



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

# **Second Donor Briefing on the Implementation of the Economic Reform Program**

**Grand Serail  
July 5, 2007**



# Presentation Outline

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**1**

Progress Under the Reform Agenda

**2**

Update on Paris III Pledges

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Economic Outlook

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Donor Feedback



# Reform Implementation Progress:

*(Since January 25, 2007)*

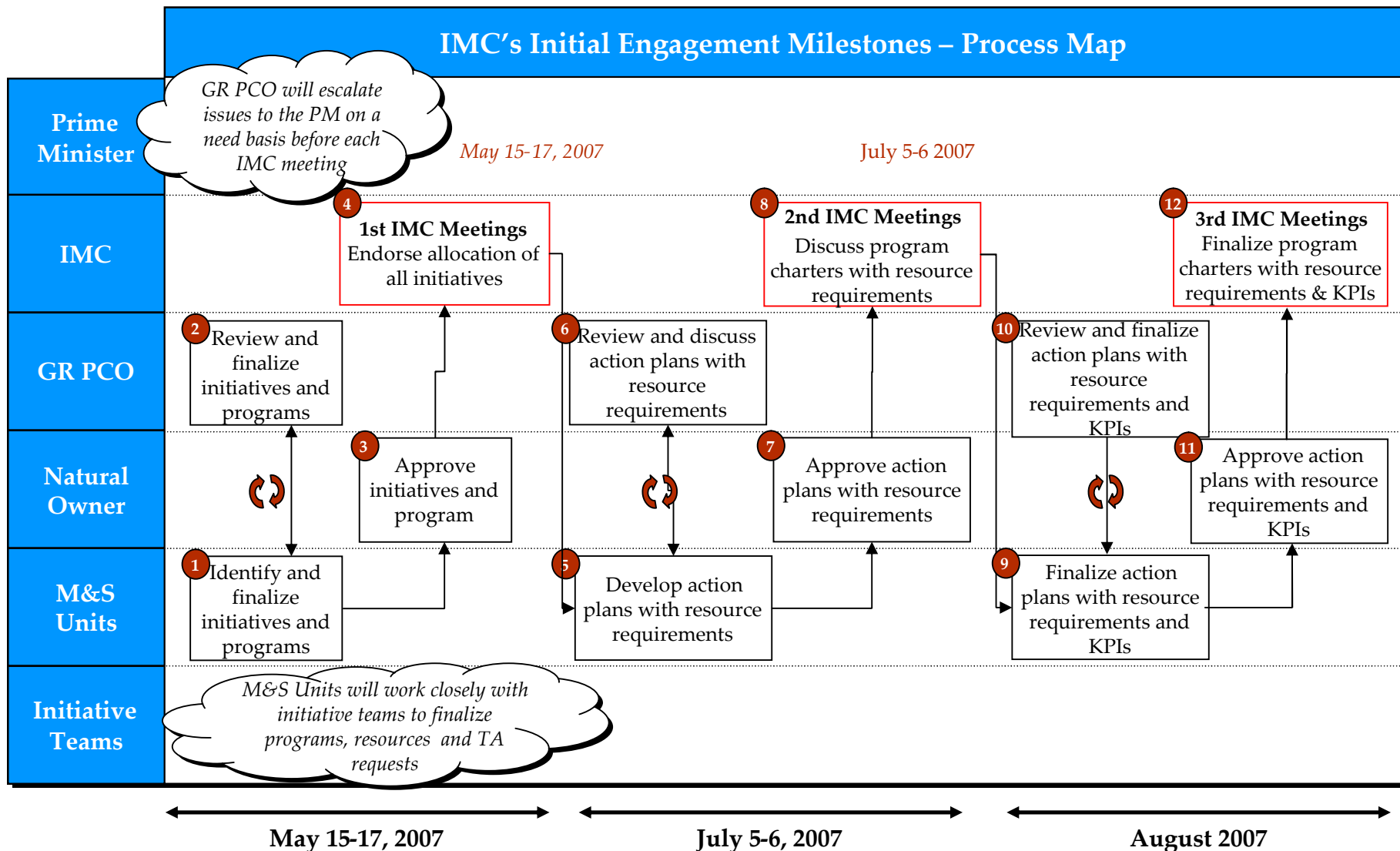
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- ▶ **Establishment of a sustainable institutional structure** to coordinate and monitor the implementation of the economic reform program. This consists of a:
  - ✓ **Program Coordination Office** at the PCM.
  - ✓ **Social, Economic, Infrastructure & Privatization Inter-Ministerial Committees** supported by administrative secretariats for each cluster.
  - ✓ **Monitoring and Support Units** at each participating Ministry.
  
- ▶ **Maintaining the reform momentum** generated under Paris III by:
  - ✓ Allocating **316 reform initiatives** to 12 “Natural Owners”
  - ✓ Selecting **116 short term priority initiatives** to be completed by November 30, 2007
  - ✓ Developing relevant **program charters, KPIs, and resource plans** by July 30, 2007.



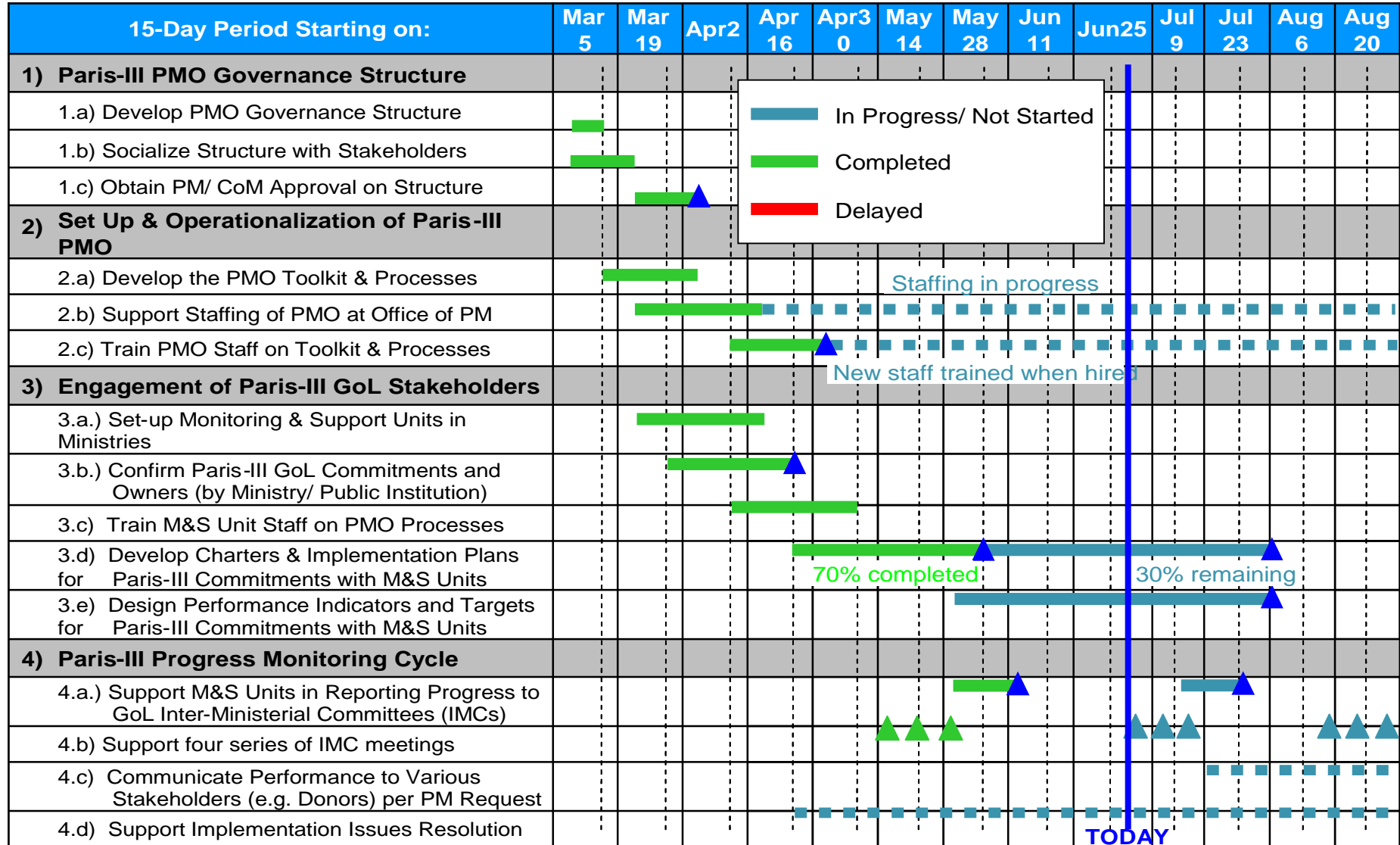
# Institutional Structure:

## Progress Update





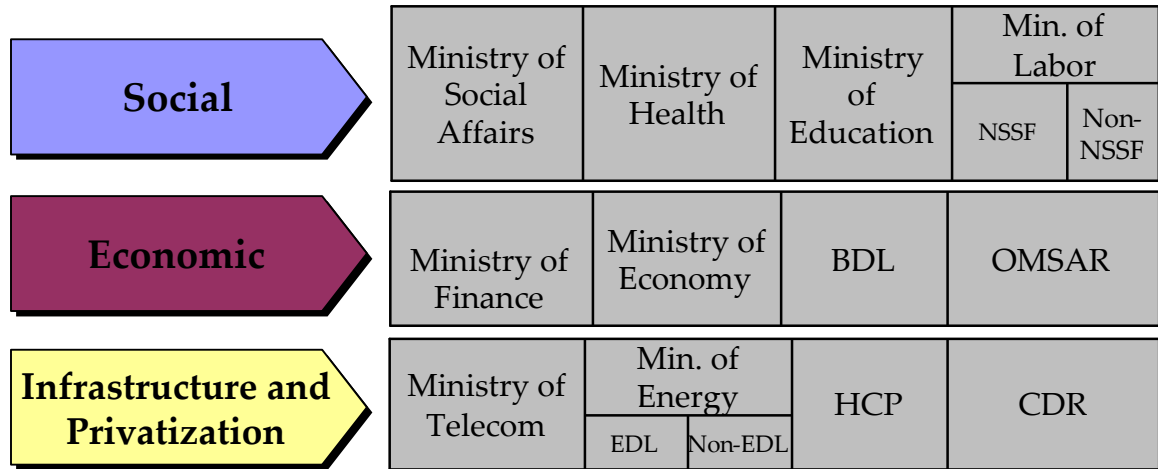
# Institutional Structure: *Implementation Timeline*





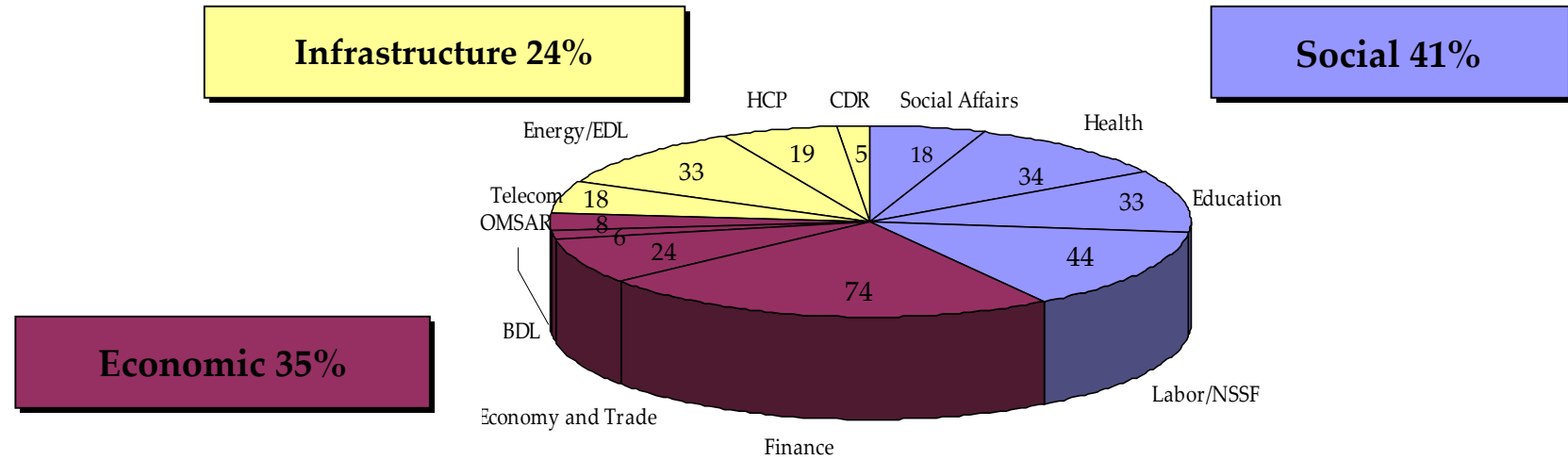
# Reform Program:

*A total of 316 initiatives*



*By **end of July**, each Natural Owner will have finalized and endorsed a "Paris III Commitment Document (PCD)".*

## Distribution of All Initiatives across Natural Owners





# Sequencing of Reforms:

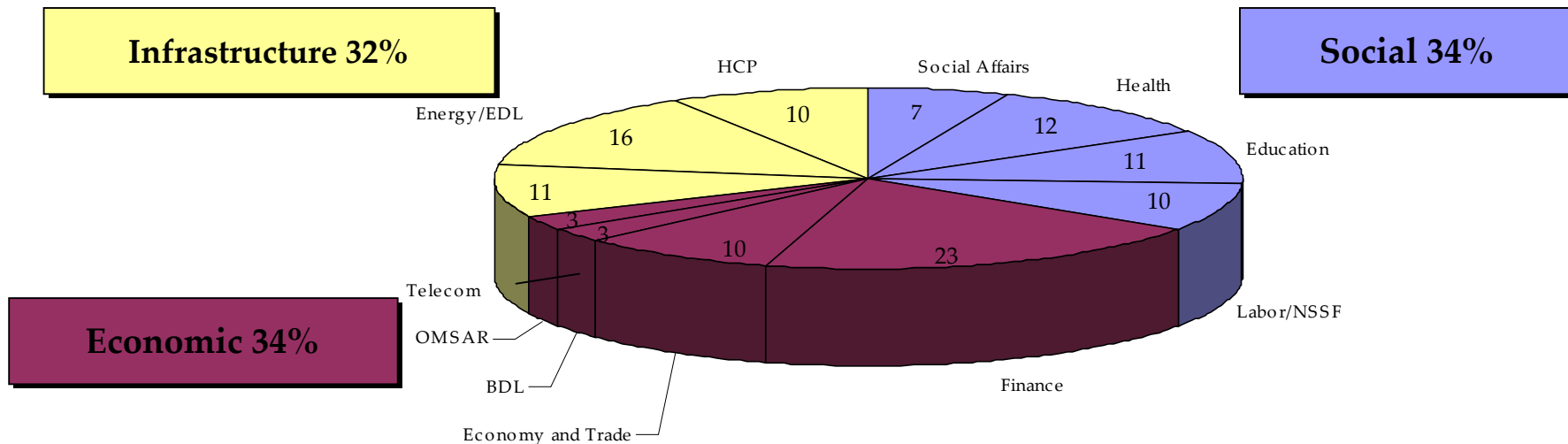
## Selection of 116 Short-term priority initiatives

### Initiatives Prioritization Criteria

**Short-Term Implementation**

Tangible Short Term Impact	Legislative Barriers	Budget Availability
<ul style="list-style-type: none"> <li>▶ Significant Impact <i>by November 30, 2007</i></li> </ul>	<ul style="list-style-type: none"> <li>▶ Can be implemented without legislation enactment</li> </ul>	<ul style="list-style-type: none"> <li>▶ Already progressing and requires minimal budget</li> <li>▶ Budget already allocated through other sources</li> </ul>

### Distribution of Short-Term Initiatives Across Natural Owners



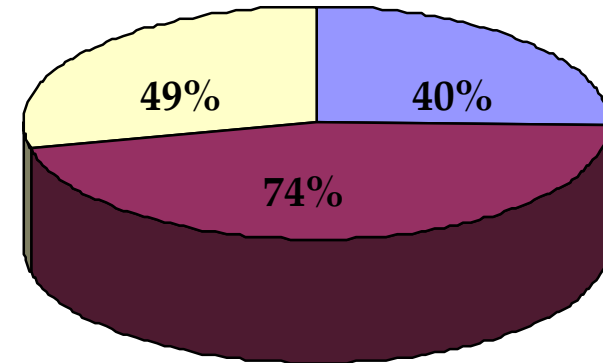
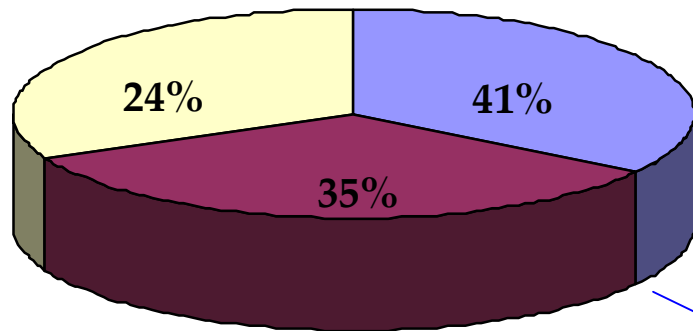


# Status of Short-term Initiatives:

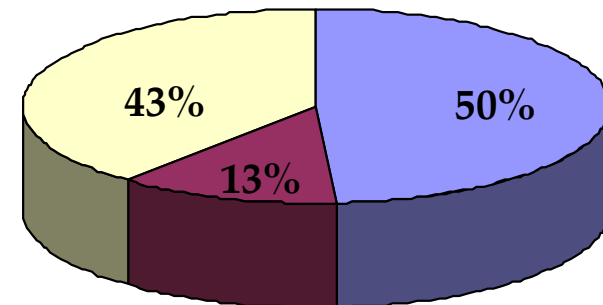
*64 already launched & 41 to be launched by end of Q3 '07*

Short-term initiatives launched: **64**

Total Short-Term  
Initiatives: **116**



Short-term initiatives to be  
launched in Q3 2007: **41**





# Social Initiatives:

## *A Snapshot*

### Ministry of Social Affairs

- ▶ A time based action plan that eliminates duplication between MoSA, MOH and MEHE underway (expected to be approved by the council of Ministers by *September 2007*).
- ▶ Draft ministerial decision for eligibility of NGOs and welfare institutions wishing to be subcontracted by Ministry of Social Affairs completed.
- ▶ Introduction of **targeting mechanism for social safety net programs and roadmap for implementation** underway.

### Ministry of Health

- ▶ **Institutionalization of public hospital accreditation** (*Contract signed May 2007*).
- ▶ Development and implementation of PHC accreditation program (*June 2007*).
- ▶ Integration of Health Management Information System across funds (underway).
- ▶ **Re-pricing of pharmaceuticals registered between 2000 to 2006, underway and to be completed by July 2007.**



# Social Initiatives: (Cont'd)

## *A Snapshot*

### Ministry of Education and Higher Education

- ▶ Chosen as pilot to prepare **Medium Term Expenditure Framework** (*May 2007*).
- ▶ Firm selected to undertake **organizational restructuring and staff development** of MEHE (*June 2007*).
- ▶ 424 school principals completing **Leadership Development Program**.

### Ministry of Labor / NSSF

- ▶ **Implementation of support mission with NSSF underway** focusing on actuarial analysis, health policies, financial stability of the health fund, calculation of the transition cost from the current scheme to the new scheme of pension, methodology for calculating Government dues.
- ▶ **Appointing of auditor** for NSSF accounts that have not been audited since 2001 (*June 2007*).



# Economic Initiatives:

## *A Snapshot*

- ▶ **Budget circular for 2008 issued** (*May 20<sup>th</sup>, 2007*) with medium term expenditure framework attached, and a **global ceiling for budget preparation set**
  - Workshops to train spending agencies on new budget preparation techniques (*May 18<sup>th</sup>, June 11<sup>th</sup>, ongoing*)
- ▶ **Regional tax offices reorganization preparation completed, implementation initiated** (clarifying instructions to be issued in *July 2007*)
- ▶ **Electronic taxpayer registration** initiated with systems and procedures developed (*Q2 2007*)
- ▶ **New audit strategy** initiated with central audit teams formed (*March 2007*) and budget plan prepared (*April 2007*)
- ▶ **“Tax procedure Code” submitted** to Parliament; being finalized through Parliamentary Committees (to unify and harmonize tax procedures)
- ▶ Internal draft Law for introducing a **Global Income Tax (GIT) completed** to replace current schedular income tax system



# Economic Initiatives: (Cont'd)

## *A Snapshot*

- ▶ **Measures to encourage investment and improve the business environment:**
  - Mapped business registration procedures and FIAS study recommendations presented *(22 June 2007)*.
- ▶ **Intellectual property being strengthened with draft Copyright Law amendments sent to ministries for feedback *(April 2007)* and, Intellectual Property Protection Office capacities strengthened.**
- ▶ **Enacting laws to improve the Business Environment:** Laws on Standards, on Technical Regulation & Conformity Assessment and Competition and Protection of National Production are being prepared.



# Economic Initiatives: (Cont'd)

## *A Snapshot*

BDL

- ▶ **Maintain floor on BDL gross reserves** *(on-going)*.
- ▶ **Undertake measures to enhance access of businesses to credit** through:
  - SME Reconstruction Facility agreement with EIB (to be signed in **Q3 2007**) *(parliamentary ratification required for implementation, meanwhile, €60 million already signed and to be used towards reconstruction with interest rate subsidies financed by the EU)*.
  - BDL circular issued regulating relationship between banks and credit rating agencies *(June 29th, 2007)*.

OMSAR

- ▶ **New draft public procurement law and draft law for setting up the Public Procurement Management entity** being finalized by inter-ministerial committee and will be shortly submitted to the Council of Ministers.
- ▶ **Development of modalities for outsourcing tasks carried out by public sector** – identification of tasks *by September 2007*.
- ▶ **Identification of ministries to be subjected to anti-corruption project** and development of ToRs for consultancy firm *by September 2007*.



# Infrastructure & Privatization Initiatives: *A Snapshot*

- ▶ **Mobile privatization** underway: Transaction advisors, technical consultants and financial auditor appointed (*June 2007*)
- ▶ Establishment of **LibanTelecom** underway: Statistics company and human resource consultant appointed
- ▶ **Telecom Regulatory Authority (TRA)** established and its Board appointed (*February 21, 2007*); operational since *April 2007*; **three key regulations** issued by TRA drafted for public consultation (consultation closing date; *August 10, 2007*)



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# Donor Coordination:

*A four-pronged approach*

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- ❑ **Quarterly Donor Briefings.**
- ❑ **Core Group meetings** held at the sidelines of the IMF/World Bank spring and annual meetings.
- ❑ **Thematic Donor meetings** to start with reforms of the Social Sector (*scheduled July 12<sup>th</sup>, 2007*).
- ❑ **Donor consultations** through the Donor Coordination Unit at the Ministry of Finance. All information available on [www.finance.gov.lb](http://www.finance.gov.lb).



