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TOOLS OF ATTRACTING FOREIGN INVESTMENT IN LEBANON: GOVERNMENT WAY AND ALTERNATIVE PLAN

There is a set of tools of attracting foreign investment in Lebanon in the article. It includes several options of decision making process. The first option is the public-private partnership (PPP) when private investors from Lebanon provide the service under the management of public entities. The second scenario appeared as a capital investment plan (CIP) after French conferences. CIP means the situation when private investors are in share with public sector under the World Bank and Lebanese Government control. These two options can be combined in one – the government way. The last choice is alternative when the main ideas repeat the World Bank plan but the controller in this model will be changed to a new company which will have the duty to provide all services and to manage the project each specialized in domain (building, operation, infrastructure, etc). There is a description of investment projects according PPP and CIP in the article and the organizational schemes of the three options of attracting foreign direct investment.

Key words: public-private partnership, capital investment plan, alternative, controller, facilitator.

Introduction. 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. Lebanon competes with up to ten countries in the region to attract international developers and lenders, and they will usually only go to markets where the legal framework is clear and supports the development of these projects.

Main part. The Lebanese Government is on the way of change in doing business with investors.

Only in 2017 it is appeared a new attitude to attract the investment by ratifying *the public-private partnership* law, which regulates the participation of the private sector in public infrastructure projects in Lebanon (the fields are electricity, roads, public transportation, telecommunication and waste management).

The PPP law clearly defines the procedures for the parties involved, their duties and the processes of every PPP project, from the initial phases of bidding through execution to monitoring, specifically the ministries' involvement in the envisaged PPP project. It also subjects the process to clear economic evaluation and feasibility studies, identifies the key provisions of the PPP Project Agreement and makes specific reference to the possibility of resorting to arbitration or to other alternative dispute resolution mechanisms in case of disputes with the private partner.

According to the PPP law projects exclude the parliament's approval.

However, the PPP law has certain limitations, and specifically does not:

- provide for specific timeframes to be respected from the moment the PPP project is proposed until the PPP Project Agreement is ultimately signed; the Private Party should be able to anticipate the timeframes of the main milestones – if not all – leading to the award of the PPP Project Agreement;

- neither deal specifically with PPP Project financing nor does it give the sufficient means to seek such financing, which is very important in long term, sizeable projects;

- explicitly grant the PPP Project Company the right to create security or pledge neither its assets nor its equity shares;

- institute a grievance committee or a similar body in charge of examining potential recourses by the private partner against the decisions of the relevant authorities involved in the PPP project processes;

- specifically delineate various models of PPP Agreements depending on project nature and specific risk and does not include clear force majeure rules.

The second variant of the Government's strategy is to attract foreign investors by holding conferences to support Lebanon. There were 4 conferences and in the end of Paris Conference 4 the Capital Investment Plan (CIP) appeared (the fourth conference is called CEDRE (economic conference for development, reform and enterprise)) [1].

The approach of the Lebanese administration to the files in question has undoubtedly been the primary objective of the Government's reform plan at the Paris 4 Conference, as investors they are deeply disappointed by the poor management and weaknesses of the regulatory institutions that were originally found to be motivating them, which distorts their accounts of risk, weaken their credit and moral ratings, increase the expected return and reduce the maturity thresholds required to initiate investments. Institutions are both inefficient and corrupt.

Because of these realities the government proposes two important objectives in CEDRE:

- the government should adopt and improve the national strategy to combat corruption not only for its impact on all sectors, but also because it affects the flow of foreign investment and reassures investors of the good work of public administration which facilitates attracting more investment;

- the government should speed up the reforms that have been studied with the World Bank and anticorruption institutions. The most important of these reforms is the adoption of the Individual Treasury Single Account (TSA), in which all government funds are collected into one account, reducing borrowing costs, extending credit and improving policy government and helps to reduce corruption, thereby facilitating the effective management and control of government cash resources. The establishment of a unified structure of banking arrangements through the TSA is a good practice.

All this in the context of a fixed exchange rate regime has been in effect for two decades and has become a pillar of the Lebanese economy.

In table 1 we can see CIP plan in figures.

Table 1
The Capital Investment Program of the Government which presented at conference CEDRE, million dollars

| Sectors | The first stage | The second stage | Total |
|--------------------------|-----------------|------------------|--------|
| Transportation and roads | 2217 | 1992 | 5208 |
| Water | 2259 | 879 | 3138 |
| Sewage | 1012 | 1033 | 2045 |
| Electricity | 2371 | 1441 | 3812 |
| Telecommunications | 550 | – | 550 |
| Waste | 1400 | – | 1400 |
| Public Health | 150 | – | 150 |
| Education | – | 130 | 130 |
| Culture | 140 | 140 | 280 |
| Total | 10 349 | 6614 | 16 963 |

Source: Council of ministers.

