

# KEY FISCAL, DEBT, MONETARY, TRADE AND MARKET REFORMS

## 2006



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

The current government has embarked on an ambitious reform agenda to achieve sustainable economic growth, fiscal reform, and improved public service delivery. In this context, the government has further pursued measures already underway, and has formulated new initiatives.

The key domestic structural reforms adopted by the current government have targeted public finance, debt, privatization, capital markets, competition, trade, small and medium enterprises (SMEs), investment and youth involvement. To restructure public finance and debt management, the government has reformed tax, expenditure and treasury management, in addition to public entity procedures covering the National Social Security Fund (NSSF) and the public pension system. To expedite the privatization of state-owned enterprises, the government has launched the privatization process of the telecom sector, and has formulated a privatization strategy for the electricity sector. To modernize capital markets, the government has enacted supportive legislation, and has developed financial and regulatory instruments. To promote competition, the government has been active in enacting anti-dumping, consumer protection and competition legislation. The government has also actively encouraged SME development and has promoted the investment climate. In addition, the government has also made solid steps towards World Trade Organization (WTO) accession, and has formulated an action plan in the context of the European Neighborhood Policy program.

The Ministry of Finance has prepared the attached document to summarize these key fiscal, debt, monetary, trade, and market reforms, and to highlight the progress that has been achieved on each to date. The document has also benefited from the contribution of the Ministry of Economy and Trade in related sections.

We hope you find this document useful, and remain ready to address any related queries.

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## I. Tax Reforms

### 1.11 Reorganization of the Revenue Administration:

The Ministry of Finance (MOF) is gradually moving towards a modernized Revenue Administration, which will be characterized by a function-based structure with strong headquarters and operational regional offices, fully automated business processes, risk-based compliance programs, and skilled and professional staff acting with fairness, honesty and transparency.

Towards that end, a phased implementation plan for the reorganization of the entire Revenue Directorate is undergoing internal preparation. Accordingly, three units have been created within the existing Revenue Administration (see sections below) for Large Taxpayers, Salaries and Wages income tax, in addition to a centralized tax roll. These units will be functionally organized and managed, and later on, will be integrated within the reformed Revenue Administration. In parallel, two decrees have been prepared for the reorganization of Revenue Administration headquarter offices and regional offices. Those decrees are currently being reviewed by concerned parties within MOF in close collaboration with the Civil Service Board.

**1.12 A Large Taxpayer's Office (LTO)** was established in May 2005, with the goal of creating a functional structure for revenue administration over the medium-term. The LTO currently administers income tax chapters I (tax on profit), chapter II (tax on salaries and wages) and chapter III (tax on income from movable assets) for the taxpayers whose turnover exceeds LBP10 billion; in addition to all finance and insurance companies. The coverage of the LTO is expected to be extended to include the management of the VAT, built property tax, and some indirect taxes. In that respect, the forthcoming steps include the introduction around 20 May 2006 of electronic filing for Large Taxpayers as a first step towards extending this service to all taxpayers. In addition, centralized functions are currently being developed within the LTO to set up an internal audit section and a revenue accounting system.

**1.13 Value Added Tax (VAT) Directorate:** The VAT registration annual threshold was lowered from LBP 225

million to LBP 150 million beginning 2005. The VAT administration was able to smoothly and efficiently incorporate the increased number of taxpayers in its daily operations. As of April 2006, the number of VAT registered taxpayers stood at 19,297 (13,836 mandatory registrations, and 5,461 optional registrations). In addition, the VAT organizational structure was ratified by law No 691 on 27 August 2005, establishing an independent Directorate in charge of managing VAT, and thus enabling this Directorate to appoint the needed heads of departments. Furthermore, two studies have been conducted for the setup of an internal audit function within the VAT, and the preparation of a Revenue Accounting system with the corresponding chart of accounts. Those two studies started during October 2005, and were financed by the European Union (EU). The report relating to the Revenue accounting system has been finalized and submitted to MOF in its last version on 16 March 2006. A draft of the Internal Audit recommendations was submitted to MOF on 2 May 2006, and is currently being reviewed by a committee within MOF. Next steps include the enhancement of automated accounting and collection procedures within the VAT Directorate.

### 1.14 Deduction At Source of tax on Salaries (DASS):

The MOF created on 8 May 2003 a separate unit within the Revenue administration for the management of chapter II of the income tax (Salaries and Wages income) by decree number 10063. The structure of the DASS unit is function based, with a central office in Beirut and operational departments in the regions. The Beirut office became operational on 1 April 2003.

As of April 2006, there were 19,187 employers and 333,639 employees registered in the database making it the most up-to-date among all governmental agencies' databases. The bulk registration of all private sector employees was nearly completed in May 2005, with estimated 7,000 employers still expected to register their employees.

