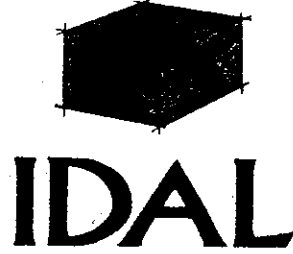


الجمهورية اللبنانية  
مكتب وزير الدولة لشؤون التنمية الإدارية  
مركز مشاريع ودراسات القطاع العام



Republic of Lebanon  
Office of the Minister of State for Administrative Reform  
Center for Public Sector Projects and Studies  
(C.P.S.P.S.)

## Guide to Investment In Lebanon

**Investment Development Authority of Lebanon**

**IDAL**

*Beirut – Lebanon*

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## I- Lebanon In Brief

Lebanon is a parliamentary democracy founded on a constitution, which was put in place in 1926 and amended in 1943 and 1989. The Constitution preserves the separation of power between the executive (the President and the Council of Ministers), the legislative (the Parliament), and judiciary authorities (the Courts).

The country has a tradition of openness to the international community through its diplomatic and consular missions abroad and the large number of expatriates spread over the Arab countries, Europe, America, Australia and Africa. As founding member of the United Nations and the League of Arab States, and as a member of all international organizations falling under the auspices of the United Nations, International Bank for Reconstruction and Development, and the International Monetary Fund, Lebanon has been an active member of the international community.

Lebanon is a small country with limited natural resources. However, the rich cultural heritage and exceptional geographical location left a long-lasting legacy in entrepreneurial and *laissez-faire* economic activities. The Lebanese economy is a market economy, characterized by a robust private sector, free exchange regime flexible business laws, no control on capital movements by residents, non-residents of the Lebanese Republic and full convertibility of the Lebanese pound. Furthermore, Lebanon braces a pro-business investment environment with acceptable tax rates and openness to foreign investments. The successive Lebanese governments have been supportive of private sector development and investment by taking a non-interventionist stance, limiting the public sector participation in the economy to infrastructure and utilities, and adopting a relatively low taxation policy that encourages foreign investments. Lebanon has a long history of free trade and investment policies.

The evaluation of the degree, to which Lebanon can take advantage of regional conditions and open new markets, prompts the Lebanese government to reconsider the importance of investments in the country. To ensure a suitable climate for free enterprise or foreign direct investments, the government is reactivating its range of commercial policies and plans of action, along with efficient legislative commercial measures knowing that Lebanon's economic structure is particularly favorable to the private sector when compared to other countries in the region.

The promulgation of a simple, liberal and efficient legislation encourages a **good investment climate** where no major restrictions are imposed by the government on direct foreign investments (as opposed to other neighboring countries). Different forms of private initiatives are encouraged by various advantages inherent both in the **legal and economic** framework and in the **fiscal system**, which is a major component of the favorable investment climate.

## II- A Favorable Investment Climate (easy doing business)

### 1- The Unrestricted Establishment of Companies\*

- **Very simple incorporation procedures for setting up a company:** in less than a week, a company can be incorporated and registered in the Trade Registry. The by-laws of a joint-stock company (S.A.L.) and any subsequent modifications must be submitted and attested before a Public Notary in the district where the company's head office is located.
- **Absence of administration constraints:** this leaves an individual free to choose the form of the company to be established. Administration authorization is required only for setting up banking, financial or insurance companies.
- **Lebanese Law does not stipulate any general status for foreign companies in Lebanon:** as a result, foreign companies generally adopt the same regulations applying to local companies and enjoy all the rights of local companies.
- **Lebanese Law allows the establishment of a company fully owned by foreigners:** the exceptions are the following:
  - In a Joint-Stock Company (S.A.L.): the majority of the Board of Directors must be Lebanese. Shares may be fully foreign-owned.
  - In Holding or Offshore company: 2 persons of the board of directors at least must be Lebanese
- **The participation of Lebanese nationals in joint ventures is not obligatory:** partnerships including Lebanese nationals can, however, be set up within the framework of joint companies. Obviously such kinds of partnerships will provide the advantage of sharing risks and responsibilities.

### 2- No Sectors are limited to Nationals

Foreigners can choose to invest in any economic sector other than those dealing with arms or national security issues.

- **Business concern:** an instrument for “commercial enterprise”
  - A foreigner can establish a business under the same conditions, which apply to a Lebanese national, provided that he is registered in the Commercial Registry. This registration depends upon his obtaining a residence and a work permit.
  - The law regulates various transactions related to businesses (sale, capital invested, collateral, etc.) including “rental-management” in which an

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*Please refer to appendix 1&2*

owner entrusts his business concern to a manager who operates the concern on his own behalf

- **Foreign Participation in Public Bids:** foreigners can participate in public bids without having a local agent or partner.

If the objective of joint-stock company (S.A.L.) is the operation of a public service, at least one-third of the capital must be controlled by nominal shares owned by Lebanese nationals, and transferable only to Lebanese.

- **Encouragement of Commercial Activity between Companies and their Lebanese Agents:** Lebanese commercial agents enjoy flexible legislation, which favors their development in a free trade environment. Both agents and companies enjoy exclusivity under law protecting sole agents from unfair competition.

Such protection also exists for the represented companies by measure ensuring the enforcement of judgment in their favor (e.g. a record of companies on which sentences have been passed is held in a special registry at the Ministry of Economy and Trade)

### **3- Opportunity for Considerable Profit Margins**

The Government determines few prices and only sets a price cap on certain commodities like medicines, bread and fuel.

### **4- Simplification of administrative procedures**

The Investment Development Authority of Lebanon (IDAL) is offering a “*One-Stop-Shop*” service for licensing and follow up which aims at facilitating the administrative formalities to investors.

The “*One-Stop-Shop*” department receives and studies the applications for permitting investment projects submitted by Lebanese, Arab and foreign investors or any coalition between a Lebanese investor and an Arab or foreign one to all the public administrations. Furthermore, it will ensure the follow-up of the permitting procedure in these administrations until the final permits are issued. This department has recourse to any administration or authority, through its delegate(s) at IDAL, and is likely to help in facilitating investors’ job and annihilating obstacles.

### **5- The Investors and Businessmen Information Center**

This Center lies within the framework of IDAL’s efforts to develop its services, to satisfy the needs of potential foreign, Arab and local investors, and to develop a facility unprecedented in a comprehensive form in the public sector in Lebanon. The Center offers comprehensive, accurate and reliable information and data required by Businessmen and investors during their preliminary evaluation of investment opportunities in Lebanon.

The *Investors and Businessmen Information Center* will be available and accessible to foreign and local companies, businessmen and investors, as well as to foreign trade delegations and organizations, whereby they are afforded a comfortable working environment furnished with all necessary machinery and telecommunication means.

## **6- General Economic and Financial Incentives**

### **6-1 Specific Features of the Banking Sector**

- **The banking secrecy regime** applicable to individuals, judicial and administrative authorities, can only be lifted under extremely exceptional circumstances. This regime constitutes one of the most important features of the Lebanese banking system.
- **The possibility of opening a numbered account** that does not reveal the identity of the beneficiary.
- **The possibility of opening a joint account** which can operate with the signature of just one of the account holders. In case of the death of one of the co-holders, the bank is bound to secrecy and the account immediately becomes the property of the surviving joint-holder.
- **The opening of an account** at a bank can be made in any currency.
- **The banking Free Zone regime** exempts foreign currency deposits of non-residents from taxes on financial assets, compulsory reserves, and premiums for the guarantee of deposits.
- **The Central Bank's prerogatives:** The Bank essentially plays a protective and supervisory role regarding banking operations. New legislation grants the Central Bank certain prerogatives such as:
  - An auto-liquidation procedure enabling the Central Bank to purchase the assets of a bank in difficulty and indemnify the depositors up to the capital limit acquired by the Central Bank.
  - Fiduciary agreements are governed by a new law (no. 520/96) granting the Central Bank supervision of financial companies and established in order to carry out fiduciary activities. These companies need special authorization from the Central Bank. Foreign fiduciary companies and institutions will be able to operate in Lebanon under the same conditions applied to Lebanese companies.
  - Allowing Lebanese banks through law no. 521/69 to issue 30% of its share to the public and to be freely traded in the Financial Markets (on condition that at least 30% of shares remain Lebanese owned). This law also allows banks or financial institutions to issue obligations in any currency; the maximum amount is to be determined by the Central Bank of Lebanon.

