

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

Translated Summary

**Action Plan for the
Development of the
Lebanese Industry**

October 1999

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction	1
II. Current Situation of the Industrial Sector	1
III. Problems and Challenges	2
A. Internally	2
B. Externally	2
IV. Goals	2
V. Approach	3
VI. Proposed Strategy	3
VII. Essentials for Industrial Development in Lebanon	4
A. Improvement of the Industrial Information & Technical Consulting Services	4
B. Creation of Legal and Organizational Frameworks Triggering Incentives for Industrial Development	5
C. Improvement of the Industrial Infrastructure	6
D. Reduction of Production Costs	7
E. Provision of Sources of Finance with Attractive Conditions	7
F. Modernization of the Lebanese IS	8
1. Improve the Quality of Production and Increase Productivity	8
2. Technology Transfer	11
G. Expansion of the Local Markets for Local Commodities & Fight Dumping..	12
H. Development of Exports	13
I. Organization & Administration of WTO Negotiations From a Strategic Perspective	14
J. Improvement of the MoI Performance and Services	15

I. Introduction

The industrial sector in Lebanon can be considered as one of the main driving forces for economic growth, and the essential source for future employment opportunities. Lebanon has to establish a strong foundation for a well-advanced and developed industrial sector to absorb local demand, attract investments and allow local products for exportation. The Ministry of Industry (MoI) is seeking to draw a plan of action for the development of a well-organized and highly competitive industrial sector, through providing the appropriate environment and framework (legal, infrastructure, technology, foreign trade). The proper implementation and successful accomplishment of such plan will only be realized through the full cooperation of both private and public sectors. The public sector (the MoI and other governmental branches) will be responsible for providing and ensuring a safe environment through the creation of proper institutions. While the role of the private sector will be to initiate private investment and to mobilize the economy. The industrial development will also involve many ministries and government institutions.

II. Current Situation of the Industrial Sector

The Industrial Sector (IS) represents 17% of the GDP, with the awareness that there is a room for improvement and development, compared to 7% for Agriculture, 7% for Construction, 24% for Trade, 18% for Non-financial Services, 14% for the Public Sector, and 13% for other sectors. A detailed description for the IS cannot be established due to the lack of updated information. According to industrial surveys conducted by the MoI in 1994 and Arthur D'Little in 1996, the number of industrial firms in Lebanon was estimated at 22,107 employing around 145,000 employees.

Sales total to \$3.72 billion, where the value-added amounted to \$1.82 billion, corresponding to 49% of the sector's sales (→\$80,000/firm, \$12,500/labor).

In addition, the survey showed that 69.9% of the 22,107 firms employ less than 5 workers (Per hour workers); while firms employing more than 10 employees represent only 9.5%. However, those employ around 42.5% of total employees and generate 61.4% of sales.

If we categorize the IS, we will find that 20.2% of the production goes to the food and beverage industry, 16.3% for furniture, 13.9% for metal products, 13.6% for clothing and 6.6% for wood products. Yet, these productions represent only 71% of the total industrial sector. The remaining 29% are concentrated on other manufacturing products, but employ 40.4% of the labor force of the IS and generate 48% of total industrial output.

Geographically, according to the surveys, 70% of the industrial firms are located in Beirut and Mount Lebanon, while only 4% in Nabatyeh, 6% in each of Bekaa and the South.

The main results of the two surveys can be summarized as follows:

- Small size of the industrial firms
- Labor intensive production/investment
- Salaries represent a big share of the total expenditures
- No diversity in production
- Family business predominance, with monopolized decision makings

III. Problems and Challenges

C. Internally

- Recession
- Lack of industrial investments
- High costs of production (raw material, power, etc.)
- Low quality of products making them more difficult to penetrate foreign markets
- High transaction cost, leading to increase in opportunity cost (time, money)
- Lack of resources at the MoI essential for proper management of the sector

D. Externally

- Strong international markets' competition (absence of quality, conformity and standards)
- High competition in the FDI markets (due to lack of appropriate environment to attract FDI)
- Increase in regulations, resolutions and standards codes after signing trade agreements with Arab countries and the WTO (ensure required standards)

IV. Goals

The MoI is looking for the implementation of the following points with the cooperation of all concerned parties as well as the private sector:

- Promoting industrial investment
- Improving the quality of the Lebanese production and its competitive edge
- Developing exports
- Strengthening institutions for modernizing the MoI

The MoI will try to determine the responsibility of each of the private and public sectors:

- Public Sector: Provide the right economic and organizational frameworks relevant for creating investment opportunities.
- Private Sector: Initiate investment and contribute in directing the scope of the program

V. Approach

Reaching the above mentioned goals will definitely have a specific practical approach that will ensure an industrial growth. This approach will have four fronts:

- The Industrial Sector: Directing production towards products having comparative advantage on others.
- The Size of the Industry: Developing micro enterprise, small and medium.
- The Location of industrial zones: Promoting peripheral industrial firms that lead to balanced development.
- The markets: Targeting specific foreign markets for exports.

VI. Proposed Strategy

The MoI plans to have a full IS diagnosis to identify problems and accordingly create policies. The diagnosis will be based on the following:

- Industrial Survey that will help building an informational and statistical database updated continuously.
- Sector level studies that identify problems, analyze them and recommend policies respectively.

The Industrial Development Program will consist of the following headlines:

- Improvement of the industrial information and technical consulting services.
- Creation of legal and organizational frameworks triggering incentives for industrial development
- Improvement of the industrial infrastructure
- Reduction of the production cost
- Provision of sources of finance with attractive conditions
- Modernization of the Lebanese IS
- Expansion of local markets for local commodities and fight dumping
- Development of exports
- Organization and administration of WTO negotiations from a strategic perspective
- Improvement of the MoI performance and services

VII. Essentials for Industrial Development in Lebanon

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F. Improvement of the Industrial Information and Technical Consulting Services

Lebanon lacks updated and unified industrial information. The program will create a databank on industrial information updated regularly, which will help in policies' formulation and direction, as well as investment attraction.

Goals	Means
Develop the Industrial Information Base	<p>Conduct an Industrial Survey to update data found in the 1994 survey</p> <p>Conduct a complete industrial survey, covering all sectors of the industry and identifying firms (by capital, employees, profits, Value added, etc.). Create databank for the surveyed industries and related services.</p> <p>Develop indices related to competitive factors for evaluation and direction of policies.</p> <p>Establish an industrial information center connected to ARINFONET</p> <p>Create a MoI web page</p> <p>Issue monthly statistical reports</p> <p>Prepare sector level studies</p> <p>Continue the automation of the Commercial Registry</p>

G. Creation of Legal and Organizational Frameworks Triggering Incentives for Industrial Development

Goals	Means
<p>Simplify Systems governing the establishment of enterprises and their operations.</p> <p>Improve the Legal Framework</p>	<p>Create one counter responsible for processing licenses</p> <p>Screen and review all required official documents needed for the establishment and operations</p> <p>Simplify all administrative procedures for registration and import licenses</p> <p>Simplify tax systems and exemptions</p> <p>Implement the trade efficiency program</p>

<p>Recommend procedures for the promotion of industrial investment</p>	<p>Review laws for minimizing obstacles to development Enacting the “Lease Finance Law” that leads to the mobilization of the wheel of production Create a committee for economic acts modernization Fight Monopoly Promote property, industrial and commercial rights laws Promote investment laws Promote consumer protection law Promote a Law of commerce Pass the following laws: Financial markets law Portfolio management law Central treasury law Credit cards law etc...</p> <p>- Promote Joint-Ventures Give tax incentives Implement a tax system for industrial investment (R&D, labor lodging, technology transfer...) Promote rural and peripheral industrial development (tax exemptions) Encourage Lebanese migrants to invest in Lebanon Assist investors through information supply Establish a public office for guaranteeing investments and for attracting investments.</p>
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Sub-Contracting and Partnership Brokerage (SPX) is a program financed by the EU under the MEDA program, consisting of creating a unit in the industrial research center that will help small and medium scale firms to undergo joint-ventures and sub-contract with other companies in Lebanon or outside.

