I. Introduction

Salaries, wages and related benefits payments, which mainly include the cost of basic salaries, indemnities and allowances, increased by LL 172 billion, from LL 2,407 billion in Jan-Aug 2011 to LL 2,579\(^1\) billion in Jan-Aug 2012.

Out of that component, basic salaries reached LL 1,819 billion in Jan-Aug 2012, a LL 31 billion or 2 percent increase compared to LL 1,787 billion paid in the same period in 2011. This increase can be mainly attributed to a 22 percent and a 16 percent increase in basic salaries of education personnel and civil personnel respectively, which offset the 8 percent decrease in basic salaries of military personnel.

If retroactive payments are excluded in both years, basic salaries would reach LL 1,582 billion in Jan-Aug 2011 compared to LL 1,721 billion in Jan-Aug 2012, an increase of 9 percent partly due to additional recruitment of internal security agents. In fact, during the first eight months of 2012, various retroactive payments were LL 98 billion (out of LL 1,819 billion), much lower than the LL 205 billion (out of LL 1,787 billion) paid in the same period of 2011.

Table 1. Impact of Retroactive Payments on Basic Salaries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salaries (inc. all retroactive payments)</td>
<td>1,787</td>
<td>1,819</td>
<td>2%</td>
</tr>
<tr>
<td>Basic Salaries (exc. all retroactive payments)</td>
<td>1,582</td>
<td>1,721</td>
<td>9%</td>
</tr>
</tbody>
</table>

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

II. Breakdown of Salaries, Wages, and Related Benefits

Salaries, wages and related benefits represent the largest component of total primary spending, accounting for 30 percent for Jan-Aug 2012, down from 34 percent for the corresponding period of 2011.

Table 2. Breakdown of Article 13: Salaries, Wages and Related Benefits

<table>
<thead>
<tr>
<th>(LL billion)</th>
<th>Basic Salaries</th>
<th>Indemnities 6/</th>
<th>Allowances 7/</th>
<th>Other 8/</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Personnel</td>
<td>1,155</td>
<td>1,060</td>
<td>48</td>
<td>50</td>
<td>330</td>
</tr>
<tr>
<td>- Army</td>
<td>769</td>
<td>669</td>
<td>32</td>
<td>32</td>
<td>207</td>
</tr>
<tr>
<td>- Internal Security Forces 1/</td>
<td>306</td>
<td>289</td>
<td>14</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>- General Security Forces 2/</td>
<td>59</td>
<td>55</td>
<td>2</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>- State Security Forces 3/</td>
<td>21</td>
<td>48</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Education Personnel</td>
<td>427</td>
<td>521</td>
<td>38</td>
<td>36</td>
<td>0</td>
</tr>
<tr>
<td>Civil Personnel 4/, of which:</td>
<td>205</td>
<td>237</td>
<td>44</td>
<td>44</td>
<td>4</td>
</tr>
<tr>
<td>- Employees Cooperative</td>
<td>105</td>
<td>136</td>
<td>26</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Customs Salaries 5/</td>
<td>1,787</td>
<td>1,819</td>
<td>130</td>
<td>130</td>
<td>333</td>
</tr>
</tbody>
</table>

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

\(^1\)Figures slightly differ from those published in the Public Finance Monthly Monitor report – August 2012 due to the effect of rounding.
III. Breakdown of Basic Salaries

III.A. Basic Salaries of Military Personnel

The 8 percent decrease in basic salaries of military personnel is primarily attributed to the one-off field service indemnity payment – which was made in February 2011 and amounted to LL 52 billion and the 1996-1998 retroactive payments which was made in Jan-Aug 2011 for a total amount of LL 117 billion. The same payments reached nil and LL 33 billion respectively in Jan-Aug 2012. Once the impact of these payments is removed, payments to military personnel display a LL 40 billion increase that is mainly driven by the enlistment of additional recruits (estimated at 1,570) within the Internal Security Forces in 2011 that started to impact significantly salaries and wages starting August 2011.

III.B. Basic Salaries of Education Personnel

The 22 percent increase in basic salaries paid to the education personnel in Jan-Aug 2012 is mainly explained by the following:

- The one-off retroactive payment amounting to LL 21 billion paid in January 2012 of the four exceptional echelons granted to secondary teachers and to the second and third category of the education personnel in the Directorate General of Vocational and Technical Education.

- A LL 51 billion increase in payments made to contractual personnel at the Directorate General of Vocational and Technical education during the period Jan-Aug 2012,
compared to nil during the same period of 2011. This increase is mainly attributed to a discrepancy in the timing of payments.

- A LL 16 billion increase in payments to primary, intermediate and secondary contractual increased mainly relating to a 37 percent increase in the number of secondary contractual teachers between the academic year 2010-2011 and 2011-2012.

**III.C. Basic Salaries of Civilian Personnel**

The 16 percent rise in payments to the civilian personnel is partly due to the LL 16 billion payments of 2005-2009 foreign currency retroactive\(^7\) in 2012, compared to nil in 2011.

From an administrative classification\(^8\) perspective, the most notable increases during this period occurred in the following categories: (1) diplomats in Lebanese overseas missions, (2) diplomats in the Central Administration at the Ministry of Foreign Affairs, and (3) judges\(^9\) category, which rose by LL 13 billion, LL 7 billion and LL 17 billion, respectively.

- The increase in payments to diplomats in Lebanese overseas missions is due to significant discrepancies in timing of payments of monthly salaries following the payment in Jan-Aug 2012 of LL 5 billion that were due in the second half of 2010 and the LL 9 billion foreign currency retroactive payments which were partially offset by a decrease in the 1996-1998 retroactive payments by LL 4 billion.

- The increase in payments to Lebanese Diplomats who are in residence at the Central Administration of the Ministry of Foreign Affairs in Beirut is due to the LL 7 billion payment in April 2012 of the foreign currency retroactive\(^10\).

- The rise of payment to all judges from LL 32 billion to LL 49 billion between Jan-Aug 2011 and Jan-Aug 2012 is mainly the result of the new salary and wage scale law\(^11\) providing both civil and religious judges with higher salaries.

It is worth noting that some of the 2012 basic salary payments to the civilian personnel were made through treasury advances\(^12\).

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\(^7\) For more information about the foreign exchange retroactive, please refer to Box II in the February 2012 issue of the Article 13 report.

\(^8\) An administrative classification arranges public expenditures by recipient ministries and general directorates.

\(^9\) Including religious judges, civilian judges training at the Judiciary Institute, civilian judges at the Court of Audit and civilian judges at the Shura Council.

\(^10\) As per the treasury advance provided in Decree 6873 dated 18 November 2011.

\(^11\) Following the adoption of Law 173 dated August 29th, 2011. For more information about the increase in the judges’ wages, kindly refer to box ii in the December 2011 issue of the S & W report.

IV. Payments of Allowances

Allowances increased by LL 101 billion, from LL 333 billion in Jan-Aug 2011 to LL 434 billion in the comparable period of 2012, mainly as a result of higher payments to the Army (+LL 71 billion), the Internal Security Forces (+LL 22 billion) and the State Security Forces (+LL 7 billion). Behind the increase stands higher payments to education allowances (+LL 58 billion), hospitalization allowances (+LL 38 billion) and maternity and sickness allowances (+LL 3 billion).

V. Payments to the Civil Servants’ Cooperative

The item “other”\(^\text{13}\), which is mainly composed of payments to the Civil Servants’ Cooperative, witnessed a significant increase of LL 32 billion in Jan-Aug 2012. This is due to a cash management issue and discrepancy in timing of payment, as LL 61 billion\(^\text{14}\) out of the LL 136 billion transfer made to Civil Servants Cooperative in Jan-Aug 2012 were from the 2011 Budget Proposal allocation; this compares with a total transfer of LL 105 billion in Jan-Aug 2011.

\(^{13}\)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, 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.

\(^{14}\)These payments were mainly made through treasury advance from Decree 7005 dated November 30th, 2011, legislating the payment of a total of LL 61 billion to the Civil Servants’ Cooperative to cover their incurred expenses until the end of 2011.