed capital investment.¹⁰ It is crucial to embark on a credible fiscal reform to improve the budgetary situation but also the external position. Public spending which is currently inefficient and wasteful needs to be transformed. The electricity sector makes up one third of the total public debt, 50% of GDP, and needs to be reformed. Additionally, a wholesale governance and regulatory reform program is needed to curb the rent seeking culture, and increase spending on infrastructure, as well as a broad revenue reform that should focus not on raising taxes but rather on proper tax collection.

⁵ Overall the fiscal balance in 2020 is expected to improve to reach -5.9% of GDP, whereas the primary balance is expected to deteriorate to -3.6% of GDP compared to an average of 0.7 from 2013-2018.

⁶ Income tax and VAT are the two largest revenue sources for the Government, followed by transfers from telecoms and taxes on international trade.

⁷ A Eurobond is a debt instrument that is denominated in a currency different to the home currency of a country or market in which it is issued.

⁸ Lebanon Economic Monitor

⁹ The McKinsey report stated that Lebanon attracted US \$90 billion from 2005 to 2015; US \$72 billion of which was used to buy real estate and imported goods, while US \$22 billion were deposited in banks at high interest rates that ultimately were invested in Government Bonds aimed at financing public sector deficits.

¹⁰ Government of Lebanon Economic Plan



KEY OBSTACLES

- Reduce the budget deficit and the over indebtedness of the government, with Lebanon's debt projected to increase, with a likely primary balance of -3.6% of GDP in 2020.
- Reform the public pension scheme for civil servants, which amounted to 3.9% of GDP in 2018, while only benefiting 10% of the Labor force.¹¹
- Reduce the amount of public sector workers
- Reform the electricity sector which makes up 11% of public expenditure and is a huge burden on the budget.
- Create fiscal space to boost the economy through investment in productive sectors.
- Improve tax collection and to optimize the tax revenues.

SHORT TERM RECOMMENDATIONS

- Preparing the budget on time in order to redefine government expenditure priorities based on measurable economic and social returns.
- Introducing measures to boost direct and indirect tax compliance and revamping Lebanon's tax structure, including income tax unification and raising VAT.
- Putting the electricity sector reform into action in order to gradually eliminate its fiscal deficit and encourage the disperse of donor funds pledged in the 2018 CEDRE conference.
- Reforming and optimizing the pension scheme of civil servants, including the army, to cover more of the private sector by passing the Pension Law for the private sector; conducting an audit of the National Social Security Fund (NSSF) and initiate a financial and governance reform of the NSSF; abolishing the early retirement scheme; and revising the military retirement rules.
- Adopting a debt restructuring program towards achieving debt sustainability in the medium to long term.
- Restructuring the financial sector towards restoring solvency of the banking sector and making it robust and in service of the Lebanese economy.

LONG TERM RECOMMENDATIONS

- Developing a comprehensive infrastructure investment finance policy spanning public and public private partnership (PPP).
- Implementing a full-fledged tax reform that aims at boosting the public sector and reducing social inequalities by enhancing progressivity in personal income tax; adopting measures to increase tax simplicity such as online tax filing and compliance requirements; simplifying VAT collection and expedite refunds; providing tax exemptions for start-ups and SMEs.

¹¹ "The majority of pension costs are financed through the budget and the pensions deficit exceeds 3 percent of GDP. On the other hand, coverage among the private sector does not exceed 20 percent of the employed. In short, Lebanon's current pension system serves few of the country's citizens, crowds out other social programs, and adds to budget deficit" Lebanon Economic Monitor



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**ACCESS
TO
FINANCE**



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Access to Finance

How the industrial sector can save Lebanon

BACKGROUND

The impact of the economic crisis on the real economy is alarming. The shortage in dollars and the paralysis of the banking sector is expected to result in a 13.8% GDP contraction in 2020, following a 6.9% decline in 2019, in addition to higher levels of unemployment and poverty. The Lebanese pound's recent free fall has reduced citizens' purchasing power, with inflation forecasts expected to reach 53% in 2020, compared to a previous estimate of 25% back in April of 2020.¹² These developments have held serious consequences for Lebanon as a potential destination for highly desired foreign investment, and much depends on Lebanon's ability to apply economic and governance reforms in order to implement the potential IMF program.¹³

Ramifications of bad lending practices by the banking sector were apparent before the Oct 2019 uprising, and the circumstances that followed seriously impaired access to finance in the whole country. Real sales had dropped by 11.1% annually in the past three years and total employment dropped by 3.6% annually. Additionally, dollar shortages in the market had begun in September 2019, with consecutive protests from gas stations due to their inability to purchase fuel at official rates. According to the WBES, 47.8% of firms identified access to finance as a major constraint to their business operation prior to October 2019. The economy plunged into a financial crisis brought about by the sudden stop of capital inflows, which precipitated systematic failures across banking, debt and the exchange rate. Disruption all along the supply chain occurred as a result of exchange market pressures. Trade and corporate finance in the highly dollarized economy were stifled, imports were constrained and the shortage of foreign exchange (FX) created a multiple exchange system that has discounted the Lebanese Lira (LL) by as much as 80 percent. According to the World Bank Enterprise Survey (WBES), 47.8% of firms stated that their business operation was being limited by inability to access finance. Lending to the private sector has stopped pending legislative reforms for credit infrastructure, and the absence of a secured transactions framework limits the scope of assets that businesses can take a collateral. In the absence of credit, secured transaction reform will have minimal impact; however, allowing movable asset-based lending is integral once the banking sector is properly functioning. Financing has long been dominated by the banking sector; however, given the current circumstances in the country whereby banks have become nearly paralyzed, alternative means of financing are emerging such as: peer-to-peer lending, crowdfunding, direct capital markets particularly for small and medium enterprises (SMEs) and Mid-Caps, and so it is necessary to create the appropriate legislative and regulatory environment to support these new financing instruments. To further develop alternative sources of finance, Lebanon needs to establish National Credit Bureaus and Rating Agencies, or persuade such international agencies to launch in Lebanon.¹⁴

¹² THE LEBANESE GOVERNMENT'S FINANCIAL RECOVERY PLAN

¹³ IMF programs are numerous; however, the IMF would most probably not be able to provide by itself the sufficient resources to cover all external financing figures Lebanon needs for the next five years, it will unlock other sizable pockets of available funds from multilateral or bilateral partners that would be conditioned to the successful implementation of the IMF program.

