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

REFORM PROGRAM
@
THE MINISTRY OF FINANCE
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INTRODUCTION

After the end of the civil war (1975-1990), the ability of the Ministry of Finance (MOF) to deliver on its mandate was severely challenged due to the damage in infrastructure and physical assets, as well as the depletion of human resources that took place during the war. The strategy of the MOF facing this challenge consisted of adopting a comprehensive and integrated reform program to re-haul its operations. This reform program is part of the Ministry's long term vision of structural reforms. Initially, the objective of the program was to restore previously existing functions at the MOF. Eventually, the objectives of the program evolved into the following:

1. Fiscal adjustment
2. Building a 21st century administration & improving service quality to citizens
3. Preparing for long term structural reforms

Specifically, the program consists of 6 main reform projects aimed at achieving the above-mentioned objectives:

- I. Tax Reform
- II. Customs Reform
- III. Expenditures and Treasury Management
- IV. Debt Management
- V. Cadastre & Land Registration Reform
- VI. Public Pension System Reform

Together, these projects form an integrated package that addresses all the functions at the MOF. The package aims at achieving the objectives of the reform program, as summarized in the matrix below:

THE MINISTRY OF FINANCE VISION: A COMPREHENSIVE AND INTEGRATED REFORM PROGRAM

Objectives	1) Fiscal Adjustment	2) 21st Century Administration & Service Quality to Citizen	4) Preparing for Long Term Reforms
REFORM PROJECTS			
I. TAX	✓ Increase revenues	✓ Modernize tax administration ✓ Improve service for taxpayers	✓ Prepare for the General Income Tax
II. CUSTOMS	✓ Increase revenues ✓ collect other taxes	✓ Facilitate trade ✓ Partner with other administrations ✓ Provide fast clearance	✓ Modernize post-clearance control ✓ Support trade liberalization
III. EXPENDITURES & TREASURY MANAGEMENT	✓ Rationalize expenditures	✓ Improve client connectivity ✓ Integrated Treasury and budget system ✓ Support other administrations	✓ Implement Public Expenditure Review (PER)

IV. DEBT MANAGEMENT	✓ Re-profile debt: reduce cost & risk	✓ Institutionalize debt management	✓ Prepare for more active debt management
V. CADASTRE & LAND REGISTRY	✓ Increase revenues	✓ Improve information to market	✓ Improve reporting on real estate sector
	✓ Enhance efficiency	✓ Automate registrars	✓ Promote sound asset management practices
VI. PUBLIC PENSION SYSTEM	✓ Control pension spending	✓ Digitize Cadastre	✓ Prepare to re-haul pension system
	✓ Reduce future liabilities	✓ Use IT to streamline services	
		✓ Introduce E-services	
		✓ Modernize pension administration	
		✓ Provide direct payment	
		✓ Ensure better services	

The MOF took a lead in adopting steps and measures to uphold reforms and to support an advancing economy with, on the one hand, an active and demanding private sector, and on the other hand, a public sector in need of modernization. Principal international agencies and institutions, including the International Monetary Fund (IMF), the World Bank (WB), the United Nations Development Program (UNDP), the European Union (EU), the French bilateral cooperation, and the Canadian International Development Agency (CIDA) have provided technical and financial assistance, and continue to serve as partners in the process of development- rather than passive funding agencies as would be the case in the traditional management model.

To support the Government's fiscal reform program, the MOF, in collaboration with the UNDP, and with additional assistance from the World Bank Group, the IMF, UNCTAD and other donors, embarked on an initiative named Revenue Enhancement and Fiscal Management (REFM)¹. The project was designed in the overall context of the Government's broader program, which aims at reactivating and modernizing the government agencies through long-term institution-building efforts. The objectives of the program were to enhance revenues, strengthen fiscal management, and provide economic policy support and reform coordination in collaboration with several funding agencies. The project also sought to improve audit standards, public procurement procedures, and the internal capacity and efficiency of the MOF.

While significant developments have been achieved so far, the challenges of the ambitious agenda set forth by the Government in its economic reform program of addressing fiscal, debt, and economic issues require further structural reforms. These include, among others, the introduction of more fiscal and economic reforms in the areas of debt management, pension restructuring, expenditure rationalization, and income tax development. Consequently, the mobilization of additional technical and financial assistance from bilateral and multilateral sources is crucial in order to continue implementing reforms and to meet the new challenges and achieve the Government's economic reform objectives.

¹ As a continuation of the REFM, a new project named "Capacity Development for Fiscal Reform and Management" was launched in February 2003. The goal of this project is to continue assisting the MOF in addressing critical needs for initiating, implementing, and shepherding major reforms.

SECTION I
TAX REFORMS

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

In order to increase the effectiveness of tax administration and hence increase revenues from domestic taxes, the Government has launched a project for the implementation of an administration unit for the Deduction at Source of the Income Tax on Salaries (DASS). The DASS covers active public servants, employees in the private sector, and non-residents (on their fees and remuneration)

1. Objectives

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

2. Achievements to Date

a. Registration

- The DASS unit has been established as a unit within the existing structure of the revenue Administration by decree number 10063 dated 8 May 2003
- The revision analysis, and finalization of the present DASS legislation, regulations and policies have been completed and are being enacted
- Proposals for modification of the law, regulations, and policies have been completed
- Continuous modifications are being introduced to the software application,
- Preparation of registration forms and procedures has been completed
- Preparation of procedures for declaration, collection, etc, is soon to be finalized
- Registration campaign for employers and employees is being conducted according to plan- more than 50% of the employees have been registered
- Public communication campaign, including website development and meetings with representatives of various business sectors, is currently being undertaken

b. Operations

- By law the new tax declaration period is every 3 months
- New premises have been identified and are operational, in the new VAT building
- New auditors have been recruited and were subject to 8 weeks of General MOF training and special DASS training. The DASS unit totals 43 employees, consisting of 41 junior auditors, 1 senior auditor, and 1 head of unit
- Data capture for the declarations submitted is ongoing
- Operations for the management of the DASS have started, including processing of declarations and payments, taxpayer servicing, and audit

3. Developments for the Future

- Activation of the DASS unit in Beirut
- Continuous implementation of DASS automated procedures

2. LARGE TAXPAYER OFFICE (LTO) (NEW DEPARTMENT)

Large taxpayers constitute a significant portion of the tax base in every country. Given their impact on tax collection, a recent trend in tax administration has been to target large taxpayers through the establishment of a Large Taxpayer Office (LTO).

- The LTO will cover taxpayers who have an annual turnover of:
 - ✓ 5 billion L.L. for 2003
 - ✓ 4 billion L.L. for 2004
 - ✓ 3 billion L.L. for 2005
- This will also include insurance companies and financial institutions (including banks)

1. Objectives

For the initial phase, the LTO will administer only income tax chapters I and III. At a later phase, all remaining taxes (including VAT, and DASS), would be included. The objectives of the LTO include the following:

- Securing tax revenues
- Improving effectiveness of audit activities and management of tax arrears
- Providing better services to taxpayers
- Allowing for closer scrutiny and supervision of the conduct and results of audits (including measurement of effectiveness)
- Implementing a pilot project for the introduction of a more rational and effective organizational structure for the entire tax administration
- Presenting a more integrated approach to developing compliance strategy and effective collection enforcement

2. Achievements to Date

- Preparation of the LTO unit implementation plan
- Establishment of a large tax payer office within the Revenue Administration existing structure (by Decree number 10063 dated May 8, 2003)
- Definition of the functions and design of the organizational structure
- Identification of premises and equipment needs for new offices
- Identification of tentative list of staff for department (needed staff is set at 71)
- A preliminary list of taxpayers has been prepared with the numbers amounting to around 1,200 taxpayer

3. Developments for the Future

- Writing guides for taxpayers informing them of the role of the LTO as well as their rights and obligations
- Allocation of the required human resources
- Implementing specialized and highly technical training of human resources
- Launching of an educational and communication campaign

3. TAX ROLL UNIT (TRU) (NEW DEPARTMENT)

The Revenue Directorate is currently organized by tax type. The administration of each tax type unit is responsible for its taxpayers, including registration and identification of functions. In 1997, the MOF implemented a new integrated tax administration automated system, which includes a taxpayer identification database and the issuance of a unique Personal Identification Number (PIN) for each taxpayer. The addition of the tax type code to the PIN provides the taxpayer an account number for the tax. This taxpayer identification database (tax roll) is currently administered by the Income Tax Department. All tax reform projects undertaken by the MOF are using the PIN for taxpayer identification purposes (including the VAT, customs, and indirect taxation departments). Since the PIN is planned for the administration of all types of taxes (not only the income tax), the MOF is planning to centralize the administration of the issuance of the PIN and the maintenance of the basic data related to taxpayer identification.