H. Improvement of the Industrial Infrastructure

Providing the appropriate effective infrastructure environment geographically well-distributed will increase Lebanon’s capacity for competition. Infrastructure will include:

- Industrial cities
- Industrial services

- Institutional base
- Strong human resource base
- Supply industrial power
- Supply good communication network

Goals	Means
Develop Industrial Cities	<p>Improve the existing cities and create new well-regulated cities, even in public owned lands.</p> <p>Provide transportation, communication, water, gas, electricity and other needed utilities.</p> <p>Categorize lands for industrial use</p>
Develop Free Zones	<p>Conduct a study comparing free zones in the Arab world</p> <p>Improve the situation of the existent free zones and create new ones</p>
Provide essential infrastructure facilities	<p>Propose the amendment of the construction law with regard to industrial buildings and premises</p> <p>Enact the privatization law</p>

I. Reduction of Production Costs

The industry suffers from the high cost of fixed assets and labor, leading to high prices of Lebanese manufactured products. Nowadays, the challenge lies in reducing the costs of raw material, acquiring fixed assets (machinery, lands) and cost of the labor force. In addition, the ministry will look for reducing taxes by increasing exemptions.

Goals	Means
Reduce Production Costs	<p>Reduce tariffs imposed on raw materials, intermediate products and spare parts</p> <p>Replace tariffs by VAT</p> <p>Tailor tax procedures for industrial investment</p> <p>Provide power and fuel at low rates</p>

<p>Reduce Fixed Costs (expenditures)</p> <p>Reduce Costs of Labor</p>	<p>Find solutions for shipping and transport problems Facilitate administrative procedures Reduce costs of land registrations in free zone areas and industrial areas.</p> <p>Increase tax exemptions Provide industrial areas at low costs</p> <p>Review the labor law make it more flexible in protecting employees Improve the Social Security system and reduce the cost of labor in the system</p>
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J. Provision of Sources of Finance with Attractive Conditions

The IS faces problems into finding sources of finance. In order to circumvent such obstacle, there should be an expansion for the source base, by finding new sources that finance on medium and long-term bases and at lower costs with smoother regulations for acquiring them.

Goals	Means
<p>Increase the amount of lending on medium and long-term basis through expanding its base</p>	<p>Keep on implementing the Central Bank's circulars concerning Reserve Requirements' exemptions and interest rates' subsidies (5%) on industrial loans Prepare a new financing program for the industrial sector, especially for the exporting manufactures. Establish a small and medium loan guarantee organization. Provide finance from international organization Create a special fund for a micro-credit located in rural areas Promote joint-ventures Explore new sources of finance through the financial markets, thus helping in the transfer from family</p>

<p>Reduce Loan Servicing Costs and Conditions</p> <p>- Eliminate Legal Obstacles</p>	<p>owned businesses to true corporations</p> <p>Facilitate loan acquisition from commercial banks and exempt small industrial loans from cost of pledges.</p> <p>Work on reducing interest rates</p> <p>Ensure the continuity of interest rates' subsidization</p> <p>Provide Investment Tax Credit</p> <p>Amend the commercial law</p> <p>Pass the Leasing Law</p> <p>Pass the law on financial markets</p>
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K. Modernization of the Lebanese IS

1. Improve the Quality of Production and Increase Productivity

It is very important to increase the quality of the Lebanese manufactured products, which will help in the increase of our competitiveness in the world market. The application of international norms and standards will increase consumers' assurance and trust in the products. As a result, increasing the level of Lebanese standards and issuing accredited certificates will be very important initiative for quality improvement. Human Resource Development will also be of high importance for the increase in productivity. A strong coordination should happen between the educational system and the sector's needs.

Finally, Research and Development (R&D) is very important for the continuity of development and increase in production, hence a clear policy should be set to help developing such departments.

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Goals	Means
<p>Improve Certification and Accreditation Systems</p>	<p>Organize Conformity procedures Accredit international certificates issued by the Institute for Industrial Research Sign agreements for accreditation with major trading partners Unify all Lebanese certifications Create a twin system for the IIR Officially accredit at test labs and audit units Implement the "Rule of Origin" procedures</p>
<p>Support Research and Development (R&D)</p>	<p>Clarify the important role of R&D Locate financial sources for R&D Sign agreement for common R&D Evaluate continuously the R&D centers Encourage international companies to establish R&D units in Lebanon Provide appropriate infrastructure for R&D in universities Assist innovators, designers and creators</p>
<p>Human Resource Development (HRD)</p>	<p>Establish a training institute for assisting Knowledge Based Industries Establish Applied Studies Institutes Encourage the establishment of industrial test fields and labs Improve technical schools</p>

2. Technology Transfer

The Technological structure of Lebanon is very weak, proven by the lack of R&D expenditures and the absence of national technological support. It is very important to establish a technological base in Lebanon in order to increase the competitive edge of the Lebanese manufactured products.