¹⁴ Government of Lebanon Economic Plan

¹⁵ According to the World Bank "Lebanon Economic Monitor", total private sector deposits in commercial banks decreased by 10.2%, amounting to US \$17.2 billion at official exchange rate, over an 8 months period in 2020, with different dynamics driving Lebanese Lira (LL) and dollar deposits. LL declined by 25.6% over the 8-month period due to (i) demand for cash as the economy became heavily cash based in LL; and (ii) conversions to dollars as highlighted by an increasing dollarization rate, which by August 2020 reached 81% compared to 77.3% by end of 2019. Private dollar deposits declined by only 5.7% over the 8M-2020. Hence, the higher dollarization was more than offset by a combination of outflows, dollar bank note hoarding and, importantly, the settlement of outstanding private sector loans in dollars.

¹⁶ Funds and SPV constituted of dollars in banks leveraged by fresh capital.

¹⁷ The 'Oxygen Fund' is a facility in collaboration with BdL that covers USD 100 million worth of imports of raw materials whereby importers obtain 15 percent of their foreign currency needs from parallel markets while 85 percent of their FX needs can be exchanged at the official exchange rate.

¹⁸ Their primary role will be to finance the working capital in fresh currency. These loans operate at market rate (currency) and with low interest rates. This reduces exposure of local banks and reduces the need for the central bank to provide dollars because the dollars will be flowing directly to these specialized banks from outside. This is a conditional solution because this requires an availability of dollars in a local market to be able to repay the loans. This is where the de-pegging policy is important.

¹⁹ Refer to the "Fiscal Policy" and the "Legal Framework" sections for further information.

Additionally, structural challenges such as the macroeconomic environment and its impact on investors' confidence has limited the role of capital markets, which could potentially have a vital role in financing key strategic sectors such as infrastructure and SMEs financing. Hence, in the long term, it is important for authorities to commit to establishing a supportive environment for capital market development. It is crucial then for the country to implement necessary reforms, attract foreign capital, stabilize the exchange rate, and recapitalize its financial sector, in order to resolve the following issues.

KEY OBSTACLES

- Lack of dollar liquidity in the market thereby increasing cost of production.¹⁵
- Unavailability of bank credit to finance new industrial projects and drastically limiting the activity turnover.
- De facto capital controls preventing industrialists from accessing their funds to transform them into productive funds.

SHORT TERM RECOMMENDATIONS

- Releasing the industrialists' funds through ad hoc vehicles¹⁶ from the banks to be able to invest them in industrial projects and turn them into productive funds.
- Maintaining the production potential of the industrial sector by utilizing the 'Oxygen Fund'¹⁷ created for the imports of raw material.

LONG TERM RECOMMENDATIONS

- Establishing specialized financial institution¹⁸ in the industrial (and other productive) sector with direct participation from the central bank which will allow for funds to flow into the country and go directly to the industrial sector, without having to go through commercial banks.
- Prioritizing the implementation of a capital market development strategy due to their potential role in ensuring access to finance post-crisis.
- Reforming the legal and fiscal environment in Lebanon and developing a modernized infrastructure environment to attract foreign investors and rebuild their confidence in Lebanon.¹⁹



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MONETARY POLICY



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Monetary Policy

How the industrial sector can save Lebanon

BACKGROUND

Monetary policy in Lebanon over the years adopted two complementary roles, the first being exchange rate targeting, and the second being implementing appealing interest rates to attract foreign financial inflows.²⁰ Over the past year, the sudden stop in inflows that primarily served to finance large current account deficits now exert heavy pressure on Lebanon's Central Bank's (Banque du Liban "BDL") Foreign Exchange (FX) reserves and consequentially prompted the depreciation of the Lebanese pound. The peg to the U.S Dollar resulted in an artificial overvaluation of the Lebanese Pound (Lbp), which in turn increased the production costs and decreased the apparent cost of imported goods.

The policy of ever-increasing interest rates to attract foreign currency deposits, created a financial crowding out of the Industrial sector. No manufacturing facility could compete for credit at the rates that were reached.²¹ Today, industrialists and small enterprises suffer from the impact of devaluation through capital controls, frozen accounts and inflation. As of September 2020, the Lebanese pound lost around 80 percent of its previous market exchange value to the dollar. The purchase of foreign currency and capital transfers, as well as withdrawals in dollars and even L.L have become severely restricted, and in some cases, unattainable. Pre-crisis dollar deposits can only be withdrawn in L.L at the e-board rate²² and in limited quantities, or transferred within the domestic banking system. As for the dollar banknote and "fresh-dollar" deposits, they are mostly traded in the black market and businesses need to access this dollar in order to import their raw materials. Limited economic utility for the electronic dollar, the scarcity of the dollar banknotes, and little motivation to save in L.L all rendered the economy heavily cash-based in local currency. As a result, around \$170 billion in total private deposits have been affected, more than three times the GDP of the country prior to the crisis, and of which three quarters were in foreign currencies.²³ Consequentially, the industrial sector in Lebanon has been directly impacted by the situation.

KEY OBSTACLES

- De facto capital controls imposed by the banks are exacerbating the scarcity of FX, and driving the parallel rates to new highs, hindering the productive sectors' ability to produce.
- Lebanon's economy is moving towards a 'cash business' due to the non-functioning financial sector, which in turn is driving consumption rates down 50%, reflecting badly on production capacity, GDP and exports.
- The financial engineering adopted by the Central Bank aimed at saving the banking sector did not take into consideration the impact it has had on the industrial sector, which is at the heart of the productive economy.

²⁰ Monetary Policy and Economic Growth in Lebanon

²¹ THE LEBANESE GOVERNMENT'S REFORM PROGRAM

²² \$=3900 for importing critical goods identified in the list of foreign exchange backed items published by the Ministry of Economy and Trade (MoET).

²³ LEBANON'S FINANCIAL COLLAPSE: A POST-MORTEM



SHORT TERM RECOMMENDATIONS

- Adopting a unified exchange rate and put an end to the multiple exchange rates that are hindering the production process.
- Implementing a crawling peg of the (LBP) to the US Dollar, which reflects the real dynamics of the market without introducing too much volatility.
- Restricting the role of the central bank when it comes to conducting monetary policy focused on protecting purchasing power.

LONG TERM RECOMMENDATIONS

- Establishing a monetary policy that supports a productive economy and not a rentier economy, this imperatively means removing the high interest rates set in the past in order to attract capital.
- Having an independent central bank focused on its role in controlling inflation and protecting the Lebanese consumer's purchasing power by strictly applying the Law of Money and Credit 13513.

²⁴ The postwar public borrowing initially drew almost exclusively on the domestic market in the form of government bonds issued in Lebanese pounds. Public debt as a percentage of GDP grew from about 50% in 2010 to an unsustainable 150% in 2019. The high interest rate on the debt was denominated in Lebanese pounds. These factors skewed the distribution of income and resulted in the flourishing of one economic sector above all others: commercial banking. The high interest rate on debt fueled the accumulation of rents in the hands of a few banks at the cost of the other sectors.