## 6-2 The Financial Market

The Beirut Stock Exchange (BSE) falls under the authority of the Ministry of Finance. It is governed by the legislative decree n° 120 dated 16/9/1983 and its amendments. Actual operations are supervised by the BSE committee and regulated by decree n° 7667 dated 16/12/1995. The regulating laws of the BSE allow only the merchants banks, financial institutions and brokerage institutions to deal on the BSE.

The Beirut Stock Exchange includes the senior market, the junior market, and the market over the counter (OTC)\*

-A registered joint stock Company (corporation) can be listed on the Beirut Stock Exchange under conditions that include the submission of full financial statements for the last three years and must have the following requirements:

	Senior Market	Junior Market	Over the Counter
Type of the Company	Corporation	Corporation	Corporation
Minimum Capital	Equivalent to \$3m in LBP	Equivalent to \$1m in LBP	Equivalent to \$100.000 in LBP
Years of Activity	3 years & above	--	--
Amount listed	Equivalent to \$2m in LBP	Equivalent to \$1m in LBP	--
% of capital freely traded	25% on the first Trading Day	25% on the first Trading Day	--
Minimum N <sup>o</sup> of Shareholders	50 or more	50 or more	--

- The Government is in the process of promulgating laws protecting the rights of investors and depositors.
- Fiscal incentives encouraging the investment in the Stock Market are also being introduced.
- Financial instruments issued or guaranteed by the Lebanese Government, or those issued by companies incorporated by a decree from the Council of Ministers, are immediately admitted to the Stock Market.
- Foreign companies that wish to be listed on the Beirut Stock Exchange should abide by the same conditions applying to Lebanese companies. They are also subject to other conditions such as the certifications of documents, compliance with the laws of their country of origin and international accounting principles.

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\* Please refer to appendix 3



## 7- Favorable Taxation System

### 7-1 Corporate income tax:

The profits of a Lebanese corporation are subject to income tax, irrespective of their nature.

- **Territoriality Principle:** As a general rule, income tax is assessed on profits derived from activities exercised in Lebanon and on profits taxable in Lebanon under a tax treaty.

Consequently a foreign company is liable to Lebanese income tax on profits derived from activities exercised in Lebanon regardless of its nationality or of its place of residence. By contrast, profits realized on transactions carried out abroad by agents representatives and branches of local companies are not subject to the income tax.

As a result of this territoriality principle, Lebanese companies cannot set off losses incurred abroad against local profits and vice versa.

- **Income Tax Rates:** Tax rates are low compared to other fiscal systems to attract foreign investors with a maximum income tax rate of 15% for corporations and up to 21% for individuals.

#### TAX RATES ON PROFITS

Net Income	Rate
Up to LL9 million	4%
LL9 million – LL24 million	7%
LL24 million – LL54 million	12%
LL54 million – LL104 million	16%
Greater than LL104 million	21%

The tax rate is reduced to 5% on profits derived from the construction or division of buildings into housing units and their sale to third parties.

The tax rates include all municipal and other local taxes. Corporate income tax in any given year is based on the profits of the previous fiscal year.

Lebanon's fiscal year runs from January to December and is based on the Gregorian calendar. With the special permission of the local tax authorities, companies may, however, use their own accounting year.

- **Flat Tax:** an annual flat rate duty is levied on professions and all kinds of corporations except holding and offshore companies:
  - 2.000.000 L.L. on joint stock corporation.
  - 750.000 L.L. on limited liabilities corporations.

- 350.000 L.L. on individual firms and on partnerships whose taxation level is determined according to real profits.
- 250.000 L.L. for those whose taxation level is determined according to flat profit.
- 50.000 L.L. for those whose taxation level is determined according to estimated profit.

- **Losses:** Tax losses may be carried forward up to three years after the year in which they were originally incurred.
- **Branches of foreign companies:** Branches of foreign companies are subject to the income tax. In addition, all branches' profits are considered as distributed profits, subject to the distribution tax at 10%.

Branches of foreign branches may deduct allocation to legal reserves out of profits (after income tax is paid) before calculating the distribution tax. Profits affected to reserves are exempted from the distribution tax.

## **7-2 Revenues from movable capital assets:**

- **A withholding tax at 10% rate** is levied on all incomes derived from movable capital assets generated in Lebanon. This tax essentially concerns:
  - Distributed dividends, interests and income on shares of any kind issued by companies and other financial, industrial, commercial and civil institutions.
  - Directors fees as well as amounts payable to them from profits for attending board of directors' meetings.
  - Distribution of reserves or profits in form of additional shares or under any other form.
  - Interest received from treasury bonds and other bonds.
  - Interest from loans of all types, including on secured debts.
  - Interest derived from deposits.
  - Interest and capital revenues earned by commercial bonds are taxed as commercial income and are consequently not subject to the tax on revenues from unmovable capital assets.
- **Regarding the 10% tax rate** levied on distribution of dividends, even if the company is exempt from corporate income tax, this tax rate can be reduced to 5%, if one or all of the following conditions are met:
  - After one year of the listing of a joint-stock company on the BSE.
  - The company allocates 20% of its capital to Arab companies whose stocks are circulating on their country stock exchange, or to foreign companies whose stocks are negotiating on the stock exchange of the member states of the OCDE.
  - The company issues global deposits receipt (GDR) which amount to a minimum of 20% of its number of shares on the BSE.
- **The following are exempt from income tax:**
  - Interests on all current and saving accounts.

-Deposits of non-resident in a foreign currency.

- **Holding companies are subject to a symbolic flat-rate** as follows:

-6% of capital up to 5.000.000 L.L.

-4% of capital between 50.000.000 and 80.000.000 L.L.

-2% of capital exceeding 80.000.000 L.L.

In all cases, the amount of tax cannot exceed 5.000.000 L.L.

Dividends paid by holding companies are exempt from income taxes.

- **Offshore Companies:** A symbolic flat-rate tax is equal to 1.000.000 L.L. (app. \$650) per year. Dividends paid by Offshore companies are exempt from income taxes. The companies' foreign employees benefit from a 30% exemption on earned income tax.
- **Other specific companies:** Transportation (marine, land & air), insurance, construction and saving companies and oil refineries benefit from flat rate taxation. Shipping companies are exempt from corporate taxes provided that foreign companies affiliated to countries where Lebanese companies are set-ups would benefit from the same exemption.
- **Specialized Banks:** The law grants specialized banks a complete income tax exemption during the first seven years, thereafter, specialized banks pay an annual tax of only 4% of their capital.

