

Lebanon

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Lebanon

Sanctions:	Subject to UN, EU, and US sanctions – Financial and Arms embargo
FATF list of AML Deficient Countries	No
Higher Risk Areas:	<p>US Dept of State Money Laundering Assessment</p> <p>Supporter of or Safe Haven for International Terrorism</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International & W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p> <p>Offshore Finance Centre</p> <p>Compliance of OECD Global Forum's information exchange standard</p>
Medium Risk Areas:	<p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Weakness in Government Legislation to combat Money Laundering</p>

Major Investment Areas:

Agriculture - products:

citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats

Industries:

banking, tourism, food processing, wine, jewelry, cement, textiles, mineral and chemical products, wood and furniture products, oil refining, metal fabricating

Exports - commodities:

Jewellery, base metals, chemicals, miscellaneous consumer goods, fruit and vegetables, tobacco, construction minerals, electric power machinery and switchgear, textile fibers, paper

Exports - partners:

UAE 13.1%, Iraq 8.4%, Saudi Arabia 7.7%, Turkey 7%, Syria 6.7%, Switzerland 5.5% (2011)

Imports - commodities:

petroleum products, cars, medicinal products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco, electrical machinery and equipment, chemicals

Imports - partners:

US 10.2%, Italy 9.3%, France 8.8%, China 8.2%, Egypt 5.3%, Germany 5.1%, Turkey 4% (2011)

Investment Restrictions:

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. The government does not restrict foreign investment

Foreign private entities can establish, acquire, and dispose of interests in business enterprises and can engage in all kinds of remunerative activities.

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Section 1 - Background

Following World War I, France acquired a mandate over the northern portion of the former Ottoman Empire province of Syria. The French demarcated the region of Lebanon in 1920 and granted this area independence in 1943. Since independence the country has been marked by periods of political turmoil interspersed with prosperity built on its position as a regional centre for finance and trade. The country's 1975-90 civil war that resulted in an estimated 120,000 fatalities, was followed by years of social and political instability. Sectarianism is a key element of Lebanese political life. Neighbouring Syria has long influenced Lebanon's foreign policy and internal policies, and its military occupied Lebanon from 1976 until 2005. The Lebanon-based Hizballah militia and Israel continued attacks and counterattacks against each other after Syria's withdrawal, and fought a brief war in 2006. Lebanon's borders with Syria and Israel remain unresolved.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF Status

Lebanon is not currently identified by FATF as having substantial money laundering and terrorist financing (ML/TF) risks or having strategic AML/CFT deficiencies.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Lebanon was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Lebanon was deemed Compliant for 4 and Largely Compliant for 19 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 5 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2009):

This report provides a summary of AML/CFT measures in place in the Lebanese Republic as to the date of the onsite visit or directly thereafter. It describes and analyses those measures, and rates Lebanon's compliance with FATF 40+9 Recommendations (see attached table about FATF recommendations compliance rating).

Lebanon is one of the most important banking and financial centres in the Middle East; its capital system and the Law of Banking Secrecy applied therein have attracted many capitals. In addition, the demographic and economic status of Lebanon has a special susceptibility in this regard. As to the crime rate, it is relatively low, despite the existence of some drug traffic and robbery activities. All such factors constitute together a certain level of risk in money laundering. As to the probability of terrorism financing, some risks related to terrorism activities have emerged by the presence of terrorist groups in addition to the execution of some terrorist operations.

In general, Lebanon has a legislative structure to criminalize money laundering and terrorism financing, whereby the cooperation of the Republic in combating the phenomenon of money laundering had a large impact on having its name delisted by FATF in 2002 from the list of non cooperative countries in combating money laundering, particularly after its legislations and systems have conformed to a certain extent to the international standards. The Lebanese legislator has criminalized the act of money laundering since 2001 and the act of terrorism financing since 2003. The legislator has as well established the legal framework required to put in place a financial intelligence unit (FIU), which is the Special Investigation Commission (SIC). It is worth mentioning that the AML Law has overlooked some of the requirements needed to finalize the combating system, among which including CFT within the SIC functions. Hence, main aspects of the legal framework necessary to establish a good AML system in Lebanon were covered.

Lebanon has established an AML system that includes many positive aspects; however, the most important comments to be highlighted are the non issuance of all legal instruments needed to comply with the main requirements stated in the 40 Recommendations and 9 Special Recommendations for AML/CFT, whereby and until date of the onsite visit and directly thereafter, no regulations representing the secondary legislations or other required enforceable means were issued. With regard to the regulatory and supervisory aspects, a number of instructions addressed to the different financial sectors were issued; they deal with a reasonable aspect of the international standards' requirements. On the other hand, the AML system in Lebanon did not cover all DFNBP's categories available in the Republic, in addition to not binding the categories covered by the law to some of the main requirements according to the international standards. It is worth mentioning that there is no regulatory and supervisory framework to combat terrorism financing.

US Department of State Money Laundering assessment (INCSR)

Lebanon is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Lebanon is a hub for banking activities in the Middle East and Eastern Mediterranean and has one of the most sophisticated banking sectors in the region. Over the past two years, Lebanon's government passed key legislation that strengthened its AML regime. The Central Bank of Lebanon, together with its Special Investigation Commission (SIC), regularly issues and updates compliance regulations in accordance with international banking standards. The SIC, Lebanon's FIU, is also the main AML supervisory authority and is empowered to freeze financial transactions and accounts.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Lebanon has a black market for cigarettes, counterfeit consumer goods, pirated software, CDs, and DVDs. Transactions in the black market are predominantly cash-based and neither the sale of these goods nor the domestic illicit narcotics trade generates significant proceeds that are laundered through the formal banking system. There are no official statistics on such crimes. Money laundering predicates include theft, forgery, and terrorist financing. A national AML/CFT risk assessment should be used to determine the money laundering typologies used in Lebanon. These should then be shared with relevant entities in the government and private sector.

Lebanese authorities have revoked licenses and increased regulatory requirements for exchange houses that facilitate money laundering, including by Hizballah, a U.S.-designated foreign terrorist organization. A number of Lebanese expatriates in Africa, the Gulf, and South America have established informal financial networks, some of which reportedly engage in TBML schemes. International trade also provides counter-valuation between Lebanese hawaladars. Hawala operations are restricted to licensed and supervised money dealers that are required to

carry out such transactions in line with the regulations of the central bank, which set restrictions and impose thresholds. Lebanon's Customs Authority operates two FTZs, in Beirut and Tripoli. Offshore banking, trust, and insurance companies are not permitted in Lebanon.

KEY AML LAWS AND REGULATIONS

In October 2016, Lebanon's parliament passed a law on the exchange of information for tax purposes (Law 55/2016). To implement the provisions of the Law, on July 21, 2017, the central bank issued Basic Circular No. 139 related to the Common Reporting Standard. The Circular sets forth new reporting requirements and due diligence procedures for identifying reportable accounts in compliance with international recommendations of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. The parliament also passed legislation governing trusts and abolishing the use of bearer shares.

AML legislation enacted in 2015 widens the categories of reporting entities, expands the list of predicate offenses for money laundering, and imposes cross-border cash declaration requirements. Lebanon has an asset confiscation law and can share confiscated assets with countries with which it cooperates.

The central bank has issued circulars and regulations to strengthen AML controls and to control the use of pre-paid cards and bearer shares. It also introduced requirements for financial institutions to adopt a risk-based approach to cross-border operations with their branches and subsidiaries, as well as to fully vet the identity of their customers. The SIC issued additional circulars and AML controls directed at DNFBPs.

Lebanon is a member of the MENAFATF, a FATF-style regional body.

AML DEFICIENCIES

Local banks and financial institutions have implemented regulatory measures, notably enhanced due diligence, regarding high-risk customers and/or closure of accounts that represent unacceptable risks. The SIC froze a number of accounts due to suspicion of money laundering; the SIC does not publicly disclose figures of total amounts frozen. The number of filed STRs and subsequent money laundering investigations coordinated by the SIC has increased; however, convictions relating to money laundering remain modest.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Lebanon strengthened its overall efforts to disrupt and dismantle money laundering activities, including those by Hizballah. The government continues to improve coordination among its law enforcement and investigative agencies regarding the investigation of complex financial crimes.

The government prosecuted 19 money laundering cases in the first nine months of 2017 (11 of which were initiated in 2016). The Internal Security Forces (ISF) received 101 money laundering allegations and arrested 27 persons. The ISF Cybercrime and Intellectual Property Unit tracked 30 cases of local hackers who embezzled approximately U.S. \$2.6 million from local depositors and transferred the funds to bank accounts located outside Lebanon.

The Lebanese government trained a joint task force, comprised of representatives from Customs, the ISF, the SIC, and the judiciary. Cooperation among the SIC and local

enforcement authorities has improved following training initiatives. Lebanon stands to further benefit from increased AML cooperation among local and international law enforcement organizations.

Customs is required to inform the SIC of suspected TBML; however, local press reports claim unreported corruption occurs at Customs.

Lebanon is a participant country of the Kimberley Process and its trade in rough diamonds is governed by Law Number 645. Historically, there have been reports of smuggling and the incorrect invoicing and misclassification of diamonds, although the Kimberley Process Office at the Ministry of Economy and Trade and Lebanese Customs assert that no recent cases have been reported.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Lebanon does not conform with regard to the following government legislation: -

Record Large Transactions: By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Arrangements for Asset Sharing: By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Transportation of Currency: By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

International Terrorism Financing Convention: States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

Lebanon is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Lebanon is considered to be an Offshore Financial Centre

Narcotics - 2017

Lebanon serves as a transit point for hashish, cocaine, heroin, and fenethylamine (an amphetamine-type stimulant). Fenethylamine, cannabis and hashish are produced in Lebanon's Bekaa region. The primary illicit drugs consumed in Lebanon are hashish, cocaine, fenethylamine, and MDMA (ecstasy).

The main drug control goal of the Lebanese government remains eradication of illegally-cultivated opium poppy and cannabis in the Bekaa region. Little significant eradication activity occurred in 2015, however, due in large part to instability along the border with Syria, combined with a lack of logistical support and equipment for the Internal Security Forces' (ISF) eradication efforts.

The volume of cocaine that entered Lebanon via commercial aircraft in 2016 may have increased from 2015, based on seizure data. Cocaine seizures amounted to 164 kilograms (kg) over the first nine months of 2016, compared to 168 kg seized during all of 2015. Individual smugglers typically depart from South America and transit through other countries en route to Lebanon, usually carrying between three and five kilograms (kg) of cocaine in their luggage.

Fenethylamine continues to be smuggled through Lebanon to Gulf region states and is produced in Syria and the Bekaa Valley area of Lebanon. The ISF made significant strides in combating fenethylamine trafficking in 2016 by seizing large quantities of tablets, as well as seizing production labs and arresting numerous smugglers. Seizures of fenethylamine during the first eight months of 2016 totaled 10.8 million tablets, slightly below the pace of seizures in 2015 when 15.1 million tablets were seized during the entire year.

Official reports indicate that drug seizure events through the first nine months of 2016 totaled 2,369, significantly ahead of the pace of seizure events over the same period in 2015 (1,874). Over this period, seizures of heroin totaled approximately three kg (down from five kg in 2015). Approximately 6.3 metric tons (MT) of hashish were seized compared to 6.17 MT during all of 2015.

The United States does not have a mutual legal assistance treaty or extradition agreement with Lebanon, although Lebanon has acceded to multilateral conventions that enable law enforcement cooperation. In 2013, the United States discontinued all material assistance to Lebanon's Internal Security Force's counter-narcotics unit, following a finding of credible reports of human rights violations. However, U.S. law enforcement entities continue to exchange information with Lebanese counterparts on narcotics matters.

Trafficking in Persons

Lebanon is classified a Tier 2 (watch list) country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making

significant efforts to bring themselves into compliance with those standards

Lebanon is a source and destination country for women and children subjected to forced labor and sex trafficking, and it is a transit point for Eastern European women and children subjected to sex trafficking in other Middle Eastern countries. Women and girls from South and Southeast Asia and an increasing number from East and West Africa endure domestic servitude in Lebanon, facilitated by recruitment agencies that at times engage in fraudulent recruitment. Under Lebanon's sponsorship system, workers who leave their employers' houses without permission forfeit their legal status, putting them at risk of re-trafficking. Lebanese government officials and NGOs report most employers withhold their workers' passports, putting workers at risk of trafficking. Women from Eastern Europe, North Africa, and Dominican Republic enter Lebanon to work in the adult entertainment industry through Lebanon's artiste visa program, which sustains a significant commercial sex industry and enables sex trafficking; 5,120 women entered Lebanon under this program in 2015, a substantially higher number than in 2014. The terms of the artiste visa prohibit foreign women working in adult nightclubs to leave the hotel where they reside, except to "perform," and nightclub owners withhold the women's passports and control their movement; these women also experience physical and sexual abuse, withheld wages, and domestic servitude. Some women from East and West Africa also endure sex trafficking in Lebanon. Lebanese children are victims of forced labor in street begging and sex trafficking facilitated by male pimps, husbands, and boyfriends, and, at times, through early marriage. Small numbers of Lebanese girls may be subjected to sex trafficking in other Arab countries.

Men, women, and children among the 1.1 million registered Syrian refugees in Lebanon are at risk of sex trafficking and forced labor. Restrictions on Syrians' ability to work legally in Lebanon, as well as strict enforcement of visas and residence permits, increase this population's vulnerability to trafficking. The Lebanese government and media reported in late March 2016 an extensive sex trafficking ring exploiting primarily Syrian women and girls in Beirut; the majority of the women and girls were fraudulently recruited from Syria with false promises of work and subjected to commercial sexual exploitation where they experienced mental, physical, and sexual abuse and forced abortions. In 2015, reports indicated a sharp increase in forced begging among Syrian children, some of whom are also forced or coerced to conduct criminal activity. An international organization reported in 2015 evidence of bonded labor within refugee communities where child labor is used in exchange for living in informal tented settlements. Syrian girls are brought to Lebanon for sex trafficking, sometimes through the guise of early marriage. Lebanese pimps may force or coerce some Syrian women and Syrian LGBTI refugees into prostitution. Syrian gangs force Syrian refugee men, women, and children to work in the agricultural sector in the Beqaa Valley.

The Government of Lebanon does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Internal political instability, insufficient funding, and threats of violent extremism continued to limit the government's ability to effectively address trafficking. Moreover, Lebanon's sponsorship system, which places a significant amount of power in the hands of employers, remained a significant impediment to authorities identifying and protecting trafficking victims. Despite these challenges, the government investigated and prosecuted trafficking offenders, including breaking up an extensive sex trafficking ring that exploited women and girls, and it convicted

30 traffickers in 2015—a significantly higher number of convictions in comparison to the previous reporting period. The government continued to identify trafficking victims, including 45 primarily Syrian sex trafficking victims, and partnered with NGOs and international organizations to provide victims appropriate protection services; however, the government did not implement victim identification procedures or directly protect victims. Additionally, authorities continued to arrest, detain, deport, and—in some cases—prosecute trafficking victims among vulnerable groups, such as illegal foreign migrants, children, and women in prostitution, for crimes committed as a direct result of being subjected to trafficking. The government reinvigorated its anti-trafficking steering committee in 2015 and implemented anti-trafficking awareness campaigns.

Terrorist Financing 2016:

Lebanon is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

Overview: Lebanon was a committed partner in the counter-ISIS fight during 2016, and its ground forces represented one of the most effective counterterrorism forces in the region. U.S. forces partnered closely with Lebanon’s full defense and law enforcement security apparatus as Lebanon continued to face significant internal and external terrorist threats in 2016, and a number of terrorist attacks occurred throughout the year. Lebanon also faced threats from unconventional attacks against the Lebanese Armed Forces (LAF) and other security services from both ISIS and al-Nusra Front (al-Qa’ida’s affiliate in Syria) terrorists, who operated along the porous, un-demarcated eastern border with Syria. The continued presence of these Syria-origin Sunni extremists in Lebanese territory underscored that border security is central to maintaining Lebanon’s stability and the importance of enabling the Lebanese government to exercise its full sovereignty, as mandated by UN Security Council resolution (UNSCR) 1701.

Hizballah, with considerable support from Iran, remained the most capable terrorist group in Lebanon. The group was a powerful political actor and enjoyed popular support among Lebanese Shia and a degree of political support from some allied Christians. Hizballah justified its stockpile of arms for its “resistance” to Israel, and increasingly to protect Lebanon from extremist Sunni groups, including ISIS. Hizballah also continued its military role in Syria in support of the Bashar al-Assad regime and proved to be a critical force in supporting the regime. Iran’s Islamic Revolutionary Guard Corps has had a presence in Lebanon since the early 1980s and reportedly coordinated closely with Hizballah on military operations and training.

Despite the lack of a fully operational central government for much of the year due to Lebanon’s presidential vacancy, various institutions of the Lebanese state, including the LAF, Internal Security Forces (ISF), Directorate of General Security (DGS), Directorate General of State Security (DGSS), and Central Bank continued to cooperate with international partners in countering terrorism and scored notable successes in the disruption of terrorist networks and in combating terrorist forces. The United States remained Lebanon’s closest counterterrorism partner; U.S. assistance focused on maintaining border security and strengthening Lebanon’s security institutions to better counter terrorist threats.

Lebanese authorities were challenged not only by the significant economic burden of hosting over one million Syrian refugees, but also by fears of potential militant recruitment and infiltration among the refugee population. ISIS and al-Nusra Front's exploitation of informal refugee settlements further hardened Lebanese attitudes towards Syrian refugees. Terrorists also operated out of Lebanon's 12 Palestinian camps, particularly the largest, Ain el-Helweh.

Lebanon is a member of the Global Coalition to Defeat ISIS, and participates in all four of the Coalition's civilian working groups. The Lebanese security forces sought to impede the flow of Sunni foreign terrorist fighters both to and from Syria by working to secure the border and by conducting counterterrorism operations. The LAF, ISF, and DGS were also actively engaged in monitoring potential ISIS and other Sunni extremist elements in Lebanon, disrupting their activities and networks, and arresting those suspected of plotting terrorist attacks. The government expanded its efforts to counter ISIS messaging, particularly through online communication and social media campaigns promoting tolerance online. In accordance with UNSCR 2178, the Lebanese government increased security measures at airports, border crossings, and ports to prevent the flow of ISIS and al-Nusra Front fighters to Syria and Iraq; however, Lebanon lacks laws criminalizing foreign terrorist fighter activity and the government has not taken action to prevent Hizballah fighters from traveling to Syria or Iraq.

Legislation, Law Enforcement, and Border Security: Lebanon does not have a comprehensive counterterrorism law, but several articles of Lebanon's criminal code are used to prosecute acts of terrorism. Implementation of these articles is at times hindered by Lebanon's complex confessional political system and also by Hizballah's restriction of access to attack sites within areas under its control. The cabinet did not consider legislative initiatives that could potentially threaten Hizballah's operations, as the presence of Hizballah and its political allies in the government make the requisite consensus on such actions impossible. State security agencies remained functional in countering non-Hizballah terrorism.

The LAF, ISF, DGS, and DGSS are the primary government agencies responsible for countering terrorism. Despite notable counterterrorism successes in 2016, the law enforcement capacity of these agencies was overstretched due to the magnitude of the country's terrorism-related threats. Although cooperation among the services was inconsistent, all services have taken steps to improve information sharing and are receptive to additional training to expand capacity.

Lebanon has been a participant in the Department of State's Antiterrorism Assistance program since 2006; this assistance has focused on border security as well as building law enforcement's investigative and leadership capabilities. The Department of State has also provided assistance to improve the capabilities of the ISF through a multi-year program that includes construction of training facilities and establishment of a secure radio communications system; provision of vehicles, protective gear, and other types of equipment; and upgrading of Lebanon's biometrics capabilities. The ISF has worked to prevent Sunni violent extremist recruitment and the direction of terrorist activities by prison inmates and has built a new facility at Lebanon's main prison to house high-threat prisoners.

The LAF has primary responsibility for securing Lebanon's borders, but worked collaboratively with other agencies to prevent the infiltration of terrorists and illicit goods. The services have increased security measures at airports, border crossings, and ports to prevent the flow of ISIS

and al-Nusrah Front fighters to Syria and Iraq, with a special emphasis on detecting counterfeit passports. The DGS, under the Ministry of Interior (MOI), controls immigration and passport services, and uses an electronic database to collect biographic data for travelers at the airport; however, it does not collect biometric data at land borders. Lebanon collects and disseminates Passenger Name Records (PNR) on commercial flights, and is preparing to begin collecting advanced passenger information in 2017.

The Lebanese security services disrupted multiple terrorist networks and made several high-profile arrests in 2016. On November 25, the army conducted a raid into Aarsal to capture a high-level ISIS figure, and conducted a similar raid on September 22, in Ain el-Helweh, to apprehend another notable ISIS figure. In July and August, more than 30 militants associated with terrorist and violent extremist groups turned themselves in from Ain el-Helweh, citing pressure from the LAF and local Palestinian groups. In addition to the arrests, the LAF also disrupted an ISIS plot to attack Western targets in and around Beirut. The LAF increasingly claimed that violent extremists used Syrian refugee settlements as cover for their activities and as places of refuge.

The United States maintains close ties with the Lebanese security services and often receives and provides support in a wide variety of cases. While the majority of these involve terrorism, bilateral cooperation has expanded to missing persons, child custody disputes, and financial crimes. There are, however, several individuals on the U.S. Federal Bureau of Investigation's most wanted list still located in Lebanon. Lebanese authorities maintained that amnesty for Lebanese nationals involved in acts of violence during the 1975-1990 civil wars prevented terrorism prosecutions of concern to the United States.

Countering the Financing of Terrorism: Lebanon is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force-style regional body. Lebanon's financial intelligence unit, the Special Investigation Commission (SIC), is a member of the Egmont Group of Financial Intelligence Units. Lebanon also participates in the Coalition's Counter-ISIS Finance Group. Lebanese government officials and financial leaders repeatedly met with U.S. government officials regarding the intent and implementation of actions consistent with the U.S. Hizballah International Financing Prevention Act (HIFPA) of 2015. The Central Bank of Lebanon directed Lebanese banks to fully comply with HIFPA.

