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RISKS OF INVESTMENT PROJECTS IN LEBANON

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Annotation: This study explores the availability of investment opportunities in Lebanon. Investment projects face a lot of risks: risk of corruption, economic risks (interest rates, minimum wage, taxes, liquidity risk, duty rates, currency risk), political risks, environmental risks (pollution in air and water, climate change, waste disposal). All these risks reduce the attractiveness of Lebanese economy for foreign investors especially corruption.

Key words: risk, corruption, economic, political, environmental, Lebanon

Risks are an inevitable peril that may face any investment or project. Hence, classifying as well as identifying these risks is the primary anchor for the success of any business. Furthermore, knowing the nature of these risks along with managing and evaluating them are the main components in the success of investment companies. If higher risk targets higher return, then the lack of management in a correct and thorough manner might lead to the loss of these returns and in turn, failure of the company itself.

Despite the fact that Lebanon is highly open both to trade and foreign direct investment (FDI). “Lebanon is becoming an increasingly high-risk location for FDI”, according to Fitch Solutions Report [1]. The latter is due to the international financial and economic crises, not to mention the political instability in the region, considering that Lebanon heavily depends on vulnerable sectors such as tourism and real estate, banking and most significantly, the Syrian refugee crisis. Additionally, the issue of corruption in Lebanon has become quite vital, hindering its prosperity and growth especially the business related sectors. Accordingly, the mentioned report gives Lebanon a score of 51.9 out of 100 in the “Trade and Investment Risk Index”.

In addition to all, the popular movement that started on October 17, 2019 which was termed as “October 17th revolution”, where the entire Lebanese people rose up against the system of government and corruption that has brought the economic, financial and life situation in the country to a deplorable state. Despite the eligibility of the demands that the uprising carried, it directed them to the Lebanese banking sector as the first lender of the Lebanese state, raising the percentage of

financial and economic pressures and placing the country in a period of stagnation and anticipation, which accelerated the process of exposing the economic gap and a market change in the price of currency exchange as well as the stagnation in the private sector and stalled money transfers. In the light of the formation of a new government and awaiting the issuance of its ministerial statement in addition to the financial and economic plan that it will develop to address these problems, the economic situation in Lebanon remains unknown and will increase the rate of investment risks.

We will review the risks facing investment in Lebanon and its types.

Risk of corruption.

Corruption is a substantive hindrance for corporations intending to invest in Lebanon; it is regarded by the private sector as a primary barrier for business. Infused sponsors that monopolize the economy and obstruct competitiveness, as well as the corruption taking over basic services play a role in deterring investment. The authoritative and institutional basis to face corruption remains incomplete. Lebanon endorsed the United Nations Convention against Corruption (UNCAC) in 2009, and The Lebanese Penal Code criminalizes most forms of corruption, for instance, active and passive bribery and the bribery of foreign officials. However, the enforcement of issued laws is weak. Albeit enriched training for lawyers, judicial functions still stumble upon numerous obstacles and are hampered by corruption and quotas. In fact, the high involvement of judges in corruption, as well as the political investigation of corrupt magistrates and their appointments of key prosecutors lessened the public confidence in the law. Low expectations based on a weary reality tend to dissuade people from taking legal action.

Finally, the Transparency International Corruption Perception Index ranked Lebanon 28 out of 180 in 2019 (where 0 is highly corrupt and 100 is very clean) [2]. The latter discourage investment and ensure that no amount of investment, if present, can provide considerable benefits in light of judiciary subordination to the corrupt system. Thus, the reconsideration of the judiciary system and its independence and transparency are vital for regaining the trust of investors.

Economic risks.

Economic risk is the risk that is associated with the influence of financial and other economic factors on the project. Assessment of economic risks is crucial in assessing the overall risk of the project. Economic risks have a direct impact on the revenues and expenses amount and accordingly the company's profits.

There are many types of economic risks that businesses need to identify and manage.

Unfortunately, investment in Lebanon now faces most of these risks due to the instability of the economy and the absence of a clear vision for the future of investment.

Interest rates. Evaluating a country's interest rate is a critical step for the overall management of economic risks. Lebanon has witnessed a significant increase in interest rates in the last two years, where the interest exceeded 16% on deposits in the Lebanese pound and 12% on deposits in US dollars. In parallel, interest rates on

loans have increased gradually. This fact hinders investment and limits the development and profits of companies due to the high financing costs.