### 7-3 Capital gain tax:

- **A capital gain tax** is a tax levied on the increase in value of certain assets when realized. Companies are permitted to reassess their fixed assets every 5 years. Capital gains resulting from such a reassessment are subject to a capital gain tax of 10%.
- **Profits derived** from transfer of corporate shares are exempt from tax on capital gains and stamp duties. A transfer of shares issued by a Lebanese corporation is not subject to registration tax, unless any written instrument registered with the register of commerce evidences such transfer. The registration of the share transfer agreement at the register of commerce is not required. However when the transfer is mentioned in any corporate minutes submitted to the register of commerce, registration duties on transfer are imposed generally in a random manner:
  - Tax for judge funds: 1.5‰
  - Tax for attorney bar: 1‰Based on the face value of the shares.

### 7-4 Tax on salaries and wages:

- This tax is imposed on all salaries, wages, bourses, allowances, life amenities, pension payments and other benefits in cash received by employees in Lebanon, regardless of whether the beneficiary is domiciled in Lebanon or abroad.

- Taxable income is taxed at progressive rates by income brackets from 2% to 20%.

### **TAX RATE ON NET INCOME**

<b>Net Income/year</b>	<b>Rate</b>
LL6 million	2%
LL6 million – LL15 million	4%
LL15 million – LL30 million	7%
LL30 million – LL60 million	11%
LL60 million and LL120 million	15%
Greater than LL120 million	20%

- Salaries paid for piecework are subject to withholding tax of 3% and are not eligible for any family deduction.
- Married couples are taxed separately on all types on income.
- Income tax is deducted at the source by the employer and paid to the public treasury every six months.

#### **7-5 Social Security Contributions**

- Social Security Contributions are calculated as a percentage of monthly salaries, including overtime, gifts or fringe benefits. All companies are officially required to register their salaries in the National Social Security Fund within one month from the start of operations.
- In general, all Lebanese employees and workers, regardless of the nature of their employment are subject to the social security provisions provided their activities are conducted in the Lebanese territory.
- As to foreigners working in Lebanon (holder of a work permit), they are entitled to social security benefits provided their countries of origin recognize and apply treatment to Lebanese (ex: France, Italy, England, Syria and Belgium).
- Non-residents foreigners and Lebanese are exempted from social security contributions if they are working in Lebanon pursuant to an employment contract concluded abroad with foreign companies and if their employer produces evidence that they are entitled to social security benefits in their country of residence at least equivalent to those offered in Lebanon.

<u>Contribution rates</u>	<u>employees</u>	<u>employer</u>
Sickness and maternity	3%	12%
Family allowances	--	15%
End of service maternity		8.5%

## **8- Favorable Working Conditions**

### **8-1 Availability and quality of labor**

A rich cultural diversity and an educated work force give Lebanon a distinct advantage for business employment over other countries in the region.

### **8-2 Flexibility of Labor contract conditions to include**

- A minimum monthly wage of L.L. 350,000 for a 48-hour work per week with a wage increase linked to the cost of living index, and 15 days annual leave.
- Legal protection of working women and children.

### **8-3 Conditions for the employment of foreigners**

- A residence permit delivered by the “General Security” is required for foreign workers.
- To obtain a work permit, foreigners must submit an application for approval by the Minister of Labor along with various official documents depending on the applicant’s category (employer, worker, etc.).
- IDAL through its “*One-Stop-Shop*” Service Department can facilitate the approval of a work permit issuance.

## **9- State Assistance for Implementing Private Investments**

The Investment Development Authority of Lebanon’s main role is to attract private capital investments, identify and promote investment opportunities and facilitate the establishment of new activities in Lebanon. IDAL provides investors with fast and reliable access to information and exerts all possible efforts to assist them in implementing their projects by offering, among other tasks of investment promotion, the following services:

- Provision of extensive, detailed, and dependable information on the investment climate in Lebanon along with the various incentives and opportunities afforded to private investors.
- Coordination of public and private programs to develop important sectors of the national economy, including manufacturing, tourism, agricultural and healthcare industries.
- Assistance to private investors in setting up their companies to establish activities in Lebanon.
- Provision of detailed and dependable data on the various permits and licenses needed for establishing a specific project.
- A “*One-Stop-Shop*” Service for permits issuance and licensing procedures to investors in coordination with all ministries and public authorities concerned.

IDAL is managed and staffed by a young team of service-oriented professionals, who enjoy a solid experience in the private and public sectors and a firm grasp of investment and economic development issues. They look forward to assisting you.

### III- International Agreements

Successive Governments have signed a host of bilateral, and now increasingly multilateral agreements, all aimed at cutting Customs duties and increasing trade. These agreements are intended to make it easier for local and foreign companies established in Lebanon to export, by reducing the tariffs of recipient countries, and by easing the bureaucratic complexity of trade regulations.

Lebanon is currently presented with four major international agreement, **The Lebanese-Syrian Trade agreement, The Arab Free Trade Zone, The Euro-Mediterranean Partnership & The World Trade Organization (WTO or GATT)**. Each agreement may have its own idiosyncratic qualities different than any other. The Arab Free Trade Zone is an important agreement for Lebanon, exports to the Arab countries represent more than 40% of Lebanon's exports and the Arab countries are considered as the traditional natural partners of Lebanon. The Euro-Mediterranean Partnership and the World Trade Organization agreements will also be beneficial to Lebanon as it will create new export markets.

#### **a- Lebanese –Syrian Agreement:**

Lebanon has signed a trade agreement with Syria leading at reducing custom duty by 25% yearly, starting January 1<sup>st</sup>, 1999 on Products made in each of both countries. This agreement is expected to result in a free transfer of goods at the end of the fourth year. Implementing this agreement, Lebanon has, on the start without considering population growth for the coming years, additional 16 million customers to attend to with reduced customs duties in 1999 reaching to no customs in 2003. In addition Lebanese industrialists could export to Syria products that are prohibited to be imported from international markets.

#### **b- Arab Free Trade Zone:**

This agreement conducts in reducing tariffs on all products by 10% annually for one decade, starting January 1998 and ending December 2007. As soon as the Arab Trade Zone Agreement becomes effective, it would be very advantageous to the Lebanese industrialists, as it will open new horizons for export.

#### **c- Euro-Mediterranean Agreement**

The Euromed agreement envisages the creation of a deeply integrated Euro – Mediterranean market, it denotes reducing customs duties on products for 12 years by different percentages that seem appropriate for each respective year of these twelve years.

#### **d- World Trade Organization (WTO or GATT)**

Lebanon has acquired observer status in anticipation of any membership in the World Trade Organization (WTO) in the future. This will allow a free trade of goods among the participating countries with an agreed upon custom duties for each country, which will not be canceled on the consequence of this agreement.

Upon the signature of any of the last two agreements, investors could be interested in establishing manufacturing activities in Lebanon to serve the different participating countries. In addition to these, Lebanon will benefit from the technical assistance provided as a grant by the European Community when joining the partnership in order to increase the performance of the Lebanese companies operating in Lebanon.

Adding to the aforementioned agreements, Lebanon has been active recently in signing trade and financial protocols with tradition and new economic partners to promote investments and trade. Consequently, several agreements have been signed with different countries for **Investment Promotion and Double Taxation**.

- **Promotion of investments Agreements:**

Lebanon has signed investment promotion agreements with Canada (1999), Greece (1999), Tunisia (1999), Iran (1999), Malaysia (1999), and many others.

- **Non-Double Taxation Agreements**

-Lebanon has signed non-double taxation agreements with France (1963), Egypt (1996), Romania (1996), Pakistan (1996), Syria (1997), Malta (1999), Russia (1999), Tunisia (1999), Armenia (1999) and Iran (1999), agreements with several other countries are currently under negotiation. Lebanon also signed agreements with Japan, Pakistan, Norway and Italy regarding non-double taxation on income of marine and air transport companies.

