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*for a sustainable future*

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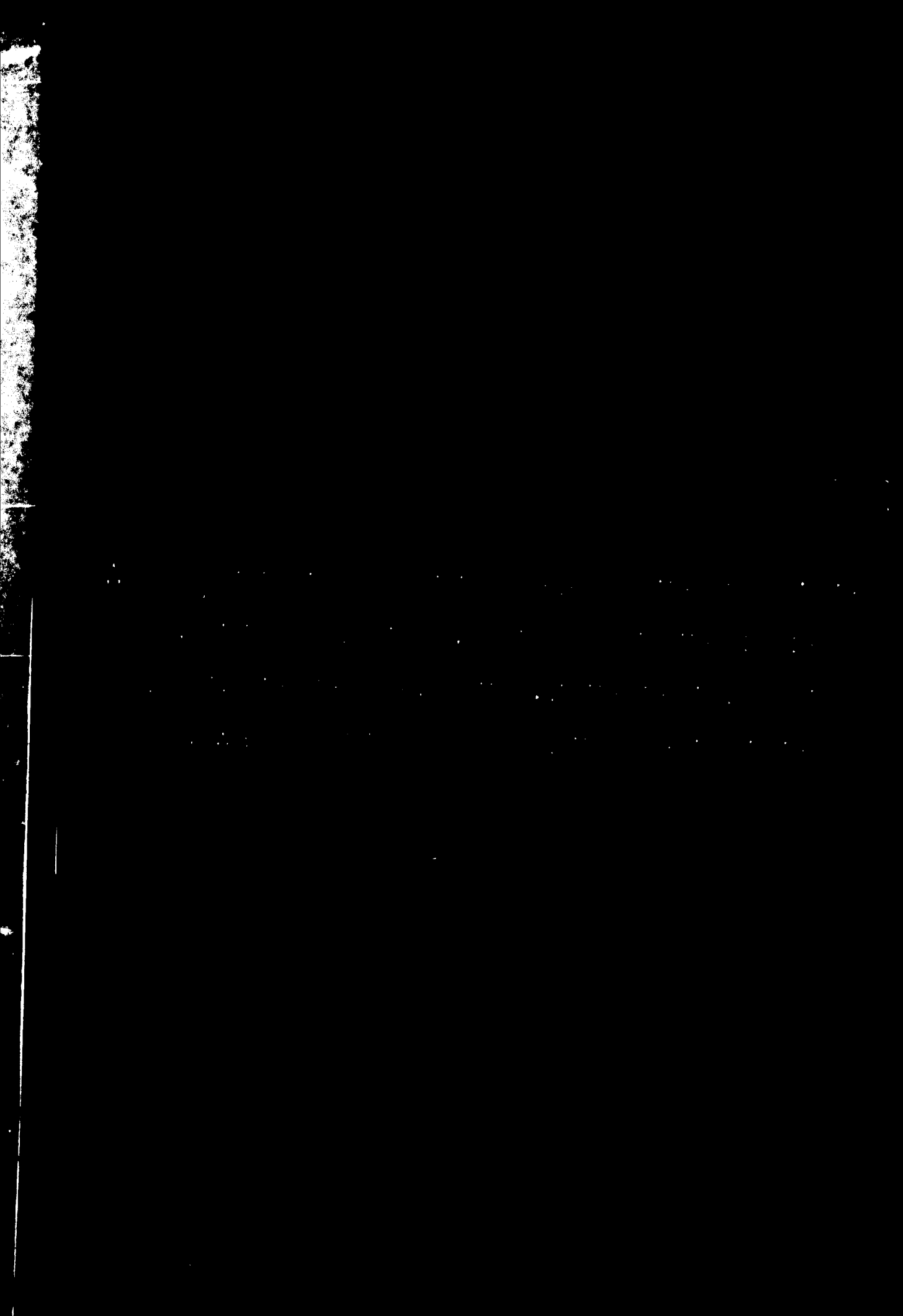
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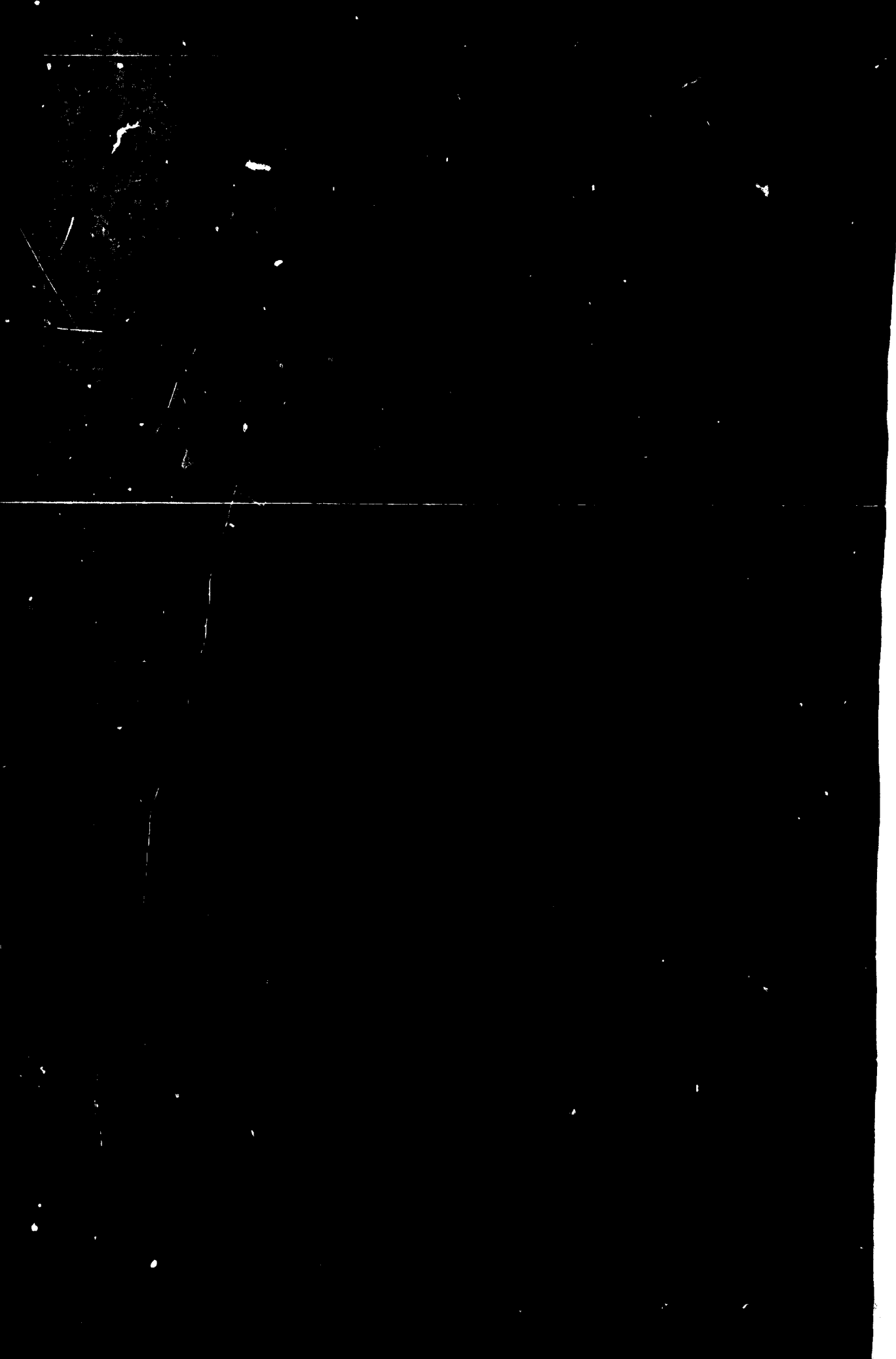
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UNITED NATIONS DEVELOPMENT PROGRAMME

Beirut, Lebanon

Beirut, 4 August 1970

Dear Sir,

I have the honour to submit to you the attached report of the Mission instructed, at your request, to explore the possibilities of co-operation by UNIDO in the implementation of the following two projects:

1. The establishment of an agency for the promotion of industrial investment;
2. The establishment of an industrial free zone.

The Mission was anxious to set in hand before its departure the action necessary to ensure that these two projects should take concrete shape and consequently prepared in addition to its report the following documents:

- A request for the assistance of the UNDP/Special Fund for the operation of the agency for the promotion of industrial investment.
- A request for interim immediate assistance for the agency.
- Preamble of a draft legislative decree dealing with the establishment of the agency.
- Draft legislative decree establishing the agency.
- Preliminary assessment of the establishment of an industrial free zone.

His Excellency Mr. Maurice Gemayel  
Minister of Planning  
Beirut

- Request for preliminary assistance in the establishment of the zone - job descriptions.

The Mission would be glad to ascertain before its departure the first reactions of the responsible authorities to the recommendations and documents submitted, so that it can take the next steps in the continuation of its programme.

I am glad to take this opportunity to express to you on behalf of the Mission and on my own behalf our warm thanks for the co-operation and assistance that the Lebanese Government and you yourself in particular have accorded to the Mission during its stay in the Lebanon.

Yours truly,

Chafic Akhres  
Chief of Mission

F I N A L

REPORT OF THE UNIDO MISSION

(SIS REQUEST 70/919/LEB 3)

**I. INTRODUCTION**

1. The Minister of Planning, when visiting UNIDO's Headquarters in July 1970, requested the Executive Director of UNIDO to send a Mission to take care of the following tasks:
  - (a) To explore with the Lebanese authorities the implementation of points 1, 3, 5 and 8 of para.2 of the Long Range Technical Assistance Programme;
  - (b) To study more particularly the assistance UNIDO could give to two key projects of the Lebanese Industrial Development Programme:
    - (i) The establishment of an Agency to promote Industrial Development;
    - (ii) The establishment of an Industrial Free Zone for export industries oriented towards the World Markets.
2. A Mission headed by Mr. C. Akhras, Chief of the Industrial Policies and Financing Section and including Mr. A. Wilmots, Senior Industrial Development Officer and Mr. W. H. Tanaka, Industrial Development Officer, arrived in Lebanon on 20 July 1970. This Mission also included Mr. S. Jowhari, Chief of the Industrial Development Unit (UNESOB), Mr. Tran-Le Quang, Industrial Development Regional Adviser (UNESOB) and Mr. M. Abdelmoneim, Industrial Development Officer (UNESOB) who actively participated in its work.
3. The Mission also benefited from the fruitful assistance of Dr. H. Jawad, Resident Representative of UNDP in Beirut, who put at the disposal of the Mission all services and facilities that were needed.

4. The Mission held many working sessions with the Minister of Planning, the Director Generals of a number of Ministerial Departments, the Members of the Council of Planning and of the Council for South Lebanon, as well as with many important representatives of the private sector. Those working sessions allowed the Mission to define more precisely its terms of reference and its work programme.
5. After examination of this work programme by the Lebanese authorities, they requested the Mission to start immediately its work and prepare the necessary documents to initiate the two projects which were the subject of the Minister's request.
6. Later, on 27 and 28 July, following the discussions carried out by Dr. Abdel Rahman, Executive Director of UNIDO, Dr. H. Jawad, Resident Representative of UNDP and Mr. C. Akhras, Chief of the Mission, with the President of the Republic of Lebanon, the President of the Council of Ministers, as well as with other Ministers and appropriate personalities, the Government decided to establish an Inter-Ministerial Committee responsible to follow up those two projects, and ensure the liaison with the United Nations Agencies in charge of the implementation of the projects.
7. Dr. Abdel Rahman, Executive Director of UNIDO, Dr. H. Jawad, Resident Representative of UNDP and Mr. C. Akhras, Chief of the Mission, have also discussed the Mission's work with Mr. Paul-Marc Henry, Assistant to the Administrator and Associate Director of BOP (UNDP). Mr. Paul-Marc Henry assured the Mission that UNDP will favourably look into the request of the Government for the establishment of the Agency and the intermediary requirements of the technical assistance pending its establishment. In principle, he also agreed on the feasibility study and the T.A. requirements for the establishment of the Zone.
8. On the basis of what has been said in the preceding paragraph, the Mission has prepared the following documents:
  - (1) Work Programme
  - (2) Documents concerning the Agency
    - a) Draft of Law to establish the Agency
    - b) Explanatory Note
    - c) Request for UNDP/Special Fund Assistance
    - d) Intermediary Programme of Assistance
  - (3) Documents concerning the Industrial Free Zone
    - a) Preliminary Assessment
    - b) Technical assistance requirements for the First Phase Job Descriptions



9. On 10 August 1970 the Mission submitted officially the documents mentioned above to the Minister of Planning who has organized to have the attendance of representatives from the related parties concerned including the Director General of the Ministry of Foreign Affairs, the Ministry of National Economics, the Ministry of Finance, the Council for Planning, the Council for South Lebanon, the Association of Lebanese Industrialists, the customs authorities, the technical bureau, the banks as well as representatives from the private industrial sectors. Mr. G. Akhras, Chief of the Mission, presented the mission's findings and defined the respective responsibilities of the Government and the UN on the follow up action recommended in the reports. To examine the work of the Mission, the Minister of Planning nominated the committee composed of:

- Mr. Mohamed Attalah (Member of the Council for Planning)
- Mr. Montafa T. M'Souri (Director General of Ministries of National Economy and Planning)
- Mr. M. Salim (Director General of Ministry of Finance)
- Mr. Marwan Nasr (Secretary General of the Association of Lebanese Industrialists)
- Mr. Georges (President of the bankers Association, who has nominated Mr. Pierre Nasrallah as alternative representative of the Bankers Association).

