

PART II

**ECONOMIC AND OTHER TECHNICAL
SUPPORT**

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

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

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

II.1. EUROBONDS

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

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

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

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

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

Eurobond issues in 1999 and 2000

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

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

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

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

- The first issue took place in **March 1999** and consisted of a double-tranche 5-year Eurobond amounting to USD 200 million and Euro 300 million. Lebanon was the first Mediterranean emerging market to issue in the unified European currency. The issue was lead managed by Merrill Lynch.

- The second Eurobond issue took place in **October 1999** and also consisted of a dual tranche offering of a 10-year USD 400 million and a 7-year Euro 300 million. Around 38% of the 10-year USD 400 million tranche was distributed to non-Lebanese accounts, with a substantial portion being sold into US funds. As for the 7-year Euro 300 million tranche, 16% of the bonds were placed outside Lebanon. Morgan Stanley Dean Witter (MSDW) and Credit Suisse First Boston (CSFB) jointly executed the deal.

- The Republic issued in **June 2000** a 5-year USD 500 million. This transaction was divided into a cash portion of USD 319.94 million and an exchange portion of USD 180.06 million. The spread on the issue was +310 bps. Important cash savings, strong placement outside Lebanon, and a successful marketing effort characterized the deal. 70% of the transaction was distributed with Lebanese accounts, whereas the remaining amount was distributed among non-Lebanese accounts. Morgan Stanley Dean Witter (MSDW) and Merrill Lynch (ML) jointly executed the deal. The exchange achieved an important cost saving for the Republic, while the

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

- In **July 2000**, the Republic re-opened the 10-year Eurobond initially issued in October 1999. The deal was oversubscribed and the originally starting size of US\$100 million was increased to a final size of US\$250 million due to strong investor demand, and the confidence of international investors in Lebanese Eurobonds. The order book was split equally between Lebanese and offshore investors, with 45% of the issue distributed among non-Lebanese accounts. The issue was lead managed by Morgan Stanley Dean Witter.

- The Republic issued in **September 2000** a two-tranche USD 450 million 3-year fixed and 3-year floating issue. This was the first floating rate note (FRN) issued by the Republic in its effort to diversify the investor base. The spread on the floating rate note is 200 bps above the 6 months USD LIBOR and is determined two days prior to the coupon payment date. The spread on the fixed issue was +310 bps. 83% of the transaction was distributed with Lebanese accounts, whereas the remaining amount was distributed among non-Lebanese accounts. Morgan Stanley Dean Witter (MSDW) and Credit Suisse First Boston (CSFB) jointly executed the deal.

- In **October 2000**, the Lebanese Republic carried-out the re-opening of the March 2004 Eurobond, increasing the originally issue amount of Euro 300 million in March 1999 to a final size of Euro 550 million. The launch spread on the deal was +317 bps. The order book was split between Lebanese and offshore investors as follows: 30% of the issue distributed among non-Lebanese accounts, and the remaining among Lebanese accounts. The issue was lead managed by Commerzbank.

Future prospects:

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

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

Summary table of all deals executed since March 1999

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

Source: Ministry of Finance

ML: Merrill Lynch

MSDW: Morgan Stanley Dean Witter

CSFB: Credit Suisse First Boston

II.2. INTERACTION WITH RATING AGENCIES

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

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

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

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

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

Interaction with the Rating Agencies in 1999 and 2000

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

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

Future Outlook:

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

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

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

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

II.3. RESEARCH, STATISTICS, AND FINANCIAL ANALYSIS

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

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

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

Budget Related Activities

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

Economic updates and reports

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

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

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

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

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

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

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

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

Relationship with research institutions

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

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

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

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

Future Outlook:

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

II.4. LEGAL SUPPORT

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

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

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

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

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

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

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

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

(As of Sept. 15, 2000)	Avoidance of Double Taxation and the Prevention of Fiscal Evasion.	
	Initialed	Signed
Bahrain	<i>AUG. 25, 99</i>	
Belgium	<i>MAY 28, 99</i>	
Bulgaria		June 1, 99
Canada		Dec. 29, 98
Cuba	May 12, 2000	
Finland	Jan. 13, 2000	
Germany	Sept 14, 2000	
Italy	Nov. 10, 99	
Malta		Feb. 23, 99
Poland		July 26, 99
Qatar	18 Nov, 99	
Sultanate of Oman	June 7, 2000	

(As of August 24, 2000)	Promotion and Reciprocal Protection of Investments	
	Initialed	Signed
Austria	Feb. 1, 2000	
Bahrain	Aug. 26, 99	
Belgium		Sept. 6, 99
Bulgaria		June 1, 99
Chile	July 28, 99	Oct. 13, 99
Hungary	August 23, 2000	
Netherlands	March 31, 2000	
Qatar	Nov 19, 99	
Sultanate of Oman	June 6, 2000	
Switzerland		March 3, 2000
United Kingdom		Feb. 16, 99
Yemen		Nov. 25, 99
OPEC		Sept. 23, 2000

2. Participation in the Trade Efficiency legal Committee

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

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

3. Coordination of the WTO file at the MOF

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

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

4. In charge of the Investment Climate file at MOF

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

5. Legal opinion requested by the Minister on several issues

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

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

6. Participating in the drafting of the Law on VAT

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

Future Prospects:

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

II.5. INFORMATION DISTRIBUTION

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

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

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

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

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

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

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

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

Future Prospects

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

II.6. ACCESSION TO EURO-MEDITERRANEAN ASSOCIATION AGREEMENT

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

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

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

Future Prospects:

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

II.7. INTERNATIONAL MONETARY FUND SURVEILLANCE MISSIONS

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

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

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

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

Future Prospects:

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

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

II.8. RELATIONSHIP WITH THE WORLD BANK GROUP

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

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

World Bank projects for 1999-2000

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

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

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

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

Grants for technical assistance in 1999-2000

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

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

Relationship with the International Finance Corporation (IFC)

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

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

II.9. COORDINATING TECHNICAL ASSISTANCE

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

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

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

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

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

TECHNICAL ASSISTANCE PROGRAM IN 1999-2000

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

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

II.10. MONEY LAUNDERING

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

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

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

Future Prospects

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

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

II.11. DONORS' SUPPORT TO SOUTHERN LEBANON

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

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

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

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

Various activities undertaken by the public expenditure expert:

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

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

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

Activities of the Executive Assistant to the Minister:

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

Activities of the National Accounting Expert

The unit has achieved several missions outlined below:

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

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

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

II.13. OTHER ACTIVITIES

I. Relationship with the Arab Monetary Fund

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

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

Future prospects

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

II. Knowledge Dissemination

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

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

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

Training at the Finance Institute

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

Topics covered
- The Five-Year Fiscal Adjustment Plan
- Debt management and international capital market issues in Lebanon
- Budget and Accounting Reforms
- Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion
- Customs Information System - NAJM
- Cadastre Operations Modernization & Automation Project

Future Prospects

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

III. Capital Markets Reform

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

IV. Replying to MP's Inquiries

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

V. Activities of the Taxation Consultant

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

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