Distr.
LIMITED
E/ESCWA/OES/2013/WP.1
12 June 2013
ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

Business Regulatory Reforms: Recommendations for Lebanon

Working Paper Series
Office of the Executive Secretary

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13-0120

Abstract

This paper, the first in the Working Paper Series of the Office of the Executive Secretary, outlines short and long-term business regulatory reforms that Lebanon could implement to make doing business easier in the country. The short-term reforms represent "quick-wins" because they are primarily administrative in nature and can be accomplished quickly through ministerial actions. Although rapid, they would have a large impact on the business environment in Lebanon by eliminating red tape that hinders businesses. These "quick-wins" also create an environment in which longer-term, more in-depth reforms are more likely to succeed. The longer-term reforms may require more time for implementation, a conducive and enabling environment, as well as changes to prevailing laws.

Overview

A vibrant private sector - with firms making investments, creating jobs, and improving productivity - promotes growth and expands opportunities for poor people. To create one, Lebanon has implemented a wide range of reforms -- including macro-stabilization programs, price liberalization, privatization, and trade-barrier reductions. However, youth employment remains limited[2], poverty rate is still high[3], and anti-poor economic growth holds higher than pro-poor economic growth[4]. Meanwhile, other countries have spurned orthodox macro reforms and done well. How and why so? What can Lebanon do to help entrepreneurs create jobs?

There is a growing consensus that the quality of business regulation and the institutions that enforce it are a major determinant of employment creation, private sector development, and economic prosperity[5]. In a new research paper[6], we investigated the link between business regulatory reforms and economic growth in 172 countries. We established that, on average, each positive business regulatory reform is associated with a 0.15 percent increase in income growth rate. The below figure provides a visual illustration of the main empirical finding.

While Lebanon ranks 115 out of the 185 economies covered by the World Bank 2013 Doing Business Project, relatively little progress has been made in recent years (see Table 1 for a sketch of the sub-rankings)[7]. And, not enough research has provided guidance to policymakers about assessing how good legal and regulatory systems are and determining what to reform in Lebanon[8]. The deterioration of Lebanon's ranking is not due to implementing any negative reform in Lebanon. It is mainly because other countries reformed their business regulations and were able to jump forward.

In countries with weak business environments, business regulatory reforms allow firms to grow faster and create more jobs[9]. An increasing number of new jobs will be in the formal economy because the benefits of being formal (such as easier access to credit and better utility services) often outweigh the costs (such as taxes). And more formal jobs mean more workers are protected by pensions, safety regulations and health benefits.

Earlier studies confirm this pattern following business regulatory reforms. For example, quarterly job creation in Portugal, one of the most heavily regulated labor markets, is 59% of that in the United States on a per capita basis. A Portuguese business is 40% less likely than a U.S. one to create jobs during an economic upturn[10]. Such jobless recoveries are common to heavily regulated markets -- and mean that some people

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[2] According to ILO (2011), youth unemployment rate is 30.8% for the 20-24 years old age group and 16.9% for the 25-29 years old age group.

[3] According to Abu-Ismail et al. (2008), poverty rate in Lebanon is 28%. Up to our knowledge, this study is the latest poverty rate update for Lebanon.

[4] Abu-Ismail et al. (2008).

[5] Besley and Burgess (2004), Alesina et al. (2005), Klapper et al. (2006), and Ciccone and Papaionnou (2007), among others.

[6] Haidar (2012a).

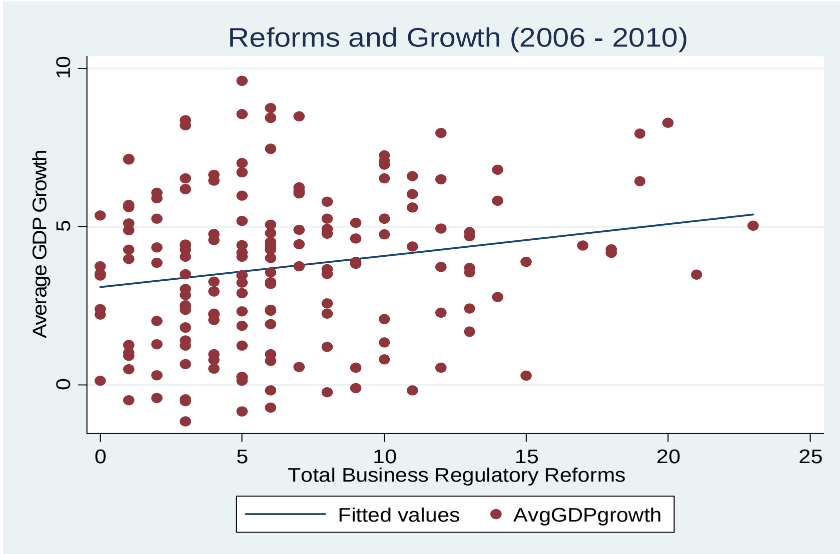
[7] The "Doing Business" report is one of the World Bank's research products. Since 2003 "Doing Business" has shown an annual spotlight on regulations. Now covering 185 countries, it looks at the complexity of rules (such as the cost and time involved in starting a firm) and the strength of legal institutions (i.e. how well contracts are enforced). It ranks countries on these measures and on the overall ease of doing business. Singapore comes top, the Central African Republic bottom. Thanks to these rankings, while "Doing Business" is influential (in the past decade almost 2,000 liberalizing reforms have been undertaken in areas covered by the report) and controversial. While some governments like it, others would like to see it watered down or scrapped. This paper does not discuss this controversy but only use the Doing Business indicators to flush out relevant business regulatory areas where reforms can happen.

