

REFORMS AT THE MINISTRY OF FINANCE

A CLEAR VISION LEADING THE WAY



2005-2008 AND BEYOND



REPUBLIC OF LEBANON
MINISTRY OF FINANCE



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PREAMBLE

Upon taking office on *July 19, 2005*, the Government of Lebanon committed before the Parliament to an ambitious reform agenda. One year later, at the time of the outbreak of the hostilities with Israel on *July 12, 2006*, the Government was on the verge of adopting a comprehensive and bold economic reform program that was designed to address the high level of public debt, create the right environment for stimulating growth and employment, and mitigate the impact of adjustment on the poor.

In the wake of the July 2006 war and its economic and political fallout, the Government's reform program was re-phased to strike a careful balance between post-conflict needs, restoring the foundations for solid growth, and reducing the risks stemming from the large debt overhang. On *January 25, 2007*, the Government of Lebanon presented its comprehensive reform program at the International Donor Conference held in Paris (Paris III) to garner the international community's support for the implementation of the program. This program, which was adopted by the Lebanese Cabinet on *January 4, 2007*, was deemed ambitious, comprehensive and coherent by the international donor community, which pledged \$7.6 billion in support over the medium-term. The reform program spans four critical areas for Lebanon's future growth prospects and fiscal stability: (i) Fiscal adjustment through revenue and expenditure structural reforms; (ii) Growth-enhancing structural reforms and privatization; (iii) Monetary Exchange Policies and (iv) Social sector reforms.

Despite a wide array of obstacles and unfolding crisis threatening Lebanon and its economy since *July 2005*, the Ministry of Finance was able to achieve a number of successes in line with its functions and responsibilities. As such, the key domestic structural reforms adopted by the Ministry of Finance have focused on: (i) undertaking revenue management and administrative reform towards a function-based structure; (ii) undertaking budget and financial management reform; (iii) strengthening debt management to reduce costs and risks of government's debt portfolio; (iv) reforming the capital markets; (v) facilitating trade and customs procedures; (vi) modernizing cadastre operations; (vii) improving the business environment; (viii) enhancing donor coordination; (ix) empowering youth; (x) capacity building and human resource upgrading; (xi) promoting transparency through information dissemination and reporting and (xii) upgrading and automating IT infrastructure.

Armed with the experiences amassed from prior administrations, 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. This success is deeply rooted in the presence of a resolute and untiring will for reform, whereby the Ministry remained adamant to pursue reform programs and make their implementation possible regardless of any hardships and political dismay affecting the country.

This report highlights the progress that the Ministry of Finance has achieved in terms of implementing the above reforms during the period *July 2005 - May 2008*, in spite of all predicaments, trials and tribulations, highlighting the fact that when there is a will, reform is possible even under the most adverse conditions. The report also lists, going forward, the immediate next steps required to advance further the reforms.

We sincerely hope that you find this report informative and useful, and remain at your disposal for any related queries.

Jihad Azour
Minister of Finance

**THE MINISTRY OF FINANCE
A CLEAR VISION LEADING THE WAY FORWARD**

The Ministry of Finance (MOF) has spearheaded the Government's economic reform, acting as a catalyst through sound formulation and management of fiscal policy and public debt in order to stimulate economic growth in alignment with national priorities, acting as a role model for transparency, and accountability, in a manner that reflects good governance. The Ministry is driven by aspirational mission and vision statements and guided by a set of principles which together serve the basis to its reform program.

MOF'S 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.

FUTURE ORIENTATION

MOF MISSION STATEMENT

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.

THE MINISTRY OF FINANCE

A CLEAR VISION LEADING THE WAY FORWARD

The Ministry's mission elements have evolved around:

- Ensuring that the legal responsibilities of the Ministry are impartially executed;
- Developing and maintaining a stable economic environment;
- Optimally structuring and managing the nation's assets and liabilities;
- Fostering stable financial institutions and markets;
- Facilitating the development of the national economy and international trade;
- Clearly communicating the degree to which national spending is aligned with national objectives and priorities;
- Providing employees with the skills and resources required to effectively perform their responsibilities and provide them with opportunities for career development and advancement;
- Facilitating cooperation among public agencies through finance;
- Developing and maintaining leading edge organizational and management practices;
- Combating fraud and corruption within public finance and the financial system;
- Providing valuable, effective, customer friendly services to the public and private sectors.

The Ministry of Finance reform initiatives could therefore be grouped into four components which together define the Ministry of Finance Reform Program:

- 1. Improving Operational Effectiveness:** consistent with the Ministry's goal to improve operational effectiveness and customer service levels by revamping processes, leveraging IT and devising clear functional key performance indicators.
- 2. Fiscal Enhancement:** consistent with the role of the Ministry as the central apparatus charged with fiscal and economic policy formulation, optimizing revenues, expenditures, assets and liabilities by rationalizing the tax/fee portfolio and introducing policies that improve the financial condition of national accounts.
- 3. Modernizing Structure and Building Human Capacity:** consistent with the aim to transition the Ministry to a modern, service oriented organization structure and to improve institutional capacity through employee skills development.
- 4. Enhancing Public Sector Reform:** consistent with improving the standards and procedures that the Ministry of Finance requires other ministries to follow, and the methods used to align government spending to national priorities.

Despite the adverse impact of the protracted political stalemate, political tensions and paralyzed legislative activity which adversely affected economic activity and private capital inflows, every opportunity was seized to advance the underlying reforms and adjustment processes, as highlighted in the forthcoming sections.



Text Box 1. The Ministry of Finance won the 2007 United Nations Public Service Award

The Ministry of Finance won the 2007 United Nations Public Service Award, in the category of "Improving the Delivery of Services". According to the UN, this award is the "most prestigious international recognition of excellence in public service".

Since the award creation in 1993, 14 winners are awarded this prestigious recognition every year through a worldwide competition encompassing 3 categories: (i) improving transparency, accountability and responsiveness in the public service; (ii) improving the delivery of services; and (iii) fostering participation in policy-making decisions through innovative mechanisms.

The Lebanese Ministry of Finance was thus recognized internationally for its successful modernization efforts and remarkable accomplishments during the past 15 years. The latter are quantifiable through increased revenue to the treasury but more importantly higher overall customer satisfaction manifested in higher levels of voluntary compliance, reduced number of disputes and lower processing and response times to transactions.

MAIN FOCUS

At the Directorate General of Finance, focus was on the creation of a modern and innovative Tax Administration able to anticipate and respond to external and internal changes through:

- Efficient organization with function-based headquarters and operational offices
- Business process reengineering (BPR) and automation
- Qualified and skilled human resources
- Taxpayer Service and "Customer Value" Culture
- Continuous capacity building of distinctive competencies
- Full commitment to the modernization plan

MAIN ACHIEVEMENTS

- Payment exclusively through banks
- Specified due dates for all transactions
- Filing exclusively by mail
- Expansion of mail services enabling taxpayers to process their transactions by mail and receive the result at specified address
- Launching a 24/7 call center to provide "around the clock" services for all taxpayers' enquiries
- Delivery of conferences, seminars, workshops aimed at increasing taxpayers awareness and education
- Distribution of guides, bulletins, newsletters and brochures
- Instant communication by e-mails with taxpayers
- Continuous updating and publishing of e-information to citizens
- Introduction of e-services enabling taxpayers to file and process their tax transactions through the web
- Automated document tracking for taxpayers' enquiries.

I.
UNDERTAKING REVENUE MANAGEMENT
AND ADMINISTRATIVE REFORM TOWARDS
A FUNCTION-BASED STRUCTURE

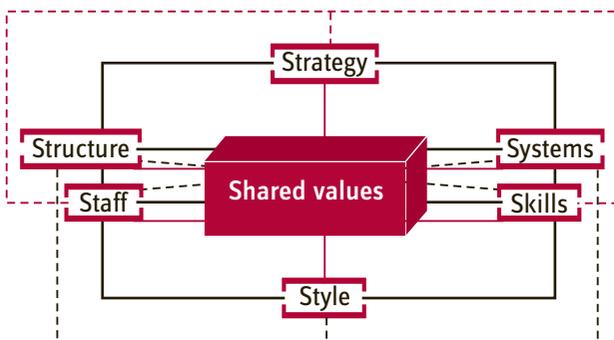
A key element of the fiscal reform of the Lebanese Government is the establishment of a modern tax system and the institution of an administration capable of effectively and efficiently managing taxes. This administration will ensure the delivery of modern and reliable services and targeted audit and enforcement activities while improving taxpayer compliance.

Much was done between *July 2005 and May 2008* to improve the tax structure and collection and the tax reform project was able to reach several goals despite the critical period of political turbulence and instability. Although the impact of the July 2006 war was devastating, the tax administration carried on collecting revenues and providing reliable services to taxpayers.

One of the project's major achievements was the development of an effective and transparent tax administration, through the reorganization of its whole structure. Moreover, the project was engaged in supporting the tax administration to provide high-quality services for taxpayers who were required to file exclusively by mail and settle payments only through commercial banks, in addition to the creation of a continuously updated website and the launching of a "round the clock" call center. Furthermore, an automated document tracking system for taxpayers' enquiries was implemented. In the context of exchanging information with other government agencies on a regular basis, a link was recently established between the Land Registry at Cadastre and the Built Property Tax databases and synchronization of information systems between the two systems was completed in *November 2007*.

Since the modernization of the tax administration is an integral part of the tax reforms, the project is currently preparing for the introduction of the Global Income Tax and of the Tax Procedure Code. Besides, the launching of the e-services will constitute a major breakthrough for both the citizens and the administration, making it possible for all taxpayers to file and finalize their tax transactions through the web. Consequently, the project is working on the development of a new portal that meets the requirements of a modern 21st century administration.

Tax Reform Program



1. REORGANIZATION OF THE TAX ADMINISTRATION

A number of structural measures were taken to modernize the revenue administration towards a function-based structure with strong headquarters, fully automated business processes, risk-based compliance programs, and skilled and professional staff.

UNDERTAKING REVENUE MANAGEMENT AND ADMINISTRATIVE REFORM TOWARDS A FUNCTION-BASED STRUCTURE

Achievements

A proposed structure and phased implementation plan for the reorganization of the Revenue Directorate have been developed, along with the necessary legislative changes. Accordingly, new departments have been established in the design of the reformed administration. Furthermore, a decree to reorganize regional tax offices according to function-based operations was issued in **November 9, 2006** (decree # 18047). By virtue of the said decree, the regional tax offices will consist of: (a) administrative department, (b) taxpayer services department, (c) audit department, (d) compliance department, (e) collection follow-up department, (f) objections department, (g) data processing department and (h) other taxes department.

The main prerogatives of the regional tax office are supervising the related departments and cashiers, providing tax control according to the plans of the Revenues Directorate and preparing the necessary statistics.

In addition, the restructuring decree approved the organizational structure of satellite offices and allocation of staff according to new functions and departments was completed **by end of 2007**. The organizational structure of satellite offices in the following regional tax offices was set according to the restructuring decree: Mount Lebanon, North, South, Bekaa and Nabatieh **by end of 2007**.

Going Forward

- > Move follow-up collection function from the treasury to tax offices **by end of 2008**;
- > Decide on the transactions to be processed in satellite offices and the related procedures **by end of 2008**;
- > Launch satellite offices gradually starting with the most important sub-regions in terms of fiscal coverage **by end of 2008**;

2. DEDUCTION AT SOURCE OF THE INCOME TAX ON SALARIES (DASS)

In order to increase the effectiveness of tax administration and hence increase revenues from domestic taxes, the Government has created a separate unit within the revenue administration for the Deduction at Source of the Income Tax on Salaries (DASS) by decree # 10063 dated **May 8, 2003**. The structure of the DASS unit is function based, with a central office in Beirut and operational departments in the regions. The DASS covers active public servants, employees in the private sector, and non-residents (on their fees and remuneration) and is intended to:

- Automate the operations of the deduction at source on salaries tax in registration, declaration and payment, audit, collection, and appeal;
- Improve the collection of this tax;
- Facilitate the relationship between the taxpayers and the administration.

Achievements

- i. Since **2005**, it became possible to download from the ministry's website an application to fill the declaration of R6 and to send it as soft copies.
- ii. As of **May 2008**, the number of the private sector employers registered in the database reached 25,358 and the number of employees 406,603. As for the public sector, the number of the registered employers reached 235 while the number of employees is 64,871. Hence, this database is considered the most up-to-date among all governmental agencies' databases.
- iii. As of **end of March of 2008**, the registration of private and public sector employees in the withheld tax on salaries and wages database was completed.

Going Forward

- > Extend the reformed operations to the regional offices **by end of 2008**.

3. LARGE TAXPAYER OFFICE (LTO)

A Large Taxpayer Office (LTO) was established in May 2005, with the goal of creating a functional structure to revenue administration over the medium-term. The LTO currently administers income tax chapter I (tax on profit) and chapter II (tax on salaries and wages) and chapter III (tax on income from movable assets) for the taxpayers whose turnover exceeds LBP 10 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 Value Added Tax (VAT), built property tax, and some indirect taxes.

Achievements

A document management and tracking systems has been developed to monitor documents' movement and completion status. In addition, the whole audit process has been automated as of **May 1, 2006** and the objection module has been developed.

Going Forward

- > Review the selection criteria of large taxpayer **by end of the third quarter of 2008**;
- > Propose changes to the current decree **by end of the third quarter of 2008**;
- > Refine business processes & procedures **by end of the third quarter of 2008**;
- > Integrate the remaining tax types **by end of 2008**;
- > Modify the Standard Integrated Government Tax Administration System (SIGTAS) to suit the new requirements (**ongoing process**).



4. TAX ROLL UNIT (TRU)

A unit was established within the Revenue Directorate by decree # 10063 dated May 8, 2003 to manage and update all information related to the taxpayers' database.

Achievements

A study of the Business Activity Code used by the Ministry of Finance to classify taxpayers' activities was undertaken by a European Union expert during the period **July 2005 - December 2005**, in cooperation with the Central Administration of Statistics (CAS). As a result, a new Business Activity Code chart was recommended, thus making codes used by both entities that are currently divergent, compatible to a great extent. The new Business Activity Code chart was implemented 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-services offered by the Ministry of Finance, in accordance with the directions issued by the Minister of Finance on **April 17, 2006** (# 494/1).

In the first quarter of 2008, the necessary procedures and integrity measures to prevent further duplication were prepared.

Going Forward

- > Maintain the Business Activity Code (BAC) chart in coordination with the Central Administration of Statistics (**ongoing process**);
- > Clean-up the taxpayers' database (**ongoing process**);
- > Quality control follow up of the registration process (**ongoing process**).

UNDERTAKING REVENUE MANAGEMENT AND ADMINISTRATIVE REFORM TOWARDS A FUNCTION-BASED STRUCTURE

5. BUILT PROPERTY TAX ADMINISTRATION

Reform of the built property tax administration has focused on standardizing and providing accurate estimations of property values. For this purpose, a detailed report on business process analysis of the built property tax administration, that targets areas for improvement and sets short, medium and long-term priorities was prepared and finalized on May 30, 2005. In addition, a survey of 45 tax administrators was completed by May 20, 2005 and resulted in a list of factors that are used to assess property values in Lebanon.

Achievements

Linkages between the two systems of the Land Registry at the Cadastre and the Built Property Tax Administration were established in the *fourth quarter of 2006*. Also, synchronization of information systems between the two systems was completed in *November 2007*.



6. VALUE ADDED TAX (VAT)

The introduction of the value added tax (VAT) in early 2002 was a major success, generating 5.1% of GDP in revenue in 2005, 4.8% in 2006 and 5.4% in 2007.

Achievements

i. 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 end of 2007* the number of VAT registered taxpayers stood at 22,165 (14,968 mandatory registrations, and 7,197 optional registrations).

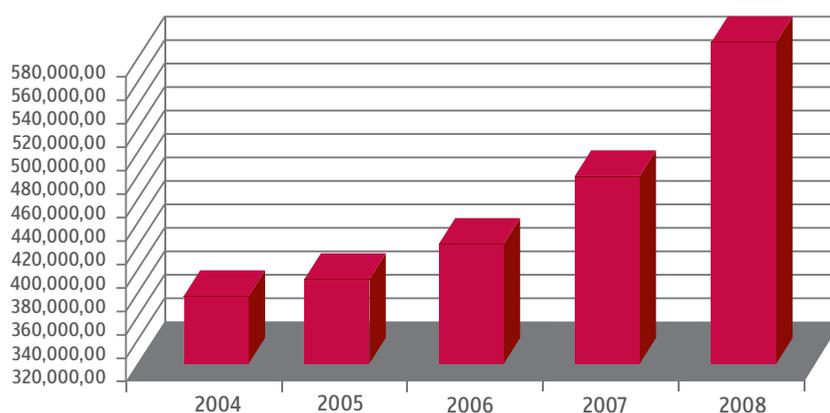
ii. The VAT organizational structure was ratified by law # 691 on *August 27, 2005*, establishing an independent directorate in charge of managing VAT, and thus enabling this directorate to appoint the needed heads of departments.

iii. Two studies were undertaken on the establishment 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 in *October 2005* and were financed by the European Union (EU). The report relating to the Revenue accounting system was finalized and submitted to the Ministry of Finance in its last version on *March 16, 2006*. A report of the Internal Audit recommendations was submitted to the Ministry on *May 2, 2006*.

Table 1. VAT revenues (2004-2008)

Period (LBP million)	VAT local collection	VAT collection at import	Total VAT collection
From 01/01/2004 to 31/03/2004	111,091.65	250,113.00	361,204.65
From 01/04/2004 to 30/06/2004	119,717.33	325,147.00	444,864.33
From 01/07/2004 to 30/09/2004	154,787.27	304,169.00	458,956.27
From 01/10/2004 to 31/12/2004	141,881.98	369,063.00	510,944.98
From 01/01/2005 to 31/03/2005	105,206.77	273,376.00	378,582.77
From 01/04/2005 to 30/06/2005	119,369.43	268,366.00	387,735.43
From 01/07/2005 to 30/09/2005	152,116.73	325,715.00	477,831.73
From 01/10/2005 to 31/12/2005	143,355.09	309,818.00	453,173.09
From 01/01/2006 to 31/03/2006	124,324.86	286,677.00	411,001.86
From 01/04/2006 to 30/06/2006	146,804.93	338,312.00	485,116.93
From 01/07/2006 to 30/09/2006	129,367.01	179,648.00	309,015.01
From 01/10/2006 to 31/12/2006	140,027.99	348,050.00	488,077.99
From 01/01/2007 to 31/03/2007	119,776.06	341,463.00	461,239.06
From 01/04/2007 to 30/06/2007	131,780.50	342,701.00	474,481.50
From 01/07/2007 to 30/09/2007	148,073.90	368,559.00	516,632.90
From 01/10/2007 to 31/12/2007	164,918.66	398,556.00	563,474.66
From 01/01/2008 to 31/03/2008	147,979.23	432,083.00	580,062.23

VAT revenues (Q1) (LBP Million)



Going Forward

- > Review the laws & regulations *by end of 2008*;
- > Review the organizational frame work (law, job descriptions) *by end of 2008*;
- > Continue automation (*ongoing process*);
- > Improve maintenance and support (*ongoing process*).



