

NARRATIVE REPORT ON LEBANON



PART 1: NARRATIVE REPORT

Lebanon is ranked 26th on the 2020 Financial Secrecy Index, based on a secrecy score of 64, and a low scale weighting for the size of its offshore financial services sector, at 0.32 per cent of the world total.

History of the Lebanese tax haven

Lebanon has historically had a large offshore financial sector, catering mostly to Arab countries and to the large and successful Lebanese diaspora there and further afield. The diaspora is so extensive that its numbers are similar to Lebanon’s own population,¹ and the IMF (p38) identifies it, alongside banking secrecy, currency convertibility and high interest rates, as a cornerstone of a banking sector that is unusually large for a country of Lebanon’s income level.²

Lebanon’s total population is around four million (plus, now, one and a half million [Syrian refugees](#)).³ Many members of the diaspora are high-net worth individuals and [include](#) such world-famous names as Carlos Slim, the Lebanese-Mexican telecoms tycoon who is the world’s richest man; Carlos Ghosn, the French-Lebanese-Brazilian former boss of carmakers Renault and Nissan; and Nicholas Hayek, a Swiss-Lebanese who runs Swatch, the biggest maker of Swiss watches.⁴

Lebanon’s political and military troubles over recent decades have certainly disrupted the offshore financial sector, though the country has proved astonishingly resilient in the face of these shocks. Beirut’s offshore financial services sector has grown relatively steadily this century,⁵ with banking deposits estimated at [US \\$260 billion](#) by October 2019.⁶ With banking assets in excess of 440 per cent of GDP, Lebanon is more heavily dominated by its banking sector than most other financial centres around the world.⁷

Offshore pre-history

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 – and especially to French African colonies. This diaspora soon began to develop as a classic successful trading network, initially operating as middlemen between European colonials and indigenous locals. With the gradual advent of decolonisation after the Second World War, Lebanese businesspeople became increasingly influential in many economies, tapping the diaspora’s large and often family-dominated international trading networks and expanding into diamond mining and other lucrative sectors. These networks remain substantially in place today and are a ‘patriotic’ cornerstone of Lebanon’s surprisingly resilient offshore banking sector.

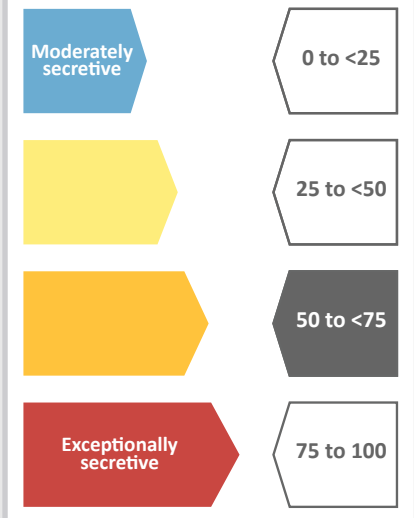
Lebanon itself became a trading nation of note after the creation of Israel in 1948: a change that saw Beirut supplant Israel’s commercial port of Haifa as the trade capital of the Middle East.

A trading entrepôt becomes a financial hub

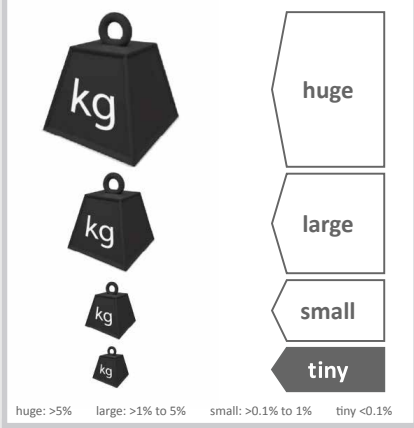
The original architect of Lebanon’s financial centre was a Palestinian Lebanese banker, Yousef Beidas, who set up the now notorious Intra

Rank: 26 of 133

How Secretive? 64



How big? 0.32%



Lebanon accounts for 0.32 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.
 Full data is available here: <http://www.financialsecrecyindex.com/database>.
 To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.
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Bank in 1951. The bank has been described as:

“ [...] one of the Middle East’s greatest financial success stories and later one of its most disastrous financial collapses.”⁸

Beidas’ influence helped cement in Beirut a factor that is common to all tax havens: as one analyst put it, Lebanon

“was committed, to an unusual degree, to a flexible, free-wheeling form of *laissez faire* capitalism.”⁹

Two other factors combined to give the sector a kick-start. The first was Lebanon’s banking secrecy law, passed in 1956 under Beidas’ strong influence. The second was the Suez crisis of 1956, which according to financial historian Tom Naylor (2004, p34) frightened many Egyptian investors and helped Beirut displace Cairo as the beachhead for European business into that region.¹⁰

From then on, Beirut increasingly sought to position itself as both a commercial and a financial entrepôt for the region, much as Dubai has done more recently.