-Lebanon plans to ratify agreements with the United States, Great Britain, Japan and Canada to avoid double taxation of nationals of the above-mentioned countries carrying out business activities in Lebanon.

## **IV- Incentives for the Industrial Sector**

The Industrial sector is attracting growing interest, especially as there is forward movement for market integration with neighboring countries as well as European and other Mediterranean partners. Opportunities already are available for small to medium size ventures in the food production and processing area, mineral and juice products, wood and furnitures, chemical products and jewelry.

### **1-General Incentives**

- **Fiscal Exemptions in Free Zones**

**Company benefits:** located in a Free Zone, all companies will benefit from a 10-year corporate tax holiday and will be exempt from registering their employees in the Social Security Service on condition they are provided with equal or better benefits.

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*Please refer to appendix 5*

**Suspension of duties:** customs law incorporates a temporary suspension of duties on the import of products used in production and destined for re-export, such as “Temporary Admission”, the “Industrial Warehousing” and the “Free Zones” regimes where export manufacturing industries operate with complete customs duties exemptions.

- **Tax Exemptions for Industrial Firms**
  - Corporate income tax exemption for a period of ten years, beginning on the first day of production, on profits of industrial firms established in Lebanon after 1980. Exemption applies only to companies who manufacture products not produced locally. These industrial firms must be located in regions which the government wishes to develop and must have assets of at least LL 500 million. Total profits exempt from income tax cannot exceed the value of fixed assets before amortization.
  - Fiscal exemptions exist for industrial firms allocating part of their profits to their own investments in Lebanon.
- **Encouragement of Technological Transfer** there are various incentives provided to industries involved in technology transfer.
- **The granting of industrial licenses** to foreign companies does not require any exceptional administrative authorization. This liberal policy favors contracts involving various forms of technological transfer (turnkey contracts, joint ventures, management contracts or franchising, etc.)
- **Imports of machinery, equipment, spare parts, and building material** used for the setting up of new industrial firms in Lebanon are subject to only 3% customs duties.
- **Equipment and products** that are imported for development project and that are totally or partially financed from foreign sources are exempt from custom duties.
- **Re-establishing commercial policies encouraging production** through various fiscal, financial and urban incentives enacted by the Government in the industrial sector. In order to develop this sector in line with the service sector, the Government is assisting growth industries to find exports outlets.
- **The Council of Ministers** canceled a ministerial decision monopolizing the supply of gaz oil for industrial production. Thus industrialists can import fuel on their own for their production.

## 2- Financial Incentives

- **The Government through the Central Bank of Lebanon decree n° 6549 grants 5% interest rate support** on loans related to the industrial sector.
- **Government purchases for public projects** favor locally produced goods with a 15% comparative price advantage.



- **69 local and foreign banks provide resources** for debts financing industry. Competition is encouraging banks to diversify and seek new innovative ways of providing services.
- **International Finance Corporation (IFC)** provides equity and debt financing industry.
- **The European Investment Bank (EIB)** provides funds to finance medium and small-sized industrial projects. These could either be new projects or those related to the rehabilitation or extension of existing infrastructure. A loan of 30 million Euro provided by the EIB is underway for investment in this sector.
- **Loan Guarantee Agency (KAFALAT)**  
**Beneficiaries:** small and medium sized firms that have less than 20 employees.  
**Conditions to benefit from the loan:**
  - Extent of guarantee:75% of the loan and its interests
  - Lending Banks: Banks operating in Lebanon
  - Loan Amount: a max of 100 million LL or the equivalent amount in foreign currencies.

### 3- Other Several methods of financing

- Revolving
- Long Term Loans
- Leasing
- Factoring
- Beirut Stock Exchange
- Lebanon Holdings
- Islamic Bank for development (Financing the export & import)

## V- Incentives for the Tourism Sector

The tourism sector, has been recovering from the 15 years of war, trying to restore its ravaged infrastructure and recapture its share in the national economy, which came to around 20% in 1975. Since early 1990's, tourists and businessmen travelling from the Lebanese Diaspora, Europe, and the Arab world began revisiting the country. A record number of tourists visiting Lebanon is believed to have been reached during the summer of 1998 and 1999.

### General Incentives

- **Imported hotel equipment** is subject to 6% customs provided that the operating period is for at least 10 years, and the imported products are not found on the local market. Imports of buses for tourism agencies are also subject to 6 % customs duties.

- **Increasing the plot building ratio** to encourage the construction of hotels. The recent promulgation of Law (No. 402/95) exempts developers from certain requirements of Decree-Law 148/83 (construction law regulations) and allows up to double the existing building plot ratio for hotel construction.
- **Notwithstanding the law on foreign acquisition of property** which fixes the area of acquisition to a maximum of 50,000 m<sup>2</sup> of land in Lebanon under conditions, tourism companies with government participation can now acquire more than 50,000 m<sup>2</sup> of land in Lebanon.
- **The Government grants through Central Bank decree n° 6549 a 5% interest rate support** on loans related to tourism sector.
- **Acquisition of property:** Tourism companies with Government participation can acquire more than 50,000 m<sup>2</sup> of land in Lebanon notwithstanding the law on foreign acquisition of property which fixes their maximal acquisition area at 50,000 m<sup>2</sup>.
- **30 million Euro loan** provided by the European Investment Bank for the construction of hotels outside the capital Beirut.
- **Loan Guarantee Agency (KAFALAT)**  
**Beneficiaries:** small and medium sized firms that have less than 20 employees.  
**Conditions to benefit from the loan:**
  - Extent of guarantee:75% of the loan and its interests
  - Lending Banks: Banks operating in Lebanon
  - Loan Amount: a max of 100 million LL or the equivalent amount in foreign

## VI- Incentives for the Agricultural Sector

The Agricultural Sector in Lebanon continues to lag behind after having been negatively affected during the war, following the displacement of rural population and the partial destruction of the sector's infrastructure. The Government has implemented policies aimed at reviving the sector's activities. It is noted that the agricultural sector has the following four main advantages to product exporters:

- The diversity - depending on the type of soil used and season - of products.
- The proximity of Lebanon to the Gulf, North, and even the European markets.
- The stability of currency and a free exchange market.
- The relatively low inflation rate.

## General Incentives

- **Protection of national production:** protective measures have been adopted in March 1995 requiring import licenses for some agricultural product prohibiting the entry of others and increasing customs duties on products directly competitive with local agriculture.
- **Financing the agriculture sector** through the National Union of Co-operative Credit (L'Union Nationale de Crédit Coopératif)
- **The Government grants through the Central Bank n° 6549 a 5% interest rate support** on loans related to agricultural sector.
- **Recent co-operation agreements** with neighboring countries (Syria, Egypt and Jordan) stipulate full and partial tax exemptions on certain agricultural exports.
- **Lebanon is about to sign the Euro-Mediterranean Agreement** progressively exempting Lebanese exports of agricultural and fish products from customs duties and equivalent taxes.
- **Lebanon has signed a multilateral Pan-Arab agreement** with Syria, Jordan, Iraq, Egypt and Saudi Arabia in which certain agricultural products will benefit from tariff reductions.
- **Recent co-operation agreements with neighboring countries** (Syria, Egypt, and Jordan) stipulate full and partial tax exemptions on certain agriculture exports.
- **Imports of equipment and raw material** for the agricultural sector are subject to only 6% customs duties.
- **Certain income tax exemptions are allowed** for farmers under special conditions.
- **The food industry** benefits from low labor costs.
- **International organizations (FAO, UNDP) assist in agricultural development projects** initiated by the Lebanese government, including the irrigation and rehabilitation of rural areas
- **The “Green Project”** an institution created in 1960 by the Government for the reforestation of Lebanon, has been reactivated
- **Loan Guarantee Agency (KAFALAT)**  
**Beneficiaries:** small and medium sized firms that have less than 20 employees.