The total amount of attracted investment by CEDRE is 16 963 millions dollars.

A total of 50 countries and international and regional financial institutions participated in the CEDRE conference. Some 17 countries and institutions pledged loans totaling 10.2 billion dollars, of which 9.9 billion dollars was on concessional terms and about 860 million dollars in grants. The participants considered that concessional loans and private investment were the most appropriate options for financing infrastructure projects and creating jobs, given the financial constraints imposed by Lebanon [1].

The Government of Lebanon has pledged to work to reduce the fiscal deficit by 1% of gross domestic product (GDP) annually for the next five years, in line with international support and to achieve financial and administrative reform and government reforms aimed at strengthening the stability macro-economic assistance in the implementation of competitive procedures. The most important measures to be adopted by the Government:

- improving tax collection;
- reduction of treasury transfers to the Lebanese electricity company;
- implementation of structural reforms identified by participants as critical to attracting new public and private sector investment;
- improving the procedures for the removal, approval and implementation of externally funded projects with the assistance of donors and investors;
- establishing a dedicated website to track project financing and implementation, aimed at ensuring transparency;
- operationalization the public-private partnership within the framework of the infrastructure reforms and to approve the implementing decrees of the Partnership Act.

The participants in the CEDRE Conference stressed the importance of a “strong follow-up mechanism” to ensure that reforms are implemented and that pledges are properly disbursed.

At the request of the Government of Lebanon and following the identification of areas of action, more than 280 projects were evaluated under the integrated management of water, electricity, water and sanitation, transport, communications and solid waste, the cultural and industrial sector, has been shown to be the vast majority of investment in this area in the first and second phases as follows: transport (32%), energy (24%) and water (21%) sectors. The investment program is 22.94 billion dollars divided into four-year phases, with 10.8 billion dollars (2018–2022) allocated for phase 1, 6.45 billion dollars (2022–2026) for phase 2 and 5.69 billion dollars (2026–2030) for phase 3 [1].

The duration of each phase is 4 years, beginning with the securing of the required funds, and the duration of the project may exceed four years, i.e. the duration of the specified phase, depending on its size and the difficulties of implementation, and its delivery to the relevant department.

In the third phase, electricity has the highest share of the third cycle of 35%, compared to 30% for each sector of transport and water, and 5% for sanitation.

All these projects, contributing inevitably address the important part of the social crises that afflict Lebanon, especially with skip unemployment among the workforce 25% to 32% among young people.

Most projects in the areas of electricity, transport, culture and industry, if completed, will have a significant impact on growth and employment creation.

Now we describe CIP plan by sectors.

Treating *solid waste* through disposal or treatment is the absolute priority of the Government's plan to CEDRE, which is a necessary and crucial issue in Lebanon. Prior to the Syrian crisis, only 53% of municipal solid waste was disposed of in the country's only health care: Naameh and Zahlé. The rest were disposed of in unhealthy landfills and hundreds of open landfills, which are a major source of pollution in air, watersheds and coastal areas. In the summer of 2015, the visually strong garbage crisis, which left huge piles of rubbish scattered in the streets of Lebanon.

Through CEDRE Conference, the Government of Lebanon is trying to resolve a sustainable solid waste crisis and the program has one entry point: "Solid waste management to cover all of Lebanon including collection and sorting sites Treatment and landfills" for a total of 1.4 billion m².

The Capital Investment Plan contain 24 separately identified investment projects in *the transport sector* (a total of 7.381 billion dollars).

Addressing *the electricity* problem in Lebanon has always focused on how to increase production and has not been a serious attempt to address the mismanagement of this sector and to modernize its administration hence, so what the government is trying to do – 17 separately identified investment projects in the electric power sector for a total of 5.592 billion dollars [1].

CIP plan in the Lebanese *industry* has following competitive advantages:

- institutional support: organized sector with the Association of Lebanese Industrialists (ALI) very active in promoting the interests of its stakeholders;
- multiple financial facilities provided by the government:

- a) 50% exemption on tariff duties at export;
- b) 2% custom duties for machinery, equipment, spare parts and building material imported for the setting up of new industrial firms;
- c) 0% custom duties for textiles, semi-manufactured goods and raw materials;
 - fiscal exemptions granted by IDAL which can run up to 100% exemptions on corporate income tax for a period up to 10 years for industrial companies;
 - signing of multiple bilateral and multilateral agreements which have had a positive impact on the improved access to markets for Lebanese exports in external markets.