The registration process is still being carried on a continuous basis. Next steps include the registration of all public sector employees.

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**1.15 Tax Roll Department:** A unit has been established within the Revenue Directorate by decree number 10063 dated 8 May 2003 to manage and update all the information related to the taxpayers' database.

In parallel, a study of the existing Business Activity Code used by the MOF to classify activities of taxpayers was undertaken by an EU expert during the period July 2005-December 2005, in close cooperation with the Lebanese Central Agency for Statistics. As a result, a new and updated business activity code was recommended, thus making codes used by both entities, that are currently divergent, compatible to a great extent. Presently, work is being exerted on staffing the newly established Tax Roll Department, and converting the new recommended Business Activity Code into the automated tax administration system (SIGTAS), thereby ensuring accurate recording of taxpayers. This department is also expected to manage the issuance of the login IDs and passwords for all taxpayers that will be using the new e-filing services offered by the MOF in accordance with the directions issued by the Minister of Finance on 17 April 2006 (No 494/1).

**1.16 Tax Procedures Code:** Following several technical assistance missions from the IMF, a draft law establishing a modern tax procedure code has been finalized by a team at MOF composed of senior staff from the tax administration, and external tax experts. The draft law was distributed to senior representatives of various business sectors for discussion and feedback before sending it to Cabinet. Major issues addressed by this code are:

- (a) general administrative principles
- (b) unification of tax procedures implementation
- (c) definition of taxpayers' rights
- (d) definition of taxpayers' obligations
- (e) definition of tax administration's rights and obligations

The Code is being discussed by the Cabinet.

**1.17 Global Income Tax (GIT):** The government is making the necessary preparations to introduce a global income tax in 2008 to replace the current schedular income tax system. For that purpose, a draft law is expected to be finalized end of 2006 by experts working within MOF. In parallel, work has been initialized by those experts on related GIT regulations. Several technical assistance missions have been received from the International Monetary Fund (IMF) to provide:

- (a) feedback to help draft the law
- (b) guidelines on the proposed regulations
- (c) assistance for related economic studies.

On the implementation side, three experts have been contracted through a project financed by the EU, to work on:

- (a) setting the right procedural framework for the new tax system
- (b) designing a communication campaign
- (c) developing an adequate training system for the administration's staff.

This EU project is expected to extend till end 2006.

**1.18 Tax Filing and Payment:** According to decision No 424/1 dated 25 March 2006, all taxpayers are required to file their returns by post and make the due payments through commercial banks. This new procedure is expected to streamline and improve services offered by MOF by limiting interaction between taxpayers and the administration. Additional developments are currently under study to further improve services by allowing tax payment through post offices.

**1.19 Property Tax Administration** through standardizing and providing accurate estimations of property values. For that purpose, a detailed business process analysis report for the built property tax administration that targets areas of improvement and sets short, medium and long term priorities has been prepared, and a final draft presented on 30 May 2005.

In addition a survey of 45 tax administrators that ended by 20 May 2005 has been conducted, resulting in a list of factors that are used to assess property values in Lebanon. Furthermore, and by 5 July 2005, Information Technology needs and plans for target areas of intervention have been identified. Next steps include the development of internal networks within MOF linking the built property tax administration to the Directorate General of Cadastre and Land Registry to allow on-line information sharing, and provision of needed hardware, experts and training for staff.

- 1.2 Stamp Fee Law:** the MOF is currently finalizing a review and update of the Stamp Fee Law as a means to increase its fairness and facilitate its application. Amendments will relate mainly to payment and collection procedures, penalties structure, and deadlines.

## 2. Expenditure and Treasury Management Reform

- 2.1 Public Expenditure Management:** Towards the end of 2005, MOF developed, in collaboration with an IMF technical assistance mission, an action plan for public financial management reform. This action plan sets a time-bound table for the reform measures to be undertaken in the short and medium run. The major reform blocs are budget coverage and presentation, budget preparation, budget execution and controls, accounting and treasury, fiscal reporting, institutional capacity building, and legislative framework. In light of this action plan, the MOF is working on improving the budget coverage to incorporate some extra-budgetary expenditures namely Council for Development and Reconstruction (CDR), Electricite du Liban (EDL), etc. In fact, Budget 2005 included, for the first time, EDL transfers as a loan item. Also, in relation to budget coverage, Budget 2006 is expected to account for the CDR foreign-financed capital expenditures. Within the global context of public expenditure management reform, MOF is further working, internally, on solving the

issue of appropriations and carryovers through putting out various proposals amongst which the proposal to curtail budgetary allocations in order to allow for the exhaustion of carryovers from previous years. MOF is further working on enforcing complementary period, eliminating treasury advances (which have, in large part, been eliminated through the incorporation of the EDL transfer as part of the 2005 Budget Law), and publishing, as part of the budget document, a medium term expenditure framework.