UNDERTAKING REVENUE MANAGEMENT AND ADMINISTRATIVE REFORM TOWARDS A FUNCTION-BASED STRUCTURE

7. GLOBAL INCOME TAX (GIT)

The Lebanese tax law issued in 1944 is a scheduler system that imposes taxes on each source of income separately. Since then, no major changes were introduced to that law making its application incompatible with the evolving economic and social environment. It was imperative that the Ministry of Finance designs, plans and implements a Global Income Tax (GIT) system that would unify the incomes of individuals. The GIT within the overall fiscal reform projects will help in the:

- Modernization of the Lebanese tax administration
- Enhancement of fiscal revenue
- Increasing fairness and equity
- Establishment of clear regulations
- Revamping of existing related tax laws
- Improvement of tax collection
- Investment promotion
- Redistribution of wealth
- Execution of social programs

The aim of introducing the Global Income Tax is the improvement in the overall tax administration, compliance and the distributional impact of taxes. The reduction in administrative complexities and improved collection is expected to generate about 1% of GDP in additional revenue over the next three years: 2008-2010.

Achievements

The Global Income Tax draft law was finalized by the Ministry of Finance and is undergoing stakeholders' review and approved by the Council of Ministers on **November 15, 2007**. In parallel, work is in progress to develop the related regulations, tax policies, forms and guides.

Going Forward

- > Launch consultations with sectors' representatives *by the third quarter of 2008*;
- > Finalize GIT law by Parliamentary Committees *by the third quarter of 2008*;
- > Submit the GIT law to the Parliament *by end of 2008*;
- > Develop forms and guides *by end of 2008*;
- > Develop business procedures and processes *by end of 2008*;
- > Develop regulations and tax policies *by the first quarter of 2009*.

8. TAX PROCEDURE CODE (TPC)

The proliferation of the currently adopted procedures for the various taxes complicates the harmonious application of these laws to both the taxpayer and the administration. To remedy this issue, the Ministry of Finance has introduced the Tax Procedure Code (TPC) that unifies and harmonizes various tax procedures. The Tax Procedure Code addresses the following major issues:

- General administrative principles
- Unification of tax procedures implementation
- Definition of taxpayers' rights
- Definition of taxpayers' obligations
- Definition of tax administration's rights and obligations

Achievements

The TPC draft law was finalized by a team composed of senior staff from the tax administration at the Ministry of Finance and external tax experts, and was shared with senior representatives of various business sectors for discussion and feedback. Following several technical assistance missions from the International Monetary Fund (IMF), the TPC draft law was approved by the Council of Ministers in the *first quarter of 2007* and is being discussed by Parliamentary Committees.

Going Forward

- > Finalize the TPC law by Parliamentary Committees *by the third quarter of 2008;*
- > Approve the TPC law by the Parliament *by end of 2008;*
- > Develop regulations *by the third quarter of 2008;*
- > Approve regulations by Council of State *by the third quarter of 2008;*
- > Approve regulations by Council of Ministers *by the third quarter of 2008;*
- > Develop the necessary procedures and automated functions *by end of 2008.*

9. STAMP FEE LAW

The Ministry of Finance is finalizing the 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.

10. TAX FILING AND PAYMENT

Achievements

According to decision # 424/1 dated *March 2006*, all taxpayers are required to file their returns by post and make the due payments through commercial banks. This procedure is intended to streamline and improve services offered by the Ministry of Finance by limiting interaction between taxpayers and the administration.

Significant improvement in services was recorded by allowing the income tax and VAT declarations through Liban Post. The types of transactions to be processed were thus defined and the systems and procedures prepared. More developments included automation and putting in place an updated version of the Standard Integrated Government Tax Administration System (SIG-TAS) as well as issuing the needed instructions and decisions. Staff were allocated and trained accordingly and a communication campaign was launched to this purpose.

Going Forward

- > Finalize handling all Built Property Tax transactions through Liban Post *by end of 2008.*

UNDERTAKING REVENUE MANAGEMENT AND ADMINISTRATIVE REFORM TOWARDS A FUNCTION-BASED STRUCTURE

11. E-TAXATION

Achievements

According to the directions issued by the Minister of Finance on **April 17, 2006** (# 494/1), the tax reform project is working on introducing e-services for taxpayers to enable taxpayers to file and process their tax transactions through the web. To those ends, the registration forms and documents have been finalized, the necessary decrees and decisions were issued **in 2006**, and the required systems and procedures were developed, necessary offices were set and staff trained and allocated to launch the e-registration.

Going Forward

- > Finalize the systems & procedures for the e-registration & e-filing **by the third quarter of 2008**;
- > Allocate and train staff **by the third quarter of 2008**;
- > Launch a communication campaign **by end of 2008**.

12. CALL CENTER²

Further reflecting on the focus of the Ministry towards client-oriented services, a call center was launched in order to improve communication with clients.

Achievements

The tax administration launched in **May 2007** a 24/7 call center to provide around clock services for all taxpayer inquiries. To this end, the necessary business processes and procedures were developed and the required instructions and decisions issued. A dedicated central unit was created and staff were allocated and trained.

Going Forward

- > Finalize building of the tree of information by tax type in order to feed the knowledge base (**ongoing process**).

13. AUDIT STRATEGY

Achievements

Progress has been achieved to put in place a new audit strategy based on risk analysis criteria, new audit techniques and procedures and the development of an audit manual. Central audit and compliance teams were formed in **March 2007**. In **April 2007**, the annual audit budget plans for second, third and fourth quarters based on risk assessment were prepared. Progressive implementation has been in place in four pilot sites (Beirut, Mount Lebanon, Value Added Tax department and the Large Taxpayer's Office (LTO)). Audit techniques and a scoring system for the "cease of activity" transactions in addition to other related deliverables such as selection criteria based on risk analysis, performance indicators and the necessary business processes and procedures were completed **by end of 2007**.

Going Forward

- > Automate new audit procedures **by the third quarter of 2008**;
- > Automate and Test the Risk Analysis Scoring System **by end of 2008**;
- > Develop the management reporting system **by end of 2008**.

² The Assistance Line can be reached at: 1710

II. UNDERTAKING BUDGET AND FINANCIAL MANAGEMENT REFORM



Fiscal adjustment is essential to put debt on a downward trend and the Government fully recognizes that improving public financial management is crucial to enhance efficiency and reduce waste in public expenditures. Addressing these issues upfront is important to improve the business environment and foster growth.

During the past decade, ample efforts were exerted to improve expenditure management and policies. For instance, towards mid nineties, an automation effort was exerted in almost all directorates of the Ministry of Finance. The Budget Directorate and treasury operations were computerized, as well as the management of the payroll and pensions. A decade ago, and with assistance from the International Monetary Fund, a new budget nomenclature was introduced in accordance with GFS 1986. This system enhanced the budget presentation and its transparency through instituting the administrative, economic, and functional classifications of expenditures. In parallel, an associated Chart of Accounts was established. Treasury operations were then computerized based on a new chart of account and budget classification in line with international standards.

Looking forward, the Ministry is aiming to implement further reforms by moving towards more modern result-oriented budgeting process. This will require several reform actions including: moving to budget classification that supports performance measurement (using GFS 2001 classification), changing chart of account to reflect the change in budget classification, broadening the coverage of the budget to include extra-budgetary entities, ensuring annuality of the budget by restricting carry-overs and treasury advances. These major axis of reform will require structural changes in the information system, in the legal framework, as well as in the capacity of the different directorates involved in the reform process.

Meanwhile, on the expenditure policy front, the Government has generally followed a tight expenditure policy in recent years. The key areas for expenditure reform further center on rationalizing non-interest expenditures, containing the wage bill, reforming public sector enterprises and eliminating extra-budgetary funds.

In order to enhance the transparency and efficiency of public spending, the government has kick-started with the following measures to improve expenditure management: (a) expanding the coverage of the budget to include the foreign-financed public investment; (b) preparing a medium-term expenditure framework and adopting a top-down approach in budget preparation; (iii) eliminating the budget carry-overs on current expenditures and containing treasury advances; (iv) and improving cash management.

UNDERTAKING BUDGET AND FINANCIAL MANAGEMENT REFORM

1. BUDGET PREPARATION AND COVERAGE REFORMS

The Government of Lebanon committed during the Paris III Conference to implement structural reforms in public financial management, in particular with regards to the budget coverage and budget preparation mechanisms. The main objectives of these reforms are to:

- Improve the Government's capacity to manage public finance;
- Promote accountability and transparency;
- Contain spending and improve its efficiency;
- Enhance the predictability of expenditures and revenues and hence indebtedness;
- Discipline the Government to respect a ceiling imposed by available resources.

The ultimate objective of this reform would be to develop a modern Budget System Law (BSL), which will be the anchor for all the reform measures.

Achievements

During an approximately three years tenure of this Government, the following Budget Laws/Proposals have been prepared and finalized, in accordance with the constitution and the constitutional timeframes:

- i. Budget Law 2005 was ratified by the Parliament on **February 3, 2006**;
- ii. Budget Proposal 2006 was ratified by Council of Ministers and submitted to the Parliament on **February 22, 2007**³;
- iii. Budget Proposal 2007 was ratified by Council of Ministers and submitted to Parliament on **June 13, 2007**⁴.
- iv. Budget Proposal 2008 was ratified by Council of Ministers and submitted to Parliament on **November 24, 2007**⁵;
- v. Budget circular for year 2009 was sent out on **May 20, 2008** inquiring Ministries to prepare their budget requests for year 2009.

Furthermore, the Ministry of Finance has launched the following initiatives in its bid to implement a full fledged public financial management reform by undertaking budget and financial reform:

- i. **Budget Coverage:** The Budget 2007 and 2008 Proposals aimed to enlarge the scope of budget coverage by integrating the largest extra-budgetary entities, namely the Council for Development and Reconstruction (CDR) and the Higher Relief Commission (HRC).
- ii. **Carryovers:** The 2007 Budget Proposal prohibits budget carryovers for expenditures for which no third liability already exists.
- iii. **Budget Preparation:** For the first time, steps for adopting a top-down budgetary process have been taken, by including the medium term expenditure framework (MTEF) as part of the Budget 2008 Circular, issued in **May 20, 2007**. The MTEF constitutes a general guideline for the spending agencies over three-year period and sets a global budget ceiling for 2008. The new budget preparation techniques were presented to around 200 high level representatives from spending agencies in **May 2007**. Furthermore, as part of a series of planned ongoing workshops, two have been held in the **second quarter of 2007** with the Ministry of Finance officials to discuss the reform plan of the Ministry and to seek the participation and contribution from different working groups. The 2009 budget circular built on the reforms launched in 2007, while expanding some further steps in the reform plan by setting hard constraints or expenditure ceilings for line ministries in order to shift from a "needs" mentality to an "availability" mentality and to ensure that they fit the aggregate expenditure consistent with the macroeconomic framework. Also, the budget circular inquired that major enterprises receiving transfers from the

³ Decree # 45 dated 22/02/2007

⁴ Decree # 403 dated 13/06/2007

⁵ Decree # 977 dated 24/11/2007



General Budget to submit statements of financial positions for 2007 and forecasts for 2009. These financial documents will be annexed to the General Budget when passed to parliament, for information only. This step will enhance the parliament's capability of monitoring the public resources and will enhance government accountability and transparency.

iv. **Medium term Expenditure Framework:** The 2009 Budget Circular includes significant changes for preparation of the 2009 budget. All line ministries are requested to present in their 2009 budget forward estimates of their financing requirements for the period 2009-2011.

v. **Medium-term expenditure framework at spending agency level - Ministry of Education and Higher Education as a pilot:** The Ministry of Education and Higher Education (MEHE) was chosen, in *June 2007*, as a pilot for preparing an "extended" budget request for 2009 based on a Medium Term Expenditure Framework, combining capital and recurrent budgets and performance budgeting principles, which links the financing proposed to achievement of education sector objectives. A joint work force was established between the Ministries of Education and Finance. Furthermore, two World Bank TA missions visited in *July and August, 2007* to assist in the translation of the ministries' strategic plans into budget proposals within a medium term framework and within the budget ceiling. The Ministry of Education has finalized the templates for new budget format. A workshop was planned to be held by both Ministry of Finance and Ministry of Education to disseminate the new budget templates on *May 13, 2008*, however it was canceled due to security reasons.

vi. **Increase transparency in Budget Preparation - Civil Society Participation:** The Ministry of Finance is keen to engage the civil society in the budgeting process. To this end, a program was launched, in cooperation with the Institute of Finance, to increase civil society's involvement in this process, mainly in the reforms which are being implemented in this context. A dialogue, which was initiated during *2007*, will continue for 2008 through a series of workshop (*May-July 2008*) covering a variety of topics, such as: budget preparation reform, beneficiaries of government budget, public enterprises in the government budget, and eligibility of NGO's to benefit from government budget.

When fully implemented across all ministries/ agencies over time, the new budget preparation framework will have the following benefits:

- First, preparing each budget in a three year framework will help break the existing cycle of basing a ministry's new budget on its previous year's allocations, and help reconcile the achievement of targeted spending cuts with the need for targeted increases in spending on public infrastructure.
- Second, it will enable the Ministry of Finance to estimate future budget lock-in and, when projected revenues and the targeted reduction in the budget deficit are taken into account, the headroom for future spending initiatives. This is key to achieving the Government's fiscal adjustment objective.
- Third, it will enable line ministries to be held accountable for the increase in service levels promised in return for additional financing, or the achievement of economies in operating costs without reducing service levels.

UNDERTAKING BUDGET AND FINANCIAL MANAGEMENT REFORM

Going Forward

Going forward, the Ministry of Finance will pursue the reform plan already prepared in the context of Public Expenditure Management Reform. To this end, a project will be launched with the assistance of the World Bank in *the third quarter of 2008*. A component of the project will focus on consolidating the initial progress already made by the Government in budget preparation, placing the annual budget in a multi-year perspective, beginning to strengthen budget execution and managing public debt, while fostering a gradual reorientation of the budgeting process toward the achievement of results on the ground. These improvements will be facilitated both through the provision of implementation support and capacity building to the Ministry of Finance and line ministries and through broadening and deepening the training programs of the Institute of Finance. The major outputs of the project will, over the next eighteen months include:

- > Building the foundation for systematic linkage between policy and the budget, in a multi-year perspective;
- > Introducing an orientation toward results in major expenditure programs;
- > Improving fiscal transparency;
- > Improving the efficiency of public investment;
- > Improving procedures for integrating investment and current expenditure;
- > Preparing the ground for updating the budget classification.

2. EXPENDITURE RATIONALIZATION MEASURES

The Government has generally followed a tight expenditure policy in recent years and continues to rationalize current spending in order to reduce waste and increase the effectiveness and productivity of spending.

Achievements

The following concrete measures and instructions have been set and communicated in the Budget 2008 circular, issued in *May 2007 and May 2008* respectively:

- i. Reducing to a minimum official travel expenses and revisiting travel allocations;
- ii. Saving on transportation allowances through extending the working hours in the public sector from 32 hours a week to at least 36 hours;
- iii. Reducing waste related to gasoline consumption and communication costs in the public sector;
- iv. Containing the wage bill through putting hiring freeze into effect, stipulating the need for Council of Ministers' decision for any urgent hiring;
- v. Asking the spending agencies to do a percent reduction in their various expenses and to come up with proposals for potential saving areas.

The budgets of spending agencies for 2009 will be prepared accordingly, and will be reviewed by the Ministry of Finance before the submission to the Council of Ministers. Total planned budget spending for 2009 is expected to be 1% lower than total planned budget spending for 2008, i.e., meeting the expectation of tight expenditure control.

The containment of the wage bill was supported by a decision by the Council of Ministers dated *March 3, 2007*. The decision announced a hiring freeze in the public sector, and allowed hiring only through the approval of the Council of Ministers. The Civil Service Board was exempted from the decision, and could still hire based on the results of recruitment exams, and subject to providing the Council of Ministers with advance notice.

However, given the rising demands to adjust wages in the public sector in response to the recent inflationary trend, particularly in food prices, the government decided to increase wages and salaries for public sector employees. The decision was to increase the minimum wage to a monthly level of LL 500,000, and raise basic monthly salaries for all permanent employees by LL 200,000. The government decision was taken on **May 6, 2008**. However, the decision requires parliamentary ratification to be put into effect.

The Ministry of Finance has been involved in the inter-ministerial committees for the power and infrastructure sectors, in order to oversee the restructuring of the power utility and other infrastructure utilities. The Ministry of Finance has been particularly engaged with stakeholders in the power sector in order to monitor Electricité du Liban (EDL) expenditures, and implement short-term measures to rationalize them, including regulating fuel oil and gas oil orders and shipments.

In addition, the planned phasing out of the Council of the South and Fund for the Displaced is another important step towards containment of current expenditures. Decrees № 292 and № 999 of **April 27, 2007** and of **November 11, 2007** give the right to the Council and the Fund to have treasury advances of LL 200 billion. To date, LBP 40 billion has been disbursed to the Council of the South and LBP 80 billion to the Fund for the Displaced.

Going Forward

- > Contain the wage bill in the medium term through limited hiring and through automation and promotion of e-government strategy allowing the size of the public sector to shrink by attrition;
- > Identify excess employees in the public sector through a civil servant census, to be put under the Civil Service Board with possible reallocation to other ministries after undergoing proper training to improve their capabilities;
- > Complete the transfer of the amounts due, necessary to phase out the Council of the South and Displaced Fund.

3. IMPROVING CASH MANAGEMENT

The Ministry has undertaken steps to improve cash-flow forecasting by launching the process to establish the single treasury single account, reducing idle balances by streamlining payments and receipts, and improving cash management practices across Government entities. Improving the accuracy of intra-year forecasts for cash positions will result in overall fiscal savings and a reduction in debt and debt servicing.

