



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

“WHEN THERE IS A WILL, REFORM IS POSSIBLE
EVEN UNDER THE MOST ADVERSE CONDITIONS”

2005 - 2007

November 19th, 2007

Grand Sérail



Presentation Outline



| | |
|-----|--|
| 1 | Challenges |
| 2 | Concluded Activities |
| 2.1 | <i>Maintenance of Fiscal and Financial Stability</i> |
| 2.2 | <i>Implementation of the Reform Program</i> |
| 2.3 | <i>Serving the Economy and Citizens</i> |
| 3 | Going Forward : 2008 -2009 |

The past two years have witnessed tragic and challenging events on the national front...

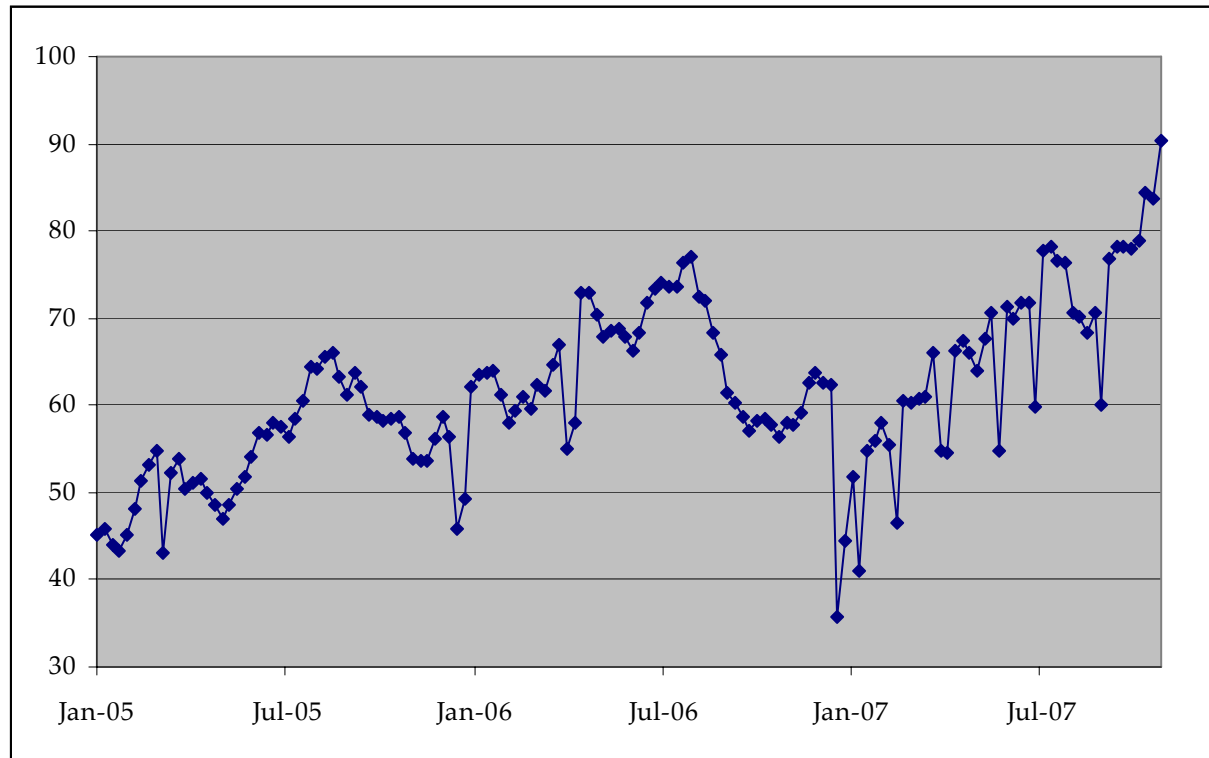
Political and Security Challenges



...compounded by challenges from international markets

- Turbulent international financial markets including credit crunch
- Increased international interest rates
- Surge in oil prices (Jan 2005: \$45 – Nov 2007: \$94 per barrel¹)

Weekly Europe Brent Spot Price FOB
(US\$)



