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INSTRUMENTS OF ATTRACTING FOREIGN INVESTMENT IN LEBANON

The government has developed strategies and plan to put Lebanon in the forefront countries to promoting foreign investment. The primary objective of this study is to analyze instruments of attracting foreign investment in Lebanon through information's, statistics and data resulting from this investment. Governments (like ministries) are striving to attract and encourage foreign direct investment (FDI) and are subject to control by concrete policies and actions. The aim of the government intervention is to promote investment to meet the needs of markets and activate skills of local producers and labors.

From the important of FDI to a country like Lebanon, we reported how much new investment will be received in the country by remittances, private-public partnership (PPP), privatization.

Remittances and capital inflows are seen as one of the elements that keep Lebanese economy attractive for foreign investors. Lebanon is in urgent need of infrastructure development, with numerous major potential projects. However, without a proper legal framework in place for existing and new projects before the passing of the PPP law in August of 2017, planned investments have been delayed and even cancelled. This paper shows the impact of privatization as an inevitable result of the flow of foreign direct investment which appears through the law of private-public partnership adopted by the Lebanese government studying its benefits on the Lebanese economy.

Since the Lebanese economy is service-oriented, results in attraction of investment show significant FDI influence on economic and social growth in Lebanon. The study concludes explaining the results and suggesting some policy recommendations.

Key words: investment, governments, remittances, private-public partnership, privatization.

Introduction. Foreign direct investment **(**FDI) is a driver for economic development since it may bring capital, management know-how, increase productivity, support infrastructure development, way to transfer of knowledge, and access to new markets, growth in employment, increased foreign exchange reserves, brings new products, improved quality which brings lower prices to consumers, providing additional resources, foreign enterprises invest significant amounts in the development of transportation infrastructure, and many other activities. The impact of foreign investment extends far beyond economic growth.

Foreign direct investment in Lebanon and other countries reflects the foreign ownership of production facilities. To be classified as foreign direct investment, the share of the foreign ownership has to be equal to at least 10 percent of the value of the company [1]. The investment could be in manufacturing, services, agriculture or other sectors. It could have originated as green field investment (building something new), as acquisition (buying an existing company) or joint venture (partnership).

Foreign direct investment flows to Lebanon jumped by 9% in 2016 compared to 2015 reaching a value of 2.56 USD billion, reversing the trend of the previous year and overall FDI flows to the region, again highlighting the confidence of investors in Lebanon's economy [2].

In 2016 the economic slowdown of Gulf Cooperation Council (GCC) countries and the war in Syria took a toll on the Lebanese economy. There was a general "wait and see" attitude that was reflected in the number of foreign ventures in Lebanon. Despite this challenging situation, around 36 foreign investment projects and foreign partnerships were announced in 2016, a number slightly lower than 2015 figures [2].

Indeed the whole West Asia region which Lebanon belongs to, registered a slump in FDI fuelled by weak oil prices, fiscal restructuring and political uncertainty.

Many of the decisions and actions have been taken in 2017 in Lebanon which is able to make a difference in evolution of FDI and its impact on the country.

Main part. Lebanon has been traditionally open to foreign direct investment. There are a lot of attractive sectors in the economy (table 1) [3].

In terms of distribution by sectors (table 1), the traditionally service-driven sector has attracted around 41% of foreign direct investments in 2016.

Four financial companies opened either a branch or representative office in Lebanon. These investments reflect the confidence of foreign investors in the Lebanese financial sector which has shown resilience due to the Central Bank of Lebanon (Banque du Liban) (BDL) policy of maintaining high foreign currency reserves that cover almost 80% of local currency money supplies. Moreover, 4 construction and real estate companies opened representative offices or branches to prepare the ground for the reconstruction efforts in Syria. Four media companies opened rep offices or branches to provide digital and press coverage for Lebanon and the Middle-East.

Table 1

Distribution of foreign companies in Lebanon by sectors of activity (2016)

Activity	Percentage, %
Services	41
Construction and Real Estate	14
Media	11
Pharmaceuticals	8
Trade/Retail	8
Industry	5
Information Technology	5
Telecommunication	3
Tourism	3
Transportation	2

Concerning investing countries we can emphasize the European Union is maintaining a close investment relations with Lebanon (table 2) [3].