Additionally, the MOF is in the process of preparing for the introduction of an Organic Budget Law (OBL) that will account for all on-going and anticipated reform measures in the areas of public finance management. In this respect, a project financed by the EU is currently underway and is expected to draw a roadmap towards the introduction of OBL. In light of the public finance management action plan, the project will review in details the Public Accounting Law (PAL) and all legal texts related to public finance management, in preparation for the design of a legal framework that will reflect implementation of the reform measures.

- 2.2 Revenue Arrears Management:** MOF is currently building an inventory of data related to revenue collection and revenue arrears, identifying and documenting critical gaps in various aspects of the management of government receivables collection, and the management of arrears collection that occurs whenever receivables are not collected (hence are reclassified as arrears instead of receivables).

As a result, a series of recommendations and an implementation plan will be developed to avoid future accumulation of arrears. As of the end of April 2006, a diagnosing of the current situation and an action plan has been developed. For the time being, the action plan will concentrate on:

- (a) the process of generating and issuing collection orders
- (b) the methodology used to classify and follow-up on arrears and,
- (c) data processing relating to the previous two points.

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**2.3 Expenditure Arrears Management:** As to expenditure arrears, the MOF is currently planning to carry out a census and audit of arrears, and to devise tools to avoid future accumulation of these arrears. The government started by end 2005 to settle the arrears accumulated from expropriations and is setting measures to avoid the emergence of any new arrears from similar expenditures. Also, MOF started working on the settlement of part of the National Social Security Fund (NSSF) arrears in 2005 and 2006 and pressing ahead to ratify the draft law -currently in Parliament- on installing the accumulated arrears due to NSSF.

It should be noted that this law was subject to modification by the parliamentary committee for finance and budget in March-April 2006, mainly regarding the level of interest and repayment period. The law, however, is still pending in parliament.

**2.4 Treasury Single Account:** The Parliament has finalized the review of draft law No 13796 (presented to Parliament on 18 December 2004) that would restore the Treasury Single Account. According to the Public Accounting Law, dated 1963 (Article 242), all public funds have to be deposited at the Treasury Single Account (TSA) at the Banque Du Liban (BDL). During the years of war, and specifically in 1987, Law Number 78/49 (Article 3) modified the above by allowing public agencies with an annex budget, public institutions, and municipalities to open special accounts at the BDL. The new draft law No 13796 proposes to amend Article 3 of the existing 1987 Law through the re-creation of a Treasury Single Account. The only exception is made for municipalities. Public institutions and public agencies that have previously opened special accounts at the BDL will be given a period of 6 months to close these accounts and transfer the residuals to the TSA.

**2.5 Accounting and Treasury Management:** The MOF is working on the integration, the regularization of accounting procedures and reporting requirements of the principal and local accounting offices. Work is also being carried on the strengthening of coordination between the principal accounting office of the Treasury

and the Central Bank, and reconciling the monthly fiscal performance figures with the Central Bank Treasury account. These reforms enabled the payment of salaries and retirees' benefits through commercial banks, the implementation of SWIFT payment through the Central Bank for all MOF payments, and the automation and modernization of tax collection: Income Tax and Built Property tax have been fully automated, including remote collection units. Next steps include the enabling of government treasury payment through Credit and Debit Cards on all of MOF Cashier Outlets.

**2.6 Public Procurement Law:** The draft law on modernizing public procurement in Lebanon is currently undergoing revision and update (with technical assistance from the World Bank), prior to being sent to Parliament in its modified version. The draft law is expected to be finalized within the coming six months.

## 3. Other Reforms

**3.1 Debt Management Office:** A draft law stipulating the creation of a modern Public Debt Department (PDD) at the Directorate General of Finance is currently being discussed by Parliamentary Committees. The new PDD will comprise three divisions, namely the Capital Markets' division, the Strategic and Risk Management division, and the Operations' division. Technical positions in the PDD can be filled either on a contractual basis or on an appointment basis. The law also specifies the creation of a "Higher Council for Debt Management" under the direction of the MOF. This Council will specify the choices available for debt management and will present suggestions to the Council of Ministers relating to public debt policies.