^{1/} As of November 15th, 2007

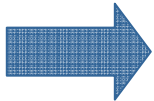


1

Challenges

2

Concluded Activities



2.1

Maintenance of Fiscal and Financial Stability

2.2

Implementation of the Reform Program

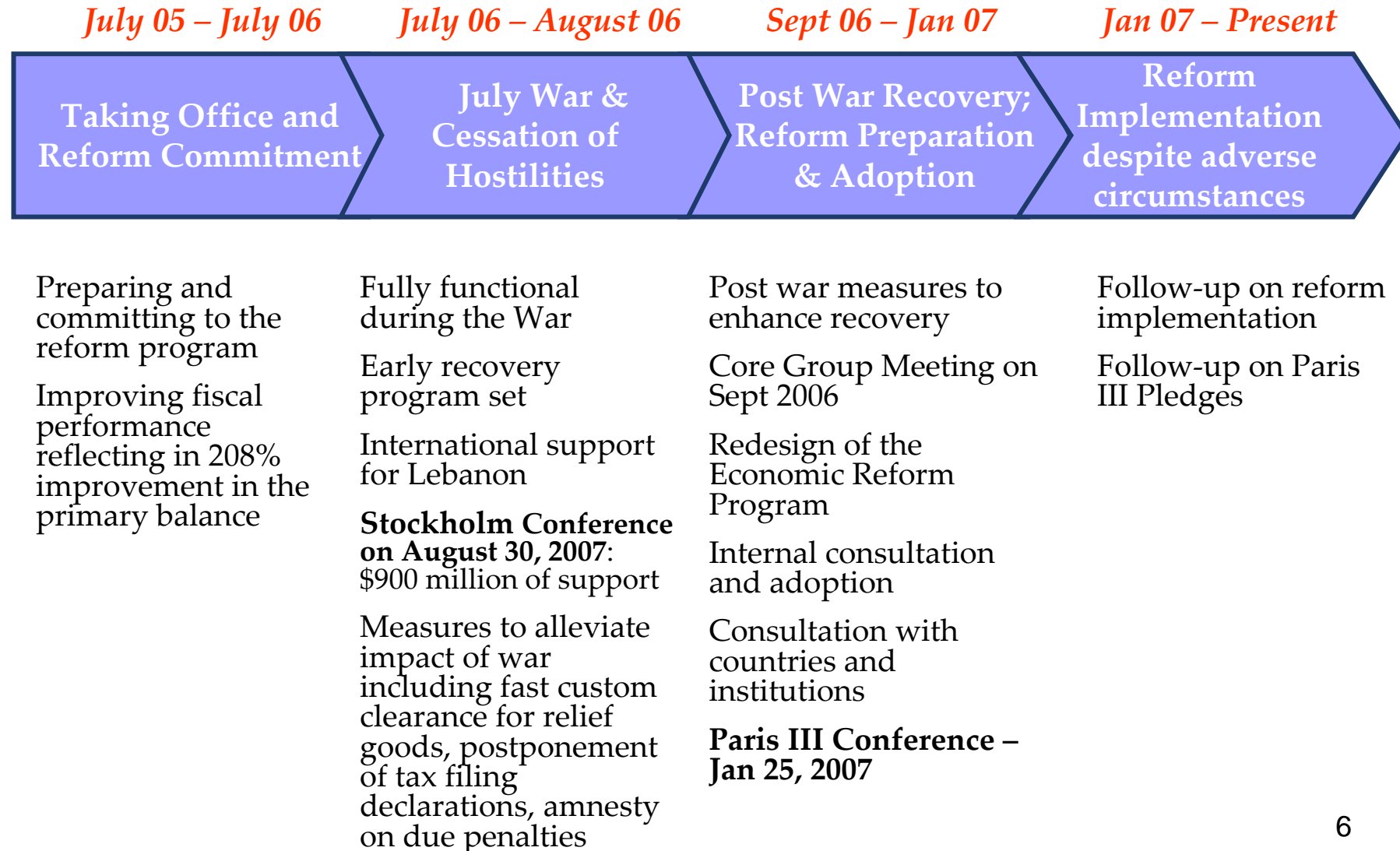
2.3

Serving the Economy and Citizens

3

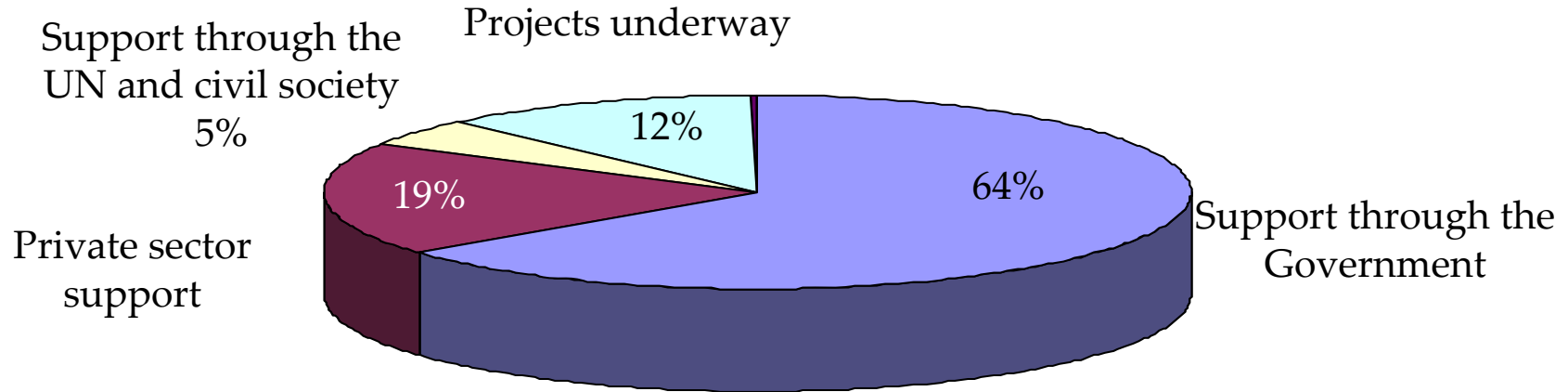
Going Forward : 2008 -2009

Despite all challenges, fiscal and financial stability were maintained and a reform and recovery plan was prepared





... to which the international donor community supported by pledging \$7.6 billion.



| | Sovereign | Institutions | Total | In Percent |
|----------------------|----------------|----------------|----------------|------------|
| Arab Donors | \$1,462 | \$1,250 | \$2,712 | 36% |
| European | \$1,172 | \$1,734 | \$2,906 | 38% |
| International & IFIs | \$943 | \$1,052 | \$1,995 | 26% |
| Total | \$3,577 | \$4,036 | \$7,613 | 7 |



On the fiscal front, public finances were considerably improved in the year up to the eve of the July 2006 war, with the primary balance improving three-fold



| <i>(in LL billion)</i> | July 04- June 05 | July 05- June 06 | % change |
|-----------------------------|---------------------|---------------------|----------|
| Revenues | 7,317 | 7,936 | 8.5% |
| Expenditures | 10,401 | 10,566 | 1.6% |
| <i>Debt service</i> | 3,572 | 4,136 | 15.8% |
| <i>Primary expenditures</i> | 6,828 | 6,430 | -5.8% |
| Deficit | -3,083 | -2,630 | -14.7% |
| Primary balance | 489 | 1,506 | 208.1% |

Source: MOF



Despite an extremely difficult environment, fiscal performance results witnessed a positive improvement in 2007



| <i>(in LL billion)</i> | Jan – Oct 06 | Jan – Oct 07 | Δ 06 -07 |
|------------------------------|--------------|--------------|-----------------|
| Total Revenues, of which | 6,103 | 7,372 | 20.8% |
| Tax revenues, of which | 4,155 | 4,760 | 14.6% |
| VAT | 1,387 | 1,730 | 24.7% |
| Non-Tax revenues | 1,575 | 2,051 | 30.25 |
| Total Expenditures, of which | 9,586 | 10,503 | 9.6% |
| Total Primary expenditures | 5,950 | 6,361 | 6.9% |
| Debt Service | 3,636 | 4,142 | 13.9% |
| Total Deficit | -3,482 | -3,132 | -10.1% |
| Primary Balance | 154 | 1,010 | 557.2% |

