

End of service report

On June 10, 1993, I assumed my duties as Project Director UNDP project Leb/92/017. At the time the project was a joint UNDP/IMF collaborative effort that was formulated in 1992 in view to identify immediate reform and modernization measures that could be adopted by the Ministry of Finance. As a result, the project provided a rapid response mechanism, which the Government could use to draw upon multilateral expertise in specific technical areas of public finance management. The initial stages of the project focused on the IMF studies that identified the main needs of the Ministry and chartered out a heavy work program for the Directorate General of Finance and the Customs administration. Hence, the primary and immediate aim of the project was to restore basic capacity through tackling those area of public finance management, on a step-by-step basis, which would lead to positive fiscal results in the shortest time possible. Hence, the first generations of reports were aimed at restoring the previously existing functions of the Ministry of Finance and introducing basic management capabilities. As a result, the customs computer center was reestablished and provided with computer software and hardware in order to facilitate and tabulate the collection in timely trade data. In addition, the IMF provided technical assistance on the simplification and the reform of the Custom tariff and taxes on income and inheritance. Also, an assessment on the public expenditure management capabilities of the Ministry was undertaken and initial modernization steps were identified.

Perhaps the most significant contribution of the project during this period was that it provided the Ministry with economic policy support and technical assistance coordination thereby providing the multinational institutions and bilateral donors with a local counterpart in the Ministry of Finance. Hence, the project was a catalyst for additional external support to the Ministry of Finance. Through project Leb/92/017, UNDP gave early recognition to the need of rehabilitating of the fiscal administration as a prerequisite for the country's economic revival and assisted the Ministry in mobilizing additional technical

support and financing from the World Bank, UNTCAD and IMF. Indeed, Project Leb/92/017 was revised on 9, December 1994 and its resources expanded from \$658,000 to over \$4 million and ultimately over \$4.7 million. The project was also expanded to include the modernization and the automation of the Directorate of Land Registration and Cadastre, which was financed by the World Bank Loan 3770 LE but managed by UNDP Leb/92/017.

The success of these efforts led to a second generation of reforms that introduce automation of existing systems and procedures. Hence, the budget preparation and execution procedures, along with the treasury operations were automated. This phase of reforms incorporated a thorough overhaul of the custom tariff structure and the conversion of the tariff nomenclature into the Harmonized system. More important, full assessment of the tax structure and the public expenditure management systems were undertaken along with the introduction of several tax reform.

Public Expenditure Management:

The third generation of reforms entailed a reengineering of existing systems and procedures along with the mobilization of additional technical assistance from bilateral sources. More significant, the project intensified the provision of economic support to the Government. In the public expenditure management area, a new chart of accounts was introduced including the use of double entry accountings as well as new integrated budget nomenclature. To this end, the entire budget cycle, as well as, the related treasury functions was computerized. Also, an automated debt management system DMFAS was introduced at the Ministry of Finance, CDR and the Central Bank. The staff of the various organizations were trained on the new system as well. In January 1998 the external debt database DMFAS 5.0 was migrated from single user environment to Windows NT servers. As a result, a remote client to database connection was set up between the Central Bank and both Ministry of Finance and CDR. Users in these institutions can now access on-line the source database

at the Central Bank and get up the date information on the external debt position. Moreover, steps have been taken in the 1998 to organize the institutional and operational structure for the management of the external debt and to define the authorities and responsibilities of the three institutions responsible for debt management in Lebanon. Coordination mechanisms between these three institutions on the maintenance, control, data entry and backup of the DMFAS system are also being set up. In order to establish links between debt management and the general budget and to be better able to monitor loan payments and disbursements, the administrative nomenclature of the general budget has been adopted for the debtor institutions under the DMFAS system. Work is currently underway at CDR and the Ministry of Finance to identify the specific spending agency or public institution legally accountable for each loan and to assign the appropriate debtor code to the loan in the debt system. Work to establish links between the external debt database and the project management and execution system maintained at CDR has also been initiated. Furthermore, in cooperation with the UNDP/World Bank Administrative Reform Project public expenditure management procedures are being streamlined. With the successful implementation of the budget and accounting reforms at the Directorate General of Finance, the Ministry of Finance has embarked on an effort to improve and render more efficient its operations. The goal of the "Review and Reform of Procedures and Controls" project is to review budget implementation procedures, controls and workflow and to recommend, where applicable, means to strengthen the capabilities of the Ministry of Finance in the performance of these activities, strengthening controls, and improving treasury management.