[8] Saudi Arabia ranks (22), United Arab Emirates (26), Turkey (71), Jordan (106), Egypt (109), and Syria (144).

[9] Klapper and Love (2010).

[10] Blanchard and Portugal (1998)

remain without work for long periods[11]. But where regulations are costly and burdensome, businesses often operate in the informal economy -- and remain small, creating few jobs[12]. Indeed, opportunities exist for creating jobs in Lebanon.



Note: The above figure comes from Haidar (2012a), which also reports all relevant regression tables. We deduced the Reform variable from World Bank's Doing Business reports. As part of its annual exercise, Doing Business compiles 10 sets of indicators covering various aspects of the business climate including starting a business, paying taxes, obtaining licenses, getting credit, protecting investors, employing workers, international trade, property registration, closing a business and enforcement of private contracts. The annual Doing Business report includes information on reforms in each of these areas. We coded this information as a dummy variable which equals 1 if a country implemented a positive reform during the year on a given indicator and 0 otherwise. A positive reform, as defined in Doing Business reports, is one that makes it faster, cheaper or administratively easier for local businesses to start and run operations; or a reform that defines and increases the protection of property rights. An example is reducing the number of days to get an industry license, eliminating the minimum capital requirement for start-ups, or increasing the legal rights of creditors and minority shareholders. In the regressions, we controlled for foreign direct investment, fixed capital formation growth, population, trade, government spending, financial freedom, political stability, rule of law, control of corruption, initial income per capita, initial ease of business regulations, and regional dummies. Statistical significance holds at conventional levels when studying the impact of reforms in 10 business regulatory areas.

Table 1: Lebanon's performance 2011-2013

	2011	2012	2013	2011	2012	2013
	Ranking			Distance to the frontier		
Starting a Business	104	109	114	19.4	18.3	18.3
Dealing with Licenses Permits	157	161	172	35.9	35.6	36.3
Registering Property	105	105	108	36.1	36.1	36.1
Getting Credit	75	78	104	50	50	50
Protecting Investors	93	97	100	49.6	49.6	49.6
Paying Taxes	28	30	37	18.6	18.6	18.6
Trading Across Borders	93	93	95	36.5	35.4	36.1
Enforcing Contracts	120	120	121	46.9	46.9	46.9
Resolving Insolvency	128	125	131	78.2	77.4	77

Note: The source of this table is the World Bank Doing Business Database. The "distance to the frontier" measure in the above table is indicated on a scale from 0 to 100, where 100 represents the lowest performance and 0 the frontier. For example, a score of 77 means an economy was 77 percentage points away from the frontier constructed from the best performances across all economies and across time.

[11] Holmes (1998)

[12] Dabla-Norris et al. (2008)

This paper outlines both short and long-term reforms that Lebanon could implement to make doing business easier in the country. The short-term reforms represent "quick-wins" (see section A) because they are primarily administrative in nature and can be accomplished quickly through ministerial action. Although rapid, they would have a large impact on the business environment in Lebanon by eliminating red tape that hinders businesses. These short-term reforms also create an environment in which longer-term, more in-depth reforms are more likely to succeed. The longer-term reforms (see section B) may require more time for implementation, a conducive and enabling environment, as well as changes to prevailing laws.

A. Quick Win Reforms:

This section focuses on four areas where action is feasible over the next six to eight months. These reforms are "quick-wins" in the areas of starting a business, dealing with licenses, registering property, and trading across borders. The objective of these reforms is to improve part of the business regulatory environment for entrepreneurs and thus encourage economic growth and job creation.

Table 2: Summary of suggested short term reforms to improve Lebanon's business regulations

Starting a Business
Reduce procedures, time, and cost, as well as cut minimum capital requirement by:
- abolishing the minimum capital requirement
- providing expedited procedures at the National Social Security Fund
- making optional the requirement to designate a lawyer for standard small-medium businesses

Dealing with Licenses
Reduce procedures, time, and cost by:
- enforcing existing silence-is-consent rules
- introducing a flat fee for registration of property
- streamlining approvals of the order of engineers
- making police notification an internal process

Registering Property
Reduce procedures, time, and cost by:
- lowering registration fees
- standardizing sale-purchase contracts
- introducing fast-track procedures

Trading across Borders
Reduce documents and time to import and export by:
- extending hours of operation of customs
- allowing pre-arrival customs clearance
- reducing free demurrage time

1. Starting a business:

It now costs 67% GNI per capita (~US$ 6100), along with a minimum capital requirement of 35.2% GNI per capita to formally start a business in Beirut. The numerous procedures amount to just as many contacts with outside parties (including the commercial registry, Ministry of Finance, and National Social Security Fund), and hence opportunities for unofficial payments to change hands. To reduce the steps, cost, and time, as well as the minimum capital, the following short-term reforms could be feasible over the next six to eight months:

- Abolish the minimum capital requirement (thus also eliminating opening bank account procedure)
- Complete computerization of the system at the National Social Security Fund

- Make optional the requirement to designate a lawyer for standard small-medium businesses

