



**Ministry of Finance**

**UNDP Project Leb/92/017**

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**PROGRESS REPORT  
FOR  
1999 AND 2000**

**October 2000**

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# **PART I**

## **INTRODUCTION**

# MINISTRY OF FINANCE

UNDP PROJECT LEB/92/017

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## PROGRESS REPORT FOR 1999 AND 2000

The Revenue Enhancement and Fiscal Management project - REFM seeks to support Government efforts to enhance revenues and strengthen fiscal management. In this context, it is providing the Ministry of Finance with economic policy support and reforms coordination. The project also acts as catalyst for mobilizing technical assistance and additional external support to the Ministry of Finance. Furthermore, the project is expanding to help the Ministry of Finance in implementing the reforms incorporated in the five-year fiscal adjustment program of the Government, whose primary aim is to secure sound fiscal policy conducive to economic growth. The project has extended support to the Ministry of Finance in the form of consultants, training, and improvements in methods and work environment.

The project was launched in March 1995 with an original budget of USD 685,000. It is now planned to be completed in December 2001 with a current budget of USD 4,863,535. During the last twenty months, the project was also able to mobilize external technical assistance in the vicinity of USD 3.5 million.

### Summary information on the project:

Project Number and Title	Executing AGENCY	Project starting date		Project completion date	
		Originally Planned	Actual	Originally Planned	Current estimate
LEB/92/017/D/01/99	Government	<i>December, 1994 (Revised Project "D")</i>	<i>March 1, 1995</i>	<i>December, 1997</i>	<i>December, 2001</i>

The project's implementation arrangement consists of a project implementation team (19 employees in total) distributed according to the following components:

<b>Section / Unit</b>	<b>Staff</b>
Project	Project Director Accountant (supervising the accounts of all project components)
Economic and technical support unit	Four Economists and Legal Analyst
Customs Administrative Component	Component Manager Development Expert
Cadastre Component	Implementation Coordinator
Tax revenue component	Taxation consultant
Office of the Minister	Head of Minister's Office National Accountant Expert Public Expenditure Expert Assistant to the Minister
Project Support Staff	Four administrative assistants

The success of this project will be measured by its ability to provide the Ministry with the needed support and assistance in managing certain key issues: developing strategy and policy formulation for the Ministry, preparing and monitoring major reforms conducted by the Ministry, providing support for the potential change management within the Ministry of Finance and insuring the transfer of know-how to the administration.

Beneficiaries within the various components of the Ministry and at different levels, as well as local and international institutions in contact with the project recognize the level of professionalism, the positive and beneficial role played by the team and all components of the project. In particular, in its latest Country Project Performance Review, the World Bank assigned a "highly satisfactory" rating to the project management and a "satisfactory" rating to the project development objective and the implementation progress (as can be seen in more details below).

**Technical Assistance For Revenue Enhancement  
(Project ID: P005340 -- Loan/Credit No.: 3770)**

Project Performance Ratings					
<b>Summary Ratings:</b>	<b>Last</b>	<b>Now</b>			
Achievement of PDO	HS	S	Resettlement	NR	NR
Implementation Progress	S	S	Environment	NR	NR
<b>Other Ratings:</b>			Environmental Plan	NR	NR
Counterpart Funds	S	S	Financial Covenants	S	S
Project Management	HS	HS	Other Legal Covenants	HS	HS
Procurement	S	S	WID Impact	NR	NR
			Monitoring & Evaluation	NR	NR
Project Component Ratings			Cost	Last	Now
CUSTOMS ADMINISTRATION			3.2	HS	HS
CADASTRE AND LAND REGISTRATION			18.7	S	S
OTHER FISCAL ACTIVITIES			2.2	HS	HS
PROJECT IMPLEMENTATION TEAM			2.2	HS	HS

*Notes: HS=Highly Satisfactory; S=Satisfactory; U=Unsatisfactory; HU=Highly Unsatisfactory; NA=Not Applicable; NR=Not Rated; Cost in US\$M*

Source: WB, CPPR 2000

**Main developments during the reviewed period:**

The project proved, during the last twenty months, its capacity to execute efficiently its responsibilities and to achieve expected results based on its terms of reference: the work program for fiscal reforms, reform coordination, technical and policy advice to the Ministry. The project also proved its relevance to reform needs including modernization of fiscal policy (including the fiscal reform program) and financial systems.

The various components of the project helped improve the performance of the Ministry of Finance and increased the involvement of the administration in the reform program.

The sustainability of the various activities of the project was proven even throughout the latest transition in Government and change in the Ministry's management. In addition, the project acted as a catalyst in pooling resources; indeed, it has persuaded a number of additional donors and lenders to finance other rehabilitation projects within the Ministry of Finance.

The project staff showed competence, dedication and effectiveness in their work and in their level of professionalism as well as their commitment to the objective of the project and the support to the Ministry of Finance in its effort for reform.

### **Future prospects and recommendations for the development of the project**

This multi-purpose project is supporting a key Ministry in the reform process (both administrative modernization, policy formulation and implementing fiscal reforms). It has proven essential in ensuring success and sustainability of the Government's reform effort. Therefore, certain elements should be provided in order to ensure sustainability of the project, amongst them:

- Developing an integrated approach for the reform program within the Ministry of Finance, with a tight and well-defined coordination mechanism between the various components of the reform, and eventually the possibility of integrating the coordination of the various reforms within the program. This strategy will ensure coherence of reforms and rationalize the reform strategy.
- Establishing, with the administration, a detailed work program specifying the modalities of certain functions, including resource mobilization and the related implementation arrangements. This transmission will secure the continuity of changes and functions introduced in the Ministry.
- Recruiting additional staff for specialized tasks and expanding the number of civil servants working within the team as full timers (for certain period of time). At a later stage, these civil servants will be integrated within various departments in order to ensure transfer of know-how and sustainability for the implementation of the various reforms.
- Revising the scope of the current project document in order to capture certain activities handled by the team such as the following:
  - New activities and functions developed by the projects,
  - The evolution toward new phases for the various projects,
  - The support for the reform process needed at the Ministry of Finance
- Strengthening the integration of the project within the Minister's team and its functioning as a cabinet for the Minister. This assimilation has proved to be essential for the project to fulfill its mission and to implement efficiently the various components. Moreover, special attention should be awarded to ensure smooth adaptation during the Government's transition periods in order to avoid any delay in implementation of reforms.
- According to its current budget, the project will expire by the third quarter of 2001, prior to the full implementation of all the project's components with certain activities remaining at a risk of un-sustainability. Given the importance of this

project for the reform process within the Ministry of Finance and its implication in the strategy formulation of the Ministry, action should be taken in order to ensure the continuity of the project, the availability of sufficient resources and a good working environment for the project team.

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The aim of this document is to highlight critical milestones within the project during the last two years and to present its role as a platform for the implementation of various reforms conducted by the Ministry of Finance.

- The first part of the document summarizes the activities conducted by the project in providing economic and other technical support to the ministry.
- The second part presents the reform program coordinated or supervised by the project.
- The last part of this document provides an overview of the involvement of the project in supporting the five-year fiscal adjustment program of the Government for the year 2000 and beyond.



**PART II**

**ECONOMIC AND OTHER TECHNICAL  
SUPPORT**

## PART II

### ECONOMIC AND OTHER TECHNICAL SUPPORT

The UNDP Project at the Ministry of Finance acts as the main resource for major macroeconomic policy issues. The Project Director acts as the economic advisor to the Minister of Finance and manages an economic support unit that provides advice and opinion on all macroeconomic policy initiatives. Moreover, the project team plays a critical role in the reform and modernization efforts of the Ministry including the critical task of revenue enhancement. To this end, the economic support provided to the Ministry focuses on avenues to ensure macroeconomic stability and particularly fiscal consolidation.

<b>Support the Republic to tap the international capital markets</b>	In the last three years, support has been provided for the Ministry of Finance in its effort to tap the international capital markets. This support entailed providing assistance in the preparatory and execution stages of issuing Eurobond deals in the European and American debt markets.
<b>Interaction with rating agencies</b>	Furthermore, the project provides support to the Ministry of Finance in organizing the yearly missions conducted by four rating agencies to Lebanon. In addition, the project maintains periodic correspondence and contact with these agencies in order to provide them with all relevant yearly macroeconomic updates.
<b>Providing local and international research institutions with necessary and timely information, in addition to preparing various economic and financial studies</b>	Effort has also been extended to provide local and international research institutions with all relevant information pertaining to Ministry of Finance activities. This involves furnishing up-to-date fiscal data, outlining the Government's macroeconomic policy and discussing outstanding economic issues including the budget performance.  The project also provides the Ministry of Finance with essential assistance to decision making, such as macroeconomic studies, macroeconomic forecasts, and fiscal policy scenarios.

<p><b>Enhancing the quality of information transmission</b></p>	<p>The project, in order to enhance the quality of transmitting information, has restructured the ministry's website. The customs component of the project created the LITE (Lebanon's international trade exchange) website, intended to provide trade statistics, national tariff information, and guides to assist traders and brokers. In addition to these sites, the team has developed the LebanonHelp website, for the collection of donations, and a website for the donors' support for southern Lebanon.</p>
<p><b>Relationship with the International Monetary Fund</b></p>	<p>In the context of its obligations regarding exchange arrangements (Article of Agreement number IV), the International Monetary Fund conducts yearly missions to Lebanon. The project provides assistance to the Minister of Finance in collaborating with the Fund.</p>
<p><b>Supporting the Ministry in the Euro-Mediterranean Association Agreement negotiations</b></p>	<p>The project has also been heavily involved with the Ministry of Finance in the ongoing negotiations with the European Union for Lebanon's accession to the Euro-Mediterranean association agreement. In addition, the project is also coordinating technical assistance missions from the European Union to the Ministry of Finance.</p>
<p><b>Various other activities</b></p>	<p>Other areas where the project has provided support to the Ministry of Finance are:</p> <ul style="list-style-type: none"> <li>• the 20-20 initiative project,</li> <li>• coordinating with the Central Bank, the Banking Control Commission, and the Lebanese Bankers Association in fighting against money laundering,</li> <li>• providing technical assistance by coordinating and managing the various loans and grants provided by international institutions and agencies,</li> <li>• representing the Ministry in the committee for the preparation for the donors meetings,</li> <li>• and participating in the drafting of various financial market reforms and laws, as well as their discussion with the parliamentary commissions.</li> </ul>

## **II.1. EUROBONDS**

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Support is constantly provided to the MOF in its effort to tap the international capital markets. This support entails providing assistance in the preparatory and execution stages of issuing bond deals in the European and American debt markets. This task involves the following five different stages:

- Selecting the most appropriate structure in terms of instrument, maturity and currency;
- Evaluating bids and choosing the underwriter(s),
- Preparing the documentation for the transaction (mandate letter, offering circular, etc.)
- Participating in the due diligence rounds
- Partaking in the road show presentations and investor meetings.

### **The Objectives and Strategies of the Ministry of Finance for issuing Eurobonds in 1999 and 2000:**

In its tapping of the international capital markets, the Ministry of Finance adopted the following objectives and strategies, namely:

- Minimizing, over the long term, the cost of meeting the government's financing needs, taking into account the risk factor (cost/risk trade-off);
- Diversifying sources of financing and ensuring better debt management;
- Lengthening the sovereign yield curve, ensuring long term funding and broadening the investor base;
- Building and developing a long-term and regular relationship with investment banks. Communicating the overall strategy and the issuing calendar, and consulting the investment banks on the strategy and products.

