

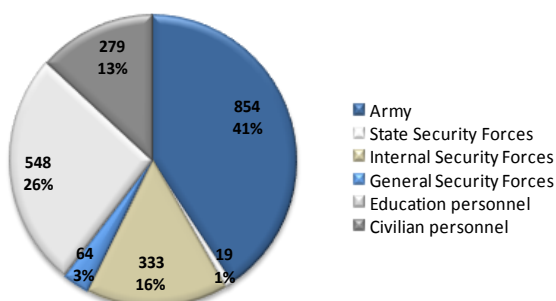
I. Introduction: Salaries, wages and related benefits in January-October 2011 compared to January-October 2010

Salaries and wages payments which mostly include the cost of basic salaries, indemnities and allowances, reached LL2,920 billion in January-October 2011, higher by LL 119 billion compared to January-October 2010. This rise is primarily the result of (a) difference in timing of payment between 2010 and 2011; (b) continuous recruitment policies and (c) the integration of contractual security forces as permanent elements.

II. Breakdown of Basic Salaries

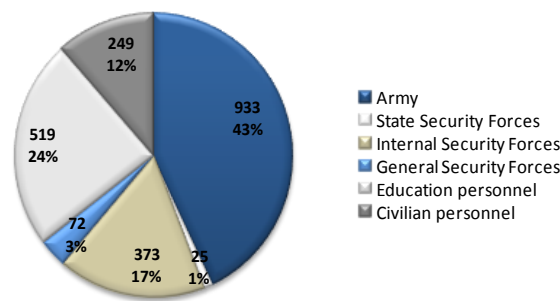
Basic Salaries increased by LL73 billion, from 2,097 billion in January-October 2010 to 2,170 billion in January-October 2011 mainly driven by higher payments to the military and security forces (+LL132 billion). This was slightly offset by a decrease in payments to the education personnel (-LL29 billion) and civilian personnel (-LL30 billion).

Fig. 1: 2010 Basic Salary Distribution
(LL Billion, %)



Source: DGF, MOF

Fig. 2: 2011 Basic Salary Distribution
(LL Billion, %)



Source: DGF, MOF

II. A. Basic Salaries of Military Personnel

The increase in basic salaries of the military personnel can be explained by the following factors:

- The fourth payment of the 1996-1998 retroactive to military and security personnel which is divided into 6 disbursements over the 2009-2011 period¹.
- The one-off payment of field service indemnities that accrued between May 2008 and February 2011 military and security personnel². It is worth mentioning that field service

¹ Following the adoption of Law 63 dated December 31st, 2008 which legislates the inclusion of the required budget allocations in the 2009-2011 Budgets to cover the 1996-1998 retroactive amount due. For more information, please refer to the 2009 Annual Report, pages 18-19.

² As per Annex 6 of Law 718 dated November 5th, 1998 which was amended by Decree 90 dated January 13th 1999. It should be noticed that the decision to make this payment was retroactively confirmed by Parliament through the issuance of Law 151 dated August 17th, 2011 whereby Annex 6 was formally integrated into Law 63/2008. This integration implied that the calculation of field service indemnities should take into account the LL200, 000 monthly salary increase granted through Law 63 starting May 1st, 2008.

indemnities are additional benefits to which military personnel in service are entitled exclusively in the public sector.

- The assignment of 10,637 elements enrolled on a contractual basis in Internal Security Forces (also known as “mujannadine” in Arabic) as permanent elements.³ It is worth noting that the conversion of the “ISF mujannadine” to permanent elements led to an increase in payments of “housing allowance”, which is a benefit only permanent members are entitled to. It also led to the payment of one additional salary in February 2011, which is the date of conversion⁴, since contractual elements cash out their remuneration at the end of the month contrary to permanent employees who cash out their pay one month in advance.
- The enlistment of 2,500 new volunteers⁵ in ISF.
- The enrollment of 1,250 new members between 2009 and 2011⁶ in the General Security Forces, out of which 750 elements were enlisted in 2009 whereas 250 members were recruited in 2010 and 2011, respectively.
- The enrollment of 500 new members in State Security Forces⁷, out of which 250 members were enlisted in November 2010 while the remaining 250 members were integrated in February 2011.

II.B. Basic Salaries of Education Personnel

Contrary to previous months, basic salaries paid to the education personnel in January-October 2011 witnessed a drop relative to the similar period of last year. This is mainly a cash management issue and a discrepancy in timing of payments made to contractual teachers in the Directorate General of technical and Vocational education. Payments to this category are expected to be normalized prior to year-end. Excluding this factor, basic salaries paid to this category would witness a rise that is primarily due to the following reasons that are expected to have a permanent yearly impact:

- An estimated LL25.7 billion increase in payments to primary and intermediate education.
- An estimated LL5.5 billion increase in payments to secondary education.
- An estimated LL27.8 billion increase in payments to teachers hired on a contractual basis.

This is explained by the recruitment and appointment of 2,835 primary teachers⁸ and 755 secondary teachers⁹ during 2010 and 2011. It is also the result of the reclassification in the 2011

³ As per Council of Ministers’ decision number 12 dated March 31st, 2010 legislating the assignment of 10,637 elements enrolled on a contractual basis (also known as “mujannadine”) as permanent elements. On a cash basis, this decision began to have a significant impact starting February 2011. It is worth noting that the precise number of contract-basis elements that have been converted to permanent members might have been subject to several amendments following the adoption of the COM decision.

⁴ This implies that the “ISF mujannadine” were paid between January and October 2011 their salaries for the months of January-November 2011, or eleven months of salaries, whereas, they were paid only ten months of salaries in the respective period of 2010.

⁵ As per Council of Ministers’ decision number 12 dated March 31st, 2010 legislating the enlistment of a total of 4,000 new volunteers, out of which 2,500 members have been engaged till October 2011.

⁶ As per Council of Ministers’ decision number 79 dated May 13th, 2009, legislating the enrollment of a total of 1,250 new members, out of which 250 members were graded as second inspector.

⁷ As per Council of Ministers’ decision number 4 dated June 3rd, 2010, legislating the enrollment of a total of 500 members in State Security Forces.

⁸ As per Decree 4057 dated May 20th, 2010, Decree 3634 dated March 20th, 2010 and Decree 3127 dated January 30th, 2010.

⁹ As per Decree 2542 dated July 31st, 2009 and Decree 4427 dated July 21st, 2010.

National Budget Proposal of payments made to contracted primary teachers from transfers (Article 14) to salaries and wages (Article 13), which started to reveal its impact in April 2011.

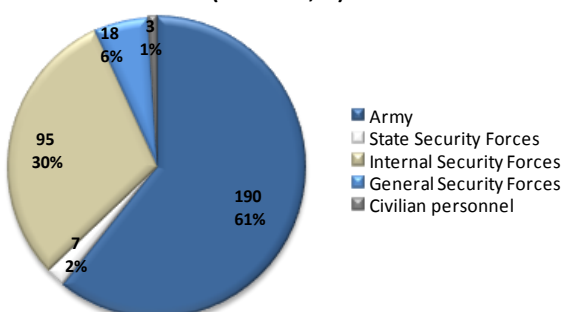
II.C. Basic Salaries of Civilian Personnel

As for the general decrease in payments to civilian personnel, it is primarily due to payment timing factors, particularly the disbursements related to the retroactive payments made to this category. It is noteworthy that disbursements to the overseas corps and judges categories witnessed the highest decline in this group, while payments made to the Ministry of Agriculture witnessed a rise over this period.

III. Allowance paid to the Military Personnel

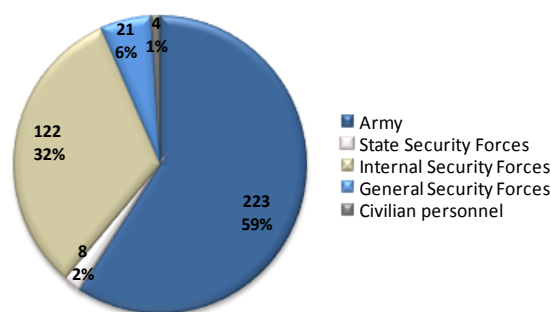
Allowances increased by LL 64 billion, from LL312 billion in January-October 2010 to LL376 billion in January-October 2011 mainly as a result of higher payments to the Army (+LL33 billion) and the Internal Security Forces (+LL27 billion).

Fig.3: 2010 Allowances Distribution
(LL billion, %)



Source: DGF, MOF

Fig. 4: 2011 Allowances Distribution
(LL billion, %)



Source: DGF, MOF

This enlargement was mainly due to higher payments of maternity and sickness allowances (an estimated LL6 billion) and health allowances (an estimated LL30 billion). Health allowances paid to the Army and Internal Security Forces personnel have been rising as a result of the Council of Ministers' decision to assign the members enrolled on a contractual basis (also known as "mujannadine" in Arabic) as permanent elements in Internal Security Forces and the decision to unify the hospitalization tariffs reimbursed by all insuring schemes sponsored. It is noteworthy that both decisions started to have a significant impact starting February 2011¹⁰.

IV. Payments to the Civil Servants' Cooperative

The item "other"¹¹, which is mainly composed of payments to the employee's cooperative is back to its old downward trend that was witnessed previously this year. This is due to

¹⁰ The increase in army allowances as a result of the tariff harmonization policy decided by the Council of Ministers first appeared in the 2009 Budget Proposal (an extra LL42 billion), then in the 2010 Budget Proposal (an extra LL4 billion) and in the 2011 Budget Proposal (an extra LL27 billion). On a cash basis, this is translated by a rise of LL 3 billion per month in 2010 compared to 2009 and an increase of LL 2.4 billion per month in 2011 as compared to 2010.

¹¹ The category entitled "Other" mainly includes State contributions to the Civil Servants Cooperatives. The remaining components of this category include (i) payments for bonuses, (ii) State contributions to the Mutual Funds covering Member of Parliaments,

payment timing factors as only a LL140 billion transfer was made to Civil Servants Cooperative in January-October 2011 compared to LL174 billion in January-October 2010.

Table 1. Breakdown of Article 13: Salaries, Wages and Related Items

(LL billion)	Basic Salaries		Indemnities 6/		Allowances 7/		Other 8/		Total	
	2010 Jan- Oct	2011 Jan- Oct	2010 Jan- Oct	2011 Jan- Oct	2010 Jan- Oct	2011 Jan- Oct	2010 Jan- Oct	2011 Jan- Oct	2010 Jan- Oct	2011 Jan- Oct
Military Personnel	1,270	1,402	60	61	309	373	2	2	1,641	1,838
• Army	854	933	39	39	190	223	1	0	1,083	1,195
• Internal Security Forces 1/	333	373	16	18	95	122	0	0	444	512
• General Security Forces /2	64	72	2	3	18	21	1	1	86	96
• State Security Forces 3/	19	25	2	2	7	8	0	0	28	34
Education Personnel	548	519	49	56	0	0	0	0	597	576
Civilian Personnel 4/, of which:	279	249	52	53	3	4	198	168	532	474
• Employees Cooperative							174	140	174	140
Customs Salaries 5/									31	32
Total	2,097	2,170	161	171	312	376	200	170	2,801	2,920

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

1/ Includes allowance and 1996-1998 retroactive payments made to Internal Security Forces from Guarantees account,

2/Includes 1996-1998 retroactive payments made to General Security Forces from Guarantees account,

3/ Includes allowance and 1996-1998 retroactive payments made to State Security Forces from Guarantees account,

4/Includes salaries payments made to Ministry of Public Health from Guarantees account.

5/Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashiers and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance. Battlefield indemnity in March 2011 paid to Customs officers were included as well.

6/Includes payments for family, transportation, overtime as well as various indemnities.

7/Includes payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances.

8/ Other includes payments for bonuses, contributions to various public sector mutual funds and contribution of the State as an employer for the National Social Security Fund.

employees of the Lebanese Parliament, judges, judges' aides and Islamic tribunal judges and (iii) State contributions (as an employer) to the National Social Security Fund public sector employees that are not covered by the Civil Servant Cooperative and the Mutual Funds.