*Abolish minimum capital requirement***:** The minimum capital requirement is equivalent to 35.2% of GNI per capita. Many countries defend the capital requirement as necessary to protect creditors. But the effect is counterproductive. Without all their funding immediately at their disposal, entrepreneurs have a harder time establishing an office, hiring employees, marketing new products and otherwise getting their business underway. Furthermore, minimum capital requirements can be a barrier to small business development, which is often important for economic growth and job creation. Lenders also base their decisions on commercial risk, not whether the firm is able to make its minimum capital payment. In most, and all high-income, countries around the world, this requirement is now considered obsolete[13]. Several countries - including Egypt, Georgia, Macedonia, and Saudi Arabia - have recently eliminated or reduced to a nominal amount the paid-in minimum capital requirement[14]. Starting a business in Saudi Arabia used to be limited to those who could afford one of the highest minimum capital requirements in the world -- $125,000 for limited liability companies. In July 2007 Saudi Arabia slashed the minimum capital requirement. Subsequently, new business registrations jumped 81 percent. Also, Bruhn (2011) found that simplifying business entry regulation Mexico increased the number of registered businesses by 5%.

Eliminate procedure of opening a bank account: (open bank account and deposit minimum capital) would be eliminated with the elimination of the minimum capital requirement since the minimum capital requirement will be abolished.

Complete computerization system at the National Social Security Fund (NSSF): To operate a new business in Lebanon, entrepreneurs must register both the business and its employees with the NSSF. On average, it takes 35 days for the release of the formal/hard copy of the employee's National Social Security Fund individual ID, even though the system is undergoing computerization. Completing the computerization process will greatly reduce the number of days for this procedure.

*Make optional the requirement to designate a lawyer for standard small-medium businesses***:** In Lebanon each newly formed company - from bookstores to factories - must contract an attorney and pay him an annual retainer. The Beirut Bar Association set the minimum annual retainer at LBP 7,500,000, plus LBP 100,000 for the power of attorney. To further streamline the process, the lawyer designation requirement could be optional for small and medium businesses. This reform could save entrepreneurs' steps, time, and the attorney fees, while encouraging investment and job creation. Top performing countries, like Australia and Canada, do not require the retention of a lawyer for standard commercial activities.

2. Dealing with licenses:

It takes 19 procedures, 219 days and costs 301.8% of GNI per capita (approx. US$ 27,493) to comply with the regulations to build a warehouse in Beirut. In Beirut, utility (water, electricity, and telecom) connections account for 24% of total costs and take 38 days to obtain. In order to address the challenges involved in utility connections, additional analysis would be necessary. Nevertheless, the procedures to obtain building and occupancy permits account for 84% (178 days) of total time. To improve the permitting process and reduce the associated costs, the following short-term reforms could be feasible over the next six to eight months:

- Enforce existing silence-is-consent rules
- Introduce a flat fee for registration of property
- Streamline approvals of the order of engineers
- Make police notification an internal process

[13] Djankov et al. (2002)

[14] Belayachi and Haidar (2008)

Enforce existing silence-is-consent rules: Currently the time period for the issuance of a building permit is 120 days, even though a 15-day time limit, reinforced by a silence-is-consent rule, applies for the municipality to issue the permit. This is also the case for occupancy permits, where the time stipulated by law is 30 days but on average it takes 58 days. If construction companies do not proceed with construction or occupancy as soon as they are legally allowed to, time and money are lost. Time limits and silence-is-consent rules could be further reinforced through training and incentives to civil servants responsible. Lebanon could follow the example of France, which introduced stricter statutory time limits and silence-is-consent rules in 2005. Now the actual time to receive a building permit in Paris matches the time stipulated by the law –30 days.

Introduce a flat fee for registration of the construction: It costs 29% of the total cost to register a new building in Beirut. Percentage-based fees could encourage side-payments, under-valuing of constructions to avoid payment, or at worse avoiding registration altogether[15]. Instead, Lebanon could consider introducing a flat fee for registration. Egypt conducted a similar reform in 2006. The Egyptian reform introduced a flat fee of EGP 2000 (approximately US$ 364) to register a property or building. Previously, registering a new construction cost 4% of the construction value in Egypt.

Streamline design approvals from the Order of Engineers to reduce associated procedures and delays: Before applying for a building permit, engineers have to submit designs to the Order of Engineers for approval and stamping, at a cost of approximately US$ 700. The procedure takes an average of 4 days. A suggested reform is to work with the Order of Engineers to reduce the turnaround time for this approval - for example by assessing and then expediting the internal approval process. Other countries that have this requirement, such as Argentina and Turkey, can clear plans in one day and for a much lower cost (around US$ 100). Upon receipt of the building permit from the municipal authority, the construction company must return to the Order of Engineers to obtain another permit to begin construction works. This procedure, which could be viewed as redundant, adds 3 days to the permitting process and a cost of LBP 150,000 (about US$ 100).

Make the police notification step an internal process by requiring the municipality to notify the police of the construction permit: Under the current system, the applicant receives a second clearance from the Order of Engineers and then notifies the Police. Assuming this second clearance is eliminated, we here suggest that instead of the applicant submitting a police notification as an additional step, this could be done automatically by the municipal authority, saving the applicant another interaction with a government authority and days of building time.