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**ENABLING
INDUSTRY
THROUGH
ADEQUATE
INFRASTRUCTURE**

Association of Lebanese Industrialists



2022

Infrastructure development

How the industrial sector can save Lebanon

BACKGROUND

Increased infrastructure spending by the government in general results in higher economic output in the short term by stimulating demand, and increases overall productivity in the long term.²⁵ Lebanon's infrastructure is a key enabler that can either facilitate or hinder economic growth. Today, rather than being an effective tool that can boost exports and enable businesses to prosper, it actually acts as an impediment for industrial development and reduces productivity. The quality of Lebanon's infrastructure is ranked 130th out of 137 countries, making it amongst the poorest in the world. The country's debt burden, along with the absence of official budgets from 2005 to 2016, resulted in sharp decline in public spending on infrastructure, an average of 1.5% of GDP since 2000. Electricity was marked as the second biggest obstacle to invest in Lebanon in 2016.²⁶ The poor quality power supply can be attributed to the gradual decline of the industrial sector's productivity, along with transportation costs and inadequate road maintenance, amongst other factors.²⁷ It is necessary then to invest in infrastructure projects that will provide highly needed, cost-effective, good quality infrastructure to industrialists in order to help Lebanon overcome its current crisis.²⁸ The industrial sector should be given priority in this aspect and there needs to be a decoupling of industry from the rest of the country's infrastructure, by focusing on developing existing Industrial Zones. Industrial parks, special economic zones, technology parks and other economic zones have been promoted around the world as keystone strategies for economic development, for they pave the way for increased investment and competitiveness of the industrial sector.²⁹ The first Industrial city of Abu Dhabi has attracted \$1.6 billion in industrial investment.³⁰ An investment in these zones will allow for increased exports and greater foreign direct investment (FDI) in Lebanon, easing the burden of the current crisis. To promote industry in Lebanon today, the hindrances it faces from improper infrastructure need to be addressed and resolved.

²⁵ Economic Impact of Infrastructure Investment

²⁶ Background Note Country case studies: Building economic resilience in Lebanon and Libya

²⁷ Strategic Assessment: A Capital Investment Plan for Lebanon

²⁸ An International Infrastructure Investment Conference held in Paris in 2018 titled 'CEDRE' included several countries pledging US Dollar \$10.2 billion in conditional loans and US Dollar \$860 million in grants. These conditional funds were meant to be invested in 250 infrastructure development projects in order to support the Lebanese economy.

²⁹ ECONOMIC ZONES IN THE ASEAN

³⁰ Industrial Zones Offer Range of Competitive Advantages

³¹ The cost of filters is an impediment and this issue can be solved by industrial zones.

KEY OBSTACLES

³² A carbon offset fund's purpose is funding projects that seek to reduce carbon emission. This policy recommendation was used in the "London Plan" as part of the Mayor of London's ambition to make London a zero carbon city by the year 2050.

³³ There are no fixed stops and bus shelters in the country, information/schedules are difficult to find, coverage is limited, and the bus travel times are much longer than the car travel time as buses have no dedicated lanes and therefore compete with private vehicles on very congested roads

³⁴ Strategic Assessment: A Capital Investment Plan for Lebanon

³⁵ For example, the Tripoli Special Economic Zone (TSEZ) received several fiscal incentives that included: (i) 100 percent customs exemption on imported raw material; (ii) duty free export of finished goods; (iii) duty free import of construction material, equipment, office machinery and spare parts; (iv) 100 percent exemption on VAT and excise tax for goods and services destined for exports; (v) 100 percent exemption on corporate profit tax (provided that not less than 50 percent of the workforce is Lebanese and the value of fixed assets or capital is greater than USD 300,000); (vi) 100 percent exemption on withheld tax on salaries for employees of tenants and on social security contributions; (vii) 10 percent exemption on building permit fees and built property tax; and (viii) 100 percent exemptions on shares and bonds issued by companies within TSEZ.

³⁶ Modernizing the grid can provide greater quantities of zero-to-low-carbon electricity reliably and securely, including handling variable renewables like solar and wind power. It can also increase grid resilience to withstand climate impacts and can spread economic opportunity in total and urban communities through electricity and transportation infrastructure investment and upgrades. It also reduces cost by relying less on expensive and polluting power plants.

³⁷ This program will allow the SEZs operators to enjoy rapid and simplified customs procedures, with on-site customs officials inside each zone.

³⁸ RAMS is a planning tool that has a database, which stores and presents road data information, planning short and long term road maintenance. This system is also used to create budgets to maximize economic returns of the investments made on transportation infrastructure.

- Lack of stable energy sources for industries that distorts the industrial sector's production capacity.
- High cost of transportation of cargo from factories to ports in Lebanon.
- High cost of land discouraging investment.
- No access to water treatment facilities.
- High cost of environmental mitigation processes.³¹
- High upfront cost of providing labor housing.

SHORT TERM RECOMMENDATIONS

- Providing free of charge energy audits to industries to help them optimize their energy consumption.
- Implementing the "concentrated energy offsetting fund".³²
- Install large generators in current industrial areas to provide backup power.
- Developing a national transport sector strategy master plan that covers all modes of transport (ports, airports, roads, railways public transport); should prioritize investments within the sector as well as key policy actions; and should become a roadmap for consecutive ministers to implement.
- Adjusting policies on parking, public transport and other related regulations to optimize the transportation system in Lebanon.³³
- Introducing private sector financing modalities that will allow investment in public transport operations.

LONG TERM RECOMMENDATIONS

- Creating full-fledged multi-purpose Industrial Zones that are well equipped, well wired, and at close proximity to ports.³⁴
- Providing companies with fiscal incentives to encourage them to invest in these industrial zones.³⁵
- Offering long term loans at low rates to invest the renewal of equipment and the reduction of energy consumptions, as well as invest in renewable energy solutions.
- Investing in specialized high-tech Industrial incubators that do not require a lot of energy or transportation costs and serve to promote industrial start-ups.
- Opening the electricity sector to competition through public private partnership (PPP) and modernizing the grid.
- Paving the way for a smart and clean grid solutions by modernizing the grid.³⁶
- Developing a railway rehabilitation plan.
- Implementing a Customs and Special Economic Zones Modernization program.³⁷
- Adopting a transparent Road Asset Management System (RAMS)³⁸ and road safety strategy.