1. Objectives

The tax roll department will have the following responsibilities:

- Registration and issuance of the PIN
- Deregistration
- Maintenance and updating of basic taxpayer identification data
- Control and elimination of duplications
- Issuance of statistics

Once the registration of employees in both private and public sectors is complete, it is expected that the tax roll database will include more than 700,000 taxpayers.

2. Achievements to Date

- Establishment of tax roll department (by Decree number 10063 dated May 8, 2003)
- Definition of functions and design of organizational structure of the department
- Definition of required human resources, and identification of premises and equipment
- The tax roll is currently being updated and maintained due to the on-going registration in DASS of employees based on information submitted by employers

3. Developments for the Future

- Allocation and training of the necessary human resources
- Filtering and updating of the database
- Selection and registration of other taxpayers
- Launching of communication campaign
- Setting up of premises (office furniture, computers, etc.)
- Enhancement of the application software, mainly for reporting purposes

4. PROCESS IMPROVEMENT FOR THE BUILT PROPERTY TAX (DIRECTORATE OF REVENUES)

The Performance Improvement Planning (PIP) project at the Built Property Tax Unit is one of several support projects for the rebuilding of the public sector capacity in Lebanon. The project aims at controlling the operation of tax estimation and allocation. Such controls should reduce the percentage of errors in estimates as well as draw the attention of tax-payers to their tax-duties, leading to increased collection for the Built Tax Unit.

1. Objectives

- Establishment of IT program and adjacent hardware for tax collection and table issuance
- Training of employees on the new software for timely and regular tax tables issuance
- Creation of database that is periodically exchanged between the Built Property Tax Unit, the Municipality of Beirut, and the Real Estate Directorate
- Set up of network system connecting the Built Property Tax Unit and the Municipality of Beirut in order to have access to leasing contracts of built properties in Beirut
- Launching of public relations campaign to inform citizens of their tax duties

2. Achievements to Date

- Identification of technical specifications for software and procurement of software
- Completion of computer literacy training for the Built Property Tax Unit staff
- Preparation of Terms of Reference for professional Customer Service Training
- Preparation of Terms of Reference for public relations campaign

3. Developments for the Future

- *Software training for Built Property Tax Unit staff*
- Establishment of committee which will include representatives from the Built Tax Property Tax Unit and the Real Estate Directorate, with objectives of:
 - Updating the data resulting from the transfer of real estate process in Beirut
 - Taking the appropriate administrative procedures in order to coordinate between the Built Property Tax Unit and the Real Estate Directorate
- Designing of software
- Launching of public relations campaign
- Providing necessary IT equipment

5. VALUE ADDED TAX (VAT)

The MOF has succeeded in launching the process of modernizing the tax system and has been working on widening the tax base since 1997. Within the framework of implementing international and regional trade obligations (WTO, EU, Arab Trade Union, etc.), the Government introduced the Value Added Tax (VAT) as an alternative broad base tax on consumption. Since its inception, the VAT has become an important measure in generating additional revenues. Following its approval by the Council of Ministers on June 7, 2001, the VAT law was ratified by Parliament on December 5, 2001 and was implemented on February 1, 2002. The VAT has the following characteristics:

1. Single rate of 10%
2. Minimum mandatory registration threshold is L.L. 225 million for 2004², with no lower limit on optional registration
3. Exports are zero-rated.
4. Exemption categories are:
 - Health
 - Education, books, magazines and newspapers
 - Raw agricultural products
 - Essential foods, including wheat and sugar
 - Activities of not-for-profit organizations
 - Collective transport
 - Banking and financial services
 - Insurance
 - Sale and letting of built properties, except commercial letting of built properties
 - Bets, lotteries and other forms of gambling
5. Special refund schemes are applicable to:
 - Tourists
 - Foreign businesses
 - Diplomats and international organizations
 - Newly registered persons on their previous investments (still under study)
 - Some of the exempt sectors (i.e.: health, education, public transportation etc.)
 - Used goods
 - Jewelry
6. The administration of the VAT is located at the MOF new premises, and by law, the VAT is a Directorate reporting to the Director General of Finance

1. Objectives

a. Registration

As a result of continuously lowering the threshold, a total of **3,444** new registrants were added to the VAT database. As of the 31st of March, 2004, the number of taxpayers stood at **15,119** (12,146 mandatory registrations, & 2,973 optional registrations).

² The threshold was at 500 million in 2002, lowered to L.L. 300 million in 2003, and lowered to L.L. 150 million in 2004 as part of the 2004 budget proposal, but then amended to L.L. 225 million in the 2004 Budget Law. The optional threshold was of L.L. 150 million in 2002, was lowered to L.L. 50 million in 2003, and the lower limit on optional registration was removed in the 2004 Budget Law.

b. Communication

In order to help taxpayers and consumers understand VAT characteristics and mechanisms, multiple means of communication are used:

- An information center, including hotlines, is continuously answering inquiries of taxpayers. The VAT website is constantly being updated to provide taxpayers with the latest developments on the VAT front. In addition, a quarterly bulletin is being issued every quarter and sent to registered taxpayers with the quarterly returns, in order to provide them with information such as the latest amendments and introductions to the law, and updates on tax policies. Also, presentations are still being organized, based on individual demand, and are mainly targeted to the business sectors as well as universities and NGOs.

c. VAT administration

The VAT directorate is divided into 4 departments and 12 sections, employing 197 public servants, and 20 support staff members. In addition, a team of consultants, and a senior Canadian expert, are providing support to the VAT administration.

d. Training

In addition to the 140 days training sessions on various topics ranging from VAT laws to computer software applications, during May of 2003, all VAT employees participated in a two week training program presented by a Canadian expert on areas such as risk analysis, selection criteria, and audit techniques. Also, seven VAT employees were sent to France for training sessions covering areas including VAT audit, collection, and communication.

The VAT Directorate is constantly recruiting new, junior employees. These new employees are undergoing a training program that covers various MOF general and VAT specific subjects, extending over a period of 8 weeks, before beginning work.

e. Automation

Below is a summary of the automated functionalities that were added to SIGTAS in order to support VAT requirements:

- Maintenance of registration requests
- Maintenance of deregistration requests
- Maintenance of non-residents and agents requests
- Maintenance of special schemes
- Issuing of periodic declarations
- Issuing of payment vouchers
- Maintenance of declarations
- Maintenance of payment vouchers
- Reconciliation
- Maintenance of refund requests
- Processing of refunds
- Audit
- Handling of delinquency / non-compliance

- Collection
- Electronic data processing with cashiering and accounting department in MoF
- Time sheet by function / task / unit type for each employee
- Build up of a database of taxpayers' profile based on audit, compliance, status, etc.
- Archiving (scanning, on-line image viewing)
- Reports / Statistics

2. Achievements to Date

a. VAT Revenue Collection (Feb 2002-Dec 2003)

Taxpayers have the option of submitting their VAT declaration by mail or in person to the VAT directorate. During the last quarter of year 2003, the percentage of mail/personal submissions of returns were as follows:

- 23.6% of taxpayers remitted their declaration by post
- 76.4% of taxpayers preferred remitting it by hand to prevent loss or delay

The declaration compliance rate stood at 98.5%.

Revenues from February 2002 till December 2003 were distributed as follows:

Period (LL billion)	VAT local collection	VAT collection at import	Total VAT collection
From 01/02/2002 to 31/03/2002	56,109.39	113,688.99	169,798.38
From 01/04/2002 to 30/06/2002	98,312.57	191,889.00	290,201.57
From 01/07/2002 to 30/09/2002	123,406.35	207,569.00	330,975.35
From 01/10/2002 to 31/12/2002	123,599.22	219,603.00	343,202.22
From 01/01/2003 to 31/03/2003	90,800.83	197,753.00	288,553.83
From 01/04/2003 to 30/06/2003	110,036.58	200,296.00	310,332.58
From 01/07/2003 to 30/09/2003	143,518.96	237,951.00	381,469.96
From 01/10/2003 to 31/12/2003	128,779.11	267,159.00	395,938.11

b. Tourist Refunds

Based on MOF request, Global Refund (GR), the company contracted by the MOF to manage the tourist refund scheme, extended the tourist refund mechanism to the Beirut port and the Masnaa border. However, for control purposes, GR does not allow for cash refund at the Masnaa border. In addition, GR is also extending refund for tourists on shipped goods provided they comply with the set rules and regulations-except for the Masnaa border.

