

WORLD BANK REGIONAL REPORT
JOBS OR PRIVILEGES: UNLEASHING THE EMPLOYMENT POTENTIAL OF THE
MIDDLE EAST AND NORTH AFRICA

LEBANON ISSUE BRIEF

PROBLEM

The private sector did not create enough jobs to absorb the expanding labor force into the formal economy. This has led to high unemployment, especially among young people and women, and to a large informal economy, concentrated in small, low productivity activities.

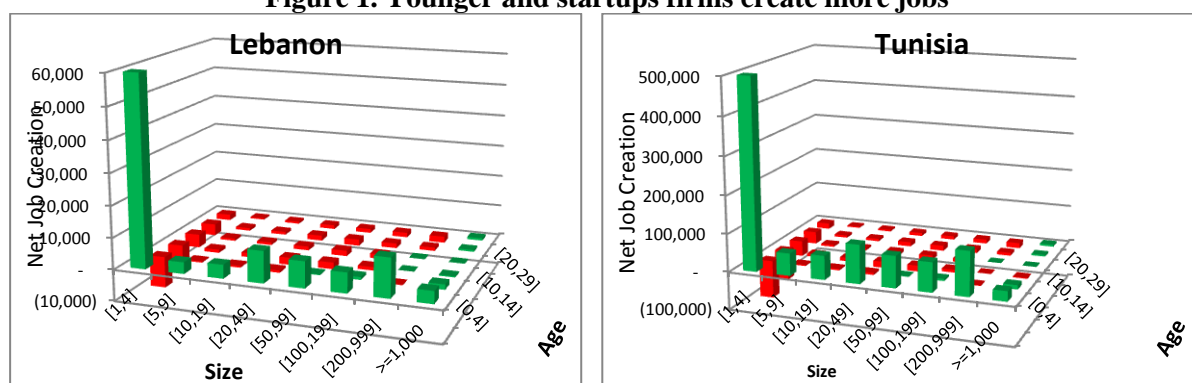
Question: Why was private sector job creation weak? What is needed to create more jobs in Lebanon?

Answer: Open markets to provide an environment of fair competition where new firms and startups can strive and unleash faster job creation.

ANALYSIS

Young firms and startups are the engines of job creation in Lebanon. In Lebanon - as in most countries in the region as well as in high-growth economies – it is young firms and startups that create most jobs. Figure 1 below illustrates this finding. It shows that micro-startups – firms between 0 to 4 years of activity and with less than 4 workers - accounted for 177 percent of aggregate net job creation and generated about 66,000 jobs in Lebanon between 2005 and 2010. The second largest number of jobs (12,000) was created by young large firms with 200-999 employees.

Figure 1. Younger and startups firms create more jobs



Notes: From World Bank (2014). The graphs show net job creation in Lebanon from 2005-2010 and in Tunisia from 1996-2010. Size-age categories that created jobs are in *green* while categories that shed jobs are in *red*.

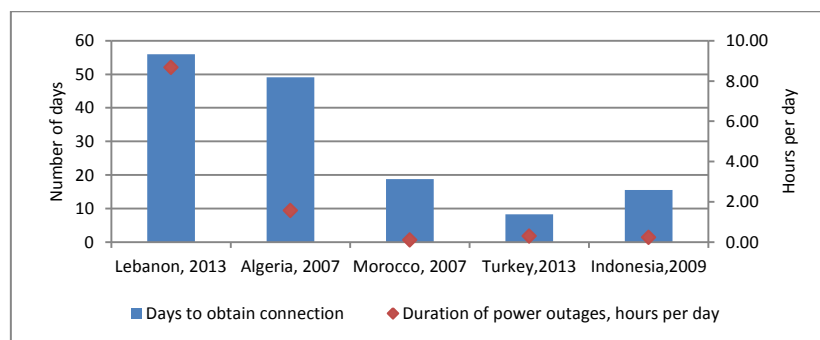
More productive firms also create more jobs. In Lebanon a 1 percent increase in firm productivity raises job creation by 3.9 percent. Consistent with these findings, fast growing firms – the so called “gazelle” firms – are more productive and younger than non-gazelle firms.

However, startup creation is low pointing to many barriers to starting a business and competition. The rate of creation of new firms in the manufacturing and services sectors in Lebanon are low relative to regional comparators. For instance the entry rate of new services firms is only 9 percent in Lebanon indicating that only 9 new firms are opened for every 100 existing firms, compared to 12 new firms in a fast-growth economy such as Turkey. In

manufacturing there are only 7 new firms for every 100 existing firms in Lebanon compared to 9.5 new firms in Turkey.

Moreover most firms in Lebanon do not improve their productivity significantly over time due in particular to low competition and poor performance in backbone services such as electricity. Productivity is undermined in particular by a highly volatile and uncertain political environment as well as poor backbone services such as electricity. For instance firms in Lebanon have to wait 56 days to obtain an electricity connection and experience over 50 power outages per month of an average duration of 8.7 hours per day compared to 19 days in and 6 minute of power outages per day in Morocco (Figure 2).

Figure 2. Low competition in the electricity sector undermines firm performance



Notes: Data are from World Bank Enterprise Surveys, various years.

Entrepreneurs in Lebanon do not consider the implementation of policy to be predictable and consistent. Over 43 percent of firms disagree with the statement that policy implementation is “consistent and predictable”. As a consequence firm managers spend over 12 percent of their time dealing with various government entities. The discretionary policy implementation breeds corruption and special treatment for a few privileged firms.

SOLUTION

Reform the policies that undermine open markets and competition for the advantage of a few privileged firms. Policies that need to be reformed include administrative barriers to firm entry, cumbersome bankruptcy laws, exclusive license requirements to operate in specific sectors, legal barriers to Foreign Direct Investment in services, trade barriers, or barriers to access to the judiciary, land, or industrial zones.

Policymakers should reduce the space for discretionary policy implementation and ensure that laws and regulations are enforced equally across firms and that policy is designed and implemented by a strong, capable, and accountable administration. The latter can be supported by linking entry into and promotions within the administration to merit, judged on the basis of potential or actual contributions to the legitimate goals of public policy.

One critical aspect of this reform agenda is to create institutions that promote and safeguard competition and equal opportunities for all entrepreneurs. These include a strong competition law and an independent competition authority; appropriate procurement laws and implementation; an independent judiciary, and so forth.

Citizens should also have access to information on proposed and ratified laws and regulations; citizen input into policy design and evaluation; citizen knowledge of politicians’ stakes in firms that benefit from government policies; and citizen awareness of the beneficiaries of subsidies, procurement tenders, public land transactions, privatizations, etc. Ultimately a process of consultation, inputs and debate between policymakers and citizens will need to be established.

For references and detailed analysis and policy recommendations, refer to Chapter II in the complete 2014 World Bank Regional Report: “Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa”.