### **Eurobond issues in 1999 and 2000**

The Lebanese Republic established a Global Medium Term Note Program (MTN) in March 1999 amounting to USD 550 million. This amount represents the ceiling under which the Republic is authorized to issue on the international capital markets. This

amount was later enlarged by USD 1.95 billion, to reach USD 2.5 billion. The MTN program was increased by USD 1 Billion in October 2000 to reach USD 3.5 billion.

The Eurobond issues in 1999 and 2000 were characterized by the following: The Republic was the first emerging market in the region to issue in Euro, in March 1999, and issued ten-year bonds (2009) in order to extend the yield curve and enlarge the investor base. The Republic issued in 2000 floating rate notes to diversify risks and to provide new types of products to investors.

In the context of the debt refinancing strategy of replacing costly and short-term domestic debt with cheaper and longer-dated foreign debt, the MOF accessed the capital markets six times since March 1999 (also see table at the end of this section).

- The first issue took place in **March 1999** and consisted of a double-tranche 5-year Eurobond amounting to USD 200 million and Euro 300 million. Lebanon was the first Mediterranean emerging market to issue in the unified European currency. The issue was lead managed by Merrill Lynch.
- The second Eurobond issue took place in **October 1999** and also consisted of a dual tranche offering of a 10-year USD 400 million and a 7-year Euro 300 million. Around 38% of the 10-year USD 400 million tranche was distributed to non-Lebanese accounts, with a substantial portion being sold into US funds. As for the 7-year Euro 300 million tranche, 16% of the bonds were placed outside Lebanon. Morgan Stanley Dean Witter (MSDW) and Credit Suisse First Boston (CSFB) jointly executed the deal.
- The Republic issued in **June 2000** a 5-year USD 500 million. This transaction was divided into a cash portion of USD 319.94 million and an exchange portion of USD 180.06 million. The spread on the issue was +310 bps. Important cash savings, strong placement outside Lebanon, and a successful marketing effort characterized the deal. 70% of the transaction was distributed with Lebanese accounts, whereas the remaining amount was distributed among non-Lebanese accounts. Morgan Stanley Dean Witter (MSDW) and Merrill Lynch (ML) jointly executed the deal. The exchange achieved an important cost saving for the Republic, while the

transaction was also notable for its ability to attract important non-Lebanese demand despite continued market volatility.

- In **July 2000**, the Republic re-opened the 10-year Eurobond initially issued in October 1999. The deal was oversubscribed and the originally starting size of US\$100 million was increased to a final size of US\$250 million due to strong investor demand, and the confidence of international investors in Lebanese Eurobonds. The order book was split equally between Lebanese and offshore investors, with 45% of the issue distributed among non-Lebanese accounts. The issue was lead managed by Morgan Stanley Dean Witter.
- The Republic issued in **September 2000** a two-tranche USD 450 million 3-year fixed and 3-year floating issue. This was the first floating rate note (FRN) issued by the Republic in its effort to diversify the investor base. The spread on the floating rate note is 200 bps above the 6 months USD LIBOR and is determined two days prior to the coupon payment date. The spread on the fixed issue was +310 bps. 83% of the transaction was distributed with Lebanese accounts, whereas the remaining amount was distributed among non-Lebanese accounts. Morgan Stanley Dean Witter (MSDW) and Credit Suisse First Boston (CSFB) jointly executed the deal.
- In **October 2000**, the Lebanese Republic carried-out the re-opening of the March 2004 Eurobond, increasing the originally issue amount of Euro 300 million in March 1999 to a final size of Euro 550 million. The launch spread on the deal was +317 bps. The order book was split between Lebanese and offshore investors as follows: 30% of the issue distributed among non-Lebanese accounts, and the remaining among Lebanese accounts. The issue was lead managed by Commerzbank.

**Future prospects:**

- Filing for Securities and Exchange Commission (SEC) registration in order to enable the Republic to access the US market on a frequent basis.
- Defining, together with the Banque du Liban, the funding needs for 2001 and the anticipated timing for future Eurobond issues.

- Preparing for a diversification of the debt profile through accessing the Samurai market and the long end of the US market. With respect to the Japanese market, the Ministry of Finance could appoint one or two Japanese houses to test the market on an informal basis and to organize a preliminary roadshow in Japan.
- Communicate with investors in light of the new ratings of the Republic, the economic policies of the new government. Communicate to investors the newly assigned S&P rating of the Republic and the economic policies of the newly appointed government.
- Organizing investor trips to the US (New York and Boston) in order to market the credit to targeted investors in the 1<sup>st</sup> quarter 2001, and conducting presentations to gulf investors with the support of the Arab Monetary Fund.
- Requesting investment banks to widen the investor base (in Europe, Gulf and USA). This approach should play a key role in choosing the next underwriters.
- Encouraging investment banks to organize inverted roadshows and to communicate new developments to investors through research and publications.

**Summary table of all deals executed since March 1999**

<b>Issue</b>	<b>Date of Launch</b>	<b>Maturity date</b>	<b>Amount</b>	<b>Lead Manager (*)</b>	<b>Spread at Launch</b>
Eurobond XI	Mar-99	2004	USD 200 million	ML	+355 bps
Eurobond XII	Mar-99	2004	Euro 300 million	ML	+393 bps
Eurobond XIII	Oct-99	2006	Euro 300 million	CSFB+MSDW	+400 bps
Eurobond XIV	Oct-99	2009	USD 400 million	CSFB+MSDW	+440 bps
Eurobond XV	June-00	2005	USD 500 million	ML+MSDW	+310 bps
Eurobond XVI (fungible with XIV)	July-00	2009	USD 250 million	MSDW	+438.5 bps
Eurobond XVII A (floating rate note)	Sep-00	2003	USD 225 million	CSFB+MSDW	+ 200 bps (over LIBOR)
Eurobond XVII B	Sep-00	2003	USD 225 million	CSFB+MSDW	+310 bps
Eurobond XVIII (fungible with XII)	Oct-00	2004	Euro 250 million	Commerzbank	+317 bps

Source: Ministry of Finance

ML: Merrill Lynch

MSDW: Morgan Stanley Dean Witter

CSFB: Credit Suisse First Boston

## **II.2. INTERACTION WITH RATING AGENCIES**

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The Ministry of Finance acts as the Government's liaison with rating agencies. In turn, the project provides support to the Ministry in its dealings with the four rating agencies (Moody's, Standard and Poor's, Fitch, and R&I). In this context, the project furnishes the necessary background information essential to maintain a co-operative rating process. This involves a wide spectrum of issues such as the following:

- Economic developments: Fiscal and budget developments, structure of output and trade, private sector activities, balance of payment, macroeconomic policy, and banking and finance
- Political as well as demographic developments
- Statistical information and projections

In addition, the project coordinates rating agencies' yearly visits to the country and briefs various related institutions (such as the Central Bank, the Ministry of Foreign Affairs, the Council for Development and Reconstruction, and private sector institutions) about the reasons for these visits.

Subsequent to those visits, the team maintains periodic correspondence and contact with these agencies in order to provide them with all relevant yearly macroeconomic updates. Moreover, the team comments on the agencies' annual reports to better reflect the views of the Republic and supplies the additional needed information for more comprehensive rating reports.

With respect to the administration's involvement in the rating process, it is to be noted that competence needs to be reinforced and economic training performed in order to be able to transfer this task to the administration.

### **Interaction with the Rating Agencies in 1999 and 2000**

It is worth noting that the interaction with the agencies this year was frequent and intensive at the same time, due to the increasing concern of the agencies on the fiscal, economic and political developments that characterized the Republic over the year. In addition to the project's regular update of data and information, there were periods of adhoc requests by the agencies, especially prior to a rating review or a planned Eurobond issue by the Republic (see table on next page).



Given the high degree of sensitiveness, rating agency reports were given special attention through thorough readings and comments, updates and corrections. Moreover, an important part of the process was to soften the report's language and add a positive spin and tonality to the often gloomy and pessimistic picture. The team also prepares forecasts for fiscal data, and gather supportive political and economic information that could reverse the attitude of the rating agencies and place Lebanon in a more advantageous position (see attached tables for detailed overview of activities with rating agencies in 2000).

### **Future Outlook:**

The Ministry of Finance wishes to maintain a long-term steady and stable relationship with the rating agencies through the following measures:

- Maintaining constant follow-up and updating the agencies on economic, fiscal and political development. Providing regular information on events which may affect the rating.
- Notifying the agencies of the policies of the new government, as soon as it is formed.
- Maintaining more frequent contact with the agencies in order to discuss and address the immediate concerns outlined in their rating reviews, namely:
  - Public finance
  - Debt dynamics
  - Implementation of reform projects (VAT, privatization, seashore violations...)
- Increasing the investment banks' involvement in the suggestion of new strategies for interaction with rating agencies.

The table below summarizes the activities of the rating agencies with the Republic during 1999 and 2000:

April 1999 Annual visit	December 9, 1999 Country report	March 16 - 18, 1999 ANNUAL VISIT	April 20, 1999 Downgrade
August 26, 1999 First time rating to the domestic currency	March 27-29, 2000 Annual visit	June 30 1999 Downgrade	March 10, 2000 Annual visit
October 1999 Unofficial visit	June 16, 2000 CreditWatch with negative implications	June 22, 1999 Country report	March 31, 2000 Rating affirmed
February 2000 Country report	September 18, 2000 Downgrade	March 13 - 15, 2000 Annual visit	
September 7, 2000 Review for possible downgrade		August 2000 Draft country report	
		August 9, 2000 Rating affirmed	
		September 2000 Assigned negative outlook	

## **II.3. RESEARCH, STATISTICS, AND FINANCIAL ANALYSIS**

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The economic support unit within the project is providing the Minister of Finance with assistance to decision making through regular macroeconomic studies and forecasts, and fiscal policy scenarios.

The project is heavily involved in developing and communicating analysis and information on fiscal issues, which are considered as priority and one of the objectives of the project.

The economic support unit is also involved in financial analysis concerning public enterprises' activities. This includes the management and negotiation of some loans contracted by various public entities. This effort is designed to lower the cost of debt and enhance the management process of public debt.

### **Budget Related Activities**

An important portion of the unit's time is consumed through its involvement in the preparation of the Budget Report, which is usually presented to Parliament together with the Budget Proposal. The team prepares an English and Arabic summary of the Budget Report, which includes a description of the macroeconomic and budgetary policies of the Government, an overview of the domestic economic position, and an analysis of the current budget structure.

### **Economic updates and reports**

The progress reports prepared by the unit and regularly updated are the following:

- The implementation of the five-year fiscal adjustment plan;
- Recent economic and financial developments;
- Fiscal performance reports;
- Reports on debt issues: eurobonds and weekly auctions of Tbills.

The unit also conducts statistical analysis and provides it to the Minister together with continuous economic update in order to serve as a reference for press releases or interviews.

These reports are also distributed to all the Ministries and governmental agencies, in addition to various international agencies, newswires, and Embassies. They are also

displayed on the Ministry's website as soon as they are released, rendering them accessible to a large audience that has become accustomed to access the website for the latest fiscal figures.

Recently, the unit has been preparing summary briefing notes of the Eurobonds issued by the Republic.

It is to note that the unit has been able to compile a rich list of contacts rapidly accessible via email, thus providing the Ministry with an efficient and reliable distribution channel.