With the deterioration of the economic situation in Lebanon in recent months, the Association of Banks in Lebanon issued a decision to reduce the Beirut Reference Rate (BRR) to the caps of 11.5% on the Lebanese pound and 8.5% on the US dollar.

This procedure is not considered a fundamental solution to attract investment, but it is a necessary step in the current stage.

Minimum wage. The approval of the salary and salary chain in the public sector in 2018 had negative repercussions, as it was funded by imposing taxes on all sectors of society, and was accompanied by a rise in the prices of goods and services, which led to a decline in purchasing power with high inflation. Accordingly, the increase in the minimum wage, thus increased the cost of investment projects in Lebanon, and consequently decreased its profits and competing capacity.

Taxes. The Lebanese government has adopted a basket of taxes to finance the latter chain, including a tax on capital gains, a corporate income tax, a fee on real estate sales contracts, a tax on the returns and benefits of bank accounts, and an increase in the value-added tax. All these taxes led to a reduction in the profits of the existing companies and the inability of some of them to continue, which pushed many of them to shut down and let their employees go, hence increasing the unemployment rate.

These taxes pose a great risk on investment projects due to high operating and financing costs, which in turn will push corporations to invest in other countries that possess the advantages of the heaven taxes.

Liquidity risk. Liquidity risk has worsened with the deteriorating security situation in the country, loss of confidence in the banking sector and rush of depositors to withdraw their money. This in turn brought up a liquidity issue for banks, forcing them to adopt some proceedings similar to capital control, leading to an economical halt and tackling the investment movement.

Duty rates. The high tariffs on raw materials and incomplete commodities, in addition to the failure to support industrial sectors, prevented companies from growing and developing and adversely affected their profits.

The results of the trade exchange deals that Lebanon concluded with foreign countries were neither fair nor feasible for Lebanon and didn't stimulate its industrial, agricultural, and service sectors due to the low volume of its exports compared to its imports, as the trade balance deficit is about 9 billion dollars annually. This was reflected in the contraction of the Lebanese economy due to the increased need for foreign currency on one hand, and strictly restricting the domestic production sectors and increasing the competition it faces them on the other hand, with no laws in place to protect them.

It is also necessary to mention the smuggling operations across the Syrian borders and the non-prosecution of unlicensed institutions, has worsened the situation to some of them and shut down of others.

Currency risk. The political and banking crisis in Lebanon compelled the pegging of its currency to the US dollar. A devaluation at the time being could be disastrous for the country with one of the world's biggest foreign debt burdens.

The risk of devaluation continues to rise as Lebanon combats its most severe economic pressures since the 1975-1990 civil war, accompanied with widespread protests that have toppled the government.

The Central Bank Governor insisted on the long-standing peg, ensuring that the government had the means to maintain it. However, the black market exchange rate indicates a discount to the peg of more than 30%.

Lebanon, in contrast to multiple foreign economies with similar currency pegs, has considerable overseas liabilities, burdened by a debt to GDP ratio of around 150%, being the third highest in the world. Under a devaluation, the ratio ought to increase uncontrollably, thus increasing Lebanon's disability to repay its debt.

The fixed exchange rate and banking sector model have not been beneficial to the wider economy, which was, in one way or another, heading into the crisis. Thus some combination of debt restructuring and a more flexible and competitive exchange rate seems more likely as a feasible solution.

High levels of debt denominated in US dollars makes up nearly half of Lebanon's total liabilities, is one reason why a devaluation could be painful .

Political risks.

Political risks are risks associated with changes that occur within a country's policies, business laws, or investment regulations. Other influential factors include international relationships and any other situation which may have an influence on the economy of a given country.

A common example of political risk is the political turmoil that Lebanon is going through today as it witnesses many changes in social attitudes and perspectives, causing disturbances that have become threatening to the economy.

Political risk factors that may be faced in developing countries include nationalization or expropriation of foreign assets, arbitrary government regulations on FDI policies, war, terrorism, political violence, bureaucracy, long delays in obtaining permits, price checks, common corruption and environmental regulations [3].

Considering Lebanon's current situation, the political instability and the lack of plans to address the current crisis in addition to the chaotic corruption, contribute to high political risks, thus discouraging foreign investments.

Environmental risks.