3. Registering property:

Registering property in Beirut takes 8 procedures, 25 days and costs 5.8% of property value. More than 25 countries made it easier to register property since 2006. Lebanon was not one of them although its property registration process is relatively complicated compared to other upper middle income countries like Azerbaijan, Lithuania, and Turkey. The relatively long delays and high cost to register at the land registry (15 days and more than 5% of property value) may discourage formal registration. Short-term reforms to improve Lebanon's performance in registering property:

- Lower registration fees
- Standardize sale-purchase contracts
- Introduce fast-track procedures

Lower registration fees: Currently, an entrepreneur in Beirut must pay the following fees to complete one procedure of the property transfer process: LBP 74,000 (Flat taxes), 5% of property value (Transfer tax)

[15] Amin and Haidar (2012a) and Haidar and Velasquez (2009)

+ 5% of the sum of Transfer Tax and Flat Taxes (Municipal Tax) + LBP 5,000 (stamp duty on new deed) + 0.3% of property value (stamp duty) + 0.1% of property value (bar association tax). The total cost exceeds LBP 23 million (US$ 15,257) for a property value equaling US$ 274,500. The cost to register could be reduced significantly by making the transfer tax a lower fixed fee instead of a percentage of the property value.

High percentage-based fees may lead some entrepreneurs to resort to undervaluing their property to avoid paying the full amount, or simply to avoid registration completely. The government could lower the transfer tax from 5% of property value to about US$ 1500 (about 29% of Lebanon's GNI per capita, comparable to Egypt's new reduced fee). One can see an example of how this reform has helped in the case of Egypt. When the Egyptian government lowered the total cost to register from 5.9% of property value to a fixed fee of EGP 2000 (around US$ 364), it counted a nearly 39% increase in property registration revenue because of the increase in the number of registrations[16].

Standardize sale-purchase contracts: Lebanon is among the 40 countries that require double verification – one by a legal professional and one by land registry officials. Currently most entrepreneurs hire a lawyer, notary public, or qualified facilitator to prepare the sale agreement in the official form. The Beirut Bar Association has set a minimum fee of US$ 500 (LBP 750,000) for the drafting of a contract. Lebanon could cut one procedure, two days, and LBP 750,000 by standardizing sale-purchase contracts and making them available to the public. This reform could reduce delays by ensuring fewer mistakes and eliminating the need to scrutinize documents before registration. Three out of four countries manage property registration without mandating the use of notaries or lawyers, including the UAE, Oman and Jordan in the region.

Introduce fast-track procedures: An entrepreneur currently spends 20 days to obtain an urban plan certificate from the Urban Planning Authority and the Municipality, have the property inspected by the Tax Authority for an official estimate of its rental value, and apply for registration at the Land Registry. These agencies may be in need of some structural reforms to reduce their respective delays but such reforms might require long-term efforts. In order to speed up registration in the meantime, the Urban Planning Authority, Municipality, Tax Authority, and Land Registry could offer clients a choice of expedited procedures: pay a slightly higher fee and the registration is completed faster. Each of them could offer expedited processing of 1-2 days, instead of waiting 15 days. Cases would be prioritized in a transparent manner, and those that prefer not to wait would be given an official way to speed the process by 13 days in total. This type of scheme is offered in a number of countries around the world, from Argentina to Mongolia and Ukraine. Simultaneously, the Urban Planning Authority and the Municipality can work on further reforms to reduce time for everyone – i.e. by adopting shorter time-limits to process applications.

4. Trading across borders

Currently, in Beirut a trader must spend 27 days (38 days) to complete export (import) procedures and must incur the cost of completing the relevant documents. Lebanon ranks 95 out of 185 countries in terms of ease of trading across borders behind Egypt, Tunisia, Jordan, Djibouti, and Morocco in the region.

Most time is spent in dealing with customs - 12 days for export and 19 days for import - and pre-arrival documentation. Such delays are burdensome for exporters and importers. Possible immediate reforms include:

- Extend hours of operation of customs
- Allow pre-arrival customs clearance
- Reduce free demurrage time

[16] Haidar (2008)

Extend of hours of operation: At the moment, customs opening hours are from 8:00 am – 1:00 pm and on Fridays from 8:00 am – 10:00 am, which adds to the time freight forwarders spend at customs. Beirut port operates on a 24-hour basis; if customs increase the time of operation, it will increase customs productivity and efficiency. In addition, freight forwarders will spend less time waiting for their goods to be cleared. It takes 22 days to export a cargo from Lebanon but only 7 days to do so in Cyprus.

Table 3

Nature of Export Procedures	**Duration (days)**	**Cost (USD)**
Documents preparation	12	262
Customs clearance and technical control	5	85
Ports and terminal handling	4	375
Inland transportation and handling	6	305
Totals	**27**	**1027**
Nature of Import Procedures	**Duration (days)**	**Cost (USD)**
Documents preparation	19	87
Customs clearance and technical control	11	85
Ports and terminal handling	6	375
Inland transportation and handling	2	263
Totals	**38**	**810**
Export Documents	**Import Documents**	
Bill of lading	Bill of lading	
Certificate of origin	Cargo release order	
Commercial invoice	Certificate of origin	
Customs export declaration	Commercial invoice	
Packing list	Customs import declaration	
	Packing list	
	Technical standard/health certificate	

Allow pre-arrival customs clearance: Currently, a cargo has to be physically present in the country before the clearance process can commence. Pre-arrival clearance of customs can reduce the waiting time for goods to be cleared at the port.

Reduce free demurrage time: Beirut port could reduce the number of days for free storage, which at present is 13 days. This would give traders an incentive to pick-up their cargo quicker than before, which will help to reduce congestion and increase efficiency at the port (Amin and Haidar 2012b).