**3.2 Financial Control of State-owned Enterprises:** The draft law is an amendment of the 2001 Budget law, article 73 (which requires that all public institutions in addition to all institutions affiliated to the government having

independent financial administrative systems, be subject to internal auditing as well as external auditing by independent Accounting and Auditing firms). This amendment covers section 1 of the article 73 of the 2001 Budget law and requires the following to be covered by the article:

- (a) public institutions whose operations are of commercial and industrial nature
- (b) investment public sector institutions affiliated to the government (telecommunication, port, etc)
- (c) individuals managing public investment institutions
- (d) mixed economic companies established by the government
- (e) institutions financed in part or as a whole from the Treasury (except for corporations).

### 3.3 Auditing Accounts of Legal and Public Entities:

Based on the request of the Prime Minister, a new draft law has been submitted to and approved by the Cabinet on 13 April 2006, which requires the review and auditing of accounts for all public administrations, public institutions, municipalities, municipal unions and related public sectors, for the period extending between 5 November 1989 and 31 December 2005.

It is expected that once enacted, this law will enable the assessment of the soundness and correctness of these accounts. Following the adoption of this procedure, a forensic audit can be implemented to trace violations and any middlemen involvement in the expenditure process, if need be.

**3.4 National Social Security Fund:** Given the critical financial situation of the NSSF and the rising fiscal burden the Fund is imposing on the budget, the government initiated a reform plan for modernizing the fund. The reform will include aspects related to the legal framework, administrative structure, as well as financial sustainability of the fund. Within this context, the Cabinet of Ministers approved some basic initiatives, considered as basic steps in the reform process, namely:

- Preparation of a draft law to reduce the number of board members of the NSSF from 26 to 10
- Formation of a ministerial committee with member of the Ministries of Labor, Health, Justice, Social affairs, and Finance. This committee is responsible of designing a modern law for the National Social Security Fund.
- Adopting reform recommendations suggested by both the Ministry of Labor and the Expert committee appointed by the Prime Minister.
- Appointment of 2 international external audit firms to audit the accounts of the NSSF since the year 2000.

**3.5 Public Pension System:** With assistance from the World Bank the Government is developing a reform strategy of the pension system that, once implemented, is expected to maintain solvency of the system over the long-term. Currently, three pension schemes are operating in Lebanon, one for the private sector (the End of Service Indemnity scheme, a branch of the National Social Security Fund), and two public sector schemes for each of the army and civil servants. Given the problems of equity, efficiency and financial sustainability facing the three schemes, the strategy has the objective of integrating these three schemes into one modern fully-funded defined-contribution (FF-DC) scheme by 2008. While preserving the acquired rights and relieving fiscal burdens, the integration would ultimately aim at promoting equity among contributors, providing social protection for a wider segment of population, and paving the way for a more flexible labor market.

**3.6 Vision and Mission Statements for the MOF:** MOF has, in collaboration with international consultants (Booz Allen Hamilton), worked on collecting findings and formulating recommendations of the organizational diagnostic conducted at MOF. The findings were translated into a vision and mission statements to guide decision-making within MOF, and to communicate the role of MOF to internal and external stakeholders.

## PRIVATIZATION

*The Government of Lebanon considers privatization as a means to improve the efficiency in the delivery of services, to reduce the cost of doing business, to improve competitiveness, and to foster economic growth.*

1. **Telecom Regulatory Authority:** The government is finalizing the appointment of the Chairman and members of the Board of the new regulatory authority, ahead of the privatization of the two existing mobile licenses expected in the fourth quarter of 2006.
2. The **Privatization of the two GSM companies**, expected by the end of 2006, involves the following:
  - (i) hiring a financial advisor, issuing pre-qualification criteria and request for expressions of interest
  - (ii) submitting bids for mobile service providers
  - (iii) announcing winning bidders, and (iv) finalizing the process and the delivery of assets to the winners by end of 2006.
3. The **Privatization of the Fixed Line (Liban Telecom)** is expected by mid-2007. The process of corporatization of Liban Telecom was initiated, and work is progressing on the development of the privatization strategy of the fixed line.
 

The Telecommunications Law authorizes Liban Telecom to provide GSM mobile telecommunication services either on an infrastructure or Mobile Virtual Network Operator "MVNO" basis.
4. **Electricity Sector Strategy:** In February 2006, the Minister of Energy presented to the Prime Minister an Electricity Reform Plan, composed of the following major steps:
  - (i) Administrative and Financial Reform of EDL, including auditing its financial statements for 2001-2005, registering its assets and appointing a new Board of Directors;
  - (ii) Collection and Distribution Reform, including installing remote meters and encouraging private sector participation in distribution;
  - (iii) Production Reform, including securing the supply of natural gas and encouraging private sector participation,
  - (iv) Transmission Reform, including completing the 220 and 400 KV transmission lines, establishing a National Control Center, and completing a transmission master plan,
  - (v) Corporatization of EDL, including unbundling and asset valuation
  - (vi) Establishment of an Electricity Regulatory Authority, including appointing its members and designing its bylaws
  - (vii) Privatization of the Electricity Sector, including the selection of strategic investors.

