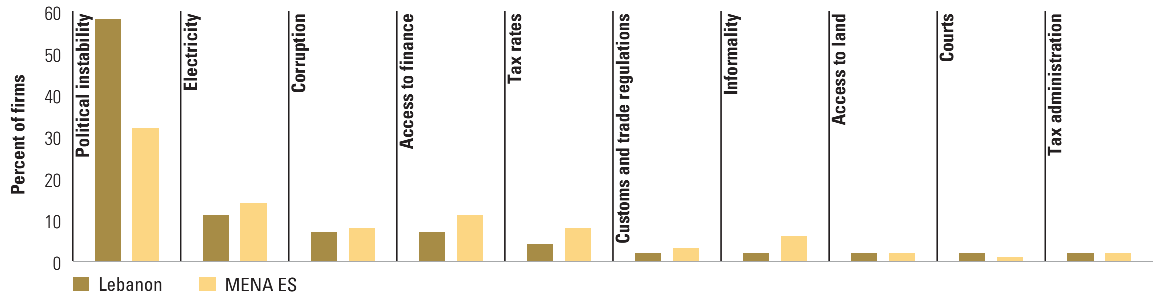
LEBANON

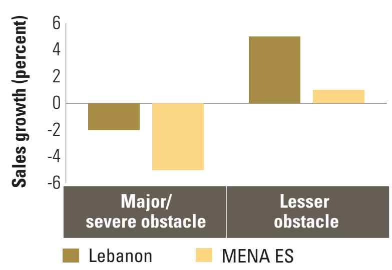
FIGURE 1: Ranking of the top business environment obstacle for firms in Lebanon



Political instability is the top obstacle reported by Lebanese firms

Lebanese firms perceive political instability as the most important obstacle (figure 1). This probably refers to negative spillovers from the conflict in Syria, as well as more generally to the country's confessional governance and the consequent inertia in structural reforms and weakening of institutions. The country has not had a President since May 2014, and Parliament has voted twice to extend its own term. The four-year term scheduled to end in 2013 is now foreseen to end in 2017. In this difficult political and economic environment, the performance of firms has come under pressure. In a question that considers obstacles independently from each other, political instability is identified as a major or severe obstacle by 91 percent of firms in Lebanon. Those firms performed worse in terms of sales growth over the survey reference period 2009 to 2012 than firms that identify political instability as a lesser obstacle (figure 2).

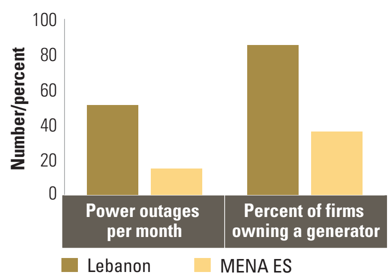
FIGURE 2: Political instability and sales growth



Electricity remains a key issue for Lebanese firms

For 11 percent of Lebanese firms, electricity is the most important obstacle (figure 1). Political divisions have forestalled reform of the energy sector, preventing much needed investments in generating capacity and transmission. Moreover, tariffs have not been adjusted since the 1990s, implying substantial fiscal transfers to the state-owned Electricité du Liban (EdL). As a result, firms suffer from frequent power outages. Firms experience on average 51 power outages per month, far exceeding the MENA ES average (figure 3). The poor quality of electricity supply forces firms to rely on expensive electricity from generators. Not surprisingly, they are much more prevalent in Lebanon—where 85 percent of firms own or share one—than in the other MENA ES economies.

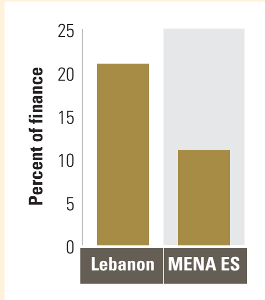
FIGURE 3: Quality of electricity supply



Bank finance plays an important role for financing working capital and fixed capital

Lebanon has one of the highest levels of financial depth among the MENA ES economies, reflecting persistent, large-scale deposit inflows that result from its traditional role as a financial hub for the region and a large and loyal diaspora. Overall, financial intermediation seems to be working well in Lebanon. Banks account for 21 percent of firm financing, exceeding the MENA ES average by a wide margin (figure 4). There is a mixed picture for the collateral framework. On the one hand, Lebanese banks are more willing to lend unsecured than banks in an average MENA ES economy; on the other hand, banks rarely lend against movable collateral. Only 4 percent of loans are secured by machinery and equipment or receivables, compared with a MENA ES average of 14 percent. A reform of the secured transactions framework could further improve access to finance for Lebanese firms.

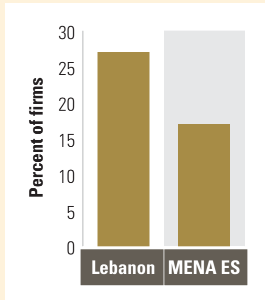
FIGURE 4: Firm finance coming from banks



Workforce skills do not seem to be a major constraint for Lebanese firms

Less than 1 percent of firms in Lebanon consider workforce skills as the most important obstacle, while 15 percent see it as a serious impediment to operations. This relatively good outcome may reflect the fact that Lebanon has one of the highest tertiary school enrollment ratios in the region. Moreover, it is one of the MENA ES economies with the highest training intensity. About 27 percent of firms offer formal training, compared with a MENA ES average of 17 percent (figure 5). Moreover, Lebanon has the second highest share of firms with women's ownership in the MENA ES region at 43 percent, outperformed only by Tunisia (50 percent). This compares with a regional average of 25 percent. When considering the percentage of firms with a woman top manager, Lebanon (4 percent) lags well behind Tunisia (8 percent) and below the regional average (5 percent).

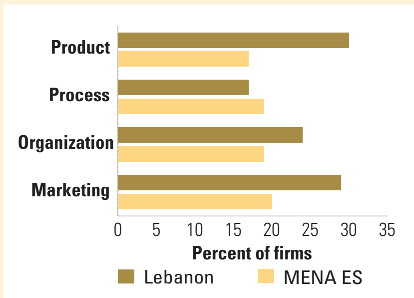
FIGURE 5: Firms providing formal training



Lebanese firms are among those most likely to engage in at least one type of innovation across the MENA ES economies

Lebanon has the highest proportion of firms engaged in innovation in the MENA ES region, with half of them introducing at least one type of innovation. Lebanese firms are more likely to introduce new products than firms in any other MENA ES economy (figure 6). They also exceed the MENA ES average for the proportion of firms engaged in marketing and organizational innovations. In terms of involvement in international markets, Lebanon's firms are outperforming most economies in the region. Only 20 percent of manufacturing firms do not engage in any trade activities, compared with 33 percent in the MENA ES region on average. Lebanon has a strikingly high share of domestically owned exporters (95 percent compared with a regional average of 85 percent). This could be explained by the traditionally very high political and security uncertainty in the country, which leads domestic firms to seek stable markets for their products and foreign investors to stay away.

FIGURE 6: Different types of innovation



The Economy Fiches summarize the economy-specific findings of the report "What's Holding Back the Private Sector in MENA?" Note that annualized sales and employment growth statistics are calculated using the reference years 2009 and 2012; these reference years are used due to when the Enterprise Survey was administered. The findings, interpretations, and conclusions expressed in this fiche are entirely those of the authors. They do not necessarily represent the views of the European Bank for Reconstruction and Development/European Investment Bank/World Bank and its affiliated organizations, or those of their Executive Directors or the governments they represent.