Table 2

Distribution of foreign companies in Lebanon by countries (2016)

Country	Percentage, %
European countries	43
American countries	27
Arab countries	16
Asian countries	11
African countries	3

In fact, European companies were the main investors in Lebanon, accounting for more than 43% of the foreign companies in 2016. The main European countries are the United Kingdom with the largest share of 27%, followed by France with 5%, Switzerland, Italy, Bulgaria and the Netherlands with 3% each of total foreign companies. The second largest share of investors is distributed among North American countries (USA and Canada) with 8 American projects and 2 Canadians. Arab investors' share of foreign companies in Lebanon decreased in 2016 to reach 16% from the total investor base.

The reduction of investments flows from Arab countries was mainly attributed to the weak economic performance of oil-exporting countries, substantially affected by the slump in oil prices.

However, Lebanon has many assets: a historically liberal and diversified economy, an advantageous tax policy and a solid banking system. The discovery of gas in Lebanese waters is expected to stimulate FDI in the future.

The growth in FDI inflows into Lebanon appears in three ways: remittances, private-public partnership, privatization.

Remittances are the money sent home by people who work in a foreign country.

Remittances and capital inflows are seen as one of the few remaining elements that keep the struggling Lebanese economy on its feet.

Undoubtedly that remittances have an effective impact on the flow of foreign direct investment and growth, so the many Lebanese living abroad, which exceeded 10 million people who turn around 9 billion dollars a year, made a deferent for the economic and social development in Lebanon. These high rates compared to Gross Domestic Product (GDP) constitute an ulterior motive in foreign investor to invest in Lebanon in all sectors taking science by the investor's extra income to Lebanese consumer through these transfers which have a larger role in the resilience of the economy. Remittance inflows to Lebanon in 2016 reached their highest level during the 2002–2016 periods.

Lebanon ranked as the 16th largest recipient of remittances globally and the 11th highest among developing countries. It also ranked as the 2nd largest remittances receiver among Arab countries, preceded only by Egypt which received USD 18.400 million in 2016 [4].

Aggregate remittance inflows to Lebanon were equivalent to 18.2% of GDP between 2002 and 2016, while they were equivalent to 22.5% of GDP during the 2002–2007 period and to 16.7% of GDP between 2008 and 2016.

Lebanon traditionally has remained open to foreign direct investment. Over the last ten years, the Government has passed several laws and decrees to encourage such investment. The Investment Development Authority of Lebanon (IDAL) possesses the authority to award licenses and permits for new investment in specific sectors.

Quality procedures taken by the Government in 2017 that many economists estimate that it will be reflected positively on the growth of foreign direct investment, which in turn will have a positive impact on the level of income, skills, increase productivity and economic growth and social development in general.

The banking and finance sector is a significant component of the Lebanese economy, driving growth and attracting foreign investment for the countries various thriving economic sectors.

The Central Bank of Lebanon was successful in achieving price and financial stability and maintaining confidence in the financial system through preserving high foreign currency reserves and favorable corporate tax rate.

In conjunction with the Lebanon's well-managed Central Bank of Lebanon, the General Office of Investment Promotion (IDAL) was established in 1994 to attract and retain foreign direct investment to Lebanon while assisting investors in the development and implementation of investment projects. IDAL has made significant gains in the form of rising FDI inflows due to a number of bureaucratic initiatives. Enacted in 2001 by Prime Minister Rafic Hariri, IDAL Investment Law Number 360 identified a set of priority sectors that showed the most promising opportunities in terms of their investment potential and provides local and foreign investors with a range of incentives and business support services [5].

The Lebanese Parliament ratified on August 16, 2017 the Public-Private Partnership Law (PPP), which regulates the participation of the private sector in public infrastructure projects in Lebanon in electricity, roads, public transportation, telecommunication and waste management among others.

The World Bank defines a PPP as "a long-term contract between a private party and a government entity to provide a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" [6].