In April 2006, this plan was discussed by the Council of Ministers in anticipation of its implementation.
5. **Other Sectors:** The Government plans also include the sale of BDL ownership of Middle East Airlines and Intra (which includes Casino du Liban) by 2008.
 

The government further seeks to optimize public assets management in all sectors, including the transportation sector (ports, airports), and services such water and hospitals.

1. The **Securitization Law** was enacted on 9 December 2005. This law had been pending in Parliament since 1999. It permits institutions to securitize assets and allows them to originate loans that will not be held on their books following their securitization. It increases the stability of the financial system since the supply of financing is less volatile and cannot be suddenly withdrawn. It provides appropriate investment instruments for institutions, such as pension funds and insurance companies, with long-term fixed liabilities.
2. The **Collective Investment Schemes Law** was enacted on 9 December 2005; it had been pending in Parliament since 1999. The law sets standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme. It provides for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
3. **FIRST initiative grant:** A technical assistance grant was awarded by FIRST initiative (Financial Sector Reform and Strengthening Initiative), and funded by various multilateral and international agencies including the World Bank and the International Monetary Fund, and managed by Emerging Market Economics Limited to the MOF for a project entitled "Capital Markets Supervisory and Regulatory Authority Strengthening", aimed at developing capital markets in Lebanon. The project was approved by the Council of Ministers on 27 July 2004. The technical assistance project is aimed to promote stability and safety in the financial capital markets, to protect investors' interests if subjected to moral hazard from private financial institutions, to maintain confidence in the financial system and to help enforce financial laws and regulations. The project provided technical assistance to assess the current securities market and its prospects, assess the existing legislative framework, update the capital market draft law and make recommendations on the most appropriate regulatory and supervisory regime. Phase II of the FIRST project that will provide a development plan for the regulatory and supervisory body is scheduled to start in May 2006.
4. The **Capital Market Draft Law (CML)** was approved by the Council of Ministers on March 1, 2006 together with the Decree that transfers it to Parliament for discussion and enactment. The principal aim of the CML is to provide the framework for the regulation and development of the capital markets in Lebanon, and hence build confidence in the quality of the market for both local and foreign investors. The CML has been structured as a framework law, under which the detailed provisions of regulation will be made as the capital markets in Lebanon develop and mature. An important feature of the law is its establishment of the Capital Markets Council (the Council), a new independent regulatory body responsible for regulating and developing the capital markets. The Council is empowered under the law to issue detailed regulations covering the various aspects of the market.

A number of draft laws relating to the financial sector are still pending their enactment at Parliament mainly:
5. The **Draft Law on Dematerialization of Securities** was submitted to Parliament in 2002. It aims at ensuring an ownership and trading system for securities, which combines rapidity and security by opening accounts at the central depository MIDCLEAR.
6. The **Draft Law on Securities' Lending** was transferred to Parliament in 2003 and is still pending its enactment. The draft law relates to securities lending transactions and repos. Its main objective is to improve the performance of the capital markets and mainly government bonds, to ensure additional liquidity and to facilitate the trading of securities and other transactions operated by the Central Bank to control liquidity in the market.

7. The **Insider Trading Draft Legislation** was submitted to Parliament in 2005. It regulates the situation whereby a person, whether an individual or a company, with access to insider information about a certain company's business, misuses the information and thereby generates a profit or avoids a loss through dealing in the securities to which the information relates. Parliament is currently reviewing the legislation. The MOF is actively working with the Parliament to enact these draft laws.
  
8. **Bank Mergers Law:** Bank mergers are governed by the provisions of Law No. 192 dated 4 January 1993, as amended (the "Banks' Merger Law"). The last amendment to the Banks' Merger Law was made pursuant to Law No. 675 dated 14 February 2005, which reactivated its provisions following the expiration of its initial term. Such amendment further stated that the procedure for the granting of soft loans shall be determined pursuant to regulations to be issued by Council of Ministers' Decree, based on the recommendation of the Minister of Finance and after consultation with the Central Council of the Central Bank. However, in pressing circumstances resulting from the sudden default of a bank, and when it becomes urgent to preserve the financial and banking stability, the Central Bank may apply other criteria provided it notifies immediately the Council of Ministers of such matter and submits the rationale behind these measures. A draft Decree was prepared by the MOF on 28 July 2005 and is still pending.
  
9. **Insurance Regulatory Commission:** The government is currently reviewing a draft legislation primarily concerned with the insurance sector supervision, through the establishment of an "independent" insurance supervisory commission with the necessary powers to undertake its mission effectively.

**1. Longer Maturity Instruments:** The MOF has been working in close coordination with the Central Bank on modernizing the debt markets, and on enhancing public debt management. In this context, the MOF has issued, for the first time, a new longer-dated bond - 5 years in Lebanese Pounds (LBP) - as a new benchmark instrument, following the successful launch and active participation of the market in the 3-year Treasury Notes introduced in November 2003. The principal objectives of issuing new 5 year bonds were to:

- (a) Lengthen the maturities of Lebanon's existing portfolio of LL denominated debt (which averaged 31 months as of November 2005)
- (b) Create a yield curve in LBP through the creation of a market for medium term notes
- (c) Promote the development of a liquid and active LBP debt market.

One of the goals of the MOF is to gradually revise the issuance strategy to provide for deep and liquid series of longer-dated Treasury bonds. The new 5 year bonds have constituted a benchmark that the MOF may wish to re-open, based on the level of demand witnessed in the market. The calendar of issuance will be set on a yearly basis, with the initial objective of effecting four issues during the first year.

**2. Capital Market Advisory Committee:** As part of a broader strategy to modernize the non-bank financial sector in Lebanon, the MOF has established a capital market advisory committee composed of leading Lebanese investment bankers and investment experts. The committee meets on a weekly basis to discuss issues pertaining to the development of the capital markets. The Capital Market Advisory committee and the MOF have agreed on several initiatives to promote the capital markets, amongst which are increasing of trading hours at the Beirut Stock Exchange, as well as reducing trade settlement to T+2.

**3. Capital Markets Conference:** A conference is currently being organized with the aim of increasing the visibility of Lebanese capital markets. This conference is expected to be held in July 2006 and will bring together

a distinguished roster of industry leaders from various international stock exchanges, clearing and settlement organizations, regulators, intermediaries and investors to provide a global view of important business, regulatory and tax developments affecting banking and capital market institutions in Lebanon.

**4. Strategy to encourage new companies to list on the Beirut Stock Exchange (BSE):** In parallel, the MOF is developing a strategy to encourage new companies to list on the BSE. In this context, it has recruited a consulting firm that conducted research concerning potential companies to list on the BSE. The objectives of this research were to:

- a) identify and assess the hurdles preventing Lebanese companies from listing on the BSE;
- b) identify and assess the incentives that may increase the Lebanese companies' listing on the Beirut Stock Exchange
- c) assess the actual level of commitment to list on the BSE in the event the hurdles identified are eliminated and the incentives provided.

Currently, the MOF is dealing with several issues identified in the research, and is evaluating the incentives that will encourage companies to list on the BSE.

**5. By-laws of the BSE** eliminated commission fees paid on government securities transactions. In addition, a decree was signed to allow remote trading. BSE is creating a new website and will be listing "live" market prices for all traded instruments on its website.

**6. Listing of the Republic's Eurobonds on Beirut Stock Exchange:** The listing of sovereign Eurobonds on BSE was approved in March 2004. Since August 2004, every Eurobond issued by Republic was listed on the BSE.

1. **Anti-dumping Legislation:** The Lebanese Parliament is currently considering a draft anti-dumping legislation that would be in line with WTO standards. This draft law is expected to be ratified by early 2007.
2. **Streamlining Import Licensing Procedures:** Parliament is currently studying a draft law on International Trade and Licensing that would be in line with WTO agreements, which is expected to be ratified by early 2007.
3. **Modern Competition Law:** The government is drafting a domestic competition law that would create a Competition Authority to reduce monopolistic practices in Lebanon. The new competition draft law is expected to be completed by the government in early 2007.
4. **E-commerce draft laws:** Cabinet has approved a set of draft laws covering e-signature, e-contracts, e-payments, and protection of personal rights. Those legislations are presently being discussed in Parliament.
5. **New Consumer Protection law:** This law was published on 10 February 2005 and came into effect on 10 May 2005.
6. **Intellectual Property Rights:** IPR legislation to modernize Law No. 2385/24 "Laws and Systems of Commercial and Industrial Property" is in the final stages at the Ministry of Economy and Trade (MOET). A Geographical Indication law is also being drafted. Accordingly, a draft law on trademarks has been finalized and sent to the Council of Ministers on 14 March 2006.

The first draft of the law on unfair competition has been finalized and sent to the Ministry of Health for comments and approval. The first draft of the law on industrial designs is at its final stages at MOET as well as the first draft of the law on Geographical Indications (GIs). It is also worth mentioning that a committee on GIs headed by the Minister of Economy and Trade has been created aiming at setting-up an effective system of protection for GIs. Moreover, 3 draft laws have been sent to the Council of Ministers on 9 December 2005 relating to the

ratification of the following Conventions:

1. The Stockholm Act (1967 as amended) of the Paris convention for the protection of Industrial Property
2. The Stockholm Act (1967) of the Madrid Agreement for the repression of false indications of source
3. The Geneva Act (1977 as amended) of the Nice Agreement for the international classification of goods and services for the purpose of trademark registration.

*The Government of Lebanon seeks to minimize administrative hurdles and costs incurred by exporters in Lebanon through the adoption of a number of measures:*

1. The extension of **Hours of Operation at the Customs Directorate** by 4 hours, to be effective in 2006.
2. The application of **Self-assessment Streamlining Operation at the Beirut International Airport** in line with the risk management strategy, NOOR II to expedite export procedures.
3. A **One-stop Shop**: During 2006, a One-stop Shop will be set up, including a conformity assessment and national quality supervision technical center.
4. **International accreditation to Lebanese exportable goods**: The government of Lebanon is planning to equip qualified labs providing international accreditation to exporters, in order to make Lebanese goods comply with international standards and subsequently open new markets to Lebanese exports.
5. **National Accreditation Board for Lebanese Laboratories**: A National Accreditation Board was established by law in February 2005 with the responsibility of regulating and equipping labs in conformity with international standards, allowing the recognition of Lebanese laboratories by European & international bodies.
6. **Agreements to facilitate exports**: The Parliament is in the process of ratifying a cooperation agreement for the facilitation of inland, and maritime transport of goods with the Republic of Yemen, in addition to an agreement with the Republic of Belle Russia for inland transport of goods.

## 7. TRADE LIBERALIZATION

- 1. World Trade Organization:** Lebanon is now moving towards membership in WTO after having gained observer status in April 1999 and launched the accession process in May 2001. Four working groups' meetings and a number of bilateral talks have been held between 2004 and 2006. An offer on Lebanon's commitments was submitted to WTO secretariat in November 2004. Revised offers will be sent bilaterally by September 2006. Lebanon is expected to accede to the WTO by the end of 2006.
- 2. Euro-Med:** The Association Agreement was signed in June 2002, and the Interim trade agreement went into effect in March 2003. The Association Agreement has entered into effect as of 1 April 2006. Lebanon is now committed to the European Neighborhood Policy. In October 2005, Lebanon launched the negotiations process with the objective of signing its own Action Plan by the middle of 2006. A National Indicative Program (NIP) for 2005-2006 covering a series of bilateral activities between the EU and Lebanon was signed in November 2005.

### Support to SMES

The Government of Lebanon is exerting strong efforts to support SMEs. The MOET established the SME Unit which is helping improve the business environment for Small and Medium Enterprises by providing business support to new and existing companies, facilitating access to financing, and improving the legal and administrative environment. Accordingly, four Business Development Centres (BDCs) have been awarded to four consortia in Zahle, Beirut, Tripoli, and Saida. MOET is currently awaiting the EU's approval for the contracts so that it can start the implementation phase, which includes final build out of the premises, training of the BDC staff, and taking them on the relevant study tours to learn from international best practices.

On the financing side, the SME Unit is beginning to promote the Kafalat scheme which provides 40 million euros in loan guarantees to start-ups and SMEs. Kafalat is in the process of negotiating the contracts with the participating banks to make the schemes operational.

In addition, the SME Unit is finalizing two major studies on the legal and business environments in Lebanon. The studies will be used in formulating an overall strategy and a legal action plan.

Finally, the SME Unit is awaiting the EU's approval of nine tenders that the Unit has submitted, that are considered to be crucial to the operation of the program.

1. **World Bank Technical Assistance Agreement for the Improvement of the Business Environment:** In response to a request from the Government of Lebanon, through the Ministry of Economy and Trade on 24 January 2006, the World Bank (WB) and International Finance Corporation (IFC) have launched a new program of assistance to improve the country's investment climate.
2. **IFC Technical Assistance Agreement:** Following a Doing Business Conference in November 2005 organized by IFC regional technical assistance facility PEP-MENA, the MOET signed a Technical Assistance Agreement with IFC in January 2006 to simplify Lebanon's business start-up procedures. This initiative is in line with the World Bank's overall strategy to improve the country's business environment.
3. **Investment Climate Survey** is currently ongoing to identify, confirm, and rank the various constraints that hamper the development of the private sector.
4. **FIAS Technical Assistance:** The Minister of Economy and Trade further requested assistance from FIAS to complement and support the business environment reform effort through an analysis of all administrative barriers to investment after initial registration, including the operating phase. FIAS management agreed to provide the requested assistance. It will execute the review in close coordination and with co-funding from IFC's PEP-MENA and the MENA region of the World Bank.
5. **Measures to Enhance the Business Environment:** In parallel, the Government of Lebanon has further been working on the following:
  - Lowering the minimum capital requirements and the cost of registration of businesses (expected by end 2006).
  - Reducing the time it takes to have a business license and the cost of opening and closing a business (expected by end 2008).
  - Simplifying the requirements needed in relation to the nationality of shareholders.
  - Simplifying the requirements in relation to the guarantee shares required by the members of the Board of Directors, or an additional auditor for limited companies appointed by the courts (expected by end 2006 )
  - Regulating oppositions, objections or excessive precautionary attachments to avoid the paralysis of the debtor's activity (expected by end 2007)
  - Strengthening and shortening the enforcement of legal contracts by increasing the number of judges and court offices and the number of courtrooms, and opening small claims courts with no right for appeal (expected over the period 2008-10)
  - Drafting a new bankruptcy law: the MOF, through a project financed by the EU, has drafted a new bankruptcy law. The objective of this law is to provide the appropriate and predictable legal framework to create an innovative and dynamic economy through continuously rejuvenating the market; reducing the number of failing enterprises by resolving financial difficulties at an early stage; and enabling non-viable enterprises to exit smoothly without being hindered by the stigma of failure; in addition to providing bankrupts with the opportunity of a fresh restart. The draft law would be in line with the latest international guidelines in that matter. The law is currently being reviewed by MOF before final approval.
  - Investment bilateral agreements and tax conventions: In its effort to expand its network of tax conventions (33 signed to present) and investment agreements (47 signed to present), the Republic of Lebanon has negotiated during 2005-2006 tax conventions with Pakistan and Mexico and had finalized the negotiations of investment agreements with each of Australia, South Korea, and the Sultanate of Oman. Other negotiations are scheduled for the second half of 2006.
  - A joint initiative was launched by the Presidency of the Council of Minister and the MOF to review commercial and administrative procedures governing business activity in Lebanon. Meetings are continuously being conducted with representatives of the Order of Accountants, Lebanese Chambers of Commerce, and lawyers, to come up with an exhaustive list of issues for review and amendment.

**6. Dialogue with the Private Sector:** The MOF is continuously seeking to improve services to its taxpayers and is aiming to create a better business environment. Towards this end, the MOF started a new initiative targeted towards two groups:

- (a) business associations, and enterprises
- (b) professionals such as orders of engineers, lawyers, doctors, etc.

The purpose behind this initiative is to:

- (a) open the dialogue with the different economic sectors with the aim of initiating communication for the facilitation and enhancement of their performance,
- (b) solve any pending/problematic issues between the different sectors and the MOF
- (c) introduce the feasible, necessary changes based on requests provided.

**7. BADER:** The Bader project was launched on 12 April 2006, upon the initiative of the Minister of Finance and with the support of a group of successful young Lebanese entrepreneurs to promote and support the entrepreneurial spirit of young Lebanese entrepreneurs. The program also addresses various issues related to entrepreneurship such as:

- (a) raising young Lebanese awareness about the importance of entrepreneurship, through road shows at leading universities and a strong media presence
- (b) promoting existing programs supporting entrepreneurs to the general public and actively encouraging cooperation between them
- (c) building private-public partnerships to resolve critical economic issues by working hand-in-hand with the Ministries of Finance and Economy and Trade to achieve various goals including enhancing the legal and regulatory framework for small and medium companies
- (d) creating new financial tools by launching a Venture Capital fund, which is currently the only source of financing not available to Lebanese entrepreneurs
- (e) improving education in entrepreneurship by promoting Michigan Institute of Technology (MIT)'s and other business plan competitions.

# 10. YOUTH INVOLVEMENT IN THE PUBLIC DOMAIN

## Youth Involvement in the Public Domain

The MOF is closely working on promoting the involvement of Lebanese youth in the public domain by participating in the Lebanese Youth Action Plan, an inter-university simulation reflecting the aspirations of Lebanese youth regarding the content of an official action plan; a bilateral program of partnership between the EU and neighboring countries. The outline of the action plan highlighted major areas of reform which revolve around the following issues:

- (a) political
- (b) economic
- (c) social (such as improving welfare systems including educational and cultural systems, encouraging respect for the environment and natural resources, enhancing road safety measures, etc).

As such a committee of students from various universities has been formed. Those students will be working closely with MOF regarding possibilities of integrating them in the Lebanese economy to benefit from their education and creativity, an untapped source of economic productivity. They are expected to work with the MOF on:

- (a) research areas of interest to MOF,
- (b) Bader program to promote entrepreneurship, in addition to
- (c) participating in internship programs at the MOF.