Lebanon strengthened its overall efforts to disrupt and dismantle money laundering and terrorist financing activities, including those of Hizballah. In October, Lebanon's parliament passed a new tax law strengthening Lebanon's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regime. The Central Bank issued a circular that directed Lebanese financial institutions to comply with the HIFPA. The Central Bank's Special Investigation Committee (SIC) issued additional HIFPA-related circulars and AML/CFT controls at designated non-financial businesses and professions. The SIC also issued "freezing without delay" regulations in compliance with the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime.

Cooperation between the SIC and local enforcement authorities on terrorist financing cases improved, including through the training of a joint task force with representatives from Customs, the ISF, the SIC, and the judiciary. The SIC referred 29 alleged money-laundering cases to the General Prosecutor, which resulted in 12 prosecutions but no convictions. The SIC did not have figures available for 2016 regarding total cases it received of alleged

terrorist financing. The ISF received 48 money laundering allegations from INTERPOL, arrested three persons, and referred five cases for investigation.

International Sanctions

Lebanon is currently subject to UN, EU, and US sanctions.

On 7 August 2006, the Government of Lebanon decided to deploy the Lebanese armed forces in South Lebanon, with assistance as necessary from the United Nations Interim Force in Lebanon. Such action was taken in an effort to extend the Government's authority over Lebanon's full territory. Sanctions were imposed in an effort to assist the Government with its efforts to exercise full sovereignty over all Lebanese territory by ensuring no weapons were available, other than those made available with the consent of the Government.

Current EU regulations provide for the following measures: -

Freezing of funds and economic resources of those suspected of being involved in planning, sponsoring, organising or perpetrating the terrorist bombing in Beirut in 2005 resulting in a number of deaths, including that of former Lebanese Prime Minister Hariri.

a prohibition on providing, directly or indirectly, technical assistance relating to military activities and to the provision, manufacture, maintenance and use of arms and related material.

A prohibition on financing or financial assistance related to military activities in Lebanon.

US sanctions

any person determined by the Secretary of the Treasury, in consultation with the Secretary of State:

- to have taken, or to pose a significant risk of taking, actions, including acts of violence, that have the purpose or effect of undermining Lebanon's democratic processes or institutions, contributing to the breakdown of the rule of law in Lebanon, supporting the reassertion of Syrian control or otherwise contributing to Syrian interference in Lebanon, or infringing upon or undermining Lebanese sovereignty;
- to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of, such actions, including acts of violence, or any person whose property and interests in property are blocked pursuant to this order;
- to be a spouse or dependent child of any person whose property and interests in property are blocked pursuant to this order; or
- to be owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property and interests in property are blocked pursuant to this order.

Arab League Sanctions

The Arab League (comprising 22 Arab member states), of which Lebanon is a member, has approved imposing sanctions on Syria. These include: -

- Cutting off transactions with the Syrian central bank
- Halting funding by Arab governments for projects in Syria
- A ban on senior Syrian officials travelling to other Arab countries
- A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

It should be noted that Lebanon, and Iraq, have refused to impose the sanctions.

The Arab League also imposes various financial sanctions on Israel.

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	28
World Governance Indicator – Control of Corruption	14

Corruption is a major obstacle for companies operating or planning to invest in Lebanon. Businesses are mostly hindered by entrenched patronage networks monopolizing the economy and impeding competitiveness, but also by petty corruption when applying for basic services. The Lebanese Penal Code criminalizes most forms of corruption; including active and passive bribery and the bribery of foreign officials, however, enforcement of these laws is poor. Offering bribes and gifts are widespread practices and an established way of doing business in the country. Facilitation payments are illegal in Lebanon.

Information provided by GAN Integrity.

Extract from US State Department Report

Corruption

There is rampant corruption when dealing with the Lebanese public sector. According to Transparency International's (TI) 2013 Corruption Perception Index (CPI), Lebanon ranked 127 out of 177 countries worldwide and 13 out of 19 MENA countries. Based on its score, Lebanon remained in the top 50 most corrupt countries in the world. TI noted that the country's "deeply entrenched nepotism networks" made civil society efforts against corruption very difficult, while anti-corruption legislation exists but is not properly enforced. The LTA blames political paralysis for preventing the passage of various legal reforms (including draft laws against illicit enrichment, access to information, and whistle blower protection) with which the organization has been closely involved to combat corruption. The index measures the perception of corruption by public officials and politicians and focuses on corruption in the public sector, defined as an abuse of official power for private interests. LTA's website: <http://www.transparency-lebanon.org>.

The International Finance Corporation (IFC) and the LTA signed an MOU on October 11, 2007, to establish the Institute of Directors (IoD) on Corporate Governance in Lebanon, which became operational in 2010. The IFC provided a \$250,000 grant for the institute, which provides training courses on corporate governance, offers consultancy services, carries out research and educational activities, and organizes awareness-raising private sector events in Lebanon and the MENA region. In 2011, the IoD launched a guidebook focused on Corporate Governance stories and solutions in the MENA region.

LTA established the Lebanese Advocacy and Legal Advice Center (LALAC) program to inform citizens of their rights and to encourage victims and witnesses to take action against cases of corruption. LALAC operates a hotline for victims and witnesses to call and report cases of corruption and receive free legal advice and assistance with their case. The program is currently funded by the European Union, the Lebanese Renaissance Foundation, and the Center for International Private Enterprise (CIPE). In March 2013, LTA launched a one-year project entitled "Corruption Investigator," funded by the United States Agency for International Development (USAID). The project aimed at facilitating citizens' access to information throughout various media outlets to promote transparency and accountability and to advocate for a democratic community.

The Ministry of Tourism launched the Lebanese Observatory for Transparency in December 2012, which is aimed at fighting corruption, raising the level of transparency, and identifying achievements and practices in transparency that would constitute a role model for the community. The observatory hopes to attract Lebanon's youth to discuss and debate methods and policies that would help fight corruption and, therefore, raise confidence in the country's institutions and values.

Lebanon has laws and regulations to combat corruption, but these laws are not always enforced. According to Lebanese law, it is a criminal act to give or accept a bribe. The penalty for accepting a bribe is imprisonment for up to three years, with hard labor in some cases, and a fine equal to at least three times the value of the bribe. Bribing a government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector. In April 2009, Lebanon ratified the UN Convention against Corruption. Lebanon is not a signatory to the OECD Convention on Combating Bribery.

Corruption is more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration than in private sector deals. It is widely believed that investors routinely pay bribes to win government contracts, which are often awarded to companies close to powerful politicians and businessmen. The law provides criminal penalties for official corruption; however, the government did not implement the law effectively, and officials often engaged in corrupt practices with impunity and on a wide scale. Government security officials, agencies, and police were subject to laws against bribery and extortion. In practical terms the lack of strong enforcement limited the laws' effectiveness. The MoF has implemented reforms aimed at enhancing transparency and fighting corruption including requiring taxpayers to file exclusively through mail and to pay through banks, privately-owned Liban Post, or OMT, a money-transfer company. In 2007, an automated document tracking system for taxpayers' inquiries was implemented and a 24/7 call center was launched, as well as a service enabling taxpayers to handle the Built Property Tax transactions through Liban Post. In 2008, the Tax Procedures Code was ratified, unifying tax procedures, specifying deadlines for tax transactions and defining taxpayers' rights and obligations. The MoF launched a portal in 2010, providing access to economic, financial and fiscal information. The MoF also initiated the development and distribution of the tax calendar in order to increase taxpayers' awareness of their rights and obligations. In 2011, the collection function was transferred to the regional tax offices. In August 2012, the MoF

launched the Built Property Tax online service on its portal enabling inquiries for due Built Property Tax, and filing for built property tax online starting August 2013. Also, in September 2012, taxpayers were able to register for e-services through the MoF portal. Citizens can also file their VAT taxes online. These services are expected to decrease corruption in the tax sector.

On the customs front, and to ensure trade facilitation, transparency, and security, remote filing of manifests and declarations was introduced in 2011. A new version of the ASYCUDA WORLD software (Automated System for Customs Data) was implemented to fill the gaps of the previous version. Transit trade applications can also be now filled online. Work has begun for Lebanon's Industrial Research Institute to submit its certificate of conformity online to further facilitate trade procedures Customs also established an Intelligence Unit to detect counterfeiting and fraudulent operations. Nonetheless, there were press reports in 2013 of corruption and bribery in the operations of Lebanese Customs at major facilities such as the Port of Beirut. Members of the business community report that bribery was sometimes the only way to avoid lengthy and expensive delays in the processing of imported products at the ports. Lebanese Customs hopes to implement e-payment of customs operations, a step that many hope will help combat corruption, but the process has been delayed.

Within the context of the modernization and development of the Customs clearance process of goods, several modules were developed in 2013 inside ASYCUDA World in order to enhance transparency and trade facilitation, on the one hand, and improving the Customs security and controls, on the other. To enhance security, Lebanese Customs currently has cameras on all of the Port of Beirut gates along with their private fiber network in order to remotely monitor and store in- and out-goods transactions. Further, Lebanese Customs decided to implement and initiated the first phase of the Paperless, E-Government and Single Window projects. In addition, an MoU was also prepared to create a legal framework basis for the second phase of these three projects; the generic MoU will be adjusted according to the needs of each Lebanese administration agreeing to join the Lebanese Customs Single Window project.

Section 3 - Economy

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. The government does not restrict foreign investment; however, the investment climate suffers from red tape, corruption, arbitrary licensing decisions, complex customs procedures, high taxes, tariffs, and fees, archaic legislation, and weak intellectual property rights. The Lebanese economy is service-oriented; main growth sectors include banking and tourism.

The 1975-90 civil war seriously damaged Lebanon's economic infrastructure, cut national output by half, and derailed Lebanon's position as a Middle Eastern entrepot and banking hub. Following the civil war, Lebanon rebuilt much of its war-torn physical and financial infrastructure by borrowing heavily, mostly from domestic banks, which saddled the government with a huge debt burden. Pledges of economic and financial reforms made at separate international donor conferences during the 2000s have mostly gone unfulfilled, including those made during the Paris III Donor Conference in 2007, following the July 2006 war.

Spillover from the Syrian conflict, including the influx of more than 1.1 million registered Syrian refugees, has increased internal tension and slowed economic growth to the 1-2% range in 2011-15, after four years of averaging 8% growth. Syrian refugees have increased the labor supply, but pushed more Lebanese into unemployment. Chronic fiscal deficits have increased Lebanon's debt-to-GDP ratio, the fourth highest in the world; most of the debt is held internally by Lebanese banks. Weak economic growth limits tax revenues, while the largest government expenditures remain debt servicing, salaries for government workers, and transfers to the electricity sector. These limitations constrain other government spending and limit the government's ability to invest in necessary infrastructure improvements, such as water, electricity, and transportation.

Agriculture - products:

citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats

Industries:

banking, tourism, food processing, wine, jewellery, cement, textiles, mineral and chemical products, wood and furniture products, oil refining, metal fabricating

Exports - commodities:

jewelry, base metals, chemicals, consumer goods, fruit and vegetables, tobacco, construction minerals, electric power machinery and switchgear, textile fibers, paper

Exports - partners:

Saudi Arabia 12.1%, UAE 10.6%, Iraq 7.6%, Syria 7.1%, South Africa 6.6% (2015)

Imports - commodities:

petroleum products, cars, medicinal products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco, electrical machinery and equipment, chemicals

Imports - partners:

China 11.5%, Italy 7.1%, Germany 6.8%, France 6%, US 5.7%, Russia 4.6%, Greece 4.4% (2015)

Banking

Lebanon is a financial hub for banking activities in the Middle East, and it has one of the most sophisticated banking sectors in the region. Bank secrecy is strictly enforced, but Banque du Liban (BdL) regulates all financial institutions and money exchange houses. In April 2001, Lebanon adopted Law No. 318, which created a framework for lifting bank secrecy, mandated suspicious transaction reporting, required financial institutions to obtain and maintain records of customer identification information, and facilitated access to banking information and records by judicial authorities.