The environmental problems that our planet is suffering depleted natural resources and strained livelihoods. If environmental problems are left unattended, they negatively influence companies directly, through a lack of resources, and indirectly, as in health risks that lead to loss of working hours and efficiency.

Lebanon encounters numerous environmental threats, such as air and water pollution, risks associated with climate change, and hasty waste disposal.

Pollution in air and water. The environmental state in Lebanon is decelerating from bad to worse and the employed proceedings remain below the required level.

Lebanon's primary environmental disaster is ocean pollution. Thousands of tons of industrial waste and pollutants are dumped annually into sea water.

Air pollution comes second for it has been reported that pollution levels in Beirut's air have increased vastly, reaching high concentrations as to become toxic for human health.

The damage caused by pollution exceeds medical bills and loss of productivity to reach higher wages paid in order to attract employees to work in heavily polluted areas. Moreover, pollution can alter the interest of investors.

Climate change. The latest report from the Lebanese Intergovernmental Panel on Climate Change (IPCC) indicates a highly likely rise in sea level over the next decades from 0.2 meters to one meter. Also, models in the study demonstrate a high confidence that temperature will vary more widely with increasing heat waves.

With 60 percent of Lebanon's economic activity taking place in a narrow coastal strip along the Mediterranean, possible rising sea levels would lead to flooding and erosion. Additionally, it could also impact important activities such as the export of water intensive crops.

Expert opinion states that non-recycled waste, daily traffic, population intensity, and increased carbon emissions in Lebanon are the main factors leading to climate change.

Sectors like tourism and agriculture, significantly dependent on the climate, could also be affected for climate change and can establish a higher demand for energy. Moreover, people in turn consume higher doses of electricity for air conditioning signaling higher operational costs for businesses. Furthermore, a higher demand for energy translates to increased consumption of natural resources such as fossil fuels and water, resulting in lack of useful resources for companies to turn into products and services.

Waste disposal. In the past decades, the disposal of waste in Lebanon has accelerated vastly. This is mainly due to the rise in community living standards, urbanization, immigration of Syrian refugees, and increasing in population levels.

Despite the high content of organic matter (52%) and recyclable materials (37%) in the waste stream, 8% and 15% of solid waste is recycled and converted to fertilizer respectively. Unfortunately, 48% of the waste is disposed of in sanitary landfills.

Corruption, lack of human resources, adequate facilities and insufficient technical skills are responsible for the wreck less management of municipal solid waste.

After all the above, considering the negative consequences of the waste crisis on the environment and businesses through the disposal of industrial waste and wastes resulting from projects and thus high production costs, this problem needs conscious management through investment projects that may be a great field for investment.

Conclusion. The exceptional circumstances that Lebanon is going through, as it is experiencing a high-risk financial, economic and security crisis, which it has not been seen since the civil war (1975-1990), have compounded the investment risks

surrounding any project from corruption, economic and financial risks, political and environmental risks. This makes identifying these risks and identifying their potential a necessity before starting a project to see if they can avoid some of them, afford and accept others according to the risk margin associated with each investment.

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МЕНЕДЖМЕНТ ЛОГИСТИЧЕСКИХ СИСТЕМ

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Аннотация: В статье раскрыта сущность информационных потоков в логистике, рассмотрены проблемы существующих логистических систем. Затронуты основные факторы, препятствующие внедрению цифровых технологий в логистических системах.

Ключевые слова: логистические системы, материальные потоки, информационные потоки, информационная платформа

На сегодняшний день развитие логистики определяют два главных фактора, а именно глобализация мировой экономики и активный рост научно-технического прогресса. Это создает новые потребности покупателей в логистических услугах и различные формы их удовлетворения. Наиболее совершенные коммуникации и перевозка сделали физические расстояния менее важными, благодаря этому предприятия могут работать на едином, охватывающем весь мир, рынке.

Двумя самыми основными понятиями в логистике являются материальные и информационные потоки. Материальные потоки представляют собой находящиеся в движении товарно-материальные ценности, к которым применяются логистические операции, обусловленные перемещением в пространстве и времени от поставщика к потребителю.

В свою очередь, информационные потоки – это передача информации в речевой, бумажной или электронной формах, предназначенной для реализации управляющих функций в логистической системе и обусловленный конкретным материальным потоком [1].

Можно выделить основные проблемы существующих логистических систем: