

## ACTION FICHE FOR LEBANON

### 1. IDENTIFICATION

Title	Reinforcement of the Private Sector Competitiveness in Lebanon (2008 National Indicative Programme)		
Total cost	€14 M		
Aid method / Management mode	Project approach – Decentralised management		
DAC-code	32130	Sector	SME Development

### 2. RATIONALE

#### 2.1. Sector context

The sector is characterized by the following three main constraints: **Lack of a well functioning business enabling environment.** The entrepreneurial spirit is considerably hindered and challenged by economic structural factors such as the fragile financial structure of businesses, particularly the industry; the inflexible business models heavily depending on family support and patronage; the focus of the banking sector (since the end of the civil war) on financing the public debt rather than productive activities. The weaknesses of Lebanese SMEs are further aggravated by a high-cost environment (cost of labour, energy, ICT, land above regional average) and inadequate legislation, insufficient information and service infrastructure and too few incentives to commit entrepreneurs, local and foreign investors to long term investment in the local economy. The summer 2006 conflict has further aggravated the economic conditions and the Lebanese business environment.

**Lack of competitiveness of the Lebanese enterprises.** The Lebanese economy is dominated by small and medium enterprises (SMEs), limited capacity to innovate, to become internationally competitive or to grow in a globally competitive environment. This situation is worsened by the small scale domestic environment, a cost structure above that of regional competitors and threats posed by globalisation. The globalisation of markets, shorter product lifecycles, decline in demand for traditional products and services and the rise of Far Eastern competition all are impacting on SMEs and only through innovation can SMEs achieve sustainable competitive advantage and compete effectively in the global environment

**Lack of a fully established and functioning National Quality Infrastructure.** Lebanon cannot fully benefit from international trade without well-established quality assessment system with functioning institutions. A high number of Lebanese products do not meet international quality standards. The lack of a functioning quality infrastructure and low quality awareness are factors that impede Lebanese

manufacturers to meet and to demonstrate the compliance of their products with international standards and quality requirements.

## **2.2. Lessons learnt**

Since 2003 the European Commission has supported the development and reinforcement of the Lebanese private sector. In particular, with two programmes: 'Strengthening Quality Management, Capabilities and Infrastructure in Lebanon' (€15 M) and the 'Lebanon Integrated Small and Medium Enterprises Support Programme' (€17 M).

The EC achievements so far in the areas of legislation, access to finance (Kafalat), assistance to enterprises, (Business Development Centers, Euro-Lebanese Center for Industrial Modernisation), as well as Quality Management are encouraging. The technical support already provided by the EC has contributed to enhance experience of public and private institutions in this area. A continued assistance is sought by the private sector stakeholders.

The evaluations and the conclusions of the Results-Oriented Monitoring recommend continuing and consolidating the started activities in order to ensure their sustainability and maximize their impact. Finally, the main lessons learnt from the phasing out programmes are the need to concentrate on a limited number of priority actions in order to maximize their impact.

## **2.3. Complementary actions**

The programme attains complementarity with, in particular, the new Joint Private Sector Reconstruction Facility that has been established between the EC and the EIB in 2007. This aims at supporting the economic reconstruction and recovery of the Lebanese private sector affected directly or indirectly by 2006 summer war. The EC has granted the Central Bank of Lebanon with €15 M to provide interest subsidy to €100 M of global loans provided by the EIB.

The programme aims at complementing actions undertaken by the main international Donors active in private sector development. For this purpose, the ECD has established a working group for the exchange of information and experience in related programmes. Among the main participants are: IFC (Financial sector), The World Bank ('Doing Business' data), UNDP (ArtGold Programme), UNIDO (MACLE - Market Access Lebanon Project €2,1), USAID (WTO support and economic opportunities), AFD (SME financing facilities, macro financial assistance, etc.) and a number of EU member states.

## **2.4. Donor coordination**

The EC Delegation has also established a working group on Private Sector Development to exchange information and experience in related programmes. Among the main participants there are: IFC, The World Bank, UNDP, UNIDO, USAID, AFD and several countries and EU member states.

In addition, the EU is maintaining a regular dialogue with the main private sector representatives, in particular, the Federation of the 4 Chambers of Commerce,

Industry and Agriculture, the Association of Lebanese Industrialists and various sector syndicates.