- 10. This Committee has twice met the Mission to discuss its findings and made several comments which have been taken into consideration in the present Report and the attached documents.
- 11. This Report will limit itself to condensed Conclusions and Recommendations of the Mission.

**II. ESTABLISHMENT OF AN AGENCY TO PROMOTE INDUSTRIAL INVESTMENTS**

12. The annexed explanatory note on the establishment of the Agency provides more details concerning the Agency. The Mission wishes to recall that three major factors have guided its examination of the Project to establish such an Agency:

**A. JUSTIFICATION OF THE AGENCY**

**a. Status of the Administrative Machinery responsible for Industrial Development in Lebanon**

13. Lebanon does not have, presently, a central organization responsible for the formulation and implementation of a clear long-term industrial policy. This responsibility is actually shared between the Ministry of Planning, in charge of the programming, and the Ministry of National Economy responsible for granting the authorization to establish new industries, and applying the existing regulations in accordance with the law as well as being entrusted with the general responsibilities of industrial administration and development.

14. The Mission also believes that the present machinery, responsible for the industrial development, plays a rather too passive role in its development. In fact, this machinery lacks a specialized organization capable to stimulate the industrial development by taking the initiative to identify specific industrial projects, to study them and promote their implementation. It also lacks a specialized financing agency which grant medium and long-term credit to industry.
15. The necessity of having such organizations justifies, in the opinion of the Mission, the establishment of an Agency specialized in the promotion of industrial investments and an Industrial Development Bank.

#### b. The present situation of the Industrial Development in Lebanon

16. The Mission takes also note of the fact that until now the Lebanese industry has essentially developed through the initiative of the private sector but which seems to have reached the limits of its possibilities to identify new industrial projects if not helped in this field - especially those involving sophisticated techniques and those oriented for export. It is a generally accepted fact that Lebanon lacks neither dynamic entrepreneurs nor financial resources to implement a feasible industrial project already identified and appropriately studied. Import substitution industries seem to have reached their development limits, and export-oriented industries are requiring an impulsion which is beyond the possibilities of the private sector. For these reasons a governmental action in this sense becomes urgent.

#### c. Lebanese Economy Choices (options)

17. In consequence of the market economy option leaving to the private sector the responsibility of execution, the action of the State could only be that of Promotion. This factor will influence the orientation of the specialized agency to be established, the purpose of the agency being then to promote the establishment of new industries by supplying various services and technical assistance to the Lebanese as well as foreign investors.

#### B. PLAN OF ACTION

18. According to what has been said in the preceding paragraph, the Mission recommends the establishment of an Agency for Industrial Investment Promotion. The Mission suggests the following programme in two phases. Although the Mission considers that the activity of the Agency for Industrial Investment Promotion is closely related to those activities that a future Industrial Development Bank will accomplish, the establishment of the Agency should not be postponed for the following reasons:
  - (i) the Agency will identify and prepare projects for the financing by the future Development Bank;
  - (ii) the Agency will have to draw on all other sources of financing in addition to those made available by the future Development Bank.

First Phase

19. This phase will include direct and immediate action programs. The establishment of the Agency, this will include:
- (i) Identification of a certain number of specific industrial projects taking into account the need to integrate existing industries and the future orientation of Lebanese industry not only towards the Region but also the World.
  - (ii) The preparation of pre-projects as project files to be submitted to Lebanese and foreign investors. These project files will include, among others, the external requirements to be looked after.
  - (iii) Afterwards contacts and negotiations will be organized between Lebanese and potential foreign partners for implementing those projects.

Second Phase

20. The second phase will be characterized by the establishment of the Agency which will pursue and amplify the operational programme of the first phase.

C. SHARE OF RESPONSIBILITY BETWEEN THE LEBANESE GOVERNMENT AND UNIDO

21. The Lebanese Government will have to take the following actions:
- (i) Appoint an Action Committee working in close relation with UNIDO team in order to implement the first phase (para 19). This Committee should have at his disposal a permanent secretariat and the counterpart facilities to UNIDO assistance defined in the following paragraphs.
  - (ii) Present to UNDP the draft request for the global assistance for a three year period such as defined in that request.
  - (iii) To examine and promulgate (implement) the Law of establishment of the Agency, and take the necessary steps for its functioning.
  - (iv) To expedite the establishment of an Industrial Development Bank.

22. UNIDO WILL TAKE THE FOLLOWING ACTION:

Short Term

- (i) Provide, before the end of 1970, a team of experts which will identify specific industrial projects, prepare the ad-hoc project files for submission to investors and sources of financing. This phase should be finished before March 1971.

- (ii) Implementation of the projects referred to in the above paragraph. This will take place in between April and June 1971.
- (iii) Establishment of promotional contacts between Lebanese and potential foreign investors, in June 1971.

Assistance

UNDP assistance in the establishment and the functioning of the Zone, according to the Request submitted by the Lebanese Government to UNDP.

III. RECOMMENDATIONS

23. The preliminary assessment prepared by the Mission concerning the Free Industrial Zone project has allowed the Mission to decide what Recommendations should be made to the Lebanese Government and to UNDP/UNIFIL. This examination made in a relatively short period of time, allowed the Mission to conclude that this project is worthwhile to be studied, but according to its dimension and immediate as well as future implications, the project should be studied in two phases:

First Phase

24. The purpose of this phase is to assess on a cost/benefit analysis basis the feasibility of the Zone. It will be necessary to assess in quantitative terms the benefits and evaluate the other advantages that the Lebanese economy could draw from the Zone compared to its Investment and Operation cost.

Second Phase

25. This will include an overall programme for the establishment and functioning of the zone. It will only take place after positive conclusions of the first phase.
26. The UNDP/UNIFIL assistance programme has been established in accordance with the two envisaged phases. It will include:
  - (i) the financing of consultants services required for the study of the first phase;
  - (ii) the supply of assistance, under the form of a Special Fund Project for the establishment and functioning of the Zone.
27. The Mission recommends that for the implementation of this programme related to the Zone, the Government appoints in Lebanon an Action Committee with a permanent Secretariat which will co-operate with UNIFIL.

(ORIGINAL IN FRENCH)

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ANNEX I

WORK PROGRAMME UNDER THE TECHNICAL ASSISTANCE MISSION

I. INTRODUCTION

The mission would like to clarify the following points in connection with its recommendations:

1. The initial contacts which the mission had with a number of government officials and representatives of the private sector indicate that the Lebanese are aware of the problems which concern directly or indirectly the scope of this mission; some solutions have even been envisaged. Consequently, the mission believes that the major difficulty faced by Lebanon at present requires action more than study.

2. The problem being one of action, the primary responsibility necessarily rests with the Lebanese government; the United Nations technical assistance can only be a part of this action by contributing to its initiation and support, from a technical standpoint rather than a financial one. The technical assistance in question could essentially be envisaged under the following forms:

- (a) a direct action provided by the staff of the UN Organization such as, for example, the assistance provided within the framework of the UNIDO programme concerning the promotion of industrial investment;
- (b) the provision of expert, for short and long-term assignments;
- (c) training fellowships;
- (d) financing of consultant services;
- (e) the supply as appropriate of equipment required for the operation of specialized institutions established in Lebanon with the United Nations assistance; and,
- (f) assistance in obtaining financing or foreign capital participation in specific industrial projects.

In addition, the terms of reference of the mission are specifically  
the establishment of an agency for the promotion of investment  
in an industrial free zone in the south of Lebanon, the mission feels

that such projects cannot be isolated from the overall  
development programme of the south of Lebanon; and,

(c) the development of the south should be considered as an  
integral part of the overall industrial and economic  
development of Lebanon.

## II. PROGRAMME

1. Taking into account the above, the mission believes that the assistance programme must cover:

- (a) long-term action) and,
- (b) immediate action which is required by the emergency of the problems faced by south Lebanon.

2. The mission believes it necessary to create a specialized agency to take the global responsibility for the development of the south. The absence or inadequacy of the resources which are at present available justifies the creation of an organ which must fulfill the following functions:

- (a) identification of specific projects;
- (b) study on and formulation of these projects; and,
- (c) the promotion and any other action necessary for the implementation of these projects.

3. The mission intends also to submit to the Lebanese government, before its departure, concrete recommendations for immediate action aimed at initiating industrial development in the south of Lebanon. These recommendations will include measures to be taken by the Lebanese government which are indispensable to getting the development in question started. UNIDO assistance will be recommended, parallel to the proposed measures to be taken by the government.

### III. IMPLEMENTATION

This programme will be a joint undertaking between the Lebanese Government and United Nations. The responsibility of the two parties could be defined as follows:

#### A. Lebanese government

The implementation of the programme will require:

- (a) its examination and an urgent decision on it; and,
- (b) the allocation of government counterpart contributions to complement the assistance provided by the United Nations. A detailed list of these contributions will be recommended concurrently with the detailed project of the United Nations assistance programme.

#### B. United Nations

The United Nations assistance programme will be implemented as follows:

- (1) in the immediate future, the mission would submit to the Lebanese government, prior to the mission's departure:
  - (a) a draft text for the establishment of the specialized agency mentioned above; and,
  - (b) concrete measures to be taken by the Lebanese government jointly with the immediate assistance to be provided by UNIDO.
- (2) A group of United Nations specialists will be formed to follow-up the various tasks initiated by the mission, in advance of the operational stage of the proposed long-term programme of assistance. The terms of reference of the group of specialists and of the long-term programme in question will be submitted to the Lebanese government by the mission before its departure.
- (3) The creation of an agency for the promotion of industrial financing and investment

The United Nations assistance to this agency will consist of the elements enumerated above (see I para. 2). The work programme of this agency will include, among other projects, a study on the proposed establishment and promotion of an industrial free zone.



ANNEX II

DRAFT DECREE ESTABLISHING THE INDUSTRIAL  
INVESTMENT PROMOTION AGENCY

EXPLANATORY NOTES

I. Introduction

1. As it is organized at present, the administrative machinery responsible for industrial development in Lebanon is located at the Ministry of National Economy and consists of the Department of Industry and the Bureau for Industrial Development. The functions assigned to these two agencies include: industrial establishment licencing, duty-free import licencing for industrial machineries and selected raw materials establishment of special anti-dumping protection taxes, etc.

2. However, the present shortage of resources and inadequacy of institutions, as compared with the real situation and the actual needs of the Lebanese industrial sector, have not permitted an active intervention of the Government for the sake of supporting and promoting feasible industrial projects, even within the framework of its hand-off policy options. For the purpose of easing out these drawbacks, a number of proposed administrative reorganization measures are being considered, within the formulation of the proposed Global and Integrated Development Plan of Lebanon including, among other things, the proposed establishment of a Ministry of Industry, to be responsible for co-ordinating all industrial development policies and animating the related institutions concerned, and of a medium and long-term industrial credits establishment, to be the instrument of those policies and an integral part of those institutions.

3. If the Government option in a hand-off policy keeps it from intervening into production centers, this does not dispense the Government from providing them with the necessary promotion and encouragement. On the other hand, the private sector, which has been acting so far as the chief initiator and promoter of industry in Lebanon, appears to have come next to the limits of possibilities, in terms of project identification regarding several categories of industry, such as those requiring a sophisticated technology or an

orientation towards export markets. It becomes, therefore, necessary for the Government to give more emphasis, in the coming years, to promotion and encouragement actions. These actions will be aimed, not only at increasing the industrial growth rate, but also at resetting the industrial structure and its orientation in order to help the industrial sector create new production capacities complementary to existing industries, and produce thereby a maximum indirect effect on other economic sectors of the Nation, as well.

4. An industrial investment promotion machinery, the establishment of which being the object of the draft Decree attached, would be, in this context an urgent action to be carried out by the Government, to attain the objectives referred to above.

### II. Designation

5. The designation of the proposed organization is "Industrial Investment Promotion Agency". This designation is selected because of the reasons as follows:

- (a) The Agency promotion functions should obviously be kept in the foreground to clearly mean that the Agency is an operational more than research or study-oriented organization.
- (b) The term "promotion" is put next to that of "investment", to mean that the Agency's activities will consist of providing services to stimulate investment, without intervening into, or participating in it.
- (c) The term "promotion" should be understood on the largest basis, i.e. covering all types of assistance to investors, both in Lebanon and from abroad, in identification of industrial investment opportunities, formulation of pre-investment files, prospectation of foreign partners, etc., but excluding all direct actions such as those connected with the very financing of, or investment in projects, or the actual negotiations involved.

### III. Objectives and functions

6. The designation of the Agency, as indicated above, already implies its objectives and functions. These are defined in the Draft Decree attached at the most flexible way, to cover all production services that extend themselves, throughout the various project pre-investment and investment stages, from identification of their opportunities through their full development into technically operational and commercially profitable enterprises.