The law provides details about the procedures required to launch a PPP project in Lebanon, the terms of the contract between the public and private entities and the government's monitoring process of the execution of the project. It designates the Higher Council for Privatization (HCP) and PPP Partnerships as an intermediary between the private sector and government entities. The law allows the HCP, ministries, municipalities and other public administrations to propose PPP projects, which would require the approval of the Council of Ministers. Then, a regulatory committee, consisting of the HCP, the concerned ministry and other government representatives, would be formed to follow through on the project. The committee can invite private companies that are interested in the PPP project to apply for a prequalification round, and will then be in charge of issuing, renewing and terminating licenses.

The Lebanese government launched the Diaspora Investment and Development platform (Diaspora ID) that aims to the Lebanese Diaspora with their homeland. Diaspora ID, which was developed with the support of a 1.05 million of dollars grant from the United States Agency for International Development, aims to help Lebanese expatriates digitally engage in the development of projects across Lebanon through the mobilization of their expertise and resources. It would help raise funds for local projects, provide mentoring for youth and allow the marketing of products and services provided by small Lebanese businesses.

Users of the Diaspora ID inside and outside Lebanon would list their company on the platform, as well as provide details about products and services that they offer, and would accordingly be matched with other entrepreneurs on the platform with complementary needs. The platform also allows skilled expatriates to provide virtual training to similar businesses in Lebanon that are in need of guidance. Further, the platform aims to provide expatriates with information about the history of their ancestral villages in Lebanon. The grant is part of a larger commitment by the United States government to support economic development and job creation in Lebanon.

The next element of attracting FDI is The Economic & Social Fund for Development (ESFD) which guaranteed loans. The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on an agreement between the European Commission and the Lebanese government. The ESFD is funded by the European Union and the Lebanese government.

The Lebanese government has just launched a plan to attract foreign investors. It provides the creation of special economic zones, tax-free and specialized in high potential sectors like medical tourism, media, high-tech and food processing. Each of these areas should receive special infrastructure and customs facilities. The plan also provides for the improvement of the country's image amongst foreign investors by developing the Lebanese Agency for the Promotion of Investment website.

The Lebanese Parliament's ratification on July 18, 2017 of the across-the-board adjustment to the salary scale of public sector employees and on July 19 of the related tax measures, as well as the signature of the President of the Lebanese Republic of both laws on August 21, 2017, the increase in the salary of public-sector employees will come into effect at the start of September 2017. Also, all approved tax measures are expected to come into effect immediately, except for the increase in the VAT rate that should be implemented in October at the start of the fiscal quarter that follows the implementation of the salary scale adjustment.

Authorities have been debating the salary scale adjustment since 2012. The cost of the salary increase was initially estimated at about 800 millions of dollars annually but it then increased to about 1.2 billons as legislators extended the adjustment to pensions for retired civil servants. But the exact cost is yet to be determined. In addition, the Parliament raised a large number of taxes and fees in an effort to cover the cost of the adjustment.

The Parliament increased the value-added tax rate, the corporate income tax and the tax rate on income from movable capital, which consists of interest revenues generated from deposits and on financial institutions' revenues generated from their fixed income portfolio. Further, it imposed a one-time fine on illegally-built seaside properties, increased the tax rate on lottery prizes and imposed a new fee on the value of real estate transactions. It also introduced a new fee on freight entering the ports in the country and increased the tax on imported tobacco and alcohol products. In addition, it imposed a fee on non-Lebanese entering the country by land and increased the tax on air passengers leaving the country. It also increased the fixed stamp duty on official paperwork and documents, raised the public no-tarries' fees collected on behalf of the Treasury, and imposed a fee on cement production, among many other measures.

The Parliament approved several other "reform" measures related to public sector employees, as it extended the working hours at government institutions from 2:00pm to 3:30pm, cancelled work in the public sector on Saturdays, and called for a survey to determine the exact number of employees and workers in the public sector, among other measures.

From here we will study the important of FDI to Lebanon and the impact on the deferent factor of production process, like wages, working condition, taxes, productivity, technology and others, taking in consideration the benefits and cost of this investment.

FDI has a large impact on wages and salaries since they invest in all part of the economy specially in human capital, all workers in this investment are belong to the private sector in which they differ from wages in the public sector.

This situation makes the Lebanese government increase the salaries of the public sector in order to move up and match salaries given to workers that work in foreign firm, which is a great benefits for the other sector and this clearly shows the impact of foreign investment not only on salaries for workers in the private sector in particular, but on the salaries of workers in public sector.