B. Long-term reforms

While the above "quick win" reforms may simply require administrative changes or ministerial action (with the possible exception of the elimination of the minimum capital requirement for starting a business), deeper reforms could demand legislative action and a time-consuming process to build consensus among affected parties. To improve the ease of doing business within its borders, Lebanon could benefit from additional administrative and legal reform across various business regulatory areas.

Table 4: Summary of suggested long term reforms to improve Lebanon's business regulations

Starting a Business

Reduce procedures and time by:

- reorganizing the National Social Security Fund (NSSF)
- creating a one-stop shop at the Commercial Registry

Dealing with Licenses

Reduce procedures and time by:

- introducing online license applications and electronic processing of documents

Registering Property

Reduce procedures and time by:

- consolidating ownership and revenue records

Trading across Borders

Reduce time to import and export by:

- allowing electronic submission and processing of trade documents
- reducing number of inspections under current risk-based inspection regime
- introducing single window for lodgment of customs-related documents

Getting Credit

Increase scope and breadth of credit information by:

- expanding the scope of information available on borrowers
- creating a unified registry for security rights in movable property
- analyzing the creation of a private credit bureau

Protecting Investors

Reform provisions of the Commercial Code by ensuring that the:

- code should clearly state directors' duties
- directors are held individually and jointly liable for violation of duties
- shareholders are allowed to appoint an inspector

Paying Taxes

Reduce number of tax payments and time and to pay taxes by:

- completing the implementation of electronic payment and online filing systems

Employing Workers

Make employing workers easier by:

- allowing longer durations for fixed term contracts
- substituting the "ex-ante" requirement for an "ex-post" mechanism with respect to redundancy termination
- rationalizing dismissal and re-employment priority rules

Enforcing Contracts

Reforms could be introduced in the judiciary by:

- enforcing existing adjournment limits.
- introducing performance measurement system for judges
- expanding the use of case management systems that currently exists in minimal form in some courts in Lebanon.

1. Starting a Business

Further to the "quick-win" reforms outlined above, Lebanon could also benefit from the following reform in starting a business.

Create a one-stop shop at the Commercial Registry: The 5-step process it takes to start-up a company in Beirut could be further improved with a one-stop shop, created at the Commercial Registry. The Commercial Registry would contain representatives of the Ministry of Finance and NSSF, and they would have electronic access to their respective agencies for even faster processing. The entrepreneur would approach the Registry to sign the by-laws and register the company. The next steps -- from having the company's books stamped at the Commercial Registry to registering at the NSSF -- would all be done internally at the Commercial Registry. The entrepreneur would simply fill in all requisite forms at the beginning of the process, making only one contact with the Commercial Registry, then return at an agreed-upon date to pick up the certificate of incorporation and confirmation of registration with the other agencies. To complete the process, the Commercial Registry can issue a unique company registration number, which would be used to register for tax and any other agencies. Other countries including Belgium and Mauritius have created such single access points and experienced a significant reduction in time to start-up, as well as an increase in the number of formally registered businesses (Djankov 2008).

2. Dealing with Licenses

Further to the "quick-win" reforms outlined above, Lebanon could also benefit from the following reform in dealing with licenses.

Introduce online license applications and electronic processing of documents. Currently construction company representatives submit documents on paper and in person, taking time away from their business. Instead, if databases were computerized, companies could simply apply online. This reform could improve the inspection process because it reduces the contact between the two parties - reducing the chance for unofficial payments. In Kuwait, a new automated system was introduced to all government agencies responsible for issuing technical approvals for the installation of utilities. The reform reduced total time by almost two weeks.

3. Registering Property

Further to the "quick-win" reforms outlined above, Lebanon could also benefit from the following reform in registering property.

Consolidating the ownership and revenue records—at least in a single window interface for the entrepreneur, if not the government agencies—would simplify the process and significantly reduce time. Instead of the entrepreneur going to each of the Urban Planning Authority, Municipality, Tax Authority, and Land Registry, he would visit only the registry–which in turn would update the tax records. The ultimate goal is to have all records combined into the same files, so that they are automatically updated with every transfer. Serbia has succeeded in ongoing implementation of this reform.

4. Trading Across Borders

Further to the "quick-win" reforms outlined above, Lebanon could also benefit from the following reforms in trading across borders.

Allow electronic submission and processing of all trade documents: Lebanon can undergo a customs modernization reform project. This reform project can shift Lebanon's trade clearance into a paperless customs clearance system. This should speed up document processing and clearing. Electronic systems also limit the opportunity for informal payments by reducing face-to-face contact.

Several countries have embarked on such initiatives. Saudi Arabia is now allowing the transfer of all data electronically thereby not requiring hard copies of documents to be submitted. Egypt has implemented pre-arrival customs clearance which occurs through the use of an electronic data interface via the internet. The implementation of an E-manifest system in Djibouti is helping to expedite the customs clearance process. Further, customs clearance forms are available online and can be directly filled out.

However, for this reform to succeed traders, customs brokers, and freight forwarders should have sufficient access to computer facilities and the necessary training. Recent customs reform in Sri Lanka has led to the acceptance of electronic invoices, bills of exchange, packing lists and other supportive trade documents, thereby removing the need to have the original hard copies. This contributed to a drop in 6 days in the document preparation time.