By the time Beidas’ Intra Bank collapsed in 1966, its influence was huge: its holding company controlled the Port Authority, Middle East Airlines, the Casino du Liban – the world’s largest – the main radio station, and more besides. The bank’s scale of activities and its far-reaching political clout created a Lebanese variant of the financially ‘[captured state](#)’ that we have encountered in every secrecy jurisdiction we have analysed (for the nearest comparable example, see our [Dubai report](#)). Naylor (2004, p.35) notes of Intra Bank’s demise:

“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.”

OPEC brings a flood of petrodollars and resilience to crises

The OPEC oil price hikes of the 1970s brought economic crisis to western economies, but the Arab world saw the opposite effect, with huge oil windfalls tumbling into Arab treasuries. Beirut, like Dubai, was a major beneficiary.

However, Lebanon was beset with its own political turmoil, including a vicious civil war which erupted in 1975. Yet such was the resilience of its financial sector, and of the Lebanese diaspora, that the sector continued to survive and even flourish, to many outsiders’ astonishment.

In the same way that the potential for conflict was a factor in turning Switzerland into a secrecy jurisdiction, Lebanon’s financial centre seems to have turned adversity into a strength, by creating structures to deal with it. In Lebanon’s case the main mechanism was that banks were set up and maintained with large capital buffers. Yet this obscures a more human story, as an account in the American Political Science Review¹¹ describes it:

“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 same 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. Astonishingly, bank deposits reportedly doubled between 1975 and 1980, amid episodes of fighting in the streets.

The civil war lasted until 1991 and although there was some inevitable damage to the financial sector during this period it rebounded again quickly in the 1990s, helped not only by the fact that Lebanon never defaulted on its debts during the war, but also by the constant flow of remittances from the diaspora which, at 21 per cent of GDP in 2007, was among the highest rates in the world ([pp4-5](#)).¹²

Lebanon’s political turmoil adds another unusual twist to the tale of its offshore centre: its strategic position in regional (and global geopolitics) means that some powerful countries such as the United States have a strong interest to avoid Lebanon becoming a financial failure, and this provides a confidence-boosting backstop for certain hardy investors. As the IMF [noted in 2008 \(p.6\)](#):

“Lebanon, at present, benefits first and foremost from a perceived implicit guarantee from donors, but also from its reputation in credit markets and a unique investor base.”¹³

The banking system largely shrugged off the global financial crisis of 2008 onwards, with growth of deposit inflows [peaking](#) at around 20 per cent annually.¹⁴ But the recent conflict has seen significant softening of inflows, along with growing dollarization of deposits. The August 2019 Article IV report of the IMF pointed to “exceptionally large domestic and external imbalances and [the need to] mitigate Lebanon’s vulnerabilities” (p.1, [Staff Report](#)), and showed (in Box 1) a decisive downturn in deposit growth from late 2017 – despite the Banque du Liban’s efforts.¹⁵

The Lebanese offshore centre today: backstopped by secrecy

Official statistics suggest that non-residents have accounted for only a small share of Lebanese deposits, but informed observers do not take this classification seriously.¹⁶

The existence of the “offshore” diaspora as a source of banking sector profits has been complemented, of course, by financial secrecy. Over half a century after the introduction of Lebanon’s banking secrecy law, it remains a cornerstone of the financial centre. 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 64 on this year’s Financial Secrecy Index – decreased from 2018’s high score of 72.

Lebanon has taken limited steps to come into line with international standards on transparency. Under the original Banking Secrecy Law of 1956, Lebanese bank staff could not disclose banking information unless the customer gave consent, was declared bankrupt, or became party to legal proceedings involving the bank.¹⁷ In 2001, Lebanon made a further exception to this regime of confidentiality by creating the Special Investigation Commission (SIC), which was empowered to lift banking secrecy for suspected money-laundering offences. Over time, the SIC’s powers have increased to meet international concerns about other issues. Law No. 44/2015 empowered the SIC to lift banking secrecy for suspected tax evasion, terrorism financing, and other finance-related crimes. Theoretically, the new law created a mechanism for better auditing of both Lebanese and non-Lebanese tax compliance.¹⁸

Lebanon seemingly continued to offer banking secrecy as a unique selling point despite these legislative developments. François Bassil, President of the Association of Banks in Lebanon, [said in 2015](#):

