

Report on Lebanon

Lebanon is ranked at seventh position on the 2013 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

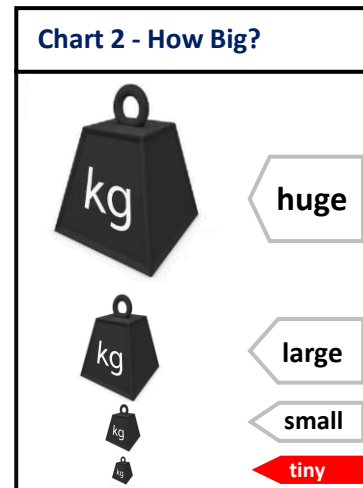
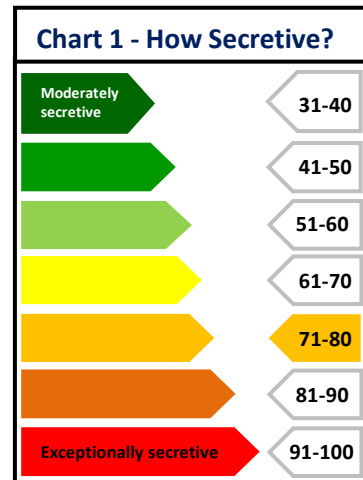
Lebanon has been assessed with 79 secrecy points out of a potential 100, which places it near the top end of the secrecy scale (see *chart 1* below).

Lebanon accounts for less than 1 per cent of the global market for offshore financial services, making it a tiny player compared with some other secrecy jurisdictions – as *chart 2* shows.

Part 1: Telling the Story

The earliest roots of Lebanon's status as an offshore financial centre date back a century or so. Between the First and Second World Wars, many Lebanese [emigrated](#) to parts of the developing world, particularly to Latin America and to Africa, especially to French African colonies. This disparate group soon began to develop as a classic successful trading diaspora, initially operating as middlemen beneath colonial Europeans in the trading hierarchy, but above indigenous locals – and then, amid decolonisation, becoming increasingly powerful in many economies, tapping the diaspora's large international trading networks, and expanding into diamond mining and many other sectors. These international networks remain substantially in place today and are a 'patriotic' cornerstone of Lebanon's surprisingly resilient offshore banking sector.

Lebanon itself first became a trading nation of note following the creation of Israel in 1948, which saw Beirut supplant Israel's commercial port of Haifa as the commercial centre of the Middle East. According to financial historian Tom Naylor ([p34](#)), the subsequent Suez crisis of 1956 boosted Beirut, helping it displace Cairo as the beachhead for European business into that region of the Middle East. That same year, Lebanon created its banking secrecy law, a major factor that helped cement Lebanon's role as a secrecy jurisdiction. During that period, and afterwards, Beirut sought to position itself as a commercial and financial entrepôt for the region, much as Dubai has done more recently. As one account puts it, Lebanon



“was committed, to an unusual degree, to a flexible, free wheeling form of laissez faire capitalism.”¹

The original architect of Lebanon’s financial centre was a Palestinian Lebanese banker, Yousef Beidas, who set up the now notorious Intra Bank in 1951, which has been described as:

“one of the Middle East's greatest financial success stories and later one of its most disastrous financial collapses.”

By the time of the bank’s collapse in 1966, the bank’s holding company controlled the Port Authority, Middle East Airlines, the Casino du Liban – the world’s largest – the main radio station, and much more: a variant of the financially [‘captured state’](#) that we have encountered in secrecy jurisdiction after jurisdiction - with echoes of the financial ‘capture’ of Dubai that we have noted in that jurisdiction’s [narrative report](#). Beidas, of course, played a central role in the setting up of the 1956 banking secrecy law. However, his political links, including his role as a major funder of the Palestinian Fatah movement, are believed to have been a key factor in the bank’s demise when it ran into liquidity difficulties in 1966, and his creditors would not bail him out. As Naylor notes:

“Although the bank’s rise and subsequent fall could be ascribed at least partly to ‘political’ factors, the situation should have highlighted the dangers inherent in financial institutions relying on hot and homeless money for funding their lending and investment.”