Goals	Means
<p>Technology Transfer and Reliance on Information Technology (IT)</p>	<p>Assist small industries in order to access recent technology through special technological support for implementation, application and establishment of the Information Society Network linked to the Euro-Mediterranean Information Society (EUMEDIS)</p> <ul style="list-style-type: none"> Teach technology in schools Draw an executive plan for research, keep updated information and links with similar industries worldwide Import technology through promoting investment Create a national prize for the best technological innovation Implement the law of intellectual property rights, as well as industrial and commercial rights.

M. Development of Exports

Although Export is a very important component in economic growth, it only contributes to 5% of the GDP.

Goals	Means
<p>Ensure a special framework for the support of exports</p>	<p>Establish a council for export development</p> <p>Automate and simplify export/import procedures</p> <p>Give tax incentives and facilities in financing export products manufacturing</p> <p>Design export development programs according to the WTO rules and regulations and other signed trade agreements</p>
<p>Increase the role of all export developed concerned parties (private and public)</p>	<p>Mobilize Lebanese embassies and consulates for studying foreign markets and promote Lebanese manufactured products</p> <p>Look for the assistance of Lebanese emigrants for marketing products</p>
<p>Expand in the external markets</p>	<p>Direct exports to specific markets (trade relations, costs, etc.)</p> <p>Plan strategically for identifying exporting sectors</p> <p>Sign dualistic agreements</p> <p>Set a national plan for the participation in international fairs</p> <p>Promote the establishment of Export Houses</p> <p>Organize commercial commissions</p> <p>Create lines of transport to foreign markets, and reduce costs.</p>
<p>Improve quality of training, consulting, and international trade information</p>	<p>Establish a Trade Information Center (TIC)</p> <p>Develop a complete information base on international trade (commodities, markets, companies...)</p> <p>Participate in the Euro-Mediterranean Training Program for Export Development.</p>

N. Organization and Administration of WTO Negotiations From a Strategic Perspective

With the new trend of organizing regional trade coalitions and the increase in competition, the trade negotiations become very essential for helping in the penetration of Lebanese manufactured products in international markets. The MoI will look for:

- Provide a “Most Favored Nations” treatment for the Lebanese products
- Specify timetable for free trade
- Strong cooperation between the government, the legislative power and the private sector for concluding agreements ensuring public welfare.

Goals	Means
<p>Improve the Foreign Lebanese Trade Framework</p> <p>Strengthen Trade Relations with the Arab Countries and the EU</p> <p>Encourage FDIs</p>	<p>Ensure gradual freeing of trade Continue the implementation of signed agreements (Egypt, Syria, Kuwait, etc.)</p> <p>Continue the establishment of Free Trade Area with: Syria, the Arab Countries (AFTA) and the EU. Improve signed agreements</p> <p>Include in trade negotiations specific articles for investment. Negotiate Trade Related Investment Measures for avoidance of products discrimination (TRIMS)</p>

O. Improvement of the MoI Performance and Services

The MoI lacks human, financial and physical resources. Hence, it is very important to restructure the Ministry through:

- Providing essential human and physical resources
- Asking for the technical assistance of international experts in management and industrial planning, in accordance with the proposed plan.

Goals	Means
<p>Improve Human Power</p> <p>Create an IT unit for the automation of the Ministry</p> <p>Implement MoI laws for control and supervision</p>	<p>Recruit qualified human resources Rehabilitate employees through intensive seminars and workshops</p> <p>Automate administrative work Create computerized database for enterprises and industrial firms Ensure sustainability and continuity in information updates Supply employees with necessary IT tools for increasing productivity</p> <p>Supervise the Industry - Supervise Enterprises</p>