### **Conditions to benefit from the loan:**

- Extent of guarantee:75% of the loan and its interests
- Lending Banks: Banks operating in Lebanon.
- Loan amount: a Max of 100 million L.L. or the equivalent amount in foreign currencies.

## **VII- Guarantees of Investment**

The institutional elements of a favorable investment climate and the many incentives are accompanied by protective measures, which give security to both Lebanese and foreign investors, with specific laws guaranteeing any eventual economic or non-economic risk.

### **1- Protection of Private Property by the Constitution**

- **With private property** guaranteed and protected by the Lebanese Constitution, the risk of Government nationalization is practically non-existent.
- **Protection of Industrial, Commercial, Intellectual Scientific and Artistic Properties**
- **By law**, foreigners benefit from **the same protection** granted to nationals. They benefit also from the protection of patents, industrial patterns and designs, trademarks, trade names, places of origin, labels of origins, and protection against unfair competition.
- **Registration of a trade obtaining a patent:** In order to obtain a certificate, an applicant must submit the required documents to the Office of Protection of Industrial and Commercial Properties, affiliated with the Ministry of Economy and Trade.
- **The business concern**, subordinated to commercial property including various tangible and non-tangible assets, is subject to legal protection. The business concern is protected by the possibility of filing a civil law suit in compensation for damages caused by unfair competition, and by a criminal law suit for infringement of patents or trademarks.

### **2- Investment Guarantees**

**The National Investments Guarantee Corporation (NIGC)** was created to encourage new investments made in Lebanon by Lebanese or foreign commercial companies. The corporation, which benefits from the government's guarantee, covers war risks, civil strike, riots, confiscation and expropriation, provided that an annual premium of 0.2% of the insured amount is paid.

### **3- International Insurance Organizations Guarantee**

Most organizations such as IAIGC (Arab consortium), COFACE (France), HERMES (Germany), ECGD (UK), OPIC, Export/Import (US) have resumed their of Lebanon. The Lebanese Government has also joined MIGA, the Multilateral Investment Guarantee Agency of the World Bank, which covers transfer, expropriation and war risks of up to \$ 50 million per project in Lebanon.

### **4- Guarantee of Bank Deposits**

The National Institute for the Guarantee of Bank Deposits (NIGD) is a semi-public company in which the Government and banks operating in Lebanon participate. Its objectif is to guarantee all deposits of registered banks in Lebanon.

### **5- Free Transfer of Capital**

Free transfer of capital, interest and dividends without any restrictions or controls.

### **6- A Judicial System**

Governed by:

- The principle of equality which grants the right to all-Lebanese, foreign, natural persons or legal entities to go to court.
- The principle of two levels of jurisdiction (Court of First Instance and the Court of Appeals).  
A supplementary recourse level before the Supreme Court is possible in some cases.
- The principle of the separation of the legislative and executive authority enables judges to freely carry out their duties.

### **7- The Creation of the Lebanese Arbitration Center**

- The Lebanese Arbitration Center was recently established in close affiliation with the Chamber of Trade, Industry and Agriculture (May 8, 1995), whose by-laws and regulations are similar to those of the International Chamber of Commerce in Paris.
- Lebanese Procedural Code for the regulation of internal and international arbitration.
- Lebanon has ratified the New York Convention of 1958 relating to international arbitration.

## **VIII- Restriction on Foreigners**

The Lebanese law does not differentiate between local and foreign investors. However, there are certain restrictions placed on foreigners acquiring properties and establishing companies in Lebanon.

## 1-Procedures followed to entitle foreigners property ownership\*

Every foreigner willing to own real rights in Lebanon must submit to the Directorate of land affairs in the Ministry of Finance an application in which he explains what use he will do of the real estate, enclosed with the following data:

- **Foreign private individuals**

- a. A certificate from the directorate of land affairs (in his name as well as in his wife's and minor children's name) (شهادة نفسي ملكية). The certificate fee is LBP 525 000/ person for all Lebanon.
- b. A statement from the surveying department situated in the Caza in whose locality lies the real estate (بيان بمساحة العقارات المملوكة). The fee varies according to each real estate between LBP 5,000 and 10,000.
- c. A commitment before a notary that the foreigner, his wife and his minor children own no real estates in Lebanon in case it is proved in the certificate aforementioned in paragraph b.
- d. A land certificate of the real estate, object of the ownership licensing, issued by the land register situated in the district where lies the real estate
- e. A statement mentioning the real estate area, object of the ownership licensing issued by the surveying -division. Statement mentioning the area of the landed property intended to be purchased drawn up by a surveyor or an engineer officially designated
- f. A certificate of easement and layout issued by the technical department of the General Directorate of Plan.
- g. A division map (if the application is for a landed property).
- h. Property regulations applied to the real estate (if the application is for a landed property).
- i. A family record of civil status translated by a sworn translator and certified by the Ministry of Foreign Affairs.
- j. A proxy or photocopy of the proxy certified true copy (if the application is submitted by proxy).

The Directorate of land affairs refers the application to the Finance Minister for signature of the bill. Then, the application is returned to the Directorate of land affairs, which submits it, in its turn, to the Council of Ministers for the promulgation of the decree. The Council of Ministers has full discretionary powers to grant or reject licenses. Moreover, the Council of Ministers' rejection decisions are not subject to any Authority's supervision.

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\* Please refer to appendix 4

- **Foreign companies**

The non- Lebanese companies which need a previous license are:

- Partnerships and limited liability companies whose shares are not entirely held by natural Lebanese persons are not entitled, according to their articles, to transfer these shares to non Lebanese or to companies which are not purely Lebanese.
- Joint stock companies and limited partnerships whose shares are not all nominal shares held by Lebanese natural persons or by purely Lebanese companies are not entitled, according to their articles, to transfer these shares to non Lebanese natural persons or to companies which are not purely Lebanese.

The concerned company submits an application to the Directorate of land affairs in the Ministry of Finance in which it explains what use it will do of the real estate, along with the following data:

- a. A certificate on behalf of the company confirming that it does not own any property and which can be withdrawn from the General Directorate of land affairs. The certificate fee is LBP 525 000 for all Lebanon.
- b. A statement mentioning the area of the owned real estates issued by the surveying department situated in the Caza in whose locality lies the real estate.
- c. A commitment before a notary that the company owns no real estates in Lebanon in case this has been proved in the certificate aforementioned in paragraph a.
- d. A land certificate of the real estate, object of the ownership licensing from the land register situated in the district where lies the real estate
- e. A statement mentioning the real estate area, object of the ownership licensing issued by the surveying division. A statement with the area of the landed property intended to be purchased drawn up by a surveyor or an engineer officially designated (if the application is for a landed property).
- f. A certificate of easement and layout.
- g. A division map (if the application is for a landed property).
- h. A property regulations applied to the real estate (if the application is for a landed property).
- i. The Articles of Association certified by the Trade Register.
- j. A circular-letter related to the company.
- k. A certificate of the company's registration in the Trade Register.
- l. Associates' name and identity.
- m. Proxy or photocopy of the proxy certified true copy (if the application is submitted by proxy).

The application is referred from the Directorate of land affairs to the Ministry of Finance for signature of the bill. Then, the application is returned to the Directorate of land affairs, which submits it, in its turn, to the Council of Ministers for the promulgation of the decree.