“Lebanon has no intention to abandon the banking secrecy law, although Switzerland and other countries may remove this law eventually.”¹⁹

However, international events are pulling the Lebanese banking sector in a different direction. Several powerful countries have succeeded in accessing information from Lebanese banks in order to audit their citizens by other means. Since 2014, Lebanese banks took steps to comply with the Foreign Account Tax Compliance Act (FATCA), a US law that requires foreign banks to provide information to American tax investigators. Lebanese banks now insist that American customers waive their right to secrecy, allowing for compliance with FATCA. Lebanon also participates in the OECD’s Common Reporting Standard, under which multiple countries exchange information on the financial accounts held in the name of each other’s residents. Among others, these agreements cover nations with large Lebanese expatriate communities like Brazil, France, the United Arab Emirates, Saudi Arabia, the United Kingdom, Canada, and Australia.²⁰

The requirement to cooperate with new international standards of transparency may have reduced the appeal of Lebanon as a financial secrecy jurisdiction, but most competing jurisdictions have bowed to the same pressure so the overall effect may not be large. And of course, Lebanese banks can continue providing offshore banking services as usual to customers in countries not party to these information exchange agreements – many of which are likely in the Global South. By contrast, Lebanese tax collection remains very inefficient. Lebanese residents are entitled to sweeping guarantees of banking secrecy, and the Ministry of Finance can only access banking information with the approval of both the SIC and the public prosecutor.

Lebanon’s strong focus on financial secrecy has naturally made the country a hotbed of illicit activity. According to a [2015 report](#) by the US State Department’s International Narcotics Control Strategy (INCSR):

“Lebanon faces significant money laundering and terrorism financing challenges [...] media reports suggest that a number of Lebanese abroad are involved in underground finance and trade-based

money laundering (TBML) activities. Laundered proceeds come primarily from foreign criminal activity and organized crime, and from Hizballah, which the United States has designated as a terrorist organization, though the Government of Lebanon 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 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 Kimberley Process²¹), and TBML.”

“Exchange houses are reportedly used to facilitate money laundering and terrorism financing, including by Hizballah. Although offshore banking and trust and insurance companies are not permitted in Lebanon, the government has enacted regulations regarding the activities of offshore companies and transactions conducted outside Lebanon or in the Lebanese Customs Free Zone. Offshore companies can issue bearer shares.”²²

A 2012 [report on Lebanon](#) by the OECD Global Forum pointed to a litany of serious shortcomings.²³ 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 trustee is acting outside the financial industry and thus not subject to AML obligations.”

The State Department’s [2017 INCSR report](#) noted improvements, including that ‘Lebanese authorities have revoked licenses and increased regulatory requirements for exchange houses that facilitate money laundering,’ and that the anti-money laundering regulations had been widened to include notaries, lawyers and accountants.²⁴ Lebanon remains on its list of jurisdictions of primary money laundering concern, though, and the report describes the role of Lebanese financial institutions in laundering and moving criminal proceeds through West Africa and back into Lebanon.

Lebanon [joined the OECD’s Common Report Standard](#) in May 2017,²⁵ in time to begin exchanging information in 2018 and as at 21 December, 2017 forty one bilateral agreements were activated. It has not joined the BEPS Inclusive Framework whose core standards include a form of country-by-country reporting, and it has not made any moves to collect information on beneficial ownership of companies. Legal ownership information is compromised by the continued circulation of bearer shares, and in 2016 the OECD’s Global Forum noted ongoing problems with accessing information in order to exchange it [\(p34\)](#):

“Under the procedure for accessing bank information, a prior notification is made in writing to the person under investigation. There are no exceptions to this notification of the account-holder prior to exchange of information, for example for cases where the information requested is of a very urgent nature, or where prior notification is likely to undermine the chance of success of the investigation in the requesting jurisdiction.”²⁶

In common with many other secrecy jurisdictions, Lebanon combines its secrecy offering with

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.²⁷

The combination of tax exemptions and secrecy offerings make Lebanon a ‘classic’ tax haven or secrecy jurisdiction, rather narrowly focused, with relatively few financial sector alternatives to fall back on if it were to row back on secrecy. This relative lack of alternatives will make reform of the sector quite hard, not least because of path dependence issues; offshore bankers do not have many skills that can be readily transferred to other, more productive, occupations. Yet recent political events may force the banking sector’s hand.

The October 17 protest movement had brought Lebanon to a virtual standstill at the time of writing, as activists demonstrated against widespread corruption and financial mismanagement. Public debt has spiralled out of control, and Lebanese banks – which suffer from enormous exposure to the failing Central Bank – are on the verge of collapse. Lebanon’s looming economic crisis, coupled with enhanced international tax reporting requirements, have made Lebanese banks a less attractive place to deposit money. Before too long, the curtain may well fall on banking secrecy in Lebanon.

With thanks to David Wood, researcher and freelance journalist.

Endnotes

- 1 “There is no reliable source on the number of Lebanese living outside the country [...] Estimates vary widely but a figure of 3 to 4 million Lebanese abroad is often cited.” P.42 in Éric Verdeil and Bruno Dewailly, ‘International Migration and the Lebanese Diaspora’, pp.42-43 in *Atlas of Lebanon: New Challenges*, Paris: Institute francais du Proche-Orient: <https://books.openedition.org/ifpo/13224?lang=en>; 09.01.2020. See also reference to diaspora estimates ranging from 4 million to as high as 13 million, per Françoise De Bel-Air, “Migration Profile: Lebanon,” Migration Policy Centre, May 2017: https://cadmus.eui.eu/bitstream/handle/1814/46504/RSCAS_PB_2017_12_MPC.pdf?sequence=1; 09.01.2020.
- 2 <http://www.imf.org/external/pubs/ft/scr/2014/cr14238.pdf>; 09.01.2020.
- 3 <http://reporting.unhcr.org/sites/default/files/pdfsummaries/GA2020-Lebanon-eng.pdf>; 06.01.2020.
- 4 <https://www.economist.com/news/business/21573584-business-people-lebanon-fare-better-abroad-home-tale-two-traders>; 27.01.2020.
- 5 <https://www.worldfinance.com/banking/lebanese-banking-thrives-in-tough-economic-conditions>; 09.01.2020.
- 6 <https://www.abl.org.lb/Library/Assets/Gallery/Documents/Economic Letter October 2019 new.pdf>; 09.01.2020.
- 7 <https://www.imf.org/en/News/Articles/2019/10/17/pr19378-lebanon-imf-executive-board-concludes-2019-article-iv-consultation-with-lebanon>; 09.01.2020. These IMF projections (published October 2019) indicate commercial bank assets will exceed 450% of GDP in 2020; and as the IMF put it in July 2014 (p.34): “With assets of about 400 per cent of GDP, Lebanon is among the top international banking centers, after the Bahamas, Hong Kong, and the United Kingdom.” <http://www.imf.org/external/pubs/ft/scr/2014/cr14238.pdf>; 09.01.2020.
- 8 https://books.google.co.za/books/about/Yousef_Beidas.html?id=AM6aMQEACAAJ&redir_esc=y; 04.02.2020.

- 9 Paul Hoyer with Jeanne Mullin, John Cooley and William Tracy, 1982, 'Paradise Lost: Memories of a Golden Age', *Aramco World Magazine*, Sept-Oct 1982, vol. 33 No. 5: <http://almashriq.hiof.no/lebanon/000/070/aramco/paradise-lost.html>; 09.01.2020.
- 10 R. T. Naylor, 2004, *Hot Money and the Politics of Debt* (third edition), Montreal: McGill-Queen's University Press: <https://books.google.co.uk/books?id=z9C5bA5xN84C&pg=PA34&lp-g=PA34&dsource=bl&ots=SqaQ9UhhvA&sig=AC-fU3U2qedfqUAYZP8GqGNP46QzzKgjw-g&hl=en&sa=X&ved=2ahUKewii6ZSg2fbmA-hUBTBUHQk4BioQ6AEwDnoECAkQAQ#v=onepage&q&f=false>; 09.01.2020.
- 11 Clement Henry Moore, 1987, 'Prisoners' Financial Dilemmas: A Consociational Future for Lebanon?', *American Political Science Review* 81(1): <https://www.jstor.org/stable/1960785?seq=1>; 09.01.2020.
- 12 <http://www.imf.org/external/pubs/ft/wp/2009/wp09195.pdf>; 09.01.2020.
- 13 <https://www.imf.org/external/pubs/ft/wp/2008/wp0817.pdf>; 27.01.2020.
- 14 <http://www.imf.org/en/News/Articles/2015/09/28/04/53/socar081109a>; 27.01.2020.
- 15 <https://www.imf.org/en/Publications/CR/Issues/2019/10/17/Lebanon-2019-Article-IV-Consultation-Press-Release-Staff-Report-Informational-Annex-and-48733>; 09.01.2020.
- 16 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.
- 17 Law of September 3, 1956 On Banking Secrecy: <https://www.bdl.gov.lb/laws/download/2/en>; 09.01.2020.
- 18 Law No. 44 of November 24, 2015 on Fighting Money Laundering and Terrorist Financing. Available at: <https://sic.gov.lb/sites/default/files/laws-regulations/Law%2044%20En.pdf>; 09.01.2020.
- 19 <https://www.albawaba.com/business/replacing-switzerland-why-lebanon-isnt-keep-ing-its-banking-secrecy-secret-676936>; 09.01.2020.
- 20 OECD, May 2019, 'Activated exchange relationships for CRS information', <https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships/>; 09.01.2020.
- 21 As the FATF notes in a 2013 report:
- "The Kimberley Process (KP) is a voluntary export/import control regime, supported by the United Nations, and focussed on stopping the illicit trade in rough diamonds to finance armed conflict (i.e., the use of rough diamonds as an alternate currency used mainly to buy weapons). It is not an international legally enforceable agreement, and its compliance flows from the national implementation legislation in participating countries. From an AML/CFT perspective what is important to note here is that the [Kimberly Process Certification Scheme (KPCS)] does not deal with ML or with TF activities and is limited to rough diamonds only. Thus, polished diamonds are not covered by the KPCS as it is assumed that all polished diamonds come from KP Certified rough diamonds." (p24).
- [Further,] "when a shipment of rough diamonds is accompanied by a KP certificate, this may give legitimacy to the shipment to customs officials and bank employees." (p61).
- "According to the KPCS the KPC that come with imported diamonds are kept in a country and not sent with the following export of the diamonds. The rough diamonds that leave the country for export receive a new certificate issued by the responsible authority in the exporting country. This legitimate procedure may be exploited by criminals and is one of the major vulnerabilities of the KPCS whereby the actual origin of the rough diamonds is often concealed and practically impossible to retrieve by moving the rough diamonds through trade centres for the purpose of issuing a new KPC." (p57).
- FATF/ Egmont Group Report, Money Laundering and Terrorist Financing Through Trade in Diamonds,

October 2013; <http://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-through-trade-in-diamonds.pdf>; 27.01.2020.

22 <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2015/vol2/239090.htm>; 09.01.2020.

23 https://read.oecd-ilibrary.org/taxation/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-peer-reviews-lebanon-2012_9789264178168-en#page70; 09.01.2020.

24 <https://www.state.gov/wp-content/uploads/2019/04/2017-INCSR-Vol-II.pdf>; 09.01.2020.

25 <http://www.oecd.org/ctp/exchange-of-tax-information/lebanon-con-firms-its-commitment-towards-greater-tax-transparency.htm>; 09.01.2020.

26 <https://www.oecd.org/tax/transparency/global-forum-supplementary-report-lebanon.pdf>; 09.01.2020.

27 <http://www.uhy.com/wp-content/uploads/Doing-Business-in-Lebanon.pdf>; 09.01.2020.

PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

- 63 1. Banking Secrecy
- 50 2. Trust and Foundations Register
- 40 3. Recorded Company Ownership
- 50 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 50 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

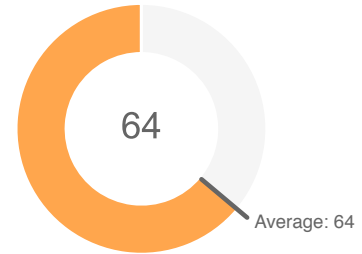
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 75 11. Tax Administration Capacity
- 100 12. Consistent Personal Income Tax
- 100 13. Avoids Promoting Tax Evasion
- 75 14. Tax Court Secrecy
- 25 15. Harmful Structures
- 50 16. Public Statistics

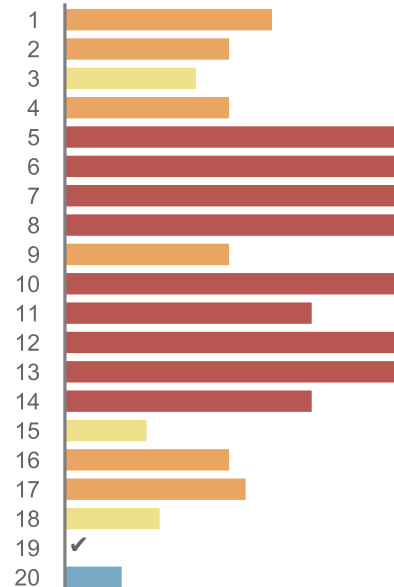
INTERNATIONAL STANDARDS AND COOPERATION

- 55 17. Anti-Money Laundering
- 29 18. Automatic Information Exchange
- 0 19. Bilateral Treaties
- 18 20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.