The Ministry of Finance has become responsible for donors' coordination and for monitoring donors' pledges and the effective disbursements of the €7 Billion committed in Paris III in the form of budget aid, project aid, and loans. An Inter-Ministerial Committee on Economic Affairs has been constituted to coordinate these issues between the Ministries of Economy and Trade, Finances, Central Bank and OMSAR (Office of the Minister of State for Administrative Reform). These bodies were also consulted in the preparation of this project.

### 3. DESCRIPTION

#### 3.1. Objectives

The **overall objective** of the project is to help the socio-economic development through the strengthening of private sector in Lebanon.

The **project purpose** is to improve the competitiveness of the Lebanese private sector in order to increase the share of Lebanese products and services in local and international markets, by contributing to the improvement of the business enabling environment, strengthening services to enterprises with focus on innovation and quality management system at national level.

#### 3.2. Expected results and main activities

The expected results are:

- (1) The Lebanese **business environment** is improved and is more conducive to business creation and development through:
  - (a) A Lebanese solid and comprehensive **regulatory framework** conducive to private sector development. The EC will provide technical assistance and capacity building to key public and/or private sector stakeholders to prioritise, streamline, draft and implement private sector-related policies and regulatory framework and enhance inter-institutional coordination.
  - (b) An entrepreneurial culture is fostered and a clear **framework for reforms** exists. The EU will promote and support the use of the Euro-Mediterranean Charter for Enterprise as a framework and a tool to guide policy action at a national level.
  - (c) The **Euro-Mediterranean Charter for Enterprise** is used as a tool for improving the business climate. This will be achieved by working in specific areas identified under the Euro-Med Charter. The EC will provide technical and capacity building support to develop a number of Charter areas as prioritised by the Lebanese private sector stakeholders.

(2) The capacity of the Lebanese private sector to **compete** at local and international markets is enhanced through:

(a) Enterprises will better use growth potential.

This will be achieved by providing support (**incubation**) to enterprises and starts ups to further grow and develop. The EC will assist the Business Development Centers (BDCs). The BDCs will be upgraded, and able to provide competitive incubation services and to foster innovation of starts ups and enterprises in a sustainable manner. Most notably by supporting the achievement of suitable accreditation system so that the BDCs are viewed as competent, credible delivery agents; further building of tools as client management procedures, local market animation, incubation programming, detection techniques, intranet development, etc.

(b) Enterprises can implement more easily **innovative ideas**.

This will be achieved by providing **direct support to enterprises in innovation**. Provision of international and national expertise on stimulation and commercialisation of innovation. These experts will support the private sector fostering innovation into industrial and entrepreneurial applications. Complementarity between the different actors will be further enhanced.

(c) Enterprises have better access to **finance innovation**.

This will be achieved by providing a **Financial Instrument to support Innovation**. Establishment of a Seed Capital Guarantee Scheme to provide risk coverage to seed capital from other sources in Lebanon (equity and venture capital funds, private resources etc.) for funding the initial phases of entrepreneurial projects with a relevant component of research, technological or other high-added value innovation. A clear commitment from the Lebanese main stakeholders, as well as a market demand, has already been marked.

(d) Enterprises and academia can better do **research and development**.

This will be achieved by strengthening the research and development and **networking** capacities of Lebanon. The project will provide technical and capacity building assistance to IRI to strengthen applied research and networking between national relevant institutions and ensure the efficient use of international cooperation opportunities. Additional support will be provided in order to assess and upgrade the national legal and regulatory framework relating to innovation, research and development and innovation promotion policies.

(3) Conformity of Lebanese products with technical **quality requirements** and international standards for health, safety, environment and quality is further increased through:

- (a) Existence of a well-developed and consolidated Lebanese **quality legislative and regulatory framework infrastructure**. The project will provide technical assistance and capacity building to further complete and streamline a self-contained and comprehensive national legislative and regulatory structure.
- (b) Existence of a comprehensive and efficient **quality institutional infrastructure**. The national quality institutional infrastructure will be reinforced. The quality unit's role (Qualeb) as the Lebanese quality management focal point will be strengthened, as well as the market surveillance functions, including the establishment of a Management Information System in Qualeb and related institutions. In addition, technical assistance and equipment will be destined to Lebanese institutions, laboratories and bodies responsible for conformity assessment, standardisation, accreditation, metrology, testing, market surveillance, food safety and consumers protection (LIBNOR, COLIBAC, laboratories, accreditation bodies, etc).
- (c) A **national awareness exists in quality** issues. The project will prepare activities at national level with the public and private sector (National Quality Awards, Quality Excellence Models, etc.) to further enhance the national quality awareness. The project will also support further integration of quality management and quality evaluation issues in the educational system at secondary and university levels.