Fiscal and financial stability was confirmed by the positive IMF EPCA and Article IV mission assessments for the first three quarters of 2007

Despite the difficult environment, fiscal and monetary situation were contained. The findings of the most recent IMF mission in November 07 reflected that with the following main conclusions:

- ✓ Economic prospects continue to be hostage to political developments.
- ✓ Lebanon is **on track** under the EPCA program during the **first three quarters**
- ✓ All **end-September quantitative targets** were met
- ✓ The authorities are well placed to meet or exceed the end-year targets



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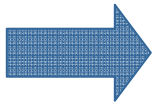
Challenges

2

Concluded Activities

2.1

Maintenance of Fiscal and Financial Stability



2.2

Implementation of the Reform Program

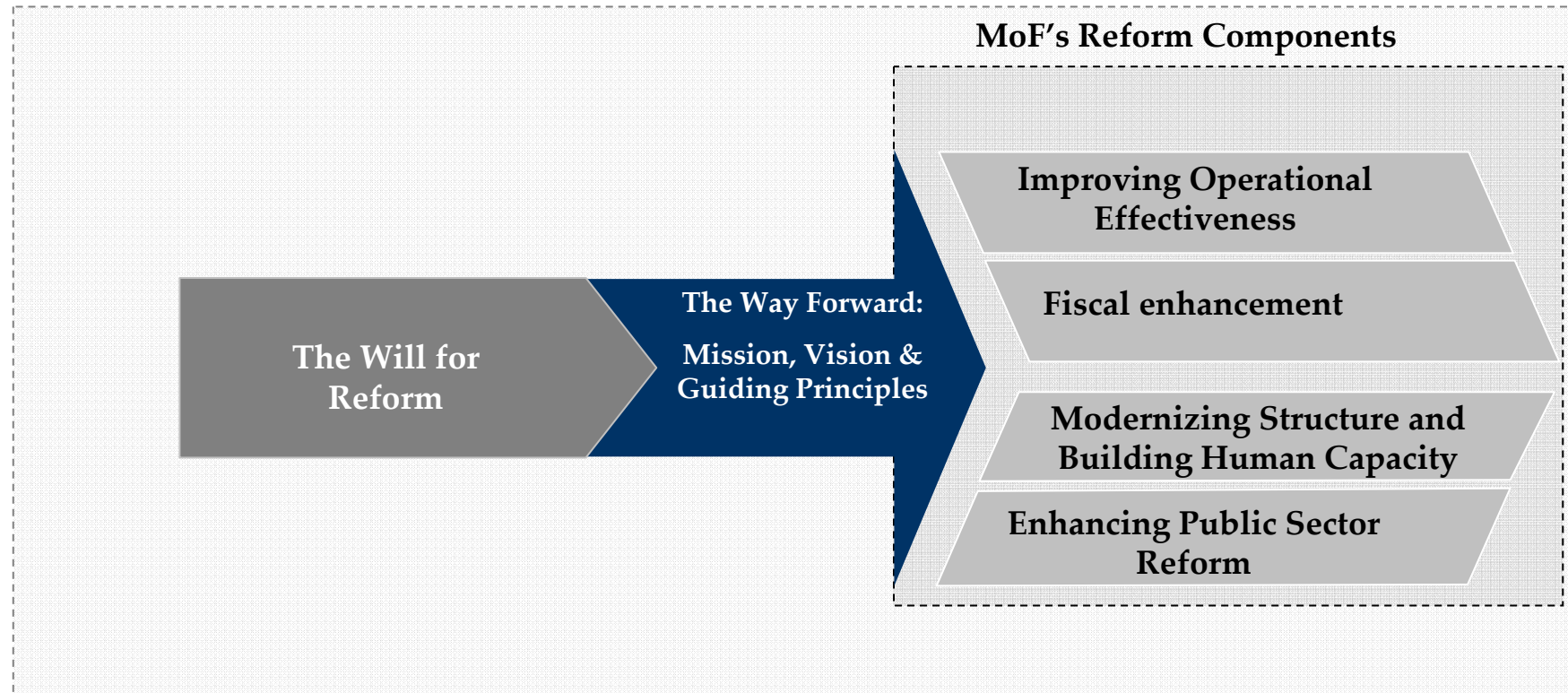
2.3

Serving the Economy and Citizens

3

Going Forward : 2008 -2009

The Ministry of Finance's reform programs fall under four categories and are driven by aspirational guiding principles ...



MoF Vision

MoF Mission

MoF Guiding Principles

The Ministry of Finance has become a symbol of a public institution that succeeded in driving reform forward due to a clear vision and mission ...

Vision

The Ministry of Finance shall lead the government's economic reform through sound formulation and management of fiscal policy and public debt in order to foster sustainable economic growth in alignment with national priorities, acting as a role model for transparency, and accountability, in a manner that reflects good governance.

Mission

The Ministry of Finance shall continue to achieve its vision by pursuing process efficiency in the delivery of its services, using latest proven technologies and best managerial practices at lowest costs, in an effort to consolidate the trust and confidence of the public, and ensure cohesion between fiscal and social policies.



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MINISTRY OF FINANCE

MoF was able to achieve a number of successes in line with its ambitious reform plan



MoF Achievements

- Despite a wide array of obstacles and unfolding crisis threatening Lebanon and its economy, the MoF was able to achieve a number of successes in line with its functions and responsibilities.
- The **Ministry of Finance** has become a **success story as a public administration synonymous with transparency and accountability**, and one that encourages **open communication** and values **partnership with the private sector** for the benefit of all Lebanese.