The minimum wage in public sector is now 1200 dollars and people work 5 days per week and 7.5 hours per day and 5 hours on Friday (since Saturday and Sunday are holidays), in May of 2017, for example, the cost of one working hour is between 7.55 dollars and 8 dollars. That means Lebanon ranks somewhere between Netherlands and New Zealand. Where Australia and Luxembourg in the top, while the US stands in 11th position with 7.25 dollars per hour. As far as Arab countries are concerned, the minimum wage in Qatar is of 2974 dollars, UAE is of 3747 dollars, Saudi Arabia's is of 1664 dollars per month for the public sector [7].

It is clear to any Lebanese citizen that the country is in desperate need of new public infrastructure. Its current electricity, education, health, transport and other basic networks are decaying due to the chronic inability of successive governments to manage and plan them.

Investment in new infrastructure would not just help the end users; it has also been shown to play a key role in raising national growth rates, developing the economy and ensuring sustainable growth. Such projects also help to lay the groundwork for job creation and attracting major new investments.

Right now, however, to ask the government to pay for such projects is unrealistic. The new cabinet has little to spend the country's national debt is climbing again and growth is minimal. As such, investments in new infrastructure would be at the cost of additional taxes or increasing the public debt – both potentially damaging for growth.

One way to develop new infrastructure without crippling the country's economy would be through FDI in which it will be involved in public-private partnerships (PPP) – inviting private firms to work alongside the government in developing the necessary infrastructure.

The potential benefits are huge. Foremost among these is guaranteed rapid execution. In a country where public sector projects often come in years late and millions over budget, bringing in the private sector mentality (both by transferring the design and construction obligation to the private sector and linking payments to service provision) could be a game changer.

Similarly, the government could execute numerous projects simultaneously, rather than having to wait for the funding for capital expenditures.

The public company Electricite du Liban (EdL) weighs heavily on the government's expenditures. Subsidies to EdL stood at an average of 1.85 billion of dollars per year in the last 5 years. In addition, EdL is unable to supply houses and businesses with 24 hours of electricity, Lebanon has lacked sustainable electricity, education, health, transport and other basic networks due to the chronic inability of successive governments to manage and plan them, pushing them to use private generators. Road infrastructure is outdated and need rehabilitation, in addition to the need of investment in new roads. Traffic jam is increasing every year with wasted time on the roads costing the economy hundreds of millions of dollars per year, with the country lacking a well-functioning and organized public transport. Even though water is abundant in Lebanon, it is polluted and wasted, due to leaking distribution infrastructure. Due to the limited budget resources, Lebanon has made no significant investments in infrastructure. Lebanon's high public debt, standing at 129.26% of GDP, hinders the government's ability to renovate the infrastructure. Moreover, the government is incapable of increasing its revenues, which are 3.95 billions lower than its expenditures.

Many examples in Lebanon show that domestic companies are involved in innovative activities same as foreign companies and this due to the innovator employees and managers whose definitely was working at certain time in a foreign company or took a training program in a foreign one.

Foreign direct investment benefit innovation activity in Lebanon via spillover channels such as reverse engineering, skilled labor turnovers, demonstration effects, and supplier – customer relationships.

Privatization is an ongoing trend in many parts of the developed and developing world. Proponents of privatization maintain that the competition in the private sector fosters more efficient practices, which eventually yield better service and products, lower prices and less corruption.

The public sector is the part of the economic system that is run by government agencies. Privatization may involve either sale of government-held assets or removal of restrictions preventing private individuals and businesses from participating in a given industry.

List of some benefits of privatization to the economic growth:

– improved efficiency: The main argument for privatization is that private companies have a profit incentive to cut costs and be more efficient;

– lack of political interference: It is argued governments make poor economic managers. They are motivated by political pressures rather than sound economic and business sense;

– short term view: A governments many think only in terms of the next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election;

– shareholders: It is argued that a private firm has pressure from shareholders to perform efficiently. If the firm is inefficient then the firm could be subject to a takeover. A state owned firm doesn't have this pressure and so it is easier for them to be inefficient;

– increased competition: Often privatization of state owned monopolies occurs alongside deregulation – i. e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competition that can be the greatest spur to improvements in efficiency. For example, there is now more competition in telecoms and distribution of gas and electricity;

– government will raise revenue from the sale.

FDI linked to the privatization of public sector enterprises has resulted in substantial improvements in the supply of services that have strong linkages to the rest of the economy. In which it is the process of transferring an enterprise or industry from the public sector to the private sector.

Projects in Lebanon that need to be addressed urgently and that would benefit from PPP include: water, roads and electricity infrastructure, waste management, renewable energy projects, transport, airports, telecom, schools and railways.

Public projects may involve charging minimal fees to cover costs which are even sometimes subsidized by the government (public utilities) but in Lebanon's case, are losing money because of corruption, nepotism, lack of investment in upgrades, maintenance and especially inefficient management and operations.

Lebanon, a water-rich country, continually faces water shortages, especially in the dry summer months, due to improper management and distribution. Despite high precipitation levels in the winter, most of the water is lost due to defective distribution, ending up in the Mediterranean Sea. Numerous studies have been done in the past four decades, which have recommended several solutions including dams and hill lakes, but the investment environment has hindered potential projects from being executed. Dams needed have an estimated cost of 920 million of dollars.

Identified projects include a railway, with an estimated cost of 350 million of dollars, and highway with an estimated cost of 538 million of dollars.

Electricite du Liban (EdL), Lebanon's public utility, the electricity sector has not only been widely identified as Lebanon's most pressing bottleneck, but it also remains a major drain on the budget.

Lebanese businesses lose millions annually due to daily power outages and the cost of using private generators and private citizens suffer as well from the high costs. Problems at EdL include insufficient bill collection, inefficient power plants and an improperly managed distribution network.

Despite these opportunities, local and international companies have been hesitant to invest without a clear legal and regulatory framework that would ensure transparency and professionalism in the tender award.

Conclusion. Lebanon has been traditionally open to foreign direct investment. The investors desire to invest in Lebanon in which attractiveness make them come and invest.

From the important of FDI to a country like Lebanon, we reported how many ways exist to attract investment to the country: remittances, public-private partnership and privatization.

We show the remittances and capital inflows are seen as one of the few remaining elements that keep the struggling Lebanese economy on its feet.

Remittances from emigrants are consumed by daily household consumption rather than direct investment. They amount to double the FDI. But remittances fuel real estate and services (non-tradable goods) investment increasing the demand for unskilled migrant workers.

The Public-Private Partnership Law regulates the participation of the private sector in public infrastructure projects in Lebanon in electricity, roads, public transportation, telecommunication and waste management among others.

Lebanon is clearly crying out for infrastructure investment and PPP would make a genuinely radical series of reforms possible. In addition, Lebanon's share of the expected growth in 2018 after ratification of the law of PPP.

Investment in infrastructure plays a key role in the economy's potential and ensuring sustainable growth, in addition to improving the living standards of the population.

FDI offers many benefits, for the public sector, consumers, the local economy and the government. By involving in Public-Private Partnership benefits the economy as a whole by decreasing unemployment rate and brain drain. FDI would create new jobs as companies enlarge their operations and seek to gain market share in a competitive environment. This new business environment would help young Lebanese, who are in the country, to stay as they will find jobs domestically. The recent passing of Lebanon's PPP law would create over 200000 jobs. PPP and privatization will even encourage Lebanese living abroad to come back and contribute to the country's production. Due to the monopoly-free environment, FDI will ensure consistent quality services and products. Companies will need to innovate and invest in modern equipment so as to differentiate their service offering from that of their competitors, leading to all round better services and products that are consistent and continuous. This will increase productivity levels and encourage innovation since it is well documented that private companies are generally more productive and efficient as they tend to have the financial and human resources, as well as the organizational flexibility, needed to operate at an optimum level.

Finally, Lebanon needs a modern PPP law that provides the transparency and competence needed for the success and sustainability of PPP projects. This would encourage the foreign investors to take on more PPP projects that would improve Lebanon's infrastructure, which in turn would lead to higher economic growth and a lot of profit for the investors.

PPP law is urgently needed in order for the country to become more competitive, attract much-needed foreign direct investment, bring expertise to the country, create thousands of jobs, and ultimately increase revenues and stimulate economic growth.

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