Foreigners can open accounts in banks operating in Lebanon and get credit on market terms. The Banking Control Commission (BCC) closely monitors bank credits, and all credit transactions are subject to timely and accurate disclosure. The National Institute for the Guarantee of Deposits (NIGD) insures up to LL 5 million (about \$3,317) of Lebanese and foreign currency deposits in commercial banks. Bank financial statements are in compliance with international accounting standards. Independent auditors audit annual accounts, and most banks utilize internationally recognized accounting firms.

The banking regulatory system is transparent and consistent with international norms. Banks conform to Bank for International Settlement (BIS) standards and International Accounting Standards (IAS). In 2011, the BdL issued three circulars for corporate governance in the banking sector.

Lebanon has legislation regulating issuance of and trading in bank equities. Law No. 308 on unification of bank shares allows banks to increase their capitalization and shareholder base, as well as to optimize trading of bank shares on the BSE. Parliament has ratified a law on asset securitization. There are no restrictions on portfolio investment, and foreign investors can invest in Lebanese equity and fixed income paper.

The banking system enjoys a high financial standing with a capital adequacy ratio of 11.6 percent in September 2012 (compared to eight percent as set by Basel II) and sound liquidity, with a foreign currency prime liquidity ratio exceeding 45 percent of foreign currency deposits. The Lebanese banking sector has complied with Pillar I and II of the Basel II Accord (new capital adequacy ratio and supervisory review process on economic capital of banks respectively). The BdL and the Banking Control Commission (BCC) will continue issuing new circulars requiring banks to comply with Pillar III (transparency and market discipline) of Basel II. The BdL and the BCC have established a steering committee to follow up on the new Basel III Accord. In December 2011, the BdL issued a circular that sets an agenda for the implementation of Pillar I of Basel III with more conservative rules, such as raising total equity capital adequacy ratio to reach progressively 12 percent in 2015 (compared to the eight percent required by Basel III). Lebanese banks are preparing to be FATCA compliant.

Stock Exchange

The [Beirut Stock Exchange \(BSE\)](#) quotes six commercial banks, one investment fund, 18

sovereign Eurobond issues (16 in U.S. dollars, one in euros, and one in Lebanese Lira), and four companies, including "SOLIDERE," one of the largest publicly held companies in the region. Trading is a combination of auction and continuous trading. In spring 2008, the BSE authorized on-line trading. Legislation allows the listing of tradable stocks or papers on the BSE. Lebanon now hosts the headquarters of the Arab Stock Exchange Union.

Section 4 - Investment Climate

Executive Summary:

Lebanon is open to foreign direct investment. Its many advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well-developed banking system with strong financial soundness indicators, a highly-educated labor force, good quality of life, and limited restrictions on investors. However, issues that continue to cause frustration among local and foreign businesses include corruption, political risk, red tape, arbitrary licensing, outdated legislation, an ineffectual judicial system, high taxes and fees, lack of transparency, and weak enforcement of intellectual property rights.

Lebanon has not had a president since May 2014 and political deadlock has led to a stalemate in electing a successor. The ongoing vacancy and broader political paralysis have debilitated an already divided cabinet and parliament and stalled progress on major decisions that require political consensus. This has contributed to a perception of domestic political risk that encourages emigration and discourages economic activity. However, Central Bank stimulus packages since January 2013, totaling USD 4.8 billion, have partially compensated for these negative impacts on the economy. These stimulus packages and an increase in domestic consumption of goods and services (in part from the presence of an estimated 1.5 million Syrians in Lebanon) helped Lebanon achieve GDP growth of one percent in 2015 (IMF).

In 2016, external political risk perceptions also remain high, given the negative impact of the continuing turmoil in Syria and the region on the Lebanese economy. The vacant presidency, a tense security environment, and the travel warnings/bans on Lebanon imposed by some Gulf countries exacerbate these already significant challenges. As a result, many investors have maintained a wait-and-see approach.

Declining oil prices and sluggish GCC country economies led to a decline in remittances. Overseas remittances to Lebanon decreased from USD 7.40 billion in 2014 to USD 7.16 billion in 2015, according to the World Bank. Although the public deficit, which reached 6.4 percent of GDP in 2015, remains an issue of concern for investors, the Government of Lebanon (GoL) should not face difficulties in financing its deficit and rolling over sovereign maturities coming due in 2016. The domestic banking sector remains strong and the continued growth in deposits in private banks is sufficient to finance the borrowing needs of the economy. The Central Bank continues to publicly assert that it will maintain monetary and financial stability – reassuring investors that there will be no debt defaults or currency depreciation.

The business climate remains sensitive to domestic and regional political and security developments. Spillover from the Syrian crisis will continue to impact growth, which is

expected to remain below potential until the crisis abates. In addition to political divisions, political paralysis and vested interests have blocked structural reforms and legislation to stimulate growth, encourage private sector development, and create jobs.

Lebanon welcomes U.S. investment. Significant potential opportunities for U.S. companies exist in the energy sector, particularly for oil and gas exploration and power production. However, political paralysis in Lebanon has delayed the first bid round for offshore oil and gas exploration and authorities have not yet set a new date. Other investment opportunities include the fields of information and communication technology, healthcare, safety and security, environment and franchising.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	123 of 168	transparency.org/cpi2015/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	123 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	74 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2014	USD 17.38	www.bdl.gov.lb
World Bank GNI per capita	2014	USD 10,030	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Traditionally, Lebanon has remained open to foreign direct investment (FDI). The Investment Development Authority of Lebanon (IDAL) is the national entity responsible for promoting investment in Lebanon and possesses the authority to award licenses and permits for new investment in specific sectors. IDAL also has the authority to grant special incentives, exemptions, and facilities to large and SME projects regardless of whether implemented by local or foreign investors (Investment Law No. 360). IDAL also facilitates strategic international and local partnerships through joint ventures, equity participation, acquisition, and other mechanisms. It provides legal and administrative advice as well as sectorial studies to support potential investors. Updated information on IDAL and its incentives can be found on its website: <http://www.investinlebanon.gov.lb>.

The government is committed to improving the business environment and encouraging domestic and foreign investment and public-private partnerships (PPP). Nevertheless legislative efforts have stalled. For example, a draft PPP law and the Ministry of Economy and Trade's (MoET) amendments to the Lebanese Commercial Code, which would streamline

business and intellectual property legislation, await consensus and are still pending in parliament.

Other Investment Policy Reviews

Lebanon is not a member of either the Organization for Economic Co-operation and Development (OECD) or the World Trade Organization (WTO). The United Nations Conference on Trade and Development (UNCTAD) last performed an investment policy review in 2003. IDAL publishes reports on key sectors, which are available online at http://investinlebanon.gov.lb/en/sectors_in_focus

Laws/Regulations on Foreign Direct Investment

A foreigner may establish a business under the same conditions as a Lebanese national, provided that the business is registered in the Commercial Registry. Foreign investors who do not manage their business from Lebanon do not need to apply for a work permit. However, foreign investors who own and manage their business within Lebanon must apply for an employer work permit and a residency permit. Employer work permits stipulate that a foreign investor's capital contribution cannot be less than USD 67,000 and that the investor must also hire three Lebanese and register them at the National Social Security Fund (NSSF) within the first six months of employment.

Companies established in Lebanon must abide by the Lebanese Commercial Code and are required to retain the services of a lawyer to serve as a corporate agent. Local courts are responsible for enforcing contracts. There are no sector-specific laws on acquisitions, mergers, or takeovers, with exception of bank mergers.

Lebanese law does not differentiate between local and foreign investors, except in land acquisition (see "Real Property" section). Foreign investors can generally establish a Lebanese company, participate in a joint venture, or establish a local branch or subsidiary of their company without difficulty. Specific requirements apply for holding and offshore companies, real estate, insurance, media (television and newspapers), and banking.

Under Lebanese law, the establishment of joint-stock corporations, limited liability, and offshore and holding companies are allowed. However, offshore and holding companies must be joint-stock corporations (Société Anonyme Libanaise - SAL). These are governed in separate chapters under the Lebanese Commercial Code.

As a one-stop-shop for investors, IDAL has a website (<http://investinlebanon.gov.lb/>) that provides updated information on investment legislation, regulations and starting a business. IDAL's proposed changes to laws and regulations on foreign direct investment, including amending requirements for IT companies to benefit from IDAL incentives, are still pending government approval.

Business Registration

The Ministry of Justice publishes all required procedures, documents and payments needed to conclude the registration of any Lebanese company on its website at <http://www.justice.gov.lb/CP/viewpage.aspx?id=589&language=2>. According to the Ministry of Economy and Trade (MoET), the registration process takes approximately one day and a

notary public is required. There is no other way to register businesses. Foreign companies are required to register electronically – a list of documents and procedures are published on the Ministry of Economy and Trade’s website <http://portal.economy.gov.lb/>. IDAL also provides a user-friendly portal for doing businesses in Lebanon and outlines all necessary requirements at http://investinlebanon.gov.lb/en/doing_business.

MoET established a small and medium-sized (SMEs) enterprise unit in 2005 to provide services to SMEs located and operating in Lebanon. The unit focuses on policy and governance, improving Lebanon’s business environment, offering linkages within the business community, and advice on financing. MoET defines enterprises with less than 10 employees as micro-enterprises, those with less than 50 employees as small enterprises, and those with less than 100 employees as medium enterprises. In 2014, the unit launched Lebanon’s SME Strategy: A Roadmap to 2020, but the Ministry has yet to implement its proposals.

Industrial Promotion

IDAL currently focuses on promoting investments in the following sectors: agriculture, agro-industry, industry, information technology, media, technology, telecommunications, and tourism. Information on sectors and incentives provided are available on IDAL’s website and through conferences and meetings with stakeholders, including an annual meeting with the Association of Industrialists.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign private entities may establish, acquire, and dispose of interests in business enterprises, and may engage in all kinds of remunerative activities.

Limitations related to foreign participation include a general limitation on management participation (Article 144 stipulates that the majority of the board of directors should be Lebanese); indirect limitation with regard to acquisition of capital shares (Article 147); limitation on capital shares with regard to public utilities (Article 78); and limitation on capital shares and management with regard to exclusive commercial representation (Legislative Decree No. 34/67, dated August 5, 1967). In the financial sector, most establishments, including those in banking and insurance, must take the form of a joint-stock company.

A limited liability company (Société à Responsabilité Limitée - SARL) is governed by Legislative Decree No. 35, dated August 5, 1967. It may be 100 percent owned and managed by a non-Lebanese.