Developed an Effective Tax Administration

Improved Budget & Expenditure Management

Strengthened Debt Management Mechanisms

Reformed the Financial & Capital Markets

Facilitated Trade and Customs Procedures

Modernized Cadastre Operations

Instituted Cooperation between the Private and Public Sectors

Pioneered Agreements with Representatives of Different Economic Sectors

Enhanced Donor Coordination

Empowered Youth

Developed the Human Resource Capacity of the MoF

Promoted Transparency and Abided by its Principles

Automated Process and Procedures

Successfully Implemented Fiscal Adjustment Program via EPCA

Contributed to the Success of Paris III



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MINISTRY OF FINANCE

Much was done over the past two years to modernize the tax administration and improve the tax structure and collection



Revenue Administration and Tax Reforms

- Reorganization of the tax administration with strong headquarter and streamlined regional offices
- Reactivation of the Large Taxpayer's Office (LTO)
- Finalized registration of private and public sector employees, and extension of the reformed operations (DASS) to the regional offices
- Strengthened the Value-Added Tax (VAT) Directorate
- Updated the taxpayers' information database within the newly established Tax Roll Unit and set a new Business Activity Code chart
- Finalized the Global Income Tax
- Finalized the Tax Procedure Code, also approved by the Parliamentarian Committees
- Established link the two systems of the Land Registry at the Cadastre and the Built Property Tax administration

Success Indicators

- ✓ Higher Voluntary Compliance Rate
- ✓ Reduced number of cases of disputes
- ✓ Increased revenues collection
- ✓ Updated taxpayer database



The Ministry achieved significant improvements in taxpayer services



Filing exclusively by mail

Payment exclusively through banks

Specified due dates for all transactions

Instant communication by e-mails with taxpayers

Introduction of e-services enabling taxpayers to file and process their tax transactions through the web

Expansion of mail services enabling taxpayers to process their transactions by mail and receive the result at specified address

Automated document tracking for taxpayers' enquiries

Launching of a 24/7 call center to provide "around the clock" services for all taxpayers' enquiries

Continuous update and publishing of information on the website

Distribution of guides, bulletins, newsletters and brochures

Delivery of conferences, seminars and workshops aimed at increasing taxpayers awareness and education



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MINISTRY OF FINANCE

Significant Improvements were recorded in the Processing of Tax Transactions- *Success Indicators*



| | 2005 | | 2006 | | 2007 | |
|---|------|--|------|---|------|--|
| | % | Duration | % | Duration | % | Duration |
| Completed transactions | 50 | | 70 | | 100 | |
| Improvement in the duration required to complete transactions | | 3 days | | Immediate | | Immediate |
| Transactions that did not have a set time for completion | | Multiple visits with no assigned time for completion | | Needed documentation is determined and time to receive completed transaction is set | | |
| Correction of mistakes in declarations | ~0 | | 98 | | 98 | |
| Resolution of objections | 44 | | 67 | | 77 | |
| Field audit | | Unclear or not standardized procedures | | Automated all audit procedure | | Already automated |
| Database | | Not completed | | Coordinated with Ministries to create database | | Coordinated with Ministries to create database |

Source: Ministry of Finance

Significant Improvement were recorded in the Processing of Tax Transactions- *Success Indicators (Continued)*

Number of taxpayers in the database (based on employment start year)

| | Prior to 2005 | 2005 | 2006 | 2007 | Total |
|--------------|----------------|----------------|----------------|----------------|------------------|
| Enterprises | 187,370 | 14,198 | 11,848 | 11,127 | 224,543 |
| Individuals | 721,599 | 283,374 | 134,854 | 212,034 | 1,351,861 |
| Total | 908,969 | 297,572 | 146,702 | 223,161 | 1,576,404 |

Number of private sectors employees registered in DASS

| | Prior to 2005 | 2005 | 2006 | 2007 | Total |
|-----------|---------------|--------|--------|--------|---------|
| Employees | 321,514 | 38,850 | 19,130 | 20,008 | 399,502 |

Source: Ministry of Finance



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Significant Improvement were recorded in the Processing of Tax Transactions- *Success Indicators*



239,381 transactions processed through Liban Post in 2006

All the transactions are processed through Liban Post in 2007

| | No. Processed | No. Processed |
|------------------------|---------------|---------------|
| Beirut | 61,910 | 123,542 |
| Mount Lebanon | 78,541 | 185,494 |
| Large Taxpayers Office | 10,694 | 9,787 |
| North | 8,537 | 35,186 |
| Bekaa | 8,537 | 20,697 |
| South | 8,228 | 20,407 |
| Nabatieh | 2,458 | 7,536 |
| VAT | 60,476 | 89,359 |

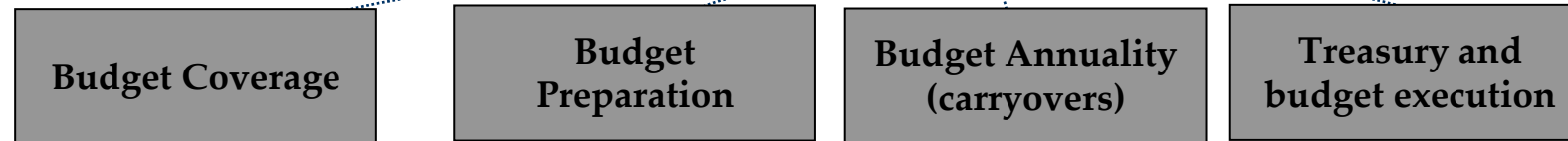
Source: Ministry of Finance



MoF has launched a number of initiatives aimed at implementing a full-fledged public financial management reform



Budget and Treasury Reforms



- Budget 2007 and 2008 proposals enlarged the scope of budget coverage by integrating CDR and HRC foreign financed expenditures.
- Budget 2007 proposal prohibited budget carryovers for which no third party liability exists.
- For the first time, top-down budgetary approach was undertaken by including MTEF as part of Budget 2008 circular.
- Ministry of Education was taken as a pilot to prepare an extended budget request for 2009 based on MTEF, and to include performance information (on-going work)
- Prepared for the establishment of a Treasury Single Account
- Established a Cash Management Unit

Objectives

- ✓ Help break the existing cycle of basing a ministry's budget on previous year's allocations
- ✓ Help estimate future lock-ins and headroom for future spending-key to achieving Government's fiscal objective
- ✓ Hold ministries accountable for increasing service levels in return for additional financing
- ✓ Improve cash management and link it to indebtedness



...and was able to rationalize Government's spending



Expenditure Rationalization Measures

- **Containing the wage bill** through putting hiring freeze into effect
- Restricting to a minimum official travel expenses
- Reducing waste related to **gasoline consumption and communication costs**
- **Phasing out of Council of the South and Displaced Fund** underway
- **Asking spending agencies to do 5% reduction in various expenditures.**
- Prepared a draft law to **reform the public pension system**

Success Indicators

- ✓ Planned budget spending for 2008 is 3% lower compared to Budget 2007 Proposal figures



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MoF has gone a long way in modernizing its debt management tools and meeting all its obligations despite all challenges



Debt Management Reforms

- Development of **debt management strategy** underway
- Increased transparency through establishing a **Specialized Regular Debt Reporting** :
 - Supplementing current Public Finance Monitor
 - Providing timely detailed debt information
- Set the ground for establishment of a **Debt Management Office** to better develop and execute the debt management strategy
- **Strengthened Domestic Debt Management** through:
 - Issuing a new 5 years LL instrument on March 2006 as a benchmark

Success Indicators

- ✓ Refinancing successfully more than \$ 15.2 billion maturing in 2006 and up to \$ 8 billion up to first half of 2007.
- ✓ Reduction of debt held by BDL by more than \$ 3 billion
- ✓ Stable interest rates on LBP despite various developments in 2006 and 2007.

...and has instituted a number of financial legislations aimed at developing Lebanon's financial and capital markets

- The Securitization Law
- The Fund Management Law
- The Capital Market Draft Law
- The Draft Law on Dematerialization of Securities
- The Draft Law on Securities' lending
- The Insider Trading draft legislation

- Launched **“Capital Market Supervisory and Regulatory Authority Strengthening” project** under the FIRST (Financial Sector Reform and Strengthening)
- Established a **Capital Market Advisory Committee at MOF**
- Developed a **strategy to encourage listing on the Beirut Stock Exchange (BSE)**

The Ministry of Finance has been at the forefront of embracing technology to provide the best service efficiently

Automated Processes and Procedures

- Upgraded IT infrastructure within all of its Directorates by installing a fast and reliable Wide Area Network (WAN), as well as Metropolitan Area Network (MAN) and a Local Area Network (LAN)
- Designed and developed budget management systems, treasury management systems and personnel payroll systems to facilitate payment and optimized transaction times
- Implemented a document management and archiving system and E-taxation system
- Leading role in Electronic Payment Systems
- Automated regular reporting



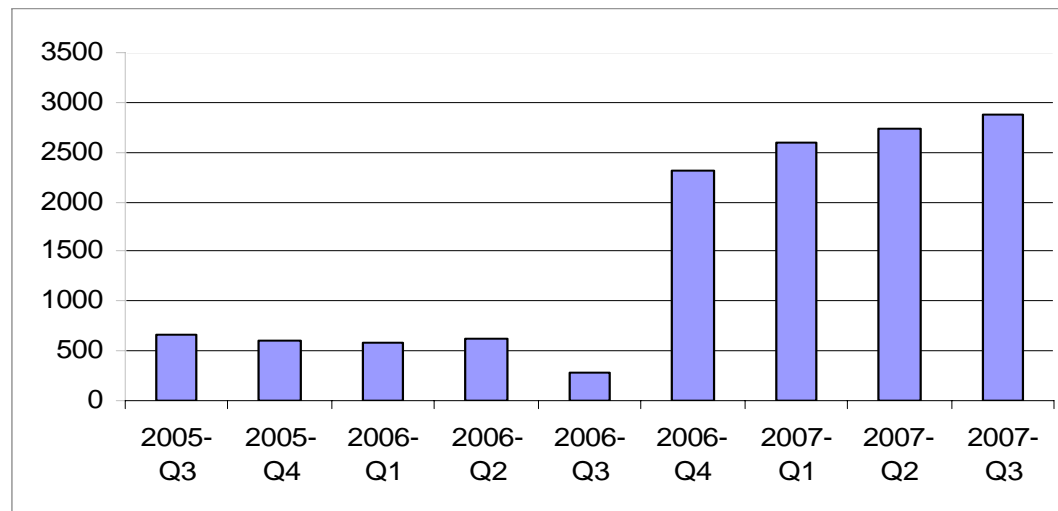
...and has proceeded in the modernization of customs procedures and facilitating trade



Submission of Customs Declarations

| | Port of Beirut | | | Rafic Hariri Int'l Airport | | |
|---------|----------------|----------------------------|---------|----------------------------|----------------------------|---------|
| | Number (000) | Number on Green Lane (000) | % Green | Number (000) | Number on Green Lane (000) | % Green |
| 2005 | 116 | 80 | 69% | 101 | 74 | 73% |
| 2006 | 106 | 70 | 66% | 92 | 65 | 71% |
| 2007-Q3 | 95 | 60 | 63% | 76 | 54 | 70% |

Submission of an electronic Manifest by the airlines at Rafic Hariri Int'l Airport - Introduction of MANAR



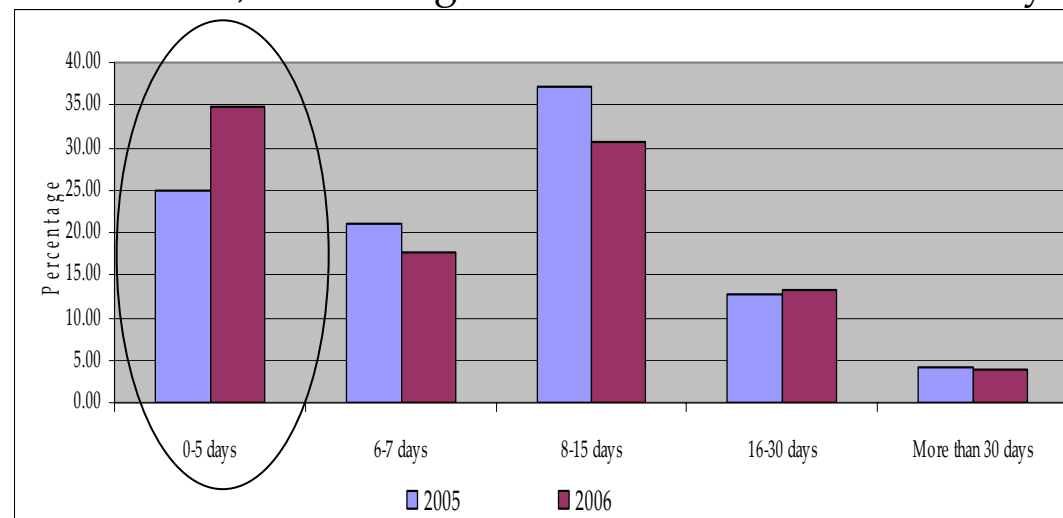


Automation has also led to the modernization of cadastre operations



- Prior to automation, an affidavit officially required less than 15 days. Currently an affidavit is issued instantly.
- The Average time required to complete real estate transactions decreased by 6% from 11 days to 10 from 2005 to 2006. In 1998, the average transaction time was 16.7 days.