More specifically, the project seeks to document existing procedures, assess their efficiency and effectiveness and recommend and design improved or new procedures. The project will also review the existing Information Technology System with a view to providing a comprehensive and integrated system, design a training strategy that will be necessary to upgrade the skills of staff and to implement new procedures, and establish a manual of procedures setting forth the various tasks to be carried at the concerned directorates. It will

also suggest methods aimed at modernizing the control methods and orienting them towards quality control to supplement compliance control. Most importantly, the project will review the current internal audit procedures at the Ministry of Finance and set up mechanisms for the establishment of an internal audit unit. Work on this project commenced in May 1998 with the fielding of a team of consultants (KPMG) and is expected to last for 12 months. (Phase 1 reports are attached).

In order to further ameliorate the budget preparation and execution procedures, the budget system used at MOF needs to be decentralized and extended to the spending Ministries. The UNDP/WB Administrative Rehabilitation Project in coordination with the Ministry of Finance, has allocated resources for the computerizing of the budget preparation and execution processes at the spending Ministries. The appropriate hardware and software for the project have been procured and installed in the different sites. The conversion of the existing Budget system to the Oracle version has been completed and a systems user manual was finalized. The training of employees in the different Ministries on the use of the system was to begin in early August 1998. However currently the project is still on hold and awaits implementation.

Customs:

In the Customs area, the thrust of organizational and operational reforms was delivered within the implementation of ASYCUDA-NAJM pilot at the port of Beirut in August 1997. The reform entailed the adoption of the international Single Administrative Document as a replacement of around twenty-three outdated Custom Declaration Formats. Furthermore, a study was completed by the Directorate General of Customs to compile a comprehensive list of controls and certifications required by ministries on imported and exported goods. This list, which is indexed by HS tariff codes, will be the starting point for a consultancy by UNCTAD expert to simplify and eliminate any outdated or conflicting controls. The consultant has been identified and was fielded in July 1998. It

should be noted that governmental controls remain so far as a major impediment for “fast, rationalized and simplified customs clearance procedures”

The simplified customs procedure was implemented along with the pilot at the Port of Beirut on August 1997.

The new procedure is composed of four basic steps:

- a. Data entry of custom declaration.
- b. Acceptance of customs declaration.
- c. Inspection of customs declaration.
- d. Payment of customs declaration.

The selectivity and risk module was implemented which allows declarations to bypass inspection. A selectivity committee was formed headed by Director General of Customs. This committee meets regularly to evaluate performance of the system and adjust targets green line parameters. Currently the project is evaluating the options of direct entry of declarations by the trader/broke. Furthermore the project is studying jointly with MOF the mechanism of payment of customs duties through the Central Bank. The ultimate objective is to minimize the interaction between trader/broker and custom staff while maintaining adequate controls. The roll out to Beirut International airport is scheduled for August 1998, to be followed by Saida within 1998. Tripoli and Masnaa are scheduled for 1999.

Finance Institute

Project Leb/92/017 assisted in the mobilization of bilateral assistance to reestablish an in-house training center at the Ministry of Finance and to establish a Finance Library that is open to the public. Both the training center

and the Finance Library are housed in the Finance Institute which a product of a joint French-Lebanese project that has also mobilized other support from Canada and the Netherlands. Currently, the support to the Finance Institute is being enhanced and expanded through the participation of the European Union and the French Ministry of Finance.

Domestic Taxation Reform:

Project Leb/92/017 also played a critical role in the establishment of a Domestic Taxation Reform project that was funded by the Canadian International Development Agency. This project has been in operation since July 1996 and aims at reengineering the various tax programs, introducing a comprehensive and fully integrated tax information system, documenting systems and procedures and setting up special audit units staffed with properly trained tax auditors. The Canadian Government is currently extending this project and enlarging the resources provided to it. However, The special audit Units were dissolved in January 1999.

Up to December 1998, Project Leb/92/017 acted as the main coordinator of such technical assistance provided to the Ministry of Finance and oversaw on behalf of the Ministry the smooth implementation of the above mentioned projects.

Economic Support:

In addition, Project Leb/92/017 provides economic support and advice to the Government in a variety of areas including macroeconomic policy advice, international resource mobilization, links with domestic and international research and financial institutions, and support in the negotiations of economic trade and tax treaties.

Eurobond Issues

Support was 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 bond deals in the International debt markets. The stages consist of: selecting the most appropriate structure in terms of instrument, maturity and currency; evaluating bids and choosing the underwriter(s), participating in the due diligence rounds and partaking in the road show presentations and investor meetings. In the period under review, the Lebanese Republic launched five bond issues, four USD denominated Eurobonds and one DM denominated bond issue.