The government's plan in CEDRE for the development of this sector includes 2 separately investment projects for a total of 75 million dollars [1].

The growing demand for *information and communication technology services* has led to massive investment in communications infrastructure in Lebanon. The sector has grown remarkably in recent years, thanks to the adoption of new initiatives and government decisions to modernize the sector and support its expansion (implementation of 8 investment projects in the telecommunications sector for a total of 700 million dollars). The aim is to modernize the infrastructure of broadband and digital platforms in Lebanon and to provide Internet and cloud services more quickly to the government, companies and consumers in Lebanon.

The government has drawn from the economic reform plan 11 independently identified investment projects in cultural heritage for a total of 264 million dollars projects to be implemented during the first and second phases, covering the period 2018–2025. It concerns a larger economic sector that can be defined as high-value-added services, which include tourism, heritage, creativity and knowledge. The experience gained so far in Lebanon has shown that support for knowledge and the use of heritage assets in cities has improved local economic development and employment creation, particularly in secondary and tertiary cities in underdeveloped areas. It also enhances the livability of local communities in a comprehensive manner and attracts large investment from the private sector [1].

It has become known to any government in Lebanon that the economic system in Lebanon cannot be reformed and developed without reform of the organizational structure of all economic sectors associated with the public sector. The Government of Lebanon adopts a list of these reforms which would help the State to provide basic services and to strengthen its infrastructure in a sustainable manner. Specifically, the Government and the World Bank provides a list of cross-sectoral reforms (table 2) [2].

Table 2

A summary list of suggested structural reforms for the CIP

| Horizontal Reforms | Vertical Reforms |
|--|--|
| A fiscal framework which commits to a positive primary fiscal balance over the medium term, as part of a debt management strategy that aims to lower the public debt-to-GDP ratio so that it is on a more sustainable trajectory | Electricity 1. A multi-year electricity tariff cost-recovery plan for EdL over a transition period in tandem with increases in generation 2. Implementation of approved development plan for natural gas supply |
| Electricity tariff adjustment for new generation | Water & Wastewater 1. Parliament ratification of the water code 2. By-Laws of Law 221 for autonomy status of the Water Establishments 3. Staff recruited for O&M of water facilities |
| Anti-corruption Law | |
| Expedite transition to Single Treasury Account | Transport 1. National Transport Strategy adopted 2. The review of the governance structure of the Civil Aviation sector 3. Identification of revenues and expenditures for sector |
| Reform of public investment management systems | |
| Ratification of Public Procurement Law | Solid Waste Management 1. Development of a tariff system for waste generators (households) 2. Policies to support capacity development with local governments for sector planning and operations 3. Defining feed-in tariffs for electricity from waste processing facilities based on long-term economic benefits |
| Endorsement of the new customs strategy | |
| Passage of credit infrastructure legislative package | |
| Regulations pertaining to the organizational and staffing structure, financing arrangements and functionality of HCP (Higher Council for Privatization and PPP Partnerships) | Telecommunication 1. Adopting a unified vision 2. Harmonized licensing regime for DSPs 3. Restructuring of the telecoms sectors |
| A strategic plan for the management of the fiscal commitments and contingent liabilities | Industrial Zones TSEZ Regulatory and Licensing Regime |

Source: WB Paper to CEDRE.

The Government, in cooperation with the Parliament, should work for the restructuring of viable companies, strengthening the rights of lenders in movable assets, institutionalizing commercial intermediation for quick and effective resolution of trade disputes, reducing the backlog of court cases.

The alternative plan includes projects negotiated between the Government and the investment group or investors under the new company control which can be based on the BOT (build, operate, transfer). The private operator designs, finances and builds infrastructure. While formal ownership of the assets is assigned to the government, the private sector operates the project long enough to service any debt incurred and to earn a suitable return) or BTO (build, transfer, operate), the BTO is very similar to the BOT structure.

The role of a new investment company is the follow-up, association and public relations between the private and public sectors and the group of companies that are funded and implemented for these projects.