7. As regards more particularly foreign investors, the Agency is expected to stimulate investment and financing proposals from them, or to arouse their interest in investment opportunities that are identified by the Agency. The Agency will provide them with all information and assistance needed to contact Lebanese partners or to complete the administrative formalities required.

8. Because of its frequent contacts with industrial investors and financiers, the Agency is likely to be more knowledgeable than any other administrative department about the impact of laws and regulations in force on the atmosphere of industrial investment, as well as the efficiency of the existing system of incentives. It is, therefore, proposed that the Agency be authorized to give its advice and recommendations on actions at the international level to be taken by the Government for the purpose of promoting foreign investments, as well as on all draft laws and regulations which have an effect on the present system of incentives for and the existing atmosphere or conditions of industrial investments in Lebanon.

### IV. Legal structure

9. The Agency's operation requires a great flexibility of procedure for the purpose of, either attracting to its service qualified and valuable staff, or taking, as appropriate, quick actions as are required by the industrial and commercial statutes of those industrial projects the Agency is precisely expected to promote. Such a requirement does not appear to lend itself to be easily reconciled with the respect of existing administrative regulations.

10. On the other hand, it is indispensable that the Agency be granted the privileges not of line with the common private rights, as it is usually required by any public activity programme in general, for the purpose of overcoming any difficulty that might stem out of certain private concerns in the future.

11. The commercial corporation structure under a private law status has not been retained, because of its incompatibility with the over private rights privileges mentioned above. The non-profit association or foundation structure has also been discarded because of the legal limitation imposed to the Agency's activities, and thus not compatible with the programme of promotion activities of the Agency.

12. Because of the reasons indicated above, it is proposed that the Agency be granted the status of a public establishment, with a commercial and industrial character, juridical personality and a financial autonomy.

#### 13. Administrative and Management

13. The Agency administration is entrusted to a Board of Directors responsible for the definition of the Agency promotion policy and the approval of its work programmes. The Agency management is vested to an Executive Director.

14. The Agency should logically be put under the administrative auspices of the Minister responsible for co-ordinating all industrial development activities of the Government, i.e. the Minister of Industry. In the meantime, in waiting for the establishment of this Ministry and on an interim basis, the chairmanship of the Agency Board of Directors is to be entrusted to the Minister of Planning.

15. On the other hand, because of the overwhelming role of the private sector in the Lebanese industrial development system, it is believed indispensable to associate this sector to the activity of the Agency, despite the public status of the latter. However, with a view of maintaining the necessary balance between the private sector and the public authorities concerned, for the purpose of safeguarding the interests of non-represented economic sectors, it is proposed that the Agency Board of Directors membership be composed, in

addition to the Chairman, of ten members, namely five members representing the Government departments, public or mixed establishments concerned with industrial development, and five members representing the private sector. Among the ten members in question, six are to be in an ex-officio capacity, and the remaining four are to be nominated for a three-year, renewable term, by decree taken in Council of Ministers, upon the proposals of the Minister, Chairman of the Board of Directors of the Agency.

16. The Executive Director who is entrusted with the executive responsibilities over the Agency, is proposed to be nominated by decree taken in Council of Ministers, with a view of giving him the necessary authority and stability required for an efficient operation of the Agency. The powers delegated to the Executive Director by the Board, his other powers will be defined in the Agency's Statute which will be decided upon by the Board of Directors.

#### VI. Revenues and expenditures

17. The industrial and commercial status of the Agency implies that its accounting system should be organized along the line of the usual commercial procedure. This will be the subject of an Accounting Regulation to be approved by the Board. The said Accounting Regulation will also set forth the financial auditing rules which has to take into account the necessity of control implied by the public origin of the major part of the Agency resources, but which should also ensure the flexibility required by the Agency operation.

18. Because of the promotional nature of the Agency activities, it is expected that the provision to investors and financiers concerned with the Agency services could only be made at nominal prices, certainly far below the related costs. It is expected, therefore, that the Profit and Loss Account balance will frequently show deficits that are to be covered by subsidies made by the National Budget, in order to help the Agency maintain its activities. This is the common obligations of promotion agencies the main functions of which are to bear the risks of initial development expenses.

19. It is hoped that, later on, when the Agency successes multiply and new, viable industrial enterprises come into being, as a result of the Agency's assistance, a part of its promotion and pre-investment expenses could be

... referred to the amortizable assets of the new enterprises concerned when ... In that case, the Agency is expected to receive as reimbursement from the enterprises concerned, a part of the promotion expenses that have ... for their benefit. This will improve the situation of the Profits and ... balance, and reduce the supporting subsidies of the National ... accordingly.

... At any rate, the economic profitability of the Agency could not be ... only in the light of its accounting results. Other benefits should ... taken into account, namely the contributions to increasing national ... of the new industrial enterprises and the new employment opportunities ...

DECREE No. ...

ESTABLISHING THE INDUSTRIAL INVESTMENT PROMOTION AGENCY

The President of the Republic of Lebanon,

- According to the Lebanese Constitution,
- According to Law No. 45/67, promulgated on 5 June 1967, entrusting the Government with the power of legislating by decrees taken in Council of Ministers, on economic and financial matters,
- According to Decree-law No. 30 of ..... on industrial organization and development in Lebanon,
- Upon the Minister of Planning's proposals,
- The State Council being duly consulted,
- And the Council of Ministers having debated the subject in its session of .....

DECREES:

**Article 1** A public establishment is created with an industrial and commercial status, and granted a juridical personality and a financial autonomy, and designated "Industrial Investment Promotion Agency", which will be thereafter, in this decree briefly referred to as the "Agency".

**Article 2** The Agency's main objective is to promote industrial investments in Lebanon. The Agency is expected to carry out, to this end, all actions deemed necessary and appropriate, especially those aimed at identifying specific industrial projects and arising interests therein of potential investors, both in Lebanon and from abroad.

**Article 3** On a non-exhaustive basis, the Agency's functions include those as follows:

- (a) To identify industrial investment opportunities in Lebanon, be they connected with the establishment of new industries or the expansion or modernization of existing ones;

- (k) To stimulate investment or financing proposals from abroad regarding specific industrial projects to be established in Lebanon;
- (l) To formulate on the basis of the investment or financing opportunities or proposals in question, brief pre-investment reports containing the necessary elements enabling thereon, for the consideration of prospective investors or financiers concerned, both in Lebanon and from abroad;
- (m) To explore and arouse the interest in the pre-investment studies in question of both local and foreign sources of financing or investment; to assist the Lebanese investors concerned in securing the necessary transfer of technological know-how or a sharing of external markets, as are required by the proposed processing or intended outlets of goods;
- (n) To assist existing enterprises in expanding their production by providing them with the services referred to in paragraphs from (a) through (d) above, with respect to projects aimed at expanding existing capacities or securing new external markets for their products;
- (o) To collect, up-date and put into easily usable forms at the disposal of interested investors or financiers, all information and data regarding the local conditions, both economic and administrative, that bear on industrial investments, as well as those concerning available external sources of financing investment or know-how;
- (p) To advise foreign investors on their contacts with the local administrative authorities and on completing the formalities required in connexion with specific industrial investment projects;
- (q) To recommend to the Government the actions to be carried out at the international level for the purpose of inducing foreign industrial investments in Lebanon, esp. as regards export-oriented industries;
- (r) To submit the Agency's advices on all draft, legal or regulatory texts which may affect the existing system of incentives or the present industrial investment atmosphere or conditions in Lebanon.



**Article 4** The Agency is administered by a Board of Directors and managed by an Executive Director.

**Article 5** The Executive Board shall be presided over by the Minister responsible for industrial development, who, under the legal texts in force concerning the organisation of the executive branch, is the Minister of National Economy.

The Executive Board shall be composed, in addition to its Chairman, of five members, all of whom shall be appointed by name for a renewable term of three years, in the following manner:

- (a) Three members appointed by name by Cabinet decree, upon the recommendation of the Minister, Chairman of the Executive Board of the Agency, and chosen from among those persons of standing most highly qualified in matters of industrial development, in the proportion of one member for the Government, one member for the banking sector and one member for the industrial sector;
- (b) Two members co-opted by the three members mentioned above, to be chosen from among the most highly qualified experts in matters of industrial development.

**Article 6** The Board is entrusted with powers to carry out all operations necessary to the satisfactory achievement of the Agency's objectives and fulfillment of its functions, as are defined in Articles 2 and 3 above. In particular and on a non-exhaustive basis, the Board is entrusted with the powers as follows:

- (a) To lay down the general policies for the Agency's activities;
- (b) To decide on annual budgets, and to approve the work programmes of the Agency for the coming financial year;
- (c) To close annual management accounts and to approve balance sheets and inventories of the past financial year;
- (d) To define internal operating rules and conditions, including the financial auditing rules, the powers entrusted to the Executive Director and the Statute of the Agency;
- (e) To conclude all contracts, conventions and deals; to contract loans and accept their terms and conditions under forms as prescribed by law.

- (f) To initiate all legal actions before all jurisdictions;
- (g) To propose all amendments to the organic statute of the Agency.

With the exception of the powers under items (a) to (d), which pertain exclusively to the Board of Directors, the latter may delegate, partly or totally, its other powers to the Executive Director of the Agency.

Article 7 The Executive Director of the Agency is nominated by decree taken in Council of Ministers, upon proposals of the Minister, Chairman of the Board of Directors of the Agency.

Under the control and authority of the Chairman of the Board of Directors, the Executive Director is entrusted with the responsibility to manage the Agency within the limits of powers as are defined, or delegated to him by the Board of Directors.

Article 8 The expenditures and receipts of the Agency include:

- (a) Under expenditures, those connected with the initial establishment of the Agency and those of its current operations in relation to work programmes as approved by the Board;
- (b) Under receipts,
  - (i) The initial establishing grant made by the National Budget and which will be the object of a special inscription in the Draft Budget of fiscal year 1971;
  - (ii) Annual subsidies made by the National Budget towards balancing the deficits of the Profits and Losses Account;
  - (iii) The counter-value of direct assistance in services, movables and immovables the Agency may receive from assistance organizations, both Lebanese or foreign, public or private;
  - (iv) The current receipts of the Agency from sales of promotion services or goods;
  - (v) The reimbursement, as appropriate, of promotion and pre-investment expenses by the industrial enterprises which have been assisted by the Agency in establishing themselves, if such a reimbursement is deemed necessary by the Board of Directors;

- (vi) Donations and legacies and voluntary contributions from physical or juridical persons interested in the development of the Agency's activities.

In the meantime, pending the necessary grants and contributions voted for in the fiscal year 1971 National Budget, the first investment and operating expenses of the Agency will be covered by allocations to be transferred to the account of the Agency's budget, by the Ministry of Finance, from existing allocations that are not deemed to be compatible with the fiscal year 1971 National Budget.

Article 9 All legal provisions contrary to the text of the present Decree, are and remain abrogated.

Article 10 The Minister of Planning, the Minister of the Interior, the Minister of Finance and the Minister of Education are responsible, as far as they are respectively concerned, to carry out the implementation of the present Decree.

Article 11 The present Decree will be in force right from its promulgation.

5 August 1970

UNITED NATIONS DEVELOPMENT PROGRAMME  
(SPECIAL FUND)

Request from the Government of Lebanon  
for assistance in the establishment of an Agency  
for the Promotion of Industrial Investments

- Gross contribution of the Special Fund (1)		US \$ 537,700
- Government contribution in kind	US \$ 314,920	
- Government contribution in cash	57,370	
- Total government contribution		372,290
- Duration of project		3 years

PURPOSE: To assist in the organization and the operation of the Agency for the Promotion of Industrial Investments whose purpose is to encourage new industrial investments from both Lebanese and foreign sources.

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(1) Including general expenses of Executing Agency.

Request from the Government of Lebanon  
to the Agency for assistance to the Agency  
for the Promotion of Industrial Investments

I. BACKGROUND

The Government of Lebanon is becoming more and more conscious of the important role which the industrial sector should play in the overall economic development of the country. One of the reasons which caused Lebanon to decide to considerably accelerate industrial development lies in the necessity of creating new jobs for those who were in the past taken care of by developments in the services and tourism sectors. It becomes therefore obvious that without neglecting the contribution which these sectors could make in the realization of this objective, Lebanon should immediately locate other outlets for the graduates of different technical schools and universities and also to absorb the growing active population, whose growth is further increased by the influx of a large number of immigrants.

Such industrial development should by necessity be effected within the context of Lebanese institutions which allow the free movement of persons and capital and the existence of a private sector playing a predominant role in the economy of the country.

II. INDUSTRY IN LEBANON

The industrial sector of Lebanon contributes about 13 per cent of the net national product whereas commerce contributes over 30 per cent, other services over 20 per cent and agriculture about 16 per cent.

The main industrial sectors are, in the order of the importance of their contribution to the net national product, food industries, textiles, metallurgical and non-ferrous metal, construction materials and leather products.

