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مركز مشاريع ورؤايات القطاع العام
Republic of Lebanon

Report No. P-6374-LEB

Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US\$19.94 MILLION

TO THE LEBANESE REPUBLIC

FOR A

REVENUE ENHANCEMENT AND FISCAL MANAGEMENT

TECHNICAL ASSISTANCE PROJECT

JUNE 10, 1994

MICROGRAPHIC

Report No: P- 6374 LB
Type: MOP

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Currency Equivalents
(As of May 1994)

Currency Unit = Lebanese Pound (LL)
US\$1 = LL 1,690
LL 1 million = US\$591.7

ABBREVIATIONS AND ACRONYMS

ASYCUDA	=	Automated System of Customs Data Entry
CDR	=	Council for Development and Reconstruction
DG	=	Director General
DOLR	=	Directorate of Land Registration
GDC	=	General Directorate of Customs
GDP	=	Gross Domestic Product
GIS	=	Geographic Information System
GOL	=	Government of Lebanon
GST	=	General Sales Tax
IBRD	=	International Bank for Reconstruction and Development
ICB	=	International Competitive Bidding
IC	=	Implementation Coordinator
IMF	=	International Monetary Fund
MOF	=	Ministry of Finance
NERP	=	National Emergency Reconstruction Program
PEM	=	Public Expenditure Management
PIT	=	Project Implementation Team
SOE	=	Statement of Expense
TA	=	Technical Assistance
TB	=	Treasury Bill
ULT	=	Unit for Large Taxpayers
UNCTAD	=	United Nations Conference on Trade and Development
UNDP	=	United Nations Development Program
W/m	=	Work-months

FISCAL YEAR

January 1 - December 31

**THE LEBANESE REPUBLIC
REVENUE ENHANCEMENT AND FISCAL MANAGEMENT
TECHNICAL ASSISTANCE PROJECT**

Loan Summary

Borrower : The Lebanese Republic

Beneficiary : Ministry of Finance (MOF)

Loan : US\$19.94 million equivalent

Terms : Repayment in 17 years, including 5 years of grace, at the Bank's standard variable interest rate

Financing Plan	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	——(US\$ millions)——		
Bank	0.36	19.58	19.94
Government	1.97	0.00	1.97
UNDP	0.00	1.03	1.03
IMF	<u>0.00</u>	<u>0.66</u>	<u>0.66</u>
Total	<u>2.33</u>	<u>21.27</u>	<u>23.60</u>

Economic Rate of Return : Not applicable

Poverty Category : Not applicable

Staff Appraisal Report : Not applicable

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**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE LEBANESE REPUBLIC
FOR A REVENUE ENHANCEMENT AND FISCAL MANAGEMENT
TECHNICAL ASSISTANCE PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed Bank loan to the Lebanese Republic for US\$19.94 million equivalent to help finance technical assistance to improve and strengthen the capacity for revenue enhancement and fiscal management in Lebanon. The proposed loan would be at the Bank's standard variable interest rate with a maturity of 17 years, including five years of grace.

2. **Background.** Fifteen years of conflict in Lebanon (1975-90) have left the economy devastated, with real per capita income reduced by nearly two thirds due to the widespread destruction of infrastructure and productive assets and the dislocation of the population. The total war damage to the economy is estimated by the United Nations at approximately US\$25 billion. Nearly a quarter of the population of 3.6 million has been displaced. Apart from the tragic loss of life and the disabling of thousands of people, about 200,000 professional and skilled Lebanese have left the country. This has caused major shortages of skilled workers in various sectors of the economy. Public institutions are operating with inadequate numbers of skilled staff, and it is difficult to attract qualified new staff due to the current low salary scales. There is an acute shortage of middle-level management, and overstaffing at lower levels; the Civil Service Board has successfully made reductions in "ghost" workers, but there are still a large number of temporary and daily employees. The working of the Government has also been seriously affected by the lack of office space (as most public buildings have been damaged by war), office equipment, and supplies, in addition to the lack of civil service training to update skills. The Ministry of Finance (MOF) occupies a central position in overcoming these difficulties. Although it has suffered from the same handicaps (lack of personnel and equipment) as other ministries, it has the critical responsibility of stabilizing the economy and mobilizing resources for reconstruction and recovery.

3. **Fiscal Imbalance and Macroeconomic Trends.** Government attempts to achieve economic stabilization since the end of the war in 1990 yielded mixed results through 1992, but have resulted in considerable success since then. Central to the macroeconomic imbalance has been a large budget deficit. Central Bank financing of the deficit led to increased rates of inflation and capital outflow in 1992. In late 1992, the new Government renewed the efforts for stabilization and began implementing important fiscal measures. As part of this effort, the Government switched back to treasury bill (TB) financing of the fiscal deficit. It took actions to increase revenues from customs duties, income taxes, and the real estate tax; eliminate wheat subsidies; increase fees and utility charges; and control expenditure growth. As a result, the inflation rate has been controlled, and official exchange reserves have risen significantly. However, the overall fiscal deficit for 1993 is estimated to have been still relatively large at about 10.7 percent of Gross Domestic Product (GDP), requiring domestic financing at about 7.5 percent of GDP.¹ The latter has added to the heavy domestic interest payment burden and could aggravate the structural problems of the deficit.

^{1/} Reliable data on Lebanon's GDP are not yet available. The data and ratios given here and elsewhere in the report are based on rough estimates of GDP and are not strictly comparable to data on other countries.

4. **Institutional Constraints.** An important issue in improving fiscal management is the inadequacies of staffing, procedures and systems, equipment, statistical data, and policy analysis. These inadequacies exist across the board in the MOF and would take time to fully remedy. Some of the specific weaknesses in various fiscal areas are as follows: The *customs administration* has a complex tariff structure and cumbersome entry forms and clearance procedures; inadequate equipment, skills, and statistics; and significant revenue leakage. The customs receipts are also low due to the application of lower than the market exchange rate to determine the value of imports. Although the Government has already initiated customs reforms (including quadrupling of the customs exchange rate to about half of the market rate), which are having a positive impact on customs administration, significant technical assistance would be needed to continue implementing these reforms and formulate future policy. The *cadastre and land registration system* was disrupted by the war; many maps and land records were destroyed, and the directorate concerned lost most of its qualified staff. As a result, both property registration and property taxation have suffered. The system of *domestic taxation* is also in poor condition. The tax structure is too complex, staffing of the department and enforcement of the rules are inadequate, and the records of the department are almost non-existent as they were largely destroyed during the war. *Public expenditure management* (PEM) suffers from inadequate staffing; weak central control; lack of medium-term programming; incomplete budget coverage; and weak reporting, accounting, and cash management.

5. **Fiscal Objectives.** The restoration of fiscal balance, announced by the Government as a key objective, would require strong measures that raise government revenues above the 1993 level of about 14 percent of GDP, as well as control the growth of current expenditures, which stood at about 21 percent of GDP in 1993, particularly in view of the increased capital expenditures required by the reconstruction program. Beyond the immediate need to reduce the fiscal deficit, several structural public finance issues require government attention. The revenue system needs to be reviewed and reformed to make it efficient and equitable. Important future areas of attention comprise: (a) continued reforms in trade duties and taxes; (b) effective taxation of consumption, either through a sales tax or a value-added tax; (c) effective and equitable income taxation; and (d) the taxation of existing properties based on their market value. Price and cost recovery issues also need to be addressed, and government spending needs to be thoroughly analyzed and reviewed. The first priority in this context would be to obtain a comprehensive picture of all government financial operations at the central and provincial levels. Currently, only part of these operations are effectively controlled by the central government. Over the longer term, the functioning and systems of practically all MOF directorates would require improvement. In the shorter term, to enhance revenues and rationalize public expenditure management, the Government needs significant and immediate technical assistance.

6. **Project Objectives.** The Project seeks to support government efforts to enhance revenues and strengthen fiscal management. The Project's main focus is on filling the immediate gaps in key personnel, skills, equipment, and physical resources; assisting in improving systems, procedures, and data bases; and providing advice on future policy reforms.

7. **Project Description.** The Project would provide technical assistance (details are given in the Technical Annex) in the form of consultant services, training, and equipment, including computer equipment for the adoption of modern information technology. The Project would have three main components, focusing on the rehabilitation and modernization of: (a) the customs administration (US\$3.82 million); (b) cadastre and land registration (US\$17.09 million); and (c) domestic tax administration and PEM (US\$1.67 million). In addition, the Project would include US\$1.02 million for a Project Implementation Team. The cost figures given here include price and physical contingencies. The activities in the domestic tax administration and PEM component are currently being supported by a parallel activity

with some initial grant financing from the United Nations Development Programme (UNDP). The Project would finance the costs of consultants (mostly short-term) and some equipment for these activities to supplement the UNDP financing.

8. Technical assistance in the area of *customs administration* would focus on the reform of customs procedures and the installation and commissioning of the Automated System of Customs Data Entry (ASYCUDA) based on a United Nations Conference on Trade and Development (UNCTAD)/UNDP proposal. The component of *cadastre and land registration* would support the reconstruction and computerization of maps that were destroyed or damaged during the conflict, the correction of errors and discrepancies among maps, a cadastral survey of about 1500 km² of land, the preparation and computerization of maps for unmapped areas as well as new areas to be surveyed, and the introduction of a Geographic Information System (GIS) so as to keep track of land management records. This component is considered urgent for promoting private investment activity and institutional credit and for improving the collection of property taxes. To improve *domestic tax administration*, the focus of the technical assistance would be on establishing a specialized unit for large taxpayers, emphasizing consumption taxes, simplifying procedures for tax assessment and collection, preparing proposals for broadening and diversifying the tax base, and introducing tax payer identification and computer systems. To strengthen *budgeting and expenditure control*, the aim of the technical assistance would be to improve the budgeting process, review and reform the budget nomenclature and classification, systematize the formulation of public expenditure plans, and strengthen the control and oversight of such expenditures. To improve *treasury management*, procedural reforms would be designed to increase liquidity in government finances, enhance control over disbursements, and improve accounting and cash management.

9. **Project Cost and Financing.** The total project cost is estimated at about US\$23.60 million, including US\$2.72 million to cover price and physical contingencies; foreign costs amount to about US\$21.27 million, and local costs to about US\$2.33 million. The estimates of costs are based on May 1994 prices. The project cost and financing plan are given in Schedule A. Amounts and methods of procurement and disbursement are given in Schedule B. The timetable of key processing events and the status of Bank group operations in Lebanon are presented in Schedules C and D, respectively.

10. The Bank would finance foreign exchange costs of US\$19.58 million and local costs of US\$0.36 million (for local consultants and training). The Government would provide US\$1.97 million equivalent from the budget to finance the balance of local costs. UNDP would provide a grant of US\$1.03 million, and the IMF, an equivalent of US\$0.66 million. It has been agreed that the Bank loan amount could be reduced (through cancellation) in case concessional financing becomes available from other donors for financing part of the Project.

11. **Project Implementation.** Arrangements have been made to ensure effective project implementation. A Project Implementation Team (PIT), consisting of a Project Director, a Project Manager, three Implementation Coordinators (ICs), an Accounts Officer, and support staff, would be established under a UNDP grant. The work of the PIT would be supervised by a Steering Committee, chaired by the Minister of Finance, and comprising the President of the Higher Council of Customs, the Director General of Finance, the Director General of Customs, the Head of the Directorate of Land Registration (DOLR), and the Project Director (Secretary). The Project Director, who is already in place and has been actively involved in designing the Project, would be responsible for overseeing the progress of implementation of the overall economic management program of the MOF, of which the Project is an important part. He would also act as economic advisor to the Minister. The Project Manager would be responsible for the day-to-day management of the Project. The ICs would assist the concerned Directorates

in the implementation of respective components. The Accounts Officer would be responsible for maintaining project accounts, controlling costs, and preparing financial statements. The PIT would itself carry out procurement of goods and services, with assistance from the Council for Development and Reconstruction (CDR) and from UNDP and UNCTAD specialists. The PIT would prepare quarterly progress reports which would be reviewed by the Steering Committee and sent to the Bank. The Project Director would conduct periodic project implementation reviews, using performance indicators agreed upon with the Bank.

12. The Project incorporates various features designed to ensure that it would be implemented on schedule. Care has been taken to identify the units in the MOF that would be responsible for the various tasks, to specify component activities, and to provide a timetable for completing the activities. The detailed implementation schedule, including the recruitment of the PIT staff and of consultants and the procurement of goods and services, has been specified and agreed. The Government's strong commitment to the Project, the establishment of the Steering Committee and the PIT, and the use of the IMF and UNCTAD as implementing agencies for some of the activities (para. 16) should help ensure effective and timely project implementation.

13. **Project Sustainability.** Project sustainability would be facilitated by the substantial provision of training for Lebanese staff under the Project. In particular, the international consultants hired would have a special responsibility to train the counterpart staff, beyond the transfer of knowledge expected in the ordinary course as a result of their working together. The institutions strengthened, the equipment procured, the management information and other systems established, and the improved procedures introduced would benefit MOF functions beyond the life of the Project. Incremental recurrent costs, covering recruitment of technical staff and upgrading of physical facilities for new technology, would amount to a minimal and sustainable US\$1.00 million annually. Costs of only priority and specialized staff needed to implement and sustain the project have been included here; recruitment against existing positions is not reflected in these costs. On the basis of recent experience, recruitment for some departments is expected to be feasible despite the current low salary levels. The Government is also discussing proposals to increase civil service salaries to make government jobs more attractive. In the meantime, as necessary, the Government is prepared to hire the needed technical staff on contract.