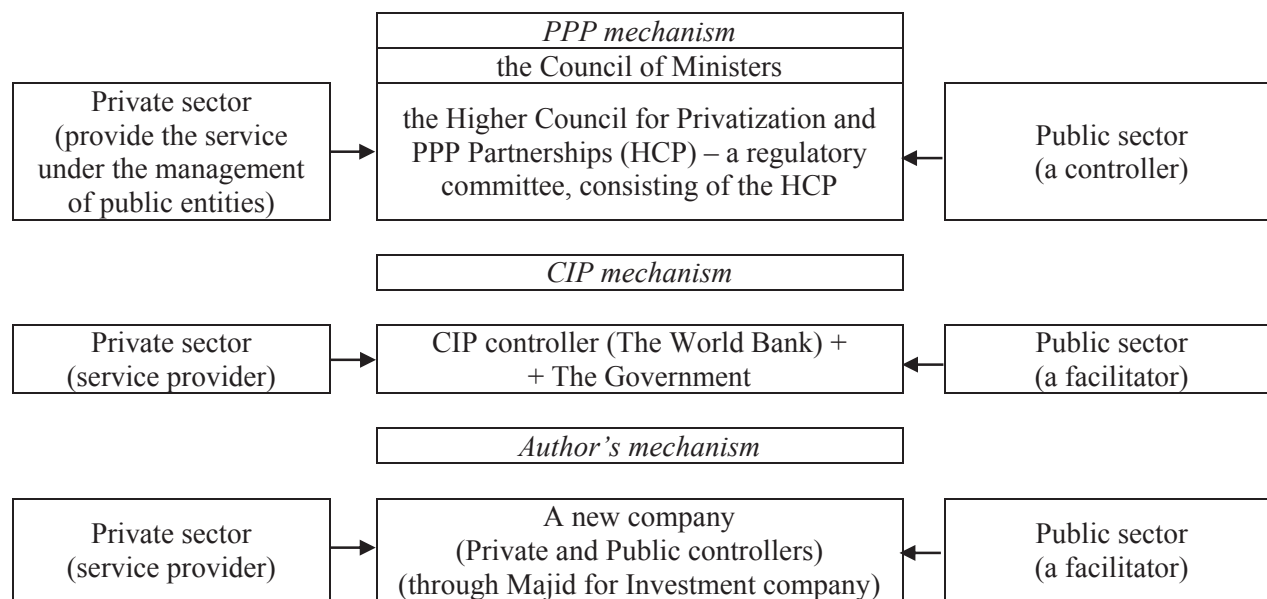
Here we will present an organizational schemes of doing business according PPP, CIP and alternative plan (figure).

In PPP process it has become clear in Lebanon that no projects can be carried out without starting a process of administrative, financial and legal reform of the administration. Projects are under implementation pending approval by the Council of Ministers and reforms of the laws.

The differences in PPP, CIP and alternative process is the role of the controller and the vertical adoption procedure of the investment projects.

In PPP scheme public sector controls and receives part of the profits.

In CIP model the controller is the World Bank and Government, in alternative plan the controller is a new company (public sector and investors from Lebanon). CIP and author's recommendation has lower level of a corruption than in PPP model because of having independent controller. And alternative option it is better way to have a supervisor (a controller) who knows country, traditions very well. The use of private sector expertise in the management of public enterprises, which leads to greater efficiency in project development and the shortening of the implementation period, is also a result.



Schemes of attracting foreign direct investment in Lebanon according three models

Conclusion. Tools of attraction foreign investment in Lebanon includes several scenarios: the government way (public-private partnership, CIP) and alternative plans. Conferences Paris 1, 2 and 3 largely contributed in helping Lebanon to fortify economic and social status.

The government's vision is based on a further increase in infrastructure investment, within a comprehensive financial framework and debt treatment framework, with a growing role for the sector through sectoral reforms to help ensure the full realization of the benefits of investment and structural reforms as a basis for good governance and to expand the activity of the private sector, leading to sustained economic growth, a strategy for diversifying lebanese productive and service sectors and realizing their export potential.

In the article we have extensively reviewed the law on public-private partnership and the positive role of foreign investors and efforts made by the Government in cooperation with the World Bank to accelerate economic and financial reform and social and economic development.

Moreover, additional regulatory changes will be needed to encourage the use of the PPP model. Still, Public-Private Partnerships alone will be unable to satisfy Lebanese infrastructure funding needs. PPP agreements will have to be combined with other financing mechanisms to guarantee the involvement of the private sector and expand the availability of funds. It has laid the ground for an increasing participation of the private sector in infrastructure funding and PPP, CIP or alternative plan could become the preferred way of providing for Lebanese infrastructure needs.

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