But by the time of the OPEC oil embargoes of the 1970s and the gigantic ensuing financial windfalls into Arab treasuries, Lebanon was well established as a financial centre for the region – and it was so successfully ring-fenced against domestic turmoil that deposits reportedly doubled between 1975 and 1980 – an astonishing feat given that Lebanon was in the grip of civil war during the period. The fact that Lebanon has a history of setting its banks up with large capital buffers – itself probably due to the history of political turmoil – is one factor preventing the flight of deposits. Another account in the American Political Science Review² is more colourful:

““The regime survived in no small measure because of the commitment, and indeed heroism, of the Lebanese central and commercial bankers and their employees, who dodged bullets, paid off rival militias, and managed to keep their doors open for all but a few months of a 10-year nightmare.

. . .

Not even the law of the jungle prevailed, so dense and overgrown was its underbrush of class, regional, and international, as well as sectarian, conflicts.”

The account cites further factors: Lebanon's large and appreciating gold reserves, the resilience of Lebanon's export economy, as well as local bankers' strong networks of mutual trust, enabling them to roll over loans indefinitely and prevent large-scale collective bankruptcies.

The civil war lasted until 1991 and although there was some eventual damage to the financial sector, it rebounded again quickly in the 1990s, helped not only by the fact that Lebanon did not default on its debts during the war, but also by the constant flow of remittances from the powerful Lebanese diaspora which, at 21 percent of GDP in 2007, is among the highest rates in the world ([pp4-5](#)). The banking system largely shrugged off the global financial crisis of 2008 onwards, with deposit inflows continuing [to grow](#) at 20 percent annually.

The Lebanese offshore centre today

Nearly half a century after the introduction of Lebanon's banking secrecy law, secrecy remains an important pillar of Lebanon's financial centre today. While there is some exaggeration in one offshore practitioner's [boast](#) that Lebanon's banking secrecy is "the strongest in the world," it does offer a range of secrecy facilities, and its secrecy score of 79 is very high indeed.

Although official statistics suggest that non-residents account for only a small share of Lebanese deposits, this classification is not taken seriously³, and the IMF notes that

"Banks fund their positions from deposits, which reached 267 percent of GDP in 2006, a large part of which held by non-residents."

It adds that:

"Anecdotal evidence from local banks suggests that the Lebanese Diaspora (most of whom have a Lebanese address) is the largest group of depositors. This Diaspora includes a significant share of high net worth individuals, many doing business in countries with underdeveloped banking systems. Depositors from other Arab countries reportedly hail mostly from Syria, West Bank and Gaza, Iraq, Jordan, Saudi Arabia, Kuwait, and UAE."

Most astonishingly, it adds that while Lebanon's population is four million, the Lebanese Diaspora is estimated at anywhere between 5 million and 16 million-strong; the World Bank [estimated](#) these remittances at \$7.6 billion annually in 2010-2012. Many members of the highly successful Lebanese diaspora are high-net worth individuals and they [include](#) the Lebanese-Mexican telecoms tycoon Carlos Slim, the world's richest man, as well as Carlos

Ghosn, the French-Lebanese-Brazilian boss of carmakers Renault and Nissan. Nicholas Hayek, a Swiss-Lebanese, runs Swatch, the biggest maker of Swiss watches.

The role of the diaspora makes Lebanon a very particular kind of offshore financial centre.

According to a [2013 report](#) by the U.S. State Department's International Narcotics Control Strategy (INCSR):

“Lebanon faces significant money laundering and terrorist financing challenges. Reports suggest that a number of Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities. In 2011, Lebanese Canadian Bank (LCB) was designated as a financial institution of primary money laundering concern under Section 311 of the USA PATRIOT Act. Laundered proceeds come primarily from foreign criminal activity and organized crime, and Hizballah, which the United States has designated as a terrorist organization, though the Government of Lebanon (GOL) does not recognize this designation.