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The Council of Ministers has full discretionary powers in granting or rejecting licenses. Moreover, the Council of Ministers' rejection decisions are not subject to any authority's supervision. Are excepted from the license granted by decree issued by the Council of Ministers:

- Foreigners of Lebanese origin or Arab nationals if they want to own real estates already built or dedicated to construction and whose area does not exceed on all the Lebanese territory 5,000m<sup>2</sup> provided that the area in the Mohafazat of Beirut would not exceed 3,000m<sup>2</sup> and that the construction of a building on the real estate, subject of the property, would be achieved within a period not exceeding 5 years as from the registration in the Trade Register, if not, the real estate will be sold by auction.
- Companies considered as non-Lebanese. Moreover, a distinction is made between the two following cases:
  - a. If the company is a partnership or a limited liability company, the absolute majority of the shares must be held either by Lebanese partners or purely Lebanese companies. The articles of these companies do not entitle them to transfer these shares in any way to people who are not Lebanese or to companies which are not purely Lebanese.
  - b. If the company is a joint stock company or a limited partnership, the third of the shares at least must be nominal shares held by Lebanese shareholders. The articles of these companies do not entitle them to transfer these shares to people who are not Lebanese or to companies which are not purely Lebanese.

However, these companies have the right of possession and can possess up to 50,000m<sup>2</sup> after having a license issued by the Council of Ministers in order to apply their objects provided that the company implements its project within a period of 5 years as from the registration of the acquired right in the Land Register.

## 2- Restrictions placed on some companies\*

**Joint stock companies:** One third of the capital of a company whose purpose is the operation of a public service, must consist of registered shares belonging to Lebanese shareholders. Those shares cannot be conveyed to non-Lebanese shareholders, otherwise the transfer will be declared null and void and the majority of the members of the board of directors must be Lebanese.

**Holding and offshore companies:** The board of directors must gather two Lebanese natural persons at least. The chairman of the board of directors does not need a work permit if he is a foreigner who does not live in Lebanon.

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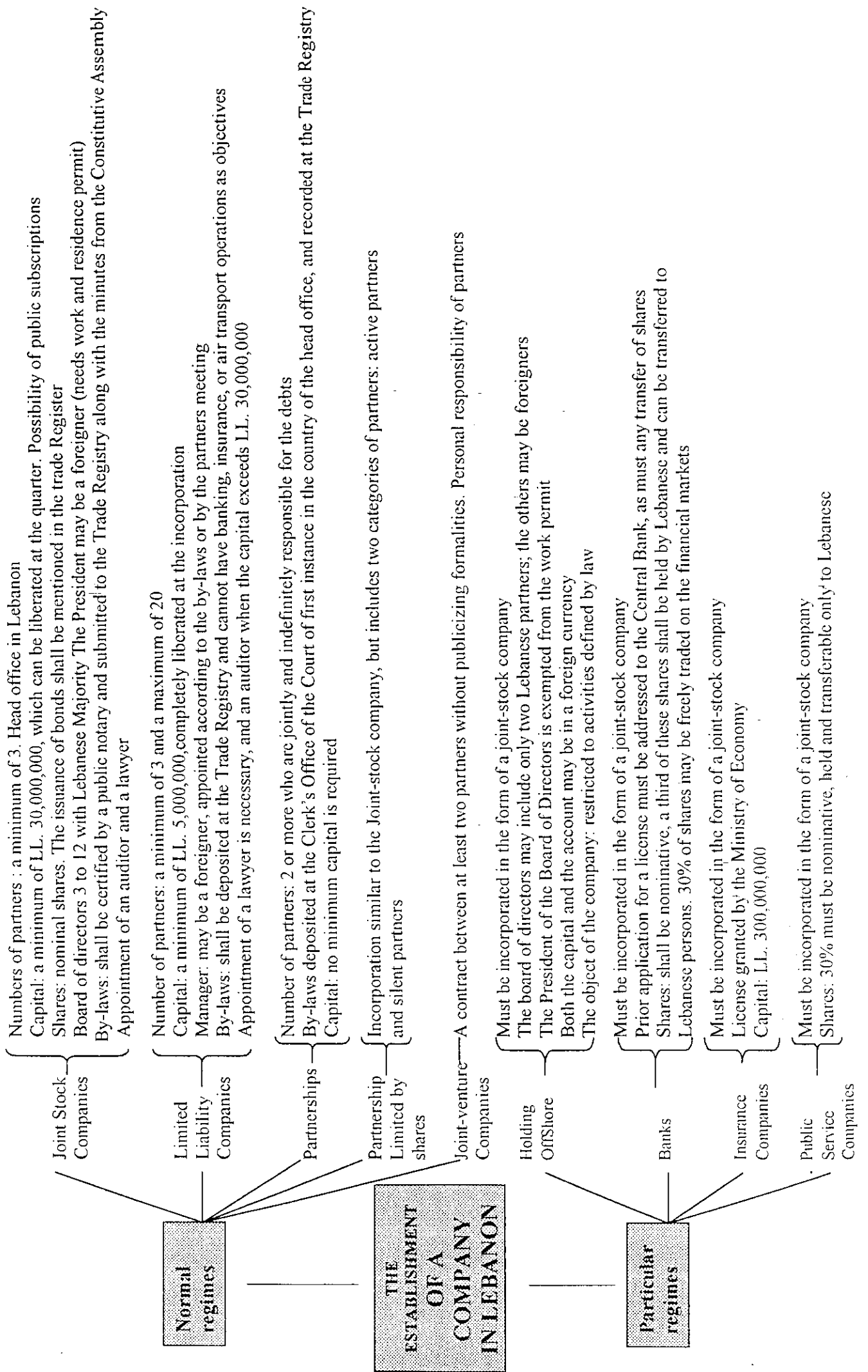
\* Please refer to appendix 1&2