- 40 % more transactions required 0-5 days in 2006 than in 2005. Currently, 51% of transaction require less than 6 days.



- Currently 2,563,889 title registers had been entered into a coded database as well as 900,624 parcel maps(without public domain)



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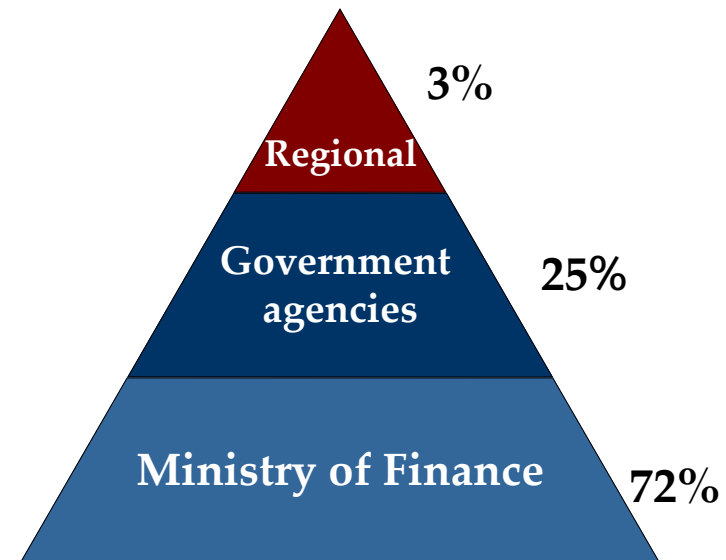
The Institute of Finance has played an important role in capacity building and human resource upgrading



The Mission of the Institute:

1. Supporting the process of Capacity Building & Human Resources Development at MoF
2. Improving capacity in financial management of Government agencies.
3. Improving communication and information dissemination at MoF
4. Networking with local, regional and international institutions
5. Acting as a regional training hub (WCO-regional training center, WBI, Adetef, etc.)

- A total of 5,761 trainees from MoF staff (2005-2007)
- A total of 10,173 trainees from civil servants (2005-2007)



The significant improvements in services were recognized internationally



MoF won the 2007 UN Public Service Award

"Most prestigious international recognition of excellence in Public Sector" UN



Award received through a worldwide competition organized yearly by the UN since 1993

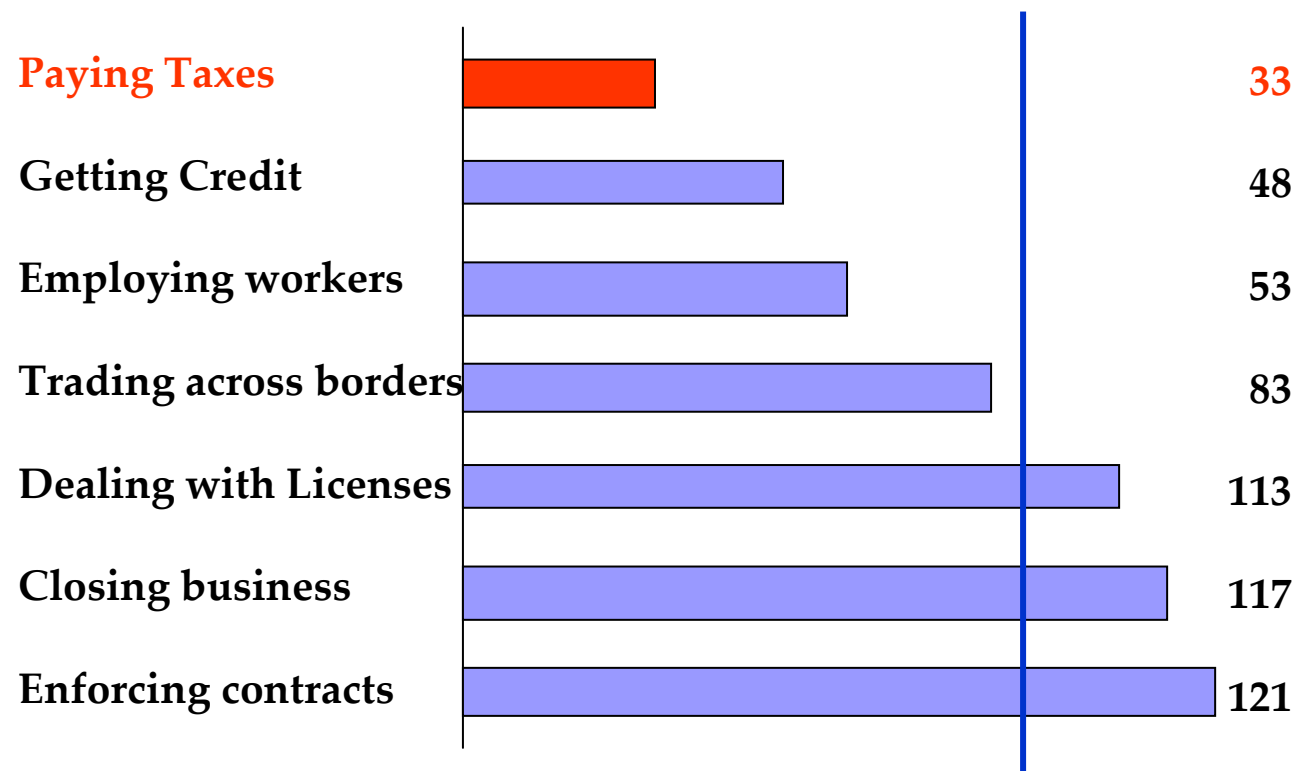
Recognized MOF successful efforts and remarkable accomplishments during the past 15 years