...

Lebanese expatriates in Africa and South America have established financial systems outside the formal financial sector, and some are reportedly involved in TBML [trade-based money laundering] schemes. Lebanese diamond brokers and purchasing agents are reportedly part of an international network of traders who participate in underground activities including the trafficking of conflict diamonds, diamond trade fraud (circumventing the Kimberly process) and TBML.”

Lebanon has taken some very limited steps to come into line with international standards on transparency: it created a new money-laundering law in 2001, the year of the major terrorist attacks on the United States; and in 2011 it imposed certain new restrictions on banks related to terrorist financing and money laundering, [reportedly](#) with a view to mitigating “reputational risk to which banks and financial institutions might be exposed and to protecting the utmost national interest.”

However, a 2012 [report on Lebanon](#) by the OECD Global Forum points to a litany of serious shortcomings. It noted:

“Lebanese authorities do not have access to information held by banks, fiduciary institutions and other institutions within the financial industry, for tax purposes. Although the Lebanese competent authority can exchange any information already in its possession, it is unclear whether it has powers to access information for exchange purposes when the information is not required for its own tax purposes.

...

Due to strict bank secrecy obligations, the Ministry [of Finance] cannot access information regarding transactions and the identity of customers of banks and other entities within the financial sector, including fiduciaries under a Lebanese fiduciary

contract. Moreover, the scope of the professional secrecy safeguards appears to be broader than the professional secrecy protected under the international standard."

...

Bearer shares and to-order shares may be issued by joint stock companies and partnerships limited by shares, and adequate mechanisms to ensure that the owners of such shares can be identified are not in place. Lebanese law does not ensure that information identifying the settlors, trustees and beneficiaries of foreign trusts with a Lebanese trustee is available, in particular when the trustees is acting outside the financial industry and thus not subject to AML obligations."

Combined with the secrecy, in common with many other secrecy jurisdictions, Lebanon offers significant tax exemptions for non-residents, [including](#) on profits, on stamp duties on contracts, inheritance taxes, corporate income taxes, dividend distributions, capital gains, Interest, and more.

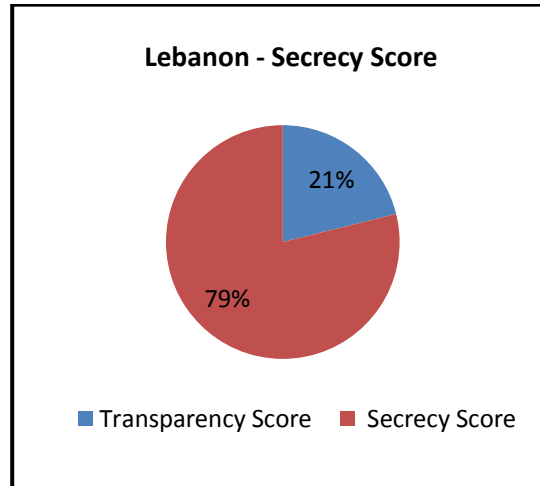
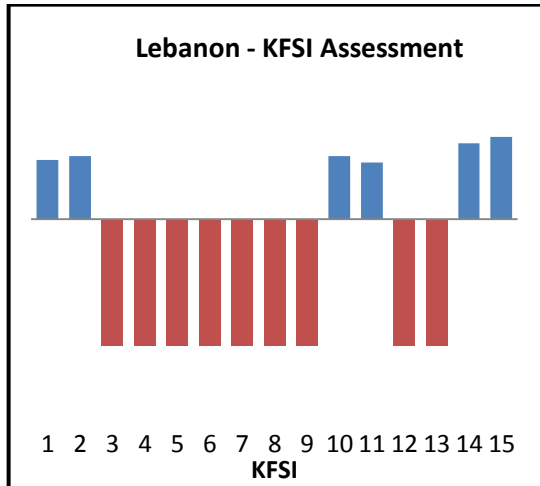
Lebanon's ranking rose sharply from 22nd position (of 73) in our 2011 Financial Secrecy Index to 7th (of 82) in 2013. This change was largely due to a sharp spike in the scale weighting of Lebanon, based on IMF data. The IMF told us that the sharp spike was itself the result of improved data collection methods in Lebanon. Similar spikes can be seen in certain other measures, such as [this one](#) – which may also be due to data collection issues.