### 3.3. Stakeholders

The beneficiaries of the project will be the Lebanese enterprises and the society at large. The Business Development Centres, as well as selected target public and private sector institutions and organizations will be benefit of tailored assistance to enhance their roles and better service private sector needs.

Implementing partners:

The **Industrial Research Institute**, linked to the Ministry of Industry but administratively and financially autonomous, is an institution providing specialized services to industries, such as technical and economic studies, industrial research and scientific testing and analysis. The institute is member of EU networks.

The **Euro-Lebanese Center for Industrial Modernization (ELCIM)** established in the framework of EC assistance and currently hosted at IRI; under the SME Programme has provided specialized management and technical assistance services to manufacturing SMEs (business and financial planning, product and process development, quality management and assistance to quality certification, loan application, reorganization and restructure, export promotion and international business networking, clustering).

**QUALEB**, the quality Unit at the Ministry of Economy and Trade. It is currently implementing the EC-funded Quality Programme and will continue a series of quality-related activities until August 2009 under the Programme Support to Reforms II (€10 M).

**KAFALAT**, the Lebanese Credit Guarantee Agency. It is a joint stock company and overseen by the Central Bank through the National Institute for the Guarantee of Deposits. Kafalat is a facilitator of lending to SMEs in several sectors by providing credit risk guarantees. The former SME Programme provided a fund of M€ 4 to provide guarantees without collateralization to 40 million euro worth of non-secured loans and focusing on innovation and start ups.

**The Network of Business Development Centers.** Non-public entities responding to market incentives and created by consortia including each one of them Universities, Chambers of Commerce and NGOs. They cover all of Lebanon.

Main Business Associations:

The **Federation of the Chamber of Commerce** and Industry and the four Chambers of Beirut and Mount Lebanon, Tripoli and the North, Saida and the South and Zahle. The Chambers offer their 25,000 members a wide range of services including information on national and international business opportunities.

**ALI - Lebanese Association of Industrialists**, is grouping 640 industrialists from all over the country, and advocating a policy of balanced industrial development for all Lebanese regions, fostering close linkages with universities and research & development institutes.

Academic, vocational training and research institutions:

Several Lebanese academic and research institutions have extensive cooperation programmes with EU Universities and research institutions.

### 3.4. Risks and assumptions

The main identified **risks** are:

- Economic and political instability;
- Delays/blocades in decision-making by the Government and the Parliament;
- Difficulties for the Government to coordinate policy, regulatory and institutional tasks at national level;
- Continuous institutional fragmentation of the Lebanese conformity assessment chain;
- Low availability, high turnover, and/or limited access of counterpart staff at the ministries and in beneficiary organisations.

The main **assumptions** for the success of the programme and its correct implementation:

- Economic and political stability will exist;
- The Government is able to implement the necessary policy, institutional and legal actions required for the correct development of the programme, covering inter

alia, the coordination of tasks, responsibilities and resources requirements for the programme. The Parliament will provide the needed support in timely manner;

- The implementing stakeholders ensure the sustainability of the functions and structures supported under the programme, they also ensure a sufficient number and quality of recipients of the capacity building and competence activities.

### 3.5. Crosscutting Issues

During all phases of the project, particular attention will be devoted to the principle of good governance and rule of law among the institutional and private stakeholders. In particular, improved and more transparent management, decision making procedures and rules will be tackled. The Euro-Mediterranean Charter for Enterprise contains ten principles of good governance for effective action towards private sector development. These principles can guide policy action at a national level, help foster an entrepreneurial culture, and build a framework for reforms.

The programme will support directly and indirectly gender equality with the implementing partners and promote women's entrepreneurial and innovation skills. The programme will also support the respect of national environmental standards by both the quality and the enterprise component.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

The management of the project is decentralised. The Presidency of Council of Ministers will be the Contracting authority through the Project Administration Office (PAO) for all contracts except audit, evaluation and monitoring contracts which will be contracted directly by the EC. PAO will be in charge of the execution of activities, support the day-to-day coordination, as well as administrative, contractual and financial management on behalf of the PCM.

The Commission controls *ex ante* the contracting procedures for procurement contracts >50.000 EUR and *ex post* for procurement contracts ≤ 50.000 EUR.

Through the programme estimates, payments are decentralised for operating costs and contracts up to the following ceilings:

Works	Supplies	Services	Grants
< 300.000 EUR	< 150.000 EUR	< 200.000 EUR	• 100.000 EUR

The Authorising Officer ensures that, by using the model of financing agreement for decentralized management, the segregation of duties between the authorising officer and the accounting officer of the decentralized entity will be effective, so the decentralization of the payments can be carried out within the limits specified above.

## 4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. The maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Implementing Rules of the Financial Regulation where financing in full is essential to carry out the action in question. The support to the BDCs will imply a direct grant as per Art 168.1.c of the Implementing Rules of the Financial Regulation (Exceptions to call for proposals). This financing is considered essential to carry out the established development action. The private sector development is considered one of the main axes for economic development. The action aims at supporting the reconstruction and development of the Lebanese economy by reinforcing the competitiveness and growth of the private sector. In addition, the BDCs form a network of business incubations services centers that did not exist in the past in the country. The creation and reinforcement of these BDCs by the EC support has positioned them in a situation of *de facto monopoly*, as per Art 168 c. The BDCs are the only existing structure in the country, together with some functions at the Chamber of Commerce, Industry and Agriculture of Beirut, able to provide incubation services to new companies and starts ups. The only institution to provide similar services at a very preliminary stage is the Chamber of Beirut, that could benefit from specific support. It is necessary to provide a direct grant to the BDCs in order to consolidate and reinforce their capacity to deliver services and contribute to the Economic reconstruction of Lebanon.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

## 4.3. Budget and calendar

Indicative budget breakdown:

	<b>Total M €</b>	<b>EC contribution</b>	<b>Lebanon contribution</b>
Business Environment (services equipment)	1.3	1.3	
Competitiveness, Innovation and Support to BDCs (services, grants, equipment)	7	7	
Quality Infrastructure (services, equipment)	4.2	4.2	
Operating costs	0.2	0.2	

Visibility	0.2	0.2	
Audit and Evaluation	0.2	0.2	
Contingencies	0.9	0.9	
<b>Total</b>	<b>14</b>	<b>14</b>	

The GoL's contribution will be in kind and consist of making available local staff, the necessary premises for the international and local staff with office furniture and communication infrastructure. Also, the resulting normal running costs such as heating, electricity, maintenance and cleaning, office supplies, telecommunication costs will be borne by the beneficiaries.

The implementation period of the programme activities is fixed at 48 months, starting from the signature of the Financing Agreement. The programme and its activities will cover the whole country and will be managed from the Presidency of the Council of Ministers in Beirut (Project Administration Office – PAO). Study tours and/or similar activities might take place in Lebanon and in the ENP Region.

#### **4.4. Performance monitoring**

A set of key monitoring indicators will be detailed in the Financing Agreement, they will be standard indicators used in private sector development projects. They will be in line with those used in former projects for the sake of continuity and to allow comparison in time. The Euro-Mediterranean Charter for Enterprise will be used as main framework as systematic set of indicators allowing standards and comparison at EU and Mediterranean level. In addition, World Bank 'Doing Business' Data will provide additional benchmarks. Finally, the relevance of these standard indicators will be discussed and agreed with the partner country stakeholders.

#### **4.5. Evaluation and audit**

The programme will undergo audits on a regular basis, in line with provisions of the Programme Estimate Practical Guide. Additionally, a mid-term or/and an ex-post evaluation, as well as monitoring missions might also be carried out.

The European Commission will prepare the terms of reference and select the service providers for the audit, monitoring and evaluation missions. All audit, monitoring and evaluation reports will be communicated by the EC to the beneficiaries. The beneficiaries will put at the disposal of the audits, monitoring or evaluation missions all necessary supporting documents.

#### **4.6. Communication and visibility**

The EC will ensure that adequate communication and visibility is given to the EC-funding by the Presidency of the Council of Ministers (press conference, brochures/flyers, media reports, etc). In addition, the implementation of the programme will abide by the EU Visibility Guidelines for External Actions.