The census undertaken in 1967 estimated the number of workers employed in the industrial sector to be about 60,000. However a United Nations expert has estimated that the number of persons presently employed - i.e. in 1970 - in the industrial sector is approximately 100,000.

Very few estimates are available of the amount of annual investments made in the industrial sector. In 1967, these investments were estimated to be over 300 million US Dollars. The government's aim is to create about 9,000 new jobs per year which would require considerable effort in the field of industrial investments. Taking into consideration the different data relevant to investments and their use in Lebanon and by projecting these data, one could reach the conclusion that the minimum investment required is US \$5,000 for every new job to be created, and thus if the government's aim is to be achieved, a total of 45 million US Dollars of new investments would be required annually.

### III. THE INDUSTRIAL DEVELOPMENT SITUATION IN LEBANON

The prospects of industrialisation in Lebanon are governed by the following factors:

(a) very little mineral resources are presently known to exist in the country and therefore no transformation industries with significant consequences to the industrial sector can be expected to materialise;

(b) the agricultural resources of the country have already given rise to some processing and food industries whose exports represent about 6 per cent of total Lebanese exports. The government has initiated a number of measures to develop this economic sector, specially by the establishment of the Green Plan (Plan Vert) which undertakes the agricultural development of various regions. The increase in certain agricultural products could obviously lead, in some cases, to the development of such industries.

(c) the energy needs of Lebanon are being met at reasonable prices. Lebanon benefits naturally from the fact that the pipelines pass through its territory and the resultant availability of oil at competitive terms. There are two refineries in Lebanon with a total annual capacity of 2½ million tons; and an application for the creation of a third refinery has already been received by Lebanese authorities;

(d) Lebanon has adopted a policy of almost total freedom for the movement of capital and people. While there are no direct incentives, for example in the form of subsidies to industry, the government generously grants financial benefits to foreign as well as to Lebanese enterprises;

(e) a free zone has been in operation within the port of Beirut but is mainly used for commerce. The authorities have already undertaken studies for an industrial free zone, and have shown a desire to proceed with the establishment of such a zone; and,

(f) although the industrial sector does not as a whole represent a preponderant section of the Lebanese economy, the exports of Lebanese industrial products already amount to almost one third of total exports. This demonstrates the extent to which many industries located in Lebanon have oriented themselves to export markets.

#### IV. ADMINISTRATIVE MACHINERY FOR INDUSTRIAL DEVELOPMENT

There is no Ministry of Industry in Lebanon, and industry matters fall under the jurisdiction of the Ministry of National Economy. The Minister of Planning is also involved at the level of co-ordinating industrial activities with other economic activities in the country. The apparent smallness of the administrative machinery concerned with industrial development reflects to some extent the non-interference policy of the Lebanese authorities. The main stage at which the government intervenes is that of granting licences for incorporation, for the importation of industrial equipment as well as that of extending certain financial benefits.

While, on principle, the Lebanese Government does not intervene administratively, or intervenes very little, in matters concerning the establishment of new industrial activities, it is fully aware that these call for certain promotion measures. Government officials responsible for economic development in Lebanon are convinced that it would be possible for them, without interfering with the freedom of movement of capital and persons, to institute indirect measures aimed at inducing the owners of capital, both Lebanese and foreign, to invest in industry. To this end, the Government has considered the establishment of an industrial development bank to take over and develop the function of providing long and medium-term credit to industry, a function presently being exercised to a lesser degree by the Agricultural, Industrial and Real Estate Credit Bank.

Concurrently, the government recognizes the urgent need for extending assistance to the private sector in identifying new industrial investment opportunities, in the formulation of specific projects and in the promotion of these projects.

In co-operation with UNIDO, Lebanese authorities have investigated the establishment of an agency which would assume these responsibilities.

The text of the statute establishing this agency and an explanatory note are annexed to this request. The agency will not directly finance projects but will undertake all possible and necessary measures aimed at promoting a significant increase in industrial investments.

#### V. ACTIVITIES AND FUNCTIONS OF THE AGENCY FOR THE PROMOTION OF INDUSTRIAL INVESTMENTS

The government has assigned the following functions to the said agency:

- (a) to identify opportunities for specific industrial investments and classify these in an order of priority according to the criteria and objectives determined by the government;



- (b) to prepare the necessary "project files" for submission to potential investors or partners;
- (c) to seek and interest sources of financing and/or investment;
- (d) to assist existing industrial enterprises in solving problems connected with financing, marketing, and adapting product specification to export markets requirements;
- (e) to keep potential investors informed about local conditions, both economic and administrative, and assist them as much as possible in establishing contacts with public authorities as well as with interested parties;
- (f) to recommend to the government measures concerned with Lebanese international relations, to be undertaken in the area of industrial investments and the marketing of manufactured products; and,
- (g) to advise the government on all matters affecting the "climate" for industrial investment.

#### VI. ORGANIZATION AND OPERATION OF THE AGENCY FOR THE PROMOTION OF INDUSTRIAL INVESTMENTS

The agency will be an autonomous public institution with sufficient and adequate flexibility in its operation. It will be headed by a Director appointed by the Council of Ministers.

A Board of Directors composed of 11 members will assume the responsibility of achieving the objectives of the agency. The chairman of this board shall be the Minister of Industry. Until a Ministry of Industry is established, the Minister of Planning shall be chairman. Five members of the board shall represent government departments and other public organizations most directly concerned with industrial development. The remaining five shall represent the private sector (the Association of Industrialists, and

representing financiers, one representing traders, and two representing private industrialists).

The government's budget shall provide for an initial allocation of funds for the establishment of the agency as well as for annual operating funds.

The agency's internal structure will include two sections:

1. Project Identification Section

This section will undertake the search for projects whose establishment in Lebanon is potentially feasible. In this connection, it will also undertake market studies, local and export, and such other studies as are necessary for the adaptation of industrial products to the requirements of export markets. The section will prepare each project for submission to potential financiers and investors. The agency will not, however, undertake feasibility studies. The section will concentrate its efforts on assembling and presenting data in the form required by a source of financing or a specific investor enabling him to express an interest, in principle, in a specific project.

2. Promotion and Information Section

This section will "sell" opportunities for industrial investment. It will contact sources of financing and investment, and, when the occasion arises, bring them in contact with interested parties in Lebanon or overseas. This section will also prepare the general information literature required by foreign investors. Furthermore, the section will also receive and provide every possible facility to foreign industrial investors visiting Lebanon.

VII. ASSISTANCE REQUESTED FROM UNDP (SF)

The Lebanese Government wishes to obtain UNDP's assistance in achieving the objectives of the agency. Such assistance consists essentially of the provision of experts during the establishment period necessary and subsequently until Lebanese personnel assume all functions.

It is foreseen that UNDP's assistance will be required for a period of three years.

It is hoped that the fellowships for the training of counterparts in the different tasks to be performed by the experts will be made available before the Special Fund Project becomes fully operational.

In some cases, the technical assistance will be provided by experts for a period of time shorter than the duration of the project because in this field Lebanese personnel are available, and could, after having worked with the experts for a period of time, quickly assume the functions of the said experts.

1. Experts

Contribution requested from UNDP

Man/months of experts required  
and timing throughout the duration of the project

Post title of expert	Total man/months	Year		
		1	2	3
- Project Manager (expert in investment promotion)	36	12	12	12
- Industrial Economist	36	12	12	12
- Expert in export markets studies	24	12	12	-
- Financial Analyst	24	6	12	6
- Industrial Documentation Expert	6	6	-	-
<b>Grand Total</b>	<b>126</b>	<b>48</b>	<b>48</b>	<b>30</b>

2. Training fellowships

The provision of 10 years of training fellowships is requested. In order to allow the project to operate at maximum efficiency as early as possible, it is requested that some of these training fellowships be made available to the Lebanese Government before the Special Fund Project becomes operational. This procedure would result in the project's counterpart being better prepared to perform their duties.

10 years of fellowships at US \$5,000 (including travel expenses)

US \$ 50,000

3. Short-term Consultants

The variety of industrial fields in which projects will be handled within the promotion activities of the agency calls for the services of short-term consultants with specialization in narrow fields of industry on an ad hoc basis. (40 man/months at US \$2,500 per month to undertake more detailed studies).

US \$100,000

4. Travel abroad for promotion purposes

The search for potential investors implies the need for numerous personal contacts in the industrially advanced countries. It is requested that some of the travel expenses involved be charged to the project.

US \$ 15,000

5. Equipment

This amount provides for the establishment of a documentation fund, imported furniture and other equipment, and the final report.

US \$ 25,000

6. Miscellaneous

This amount also includes the 6 per cent of the total cost of exports.

p.m.

VIII. GOVERNMENT'S CONTRIBUTION

The government undertakes to provide a certain number of counterparts to the experts, to remunerate Lebanese personnel who will be trained locally or abroad, to provide local administrative and other staff, equipment required but not provided for under the Special Fund contribution, office space, transport facilities, and local expenses for short-term consultants. These being as follows:

(1) Personnel to be provided by the Lebanese Government

Post title	Total man/months	Months/year		
		1	2	3
- Counterparts (economists, promotion officers, analysts, financiers, engineers)	168	48	60	60
- Accountant	36	12	12	12
- Administrative staff	36	12	12	12
- Secretaries	126	30	48	48
- Drivers	36	12	12	12
- Guards and maintenance personnel	96	24	36	36
<b>Total</b>	<b>498</b>	<b>138</b>	<b>180</b>	<b>180</b>

(ii) Offices

About 500 m<sup>2</sup> of air-conditioned office space for both local and international personnel will be provided, as well as office furniture, telephones, etc., and other necessary equipment not provided for by the Special Fund. Maintenance expenses, utilities, telephones, etc.

(iii) Transport facilities

Two motor cars and their requirement. (required for visiting businessmen and investors, etc.).

(iv) Operating expenses for the agency in local currency

Office furniture, local travel expenses, etc.

(v) Miscellaneous

Salaries of Lebanese officials who will be trained by the agency, especially before proceeding on fellowships abroad.

Daily allowances to short-term consultants during their stay in Lebanon whenever such allowances are not payable by the Special Fund.

Payments, in kind and in local currency, of the equivalent of 15 per cent of the Special Fund contribution.

SPECIAL FUND CONTRIBUTION

ANNEX I

Time distribution of UNDP (SF) contribution

Item	Total cost	1st year	2nd year	3rd year
- Experts (US \$26,900/year)	282,450	107,600	107,600	67,250
- Training fellow- ships (10 fellows/ year)	50,000	35,000	10,000	5,000
- Short-term consultancy (25 months at US \$2,500/month)	100,000	25,000	40,000	35,000
- Travel abroad	15,000	3,000	6,000	6,000
- Equipment	20,000	12,000	3,000	5,000
- Miscellaneous (6 per cent of total expert cost)	16,560	6,460	6,460	4,000
Total project cost	484,410	189,060	173,060	122,290
- Agency's general expenses (11 per cent)	53,290			
	<u>537,700</u>			

GOVERNMENT'S CONTRIBUTION IN KIND

ANNEX II

Breakdown of the Lebanese Government's contribution in US \$

Item	Total cost	1st year	2nd year	3rd year
<u>Personnel</u>				
Interpreters (200/month)	100,800	28,800	36,000	36,000
Accountants (200/month)	18,000	6,000	6,000	6,000
Administrative staff (2300/month)	10,800	3,600	3,600	3,600
Secretaries (2200/month)	25,200	6,000	9,600	9,600
Drivers (120/month)	4,320	1,440	1,440	1,440
Stores, main- tenance personnel, etc.	9,600	2,440	3,600	3,600
<b>Total</b>	<b>168,720</b>	<b>48,240</b>	<b>60,240</b>	<b>60,240</b>
<u>Other</u>				
Office space (200 m <sup>2</sup> ) (10,000/year)	30,000	10,000	10,000	10,000
Office equipment	40,000	25,000	10,000	5,000
Transport	5,000	5,000	-	-
Local travel	10,000	2,900	4,000	3,100
Local salaries of fellows (3300/month)	36,000	36,000	-	-
Operating expenses (2600/month)	25,000	8,400	8,000	8,600
<b>Total</b>	<b>114,900</b>	<b>135,140</b>	<b>90,600</b>	<b>87,100</b>



SUMMARY OF GOVERNMENT'S CONTRIBUTION

ANNEX III

Reconciliation of Government's contribution in kind

I t e m	T o t a l	Y e a r		
		1	2	3
A. Government's contribution in kind (see Annex II)	114,420	135,140	92,640	87,140
B. Government's contribution in cash (15 per cent of exports' cost) (see Annex I)	42,370	16,140	16,140	10,090
C. Government's contribution short-term consultants (15 per cent of consultants' costs) (see Annex I)	15,000	3,750	6,000	5,250
D. Total government's contribution in cash (B + C)	57,370	19,890	22,140	15,340
Total government's contribution in cash and in kind	171,790	155,030	114,780	102,480

.....