Achievements

- i. **Cash Management Unit:** An IMF mission on improving cash management visited Lebanon in **March 2007** and recommended the establishment of a Cash Management Unit at the Ministry of Finance. Accordingly, the unit was established as per decision # 1281 dated **August 20, 2007**.

Presently, a report was prepared to detail budgetary and treasury expenditures and revenues of the past three years, in order to track line items that recorded significant fluctuations. The report also proposed a number of public institutions and directorates to be taken as pilot agencies to commence working on forecasting expenditures and revenues.

A second follow-up IMF mission on improving cash management visited Lebanon in **January 2008**. In addition to recommending steps for moving forward, the mission provided on-hands training to the Cash Management Unit and assisted in the development of the tools needed for cash management. Subsequently, the Cash Management Unit prepared monthly projections for the year 2008 and are assessing the projections of the first three months in comparison with the actual results.

To ensure the institutionalization of the Cash Management Unit, the Minister of Finance in **May 2008** signed a draft decree to create a department within the Treasury Directorate to manage cash. Once the legal steps required for creating a department are complete, the responsibilities of the Cash Management Unit will be transferred to this newly created department. The draft

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decree requires approved by the Conseil d'Etat, the Civil Servants Board, and the Council of Ministers.

ii. **Treasury Single Account (TSA):** The Parliament has finalized the review of draft law # 13796 (presented to the Parliament on *December 18, 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 # 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 are to be given a period of six months to close these accounts and transfer the residuals to the TSA.

Going Forward

- > Upgrade the IT system to accommodate the establishment of the Cash Management Unit, restructure the treasury function and link debt to cash management;
- > Launch the exercise of intra-year forecasts for cash positions across different Government entities;
- > Use forecasts to streamline payments and receipts;
- > Complete the process of institutionalizing cash management as a department within the Treasury Directorate;
- > Approve and enact law # 13796 that would restore the Treasury Single Account.

4. REFORM OF THE PUBLIC PENSION SYSTEM

The reform of the public pension system in Lebanon has been a priority because of its social, economic and fiscal impacts. 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 the civil servants. The objective of this reform is to integrate the three systems into one modern fully-funded defined contribution (FF-DC) scheme once the draft law is ratified by the Government. 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.

Achievements

- i. The Government is regularly monitoring the growth of the unfunded liability resulting from pension.
- ii. The Government has prepared a draft law to transform the End of Service Indemnity fund from a full-funded defined benefit scheme into a fully funded defined-contribution scheme. The law has been technically reviewed by a Specialized Parliamentary Committee and is ready to be forwarded to the General Assembly.



Going Forward

- > Integrate the procedures of the pension computation for the army and security forces within the department of public pensions, and modify existing software requirements accordingly;
- > Pay the End-of-Service lump sums through commercial banks instead of payment orders;
- > Estimate the unfunded liabilities of the End-of-Service Indemnity in preparation for the implementation of the new FF-DC pension scheme;
- > Draft the necessary regulations needed to implement the new system. Those would focus on treatment of annuities, survivorship pensions, and disability pensions in addition to governance of the new Social Security Investment Authority.

5. PUBLIC PROCUREMENT LAW

The public procurement law on modernizing the procurement code to help bring procedures to international standards were finalized and endorsed by the Council of Ministers in *October 2007*.

III. STRENGTHENING DEBT MANAGEMENT

The Lebanese Government has attached great importance to modernizing its debt management due to the high debt burden. The three fundamental guidelines of the Government's debt management goals could be summarized as follows:

- Reducing the cost of the public debt and fulfilling the financing needs of the Government without disturbing the functioning of the Lebanese financial markets;
- Enhancing the risk profile of the debt and extending its average maturity to limit interest rate and refinancing risks;
- Broaden the investor's base;
- Enhancing coordination with monetary policy, whereby the objectives of each institution are clearly defined.

In view of the high level of debt, improving debt management could have a positive fiscal impact. A draft law to establish a modernized Debt Management Office at the Ministry of Finance has been reviewed by committees in the Parliament. The Debt Office will assume the responsibility of the operational aspect of the debt in both local and foreign currency. The draft law recommends the creation of "Higher Council for Debt Management" under the chairmanship of the Minister of Finance and comprising representatives of Banque du Liban and of various departments dealing with debt issues at the Ministry of Finance. In addition, the Government is working towards developing a formal debt strategy and improving cash management. In parallel, the Government is also looking into the issue of strengthening domestic debt market and introducing primary dealers system that would enhance liquidity in the secondary market.

1. DEBT MANAGEMENT STRATEGY

Achievements

The Ministry has started developing internal reports on debt management strategy updated throughout the year. In addition, it started to work on a medium term debt management strategy where public debt management objectives are explicitly articulated in 3 to 5 years timeframe. The Medium Term strategy will be summarized in a document that lays out: (a) the present size and structure of debt; (b) the risks and the objectives of the management policy, which must lead to minimizing these risks and (c) updated measures to achieve the objectives.

The document will be backed by statistical and data analysis. Further, the strategy will be updated annually in accordance with economic developments, market conditions and achieved results.

The Ministry of Finance started to implement the debt strategy for 2008 by successfully conducting a series of Eurobond transactions such as refinancing transactions, new cash transactions and exchange transactions.

Going Forward

- > Finalize the Medium Term Debt Management Strategy for 2009, *by end of 2008*.

STRENGTHENING DEBT MANAGEMENT

2. REGULAR DEBT REPORTING

To increase transparency, the Ministry has started providing, on timely basis, detailed debt information that is usually requested by investors and international organizations.

Achievements

- i. The Ministry started publishing a specialized quarterly (to be later developed into monthly) debt report that supplements the current Public Finance Monitor as of *September 2007*. This report will be generated in a timely manner and is targeted towards policy makers, investors and the public. The report covers the Government's debt structure, domestic primary market debt, information related to secondary trading, a list of Eurobonds outstanding, and a full range of risk indicators, configuration of creditors of each type of debt and other pertinent data. The Debt and Debt Markets reports for the last three quarters of 2007 and the first quarter of 2008 were published.
- ii. Furthermore, a project was undertaken to improve and streamline the process used to populate the Debt Management and Financial Analysis System (DMFAS) database, which is the main database used to assist debt management offices in the recording, monitoring, analysis and reporting of external debt and other financial flows. The DMFAS system provides the Ministry of Finance, the Council for Development and Reconstruction (CDR) and Banque du Liban (BdL) with status reports on the external debt and frequently revised projections of existing debt.

Going Forward

- > Further streamline the DMFAS reporting process, *by the third quarter of 2008*;
- > Engage the public on the issue of debt sustainability through a communications campaign, *by end of 2008*;
- > Publish the debt report on a monthly basis, upon provision of sufficient human resources, *by end of 2008*;
- > Publish regular debt reports in Arabic, *by end of 2008*.

3. DEBT MANAGEMENT OFFICE

To better develop and execute the debt management strategy, the Ministry of Finance is undertaking steps to strengthen the "front" and "middle" office aspects of its Public Debt Department (PDD). Currently, the PDD performs mostly "back" office functions, while the Economic Unit of the UNDP Capacity Development team performs much of the "front" and some of the "middle" office functions. Therefore, the Ministry is undertaking measures to establish an integrated Public Debt Management unit to organize it in a standard "front, middle, and back offices" configuration.

Achievements

- i. A draft law stipulating the creation of a modern Public Debt Department at the Directorate General of Finance was submitted to Parliament in *2006* and is currently pending before it. According to this law, the modernized Public Debt Department will be comprised of three divisions: the Capital Markets' Division, the Strategic and Risk Management division and the Operations' division. The law also specifies the creation of a "Higher Council for Debt Management" under the direction of the Ministry of Finance to formalize and enhance coordination between the Ministry and Banque Du Liban. This Council will specify choices available for debt management and will present suggestions to the Council of Ministers relating to public debt policies.
- ii. Initial priorities were defined in order to establish a fully functioning Debt Management office. The work was done in coordination with a World Bank mission in *February 2008*.

Going Forward

- > Establish the Higher Council for Debt Management, *by the third quarter of 2008*;
- > Upon passage of Debt Department Law, organize the office in a standard "front, middle, and back offices" configuration, *by end of 2008*.

4. STRENGTHENING DOMESTIC DEBT MANAGEMENT

The operation of the Primary Market for LBP currency debt should be more transparent, predictable and maximize competition among investors to derive the best possible results for the government. Further, the primary markets should be developed to the extent that it allows the government to execute its optimal debt management strategy.

Achievements

The following is a list of measures that were undertaken towards these ends:

- i. Increased the maturity profile of the local currency debt portfolio through the issuance of longer term treasury bills, including the inaugural issuance of a benchmark five-year treasury bills in **March 2006**. The principal objectives of issuing new 5 year bonds were to: (a) lengthen the maturities of Lebanon's existing portfolio of LBP 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; and (c) promote the development of a liquid and active LBP debt market. One of the goals of the Ministry of Finance is to gradually revise the issuance strategy to provide deep and liquid series of longer-dated Treasury bonds. The new 5 year bonds have constituted a benchmark that the Ministry 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;
- ii. Studied the feasibility of introducing new treasury products that address the needs of the market as well as help manage the risk of the Republic's debt portfolio;
- iii. Reviewed the Treasury bill auction process with the aim of improving its efficiency and transparency and facilitate the emergence of a secondary markets for such;

- iv. Reviewed ways for improving secondary market liquidity for the domestic Treasury bill market;
- v. Studied ways to broaden the holder base for Treasury bills, including looking into the introduction of new distribution channels aimed at retail investors, such as marketing and selling treasury bills direct to customers through the Internet.

Going Forward

- > If market conditions permit, further five-year treasury bills as well as other longer term Lebanese Pound denominated products to the market could be issued;> Enhance capacity and use of modeling and simulation for cost and risk analysis;
- > Prepare for the implementation of the reform measures recommended by various International Technical Assistancess on modernizing and improving the auction process for LL Treasury bills.

IV. REFORMING CAPITAL MARKETS

The Government has undertaken a number of initiatives to address the long-standing issue of underdeveloped capital markets as part of a broader strategy to modernize the non-bank financial sector and stimulate investment and growth. Apart from its growth-enhancing effects, capital markets development would help diversify risk and increase financial resilience in the face of shocks. The role of the stock market is also instrumental in the coming period as it will facilitate the government's corporatization and privatization drive, help attract long-term foreign investments, particularly from the region, and provide the private sector with additional sources of investment and working capital.

1. ENACTMENT OF FINANCIAL LEGISLATION AND DEVELOPMENT OF MARKET SUPERVISION AND REGULATION

Achievements

With the aim towards developing Lebanon's financial and capital markets, several financial legislations were introduced:

- i. **The Securitization Law** was enacted on *December 9, 2005*. This law had been pending before 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. The law allows for greater stability of the financial system as it makes the supply of financing less volatile and less exposed to sudden withdrawal. It allows for the creation of more appropriate investment instruments for institutional investors, such as pension funds and insurance companies that have long-term fixed liabilities.
- ii. **The Collective Investment Schemes Law** was enacted on *December 9, 2005*. That law had also been pending before 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.
- iii. **FIRST Initiative grant:** A technical assistance grant was awarded to the Ministry of Finance 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 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 July 27, 2004. The technical assistance project was aimed at promoting the stability and soundness of the financial capital markets, protecting investors' interests if subjected to moral hazard from private financial institutions, maintaining confidence in the financial system, and helping 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. The final phase of the project, Phase II, provided a development plan for the regulatory and supervisory and was completed in *February 2007*.

REFORMING CAPITAL MARKETS

A number of other draft laws relating to the financial sector are pending before Parliament. They are:

- i. **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.
- ii. **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.
- iii. **The draft on Securities' Lending law** was transferred to Parliament in *2003* and is 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.
- iv. **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.
- v. **Bank Mergers Law.** Bank mergers are governed by the provisions of Law # 192 dated *4 January 1993*, as amended (the "Banks' Merger Law"). The last amendment to the Banks' Merger Law was made pursuant to Law # 675 dated *February 14, 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 Ministry of Finance on *July 28, 2005* and is still pending.
- vi. **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.

Going Forward

- > Passage of the draft Capital Markets Law pending before parliament, *by end of 2008*.

2. DEVELOPMENTS IN THE CAPITAL MARKETS

In an initiative to promote and develop the Lebanese capital markets, as part of a broader strategy to modernize the non-bank financial sector in Lebanon, the Ministry of Finance has undertaken various initiatives.

Achievements

- i. **Longer maturity instruments with a low frequency of auctions:** As mentioned in the debt reforms section, the Ministry of Finance 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 Ministry 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 study of introducing further longer maturity treasury bills is an ongoing process and is dependent upon the prevailing market and political environments.
- ii. **Capital Market Advisory committee:** The Ministry of Finance established a Capital Market Advisory committee composed of leading Lebanese investment bankers and investment experts. The committee meets periodically to discuss issues pertaining to the development of the capital markets. The Capital Market Advisory committee and the Ministry of Finance agreed on several initiatives to promote the capital markets, amongst which are recommending an increase in trading hours at the Beirut Stock Exchange, allowing for remote trading and e-trading, and reducing trade settlement time to T+2, among many other recommendations and initiatives.

- iii. **Strategy to encourage new companies to list on the Beirut Stock Exchange (BSE)** In parallel, the Ministry of Finance 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; and (c) assess the actual level of commitment to list on the BSE in the event the hurdles identified are eliminated and the incentives provided. The study was completed in *February 2006*. Currently, the Ministry of Finance is addressing several issues identified in the research, and is evaluating the incentives to encourage companies to list on the BSE.
- iv. **Article 201 of 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.
- v. **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 the Republic is listed on the BSE.

Going Forward

- > Enhance the functioning of BSE, launch a new website for the BSE and introduce E- trading *by end of 2008*;
- > Enhance trading of shares of unlisted companies on BSE's trading floor *by end of 2008*;
- > Set-up the Capital Markets Commission, *by end of the second quarter of 2009*;
- > Draft the rules and regulations of the Capital Markets Commission, *by end of 2009*.

V. FACILITATING TRADE AND CUSTOMS PROCEDURES

Custom modernization reform aims at strengthening the capacity of the Customs Administration to improve the efficiency and effectiveness of its operations in the areas of:

- Assurance of compliance with Lebanese laws and regulations
- Reduction of cost and time of clearance procedures
- Provision of accurate and fast international trade statistics
- Enhancement of Lebanese trade competitiveness
- Combating smuggling and protecting Government revenues
- Protection of the local society and the environment
- Enforcing intellectual Property Rights legislations
- Establishment of a forum for dialogue between stakeholders in international trade
- Contribution to redefinition of role of customs in light of global and regional changes

The goals will be achieved through: (a) the use of modern information technology practices; (b) the adoption of international standards for declaration of value and origin of goods; (c) reorganization of the Customs Clearance Profession and allowing for specialize companies to operate in this domain with a strict control over clearance operations; (d) streamlined procedures and modernized customs administration; (e) mechanisms for resolving disputes between traders and customs promptly through the judiciary; (f) fostering the development of Industrial Zones, Free Zones and simplifying their regulation in order to activate their economic role.



PROJECT CONCEPTS

- i. **ASYCUDA++/NAJ** is the Automated Customs Clearance Operations.
- ii. **NOOR (Najm Online OpeRation)** is a module within NAJM customized by the Customs Computer Center.
- iii. **MANAR (MANifest Automated Resources)** is an automated system that enables Maritime Agent/Freight Forwarder Community agents to submit electronic copies of their manifests to Customs.
- iv. **HOUAA (Modern Automated System for Vehicle Certification)** enables the Customs Administration to electronically generate vehicle certificates from Customs declarations without any human intervention or amendments.
- v. **LITE (Lebanon International Trade Exchange)** is the official Lebanese Customs website, accessible at the following address: www.customs.gov.lb
- vi. **NAR (NAJM Audit Resources)** is a consolidated database of all Customs declarations that are electronically captured from automated customs offices, and manual collection of the declaration registered at the non-automated customs offices from the year 1997 until today.
- vii. **ABJAD** is an automated system developed by the Customs Computer Center for managing customs declarations with main objective to provide controllers an easy and rapid access to previous similar customs declarations.

FACILITATING TRADE AND CUSTOMS PROCEDURES

- viii. **RASID** is an automated system developed by the Customs Computer Centre which applies the principles and methodologies of selectivity and risk management techniques for desk audit activities.
- ix. **BAHETH** is an automated system developed by the Customs Computer Centre for compiling, analyzing and providing responses to Customs Intelligence Alerts (CIA).
- x. **DAHEM** is an automated system for managing Customs Brigade work.
- xi. **MAJAL** is a prototype automated system to expedite the release of goods by implementing a risk management approach which facilitates the clearance of compliant traders while targeting non-compliant behavior.
- xii. **CARS (Control and Registry System for vehicles)** is an automated system to optimize the process of registration and control of vehicles crossing the Lebanese borders, and streamline control rules based on the adopted laws and regulations and controlling the entry/stay allowance for foreign vehicles.
- xiii. **ERVICE and OVERTIME** is an automated system for managing service and overtime collection and the correspondent distribution of these indemnities to all Customs employees.
- xiv. **KAFALAT** is an automated system for managing all bank guaranties and other types of guaranties submitted to the Customs Administration.

Achievements

The NAJM project has progressed as follows between *2005 and 2008*:

IN 2005

- i. Initiation of MANAR (MANifest Automated Resources) for automation of Manifest Operations at Rafic Hariri International Airport;
- ii. Introduction of (Najm Online Operation) NOOR II at Rafic Hariri International Airport to enable traders to perform self assessment;
- iii. Recruitment of 74 new Customs employees;
- iv. Capacity building of the new recruits at the National Institute of Administration and the Institute of Finance;
- v. Supply and installation of CARS "Control and Registry System for vehicles" financed by the Arab Fund in cooperation with OMSAR "Office of the Minister of State for Administrative Reforms";
- vi. Undertaking a decision to acquire two X-Ray container scanners financed by a non-interest loan offered by the People's Republic of China.

IN 2006

- i. Initiation of MANAR for automation of Manifest Operations at Rafic Hariri International Airport;
- ii. Acquiring Mobile X-Ray container scanners from the People's Republic of China;
- iii. Undertaking a decision to acquire ASYCUDA World, the newest released of the web-based ASYCUDA software;
- iv. Initiation of CARS at Masna'a.

IN 2007

- i. Introduction of International HS 2007 Version in *Jan 2007*;
- ii. Acquiring a re-locatable X-Ray container scanner from the People's Republic of China;
- iii. Initiation of MANAR for automation of Manifest Operations at Port of Beirut;
- iv. Acquiring two X-Ray container scanners from Germany;
- v. Initiation of the customization of ASYCUDA World to be integrated within the Lebanese Customs Administration.