Next steps for Lebanon

Lebanon's 79 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Lebanon's shortcomings on transparency. See this link <http://www.financialsecrecyindex.com/kfsi> for an overview of how each of these shortcomings can be fixed.

Part 2: Secrecy Scores

The secrecy score of 79 per cent for Lebanon has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a blue bar indicates a positive answer, as does blue text in the KFSI list below. The presence of a red bar indicates a negative answer as does red text in the KFSI list. Where the jurisdiction’s performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured violet (combination of red and blue).

This paper draws on key data collected on Lebanon. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2012⁴. The full data set is available [here](#)⁵. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Lebanon. Details of these indicators are noted in the following table and all background data can be found on the [Financial Secrecy Index website](#)⁶.

The Key Financial Secrecy Indicators and the performance of Lebanon are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Lebanon	
1.	Banking Secrecy: Does the jurisdiction have banking secrecy? Lebanon does not adequately curtail banking secrecy
2.	Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented? Lebanon partly discloses or prevents trusts and private foundations

3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies? Lebanon does not maintain company ownership details in official records
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Lebanon	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10/€10? Lebanon does not require that company ownership details are publicly available online
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10/€10? Lebanon does not require that company accounts be available on public record
6.	Country-by-Country Reporting: Are all companies required to comply with country-by-country financial reporting? Lebanon does not require country-by-country financial reporting by all companies
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Lebanon	
7.	Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents? Lebanon does not require resident paying agents to tell the domestic tax authorities about payments to non-residents
8.	Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit? Lebanon does not use appropriate tools for efficiently analysing tax related information
9.	Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments? Lebanon does not avoid promoting tax evasion via a tax credit system
10.	Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses? Lebanon partly allows harmful legal vehicles

INTERNATIONAL STANDARDS AND COOPERATION – Lebanon	
11.	<p>Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?</p> <p>Lebanon does not comply with international anti-money laundering standards</p>
12.	<p>Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?</p> <p>Lebanon does not participate fully in Automatic Information Exchange</p>
13.	<p>Bilateral Treaties: Does the jurisdiction have at least 46 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?</p> <p>As of 31 May, 2012, Lebanon had no tax information sharing agreements complying with basic OECD requirements</p>
14.	<p>International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?</p> <p>Lebanon has partly ratified relevant international treaties relating to financial transparency</p>
15.	<p>International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?</p> <p>Lebanon partly cooperates with other states on money laundering and other criminal issues</p>

¹ [Paradise Lost: Memories of a Golden Age](#), From the Saudi Aramco World Magazine, Sept-Oct 1982, vol. 33 No. 5.

² [Prisoners' Financial Dilemmas: A Consociational Future for Lebanon?](#), Clement Henry Moore, American Political Science Review, Vol. 81, No. 1, March 1987.

³ As the IMF notes, The classification of resident and non-resident deposits is essentially based on whether the holder of the deposit lists a Lebanese address, which is generally not a useful metric for establishing residence, particularly given the size of the Lebanese diaspora.

⁴ With the exception of KFSI 13 for which the cut-off date is 31.05.2013. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.financialsecrecyindex.com/PDF/13-Bilateral-Treaties.pdf>.

⁵ That data is available here: <http://www.financialsecrecyindex.com/database/menu.xml>.

⁶ <http://www.financialsecrecyindex.com>.