14. **Project Supervision.** In view of the current staffing inadequacies of the MOF, the Project would require close supervision, especially in the beginning. A Project Launch Workshop would be organized in late September/early October 1994. Subsequently, there would be a minimum of two supervision missions per year. Expected Bank resource needs are spelled out in the attached Supervision Plan (Technical Annex, Attachment 5). In addition, eight staffweeks per year would be allocated for work at Headquarters. Progress in implementation would be assessed in terms of the Project Implementation Schedule (Technical Annex, Attachment 2). Monitorable indicators (Technical Annex, Attachment 6) for reviewing project progress in general and, in particular, for the mid-term review at the end of two years of project implementation, have been discussed and agreed upon with the Borrower. Furthermore, the IMF and UNCTAD, which are implementing agencies for some activities (para. 16), would provide detailed supervision for the work to be carried out in their respective areas.

15. **Lessons Learned.** The main lessons of Bank experience in technical assistance have been taken into consideration in designing the Project. The following potential problem areas have been addressed: (a) *Project complexity with too many components and target institutions and donors with different procedures.* The Project has been limited in scope to high priority components, and activities within each component have been clearly identified. The Project activities have been well prepared and are

based, in part, on earlier IMF and UNCTAD work. The technical assistance being provided itself contains elements, including turnkey activities, intended to facilitate project implementation. (b) *Lack of borrower commitment and project ownership.* The Government is strongly committed to the Project and has been closely involved in its preparation. (c) *Lack of institutional capacity, inadequate staffing of project implementation teams, and ineffective monitoring.* The Government has agreed to establish the PIT mentioned above (para. 11) and to designate counterparts for the consultants financed under the Project. A Project Director has already been designated and is in place. (d) *Lack of a well-designed training program.* A training plan (Technical Annex, Attachment 4) has been prepared and agreed upon. More detailed training programs would be developed for participating Directorates with the assistance of consultants in the initial stage of project implementation. The programs would then be updated annually. (e) *In order to improve the quality of TA, fully developed and realistic terms of reference and monitorable indicators should be prepared and agreed upon.* Key terms of reference and indicators have been prepared and agreed upon (Technical Annex, Attachments 3 and 6, respectively).

16. **Role of Other Multilateral Agencies.** The MOF would use the IMF, which has been involved in preparatory studies for fiscal management improvement and has helped in project preparation, as a technical assistance agency to implement the domestic taxation and public expenditures management component and part of the customs component. It would implement the rest of the customs component through UNCTAD. These services would be provided through a cost-sharing arrangement with UNDP, by expanding an ongoing UNDP project. This expanded project would include provision for the PIT (UNDP financed and implemented for the first three years; fourth and fifth years would be covered by Bank financing), the IMF inputs (Bank and UNDP financed and implemented by the IMF), and the UNCTAD inputs (Bank and UNDP financed and UNCTAD implemented). The MOF would directly implement the cadastre and land registration component through turnkey contracts. The multilateral agencies would charge standard fees for their services. As usual, IMF procedures would apply to the procurement of services for the activities to be implemented through the IMF. The involvement of the specialized multilateral agencies would strengthen project implementation and ensure provision of quality inputs and outputs.

17. **Rationale for Bank Involvement.** The Bank's involvement in the proposed Project is necessary and appropriate for several reasons. The Project would support the current country assistance strategy which emphasizes economic stabilization and rehabilitation and modernization of key institutions. The Bank has a long experience in providing such technical assistance, and the Government is eager to receive Bank support for this purpose. The Bank has made a loan of US\$175 million for an Emergency Reconstruction and Rehabilitation Project (Loan 3562-LEB approved on March 4, 1993). In addition, the Bank took the lead in mobilizing donor support through the 1991 Aid Coordination Meeting and proposes to organize a Consultative Group meeting in October 1994. The international donor community has shown willingness to assist in the reconstruction of the Lebanese economy, and the active support of the Bank and the IMF is seen as an important signal for such assistance. Finally, the Bank is in an advantageous position to synchronize technical assistance with the formulation of medium- to longer-term strategies for macroeconomic management.

18. **Actions Agreed.** Agreements have been reached on: (a) the implementation plan and monitorable indicators; and (b) the key terms of reference. Assurances have also been received from the Government on: (a) the maintenance of the PIT, with terms of reference and staffing acceptable to the Bank; (b) a mid-term review; (c) auditing of the Special Account and project accounts; (d) submission of annual work plans and quarterly progress reports by the participating Directorates of the MOF; and (e)

implementation of an action plan (covering, among other things, employment of consultants, appointment of their local counterparts, and staff training). Employment of PIT staff would be a condition of effectiveness.

1. **Environmental Aspects.** The Project includes only technical assistance and is classified as Category "C" under environmental screening, in accordance with the Bank's OD 4.01. However, the Project is expected to assist in environmental protection. Cadastre and land registration would provide important data for land use and environmental management, establish land rights, and prevent encroachment on protected areas.

2. **Project Benefits.** The main benefit of the Project would be an improvement in the MOF's capacity for fiscal management and economic stabilization. The "re-tooling" of the MOF and its Directorates would increase their efficiency in mobilizing revenues, managing the budget and the treasury, and controlling public expenditures. More specifically, the customs component would increase the efficiency of the customs administration, thus encouraging trade activity (including exports), increasing customs revenues, reducing business costs, and facilitating formulation of trade policy. The cadastre and land registration component would help reconstruct and preserve property records, increase receipts from registration fees and property taxes, and encourage real estate investment and related financial and economic activities. The subcomponent of domestic taxation would help tap a relatively large potential for increasing tax revenue, and the subcomponent of PEM would improve budgeting, expenditure control, and cash management. Together, these activities should have a substantial impact in terms of improved fiscal and economic performance. Further, economic stabilization would help attract private sector (domestic and foreign) investment, which is critical for the recovery of the Lebanese economy over the medium-term.

21. **Risks.** The major risk associated with the Project arises from the difficulties faced in creating a viable macroeconomic framework in the aftermath of conflict and protracted uncertainty in the region. External or domestic events could upset the country's current political stability, thereby adversely affecting the Government's stabilization efforts and implementation of the Project. It is, however, reassuring that the Government's macroeconomic policies are moving the country in the right direction and beginning to produce positive results. At the project level, there are risks of delays in project execution and shortfalls in the transfer of technical know-how, as a result of the Government's weak implementation capacity, the shortage of technicians and middle-level management, and possible lags in the recruitment of necessary staff and procurement of goods. The Project, therefore, incorporates several features designed to minimize these risks. A detailed implementation schedule (Technical Annex, Attachment 2) and monitorable indicators of progress (Technical Annex, Attachment 6) have been drawn up and agreed upon with the Government. Specialized multilateral agencies would implement the activities relating to customs administration, domestic taxation, and PEM (para. 16); the activities relating to cadastre and land registration would mainly involve turnkey arrangements for administrative simplicity. During periodic reviews, the Government and the Bank would identify any problems in implementation and agree on appropriate remedial actions, including a reallocation of resources among subcomponents, where necessary. The Government is committed to providing adequate staff in the participating Directorates to ensure effective implementation of the Project.

22. **Recommendation.** I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Lewis T. Preston
President

Attachments

Washington DC
June 10, 1994

Revenue Enhancement and Fiscal Management
Technical Assistance Project

A. Estimated Cost and Financing Plan
(US\$ million)

Estimated Cost ^a	Local	Foreign	Total
1. Technical Assistance and Advisory Services	0.27	14.22	14.48
2. Training and Workshops	0.05	0.93	0.98
3. Equipment Supplies and Materials	0.74	2.78	3.52
4. Incremental Operating Costs ^b	1.00	0.00	1.00
5. Project Implementation ^c	0.00	0.90	0.90
TOTAL BASE COST	<u>2.06</u>	<u>18.82</u>	<u>20.88</u>
Price Contingency (3%)	0.06	0.57	0.63
Physical Contingency (10%)	<u>0.21</u>	<u>1.88</u>	<u>2.09</u>
TOTAL PROJECT COST	<u>2.33</u>	<u>21.27</u>	<u>23.60</u>
Financing Plan			
IBRD	0.36	19.58	19.94
Government	1.97	0.00	1.97
UNDP	0.00	1.03	1.03
IMF	<u>0.00</u>	<u>0.66</u>	<u>0.66</u>
TOTAL FINANCING	<u>2.33</u>	<u>21.27</u>	<u>23.60</u>

Note: Totals may not add up due to rounding.

^{/a} Exclusive of taxes and duties.

^{/b} Includes staff cost and facility operations.

^{/c} Cost of Project Implementation Team (PIT) would be financed by UNDP for the first three years; fourth and fifth years would be financed by IBRD.

B. Estimated Cost By Component
(US\$ million)

Estimated Cost ^a	Local	Foreign	Total
<u>Customs</u>			
1. Technical Assistance and Advisory Services	0.13	1.23	1.36
2. Training and Workshops	0.00	0.25	0.25
3. Equipment Supplies and Materials	0.19	1.06	1.25
4. Incremental Operating Costs ^b	<u>0.52</u>	<u>0.00</u>	<u>0.52</u>
Customs Sub-Total Base Cost	<u>0.84</u>	<u>2.54</u>	<u>3.38</u>
<u>Cadastre</u>			
1. Technical Assistance and Advisory Services	0.02	11.80	11.82
2. Training and Workshops	0.00	0.67	0.67
3. Equipment Supplies and Materials	0.55	1.61	2.16
4. Incremental Operating Costs ^b	<u>0.48</u>	<u>0.00</u>	<u>0.48</u>
Cadastre Sub-Total Base Cost	<u>1.05</u>	<u>14.08</u>	<u>15.13</u>
<u>Other Fiscal Activities (OFA)</u>			
1. Technical Assistance and Advisory Services	0.12	1.19	1.31
2. Training and Workshops	0.05	0.00	0.05
3. Equipment Supplies and Materials	0.00	0.11	0.11
4. Incremental Operating Costs ^b	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
OFA Sub-Total Base Cost	<u>0.17</u>	<u>1.30</u>	<u>1.47</u>
<u>Project Implementation</u>	0.00	0.90	0.90
TOTAL BASE COST	<u>2.06</u>	<u>18.82</u>	<u>20.88</u>
Price Contingency (3%)	0.06	0.57	0.63
Physical Contingency (10%)	<u>0.21</u>	<u>1.88</u>	<u>2.09</u>
GRAND TOTAL	<u>2.33</u>	<u>21.27</u>	<u>23.60</u>

Note: Totals may not add up due to rounding.

^{/a} Exclusive of taxes and duties.

^{/b} Includes staff cost and facility operations.

The Lebanese Republic

Schedule B

Revenue Enhancement and Fiscal Management
Technical Assistance Project

A. Procurement Arrangements
(US\$ million)

Component	Procurement Method		VAT/F	Total Cost
	ICB	Other		
Technical Assistance and Advisory Services	14.66 (14.66)	0.72 (0.72)*	0.99	16.37 (15.38)
Training and Workshops	0.80 (0.80)	0.30 (0.30)*	---	1.10 (1.10)
Equipment, Supplies, and Materials	2.68 (2.68)	0.46 (0.46)*	0.83	3.97 (3.14)
Operational Operating costs	---	---	1.14	1.14 (0.00)
Project Implementation	---	0.32 (0.32)	0.70	1.02 (0.32)
Total	18.14 (18.14)	1.80 (1.80)	3.66	23.60 (19.94)

* Costs are exclusive of taxes and duties. Figures in parentheses are the amounts financed by the Bank. Totals may not add up due to rounding.

--- Bank financed.

The Bank's consultant guidelines would apply.

International shopping, US\$0.24 million; local shopping, 0.22 million.

B. Disbursements
(US\$ million)

Category	Amount (US\$ million)	Percent Financed by the Bank
Consultant services & studies	15.70	100% of expenditures
Training	1.10	100% of expenditures
Equipment, supplies, and materials	3.14	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 85% of local expenditures for other items procured locally
Total	19.94	

Annual Bank Disbursements

	Bank Fiscal Year					
	FY95	FY96	FY97	FY98	FY99	FY00
	(US\$ million)					
Disbursements	2.00	5.00	5.50	3.50	3.00	0.94
Total	2.00	7.00	12.50	16.00	19.00	19.94

Revenue Enhancement and Fiscal Management
Technical Assistance Project

Timetable of Key Project Events

(a) Time taken to prepare	:	6 months (original project) 2 months (restructured project) (Subsequent to the appraisal of the original project, the Government requested to reduce the scope of the project. The project was then restructured in March 1994, and a mission finalized post-appraisal in April 1994.)
(b) Prepared by	:	Government of Lebanon, with the help of the Bank, the UNDP, and the IMF.
(c) First Bank mission	:	February 1993
(d) Appraisal mission departure	:	July 1993
(e) Post-appraisal mission departure	:	April 1994
(f) Negotiations	:	May 1994
(g) Planned date of effectiveness	:	October 1994
(h) List of relevant PCRs and PPARs	:	Not applicable

Responsibility for Preparation

Task Manager	:	Mr. Sarshar Khan, MN2IE
Division Chief	:	Ms. Barbara Kafka, MN2IE
Country Department Director	:	Mr. Ram Chopra, MN2DR
Regional Vice President	:	Mr. Caio Koch-Weser, MNAV
Peer Reviewers	:	Mr. Albert Howlett, CFSOC Mr. Vincent Lacour, MN1IN

This report is based on the findings of a post-appraisal mission (April 1994) consisting of: Antoun Moussa (Mission Leader), Sarshar Khan (Task Manager), Anders Bjorgung (Sr. Technical Assistance Specialist), Hadi Abushakra (Sr. Counsel), Nigel Bradshaw (IMF), A. Abdel-Rahman (IMF), and Bernard Samoullier (cadastre consultant). The report has also utilized the findings of the July 1993 appraisal mission led by Yermal Shetty. Secretarial support was provided by Theresa Hegarty.

The Lebanese Republic

Schedule D

Revenue Enhancement and Fiscal Management
Technical Assistance Project

The Status of Bank Group Operations in Lebanon

A. Statement of Bank Loans and IDA Credits
(As of April 30, 1994)

Loan No.	Fiscal Year	Borrower	Purpose	Bank	IDA	Undisbursed
				(US\$ Million)		
4 Loans Closed				93.66		
Ln. 3562	93	Lebanon	Emergency Recovery	175.00		153.13
Total				268.66		153.13
of which has been repaid				81.14		
Total now held by Bank and IDA				187.52		

B. Statements of IFC Investments
(As of April 30, 1994)

Date	Borrower	Type of Business	Loan	Equity	Total
			(US\$ million)		
1971	Filitex	Textiles	0.93	0.00	0.93
1971	Lebanese Ceramic Industries (LECICO)	Manufacturing	1.20	0.00	1.20
1975	Bank of Near East (BNE)	Banking	0.00	1.25	1.25
1975/78	Lebanon Textiles	Textiles	5.72	0.00	5.72
1993	Uniceramic	Manufacturing	4.00	0.00	4.00
1993	Bank of Beirut and the Arab Countries	Banking	6.00	0.00	6.00
1993	Bank Audi	Banking	6.00	0.00	6.00
1993	Bankque du Liban et d'Outre Mer	Banking	6.00	0.00	6.00
1993	Byblos Bank	Banking	6.00	0.00	6.00
1993	Fransabank	Banking	6.00	0.00	6.00
Total Commitments			41.85	1.25	43.10
Less: Total Commitments Repaid, Sold or Cancelled			7.85	1.25	9.10
Total Commitments now held by IFC			34.00	0.00	34.00
Total Undisbursed			17.29	0.00	17.29

THE LEBANESE REPUBLIC

**REVENUE ENHANCEMENT AND FISCAL MANAGEMENT
TECHNICAL ASSISTANCE PROJECT**

TECHNICAL ANNEX

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1 DETAILED PROJECT DESCRIPTION

Background

1. Traditionally, Lebanon has been an open economy, characterized by a large external sector and unrestricted capital mobility. By the mid-1970s, it had achieved an export-oriented and private-sector led economic development at a good pace mainly through the development of international banking, transit trade, tourism and, to a lesser extent, through manufactured and agricultural exports. However, 15 years of conflict (1975-90) have left the economy devastated, with real per capita income reduced by nearly two-thirds due to the widespread destruction of infrastructure and productive assets and dislocation of human capital. Further, during the conflict years, there was a virtual collapse of government revenues which led to huge fiscal deficits financed largely with bank borrowing. The burgeoning deficit became the most pressing economic issue, resulting in a disruptively high inflation rate (which averaged over 100 percent during 1985-90) and a rapid depreciation of the Lebanese pound. The fiscal imbalance, though alleviated to some degree during the last three years, continues to be a major challenge. Sustained reduction in the fiscal deficit is essential if macro-economic stability is to be preserved and enhanced.

2. In view of the extensive damage caused by the conflict, the reconstruction of Lebanon is a major task and is expected to require massive resource mobilization, capital investment, development of human resources, and rebuilding of institutions. The Government envisages that national reconstruction and development should be guided by private sector initiatives, as Lebanon's vigorous and dynamic private sector continues to be the country's main asset. However, in the initial stage of reconstruction, government involvement is crucial since the first priority in reconstruction is the restoration of basic physical and social infrastructure, and of an enabling environment for the private sector. In this context, the Government is aware that it is imperative to sustain the increased confidence in the Lebanese economy by vigorously pursuing macroeconomic stabilization measures to control inflation and promote economic growth with stability.

3. The Government has been implementing a phased strategy for rebuilding Lebanon's ravaged economy and addressing social problems through the US\$2.3 billion National Emergency Reconstruction Program (NERP) during 1993-96, which consists of short-term emergency rehabilitation, to be followed by a medium-term recovery phase (1996-2000). The rapidly expanding reconstruction is expected to dramatically increase capital expenditures. To finance the reconstruction and recovery efforts, therefore, strong fiscal adjustment, especially revenue enhancement, is needed to prevent emergence of an unsustainable fiscal deficit.

Fiscal Imbalance and Macroeconomic Trends

4. Attempts to achieve economic stabilization since the end of the fighting in 1990 yielded mixed results through 1992, but have resulted in considerable success since then. During 1991, spurred by large private capital inflows, Gross Domestic Product (GDP) increased by 40 percent.^{1/} Simultaneously, the inflation rate dropped from nearly 100 percent in 1990 to 30 percent by end-1991, and the exchange rate stabilized. However, interest payments on Treasury Bills (TBs), issued to absorb the large capital inflows, added to the fiscal imbalance, and the fiscal deficit rose to about 20 percent of GDP in 1991. The economic situation worsened in early 1992 due to increased

^{1/} Reliable data on Lebanon's GDP are not yet available. The data and ratios given here and elsewhere in the report are based on rough estimates of GDP and are not strictly comparable to data on other countries.

Central Bank credit to finance the fiscal deficit, which led to capital outflows and resurgence of higher rates of inflation. After parliamentary elections in September 1992, the new government switched from Central Bank credit back to TBs for financing the still large fiscal deficit (about 13 percent of GDP in 1992). This and other measures, together with increased public confidence in the new government, reversed the depreciation of the Lebanese pound and reduced the inflation rate to single digit. However, as previously, the Government's monetary and exchange rate policies had significant fiscal costs. Although the official reserves rose sharply, outstanding TBs doubled in 1992, which increased the debt-service burden.

5. In late 1992, the Government took a number of fiscal actions to increase receipts from customs duties, income taxes, and the real estate tax; eliminate wheat subsidies; and increase fees and utility charges. At the same time, expenditure growth was contained. As a result, the fiscal balance improved. For the whole of 1993, the deficit is estimated to have been about 10.7 percent of GDP (compared to 13 percent in 1992). This, however, was still a relatively high level of deficit, requiring an estimated domestic financing for 1993 at about 7.5 percent of GDP. This has resulted in a further increase in the burden of domestic debt servicing, which needs to be contained in the medium term so as not to threaten financial and economic stability. Therefore, the Government plans to take further fiscal measures in the current and following years.

Institutional Constraints

6. The conflict seriously disrupted government functions, including those of the Ministry of Finance (MOF). The MOF physical facilities (premises, documents, computer hardware) were destroyed; a large number of qualified personnel left for other countries or joined the private sector; and the MOF activity was virtually halted.

7. Although a few initial improvements have been realized, the MOF and fiscal performance continue to face several key constraints: (a) deficiencies in staff strength, skills, and management information systems; (b) inefficient procedures and systems for tax/customs administration, and inadequate documentation for cadastre and land-rights; (c) inadequate budgeting, expenditure control, and treasury management; and (d) the absence of a strong statistical base. As such, many of the existing procedures for public financial management, especially in the areas of revenue generation, collection, and enforcement, as well as those related to national budget preparation, execution, and follow-up need to be streamlined and simplified. The human capacity of the MOF needs to be rebuilt through recruitment and training, and a computerization program of priority revenue functions needs to be implemented. Although the Government has already initiated some reforms in customs administration, technical assistance is needed to continue these reforms and formulate future policy. The organization chart of the MOF is given in Attachment 1.

Fiscal Objectives

8. The restoration of fiscal balance, announced by the current Government as a key objective, would require strong measures that raise government revenues above the 1993 level of about 14 percent of Gross Domestic Product (GDP), as well as control the growth of current expenditures, which stood at about 21 percent of GDP in 1993, particularly in view of the increased capital expenditures required by the reconstruction program. Beyond the immediate need to reduce the fiscal deficit, several structural public finance issues require government attention. The revenue system would need to be reviewed and reformed to make it efficient and equitable. Important future

areas of attention comprise: (a) continued reforms in trade taxes; (b) effective taxation of consumption, either through a sales tax or a value-added tax; (c) effective and equitable income taxation; and (d) the taxation of existing properties based on their market value. Price and cost recovery issues would also need to be addressed. In addition, Government spending would need to be thoroughly analyzed and reviewed. The first priority in this context would be to obtain a comprehensive picture of all government financial operations at the central and provincial levels. Currently, only part of these operations are effectively controlled by the central government. Over the longer term, improvements in these areas would require comprehensive improvement in the functioning and systems of practically all MOF directorates. In the shorter term, to enhance revenues and rationalize public expenditure management (PEM), the Government needs significant and immediate technical assistance.

Project Objectives

9. The Project seeks to support Government efforts to enhance revenues and strengthen fiscal management. This would be accomplished by increasing the MOF's operational efficiency and building its capacity to develop and use improved policies, systems, and procedures, with particular reference to units dealing with revenue collection and expenditure control. However, the Project is not conditioned on the adoption of a particular set of policy reform measures; all project activities are needed and justified, independent of policy decisions on taxes, tariffs, and expenditures.

10. The Project has been designed in the overall context of the Government's broader program which aims at reactivating and modernizing the government agencies responsible for economic reforms and management through long-term institution-building efforts. Within this framework, and parallel to the operations directly supported by the Project, the Government intends to carry out preparatory work for the formulation of a long-term public administration reform which would have a major impact on the functioning of all government ministries and agencies, including the MOF, by improving administration, audit standards, public procurement procedures, and personnel management systems. However, the success of the Project is not contingent upon the larger administrative reforms taking place; it is designed to provide assistance to improve the internal capacity and efficiency of the MOF, which, in turn, would enhance the MOF's ability to introduce and sustain long-term reforms.

Project Description

11. The Project would extend support to the MOF in the form of consultants, training, and improvements in methods and physical work environment (additional office space, information systems, computers, and other equipment). The Project would have three main components which would focus on the rehabilitation and modernization of: (a) the customs administration; (b) cadastre and land registration; and (c) the domestic tax administration and public expenditure management. Some activities in the first and third components are being supported by an initial grant financing from the United Nations Development Programme (UNDP) through the IMF; the Project would supplement this financing.

Customs Administration (estimated cost: US\$3.82 million)²

12. The General Directorate of Customs (GDC), within the MOF, is responsible for import and export clearance, control procedures, and the collection of customs duties. During the conflict, the customs administration was unable to exercise its full jurisdiction over imports. In addition, even after the conflict, the application of customs regulations is inadequate and, therefore, revenues from import duties and taxes as a percent of GDP remain significantly low. The structure of import duties and taxes in Lebanon remains characterized by unnecessary multiplicity of additional duties and charges levied on the same goods with the sole purpose of raising revenue, a narrow aggregate base due to the appreciated customs rate and large exemptions, and many tariff rates (62, ranging from zero to 75 percent). As such, the enforcement of the system has been difficult. By end-1992, with the adjustment of the customs exchange rate from LL 200 to LL 800 per US\$, and other customs reforms, revenues from customs duties had improved significantly. In 1993, customs revenue recorded a further increase amounting to more than 125 percent of the 1992 revenue. This increase reflects, *inter alia*, (a) the full impact of the adjustment in the customs exchange rate; (b) improvements in enforcement and complete jurisdiction over imports; and (c) a significant increase in taxed imports. Revenue from this source contributes about one third of total tax revenue. Data on Lebanon's imports and GDP are incomplete, and a comparison of the ratio of tariff receipts to GDP with that of other countries is difficult. However, the burden of tariffs is judged to be among the lowest in the region.

13. Following the recommendations made by a series of UNDP/IMF technical assistance missions, the structure of import taxation and its administration is being improved. The main recommendations of these missions are: (a) introducing a computerized import and export control system; (b) revising the valuation provision of the Customs Law; (c) simplifying the tariff structure; and (d) introducing a harmonized system of classification. As a first step towards implementing a tariff reform, Parliament passed a law to consolidate the duties, indirect taxes, and additional charges that used to be levied on top of the tariff duty. The law has been published in the Official Gazette, but the related new tariff structure is still to be put into effect. The Government has formulated a further reform program consolidating the 62 rates into 9, ranging from 2 percent to 35 percent, and eliminating exemptions by applying a minimum rate of 2 percent on all imports.

14. The introduction and implementation of the above reforms need to be accompanied by institutional strengthening of the GDC at all levels. While the staffing and general organization of GDC is adequate, staff skills need to be upgraded. Customs procedures are complicated and onerous, leading to a high overhead cost for both the customs administration and for traders, which is reflected normally in the cost of imports and the price of exports. Inspection, clearance, and valuation procedures are lengthy and lack a proper information base. Despite recent improvement in the quality and coverage of trade data, trade statistics remain incomplete. In addition, most services of GDC lack proper facilities, including space and furniture, communication equipment, and information technology, which are essential for trade facilitation and the determination and collection of revenues.

15. Some donor support for customs reform and the strengthening of GDC has already been mobilized by the Government of Lebanon (GOL). In addition to the study of customs tariff reform (para. 13), a UNDP proposal for introducing and implementing the United Nations

² Includes contingencies.

Conference on Trade and Development (UNCTAD) Automated System of Customs Data Entry (ASYCUDA) computer system (para. 16 (b)), has been adopted by the MOF. However, current donor support falls much short of GDC requirements for assistance.

16. Technical assistance under this component would supplement the above efforts and improve reform implementation and revenue collection through: (a) strengthening the customs administration and the reform of customs procedures; (b) the computerization of customs operations; and (c) the rehabilitation of GDC by providing the necessary office space and equipment, consulting services, data collection and processing, and the training of the existing staff. These are described in more detail below:

- (a) The strengthening of the customs administration and procedural reforms would cover declaration procedures, examination and valuation control, payment procedures, the release of goods, and post-clearance valuation and audit. In particular, the existing customs declaration forms would be reduced in number, standardized, and aligned to the United Nations system. The Project also provides for the introduction of a harmonized system of classification. UNCTAD would be providing experts for customs declaration procedures, as a first step towards the implementation of ASYCUDA, while the IMF would provide assistance for procedural reforms not covered by UNCTAD.
- (b) ASYCUDA would be used to provide an integrated computer-based system for all data required for processing import and export declarations. It would include modules for manifest clearance, licensing, risk assessment for import and export, revenue management, etc. The system would be introduced in a phased manner and be implemented first in the Beirut Port and Airport and then gradually in other major ports and land entry locations. The computer system would use open system technology, based on local area networks. All training and technical assistance associated with the introduction and installation of the ASYCUDA system would be provided by UNCTAD.
- (c) The Project would provide financing for radio-based communication equipment and office technology equipment in Beirut and regional customs offices to increase the efficiency of customs operation.
- (d) Support to be provided under this component would consist of 79 work-months of international consultant services (67 work-months to be provided through UNCTAD, and 12 through the IMF), 30 work-months of local consultant services, and computer and communication equipment. The consultants would also provide training to about 120 staff of the customs services in the following subjects: valuation, assessment, collection, inspection, fraud investigation, and computerized declaration processing (Attachment 4).

17. To sustain customs procedural improvements, counterpart staff would be made available to work with IMF/UNCTAD teams. In addition, computer staff (one information technology expert, two systems analysts/programmers, and three computer and communication engineers) would be recruited to work with the UNCTAD technical team for the implementation of

ASYCUDA. Both IMF and UNCTAD staff would help the Government recruit the consultants and would supervise their work.

18. Expected benefits from the assistance to be provided by the Project include: (a) improved customs operations, characterized by increased efficiency and productivity; (b) increase in government revenues from customs resulting from the application of proper inspection and valuation techniques; (c) accelerated processing of trade transactions and faster turn-around time for traders; and (d) more reliable trade and tariff statistics and improved capability to process and analyze trade data. It is difficult to estimate the increase in customs receipts resulting from various institutional and procedural improvements under the Project, as distinct from parallel tariff reforms. On the basis of experience elsewhere, however, it is expected that customs receipts would increase substantially.

Cadastre and Land Registration (estimated cost: US\$17.09 million)^{2/}

19. Cadastre and land registration are the responsibility of the Directorate of Land Registration (DOLR) under the MOF, which consists of the Department of Cadastre and the Bureau of Real Estate. The land registration system in Lebanon was disrupted during the prolonged conflict when many maps and land records were destroyed. The program to survey the entire Lebanese territory was also interrupted. DOLR suffered losses in personnel and facilities that have left it ill-equipped to keep the cadastre up-to-date and to record and archive real estate transactions and ownership records. In addition, the Directorate has not been able to keep abreast of recent technical developments in this specialized field and lacks the basic equipment needed for its tasks.

20. Currently, the inadequacy of the cadastre and land-rights documentation system is having an adverse impact on the private sector's land-related investment for housing and other purposes. Land registry records are mostly in an extreme state of physical deterioration and many of them are practically unusable. In most jurisdictions it has become impossible to reproduce copies of these records for the public; when successful, these records are reproduced with extreme delays and at a very high cost, amounting to about eight times the collected fees in some cases, thus yielding a net loss to the Government. Private investment depends on a well-functioning land registration and cadastre system, including the establishment of a proper land-rights data base and simplification of the land registration and adjudication system. The cadastre-based information systems are crucial not only for promoting private investment activity and institutional credit, but also for strengthening the collection of property taxes and for reducing related cumbersome procedures. Land taxation is projected to become an important source of public revenue once the land registration and cadastre system is modernized and records of land rights and titles are reconstituted and verified. The non-surveyed part of Lebanon, which mainly comprises public land, is being increasingly encroached upon by individuals.

21. The main objective of this component is to rehabilitate and modernize cadastre and land registration systems. Toward this end, the Project would provide financing for: (a) a cadastre survey of 1,500 Km² on the non-surveyed part of the Lebanese territory; (b) the reconstruction, archiving, and computerization of destroyed and defaced cadastral maps of the surveyed part of the territory, production of new cadastral maps of the surveyed part of the territory for which no such maps exist, and production, archiving, and computerization of cadastral maps for the part of the

^{2/} Includes contingencies.

territory to be surveyed under the Project; (c) the establishment of a computerized land rights and graphical information data base; and (d) the introduction of a Geographical Information System (GIS) to link the cadastre to the land registry system and provide an automated system to keep track of records of land management throughout the country. Support would be provided in the form of the services of aerial photographs; priority computer equipment; experts (77 work-months)⁴; technical services (distinct from experts making up the 77 work-months); and the training of 65 persons locally and overseas in topography, photogrammetry, geodesy, cadastre, and data processing (Attachment 4).

22. The Government is implementing a three-year program of annual recruitment of 20 survey technicians and engineers to address staffing shortcomings. DOLR has already recruited 20 survey technicians and engineers. About 40 other technicians would be recruited and trained during project execution. In the light of the successful recruitment by DOLR of 20 additional staff under the current civil service pay scale, DOLR does not expect to encounter difficulty in recruiting the additional staff. In addition to the above, a long-term expert in cadastre and land registration would be recruited under the Project to assist DOLR in component implementation. A short-term training consultant would also be recruited to further develop the DOLR training program defined by Project preparation missions. The terms of reference for these consultants have been agreed upon (Attachment 3).

23. This component would provide both financial and economic benefits. The reconstruction of maps and property records, continuous maintenance of data, and improved capacity and efficiency of DOLR would enable the Government to improve collection of registration fees and property taxes, thus providing a substantial increase in property related revenues. In addition, they would facilitate preservation of records, protect titles, provide efficient service to the public, and prevent illegal encroachments on public and private property. This should encourage private real estate investments and related financial and economic activities.

24. There is considerable scope to increase revenues on the roughly 200,000 real estate transactions that take place annually, and from annual property taxes, especially over the longer term. In 1991, registration fees and property taxes yielded about LL 51 billion, more than the revenue from income taxes. In 1993, this figure increased to LL 170 billion. However, the base of registration fees was the declared value, as opposed to the actual value of the transaction⁵. If the transaction value were to be used as the base, government revenues could be much higher. In any case, the improved records and registration system to be implemented under the Project should enable the Government to significantly increase its receipts from registration fees, as well as from property taxes, which should lead eventually to a decrease in registration fees which are relatively high compared to those in other countries.

⁴ This figure includes 37 work-months of individual consultants and an estimated 40 work-months under the proposed turnkey contracts.

⁵ In the Lebanese context, the actual transaction value is not always known. In December 1992, the Government set new standard values: two minimum values per square meter (one for unimproved land and the other for buildings) and three coefficients (according to the condition of the property). With the existing rate of 6 percent on the value, the implementation of these measures increased tax revenues by some LL 120 billion in 1993.

Other Fiscal Activities (estimated cost: US\$1.67 million)[§]

25. The third component of the Project would provide support for improving: (a) domestic taxation and (b) public expenditure management (PEM).

26. **Domestic taxation.** Domestic taxation is the responsibility of the Revenue Department within MOF's Directorate General of Finance. It includes taxes on income, profit, goods, and services. Domestic taxation suffers from both systemic weaknesses and administrative deficiencies. Based on the recommendations of a UNDP/IMF technical assistance mission in 1993, taxes on income and profits were reformed in early 1994. The principal features of the reform are: (a) reduction in statutory income tax rates to improve taxpayer compliance and to encourage the flow of private capital and investment; and (b) a conditional amnesty to eliminate assessment and collection for the many small taxpayers for whom assessment and collection costs would not be offset by the amount of taxes they may contribute.

27. In view of the difficulty of adequately covering all potential taxpayers immediately, the MOF is considering to establish initially (a time for phasing it out has not yet been specified) a specialized unit for large taxpayers (ULT) designed to tap a major part of revenue potential. The Project would provide assistance for studying the feasibility of ULT, designing its structure, identifying staffing requirements, and making it operative, including developing procedures, establishing information systems, and providing training. For the overall tax administration, including ULT, assistance would be provided for improving information systems, accounting, auditing and training; and studying various aspects of tax administration (e.g., introduction of tax identification number, assessment and collection procedures, and limited computerization).

28. The Project would also provide technical assistance to help prepare measures to broaden the tax base and diversify revenue sources, and, subject to approval by the Government, help implement them. In this context, at the invitation of the Government, a UNDP/IMF technical assistance mission reviewed taxation of goods and services in 1994 and made the following recommendations for consideration: (a) In the immediate future, a reform of major excise taxes, especially those on energy, tobacco and cigarettes, and alcoholic beverages, could be implemented, without much preparation and/or change in the organization of the Tax Department. The reform could generate substantial additional revenue and could pave the way for the adoption of a simplified general sales tax. The technical assistance needed to formulate the reform of excise taxes would be provided by short-term assignments of two or three specialists under the existing UNDP/IMF Project. (b) A simplified general sales tax (GST) needs to be levied equally on locally-produced goods and their competing imports. The UNDP/IMF mission report outlines the necessary steps to facilitate the adoption of GST and to ensure its effective implementation. The Project would provide technical assistance for preparing for government approval specific proposals for introducing GST, drafting legislation, and computerization.

29. Support to be provided under this sub-component would consist of: 26 work-months of international consultant time, 24 work-months of local consultant time, and computer equipment. As part of their service, consultants would also train 20 local staff in various aspects of taxation: assessment, collection, accounting, audit, indirect taxation, information systems, and computerization.

[§] Includes contingencies.

30. **Public Expenditure Management (PEM).** PEM is the responsibility of four Departments^{2/} under the Directorate General of Finance within the MOF. Partly due to the consequence of the events during the conflict and partly due to some pre-existing deficiencies in the Government's financial framework, PEM in Lebanon suffers from a number of weaknesses. At the request of the Lebanese authorities, a UNDP/IMF mission reviewed the procedures and institutions relating to PEM and prepared a comprehensive report and recommendations in 1993. Some of the main findings of the mission are summarized in the following paragraphs.

31. Due to inadequate resources and some organizational problems, the Budget Department is unable to assess the operational and investment needs of Government agencies, program them in the light of resource possibilities, and advise the authorities about priorities. There is no connection between the budget and macroeconomic assessment, and no multi-year public revenue and expenditure projections are prepared. The budget does not cover all expenditures of a budgetary nature, and there are significant delays in budget preparation.

32. The treasury function as such does not exist at the MOF. While day-to-day decisions pertaining to this function are taken by the MOF, the Ministry does not have the capacity for the analysis of Government finance, or an operational structure for the management of public debt, or a consolidated table for monitoring budgetary and cash flow operations. Information on liquidity, debt and budget execution, availability of allocations, and the settlement of expenditures is available only after varying time lags, which interferes with efficient financial management. The functions of the Treasury Department and the Department of Government Accounting are not clearly defined, and the Departments suffer from inadequate skills. A large proportion of functions relating to cash operations are carried out poorly, or not at all. There are also numerous deficiencies in the maintenance of Government accounts. In particular, treasury accounts lump tax revenues under three headings (direct taxes, indirect taxes and registrations, and fees), which prevents a meaningful analysis of revenues for formulating fiscal policies. Fiscal data are not yet available in a comprehensive, consolidated way for all government transactions at the central level, and the monitoring of financial operations in the provinces is lacking.

33. The Government has already adopted some measures in line with the recommendations of the IMF study. Computerization of the payroll management is in process for the personnel of the Ministries of Interior and Finance; computerization of the cashier operations at the Beirut Treasury is being considered; efforts are being made to begin more efficient accounting and control procedures starting in 1993; and consolidation and improvement of financial information is underway.

34. Despite these recent efforts, substantial further reforms remain to be pursued to improve and strengthen PEM. The Project would provide technical assistance to introduce and/or improve the following functions and procedures: (a) an effective system of budgeting consistent with macroeconomic planning and policy framework, investment programming, and projection of revenues and external assistance; (b) greater involvement of line ministries and their budget controllers in budget preparation; (c) review of budget nomenclature in order to harmonize administrative classifications, and introduction of functional and economic classifications consistent with international

^{2/} Department of the Budget and Expenditure Control, Expenditure Authorization Department, Treasury and Public Debt Department, and Department of Government Accounting.

standards; (d) an effective system of public expenditure monitoring, accounting, and control; (e) extending wage bill computerization to the ministries not yet covered; (f) introduction of the double-entry accounting system, preparation of the Government chart of accounts, standardization of accounting procedures, and gradual increase in the use of information technology; (g) introduction of a flash reporting system for data on the treasury balance, debt position, budget execution, revenues collected, and settlement of expenditures; and (h) development of a system of cash and debt management, including short term internal public debt.

35. The Project Director, in consultation with the concerned MOF staff, would study during the next three months the staffing needs of the participating Departments covering PEM and would suggest measures for providing the necessary staff to coincide with the recruitment of experts later in the project schedule.

36. To help implement the actions listed above, the Project would help finance 22 work-months of international consultant time and 20 work-months of local consultant time. Consultants would also train 15 local staff in various aspects of PEM: budget preparation, budget accounting, expenditure control, treasury management, and information systems.

37. The impact of this component would be two-fold: (a) increase in domestic tax revenues through improved efficiency of tax administration and the reform of domestic taxation;^{2/} and (b) a more effective use of revenues through improved budgeting, expenditure control, accounting, and treasury management.

Project Cost and Financing

Cost

38. The project base cost is estimated at about US\$20.88 million. In addition, US\$2.72 million is expected to cover price (3 percent) and physical (10 percent) contingencies (Schedule A). Local costs have been converted to US\$ at an exchange rate of US\$1 = LL 1,690. The estimates of base costs of equipment, consulting assignments, and training are based on May 1994 prices.

Financing

39. The Bank would finance foreign exchange costs of about US\$19.58 million and local costs of about \$0.36 million. The Project Implementation Team (PIT) (para. 41) would be financed by, in part, a UNDP grant of US\$0.70 million. UNDP would also provide US\$0.33 million towards the financing of UNCTAD consultants. In addition, the IMF would finance US\$0.21 million equivalent for consultancy services and would contribute staff time equivalent to US\$0.45 million towards the Project. The Government would provide about US\$1.97 million equivalent from the budget to finance incremental recurrent costs, including rent for office space. The beneficiary of the Bank loan would be the MOF. The Bank loan would be for 17 years, including five years of grace, at standard variable interest rates. The Bank loan amount could be reduced (through cancellation) in

^{2/} Due to the non-availability of detailed data on taxpayers and estimates of tax evasion, it is difficult to make even a rough estimate of future increase in revenues on account of these improvements. However, it is judged that there would be a substantial positive impact.

case concessional financing becomes available from other donors in the near future for financing part of the Project. The MOF has confirmed its intention to keep Bank financing of a minimum of US\$10.0 million and has assured the Bank that non-availability of concessional financing for any activity would not delay project implementation.

2 PROJECT IMPLEMENTATION AND ADMINISTRATION

40. The Project would be implemented over a five-year period, in accordance with the implementation schedule given in Attachment 2. The customs and other fiscal activities components are expected to be implemented in three years. However, the cadastre component is expected to take up to five years to be fully implemented.

Implementation Arrangements

41. A Project Implementation Team (PIT) would be established under the Project. It would consist of a Project Director, a Project Manager, three Implementation Coordinators (IC), an Accounts Officer, and support staff. The Project Director, who is already in place and has been actively involved in designing the Project, would be responsible for overseeing the progress of implementation of the overall economic management program of the MOF, of which the Project is an important part. He would report to the Minister of Finance and act as his economic advisor. The Project Manager would be responsible for the day-to-day management of the Project. He would be supported by three ICs, one for each component. The ICs would be recruited by the MOF to work full time on the respective components of the Project so as to ensure their smooth implementation. They would form an integral part of the PIT, but would be assigned to work with the concerned Directorates. The PIT would itself carry out all procurement of goods and services, with assistance from UNCTAD and UNDP specialists and from the Council of Development and Reconstruction (CDR). CDR has substantial experience in using Bank procedures for procurement. The Accounts Officer would be responsible for maintaining project accounts, controlling costs, and preparing financial statements for the Bank. A Project Steering Committee, chaired by the Minister of Finance, comprising the President of the Higher Council of Customs, the Director General of Finance, the Director General of Customs, the Head of DOLR, and the Project Director (Secretary), would be established in July 1994 and would supervise the work of the PIT. They would meet to review progress and issues being included in the quarterly progress reports, or on an ad hoc basis, if required. The Terms of Reference for the PIT are given in Attachment 3. Establishment and staffing of the PIT would be a condition of effectiveness; thereafter, the PIT would be maintained with terms of reference and staffing satisfactory to the Bank.

42. The Project incorporates various features designed to ensure that it is implemented on schedule. Care has been taken to identify the units in the MOF that would be responsible for the various tasks, to break up each component into discrete activities, and to determine the dates by which the individual measures that make up these tasks would be completed (Attachment 2). Assurances have been received on the implementation of an action plan (covering, among other things, employment of consultants, appointment of their local counterparts, and staff training). The action plan was agreed at negotiations. A Project Launch Workshop would be held in Beirut in late September/early October 1994 and would be followed by six-monthly Bank supervision missions. Above all, the Government's strong commitment to the Project, the proposed establishment of a

steering Committee and a PIT, and the use of specialized multilateral agencies for the implementation of parts of the Project should help ensure effective and timely project implementation.

One issue in project implementation is the adequacy of the MOF's absorptive capacity. The current staff levels in the MOF, as in other ministries, are much below sanctioned strength in each of the Directorates since many qualified employees left government service during the conflict. Hiring of new staff with the necessary skills is not easy because of the currently low civil service salaries. In fact, one reason for the MOF's need for technical assistance is the shortage of qualified staff; other reasons relate to the need for improvement in administration, procedures, and use of information technology. Yet, without adequate counterpart staff, use of consultants would be sub-optimal. This issue has been addressed in the Project at several levels. First, the Government realizes its staffing limitations. Therefore, while taking steps to recruit and train key staff, it plans to engage multilateral agencies to handle parts of project implementation (para. 45). Through these arrangements, the detailed implementation responsibilities of the MOF have been minimized. In addition, the PIT is adequately staffed to ensure effective and substantive implementation of project components. Second, to meet the need for adequate counterpart staff in the Directorates concerned, the Government would attempt to recruit staff against existing positions; the recent recruitment of 20 staff for DOLR shows that, even at current salaries, new recruitment is possible. Third, the Government is discussing proposals to increase civil service salaries which, when approved, should help attract appropriately qualified persons. Fourth, the Project provides for financing local consultants needed for implementing project-specific activities which would largely end with the Project. Fifth, if need be, the Government would hire staff on contract for implementing project components and acting as counterparts.

Lessons Learned from Bank Experience

The main lessons of Bank experience in technical assistance have been taken into consideration in designing the Project. The following potential problem areas have been addressed:

(a) *Project complexity with too many components and target institutions and donors with different procedures.* The Project has been limited in scope to high priority components, and activities within each component have been clearly identified. The project activities have been well prepared and are based, in part, on earlier IMF and UNCTAD work. The technical assistance being provided itself contains elements, including turnkey activities, intended to facilitate project implementation.

(b) *Lack of borrower commitment and project ownership.* The Government is strongly committed to the Project and has been closely involved in its preparation.

(c) *Lack of institutional capacity, inadequate staffing of project implementation teams, and ineffective monitoring.* The Government has agreed to set up the PIT, as well as designate counterparts for the consultants financed under the Project. The Project Director has already been designated and is in place.

(d) *Lack of a well-designed training program.* A Training Plan (Attachment 4) has been prepared and agreed upon. More detailed training programs for participating Directorates would be developed with the assistance of consultants at the initial stage of project implementation. The programs would then be updated annually.

(e) *In order to improve the quality of TA, fully developed and realistic terms of reference and monitorable indicators should be prepared and agreed upon.* Key terms of reference and monitorable indicators have been prepared and agreed; these are given in Attachments 3 and 6, respectively.

Role of Other Multilateral Agencies

45. The MOF plans to use the IMF, which has been involved in preparatory studies for fiscal management improvement and has helped in project preparation, as a technical assistance agency to implement the domestic taxation and public expenditures management component and part of the customs component. It would implement the rest of the customs component through UNCTAD. These services would be provided through a cost-sharing arrangements with UNDP, by expanding an ongoing UNDP project. This expanded project would include provision for the PIT (UNDP financed and implemented for the first three years; fourth and fifth years are covered by Bank financing), the IMF inputs (Bank and UNDP financed and implemented by the IMF), and the UNCTAD inputs (Bank and UNDP financed and UNCTAD implemented). The Ministry would directly implement the cadastre and land registration component through consultants' turnkey contracts. The multilateral agencies would charge standard fees for their services. As usual, IMF procedures would apply to procurement of services for the activities to be implemented through the IMF. The involvement of the specialized multilateral agencies would strengthen project implementation and ensure provision of quality inputs and outputs.

Office Space

46. The MOF would make arrangements for meeting the immediate office space requirements for new staff and consultants, and for regrouping existing services, where needed, of the concerned Directorates by October 15, 1994. Wherever possible, accommodations would be rented with an option to buy. No construction of new buildings for offices is contemplated under the Project.

Training

47. To upgrade the skills of the existing and newly recruited MOF staff, and to ensure the sustainability of project activities, training has been included as an integral part of the Project. A Training Plan is given in Attachment 4, which provides the specifics of the staff to be trained and the timing and type of training. To relate training directly to the evolving needs of the Directorates and their staff, training would be given in two forms: formal training by international experts in cadastre-related activities, including overseas training; and on-the-job training by experts in other areas as part of their advisory services. Each participating Directorate, assisted by the IMF, UNCTAD, and the cadastre training specialist, would formulate and carry out a detailed training program with the help of the PIT, and would update it annually. By December 31 of each year, the PIT would submit for review by the Steering Committee, a statement of training accomplishments in that year and of the objectives and tasks proposed for the following year. This statement would be evaluated as part of the supervision and review of project implementation.

Work Plans and Review of Progress

48. Each participating Directorate would prepare and furnish to the PIT for consolidation and subsequent forwarding to the Bank, no later than December 31 of each year, detailed annual work plans on its particular component and, during project implementation, furnish quarterly reports on the progress of its sub-projects to the PIT (para. 52). The PIT would organize a mid-term review of the progress made in the implementation of the Project, with the participation of the MOF and the Bank. This review would identify and formulate measures to help overcome any constraints on implementing

the Project efficiently. Agreement has been reached that the review would be held by end-October 1996, and that the MOF would prepare a report for the purpose by August 1996.

Procurement and Disbursement

49. **Goods.** Contracts for the supply of computers, office equipment, and other supplies for an amount equivalent to US\$150,000 or more would be procured through International Competitive Bidding (ICB). For items costing US\$50,000-150,000, international shopping procedures would apply (with a minimum of three bids, from three countries). For items costing less than US\$50,000, local shopping, with at least three quotations, would apply. As far as possible, items for procurement would be combined into packages to permit optimum use of competitive bidding. MOF has confirmed that the Bank's procurement guidelines would apply and procurement would be exempted from the current cumbersome domestic procedures. A procurement review would be undertaken within six months of the effectiveness of the Project. All goods contracts for an amount equivalent to or more than US\$100,000 and all consultant contracts equivalent to or more than US\$30,000 for individual consultants and US\$100,000 for consulting firms would be subject to prior Bank review. This would result in prior Bank review of over 80 percent of total procurement

50. **Consultant Services.** Consultant services required for the Project would be procured in accordance with World Bank Guidelines for the "Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency (August 1981)." In the selection of consultants, knowledge of the country and its language would be taken into consideration; it is expected that Lebanese professionals (resident and expatriate) would be recruited for many positions. IMF procedures for procurement of services would apply to those parts to be implemented by the IMF.

51. **Disbursement.** To ensure that funds are readily available for project implementation and to facilitate disbursement, a Special Account would be established for this Project in Banque du Liban (the Central Bank of Lebanon) in US dollars, with an initial deposit of US\$500,000. Replenishment of the Special Account by the Bank would require the submission, after being duly reviewed by the PIT, of full documentation or certified statements of expenditures (SOEs) showing that payments were made exclusively for eligible expenditures. The MOF would submit withdrawal applications to the Bank, after review by the PIT through the Project Director, for all expenditures not funded from the Special Account with full documentation or certified SOEs. Documents for contracts valued at less than US\$50,000, for which disbursements would be made against certified SOEs, would be retained by the PIT for review by Bank supervision missions and project auditors. Wherever possible, withdrawal applications would be aggregated in amounts of US\$50,000 or more for submission to the Bank.

Reporting and Auditing

52. The PIT would prepare and submit quarterly reports to the Bank, through the Project Director, based on performance indicators agreed with the Bank. The PIT would ensure that all project documentation is well prepared and according to schedule, and that procedural problems are reduced to the minimum. The Special Account, all project accounts, and SOEs would be audited in accordance with international standards at the end of each fiscal year by auditors acceptable to the Bank and would be made available to the Bank no later than nine months after the close of the fiscal year.

Closing Date

53. The Project has been planned as a five-year program after loan effectiveness, with completion by September 30, 1999; the closing date for the Bank loan would be March 31, 2000.

Supervision Plan

54. A Project Launch Workshop would be organized in late September/early October, 1994. Subsequently, there would be a minimum of two supervision missions per year. In addition, eight staff weeks per year are allocated for work at Headquarters. Expected Bank resource needs are spelled out in the attached Supervision Plan (Attachment 5). Progress in implementation would be assessed in terms of the Project Implementation Schedule (Attachment 2). Monitorable Indicators (Attachment 6) for reviewing project progress in general and, in particular, for the mid-term review at the end of two years of project implementation have been discussed and agreed upon with the Borrower.

Agreements Reached During Negotiations

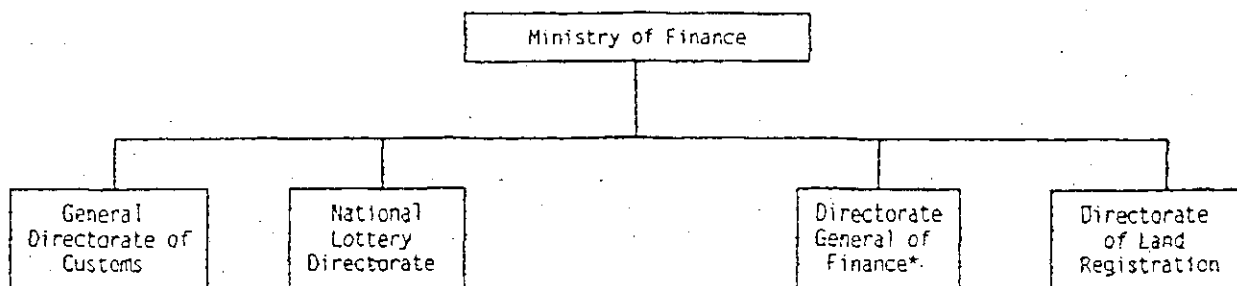
55. **Conditions of Effectiveness.** The loan would become effective when the Government has: (a) provided a legal opinion satisfactory to the Bank; and (b) established the PIT (para. 41) and employed the PIT staff.

56. **Assurances Received.** During negotiations, the Government provided the following assurances:

- (a) The PIT would be maintained with staffing acceptable to the Bank (para. 41).
- (b) Mid-term review would be held by end-October 1996, based on the report to be prepared by the Government by August 1996 (para. 48).
- (c) Project accounts and Special Account to be audited by external auditors acceptable to the Bank and audited accounts to be provided to the Bank no later than nine months after the end of the fiscal year (para. 52).
- (d) DOLR, GDC, and the Directorate General of Finance within MOF would submit to the PIT for forwarding to the Bank, not later than December 31 of each year, a detailed work plan, and, on a quarterly basis, a report describing progress achieved by each participating Directorate in the carrying out of its respective part(s) of the Project (para. 48).
- (e) An Action Plan (covering, among other things, employment of consultants, appointment of their local counterparts, and staff training) would be implemented (para. 42).

June 10, 1994

CURRENT ORGANIZATION CHART



***Directorate General of Finance**

1. Department of Administrative Affairs
2. Department of the Budget and Expenditure Control
 - Budget Division
 - Expenditure Control Division
3. Expenditure Authorization Department
 - Control and Payment Authorization Division
 - Payroll Authorization Division
 - Retirement Fund Authorization Division
4. Treasury and Public Debt Department
 - Revenue Control Division
 - Accounting and Funds Division
 - Payment Instruction and Payment Order Division
 - Beirut Revenue Division
 - Public Debt Unit
 - Administrative Unit
5. Department of Government Accounting
 - Government Accounting Division
 - Financial Control Division for Government Agencies and Public Enterprises
6. Revenue Department
7. Office of the Government Commissioner
8. Computer Center

MATRIX OF PROJECT ACTIVITIES AND IMPLEMENTATION SCHEDULE

MAIN OBJECTIVES

CUSTOMS ADMINISTRATION

To modernize the operations and procedures of the customs administration in order to realize the full revenue potential of import duties.

PROJECT COMPONENT ACTIVITIES	EXPECTED OUTPUT/IMPACT	TIMING TARGETS (START/COMPLETION)	RESPONSIBLE AGENCY
Review existing customs legislation, regulations, and procedures, and prepare detailed workplan for customs operations advisor.	Work plan for reform of customs administration.	Nov. - Dec. 94	MOF (DG Customs/Higher Customs Council)
Revise customs valuation, assessment, collection, inspection, and investigation procedures; introduce new procedures; prepare new manuals and train staff in all aspects of new customs operations and procedures.	Improved operational efficiency, reduced administrative costs, and facilitation of trade.	Dec. 94 - June 97	DITTO
Phased implementation of ASYCUDA computerization.	Increased efficiency, yielding speedier shipment clearance, prompt revenue receipts, and more reliable trade and tariff statistics.	Phase 1: Oct. 1, 94-Aug. 31, 95 Phase 2: Sept., 95-Sept. 30, 96 Phase 3: Oct. 1, 96-Sept. 30, 97	MOF (DG Customs) DITTO DITTO
Training for implementation of ASYCUDA computerization and for adoption of improved procedures.	Efficient customs administration, decreased leakage, and increased customs revenues.	June 95-April 97	MOF
Preparation of detailed training program.		Jan.-March 95	MOF (DG Customs)
Implementation of training program.		June 95-Febr. 97	MOF (DG Customs)
Recruitment of counterpart informatics staff.	Institutionalized systems, transfer of technology, and improved sustainability.	Jan. -March 95	MOF (Customs-Informatics Dept.)
Acquisition of office technology and communication equipment.	Improved work methods and establishment of communication between customs posts.	Dec. 94-Dec. 95	MOF (DG Customs)

(1) This work is to be undertaken in close cooperation with UNCTAD which will be installing ASYCUDA over the same period.

CADASTRE AND LAND REGISTRATION

Improve internal administrative and technical capacity and enhance capacity to sustain the introduction of new technology.

Continuation of recruitments and preparation of a detailed training program.

Transfer of technology and quick integration of the new equipment and computerized data base.

Nov. 94-May 96

MOF (Cadastré)

Implementation of phased training program for existing and newly recruited staff.

June 96-Dec. 97

Rehabilitation of land registration and improvement of cadastral management to support the development of credit and private investment and to enhance revenue generation.

Reconstruction of the destroyed maps of Beirut. Test and apply different methods to ensure the security and the validity of the data. Allow the continuation of the efforts using appropriate methods and technical infrastructures (geodetic network, aerial photography).

Prevent major cumulative errors and discrepancies between maps and realities on the ground. Save land patrimony and prepare the basic information for the Geographic Information Systems (GIS).

Jan. 96-Aug. 96

MOF (Cadastré)

Provide better services to the public by preserving Land Registration Journals and certificates of ownership; improve efficiency of DOLR.

Construction of maps of already surveyed land. Test and select a method to construct maps in poor conditions, observing legal requirements.

Protect valuable documents against loss and deterioration; protect property ownership in Lebanon. Prepare the basic information for the use of (GIS).

Jan. 96-Sept. 99

MOF (Cadastré)

Protect land and property ownership and enhance revenue generation.

Construction of maps of non-surveyed part using aerial photography.

Creation of new land property maps, control of transactions, and increased revenues.

Jan. 96-Sept. 99

MOF (Cadastré and Land Registration)

Preparation of computerization master plan.

Nov. 94-Feb. 95

MOF (Cadastré and Land Registration)

Definition and introduction of an adapted GIS to provide ready access to basic information from Land Registration and Cadastré.

Manage the geographical and literal data inside DOLR and integrate other related information

Nov. 94 Feb. 95
May 95-July 96

MOF (Cadastré and Land Registration)

MAIN OBJECTIVES	PROJECT COMPONENT ACTIVITIES	EXPECTED OUTPUT/IMPACT	TIMING TARGETS (START/COMPLETION)	RESPONSIBLE AGENCY
	Implementation of a computerized archiving system for Land Registration Journals with indexing for quick retrieval of documents.	Protect valuable documents against loss and deterioration; protect property ownership.	Dec. 95-July 96	MOF (Land Registration)
	Designing and implementation of a computerized database system to provide ready access to basic information from Land Registration Journals which will become the basis for land registration.	Better documentation procedures; more efficient operation; less dependence on a few knowledgeable people who are close to retirement; better information to the public; increased revenues.	Dec. 95-July 96	DITTO
	Implementation of a land data base to provide up-to-date numerical maps. Link the Cadastre to the Land Registry, using GIS.	Better service to the public; better support services to other government departments; increased revenues.	Dec. 95-Oct. 96	MOF (Cadastre and Land Registration)
	Development and implementation of computerized systems for management and control of operations in DOLR.	Improve management; reduce possibility of corruption, and increase revenues.	June 95-July 96	DITTO
	Determining feasibility and advising on proposed size and structure of unit for large taxpayers (ULT).	Improved tax administration and increased revenues from domestic taxes.	November 1994	MOF (Director of the Revenue Department)
	Appointment of ULT staff.		Dec. 94	MOF

OTHER FISCAL ACTIVITIES

1. Domestic Taxation
To improve tax administration capacity for assessing and collecting taxes in a cost efficient manner, and preparing and implementing measures to broaden the tax base and diversify revenue sources.

<p>Assigning international tax administration expert responsible for guiding the development of the unit, drawing up procedures, and organizing training.</p>	<p>Jan. 95-June 97</p>	<p>DITTO</p>
<p>Recruitment of local specialists to assist in developing information systems, accounting, audit, and training programs.</p>	<p>Jan. 95-June 97</p>	<p>DITTO</p>
<p>Assigning international experts in various aspects of tax administration, e.g., sales tax, TIN, assessment and collection procedures, and computerization.</p>	<p>Jan. 95-Dec. 97</p>	<p>DITTO</p>
<p>Purchase of computer equipment and basic software for ULT.</p>	<p>June 95</p>	<p>DITTO</p>
<p><u>2. Reform of public expenditure management</u> To gradually strengthen the MOF's capacity to plan, manage, and control the public finances in a manner which will enable the Government to conduct appropriate and flexible fiscal policies.</p>	<p>Oct. 94 or earlier</p>	<p>MOF (Head of Budget Department)</p>
<p>Improved policy, programming, and budgeting; expenditure control; treasury management; and reporting. Efficient use of revenue resources and improved fiscal management.</p>	<p>August-Oct. 94</p>	<p>MOF</p>
<p>Reviewing adequacy of staffing of the concerned Directorates and helping implement recommendations to ensure effective use of technical assistance.</p>	<p>Dec. 94-May 95</p>	<p>DITTO</p>
<p>Revising budget nomenclature, introducing functional and economic classifications in line with international standards.</p>	<p>May 95-September 96</p>	<p>DITTO</p>
<p>Designing new system for budget coverage, presentation.</p>	<p></p>	<p></p>

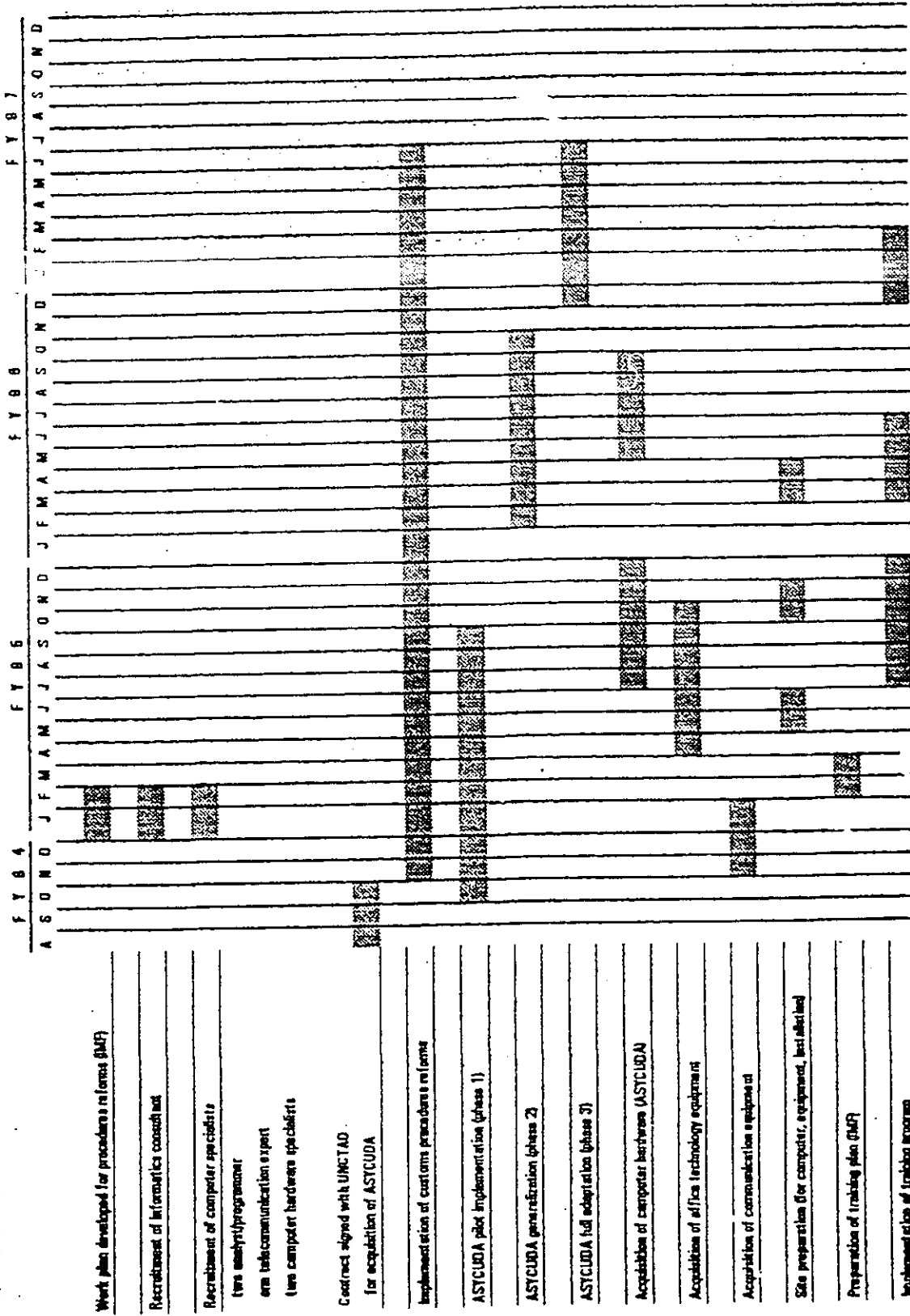
MAIN OBJECTIVES	PROJECT COMPONENT ACTIVITIES	EXPECTED OUTPUT/IMPACT	TIMING TARGETS (START/COMPLETION)	RESPONSIBLE AGENCY
	preparation, execution, and expenditure control.		Aug. 95-April 96	MOF (Head of Treasury Department)
	Designing treasury management and cash flow system, including internal debt management.		April 95-June 97	DITTO
	PEM systems training.		April 95-March 96	MOF (Head of Budget Department)
	Appointment of local specialist in informatics to support the management of the Ministry's computer operations.			
	(Some of these PEM assignments could be undertaken by the same expert, if candidates with the right mix of skills and experience can be found.)			

Consultant Services Included in the Project

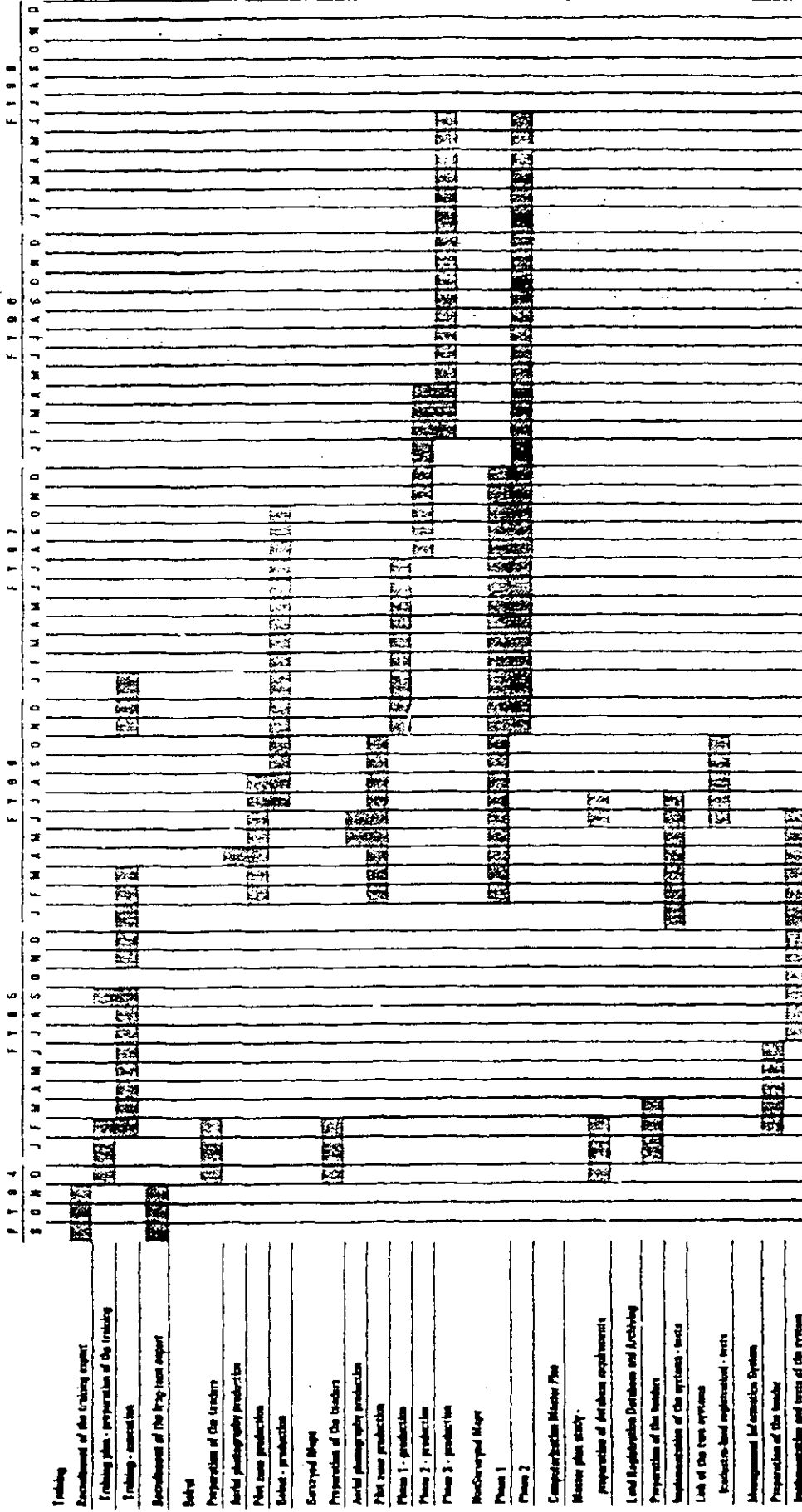
Component	Work-Months (w/m)		
	International	Local	Total
Customs Administration	79	30	109
Implemented by UNCTAD	67	—	67
Implemented by the IMF	12	—	12
Cadastral and Land Registration	77 ^a	—	77
Other Fiscal Activities	48	44	92
Domestic Taxation	26	24	50
Public Expenditure Management	22	20	42

^a Includes 37 w/m of individual consultant time and an estimated 40 w/m under the proposed turnkey contracts.

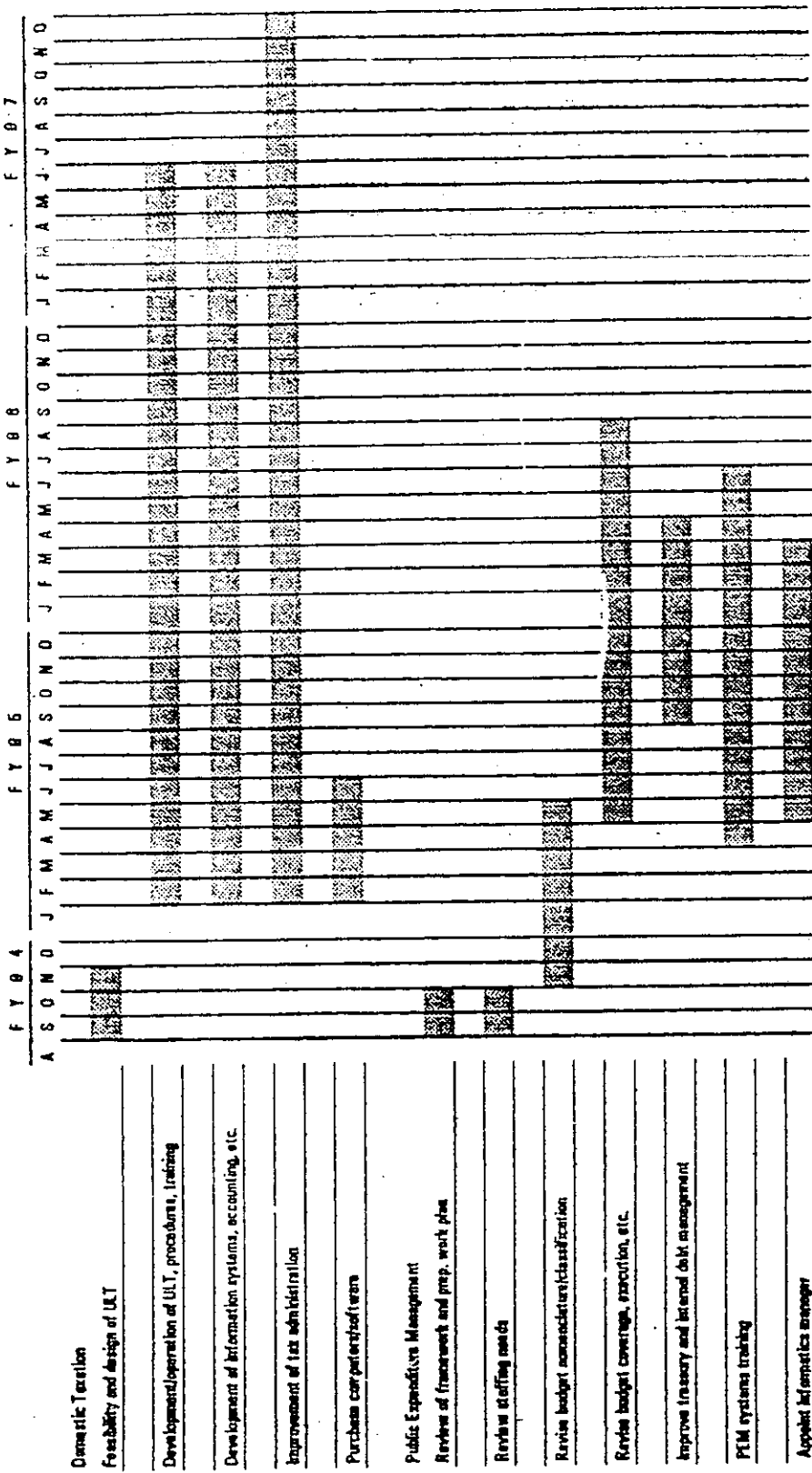
CUSTOMS ADMINISTRATION COMPONENT



CADASTRAL COMPONENT



OTHER FISCAL ACTIVITIES COMPONENT



KEY TERMS OF REFERENCE

I. The Project Implementation Team (PIT)

A. General Functions and Responsibilities

The Project Director and other PIT members — Project Manager, Implementation Coordinator (ICs), and Accounting Officer — would have line authority to act on behalf of the Minister of Finance in the execution of the Project. The following are the general functions and responsibilities of the PIT; specific Terms of Reference for each PIT member are provided below.

Under authority delegated to the PIT by the Minister of Finance, the PIT would:

- (a) study the design and requirements of components and sub-components, and any revisions or additional and relevant documents, including the identification of required resources and inputs, and start of project activities;
- (b) finalize job descriptions for the needed staff in consultation with the managers of the participating directorates, and the necessary counterpart staff that would be identified/recruited by the Government;
- (c) assume day-to-day responsibility for coordinating and supporting the project implementation process, including preparation of work and training programs and budgets in collaboration with the participating directorates;
- (d) assist and support the participating directorates when carrying out their project tasks — in particular, in the areas of procurement, training, accounting and management information systems;
- (e) establish a roster of individual local consultants and consultancy firms, who may be qualified to supply the required technical assistance in their field(s) of specialty;
- (f) liaise with the participating donors on issues of interest to them;
- (g) ensure the preparation and implementation of a unified project quarterly task and accounting reporting system;
- (h) cause the preparation of project accounts and audits in sufficient detail and timeliness to be satisfactory to the Government, UNDP, the World Bank, and any other donors; and
- (i) carry out such other related tasks as may reasonably be requested by the Minister.

B. Project Implementation Team Members

Project Director

3. The Project Director would be responsible for overseeing the progress of implementation of the overall economic management program of the MOF, of which the Project is an important part. The Project Director would be located in the MOF and would report to the Minister of Finance. He/she would be responsible for managing the implementation of the project with the help of other PIT members. The Project Director would:

- (a) act as an economic advisor to the Minister of Finance;
- (b) inform the Minister on project implementation issues and obtain his decisions and directions on policy matters which may arise;
- (c) review the performance of the PIT and instruct the Project Manager and other members of the PIT, as required, to ensure the successful carrying out of the general PIT functions and responsibilities;
- (d) review with the participating directorates and donors principal issues relating to implementation, and ensure their resolution;
- (e) finalize project reports, and ensure full compliance with all financial, accounting and audit requirements;
- (f) act as Secretary to the Project Steering Committee;
- (g) coordinate all technical assistance to the MOF including the ongoing UNDP/IMF project Leb/92/17, which is an integral component of this Project and of which she is the Project Manager;
- (h) assist and advise the Minister of Finance in negotiations or discussions with the World Bank and donors;
- (i) liaise with the World Bank, UNDP, IMF and other multilateral or national agencies providing support to the MOF;
- (j) manage the overall implementation of the Project with the help of the PIT; and
- (k) carry out such other tasks as the Minister of Finance may reasonable request.

4. The Project Director should have the following qualifications:

- (a) a post-graduate degree in finance, economics or public administration;
- (b) seven years of experience in increasingly responsible government positions, including management of large/complex projects; and

- (c) full fluency in Arabic and English. Knowledge of French desirable.

Project Manager

- 5. The Project Manager's Terms of Reference are to:
 - (a) manage the day-to-day functions of the PIT, and be responsible for the carrying out of its general functions and responsibilities, under the direction of the Project Director;
 - (b) prepare annual work programs and budgets for the PIT, to be updated quarterly;
 - (c) review and approve invoices submitted by contractors and suppliers contracted under the technical assistance program, in consultation with the PIT Accounting Specialist;
 - (d) supervise the performance of the PIT members, and any consultants hired by it;
 - (e) review and comment on the implementation plans prepared by the participating directorates, with particular emphasis on the training plans for effective transfer of skills to counterpart staff;
 - (f) prepare quarterly progress reports for the Project Director; and
 - (g) carry out such other related tasks as may reasonably be requested by the Project Director.
- 6. The Project Manager should have the following qualifications:
 - (a) a post-graduate degree in finance, economics, or public or business administration;
 - (b) five years of experience in implementing and managing large, complex projects in the public and/or private sector, and a minimum of three years as a senior manager of such project(s); and
 - (c) fluency in Arabic and English. Knowledge of French desirable.

Implementation Coordinators (ICs)

- 7. An IC would work primarily in the concerned participating Directorate of MOF. He/she would be responsible for supporting the implementation of the Project.