# Resource Mobilization Strategy:

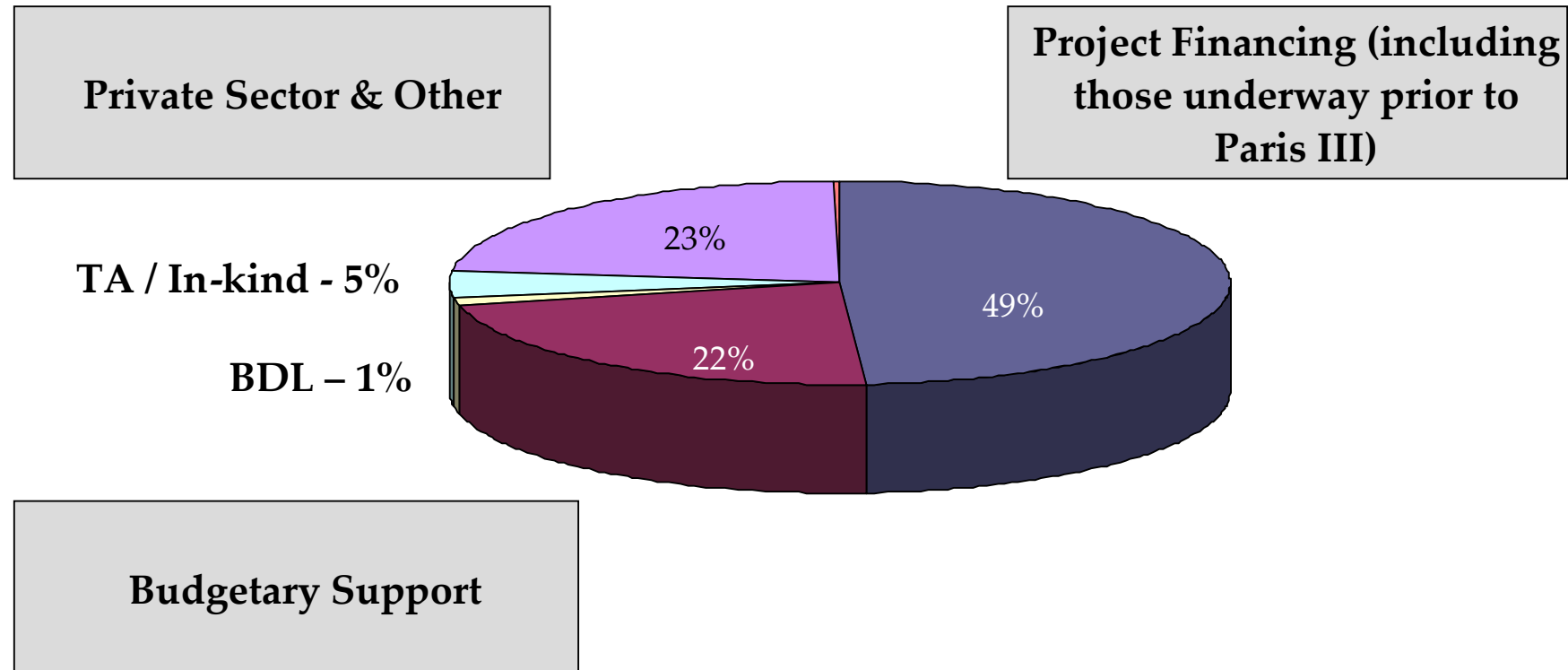
## *Update on Paris III pledges*

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- A three-pronged approach:
  - **Budgetary support** in the form of grants or soft loans issued under Law 476
  - **Support to the private sector** in partnership with financial intermediaries
  - **Project financing** as part of:
    - an overall public investment program that focuses on strategic investments within a pre-agreed ceiling
    - a reduction in budget expenditure by replacing existing spending in the public investment program



# Updated Pledge Allocation



Total Pledges = \$7,613 Million



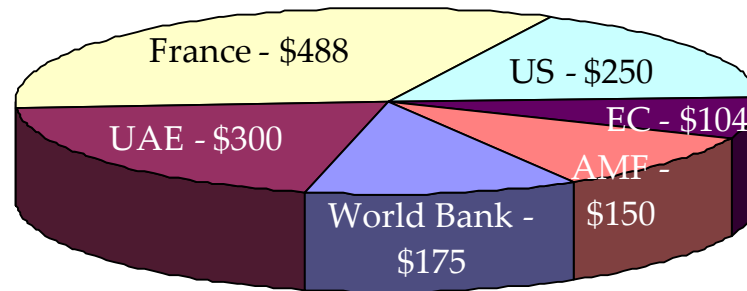
# Budgetary Support:

## *Agreements under discussion*

**France:** Loan subject to French Parliamentary approval (**summer or fall of '07**).

**US:** Budgetary support approved by US Congress in May 07. **MOU signed July 07.**

**UAE:** Signed loan agreement for \$300 million in **February '07**



**EC:** Micro-financial Assistance subject to EU Parliamentary approval, triggers under review (**Q4 07**).

**Total = \$1,472 Million**

### **World Bank:**

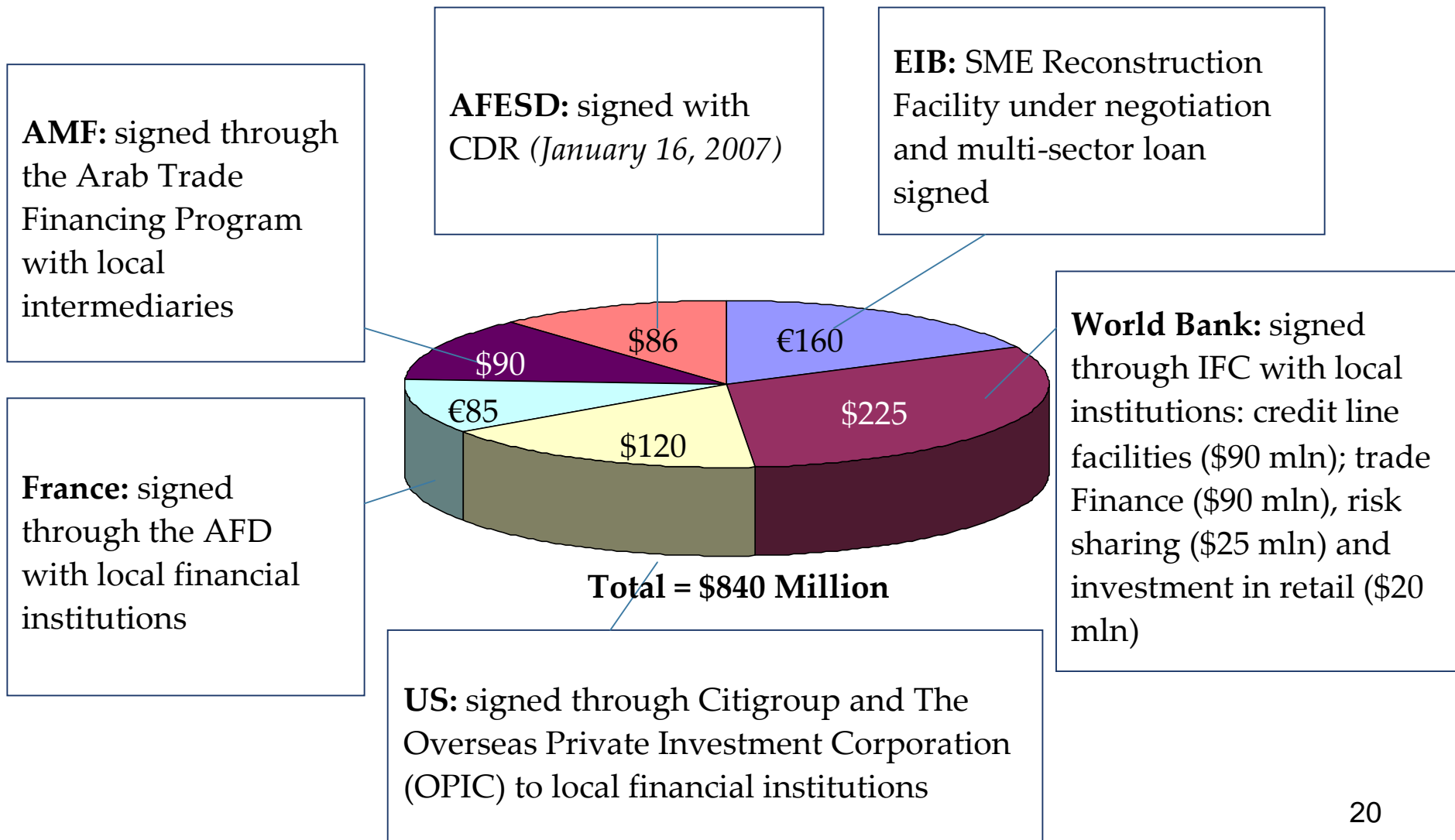
- Power DPL (\$100 million) subject to WB board approval.
- Social sector DPL (\$75 million) under discussion to be finalized in **September 07**.

**AMF:** Agreement on structural measures for support (**H2 07**).

**Malaysia:** Work in progress on restructuring US\$500 million of existing loans

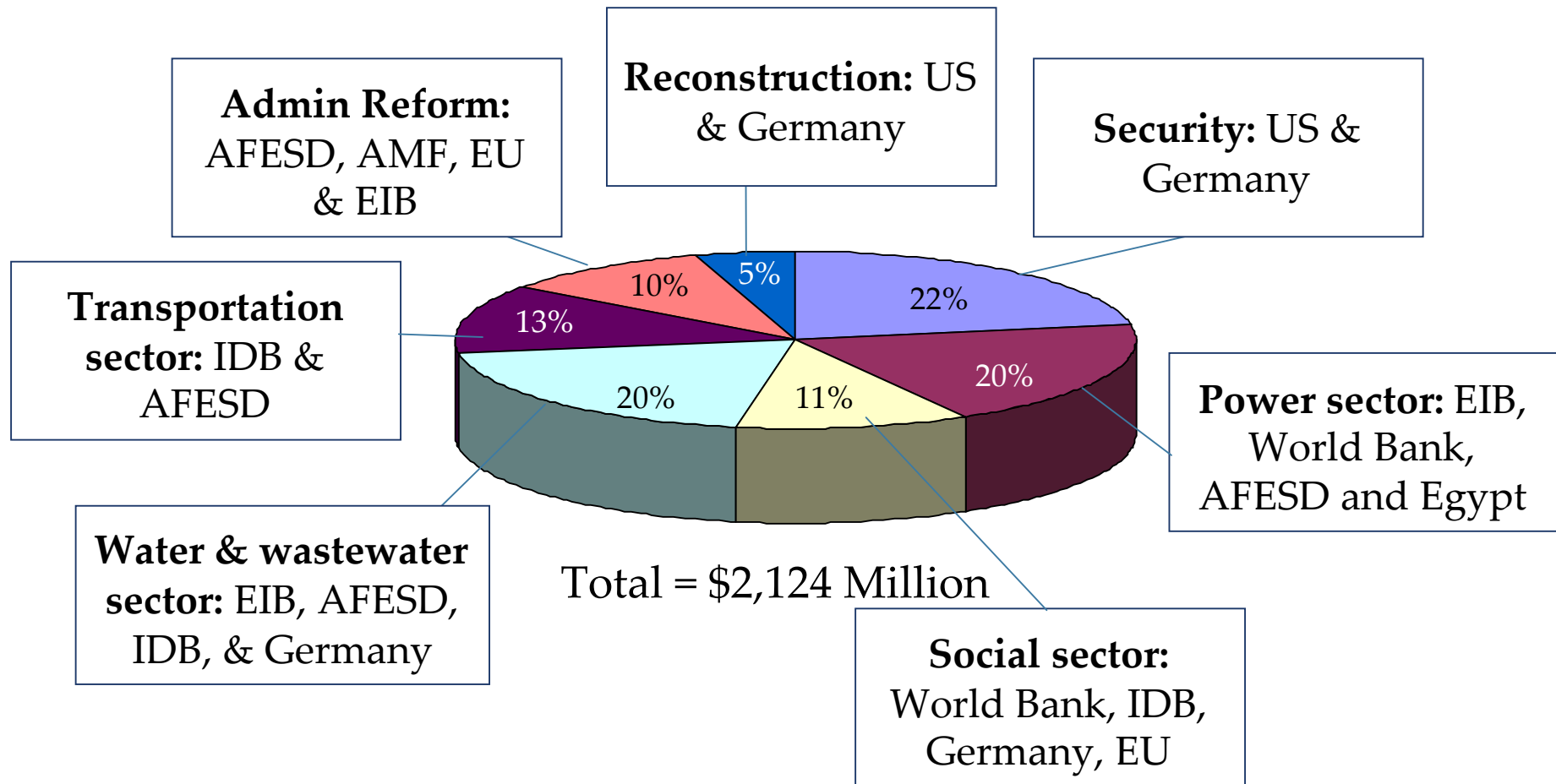


# Private Sector Support: *Agreements Signed or Being Finalized*





# Project Financing: *Sector Allocation*





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# Political Context:

## *A Difficult Environment*

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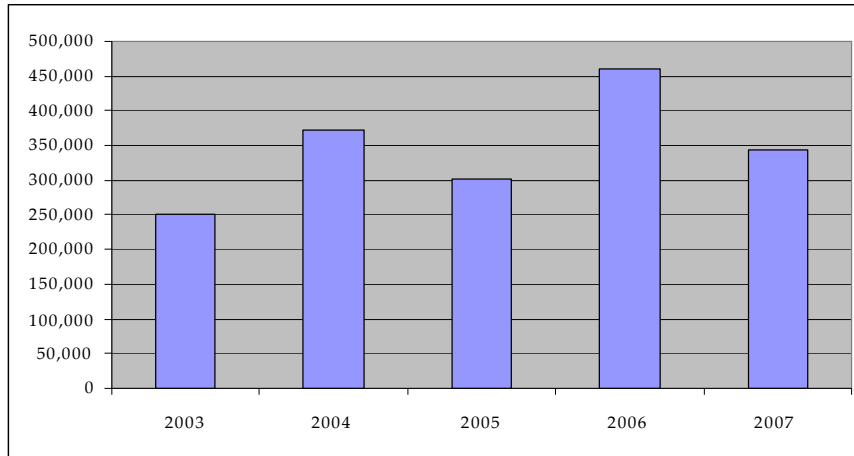
- ❑ Tense security situation
- ❑ Inconclusive political crisis
- ❑ Parliamentary paralysis



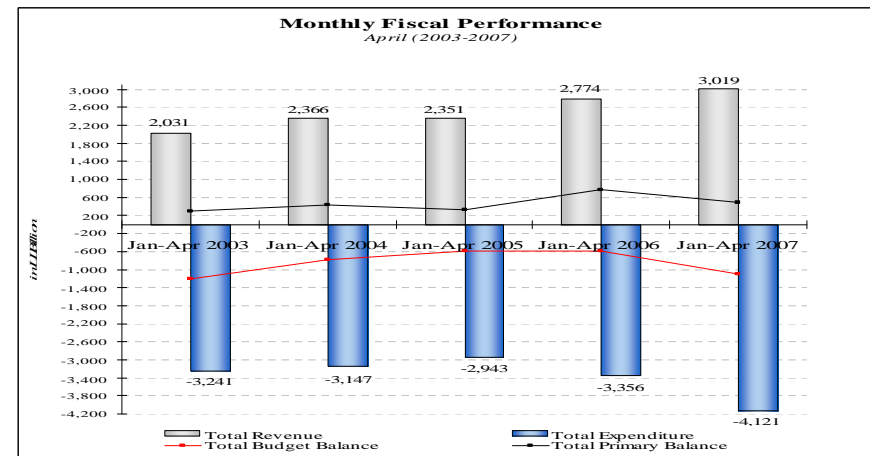
# Economic & Fiscal Performance:

## *The Hard Reality*

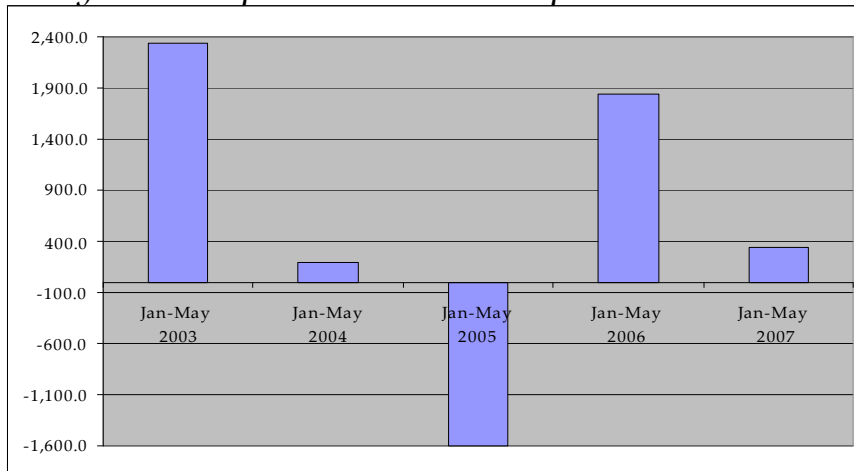
**25% decrease in number of tourists by May '07 compared to the same period in '06**



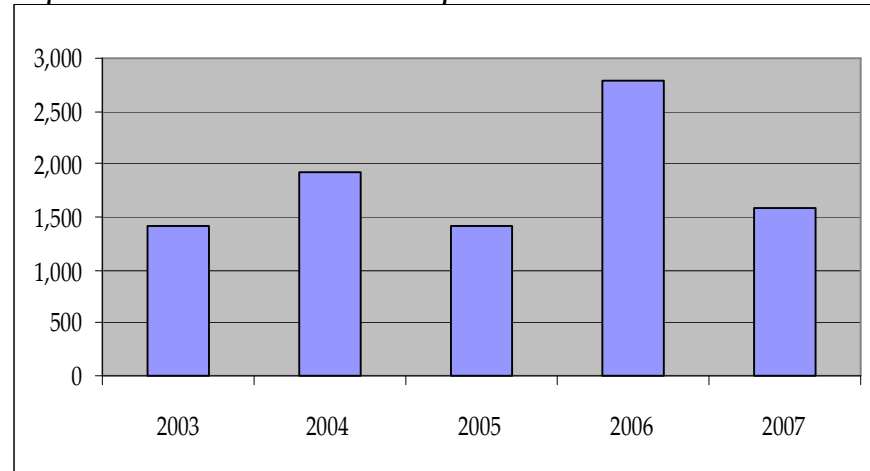
**37% decrease in the primary balance in April '07 due to imposed higher expenditure**



**82% decrease in balance of payment by May '07 compared to the same period in '06**



**43% Decrease in construction permits (per sq.m.) in March '07 compared to '06**

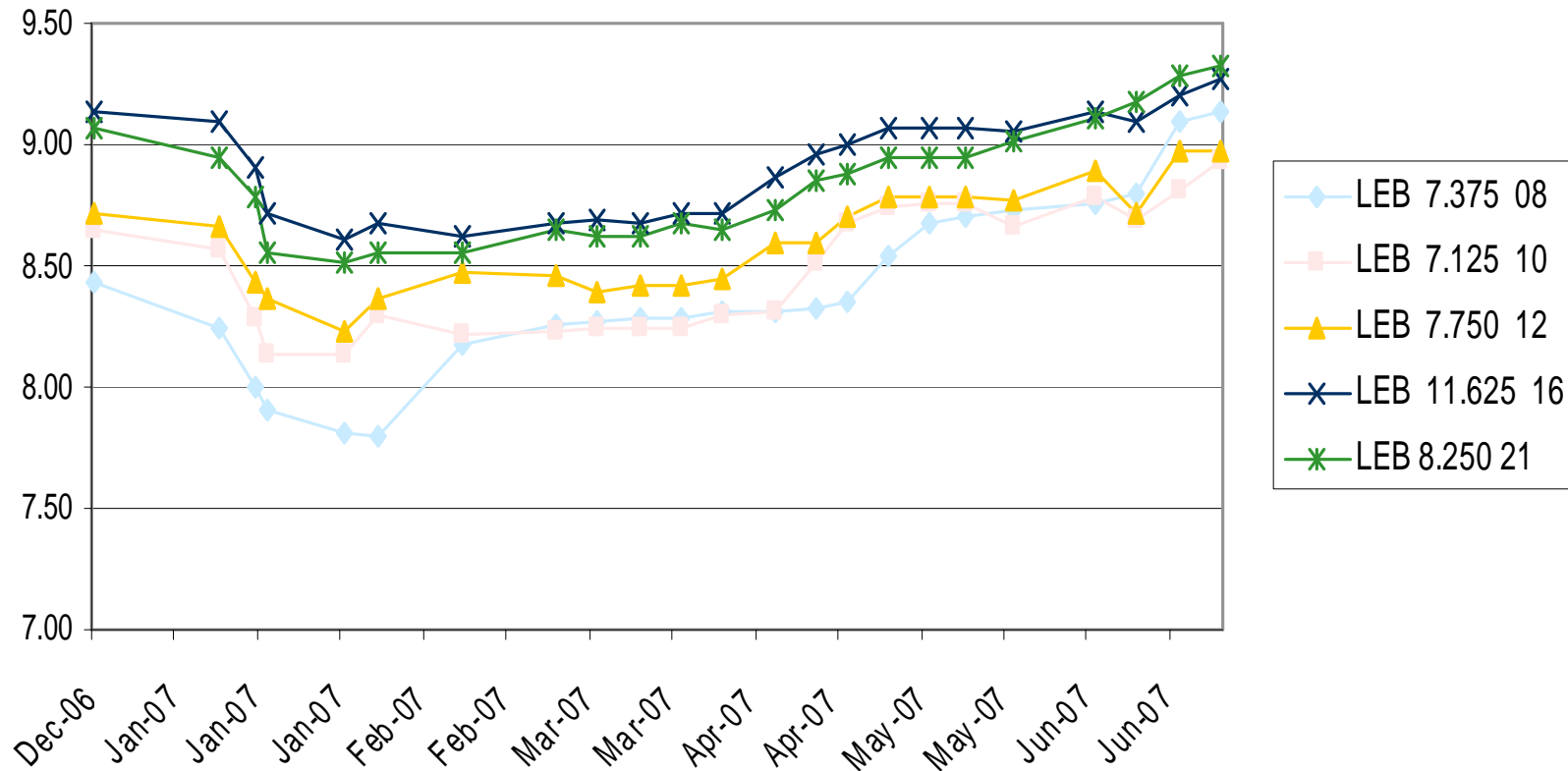




# Economic & Fiscal Performance:

## Market Sentiment

### Secondary Market Eurobond Yields



# Government Short-Term Strategy:

## *The four tracks*

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- ✓ An **intensive political track** to resolve the political crisis
- ✓ A **security track** to restore internal stability
- ✓ A **reconstruction and recovery track** to secure the necessary funds and accelerate the reconstruction process following the July 2006 war and the Nahr Al-Bared crisis
- ✓ An **economic reform track** to establish a sustainable framework for the implementation of key reforms

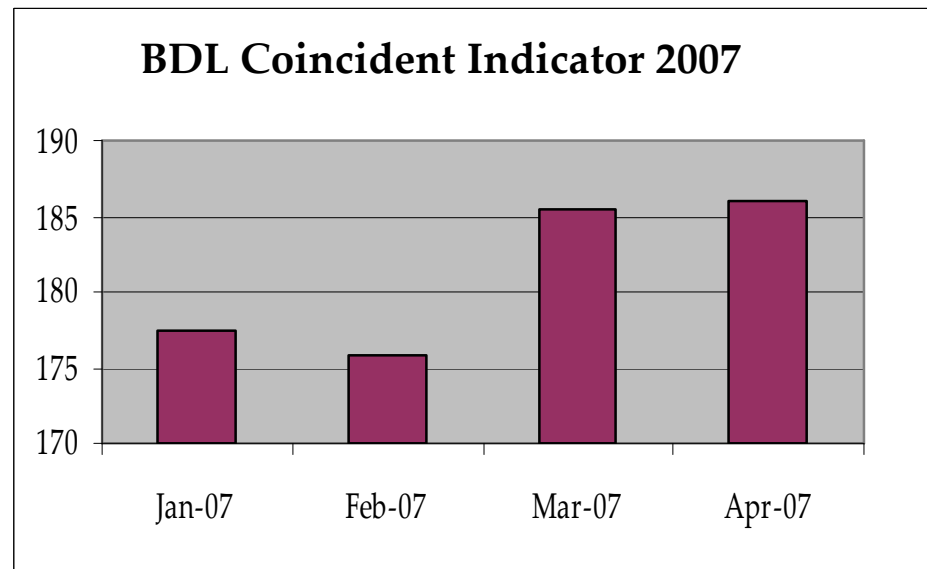


# Stability's Effect on Economy

Prior to the recent security threats, the economy was showing signs of improvement with growth estimates revised from 1 percent to 2 percent.



Source: Ministry of Tourism

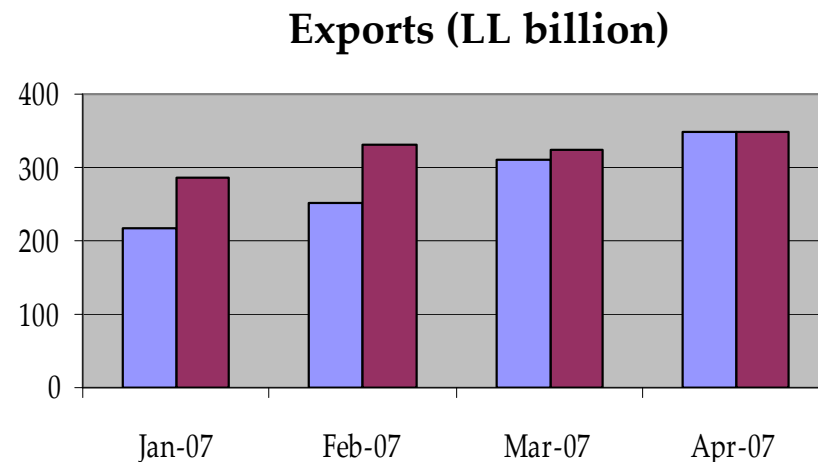
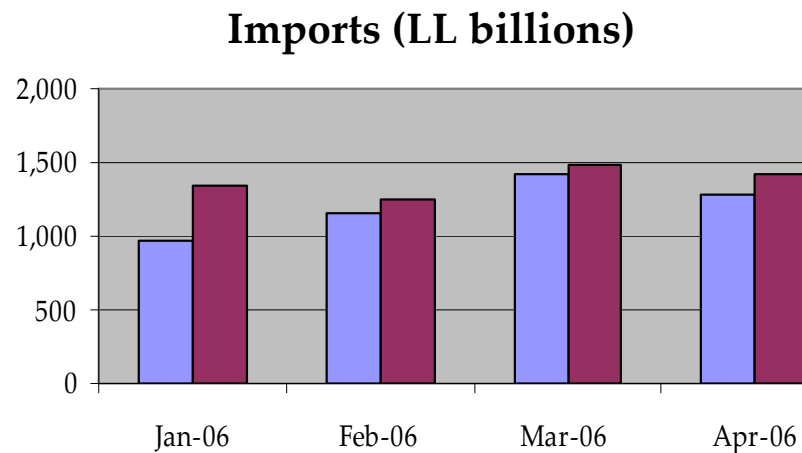


Source: BDL



# Resiliency of Imports and Exports

Both imports and exports, reflecting stronger economic activity, have grown by 14 percent by April 2007 compared to the same period in 2006



Source: Lebanese Customs





# IMF Article IV mission

(May 28, 2007)

- Among the mission's main conclusions:
  - ✓ 2007 continues to be a **difficult transition year** for Lebanon
  - ✓ Lebanon is **on target** under the EPCA program
  - ✓ The authorities have **skillfully managed** the financial and fiscal pressures from the July 2006 war with Israel
  - ✓ GDP growth may reach **2 percent** in 2007



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