VAT refund figures from February 2002 till December 2003 are as follows (amounts in LL billions):

Refund claims		Approved refund claims				Outstanding refund claims	
Number	Amount	Number	Claimed amount	Approved amount	Brought forward	Number	Amount
6,087	133,044.1	2,453	71,682.95	48,108.58	12,839.75	3,634	61,361.15

From January 2003 till December 2003 tourist refund statistics per type of refund were as follows:

	Sales in store	%	No of refunds	Average sales amount (LL billion)
Cash	43,499,188,498	63.54	52,592	827,107
Non cash	24,957,033,921	36.46	9,543	2,615,219
Total	68,456,222,419	100	62,135	1,101,734

3. Developments for the Future

- Lowering of mandatory registration threshold to L.L 150 million for the beginning of year 2005
- Implementation of automated audit reporting, and comprehensive compliance strategies
- Implementation of audit strategy based on selection criteria and risk analysis
- Implementation of automated procedure with the accounting department at the MOF
- On-line scanning of documents
- Preparation of a yearly audit plan covering many types of audit
- Design of high level management information system
- Continuation of specialized training , mainly in the audit field
- Preparation of framework for internal audit procedures within the VAT Directorate
- Simplification of VAT returns
- Review of penalties and implication on collection department

6. GENERAL INCOME TAX

The modernization of the tax system constitutes a major component of the fiscal reform program implemented by the MOF. Accordingly, the MOF is in the process of introducing a General Tax on Income in lieu of the current scheduler income taxes.

1. Objectives

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

2. Achievements to Date

- Lists of issues covering tax procedures, and tax policies have been prepared
- Comparative studies with similar countries have been conducted in order to better identify the above mentioned issues
- A draft of the project's detailed implementation plan has been prepared
- The first phase of the project unit in charge of development and implementation of the GIT has been executed
- A first version of the draft tax procedure code has been prepared
- A first version of the draft of the structure of the GIT law has been prepared
- Strategies for the preparation of each component of the project are currently being prepared including laws and regulations, administration, human resource, and communications

3. Developments for the Future

- Finalization of the tax procedure code
- Finalization of the first version of the structure of the GIT Law

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SECTION II
EXPENDITURE & TREASURY MANAGEMENT REFORMS

7. PUBLIC EXPENDITURE REFORM

I. Public Expenditure Review (PER)

Prospects of recovery of economic growth depend greatly on addressing fiscal imbalances and the large stock of public debt, placing the Public Expenditure Review (PER) mission at the heart of Lebanon's extensive reform agenda.

1. Objectives

- Achievement of expenditure efficiency
- Enhancement of institutional capacity in expenditure management
- Ensuring that mechanisms are in place to deal effectively with essential social services in times of budgetary and financial distress
- Detection of contingent liabilities and quasi-fiscal costs that hinder fiscal adjustment

While the facets of public expenditure management are numerous and complex, the proposed PER will focus primarily on three interlinked issues:

a. Fiscal Adjustment for Sustained Economic Growth

The MOF is committed to the process of fiscal adjustment in the short and medium-terms. Irrespective of the size and pace of fiscal adjustment,³ some aspects of the adjustment process are likely to be contractionary. Thus, it is important that expenditure policy be directed towards persevering future growth prospects during the adjustment period.

b. Raising Efficiency of Public Spending

The PER will examine issues of efficiency of public spending from three complementary viewpoints:

- the efficiency in resource allocation
- the efficiency of the budgetary process and the expenditure circuit
- the efficiency of spending in line ministries, as measured by the effectiveness and the quality of service delivery

c. Review of Social Sector Spending

The scope of the social sector spending review will be limited to the three most clearly identifiable social sector expenditures in the budget, namely education, health, and social protection. With private sector expenditures leading in the provision of services for these sectors, the analysis will focus on allocative efficiency and equity of public sector expenditure.

³ Debt sustainability analysis, and the appropriate macroeconomic policy mix (including exchange rate) are part of the IMF surveillance work and will not be covered in the PER. Additionally, the CAS will undertake broad macroeconomic scenarios for the medium-term. These inputs will provide the overall macroeconomic framework for the PER.

II. Public Expenditure Management (PEM)

The MOF developed, in consultation with the IMF Fiscal Affairs Department, a comprehensive reform program for Public Expenditure Management (PEM).

1. Objectives

The PEM Program aims at:

- Improving the current budget preparation system, Treasury management, budget reporting, and financial control functions
- Ensuring the requirements for adopting performance-based budgeting

2. Achievements to Date & Developments for the Future

In this respect, the MOF is currently implementing short term reform measures at the level of the Budget, Treasury and Payment Authorization Directorates, aimed at enhancing budget preparation and treasury management as well as improving the reporting mechanisms within the MOF Directorates. Longer term measures, or structural reforms, aim at upgrading MOF functions by modernizing administration operations on performance budgeting, within a framework of well defined policies and targets. These longer term measures cover:

- The budget preparation and execution process (streamlining of budget preparation cycle, budget coverage, budget classification)
- The adoption of new accounting standards based on accrual accounting and in conformity with IMF's latest manual 'Government Financial Statistics' (GFS 2001)
- The improvements of treasury management function, including payment and information systems

The reform also envisages the preparation of a new Organic Budget Law that will provide a framework for the preparation, discussion and amendment of annual budget laws.

III. Social Expenditure rationalization: 20/20 initiative

1. Objectives

The objective of this project is to increase the efficiency and effectiveness of public spending on basic social services undertaken by to the Ministry of Health (MOH), Ministry Education (MOE), and Ministry of Social Affairs (MOSA). With increased efficiency, the MOF can achieve budget savings and improve social service delivery.

2. Achievements to Date & Developments for the Future

The MOF has conducted in 1999 a study on the basic social spending of the Lebanese Government. The main purpose of this study was to appraise the level of spending made by the Lebanese Government on basic social services (as per UNDP definition), and to assess its efficiency and equitably. The relevant social services included in this study

encompass education (pre-school, elementary and intermediate education in addition to the eradication of adult illiteracy), health (primary health care, maternal health services, family planning and nutrition), as well as the provision of potable water and sewerage services at lower costs to low income categories.

An adjacent study was conducted in 2002, focusing on optimizing efficiency in the budget allocation and preparation processes of the MOE, MOH, and MOSA. A shift towards activity-based budgeting is recommended, with the development of performance indicators for expenditure analysis. This new budget approach will allow the MOF and the concerned Ministries to take adequate and relevant policy decision.

In light of the recommendations and observation of the above mentioned studies, the MOF has initiated a dialogue with the MOE, MOH, and MOSA, encouraging them to improve the preparation of their budgets using an activity-based approach.

As a first implementation phase, the MOF nominated a liaison officer to set a performance measurement system and to prepare the budget by activities in a consultative manner with the line Ministries. A pilot activity-based budget is being conducted with the MOH, using a conversion table to reallocate appropriations from the conventional budget (the budget as it is currently prepared and presented) to an activity-based budget, and to establish the related performance indicators and targets.

8. MODERNIZATION OF THE GOVERNMENT PAYMENT SYSTEMS

The MOF continues to reinforce the control and rationalization of the payment system in order to facilitate and better control this system and consequently improve expenditure performance and its economic return. More specifically, the MOF is currently implementing two interrelated sub-projects, namely the modernization of the government payment system and the reform of the public pension system and its management.

1. Objectives

- Automation of the payment of salaries
- Development of electronic transfers for government payments
- Executing payments through the banking system
- Use of new means for payments

2. Achievements to Date

- Launching payments through commercial banks in March 2002
- Upgrading of payment procedures of salaries and beneficiaries of pensions for all civil and military service, as well as public institutions, from cash payments to direct transfer system through commercial banks
- Developing software program to meet demands of new payments system
- Providing adequate training to the employees involved in the project.
- By August 2003, around 300,000 employees and retirees benefited from payments through commercial banks' electronic transfers:
 - ✓ 150,000 retiree beneficiaries' employees
 - ✓ 65,000 military employees
 - ✓ 60,000 civil employees
 - ✓ 25,000 public institutions

3. Developments For the Future

- Focus on improvements to the payroll system
- Inclusion of all government payments, ultimately to be carried out through transfers to the accounts of the beneficiaries at the commercial banks
- Automation of all government payments orders, through electronic payment systems
- Further automation of collection of taxes and fees

9. BUDGET AND ACCOUNTING REFORM

The MOF succeeded in introducing a number of reforms concerning the major functions at the MOF. These reforms cover the entire budget process starting from the preparation phase through the end of the execution phase of the budget.