Reduce the number of inspections under current risk-based inspection regime: Despite the risk-based inspection regime in place in Lebanon, around 50% of shipments are still subject to physical inspection. The inspection regime could reduce the proportion of shipments inspected by being more selective and targeting inspections. This will enable low-risk cargo[17] to pass through without burdensome physical checks and freeing customs personnel to focus on high-risk cargo. This reform could reduce the delays associated with having to carry out a high level of inspection, and at the same time reduce the risk of revenue losses/smuggling, since inspections will focus on the high-risk cargo.

Introduce a single window for lodgment of customs-related documents: Lebanon could introduce a system whereby all customs documents can be obtained and submitted in one place. This will enable all border clearing agencies to have simultaneous access to trade documents. The current requirement where traders have to submit different documents in different places is cumbersome, slows down the process of importing and exporting, and can create opportunity for bribes. This reform was implemented by Mauritius and Singapore. Tunisia is presently implementing such a single window[18].

5. Getting Credit

The Getting Credit indicator measures credit information sharing and the legal rights of borrowers and lenders. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus, ranging from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau. While Lebanon ranks 104th in the world, thanks to a high credit information index (5/6), the percentage of individuals and firms listed in the public credit registry is relatively low (18.6%). The Lebanon Credit Public Registry is a database managed by the Central Bank that collects information on the creditworthiness of borrowers (persons or businesses) in the financial system and makes it available to financial institutions. Credit information is basic to expanding access to credit. To better achieve this, Lebanon could:

- Expand the scope of information available on borrowers
- Create a unified registry for security rights in movable property
- Consider the creation of a private credit bureau

Expand the scope of information available on borrowers: Currently, the public registry only gathers information on borrowers from financial institutions, finance corporations and credit card companies. Coverage could be expanded by including information from retailers like mobile phone companies, utilities,

[17] There are various risk measurements in place currently in Lebanon. Customs categorizes products depending on their “riskiness”. For example, the rate of inspecting medical drugs should be higher than the rate of inspecting textiles – but this is not the case in practice at the moment.

[18] Djankov et al. (2010), Amin and Haidar (2012b), and Haidar (2012b) show how trade facilitation improve trade.

trade suppliers, and microfinance institutions to increase coverage. These reforms may entail legal review. Georgia, Kenya, Kuwait and Saudi Arabia are some of many countries that have successfully expanded coverage through this reform.

Create a unified registry for security rights in movable property: Currently there is no unified registry for security rights in movable property in Lebanon, contributing to a relatively low score on the legal rights index. Lebanon could create a geographically unified and electronically accessible registry for security interests in movable assets. Such a registry would afford creditors the ability to ascertain whether there are existing security rights on a particular movable asset. Ultimately, this benefits entrepreneurs through increased access to finance. To ensure its efficacy, the registry should make it possible for creditors to search its records according to the debtor's name. The most efficient registries do not require legal review or authentication of filings—processes that often stall the registration process. This reform was introduced by France, India, and Micronesia in 2005/2006.

Consider the creation of a private credit bureau: Since the public credit registry coverage is low (18.6%), it might be worthwhile considering the creation of a private credit bureau. Private credit bureaus tend to offer enhanced scope, quality and accessibility of credit information available to lenders[19]. Armenia, Egypt, Mozambique, and Croatia undertook this reform last year. The private credit bureau typically covers the number of individuals or firms listed by a private credit bureau with current information on repayment history, unpaid debts or credit outstanding. Establishing a private credit registry offers the advantage of faster setup because it relies on central bank regulation rather than new laws. Enforcement by bank supervisors can counter lenders' unwillingness to participate. Moreover, starting a private registry is cheap: the one in Mozambique cost less than USD 1 million. And private credit registries usually get the job done – Djankov et al. (2007) show that in developing countries they increase the flow of credit to businesses. And, they highlighted that private credit registries are more effective than public bureaus in most countries. They are better set up to serve lenders, covering 5 times as many borrowers and scoring 73% higher on the depth of credit information index. Fewer than 10% of public registries report offering such services as credit scoring or borrower monitoring—compared with 90% of private bureaus.

Public registries can leave room for private bureaus by focusing on loan information that matters for systemic Risk - typically large loans for corporations - as those in Austria, Germany and Saudi Arabia do. The Colombian central bank went further and closed its public registry, keeping the data only for the purpose of supervising banks.

Another solution is to join forces. The bureaus in India, Sri Lanka and Thailand were established as public-private partnerships. Chile outsourced operation of the registry to a private bureau. The bureaus in Romania, Saudi Arabia and Singapore are private but were set up with support from the central banks. Some public registries collect information from banks and share it with private bureaus, including those in Argentina, Bolivia and the Dominican Republic. And in March 2005 the Nepalese public registry was reincorporated as a limited liability company, 90% owned by financial institutions and 10% by the central bank.

6. Protecting Investors

The Doing Business protecting investors indicator measures the transparency of related-party transactions, liability for self-dealing, and shareholders' ability to sue officers and directors for misconduct. By scoring 9/10 on the disclosure index, Lebanon leaves no other MENA country ahead of it in terms of transparency levels required by the commercial code regarding the process of approval of related-party transaction. However, by scoring 1/10 on the director's liability index, Lebanon also leaves no other MENA country behind it in terms of levels of directors' liability for misconduct in case of related-party transaction.