Links with Research Institutes

An effort has 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, 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 Ministry of Finance.

Budget Related Activities

Until December 1998, the project provided the Ministry of Finance with essential assistance to decision making, such as macroeconomic studies, macroeconomic forecasts, and fiscal policy scenarios. More specifically, in the area of budget preparation, the project supplied the support needed in terms of devising a sound fiscal policy objective while taking account of monetary and exchange rate policy objectives. Moreover, the project helped define the underlying economic assumptions such as the projected price index, exchange rate, and real growth rate in order to achieve realistic expenditure and revenue assumptions. In addition, the project recommended a number of adequate revenue measures with the aim of reducing the budget deficit. In tandem with these efforts, the project helped prepare the Budget Reports together with the Budget Proposals presented to Parliament. The

Budget Report 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. The report was released in both English and Arabic and was distributed to Members of Parliament, the Council of Ministers, various embassies and international organizations, research institutions, and press agencies.

World Bank Group Missions

Given that the Minister of Finance is the Governor of Lebanon to the World Bank, the Minister maintains a close relationship with the World Bank Group. The project used to be heavily involved with the Ministry of Finance in maintaining and strengthening this relationship. To date, the World Bank finances ten projects in Lebanon with a total commitment of USD 604 million of which the first loan was undertaken in 1993. In the Country Assistance Strategy (CAS), the World Bank, in conjunction with the Government, identifies sectors that require support and develops a technical assistance program. The project assisted the Ministry of Finance in the process of the CAS preparation. The assistance of the project also involved participation in the process of project design and loan agreement negotiations. Based on the needs and spending capacity of line ministries, the loan size of every project is agreed upon with the Minister of Finance.

World Bank missions coordinated their visits either with the Ministry of Finance (through the project) or with the Council for Development and Reconstruction, since the President of the CDR was the alternate Governor of Lebanon to the World Bank. During these visits, World Bank missions meet with the concerned officials in line ministries to assess the progress of implementation of projects. At the end of such visits, the World Bank missions request a meeting with the Ministry of Finance. The project was also involved in these meetings whereby the evolution and current status of these projects are discussed and adequate solutions to obstacles facing particular projects are provided.

IMF Article IV Surveillance Missions

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 provided assistance to the Minister of Finance in collaborating with the Fund. For this purpose, the project prepares the necessary documentation precursory to Article IV missions, provides a description of the prevailing economic condition with emphasis on the fiscal policy performance, and outlines the Government's medium-term macroeconomic strategy. In addition, the project kept the Fund informed of all fiscal updates throughout the year.

Credit Ratings

The project provided support to the Ministry of Finance in organizing the yearly missions conducted by four rating agencies (Moody's, Standard and Poor's, Fitch IBCA, and NIS) to Lebanon. In this context, the project furnished the necessary background information essential to maintain a co-operative rating process. This involved a wide spectrum of issues such as demographic and educational factors, structure of output and trade, private sector activities, balance of payment, macroeconomic policy, banking and finance, foreign exchange reserves, and the political climate. In addition, the project coordinated rating agencies' yearly visits to the country and subsequently maintained periodic correspondence and contact with these agencies in order to provide them with all relevant macroeconomic updates.

Euro-Mediterranean Association Agreement

The project has 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. The project coordinated a number of World Bank and IMF missions for assessing the implications of establishing a free area between Lebanon and the European Union. In addition, the project coordinated technical assistance missions from the European Union to the Ministry of Finance.

International Agreements

The project also provided legal assistance to the Ministry of Finance in terms of the two agreements that fall under its responsibility, namely the Investments Promotion and Protection Agreement and the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital. The current Lebanese treaties network, as regard to these two Agreements, is constituted of 28 signed Agreements and 22 in instance of negotiation or ready to be signed. Moreover, the project provided legal expertise regarding the Euro Mediterranean Association Convention that Lebanon is negotiating with the EU.

Attached please find progress reports on the three main components of the Project Public Expenditure Management, Customs and Cadastre along with status reports on some of the main economic support activities. Also, attached please find final copies of all the reports of the various consultant and technical experts in each component.

In conclusion, I would like to emphasize my deep appreciation of the opportunity provided to me to work on this truly thrilling project and to cooperate closely with the staff of the Ministry of Finance, UNDP, IMF, UNCTAD and the World Bank. Most important, the cooperation and interaction with the superb team of project Leb/92/017 has been most rewarding and professionally enriching.

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