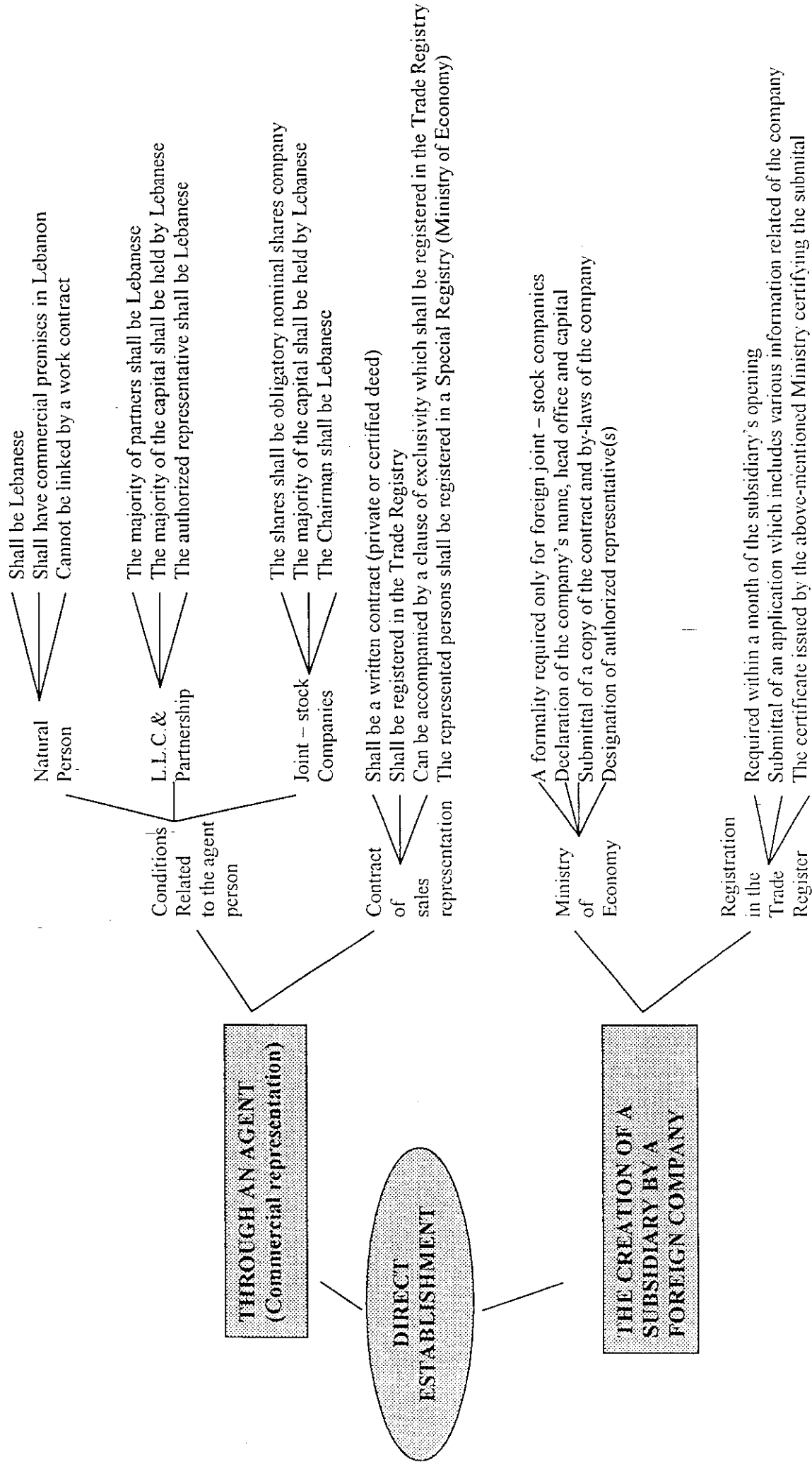
### 3- Restrictions placed on the sales representative

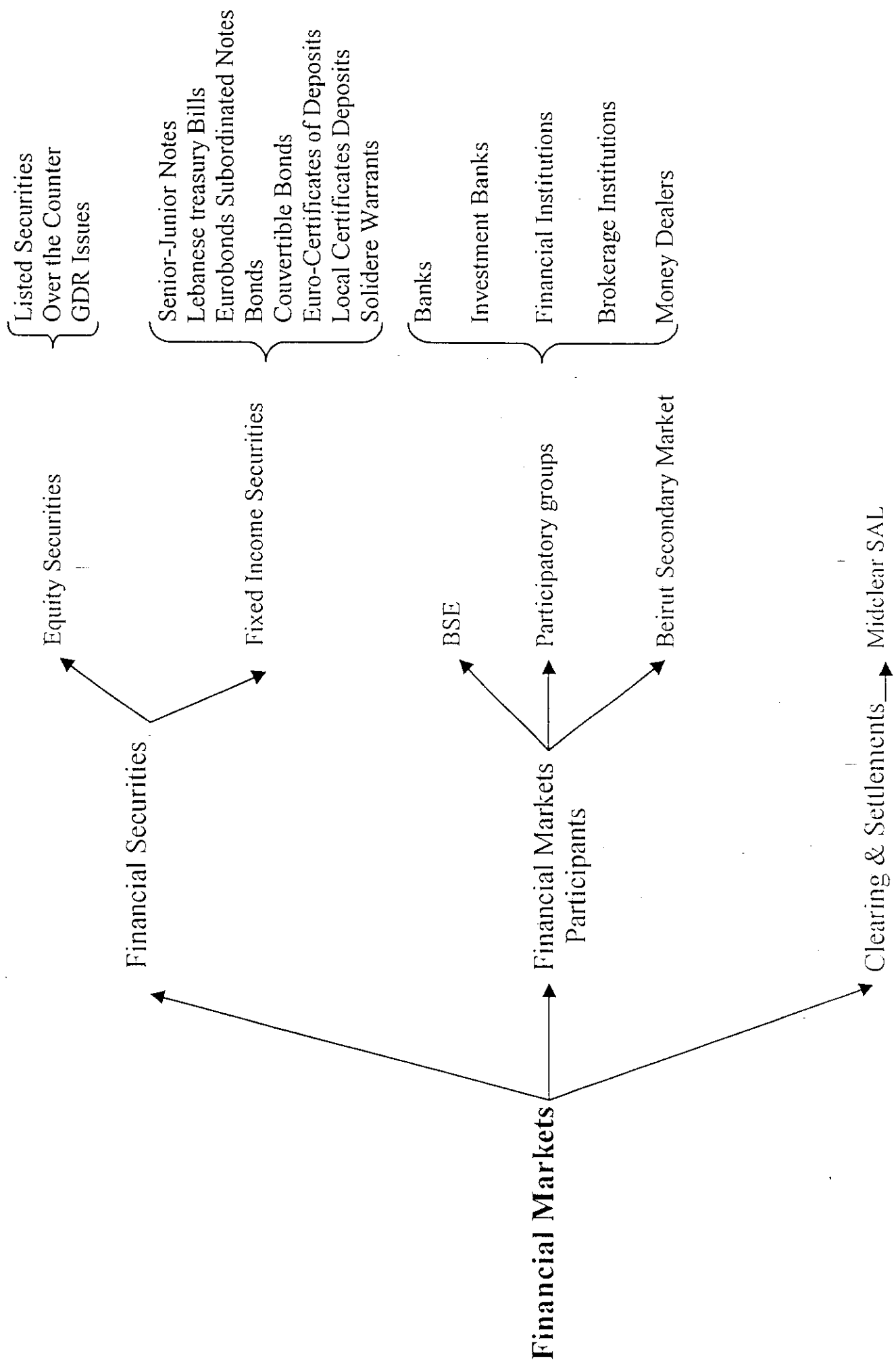
- If the sales representative is a natural person, he must be Lebanese.
- If sales representative is a company, it should be noted that:
  - a. **In partnerships and limited liability companies**, the majority of the shareholders must be Lebanese, and the biggest part of the capital shall be held by Lebanese. Moreover, the person empowered to sign on behalf of the company must be Lebanese.
  - b. **In joint-stock companies**: The shares of the joint-stock company must be nominal shares, and the biggest part of the capital must be held by Lebanese. Moreover, two thirds of the members of the board of directors of the company and its director general or the person delegated by the chairman of the board of directors or by the director general to run all or part of the company's business must all be Lebanese.