Holding and offshore companies follow the legal form of a joint-stock corporation and are governed by Legislative Decree No. 45 (on holdings) and Legislative Decree No. 46 (on offshore companies), both dated June 24, 1983, and amended by Law No. 19, dated September 5, 2008. A foreign non-resident chairman/general manager of a holding or an offshore company is exempt from the obligation of holding work and residency permits. Law No. 772, dated November 2006, exempts holding companies from the obligation of having two Lebanese persons or legal entities on their board of directors. All offshore companies must register with the Beirut Commercial Registry. Offshore banking, trust, and insurance companies are not permitted in Lebanon.

Law No. 296, dated April 3, 2001, amended the 1969 Law No. 11614 and governs foreign acquisition of property. The 2001 law eased legal limits on foreign ownership of property to encourage investment in Lebanon, especially in industry and tourism, abolished discrimination for property ownership between Arab and non-Arab nationals, and lowered real estate registration fees from six percent for Lebanese and 16 percent for foreigners to five percent for both Lebanese and foreign investors. The law permits foreigners to acquire up to 3,000 square meters (around 32,000 square feet) of real estate without a permit but requires cabinet approval for acquisitions exceeding this threshold. Cumulative real estate acquisition by foreigners may not exceed three percent of total land in each district. Cumulative real estate acquisition by foreigners in the Beirut region may not exceed ten percent of the total land area. The law prohibits individuals not holding an internationally recognized nationality from acquiring property. This restriction is widely believed to be primarily aimed at preventing Palestinian refugees residing in Lebanon from permanently settling in the country.

Privatization Program

Lebanon's laws for the privatization of the telecommunications sector (Law 431) and the power industry (Law 462) were drafted in 2002. However, political dysfunction stalled their implementation.

Parliament passed a two-year law authorizing the cabinet to issue Independent Power Producers (IPP) licenses to investors in April 2014. It later amended the law to extend its application through April 2018. Little has been done to date, but the Ministry of Energy and Water, the Ministry of Finance, and the Higher Council for Privatization (HCP) are collaborating with the IFC and the World Bank to explore next steps.

According to the HCP, there is currently considerable support by the political, business, banking and academic communities for the passage of Public-Private Partnership (PPP) legislation. The Sub-Committee of the Budget and Finance Parliamentary Committee has resumed discussions of a revised PPP Law. In anticipation of the passage of the PPP bill, the HCP issued and published guidelines for PPP in February 2014 on its website: <http://www.hcp.gov.lb>. Ratification of PPP legislation would open new opportunities for local and international private sector investment in Lebanon.

The Capital Markets Law calls for the corporatization and subsequent privatization of the Beirut Stock Exchange (BSE) within a two-year period from the date that the Capital Markets Authority (CMA) is appointed. The cabinet appointed the CMA in June 2012 but has yet to undertake serious action to corporatize the BSE.

Screening of FDI

There are no mechanisms in place to screen FDI in Lebanon.

Competition Law

Lebanon has not enacted a law that governs competition. Local courts review transactions for competition-related claims.

2. Conversion and Transfer Policies

Foreign Exchange

There are no restrictions on the movement of capital, capital gains, remittances, dividends, or the inflow and outflow of funds. The conversion of foreign currencies or precious metals is unfettered. Foreign currencies are widely available and can be purchased from commercial banks or money dealers at market rates. Lebanon's Central Bank, the Banque du Liban (BdL), posts a daily local currency-exchange rate on its website: <http://www.bdl.gov.lb/>. On average, the local currency (the Lebanese Lira, or Pound, LBP) has been pegged to the USD at LBP 1,507.5 per USD 1 since 1988. However, the dollar continues to trade on the local economy at LBP 1,500. BdL is committed to maintaining a stable currency. Lebanon has one of the most heavily dollarized economies in the world and businesses commonly accept payment (and return change) in a combination of LBP and USD.

Remittance Policies

There are no delays in remitting investment returns except for the normal time required by the banks to carry out transactions. There are no surrender requirements for profits earned overseas.

Lebanon is a founding member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Its most recent mutual evaluation can be found at: <http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf/>. Parliament endorsed four new laws to comply with international Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards in 2015: Law No. 44 amending the Law on Fighting Money Laundering and the Financing of Terrorism, Law No. 42 Declaring the Cross-Border Transportation of Money, Law No. 43 on the Exchange of Tax Information, and Law No. 53 authorizing the Lebanese Government to accede to the International Convention for the Suppression of the Financing of Terrorism. As a result, Lebanon was placed on "regular follow-up" review status during the MENA FATF 23rd Plenary in Doha on April 23-25, 2016.

In February 2016, the Financial Action Task Force (FATF) concluded that Lebanon has a sound framework to criminalize terrorist financing, and that the terrorist financing offence criminalizes all of the activities specified in UNSCR 2178. It also noted that Lebanon has a comprehensive legal framework and mechanism to implement targeted financial sanctions pursuant to UNSCRs 1267/1989 and 1988, and UNSCR 1373.

3. Expropriation and Compensation

Land expropriation in Lebanon is relatively rare. The Law on Expropriation (Law No. 58, dated May 29, 1991, Article One), as well as Article 15 of the Constitution, specifies that expropriation must be for public utility and calls for fair and adequate compensation. Compensation is paid at the time of expropriation, but is often perceived as below fair market value. The government does not discriminate against foreign investors, companies, or their representatives when dealing with expropriations.

The government, with the agreement of the parliament, established three real estate companies in the mid-1990s to encourage reconstruction and development in Greater Beirut: private corporation Solidere, for Beirut's downtown commercial center; private corporation Linord, for northern Beirut; and public institution Elyssar, for the southwest suburbs

of Beirut. However, Linord has been dormant for years and Elyssar's projects have stalled since 2007. The government granted these three companies the authority to expropriate certain lands for development as per the Law on Expropriation. They have, however, faced serious legal challenges from landowners and squatters. Several court cases are still pending against Solidere after 20 years of litigation.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Lebanon has a civil (Roman and Codified Law) legal system inspired from the French civil procedure code (three degrees of jurisdictions). Ownership of property is enforced by registering the deed in the property registry. Lebanon has a written commercial law and contractual law. Lebanon has commercial, civil and penal courts, but no specialized courts to hear intellectual property (IP) claims. Civil and/or penal courts adjudicate IP claims. Lebanon has an administrative court, the State Council, which handles all kinds of disputes involving the state.

Lebanon has a labor court in each of the eight governorates to hear claims of unfair labor practices. The current judicial process is generally competent and reliable on a procedural basis. However, compensation sometimes is perceived not to be fair.

Bankruptcy

The Commercial Code (Book No. 5, Articles 459-668) and the Penal Code govern insolvency and bankruptcy. By law, a secured creditor has the right to a share of the assets of a bankrupt party. Verdicts involving monetary values in contract cases are made according to the currency of the contract or its equivalent in Lebanese Pounds at the official conversion rate on the day of the payment. Workers can resort to the Labor Court and the National Social Security Fund to recover pay and benefits from local and foreign firms in bankruptcy.

Investment Disputes

In the past, the government has faced challenges related to previously awarded contracts and resorted to international arbitration for resolution. To post's knowledge, there are no known new cases. In 2010, the government settled a dispute with a Chinese contracting company working to expand the northern port of Tripoli.

International Arbitration

International arbitration is accepted as a means to settle investment disputes between private parties. The Lebanese Centre for Arbitration was created in 1995 by local economic organizations, including the Lebanese chambers of commerce, industry, and agriculture. The Centre resolves domestic and international conflicts related to trade and investment. Its statutes are similar to those of the International Chamber of Commerce (ICC) in Paris, and its conciliation and arbitration rules are modeled on those of the Paris ICC.

The government accepts international arbitration related to investment disputes. In cases involving concessions or State projects, the government does not accept binding international arbitration unless the contract includes an arbitration clause that was obtained through prior approval by cabinet decree. However, there is an exception for investors from

countries that have signed and ratified an investment protection agreement with Lebanon that stipulates international arbitration in case of dispute.

ICSID Convention and New York Convention

Lebanon is a member of the International Center for the Settlement of Investment Disputes (ICSID Convention). Lebanon ratified the 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) in 2007. Lebanese law conforms to both conventions.

Duration of Dispute Resolution – Local Courts

Cases in Lebanese courts are not resolved quickly due to shortage of judges, inadequate administrative staff and technology, and poor case management. Resolution of commercial litigation in Lebanese courts takes on average five or six years. Enforcement of a court decision on average takes between six months and two years. Politicians and powerful lobby groups sometimes interfere in the court system. Local courts accept investment agreements drafted subject to foreign jurisdiction, provided that they do not contradict Lebanese law. Judgments of foreign courts are enforced subject to the “*exequatur*” obtained.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Lebanon is not a member of the WTO, but has held observer status since 1999.

Investment Incentives

Lebanese legislation does not impose performance requirements on investments. There are no requirements on foreign investors regarding geographic location, amount of local content, import substitution, export expansion, technology transfer, offset requirements, or source of financing. Investors are not required to disclose proprietary information as part of the regulatory approval process, except in the case of banks, which must obtain Central Bank approval for transfer of ownership of shares in most cases (BdL circulars are posted on <http://www.bdl.gov.lb>).

Lebanon’s Investment Law encourages investments in the fields of technology, information, telecommunications and media, tourism, industry, and agriculture and agro-industry. The law divides the country into three investment zones, with different incentives provided in each zone. Incentives include facilitating issuance of permits for foreign labor, tax incentives that range from a 50 percent tax reduction for five years on income tax and tax on the distribution of dividends to a total exemption from these taxes for 10 years starting from the date of operation (tied to the issuance of the first invoice). Companies that list 40 percent of their shares on the Beirut Stock Exchange are exempt from income tax for two years. The Investment Law also allows for the introduction of tailor-made incentives through package deals for large investment projects, regardless of the project’s location. These may include tax exemptions for up to 10 years, reductions on construction and work permit fees, and a total exemption on land registration fees. IDAL may exempt joint-stock companies that benefit from package deal incentives from the obligation to have a majority of a board of directors be Lebanese (Law No. 771, dated November 2006). Investors who seek to benefit from work permit incentives under “package deals” must hire two Lebanese for every

foreigner and register them with the NSSF. Several amendments to the Investment Law are currently awaiting parliamentary approval and would expand incentives provided to companies and increase the pool of start-ups operating in the ICT sector.

Other laws and legislative decrees provide tax incentives and exemptions depending on the type of investment and its geographical location. Industrial investments in rural areas benefit from tax exemptions of six or 10 years, depending on specific criteria (Law No. 27, dated July 19, 1980, Law No. 282, dated December 30, 1993, and Decree No. 127, dated September 16, 1983). Exemptions are also available for investments in south Lebanon, Nabatiyeh, and the Bekaa Valley (Decree No. 3361, dated July, 2, 2000). For example, new industrial establishments manufacturing new products will benefit from a 10-year income tax exemption. Factories currently based on the coast that relocate to rural areas or areas in south Lebanon, Nabatiyeh, and the Bekaa Valley benefit from a six-year income tax exemption. In April 2014, parliament enacted a law to reduce income tax on industrial exports by 50 percent.

More information can be found on IDAL's website:

http://investinlebanon.gov.lb/en/doing_business/investment_incentives

The government reduces the dividend tax from ten to five percent for companies listed on the BSE. It also reduces the dividend tax to five percent for companies that open up 20 percent of their capital to Arab companies listed on their country's stock exchange or for foreign companies listed on the stock exchange of OECD countries, and for companies that issue Global Depository Receipts (GDRs) amounting to a minimum value of 20 percent of their shares listed on the BSE.

Domestic and foreign investors may benefit from a 4.5 percent subsidy on interest for new loans granted after 1/1/2012, for amounts up to USD 10 million per project (with a ceiling of USD 40 million) provided by banks, financial institutions, and leasing companies to industrial, agricultural, tourism, and information technology establishments. The subsidy extends for a maximum of seven years, with a grace period of two years. This program has been extended until the end of 2016. Investors can also benefit from loan guarantees from Kafalat, a semi-private financial institution that helps SMEs to access subsidized commercial bank loans, with a grace period of two years for projects in Lebanon.

Domestic and foreign investors may also benefit from regulations that the Central Bank implements to stimulate economic activity. Since January 2013, the BdL launched a total of approximately USD five billion in several stimulus packages available to commercial banks to increase lending to the private sector at a reduced cost for housing loans, investment in productive sectors, energy-saving and renewable energy projects, and to finance new projects or develop existing ones. Moreover, in August 2013, the BdL issued circular No. 331 authorizing banks to directly invest in technology start-ups up to three percent of equity by providing banks, with interest-free facilities over a maximum period of seven years. The Central Bank also issued a circular indicating that, in cooperation with the EU, it will continue to subsidize loans of USD five million or less that are extended to finance environmentally-friendly energy projects.

The government grants customs exemptions to industrial warehouses for export purposes. Companies located in the Beirut Port or the Tripoli Port Free Zone benefit from customs exemptions and are exempt from the value-added tax (VAT) for export purposes. They are also not required to register their employees with the NSSF if they provide equal or better benefits.

Research and Development

U.S. and other foreign firms may participate in government authority-financed and/or subsidized research and development programs.

Performance Requirements

The government mandates local employment and the Ministry of Labor issues an annual list of jobs restricted to Lebanese. Foreign and local participation in the board of directors is specified in the status of the companies, according to Lebanese commercial law. Foreign investors enjoy the same incentives as local investors.

Foreigners doing business in Lebanon through a company, factory, or office must hold work and residency permits. There are no discriminatory or excessively onerous visas, residence, or works permit requirements. Registration with a chamber of commerce is required to import and handle a limited number of products that are subject to control requirements for safety reasons, but products with special import requirements constitute less than one percent of total tradable goods. Registration with a chamber of commerce is required to ensure that established facilities meet safety, handling, and storage requirements.

Foreign investors who do not manage their business from Lebanon do not need to apply for a work permit. However, foreign investors who own and manage their business from Lebanon must apply for an employer work permit and a residency permit. The employer work permit stipulates that the investor's share in the capital be not less than USD 67,000, and that the investor pledges to hire three Lebanese and register them at the National Social Security Fund (NSSF) within six months.

Data Storage

Lebanon does not follow any "forced localization" policy, nor require foreign IT providers to turn over source code or provide access to surveillance. Lebanon's Central Bank requires all banks to keep data backups in Lebanon, while service providers are required to do the same.

6. Protection of Property Rights

Real Property

The right to private ownership is respected in Lebanon. The concept of a mortgage exists and secured interests in property, both movable and real, are recognized and enforced. Such security interests must be recorded in the Commercial Registry and the Real Estate Registry. The Real Estate Law governs acquisition and disposition of all property rights by Lebanese nationals, while Law No. 296, dated April 3, 2001, governs real estate acquisition by non-Lebanese.

Intellectual Property Rights

Although Lebanon is still not a member of the WTO, Lebanon's intellectual property rights (IPR) legislation is generally compliant with Trade-Related Intellectual Property Rights (TRIPS). However, IPR enforcement is weak. The MoET's Intellectual Property Protection Office (IPPO) has spearheaded efforts to improve the IPR regime but suffers from limited financial and human resources, and insufficient political will within the GoL. Lebanon's Internal Security Forces (ISF) and Customs also play a role in enforcement. The understanding of IPR within the Lebanese judiciary has improved somewhat in recent years but gaps remain in awareness of the economic repercussions of IPR violations, judicial prosecution of IPR cases, and strong court decisions with punishments prohibitive enough to prevent other infringements. The MoET's new draft laws and amendments to existing laws to improve the IPR environment are pending parliamentary approval.

Existing IPR laws cover copyright, patent, trademarks, and geographical elements. Lebanon's 1999 Copyright Law largely complies with WTO regulations and needs only minor amendments to become fully compatible. However, amendments to the current law have been stalled in parliament since 2007. Registration of copyrights in Lebanon is not mandatory, and copyright protection is granted without the need for any registration. Lebanon's parliament ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (WPPT) in February 2010. Ratification documents have not yet been deposited with WIPO, however, since this would also require amendments to the copyright law.

Drafts of new industrial design, trademark, and geographical indications laws have also been pending in parliament since 2007. The MoET is willing to push for all pending legislation to pass in parliament. The MoET launched an online registration service in January 2013 for copyrights and trademarks on <https://portal.economy.gov.lb/>. This service simplified the registration process and over 80% of registrations of trademarks and copyrights now take place online. Due to the complexity of copyrights and patents, registration is still accepted in person at the Ministry. The switch from a deposit system to an objection system for trademarks also remains stalled due to the need for parliamentary approval. However, the MoET noted that it implements the objection system in practice.

A modern TRIPS-compatible Patent Law, approved in 2000, provides general protection for semiconductor chip layout designs and plant varieties. Data protection and undisclosed information fall under Article 47 of the Patent Law, but current provisions for pharmaceutical registration are subject to interpretation. Generic manufacturers in Lebanon are not prohibited from using original data (e.g., data published on the U.S. Food and Drug Administration website) to register competing products that are identical to original products. Decree No. 571 on the conditions of registering, importing, marketing, and classifying pharmaceuticals, which should have improved the process of drug registration and reduced the number of copycat drugs being registered, still leaves some room for interpretation. There are no current plans to amend the Patent Law to reduce counterfeit drugs found in the market. The Lebanese legal regime does not require examination, prior to registration, of patents for novelty, utility, and innovation. Simple patent deposit is required at the MoET, where the application is examined only for conformity with general laws and ethics.

The ISF's Cybercrime and IP Unit tracks seizures of counterfeit goods but does not make this information publically available. Lebanese Customs also plays a direct role in IPR enforcement by seizing counterfeits and an indirect role as part of its efforts to combat smuggling. The U.S. Trade Representative's Special 301 annual review of intellectual property protection worldwide has kept Lebanon on its watch list since 2008. Given insecurity, political instability, and spillover from the Syrian crisis in 2015, the GoL underscored the significant difficulty that it faced in enforcing IPR.

The IPPO acts upon the requests of rights holders or in an ex officio capacity. The ISF cannot act in an ex officio capacity and still requires a criminal complaint to be filed with the prosecutor's office in order for it to take action. The sale and distribution of pirated, counterfeit, and copycat products continues across Lebanon, in commercial establishments and through street vendors. This included leather goods, apparel and luxury items, fast-moving consumer goods (FMCGs), software, optical media, and pharmaceuticals.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

Mr. Robert Palmer
Economic Officer
+961-4-542600/543600
Beirutembassyinvestment@state.gov

The embassy's list of lawyers can be found at <http://lebanon.usembassy.gov/attorneys.html>.

7. Transparency of the Regulatory System

Local and foreign private sector companies should be wary when bidding for public projects, given lack of transparency, clear regulations, and fair consideration of bids. Lebanon has a Procurement Law that regulates public procurement. However, public institutions have separate procurement regulations under the guidelines of the Procurement Law. Government administrations often award contracts by mutual agreement, without calling for a tender, and the government does not always establish clear procedures for the process.

The procedures necessary for business entry, operation, and exit are not streamlined and excessive regulation plagues bureaucratic procedures. However, the process does not discriminate against foreign investors. International companies face an unpredictable and opaque operating environment and often encounter unanticipated obstacles or costs late in the process. Even so, according to the World Bank's 2016 Doing Business report, it takes entrepreneurs 15 days to start a business in Lebanon, compared to the average of 19 days in the MENA region. The report may be accessed at <http://www.doingbusiness.org>.

Currently, IPR trademark registration, economic and trade indicators, and market surveillance reports, are available online at: <http://www.economy.gov.lb>.

The government does not publish proposed draft laws and regulations for public comment but usually forms a drafting committee composed of both public and private sector

stakeholders. However, Telecom Law No. 431 requires the Telecommunication Regulatory Authority (TRA) to issue regulations in draft for public consultation to promote transparency and enable the general public to shape future regulations. There have been no new regulations since the TRA board expired in February 2012. In general, legal, regulatory, and accounting systems are consistent with international norms. Publicly listed companies adhere to international accounting standards.

Lebanon still lacks an access to information law to promote transparency in the private and public sectors. According to Transparency International's Lebanon chapter, the Lebanese Transparency Association (LTA), several ministries undertook transparency initiatives in 2015. The Lebanese Parliament, however, has failed to enact new transparency-related legislation to date. As part of the National Network for Access to Information, the LTA, Ministry of Finance (MoF), and other stakeholders helped draft laws on access to information and whistleblower protection, both which have awaited parliamentary ratification since 2009 and 2010, respectively. In the meantime, the MoF continued to organize workshops, raise awareness, and build capacity of civil servants on access to information and whistleblower protection.

8. Efficient Capital Markets and Portfolio Investment

There are no restrictions on portfolio investment, and foreign investors can invest in Lebanese equities and fixed income paper. Lebanon places no restrictions on the movement of capital into or out of the country for investment or other purposes. The government permits the free exchange of currencies, precious metals, and monetary instruments, both domestically and internationally. There are no restrictions on payments and transfers for current international transactions.

Credit is allocated on market terms, and foreign investors can obtain credit facilities on the local market. The private sector has access to overdrafts and discounted treasury bills in addition to a variety of credit instruments, such as housing, consumer, or personal loans, as well as corporate loans and loans to SMEs.

Lebanon's banking regulatory system is transparent and consistent with international norms. Banks conform to Bank for International Settlement (BIS) standards and International Accounting Standards (IAS). Legislation exists that regulates the issuance and trading of bank equities. Law No. 308 on unification of bank shares allows banks to increase their capitalization and shareholder base, as well as to optimize trading of bank shares on the BSE.

Government legislation allows the listing of tradable stocks or papers on the Beirut Stock Exchange (BSE). Currently, the BSE lists six commercial banks, 21 sovereign Eurobond issues (19 in U.S. dollars, one in euros, and one in Lebanese Pounds), and four companies, including Solidere, one of the largest publicly held companies in the region. Trading is more active in listed banks' instruments and occurs in a combination of auction and continuous trading, with e-trading authorized in 2008. In 2011, Parliament endorsed both the Insider Trading Law and the Capital Markets Law to regulate and supervise capital market activity. However, the BSE suffers from a lack of liquidity and low trading volumes in the absence of significant institutional and foreign investors, and had an annual trading volume of only 5 percent of market capitalization in 2015. Weak market turnover discourages investors from committing funds to the market and discourages issuers from seeking listings on the BSE. Traditional

businesses held by commercially powerful families dominate most sectors. The government is trying to improve the transparency of such firms to help solidify an emerging capital market for company shares.