<b>List of Publications</b>	
Budget reports	Weekly debt reports
Summary reports on budget proposals and laws	Summary notes of the Eurobonds issues
Updates of the Five-year fiscal adjustment plan	Offering circulars and pricing supplements for Eurobonds issues
Recent economic and financial developments	Reports on projects and reforms
English version of the fiscal performance	

### **Relationship with research institutions**

In addition to the activities discussed above, the economic support unit provides local and international research institutions with all relevant information pertaining to MOF activities. This involves furnishing up-to-date fiscal data, outlining the government's macroeconomic policy, and discussing outstanding economic issues including the budget performance. Given the shortage of real-sector economic data in Lebanon, an increasing number of research units have relied on the information available at the MOF. The team receives reports from these agencies, usually prior to publishing, reviews them in order to conduct the necessary corrections and modifications. The agencies are notified of these adjustments, and if need be, debate these modifications with the publishing side. Particular attention is paid to these reports, given their potential impact on the international investors' perceptions of the Republic.

The table below outlines country reports published by the international agencies during 1999 and 2000.

<b>Research agency</b>	<b>Nature of agency</b>	<b>Date of Publication</b>
Merrill Lynch	Investment Bank	March 2, 1999
Merrill Lynch	Investment Bank	April 3, 2000
Daiwa	Investment Bank	July 10, 2000
EIU	News wire	Quarterly Report
Salomon Smith Barney	Investment Bank	August 2000
Commerzbank	Investment Bank	August 22, 2000
CSFB	Investment Bank	Sept. 8, 1999
MSDW	Investment Bank	
Paribas	Investment Bank	Forthcoming
Oxford Business Group	News wire	1999

In addition to the reports referred to in the table above, other reports have been published by rating agencies (see section 1.2 on Interaction with Rating Agencies).

#### **Future Outlook:**

- Providing more research and studies within the Ministry and communicating them to the public.
- Developing a quarterly report of fiscal and financial issues.
- Developing a monthly report on public debt.
- Promoting the usage of the website in order to communicate the research and the studies developed within the Ministry.
- Developing working papers on various economic issues.

## II.4. LEGAL SUPPORT

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The role of the legal component of the UNDP project, that encompasses one legal officer, is to give legal support to the Minister and the Ministry.

During the period of 1999-2000, the legal officer was mainly involved in the following activities:

### **1. Investments Promotion and Protection Agreement (IPPA), and the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion.**

The Legal officer is responsible for the whole process regarding the two above-mentioned agreements. The process includes:

- First exchange of drafts with the competent authorities of the other contracting state,
- Primary study of the agreement,
- Negotiating with the delegations of the other contracting state,
- Completing the process with post-negotiations correspondence,
- Preparing the final agreement for the official and final signing.

Regarding the Double Taxation Convention, the legal officer is part of the Lebanese delegation, as for the Agreement for the Promotion and Protection of Investments, heads the Lebanese delegation.

It is worth mentioning that two persons from the Administration have been recently chosen for training in order to be able to take over the negotiations and the management of the Double Taxation Conventions within one year. The role of the legal officer will be to act as an expert in this field.

Below are the tables that summarize the status of the IPP and DT agreements during the aforesaid period:

(As of Sept. 15, 2000)	Agreement on the Transition and the Facilitation of Trade Relations	
	Initiated	Signed
<b>Bahrain</b>	AUG. 25, 99	
<b>Belgium</b>	MAY 28, 99	
<b>Bulgaria</b>		June 1, 99
<b>Canada</b>		Dec. 29, 98
<b>Cuba</b>	May 12, 2000	
<b>Finland</b>	Jan. 13, 2000	
<b>Germany</b>	Sept 14, 2000	
<b>Italy</b>	Nov. 10, 99	
<b>Malta</b>		Feb. 23, 99
<b>Poland</b>		July 26, 99
<b>Qatar</b>	18 Nov, 99	
<b>Sultanate of Oman</b>	June 7, 2000	

(As of August 24, 2000)	Promotion and Facilitation of Trade Relations	
	Initiated	Signed
<b>Austria</b>	Feb. 1, 2000	
<b>Bahrain</b>	Aug. 26, 99	
<b>Belgium</b>		Sept. 6, 99
<b>Bulgaria</b>		June 1, 99
<b>Chile</b>	July 28, 99	Oct. 13, 99
<b>Hungary</b>	August 23, 2000	
<b>Netherlands</b>	March 31, 2000	
<b>Qatar</b>	Nov 19, 99	
<b>Sultanate of Oman</b>	June 6, 2000	
<b>Switzerland</b>		March 3, 2000
<b>United Kingdom</b>		Feb. 16, 99
<b>Yemen</b>		Nov. 25, 99
<b>OPEC</b>		Sept. 23, 2000

## 2. Participation in the Trade Efficiency legal Committee

In its effort to improve the level of imports and exports with regards to the custom procedure, the Ministry of Economy and Trade have been implementing a "Trade Efficiency" project involving several ministries and public institutions. Three committees have been created, namely, administrative, legal, and technical.

The legal officer is part of the legal committee whose mission is to modernize and update the legal framework. The team is preparing a draft law on e-exchange of information for the remittance and the acceptance of the custom declaration, and eventually extended to e-commerce.

## 3. Coordination of the WTO file at the MOF

The legal officer has been appointed the task of collecting requested data from the Ministry of Finance, to check them and to coordinate with the Ministry of Economy and Trade that handles the file of Lebanon adhesion to WTO.

The officer also participates in all kind of seminars related to WTO.

#### **4. In charge of the Investment Climate file at MOF**

With the aim of promoting foreign investments, in coordination with IDAL and the Ministry of Economy and Trade.

#### **5. Legal opinion requested by the Minister on several issues**

The Minister regularly requests legal opinion on various issues related to:

- Draft conventions that should be signed by Lebanon, such as “Accord de siege de l’Agence Française de développement”, Establishment Agreement of the World Bank, Establishment Agreement of the Union of the Arab Stocks Exchange.... in collaboration with the Ministry of Foreign Affairs.
- On disputes regarding the application of bilateral or multilateral agreements.

#### **6. Participating in the drafting of the Law on VAT**

On a part time basis, the legal officer contributed in the drafting of the law on Value Added Tax, and other legal works related to the VAT projects.

#### **Future Prospects:**

1. Transfer, progressively, to the administration all tasks that encompass in its responsibility according to the laws and rules governing the Ministry of Finance, for example:
  - Negotiating double taxation conventions
  - Follow-up and reply to the correspondence on issues related to the Ministry of Finance.
2. Develop a negotiation strategy for the two conventions related to double taxation and investment promotion. This strategy should be based on the government priorities and the impact of the Conventions on the Lebanese economy, as well as taking into consideration the international relations of the Lebanese Republic.
3. Increases the efficiency of the participation of the Legal officer in various inter-ministerial committees by strengthen the process of consultation with the Minister and the officials of the Ministry in order to convey the objectives and strategy of the Ministry.



## II.5. INFORMATION DISTRIBUTION

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In the context of enhancing transparency and accountability at the Ministry of Finance, the project, has restructured the Ministry's website. The Customs component of the project created the LITE (Lebanon's International Trade Exchange) website, intended to provide trade statistics, national tariff information, and guides to assist traders and brokers.

In addition to these sites, the team has developed the LebanonHelp website, for the collection of donations, and a website for the donors' support for southern Lebanon.

The MOF Website ([www.finance.gov.lb](http://www.finance.gov.lb)) is intended to provide practical information to citizens, international organization, research and academic institutions. The development of the site included the gathering and organization of economic, fiscal and financial issues. Coordination was conducted with the Customs and Cadastre project components as well as with the VAT project to include a summary of these reforms on the site. A preliminary demo was performed to the Minister in early April. The website, which is composed of eight pages, was launched in late April 2000.

The website is constantly being updated, and it is being used as a source of reference for fiscal data. Users of the website can communicate via email ([infocenter@finance.gov.lb](mailto:infocenter@finance.gov.lb)) to send inquiries to the Ministry. The team receives these emails and works on providing answers in a prompt and timely manner.

The customs component of the project has created the LITE (Lebanon's International Trade Exchange) website. It was launched on a beta basis and includes trade statistics, national tariff, clearance reference materials and other guides to assist traders and brokers. The trade data and national tariff are searchable engines, which are updated on monthly basis by customs. LITE could be accessed at [www.customs.gov.lb](http://www.customs.gov.lb).

The economic support unit has also initiated a site dedicated to collect donations. The team contributed to the execution of the site by writing the introductory message, editing the economic survey page and coordinating with both the project director and the web designers on the structure, content, and graphics of the site.

The administration has been involved in the websites through the Information Technology department's contribution in all the technical aspects. Further participation of civil servants is expected through the dedication of resources for maintenance and regular updating of the sites.

More recently, and within the Ministry's participation in the preparations for a second donor's meeting, the project, in coordination with the administration's IT department, executed the creation of the meeting's website ([www.southernlebanon.gov.lb](http://www.southernlebanon.gov.lb)). The website was completely designed and managed in-house at the Ministry of Finance.

### **Future Prospects**

- In the attempt to modernize the operation of the Ministry, a new page on taxation issues is to be introduced to the Ministry's website, whereby the necessary information on taxation in Lebanon would be displayed for the public to access. Moreover, the income tax forms that taxpayers fill out could thus be downloaded from the website without the need to get the forms from the Ministry.
- Constantly keeping the website updated
- Training the Ministry of Finance employees and transferring the task of updating the website to the administration.
- Displaying more information on the website
- Developing search engines for analysts
- Developing new means of communication

## **II.6. ACCESSION TO EURO-MEDITERRANEAN ASSOCIATION AGREEMENT**

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The project is involved in the accession process to the Euro-Mediterranean Association Agreement through the following tasks:

1. The project prepares economic studies focusing on the fiscal and economic implications of Lebanon's accession to the Euro-Med agreement.
2. The project has also been involved in various research and studies related to the modifications required for joining free trade agreements such as the Euro-Med.
3. The team is participating, on behalf of the Ministry, in various national committees involved in such agreements.

The project team represented the Ministry of Finance during the latest Euro-Med negotiations held on September 29 and 30, 2000. In preparation, the team participated in the preliminary meetings conducted with the various ministries and public institutions involved in the negotiations. The team also devised a strategy for tariff simplification and subsequent dismantlement through conducting various scenarios and calculations.

### **Future Prospects:**

- Over the next phase, the Ministry of Finance will be intensifying dialogue with the European Union in order to informally agree on a tariff dismantlement schedule as well as a series of fiscal derogations.
- Given the importance of the issues related to the association and its implication of the fiscal situation, a number of studies should be conducted in order to finalize the strategy for the negotiation partnership.

## **II.7. INTERNATIONAL MONETARY FUND SURVEILLANCE MISSIONS**

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In the context of its obligations regarding exchange arrangements (Article of Agreement number IV), the International Monetary Fund conducts periodic missions to Lebanon. For this purpose, the project is involved in the following activities:

- Ensuring that analysis, information, and statistics are provided to the IMF on a regular basis,
- During discussions with the Fund, outlining the macro-economic and fiscal policy orientation of the Government, including main public finance developments, proposed or implemented fiscal measures and macroeconomic links,
- Discussing with the Fund missions, the main recommendations and conclusions of their findings,
- Following up with the Fund's Middle Eastern department on the various proposals and implementations

During the period extending from January 1999 to date, the Middle Eastern Department (MED) of the International Monetary Fund has visited Lebanon four times in the context of its Article IV regular surveillance visits:

- Exhaustive discussions were held during the March and June 1999 visits, focusing mainly on the five-year fiscal adjustment plan and the fiscal situation in the country. A detailed questionnaire was distributed and addressed and various scenarios and recommendations were discussed lengthily before a "Concluding Statement" was issued by the MED in June 1999. The staff report for the 1999 Article IV consultation was released together with its statistical appendix in August 1999.
- Two separate visits were conducted by the MED during May and July 2000. The first visit consisted of a routine update mission on the country's main fiscal and monetary developments. The second mission was a rapid one-day visit during which an update meeting was held.

**Future Prospects:**

In the next phase, the team will perform the following tasks:

1. Prepare for the next Article IV mission scheduled to be conducted during November-December 2000.
2. Update the macro-economic framework within the context of the five-year fiscal adjustment plan.
3. Maintain the regular update of the most recent economic developments.

## **II.8. RELATIONSHIP WITH THE WORLD BANK GROUP**

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In his function as governor of Lebanon for the World Bank, the Minister of Finance (MOF) is actively involved in the World Bank Portfolio management. More specifically, the UNDP project at the MOF is responsible for enhancing the continued partnership between the World Bank Group (WBG) and Lebanese government to support the on-going and future development operations in Lebanon. The team maintains also continuous contact and dialogue with the WB resident mission in Lebanon on the functioning of the loan portfolio and its performance and on other issues. The project explores also various areas of coordination between the Lebanese Republic and the World Bank.

In this respect, the UNDP Team is involved in the management of the loan portfolio (analysis, negotiations, signing of the agreement, etc.). The team coordinates with World Bank missions in Lebanon, the CDR and the line ministries to ensure smooth and timely implementation of the projects and, when needed, help solving problems, which may encounter certain projects.

### **World Bank projects for 1999-2000**

During this period, the team participated actively in the preparation of new projects developed by the World Bank. Some of them became effective as loans: the Vocational and Technical Education Project in 1999, the first is the General Education Project for an amount of USD 56.57 million and the Municipal Infrastructure Loan for an amount of USD 80 million in year 2000.

Two other projects were prepared with direct involvement of the UNDP team: the first privatization loan (under preparation) that aims to assist the Lebanese Government in analyzing the actual situation of public enterprises in order to prepare them to privatization and ensuring a smooth transition to the private sector. The fiscal support loan, which constitutes a loan to support the five-year adjustment program developed by the Lebanese government.

Below is a table summarizing the projects undertaken by the World Bank in Lebanon or projected to start in the near future:

Project Name	Status	Amount (USD million)
Emergency Recovery	Signed	225.00
Lebanon Irrigation	Signed	57.23
TA for Revenue Enhancement	Signed	19.94
Health Project	Signed	35.70
Solid Waste/Environment	Signed	55.00
Administrative Rehabilitation	Signed	20.00
National Roads	Signed	42.00
Agriculture Infrastructure Dev.	Signed	31.00
Power Sector Restructuring	Signed	65.00
Vocational & Technical Education	Signed	63.00
General Education	Signed	56.57
Municipalities Infrastructure Loan	Signed	80.00
Community Development Fund	Preparation	20.00
Privatization Support Loan	Preparation	60.00

#### Grants for technical assistance in 1999-2000

The team has been involved in the negotiation, preparation and management of grants for several reform projects. During this period, the team completed the implementation of the grant on Social Security Reform and public procurement law, and negotiated two new grants: the first to support the fiscal reforms of the government and the second to improve the municipal finance.

Grant	Amount (USD)	Scope	Status
Social Security Reform	93,667	Identify problems in the effectiveness of the current social security systems and to propose areas of potential improvements	Completed
Municipal Development Project	338,000	Develop an appropriate financing framework for decentralization and to strengthen the capacities of the municipalities to finance services	In progress
Fiscal Consolidation Reform	564,000	Assist in the preparation of the fiscal consolidation plan to achieve fiscal stability and restore economic growth  (Studies in fiscal enhancement, public expenditures management, debt management action plan, and privatization of public sector enterprises)	In progress

### **Relationship with the International Finance Corporation (IFC)**

The project ensures also the coordination with the International Finance Corporation on various issues and projects in common with the Lebanese Government. During the review period, the team helped the ministry developing various projects, among them:

- Preparation, negotiation, and coordination of an advisory mission of IFC to restructure and privatize the Middle East Airlines. The project reviewed also the mandate letter for IFC and negotiated various details related to the advisory mission.
- Consultation with experts from IFC on the reforms needed for the Lebanese Capital Markets and reviewed with them the draft law for the capital market authority.
- Coordination with the IFC on the project of creating a mortgage security market in Lebanon with the involvement of local banks.



## **II.9. COORDINATING TECHNICAL ASSISTANCE**

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The project is in charge of managing and coordinating various technical assistance programs to the Ministry of Finance. The project ensures six main functions:

1. Identifying needs and developing scope and terms of reference for technical assistance,
2. Negotiating technical assistance programs, both in terms of scope and content and mobilizing financial resources,
3. Coordinating the implementation process and ensuring satisfactory management of the assistance program,
4. Managing grants and loans dedicated to technical assistance within the Ministry of Finance,
5. Maintaining regular contact with institutions in charge of providing technical assistance (EU, WB, IMF, CIDA, AMF, Bilaterals),
6. Coordinating with technical assistance missions outside the scope of the project (DTR, Finance Institute, etc.).

The project also ensures the administrative management and support for the technical assistance, which entails the selection of consultants, their work program, the management of their contracts and other functions as the financial management of technical assistance.

In charge of the coordination of all technical assistance in the Ministry, the project ensure the follow-up with various governmental agencies the implementation of the technical assistance grants and frequent reporting to the international agencies on these projects.

The general focus of the technical assistance missions and programmes managed by the UNDP project during the period under review is spelled out below:

## TECHNICAL ASSISTANCE PROGRAM IN 1999-2000

Institution	Sector/Area	Activity
<b>International Monetary Fund</b>	1. Public finance 2. Taxation  3. Tariff reform  4. FSAP	<ul style="list-style-type: none"> <li>▪ Treasury and budget management</li> <li>▪ Improvement of public finance information</li> <li>▪ Management of tax department and Audit functions</li> <li>▪ Framework for tariff restructuring in the context of the VAT</li> <li>▪ Financial sector reform and coordination between debt management and monetary policy</li> </ul>
<b>World Bank</b>	1. Public expenditure  2. Debt management  3. Pension reform  4. Macro-finance  5. Municipalities  6. Privatization	<ul style="list-style-type: none"> <li>▪ Development of public expenditure management program through a sectoral Matrix with a work program</li> <li>▪ Various missions on debt management framework and institutional adjustments</li> <li>▪ Study on establishing pension system and development of actuarial software</li> <li>▪ Various studies on macro-finance and fiscal issues</li> <li>▪ Ways of improvement of the municipal finance (taxation and expenditure),</li> <li>▪ Development of procedure for solving the issue of intergovernmental transfers through the Independent municipal fund</li> <li>▪ Various missions on: privatization master plan, regulation (framework law, sectoral laws, etc.), communication strategy, and restructuring</li> </ul>
<b>IFC</b>	1. Capital Market law  2. Other laws	<ul style="list-style-type: none"> <li>▪ Discussion and review of various projects on the capital market law and other regulatory issues related to the supervision of capital market</li> <li>▪ Review of the regulation on securitization</li> </ul>
<b>European Union</b>	1. VAT  2. Administrative reform	<ul style="list-style-type: none"> <li>▪ Development of a work plan for the introduction of VAT</li> <li>▪ Various mission on legal and administrative preparation for the VAT</li> <li>▪ Studying various components of reforms conducted by the MOF to be financed through ARLA project</li> </ul>

<b>French Government:</b> <input type="checkbox"/> ADETEF <input type="checkbox"/> Treasury	1.VAT  2.Financial control of public institutions 3.Debt and treasury management	<ul style="list-style-type: none"> <li>▪ Review the implementation and the progress of the VAT project and studying the law and other legal issues</li> <li>▪ Studying the financial control and the reporting system of public companies</li> <li>▪ Assessment of the MOF needs in treasury management and organization of debt department</li> </ul>
<b>US Tax Department</b>	Tax administration	<ul style="list-style-type: none"> <li>▪ Assessment mission for functioning and the efficiency in managing various components of the tax department</li> </ul>
<b>UNCTAD</b>	Custom reform	<ul style="list-style-type: none"> <li>▪ Various missions on technical improvements to introduce in the ASYCUDA project</li> <li>▪ Development of the work program for the next phase of the project</li> </ul>
<b>CIDA</b>	Cadastre	<ul style="list-style-type: none"> <li>▪ Training program for official from the Cadastre department and for COMAP team</li> </ul>

## II.10. MONEY LAUNDERING

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The Ministry of Finance was in charge of coordinating the Lebanese position on fighting against money laundering after the Financial Action Task Force on Money Laundering (FATF), the world's leading anti-money laundering authority, placed Lebanon on the list of non-cooperative countries in its eleventh annual report.

In this context, the UNDP unit at the Ministry of Finance is responsible for various activities, namely:

- Synchronizing the work among the Central Bank, Banking Control Commission and the Lebanese Bankers Association, in order to prepare Lebanon's position on the twenty-five compliance criteria where Lebanon was considered of failing fifteen.
- Coordinating of the contacts with the regional committee of the FATF headed by the Italian government.
- Coordinating the work performed by the Lebanese task force for preparing a response to the FATF report, explaining the Republic's standpoint and future plan to combat money laundering by improving its legal and institutional framework.
- Representing the Ministry of Finance in the Lebanese delegation in the discussions on money laundering that took place in Italy in May 2000. The Ministry also prepared a series of meetings in Lebanon with the Ambassadors of the G-7 countries explaining its views and future plans.
- Coordinating with the working group set by the Lebanese Bankers Association in order to develop the regulatory framework for combating money laundering.
- Meeting with various countries and institutions during the IMF annual meetings to explain Lebanon's position on the money laundering issue.

### **Future Prospects**

1. Follow-up with various international institutions and foreign countries to provide support and technical assistance to the Lebanese government in its initiative to fight money laundering, mainly from the FATF, IMF, France, United States and Italy.

2. Ensure coordination with the Central Bank, the Banking Control Commission, and the Lebanese Bankers Association in finalizing the draft on the regulatory framework to improve the anti-money laundering system.
3. Promote the new regulations in Parliament in order to reinforce Lebanon's position in its program to combat money laundering.
4. Prepare for the next FATF meeting in February 2001, in order to convince the Task Force to remove Lebanon from the list of non-cooperative countries.

## II.11. DONORS' SUPPORT TO SOUTHERN LEBANON

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The UNDP team at the Ministry of Finance played a key role during the preparatory conference for the reconstruction of southern Lebanon held in Beirut on July 27, 2000. The team participated in all preliminary meetings and technical preparations related to this conference. The project was also involved in the preparation of the documents distributed during the meeting.

The preparations for the Donors' Support Conference began as early as August 2000. The Higher Committee of the conference formed a secretariat, with the project team representing the Ministry of Finance in the secretariat. The team participated in a number of tasks, including the following:

1. Technical preparations involving projectizing of the emergency plan, prioritizing projects, preparing a new projects' document, allocating secured funds, suggesting implementation mechanisms, and compiling on-going projects)
2. Establishing intensive contact with the donors' community through Embassies in Lebanon and various conferences, meetings, and specialized trips
3. Dissemination of information through the creation of a website for the meeting ([www.southernlebanon.gov.lb](http://www.southernlebanon.gov.lb)), which contains all the speeches and interventions made during the first donors' conference in July 2000. Moreover, the site contains all the documents that were distributed to the participants in addition to the preparations made for the second meeting initially scheduled for October 2000. Once again, the Information Technology Department at the Ministry contributed to the technical development of this website.

## **II.12. TECHNICAL SUPPORT TO THE OFFICE OF THE MINISTER**

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### **Various activities undertaken by the public expenditure expert:**

- 1- Providing support to the Minister on various issues related to public companies:
  - a) EDL (Electricité du Liban): resolution of the disagreement between the government and the Italian company, Ansaldo. In addition, the expert studied the 2000 budget of EDL and the new proposed tariff.
  - b) Conducting an analysis of Port of Beirut, investigating its problems and proposing immediate solutions.
  - c) Studying the new tariff proposed by the Ministry of Economy and Trade for the Silos at the Port of Beirut.
  - d) Examining ways to enhance private investments in the tobacco sector in coordination with the Régie des Tabacs.
  - e) Providing support in the preparation of the Year 2000 budget of OGERO (telecommunications).
- 2- Studying the draft laws on privatization of certain public entities, such as, the electricity, water, and telecommunications sectors.
- 3- Representing the Ministry of Finance in the committee set up for the formulation of the Five-Year Development Plan of Lebanon and the Ten-Year Development Plan for the Ministry of Electrical and Water Resources.
- 4- Studying draft laws related to environmental issues, such as, the recycling of used motor oils, the suppression of leaded gas-oil and diesel-fuel engines, the impact of air pollution on public spending.
- 5- Analyzing the impact of bilateral agreements between Lebanon and Arab countries on the local economy, following complaints by representatives of the productive sectors (agriculture and industry), as well as draft trade agreements with new countries (Bahrain).

6- Examining measures and incentives to help the productive sector:

- Subsidizing the export of agriculture products,
- Representing the Ministry of Finance in several committees (public and private) to discuss measures related to trade efficiency, and on changes in custom tariffs.
- Introducing changes in the customs tariffs, through meetings with the sectorial unions of industrialists,
- Creating a set of indirect taxes and excises on specific imported products such as alcoholic and non-alcoholic drinks, “ecological taxes” on non-recyclable bottles and packaging.
- Studying the draft law related to anti-dumping measures.

**Activities of the Executive Assistant to the Minister:**

- Read the most crucial and critical files, organized them and summarized them.
- Worked on the “Fazlaka” report for the government budget.
- Translated various issues: economical, financial and global subjects.
- Worked on confidential files.
- Handled and organized the foreign mail: correspondence (in and out, answers, follow-up...).
- Assisted in various economical studies: monthly budget operations, net treasury cash position, balance of accounts of public entities at the Central Bank...
- Assisted in writing the results of the Weekly Issue of New Treasury Debt Auction.

**Activities of the National Accounting Expert**

The unit has achieved several missions outlined below:

- Analysis of budget execution from 1995 to 1998 and the integration of Treasury accounts in the new framework of national accounting.
- Analysis of the accounts of: CDR, some other autonomous public institutions and some public enterprises in order to develop a consolidated set of accounts for the years 1995 to 1998 to be integrated in the national accounting system.



- Proposition to introduce some modifications to the accounting plan in order to facilitate the consolidation of the accounts and the monitoring of Treasury operations
- Elaboration of the economic part of the budget report for the years 2000 and 2001.

The consultant has also participated to the economic evaluation and analysis of the seashore violations and the receipts that could be generated by taxing these violations; Preliminary studies concerning VAT instauration; Cost/return analysis for the mobile phone licenses compared to the BOT system; preliminary studies on the creation of a pension fund system and insurance for senior people; evaluation of the Impact of the change in income tax brackets fiscal receipts.

## **II.13. OTHER ACTIVITIES**

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### **I. Relationship with the Arab Monetary Fund**

The project team has been heavily involved in the relationship of the Ministry of Finance with the Arab Monetary Fund. The following points summarize the activities:

1. Supporting the Ministry in the studying and negotiating of three loans concluded with the AMF during 1999-2000, namely:
  - a. Loans for Bilateral Trade Financing Program
  - b. Structural Adjustment Loan to support financial reform and debt management
  - c. Loan to finance Balance of Payment deficit
2. Preparing and organizing the Minister's visit to the AMF in 1999, as well as various missions of Fund officials to Lebanon.
3. Preparing potential technical assistance from the AMF, in addition to issues related to training and technical cooperation.

### **Future prospects**

- Supporting the Ministry of Finance on intensifying the dialogue and relationship with the AMF.
- Finalize the work on the satisfaction of the Structural Adjustment Loan.
- Develop a joint training program with the AMF and to conduct regional conference in Lebanon.
- Prepare with the AMF an investor presentation for Gulf financial institutions and investors in early 2001.

### **II. Knowledge Dissemination**

The economic unit at the Ministry of Finance has been directly involved in disseminating knowledge to various local and international agencies through participating in seminars and conferences. International, as well as local financial and economic newswires and newspapers contact the unit in order to be informed of the Ministry's policies. The unit is also contacted by these agencies in order to be briefed on Eurobond issuances and other activity specific issues.

The following are the lectures and presentations delivered by the team in various conferences and seminars during 1999 and 2000:

- **Ensuring a Successful Foreign Borrowing Strategy: Case of Lebanon**  
The World Bank, Washington D.C., November 1-3, 1999.
- **“Financing Development: Fiscality, Debt, and Markets”**  
Beirut, January 11-13, 2000.
- **Fiscal and Economic Reforms: Toward Sustainable Development**  
Islamic Research & Training Institute – Islamic Development Bank,  
Damascus, April 3-5, 2000.
- **Policy agenda of the Lebanese government: Toward Sustainable Fiscal Policy**  
School of Business – Lebanese American University, May 25-27, 2000.
- **Fiscal Policy Agenda Of The Lebanese Government: Sustainable Fiscal Framework And Improved Investment Climate.**  
The Center for Emerging markets studies, Beirut, July 31, 2000.
- **Debt Management and Financial Markets in Lebanon: Challenges and Perspective**  
International Monetary Fund and the World Bank, Abu Dhabi, October 9-10, 2000.
- **Tax reform and modernization in Lebanon: The Value Added Tax.**  
Syndicate of Auditors on taxation, Beirut.

### **Training at the Finance Institute**

The “Finance Institute” which constitutes the training arm of the Ministry of Finance is organizing a series of lectures for 135 newly recruited Ministry of Finance employees. The lectures provide a general overview of the work performed at the Ministry’s various departments. The team was invited to participate to this initiative through giving the series of lectures summarized below.

<b>Topics covered</b>
<ul style="list-style-type: none"> <li>- The Five-Year Fiscal Adjustment Plan</li> <li>- Debt management and international capital market issues in Lebanon</li> <li>- Budget and Accounting Reforms</li> <li>- Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion</li> <li>- Customs Information System - NAJM</li> <li>- Cadastre Operations Modernization &amp; Automation Project</li> </ul>

## **Future Prospects**

1. Keep the administration updated on specific issues, such as debt management.
2. Provide general information and training to the administration through the Finance Institute.
3. Make all members of the project team participate more in debate sessions at local and international conferences and seminars.

## **III. Capital Markets Reform**

Within the framework of capital markets reform in Lebanon, the team represented the Ministry of Finance in the discussions and panels organized to study the various laws and regulations related to capital markets. Moreover, the team discussed the various laws with capital market experts, as well as lawyers. The team also participated in the Parliamentary Committee for Budget and Finance discussions on the various laws and the formulation of the Stock Exchange Law for Lebanon.

## **IV. Replying to MP's Inquiries**

The team has helped the Ministry of Finance in formulating responses to Members of Parliament inquiries on several fiscal, financial and economic aspects of the economy. In order to prepare the reply, the team had to do many researches and analysis and write down a coherent and objective answers. In addition, this had to be done in a limited period of time in order to respect the text law. Lately, the team has succeeded in transferring this task to the administration.

## **V. Activities of the Taxation Consultant**

The taxation consultant has been providing assistance to the VAT project through his participation in the study conducted on VAT management and implementation. He has been also contributing to the drafting of the decree specifying the creation of a VAT department. Furthermore, the consultant has been implicated in the review of the draft law, the implementation decrees and decisions regarding VAT, and has been working on the preparation of the VAT declaration forms and the citizens' guide.

Moreover, the taxation consultant was involved in the preparation and the review of the interpretation bulletins regarding Income Tax. He participated in the efforts to modernize the workflow at the Revenue Directorate and also contributed within the framework of the DTR Project, the "Desk Audit" project for the Income Tax, and to the set up of the information center at the Income Tax department.

## **PART III**

### **REFORM PROGRAMS**

## **PART III**

### **REFORM PROGRAMS**

The reform programs at the Ministry of Finance are designed to increase the operational efficiency of the Ministry and to enhance its capacity to develop and use improved policies, systems and procedures in various areas such as revenue collection and public expenditure management.

<b>Customs Administration Component</b>	The first part discusses the developments in the Customs Administration Component of the project highlighting the major achievements and future prospects of the component.
<b>Land Registration and Cadastre Component</b>	The second part discusses the Land Registration and Cadastre Component, shortly summarizing its two divisions, COMAP-1 and COMAP-2, the progress achieved so far and the future prospects of the component.
<b>Public Expenditures Management</b>	The third part discusses the Public Expenditures Management project in detail incorporating the recent IMF mission that recently visited the Ministry to examine the operations at the level of the Accounting and Treasury Directorates and that provided recommendations on the short and long runs.
<b>The 20-20 Initiative Project</b>	The fourth part discusses the 20-20 initiative project which is a useful mechanism for mobilizing the needed resources to accelerate action towards providing universal access to basic social services (BSS).

### **III.1. CUSTOMS ADMINISTRATION COMPONENT: ASYCUDA**

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Years 1999 and first two quarters of 2000 can be considered a period of project consolidation and preparation for secondary level of reform and automation within customs. The secondary level of reform is oriented towards introducing concepts such as electronic interaction between traders and Customs, downsizing the burden of governmental technical controls on traders and preparation for further system implementation at other Customs offices.

#### **Progress of Project**

- A new version of ASYCUDA was implemented at Port of Beirut and Beirut International Airport. This version 1.14 includes a number of added system functions. The most important feature is automatic random inspection assignment. In this feature, the system selects on random basis an inspector and a chief inspector for every declaration. The inspectors' names are printed on the assessment note. Before this function was introduced, the inspection selection was performed on a separate stand-alone system.
- NAJM customs website (LITE acronym for Lebanon's International Trade Exchange) was launched in mid 2000. The website includes trade statistics, national tariff, clearance reference materials and other guides to assist traders and brokers. This website can be accessed from within Ministry Of Finance website or directly. The trade data and national tariff are searchable database engines, which are updated on monthly basis by customs. Further enhancements are planned for the website based on user requests. The enhancements are focused on extending the statistical reporting, publishing trade regulations and controls by HS tariff, Customs law, and other clearance support materials.
- Further work was done on project NOOR (NAJM On Line Operation). This project introduces the concept of Electronic Data Interchange EDI. This function enables the trader to enter and track the process of his declaration from his own office by a regular dial up software developed for this purpose. A study was conducted on the optimal method for implementing this function. The available options are to outsource the distribution and maintenance of the NOOR software to local ISP's or to in house this process. The advantages and

disadvantages should be evaluated by Customs taking into account customer

<b><u>NAJM Potential Developments 2000-2001</u></b>		
<b>•NOOR</b>	-	NAJM On Line Operation <i>Remote Entry and tracking of transactions for Trader</i>
<b>•LITE</b>	-	Lebanon Int'l Trade Exchange <i>Internet support for traders</i>
<b>•NAR</b>	-	NAJM Audit Reporting <i>Assistance to Control Departments in Customs</i>
<b>•NX</b>	-	NAJM Freight Express

support, distribution cost, and system security.

In coordination with Trade Efficiency project at the Ministry of Economy the Technical Control database was re-studied. The Technical Controls are regulations on Imported and Exported goods issued by Ministries and Governmental agencies, which should be enforced by customs within the Clearance Procedures. In the opinion of most experts, this database should be downsized to facilitate international trade without compromising the intents of these controls. A compilation of these controls was prepared by NAJM project on the basis of issuing agency. These lists were distributed to the issuing agencies through the Head of Cabinet's Office with a request to evaluate and eliminate what is redundant or out of date. Several ministries, most notably at the Ministry of Economy, took some action but further lobbying is required to address this issue.

### **Future Prospects**

Regarding system roll out to new customs offices three offices are planned:

- Port of Tripoli: Site renovation was executed by Tripoli Port Authority. The final delivery date in the fourth quarter of 2000 and launching in early 2001.
- Masnaa Border port: Site renovation will be undertaken by Broker association of Bekaa area in coordination with General Directorate of customs. Delivery date not specified.



The implementation plans for these offices are prepared by NAJM project and can be launched immediately after delivery of renovated site. A one-month period is required for hardware/software installation and user training.

- **Petroleum Offices:** A study of current procedures was conducted with a plan of implementing NAJM. The plan proposes a centralization of the operation within the Port of Beirut with minimal bookkeeping operations remaining at the actual sites. This proposal will integrate the operation into mainstream NAJM application and reduce the clearance overhead for the operators.

### **Future relationship with UNCTAD**

During the second quarter of 2000, the project reactivated negotiations with UNCTAD Geneva regarding further developments of the project. UNCTAD is the implementing agency and technical assistance provider of the ASYCUDA system. The two parties developed jointly a program of activities for the forthcoming period. This program includes.

- Implementation of Electronic Manifest in cooperation with Port/Airport authorities and Shipping/Airlines.
- Implementation of Customs Warehousing and Temporary procedures
- Enhancement of system management reporting and performance evaluation
- Linking of Customs HQ and active Customs Offices
- Direct Trader Input NOOR
- NAJM Express for airfreight shipments
- Implementation of procedural enhancements in Risk Management and Selectivity
- Transit TIR procedures between Offices

The cooperation between Project and UNCTAD for the upcoming phase will be executed within a framework of short-term technical missions over a period of two to three years.

The Ministry Of Finance is currently engaged in negotiations with potential donor agencies for financing of the upcoming phase. A major potential donor is the EU/ARLA program for support of MOF institutional capacity building.

## **III.2. LAND REGISTRATION AND CADASTRE**

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The Cadastre Operations Modernization and Automation Project (COMAP) were divided into two sub-components, COMAP-1 and COMAP-2 that were bid out separately. Below is a short summary of each of these components and the progress achieved so far.

### **Land Title Register Automation (COMAP-1)**

Contract for turnkey products and services were signed in August 1998 for \$8.2 million USD, with Canadian consortium CRC-Sogema/Terranet Joint Venture (CST).

Scope includes:

- ❑ Preserving all Title Registers as microfilms and scanned images to avoid further wear and tear plus threat of destruction due to fire or water, etc.
- ❑ Data Entry of all Title Registers contents in a queriable (Oracle®) format
- ❑ Automating Registry operations within an Integrated Registry System (IRS) and National Integrated Registry System (NIRS), designed for the DLRC Registry and national needs using Oracle ®
- ❑ Provision of Hardware & Software
- ❑ Training for all staff who will use the system
- ❑ Facilities Management for a period of one year

### **Progress To Date**

Supplier offices were set up in the Directorate of Land Registration & Cadastre (DLRC) Building. Work accomplished so far covers the planning and design of both data conversion and system software. In addition, microfilming, and scanning of Beirut Registry were completed in August 2000. The Data Entry of Beirut Registry will be completed in November 2000. The Pilot testing of the system software for the Registry is to be completed and refinements to be incorporated by the end of November 2000). Several formal deliverables have been submitted and are approved or under review. They include:

- 1- Payment Plan (approved)
- 2- Project Plan (approved)
- 3- Pilot Project Plan (approved)
- 4- Conversion Pilot Report (approved)

- 5- Business Process Analysis for System Software (approved)
- 6- Requirements Definition for System Software (approved)
- 7- Conceptual Design for System Software (approved)
- 8- Detailed Design for System Software (approved)
- 9- Interim Standardization & Coding Scheme for Data Entry (approved)
- 10- Beirut Registry 100% Inventory of All Title Registers (delivered)
- 11- Beirut Registry Microfilm of All Title Registers (delivered)
- 12- Integrated Registry System Pilot Plan and Test Scripts (delivered)

Each of these deliverables is required by the Contract in order to ensure that IFB/Contract Requirements are fully met and the Supplier has fully understood and is compliant with DLRC needs. A work group of DLRC employees, PIT staff and Supplier staff has been set up to assist in the above tasks.

The Microfilming of Title Registers in Beirut Registry has yielded a total 119,000 preserved Title Registers and the same for scanned images. The total accurate inventory of Title Registers for the Beirut Registry had not been possible prior to COMAP-1 and it is a very useful by-product of the project. There are some Quality Assurance/Quality Control (QA/QC) problems which need to be resolved regarding images. The data entry of Title Registers' contents is 80% complete for Beirut. The Baabda preparation (70%) of Title Registers and microfilming (10%) have already started. The next step is MOF/DLRC QA/QC which needs to proceed smoothly.

### **Map Automation Component (COMAP-2)**

Contract for turnkey products and services was signed in November 1998 for \$8.8 million USD, with Dutch consortium ILIS, DHV Joint Venture (IDJ). Scope includes:

- Preserving Maps of all surveyed areas in Lebanon in Digital format (on CD) (14,000 maps comprising 50% of Lebanon) to avoid further wear and tear plus threat of destruction due to fire or water, etc.
- Automating all current Cadastre operations within an Integrated Cadastral Mapping and Survey System (ICMSS) (a combination of Oracle ® and Bentley Microstation ®), custom designed for the DLRC-Cadastre Department regional and national mapping needs

- ❑ Digitizing all Kartoon map sheets of Lebanon which constitute approximately 600,000 parcels of land (or 50% of Lebanon which is surveyed and mapped) in Bentley ® Microstation format
- ❑ Provision of Hardware & Software
- ❑ Training for all staff that will use the system
- ❑ Facilities Management for a period of one year

### **Progress To Date**

IDJ set up offices in the space provided in the DLRC building and in the Central Cadastre Offices. Work accomplished so far covers the planning and design of both map data conversion and system software. In addition, all Kalk Map sheet scanning, scanning of Beirut Cadastre Department Kartoon maps were completed in June 2000. The Data Entry of Beirut Cadastre Department Area Registers and Control Point Books were also completed in June 2000. Scanning of Kartoon Map Sheets has started in Baabda in October and is expected to be completed in November 2000. The Pilot testing of the system software for the Cadastre Department is to be completed and refinements to be incorporated by the end of 2000. Several formal deliverables have been submitted and are approved or under review. They include:

1. Payment Plan (approved)
2. Project Plan (approved)
3. Pre-Pilot of Sample Map Sheets (approved)
4. Pilot Preservation and Preparation Plan (approved)
5. Business Process Analysis for System Software (approved)
6. Requirements Definition for System Software (approved)
7. Conceptual Design for System Software (approved)
8. Detailed Design for System Software (delivered)
9. Interim Cartographic Template (delivered)
10. Beirut Cadastre Department Scanned Images Kartoon and Kalk Map Sheets (delivered)
11. Beirut Cadastre Department Control Point and Area Register Books (delivered)
12. Integrated Registry System Pilot Plan (delivered)

Each of these deliverables is required by the Contract in order to ensure that IFB/Contract Requirements are fully met and the Supplier has fully understood and is compliant with DLRC needs. A work group of DLRC employees, PIT staff and Supplier staff has been set up to assist in the above tasks.

### **Project Management**

The COMAP-PIT has developed a project management application using databases of all maps and all Title Registers in Lebanon (and a digital map 1:100,000 of Lebanon). This application will be used to track project progress of both components and delivery of source material to Suppliers. It was installed in the Regional Cadastre Office in Beirut and is being tested by the Head of the office to track progress of work in the Beirut Pilot as well as the Central Cadastre Office. Other test applications (with manuals) have been developed to test reception of staff to automation and are installed in two sites (Beirut & Baabda) with plans to install them in all sites shortly.

### **Future Prospects**

There are several aspects of the COMAP project that could benefit from further development as separate projects (or spin-offs) attached to COMAP that could utilize the creation of data to effect better service delivery. The most immediate are:

- 1- **Institutional Reform of DLRC:** The Head of DLRC, Mr. Bechara Karkafi, has prepared a proposal to restructure the Department in order to ensure more efficient service delivery apparatus. The idea is to reduce the size of the Registries (currently 9) and increase their number. In the new set up, each province of Lebanon (Caza) will become one Registry where all land related transactions are carried out (25 Cazas). The DLRC will become the managing entity of these autonomous Registries, lending them administrative, Logistic and IS support. This proposal is especially feasible with the advent of automation, which will enable a smaller, more efficient work force to deliver faster services from a multitude of locations.
- 2- **Set up of an Asset Management Unit:** One of the by-products of the COMAP is the creation of a national database of all properties in Lebanon. This can become a very valuable tool for assisting in all land-related policy issues (planning, infrastructure, etc.). However, there needs to be an institutional set up of an asset

management unit that utilizes this database to issue studies, reports, etc, in response to policy needs that are country wide and not necessarily DLRC related. This database could become a money-making enterprise through allowing access by private institutions (Banks, Insurance, etc.) for a user fee.

- Digital Photography of Lebanon: Due to advancement in Satellite Imagery, it is now possible to develop a digital photographic coverage for all of Lebanon at a cost of below \$2.5 million USD. This has become only recently available. The Ministry should take advantage of this new technology and put out a bid for a digital coverage of all of Lebanon at a scale of 1:4000. At this time, only one company can supply this product at the required accuracy, but more companies may be developing this technology shortly. The advantage of such a product is multifaceted, as it can be used in future survey and delineation work in areas that are not yet complete in Lebanon. It can also be used as an invaluable tool for coordination among various map users in the country including Ministries of Public works, health, housing, etc. If such a project is completed in conjunction with COMAP, the products could be incorporated into the systems under design and experimentation at a minimal cost allowing the DLRC to use advanced tools to carry on its daily work as well as complete the work on other areas in Lebanon.

**Completion of Survey in Lebanon:** Funds need to be allocated to experiment with the continuation of survey work in the 50% area of Lebanon that is not currently surveyed. Funds will be used to survey two or three Cadastral Areas in order to establish standards, and bidding documents, that could be used to bid out surveying of the rest of the country under the management of the DLRC.

### III.3. PUBLIC EXPENDITURES MANAGEMENT

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The Project with the support of the IMF provided technical assistance to introduce and improve the following functions and procedures: (a) an effective system of budgeting consistent with macroeconomic planning and policy framework and projection of revenues; (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 standards; (d) an effective system of public expenditure monitoring, accounting and control; (e) 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; (f) introduction of a flash reporting system for data on the treasury balance, debt position, budget execution, revenues collected and settlement of expenditures; and (g) development of a system of cash management.

*Accounting Reforms:* The accounting reforms covered the introduction of a new Chart of Account at the Principal Accounting Offices (PAO) and the Local Accounting offices (LAO) in addition to new accounting procedures. Efforts were directed during the year towards consolidating the accounting reforms implemented beginning of 1997 and ensuring their smooth implementation at both the central and local level. More specifically, the accounting procedures and the reporting requirements of the principal and local accounting offices were regularized and the coordination between the principal accounting office of the Treasury and the Central Bank was strengthened. To ensure the sustainability of these accounting reforms, a group of accounting graduates was recruited to the Treasury Directorate to improve the centralization of operations at the Treasury principal office and follow up and control the local accounting offices. The role of this group has been substantially expanded in the past year as it is starting to assume more of the treasury directorates' functions and responsibilities.

The project with the help of an IMF expert has recently assessed the future measures to be undertaken by the treasury directorate in order to be able to produce more coherent accounting balances in a quick and exhaustive manner. Most importantly the 1993 and 1997 entry balances should be finalized, the Accounting and Control Unit at

the Treasury Directorate has to be reorganized in a way to be able to perform its task more efficiently i.e. be able to produce monthly balances out of which the directorate can produce a consolidated financial operations balance for decision making usage. On another front, the project has prepared with the consultation of the previous Director General a proposal for the modernization and the improvement of the Financial Accounting Law and a decree specifying the rules and regulations for the implementation of this new Financial Law. Initial discussions of the draft Law and Decree with the Audit Court were left at an early stage and need to be reactivated in order to be afterwards transmitted to parliament for approval. These recommendations and issues were transmitted to the new Director General in order to insure sustainability.

*Generation of Fiscal Data:* Starting 1998, the Ministry of Finance began for the first time producing and publishing up-to-date and accurate fiscal data on a monthly basis showing clearly both budget and treasury expenditures and revenues. The MOD was also able to reconcile these fiscal results with the data generated from the Central Bank. This monthly cash position was reviewed recently by experts from IMF, who is working on producing another comprehensive table requested by the minister for financing needs management

With the fiscal information system in place, the MOF is now able to develop a skillful unit having as function to analyze and treat this produced information. This unit could be ultimately transferred to the Treasury directorate or could be integrated within an economic and statistical department to be created in the Ministry.

*Establishment of the Treasury Plan:* In order to improve the cash flow situation and permit the streamlined execution of the government budget, a Treasury Plan was formulated for the 1998 budget reflecting the seasonal nature of expenditures and revenues. Spending Ministries have also been requested to project expected dates of payments for all expenditures committed by them and as a result, a monthly schedule of payments has been established. This schedule along with the fiscal data generated by the MOF will allow the authorities to control ministries' expenditure commitments on the basis of the forecast available cash flow. By managing commitments and payments, the MOF's efforts in allocating and maintaining budget resources and in managing its fiscal position would be greatly enhanced. The administration should



adopt the treasury plan and some work needs to be done in order to launch the process for the 2001 budget. A presentation of the Treasury Plan was made to the new Director General, the budget director, the new treasury director and the new Public Accounting Director during the last visit of the IMF expert in order to inform them about the work that has been previously done and in order to lay the ground for the 2001 exercise.

Below is the list of reforms implemented in the Public Expenditure and External Debt Management Components of the Project.

Type of Reform	Details of Reform
A. New Budget Nomenclature	<ul style="list-style-type: none"> <li>- For both revenues and expenditures</li> <li>- Introduction of Administrative, Economic and Functional classification</li> </ul>
B. New Accounting System	<ul style="list-style-type: none"> <li>- New Chart of Accounts at PAOs and LAOs in the Customs and the Treasury</li> <li>- New Accounting Manuals for each of the PAO and LAO of the Customs and the Treasury</li> <li>- New Accounting Procedures</li> </ul>
C. Fiscal Data Generation	<ul style="list-style-type: none"> <li>- Monthly data</li> <li>- Cash Basis</li> </ul>
D. Treasury Management and Cash flow	<ul style="list-style-type: none"> <li>- Establishment of a treasury plan</li> <li>- Implementation of the schedule of projected payments for all committed expenditures</li> </ul>
E. Budget Preparation Manual	<ul style="list-style-type: none"> <li>- Establishment of guidelines to spending ministries in the preparation of budget requests</li> <li>- Introduction of the concept of cost/unit</li> </ul>
F. Financial Accounting Law	<ul style="list-style-type: none"> <li>- Proposal for the modernization and improvement of the FAL</li> <li>- Prepared by the IMF consultant in consultation with DGF</li> <li>- Preparation of decree specifying the rules and regulations for the implementation of new FAL</li> </ul>
G. Budget Revenue Forecasting	<ul style="list-style-type: none"> <li>- Scientific method for forecasting budget revenue figures</li> <li>- Based on systematic analysis of historical trends and the correlation of revenue items with political, economic and social changes in the country</li> </ul>
H. Automated Budget System	<ul style="list-style-type: none"> <li>- Computerization of Budget preparation and execution processes at the spending ministries</li> </ul>
A. Installation of DMFAS 4.1	<ul style="list-style-type: none"> <li>- Y2K incompatible</li> <li>- To be discontinued in October, 1999</li> </ul>
B. Establish links between debt management and the general budget	<ul style="list-style-type: none"> <li>- Adoption of the administrative nomenclature of the budget for debtor institutions</li> </ul>
C. Installation of DMFAS 5.1	<ul style="list-style-type: none"> <li>- Installation and training of personnel at the three institutions responsible for debt management</li> </ul>

## **1. Budget Reform**

In conjunction with the reforms mentioned above, a major improvement has entailed the forecasting methods of the budget revenues. Indeed, the 1998 budget revenue estimates were formulated based on a systematic analysis of the historical trends and the correlation of the different revenue items with the political, economic and social changes in the country. This has made it possible to determine more precisely the future evolution of each revenue category thereby greatly enhancing the budget preparation exercise.

## **2. “Review and Reform of Procedures and Controls” Project**

With the successful implementation of the budget and accounting reforms at the Directorate General of Finance, the MOF has embarked on an effort to improve and render more efficient its operations. The goals of the “Review and Reform of Procedures and Controls” project conducted by KPMG are to review budget implementation procedures, controls and workflows and to recommend, where applicable, means to strengthen the capabilities of the MOF in the performance of these activities, strengthening controls, and improving treasury management.

More specifically, the project documented the existing procedures, assessed their efficiency and effectiveness and recommended and designed improved or new procedures. The project also reviewed the existing IT systems with a view to providing a comprehensive and integrated system, designed a training strategy that will be necessary to upgrade the skills of staff and to implement the new procedures, and established a manual of procedures setting forth the various tasks to be carried at the concerned directorates. It has also suggested methods for the modernization of the control procedures and orienting them towards quality control to supplement compliance control. Most importantly, the project reviewed the current internal audit procedures at the MOF and set up mechanisms for the establishment of an internal audit unit.

The project has submitted the deliverables to the MOF and the Arabic version has been reviewed and accepted.

### **3. Reform of the Financial Accounting Law**

The proposal for the reform of the Financial Accounting Law of 1963 prepared by the IMF resident expert was finalized in 1997 in coordination with the Director General of Finance. The proposal basically attempts to modernize and rationalize the law and to rectify the inconsistencies and deficiencies in the original document. A decree specifying the rules and regulations for the implementation of the new law has also been prepared. The Accounting Law reform requires to nominate a committee of public finance specialists and lawyers to study and comment the draft Law and Decree and to process it to the council of ministers and to the parliament. The Arabic version of the proposed Law and Decree needs to be finalized.

### **4. Improving fiscal information and Treasury management**

Ongoing efforts are being undertaken to improve the work and the information generated by the Ministry of Finance. An IMF mission recently visited the Ministry to examine the operations at the level of the Accounting and Treasury Directorates and provided recommendations on the short and long run.

Efforts should be done at the level of the Accounting Directorate in order to finalize the 1993 and 1997 Entry Balance, to eliminate the non-functional accounts and to ensure the reconciliation between the old and the new nomenclature. This work has to be coordinated with the Audit Court and the Treasury. On another front, the Accounting Directorate should be computerized and directly linked to the Treasury and the other Local Accounting Offices in order to avoid duplication of work and to accelerate the generation of the monthly Balance of Accounts.

As for the Treasury Directorate, recommendations focused on transforming it from a directorate that processes daily administrative work to a Directorate that is able to produce and analyze periodic financial information and therefore perform the function of treasury and liquidity management. As a start, a special unit should be established, composed of economists and public finance specialists capable of analyzing the information and managing the daily liquidity of the government.

The involvement of the Computer center in this process is important and should go along with these reforms since the main objective is to produce accurate, quick and reliable information.

Below is a summary table defining the recommendations and the work plan:

<b>Recommendations</b>	<b>Responsible Directorate</b>
Reconciliation between the MOF treasury data and the BDL data	Director General Treasury Director
Produce the Monthly Balance of the Government Accounts: consolidation of all the public accounting offices in the regions.	Treasury Director Public Accounting Directorate
Produce the daily balance of the treasury: establish a transmission system to ensure the daily transmission of the cash balances of all the cashiers related to the Treasury.	Director General Treasury Director
Monthly Balances:	
a) Cash basis: trace back of the Payment Order and produce an economic classification table on cash basis	Computer Center of MOF Computer Center of BDL Budget Director Treasury Director
b) Payment Order basis (PO): the execution of the budget through Payment Orders	Treasury Director Computer Center of MOF
Transfer all the deposits of the public entities to account 36 in order to dispose of additional capacities for treasury financing. Ensure a better treasury management to avoid negative effect.	Treasury Director BDL

### III.4. THE 20/20 INITIATIVE PROJECT

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The 20/20 initiative was originally proposed by five UN organizations in response to the ambitious and time-bound goals for social development and poverty alleviation. It is a useful mechanism for mobilizing the needed resources to accelerate action towards providing universal access to basic social services (BSS). The initiative calls for the restructuring of government budgets and official development assistance (ODA) in favor of the BSS. It suggests that financial allocations to such services be increased to 20 % of the total government budget and that 20 % of ODA be allocated to support those same services.

The Ministry of Finance together with UNDP has conducted a study on Basic Social Spending by the Lebanese Government. The objectives of the study were to analyze the government expenditures in order to determine the share allocated to basic social services and to assess the need and methods for restructuring government expenditures and more specifically social expenditures to increase efficiency in expenditure management and increase resources allocation for basic social services. The study also defines the areas where measures need to be taken so as to improve the effectiveness of expenditures and reduce costs, with respect to both social services in general or basic social services and to suggest, in light of that, an appropriate plan.

The consultants and the UNDP team at MOF have assisted the budget director during the 2001 budget discussion in order to become familiar with the budget preparation and discussion process with respect to the ministries of Social Affairs, Education and Health. A matrix specifying the major recommendations has been prepared and could be used together with the major 20/20 report as a baseline document for a work plan to be constructed and implemented.

## Summary of recommendations and Action Plan

Agency	Recommendations
<i>General</i>	<ul style="list-style-type: none"> <li>Concentrate spending on poor and low-income groups and give absolute priority to BSS</li> <li>Develop clear policies with commitment from the political authorities</li> <li>Set out human resources to formulate plans and follow-up</li> <li>Define role of the public and private sectors with respect to financing, with emphasis on cooperation and coordination among them. Involve Civil society Develop information systems in Line Ministries</li> </ul>
<i>Ministry of Finance</i>	<p><b>Review the general budget and treasury accounts; set uniform criteria and standard terminology among ministries</b></p>
<i>Ministry of Education</i>	<p><b>Improve quality of public education</b></p> <ul style="list-style-type: none"> <li>Abolish system of scholastic grants of public sector employees and improve efforts to increase the contribution of local authorities in financing public sector</li> </ul> <p><b>Rationalize Government expenditure on public education at pre-school level</b></p> <ul style="list-style-type: none"> <li>Define a national average for number of students per teacher; Assign qualified teachers to schools according to needs, and fill government vacant posts with the surplus, or offer separation package</li> <li>Review the school map in light of standards</li> <li>Establish a unified administration for basic education</li> <li>Create a unit for educational planning</li> </ul>
<i>Ministry of Health</i>	<p><b>Rationalize expenditure and focus on Primary Health care</b></p> <ul style="list-style-type: none"> <li>Adjust method of contracting with private hospitals</li> <li>Develop a method that confines subsidized hospitalization to the most needy</li> </ul> <p><b>Merge Government health insurance systems into one and Reform of NSSF</b></p> <p><b>Strengthen competition in the market for drugs</b></p> <ul style="list-style-type: none"> <li>Re-activating the National Office for Drugs</li> <li>Reduce the number of drugs in circulation</li> </ul> <p><b>Strengthen coordination of MOH with MOSA and NGOs</b></p> <ul style="list-style-type: none"> <li>Restrict any expansion of Government dispensaries to the regions</li> <li>Activate existing dispensaries and reinforce their role as provider of Basic Health care</li> </ul>
<i>Ministry of Social Affairs</i>	<p><b>Direct more attention to vulnerable groups other than the handicapped and orphans, especially delinquents, old people and the homeless</b></p> <ul style="list-style-type: none"> <li>Improve targeting of vulnerable groups by redefining them</li> <li>Adopt objective criteria to determine their basic needs and specify the value of aid.</li> <li>Design model contracts with civil organizations</li> <li>Prepare a detailed list of conditions that should be met by welfare institutions</li> </ul> <p><b>Revisit Social Development Centers (SDCs) for greater efficiency</b></p> <ul style="list-style-type: none"> <li>Review the spatial distribution of SDCs and evaluate internal and external effectiveness</li> <li>Concentrate in a transitional stage on making successful the centers and branches with medium and high effectiveness, and temporary closure of centers and branches with low effectiveness</li> </ul> <p><b>Organize partnership with NGOs</b></p> <ul style="list-style-type: none"> <li>Cease automatic renewal of contracts for joint projects with NGOs</li> <li>Link renewals to a comprehensive evaluation of effectiveness and objective criteria</li> </ul> <p><b>Reduce duplication with other ministries</b></p> <ul style="list-style-type: none"> <li>Redefine the role of MOSA in assisting a number of students enrolled in private vocational education and gradually cede the function to the ministry of VTE.</li> <li>Undertake an evaluation of the effectiveness of programs that supplement the health care and educational services, and ascertain the usefulness of continuing the Ministry's contribution to their financing.</li> <li>Cease to support projects of a construction nature except in the villages and towns, which lack municipalities.</li> </ul> <p><b>Strengthening capacity of MOSA</b></p> <ul style="list-style-type: none"> <li>Fill key vacancies in the Ministry especially the posts with planning, supervisory and control responsibilities, and ensure a minimum level of equipment needed.</li> <li>Develop programs with multiple specialization and diversified scope of activity</li> </ul>

## **PART IV**

# **SUPPORT TO THE FIVE-YEAR FISCAL ADJUSTMENT PROGRAM**

## PART IV

### SUPPORT TO THE FIVE-YEAR FISCAL ADJUSTMENT PROGRAM

The government has embarked on a five-year fiscal adjustment program that aims to reduce the fiscal deficit, decrease the debt burden and introduce a tax reform project. The five-year program sets a fiscal deficit target to 4.5% of GDP by 2003, stabilization of debt levels at 96% of GDP by 2003. This will allow for a decrease of real interest rates, which in turn will release substantial resources in our financial system to private sector financing.

To that aim, the government planned a number of reforms and policy measures. In this context, the UNDP project is heavily involved in helping the Ministry of Finance developing and implementing the reforms discussed in this section.

<b>Fiscal Reform</b>	Fiscal reform through a Wide-scale modernisation of the tax system that comprises the introduction of the VAT, the implementation of a general income tax and the reform of tax administration.
<b>Privatization Programme</b>	Privatization program and the increase in private sector participation in infrastructure development.
<b>Public Debt Management</b>	Improvement of the public debt management system, by developing a debt management strategy, modernizing the debt market and creating institutional mechanism for a modern debt management system.
<b>Expenditure Rationalization</b>	Rationalization expenditures management that entails fixing the ceiling on the level of expenditures and the reduction of current expenditures.



## **IV.1. TAX REFORM AND MODERNIZATION**

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### **1. Introduction of a VAT in 2001**

It is currently under preparation at the MOF. The introduction of the VAT will result in the sharpest increase in overall tax revenues (by 2.9% of GDP) in 2001. A VAT unit was created at the Revenue Department and has been in operation since July 1999. The objective of establishing the unit is to follow up on the stages relating to the introduction of the VAT in January 2001.

The UNDP project has been involved in the preparations for the VAT in various respects, mainly:

- Participated in the formulation of the strategy for the implementation of the VAT.
- The project worked directly with the European Union on the preparations for a technical assistance project for the VAT. This effort incorporated the preparation of the project document, the formulation of the terms of reference and the creation of the VAT unit, which encompassed the recruiting of expert and technical assistants for the VAT project.
- The UNDP project also provided technical assistance and consulting support until early 2000 for the various stages of the VAT implementation process to guarantee that project components move according to plan. Currently, the unit indirectly participates in the supervision through being part of the VAT committee and providing various support and assistance to the VAT team.
- Some of this support lies on the legal front, which embraces both the preparation of the proposed law and the VAT technical document.
- On the economic front, the project helped the administration to prepare the theoretical and empirical studies discussing the impact of the VAT on the different sectors, the accounting procedures and standards for structuring tax collection and the threshold that will best fit the Lebanese economy.
- Within the scope of the VAT, the unit has also participated in discussions on tariff reform with the IMF and the EU.
- The project also helped by coordinating with international experts and organizing meetings with local representatives from the private sector.

The VAT project's five phases are the following: the preparatory phase, legislative phase, pre-administration phase, installation of the administrative unit, and finally the implementation phase.

## **2. Income and property tax reforms**

These reforms have started in the context of Budget 1999. Their main purpose is to increase equity and fairness in income distribution. In this context, the project is conducting the necessary studies along with international assistance in order to reform:

- The income tax system by installing the Global Income Tax. This reform is intended to replace the current existing system of schedular income taxes.
- The project is also assisting the MOF in the reform of the tax administration through the support provided to the Domestic Taxation Reform Project (DTR), which has been in operation at the Revenue Department since July 1996. The objective of the project is to re-haul the tax administration. Assistance is provided by REFM to insure that project components are moving in a timely fashion and through its contribution to the continuous training of existing staff. The DTR Project components consist of: Reengineering the various tax programs, updating systems and procedures, writing procedural guides, software development, and setting-up special audit units.

## IV.2. PRIVATIZATION

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According to the 5-year fiscal adjustment plan, privatization will be used to retire public debt and decrease expenditures. Needless to say, privatization's relative impact on the progress of the fiscal adjustment is very important. In this context, the project provides support to the MOF on the various issues related to the privatization process. Specifically, the unit advises the MOF on the following:

- Privatization regulatory framework: The unit has participated in the drafting of the framework law on privatization, which was approved by the Council of Ministers in May 1999 and ratified by Parliament in May 2000.
- Water and telecommunications laws: The unit has reviewed the water law, prior to its ratification in Parliament in May 2000, and the telecommunications draft law.
- Privatization master plan: The unit has participated in the inter-ministerial committee in developing a master plan for privatization.
- Privatization of MEA: The unit has supported the Ministry in the Government's negotiation with the International Finance Corporation. In particular, the unit has helped formulate and sign an advisory agreement to assess the alternative paths available for a successful divestment of Middle East Airlines.
- Information dissemination: The unit provides regular update to investment banks and consulting firms that are interested in the latest developments on privatization in Lebanon.

### IV.3. DEBT MANAGEMENT

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The reform of the debt management system has been integrated in the five-year fiscal adjustment program as one of its main pillars. Its objective consists of reducing the debt burden through actively managing government debt. In this context, the UNDP project has helped the Ministry of Finance in developing and implementing the reform of the existing debt management system towards a more efficient structure designed to control the debt dynamic and therefore help reduce the budget deficit.

The project contributed to this effort through the following:

1. Developing a vision for a debt management reform through setting the objective and strategy of the reform and introducing the required adjustment to the existing institutional framework for debt management (creating a debt management unit composed of a back office, middle office, and cash management unit).
2. Managing the foreign borrowing strategy on the international capital markets through ensuring better use of official loans, extending the maturity profile of the debt, and diversifying the investor base and currencies.
3. Participating in designing of the reform of the local debt market through streamlining the issuing strategy and creating benchmarks, developing the secondary market, improving and modernizing the market infrastructure, and adjusting the regulatory framework.
4. Coordinating between the various technical assistance missions for debt management (World Bank, IMF, and French Government) and negotiating a loan with the Arab Monetary Fund.
5. Following-up on debt service payments: The UNDP project is helping the MOF in the follow-up on the debt service payments for loans administered by the Ministry of Finance, especially Eurobond payments.

6. Reporting of external debt: The project is involved in the reporting and analysis of the external debt figures that are generated by the UNCTAD debt management system, DMFAS. In addition, the project is also coordinating between the Council for Development and Reconstruction, Banque du Liban, and the Ministry of Finance regarding the maintenance, control, data entry and backup of the DMFAS system. Moreover, the project has been coordinating with the technical team of the Central Bank the installation of the network version of DMFAS 5.2 at the Ministry of Finance. The support also entailed training of Debt Department staff on the new DMFAS with the coordination of the Central Bank. The UNDP team is now working in conjunction with the IT department at the MOF and the BDL, to ensure the installation of the latest version of DMFAS. DMFAS 5.2. is designed to meet the reporting needs and solve some inconveniencies prevailing in the existing system.

#### IV.4. EXPENDITURE RATIONALIZATION

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This is to be achieved by curbing current expenditures and interest payments. The UNDP project is involved in various activities related to expenditure management, among which are:

- Establishing key adjustment factors on the expenditure side and helping the MOF to reduce debt-servicing costs. This is achieved through the issuance of external debt and the privatization program that will also have an impact on current expenditures.
- The project is also involved in analyzing and monitoring expenditures. It informs and advises the minister on the measures needed to achieve the goals of the five-year fiscal adjustment program.
- Participated in preparing a matrix for expenditure management and rationalization with World Bank experts, which was part of the preparatory work for the fiscal reform loan.
- Working through the 20-20 initiative project to rationalize expenditures on the social sector.
- Participated in various other issues related to budget execution and preparation in order to improve the control of expenditures.

To achieve long-term fiscal sustainability and reposition the government in the economy, the following points are set as priorities:

- Put a ceiling on overall public expenditure
- Reduce share of current expenditures
- Rationalize investment spending
- Focus on social and regional development programs
- Improve the administrative efficiency in managing expenditure