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AGENDA FOR WORKFORCE DEVELOPMENT

Association of Lebanese Industrialists



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Human Resource Development

How the industrial sector can save Lebanon

BACKGROUND

In highly industrialized countries, such as Germany and Switzerland which are at the forefront of technological development, the majority of students graduate from vocational training schools. In Lebanon, there are 162 public and 398 private vocational and technical schools, with around 83,168 students registered in these schools in 2016-2017.³⁹ Instead of technical and vocational education and training (TVET) being perceived as an alternative means to a successful career, Lebanese society often associated TVET with academic failure. There is a misconception that TVET-level jobs lead to low wages, poor working conditions and minimal career prospects, discouraging the enrollment of students in TVET schools at the secondary and post-secondary level. In 2015, only 26 percent of students were enrolled in TVET at the secondary level, whereas in countries like Austria, Germany and Poland, vocational upper secondary degrees are viewed as the highest educational level one can achieve. Amongst the Organization for Economic Co-operation and Development (OECD) countries, at least a third of the population graduates in TVET fields.⁴⁰ However, in Lebanon the majority of students graduate from academic fields.

The problem this creates is a total disconnect between the industrial world and the academic world, whereby any research and development projects are at best loosely connected to the actual industrial manufacturing needs. In order to alter these inconsistencies in the Lebanese market, there needs to be a total revamping in the vocational training program in Lebanon by implementing a hybrid system which practically trains students in parallel to their academic studies by collaborating with the industrial sector with a clear predetermined base scale⁴¹ to prevent abuses. To address the negative view of TVET in the Lebanese society, and to discourage drop-outs as a result of the worsening economic situation, the Ministry of Higher Education (MEHE) in collaboration with the Association of Lebanese Industrialists (ALI) should implement a private sector driven approach to this hybrid system. The MEHE should develop and apply criteria for selecting companies that will implement an apprenticeship system⁴²; strengthen its relationship with companies in order to plan, implement and evaluate apprentices; and most importantly, set the regulations that include the working hours, studying hours, and the wage required in order to prevent any form of abuse. Providing a working wage to apprentices will surely encourage them to continue their education, and will allow them to revisit the societal misconception that the pursuit of a TVET education means the lack of job opportunities. The base scale helps solve societal misconceptions at the sectoral level. Vocational pathways, in particular a dual apprenticeship system in countries mentioned above such as Switzerland, Germany, Austria and Denmark for example have long-established a route between employers and students as a means to ensure future skilled employees.⁴³ And so, this hybrid system would help solve the following issues.⁴⁴

³⁹ NATIONAL STRATEGIC FRAMEWORK FOR TECHNICAL VOCATIONAL EDUCATION AND TRAINING IN LEBANON 2018–2022

⁴⁰ NATIONAL STRATEGIC FRAMEWORK FOR TECHNICAL VOCATIONAL EDUCATION AND TRAINING IN LEBANON 2018–2022

⁴¹ The government should set a minimum-wage and working hours limit in order to prevent any form of abuse towards the apprentice.

⁴² An apprenticeship system is a form of training a new generation of practitioners of a trade with on-the-job training accompanied by their academic studies.

⁴³ Post-secondary education and training, new vocational and hybrid pathways and questions of equity, inequality and social mobility: introduction to the special issue

⁴⁴ It is important to note that reliable data on the mentioned issues is often times lacking due to the absence of research or inaccurate research.

KEY OBSTACLES

- The lack of qualified and skilled operators and technicians in the Lebanese market to implement projects.
- The Lebanese society's negative view of vocational and technical education.
- Vocational educational programs curricula that do not match the needs of the Industrial sector with regards to professional and artistic disciplines.

SHORT TERM RECOMMENDATIONS

- Creating a project driven common platform, such as a joint industrial program, between universities and the Industrial sector to be able to create a synergy between them from the point of view of research, project development and entrepreneurial endeavors.⁴⁵
- Empowering the National Employment Organization (NEO)⁴⁶ immediately to collect and disseminate accurate data reflecting the skills required in the market by increasing its institutional capacity, providing it with previous market studies conducted, and enhancing its capabilities to become a full Labor Market Information System⁴⁷ (LMIS).
- Implementing a hybrid system which practically trains students in parallel to their academic studies in collaboration with the industrial sector and with a clear predetermined base scale.

LONG TERM RECOMMENDATIONS

- Prohibiting work in technical and vocational fields without an accredited license in order to prevent unfair competition.
- Moving from general vocational training schools to specialized centers of excellence providing expertise in specific vocational fields.
- Creating a modular system with specialized modules to increase flexibility.⁴⁸
- Introducing private sector certification of skills to improve credibility of skillset evaluation.
- Changing the curriculum development to become private sector needs driven.
- Collaborating between the MEHE, business support organizations, TVET centers and local universities to open professional university streams that enable students with a vocational training background to pursue higher education degrees in their professional field.

⁴⁵ Collaborations between universities and industry have produced several innovative discoveries such as the melanoma treatment ipilimumab, whose molecule was discovered by James Allison and was successfully developed into a drug by Medarex, which earned Dr. Allison a 2018 Nobel Prize in Physiology. In 1974, the United Nations advocated University-Industry Cooperative Programs (U-ICP) as necessary for improving domestic economies and skills produced in universities.

⁴⁶ The National Employment Office was established in 1977 as a public institution with administrative and financial autonomy. Its role as decreed consists of (a) conducting studies and research to formulate employment policies in Lebanon; (b) improving the employability of new entrants into the labor force through an accelerated vocational training; (c) Reducing unemployment rates by finding jobs for job seekers through the Employment Bureau; (d) supporting disabled persons by building their skill-sets.

⁴⁷ Globally, LMIS assists in job matching, job searching, and providing information about market needs, developing job profiles, and improving application skills. LMIS also give beneficial information to employers about the development of new sectors and professions. LMIS provides governments with data that help shape policies. LMIS connects with the TVET sector by playing a role in identifying new specializations and offering career guidance.

⁴⁸ For more information, please see the policy note on Human Resources.