To stimulate market activity, the Capital Markets Authority (CMA) in Lebanon, analogous to the U.S. Securities and Exchange Commission, issued several regulations to regulate disclosure policy of joint stocks and mutual funds as well as to encourage investment in start-up companies. In 2014, the CMA started receiving technical assistance from the World Bank to prepare regulations for the development of capital markets. More information can be found on: www.cma.gov.lb/. Lebanon hosts the headquarters of the Arab Stock Exchange Union.

Money and Banking System, Hostile Takeovers

The banking system enjoys high financial standing and boasts a capital adequacy ratio of 14.4 percent as of June 2015 (higher than Basel III requirements), sound liquidity, and a foreign currency prime liquidity ratio exceeding 47 percent of foreign currency deposits. The total domestic assets of Lebanon's five largest commercial banks reached approximately USD 101 billion as of the end of 2015 (or about 51.5 percent of total banking assets), according to BdL data. About 3.6 percent of total loans were estimated as non-performing by end-February 2016. Banks maintained approximately 68.5 percent of provisions against non-performing loans as of February 2016. The remaining 31.5 percent were covered by adequate collateral.

Lebanon's Central Bank imposes strict compliance with regulations on banks and financial institutions. There are no restrictions in Lebanon on a foreigner or non-resident's ability to open a bank account in local currency or foreign currencies. However, banks have stringent inquiry mechanisms to ensure compliance with international and domestic regulations. They implement Lebanon's anti-money laundering and combating terrorism financing laws. Banks also uphold Know-Your-Customer requirements and other regulations to combat tax evasion, inquire about the purpose of opening a new account, about the source of funds to be placed into an account, and to discover other relevant information. Lebanese banks are compliant with the Foreign Account Tax Compliance Act (FATCA).

There are no specific rules on hostile takeovers but no hostile takeovers have ever occurred on either the Beirut Stock Exchange or in the banking sector. By regulation, any investor should inform the BSE when her/his portfolio of shares in any of the listed companies reaches ten percent. Moreover, any shareholder with more than five percent of a bank's share capital must obtain prior approval from the Central Bank to acquire additional shares in that bank, and must inform the Central Bank when selling shares.

9. Competition from State-Owned Enterprises

The GoL maintains monopolies in the utility sector (Ogero for telecom landlines and two mobile companies, Electricité du Liban (EdL) for electricity production and transmission, and four water authorities), a casino (Casino du Liban, a mixed public-private enterprise), tobacco procurement, manufacturing, and sales (La Régie des Tabacs et Tombacs), as well as the national airline (Middle East Airlines), whose monopoly is scheduled to end in 2024. Other major state-owned enterprises or public institutions include the Beirut, Tripoli, Sidon, and

Tyre ports, the Rashid Karami International Fair (in northern Lebanon), the Sport City Center, and real estate development institution Elyssar. The GoL also owns shares in Intra Investment Co., a mixed public-private investment company, which owns 96.62 percent of Finance Bank – a Lebanese commercial bank.

There is no uniform definition of State-Owned Enterprises (SOEs) and each has separate internal by-laws. Decree 4517 (dated 1972) establishes two types of public institutions, one administrative category that involves public enterprises like the Lebanese University, and a second that holds commercial aspects like EdL and La Régie. The Ministry of Finance maintains an unpublished list of SOEs and public institutions. SOEs and public institutions may purchase or supply goods or services from the private sector or foreign firms. Procurement is governed by separate regulations but under the same terms and conditions as public procurement. SOEs and public institutions benefit from certain tax exemptions.

Although law restricts electricity production to EdL, numerous private investors operate unregulated generators across the country and sell electricity to citizens at significantly higher rates during the country's frequent power cuts. EdL awarded several concessions to privately-owned companies for power distribution in specific regions, and these companies are interested in producing electricity to meet customer demand. In April 2014, parliament granted the cabinet the authority through 2018 to license private companies to generate electricity. Since 2012, EDL contracted three private companies to manage bill collection, maintenance, and power distribution. Two private operators also hold contracts from the government to manage the country's two cellular companies to two private operators.

Lebanon's SOEs report to shareholders whereas public institutions are subject to oversight by the concerned ministries as well as by the Ministry of Finance. Public institutions require the approval of concerned ministries for major business decisions. SOEs may independently prepare their budgets, which must be approved only by their board of directors. The SOEs and public institutions are required by law to publish an annual report, and to submit their books for independent audits as well as to send their books to the Court of Audit.

The GoL currently has no plans to privatize SOEs or public institutions. Middle East Airlines has postponed plans to list 25 percent of its shares on the BSE as a first step toward privatization. It is reportedly awaiting improvement in investor confidence to ensure that its shares will not be undervalued when traded on the BSE.

OECD Guidelines on Corporate Governance of SOEs

SOEs and public institutions have independent boards staffed primarily by politically-affiliated individuals, appointed by the cabinet for public institutions, and by shareholders for SOEs. The board of SOEs and public institutions always include a Government Commissioner appointed by the cabinet who reports to the concerned ministries. SOEs do not currently adhere to the Organization for Economic and Cooperative Development (OECD) Corporate Governance Guidelines.

Sovereign Wealth Funds

Lebanon does not have any sovereign wealth funds. Lebanon's Hydrocarbon Law mentions that proceeds generated from oil and gas exploration would be deposited in a Sovereign Wealth Fund. Creating the fund requires a separate law, which the government has yet to

draft. Lebanon currently receives no proceeds from natural resources that could flow into a sovereign wealth fund.

10. Responsible Business Conduct

Lebanese firms are increasingly aware of corporate social responsibility (CSR), including on environmental, social, and governance issues. This is true for the banking sector as well as companies in telecom, real estate, and industry, which are slowly creating sustainable supply chains or pursuing social initiatives to appeal to consumers. The government also encourages corporate engagement in solving national economic, social, and environmental problems. The Lebanese Standards Institution (LIBNOR), part of the Ministry of Industry, leads efforts to expand the use of the ISO 26000 standard on Social Responsibility (SR) in Lebanon, one of the eight pilot countries in the Middle East. The project is funded by the Swedish International Development Cooperation Agency (SIDA).

The Central Bank of Lebanon works closely with banks to direct their financial resources towards projects that improve society and the environment. This includes issuing circulars to create favorable environmental and educational loans, encourage entrepreneurship through private equity investments, and facilitating improved governance through customer protection. In 2015, the banking sector started to implement Central Bank Circular No. 134, requiring banks to apply measures to ensure transparent and fair dealings with their customers, a reflection of the CSR principles of corporate governance and consumer protection. It also established the Institute for Finance and Governance (IFG). The IFG cooperates with the Central Bank to organize conferences on topics such as good governance in the banking sector, economic and monetary policy, and banking regulations.

Several business ethics and corporate governance codes exist, including the business association 'Rassemblement de Dirigeants et Chefs d'Entreprises Libanais' (RDCL, or the Group of Lebanese Business Owners) "Code of Business Ethics," and the Lebanese Code of Corporate Governance (CG), written under the auspices of the Lebanese Transparency Association (LTA). However, these codes are strictly voluntary and the government provides no incentives or enforcement for their adoption.

The Lebanese Transparency Association reports that more companies are approaching it for corporate governance assessments and its corporate governance guidelines and toolkits for family-owned enterprises and listed companies. CSR Lebanon, a Beirut-based company established in 2010, raises awareness and providing the necessary tools to promote CSR in Lebanon and the Middle East.

Lebanon seeks implementation of a number of international codes and standards to increase transparency and governance in government and the private sector. The Association of Banks in Lebanon adopted the Corporate Governance Guidelines for Banks Operating in Lebanon in January 2011. CSR Lebanon advocates for the principles of the United Nations Global Compact and was the first to introduce them to the private sector.

In 2013, Beirut-based business development advisory Capital Concept launched its Governance & Integrity Rating and becoming the first such firm recognized by Lebanon's Central Bank to review and rate the banking sector in Lebanon and the MENA region. In 2015, it also launched Shareholder-Rights, a registered online platform and publication

initiative to rate and review companies' commitment to corporate governance and investor rights.

11. Political Violence

Political violence continued in 2015 due in part to spillover effects from the Syrian conflict. The situation remained somewhat stable with the implementation of the government's security plan in 2014 in Tripoli and in villages in the Bekaa Valley along the Syrian border. In August 2014, clashes erupted in the northeastern town of Arsal between Lebanese Army (LAF) personnel and Islamic militants aligned with the Islamic State of Iraq and the Levant (ISIL) and al-Nusra Front. Nineteen LAF members and 40 to 45 Syrians and Lebanese citizens died and 90 to 100 individuals were wounded. Islamic militants took 29 LAF and Internal Security Forces members hostage, executed four members, and released six members. On December 1, 2015, al Nusra Front released 16 others in a prisoner exchange with the LAF, although nine remain in ISIL captivity. On November 5, 2015, ISIL killed seven Sunni religious figures in Arsal reportedly due to their cooperation in prisoner hostage negotiations with the Lebanese government and al-Nusra. On November 12 2015, ISIL claimed responsibility for two suicide bombings in the Bourj al-Barajneh neighborhood (Dahiyeh suburbs) of Beirut that killed 43 and injured more than 200 people. ISIL claimed the attack specifically targeted "heretics" in a predominantly Shiite area and vowed to continue attacks. However, the various security forces responded to the attacks with alacrity and all those involved in the suicide bombing cell responsible for the Bourj al-Barajneh attacks were soon arrested or killed. On February 3, 2016, the LAF launched a major offensive in Arsal, killing six and capturing 27 ISIL militants, who they suspected of planning attacks against security forces along the north-eastern Lebanese border. As of the date of this report there have been no further large scale terror attacks on Lebanese territory.

Hizballah continued to accelerate its engagement in Syria fighting on behalf of the Syrian regime, while some Lebanese Sunni individuals and groups have supported the Syrian opposition. Hizballah and the Sunni-dominated Future Movement continued the "political dialogue" that they started in 2014 in an attempt to try to alleviate tensions between the Sunni and Shia communities. By end 2015, there were over 1.069 million registered Syrian refugees in Lebanon officially registered with the UN High Commissioner for Refugees. These refugees, and a large number of additional unregistered refugees, are severely straining local resources and services. Lebanon is believed to host more refugees per capita than any other country in the world.

The U.S. government considers the potential threat to American Embassy personnel assigned to Beirut sufficiently serious to require all Chief of Mission personnel to live and work under security restrictions. These limitations occasionally prevent the movement of American Embassy officials and the provision of consular services in certain areas of the country. U.S. citizen visitors are encouraged to contact the Embassy's Consular Section for the most recent safety and security information concerning travel to Lebanon.

12. Corruption

Lebanon has laws and regulations to combat corruption such as the Illicit Wealth Law and the Penal Code, but does not enforce them effectively. The Illicit Wealth Law applies to all state employees, government and senior officials, and municipality members and extends to

family members. However, it does not extend to political parties. There are several articles in the laws to counter conflict-of interest in awarding contracts and government procurement, but are not enforced. The government does not require or encourage private companies to establish internal codes of conduct that prohibit bribery of public officials.

In accordance with Lebanese law, it is considered a criminal act to give or accept a bribe. The penalty for accepting a bribe is imprisonment for up to three years, with hard labor in some cases, and a fine equal to at least three times the value of the bribe. Bribing a government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector.