## REQUEST FOR INTERIM AND URGENT TECHNICAL ASSISTANCE

1. The Lebanese Government has decided to follow a very active policy for promoting industrial investment. UNIDO has assisted the authorities in defining the measures to be taken in order to achieve this purpose. (SIS 70/900/LEB.) This UNIDO assistance has led, in particular, to the preparation of a draft statute for the creation of an Agency for the promotion of Industrial Investments (see Annexes I and II).
2. The Lebanese Government after having examined the UNIDO recommendation has decided to establish such an agency. It has also decided to provide it with the required local resources and has submitted to UNEP a request for long-term assistance under a Special Fund Project (see Annex III).
3. Pending the approval of this long-term assistance as a Special Fund Project, and in order to allow the authorities to begin to undertake the necessary promotional actions, the government wishes to obtain interim and urgent assistance in the following tasks:
  - (a) Identification of specific industrial projects;
  - (b) Preparing ad hoc files which are prerequisites for contacting financing and investment sources abroad;
  - (c) Commence with promotional activities by contacting investment and financing sources on the basis of the files prepared in para. (b); and,
  - (d) Interesting and attracting foreign financiers and investors through proposals for investment and financing of industrial projects.
4. Pending the setting up of the agency, the government will appoint counterpart employees who will have the authority to implement the programme.
5. A great part of the activities listed in para. 3, especially those of subparagraphs (c) and (d), will be carried out within the framework of the Operational Programme for Promoting Industrial Investments, which has been established at UNIDO headquarters in Vienna.
6. The work of identifying and preparing industrial project investment files, such as defined in para. 3, sub-para. (a) and (b), will require

- 18 man/months of experts (probably 4 experts in various disciplines)
- \$10,000 for travel and per diem expenses for these experts.

7. The promotional activities to be undertaken within the framework of UNIDO assisted promotion programme and whose objective is to find potential investors and financiers and induce them to present proposals for industrial projects to be set-up in Lebanon, will be undertaken essentially by UNIDO headquarters staff who are already assigned permanently to this activity. Their activities will be directed towards the industrialised countries themselves as well as towards Lebanon, with the ultimate aim of accelerating the implementation of industrial investment proposals. The measures to be undertaken by the headquarters staff will require the following expenses:

- \$10,000 for travel and per diem expenses of missions to Lebanon and to industrialised countries.

ANNEX III

INDUSTRIAL FREE ZONE FOR EXPORT ORIENTED INDUSTRIES

PRELIMINARY ASSESSMENT OF THE ESTABLISHMENT  
OF AN INDUSTRIAL FREE ZONE IN LEBANON

- I. SUMMARY AND CONCLUSION
- II. JUSTIFICATION OF AN INDUSTRIAL FREE ZONE
  - A. Possible objectives of a Free Zone
    1. General merits for Lebanon
    2. General advantages for entrepreneurs
  - B. Preliminary Assessment of the Possibility of a Free Zone in Lebanon
    1. Advantages to Lebanon
    2. Advantages to the Entrepreneurs in the Free Zone
  - C. Conditions for a successful industrial Free Zone in Lebanon
- III. PRELIMINARY SUGGESTIONS FOR THE IMPLEMENTATION OF ESTABLISHING AN INDUSTRIAL FREE ZONE
  1. Selection of Site
  2. Organizational Set-up
  3. Selection of Industries.
  4. General and Common Service Facilities
  5. Incentive Measures
  6. Promotion of Industries in the Zone
  7. Supply of Labour Force
  8. Provisional Estimate of Initial Investment Cost for Preparation of the Zone
  9. Final Observations
- IV. TENTATIVE PLAN FOR IMPLEMENTATION
  1. Steps to be taken by the Lebanese Government
  2. Steps to be taken by UNDP/UNIDO

## I. SUMMARY AND CONCLUSIONS

The establishment of an Industrial Zone is usually decided on basis of a combination of several reasons such as a part of an overall industrial development programme of the region, a measure for solving the employment problem especially for holding back of the flow of population from the region towards other centers of the country by creating new job opportunities, stimulation of export oriented industries to increase the export volume and foreign exchange receipts, acquisition of new industrial techniques from abroad through which the level of the domestic industrial standard may be achieved, encouragement of new industrial investments from the domestic as well as foreign capital markets, etc.

In the case of Lebanon and particularly in connection with the South Lebanon, most of the above mentioned reasons could be given as a motive for creating an Industrial Zone with the characteristics of a Free Customs Area. However, it may be said that unless basic conditions are secured, the creation of an Industrial Free Zone in the vicinity of Saïdah can not be justified. Indeed, unfavorable conditions are now prevailing in the Saïdah vicinity, for instance, the lack of industrial atmosphere, i.e. infrastructure in general, industrial activities in general, skilled and semiskilled labour supply, underdeveloped power and water supply, etc. The establishment of the Free Zone requires therefore an intensive planning and due and proper implementation of the plans effected by the Government for solving these problems.

It is believed that the creation of Industrial Free Zone, with its production mainly oriented for export markets, and its justification in the light that it would serve as an industrial pole for the future development of the region deserves to be further explored.

An Industrial Free Zone might even make to a certain extent the task of the Government easier, since the improvement of the aforementioned industrial atmosphere could be undertaken in several phases, and in concentrated efforts towards the zone as the industrial pole of development, and thus enable an easier-to-handle budgeting of the governmental expenditures required.

It must be stressed, however, that the establishment of the Industrial Free Zone must be integrated with an overall development programme of the South Lebanon, which in its turn should be thought to be an integral part of the overall economic and industrial development of Lebanon. A successful operation of the zone cannot be assured and should not be expected unless the proper policy measures are undertaken by the Government.

Another important factor to be considered is the existing status of industrial development in Lebanon in general. Although not in the southern region of the country, there are many types of industries already operating successfully with a fair volume of export activities as well. However, apparently some of these industries are suffering from excess capacity and others from unrationalyzed and inefficient production means and methods which prohibit them from carrying out profitable export activities. The question of the Industrial Free Zone may give these industries the opportunity of strengthening their manufacturing activities by linking their production with the industries established in the Free Zone. This means, for example, the supply of semi-manufactured components, packaging material or services, and other activities integrated to and/or part of the manufacturing done in the zone, under subcontracting, technical cooperation or other types of collaboration agreements. Additionally, possibilities exist for some industries who might prefer to take advantage of the fiscal and physical incentives offered by the government, to move partially or totally into the free zone for rationalization of their production, and thus secure operation on a rentable basis. Special consideration is recommended to be given in this respect.

Summarizing from all the above, it is recommended that the following actions be taken:

Phase I : to undertake a feasibility study aimed at determining the cost/benefit analysis of the Industrial Free Zone.

Phase II : on basis of positive findings of Phase I , to enter into the programming stage of the establishment of the Industrial Free Zone.

## II. JUSTIFICATION OF AN INDUSTRIAL FREE ZONE

### A. Possible Objectives of a Free Zone

An Industrial Free Zone is generally permitted to import its material requirements free of duty and without customs control if the material is for processing or manufacturing for export purposes within the free zone, and in so far as these goods, be it the raw material, semi-finished or finished products do not cross the borders limit of the free zone into a customs' territory.

1. General merits for Lebanon:

- creating new job opportunities (population distribution)
- increasing of exports and balancing of trade
- stimulation of new investment from domestic and abroad
- concentrated work on infrastructure development for the government
- overall development of the region
- general level-up of the industrial techniques in the country
- new income from subcontracts and sales of utilities and other inputs etc.

2. General advantages for entrepreneurs:

- general and common services availability
- investment finance facilities
- duty free status on machineries and raw material
- tax holidays
- profit repatriation allowances
- special depreciation allowances
- reinvestment allowances
- standardized factory building on lease or sales bases
- preferential rates for rent, utilities, services and freight tariffs
- training facilities for workers etc.

B. Preliminary Assessment of the Feasibility of a Free Zone in Lebanon

1. Advantages to Lebanon:

The establishment of an Industrial Free Zone would give a positive solution for the unemployment problem by creating new job opportunities. Especially the holding back of the flow of population from the South Lebanon region could be realized if the Free Zone is established in the South.

Through the stimulation of new investments for the domestic and the overseas entrepreneurs, it can be visualized to the favourable investment climate may also induce new investments in the whole country.

By having the Free Zone play the role of an industrial pole for the overall development of the South Lebanon Region, the establishment would enable the Government to phase its infrastructure development more successfully.

The new and modern techniques introduced especially by the foreign investments would bring a kind of chain reactions for the general level of industrial techniques in the country.

By specially enhancing export-oriented production in the Zone, it is hoped that the Free Zone could bring favourable effects to the level of export receipts.

## 2. Advantages to the Entrepreneurs in the Free Zone:

The Mediterranean region is liberally provided with sea ports and free port or free zone facilities are available. However, as far as can be ascertained at present, very little manufacturing is carried out and if so, on a very limited scale. This is in spite of the fact that usually manufacturing operation is not legally objected. In other words, most of the free zone facilities are of commercial nature utilised for warehousing, transit and reexport purpose, and very little attention and efforts are directed towards an industrial production characteristic of the customs free zone. This is an encouraging fact for establishing an Industrial Free Zone in Lebanon.

Foreign manufactures with world markets, particularly being pressed by the increasing competition, are constantly seeking ways of minimizing their manufacturing and distribution costs. For them, there could be several effective reasons for selecting an Industrial Free Zone to where they could advance their base of manufacturing.

- a. Cut down of raw material transportation cost.
- b. Cut down of finished products transportation and distribution cost.
- c. Availability of abundant qualified labour power at relatively low labour cost.
- d. Reduction of initial investment cost through the provision of various physical facilities and preferential incentives.
- e. Abundant availability of intelligent and action-oriented local entrepreneurs, freedom from industrial disputes, stable government and other social circumstances.

Should an industry, for instance in Europe be relying on the supply of their raw material from Lebanon or the neighbourhood countries, it would bring him a fine possibility of reducing his production cost should he plan his expansion of production capacity not in Europe but in Lebanon, nearer to the origin of the raw material, where he will be able to cut down the transportation cost to a considerable extent. The same theory applies in case his finished goods are being exported to markets near



around Lebanon, where not only the transportation distance can be economized, but also the distribution cost cut down. Various types of agricultural and mineral products of raw material nature available in the Near and Middle East as well as Mediterranean region would apply to the former, whereas all kinds of manufactures of light industry type imported by countries of the region are considered as examples of the latter.

As in the case of Lebanon, if the home market is comparatively small for an economic scale operation, an International Free Zone would be advantageous should a substantial portion of the produced goods be exported. For main capital goods and raw material, the duty free or low import duty made available in Lebanon might to a certain extent equalise the advantages of an industrial free zone, as the whole country in itself may be called a kind of a free zone. However, there are a number of items regularly used in manufacturing which attract duties directly, and where it will cause too much complications and time consuming efforts even should there be a possibility of a draw back.

Another definite advantage for the foreign entrepreneurs in establishing themselves in the Industrial Free Zone in Lebanon is the availability of intelligent and industrious labour force supply. It is a well known fact that the Lebanese workers are very quick in learning the skill. This guarantees the possibility of having a constant supply of qualified workers within the shortest time-period of training, and a relatively low labour cost.

Particularly in the case that an industry plans an expansion of their production, the problem of the investment costs weighs heavily in checking the rentability of the expansion. This cost can be reduced, to a considerable extent if he would take advantage of the various kinds of physical and fiscal incentives made available for new establishments in the free zone. Of course this advantage must be duly considered by the Lebanese Authorities at the time of deciding the range and degree of the incentives to be provided in the free zone, in order that they will be a definite attraction to such prospective entrepreneurs. Also a careful comparison must be carried out on the incentive measures given by competing free zones in the neighbouring area.

The abundance of prospective local entrepreneurship with sufficient means is another advantage in Lebanon. The interest of the foreign investors attracted by the establishment of the Industrial Free Zone, could be coupled with the domestic investors for establishing themselves in the zone in the form of a technical cooperation or joint venture and this would definitely help stimulate the industrial activities in general, and contribute to the levelling up and modernisation of the industrial technique in Lebanon as well as increasing of the export volume.

C. Conditions for a successful Industrial Free Zone in Lebanon

From the foregoing, the characteristics of an Industrial Free Zone in Lebanon could be crystallised as follows :

1. It should be chiefly export oriented, or at least to such where at least say 70/80% of the product could be exported to a third country. This particularly from the view point of the smallness of the domestic market, prohibiting any economic scale of manufacturing operations.
2. It should be designed, at least during the first phase of development for labour-intensive types of industries in order to absorb the available cheap labour. During the second phase of development, the policy should lay more stress on capital-intensive types of industries with modern techniques of production, in order to avoid excessive pressure caused by increasing portion of the labour costs.
3. Stress should be laid on attracting foreign investments, preferably in the form of joint ventures with local entrepreneurs, or local industries under technical cooperation agreements with foreign firms to assume a world market characteristic of products and thus enabling easier access to the foreign markets, as well as the domestic market.
4. They would not duplicate modern industries already existing in the country, or if they do, only in forms of cooperation with the modern local industries in question, in order to prevent any friction and creation of unnecessary competition.
5. Although the present export statistics indicate a high rate of dependency on markets of the neighbouring countries, it is recommended not to confine the target export market to the Mediterranean and Near-middle East area. The geographically advantageous position of Lebanon in this case, of course should not be neglected, but stronger orientation to the whole world market is strongly desirable. Supported by intensive marketing techniques and tactics, this would not be an unworkable task. Apart from the above, special attention should be paid to the future developments of the Arab Common Market also.
6. In view of the necessity of industrial development of Southern Lebanon, industries based on raw material available within the region should be preferred, but not as a condition, since this might induce a too narrow limit on the criteria of selection of industries, and it might also kill or diminish the significance of the Industrial Free Zone.

7. The operation and management of the Industrial Free Zone should be so rationalised to the point that the Administration may practically undertake full responsibility of the zone in the form of an autonomous centralised authority. It should be given full power to make all decisions, granting of permissions and import and export licences, control of the duty, tax and fees, as well as its collection. In other words, to create a system within the zone but naturally under the auspices of the designated controlling Ministry acting on behalf of the Government, by minimising the bureaucratic red tapes, which quite often out-weighs the advantages offered through other means, and cause the hesitation of interested entrepreneurs to take action.

### III. PRELIMINARY SUGGESTIONS FOR THE IMPLEMENTATION OF ESTABLISHING AN INDUSTRIAL FREE ZONE

#### 1. Selection of Site

If we are to consider the free zone to be established in the vicinity of Saida, the first thought would be to make use of the Saida port facilities. Unfortunately the present facilities available in this respect shows little possibilities of usage, and rather poor prospects of improvement in the future unless a full-scale development programme is launched for the expansion of the port. Some of the factors are :

- a. Port area too small and water too shallow (1.5 - 2.5 meters). A necessity of expanding the present port would be itself a huge and labourous task. Without a sufficient draught, large ocean-going vessels will not be able to enter the port, and thus offsetting the advantages of a "Free Port" zone.
- b. The port is too densely populated permitting little possibilities of creating an industrial zone.
- c. From the viewpoint of disturbance of the landscape, it is also not advisable to try to launch a programme of establishing an area for industries in the immediate vicinity of the port.

From the above observation, we expand the possibilities of locating the free zone site to the outskirts of Saida. In this case, if we abandon the idea of directly utilizing the Saida port facilities, we can consider the combination of using

- a. Port of Beirut for ocean cargoes of bulky nature
- b. Port of Saida for transshipment from Beirut on small barges
- c. Road transportation from Beirut port to the zone site by truck and eventually by railroad in case the partially dismantled railroad tracks could be reopened.
- d. Road or railway transportation using Beirut International Airport specially for high-value-for-low-volume goods

This fourth point would give a wider prospect of the same in the sense that the criteria for selection of industries amicable to the zone can be enlarged. The distance of 40 km between Beirut and Saida, although perhaps not ideal, is not believed to be an insuperable hindrance.

In this case, however, the Government will have to take special measures for arranging necessary possibilities of custom-free movement of the goods between the free zone and the arriving or despatching points, and for giving special tariff rates to minimize the transportation cost borne by the industries.

The road conditions between Beirut and Saida is considered not a too great obstacle, however, it would be desirable to accelerate the construction of the 4 - lane highway, which are partially completed south of Beirut and north of Saida. A by-pass route around Saida would become necessary in case the zone should be located south of Saida.

As the site of an industrial zone should preferably have direct access to the highway, there are possibilities which at present seems to have a favorable chance of being converted into an industrial zone.

- a. The strip of land between the seacoast and the highway approximately 5 - 15 km north of Saida. The levelling of the ground would not be too difficult, and there will be a possibility of utilising the water of the River Nahr Meari. This may be the first and best choice of the site.
- b. The strip of land along the seacoast about 10 km south of Saida and another part about 10 - 20 km north of Tyr along the Saida - Tyr highway could also be a fine candidate. In these cases, the rivers NAHR SAHRANI and NAHR LITANI would serve as the source of water supply.
- c. Since the industrial zone will not be dependent on sea-transport, there is little reason that the zone should be directly on the sea coast. Provided that a fairly leveled ground of about 40 - 60 hectares (taking into consideration the eventual possibilities of the future expansion) could be made available in the inland with good connections to the Beirut - Saida highway or the Saida - Tyr highway, and possibilities of sufficient supply of river or ground water, this could also be an object of selection of the zone site.

In any case, the location should be decided firstly by its accessibility to the roads leading to Beirut and Saida in order to avoid unnecessary additional expenses of transportation on the one hand, and easier possibilities of movement of the raw material and finished products on the other.

2. Organizational Set-up

An Industrial Free Zone Administration shall be established at the free zone, placed under the jurisdiction of the future Ministry of Industries and meanwhile the Ministry responsible for industry at present and the organization should be separately prescribed by the law. The Free Zone Administration should be given an autonomous and centralized power and functions to handle within the free zone, all matters concerning :

1. Administrative regulations of the free zone processing and production operations;
2. Planning, construction and management of all necessary installations and facilities in the free zone;
3. Management of fees and revenues derived from properties owned by the zone and by public services;
4. Factory and business registration and construction approval as well as the issuance of any permits related thereto;
5. Inspection and control of plant installation and working conditions of the labourers;
6. Inspection of products and issuance of pertinent certificates of licences;
7. Endorsement in respect to the import and export of commodities entering or leaving the zone;
8. Measures for prevention of smuggling and the patrol and inspection for such purposes;
9. Rendering all other kinds of services to the industries located in the zone.

The under-mentioned matters within the free zone shall be handled under the direction and supervision of the Administration by the branch offices to be set up in the zone by the respective authorities pertinent to the particular matter.

1. Assessment and collection of taxes;

2. Customs inspection of import and export commodities and the supervision and inspection of commodities in the course of transit;
3. Postal and telegraphic services;
4. Banking services as well as the business operations of agencies extending credit facilities to industries established in the zone.

### 3. Selection of Industries

As already mentioned before, the problem of setting up the criteria for admitting industries in the zone is a most important factor for assuring a successful operation of the zone. They should be selected so that the maximum could be achieved in satisfying the purpose of the creation of the zone. Some basis of the concept in this connection are given hereunder, at random, although the subject itself deserves much more careful and thorough studies and consultations.

- a. Labour-intensive industries.
- b. Industries not interfering with existing modern ones in Lebanon but rather complementing and supporting them.
- c. Industries based on modern and efficient production techniques.
- d. Industries which will not have any decisive disadvantages caused by the site location. (In terms of transport facilities, i.e. bulky cargo based industries would have certain demerits by high transportation costs in case the free zone is not situated within an internationally frequented seaport).
- e. Industries with a prospective of future development from the viewpoint of demand on the finished products in the overseas as well as domestic markets.
- f. Industries based on a reasonably sound supply position of the raw material from inside and outside the country which would occupy less portion of transportation cost.
- g. Export oriented industries which would simultaneously contribute to the increase of export receipts.
- h. Industries which could fit into the present availability or future development prospects of the utilities supply position, especially power and water.

- i. Industries based on the supply of raw material available in the regional vicinity of the zone, (especially fruits and tobacco from the South).
- j. Assembling industries where a part of the components required may be supplied from the domestic industries. And there will always be a possibility of increasing this domestic-supply portion through the stimulation caused by the industries established in the zone towards the ancillary industries in the country, and through the active orientation of the domestic suppliers themselves towards realizing such schemes of co-operation.

A reasonable approach to cope with this problem would be to fix a certain basic grouping of the types of industries into three or four categories. The most desirable "A" category of industries would be given the highest form and degree of preferential incentives, while the "B" category industries would be given the normally obtainable fiscal incentives applicable to the industries establishing themselves in Lebanon in general. The physical incentives in the zone would still bring them a plus. The second "B" and third "C" categories would be given degrees of incentives lying in between the two extremes.

The flexibility of this classification would be especially important, as it cannot be assured that a complete exploration of all possibilities as to the types of industries can be made at the beginning. Possibilities should be left open so that new industries may apply at a later date for being classified into one of the categories.

A rough idea of the types of industries and classification are listed in Table 1, although not complete and exhaustive in itself.

Consideration should be given to existing industries operating in Lebanon, especially those on a comparatively inefficient basis. By providing them with the various incentive measures available in the zone, they will be able to rationalize their production, become more competitive in the world market, and eventually increase their export activities for the final benefit of the country.

Acceleration of sub-contracting and technical cooperation agreements between the domestic industries and those established in the zone could be achieved through acknowledgment of such supplying transactions to the zone as export, which would entitle them to receive the benefit of the export promotion incentives already provided by law.



The Export, Import and Transit trade statistics of the year 1966, and by types of industries according to the figures of the Ministry of Economy are given in Table 2. In general, it may be assumed that the industries where the import figures are larger than the export figures, there should be a chance to stimulate new investments to cover, to a certain extent, the domestic demands by self supply. Bricks and Tobacco, Chemical products, Plastic products, Paper and paper products, Textile products, Metal and products, Electric and Transport machineries, in the form of assembly) could be of interest for the overall trade balancing (import substitution) on the one hand, and increase of export (through established and existing export routes) on the other.

Also, for comparison's sake, the number of establishments in Lebanon and the workers in total and in average per factory according to the Ministry of Planning statistics of 1964 is enumerated in Table 3 together with similar figures of 1964 of corresponding industries established in Export Processing Zone in Taiwan. It may not be comparable on the same basis since the industries in Kaohsiung Export Processing Zone were all established in or after 1960, and the industrial scale being based on a most economic-operation basis, whereas the figures representing Lebanon include all existing industries new and old as of 1964. From this table, the first noticeable fact is that there is a definite difference of the scale of industries operating in Lebanon and Taiwan. As the chief aim of establishing the industrial free zone in Lebanon is to absorb the abundant and relatively low cost labour available, at least during the first development phase of the zone, the figures of the Taiwan free zone could be an indication as to the labour-intensity of the various types of industries. Textile wearing apparels, Printing and Publishing, Leather and Fur products, Plastic Products manufacturing, Handicrafts, Electronics, Textile manufacturing in general, and the Rubber products fields would bring interesting numbers of new job opportunities.

#### 4. General and Common Service Facilities

One of the most effective attraction of an industrial free zone is, besides the fiscal incentives made available, the existence of the general and common service facilities.

The per-unit cost of preparing, maintaining and supplying the utilities may be considerably reduced for the industries if these facilities are made available by the zone where the industries are established. In addition to this advantage to the entrepreneurs, the government would require less expenditures if these facilities are to be provided to the zone as one means of promotional activities, since their efforts may be directed to the zone in a concentrated manner instead of drawing out plans and implementing them for the overall areal development of the infrastructure.

Possible means of financing or purchasing pre-constructed standard factories and other buildings according to the wishes of the industries would require the industries spending their investment capital on longterm fixed assets, instead of on current capital. This would result into permitting them a larger amount of capital to be invested into direct production means, or in other words, into increasing the amount of sleeping capital. Experience in other countries has shown that free zone incentives indicate that this is an effective way of increasing industrialization.

Some of the services of zones and repairshops, canteens, medical services, youth centers, etc., as well as communication facilities, patrol and security services, as well as public warehouses, transportation and parking facilities established within the site of and operating for the zone, will in all, amount to a considerable portion of saving of the total investment cost required had these to be made available by the industries themselves.

In addition, the service cost income deriving from some of these facilities will help to the administration for counterbalancing part of the operation cost of the zone itself.

It should be noted, the rates for all these services should be of a preferential nature in order to give the established industries an additional incentive to the fiscal incentives provided under separate rules and regulations, or in other words, a type of physical incentive to the established industries, but only to the extent that the services themselves may operate on a self-sustaining independent basis.

The general scale of the general and common services to be provided in the zone should be examined and studied carefully in order that it will suit to the actual demand and requirements of the zone tenants, or otherwise, it may in itself cause inefficient economy in the sense of excess and/or unnecessary facilities. This problem is normally decided and settled after the criteria of the industries is fixed and the type of industries establishing themselves within the zone become known.

#### 4. Incentive Schemes

The fiscal incentives made available in Lebanon for promotion of trade and industry already covers to a great degree some basis for attracting new industries. However, it is felt that additional types and forms, as well as intensified degree of existing incentives should be made available.

It will require more through studies and consultations as to the extent of the various incentives, but in addition to the preferential opportunities offered in the form of general and common services described before, the following are some items which deserve consideration for the promotion of new investments in the free zone.

- a. Pre-investment incentives, i.e. identification of industries and pre-feasibility studies, or financial subsidies for implementing such studies.
- b. Full exemption of import taxes and duties on all machineries and equipments to be used for production in the zone, as well as on the raw material and semi-processed goods and components to be further processed in the zone. This status is not yet given in its full extent under the existing laws and regulations.
- c. Full exemption of export taxes and duties for products produced or manufactured in the zone and exported abroad. In case the goods are to enter the customs territory of Lebanon, the usual rate of taxes and duties may be charged on the invoice amount at the time of crossing the zone border, however, it might do good if the tariff would be on a slightly preferential basis as compared with the normal tariffs imposed on the same article when imported directly from abroad. This would stimulate import-substituting industries operation.
- d. Income tax exemption of at least ten years for private capital investment particularly from abroad.
- e. A special period of holiday or reduction of tariffs on other direct and indirect taxes and surtaxes payable by the enterprises under normal situation.
- f. Freedom of foreign exchange control with a guarantee of the same status in the future or for a given period. (Assurance of free repatriation of earned profits).
- g. Preferential tariff rates on transportation costs between the zone and the points of arrival or despatch in Lebanon, (Beirut sea and airports), as well as for the cost of utilities, rents for ground and buildings, construction costs at the time of initial establishment of the industries within the zone or for its future expansion plans, etc.
- h. Preferential financing facilities, i.e. provision of long, medium and short-term loans with preferential rates of interest, provided they are required for the establishment and operation of the industries, including the construction of non-standard buildings, in the zone.