1. Main Objectives

Below is a brief description of the major reforms conducted at the MOF pertaining to budget and accounting functions:

Type of Reform	Details & Objectives of Reform
New Budget Nomenclature	The new budget nomenclature is applicable to both revenues and expenditures, and includes the introduction of administrative, economic and functional classifications of expenditures.
New Accounting System	The new accounting system includes a new Chart of Accounts, accounting manuals, and accounting procedures for principal and local accounting offices at the customs and the Treasury departments.
Fiscal Data Generation	Fiscal data generation includes reporting of general statistics on a monthly basis, as well as cash flow reporting and a daily and monthly basis (on classification basis).
Treasury and Cash Flow Management	With the establishment of a Treasury plan, the payment of committed expenditures will be systematically scheduled in order to ensure better cash flow management.
Budget Preparation Manual	The manual established guidelines for ministerial allocation of expenditures in the preparation of budget requests, introducing the concept of 'cost per unit'.
Public Accounting Law (PAL)	A new modernized and improved version for the PAL was proposed and a decree was developed specifying the rules and regulations for the implementation of new PAL.
Budget Revenue Forecasting	A new methodology was developed in 1998 to forecast budget revenues.
Automated Budget System	The Budget preparation and execution processes at the spending ministries have been computerized.

1. Accounting Reforms

1. Achievements to Date & Developments for the Future

- Introduction of new Chart of Accounts at the Principal Accounting Offices (PAO) and the Local Accounting Offices (LAO)
- Integration of accounting procedures
- Efforts were directed towards consolidating the accounting reforms implemented at the beginning of 1997 and ensuring their smooth implementation at both the central and local levels
- Regularization of accounting procedures and reporting requirements of the principal and local accounting offices
- Strengthening of coordination between the principal accounting office of the Treasury and the Central Bank

- Recruiting accountants for the Treasury Directorate (TD) to improve the centralization of operations at the Treasury principal office. The role of this group has been substantially expanded in the past years as it is starting to assume more of the Treasury Directorates' functions and responsibilities
- Producing and publishing (since 1998) up-to-date monthly fiscal data showing both budget and Treasury operations.
- Reconciling the monthly fiscal performance figures with the Central Bank Treasury account, with review by IMF experts
- Assuring, in collaboration with IMF expert, the future needs of the Treasury Directorate (TD) and the Public Accounting Directorate (PAD)

In this respect, the TD and the PAD are currently in the process of streamlining the internal procedures for improving efficiency and effectiveness, as well as for ensuring the integrity of the accounting system in order to generate better reports with reduced timeliness.

A number of newly-recruited civil servants have been trained for developing and maintaining regular reports and treasury operation statistics. These reports provide the Treasury Directorate with the required information to assume its functions of treasury management and monitoring of expenditure execution and will ultimately serve for forecasting monthly balances. The MOF is continuously working on enhancing this reporting system and on ensuring the integrity and regularity of the information.

II. Budget Reform

I. Achievements to Date & Developments for the Future

- Developing and implementing (in 1997) a new budget nomenclature for both revenues and expenditures compatible with GFS 86⁴. The new budget expenditure nomenclature introduces administrative, economic and functional expenditure classifications.
- Developing a budget preparation manual and introducing new guidelines to spending ministries for the preparations of budget requests
- Introducing new concepts such as the cost per unit
- Conducting intensive training for all government officials involved in the budget preparation and execution process
- Improving forecasting methods of the budget revenues, allowing for a more precise determination of the future evolution of each revenue category thereby greatly enhancing the budget preparation exercise

III. "Review and Reform of Procedures and Controls" Project

I. Objectives

With the successful implementation of the budget and accounting reforms at the Directorate General of Finance, the MOF has embarked in 1999 on an effort to improve and render more efficient its operations through a business process improvement approach. The goals of the "Review and Reform of Procedures and Controls" project are

⁴ IMF Government Financial Statistics 1986

to review budget implementation procedures, controls and workflows and to recommend, where applicable, means to fortify the capabilities of the MOF in the performance of these activities, strengthening controls, and improving Treasury management.

2. Achievements to Date & Developments for the Future

- Reviewed current internal audit procedures at the MOF and set up mechanisms for the establishment of an internal audit unit
- Documenting existing procedures, assessing efficiency and effectiveness, as well as recommending new and enhancing existing procedures
- Reviewing existing IT systems to secure a comprehensive and integrated system
- Designing training strategy for upgrading staff skills
- Establishing manual of procedures setting forth various tasks to be carried at the concerned directorates.
- Recommended methods for the modernization of the control procedures, oriented towards quality control to supplement compliance control

10. TREASURY MANAGEMENT REFORMS

1. Modernization of the Government Payment Systems

The MOF is currently implementing a modernization plan of the public sector's payment systems, mainly through electronic transfer of public employees' salaries, wages and pensions through the banking system (under implementation), the automation of the central government's payment orders, and the payment through the banking system of taxes and fees.

In December 2001, the MOF issued a decision transforming the payments of wages and salaries for all civil and military employees from cash basis to direct transfers through commercial banks. The implementation of this decision started in January 2002, and payments through commercial banks were launched in March 2002, and a subsequent government decision in June 2002 has allowed the payment of public institutions' salaries through commercial banks as well.

The reform was completed by the end of 2002. As of end of August 2003, 300,000 employees and retirees (excluding military service) were benefiting from payments through commercial banks.

2. Automation and Modernization of Tax Collection

The objective of this modernization effort is to better manage the tax collection system and to enhance the capacity of the Treasury in quantifying tax collection arrears. The automation and the modernization of tax collection allows for better Treasury management and for the integration between the revenue assessment system at the Revenue Directorate and the revenue collection system at the Treasury.

The modernization of the collection system (Income and Property Tax) at the treasury, the total automation of the process and the creation of a database on collection (linked to the tax administration system) were achieved at the end of the first quarter of 2003. Twelve local accounting units including the Beirut accounting office have been automated corresponding to around 95% of the volume of transactions.

3. Reform of the Public Pension System

The MOF launched a project to reform the pension system of public sector employees, through various initiatives: an actuarial study for future claims, an adjustment of the legal framework for public sector pension system and a restructuring of the department in charge of managing pensions for public sector at MOF. To date significant progress has been achieved and the Public Pension department is designing new initiatives, such as a program to control the bank account system of retirees and the building of a new audit system, to be implemented in the next six months.

SECTION III
CUSTOMS REFORM

11. CUSTOMS MODERNIZATION COMPONENT ASYCUDA/NAJM IMPLEMENTATION

An ambitious plan was launched in 1993 to rejuvenate the customs administration in order to build a modern customs service center that is innovative and forward-looking. The MOF's immediate objective was to maximize efficiency in the customs clearance process and to improve quality of trade data through the installation of a comprehensive system for customs clearance and control, consistent and compatible with international standards.

1. Project Concepts

- NAJM:** Automated Customs Clearance Operations
NOOR: NAJM on Line Operations (Dial up access for traders, customs brokers, carriers and freight forwarders).
MANAR: Manifest Automated Resources
LITE: Customs website www.customs.gov.lb
NAR: NAJM audit resources for risk management

2. Objectives

- Assurance of compliance with Lebanese laws and regulations
- Reduction of cost and time of clearance procedures
- Provision of accurate and fast international trade statistics
- Enhancement of Lebanese trade competitiveness
- Establishment of a forum for dialogue between stakeholders in international trade
- Contribution to redefinition of role of customs in light of global and regional changes

3. Project Target Outputs

- Improvements in trade statistics
- A reformed tariff structure
- Improved organization and operational functions of the customs headquarters and field offices and facilitation of trade
- Fast, rationalized and simplified customs clearance procedures adapted for automation
- Better customs enforcement and revenue collection
- The construction and configuration of the ASYCUDA/NAJM base software package to the needs of customs declaration processing
- Development of a team of customs officials, trained and familiarized with automated customs techniques, who can maintain the system
- Implementation of ASYCUDA/NAJM at the headquarters and major customs offices including introduction of trade facilitation measures
- ASYCUDA/NAJM executed with a maintenance structure and making accurate trade data available

4 Achievements to Date

The NAJM project has passed through several phases, namely:

1993	<ul style="list-style-type: none"> ✓ Reactivation of Customs Computer Center trade statistics
1994	<ul style="list-style-type: none"> ✓ World Bank Project- Selection of UNCTAD ASYCUDA
1995	<ul style="list-style-type: none"> ✓ Customs tariff reform ASYCUDA for Lebanese customs
1996	<ul style="list-style-type: none"> ✓ Adoption of international harmonized system tariff ✓ ASYCUDA for Lebanese customs- NAJM
1997	<ul style="list-style-type: none"> ✓ Adoption of international single administrative document (SAD) ✓ Implementation of NAJM at Port of Beirut (Sept 1997)
1998	<ul style="list-style-type: none"> ✓ Operation NAJM take off (Beirut International Airport- Aug 1998)
2000	<ul style="list-style-type: none"> ✓ Establishment of the customs internet website LITE ✓ Establishment of the Lebanon International Trade Exchange ✓ Modernization of Customs Law (Nov 2000) ✓ Tariff restructuring (Dec 2000)
2001	<ul style="list-style-type: none"> ✓ NAJM for warehousing and fuel offices (Jan 2001) ✓ NOOR at Beirut International Airport (May 2001) ✓ NOOR at Port of Beirut (Nov 2001) ✓ LITE website upgrade (Nov 2001)
2002	<ul style="list-style-type: none"> ✓ Implementation of harmonized System Tariff (version 2002) ✓ Introduction of tax identification number TIN with MOF (Jan 2002). ✓ Implementation of VAT (Feb 2002) ✓ Implementation of CHOUAA (Electronic Vehicle Certification)
2003	<ul style="list-style-type: none"> ✓ Launching of ASYCUDA Extension project with UNCTAD ✓ Enhancement of Post Clearance and Risk Management operations NAR (NAJM Audit Resources) ✓ Initializing of a joint regional training program with WCO ✓ Regularization of dispatch of NAR database to MOF and VAT ✓ Began working on Phase III of customs website (includes three language interface and extensive database search capabilities) ✓ Implement a pilot automated fuel customs office with plan to expand pilot to all customs fuel offices ✓ Coordination with MOE regarding implementation of EU Association Agreement and WTO Accession Program ✓ Coordination with MOF on tobacco customs duty securitization ✓ Providing assistance to other Arab customs administrations in the field of customs reform and automation. A course on the Single Administrative Document (SAD) was delivered to Syrian customs delegation

5. Project Quantitative Deliverables

- Adoption of one clearance document (SAD) replacing over 26 antiquated documents
- Implementation of four-step clearance process replacing over 15 steps with signatures
- Implementation of Green Lane concept in clearance with risk management. More than 70% of customs declarations are routed green
- Reduction of clearance time to 2-3 days compared to original clearance days estimated at 7-10 days
- Automation of three major customs offices:
 - Port of Beirut
 - Beirut International Airport
 - Port of Tripoli
 - 90% of Lebanon international trade
- Training of customs staff on automated operations (over 200 members)
- Introduction of e-government service NOOR (over 300 customs brokers and traders were trained for remote operation accounting for over 50% of customs declarations)

6. Developments For the Future

a. Completion of the Implementation of ASYCUDA++

The introduction of a modern data processing system into the customs clearance process facilitated faster clearance of cargo, improved revenue control, and updated information on trade of goods. The introduction of advanced automated functions of the ASYCUDA++ system, within the framework of this project, would serve to improve the performance of the customs administration. The use of adequate communication structure throughout Lebanon will greatly facilitate the effectiveness of the Direct Trader Input (DTI) facility by the trading community as well as the Transit Control.

1. Objectives

- Integration of services and operations (linking customs offices & integration of procedures)
- Expansion into new customs offices (automated and homogeneous clearance procedures across Lebanon * updated management information systems)
- Client connectivity products (transparency of customs rules, regulations and procedures & provision of e-government services and electronic data interchange)

b. Improving Customs Control Efficiency through Enhanced Risk Management

1. Objectives

- Funding of medium term action plan
- Implementation of MANAR (Manifest Automation Resources) upon completion of sight preparation by the Port Authority of Beirut.

2. Achievements to Date & Developments for the Future

Activity in 2003 was based on developing a customs compliance strategy of intelligent post clearance controls. To achieve targets the following activities were undertaken:

- Enhancement and upgrade of NAR software package (database of customs trade transactions from 1997 and onwards)
 - Training of customs control staff on the usage of NAR
 - Training of customs control staff on commercial and audit techniques
 - Development of four dedicated software modules within NAR in support of compliance strategy:
- ✓ **ABJAD:** An automated system for managing customs declarations in order to provide controllers with easy and rapid access to previous similar customs cases. During 2003, customs have shifted the responsibility of managing declaration archives from local customs offices into a central unit for all customs offices. This archiving unit is located within the Investigation and Control Division. ABJAD was developed to support this activity. A pilot archive unit was constructed at the Port of Beirut to prototype the National Central Archive
 - ✓ **RASID:** An automated system which applies the principle of selectivity and risk management to desk audit activities. Until very recently the post clearance department performed a 100% checking on cleared declarations. RASID will select declarations for post clearance audit in accordance with criteria set by the Department heads within the Investigations Division. The system will assign controllers automatically to each declaration. The controllers are subdivided into teams on the basis of tariff specializations. The controllers will have to feed back to RASID the results of their desk audits. RASID contains extensive performance evaluation reporting in order to assess the targeting strategy set by management and also the productivity of control employees
 - ✓ **BAHETH:** An automated system for compiling, analyzing, and providing responses to Customs Intelligence Alerts. This system is a repository of Customs Alerts received by the administration from multiple internal and external channels. This system enables the administration to assign Task Allocation Orders to Field auditors and track the investigation process into its final outcome of a Customs Case
 - ✓ **DAHEM:** An automated system for managing Customs Brigade work. This system enables Customs Brigade officers to receive and analyze customs intelligence alerts and provide appropriate tactical and logistic responses under the supervision of Investigation and Anti Smuggling Division. The system enables Customs Brigade Officers to organize patrols, roadblocks, warehouse searches and other tasks.
- Provision of hardware and network facilities to the Investigations division at port Of Beirut Building was completed

SECTION IV
CADASTRE REFORM PROJECT

12. CADASTRE OPERATIONS MODERNIZATION & AUTOMATION PROJECT (COMAP)

The Cadastre Organization Modernization and Automation Project (COMAP) is a large scale automation project aimed at preserving property records and automating the work processes involved in real estate property registration & transactions in Lebanon.

The starting point for COMAP was the preservation of property records, both Title Registers (the equivalent of title abstracts) as well as Survey maps of real estate property on stable media. A second portion of this project concerns the design, development and deployment of a transaction processing system, specific to Lebanese laws, to automate all property-related transactions in all Registries in Lebanon.

The Directorate of Land Registration and Cadastre (DLRC) at the MOF is the custodian of real property records in Lebanon. It operates through one central office, 9 regional Registries and 8 regional Cadastre offices, charged with managing real estate property records under their geographical jurisdictional area. COMAP will provide the DLRC with the tools to enhance operational efficiency and meet the new challenges brought about by the redevelopment and reconstruction effort in Lebanon after 17 years of civil strife. In particular, the automation will contribute to the simplification of administrative procedures and will provide greater accessibility of records/services for the public in the short term. In the longer term, the integrated database of real estate property information, created under COMAP to support daily transactions, is capable of becoming a powerful coordination tool to support decision making in all land-related policies.

1. Objectives

To ensure proper management, COMAP was divided and bid through two separate, but integrate-able components:

- a) COMAP-1: A turn-key project converting all existing Title Registers into a digital database; enterprise automation of Registry operations using an Oracle-based custom-built software; provision of hardware & software; and training of the Registry staff.
- b) COMAP-2: A turn-key project converting all existing map sheets into digital database; enterprise automation of Cadastre operations using Oracle-Microstation-based custom-built intelligent mapping software; provision of hardware & software; and training of Cadastre Department staff.

The COMAP has been designed as a turn-key project with specific deliverables and targets including:

- Digital records (maps abstracts), which include scanned images of existing records, for preservation, as well as an intelligently coded database of the information content of these records to support both automated transaction processing and future statistical queries.

- A sophisticated transaction processing system that will serve to execute all property transactions (hence the updating of the database), starting immediately after the automated deployment
- Hardware and software to support the above.
- Training of employees to operate and maintain the system in order to ensure sustainability, including change of management procedures, and, where needed, advise on legislative reform needed to ensure continuity and sustainability.

2. Achievements to Date

To date, significant progress has been achieved on COMAP-1 and COMAP-2. Both transaction-processing software systems are in the final stages of implementation/testing:

- In COMAP-1, the Integrated Registry System (IRS) has already been implemented in the Registry of Beirut, Metn, Baabda, Saida, Nabatiyeh, & Tripoli, comprising 75% of the land records in Lebanon. The first digital affidavit was produced in Beirut on May 29, 2001. Preparations are underway to complete implementation and to deploy systems in the remainder of the Lebanese Registries by end of 2005.
- In COMAP-2, the Integrated Cadastre Mapping & Surveying System (ICMSS) has already been implemented in the Regional Cadastre Offices of Beirut and Zahle, and the first digital affidavit was issued on January 5, 2002. The Cadastre office of Baabda, Metn and Jounieh are at the phase of Quality Assurance, and systems are expected to be deployed on sites by end of 2004. The remainder of the Cadastre offices will be automated by mid 2005.