IN 2008

- i. Implementation of ASYCUDA in Tyre offices;
- ii. Training brokers and carriers of Saida and Tyre offices on use of ASYCUDA World;
- iii. Implementation of the manifest in Tyre offices;
- iv. Establish the link with the Mechanic and the corresponding programs in order to automatically transfer the imported cars;
- v. Establish a link with the Ministry of Economy and Trade in order to be able to access the Intellectual Property Rights database;
- vi. Establish the link with VAT and the corresponding programs in order to automatically receive the TIN documents;
- vii. Establish a link with the Ministry of Interior and the corresponding programs in order to automatically transfer the imported/exported cars.

Going Forward

- > Finalize Expansion of CARS at the remaining Customs border points;
- > Implement ASYCUDA World into the Lebanese Customs Administration;
- > Train all customs employees to use ASYCUDA World;
- > Improve the trade statistics by fully integrating them into ASYCUDA World;
- > Implement the manifest in all Customs offices;
- > Develop Post Clearance Controls to improve customs control efficiency through enhanced risk management policy.

VI. MODERNIZING CADASTRE OPERATIONS



The Cadastre Organization Modernization and Automation Project (COMAP) is a large scale automation project aimed at preserving property records and automating the work processes involved in real estate property registration and transactions in Lebanon. To ensure proper management, COMAP was divided into two separate, but integrateable components:

COMAP-1: A turn-key project converting all existing title registers into a digital database, enterprise automation of Registry operations using an Oracle-based custom-built software, provision of hardware & software, and training of the Registry staff.

This involved the conversion from paper to electronic medium a total of approximately 2.4 million registers and the design and deployment of a state of the art transaction processing system that supports all daily transactions and creates a database of real estate property information to support all decision making in all land-related policies. Additionally a microfilm copy of each Title Register was created as part of the conversion process and delivered to the General Directorate of Land Registry and Cadastre for preservation in the national archives. The newly deployed systems have reduced the transaction time of issuing an affidavit from three days to on-demand. Title Deeds are issued in a few days and an updated transaction/property database can serve to issue statistics and track developments in the real estate sector, one of the main economic sectors in Lebanon.

COMAP-2: A turn-key project converting all existing map sheets into digital database, enterprise automation of cadastre operations using Oracle-Microstation-based custom-built intelligent mapping software, provision of hardware & software, and training of Cadastre Department staff.

The COMAP project has specific deliverables and targets including:

- Digital records (maps abstracts), which include scanned images of existing records, for preservation, as well as an intelligently coded database of the information content of these records to support both automated transaction processing and future statistical queries;
- A sophisticated transaction processing system that will serve to execute all property transactions (hence the updating of the database), starting immediately after the automated deployment;
- Hardware and software to support the above;
- Training of employees to operate and maintain the system in order to ensure sustainability, including change of management procedures, and, where needed, advise on legislative reform needed to ensure continuity and sustainability.

MODERNIZING CADASTRE OPERATIONS

Achievements

A. COMAP-1:

- i. The Integrated Registry System (IRS) has been upgraded to Oracle9i and implemented in all Registry Offices. From **2001 - 2004** all regions were complete.
- ii. A link has been established between the Integrated Registry System and Operations Manager in VAT since **May 2006** to allow queries on any property records.
- iii. Tens of thousands of electronic affidavits have been issued by the Integrated Registry System to assist in the War Damage Assessment Program following **July 2006** war.
- iv. The IRS has been electronically linked to all the Ministry of Finance's cashing databases. This link eliminates data entry that used to be necessary by the Ministry and provides transparency in the collection of invoices issued by the General Directorate of Land Registry and Cadastre (GDLRC).
- v. The IRS has been electronically linked since **January 2007** to the Built Property Tax (BPT) databases. This link updates BPT databases, on a daily basis, with property ownership changes occurring at the Registry Offices.
- vi. A link has been established between IRS and the Revenues Department since **April 2007** to identify seizures that are recorded against properties.
- vii. Upgrading and replacement of servers in Beirut have been undertaken from **June - August 2007**.
- viii. The National Integrated Registry System (NIRS), a national database consisting of data consolidation of all Registry Offices, has been launched in **September 2007**. This system, that replaced an old and inaccurate database that has been used for over 12 years, provides up to date and accurate information about ownerships in Lebanon. The NIRS is responsible for issuing ownership affidavits for Lebanese citizens and foreigners.
- ix. Preliminary and essential steps have been carried out in order to start issuing the Foreign Ownership Report from the new National Integrated Registry System (NIRS): a) Correction of all "Unidentified" nationalities in all IRS databases (done), b) Defining the miss-

ing acreage of properties (done), c) and Re-defining the nationalities of institutions in all IRS databases (currently underway).

- x. Four Remote Area Offices have been automated.
- xi. Six Registry Offices have been joined to one domain that is specific to GDLRC.
- xii. The process of fully identifying parties involved in ownership transfer has been completed.
- xiii. A link has been established between IRS and MoF would allow the Revenues Department to query on property ownerships.

B. COMAP-2:

- i. The Integrated Cadastre Mapping & Surveying System (ICMSS) has been upgraded to Oracle9i and implemented in all Regional Cadastre Offices in Lebanon:

RCO	Maps	Parcels	Date opened
Beirut	230	32,233	22 June 2002
Bekaa	2,507	253,325	8 July 2003
Baabda	664	139,648	21 July 2004
Metn	214	52,693	25 September 2004
Jounieh	325	57,503	25 September 2004
Nabatieh	198	42,911	April 2005
South	647	103,434	May 2005
North	1,542	218,874	June 2005
	6,327	900,621	

- ii. Thousands of digital maps have been issued by ICMSS to assist in the War Damage Assessment Program following **July 2006** war.
- iii. Issuing digital maps for the Lebanese Army upon request.
- iv. Four Cadastre Offices have been joined to one domain that is specific to GDLRC.

Going Forward

- > Deploy a web-site for the General Directorate of Land Registry and Cadastre *before July 2008*;
- > Complete the automation of Remote Registry Area Offices that are located in geographical areas far from the main Registry by *August 2008*;
- > Deploy an extranet application allowing institutions to, remotely, view property information before *September 2008*;
- > Issue a new citizen's guide for General Directorate of Land Registry and Cadastre (GDLRC);
- > Link the Cadastre Offices to the Ministry of Finance network in order to access their databases remotely.
- > Prepare server rooms in all Registry and Cadastre Offices.
- > Integrate COMAP-1 and COMAP-2 which would allow issuing reports on demand for real estate sector in Lebanon, national affidavits and the possibility, with proper legal reform to integrate the Title and Cadastre affidavits into one affidavit issued on demand and containing all legal, financial and graphic data on any real estate property in the system.
- > Upgrade Information Systems to Oracle 10g by *end of 2008*.

VII.
IMPROVING THE BUSINESS ENVIRONMENT

With the goal of improving the competitiveness of the Lebanese economy, reducing the cost of doing business in Lebanon, and encouraging growth, the Ministry of Finance undertook, over the past two years, a series of measures and incentives at the regulatory, financing and promotional levels. In the aftermath of the Israeli war, the Ministry developed a basket of tax incentives to support private sector enterprises and reduce the burden of the war.

The comprehensive program for improving the business environment included the following initiatives:

1. DIALOGUE WITH THE PRIVATE SECTOR

The Ministry of Finance has sought to improve relationships with private sector agents and taxpayers, and create a better climate for the business community. Towards these ends, the Ministry started a dialogue involving two groups: Economic and Business Associations and Trade Unions and Professional Syndicates. The purpose behind this initiative is to:

- Facilitate and enhance the performance of various economic sectors through a more friendly business environment;
- Solve outstanding issues between the different sectors and the Ministry of Finance;
- Introduce reforms that are feasible and necessary based on requests and recommendations provided.

Achievements

A. DIALOGUE WITH THE ECONOMIC AND BUSINESS ASSOCIATIONS

A cooperative dialogue between the private sector and the Finance administration was initiated with the following objectives:

- Develop recommendations aimed at resolving issues relating to the relationships with the administration at the Ministry. Particular emphasis was made to resolve urgent problems;
- Simplify the administrative and procedural steps required between the private sector and the Finance and Customs Directorates;
- Lay out recommendations that encourage private sector activity and improve the investment environment.

A joint committee was established between the Ministry and the Associations that regularly met up with the different departments of the Ministry.

The continuous dialogue resulted in the simplification of several finance and tax procedures, which included:

- i. The elimination of the quitus that was required for official administrative procedures;
- ii. The use of banks and Liban Post for submission of all direct tax declarations;
- iii. The replacement of the official power of attorney by a simple letter of authorization for a third person;
- iv. The use of bank transfers for all treasury payments;
- v. The use of commercial banks for payments of indirect taxes and similar duties that are subject to the prepayment system;
- vi. The reduction of interest rates from 12% to 9% on installment payments;
- vii. The reduction of the time period for tax refunds from the Value Added Tax on equipment and imported machinery from 1 year to 6 months;
- viii. Clarifications on the functioning of the Wages and Salaries tax, and the restructuring of the declarations and penalties;
- ix. Resolving arrear payments for contractors and public sector suppliers.

IMPROVING THE BUSINESS ENVIRONMENT

B. DIALOGUE WITH TRADE UNIONS AND PROFESSIONAL SYNDICATES

In addition to the dialogue with the economic and business associations, the Ministry of Finance held meetings with trade unions and professional syndicates to discuss their requests and address their specific concerns. The dialogue with trade unions and professional syndicates resulted in the following accomplishments:

a. The Industrialist Association

- i. Reduction of custom duties on basic/primary materials;
- ii. Reduction of custom duties on partially manufactured material or used in industrial activities;
- iii. Confirmation of the elimination of the consumption tax on imports as per the provision of the Value Added Tax law;
- iv. Reduction of export costs operations by setting up a zone outside the port to store empty containers;
- v. Reduction of the electricity rate during night;
- vi. Reduction of installation costs of Electricite du Liban's electric meters by 50%.

b. Hotel Owners Syndicate

- i. Provision of low interest rate loans and restructuring of outstanding loans especially Government subsidized loans;
- ii. Provision of subsidized loans for enterprises in the tourism sector for the purpose of financing operating costs;
- iii. Consideration of employees' fringe benefits (namely telephone use and tips) as part of operational expenses and provisioning for their exclusion from the Salary and Income Tax.

c. Hospital Owners Syndicate

- i. Scheduling the payment of arrears due to the Ministry of Public Health through settlement and the adoption of the regular payment system;
- ii. Streamlining the payment of arrears to hospitals due by the National Social Security Fund (NSSF);
- iii. Acceleration of the payment of refunds due to hospitals resulting from the Value Added Taxes.

d. Contractors Syndicate

- i. Scheduling and payment of the arrears due from government and implementing procedures to ensure that project funding is available before initiating projects;
- ii. Reliance on the due date of the value added tax when signing the final approval for payment to contractors, rather than at the time of the signing of the inspection report. This principle was used to address the issue of piling up of arrears from previous years;
- iii. Undertaking a decision to establish a joint committee between the Ministry of Finance and the Ministries of Public Works and Electricity and Water, and the Council for Development and Reconstruction (CDR) to tackle problems to solve interdependent difficulties.

e. Doctors' Syndicate

- i. Separation of doctors' fees from hospital fees in invoicing and direct transfers to the doctors' bank accounts;
- ii. Scheduling of the arrears and adoption of the principle of orderly periodic payments;
- iii. Publication of instructions by the tax authorities clarifying some tax inspection procedures relating to doctors.

f. Car Rental Companies

- i. Authorization of installment payments for the vehicle control fees (mechanic tax dues) for the year 2006;
- ii. Insertion of a provision in the 2006 Draft Budget Law that allows the discharge of penalties on the vehicle control fees for car rental companies.

g. Foreign Companies present in Lebanon

- i. Holding meetings with the foreign companies to identify problems generated by the July war;
- ii. Setting up a permanent committee to encourage the relationship between the Minister of Finance and foreign companies in order to unify requests and tackle problems in a cooperative manner;
- iii. Provision of special support to foreign companies to help them with administrative procedures.

2. RESPONSE TO THE WAR

A series of initiatives and actions were launched on the tax and financial levels to try to alleviate the negative consequences of the July war and facilitate the recovery process.

Achievements

A number of initiatives were launched and include:

- i. Simplification of the transactions at the ports and land borders in order to speed up the transportation of goods;
- ii. Simplification of the procedures for accepting donations from foreign and domestic donors;
- iii. Extending the declaration period and exempting delayed tax payments from collection penalties;
- iv. Simplifying the procedure for reconstituting lost or destroyed official and personal records and registries;
- v. Exempting families of the war dead from inheritance tax⁶;
- vi. Exempting all duties for permits for rebuilding or repair for destroyed or damaged buildings;
- vii. Discharging the vehicle control fees (mechanic tax dues) on destroyed vehicles and exempting registration duties in case of replacement⁷;
- viii. Extending the period for payment declarations and allowing installment payments of VAT due before July 12th, 2006;
- ix. Allowing for deduction from taxable income, donations and aid made by companies;
- x. Increasing the period that losses incurred in the year 2006 can be carried forward from 3 to 7 years for those companies directly impacted by the war, and to 4 years for all other companies;
- xi. Allowing for considering the losses of the fixed assets as deductible from profits, and therefore allowing these losses to be carried forward to subsequent years;
- xii. Allowing provisions for uncollectible nonperforming loans.

⁶ Article 49 of Budget 2006 Proposal

⁷ Article 64 of Budget 2006 Proposal

IMPROVING THE BUSINESS ENVIRONMENT

3. ECONOMIC RECOVERY FINANCING PROGRAM

A main pillar of the Government recovery program is the provision of long-term soft loans to finance critical sectors of the economy. A soft loan program of \$1.3 billion was provided through the financial support of international and Arab institutions and funds, and with the cooperation of the Ministry of Finance, the Ministry of Economy and Trade, Banque du Liban, and the commercial banking sector.

Achievements

Some of the steps undertaken included:

- i. Providing low interest loans to restructure outstanding debt, particularly government subsidized loans;
- ii. Financing compensations for 60% of direct damages;
- iii. Providing low interest guaranteed loans in cooperation with international institutions;
- iv. Providing subsidized loans for enterprises in the tourism sector to finance operating costs.

4. SIMPLIFYING TAX CONTROL PROCEDURES

The Government laid out a several reforms to simplify tax control procedures.

Achievements

The following decisions were prepared for this purpose:

- i. Completing procedures related to issuing tax expenses and notifying the tax payers before the end of December 31st of the tax year;
- ii. Clearly identifying the operating expenses that are subject to deduction from taxable income (for example: transportation, hotel and restaurant expenses, telephone and telecommunications expenses, car and equipment expenses, and compensation and salary expenses);
- iii. Providing sufficient explanations and clarifications for notices of revisions and violations that are discovered during tax inspections;
- iv. Providing a minimum of a 15-day grace period for taxpayers to allow them to prepare their accounts and records required for the purposes of a tax inspection;
- v. Setting the acceptable limits relating to the deduction of commercial advertising from revenues subject to income tax;
- vi. Allowing for greater flexibility for the upper and lower limits for the depreciation rate of fixed assets;
- vii. Setting up a maximum limit of 2% of total turnover the allowed management charges that a holding company can charge to its subsidiary, provided there is a written agreement between the two parties;
- viii. Specifying the acceptable interest rates on loans provided by a holding company to its subsidiaries;
- ix. Allowing Lebanese offshore companies to serve each other outside the Lebanese territory;
- x. Clarifying the assets and participation or shares by holding in companies located outside Lebanon;
- xi. Setting up a new strategy for fiscal control based on risk management principles and clarifying procedures accordingly.
- xii. Exempting from penalties in case of delays in tax payments since *July 2006*.

Going Forward

- > Continue similar reform initiatives relating to other Directorates in the Ministry of Finance, such as Customs, VAT, and the Cadastre;
- > Allow for other concerned ministries and public institutions to work jointly in finding solutions for outstanding problems;
- > Accelerate the Ministry of Finance's proposed reforms that require the passage of legislating by Parliament;
- > Institutionalize the dialogue between the Ministry and representatives of the private sector by creating a consultative committee that includes representatives of both sides and that will discuss the critical issues relating to the Ministry of Finance and follow up on issues and problems presented by committees and institutions;
- > Prepare for the creation of a "Competitiveness Council."

5. SIMPLIFYING PROCEDURES FOR TRADE ACROSS BORDERS

Achievements

- i. Authorizing ordinary cheque payments for customs charges for regular importers against an annual bank guarantee document;
- ii. Exempting all personal parcels, commercial samples, gifts and spare parts (of value up to LL 500,000) from all customs, formalities, licenses and procedures;
- iii. Simplifying procedures for transit expeditions;
- iv. Canceling legalization documents related to the manifest of ships carrying cargo and passengers to Lebanon.

IMPROVING THE BUSINESS ENVIRONMENT

6. BUILDING A NETWORK OF TAX CONVENTIONS AND INVESTMENT AGREEMENTS

Despite a slow down in the progress made due to the security situation that prevailed during this period, the Ministry of Finance pursued the negotiations of tax conventions and investments, enlarging its network of bilateral agreements as a tool to promote foreign investments and improve investment climate.

Achievements

The following progress was achieved:

On the Investment Agreement front:

- i. Negotiations were conducted by diplomatic channels with the Czech Republic with the aim to amend the enforced agreement, and with the Slovak Republic; while the amending Protocol of the enforced Agreement with Bulgaria was finalized and initialed;
- ii. Agreements with each of South Korea and the Sultanate of Oman were signed;
- iii. Agreements with each of: South Korea, Mauritania, and Turkey were ratified by the Parliament;
- iv. Six Agreements with each of the following countries: Bahrain, South Korea, Morocco, Organization of the Islamic Conference, Sudan and Turkey, entered into force.

On the Tax Conventions front:

- i. A Convention was negotiated and initialed with Sri Lanka;
- ii. A Convention with Pakistan was signed;
- iii. Conventions with each of: Pakistan and Qatar were ratified by the Parliament;
- iv. Six Conventions with each of the following countries: Algeria, Bahrain, Cyprus, Pakistan, Turkey, and Yemen, entered into force.

Going Forward

On the Investment Agreement front:

- > Finalize initiated negotiations with each of: Angola, Bosnia Herzegovina, Indonesia, Poland, and Slovak Rep;
- > Finalize the amendment of enforced Agreement with Romania;
- > Negotiate a new Agreement with Cuba;
- > Sign finalized Agreements with each of: Albania, Austria, Bulgaria (amending Protocol), Burkina Faso, Democratic Republic of Congo, Mali, Senegal and Togo.