1. Training incentives, i.e. establishment of vocational schools and other training facilities oriented towards the needs and requirements of the industries established in the zone, thus cutting down the training cost of the workers.

It must be specifically repeated once again that fiscal incentives itself will not be sufficient as an attracting factor, and a comprehensive scheme of various incentives should be worked out in order to obtain the maximum and effective attraction possible. Many industrial free zones have been established in all parts of the world, equipped with extensive fiscal incentive facilities, however, failing behind satisfying their original plans. The missing of an overall and comprehensive incentive system is often found as the reason for the failure.

#### 6. Promotion of Industries in the Zone

The act of establishing an industrial free zone will have to be supplemented by various promotional activities to attract and promote the establishment of industries of domestic and foreign entrepreneurs. The identification and selection of industries suitable for being established in the zone, as well as properly carried out feasibility studies thereof are essential factors for creating the fundamental basis of attracting prospective investors to the zone.

Any form of propaganda such as publications, pamphlets, leaflets, meetings, conferences and other types of direct-mail approach, should contain information on the characteristics of the zone such as the geographic position, proximity to the transportation means, technical economical, physical and fiscal incentives and advantages, existing infrastructure available in general, resources of power and water as well as raw materials including information on the general economic, industrial and commercial environments of the region, skilled and semi-skilled labour availability and cost, training facilities and etc. Reference should also be made to the prospective markets in the domestic and abroad. All these factors should be made on realistic basis, if necessary with development prospects in the future, so as to avoid any illusions, and special care must be taken not to make any promises that cannot be fulfilled.

Specific reference should be made on investment promotion facilities available in the zone or in the country, where the prospective entrepreneurs may establish contacts directly for consulting and evaluating the implementation of his investment plans in the zone.

The envisaged establishment of an Investment Promotion Agency would be an ideal organization for giving the required support and assistance on the above mentioned promotional activities.

## 7. Supply of Labour Force

In so far as one of the chief objects of creating an Industrial Free Zone, at least during the first phase of development of the zone, is to solve the problem of unemployment, the industries to be admitted to the zone at the beginning would be of labour-intensive nature. This calls for the necessity of being able to supply sufficient numbers of skilled and semi-skilled workers. Only when the prospective investors of the industries can foresee an ample assurance or guarantee of obtaining a suitable supply of such workers, will they be inclined to take action.

Although a quantitative supply possibility may be assured in the South Lebanon region, it remains to be seen what can be done and what should be undertaken to satisfy the required level of the technical skill. It will be of great importance that some means are found to solve this problem.

Fortunately, the Lebanese people are well known for having the capacity of learning quick. They are of high intelligence. One of the best solution would be to organise a vocational training school, within or affiliated to the zone, where the workers could be "trained-in" according to the requirements of the industries in the zone. This would be a great incentive to the entrepreneurs since the training period and the cost of training could be considerably minimised.

Another important factor to be observed is the balancing of the labour requirements. A well proportioned balance of the workers in terms of the sex, the age, and the skill is the basis of a sound regional industrial development. This ground concept of maintaining a balanced labour force demand would be an important factor when setting up the criteria of admissible industries to the zone.

As to the managerial staffs of the zone administration, a suitable training programme at the beginning should be arranged by providing possibilities of a number of fellowships abroad, followed by an arrangement of obtaining international experts to assist the management until the whole operation of the administrative machinery becomes stabilised.

## 8. Provisional Estimate of Initial Investment Cost for Preparation of the Zone

At this stage, it possible only to give a rough estimate for the preparation of the zone site. The estimation is to give a standard idea based on some average figures of past experience, but may easily exceed or be less than the given figures. For instance, depending upon the type and condition of the land selected as the site, what type of buildings and how many would be required to satisfy the needs of the zone, how many standardised factory and office buildings with which dimension should be prepared by the Government / zone, how much would be the construction cost for the levelling of the grounds, preparation



### 9. Final Observations

In respect to our assessment for the possibilities of establishing an International Industrial Free Zone in the vicinity of Saïda in South Lebanon and at the time of submitting you our Preliminary Assessment Report, we wish to add a few points of general observations concerning basic problems recommended to be duly taken into consideration. Some of the subjects have been dealt with in our Assessment Report, however, as it was recognized that these problems were specifically mentioned during our consultation meetings with the various governmental and industrial sectors in Lebanon, we wish to explain our opinion on the matters here under:

1. A free zone will lose to a certain extent its significance in case the raw material or components are not imported but are based on supplies from the domestic market. In other words, a customs-free industrial zone will prove most effective in cutting down or totally abolishing the import and export duty and taxation procedure, thus minimizing the time and energy consuming process of work, usually spread over a number of government and public offices. This is one of the important grounds why an industrial free zone should be chiefly of import raw material based production of export oriented characteristic.
2. The operation of an industrial zone is effected largely by the development of the infrastructure in the regional vicinity. Therefore, the development of an industrial free zone should be planned and programmed as an integral part of the overall development plans of the region and of the country in whole.
3. The fact that the tax and duty free status will decrease the revenue of the government, should be counter-argued from the view points that the free zone will stimulate new industrial establishment which are not likely forth coming without the free zone facilities, also, it should be remarked that the project is a part of an overall development programme of the nation, and that the zone is intended to work as a pole of industrialisation of the region. Therefore, the revenue loss at the beginning will eventually be offset by an increased income in other fields and forms stimulated through the operation of the zone.
4. It is extremely important to fix a strict limit of a modern technology to be adopted by the industries, be it labour intensive or capital intensive types. This is necessary from the viewpoint that the products should be of world-international level in its qualities in order to secure the possibilities of export to foreign countries.

By programming the industrial free zone, it should be so planned that when the zone is completed and operating in full scale, and at the close of a certain pre-set time period, the zone management should be operating on a financially independent base. The refundment of the initial investment cost will depend on whether it was effected in the frame of an overall regional development expenditure or whether it was provided in the form of a long term low interest government loan to the zone administration, however, in the case of necessity of refundment by which the cost will have to be borne by the tenant industries overhead, care should be paid not to have too large installments in too short a period as this would put too much over-pressure on the industries and bring even a kind of a depressing effect to the entrepreneurs.

7. It is very important to have a properly organized set up of marketing facilities and measures, as the possibilities of profitable marketing of the products from the industries in the zone will directly effect the success or failure of the industrial free zone in general. Furthermore, a successfully operating industry will be the best propaganda for the zone, and consequently contribute to the reputation and result into greater attraction of new investments.

8. The problem of the development of a petro-chemical industrial free zone is a matter which can and should be settled separately from the proposed industrial free zone. On basis of the relatively simple means of keeping control on the in and output of a petrochemical combination, it is practical and also internationally usual to deal with this subject on an independent basis, and it will always be possible if necessary, to fence off the area for such purpose as a kind of a sub-zone to the industrial free zone, unless it should be found more reasonable to nominate the said zone as an independent free zone of itself. The same theory applies to other types of so-called large industries including for instance, truck and passenger auto assembly factory, automobile tire factory, large-scale textile industries, etc, where the minimum economic size of operation is considerably large as compared with the envisaged size of the industrial free zone under question.

9. Great attention should be paid toward achieving a well harmonized and closely cooperating relationship between and among the Government authorities, the Zone Administration and the private industries of domestic as well as foreign origin established in the zone. Successful free zones throughout the world give the best evidence that this mutual understanding and fine teamwork is the first step and fundamental basis for their fruitful achievements.

The most important result of the assessment process, however, still lies in the fact that a detailed cost/benefit study should be undertaken at once in order to fully justify the establishment of the industrial free zone. Accordingly, immediate steps shall be taken by the UNDP/UNIDO to arrange the same under the technical assistance programme outlined in the Report, and we trust that the necessary arrangements shall also be undertaken on the Lebanese counterpart action as described in the Report.



#### IV. TENTATIVE PLAN FOR IMPLEMENTATION

##### 1. Steps to be taken by the Lebanese Government

The working programme will be divided into two phases : a and b .

- a. to create an Industrial Free Zone Preparatory Working Group, composed of 2 or 3 qualified staffs with experience as required. This Working Group, in fact, will act as the task force of the preparatory work involved and the technical assistance to be provided by the UNDP/UNIDO expert team (or eventually a consulting firm) will assist and support the effective operation of the preparatory work.
- b. Upon completion of this pre-programming work, which corresponds to the first phase of the technical assistance provided by UNDP/UNIDO, and on the assumption that the pre-feasibility study of a national economic profitability cost/benefit analysis brings positive results, to take immediate steps to :
  - (i) prepare and promulgate an Act or Decree for the establishment of an Industrial Free Zone, together with supporting rules and regulations deemed necessary for implementing the programming and construction work of the Zone;
  - (ii) organize an Industrial Free Zone Implementation Group which shall be responsible for the implementation planning, programming and construction of the Zone. The second phase technical assistance programme to be provided by UNDP/UNIDO shall take the form providing assistance to this Implementation Group as its Lebanese counterpart of the project;
  - (iii) take steps to secure the required and necessary financial means to implement the construction and establishment plans of the zone;
  - (iv) make necessary arrangements for acquiring the proposed land site for the Zone. Following experience, the announcement of establishment of an industrial zone often stimulates unfavourable speculative action towards the planned location site of the zone, pushing up the unit cost of the land and resulting into undesirable damage to the country. Proper steps are recommended to be taken in order to avoid such situation;
  - (v) commence publicity activities and promotion of investments in Lebanon and abroad. (Possibly through the envisaged Investment Promotion Agency).

The technical assistance to be provided by UNDP/UNIDO shall also be

1. To provide technical experts for a total of about eight man-months, initially with a consulting firm to implement the project, and thereafter on the basis of a cost/benefit analysis from the Government's point of view in order to ascertain the viability of the project. This preparatory work shall take the form of providing general assistance and support to the Industrial Free Zone preparatory committee established by the Lebanese Government and will be comprised of making the required assessments. In addition to this, among others, it is expected that the following factors will be clarified:

- Location and site of the Free Zone
- Sketch plan of the layout and the engineering work involved
- Estimate of the initial development cost
- Other kinds of recommendations to the Lebanese Government and to UNDP/UNIDO in relation to the establishment, construction and development of the planned Industrial Free Zone.

2. On the basis of positive findings of phase one, and following the official approval and endorsement of the general concept of the development plans of the Free Zone by the Lebanese Government, it is envisaged that a technical assistance programme of a long-term nature will be implemented (Special Fund Project), pending official approval of the UNDP Governing Council based upon the submission of an official Special Fund Request through the designated channel. This technical assistance programme will include the planning, programming, construction, management and operation of the Industrial Free Zone, as well as the providing of necessary fellowships and other services deemed suitable for accomplishing the project.

**Table 1 Preliminary Suggestion for Classification of Industries**

**Category "A"**

- Labour intensive industries (during first development phase of the zone)
- Industries based on raw material available locally or in the very vicinity of the zone
- Export oriented industries based upon domestic raw material or components
- New types of industries not existing in Lebanon

**Category "B"**

- Capital intensive industries (to be reconsidered during the second development phase of the zone for reclassification to Category "A")
- Industries which might supplement or be supplemented by existing industries in Lebanon
- Export oriented industries based upon imported raw material or components
- Import substitution type of industries

**Category "C"**

- Industries which type exist in Lebanon but which products will be entirely or to a large extent exported to foreign countries

**Category "D"**

- Other types of industries

**General Idea of Industries which may be contributonal to Realising the Purpose of the Zone (Not exhaustive)**

- Textile Garments factory
- Textile Madeupgoode factory
- Fresh Fruits and Vegetable Packing factory
- Fruit Jam and Fruit Juice factory
- Confectionary factory
- Tobacco manufacturing factory
- Plastic products (moulding, extruding) factory
- Rubber and Leather production factory
- Furniture and Woodworking factory
- Printing and Publishing factory
- Special type Glass manufacturin. factory
- Agriculture machineries and Transportation equipments assembling factory
- Electronic apparatus manufacturing and assembling factory
- Handicraft-based specialities factory
- Pharmaceutical products manufacturing and packaging factory
- Metal working factory for small and medium products (Ferrous and Non-ferrous)

TABLE 2

EXPORTS, IMPORTS, AND TRANSIT OF LEBANON  
BY TYPES OF INDUSTRIES

UNIT : 1,000 L.S.