8. Under the direction of the Project Manager, an IC would:
- (a) liaise closely with directorate staff and consultants assigned to the Project within the participating directorate;
 - (b) ensure the smooth implementation of each project component;
 - (c) facilitate and expedite the provision of required services and equipment, to assure efficient and effective performance of Project tasks;
 - (d) assist in the preparation of technical progress reports, including the quarterly progress reports; and
 - (e) perform such additional, related tasks as would reasonably be requested.
9. The IC would have the following qualifications:
- (a) university degree, or equivalent, in economics, finance, or public or business administration;
 - (b) at least five years of experience in an operational capacity, preferably in both the public and private sectors;
 - (c) fluency in Arabic and English;
 - (d) knowledge of French desirable; and
 - (e) knowledge of the technical issues of the respective components desirable.

Accounts Officer

10. Under the direction of the Project Manager, the Accounts Officer would:
- (a) install a modern computer-based financial accounting system for the Project, including a mechanism for timely recording of commitments and expenditures, and verification of the utilization of funds, by different participating directorates;
 - (b) prepare quarterly and annual financial reports to the Minister on the status of commitments and expenditures by the participating ministries and agencies under the project, and withdrawals from the World Bank loan and donor grants;
 - (c) assist the Project Director in preparing quarterly and annual progress reports to the World Bank and other parties to the Project;
 - (d) open a Special Account at the Central Bank for the procurement of small items and ensure that the Special Account is operated in accordance with procedures agreed with the World Bank;

- (e) ensure that the project accounts (including the Special Account) are audited annually using an independent external auditor; and
- (f) carry out such other related tasks as may reasonable be requested by the Project Manager.

11. The Accounts Officer should have the following qualifications:

- (a) a graduate degree in accounting, preferably a CA or CPA;
- (b) at least five years of experience in accounting;
- (c) fluency in Arabic and English; and
- (d) knowledge of French desirable.

II. Priority Cadastre Consultants

A. Training Expert

12. The expert would be based in Lebanon. He/she would prepare detailed training requirements for the DOLR, in coordination with the long-term cadastre expert. In particular, the expert would:

- (a) determine the skills upgrade needs of DOLR to implement the Project and ensure the conservation of data, including training needs to be incorporated in eventual turnkey contracts;
- (b) establish training programs (modules) according to the above needs and priorities of training;
- (c) establish training evaluation methods;
- (d) conduct research of documentation and reference materials needed for training;
- (e) evaluate specialized training courses available in Lebanon; assess the needs of training abroad, and make necessary arrangements, if required; and
- (f) identify logistics, including training sites, equipment, etc., required to implement the training program.

13. The expert should have the following qualifications:

- (a) a post-graduate degree in topography and cadastre;
- (b) experience in developing training modules, preferably in the areas of topography and cadastre, strongly recommended;
- (c) experience in an Arab country desirable; and
- (d) ability to communicate in English and French, or Arabic and English, or Arabic and French.

B. Long-term Expert

14. The long-term expert would be attached to DOLR. He/she would assess current conditions and constraints, identify technical solutions, prepare tender documents, follow-up on component implementation, and verify delivery of goods and services, as per contractual agreements. The expert would:

- (a) determine technical measures related to cadastre and land registration to be adapted for the different zones according to existing constraints and priorities;

- (b) collect information concerning quantities of parcels, buildings, and superfieios;
- (c) assess constraints for aerial photography and field survey and recommend technical solution(s);
- (d) carry out some tests on the field to verify technical alternatives;
- (e) identify the needs of different users in Lebanon (electricity, water, sewage, telephone, networks, Municipalities and ensure confidentiality and security of the data) and reflect them in an action plan;
- (f) prepare technical specifications, and related tender document(s), for turnkey contract-based International Competitive Bidding to provide needed services in Cadastre and land registration. (Procedures using flexible technical assistance and phases would be desirable; should include new technologies; GPS on board, GPS on field, analytical stereoplotting, object-oriented system; take into account the arabization of the data and maps; carry out quality control procedures);
- (g) assist in bid evaluation and contract negotiation;
- (h) assist in the development and execution of the training program;
- (i) ensure the transfer of technology and involve as soon as possible the trained staff in the implementation of the Project;
- (j) supervise subcontracted works and coordinate related tasks;
- (k) ensure observance of the time schedule related to the above tasks and prepare periodic progress reports;
- (l) develop and implement procedures and techniques to safeguard actual and future DOLR archives;
- (m) participate in the development of requirements for the Management Information System (MIS); use the MIS to increase the efficiency of the Project (enhancement of the revenue, providing better services to the public, and protecting the property rights in Lebanon);
- (n) prepare guidelines to ensure the quality of the work to be executed by the private sector in Lebanon for the Project;
- (o) assist DOLR in establishing contacts with international institutions involved in cadastre and topography; and
- (p) coordinate closely with the PIT in carrying out the above tasks.

5. The expert should have the following qualifications:

- (a) a post-graduate degree in topography and cadastre;
- (b) at least ten years of experience in implementation and managing large projects, of similar size, involving topographical surveys and GIS; this experience must also include preparation of specifications of tender documents for turnkey contracts, and for supervision of such contracts;
- (c) experience in an Arab country desirable;
- (d) experience in land registration system desirable; and
- (e) ability to communicate in English and French, or Arabic and English, or Arabic and French.

TRAINING PLAN

A. Training Provided in Lebanon

I. Ministry of Finance (MOF) - Customs, Tax, and Budget

Government Objectives	Subjects of Training	Personnel to be Trained	Preliminary Schedule	Expected Results
Strengthening tax administration in order to enhance revenue collection	Assessment and collection procedures Accounting Audit Indirect taxation Information systems and computerization	Staff of the unit for large taxpayers Approximately 20 in number	April 1995 through June 1997	A core group of highly qualified tax officials capable of extending their expertise throughout the tax administration
Strengthening customs operations in order to raise revenue in a cost efficient manner	Valuation Assessment Collection Inspection Fraud investigation Computerized declaration processing (ASYCUDA)	Staff of the customs service working in Beirut port, airport, and regional offices Approximately 120 in number	March 1995 through December 1997	An efficient customs service with improved systems in place for rapid and efficient clearance of goods.
Improved administration and management of government finances	Budget preparation Budget accounting Expenditure control Cash management Information systems	MOF staff concerned with budgeting, accounts and treasury operations Approximately 15 in number	June 1995 through June 1996	Enable the MOF to make major improvements in the public expenditure management system

II. Ministry of Finance (MOF) - Cadastre

Government Objectives	Subjects of Training	Personnel to be Trained	Preliminary Schedule	Expected Results
Reinforce the map conservation program	Topography Cadastre	Sixteen technicians	January - September 95 October 95 - April 96 October 96 - June 97	Efficient service and good quality data
Check the future subcontracted works to ensure good quality output	Topography Cadastre Photogrammetry Data processing use	Sixteen technicians	January - September 95 October 95 - April 96 October 96 - June 97	Good quality of output
Ensure data processing implementation: provide better services to the public, and assist in the reconstruction of the country through better land information systems	Topography Cadastre Data processing/information services	Sixteen technicians and four engineers	January - September 95 October 95 - April 96 October 96 - June 97	Quality and security of the information services of DOLR
Management of future works and improving the efficiency of DOLR	Topography Cadastre Photogrammetry Data processing Geodesy	Eight engineers	January - September 95 October 95 - April 96 October 96 - June 97	Efficiency of DOLR, flexibility in achieving new objectives

B. Training Provided Overseas

I. Ministry of Finance (MOF) - Cadastre

Government Objectives	Subjects of Training	Personnel to be Trained	Preliminary Schedule	Expected Results
Improvement of Cadastral Management (to support the development of credit and private investment and to enhance revenue generation)	Topography Geodesy Photogrammetry	Two engineers	1996-1997	High level engineering for surveys to provide improved cadastre management
Provide better service for the reconstruction of the country	Information technology: database management systems, database networks, and graphical applications	Three engineers	1995-1997	Improved expertise in land management and data processing

SUPERVISION PLAN

1. **Bank supervision input into key activities.** The Project would require close supervision, especially in the beginning. A Project Launch Workshop would be held in September/October, 1994. Subsequently, Bank staff would supervise the Project twice each year; there would also be a mid-term review. As far as possible, the supervision missions would be fielded in coordination with related IMF/UNDP activities. The attached chart shows the tentative timing and skill mix of the supervision missions. As far as possible, continuity of staff would be ensured for these missions.

2. **Borrower's contribution to supervision.**

- (a) The Project Implementation Team (PIT) members would have the primary responsibility for project monitoring and coordination. They would review and discuss the Project's progress with the implementing agencies prior to the preparation of the progress reports.
- (b) The PIT would prepare quarterly progress reports on project implementation and expenditures, starting three months after the date of effectiveness, for review by the Bank.
- (c) The PIT would also be responsible for coordinating arrangements for Bank supervision missions, and for providing information required by missions.
- (d) The PIT would make the necessary arrangements, including preparation of documents, for the mid-term review to be held two years after the date of effectiveness.
- (e) On behalf of the Borrower, the IMF, the implementing agency for the non-UNCTAD part of the customs component and for the whole of the Other Fiscal Activities component, would recruit consultants, supervise their work, and ensure the quality and timely delivery of outputs (Attachment 2). UNCTAD would perform these functions for their part of the customs component.

Bank Supervision Input Into Key Activities

Approximate Dates (mo/yr)	Activity	Expected Skill Requirements	Staff Input (stwks)
8 /Oct. 1994	Project Launch Workshop (to review start-up of new activities and familiarize counterparts about project implementation needs)	Economics/Finance (Task Manager) Procurement/Disbursement Information Technology Cadastre	9
April 1995	Supervision Mission	Economics/Finance (Task Manager) Procurement/Disbursement Information Technology/Cadastre	7
October 1995	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
April 1996	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
October 1996	Supervision Mission/Mid-Term Review	Economics/Finance (Task Manager) Procurement/Disbursement Information Technology/Cadastre	7
April 1997	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
October 1997	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
April 1998	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
October 1998	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
April 1999	Supervision Mission	Economics/Finance (Task Manager) Information Technology/Cadastre	5
October 1999	Project Completion Review	Economics/Finance (Task Manager) Procurement/Disbursement Information Technology/Cadastre	7

MONITORABLE INDICATORS

1. To assess the progress of various activities (for details of activities and training, see Attachments 2 and 4) under the Project, the following indicators would be monitored by the PIT and the Bank. The indicators listed here were discussed and agreed upon at the time of negotiations.

A. Indicators with Specific Dates/Targets in Attachments 2 and 4

I. Customs Administration

- (a) Hiring of consultants as scheduled.
- (b) Implementation of phased ASYCUDA as per agreement with UNCTAD.
- (c) Designation/recruitment of counterparts as agreed.

II. Cadastre and Land Registration

- (a) Hiring of consultants/experts as scheduled, and designation of their counterparts.
- (b) Number of staff trained against specified targets (Attachment 4).
- (c) Number of maps reconstructed for the previously surveyed area.
- (d) (i) Area surveyed; and (ii) number of maps prepared for the non-surveyed area.

III. Other Fiscal Activities

Domestic Taxation

- (a) Hiring of consultant/expert as scheduled.

Public Expenditure Management

- (a) Hiring of consultants/experts as scheduled.
- (b) Designating counterparts for experts as agreed.
- (c) Training numbers of personnel as scheduled.

B. General Review Indicators

I. Customs Administration

- (a) Acquisition of office technology and communication equipment as scheduled.
- (b) Preparation and implementation of recommendations about procedural and systems improvement.
- (c) Preparation and implementation of annual training programs.
- (d) Increase in customs receipts, separately on account of (i) rate and coverage changes; and (ii) improvement in customs systems and administrative efficiency (i.e., total increase in receipts minus increase under (i)), at mid-term and end of Project.
- (e) Improved clearance of goods.

II. Cadastre and Land Registration

- (a) Implementation of a computerized program for archiving Land Registration Journals and for establishing a property database management system.
- (b) Increase in the receipts of registration (transaction) fees and property taxes, separately for (i) rate and valuation changes; and (ii) improvement in records, systems, and administration (i.e., total increase in receipts minus (i)), at mid-term and end of Project.

III. Other Fiscal Activities

Domestic Taxation

- (a) Completion of the feasibility report and design of a unit for large taxpayers (ULT).
- (b) If found feasible, and approved by the Government, the progress of ULT: (i) issuance of necessary order/decrees; (ii) preparation of operating procedures; (iii) completion of staffing; (iv) purchase of computer equipment and software; (v) starting of operations; and (vi) number of staff trained.
- (c) Preparation of proposals on (i) extending coverage of excises; and (ii) introduction of a general sales tax.
- (d) Increase in domestic tax receipts, separately due to (i) rate changes in existing taxes; (ii) establishment of ULT and other improvements in tax administration; and (iii) extension of excise taxes to new products and introduction of a sales tax, when agreed and implemented, at mid-term and end of Project.

Public Expenditure Management

- (a) Progress in revising budget nomenclature.
- (b) Progress in revising budget coverage, presentation, preparation, execution, and expenditure control.
- (c) Progress in revising the system of treasury management, cash flow system, and internal debt management.
- (d) Hiring of a local specialist in informatics as scheduled.

C. Additional Checklist for Mid-Term Review in October 1996

2. In addition to the use of the above-mentioned indicators, the following indicators and documents would be used for the mid-term review:

- (a) A mid-term review report to be prepared by the PIT, summarizing physical and qualitative progress made under major activities, including consultants hired, positions filled, training undertaken, equipment provided, and disbursements made. The report would also highlight any major problems faced by the Project and suggest remedial measures.
- (b) Contract award for all goods and services.
- (c) Audit Report of Project Accounts for FY96.
- (d) Audit Report for Special Account for FY96.