Reports of rampant corruption in Lebanon's public sector are widespread. According to the 2015 Transparency International's (TI) Corruption Perception Index (CPI), Lebanon ranked 123 out of 168 countries worldwide, and 12 out of 17 Middle East North Africa (MENA) countries, with a score of 28 out of 100 points (whereby zero is considered highly corrupt and 100 the most uncorrupt). Based on its currently ranking, Lebanon remained among the 50 most corrupt countries in the world. The index measures the perception of corruption by public officials and politicians and focuses on corruption in the public sector, defined as an abuse of official power for private interests.

Corruption is reportedly more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration, than in private sector deals. The law provides criminal penalties for official corruption but is not implemented effectively. Government security officials, agencies, and police were subject to laws against corruption, bribery and extortion.

An unprecedented anti-corruption campaign by some government ministries, including the Ministries of Public Health (MoPH), Economy and Trade, and of Finance as well as Customs, which started in 2014 continued throughout 2015. Although generally satisfied, many people have adopted a wait-and-see attitude to see how far the campaign will go, including suspending operations and bringing those responsible to justice. The MoPH also released a mobile application and a hotline (1214) allowing citizens to report fraudulent actions to the ministry. The MoET launched the "Consumer Protection Lebanon" mobile application in 2014, adding to the already established consumer protection hotline (1739). The application enhances communication between the ministry and local consumers. It allows users to send and follow complaints and provide them with prompt notifications about ministry decisions and other MoET news. The MoF continued fighting corruption in the customs and real estate departments. It investigated several civil servants for illegal appropriation of public property and embezzlement in the real estate sector as well as intensified port and airport inspections. The ministry also launched a hotline for citizens' complaints on misconduct by ministry employees.

The Lebanese Transparency Association (LTA) established the Lebanon Anti-Bribery Network (LABN) in 2008 in partnership with the Center for International Private Enterprise (CIPE). It re-launched LABN in 2013, for the specific purpose of combating bribery in the country. In 2014, LABN published two handbooks: "Access to Information: Benefit to the Private Sector," and "Administrative Corruption in Lebanon," to help identify obstacles and challenges related to greater transparency and corruption in public administration, respectively. Through LABN, the

LTA also launched the Code of Ethics and Whistleblower Protection for Small and Medium Enterprises (SMEs), and provided a workshop for owners and directors of companies on the importance of ethics and on ways of applying the code. In 2015, LTA published two new handbooks on "Know Your Rights," to empower Lebanese citizens with the necessary tools to fight bribery. The first handbook educates citizens on interacting with the State's Council, while the second covers Lebanon's labor law with a focus on workers' rights and benefits.

The LTA also established the Lebanese Advocacy and Legal Advice Center (LALAC) to inform citizens of their rights and to encourage victims and witnesses to take action against cases of corruption. LALAC operates a hotline for victims and witnesses to report cases of corruption and receive free legal advice and assistance with their case. The program is currently funded by the European Union, the Lebanese Renaissance Foundation, and the CIPE. In March 2013, LTA launched a one-year project entitled "Corruption Investigator," funded by the United States Agency for International Development (USAID). The project facilitated citizens' access to information throughout various media outlets to promote transparency and accountability and to advocate for a democratic community. In 2014, LTA launched two new branches of LALAC in the North and the Bekaa to facilitate citizen's access to make complaints directly to an independent body.

The local NGO Sakker el Dekkene was established in 2013 to raise awareness against corruption through its innovative and interactive advertisement campaigns. It also encourages citizens to report and talk about their own experiences with corruption. For more information, please go to <https://www.sakker.com>. In 2015 and 2016, the MoET signed a Memorandum of Understanding with Sakker el Dekkene and LTA to promote transparency and reduce the impact of corruption when it occurs.

In 2015, new grassroots movements and campaigns were established to fight against corruption through collective actions in response to the trash crisis, with "You Stink" and "We Want Accountability" among the most prominent of them.

U.S. firms have identified corruption as an obstacle to FDI, including in government procurement, award of contracts, dispute settlement, customs and taxation.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Lebanon ratified the UN Anticorruption Convention in April 2009. Lebanon is not a signatory to the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

There is no government agency responsible for combating corruption. However, in 2015 and early 2016 the government made efforts to combat corruption across several ministries. The Lebanese Transparency Association monitors corruption.

Lebanese Transparency Association
Sami El Solh Avenue, Manhattan Bldg. 6th Floor
Badaro, Beirut
P.O. Box 50-552, Lebanon

Tel/Fax: +961-1-388113/4/5
Email: info@transparency-lebanon.org

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Lebanon does not have a bilateral investment treaty with the United States. However, the United States and the MoET signed a Trade and Investment Framework Agreement (TIFA) in 2006. Apart from pledging to foster an environment conducive to mutual trade and investment, the TIFA requires both parties to set up a United States-Lebanon Council on Trade and Investment that would meet twice a year or more to consult on trade and investment impediments and any other issues of concern. The council, which has not yet been set up, will seek and consider the views of private sector representatives in both countries. Under the TIFA, the United States and Lebanon agreed to a consultation mechanism that may be activated by either party within 60 days in the event of a dispute or other development affecting trade relations.

Lebanon signed the Euro-Mediterranean Partnership (ENP) agreement in 2002, and the interim agreement entered into force in March 2003. The final agreement came into force in April 2006 and the tariff reductions on imported products from the EU started in 2008. The EU and Lebanon launched a review of the ENP in 2014 and finalized it in November 2015. Lebanon signed the Convention on Pan-Euro-Mediterranean Preferential Rules of Origin in October 2014 although the document awaits ratification.

In 2004, Lebanon and the European Free Trade Association (EFTA) signed a Free Trade Agreement (FTA). In November 2010, Lebanon and Turkey signed an association agreement to establish a free trade area and reduce barriers to the free movement of goods, services, capital, and people between the two countries over the subsequent ten years. The agreement is not yet ratified. Lebanon also signed the Greater Arab Free Trade Agreement, which gradually replaced the bilateral FTAs signed with Arab countries including Tunisia, Morocco, Egypt, Iraq, Jordan, Syria, Sudan and the Gulf Cooperation Council states. A regional Economic and Trade Association Council between Lebanon, Syria, Jordan, and Turkey was announced in July 2010.

Lebanon has signed bilateral investment agreements with the following (in alphabetical order): Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium/Luxemburg, Benin, Bulgaria, Canada, Chad, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Guinea, Hungary, Iceland, Iran, Italy, Jordan, Korea (South), Kuwait, Malaysia, Mauritania, Morocco, Netherlands, OPEC Fund, Pakistan, Qatar, Romania, Russia, Slovak Republic, Spain, Sudan, Sultanate of Oman, Sweden, Switzerland, Syria, Tunisia, Turkey, United Arab Emirates, Ukraine, United Kingdom, and Yemen.

Lebanon does not have a bilateral taxation treaty with the United States.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Foreign-owned firms have the same investment opportunities as Lebanese firms. Lebanon has two duty-free zones in operation, the Beirut Port and the Tripoli Port. The WTO-compatible Customs Law issued by Decree No. 4461 fosters the development of free zones. The GoL also

passed Law No. 18, dated September 5, 2008, to set up a Special Economic Zone (SEZ) in Tripoli to attract investment in trade, industry, services, storage, and other services which granted investors tax exemptions and other privileges. USAID provided technical assistance to the GoL to prepare a feasibility study for Tripoli SEZ (TSEZ) in 2011. On April 9, 2015, the cabinet appointed the TSEZ Authority, and efforts are actively underway to build and develop the zone. The World Bank and IFC are updating the feasibility study as well as developing a financial model and licensing regime, and the Authority's next step is to develop a business plan.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (USD)	2013	\$47.2 B	2015	\$51.2 B	www.imf.org/external/pubs/ft/weo/2016/01/
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (USD, stock positions)	2014	\$17.38 M	2014	\$227 M	BEA
Host country's FDI in the United States (USD, stock positions)	N/A	N/A	N/A	N/A	N/A
Total inbound stock of FDI as % host GDP	2015	58.608 B 14.5%	2015	58.608 B 14.5%	UNCTAD

* The Central Administration of Statistics (CAS)

* The Banque du Liban (BdL) statistics on FDI cover banking and financial sector, insurance, and real estate investment; it doesn't include investment in other sectors.

Table 3: Sources and Destination of FDI

The BdL doesn't have statistics on global FDI with geographical breakdown; its statistics on FDI by country only cover banking and finance, insurance, and real estate investment.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	5,290	100%	All Countries	1997	100%	All Countries	3293	100%
United States	1,388	26.2%	United States	730	36.5%	United States	659	20%
United Kingdom	680	12.8%	Bahrain	271	13.5%	United Kingdom	584	17.7%
France	430	8.1%	Jordan	120	6%	France	322	9.7%
Bahrain	322	6%	Saudi Arabia	118	5.9%	United Arab Emirates	192	5.8%
United Arab Emirates	256	4.8%	Luxembourg	116	5.8%	Cayman Islands	171	5.1%

Source: IMF Coordinated Portfolio Investment Survey, June 2015.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

International organization participation:

ABEDA, AFESD, AMF, CAEU, FAO, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRCs, ILO, IMF, IMO, IMSO, Interpol, IOC, IPU, ISO, ITSO, ITU, LAS, MIGA, NAM, OAS (observer), OIC, OIF, OPCW, PCA, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNRWA, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

Legal system:

Mixed legal system of civil law based on the French civil code, Ottoman legal tradition, and religious laws covering personal status, marriage, divorce, and other family relations of the Jewish, Islamic, and Christian communities

Exchange control

There are no restrictions concerning the repatriation of profits, income and capital nor are there any restrictions on the convertibility of currency.

Residents can freely import and export national banknotes. They may own, deal in, export and import gold. Residents may own foreign currencies and foreign securities, and may maintain bank balances abroad.

Non-residents can freely import and export national banknotes. They may maintain foreign currency accounts with banks in Lebanon.

Treaty and non-treaty withholding tax rates

The summary below is extracted from the 2012 PKF Worldwide Tax Guide.

In order to avoid double taxation of some income, treaties have been entered into with various countries to regulate bilateral relations.

The Lebanese double taxation treaty network is one of the widest in the Middle East region with more than 30 treaties signed with different countries.

Title	Signed
Algeria	26 March 2002
Armenia	16 September 1998
Bahrain	7 August 2003
Belarus	19 June 2001
Bulgaria	1 June 1999
Cuba	4 February 2001
Cyprus	18 February 2003
Czech Republic	28 August 1997
Egypt	17 March 1996
France	24 July 1962
Gabon	20 February 2001

Title	Signed
Iran	22 October 1998
Italy	22 November 2000
Jordan	31 October 2002
Kuwait	21 January 2001
Malaysia	20 January 2003
Malta	23 February 1999
Malta - Amending Protocol	16 April 2009
Morocco	20 October 2001
Pakistan	31 August 2005
Poland	26 July 1999
Qatar	23 November 2005
Romania	28 June 1995
Russia	7 April 1997
Senegal	19 October 2002
Sudan	9 March 2004
Sultanate of Oman	12 April 2001
Syria	12 January 1997
Tunisia	24 June 1998
Turkey	12 May 2004
UAE	17 May 1998
Ukraine	22 April 2002
Yemen	29 September 2002

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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Any questions or queries should be addressed to: -

Gary Youinou

Via our [Contact Page](#) at KnowYourCountry.com