	1964 EXPORT	1968 IMPORT	1968 TRANSIT
	41.241	134.371	29.794
	110.217	175.462	34.580
	1.900	16.425	2.574
	31.031	74.705	32.922
	8.088	122.529	963.800
	2.120	135.238	62.100
	7.573	45.800	17.467
	17.376	29.855	2.071
	6.716	35.334	10.699
	20.498	59.872	21.607
	41.434	192.746	94.428
	3.174	3.444	2.743
	14.700	25.552	9.782
	71.200	307.120	284
	34.895	141.464	51.008
	37.685	189.794	87.991
	12.333	127.107	96.165
	2.679	25.718	4.208
	31	3.254	207
	5.922	18.562	8.494
	489	732	0
	510.261	1,865.087	1,532.938
(1964 = 100)	159.456	582.840	479.643

**TABLE 3**  
**STATISTICS ON NUMBER OF INDUSTRIAL ESTABLISHMENTS AND**  
**AVERAGE NUMBER OF EMPLOYEES IN LEBANON AND IN THE**  
**ACQUISITION EXPORT PROCESSING ZONE IN FORMOSA, CHINA**

	Lebanon (1964)			Keelung Formosa (Export Processing Zone 1970)		
	No. of Estab.	No. of persons engaged	Average No. of workers per fac.	No. of Estab.	No. of persons engaged	Average No. of workers per fac.
Food Industry	491	6681	14	-	-	-
Beverage Industry	49	1556	36	-	-	-
Tobacco Manufacturing	1	2033	2033	-	-	-
Textile	171	2277	44	22	4611	210
Wearing apparel and Textile made-up goods	274	4563	17	15	7554	506
Wood and Cork	32	1962	24	-	-	-
Furniture Manufacturing	230	3918	17	3	535	178
Paper & Products	36	610	17	2	294	147
Printing & Publishing	185	3790	20	1	363	363
Leather & Fur	54	1112	21	10	2749	275
Rubber	14	276	20	3	538	179
Chemicals	94	1425	26	1	140	140
Basic Metal	3	921	307	-	-	-
Metal Manufacturing	182	3132	26	15	2512	170
Non Metallic Minerals	302	5731	19	-	-	-
Machinery	12	293	24	2	138	69
Electrical machinery	17	234	14	3	827	176
Transport Equipments	4	160	40	-	-	-
Miscellaneous manufacturing	47	527	11	-	-	-
Plastic Products Manufact.	-	-	-	14	3921	280
Handicrafts	-	-	-	18	5139	285
Electronics	-	-	-	32	12793	400
Packing Material	-	-	-	2	304	152
Toys	-	-	-	4	1285	321

**REMARK:** The Keelung export processing zone was set up with four objects, 1) Increase of export, 2) Increase of job opportunities, 3) Increase of new investments, and 4) Introduction of new industrial techniques. They fixed a criteria. By grouping 21 types of industries into three categories, all for export purpose only. All of the originally fixed development targets of the above four objects have been accomplished within an operation period of 2.5 years. Actually, each and every effort was paid to achieve this success but it proves the necessity of, firstly establishing a good criteria for admissible industries, secondly to set a reasonable target which the zone should achieve, and thirdly the public and private circles to join forces towards overcoming difficulties and obstacles to ensure a harmonious co-operation.

The achieved figures as of May 1970 is

<b>NUMBER OF NEW ESTABLISHED INDUSTRIES</b>	166
<b>AMOUNT OF NEW INVESTMENTS</b>	US \$ 83,695,807
<b>AMOUNT OF EXPORT FROM ESTABLISHMENT of ZONE</b>	US \$ 133,234,115
<b>NUMBER OF EMPLOYEES</b>	34,896
<b>NUMBER OF OVERSEAS INVESTMENT</b>	85 cases
<b>JOINT VENTURES WITH OVERSEAS ENTREPRENEURS</b>	41 cases
<b>SCIENTIFIC INVESTMENT</b>	40 cases

Letter for

Industrial Services

Industrial Free Zone

Dear Sir (and Free Zone)

Reference is made to the establishment of an Inter-Industrial Free Zone (IIFZ) in the Ministry of Industry and Commerce. The Free Zone in question will have the status of an industrial free zone in Lebanon. It will have the same advantages as the industrial free zones in other countries, which are applied to basic and supplementary industrial or complementary activities. The Free Zone will be subject to the provisions of the Law No. 107 of 1967 on the Establishment of Industrial Free Zones, and to the Report of the Commission on the Establishment of Industrial Free Zones (IIFZ) and the Report of the Commission on the Establishment of Industrial Free Zones (IIFZ) and the Report of the Commission on the Establishment of Industrial Free Zones (IIFZ).

The Commission on the Establishment of Industrial Free Zones is composed of the following members: In co-operation with the Commission on the Establishment of Industrial Free Zones (IIFZ), it is requested to:

- 1) Submit a report on the establishment of an Industrial Free Zone available at the Ministry of Industry;
- 2) Carry out the investigations deemed necessary on the establishment of an Industrial Free Zone chiefly in order to produce an evaluation of the project's national economic profitability, its social benefit and size.
- 3) Make specific recommendations on:
  - the location and site of the Free Zone which is expected to be in South Lebanon;
  - industries which could be attracted to the zone;
  - a skeletal plan of the size, lay-out and engineering work involved;
  - the initial investment cost of the zone;
  - the technical, financial and human resources needed for the establishment and operation of the zone;
  - the necessary fields and types of technical assistance to be provided in relation to the future development of the zone.

Qualifications:

Industrial Economist with extensive knowledge and experience in the planning, programming and establishment of an export-oriented industrial zone.

Language:

Spanish and/or French, preferably both.

Background Information:

The Government of Lebanon has recently decided to launch an extensive development plan for the South Lebanon region. As the first step, the Government for South Lebanon has been established. The plan is contracted with major international consultants concerning policy and planning for overall development and industrialization. Following one of the main meetings presented, it has been decided to establish an Industrial Free Zone with the following objectives:

- to contribute to the objectives for improving the unemployment situation of South Lebanon and especially to the reduction of population flow from the South Lebanon region to other parts in the country;
- to stimulate investments by Lebanese and foreign entrepreneurs in industries through various tax and forms of incentives;
- to accelerate the establishment of export-oriented industries, particularly so, but not limited to, locally and regionally produced materials;
- to eventually make the Industrial Free Zone play the role of a catalyst role for the overall industrialization of the South Lebanon region.

Upon positive findings of this pre-feasibility cost/benefit study, and subject to the official approval and endorsement of the recommendations by the Lebanese Government, it is envisaged that a long term technical assistance project might be implemented as the second phase of the Industrial Free Zone Establishment Plan. This long term project will cover the planning, programming and implementation of the construction work, as well as the organizational set up, management and operation of the zone.

Report of the Government of Lebanon for  
Industrial Free Zones

Introduction

Background: (Industrial Free Zone)  
Objectives: (with the possibility of extension)  
Justification: As a result of the  
Benefits: (to be)

Project Description: The Government is interested in establishing an Inter-national Industrial Free Zone. In 1960-61 the Ministry of Industry, after some basic studies on the possibility of establishing an Industrial Free Zone in Lebanon, is conducting a study which will have the object of finally evaluating such an accomplished basic study, and making additional or supplementary investigations, where necessary, for presenting to the Government a detailed report on the Establishment of an Industrial Free Zone, chiefly oriented to Export Production, including a cost/benefit analysis of the project from a national economic profitability point of view.

Staff: The expert will be a member of a team made up of himself as a consultant and a local team leader). In co-operation with the Industrial Economist and the Lebanese Member of the International Preparatory Working Group, he is expected to:-

- (1) Survey, evaluate and select the site of the Industrial Free Zone, taking into account the physical planning requirements, the availability and development prospects of labour, power, water and other utilities, transport, communication and other supporting facilities;
- (2) Prepare a skeleton plan of the size, layout and engineering work involved;
- (3) Make a preliminary estimation of the initial development cost of the zone;
- (4) Prepare a preliminary assessment on the utility requirements of the zone together with suggestions on possible sources from which the necessary input may be secured;
- (5) Based upon the above and other factors clarified by the team, to prepare data for a cost/benefit analysis from the viewpoint of evaluating the national economic profitability of the Industrial Free Zone Project.



Qualifications:

Civil Engineer with extensive knowledge and experience on the establishment of an industrial free zone.

Language:

English and/or French, preferably both.

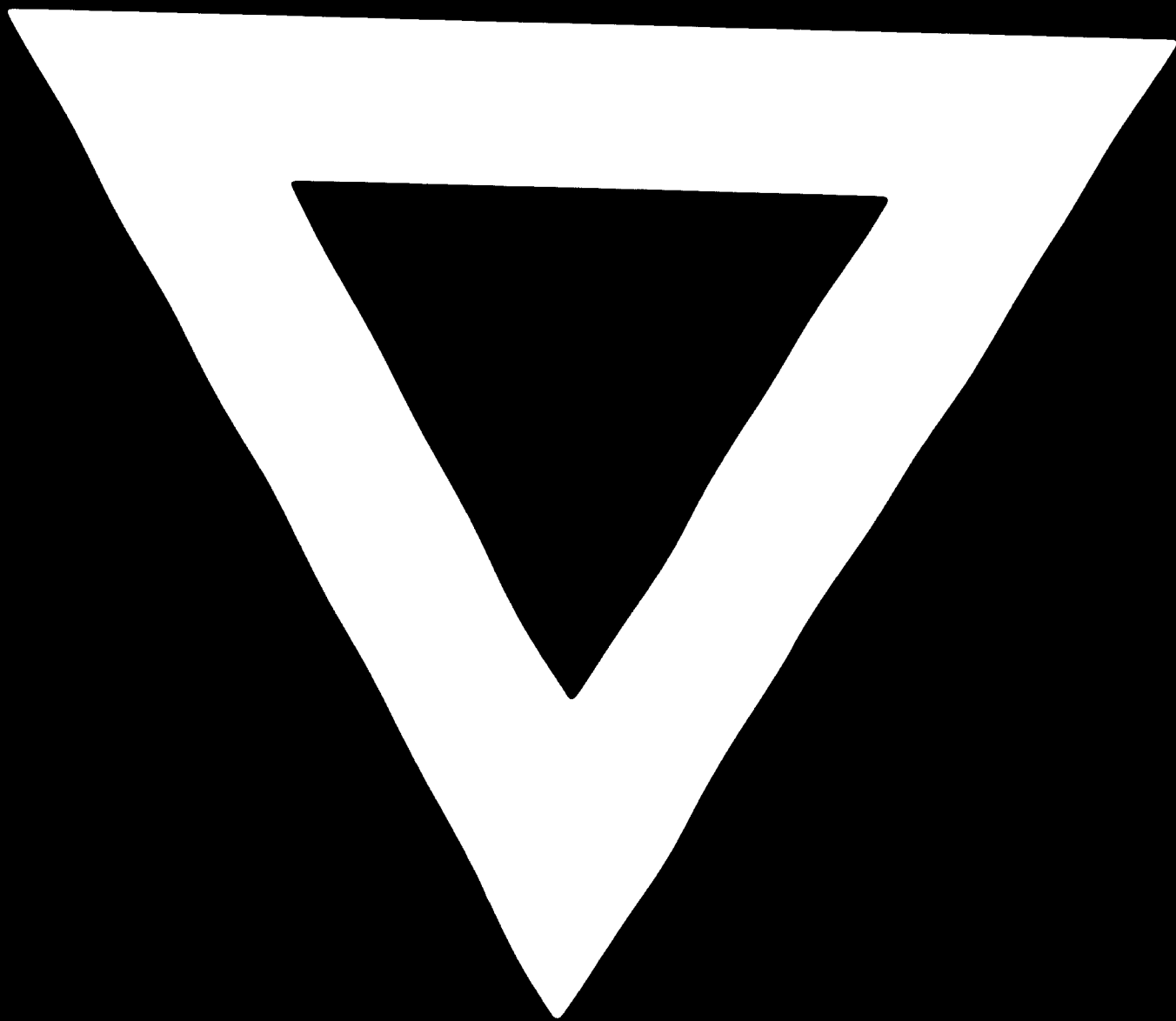
Background Information:

The Government of Lebanon has recently decided to launch an extensive development plan for the South of Lebanon. As the first step, the Council of Ministers of Lebanon has been organized (15 May 1970) and entrusted with asking recommendations to the Government concerning policies and plans on the overall development of the country including a programme for industrialization. Following one of the recommendations presented, it has been decided to establish an Industrial Free Zone with the following objectives:

- to create new job opportunities for reducing the unemployment situation of South Lebanon, and especially to stop the flow of population from the South Lebanon region to elsewhere in the country;
- to stimulate new investments of Lebanese and foreign entrepreneurship on industries through various types and forms of incentives;
- to accelerate the establishment of export-oriented industries based particularly on the local and regional resources available;
- to eventually have the Industrial Free Zone play the role of an industrial pole for the overall industrialization of the South Lebanon region.

Upon positive findings of this non-feasibility cost/benefit study, and subject to the official approval and endorsement of the recommendations by the Lebanese Government, it is envisaged that a long-term technical assistance project might be implemented as a part of the Industrial Free Zone Establishment Plan. The long-term project would cover the planning, organization and implementation of the construction work, as well as the organizational set up, management and operation of the zone.





**76.02.09**