MOF won the 2007 UNPS Award in the category of "Improving the Delivery of Services"

Leading to higher compliance as per World Bank Doing Business 2008 : Lebanon was ranked 33 out of 178 countries in paying taxes



Lebanon Ranking in doing business : 83



Source: World Bank and International Finance Corporation, Doing Business 2008 Lebanon: Comparing Regulations in 178 Economies



1

Challenges

2

Concluded Activities

2.1

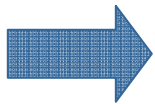
Maintenance of Fiscal and Financial Stability

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Implementation of the Reform Program

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Serving the Economy and Citizens



3

Going Forward : 2008 - 2009

Connecting with citizens and promoting transparency have been at the core of MoF's guiding principles

| | | |
|---|--|---|
| 1 | Increased Access to Public Information | <ul style="list-style-type: none"> ▪ Provision of timely and relevant publications and financial database to taxpayers, citizens, business community and donors ▪ Increased disclosure and publication of information through: <ul style="list-style-type: none"> ▪ 24/7 call center launched for taxpayer enquiries ▪ Website, mailing lists, events, Institute of Finance library |
| 2 | Legislative Development to Enhance Transparency | <ul style="list-style-type: none"> ▪ Public Finance Reforms: Draft law on auditing accounts of legal & public entities; Modern Public Debt Department ▪ Expenditure & Treasury: Public Accounting Law; Draft 2007 and 2008 Budget Laws; Treasury Single Accounts; Public Procurement Law |
| 3 | Monitoring and Reporting on Aid Flows | <ul style="list-style-type: none"> ▪ Donor Coordination Unit at MOF ▪ Financial monitoring and reporting system ▪ National Reconstruction Mechanism |
| 4 | International Agreement Framework | <p>Agreements signed with: OECD, WTO, IMF (Emergency Post-Conflict Assistance Program), EU (EU Neighbourhood Agreement).</p> |
| 5 | Oversight of Public Spending | <p>Increased audited information:</p> <ul style="list-style-type: none"> ▪ Fiscal Accounts 1993-2006 published ▪ Auditors appointed for NSSF for 2001-2006 accounts, ▪ Auditors appointed for EDL 2002-2006 accounts; 2001 accounts audited. |
| 6 | Memorandum of Understanding between MOF and LTA | <p>MOU signed with Lebanese Transparency Association 25 October 2007 to: ensure and promote transparency and access to information; increase the government's accountability and responsiveness; fight corruption</p> |

MoF has enhanced public-private partnership through an institutionalized dialogue leading to an improved business environment

Responding to private sector needs

- **Institutionalized dialogue established** with two groups: Economic and Business Associations, and Trade Unions and Professional Syndicates
- Continuous dialogue has resulted in the **simplification of several finance, customs and tax procedures**

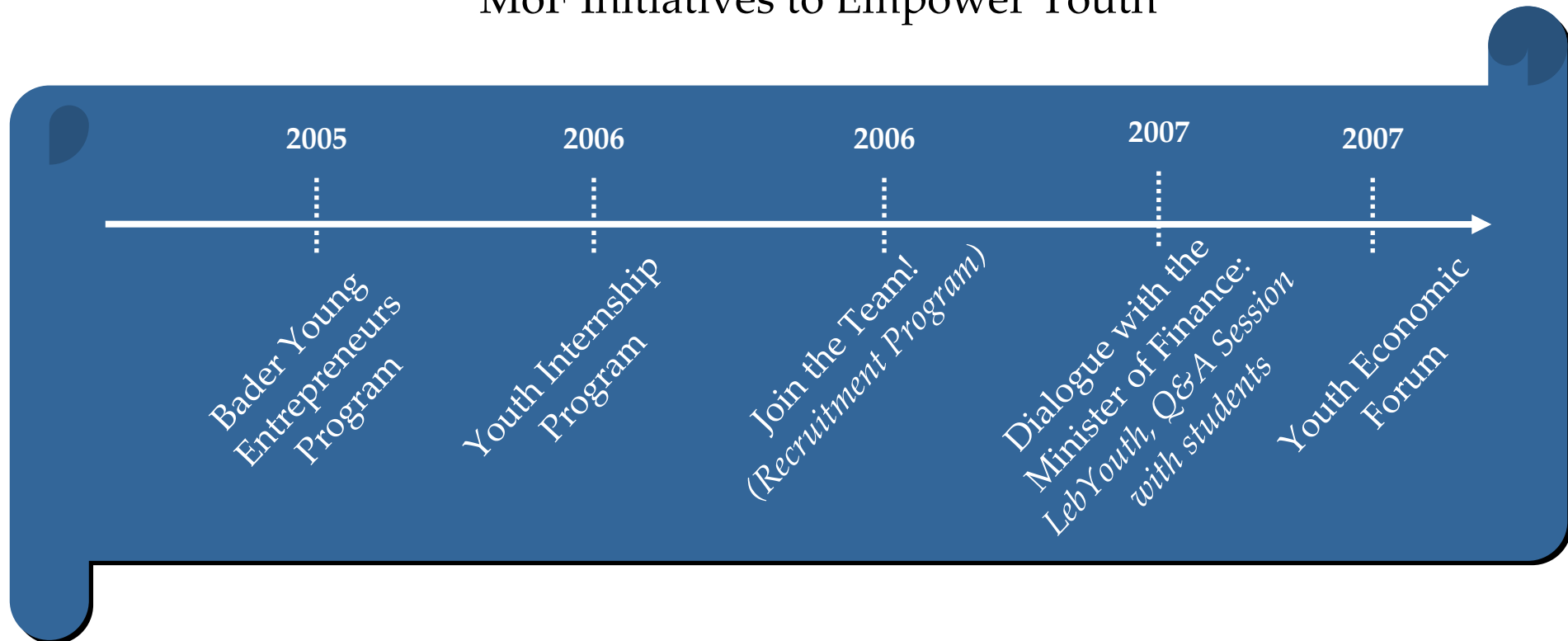
Tax Control Procedures Simplified

Undertook several decisions to simplify tax control procedures including:

- Developed a basket of tax incentives to reduce the burden of war on private sector enterprises
- Allowed payment of tax settlements in installments (post-war)
- Provided amnesty on due penalties (post-war)
- Postponed tax filing declaration payment dues (post-war)

MoF has also spearheaded a a number of initiatives promoting youth involvement and empowerment

MoF Initiatives to Empower Youth





1 Challenges

2 Concluded Activities

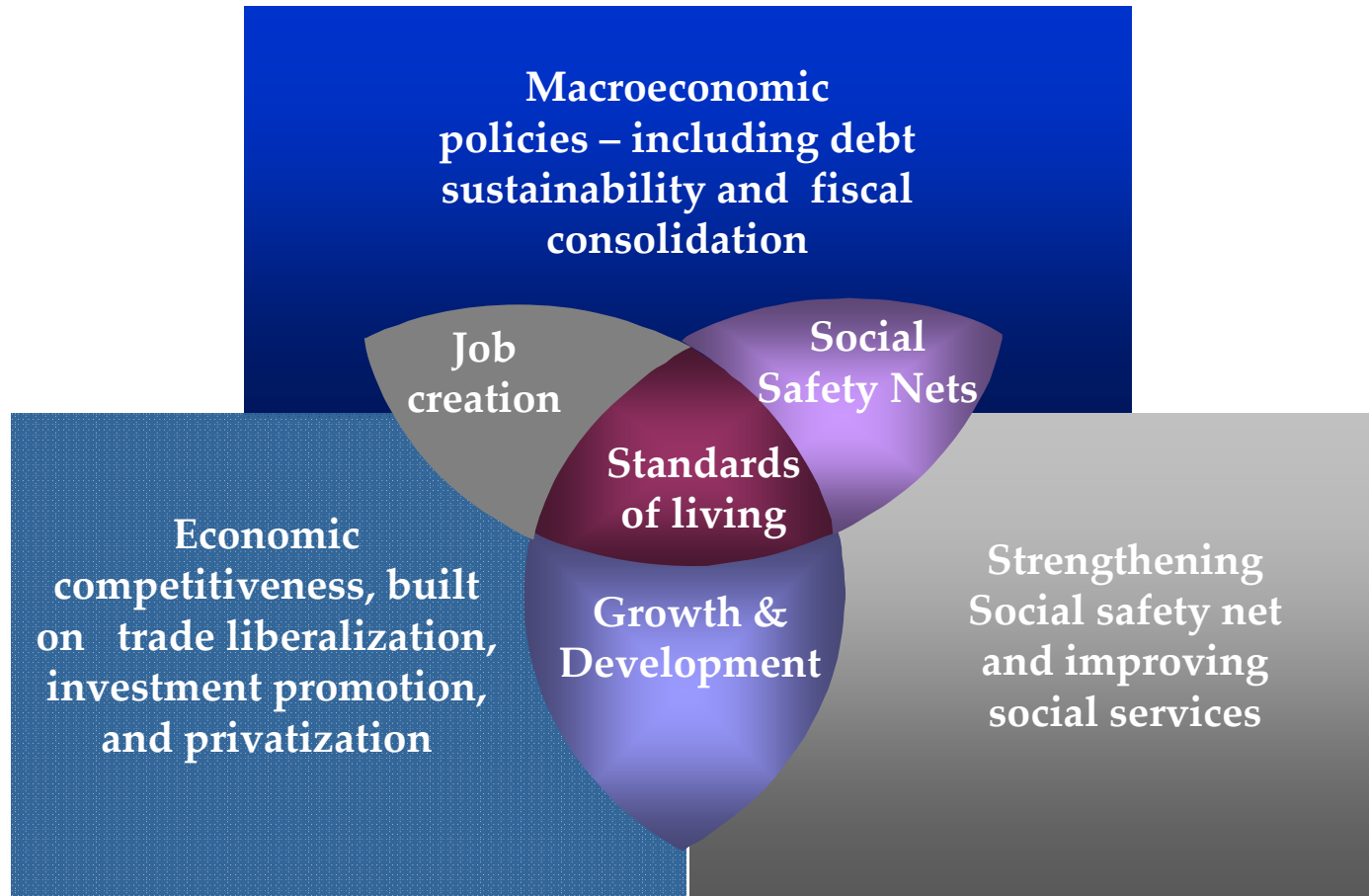
2.1 *Maintenance of Fiscal and Financial Stability*

2.2 *Implementation of the Reform Program*

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3 Going Forward : 2008 -2009

MOF should continue to dedicate efforts to the benefit of all Lebanese





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Going Forward:

MOF Reform Agenda for 2008 - 09



| MOF's REFORM PLAN FOR NEXT YEARS | TARGETS |
|--|---|
| <p>Continue the implementation of the Paris III Agenda</p> <p>Achieve budget and financial management reform</p> <p>Strengthening Debt management and implementing capital markets reform</p> <p>Achieve next generation of customs reform</p> <p>Facilitating the development of the modern and competitive economy</p> <p>Complete <i>e.MOF</i> and modernization of processes</p> <p>Providing employees with the skills and resources required to effectively perform their responsibilities</p> <p>Combating fraud and corruption within public finance and the financial system</p> <p>Providing valuable, effective, customer friendly services to the public and private sectors</p> | <p>Achieve Paris III objectives</p> <p>Improve fiscal accountability</p> <p>Debt sustainability</p> <p>Facilitate trade and economic activity</p> <p>Increase growth and job creation</p> <p>Improve the business environment</p> <p>Provide opportunities for career development</p> <p>Promote good governance</p> <p>Fulfill a public service mission</p> |



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“WHEN THERE IS A WILL, REFORM IS POSSIBLE
EVEN UNDER THE MOST ADVERSE CONDITIONS”

Thank you