[19] Djankov, Mcliesh, and Shleifer (2007)

For instance, currently Lebanese securities regulations and commercial laws make it difficult to hold directors liable for self dealing or make them liable only if they acted fraudulently. Last year, Tunisia enhanced their investor protection regulations.

Lebanon could enhance its rank on the investor protections index by *reforming some of the provisions of its Commercial Code.*

- The Commercial Code should clearly state directors' duties. The reviewed law must require that directors, during the exercise of their powers, are subject to a duty of care (duty to exercise appropriate diligence and make decisions that are informed) and to a duty of loyalty (duty to act without conflict and always put the interest of the corporation before those individual director or other individuals)
- By law, directors should be individually and jointly liable for violation of their duties. They should be liable even if they disclose all the information and they do not participate in the process of approval of a related-party transaction. A diligent and loyal director should put the interest of the company and its shareholders before his personal interest. The Commercial Code, as it currently stands, is silent on this matter.
- Directors should be required, by law, to pay the damages caused to the company and also repay the profit made from this type of transaction.
- The law should also offer the possibility for shareholders to request the appointment of an inspector to investigate the activities of the company in case that the management refuses to provide the shareholders with adequate information about the company.

Implementing these changes will allow Lebanon to rank among the top 50 economies on the protecting investors indicator. Of course, a correct implementation of the reforms of the Commercial Code will require also a deep review of the civil procedure and court rules. Haidar (2009) showed that the level of investor protection matters for cross-country differences in income growth: countries with stronger protections tend to grow faster than those with poor investor protections.

7. Paying Taxes

The Doing Business paying taxes indicator measures the time and cost associated with a company paying all tax and other mandatory payments as required by government. Lebanon is ranked 37th in the world, making this the highest performing area among Doing Business indicators in Lebanon. The average statutory tax rate for corporate income is 19.1% in the MENA, but only 15% in Lebanon. Lebanon can undertake a tax management modernization program.

The time required to pay taxes is based on the number of hours it takes a company to gather data from internal accounting records and other internal resources, analyze accounting information to highlight sensitive tax items, calculate tax liability including data input into software and hard copy records, and submit payments. This process amounts to 180 hours in Lebanon but only to 82 hours in Djibouti. It currently takes a company, on average per year, 100 hours to pay all its NSSF contributions, 40 hours to pay its corporate income tax, and 40 hours to make its 4 quarterly tax payments.

In order to improve further, Lebanon could reduce the 19 payments it has at present to 5 by introducing electronic payments and online filing systems. To this end, the Ministry of Finance can launch e-services for taxpayers under the tax modernization project. We understand that the relevant systems, procedures and documentation for this process have been finalized and that the necessary decrees and decisions were issued in 2006. However, currently companies cannot pay taxes online in Lebanon, whereas companies in other countries like India, Brazil, and Turkey can do so. We understand that in this regard, the Ministry is organizing a program of staff allocation and training for the e-services. Also it is important to plan a launch of a communication campaign for taxpayer education and sensitization.

In addition to reducing number of payments, if the electronic payments and online filing would apply to all categories of taxes and other mandatory payments, this would also reduce the time for paying taxes from its current 180 hours. The introduction of electronic payment and online filing systems could also reduce the number of payments to 5 from 19, thus making paying taxes easier in Lebanon.

8. Employing Workers

Doing Business measures the regulation of employment in terms of difficulty of hiring and firing of workers and the rigidity of working hours. A recent study found that stricter labor regulation constrains firm size, and leads to higher unemployment[20]. By making regulations more flexible, governments can encourage informal businesses to operate formally and create more jobs. This expands the reach of regulation and associated social protections to more people, benefiting especially the young and women.

On an index range of 0-100[21], Lebanon scores less than 50 in the difficulty to hire, rigidity of hours, and rigidity of employment indices. Non-wage labor costs are estimated at 22% of salaries. With respect to this indicator, Lebanon ranks 53rd out of 183 countries and is fourth across the MENA countries, behind Kuwait, Saudi Arabia, and Jordan. Lebanon could ease the employment of workers by:

- Allowing longer durations for fixed term contracts
- Substituting the “ex-ante” requirement for an “ex-post” mechanism with respect to redundancy termination
- Rationalizing dismissal and re-employment priority rules

Allow longer durations for fixed term contracts: Extending the maximum term of fixed contracts allows entrepreneurs to more readily respond to market fluctuations. In Lebanon, the maximum duration of fixed-term contracts is currently 24 months. This duration could be shifted to 5 years, for example. A recent labor law in Latvia extended the maximum period for fixed term employment contract.

Substitute the “ex-ante” requirement for an “ex-post” mechanism with respect to redundancy termination: Currently, an employer in Beirut has to notify the Ministry of Labor before terminating a group of employees’ contracts even though no approval of the termination from the Ministry is required. By substituting this requirement to a notification after-the-fact, the reform would rationalize the process for entrepreneurs, with little consequence to workers. Implementing this reform would also enhance Lebanon’s ranking on the employing workers indicator.

Eliminate priority rules applying to dismissals and re-employment: According to Article 50.6 of the Lebanese labor law, in order to terminate redundant workers, the employer must follow a specific priority order (seniority, specialization, age, family and social conditions and other objective criteria) known as priority rules for dismissals. According to Article 50.7 of the Lebanese labor law, employers are required to first offer any new positions to workers who were dismissed for economic reasons in the previous year (priority rules for re-employment). The priority rules currently applied to dismissals and re-employment could be eliminated, allowing employers to both hire and keep the most valuable workers in case of transitional economic difficulties.