On the Tax Conventions front:

- > Re-launch discussions on the points pending in the Convention with each of: Belgium, Finland, Germany, Luxemburg, Mexico, the Netherlands, Norway and Sweden;
- > Finalize initiated negotiations with Sri Lanka;
- > Sign finalized Conventions with each of: Albania, Ivory Coast, Indonesia and Moldavia.

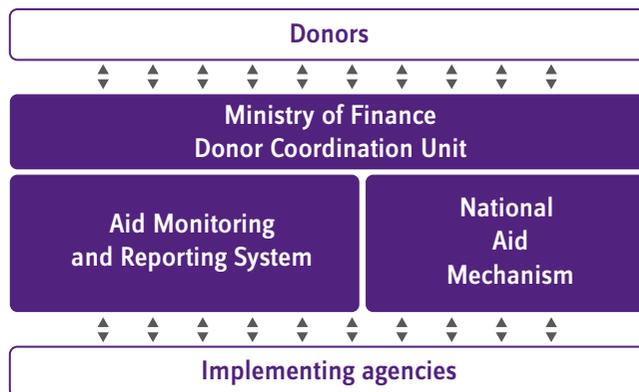
**VIII.
ENHANCING DONOR COORDINATION**

Important pledges of financial aid were made at the Paris III conference (*January 2007*) by the international donor community in support of Lebanon's reform programme. To put these resources to the best use, the Government recognized that strong donor coordination was needed to meet the concern about ad hoc and uncoordinated funding channels and to ensure alignment of funds with established priorities and aid harmonization.

The transformation of the pledges made at Paris III into commitments and implementation requires open information exchange and policy dialogue to galvanize donor support for specific funding requirements within the context of the government reform programme as a coherent, common framework. Moreover, linking aid flows to the budget process and government accounting system would enhance coherence and enable increased synergy of resource allocation and use. To those ends, the Ministry of Finance was given the responsibility for donor coordination by the Council of Ministers. This role corresponds to the mission of the Ministry of Finance, which includes the mobilization and proper use of all public resources.

A number of mechanisms, both internally within government and at government-donor level, and a support unit were established. The emerging aid coordination architecture has resulted in improved exchange of information and enhanced government-donor dialogue on policies and requirements. Monitoring and follow-up on pledges and their mobilization into signed agreements were successfully undertaken. Reporting to national stakeholders and donors on progress in the implementation of the reform programme also was undertaken effectively and on regular basis by the Ministry of Finance.

The medium-term objective is to increase the flow of aid and to integrate aid within the budget process, on the one hand, and to improve the quality and impact of aid, on the other. This objective implies, and will be facilitated by achieving, a high level of aid effectiveness, in particular through transparency and accountability of the aid performance. Tracking, monitoring and reporting the aid performance will be based on an aid information management system that will meet financial management and reporting requirements of government and donors. Therefore, the immediate priority and focus of present efforts is the establishment of the aid information management system.



ENHANCING DONOR COORDINATION

1. THE DONOR COORDINATION UNIT (DCU)

Achievements

A Donor Coordination Unit was established at the Ministry of Finance as the focal entity within the Government dedicated to:

- Mobilizing, programming, tracking, monitoring and reporting on external assistance allocated to Lebanon;
- Harmonizing donor practices with government systems;
- Promoting and establishing partnerships with donors and national stakeholders.

The DCU aims to develop and strengthen aid coordination and aid management processes with a view to ensuring transparency and accountability of resource use and achieving stronger impact of aid on national development outcomes.

The DCU is responsible for: (a) tracking sources and uses of aid and regularly report on donor and aid performance; (b) following-up on donor pledges and commitments; (c) forecasting external funding needs and mobilizing aid; (d) promoting and improving aid effectiveness and (e) coordinating and developing partnerships with donors.

The DCU activities will be based on an **aid information management system** (presently being established, see section 2 below) able to meet both reporting requirements and financial management requirements of the Government and donors. Meanwhile, a simple aid tracking system was established and forms the basis for the quarterly Progress Reports on Paris III (*April, July, and October 2007, and January and April 2008*).

The DCU includes, at the national level, a working group of representatives from the Presidency of the Council of Ministers (PCM), Ministry of Finance (MoF) and Council for Development and Reconstruction (CDR), who meet regularly to review developments and produce regular updates pledges and aid delivery.

The DCU has promoted exchange of information, policy dialogue and coordination through gradually deploying different mechanisms of the aid architecture, namely:

- Bi-annual meetings of the Core Group of donors at the Spring and Annual Meetings of the World Bank/IMF (*April, October 2007, and April 2008*);
- Quarterly Donor Meetings (*April, July, October 2007, and April 2008*);
- Sector coordination meetings at the level of the concerned Inter-Ministerial Committees (social affairs, education);
- Extensive bilateral consultations and interaction with different donors.

The DCU also has developed a number of aid management tools, including a monthly Aid Coordination Newsletter, as of *November 2007*. The sub-page on donor coordination of the MoF website has been upgraded and kept up-to-date.

An Aid Partnership Committee, consisting of key stakeholders of government and donors, was established in *December 2007*. The Aid Partnership Committee, in particular, will provide strategic guidance, address cross-cutting issues and impediments to execution, and review results on the ground, and will provide guidance on matters affecting the efficiency, effectiveness, economic and financial sustainability of donor-funded programs and projects.

Going Forward

- > Strengthen Aid Partnership Committee, *by October 2008*;
- > Further development of web sub-page on donor coordination and of other aid management tools, *by October 2008*;
- > Prepare an action plan for increasing aid effectiveness, *by December 2008*;

- > Reinforcement and capacity development of the DCU, *by December 2008*;
- > Prepare an annual report on aid performance, *by April 2009*.

2. AID MONITORING AND REPORTING SYSTEM

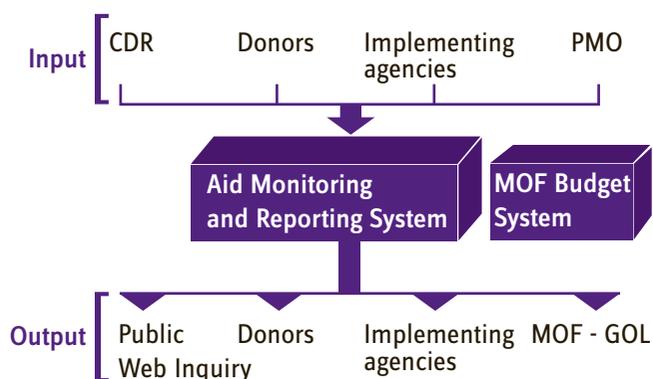
Achievements

To improve aid coordination and the allocation of donor support to priority projects and programs, the Ministry of Finance has started putting in place a unified system of data collection, monitoring and reporting. The system will provide a comprehensive view on aid, from pledges to implementation. The system will be linked to the Ministry's budget process and accounting system to ensure better reporting of revenues and expenditures. In addition to grants, project loans from external sources and budget funds that finance the public investment program will also be included. The system will be comprehensive, integrated to the other existing systems, transactional, can be audited, and accessible to the public.

Input requirements, specifications and design of the system have been finalized, and initial data collection from the Presidency of the Council of Ministers (PCM) have been completed.

Going Forward

- > Initial data collection, donors and implementing agencies *by July 2008*;
- > Design and roll-out of the aid monitoring and reporting system *by end of June 2008*;
- > Full deployment and operationalization *by August 2008*.



3. NATIONAL AID MECHANISM (NAM)

Achievements

The Ministry of Finance started in *September 2007* working on the development of the procedures for the National Aid Mechanism to channel donor funds to the Government of Lebanon. The Government is keen on ensuring the proper management of these funds and achieving the highest impact in a transparent manner, without creating new bureaucratic structures. Accordingly, the Ministry developed the overall financial management procedures for such mechanism based on: (a) streamlined processes and harmonized procedures for financial management; (b) a mechanism for financial management for pooled donor contributions, including periodic audits by external auditors; (c) a mechanism to receive and investigate complaints and/or queries and (d) a process for spot verification/audits.

These procedures shall comprise the reporting requirements, the reports to be presented periodically to the donors, the financial statements, and the audit arrangements.

Going Forward

- > Complete the training on how to operate the Financial Management Procedures *by July 2008*;
- > Apply the Financial Management Procedures handbook *by August 2008*.

IX.
EMPOWERING YOUTH

The Ministry of Finance has led a number of initiatives aimed at promoting youth involvement in the public domain, through encouraging youth engagement in economic decision making and raising awareness of the role and functions of the Ministry.



1. BADER

The BADER Young Entrepreneurs Program⁸ was established in 2005 under the joint initiative of the Minister of Finance and forty young Lebanese business leaders. BADER Young Entrepreneurs Program is a community of inspired and committed young business leaders that are engaged in supporting young entrepreneurs and promoting small businesses, thus creating opportunities and boosting private sector dynamics. BADER works nationwide with leading educational and financial institutions and other partners to catalyze the economic impact of entrepreneurship, provide mentoring and financial support to the next generation of young entrepreneurial leaders, develop and disseminate proven programs that enhance entrepreneurial skills and abilities, and introduce new financial tools to support Small and Medium Enterprises (SMEs). The objectives of the program are as follows:

- Reduce brain drain
- Lower unemployment
- Promote excellence
- Foster entrepreneurial spirit
- Boost private sector dynamics

Achievements

BADER members, together with the MIT Enterprise Forum for the Pan Arab Region (Lebanon), and the Lebanese Broadcasting Corporation (LBC) launched in *December 2006* the MIT Business Plan Competition⁹. The MIT Business Plan Competition is the first of its kind in the Arab World, and has been inspired by MIT \$100,000, which is annually held at the Massachusetts Institute of Technology (MIT) in Cambridge, MA. The MIT Arab Competition was open to all Arabs of all ages, and was designed to encourage entrepreneurs to start their own companies and create a nest of leading firms in the Arab world, as well as to bring to the Arab region all the entrepreneurship and management expertise at MIT.

Furthermore, recognizing the gap in terms of equity financing for SMEs in Lebanon, BADER took the initiative to pave the way for a successful equity fund that is focused on Lebanese SMEs. The Building Block Equity Fund aims to raise \$20 million, for investments in up to thirty companies in the services, technology, and traditional with potential for innovation business categories. The Building Block Equity Fund had its closing ceremony on *July 23, 2007*. The fund was closed at \$17 million.

BADER members are promoting entrepreneurship in academic institutions through their participation in courses and events related to entrepreneurship. BADER has also been active in proposing training to top graduate students through its Excellence Reward Program. As part of this program, Bader members have offered internships to selected candidates. To date, almost fifteen graduate business students have been selected for the program, in a range of industry sectors including food, craft and fashion, engineering and technology, and banking and finance.

BADER members are promoting entrepreneurship in academic institutions through their participation in courses and events related to entrepreneurship such as through roadshows conducted at universities in *January to March 2008* and in other awareness generating events.

⁸ www.baderlebanon.com

⁹ www.mitarabcompetition.com

EMPOWERING YOUTH

2. LEBYOUTH

LebYouth is an inter-university group that has been appointed as a Junior Advisory Board to the Minister of Finance, with the objective of providing the Ministry with feedback on Lebanese economic issues, and the youth's concerns and aspirations.

LebYouth is intended to:

- Create a forum for constructive debate among Lebanese youth on the real issues affecting their country
- Channel young people's efforts in substantial projects that leave a positive mark on Lebanese society.

LebYouth has over fifty members from five leading universities: American University of Beirut (AUB), Balamand University, Lebanese-American University (LAU) Lebanese University and Université Saint-Joseph (USJ). LebYouth is run by a steering committee, which decides on the strategic direction of the group, and an Executive Committee, which manages the group's day-to-day operations. Both bodies are elected by LebYouth members.

3. YOUTH ECONOMIC FORUM

The Youth Economic Forum (YEF) is a partnership of students and Non-Governmental Organizations (NGOs), and acts as a platform for dialogue on economic and social issues among youth, experts, and policymakers from various backgrounds. The forum has been based on an initiative by the Minister of Finance to engage youth dialogue. The forum has grown out of a series of meetings that started on the **April 24, 2007**, and comprises forty-five participants from different youth organizations, universities and student political parties. The Youth Economic Forum (YEF) was launched on **October 8, 2007** and is intended to:

- Encourage constructive debate on economic policy issues;
- Promote active involvement of youth in economic policy making;
- Build confidence between youth and the public sector;
- Increase oversight on the government and economic-policy making .

The Youth Economic Forum was officially launched on October 8, 2007 under the sponsorship of the Ministry of Finance. At the launch ceremony, a wide representation of institutions and individuals were mobilized, and they pledged their support to partner with the forum. In addition, a Memorandum of Understanding was signed between YEF and the Ministry of Finance. The Youth Economic Forum was subsequently incorporated as an NGO.

Since then, the YEF Steering Committee has operated independently. It has worked on recruiting students from universities and youth groups and on awareness raising, such as through the development of a website. YEF has also organized two workshops.

4. OUTREACH ACTIVITIES

i. Youth Internship Program

In partnership with LebYouth, the Ministry of Finance developed a month-long internship program at the Ministry of Finance. Selected applicants are assigned functions at the Ministry based on the needs identified by the different directorates. The first internship session was scheduled for 2006, but was suspended due to the July War. The internship program resumed in **2007** when thirty-eight interns were selected, and twenty-eight completed the internship. Students were selected from the Lebanese University, Beirut Arab University, University St. Joseph, American University of Beirut, Lebanese American University, and Sagesse University. The internship program was intended to:

- Launch the first initiative of its kind to receive university students in public sector departments;
- Familiarize the youth with work at the Ministry of Finance;
- Benefit from youth's potential.

ii. Youth Encounter

"Youth Encounter" is a one day orientation program that is aimed at introducing university students to the role, functions and reforms of the Ministry of Finance. The program includes training on the functions of the Ministry of Finance, its vision, the Lebanese tax system, and the Ministry's debt management policy. The orientation includes field visits to the Value Added Tax Directorate Offices and the Institute of Finance library. Two-hundred-and-fifty-three students from the Beirut Arab University, University of Balamand, Notre Dame University, American University of Beirut (AUB), American University of Science and Technology (AUST) and the Lebanese University participated in the orientation *in 2006*. *In 2007*, 160 students participated in the program, 125 of them from Beirut Arab University, and the rest from AUB, St. Joseph University, Holy Spirit University (Kaslik), and AUST.

iii. Recruitment Campaign

The Ministry of Finance launched a communication campaign for the 2006/2007 recruitment session that was held by the Civil Service Board to attract the brightest candidates. The Ministry of Finance developed a package of products as part of the communication campaign. This included the issuance of a guide entitled "Join the Ministry of Finance Team", which addressed the key role played by the Ministry of Finance in the national economy, in addition to the ministry's organization and recruitment systems, and the potential career path for recruits.

The 2007 cohort of new recruits has been competitively selected. The recruits were welcomed into the Ministry of Finance team on *August 27, 2007* at a reception hosted by Minister Azour, with Carlos Ghosn, President and CEO of Nissan and Renault, as the keynote speaker. This promotion of new recruits carries the name of "Ghosn's Promotion of Ministry of Finance Young Talents" to honor the contribution of the President and CEO of Nissan and Renault as a Lebanese global leader and an inspiring example for young generations to follow.



iv. Dialogue with the Minister of Finance

The Minister of Finance has been accessible to youth through Q&A sessions in partnership with LebYouth and the American University of Beirut's Economic Student's Society. The LebYouth group met with the Minister on numerous occasions, and upon his request, and prepared a concept paper on LebYouth's views on the Lebanese economy that reflected youth concerns. The Minister also met with students from the American University of Beirut on two occasions in *2007* in Q&A sessions about the government's reform program and the role of youth in this regard. Such dialogue has been intended to:

- Facilitate communication between youth and the Ministry of Finance
- Promote the role of youth in the reform program

In *2008*, the Minister met with the Youth Shadow Government (*January 3*) and students from the American University of Science and Technology (*January 8*). He has also led discussions with Executive MBA students from Ecole Supérieure des Affaires (ESA) (*March 5*) on the economic situation, reforms in the electricity sector, and on youth's role in entrepreneurship.



X.
CAPACITY BUILDING AND
HUMAN RESOURCE UPGRADING

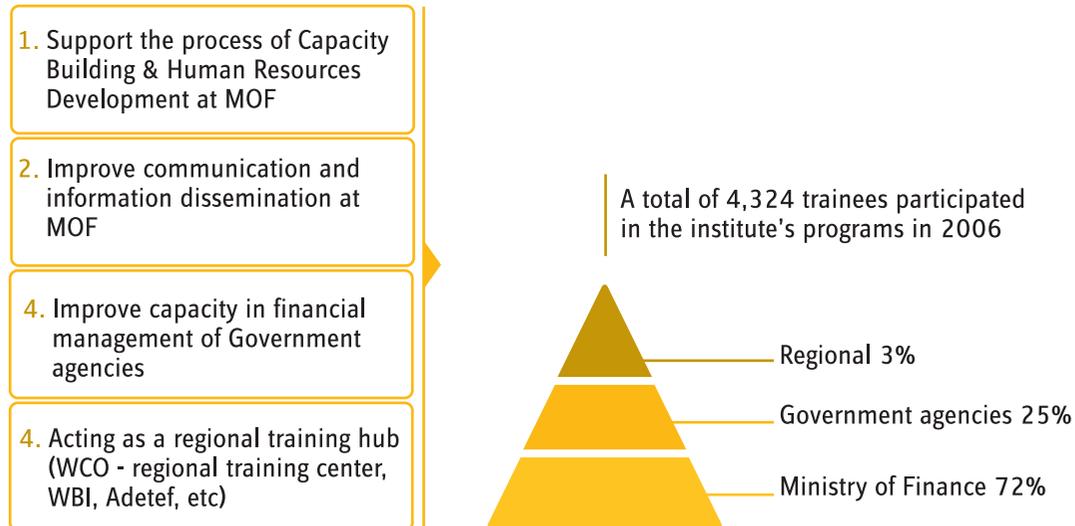
To provide better service, the Institute of Finance, also called Basil Fuleihan Institute for Economy and Finance, has a confirmed role in the capacity-building and human resource upgrading effort undertaken by the Ministry of Finance. The mission of this institute is to:

- Support the process of capacity building and human resource development at the Ministry of Finance;
- Improve the capacity in financial management of Government agencies;
- Improve communication and information dissemination at the Ministry;
- Network with local, regional and international institutions; and
- Act as a regional training hub.

The Institute which celebrated in **October 2006** its 10th anniversary was able to consolidate its position as a sustainable source of high quality, specialized training and communication services in public finance management in Lebanon and the MENA region.

During the period **2005 to May 2008**, the Institute has focused its efforts on supporting the reform programs of the Ministry, thus actively working on transforming the Ministry into a service oriented knowledge-based institution and at improving capacity in financial management of Government agencies.

The Mission of the Institute of Finance



CAPACITY BUILDING AND HUMAN RESOURCE UPGRADING

1. CAPACITY BUILDING OF THE MINISTRY OF FINANCE STAFF

A. TRAINING

The Institute of Finance provides training to the four main directorates of the Ministry of Finance: the Directorate General of Finance (DGF), the Directorate General of Customs (DGC), the Directorate General of Cadastre and Land Registry (DGCLR), and the Directorate General of National Lottery (DGNL).

In addition to catalogue training offered within the context of its annual calendar, around 80% of the Institute's programs were demand driven. Customized services were designed in consultation with concerned departments/clients. The Institute's curriculum includes: (a) technical training; (b) language training; (c) PC literacy training as well as (d) training on ethics, team work, leadership and management skills.

Achievements

i. During the period **2005 to May 2008**, the total number of trainees from the Ministry of Finance staff reached 8,350 distributed as follows:

	2005	2006	2007	2008
Technical and specialized training	759	1,799	2,031	579
IT	484	235	717	105
Foreign Languages	154	113	119	88
Training outside Lebanon or in partnerships with others	438	421	291	17
TOTAL	1,835	2,568	3,158	789

Number of trainees (from MoF staff) for the period 2005-2008

ii. A special achievement of the period **2005 to May 2008** is the publication of "Institute of Finance Training Manuals Series" prepared in collaboration with experts and trainers. These manuals were un-

animously acclaimed as a best practice. They covered the fields of finance, customs and management and were made available to the Institute's trainees and to the public in general.

iii. **In 2007**, the Institute of Finance launched a new project entitled "Automated Training Center" aimed at automating the training and event cycles at the Institute with the objectives of: (a) creating a Central Training Administration that allows the Institute to have a central location where training courses, trainers and trainees are managed; (b) enhancing collaboration between trainers and organizers in organizing courses and events; (c) allowing trainees to discover, register, access courses content and evaluate courses online; (d) allowing the Institute to consult training history of the employees; and (e) allowing the Ministry and the Institute to produce and use data and statistics when drawing training related policy.

Going Forward

- > Support the Ministry of Finance in developing a training strategy that would link each employee's training record to career path;
- > Issue the second series of the Institute's training manuals addressing topics of social security, taxation, budgeting, customs and others;
- > Develop new training modules mainly in the fields of budgeting and public expenditures.



B. HUMAN RESOURCE DEVELOPMENT

The Institute of Finance was actively involved in all aspects of human resource management (HRM). More specifically, the Institute assisted and supported the recruitment and training of a new generation of Ministry of Finance employees.

Achievements

- i. In **2005 and 2008**, the Institute of Finance hosted and organized a three-month training program for 90 new recruits of the General Directorate of Customs.
- ii. The Institute also assisted the Directorate General of Finance (DGF) in improving the quality of the recruitment process by redesigning the content of the entry examination by the Civil Service Board to the 4th and 3rd categories and designing and conducting a communication campaign for the **2006-2007** recruitment session. The communication campaign included the:
 - (a) issuance of a guide entitled "Join the Ministry of Finance Team", which addresses the key role played by the Ministry of Finance in the national economy,
 - (b) participation in job fairs organized by various universities and in the yearly organized book fairs, and
 - (c) regularly hosting groups of university students within a special program called: "**Youth Encounter**".
- iii. In **2007**, the Institute carried out three-month orientation training to the 154 new recruits who have successfully passed the Civil Service Board exam as auditors and accountants for the General Directorate of Finance.



- iv. Other activities included: (a) development of a human resource development strategy and action plan, (b) promoting a new conceptual and strategic approach to human resources and development and (c) modernizing recruitment.

Going Forward

- > Play an advisory role in the placement of the 154, 4th category new recruits in the various directorates of the Directorate General of Finance (DGF).
- > Prepare the Ministry of Finance employees to the 3rd category civil service at the Directorate General of Finance (DGF).
- > Select new qualified recruits who will form new core units at the DGF;
- > Access the Ministry of Finance's database; this database will assist in following the training path of employees.

HR Development: Orientation of New Recruits

Year	New recruits
1995	86
1998	45
1999	15
2000	132
2001	232
2002	37
2003	116
2004	109
2005	58
2006	73
2007	154
2008	12

2. CAPACITY BUILDING OF LEBANESE CIVIL SERVANTS IN FINANCE GOVERNANCE

In response to a growing demand by public sector institutions including other ministries and public agencies, the Institute developed special programs in financial governance to address the Lebanese Civil Servants.

CAPACITY BUILDING AND HUMAN RESOURCE UPGRADING

Achievements

- i. In **2005**, the Institute of Finance designed and delivered its first special program for the financial staff of Lebanese Public Institutions. More than 250 employees from 68 public agencies received trainings that covered a wide variety of financial topics. *In 2006*, the program hosted 95 participants. A similar program was conducted *in 2006 and in 2007* for private and public hospitals. More than 500 directors and financial managers have benefited from this program.
- ii. Short courses on VAT and other fiscal procedures were also made available to various administrations that expressed interest such as the Security General Directorate and various syndicates.
- iii. *In 2006*, workshops on budget preparation were also provided to an audience of 67 civil servants, in collaboration with the Ministry of Environment.
- iv. A customized program was also designed for the 21 auditors newly recruited by the Directorate General of Administrations and Municipalities at the Ministry of Interior and Municipalities.
- v. In **2008**, the Institute of Finance focused its training offer for governmental agencies on public procurement, based on strong demand made by all relevant stakeholders.
- v. During the period **2005 until May 2008**, the number of trainees reached 12,550 distributed as follows

Number of trainees for 2005-2008:

	2005	2006	2007	2008
Ministry of Finance	1,963	3,200	3,033	719
Other Lebanese public institutions & administrations	1,953	1,068	152	53
External participants	152	123	117	17
TOTAL	4,068	4,391	3,302	789

Going Forward

- > Develop a bi-annual training offer for public institutions;
- > Pursue its endeavor in becoming a reference center in financial governance for the Lebanese public sector.

3. THE INSTITUTE OF FINANCE AS A REGIONAL PLATFORM

The Institute of Finance was able to improve its standing as a local magnet for continuing education and training for the Middle East and North Africa (MENA).

Achievements

In this context the Institute has achieved the following during the period **2005 until May 2008**:

- i. Continued to cultivate its network of partnerships with local, regional and particularly Arab institutes and organizations;
- ii. Further consolidated the bilateral cooperation with the various directorates of the French Ministry of Finance, by coordinating the French Technical Assistance;
- iii. Facilitated the participation of Ministry of Finance staff to training and learning events outside Lebanon (more than 200 Ministry of Finance employees during **2005 to May 2008**);
- iv. Signed new partnership agreements with the International Management and Training Institute of Lebanon, the Lebanese Association of Certified Public Accountants and the Institute of Public Management and Economic Development of France;
- v. Supported the work of the International Monetary Fund-Middle East Technical Assistance Center (METAC) and assisted in the organization of regional workshops/seminars in an effort to transfer knowledge and experience to countries of the region and strengthen their ability to design and implement economic policies;
- vi. Supported the operation of the WCO regional training center and provided training for regional audience. The number of participants in the WCO regional training sessions reached 265.

Three major initiatives were the highlights of **2005 until May 2008**. Those were:

- i. **Partnership with the Agency for International Cooperation of the French Ministry of Finance (ADETEF) to implement reform programs in MENA and deliver technical assistance:** The cooperation with the French Ministry of Finance and in particular with the ADETEF has shifted from a simple cooperation relationship including the exchange of trainees and experts into a partnership for the implementation of reform projects in the Middle East and North Africa region. Within the framework of a technical assistance contract signed between the Jordanian Ministry of Finance and the ADETEF, the Institute has provided the required technical assistance, in cooperation with the ADETEF, for the establishment of the Public Finance Training Center at the Jordanian Ministry. It has worked closely with the Jordanian Ministry of Finance to prepare a comprehensive training plan for the three years to come and provided assistance for the development of the training modules which will be used and improved by the staff of the new center. Since **March 2008**, the Institute has been also supporting, in partnership with ADETEF, the establishment of a training center for the Palestinian Ministry of Finance. It is working closely with a team composed of Palestinian officials and French experts to assess the training needs, design a training strategy and an action plan for the creation of a center. A similar project is under preparation for the Moroccan Ministry of Finance.
- ii. **The Institutional Development Fund project:** In **2007**, the Institute won a World Bank Institutional Development Fund (IDF) grant amounting to U.S. \$338,000 to develop capacity-building tools for sustainable governance in the Middle East and North Africa (MENA) region. From **August 2007 to February 2008**, the IoF finalized the administrative set-up necessary to the grant implementation including: opening of a bank account at the Central bank of Lebanon, holding consultation meeting with various experts, securing tax exemption and preparing procurement

procedures. The project officially kicked-off in March 2008 with the launching of phase 1 of the IDF: Validation of training needs and methodology. The official advertisement, requesting expression of interest of individual consultants, was issued in March 2008, in local and regional newspapers.

- iii. **GIFT_MENA Network:** The third main achievement of the period **2005 until May 2008** was the establishment of the MENA Governance Institutes Forum for Training (GIFT-MENA) network. GIFT-MENA is a consortium of schools and training institutes of the MENA region servicing the public sector. It is a locally-driven initiative for knowledge-sharing on governance that was launched in Beirut in **March 2006** by the Institute of Finance and the World Bank Institute. Since its establishment, the Institute houses the secretariat of the network. GIFT-MENA objectives are to: (a) strengthen the operational capacity and support the institutional development of its member institutions; (b) provide access to high quality training modules on governance related topics, preferably in the Arabic language; (c) promote networking and cooperation among member institutions, including exchange of trainers, trainees and training modules; and (d) act as a forum for the dissemination of best practices among its members.

Though it has benefited from limited financial support, GIFT-MENA has organized several "Train the Trainers" program in Lebanon, Jordan and Morocco including a "Train the Trainer" course on Performance Based Budgets. It has led curriculum development workshops on public sector governance and modernization in Morocco and Tunisia and organized exchange of trainees for internships among member institutions.

A General Assembly will be hosted by France between **June 4 to 6, 2008**. It will be attended by more than 30 participants, directors, and senior managers of MENA schools and institutes, as well as representatives of a number of European and international donors' organizations operating in MENA.

CAPACITY BUILDING AND HUMAN RESOURCE UPGRADING

Going Forward

- > Provide technical assistance to the Moroccan Ministry of Finance and Privatization in establishing its training center;
- > Reinforce existing cooperation with the Spanish Ministry of Finance on taxation and customer service topics;
- > Finalize the institutionalization of the GIFT-MENA network;
- > Launch the GIFT-MENA exchange program;
- > Launch its “Public Financial Management” comprehensive training program for a regional audience.

XI.
PROMOTING TRANSPARENCY ACCESS TO INFORMA-
TION AND COMMUNICATION

The Ministry of Finance has heavily increased disclosure and the publication of information for the following objectives:

- To enhance transparency through data dissemination and public disclosure of main fiscal, debt, trade as well as other economic and financial figures processed at the Ministry;
- To provide investors as well as the Lebanese and international community with reliable and quality analysis on the evolution of government finance figures;
- To provide a reliable economic and financial database for researchers and analysts;
- To enhance the policy dialogue concerning the reform program and the main macro-financial issues between the MOF and various public groups, including members of the international economic and financial community.

A. PUBLICATIONS

The Ministry of Finance has maintained and developed the following publications on the Ministry's website¹⁰:

- Monthly Fiscal Performance:** The purpose of those statistical tables is to provide the latest key figures of the fiscal performance, a summarized breakdown of tax and non tax revenues, a summarized breakdown of expenditures classified by transaction and a brief review of debt figures.
- Public Finance Monitor:** Covers on a monthly basis the evolution of public finance figures through an overview of the fiscal performance, a comprehensive coverage of the changes in tax and non tax revenues as well as a thorough analysis of the economic factors behind these changes, an exposition of the expenditure outcome through both the transaction and the detailed economic classifications and the latest public debt figures.
- Public Finance Quarterly Reports:** Detail on a quarterly basis revenue, expenditure, public debt and trade developments by tracking the product composition (at both section and chapter levels) of imports and exports as well as their sources (by main region and country) and by providing cross product-country analysis.
- Public Finance Prospects-Yearly Reports:** just like the Quarterly Report, the Yearly Report highlights the main developments in public finances, debt and external trade. It also presents the latest developments on the privatization and securitization fronts.
- Quarterly Debt and Debt Markets Report:** The report covers the government's debt structure, domestic primary market debt, information related to secondary trading, a list of Eurobonds outstanding, and a full range of risk indicators, configuration of creditors of each type of debt and other pertinent data.
- The Ministry of Finance Audited Accounts 1993-2006:** The Ministry of Finance has released 1993-2006 accounts using the budget classifications.



¹⁰ www.finance.gov.lb

PROMOTING TRANSPARENCY ACCESS TO INFORMATION AND COMMUNICATION

vii. **Lebanon Country Profile:** The report provides general information on Lebanon's population, history, political and legal systems. Furthermore, a second part is devoted to the economy and presents the economic history of the country, the role of the government, the GDP, the principal sectors in the economy as well as developments in the external sector, public debt, the monetary system as well as public finance. Another part tackles the achievements and the progress in the reconstruction program covering areas such as infrastructure, electricity, water, transportation and public health. Two sections are devoted to social policies and the educational system.



viii. **Reports on the Budget:**

(a) **Brief Notes on the Budget Proposal and Law:** the brief notes present the main points of the Budget Proposal or Law. The first section presents a small analysis of the main figures of the budget year, i.e. budget revenues, budget expenditures budget deficit and primary balance. The second section describes the main assumptions behind the Budget Proposal, reflecting the context in which the budget proposal was drafted. The third section reviews all the reasons behind the year to year changes in revenues and expenditures.

(b) **The "Fazlaka" of the Budget Law** or the Minister of Finance's detailed report on the economic and financial situation and on the principles adopted by the government in the public budget law and the annexed budgets. The first part reviews the latest economic developments occurring in the Lebanese Economy. The second part is a detailed summary of the budget law. The third part summarizes the measures adopted to accelerate the economic and financial reform and the fourth part reviews the structural reforms to be implemented in order to modernize and develop the Ministry of Finance.

ix. **Investment Climate in Lebanon:** provides an overview of newly enacted and existing legislative reforms which are aimed at encouraging investment in Lebanon.

x. **Paris III Progress Reports:** provide quarterly updated results of Paris III conference, sector allocation, details of pledges and progress on implementing the reform program per line ministry and public institution.

xi. **Aid Coordination Newsletters:** provide monthly updates on aid to Lebanon, both loans and grants, and information regarding aid policy, mobilization and donor coordination. The Aid Coordination Newsletter is issued by the Donor Coordination Unit at the Ministry of Finance to increase transparency and enhance communication with donors and national stakeholders by making public all available information.

xii. **Key-Fiscal-Debt-Monetary-Trade Reforms 2006:** The document is intended to summarize the key, fiscal, monetary, trade and market reforms and to highlight the progress that has been achieved on each to date.

B. COMMUNICATION AND INFORMATION DISSEMINATION

From July 2005 till May 2008, the Institute of Finance played an important role in supporting the awareness and communication efforts of the Ministry of Finance including information dissemination to citizens, organizing events and publishing news.

THE INSTITUTE OF FINANCE (IOF)

- i. Kept enriching the Library of Finance with the latest publications in public finance documentation and tax reference centre, (now more than 14,000 references, trilingual and open to the public);
- ii. Revamped the Ministry of Finance quarterly newsletter: Hadith El-Malia (3500 copies/issue) and distributed to the Ministry's staff and partners including central administrations, donors, banks, professional associations; economists, academia, specialized press;
- iii. Worked with the local research agency, InfoPro, to elaborate a strategy for improving customers' service at the Directorate General of Finance;
- iv. Assisted the Revenues directorate at the Directorate General of Finance to produce user-friendly pamphlets/flyers directed to the citizens on major tax procedures;
- v. Organized several awareness events, conferences and workshops to promote the reform program undertaken by the Ministry of Finance.
- vi. Launched its new website for public access to material including training course schedules, and archive copies of the in-house magazine.

C. PROMOTING TRANSPARENCY, ACCOUNTABILITY, AND INTEGRITY

On October 25, 2007 a Memorandum of Understanding (MoU) was signed between the Lebanese Ministry of Finance (MoF) and the Lebanese Transparency Association (LTA), launching the "Partners in Transparency" initiative. In the framework of the MoU, it was agreed that the MoF and LTA would cooperate in the aim of enhancing transparency in the public sector and ensuring accountability in the program of reforms initiated by the MoF. Pursuant to this MOU, several activities were initiated and are currently being implemented:

- > Communication to reach the public in large and disseminate key information
- > Accountability framework to implement a global integrity indicator for Institutions.

In addition, the Ministry of Finance is participating in the National Network to Enhance the Right of Access to Information initiative. The initiative is led by LTA, Arab Parliamentarians Against Corruption, and "Association pour la Défense des Droits et des Libertés," in cooperation with the American Bar Association. The objective is to increase transparency in Lebanon through the development and implementation of two laws on "promoting access to information" and "whistleblower protection" including an advocacy campaign.

XII.
UPGRADING AND AUTOMATING IT INFRASTRUCTURE

1. ACCOMPLISHMENTS IN INFORMATION TECHNOLOGY INFRASTRUCTURE

A. CONNECTIVITY

Achievements

a. Wide Area Network (WAN)

The design and installation of a fast, reliable, and secure WAN that interconnects the various departments within all Directorates of the Ministry of Finance has been completed, enabling data exchange and preparing for the launch of voice/video at later stage. Regional offices connect to the central office Data Center 1 (DC1) at Riad Solh by using dedicated lines. Bandwidth varies between 128Kbps to 2Mbps. Regional offices are hub sites to further district offices. 48 Government Agencies connect through a Terminal Server to the central office on demand. Users in these agencies vary from 1 to 25 users. Each agency can access the budget system currently and the payroll system at a later stage.

The routing of all network traffic has been designed to enhance network performance and reliability. Under the new routing architecture, the network will work on a distributed rather than a centralized model, which will result in maximizing performance by optimizing traffic flow.

Internet connectivity bandwidth was upgraded to 2Mbps and another connection to Data Center-2 (DC2) at Naher through a different service provider was installed to ensure redundancy and load balancing.

WAN upgrade focused on providing a second link from each Regional Office to DC2 to provide connectivity redundancy and load balancing for performance enhancing, and to document the final WAN structure. (refer to page 72)

b. Metropolitan Area Network (MAN)

The design and installation of a fast, reliable, and secure MAN has been completed, which interconnects the various buildings of the Directorate General of Finance in Beirut. It mainly interconnects Riad El-Solh, Arab Bank, Owaini, Bchara El-Khoury, Ghannagi, Sohnawi, and Mokerzil Buildings. A new fiber link connected Baabda to Beirut VAT building. The fiber optic link of the various building will improve connectivity, significantly increase bandwidth, and provide instant access to the central database by various authorized users. This topology has been upgraded to Partial Mesh forming a large Enterprise Data Center spanning over two separate Data Centers eliminating single point of failure, providing load balancing and disaster recovery. (refer to page 71)

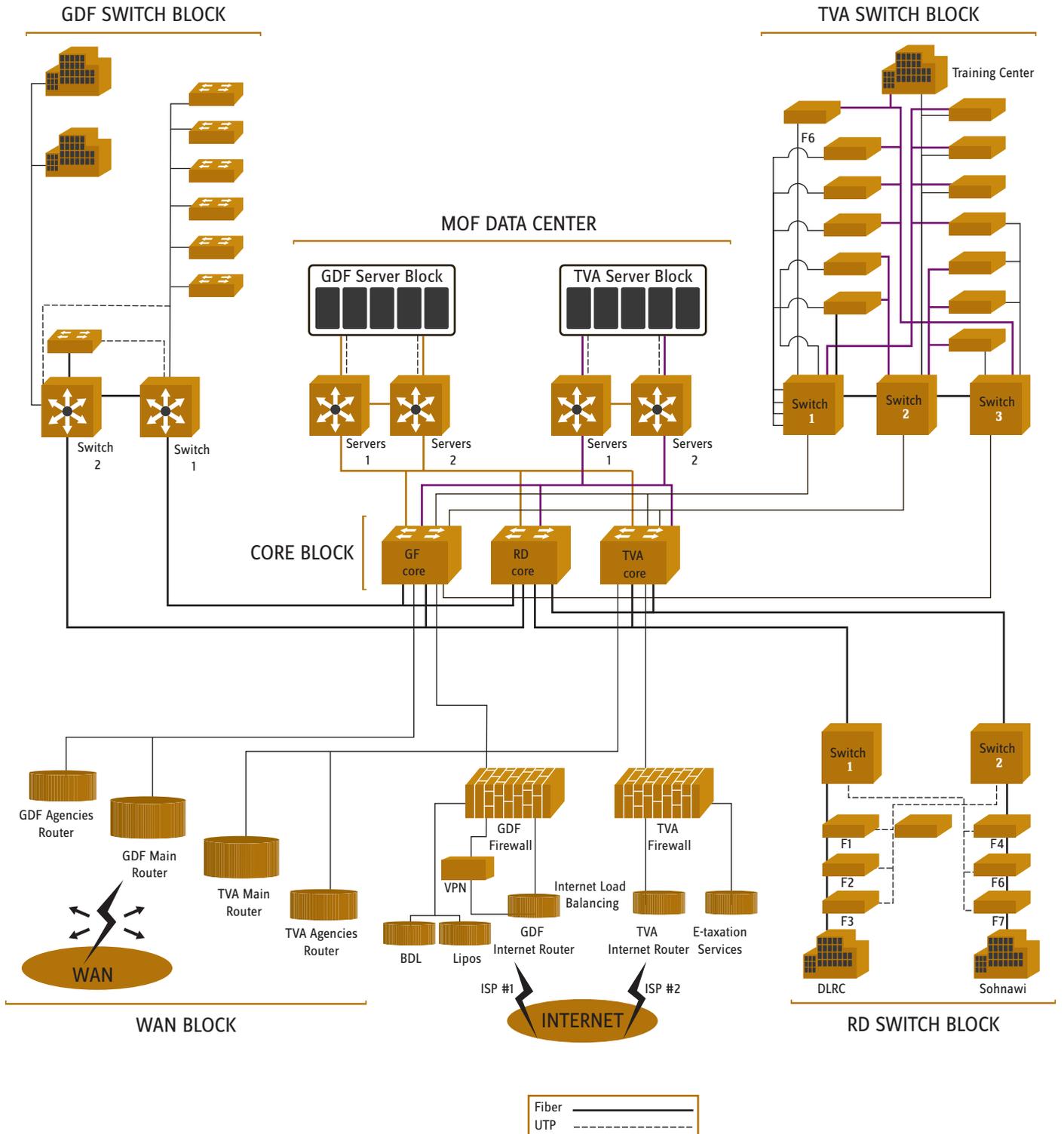
c. Local Area Network (LAN)

The design of a fast, reliable, and secure LAN in main Head Office Buildings (Riad El-Solh, Bchara El-Khoury, VAT, Institute of Finance) has been completed. The fiber optic backbone together with a switched connection and the implementation of Virtual Private Network architecture will improve reliability, reduce network congestion, improve connectivity and significantly increase bandwidth. This year the design and installation of the LAN in the Regional Offices was completed following the same technology standards utilized in head office buildings, as well as to document the LAN final infrastructure setup, cabling, and configuration.

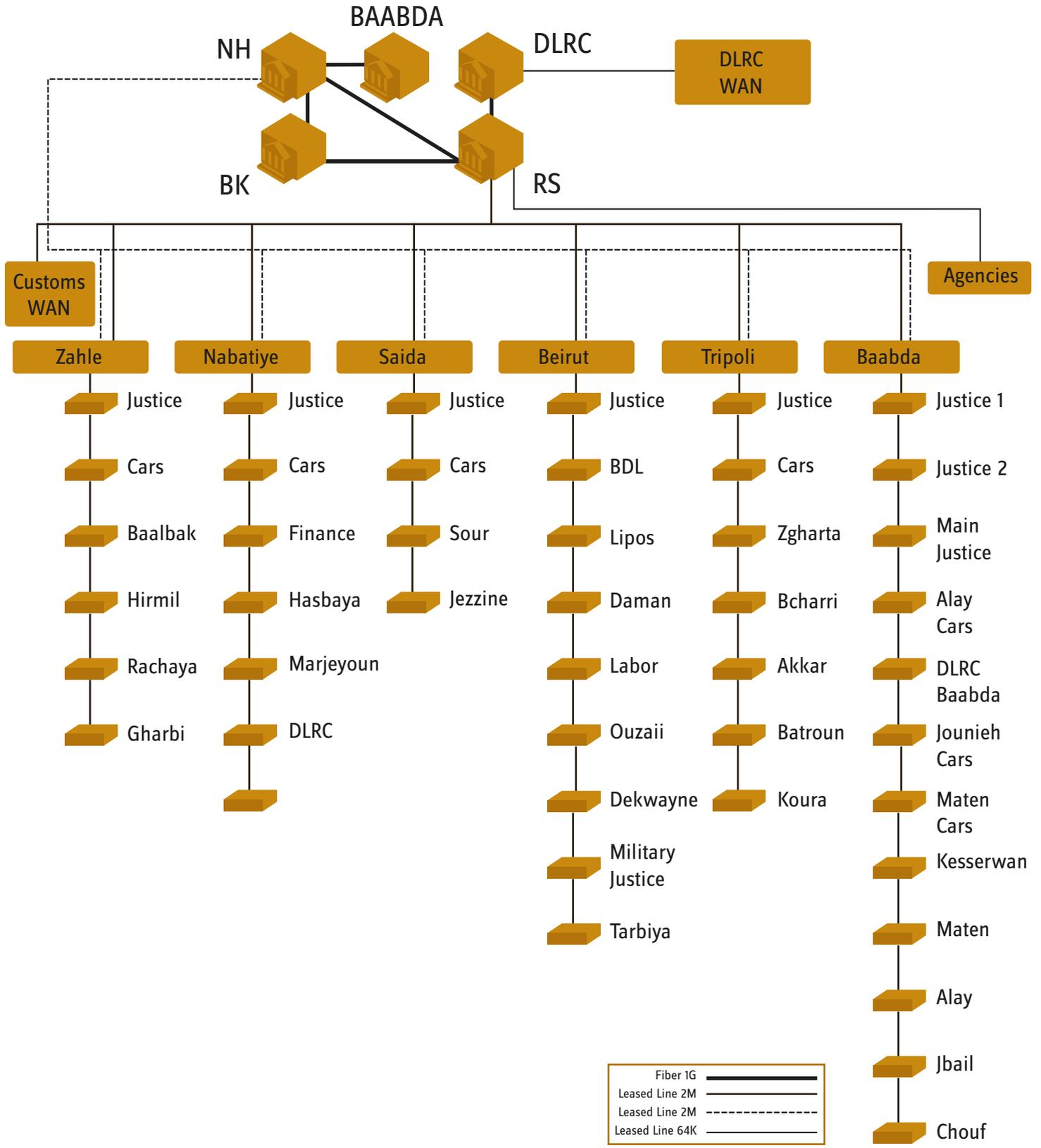
UPGRADING AND AUTOMATING IT INFRASTRUCTURE

Map GDF - MAN

Description General Directorate of Finance MAN Schema



Map MOF - WAN
Description IT Department



UPGRADING AND AUTOMATING IT INFRASTRUCTURE

B. NETWORK SERVICES INFRASTRUCTURE

The three fundamental objectives for the network services infrastructure are to:

- Upgrade and strengthen network security
- Pilot voice over IP project
- Pilot video conferencing

Achievements

The design of the Network Services Infrastructure has been completed. Four design documents were prepared and include:

- i. IP, Network Services, and Active Directory Infrastructure
- ii. Exchange Messaging Infrastructure
- iii. Backup and Recovery Strategy
- iv. Security Policy

C. UNINTERRUPTED POWER SUPPLY

Achievements

A redundant power supply system has been designed and installed in the main buildings in Beirut. Two 120 KVA UPSs are installed in the Riad El Solh building with two hour autonomy, while three 120 KVA UPSs are installed in the Al-Naher building and one 120 KVA UPSs is installed Bchara-El-Khoury building.

The Server and Network & Communication rooms have been further protected by installing a rack mounted UPS that is supplied with power from the main UPSs in each location.

D. BUSINESS AUTOMATION AND ENHANCEMENT

a. BUDGET MANAGEMENT SYSTEM

Achievements

- i. The Ministry of Finance has reengineered the various system modules such as budget preparation, appropriation management (additional and carry over), advance management, and budget execution (commitment, liquidation, and payment) processes. The Budget Management System is integrated with the accounting module of the Treasury Management System. As of **2005**, the system also automates the initiation of transactions at the spending ministries. The application has been implemented at the Ministry of Finance as a central system and spending agency.
- ii. As of **January 2006**, the Ministry of Finance started making all payments above LBP 10,000,000 using the SWIFT network by issuing transfer orders local banks through Banque Du Liban, and the next step is to transfer all payments regardless of their value.
- iii. As of **2007**, the budget system has been integrated with VAT, income tax and payroll systems to collect taxes due on beneficiaries/ tax payers through a clearing system and to select payroll journals where the clearing will be generated automatically.

To date, the Budget system has been implemented in 21 Ministries/Directorates and additional 10 directorates are scheduled to be implemented.

Going Forward

- > Complete the automation of the budget system in 10 additional ministries **by end of 2008**;
- > **Gradually** remove the ceiling of payments that are transferred through the SWIFT system.
- > Develop the necessary programs to transfer employee salaries using SWIFT rather than currently used procedures **by end of 2008**;
- > Conduct business analysis to automate manual procedures like employee/institution loans **by end of 2008**.

b. TREASURY MANAGEMENT SYSTEM

The Ministry Of Finance has reengineered, redesigned, and implemented the treasury system applications that include accounting, cashiers, payment through banks, treasury advances management, liability and deposit accounts management, fiscal stamps management, bank reconciliation, cash flow management, Cashier Audit, Stock system and Management Information System and reporting modules. In addition, the Ministry has already developed and implemented direct tax collection and amortization applications. Also, a new system for treasury bills was developed. The Treasury Management System is currently implemented in the head office, and in twenty local accounting offices. Previous years' data has been converted and collection data was keyed in.

Achievements

Main achievements of the period *July 2005-May 2008* included:

- i. Automation of the retrieval of collection and payment orders at the cashiers office to minimize data entry and transaction time;
- ii. Automation of the settlement of collection and payment orders once money is collected or paid in order to provide timely data integration;
- iii. Integration with Tax Systems to record immediately self assessment payments;
- iv. Integration of cashier collection orders with the real estate system to retrieve order information and record immediately the payment, was completed *by October 2005*;
- v. Upgrade and data conversion of Customs Treasury System was completed *by December 2005*;
- vi. Implementation of automatic tax deductions when issuing treasury payment orders was completed *by February 2006*.

Going Forward

BY END 2008,

- > Implement the system in 4 local accounting units;
- > Implement the SWIFT system for treasury payments;
- > Initiate payment at cashier offices through a mini ATM;
- > Implement the Ministry of Finance cashier systems in Ministry of Interior cashiers;
- > Develop additional functionalities to assist the various departments in the collection follow up;
- > Produce Management Information System and statistical reports (daily, weekly, monthly, and yearly) upon request.

UPGRADING AND AUTOMATING IT INFRASTRUCTURE

c. PERSONNEL, PAYROLL, AND RETIREMENT SYSTEM

Achievements

- i. *In January 2006*, the reengineering and implementation of a payroll system that automates the calculation of basic salary and family allowance with a direct transfer of salaries to banks, while maintaining historical data was completed;
- ii. A new procedure was introduced *in January 2007* to enable the settlement of income tax on year to date cumulative income;
- iii. *In February 2007*, the integration of the payroll system with the budget system to automatically generate a liquidation document was completed;
- iv. *By April 2007*, the implementation of the payroll system was completed in 5 ministries;
- v. *As of July 2007*, medical/hospitalization and schooling allowances were transferred along with the salaries to retirees;
- vi. The payroll system was installed at VAT, enabling employees to inquire about information.

Going Forward

- > Continue the automation of extra allowances to employees;
- > Automate the posting process of payroll and allowances in the payroll department to replace the current manual process;
- > Develop an application to use the employee fingerprint for attendance process.

d. INCOME TAX SYSTEM

The following has been achieved to date on this front:

- i. A complete re-engineering of the Audit Module and an enhancement in audit case management and selection, audit case tracking, audit case reporting and a complete reflection of the result in the collection system;
- ii. Developed a module to manage tax payers' objections. This was implemented in the Beirut Income Tax department, LTO, DASS and in four Regional offices. The module handles tax payer objections on reassessment notice results and is linked with the collection system;
- iii. Developed a module to manage document movements. This module tracks the document flow through all its cycles, registers the path taken and the time spent in every path;
- iv. Developed a mailing module that handles incoming, outgoing and returned mails;
- v. Centralized data entry center: starting revenue year **2006** and due to the submission of declaration through Liban Post, a new centralized database was created to receive process and then distribute all the declarations to their corresponding regional databases. Declarations for years 2004 until 2006 have been entered into the system, and 90% of declarations for 2006 have been processed and the remaining will be entered into the system in the coming two months;
- vi. All the databases were moved from Riad Al Soloh building to Nahr building and installed on new upgraded servers. Also, these databases were migrated to Oracle9i;
- vii. Unified the Income Tax source programs between the different tax regions, so that there is one source;
- viii. Developed a module that allows giving a PIN to all public sector employees which can be used in all Ministry of Finance applications;
- ix. Developed a module to issue a PIN or TIN for built property owners that can be used in all Revenue and Cadastral applications;

- x. Developed a module that can export/ import data related to employer/employees to CD's, so that taxpayers can process these data and return it.
- xi. Developed various reports that allow the administration, across various levels, to follow and control the flow of its work. Moreover, many statistical reports were developed. All these reports could be converted to Excel files.

Going Forward

- > Develop and implement Web services to assist tax payers to submit their declarations, review their profiles, check due amounts, get notified by mail (deadlines, circulars, etc), among other services. This will be done on a transaction type basis, and will require the development of a front-office web enabled interface that utilizes the authentication infrastructure mentioned earlier, and the development of a back-office to validate submitted requests, process them, get required approvals, and update the tax payers' files;
 - > Begin setting the design layout and required templates, and redesign the application to upgrade it to new Oracle development tools to better enhance the user interface and performance, and to increase the functionality of the system;
 - > Integrate the archiving system with the tax system, so that all related documents to an audit case can be viewed directly from the tax system without the need to open archiving one;
- e. **BUILT PROPERTY TAX**
 - i. Developed a module that allows the system to accept electronically all Built Property Tax (BPT) transactions submitted by taxpayers via Liban Post offices;
 - ii. Integrated the process of transferring the information on selling lots between the BPT and Cadastral systems. As a result, all sold lots and their owners are electronically transferred to the BPT system;
 - iii. Recoded the function of computing and issuing the main BPT journals, so that it takes a maximum of ten-minute process instead of twenty hours for certain cadastral;
 - iv. Developed a module that matches the prepaid personal declaration amounts that were paid in treasury with the ones mentioned in the BPT.

UPGRADING AND AUTOMATING IT INFRASTRUCTURE

2. DOCUMENT MANAGEMENT AND ARCHIVING SYSTEM

Achievements

To date, the MOF has:

- i. Developed and implemented a Document Management System to automate the flow of documents to, from, and within the Ministry of Finance's main directorates;
- ii. Scanned, indexed and archived the backlog of the Directorate General of Finance and the Minister's decisions, memos, and correspondence;
- iii. Developed and implemented an electronic filing system, which has been implemented at the personnel department to manage and archive the current employees' files as well as those of retirees. A similar system was developed for the Beirut Income Tax and VAT Departments and has been also deployed at the regional offices . Authorized users can view or print all or part of an employee or a taxpayer file. The backlog of most files including declaration forms, registration applications, and audit reports had been scanned and archived. However, the backlog of Saida, Tripoli and Bekaa tax payers are still under processing. New VAT documents are currently being scanned and archived on the spot;

Going Forward

- > Expose various online services, where applicable, to the public, to allow access to the archive collection discussed above and to allow online document tracking within different directorates.

3. E-TAXATION

Achievements

The Ministry of Finance has developed a set of public web services to be merged with the Ministry's web site. These make up a portal for tax payers to submit declarations, review their profiles, check for due amounts, and receive notification mails. A front-office web interface was also developed to manage the authentication and authorization of tax payers or their representatives when registering or using the web services. Furthermore, a back-office engine has been built to validate the submitted requests, process them, return approvals, and update the taxpayer's files. This web system communicates with the Ministry's taxation databases and is ready to accept new tax forms when needed. The system has been published online and is being tested regularly. It will soon be ready for public organizations and individuals to carry out their annual tax declaration tasks throughout the internet.

Going Forward

- > Further optimize and customize the web services while being tested;
- > Add new types of declaration forms when needed;
- > Announce the employability of the web services to public.

APPENDIX
MINISTRY OF FINANCE PARIS III REFORM PLAN



Within the context of Paris III, the Ministry of Finance has committed to the timely implementation of the following programs:

Program 1: Rationalize expenditures: the program objectives are to reduce waste and increase the effectiveness and productivity of spending, and to rationalize non-interest expenditures, contain the wage bill, and reform public sector enterprises.

Program 2: Enhance revenues: the program objectives are to undertake revenue enhancing measures through improving tax structure and collection, guided by the need to minimize distortions and enhancing equity and fairness in the distribution of tax burden and enhance revenue collection from government properties.

Program 3: Undertake budget and financial management reform: the program objectives are to develop a modern Budget System Law (BSL) which will be the anchor for all reform measures, enhance public expenditure management with more accountability and transparency, enhance institutional capacity, improve regulatory framework, and improve fiscal reporting.

Program 4: Undertake revenue management and administrative reform toward a function-based structure: the program objectives are to improve formulation and implementation of fiscal policy, enhance equity and fairness in the distribution of the tax burden, implement good governance, undertake structural measures aimed at modernizing the revenue administration towards function based structure with full strong headquarters, fully automated business processes, risk based compliance programs and skilled and professional staff.

MINISTRY OF FINANCE PARIS III REFORM PLAN

Program 5: Strengthen Debt Management with the aim to reduce the costs and risks of the government's debt portfolio: the program objectives are to strengthen debt management with the aim to reduce the costs and risks of the government's debt portfolio.

Program 6: Reform capital markets: the program objectives are to develop Lebanon's capital markets.

Program 7: Improve the business environment: the program objectives are to improve the business environment and reduce the cost of doing business in Lebanon, improve the competitiveness and employment creation, and encourage the recovery of the private sector in the aftermath of the Israeli war.

Program 8: Facilitate trade: the program objectives are to facilitate imports, lower related costs, and automate operations at Beirut port.

MINISTRY OF FINANCE PROGRAM 1

RATIONALIZE EXPENDITURES

PROGRAM OBJECTIVES/DESCRIPTION

- > Reduce waste and increase the effectiveness and productivity of spending
- > Rationalize non-interest expenditures, containing the wage bill, and reforming public sector enterprises, especially EDL.

MILESTONES

- > Wages and salary dynamics controlled by restricting recruitment to essential position;
- > Decision not to replace one for one civil servants that retire and replaced by more junior, less expensive staff;
- > Transfer of \$500 million from 2007 to 2009 to the COS & DF after which they are assumed to be closed

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 1 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
1. Rationalize expenditures		16/8/2001	31/12/2011
1a. Revise the salary and benefits structure for some public officials	MoF	1/1/2008	31/12/2011
1b. Save on transportation allowances through extending the working hours in the public sector from 32 hours a week to at least 36	MoF	1/1/2008	31/12/2011
1c. Reduce travel and communication expenses	MoF	1/5/2007	31/12/2007
1d. Work on terminating the "Council of the South" and the "Fund for the Displaced"	MoF	16/8/2001	31/12/2009
1e. Contain the wage bill in the medium term through reducing the size of the public sector by attrition and by limited hiring	MoF	16/2/2004	31/12/2010
1f. Reduce the budgetary cash transfer to EDL through adoption of the Power Sector Reform Plan	MoF, MoEW, PCM	1/1/2008	31/12/2011
1g. Submit to Parliament a draft 2007 budget law consistent with the targeted primary balance of the central government and including detailed HRC operations and CDR foreign-financed expenditures (EPCA)	MoF, CDR, HRC	1/1/2008	2/4/2008
1h. Maintain the quality of infrastructure and invest in high-value projects, while reducing the cost of funding	MoF, CDR	1/1/2008	31/12/2011

MINISTRY OF FINANCE PROGRAM 2

ENHANCE REVENUES

PROGRAM OBJECTIVES/DESCRIPTION

- > Undertake revenue enhancing measures through improving tax structure and collection, guided by the need to minimize distortions and enhancing equity and fairness in the distribution of tax burden and enhance revenue collection from government properties

MILESTONES

- > Settlement of seashore violations
- > Uncapping mechanism proposed and approved by Council of Ministers and hence came into effect
- > VAT increased from 10% to 12% in 2008 and then from 12% to 15% in 2010
- > Interest income increased from 5 % to 7%
- > GIT introduced
- > Comprehensive database on build properties built and updated

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 2 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
2. Enhance revenues		2/10/2006	31/12/2011
2a. Settle the seashore violation issue and start collecting rent on infringed properties	MoF	1/10/2008	31/12/2008
2b. Lift the cap on domestic car gasoline prices (EPCA), through issuing a Council of Ministers resolution/decreed setting a specific floor on gasoline excise of LL 300 per liter of gasoline and gradually increase excise tax rate	MoF	1/1/2008	31/12/2011
2c. Enhance revenue collection from public properties namely "Casino du Liban"	MoF	1/1/2007	31/12/2011
2d. Increase the VAT rate from 10% to 12% in 2008 and from 12% to 15% in 2010	MoF	1/1/2008	31/12/2010
2e. Collect the 5 percentage points additional VAT on water, electricity and telecommunication.	MoF	1/1/2008	31/12/2010
2f. Adopt monthly VAT filing for large corporations for improved cash management	MoF	1/1/2008	31/12/2010
2g. Increase the tax on interest income from 5 to 7%	MoF	1/1/2008	31/12/2008
2h. Introduce the Global Income Tax to replace the current scheduler income tax system	MoF	1/10/2009	31/12/2009
2i. Strengthen the Built Property Tax administration through building a comprehensive database on built properties	MoF	2/10/2006	31/12/2007

MINISTRY OF FINANCE PROGRAM 3

**UNDERTAKE BUDGET AND FINANCIAL
MANAGEMENT REFORM**

PROGRAM OBJECTIVES/DESCRIPTION

- > Develop a modern Budget System Law (BSL) which will be the anchor for all reform measures;
- > Enhance public expenditure management with more accountability and transparency
- > Enhance institutional capacity
- > Improve regulatory framework
- > Improve fiscal reporting

MILESTONES

- > Top-down approach to reform the budget preparation process adopted (ii) Budget laws issued with medium term expenditure frameworks (MTEF) attached
- > Budget ceilings set per ministry in accordance with sector priorities
- > Budget coverage extended and CDR & other extra budgetary spending consolidated within the budget
- > Performance budgeting introduced

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 3 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
3. Undertake budget and financial management reform		01/01/2007	31/12/2011
3a. Adopt a top-down approach to reform the budget preparation process	MoF	1/1/2007	31/12/2011
3b. Link the budget preparation to a medium-term expenditure framework (MTEF) prepared by MoF	MoF	1/1/2007	31/12/2011
3c. Prepare MTEF in coordination with spending agencies	MoF, Spending agencies	1/1/2007	31/12/2011
3d. Submit to Parliament a draft 2007 budget law consistent with the targeted primary balance of the central government and including detailed HRC operations and CDR foreign-financed expenditures (EPCA)	MoF	1/6/2007	30/6/2007
3e. Extend the budget coverage and consolidate CDR spending and other extra budgetary entities within the budget	MoF	1/6/2007	27/2/2009
3f. Prepare for introduction of performance budgeting	MoF, Concerned ministries	1/1/2008	31/12/2011
3g. Improve cash management through establishing cash management unit, upgrade the IT system to accommodate this reform, restructure the treasury functions and link debt to cash management	MoF	1/1/2008	31/12/2008
3h. Prepare the introduction of a Treasury Single Account (TSA) through working on the necessary legislations and decrees required for managing the TSA (awaiting enactment as the draft is already in Parliament)	MoF	1/1/2008	31/12/2008
3i. Prepare a "Budget System Law" to encompass all the reform measures	MoF	1/1/2008	31/12/2011
3j. Adopt a fiscal accountability law	MoF	1/1/2008	31/12/2008
3k. Build the capacity within the different directorates involved in the expenditure cycle: 1) improving the analytical capacity of the budget directorate to meet the requirements of the new budget preparation approach. 2) Improve the cash management skills of the treasury directorate	MoF	1/1/2008	31/12/2011

MINISTRY OF FINANCE PROGRAM 4

UNDERTAKE REVENUE MGT AND ADMINISTRATIVE REFORM TOWARD A FUNCTION-BASED STRUCTURE

PROGRAM OBJECTIVES/DESCRIPTION

- > Improve formulation and implementation of fiscal policy
- > Enhance equity and fairness in the distribution of the tax burden
- > Implement good governance
- > Undertake Structural measures aimed at modernizing the revenue administration towards function based structure with full strong headquarters, fully automated business processes, risk based compliance programs and skilled and professional staff

MILESTONES

- > Regional tax offices reorganized
- > Taxpayer services in satellite offices established
- > Tax Procedure Code introduced
- > Draft law for introducing the Global Income Tax finalized
- > E-registration introduced
- > New audit strategy developed
- > Comprehensive database on built properties developed and updated
- > Tax incentives for affected enterprises provided

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 1 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
4. Undertake revenue management and administrative reform toward a function-based structure		2/1/2006	31/12/2010
4a. Reorganize revenue administration along a function based structure with strong headquarters	MoF	1/1/2008	31/12/2008
4b. Reorganize regional tax offices along function based operations	MoF	2/1/2006	31/12/2007
4c. Establish taxpayer services in satellite offices	MoF	2/7/2007	31/12/2007
4d. Expand large taxpayers' office (LTO) coverage to include other taxes and fees	MoF	1/1/2008	31/12/2010
4e. Reinforce the large taxpayers' office (LTO) with new automated procedures.	MoF	1/1/2008	31/12/2010
4f. Establish a unit for medium taxpayers (MTO) and potentially develop a simplified scheme for the small taxpayers	MoF	1/1/2008	31/12/2010
4g. Finalize the development of the comprehensive database of employees, and extend the reformed operations to regional offices within DASS reform context of wages and salaries tax department	MoF	1/1/2008	31/12/2010
4h. Reinforce the newly established Tax roll department	MoF	1/1/2008	31/12/2010
4i. Introduce the "Tax Procedure Code" that unifies and harmonizes the various tax procedures	MoF	3/4/2006	31/12/2007
4j. Update "Stamp Fees" law to increase its fairness and facilitate its application	MoF	1/1/2008	31/12/2010
4k. Finalize the draft law for introducing a Global Income Tax (GIT) to replace the current schedular income tax system , and work in progress for the development of related regulations and procedures	MoF	2/10/2006	30/9/2008
4l. Introduce electronic registration of taxpayers	MoF	3/4/2006	31/12/2007

MINISTRY OF FINANCE PARIS III PROGRAM 4 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES		STAKEHOLDERS	TIMELINE	
			Start Date	End Date
4m. Launch electronic filing (e-filing) and electronic payment (e-payment through commercial banks)	MoF	1/1/2008	31/12/2010	
4n. Rely on mail services to simplify taxpayers filing obligations	MoF	1/1/2008	31/12/2008	
4o. Modernize and streamline operations and automate the various processes and procedures	MoF	1/1/2008	31/12/2008	
4p. Put in place a new audit strategy based on risk selection criteria, new audit techniques and procedures, and develop an audit manual	MoF	2/1/2007	31/12/2007	
4q. Integrate built property data systems between Land registry at Cadastre and Built Property Administration	MoF	2/10/2006	31/12/2007	
4r. Improve collections of receivables so as to reduce accumulation of revenue arrears	MoF	1/1/2008	31/12/2008	
4s. Implement Tax Procedure Code <ul style="list-style-type: none"> . Prepare executive regulations and procedures . Prepare and disseminate new audit manual . Create independent appeal/ review body with public and private sector participation for appeals of tax audits 	MoF	1/1/2008	31/12/2008	

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 4 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
4t. Simplify stamp tax compliance and limit application to major revenue sources Extend declaration period	MoF	1/1/2008	31/12/2008
4u. Determine alternative and more efficient sources of revenue to stamp tax	MoF	1/1/2008	31/12/2008
4v. Eliminate stamp tax	MoF	1/1/2009	31/12/2009
4w. Reduce tax penalties for small irregularities	MoF	1/1/2008	31/12/2008
4x. Simplify further the tax procedures and reduce the number of separate taxes and fees while preserving neutral fiscal impact	MoF	1/1/2008	31/12/2008
4y. Provide tax incentives for affected enterprises	MoF	3/7/2006	31/12/2007
4z. Harmonize tax treatment of SARL and SALS	MoF	1/1/2008	31/12/2008
4aa. Continue to strengthen, follow-up on complaint mechanism for VAT	MoF	1/1/2008	31/12/2008
4ab. Enhance Revenue Collection through improved communication with taxpayers and improved taxpayers' services	MoF	1/1/2008	31/12/2011

MINISTRY OF FINANCE PROGRAM 5

STRENGTHEN DEBT MANAGEMENT

PROGRAM OBJECTIVES/DESCRIPTION

- > Strengthen Debt Management with the aim to reduce the costs and risks of the government's debt portfolio

MILESTONES

- > Specialized Regular Debt Reporting that supplements Public Finance Monitor and provides timely detailed debt information
- > Creation of a "Higher Council for Debt Management"
- > Debt Management Strategy

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 5 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES		STAKEHOLDERS	TIMELINE	
			Start Date	End Date
5. Strengthen debt management			10/07/2003	31/12/2011
5a. Improve debt reporting and transparency and publish quarterly debt publications		MoF	1/1/2007	31/12/2011
5b. Formalize and enhance coordination between MoF and BDL by creating a "Higher Council for debt management"		MoF, BDL	1/1/2008	31/12/2008
5c. Enact the currently existing draft law in Parliament to modernize debt management		MoF, Parliament	1/1/2008	31/12/2008
5d. Develop a formal debt management strategy		MoF	1/1/2008	31/12/2008
5e. Develop secondary market liquidity in LL by introducing longer maturity instruments		MoF	10/7/2003	31/12/2011
5f. Start modifying T-bill auction frequency and procedures		MoF	1/1/2008	30/6/2009

MINISTRY OF FINANCE PROGRAM 6

REFORM CAPITAL MARKETS

PROGRAM OBJECTIVES/DESCRIPTION

- | > Develop Lebanon's capital markets

MILESTONES

- | > Passage of Capital Markets Law and other laws listed above by Parliament
- | > Setting up the Capital Markets Authority
- | > Drafting the Regulations for the Capital Markets Authority

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 6 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES	STAKEHOLDERS	TIMELINE	
		Start Date	End Date
6. Reform capital markets		1/1/2008	31/12/2008
6a. Enhance the functioning of BSE, launch a new website for the BSE and introduce E- trading	MoF, BSE	1/1/2008	31/12/2008
6b. Enhance trading of shares of unlisted companies on BSE's trading floor	MoF, BSE	1/1/2008	31/12/2008
6c. Setup the Capital Market Authority organizational structure	MoF	1/1/2008	31/12/2008
6d. Issue detailed regulations under the "Capital Markets" law by the Capital Market authority	MoF	1/1/2008	31/12/2008
6e. Setup the "Capital Markets Commission", including a specialized financial court	MoF	1/1/2008	31/12/2008
6f. Enact the following draft laws: The "Dematerialization of Securities" law, the "Securities Lending" law, the "Insider Trading" law and the "Capital Markets" law	MoF, Parliament	1/1/2008	31/12/2008
6g. Transfer regulatory responsibilities for the BSE from MoF to capital markets commission	MoF	1/1/2008	31/12/2008
6h. Transfer regulatory responsibility for listing securities on stock exchanges from the BSE to capital markets commission	MoF	1/1/2008	31/12/2008
6i. Address aspects of policy and Capital Market development such as privatization of the BSE	MoF	1/1/2008	31/12/2008
6j. Develop an Official Stock Market Index	MoF	1/1/2008	31/12/2008

MINISTRY OF FINANCE PROGRAM 7

IMPROVE THE BUSINESS ENVIRONMENT

PROGRAM OBJECTIVES/DESCRIPTION

- > Improve the business environment and reduce the cost of doing business in Lebanon
- > Improve the competitiveness and creating employment
- > Encourage the recovery of the private sector in the aftermath of the Israeli war

MILESTONES

- > Measures to facilitate access to Kafalat loans identified
- > Ceiling of guaranteed loan raised to LL 600 million
- > Previous loans for SMEs affected by the war rescheduled and additional grace period granted
- > Implementation of capital re-injection to replace damaged equipment
- > BADER investments initiated

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 7 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES		STAKEHOLDERS	TIMELINE	
			Start Date	End Date
7. Improve the business environment			1/4/2005	31/12/2011
7a. Remove mandatory stamping of books, and require international accounting standards	MoF, MoET		1/1/2008	31/12/2008
7b. Expand the role of Kafalat to encompass more economic sectors, and raise the ceiling of guaranteed loans to LL 600 million	MoF, Kafalat, BDL, MoET		1/4/2005	31/12/2007
7c. Promote the creation of venture capital funds to facilitate financing	MoF, MoET		2/10/2006	31/12/2011

MINISTRY OF FINANCE PROGRAM 8

FACILITATE TRADE

PROGRAM OBJECTIVES/DESCRIPTION

- > Facilitate imports
- > Automate operations at Beirut port
- > Lower import costs

MILESTONES

- > Revised import processes implemented
- > One stop shop created at the Port of Beirut

MINISTRY OF FINANCE PARIS III REFORM PLAN

MINISTRY OF FINANCE PARIS III PROGRAM 8 INITIATIVES

List of Programs and Initiatives

SECTOR PROGRAMS AND INITIATIVES		TIMELINE	
		Start Date	End Date
8. Facilitate trade		1/1/2008	31/12/2008
8a. Expedite the clearance of imports, by increasing automation at the port, and lowering the related cost. A one-stop-shop at the Port of Beirut will provide better services to trade and export	MoF (Customs), MoET	1/1/2008	31/12/2008

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