The Road to Recovery

جمعية الصناعيين اللبنانيين
ASSOCIATION OF LEBANESE
INDUSTRIALISTS



2022

Customs Policy

CUSTOMS POLICY



2022

Customs Policy

How the industrial sector can save Lebanon

BACKGROUND

The Lebanese Customs department faces a rampant issue of corruption. Improper customs collection along with bribery causes the government to lose millions of dollars in tax revenue every year. Around 80 % of imported goods go through the port of Beirut, 16 % through the airport and 4 % through border crossings. In 2018, customs collected around 500 million dollars' worth of taxes, whereas imports that year were around 20 billion dollars, meaning that customs should have benefited from at least 1.65 billion dollars in tax collections. It is estimated then that customs' evasion is around 1.15 billion dollars. Evasion often takes place in different forms, whereby the actual value of the goods is reduced, or the listed goods are categorized under products with lower taxes, or through simply removing goods without paying the custom tax.⁴⁹ On another hand, several trading partners such as Turkey, China and some Arab countries subsidize their cost of production, which in turn resulted in relatively cheaper products flooding the Lebanese markets.⁵⁰ ALI documented 27 cases of dumping in the Lebanese market from 2017 to 2019. Of these reported cases, 18 of which have been dealt with by the Ministry of Economy and Trade and have had safeguard measures implemented. The current economic crisis has only managed to exasperate the situation, harming local businesses as well as consumers. A recent increase in the tax rate on imports led to increased smuggling across the borders with Syria and massive losses at the ports and airport. The lack of a proper national customs strategy puts Lebanese industrialists at a major disadvantage, and with the proper regulatory measures missing, the industrial sector is overwhelmed with unfair competition. The Higher Council of Customs submitted a new customs strategy and law, incorporating a new organizational structure, a modernized risk management system and an e-single window to the Council of Ministers for approval in the second half of 2019; however, the law is still pending approval. In February 2020, the Ministry of Finance received the Customs Strategy from the Higher Council of Customs for comments; however, the bill is yet to be passed and adopted. The Customs Strategy suggested incorporating a new organizational structure, an e-single window and modernized risk management system. The private sector has long complained of sources of inefficiency such as processes and procedures, required redundant documents for submission, excessive inspection of cargo and low levels of customs automation. Lebanon's low ranking of 153rd out of 190 countries worldwide in the Ease of Doing Business 2020 Trading across Borders indicator is a case in point.⁵¹

⁴⁹ Lebanon Loses Billions to customs duties evasion

⁵⁰ Productivity setbacks impede Lebanon Industry

⁵¹ Government of Lebanon Economic Plan



KEY OBSTACLES

- Legal smuggling, where goods are classified under categories with lower taxes, and illegal smuggling are threatening regular trade and sustainability of the Lebanese productive sector.
- Lack of appropriate regulatory measures to protect Lebanese products from dumping.
- Lack of anti-dumping complaint and investigative procedures that can swiftly deal with dumping to protect local producers.

SHORT TERM RECOMMENDATIONS

- Combating smuggling and protecting industrial enterprises by improving border controls and revenue collection.
- Setting equivalent tariffs on imported goods that are similarly produced in Lebanon to deal with cases of dumping.
- Increasing the tariffs on the products from countries that are not part of free trade agreements.

LONG TERM RECOMMENDATIONS

- Establishing an anti-dumping law, in accordance with the World Trade Organization (WTO) guidelines, that triggers the immediate application of protective, targeted tariffs which would level the field pending the end of the practice either through direct subsidy or monetary tools.⁵²
- Establishing enforceable and testable quality standards on all imported goods to prevent dumping through quality.
- Advance the World Customs Organizations efforts to revamp Lebanon's customs according to international best practices.
- Equipping Lebanese customs with the capacity to enforce proper surveillance.
- Prioritizing the Industrial Sector's perishable raw materials by allowing check-ups to happen post-audit in order to prevent damage to the material due to lack of appropriate storing means at customs.

⁵² Anti-dumping, subsidies, safeguards: contingencies, etc...

The Road to Recovery

جمعية الصناعيين اللبنانيين
ASSOCIATION OF LEBANESE
INDUSTRIALISTS



2022

BOOSTING EXPORTS



2022

Boosting Exports

How the industrial sector can save Lebanon

BACKGROUND

Lebanon witnessed a net contraction in trade deficit by a yearly 59% in the first eight months of 2020, moving from 11.4 billion USD to 4.7 billion USD according to the Lebanese Customs Authority. The drop in the trade deficit resulted from a reduction of imports by 50%. However, the balance of payments simultaneously reported a deficit of 9.6 billion USD in the first eight months of 2020, against a full year deficit of 5.8 billion USD in 2019.⁵³ Prior to the on-going crisis in Lebanon, the production cost as a result of high labor costs, expensive utility services, expensive borrowing and high costs to upgrade industry through training and material purchasing, was a burden on industrialists, impeding export growth and limiting Lebanon's competitiveness. Twenty-six percent of manufacturing firms in Lebanon identified customs and trade regulations as a limitation to export boosting, compared to twenty-one percent in the Middle East and North Africa (MENA) region, and seventeen percent globally.⁵⁴ After the collapse of the Lebanese Lira and the scarcity of liquidity in the Lebanese market, production costs have increased, thereby further limiting the ability of Lebanese businesses to increase production. Moreover, the inadequate infrastructure increases the cost to export in Lebanon, with a reported USD \$3,000 per container in 2018 in the land supply chain, higher than its regional neighbors where the average is USD1886.⁵⁵ Structural reforms are needed in order to boost local production and cure some of Lebanon's debt imbalances. In 2019, Lebanon's market position, market accessibility and global demand placed Lebanon's untapped export potential at \$1.7 billion. Given the current economic crisis facing the country, the government must develop an export promotion strategy embedded in an industrial policy in order to tap into Lebanon's potential that can be capitalized to boost exports, create jobs and reduce the trade deficit. It is necessary then to promote policies that reduce production costs in order to increase the industrial and overall economic competitiveness. The export strategy must be developed jointly by the Ministry of Industry and by the Association of Lebanese Industrialists through public private dialogue.⁵⁶ Exporters today face several issues, primarily having to shift from a credit business to a cash business as a result of the ongoing financial crisis in the country, which in its turn exacerbates the following issues.

⁵³ LEBANON ECONOMIC REPORT 3RD QUARTER

⁵⁴ Lebanon Must Develop an Export Strategy to Create Jobs

⁵⁵ Strategic Assessment: A Capital Investment Plan for Lebanon

⁵⁶ Lebanon Must Develop an Export Strategy to Create Jobs



KEY OBSTACLES

- Lack of vehicles to finance exports as a result of the current banking crisis. (LCs and LGs totally frozen)
- Lengthy and costly export procedures, mainly the interference of different ministries in the process of export license issuing.⁵⁷
- Increased balance of payments because of the economic contraction.
- A large trade deficit in part due to unfair tradeoff with countries that Lebanon has signed trade agreements with.

SHORT TERM RECOMMENDATIONS

- Utilizing the 'Oxygen Fund'⁵⁸ or another platform to overcome the issue of credit financing.
- Making the Ministry of Industry the sole reference for issuing exporting licenses.
- Implementing export boosting mechanisms in such as tax waivers on exported goods and waiving certain forms and documentation in certain procedures.

LONG TERM RECOMMENDATIONS

- Creating export incentives for exporters such as supporting businesses with intensive energy, supporting freight costs for industrial and agricultural exports.
- Creating an export guarantee institution similar to SACE⁵⁹ in Italy and COFACE in France⁶⁰ and Hermes in Germany.⁶¹
- Establishing an export guarantee institution for countries that are not covered by operating Arab insurance institutions, which concern Lebanese industry, such as Iraq.
- Engaging Lebanese diaspora using the network of economic attaches that were dispatched in major countries to increase exports through economic diplomacy.
- Increasing exports to Lebanon's main trading partners, especially to the countries from which Lebanon imports in large sums. For example, raising exports to Europe to reach one billion dollars annually after 3 years.
- Joining the Mercosur Agreement⁶² because Lebanon's signature on this agreement would open up export opportunities in South American markets.
- Joining the Agadir Free Trade Agreement.⁶³

⁵⁷ The ministries that currently interfere are the Ministry of Agriculture for food products and the Ministry of Health for medical products.

⁵⁸ In March 2020, the government and BdL announced that a "Cedar Oxygen" fund, based in Europe, was created to finance imports of raw materials by Lebanese industrialists. Financing is supposed to be an estimated \$600 million to \$700 million in loans over a one-year period.

⁵⁹ SACE SIMEST

⁶⁰ COFACE

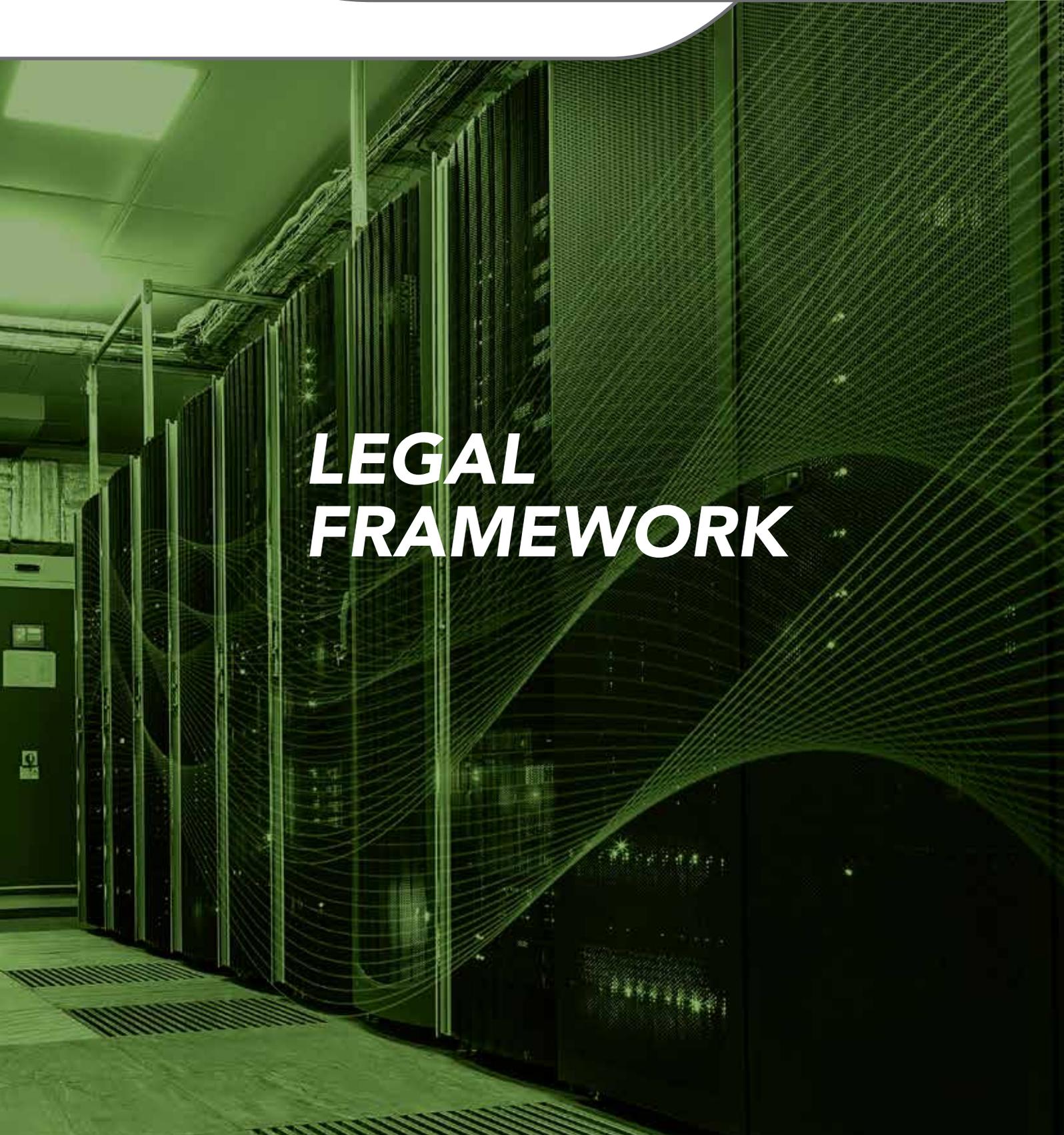
⁶¹ Euler Hermes Aktiengesellschaft

⁶² Mercosur, previously known as the Southern Common Market, is a South American trade bloc consisting of Argentina, Brazil, Paraguay and Uruguay.

⁶³ The Agadir Agreement is a free trade agreement between Egypt, Jordan, Morocco and Tunisia that is open to further membership by all Arab countries.



2022



**LEGAL
FRAMEWORK**



2022

Legal Framework

How the industrial sector can save Lebanon

BACKGROUND

Out-dated laws and regulations are known to discourage investors and hindering economic activity. Lebanon is not short of outdated laws, with the insolvency law being an example. Lebanon also has a weak intellectual property rights law (IPR) as well, preventing investment in high tech industries and innovative sectors.⁶⁴ Additionally, high social security contributions; costly firing regulations; no flexibility in hiring non-fulltime employees (seasonal, partial, etc.); inability to get work permits for foreign workers and discretionary granting of work permits for foreign workers; as well as an expensive and burdensome procedures for firing inadequate labor are some of the impediments to business operations. A new law was being drafted by the Ministry of Labor to address these issues of high labor costs and labor market inflexibilities; however, there hasn't been any progress in the matter yet.⁶⁵

Additionally, Lebanon is currently in dire need of foreign direct investment (FDI); however, the general limitation set by the current labor law on allowing foreign individuals to participate in managerial positions discourages such investments. On another note, investments in Lebanon are mainly governed by the Investment Development Law No. 360 of 2001, which is mainly concerned with investment incentives; however, in order to strengthen the investment legal framework, key guarantees for investors should be echoed in the investment law, such as fair and equitable treatment, protection against expropriation, guaranteed convertibility and repatriation of profits and settlement of disputes. The current 2001 Investment Development Law does not take into consideration the usual investment guarantees, often viewed as the essence of investment laws.⁶⁶ Lebanon needs to undergo several legal reforms, that it vowed to undertake in the context of the 2018 CEDRE conference⁶⁷, in order to tackle long-lasting impediments to growth, develop a diversified production base and boost exports. There are already a set of ready to implement reforms aimed at promoting a better business environment and increase investment. It is necessary to adopt these reforms to increase the productivity of the industrial sector and resolve the following issues.

⁶⁴ Assessing EU-Mediterranean Policies in the Field of Industry from a Bottom-up Perspective: The Case of Lebanon

⁶⁵ Government of Lebanon Economic Plan

⁶⁶ Background Note Country case studies: Building economic resilience in Lebanon and Libya

⁶⁷ CEDRE (Conférence économique pour le développement, par les réformes et avec les entreprises), an international conference in support of Lebanon development and reforms, hosted by France on 6 April 2018. The CEDRE conference in (Paris IV) prompted the international community to dedicate USD 11 billion to fund the Lebanese Government's Capital Investment Program.

KEY OBSTACLES

⁶⁸ Progress Report-Reforming Public Procurement in Lebanon-2020-Eng

⁶⁹ Trademark, Industrial design & Unfair Competition Law

⁷⁰ Elaborated by the Ministry of Economy and Trade

⁷¹ The Law No.81/2018 is not yet sufficient to allow for e-documents and paper-based documents to be treated alike in all respects. An implementing decree is required to address the legal recognition of electronic authentication certificates used in the process of authenticating digital signatures. Law No. 81 Relating to Electronic Transactions and Personal Data

⁷² Currently at parliament

⁷³ THE LEBANESE GOVERNMENT'S FINANCIAL RECOVERY PLAN The strategy focuses on simplifying procedures, accepting e-payments, enhancing electronic data entry, and establishing an online e-single window for coordinated service with all of Lebanon's border agencies.

⁷⁴ Currently at parliament

⁷⁵ The Law is stuck in parliament because the ministry of finance wanted to apply a 2.5% tax on the re-evaluation which would send most of the companies trying to do that into bankruptcy, especially since most companies that will try to re-evaluate their status have had assets on their balance sheets that are 30-40 years old.

⁷⁶ The new labor law aims at extending rights protection to additional productive sectors, to cover seasonal workers in agriculture, remote workers particularly those using new technologies, and house workers. Additionally, the draft law organizes part-time work. The law will also allow the introduction of special visas and work permits for high-skilled foreign workers.

⁷⁷ The Ministry of Economy and Trade submitted a draft law about competition aiming at strengthening competition, on July 20th 2012. The law should protect the rights of trades and consumers, ensure the productivity, creativity and technical progress of firms, and reinforce investments and make the market more attractive. To date; however, the draft law has been affected by political differences and has not been implemented.

⁷⁸ Public procurement is governed by the 1963 Public Accounting Law. Specific areas of the law that require attention are: (i) weak control environment that cannot implement rules and procedures; (ii) procurement complaints are not handled by an independent regulatory body and independent mechanism; (iii) Missing procurement performance information/data; (iv) weak competition for contracts; and (v) weak implementing agencies.

⁷⁹ "Credit infrastructure remains weak pending key legislative reforms on secured transaction frameworks which hampers lending to the private sector. The absence of a secured transactions framework limits the scope of assets that businesses can take as collateral. In the absence of credit, secured transaction reform will not have an impact; however, as credit intermediation resumes following the restructuring of the banking sector, allowing movable asset-based lending will be key." Government of Lebanon Economic Plan

- Need to implement draft laws that have not been implemented that could benefit the industrial sector, principally: public procurement law⁶⁸, competition law⁶⁹ ⁷⁰, e-transaction law⁷¹, insolvency law⁷², and customs strategy law⁷³, and the bankruptcy law⁷⁴.
- Need to implement the factories merger law that allows companies listed as "establishments" to become proper corporations.⁷⁵
- Need to adopt the new labor law that will encourage foreign investment and increase labor market flexibility.⁷⁶

SHORT TERM RECOMMENDATIONS

- Issuing implementation decree for the competition law submitted by the Ministry of Economy and Trade in 2012.⁷⁷
- Modernizing the public procurement system by approving the existing draft law and creating an e-procurement platform.⁷⁸
- Allowing industrial companies to be abstained from capital gains tax to promote entrepreneurship and competitiveness.
- Enacting the Customs strategy and law which include an e-single window and online access to value at origin.
- Enacting the secured transaction law to allow businesses to have alternative means of financing.⁷⁹
- Adopting the new bankruptcy law for a swifter and more transparent process of bankruptcy which will ultimately facilitate financing.
- Changing the status of "establishments" to "companies" while keeping the values of the balance sheets as they are, and restricting taxes on assets to if those assets were to be sold.

LONG TERM RECOMMENDATIONS

- Drafting and implementing the new labor law as well as an updated wage policy in order to integrate Lebanon into the global economy.
- Updating the investment law to provide fair and equitable treatment, protection against expropriation, guaranteed convertibility and repatriation of profits and settlement of disputes, as well as issuing new decrees to ensure investor protection guarantees for foreign investors.



2022

E-GOVERNMENT



2022

E-government

How the industrial sector can save Lebanon

BACKGROUND

In 2019, the Ministry of State for Information Technology (MSIT) became the first ministry in Lebanon dedicated to the knowledge economy. The ministry worked alongside the Ministry of State for Administrative Reform (OMSAR) and the Ministry of Telecom to champion the prospects of a digital economy. Digital technologies affect almost every aspect of peoples' lives, such as the way we learn, think, work and communicate. The knowledge economy is a sector that "is asset-light and talent and skill-centric", with benefits extending over to all other economic segments.⁸⁰ In 2017-2018, Lebanon was ranked 4th in quality education in math and science in the World Economic Forum Global Competitiveness Index, and therefore the knowledge economy is one productive sector where Lebanon can foster a competitive advantage.⁸¹ Policies supporting the digital economy will not only allow the digital industry to flourish, but will pave the way to digitally transform businesses and institutions making them more efficient, innovative and more competitive on the international level. In order for such to happen, there needs to be a strong infrastructural foundation which anchors the effective digital transformation that allows for local digital capabilities to flourish.

Adopting a national strategy will facilitate the setting up of internet-era institutions that will support Lebanon in dealing with opportunities and challenges of the information age, ensure modern and affordable communication infrastructures, and adopt a supportive legal and governance framework to improve digital literacy and promoting an open culture for cross-discipline innovations. Public administration in Lebanon has long suffered from bureaucracy, poor service delivery, corruption, outdated technology, ineffective processes and inadequate governance structures, whereby trust in the state has been completely lost.⁸² In the World Bank Report "Doing Business 2020" Lebanon marked 151st out of 190 countries in terms of "starting a business", due to the fact that 8 procedures and 15 days are required to start a business.⁸³ E-government is meant to promote better communication between government and business sectors by offering public services in an efficient, cost-effective, transparent manner. Lebanon's government should become truly a digital organization to accommodate the needs of its' citizens, particularly productive sectors, starting by digitally transforming public services. It can be said that the industrial sector faces the following challenges that an e-government could solve.