9. Enforcing Contracts

The Doing Business *Enforcing Contracts* indicator measures time, cost and procedural complexity to enforce a debt in court between two local businesses. Lebanon ranks 120th in the world on the ease of enforcing contracts. It takes 721 days (or nearly 2 years) from the moment a case is filed until the creditor

[20] Almeida and Carneiro (2009)

[21] Higher values indicate more rigid regulations. For details, see Botero et al. (2004)

receives payment costing 30.8% of the value of the claim. For comparability across countries, a claim is assumed in the Doing Business methodology to be 200% of GNI per capita (in Lebanon, it would be USD 18,220).

Costs and time to enforce a contract are often correlated because the longer cases take the higher lawyer fees will be. R*eforms could be introduced in the judiciary* to expedite contract enforcement procedures.

- Judges should limit adjournments and enforce existing adjournment limits. Now, adjournments are a bottleneck during the contract enforcement process; it takes 526 out of 721 days to get trial and a judgment, and another 180 days for enforcement. Existent time limits should be enforced to reduce long delays in court hearings.
- Performance measurement for judges could be introduced. There are indicators for measuring the performance of judges. One of them is disposition rate, i.e. looking at the number of incoming cases versus the number disposed cases (be it by issuing judgments or by settling a case in mediation).
- Lebanon could expand the use of case management that currently exists in minimal form in some courts in Lebanon. A functioning case management system tracks each case from filing to judgment. This would allow better monitoring of the time a case takes making necessary process adjustments possible. When Slovenia introduced case management it eliminated 90 days of the contract enforcement process.

10. Closing a Business

The Doing Business *Closing a Business* indicator measures the time, cost and recovery rate of bankruptcy process related to domestic businesses. Currently, in Lebanon this process takes 4 years and creditors only recoup 22 cents on the dollar through the bankruptcy or insolvency proceedings. Creditors need to get their money back and it is better if the process is swift and inexpensive. Reforms similar to the ones related to the contract enforcement process could also address the current bottlenecks of the bankruptcy process in Lebanon.

If Lebanon limited adjournments and introduced performance measurement for judges, it would reduce the time needed to complete a bankruptcy process and likely increase creditors' recovery rate.

Concluding remarks:

Various developing countries are using their progress on the Doing Business rankings to show results of their reform efforts which can play a role in their access to loans related to development projects supported by development institutions such as from the Millennium Challenge Corporation, USAID, and the World Bank Group. The experience of business regulatory reformers shows that what gets measured gets done. A results-based incentive system with credit for reformers in the Lebanese government can deliver results. For instance, Saudi Arabia is using doing business indicators as part of a scheme to measure its reform progress. It aimed to be among the top 10 countries in terms of ease of doing business in 2010. In 2005, it set up a 5-year investment climate reform program. On the reform committee's timeline, the goal was to be among the top 25 in 2008. Saudi Arabia's reform efforts allowed it to rank 11^{th} on the ease of doing business indicator in the World Bank Doing Business 2011 report.

One element of successful reform is communicating that the reform has happened and monitoring the results. Reforms are only effective if entrepreneurs know of the reforms and how to make use of them. Any reforms that Lebanon makes should be communicated to the relevant beneficiaries and stakeholders and monitored. Publicity surrounding reforms supports that changes are accepted and implemented. It also signals that Lebanon is serious about improving its business environment to encourage investment and job creation. Monitoring results and feedback will highlight what was a success and where further effort is needed.

Last but not least, it is important to highlight that (i) business regulatory reform is not costly and (ii) social protection does not necessarily require strict and complex business regulation. The costs are modest for many of the reforms just outlined. Setting up a private credit bureau cost less than $2 million in Bosnia and Herzegovina. Setting up an administrative agency for business registration cost less than $2 million in Serbia. Integrating the business start-up process into a single access point cost $10 million in Turkey. Easing start-up was recently listed by a panel packed with Nobel laureates as one of the most cost-effective ways to spur development -- ahead of investing in infrastructure, developing the financial sector and scaling up health services.

And, one can look at Nordic countries to know that social protection does not necessarily require strict and complex business regulation. All four Nordic economies in Doing Business rankings are on the list of countries with the simplest business regulation: Norway (#5), Sweden (#9), Denmark (#12) and Finland (#14). Few would argue that they scrimp on social benefits relative to other countries, or regulate too little. Instead, they have simple regulations that allow businesses to be productive. And they focus regulation on where it counts—protecting property rights and providing social services. Estonia, Latvia and Lithuania, having learned much from their richer neighbors, are also among the countries with the best business environment. Heavier business regulation is not associated with better social outcomes.

Business regulatory reforms are now necessary and timely but not sufficient in Lebanon. The above recommendations are not comprehensive but can serve to highlight first steps for what needs to be changed and where, when reforms are designed in specific areas. Reformers can also benefit from reviewing the experience of countries that perform well according to the indicators. Business regulatory reforms are expanding significantly across countries and being used as benchmark measures for the success of policy makers. Thus, implementing the above reforms in Lebanon can signal tangible achievements for the current ministers of finance, economy and trade, as well as internal and municipality affairs – especially in the current challenging times. And, most importantly, they can pave the road for longer-term, more in-depth reforms that can target the broader business environment in Lebanon.

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