

## Investment Challenges in Lebanon

**Dr. Nizar Atrissi**

**Vice President**

**Investment Development Authority of Lebanon**

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Distinguished Guests, Ladies & Gentlemen,

I am very pleased to have the opportunity to address this forum today. I congratulate and thank the OECD on their efforts to raise awareness about the challenges facing the investment climate in the MENA region.

The issues before us today – investment challenges and opportunities - are critically important for the MENA region in general and for Lebanon in particular. The opening remarks presented by the distinguished speakers provided us with insights about some of the challenges facing the region, and the interventions of my fellow panelists will shed the light on individual country experiences. Allow me to share with you Lebanon's perspective .

Over the past few years, through its structural reform plan, the Lebanese government has deployed serious efforts to modernize the investment framework, and offer the most suitable climate to foreigners and nationals desiring to invest in the country.

In 2001, the biggest thrust in investment promotion came in the form of fiscal incentives and facilitation services instituted through **the Investment Development Law 360** and its subsequent applicable decrees. Through Law 360, the Lebanese government entrusted the Investment Development Authority of Lebanon - IDAL with the mandate to regulate investment promotion activities in the country, and grant key investment projects a mix of incentives and fiscal concessions. To further build an enabling environment for investment, the government carried out additional key steps, among which was:

- the amendment of the 1969 law on the **acquisition by foreigners of real estate and real estate rights**;
- the enactment of the law fighting **money laundering**;
- **the amendment of the arbitration law**;
- the enactment of the law ratifying the 1965 Washington Convention on the **Settlement of Investment Dispute** between States and National of other States; and
- the enactment of the **Privatization Law**; as well as relinquishing government's protection of **Exclusive Agents**.

Together with a noticeable improvement in the country's macroeconomic fundamentals, the improvement in its investment climate enabled Lebanon to attract much required investment as evidenced by an upward trend in FDI. Although some non-Arab capital – mainly European - was invested in infrastructure projects, the bulk of foreign capital channeled into the country originated from Arab countries. In fact, Arab FDI recorded a high of US\$500 million in 1999<sup>1</sup>, before dropping

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<sup>1</sup> Inter Arab Guarantee Agency 2003.

to the US\$200 level in 2000 and 2001<sup>2</sup>, amid an overall slowdown of the world economy as well as the aftershock of the events of September 11. In 2002, Lebanon recorded a staggering increase in Arab FDI to US\$650 million<sup>3</sup>, mainly stimulated by regained investors' confidence in Lebanon after the success of Paris II conference, where international donors pledged their support for the Lebanese government. Initial estimates for 2003 look promising despite the set backs and the instability which dominated the region amid the war in Iraq, with Moody's Services predicting a sustained surge in FDI in Lebanon, with ratio of FDI to GDP rising from 1.7% in 2002 to an estimated 3.3% in 2003 and 4.2% in 2004<sup>4</sup>.

While Lebanon has made important strides in structural reform, the promotion of FDI is still lagging behind, and forecasted amounts of foreign investment do not meet the growth requirements of the Lebanese economy. Lebanon has relied, so far, on short term investments but failed to attract longer-term more stable and beneficial international capital. The challenges facing Lebanon revolve around four angles: **Governance, Public Finance, Perception and Geopolitical Conditions.**

1. **Lengthy bureaucratic procedures remain one key impediment to foreign investment.** The government's current public sector reform program is trying to improve governance and remove hidden obstacles to investment through cutting red tape and simplifying approval procedures; however, more work remains to be done on this front. IDAL has attempted to address this issue through operating a One-Stop-Shop department and facilitating the issuance of permits and licenses required for investment projects. By centralizing all dealings with the Lebanese government through one point of contact, IDAL enabled investors to cut red tape and short-circuit lengthy bureaucratic and administrative procedures.

2. **Lebanon's public finance conditions are also an overriding concern to investors.** In 2003, the government was able to reschedule 32% of the public debt through a \$10 billion financial package that included soft loans from donor countries after the Paris II meeting, a \$3.6 billion agreement with commercial banks and a \$4.1 billion scheme with the Central Bank. The outlook for 2004 looks good despite the fact that the privatization plan requires more government preparation and the public finance conditions stand to benefit from the full impact of Paris II. However, the BDL's FX reserves, which increased to a high of US\$12 billion, should play an important role in maintaining monetary stability, and reassuring investors of the strength of the Lebanese economy<sup>5</sup>.

3. **In addition, Lebanon's current perception in investment circles has been somewhat obscured by misconceptions of what it can offer to investors.** The Lebanese government **has been and is currently** exerting all efforts to showcase Lebanon and raise awareness about the virtues and the attributes of the business environment. However, many businesspeople in Europe and North America seldom realize the business opportunities for investment in Lebanon. To market Lebanon, IDAL is not sparing an opportunity to enhance its visibility within investment circles - regionally and internationally - , and most of all to put behind its image of a war-racked country. Meanwhile and in line with government's efforts to promote Lebanon, an advertising campaign – commissioned by the Ministry of Economy and Trade - publicizing the country as a tourist destination is being aired on CNN as of this month..

4. **On the other hand, investors also highlight regional stability as an important stumbling block before investing in Lebanon.** This problem is not exclusive to Lebanon. The region has had a history of volatility – which has dampened investment. Caught in the middle of different conflicts, Lebanon has paid a high price for the region's instability in the form of lost investment opportunities.

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Moody's Services January 2004.

<sup>5</sup> Banque du Liban.

As I mentioned earlier, Lebanon is disseminating the message, making sure that foreign investors are aware of investment opportunities in the country. Many other countries in the region are taking similar measures. However, the entire region deserves better reputation than the one currently dominating the international business arena. This is where regional cooperation comes into play. Since we all share similar objectives and face common problems, there is a case for developing closer regional cooperation in the areas of investment policy and promotion. And the initiative to create a network of IPAs in Arab countries launched last year, can provide the momentum for such co-operation. All MENA countries stand to gain from improving the image of the region as an attractive investment destination .

It is undeniable that over the last few years, the investment climate in Lebanon has improved markedly. The successful implementation of well-conceived investment promotion policies fuelled the economic upturn. **However, the challenge resides in building on this momentum.**

The Lebanese government is aligning its investment promotion strategy along with the country's policy framework and the administrative infrastructure in order to further attract new investments. In this realm, the government has launched several cooperation initiatives with international organizations such as the World Bank, EU, UNDP, UNCTAD, etc...Cooperation with OECD is yet to materialize.

The organization has a long tradition of policy dialogue, corporate governance and investment promotion initiatives, and thus has a clear role to play in the development and growth of a positive investment policy environment in Lebanon and the region. To this effect, cooperation with MENA governments can take many forms, including providing policy advice and investment policy review, supporting investment capacity building through seminars and roundtables, and promoting policy dialogue on best practices in investment promotion, etc.

In closing, I would like to reiterate the need to join our efforts to come up with proposed steps to improve the investment climate in the MENA region, and realize FDI inflows commensurate with the region's status as an attractive emerging market. I am sure that our discussions today will provide illuminating insights about proposed steps to improve the FDI framework in the region, and open new prospects for joint cooperation between OECD and MENA countries.

Thank you for your attention.