⁸⁰ LEBANON DIGITAL TRANSFORMATION STRATEGY 2018

⁸¹ The Knowledge Economy

⁸² LEBANON DIGITAL TRANSFORMATION STRATEGY 2018

⁸³ Doing Business 2020



KEY OBSTACLES

- Lengthy administrative procedures to attain licenses and permits that disrupt the efficiency and competitiveness of the industrial sector, thereby slowing economic recovery.
- Lack of a common architecture for a linked-up government and a supporting implementation framework that all public sector facilities need to follow.
- Lack of security and transparency in the use of personal information.
- Lack of data archiving thus hindering the implementation of the freedom of information law.

SHORT TERM RECOMMENDATIONS

- Streamlining construction, manufacturing⁸⁴ and other types of permits by giving them priority in order to make accessing them more efficient, and assessing key operating and sectoral licenses and permits across industry sectors such as technology and manufacturing.
- Streamlining the export procedure to reduce cost of trading across borders.⁸⁵
- Passing the executive regulations associated with Law 81 on Electronic Transactions and Personal Data that permits e-money services, and implementing it.

LONG TERM RECOMMENDATIONS

- Transforming the relationship between industrialists and government by implementing user-centric e-services, such as E-portal for Industrial licenses at the Ministry of Industry, by adopting innovative technology as a means of achieving economic returns.
- Adopting a national digital government strategy that is accessible and transparent aimed at facilitating government transactions for the private sector.
- Enacting all institutional, regulatory and legal frameworks needed by the government that will enable business transactions be undertaken electronically; locally and abroad.
- Implementing the e-Procurement law by the government as a means of promoting e-commerce in the private sector.
- Building a database to validate procurement indicators related to efficiency, transparency and economy.

⁸⁴ OMSAR already submitted a request for IFC to provide support on streamlining construction permits

⁸⁵ Refer to the "Boosting Exports" section for further information.

The Road to Recovery

جمعية الصناعيين اللبنانيين
ASSOCIATION OF LEBANESE
INDUSTRIALISTS



2022

INDUSTRY 4.0 



2022

Industry 4.0

How the industrial sector can save Lebanon

BACKGROUND

Industry 4.0 takes automation of manufacturing processes to a higher level with smart autonomous systems capable of self-cognition, self-optimization, and self-customization.

Industry 4.0 includes concepts, tools and applications that complement a smart embedded system of machines able to communicate with each other and people and perform autonomous tasks in industrial production processes. The main tools include cyber-physical systems (CPSs), the Internet of Things (IoT), big data and cloud computing, autonomous robots, simulation and visualization models (AR), and additive manufacturing. Lebanon's research and development (R&D) spending is amongst the lowest, around 0.22% in 2018 compared to the regional and global innovation hubs, where spending is around 1.7% of GDP on average, reaching 4% in countries like South Korea. This is mainly a result of lack of funding.⁸⁶ Lebanon has long been skewed towards low productivity sectors. The World Bank MILES report in 2012⁸⁷ states that 35.4% of wage employees and 61% of the self-employed are in low-productivity services sectors such as retail and wholesale and only 14.3% of wage employees and 3% of the self-employed are in high productivity sectors like information, communication, professional, scientific and technical activities. The report also points out that only 11.3% and 8% respectively work in manufacturing.⁸⁸ Due to the economy's focus on low productivity sectors, it does not generate enough jobs for highly skilled university students.

Today, it is crucial to invest in major technological advances to transition towards a productive economy. Lebanon has a competitive advantage when it comes to a highly skilled labor force, with more than 60,000 students enrolled in Science, Technology, Engineering and Mathematics (STEM) majors in 2018 which accounted for 30% of total enrollment⁸⁹, and by investing in technology, this will create high-value added jobs. In a World Economic Forum (WEF) report, US\$1 invested in digital technology increased GDP by US\$20, in the past 30 years, while consequently the same amount put towards non-digital investments only increased GDP by US\$3. It is expected that by 2021, 24.3 % of global GDP will come from digital technologies.⁹⁰

⁸⁶ Lebanon Economic Vision

⁸⁷ The Role of Macro, Investment, Education, Labor and Social Protection Policies ("Miles")

⁸⁸ The Role of Macro, Investment, Education, Labor and Social Protection Policies ("Miles")

⁸⁹ IDAL, INDUSTRY

⁹⁰ Digital Transformation of Industries



KEY OBSTACLES⁹¹

- High cost of capital and difficulty to finance operation as a result of the banking crisis.
- Lack of appropriate infrastructure such as internet, network, availability of tools, and electricity.
- The lack of appropriate skills and know-how amongst the labor force, creating a need to integrate industry 4.0 into the education system and industrial sector.
- Need for a long term vision and strategy on the national level in order to be able to fully benefit from the advantages of Industry 4.0.

SHORT TERM RECOMMENDATIONS

- Utilizing the 'Oxygen Fund'⁹² as a means to guarantee financing lines provided to industrialists.
- Opening up the internet service providers' market for more competition to drive the cost down and improve services which would otherwise be a hindrance in the application of Industry 4.0.
- Collaboration between the private sector and schools, universities and vocational training centers to integrate technology learning into the curriculum.
- Creating an Industry 4.0 taskforce at the government level that includes members from different ministries such as the Ministry of Education and Higher Education, the Ministry of Labor, and the Ministry of Industry, tech firms, the private sector and TVET educational institutions; whose mission is to create and ensure a national strategy.
- Formulating a national coalition between civil society actors, such as NGOs, digital technology providers, and technological institutions, to drive public private dialogue and reduce skills miss-match in the market.

LONG TERM RECOMMENDATIONS

- Increasing investment in infrastructure in future government budgets and develop and expand industrial zones.
- Adopting an incentives package that encourages companies to adopt industry 4.0 including access to finance, consultancy services, tax incentives, capability building and on the job digital trainings.
- Expanding the Lebanese Industrial Research Awards⁹³ (LIRA) to better reflect industry 4.0 requirements.

⁹¹ It is important to note the absence of data regarding these issues on the national level.

⁹² In March 2020, the government and BdL announced that a "Cedar Oxygen" fund, based in Europe, was created to finance imports of raw materials by Lebanese industrialists. Financing is supposed to be an estimated \$600 million to \$700 million in loans over a one-year period.

⁹³ LIRA provides an opportunity for industry and academia to come together, both public and private, and exchange their research findings. The first conference in 1997 showcased a research output as a result of collaborative efforts between industry, academia, and vocational schools. In 2016, LIRA initiated a fund to better support industrially oriented projects undertaken by academics.