Additionally, 75% of Title Registers, as well 100% of survey maps in Lebanon have been captured electronically (microfilm/scanned image). These products are turned over to the MOF for preservation.

3. Developments For the Future

Both registry and mapping COMAP components are expected to be completed by December 2004 after the automation of all 9 registries and all 8 cadastre departments have been accomplished.

SECTION V
DEBT MANAGEMENT

13. DEBT MANAGEMENT

Given the high level of public debt in Lebanon and the associated cost of servicing it, the Lebanese Government has attached great importance to modernizing its debt management functions. In this context, the MOF is participating in the Joint World Bank – International Monetary Fund Program on Central Government Debt Management and Domestic Debt Market Development. Since June 2003, it has received three missions that have drafted an assessment report of the current state of debt management in Lebanon and have proposed a reform program (project) with a timeframe of two to three years. Assessment of public debt management covers the following four main areas:

1. Governance
2. Debt Strategy and Risk Management
3. Coordination with Fiscal and Monetary Policy/Cash Management
4. Capacity and Management of Internal Operations

1. Objectives

The Lebanese Government has a broad set of objectives on debt management that have been expressed in various government reports, most notably the economic policy report presented at the Paris II conference. It is imperative to design a development program in which the Government's debt management objectives are explicitly stated. The three fundamental guidelines of the Government's debt management goals could be summarized as follows:

1. Reducing the cost of the public debt and fulfilling the financing needs of the Government without disturbing the functioning of the Lebanese financial markets
2. Enhancing the risk profile of the debt and extending its average maturity to limit interest rate and refinancing risks
3. Enhance coordination with monetary policy, whereby the objectives of each institution are clearly defined

2. Plan of Actions

a) Developing Formal Debt Management Strategy

Laws 430 and 476 adopted during 2002 reflect the Government's commitment to reduce the public debt. Building upon this momentum, medium and longer-term objectives could be enforced through the adoption of specific laws dealing with issues such as risk targeting and placing ceilings on borrowing.

b) Reforming the Local Debt Market

Market development goes hand in hand with the overall objective of debt management given the central role of the domestic financial sector in financing the Government. The reform strategy proposes changes and adjustments in six main areas:

- Adjusting the functionality of the Primary Market and the issuance strategy of government securities
- Redesigning the market architecture of the Lebanese Treasury bills (including market structure and infrastructure)

- Establishing supporting mechanisms to promote the development of a liquid and deep secondary market on Lebanese government securities
- Promoting a group of active and dynamic market participants (including intermediaries and investors)
- Adjusting the debt management strategy and its implementation on the Lebanese government securities market
- Broadening the holder base for Treasury bills and other government securities, and making market participants more active and competitive

The change process should be based on a joint effort including all counterparts: the MOF, as the principal debt management authority, the Central Bank of Lebanon as the agent in charge of the management of the primary and secondary markets and the market participants.

e) Adjusting the Market Architecture

A properly functioning debt market will be achieved by several changes to the market architecture, the most important among which are the following:

- Streamlining the issuance process and adjusting its strategy: revision of the auction procedures and selling techniques
- Reducing the frequency of auctions for long-term Treasury bills to promote the issuance of benchmark securities and to develop large fungibles. This will also improve liquidity on the secondary market
- Improving the efficiency of the secondary market structure and functioning
- Establishing an adequate and flexible regulatory framework, in compliance with the Lebanese legal system

3. Achievements to Date

Although the debt level remains high, a major improvement in the composition and the risk profile of the public debt has been achieved since the implementation of the Paris II financial package and the overall improvement in market conditions.

a) Debt Re-Profiling

- A total amount of USD 10.1 billion was mobilized subsequent to the Paris II conference (USD 2.4 billion from Paris II donors and USD 7.7 billion from the Lebanese Central Bank and commercial banks). These funds were used to re-profile around one third of the total public debt, of which, USD 1.8 billion were cancelled, USD 2.7 billion exchanged, and the remaining USD 5.6 billion were repaid or rolled over
- The share of market debt dropped from 80% at the of end-2002 to 59% as of end-2003 (from 141% of GDP as of end-2002 to 109% of GDP as of end-2003)
- The weighted average cost of total public debt outstanding declined by 360 bps in 2003
- The weighted average cost of new financing raised during 2003 declined substantially to around 3.6%
- Primary market rates on all issued categories dropped to historic levels. For example, the yield on the two-year Treasury bills declined from 14.64% in October 2002 to a current level of 7.78% as of end-March 2004

b) Reducing the Growth Rate of Public Debt

- The growth rate of the public debt slowed down from 10.8% in 2002 to 6.2% in 2003 due to the various debt reduction and re-profiling measures following the Paris II conference and the primary surplus achieved during the year

c) Proactive Role in the Market

- The Lebanese pound yield curve has been extended with the introduction of the 3-year Treasury bills in November 2003
- The frequency of Treasury bill issuances has been reduced whereby, although there is still issuance every week, not all maturities are issued during the same week. The short-term maturities (3 and 6 month instruments) and longer term maturities (12, 24, and 36 month instruments) are now issued interchangeably once every week

d) Enhancing External Reporting and Transparency on Debt Developments

External reporting has been developed considerably by the MOF during the past two years. Timely information on debt developments are published regularly in a series of monthly, quarterly and annual reports, that are available in printed versions and are published on the Ministry's website as well.

e) Institutional Capacity Building

Back office functions at the MOF debt department were strengthened in order to give the necessary informational support to the Minister of Finance and to the unit in charge of the debt management. The debt department now has timely information on debt issuance (especially on domestic debt) and on the maturity profile of the total debt portfolio (foreign as well as domestic debt). It now produces a daily report on the Treasury's account balances and the weekly repayment schedule of interest and principal falling due.

The MOF has also developed a spreadsheet to enhance the debt strategy and risk management functions. This spreadsheet enables the user to conduct sensitivity analysis based on a set of macroeconomic assumptions. It is linked to a fiscal framework. When combined, this model is used to forecast financing needs, projected amortization schedule of principal and interest falling due, and the debt level going forward.

4. Developments for the Future

a) Institutionalization and Debt Management Policy

- Upgrading the “*debt management department*”, with clear functions and responsibilities. The MOF is currently in the process of creating the institutional environment necessary for the implementation of efficient debt management, although it still needs to further institutionalize the middle and front offices of the debt department.
- Providing predictability in the design, timing and size of the debt program: publicizing the mix of instruments and maturity range, regularizing the calendar of debt issuances, and pre-announcing the size of issuance.

b) Changes on the Local Debt Market

- Creating benchmark issues
- Adjusting the current debt management strategy and its implementation on the Lebanese Treasury bills market (active debt management strategy)

e) Changes on the Foreign Debt Market

- Ensuring better use of official bilateral and multilateral borrowings
- Conducting active liability management
- Tapping new markets (e.g. Islamic Financing) with the objective of broadening the investor base
- Lengthening the average maturity of foreign debt through the issuance of longer-dated instruments, namely, Eurobonds

SECTION VI
PENSIONS REFORM

14. REFORM OF THE PUBLIC PENSION SYSTEM

The MOF launched a project to reform the pension system of public sector employees through various initiatives: an actuarial study for future claims, an adjustment of the legal framework for public sector pension system, a restructuring of the department in charge of managing public sector pensions at MOF, and the development of a database on the public sector's retirees.

In parallel, the MOF has engaged the World Bank to prepare a study on the pension system. A first mission studied the current public pension system and published a preliminary report. The MOF is currently in the process of preparing the needed data, in cooperation with a second mission, delegated by the World Bank.

1. Achievements to Date

To date, significant progress has been achieved. The MOF already relocated the Public Pension department, obtained the necessary computers and programs, and provided the adequate training to the concerned employees. In parallel, coordination and arrangement with the commercial banks, Liban Post, Ministry of Foreign Affairs, and the Ministry of Interior and Municipalities have been achieved. The implementation of this project began in March 2003.

In order to gather the required data, the MOF collected coordinate related information on each retiree. It received 54,000 files which have been reviewed and audited. These files will be re-audited and reviewed for accuracy for a second time. Completion of this stage will provide MOF with accurate statistics and information about retirees. This stage is expected to be completed end of June 2004.

The first mission released a report, which gives an accurate outlook of the current pension system, given the difficult access to data. The PC-based projection model developed by the Social Protection Unit of the World Bank, the Pension reform Option Simulation Tool-kit (PROST – version 10.5) was used to analyze and assess the current Lebanese system. The report also specifies the additional information that must be provided in order to move forward.

