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**REPORT ON MISSION TO
THE MINISTRY OF ECONOMY AND TRADE
THE REPUBLIC OF LEBANON**

During the period 16-30 July 1999

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The views expressed in this report are those of the author and do not necessarily reflect those of the United Nations Economic and Social Commission for Western Asia.

ACKNOWLEDGMENT

This report on UNESCWA technical assistance mission undertaken to determine the value-added of Lebanese Industry, at the request of His Excellency the Minister of the Economy and Trade and Minister of Industry of Lebanon, reflects the findings, conclusions and recommendations by Medhat Bakri, the Regional Advisor tasked with that mission.

The Regional Advisor is grateful to His Excellency Dr. Nasser Saidi Minister of the Economy and Trade and Minister of Industry of Lebanon, for taking the time to receive him to explain the request in person. The Regional Advisor also wishes to express appreciation to the Government and NGO Officials who contributed to this mission and in particular Ms. Hala Yared, Assistant to HE the Minister, for accompanying him throughout the meetings, for providing necessary documentation and for invaluable contributions and discussions

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1. INTRODUCTION

On May 25, 1999 the Executive Secretary received a request from HE Nasser Saidi, Lebanese Minister of Economy and Trade and Minister of Industry, requesting "ESCWA to provide technical assistance to the Ministry of Industry and undertake a study on value-added of Lebanese Industry, particularly the Agro-Industrial sector." After due consultation with SIPD, the Executive Secretary assigned this task to the Regional Advisor on Agriculture and Agro-Industries on July 17, 1999.

On July 6, 1999 HE Nasser Saidi, assigned Ms. Taline Urnechlian of HE's office to be the focal point. The Minister received me in his office at the Ministry of Economy and Trade on July 16, 1999. Ms. Urnechlian and Ms. Hala Yared of HE's office attended the meeting. Because Ms. Urnechlian was going on vacation, Ms. Yared replaced her as a focal point. The Minister explained that, to develop an industrial strategy for Lebanon and to negotiate bilateral and multilateral trade agreements that will require lowering of tariffs on imports, the Ministry needs to review and analyze the industrial sector.

The Minister concurred with my understanding, from his first letter to Dr. Beblawi, that Lebanon does not have an Aggregate Value-Added National Income Accounting System. He also agreed that instituting such a system is a huge multi-disciplinary undertaking that should be achieved in the long run.

I understood that there would be problems with the data collection task due to the inadequacy of the reporting system. I suggested using the values of the firm's output and external inputs and existing factor income data for the year, obtained from the final accounts of each producing unit in the Lebanese Industry, to determine the value-added. The value of the reported profit would be ascertained by elimination. Naturally, this method would give the value-added of the entire product mix of the firm as a whole rather than the value-added of product lines within the firm and would depend on the reporting standards of each firm. Such an exercise would produce very useful analytical indicators regarding technology, management and labor effects on efficiency and contribution to the economy, even if informal underground producers would not be part of the results. The Minister agreed that for the time being, there should be no problem with this approach and emphasized the importance of this exercise to studying the effective protection of nominal tariffs to bilateral and multilateral trade negotiations and to Lebanon application for accession to WTO.

The Minister suggested that we concentrate on the Agro-Industrial sector and start by meeting with the relevant personalities in the government and industry for data collection. The Minister instructed Ms. Yared to arrange these meetings and to discuss the 1994 and 1999 "Lebanon Industrial Survey Questionnaires" with me.

2. TERMS OF REFERENCE

- 2.1. To determine the value-added of Lebanese Agro-Industries from existing factor income data obtainable from the final accounts of each producing unit.
- 2.2. To modify the "1999 Lebanon Industrial Survey Questionnaire" to insure acquisition of the data necessary for achieving that task.

3. MEETINGS

3.1. Tuesday July 20, 1999

- 3.1.1. Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry at her office at the Ministry of Economy and Trade, 8:30 – 10:30. *Planning for meetings with Government and NGO's.* It was agreed that in the meetings with Government and NGO officials, we would promote the idea of value-added, explain its benefits and the necessity of determining the value-added of Lebanese Industry:

- 3.1.1.1. To developing an industrial strategy based on comparative performance.
- 3.1.1.2. To conducting bilateral and multilateral trade negotiations currently underway as well as prepare for the WTO accession.
- 3.1.1.3. To establishing a database for sectorial and sub-sectorial opportunity studies, to help identify and compare investment opportunities.

It was also agreed that in these meetings, we would explain the importance of Government and NGO support for the data collection, to acquaint them with the 1999 Industrial Survey Questionnaire and to discuss their role in this process. Furthermore, it was agreed that we emphasize the importance of Agro-Industries and its choice by the Minister as the lead sector in this study and to promote:

- 3.1.1.4. Careful response to the industrial questionnaire.
 - 3.1.1.5. Listing of food and beverages industries.
 - 3.1.1.6. Starting a comprehensive database on food industry.
- 3.1.2. Mr. Adel Choueiry, Director General of the Ministry of Agriculture at his office at the Ministry of Agriculture, 11:30 – 13:00 am. Attendants: Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry and Dr. George Mansour, Director of Statistics.
 - 3.1.3. Mr. Sami Assy, Chief of Technical Affairs and Industrial Services at the Ministry of Industry at his office at the Ministry of Industry, 13:45 – 15:00 am. Attendants: Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry and Mr. Paul Masri and Mr. Kamel Ibrahim, Food Industries Section.

3.2. Wednesday July 21, 1999

- 3.2.1. Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry at her office at the Ministry of Economy and Trade, 13:00 – 16:30. Revision and modification of the “1999 Industrial Survey Questionnaire” with a view to data acquisition for value-added determination.