# Appendices



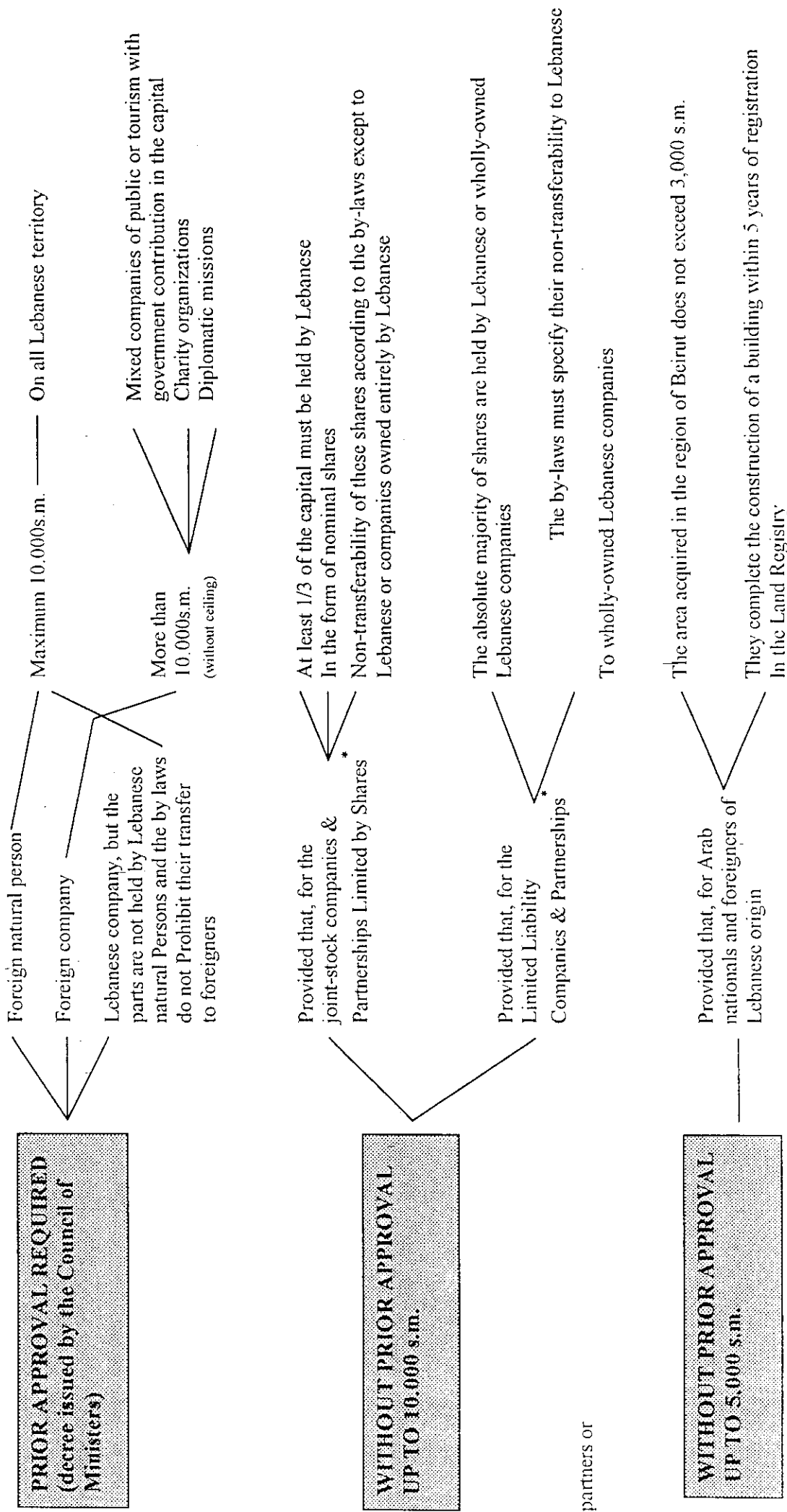
## Appendix 2- DIRECT ESTABLISHMENT





# LAWS AND REGULATIONS CONCERNING FOREIGN INVESTMENT IN REAL ESTATE

(Statutory Order n° 11614, January 4, 1969)



\* The above mentioned companies will have the possibility to acquire up to 50.000 s.m. of land for their business necessities to achieve the company's objectives, on condition that the project must be within 5 years of registration in the Land Register.

## Appendix 5-Status of the Bilateral Agreements.

	Promotion and Reciprocal Protection of Investment.			
	Initialed	Signed	Ratified <sup>1</sup>	Enforce
(Up to April, 2000)				
<b>Armenia</b>		May 1, 95	Mar.3, 98	Oct. 1, 98
<b>Austria</b>	Feb. 1, 2000			
<b>Azerbaijan</b>		Feb. 11, 98	Mar. 31, 99	
<b>Bahrain</b>	Aug. 26, 99			
<b>Belgium</b>	Oct 7, 97	Sep 6, 99		
<b>Bulgaria</b>	June 19, 98	June 1, 99		
<b>Canada</b>		April 11, 97	Mar 31, 99	June 19, 99
<b>Chile</b>	July 28, 99	Oct 19, 99		
<b>China</b>		June 13, 96	Feb 28, 97	
<b>Cuba</b>		Dec 14, 95	Nov 5, 98	-
<b>Czech Republic</b>		Sep 19, 97	June 14, 99	
<b>Egypt</b>		Mar 1, 96	July 24, 96	
<b>Finland</b>		Aug 25, 97	June 14, 99	
<b>France</b>		Nov 28, 96	Mar 31, 99	
<b>Germany</b>		Mar 18, 97	Nov 5, 98	
<b>Greece</b>		July 24, 97	Mar 31, 99	
<b>Indonesia</b>	Sep 18, 98			
<b>Iran</b>		Oct 28, 97	Mar 31, 99	
<b>Italy</b>		Nov 7, 97	Mar 31, 99	Feb 9, 2000
<b>Kuwait</b>	May 13, 97			
<b>Malaysia</b>		Feb 26, 98	Mar 31, 99	
<b>Morocco</b>		July 3, 97	June 14, 99	
<b>Poland</b>	June 3, 96			
<b>Qatar</b>	Nov 19, 99			
<b>Romania</b>		Oct 19, 94	June 6, 96	
<b>Russia</b>		April 7, 97		
<b>Spain</b>		Feb 22, 96	April 23, 96	
<b>Sweden</b>	June 25, 98			
<b>Switzerland</b>	May 30, 97			
<b>Syria</b>		Jan 12, 97	July 24, 97	Sept 15, 98
<b>Tunis</b>		June 23, 98	Mar 31, 99	
<b>U.A.E</b>		May 17, 98	Mar 31, 99	July 14, 99
<b>United Kingdom</b>	April 16, 97	Feb 16, 99		
<b>Ukraine</b>		Mar 25, 96	July 24, 96	
<b>Yemen</b>		Nov 25, 99		

<sup>1</sup> By the Lebanese Parliament.

(Up to April,  
2000)

Avoidance of Double Taxation and the Prevention of Fiscal Evasion				
	Initialed	Signed	Ratified	Enforce
Armenia		Sep 16, 98	Feb 23, 99	
Bahrain	Aug 25, 99			
Belgium	May 28, 99			
Bulgaria	June 17, 98	June 1, 99		
Canada	April 1, 98	Dec 29, 98		
Czech Republic		Aug 28, 97	June 14, 99	
Egypt		Mar 17, 96	July 24, 96	Mar 22, 98
Finland	Jan 13, 2000			
France		July 24, 62	Aug 23, 63	
Germany	Sept 17, 99			
Indonesia	July 2, 98			
Iran		Oct 22, 98	Feb 23, 99	--
Italy	Nov 10, 99			
Kuwait	April 24, 98			
Malta	July 4, 97	Feb 23, 99		
Morocco	May 29, 98			
Norway	March 5, 98			
Pakistan	Aug 23, 96			
Poland	June 3, 96	July 26, 99		
Qatar	18 Nov, 99			
Romania		June 28, 95	July 24, 96	Apr 6, 97
Russia		April 7, 97	Feb 23, 99	
Sweden	Nov 12, 98			
Syria		Jan 12, 97	July 24, 97	
Tunis		June 23, 98	Feb 23, 99	
Turkey	Feb 2, 96			
U.A.E		May 17, 98	Feb 23, 99	
Ukraine	Dec 12, 96			

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Republic of Lebanon  
Office of the Minister of State for Administrative Reform  
Center for Public Sector Projects and Studies  
(C.P.S.P.S.)