2. Developments for the Future

- Receipt and auditing of the remaining files
- Launch a new program to control the bank account system of retirees
- Build a new audit system
- A set of recommendation should be provided by the World Bank missions as soon as the required data are gathered

SECTION VII
BUILDING A 21ST CENTURY ADMINISTRATION

15. UPGRADING OF THE IT INFRASTRUCTURE, AUTOMATION

Accomplishments in Information Technology Infrastructure

I. Connectivity

Achievements to Date & Developments for the Future

a. Wide Area Network (WAN)

The design and installation of a fast, reliable, and secure WAN that interconnects the various departments within all Directorates of the MOF has been completed, enabling data exchange at later stage voice. Regional offices connect to the central office Data Center 1 (DC1) by using dedicated lines. Bandwidth varies between 2Mbps to 128Kbps. Regional offices are hub sites to further district offices. 48 Government Agencies connect to the central office on demand. Users in these agencies vary from 1 to 5 users. Each agency connects via a 128 Kbps permanent connection and need access to a specific application only.

The routing of all network traffic has been designed to enhance network performance and reliability. Under the new routing architecture, the network will work on a distributed rather than a centralized model, which will result in maximizing performance by optimizing traffic flow. A 128 Kbps internet connectivity to GDF is provided to DC1.

Year 2004 objectives are to upgrade internet connectivity bandwidth by installing another connection at Data Center-2 (DC2) through a different service provider to ensure redundancy and load balancing as well as a 1Mbs satellite down link.

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

b. Metropolitan Area Network (MAN)

The design and installation of a fast, reliable, and secure MAN has been completed, which interconnects the various buildings of the Directorate General of Finance in Beirut. It mainly interconnects Riad El-Solh, Arab Bank, Owaini, Bchara El-Khoury, Ghannagi, Sohnawi, and Mokerzil Buildings. The fiber optic link of the various building will improve connectivity, significantly increase bandwidth, and provide instant access to central database by various authorized users. This topology has been upgraded to Partial Mesh forming a large Enterprise Data Center spanning over two separate Data Centers eliminating single point of failure, providing load balancing and disaster recovery. The objective for 2004 is to document the MAN final infrastructure setup, cabling, and configuration.

c. Local Area Network (LAN)

The design of a fast, reliable, and secure LAN in main Head Office Buildings (Riad El-Solh, Bchara El-Khoury, VAT, Finance Institute) has been completed. The fiber optic backbone together with a switched connection and the implementation of Virtual Private

Network architecture will improve reliability, reduce network congestion, improve connectivity and significantly increase bandwidth. The objective for the year 2004 is to complete the design and installation of the LAN in the Regional Offices following the same technology standards utilized in head office buildings, as well as to document the LAN final infrastructure setup, cabling, and configuration.

II. Network Services Infrastructure

Achievements to Date & Developments for the Future

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

1. IP, Network Services, and Active Directory Infrastructure
2. Exchange Messaging Infrastructure
3. Backup and Recovery Strategy
4. Security Policy

The following are general network goals:

1. Upgrade and strengthen network security
2. Pilot voice over IP project
3. Pilot video conferencing

III. Uninterrupted Power Supply

Achievements to Date & Developments for the Future

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

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

The objective for the year 2004 is to review the UPS installation in the Regional offices to insure load coverage and insure redundancy.

IV. Business Automation and Enhancement

Achievements to Date & Developments for the Future

Within the effort to automate and streamline all processes performed by the various units of the DGF, and to enhance system performance and to increase the reporting capabilities of the various applications, based on the recommendation of the KPMG reports, a system development and reengineering project has been initiated. The project includes the following systems:

a. Budget Management System

The MOF has reengineered the various system modules such as budget preparation, appropriation management (additional and carry over), advance management, and budget execution (commitment, liquidation, and payment) processes. The Budget Management System is integrated with the accounting module of the Treasury Management System. The system automates also the initiation of transactions at the spending ministries. The application has been implemented at the MOF as a central system and spending agency.

The year 2004 objectives are as follows:

- ✓ System implementation in at least 10 ministries
- ✓ Conversion of previous years data
- ✓ Automation of additional activities related to budget execution

a. Treasury Management System

The MOF has reengineered, redesigned, and implemented the Treasury system applications that include accounting, cashiers, payment thru banks, Treasury advances management, liability and deposit accounts management, fiscal stamps management, bank reconciliation, cash flow management, and MIS and reporting module. In addition, the MOF has already developed and implemented direct tax collection and amortization application.

The TMS is currently implemented in Head Office, and in 12 local accounting offices. Previous year data has been converted and collection data was keyed in.

The year 2004 objectives are as follows:

- ✓ System implementation in 6 local accounting units
- ✓ Automation of the retrieval of collection and payment orders at cashiers office to minimize data entry and minimize transaction time
- ✓ Automation of the settlement of collection and payment orders once money is collected or paid to provide timely data integration
- ✓ Integration with Tax Systems to record immediately Self assessment payments
- ✓ Development of additional functionalities to assist the various departments in the collection follow up
- ✓ Production of MIS and statistical reports (daily, weakly, monthly, and yearly) on request

b. Personnel, Payroll, and Retirement System

To date, the MOF has:

- Reengineered and Implemented payroll system that automate the calculation of basic salary and family allowance with a direct transfer of salaries to banks, while maintaining historical data
- Reengineered and implemented a retirement system that automates retirement calculations and decision issuance
- Automated the calculation of monthly pension with a direct transfer of pension to banks, while maintaining historical data

- Converted previous data, established a post audit unit, and currently updating retirees files
- Developed and implemented a Training Application tailored to the need of the Finance Institute, the communication arm of the MOF, to manage the training and keep record of all personnel information of every MOF employee
- Designed and developed a leave management system. The application has been implemented at the personnel department

The year 2004 objectives are as follows:

- Automate the various allowances paid to employees. We will start with the most frequent allowances such as transportation allowance, to least paid allowances such as bonuses
- Capture historical data from the Employee manual data sheet and maintain electronic historical data of all allowances in order to eliminate the manual recording. This will be done 'allowance by allowance' starting by basic salary and family allowance
- Integrate the payroll and retirement system with the budget system to automatically generate a liquidation document
- Implement the system in at least 10 Ministries
- Further develop the Leave Application to manage all types of leaves and provide access to all users to submit their requests electronically

c. Income Tax System

The following has been achieved to date on this front:

- The Tax Payer Management module and Declaration and Assessment module of the system were subjected to intensive testing and debugging. Accordingly, necessary modification and enhancement took place. Additional functionalities were incorporated to accommodate for the new types of tax declarations, mainly banks and insurance companies.
- The above two modules were implemented in the Beirut Income Tax department and in four regional offices. Declarations for tax years 2000 until 2003 have been entered into the system and journals for years 2000 to 2002 has been issued.
- Modifications to Tax payer Data is managed centrally and then automatically replicated to the regional offices, while declaration and assessments are decentralized. Data is consolidated in a central data base on weekly basis for reporting.
- Developed a module to manage the Tax Amnesty. This was implemented in the Beirut Income Tax department and in four Regional offices. Declarations were entered into the system, and assessment journals were issued.
- Developed a module to manage the lump sum professional tax. This system has not been implemented yet.
- Developed a module to manage the tax on interest. The system was implemented at the Head Office since the tax on interest is a central tax.
- Developed a module to manage and automate the deduction at source tax. The component related declaration and management of registered employees has been developed and implemented. Periodical declarations are being entered into the system in the various tax units.
- Automated the issuance of Collection order of Tax on Capital.
- All the above modules were migrated to Oracle 9.i.

- Integrated the Tax Payer management module with Treasury and Collection system such that any modification on a taxpayer will be automatically reflected in all systems.

The year 2004 objectives are as follows:

- Further develop the DASS module based on the request coming from the administration.
- Further test and debug the Audit module and implement it in the income tax department as a pilot and then implement it in the other regional offices.
- Integrate the various modules with the Treasury and collection system such that any assessment is automatically registered in the collection system, and any payment recorded in the Treasury system will be automatically recorded in its corresponding tax module.
- Develop and Implement Web services to assist tax payers to submit their declarations, review their profiles, check for due amount, get notified by mail (deadlines, circulars, etc), among other services. This will be done on a transaction type basis, and will require the development of a front-office web enabled interface that utilizes the authentication infrastructure mentioned earlier, and the development of a back-office to validated submitted requests, process them, get required approvals, and update the tax payers' files.
- Begin setting the design layout and required templates, and redesign the application to upgrade it to new Oracle development tools to better enhance the user interface and performance, and to increase the functionality of the system.

d. Built Property Tax

On the Built Property Tax collection front, an RFP has already been prepared in order to subcontract the development of a new system. In addition, the application design (database and user interface) has already been reviewed, and the system is currently undergoing intensive testing and debugging. For the year 2004, the objective is to implement the system online at the Built Property Tax department as a pilot in order to eventually deploy the system in the various regional offices.


e. Inheritance Tax and Indirect Taxes

Regarding the Inheritance Tax, the various declaration forms used by the department have already been redesigned. Also, the database, which deals with the structure, relations, and attributes of the tax, has been designed. Year 2004 objectives include developing the system, testing it, and finally implementing it in order to integrate it with the comprehensive collection system. Regarding other Indirect Taxes, the year 2004 objective is to study the possibility of developing a system to automate the assessment and issuance of collection orders for major indirect taxes.

