

Lebanon *Country Profile*



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Prepared for SCP/RAC by Antoine Karam

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Barcelona
Convention

Regional Activity Centre
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1. Introduction

Since the end of the civil war in 1990, Lebanon enjoyed a relatively steady economic situation with a constant GDP growth until 2018, despite all the instability in the region. In the past 15 years, events like the Cedar's Revolution (2005), 2006's war, the global financial crisis (2007 – 2008) and Syria's war and influx of refugees (since 2011) impacted the country on all levels. However, Lebanon proved to be resilient and was able to maintain a relatively stable environment for entrepreneurship, driven by a trusted private sector in general and banking sector in particular. In 2015's edition of the Global Entrepreneurship Monitor, Lebanon had the highest rate of new firm entrepreneurship of all economies surveyed, and ranked 4th in terms of total early-stage entrepreneurial activity, an indicator measuring the percentage of people in the process of starting a business¹.

In 2018, the emerging part of Lebanon's economic crisis iceberg started to show, marking a new page in Lebanon's history. The country's GDP contracted by 1.9%, and was negative for the first time since the end of the civil war (with the exception of 1999, where it reached -0.5%). In 2019, GDP contracted by 5.6% and is expected to reach 11% in 2020².

The impact of the financial collapse is leading Lebanon into poverty, despair and potential chaos. Most regions in the country are receiving no more than two or three hours of electricity a day and economists are predicting a Venezuela-style collapse, with acute shortages of essential products and services, runaway inflation and rising lawlessness... in a country at the heart of an already unstable region³.

Quick Facts ⁴		
	Population*	6.1 millions
	GDP per capita**	7,784 USD ⁵
	10-year average annual GDP growth	1.9 %
	Environmental footprint	2.3 gha/capita
	Renewable energy consumption share	3.6%
	Unemployment rate***	11.4% ⁶
	Global Gender Gap Index 0-1 (gender parity)	0.6

* Including refugees.

** Based on The World Bank's 2019 data. GDP per capita is rapidly changing due to economic crisis, currency devaluation, liquidity crunch and COVID-19 epidemic.

*** Unemployment rate is 23% among youth and 35.7% among university graduates.

¹ Global Entrepreneurship Monitor. <https://www.gemconsortium.org/economy-profiles/lebanon>

² Lebanon's Economic Update — April 2020. The World Bank. <https://www.worldbank.org/en/country/lebanon/publication/economic-update-april-2020>

³ The lights go out on Lebanon's economy as financial collapse accelerates. Washington Post. July 2020. https://www.washingtonpost.com/world/middle-east/the-lights-go-out-on-lebanons-economy-as-financial-collapse-accelerates/2020/07/19/3acfc33e-bb97-11ea-97c1-6cf116ffe26c_story.html

⁴ The Global Competitiveness Report 2019. World Economic Forum. http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

⁵ The World Bank Data. <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=LB>

⁶ Labour Force and Household Living Conditions Survey 2018-2019. ILO. <https://data2.unhcr.org/en/documents/download/73718>

Economic Situation

Since 1996, the Lebanese pound (LBP) is pegged at a rate of 1507.5 pounds per U.S. dollar⁷. The official rate fluctuates marginally around this figure⁸.

However, Lebanon's trade balance is negative by a rough ratio of 5.3 (Lebanon imports accounted for 20.4 billion USD in 2018 while its exports accounted for 3.8 billion USD)⁹. Lebanese governments failed to create a sustainable economy and implement necessary reforms: public sector's personnel account for 39% of the government's budget¹⁰ for instance, while the electricity sector costs between 1.5 to 2 billion USD annually¹¹ counting for 10% of the government's budget¹² (most of it being in foreign currencies).

This deep economic crisis situation translated in a monetary crisis in 2019: the country's primary source of foreign currencies (dollars) has been through external borrowing and deposits from expats and wealthy investors, which were needed to maintain the USD peg. To keep those investments coming, the banks and the central bank offered high interest rates for large deposits. That strategy ran out of gas last year when new depositors suspected the policy was unsustainable and stopped coming. Soon, the real dollars in the banks were far short of the theoretical dollars that had been earned in interest on previous deposits¹³.

This shortage of foreign currencies has now hit individual Lebanese account holders, whose banks have either limited dollar withdrawals or stopped handing out dollars altogether resulting in an 80% plunge of the Lebanese pound (in the informal market). Banks have since October 2019 frozen people out of their savings and blocked transfers abroad, setting up informal capital control measures on depositors. They now pay dollar accounts depositors in cash in the local currency (LBP) at a new "market rate". This "market rate" was fixed at 3,900 LBP / dollar in July 2020 with a withdrawal limit of 1,000 USD per month, making depositors lose around 50% of the value of their savings relative to the informal market, where the greenback is traded at around 8,000 LBP¹⁴.

As for Lebanese pounds accounts holders, inflation rates impacted them even more brutally as the cost of living is increasing every month: Lebanon's monthly inflation rate surged from 11.4% and 17.5% in February and March 2020 respectively, to reach 46.6% in April, 56.5% in May¹⁵ and a record-high of 89.74% in June 2020¹⁶. These hyperinflation rates severely devalued their savings.

Lebanon's trade balance being negative by a rough ratio of 5.3 means that around 8 out of 10 products in the Lebanese market are imported. Therefore, Lebanon's economic downturn caused food insecurity for poor and middle class families, who are finding it difficult to afford staples such as bread, butter and cooking oil¹⁷. Inflation, unemployment and poverty soared¹⁸.

In parallel, since the outbreak of the Syrian crisis in 2011, up to 1.5 million displaced people are believed to have crossed the border into Lebanon, formerly home to around 4.5 million people. The population has grown by an unprecedented 30 % in under four years, making Lebanon the country with the highest per capita concentration of refugees worldwide¹⁹. The influx of these

⁷ Banque du Liban data. <https://www.bdl.gov.lb/statistics/table.php?name=t5282usd>

⁸ LBP (Lebanese Pound). Investopedia. <https://www.investopedia.com/terms/forex/l/lbp-lebanese-pound.asp>

⁹ Lebanon: Economic Indicators. Société Générale France. <https://import-export.societegenerale.fr/en/country/lebanon/trade-indicators>

¹⁰ Citizen Budget: Lebanon 2019. Page 26. Ministry of Finance. <http://www.finance.gov.lb/en-us/Finance/BI/ABDP/Annual%20Budget%20Documents%20and%20Process/Citizen%20Budget%202019en.pdf>

¹¹ Lebanon's electricity crisis. 2018. Executive Magazine. <https://www.executive-magazine.com/economics-policy/lebanons-electricity-crisis>

¹² Citizen Budget: Lebanon 2019. Page 26. Ministry of Finance. <http://www.finance.gov.lb/en-us/Finance/BI/ABDP/Annual%20Budget%20Documents%20and%20Process/Citizen%20Budget%202019en.pdf>

¹³ Lebanon's economic crisis explodes, threatening decades of prosperity. May 2020. NYTimes. <https://www.nytimes.com/2020/05/10/world/middleeast/lebanon-economic-crisis.html>

¹⁴ Lebanese banks raise USD withdrawal rate to 3,850 pounds/dollar. June 2020. Reuters. <https://www.reuters.com/article/us-lebanon-crisis-banks/lebanese-banks-raise-usd-withdrawal-rate-to-3850-pounds-dollar-idUSKBN2401WS>

¹⁵ Lebanon's Inflation Rate Hit a Record high of 56.5% in May 2020. BlomInvest Bank. <https://blog.blominvestbank.com/33830/lebanons-inflation-rate-hit-a-record-high-of-56-5-in-may-2020/>

¹⁶ Lebanon's Inflation Rate Surged to 89.74% in June 2020. BlomInvest Bank. <https://blog.blominvestbank.com/37751/lebanons-inflation-rate-surged-to-89-74-in-june-2020/>

¹⁷ Food insecurity hits middle class amid Lebanon's economic crisis. July 2020. France 24. <https://www.france24.com/en/20200701-food-insecurity-hits-middle-class-amid-lebanon-s-economic-crisis>

¹⁸ Lebanese banks raise USD withdrawal rate to 3,850 pounds/dollar. June 2020. Reuters. <https://www.reuters.com/article/us-lebanon-crisis-banks/lebanese-banks-raise-usd-withdrawal-rate-to-3850-pounds-dollar-idUSKBN2401WS>

¹⁹ Syrian crisis: Impact on Lebanon. 2017. European Parliament. [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BR\(2017\)599379](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BR(2017)599379)

refugees created extra pressure on public services and resources (schools, hospitals, electricity, waste management, water, etc.) and employment.

2. Policy and regulatory framework

One of the most and rare relevant policies for green businesses in Lebanon is the Environmental Protection Law No. 444 of 2002 (decree 167 of 2017). This law aims at promoting and supporting the use of environmentally-friendly products and services, including sustainable energy products, through the application income and customs tax reductions. Article 20 of this law lists the activities that could benefit from tax reduction and explains the process a business or taxpayer should follow to benefit from this policy.

Tax reductions can be split into 2 types (cf. appendix for more details):

1. Income Tax on activities related to environment conservation (up to 50% reduction)
2. Customs Tax for importing equipment and technologies that have a positive impact on the environment (up to 50% reduction)

As for green incentive funding, two financing mechanisms led the way for the past decade: The National Energy Efficiency and Renewable Energy Action (NEEREA) and the Lebanese Environmental Action (LEA):

- NEEREA provides interest-free long-term loans to residential, commercial, non-profit and industrial users for all energy efficiency and renewable energy projects for new and existing building facilities. The loan is eligible for new environmental friendly projects or for existing projects to enhance their conditions in order to become environmentally sound. The loan has a ceiling of 20 million USD and is offered at an interest rate of around 2.5% for period that should not exceed 14 years including a grace period of 6 months to 4 years. The green loans are provided through all the Lebanese commercial banks to directly reach the end user²⁰.
- LEA complements NEEREA by providing the private sector in Lebanon with long-term loans at equivalent low interest rates in order to implement other non-energy related environmental solutions. LEA finances and covers the cost of environmental measures of new projects or to enhance the conditions of an existing project to become environmentally sound. It allows private sector entities (individuals, SME's, or corporate bodies) to apply for subsidized loans for any type of qualified environmental projects²¹.

But NEEREA and LEA, along with the majority of loans destined to entrepreneurs and SMEs are frozen since 2019, due to the economic crisis.

As for incubators and accelerators, the Central Bank of Lebanon (BDL) announced in 2014 Circular 331, the promotion of investments of up to 400 million dollars into the enterprise market. This stimulated an increase in the number of incubators and accelerator programmes in the country²². While these incentives predominantly promote the development of start-ups around ICT, they also assist some green initiatives²³. Therefore, in the last decades, incubators and accelerators flourished in the country (Berytech, UK Tech Hub, AltCity, Smart ESA, Flat6Labs,

²⁰ What is NEEREA? <http://lcec.org.lb/en/NEEREA/AboutUs>

²¹ The Lebanese Center for Energy Conservation. [http://www.lcec.org.lb/en/LCEC/Projects/24/The-Lebanese-Environmental-Action-\(LEA\)](http://www.lcec.org.lb/en/LCEC/Projects/24/The-Lebanese-Environmental-Action-(LEA))

²² Everything You Need to Know about BDL Circular 331. Banque Du Liban. <http://2015.bdlaccelerate.com/everything-you-need-to-know-about-bdl-circular-331>

²³ Promotion of Green Entrepreneurship and Grassroots Ecological and Social Innovations in Lebanon. 2017. Switchmed. <http://www.databank.com.lb/docs/Promotion%20of%20Green%20Entrepreneurship%20and%20Grassroots%20Ecological%20and%20Social%20Innovations%20in%20Lebanon%202017%20SwitchMed.pdf>

Tripoli Entrepreneurs Club...), providing technical support and funding for (mainly ICT) start-ups... However, their activities are slowed down or halted since 2019 due to the economic situation.

From a pure circular economy perspective, some players (Fondation Diane, EcoConsulting / Circular Hub, Cewas Middle East, Proquale Management Consulting, Make Sense...) focused their activities on supporting green and social initiatives on different levels: ideation, training, coaching, incubation, etc.

These players started recently to join force, and networks like the Switchers National Partnership (SNP) and the local presence of the Circular Economy Club are currently emerging in the Lebanese circular economy landscape.

3. Market conditions

Consumer awareness around environmental issues and the circular economy in Lebanon was low, but is growing rapidly. Lebanon's trash crisis (ongoing since 2015) forced environmental awakening. Regular citizens started taking the problem of the ever-growing piles of trash into their own hands. This new awareness is reflected in the many environmental movements and nongovernmental organizations that have emerged, especially at the universities²⁴.

Demand for green products and services may still be low, but youth are more and more attracted to these products and services. Green initiatives were flourishing in different parts of the country until the monetary crisis began and hyperinflation hit: the middle class became much more price-driven due to the brutal decrease of their purchasing power.

The entrepreneurship ecosystem in Lebanon is vibrant and dynamic. According to the Global Entrepreneurship Monitor 2018's report²⁵, innovation rate in Lebanon is way higher than the region (41.89 vs. 27.91). While government programmes, support and infrastructure are very limited, private sector companies, non-governmental institutions and wealthy individuals created a vivacious ecosystem. The economy crisis drastically impacted the whole sector: banks' informal capital control and access to savings in foreign currencies are preventing entrepreneurs and start-ups from accessing basic services (website or application hosting, equipment import, access to foreign resources, access to private funding...).

²⁴ Trash crisis forces Lebanon's environmental awakening, 2016. Deutsche Welle. <https://www.dw.com/en/trash-crisis-forces-lebanons-environmental-awakening/a-36765579>

²⁵ GEM Lebanon 2018 Report. Global Entrepreneurship Monitor. <https://www.gemconsortium.org/economy-profiles/lebanon>

4. Socio-cultural context

Lebanese lack awareness about the circular economy and often limit it to clean energy production, organic fruits and vegetable production and waste management. A niche market exists for circular products and services, but as mentioned earlier, hyperinflation is transforming consumers and making them more and more price-driven.

As for the local workforce, literacy rate in Lebanon is one of the highest in the region (95.7%²⁶). According to the World Economic Forum 2017-2018 report, Lebanon ranked 4th in the world in terms of quality of math and science education²⁷. Therefore, general technical expertise exists in the labour market, but this expertise is not focused on the circular economy sector. The educational system may not be raising systematic awareness on environmental matters and almost none about the circular economy, but grass root initiatives such as [Abtal El Bi'a](#) are spreading environmental awareness by engaging children from diverse ethnic, religious, and social backgrounds in joint social-environmental action.

According to the 2018 Global Entrepreneurship Report (GEM), cultural and social norms in Lebanon are seen as providing strong support for enterprise, with a Lebanese culture that emphasises initiative, creativity and innovation and which encourages entrepreneurial risk-taking. The GEM National Report confirms Lebanon's position as one of the world's most entrepreneurial countries, with nearly one in four adults starting or running a new business. However, the components of the entrepreneurial ecosystem vary considerably in terms of their effectiveness, with little in the way of government policy support, and with major obstacles to the market entry of new businesses. These factors may help to explain the relatively low ambitions of most Lebanese entrepreneurs, with fewer than one in twenty-five expecting to employ six or more people in five years' time²⁸.

Finally, one important social aspect to mention is the citizens' lack of trust towards their government: In 2018, a Pew poll found that 77% of Lebanese do not trust their government to do what is right for Lebanon, at least to some extent. That included about half of Lebanese (53%) who said they do not trust their government to do what is right for their country at all²⁹. This may be explained by the failure of successive governments to manage and improve services like electricity, telecommunications, roads infrastructure, water and waste. The World Bank said in a 2016 report that the system - long used by politicians to bestow patronage and shore up their support - was partly to blame for waste³⁰. According to U4 Anti-Corruption Resource Centre, Lebanon's confessional power-sharing arrangements fuels patronage networks and clientelism, which further undermines the country's governance system³¹.

²⁶ Trading Economics data. [https://tradingeconomics.com/lebanon/literacy-rate-adult-total-percent-of-people-ages-15-and-above-wb-data.html#:~:text=15%20And%20Above\),.Literacy%20rate%2C%20adult%20total%20\(%25%20of%20people%20ages%2015%20and,compiled%20from%20officially%20recognized%20sources](https://tradingeconomics.com/lebanon/literacy-rate-adult-total-percent-of-people-ages-15-and-above-wb-data.html#:~:text=15%20And%20Above),.Literacy%20rate%2C%20adult%20total%20(%25%20of%20people%20ages%2015%20and,compiled%20from%20officially%20recognized%20sources)

²⁷ The Global Competitiveness Index 2017-2018 edition. The World Economic Forum. http://www3.weforum.org/docs/GCR2017-2018/03CountryProfiles/Standalone2-pagerprofiles/WEF_GCI_2017_2018_Profile_Lebanon.pdf

²⁸ Global Entrepreneurship Monitor: Lebanon National Report 2018. <https://www.gemconsortium.org/economy-profiles/lebanon>

²⁹ Protests in Lebanon highlight ubiquity of WhatsApp, dissatisfaction with government. Pew Research Center. <https://www.pewresearch.org/fact-tank/2019/11/19/protests-in-lebanon-highlight-ubiquity-of-whatsapp-dissatisfaction-with-government/>

³⁰ Lebanon's public sector plagued by inefficiency, waste. Reuters. <https://www.reuters.com/article/us-lebanon-politics-waste-idUSKBN1FP1SC>

³¹ Overview of corruption and anti-corruption in Lebanon. U4 Anti-Corruption Resource Centre. <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-lebanon>

5. SWOT

For the purpose of creating a synthesis for Lebanon, a SWOT analysis has been conducted to explicate Strengths, Weaknesses, Opportunities, and Threats.

Strengths are defined as factors currently enabling green and circular businesses to develop. Weaknesses are defined as factors currently preventing the development of green and circular economy businesses. Opportunities are defined as future developments that could enable green and circular economy businesses to flourish. Threats are defined as potential future developments that could threaten green and circular economy business development.

Strengths	Weaknesses
<ul style="list-style-type: none"> - The private sector and start-up ecosystem is dynamic in Lebanon despite the current economic crisis. Incubators, accelerators, VCs, training and coaching companies are already established, have their network and expertise. - Cultural and social norms provide strong support for entrepreneurs. The Lebanese culture emphasises initiative, creativity and innovation which encourages entrepreneurial risk-taking. - Citizen, especially youth, are more and more aware about environmental issues. Many environmental initiatives, movements and NGOs have emerged in the last 7 years, especially at the universities. - Literacy rate is high and general technical expertise exists in the local market. 	<ul style="list-style-type: none"> - Economic crisis, monetary crisis and hyperinflation reduces investment and private funding opportunities, shifts consumers' priorities towards cheap products and demotivates entrepreneurs to start a new business. - Lack of a clear legal framework and incentives to support or promote green and circular economy businesses can slow down and demotivate green business owners. - Bureaucracy, slow and unclear public procedures hold back reforms and new policies from being developed, implemented and enforced. - Lack of awareness and knowledge about existing environmental policies and incentives.

Opportunities	Threats
<ul style="list-style-type: none"> - Electricity is a real challenge in Lebanon. Power cuts reached (more than) 22 hours a day in July 2020. Clean energy production is consequently on the rise and may present a good alternative opportunity for households and businesses. - Coordination initiatives between stakeholders and players in the circular economy sector may result in better programmes design, coordination and impact and better support for green entrepreneurs / SMEs. - Unemployment in Lebanon is currently high. Job creation in the circular economy sector may be a good opportunity for Switchmed and other programmes to get people's attention. - The economic crisis is creating opportunities for local products that become much more competitive than imported ones. 	<ul style="list-style-type: none"> - Hyperinflation, economic and monetary crisis shifts the government's priorities towards economic rather than environmental issues. - Lack of citizens' trust in its politicians and public sector may result in clientelism or patronage suspicions around initiatives, policies or programmes led by public institutions. - Policies not being enforced in several sectors assumes any new environmental policies may not be enforced. - Lack of awareness around circular economy may limit projects to clean energy production, organic fruits / vegetables production and solid waste management initiatives rather than reducing waste & pollution through proper strategies and eco-design. - Political, security and economic instability in the region makes Lebanese focus on their short-term livelihoods priorities rather than other long-term projects and vision.

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7. Appendix: Zoom in on law no. 444 of 2002

Law No. 444 of 2002 (decree 167 of 2017) aims at promoting and supporting the use of environmentally-friendly products and services, including sustainable energy products, through the application income and customs tax reductions. Article 20 lists the activities that could benefit from tax reduction and explains the process a business or taxpayer should follow to benefit from this policy.

Tax reductions can be split into 2 types³²:

1- Income Tax reduction:

To benefit from Income Tax reductions, the green business has 2 options:

a. Complying with Environmental Industries Activities:

- The green business should be making revenues or profit from the activity,
- The activity should not to be directly or indirectly funded by a public fund, or by international organizations or foreign governments loans or grants,
- And the activity should fall in the “environmental industry” category, which includes:
 - Gray water collection, treatment or reuse;
 - Wastewater collection, refining or treatment;
 - Collection, treatment or disposal of solid waste or solid waste byproducts management or treatment;
 - Waste sorting;
 - Recovering consumables (such as plastic, glass or other materials), recycling them or selling products issued from recycling;
 - Clean energy production: solar, wind, hydropower, geothermal energy, etc.
 - Pollution prevention or treatment;
 - Manufacturing, installation, repair, maintenance or sale of machinery and equipment exclusively used for environmental protection purposes, such as recycling equipment, pollution control equipment, clean energy production equipment, etc.
 - Professional services such as: environmental impacts assessments, environmental audits, energy audits, emissions monitoring, laboratory activities related to environmental monitoring, research and development in relation to sustainable consumption and production, contingency management plans development, environmental impacts improvement, etc.

b. Complying with Environmental Expenditure criteria:

- The environmental expenditure should not be making revenues or profit from the expenditure,
- The expenditure should not to be directly or indirectly funded by a public fund, or by international organizations or foreign governments loans or grants,
- And the expenditures should fall in the “environment protection” category, which includes:

³² Your guide to tax credits on activities that protect the environment. 2018. Institut des Finances Basil Fuleihan. <http://www.institutdesfinances.gov.lb/wp-content/uploads/2018/08/2018-Your-guide-to-tax-credits-on-activities-that-protect-the-environment-Web.pdf>

- Use or depreciation of fixed assets, machines and equipment for environmental protection purposes (emissions control, environmental impact measurement, etc.)
- Use or depreciation of clean energy production equipment: solar, wind, hydropower, geothermal energy, etc.
- Green loan interests
- Maintenance, repair or replacement of spare parts and materials for circular economy equipment (that meet the above criteria)
- Fees related to professional services such as: environmental impacts assessments, environmental audits, energy audits, emissions monitoring, laboratory activities related to environmental monitoring, research and development in relation to sustainable consumption and production, contingency management plans development, environmental impacts improvement, etc.

2- Customs Tax reduction:

Equipment and technologies that have a positive impact on the environment can benefit from Customs Tax reductions, as long as they are listed in the “green equipment list”, which includes:

- Equipment for monitoring emissions, environmental impact or environmental quality;
- Clean energy production equipment
- Equipment intended to manufacture machines used for environmental protection purposes;
- Equipment for waste treatment, collection, sorting, refining or reuse of wastewater, sewage, sludge, solid waste or solid waste byproducts
- Equipment for waste recycling and reuse

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