3.3. Thursday July 22, 1999

- 3.3.1. Meeting with Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry at my office at ESCWA, 8:30.
- 3.3.2. The Industrial Survey Questionnaire Unit at the Ministry of Industry to explain modification to the questionnaire, 9:30 – 10:10. Attendants: Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry.
- 3.3.3. Mr. Atef Idriss, Chairman and CEO of Conserves Moderns Chtaura and President of the Syndicate of Lebanese Food Industries at his office at Conserves Moderns Chtaura, 11:15 – 13:30. Attendants: Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry and Mr. Mohammad Lweis, Financial Manager, Conserves Moderns Chtaura.

3.4. Friday July 23, 1999

- 3.4.1. Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry at her office at the Ministry of Economy and Trade, 13:00 – 15:00. Discussion of the modifications of the “1999 Industrial Survey Questionnaire”.

3.5. Monday July 26, 1999

- 3.5.1. Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry at her office at the Ministry of Economy and Trade, 17:00 – 19:00. Final discussion of the modifications of the “1999 Industrial Survey Questionnaire”.

3.6. Wednesday July 28, 1999

- 3.6.1. Mr. Azzeddine Azzabi, FAO Expert, Chief Technical Advisor to the Ministry of Agriculture at his office at the Ministry of Agriculture, 9:30 – 10:20 am. Attendants: Ms. Hala Yared, Assistant to the Minister of Economy and Trade and Minister of Industry.

4. FINDINGS

- 4.1. The Lebanese government does not require Lebanese enterprises to report the results of their activities periodically or at the end of the financial year. Naturally, such lack of data deprives the public from the transparency necessary for the

proper functioning of the financial markets. At the same time, the unavailability of data prevents the government from conducting the studies and analyses required for drawing the strategies and policies necessary for the management and regulation of the economy.

- 4.2. The 1994 Industrial Survey conducted by the Ministry of Industry is strictly a "head count" that does not provide the policy maker with needed information.
- 4.3. There is a complete absence of the data required for the determination of the value-added of the Lebanese Industry. This will force delay of completion of the required task until it is obtained from the "1999 Industrial Survey Questionnaire."
- 4.4. All Government and NGO officials interviewed showed clear understanding of the importance of the determination of the value-added of Lebanese Industry and rendered support for this mission. Every official gave us the time and cooperation we needed.
- 4.5. The Ministry of Agriculture is establishing, with FAO assistance, a permanent system for Agricultural Information. The system will be established in several layers encompassing the resources and the production chain. The Ministry has just finished the first total survey of Lebanese agriculture, in which Lebanon was divided into 20 area frames to be included in GIS implementation.
- 4.6. Mr. Atef Idriss, President of the Syndicate of Lebanese Food Industries, is now convinced of the necessity of the questionnaire and the importance of the value-added exercise to developing an industrial strategy based on comparative performance and in conducting bilateral and multilateral trade negotiations.
- 4.7. Value-added calculations conducted by Conserves Modernes Chtaura for product families show approximations of the aggregate value-added across the production chains in the agricultural and industrial sectors in Lebanon, rather than that of each producing unit.

5. SERVICES PROVIDED

- 5.1. We reviewed and modified the "1999 Industrial Survey Questionnaire," to allow calculation of the value-added of business firms.
- 5.2. We promoted careful response to the 1999 Industrial Survey Questionnaire and listing of food and beverages industries.

6. CONCLUSIONS

There are clear benefits to be gained from the application of the aggregate value-added method in the areas of economic analysis and assessment of the efficiency of each economic unit and its contribution to the general economy and on the effective protection of nominal tariffs as well as taxation. The accuracy of this method depends on the development of complicated National Resource-Flow and Money-Flow Model for the National Income Accounting System that insures the nonexistence of duplication or omission. This is a huge multi-disciplinary undertaking that should be achieved in the long run.

For the time being, there should be no problem with using the values of the firm's output and external inputs and existing factor income data for the year, obtained from the final accounts of each producing unit in the Lebanese Industry, to determine the value-added. The value of the reported profit would be ascertained by elimination. This method would give the value-added of the entire product mix of the firm as a whole rather than the value-added of product lines within the firm and would depend on the reporting standards of each firm. Naturally, informal underground producers would not be a part of this result. However, such an exercise would produce very useful analytical indicators regarding technology, management and labor effects on efficiency as well as on the effective protection of nominal tariffs. Meanwhile, the very important value-added culture would be implanted gradually into the Lebanese economy.

Because data acquisition will not be possible before the return of the "1999 Industrial Survey Questionnaire", this mission will have to be suspended and resumed as soon as the questionnaire is returned, before the end of the year.

7. RECOMMENDATIONS

7.1. Stepwise institutionalization of value-added culture

- 7.1.1. As soon as possible, calculate the value-added for each unit and for each activity from existing accounting data to be obtained from the returned questionnaire.
- 7.1.2. Then, develop a resource-flow and money-flow model and implement an aggregate value-added National Income Accounting System.

7.2. Establishment of a permanent Industrial Information System

- 7.2.1. The data obtained from the "1999 Industrial Survey Questionnaire" will provide a mere snapshot. This will need to be followed up by the establishment of a permanent Industrial Information System to provide continuous monitoring of the industrial sector. This Information system could be developed, funded and established as an independent project.
- 7.2.2. Legislation of a new comprehensive legal umbrella for business in Lebanon to insure, among other things, proper reporting and transparency as well as facilitate the functioning of the permanent Industrial Information System.