V. Document Management and Archiving System

Achievements to Date & Developments for the Future

To date, the MOF has:


 مَكْتَبُ وَزِيرِ الدَّوْلَةِ لَشُؤُونِ التَّنْمِيَةِ الإِدَارِيَّةِ
 مَرْكَزُ مَشَارِيحِ وَدَرَأَسَاتِ الْقَطَاعِ الْعَامِ

- Developed and implemented a document Management System to automate the flow of documents to, from, and within the MOF main directorates
- Scanned, indexed and archived the backlog of the DGF and the Minister's decisions, memos, and correspondence
- Developed and implemented an electronic filing system., which has been implemented at the personnel department and at the Beirut Income Tax department where authorized users can view or print all or part of the employee or taxpayers file. The backlog of employees' files had been scanned and archived. The backlog of Beirut taxpayers file is under processing. VAT documents are being scanned and archived.

The year 2004 objectives are as follows:

- Finalize the backlog of VAT and Beirut income tax department
- Implement the system on-line in the VAT and DASS departments
- Begin archiving of taxpayer files in regional offices

16. CAPACITY BUILDING AND HUMAN RESOURCE UPGRADING

The capacity building of current staff and the preparation of the next generation of leaders at the MOF is the responsibility of the Institute of Finance (IoF). The objectives of the continuous learning and communication activities are to support the economic reforms and modernization efforts undertaken by the Ministry's various directorates, and to improve the dialogue between the private and the public sector.

Many foreign countries including France, the European Union, Canada, Holland, the UK, as well as regional and international organizations such as the Arab Planning Institute, the Arab Monetary Fund, the Arab Fund for Economic and Social Development (AFESD), the World Bank, the IMF, USAID, etc. are partners in the success of this project. The Institute also receives donations from partners in the private sector and from donors and international organizations.

1. Objectives

a. Capacity Building

- Short term training sessions, covering the Ministry's core activities including taxation, accounting & auditing, economics & public finance, principles of the State of Law & work ethics, management & communication. Also includes foreign language courses
- Customized training programs, including training of new recruits and of government employees in accounting, finance, tax, and other issues that are directly related to the MOF. Also includes training abroad programs, short courses, seminars and conferences
- Information technology, providing hands-on experience of staff with the most widespread tools and specialized software
- Organizing international and regional events organized in partnership with international, regional, and local institutions

b. Human Resources Development

- Advisory role on placement of new staff, including assessment of capabilities and qualifications through examination, evaluation, interviewing, and provision of advice on placement of new staff and formation of new units
- Organization of internal placement procedures, including advertisement of vacant positions, definition of terms of reference and qualifications, organization of selection procedures and recommendations to management
- Continuous implementation and improvement of human resource development strategy, including the promotion of a new conceptual and strategic approach to human resources development at the sector level, and proposals for human resources management audits. In addition, the IoF has organized two high-level workshops (in-house) on HR policies; developing case studies demonstrating practical human resource development approaches

- Develop an operational action plan, which converts the proposed strategies into appropriate practical steps in the short and medium run, ready for decision taking, including detailed recommendations with regard to all activities specified
- Manpower planning for a system/module that suits the needs of the IoF/MOF and serves as a decision making tool for any future recruitment action
- Personnel development/management training plan for top and middle-level employees
- Development of guides/manuals providing practical instructions, examples and recommendations for strategic human resources management based on the strategy and policy documents produced

c. Improvement of Effective Communications

- Effective communications between the MOF, the media and the public as well as reliable and timely relay of information is especially important for the MOF to build support, achieve its goals, and implement its policy and reform agenda
- The MOF is aware that a relationship that stresses a free flow of information between the MOF, the media and the public is a key factor in the context of the overall institutional reform needs of the Ministry. The IoF is building its capacity to handle external communication and public awareness activities on behalf of the MOF, through the following:
 - ✓ Publications of public awareness guides that clarify MOF transactions and detail rights and obligations of citizens
 - ✓ Publications of Internal Newsletter, serving to promote internal communication between directorates and to inform the public about MOF activities. This is published quarterly and addressed to internal and external audience
 - ✓ Library of Finance, serving as a documentation center for the MOF and the public. The Library of Finance is specialized in references, journals and other publications, and includes an internet corner open to the public
 - ✓ Other Communication activities targeting senior and middle management of various directorates, academia, economists, economic press, private sector groups, and civil society groups
 - ✓ Fact-finding surveys & review reports
 - ✓ Preparation of a communication action plan for development of the IoF/MOF including the implementation modalities and required funding

17. PROMOTING TRANSPARENCY THROUGH INFORMATION DISSEMINATION & REPORTING

a. Enhancing data dissemination and disclosure (adopting the General Data Dissemination System-GDDS)

The MOF has progressed in enhancing the management of information and the dissemination mechanisms which allow for the implementation of the GDDS. The Metadata related to public finance and debt statistics has been finalized and posted on the IMF website. In parallel, the MOF is currently upgrading its statistical capacities and is setting a framework for regular reporting system.

b. Promoting transparency through publications and communication services:

1. Objectives

- Enhancing the level of transparency through regular disclosure of information
- Increasing the level of responsiveness to the public by offering email questions & answer services
- Enhancing the policy dialogue concerning the reform program and the main macro-financial issues between the MOF and various public groups, including members of the international economic and financial community

2. Achievements to Date

- Producing regularly a series of reports and publications, available both on the MOF website, and in print format. These reports are also sent individually to more than 800 recipients (in Lebanon and abroad):
 - ✓ **Yearly Reports**, available since 2001, outlining developments mainly on the fiscal, public debt, and external trade fronts. Additionally, the yearly reports offer analysis and updates on main issues such as the VAT, Paris II developments, and privatization and securitization
 - ✓ **Quarterly Reports**, available since 2002, detailing revenue, expenditure, public debt and trade developments on a quarterly basis
 - ✓ **Monthly Statistical Tables & Reports**, available since January 2002, providing monthly access to main fiscal indicators
 - ✓ **Paris II Progress Reports**, available six months following the Paris II conference, providing detailed analysis of post-Paris two developments on the fiscal, public debt, monetary, and reform fronts
 - ✓ **Guide to Tax Research in Lebanon**, offering useful links and information to those interesting in researching taxation in Lebanon
 - ✓ **Investment Climate in Lebanon**, disclosing the newest treaties and laws that have been ratified in the context of promoting investments in Lebanon
 - ✓ **Lebanon Country Profile**, providing a comprehensive source of information on the Lebanese government, history, and economy
 - ✓ **The Budget reports (Fazlakat)**, a note produced and communicated to the Parliamentarians and the public on the economy and on the budget

- Updating and developing website content, including the MOF and customs websites (www.finance.gov.lb & www.customs.gov.lb). In addition to the above mentioned reports and publications available on the website, the following information is also included:
 - ✓ Monthly information on public debt
 - ✓ Treasury bill auction information
 - ✓ Eurobond issuance information
 - ✓ Information about the MOF
- Providing communication services to citizens by operating an Information Center. The MOF Information Center, an email based service, responds regularly to citizen inquiries about information related to the MOF.
- Initiating policy oriented debate with public opinion leaders, including:
 - ✓ **Roundtable discussions** and communication with opinion leaders. In an effort to bridge the communication gap between the MOF and the public, the MOF organizes round-table discussions between the Minister and various groups, including economists, economic journalists, and bankers in Lebanon.
 - ✓ Including the first round-table discussion session, which took place in March of 2001; there have been seven such round-table discussions.
 - ✓ These discussions have proved to be useful and have served to enhance a conducive and constructive debate between policy makers at the MOF, including the Minister himself, and various groups of the Lebanese public.
- Responding regularly to various press inquiries on issues related to public finance, reforms and other economic matters, as well as contributing to certain publications done by medias (ex. Euromoney “guide to Lebanon” and annual participation to “Policy Statement Reviews”, Oxford Business group report “Emerging Lebanon”).

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام