

INTERNATIONAL CONFERENCE
FOR SUPPORT TO LEBANON-PARIS III
NINTH PROGRESS REPORT



9



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

INTERNATIONAL CONFERENCE
FOR SUPPORT TO LEBANON-PARIS III
NINTH PROGRESS REPORT

31 MARCH 2009





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EXECUTIVE SUMMARY

The Ninth Progress Report on the International Conference for Support to Lebanon provides an update on the implementation of the Lebanese Government's economic and social reform program in the first quarter of 2009. The report was prepared in collaboration between the Ministry of Finance and the Presidency of the Council of Ministers.

In the last three months, the overall stable political environment and the resilient financial sector were conducive to creating a positive climate for economic performance. Most ministries made progress in implementing their reform program according to the pre-agreed timetable, despite the on-going long pipeline of laws and amendments awaiting parliamentary approval and a lack of political consensus on a few key programs. An IMF mission visiting Lebanon highlighted the strength of the Lebanese financial sector and the prudent macroeconomic and financial policies of recent years. Under the Emergency Post-Conflict Assistance II, the end December 2008 indicative targets were all met, whereas not all monitorable actions were achieved.

Social Cluster: The Ministry of Education and Higher Education registered some progress in the last three months: The software for the evaluation of professional competence of the teaching force is being tested. Also the Exam Management System (EMS) will be partially applied during the first session of 2009 official exams for the General Sciences Section. The Ministry secured funding under the CADER program to strengthen IT capacity and additional funding from the World Bank targeted at the development of the Education Sector Development Secretariat. The education sector strategy is still being reviewed before its presentation to the Council of Ministers. The Ministry of Social Affairs, underwent several steps to review its programs including putting in place procedures for contracting NGOs and criteria for Welfare Institutions, both are now at the Council of State. A consultant was selected and started to elaborate the social sector strategy.

The National Social Security Fund made progress in finalizing the actuarial study for the end-of-service indemnity and exams are underway to appoint controllers.

Economic Cluster: The Ministry of Finance is on schedule in the implementation of almost all its reform initiatives. In terms of budget and financial management reform, the draft medium-term framework 2010-2012 was completed and the establishment of a Cash Management Unit was approved by the Council of Ministers. In terms of improvements in revenue management and administrative reform, drafts of the new structure and functions of the Medium Taxpayers Office were completed, and regulations to introduce the Tax

Procedure Code were finalized and are awaiting approval by the Council of Ministers. Progress was registered in strengthening debt management through the completion of a debt management strategy (for internal use). In terms of trade facilitation, automation of the declarations in Abboudieh, Arida, and Kaa border offices was completed. In addition, customs underwent an audit by World Customs Organization in January 2009.

The Ministry of Economy and Trade adopted some steps over the last months that would help improve the business environment for SMEs. The Ministry drafted a proposal on microfinance policy and promotion of innovative business, which will be finalized after consultation with key stakeholders. Two laws aimed at facilitating the business environment have seen some progress in finalization and approval. In terms of initiatives that fall outside Paris III, the Ministry is preparing a training program in collaboration with the Institute of Finance to train newly recruited customs officers on intellectual property. In addition, the Ministry of Economy and Trade consulted with international partners to obtain technical assistance to develop the online security infrastructure for automated applications.

OMSAR secured funding for the implementation of the government e-payment gateway and finalized the TOR of the anti-corruption expert with the Ministry of Finance

Infrastructure Cluster: The reform strategies and priorities under this sector are being further reviewed by the respective natural owner, which has resulted in implementation delays. A number of achievements were registered as summarized below.

In the Energy sector, the agreement with Egypt to import electricity was signed and testing is underway to receive the electricity at the Ksara substation. The Ministry of Energy and Water submitted a generation plan to the Council of Ministers. Efforts are underway to reduce the fuel costs of the power plants. The consultant of the Ministry of Energy and Water submitted the report on fuel strategy.

In the Telecom sector, tangible progress was registered in the implementation of the Telecom Regulatory Authority programs. For the National Broadband Licensing, the Telecom Regulatory Authority issued the draft decree for the 'Rights of Way' use for public consultation, is completing the drafting of the decree for the 'Right to Use' fees, and is in the process of finalizing the technical requirements for Broadband Licensing. For the FM and TV Broadcast the following documents were issued for public consultation: (1) Digital Migration Strategy for TV Broadcasting plan and (2) 'Improving FM Broadcasting' paper.

Resource Mobilization: Several project support agreements were signed in the first quarter of 2009. As a result, by end March 2009, 74 percent (\$5,583 million) of the Paris III pledges were signed into agreement, an increase of \$200 million. Disbursements progressed as well with 42 percent (\$3,179 million) of pledges fulfilled as of end March 2009. The increase in disbursement is mainly attributed to progress achieved in disbursing loans to the private sector and progress in project implementation. A Lebanese delegation will attend the World Bank/IMF Spring Meetings on 25-26 April 2009 and will hold discussions with donors on reform progress and challenges and related resource mobilization.



IMPLEMENTATION OF THE REFORM PROGRAM

1. SOCIAL REFORM PROGRAM

Ministry of Education and Higher Education

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Consolidating Policy, Planning and Resource Allocation		
Develop capacity at MEHE to assist in the monitoring and evaluation of the National Education Strategy and Sector Reform Initiatives	Endorse the summary framework of the sector strategy by the Council of Ministers	The sector strategy is under review at the Ministry before submission to the Council of Ministers for approval
	Launch media campaign outlining education sector directions and priorities	Steps can only be taken after validation of the framework strategy
	Launch the preparation of the education sector sector-wide approach (SWAp)	Steps can only be taken validation of the framework strategy
	Collaborate with the World Bank to develop SWAp to sector development to guide future planning and provide a framework for donors interventions	TORs for the selection of technical assistance are being prepared
Implement EMIS in MEHE, and SIS at schools	Provide a full implementation of EMIS and set it up to be operational for the year	EMIS implementation on-going
	Launch bid for the provision of the data entry and the migration services	The bidding documents are already prepared. Waiting for the signing of the contracts
Develop and disseminate model performance based budget for 2008-2009	Upon CoM initiation of the supporting law, adopt the budget as a shadow budget to the current line item approach until full adoption of Program Based Budgeting by MoF in 2011	Revision and amendment of template related to shadow budget is ongoing to enable further discussions with MoF and other related ministries
	Review organizational development study with respect to budgeting and financial management and ensure that policies and procedures related to Program Based Budgeting are aligned with the MoF	Steps required depend on the progress of the above activity
Develop a new MEHE organization structure	Provide monitoring support on some service basis to promote the automation of the ministry and the private education department	Specifications are being prepared
	Develop capability of archiving and processing (private education, school department rentals, exams archive)	The bidding documents for the process are being prepared

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Achieve Universal Basic Education (UBE) for ages 6 to 15		
Ensure equitable school access for all students and enact compulsory education at age 15	Ensure the approval of the applicable laws that will help raise the compulsory education age to 15	The process of law amendment is still ongoing
Improve efficiency, effectiveness and competence level of the teaching workforce		
Enhance the professional competence of the teaching workforce	Revise and adjust indicators as needed, and assess all types of training	The software for the evaluation of the indicators is being tested. All related steps depend on the results of the testing
Enhance Quality of Education		
Monitor Quality of Education (Assessment of Academic Achievement)	Continue the implementation of the Exam Generation System and provide technical and administrative needs	Preparations are ongoing regarding the partial implementation of the June 2009 official exams for the General Sciences Section
	Assess outcomes of national examination and international assessments (TIMSS), and determine the priorities to improve education	The analysis and assessment of Lebanese results (with the help of a TIMSS consultant from the World Bank) are ongoing
Introduce "Drop-out Prevention Program	Initiate the program when negotiations with the EU to fund the program are established	Received and amended the proposal of the "Drop-out Prevention Program" Waiting for EU reply
Enhance the Utilization of Educational Facilities		
Upgrade the physical requirements of schools	Ensure contracting of EMIS computer by launching a request for quotation	Preparation of the specifications and the number of computers needed is ongoing, in order to start the bid launching
Promoting Sustainable Development	Continue with the development of kits, and procedures to further promote Sustainable Development	Ongoing
Integrating Community Service into education	Develop procedures and processes to further integrate Community Service into education	Ongoing
Automation of the Department of equivalences	Ensure the selection of the firms responsible for the scanning processes required for the automation of the department of equivalences	Specifications have been already prepared and the bids are being prepared

Ministry of Social Affairs

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Restructure the Ministry of Social Affairs		
Review mandate and programs of the Ministry of Social Affairs	Formulate law proposal for restructuring the Ministry of Social Affairs	First draft of law proposal in under elaboration taking into consideration Paris III recommendations
	Endorse new procedures for implementing local development initiatives	Completed
	Endorse new procedures for contracting NGOs	The procedures were prepared, reviewed by the concerned Ministries (MoF and Ministry of Interior) and are under review at the State Council
	Endorse new criteria for Welfare Institutions	The procedures were prepared, reviewed by the concerned Ministries (MoF and Ministry of Interior) and are under review at the State Council
	Reactivate the activities of the Artisan House of MoSA	New by-laws were developed. New committee was established and a government delegate was appointed
Develop new organizational structure for the Ministry of Social Affairs	Revisit structures of departments and parallel programs	Dependent on the law proposal for restructuring the MoSA
Enhance Management of the Social Sector		
Elaboration of Social Strategy	Selection of candidate/consulting firm and sign of contract	Proposals were evaluated by an appointed committee Evaluation Report was prepared, based on pre-set criteria and UNDP rules and regulations governing procurement of consultancy services Consultant was selected
	Elaboration of strategy and consensus building	Compilation of existing sector and thematic strategies and studies initiated
Eliminating duplication in delivery of social services and programs	Finalize action plan between Ministries of Education, Public Health and Social Affairs to eliminate/reduce duplicated programs and services	Information on programs and activities in the three ministries has been collected. A study on distribution, effectiveness and outreach of health centers needs to be thoroughly reviewed
	Implement action plan	

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Enhance Management of the Social Sector		
Increase efficiency and coordination in the implementation of local development initiatives	Finalize database based on comments and feedback of stakeholders ¹	Recruiting interns (junior professionals) for the data entry
	Elaborate a framework of development needs and priorities in all regions	Soliciting offers / proposals from GIS/website companies to create an electronic framework
	Establish an on-going coordination mechanism for local development	
Develop new targeting mechanism (Proxy Means Testing)		
Proxy Means Testing	Implement pilot phase in three regions	Social workers made visits to the households; data entry in progress
	Upgrade current software for the national rollout based on pilot results	
	Train social inspectors	
Implement prioritized safety nets programs		
Expand coverage of services offered to the disabled	Delivery of proximity services	Delivery of 1,500 services; 97% of budget spent

National Social Security Fund (NSSF)

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Strengthen the Governance and Administration of the NSSF		
Implement Phase one of the Master Plan	Finalize automation of the last three branches	Completed
Improve the Capacity of the NSSF to collect Contributions		
Increase the number of field auditors to regularly survey companies		Exams being conducted to appoint 83 controllers
Perform field audits		The NSSF continuously takes action against firms that fall behind in paying their financial dues
Ensure the Financial Stability of the NSSF		
Implement an actuarial valuation of the NSSF health insurance benefits		Actuarial study for the end-of-service indemnity is being finalized

¹ Database of local development initiatives was not yet delivered to MoSA, due to technical problems encountered by the contracted consultants. The consultant collected the data, but faced delays and problems in delivering the electronic database. Accordingly, to proceed with this activity, the MoSA (IMC secretariat) has volunteered to do the data entry and finalize the local development database.

2. ECONOMIC REFORM PROGRAM

Ministry of Finance

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Undertake Budget and Financial Management Reform		
Adopt a top-down approach to reform the budget preparation process	Prepare Medium Term Macro-Fiscal Framework for the preparation of the 2010 budget	The draft medium-term framework 2010-2012 was completed
Link the budget preparation to a medium-term expenditure framework (MTEF)	Prepare budget circular with global budget ceiling	The 2010 Budget Circular was prepared
Prepare MTEF in coordination with spending agencies	Disseminate budget reform among various stakeholders, including civil society, Parliament and public administration Assist the Institute of Finance in developing training curricula on modern budget techniques	Workshops with civil society in collaboration with Institute of Finance (IoF) took place IoF Committee to evaluate the bidding documents for curricula development - on-going (regional initiative)
Prepare for introduction of performance budgeting	Continue work with the Ministry of Education to prepare results-oriented shadow budget in multi-year framework	Two awareness raising workshops on performance budgeting were conducted (METAC; EC - March)
Improve cash management	Institutionalize Cash Management Unit; Upgrade the IT system; Restructure the treasury functions and Link debt to cash management	Establishment of Cash Management Unit approved by CoM; The Unit is in the process of being established
Prepare the introduction of a Treasury Single Account (TSA)	Prepare legislation and decrees required for managing the TSA	Draft law in Parliament
Build the capacity within the different directorates involved in the expenditure cycle	Develop curricula to meet the training needs associated with the reform plan (Institute of Finance)	IoF Committee to evaluate the bidding documents for curricula development - on-going (regional initiative)
Enhance Revenues		
Lift cap on domestic car gasoline prices		Achieved; CoM decision (February 2009)

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Undertake Revenue Management and Administrative Reform Toward a Function-Based Structure		
Reorganize revenue administration along a function-based structure with strong headquarters	Finalize draft law	The drafting of the headquarters new structure and functions is still on-going
	Define staffing requirements and job descriptions	
Establish taxpayer services in satellite offices	Launch satellite offices gradually starting with the most important sub-regions in terms of fiscal coverage	The appropriate logistics are being prepared (procurement) to select two satellite offices
Expand Large Taxpayers' Office (LTO) coverage to include other taxes and fees	Propose changes to the current decree	The selection criteria of large taxpayers are under review
	Integrate the remaining tax types	
	Modify SIGTAS to suit the new requirements	
Establish a unit for medium taxpayers (MTO) and potentially develop a simplified scheme for the small taxpayers	Set the new organizational structure	The drafting of the MTO new structure and functions were finalized
	Finalize the draft law	
	Define the staffing requirements and job descriptions	
Finalize the development of the comprehensive database of employees, and extend the reformed operations to regional offices within DASS reform	Extend the reformed operations to all regional offices	The initiative was completed in the Mount Lebanon regional office
Introduce the Tax Procedure Code (TPC) that unifies and harmonizes the various tax procedures	Regulations approval by the Council of State	Regulations were prepared and submitted for approval to the CoM
	Regulations approval by the Council of Ministers	
	Develop procedures and necessary automated functions	
Global Income Tax (GIT): Finalize the draft law and work in progress for the development of related regulations and procedures	Launch consultations with sectors' representatives	GIT draft was submitted to CoM, which transmitted it to a committee for consultation
	Develop forms and guides and business processes and procedure	
Introduce electronic registration of taxpayers	Launch communication campaign	e-registration process was developed
	Launch electronic registration process	

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Undertake Revenue Management and Administrative Reform Toward a Function-based Structure		
Launch electronic filing (e-filing) and electronic payment (e-payment through commercial banks)	Finalize the systems and procedures	Forms for DASS and VAT were accomplished and forms for Income Tax are under preparation
	Launch a communication campaign	
	Launch e-filing	
Rely on mail services to simplify taxpayers filing obligations	Finalize handling all Built Property Tax transactions through LibanPost	The procedure is ready, pending the decision on the issue of mandatory service
	Launch new services through LibanPost	
Improve collections of receivables		Reduce accumulation of revenue arrears by implementing new collection procedures
Implement Tax Procedure Code: Audit	Prepare executive regulations and procedures	Completed
	Prepare and disseminate new audit manual	Completed
Enhance revenue collection through improved communication with taxpayers and improved taxpayers' services		Tax guides and other communication materials informing taxpayers of their rights and obligations are being developed
Portal of the MoF	New, user-friendly MoF website, including 24/7 services for all tax inquiries	Portal to be launched in May 2009
Strengthening Debt Management		
Draft implementation decrees for the organization and recruitment of newly created modern Public Debt Department	Appoint consultant; Circulation of implementation decrees; Submit draft implementation decrees to Council of Ministers	Process initiated; TA will be provided through the World Bank EFMS project
Enhance the medium-term debt strategy model to improve cost and risk analysis	Upgrade the current model	
Strengthen debt statistics function and reporting	Standardization of the debt data reporting Review the overall process	A work plan for drafting manuals were developed
Develop a formal debt management strategy for 2009-2010	Circulate a draft version of the document; Get approval; Publish	2009 strategy completed- for internal use only
Study the implementation of new debt instruments	Develop secondary market liquidity in Lebanese Liras by introducing longer maturity instruments. Explore new debt instruments and study their implementation	The Ministry is exploring new Lebanese Lira longer maturity instrument

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Facilitate Trade		
Facilitate imports/automate operations in customs offices/ lower import costs	Automation of the declarations in Abboudieh, Arida, and Kaa border offices	Achieved
	Automation of the manifests/declarations in the port of Tripoli and Rafic Hariri International Airport and Port of Beirut	Work started in port of Tripoli, beginning April
	Integrating DHL sub-BLs into Asy++	Achieved
	Integrating the European agreement inside Asy++	Achieved
Electronic Payment: Ability to pay 24/7 any declaration via the internet and through the customs application Paperless electronic government: Removal of all the attached papers to the customs declarations	Finalizing the draft electronic payment contract	Achieved
	Negotiation with the Lebanese Banks Association	Waiting Lebanese Banks Association response
	Cars data interchange with the Interpol & Registration Directorate	Waiting Ministry of Interior response
	Quittance issued electronically from the National Social Security Fund	Work on-going
Increasing Customs Controls	Customs access to the intellectual property rights of the ministry of economy and trade	Achieved
Additional Initiatives outside Paris III		
Improve overall operations	Undergo an audit by World Customs Organization	Completed in January 2009

Ministry of Economy and Trade

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Encourage Investment		
Streamline business registration procedures	Enact amendments to the Commercial Law on starting a business	Ongoing consideration by Parliament
Improve business environment for SMEs	Identify funding sources for activities of a new extension phase of the SME Support Program, including business development centers	Initiated contacts with multilateral and bilateral funding sources
	Create program to remove barriers to start-up and other immediate needs	A draft program proposal will be finalized after consultation with key stakeholders. The proposal will focus on microfinance policy and promotion of innovative business. A meeting will be organized with UNIFIL to establish a satellite BDC, and through the involvement of Berytech in Tyre to help start-ups and SMEs in Naqoura and southern Lebanon
	Monitor contracts under the loan guarantee joint fund run by Kafalat	SME Unit is monitoring Kafalat contracts on quarterly basis
Promote and Strengthen IP Protection		
Copyright and Trademark draft laws	Propose amendments to harmonize draft IP laws currently under consideration by parliament	MoET has begun to incorporate amendments to pending copyright draft law per outcome of USAID-funded expert mission
Strengthen IP national awareness	Work with WIPO and national stakeholders to create and implement a program to strengthen awareness of IP concepts nationally	Ongoing collaboration with WIPO on GI's and other issues and with national stakeholders, such as Brand Protection Group
Strengthen IPPO	Collaborate with a leading private Arab company to provide training to IP staff and raise awareness	Ongoing training and awareness initiatives
Enact Laws to Improve the Business Environment		
Standardization Draft Law	Ensure approval by Council of Ministers and enactment of draft law	The Ministry of Industry is preparing a second version of the draft law to address concerns raised by the CoM. A redrafted version of the law that reflects inputs from relevant stakeholders will be submitted to CoM
Technical Regulations and Conformity Assessment Law	Ensure approval by the Council of Ministers and enactment of draft law	MoET awaiting to receive inputs from relevant stakeholders on the Arabic version of this draft law. Once all relevant comments are incorporated, a final version of the draft law will be submitted to CoM

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Enact Laws to Improve the Business Environment		
Information Technology Law	Ensure enactment of draft law	Ongoing and active consideration of law by the Parliamentary Subsidiary Committee established by the Joint Committees, with support from MoET staff
Review Corporate Governance Laws		
Amendments to corporate governance laws	Ensure enactment of corporate governance related laws by Parliament	Ongoing consideration by Parliament
Additional Initiatives outside Paris III		
Harmonization and strengthening of border IPR verification and enforcement measures		A training is being prepared in collaboration with the Institute of Finance to train newly recruited Customs Officers on IP
Adherence to international IP treaties		Awaiting parliamentary enactment
Increase public access to IP information		IPPO is working with the European Patent Office (EPO) to publish registered patents with priorities. IPPO established a new MIS system that will help it regularly release updated reports on IP issues via its website
Digitization and automation of public application processes		MoET has consulted with international partners to obtain technical assistance to develop the online security infrastructure for automated applications
Trade integration needs assessment		First and final drafts of the assessment were submitted to MoET and other stakeholders for comments
Enact the Food Safety Law to create the Food Safety Agency		Under active discussion and consideration at Parliament
Promote awareness on quality issues, and assist public institutions and private enterprises to receive relevant international quality accreditation		One issue of the Quality Info Newsletter was published. Several Quality-related training workshops and seminars were held aimed at private and public sector stakeholders

Office of the Minister of State for Administrative Reform

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Promote Governance and Transparency in the Public Sector		
Address corruption at agency level starting with two important ministries	Follow-up with MOF to secure approval of expert TOR and sign a MOU to start the project; Duplicate approach of TOR and MOU with the MoTPW; Prepare and implement action plan	Finalized scope with MoF. Final TOR sent to MoF for review and approval
Develop modalities for outsourcing relevant public sector tasks to private sector	Develop TOR and scope of work for outsourcing consultant	Draft TOR preparation ongoing Funding secured through new Arab Fund loan
Develop human resources and HR policies for the public sector	Enact law by parliament Draft HR units organizational decree by committee	Law is still pending in Parliament
Modernize and Upgrade Capabilities within the Public Sector		
Government e-payment gateway action plan	Develop TOR and scope of work for implementing government e-payment gateway Finalize government e-payment gateway action plan	Funding was secured through the new Arab Fund loan (This activity is now part of a new project named e-gov portal; being scoped)
ICT security and standards update	Develop TOR and scope of work for ICT security and standards update; Finalize and approve ICT security and standards update; Disseminate information of ICT security and standards; Conduct training on ICT security and standards	Funding was secured through the new Arab Fund loan TORs are under preparation

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IMPLEMENTATION OF THE REFORM PROGRAM

New Initiatives		
Action plan for data interchange implementation	Develop TOR and scope of work for data interchange implementation Finalize and implement action plan for data interchange implementation	TORs are under preparation (This activity is included in a new project named National inter-operationability framework)
Implement training plan for the Ministry of Health and other institutions	Develop TOR and scope of work for training consultant Develop and implement training program for the Ministry of Health	Scope and development of TORs pending availability of funds
Revitalize position classification project	Establish sub-committees to take on activity	Relevant committees were established
Administrative Procedures simplification	Create skills network across the administration Develop action plan for each cell within the created network	Skills network creation ongoing. Official circular finalized and about to be dispatched

3. INFRASTRUCTURE AND PRIVATIZATION REFORM PROGRAM

Ministry of Energy and Water

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Strengthen Sector Policy-Making Capacity		
Appoint qualified advisors at the Ministry of Energy and Water to support on strategic planning and evaluation of electricity policy reforms	Consultants are on track to complete the remaining deliverables specified in their TOR's	
Establish NCC to properly dispatch EdL generation and transmission system	Activity subjected to implementation delays due to both, the introduction of new technology and additional works	Very large variation order is requested. Work is in progress
Hire consultants to develop a Master plan for the power sector	First two drafts of generation master plan relied heavily on natural gas as a single source of fuel. This was deemed unacceptable by MoEW hence work on the transmission plan did not start pending approval of the strategy on energy options	
Improve EdL Operational Efficiency		
Appoint consultancy team at EdL to perform operational, financial, accounting, legal and contract management activities, including coordinating and assisting the HCP and its advisory team in the corporatization and privatization of EdL	Work is in progress	Work is in progress
Award contracts for the supervision of the KEPCO Operation & Management activities for Beddawi and Zahrani plants	Contract awarded	Contract awarded
Decide on the viability of the Zouk and Jieh plants, and rehabilitate viable existing power plants	Rehabilitation should NOT be considered unless a decision is made against building economic baseload power generation	Minister of Energy and Water submitted his generation plan to the CoM

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IMPLEMENTATION OF THE REFORM PROGRAM

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
Complete the auditing of the EdL financial statements from 2002 to 2006	2002-2003 completed Work is in progress for 2004, 2005 and 2006	
Commit the supply of natural gas to the Beddawi plant	Work in progress on a contract with Egypt for the supply of natural gas to Beddawi power plant	Awaiting the supply of natural gas from Egypt
Corporatize and Privatize EdL		
Retain consultants to assist Higher Council for Privatization (HCP) with the corporatization and restructuring of EdL	The consultant "Mercados" has prepared drafts of all reports required to complete the planning phase for the sector restructuring and EdL corporatization	
Establish the Electricity Regulatory Authority (ERA) and define its financial and organization structure	No progress this year. The financial and organizational structure of the ERA has not been discussed / approved by the CoM pending an agreement between the stakeholders on restructuring and corporatizing EdL (i.e. one versus several companies)	Agreement on the corporatization of EdL is required
Launch and award tender for the installation and operation of remote meters	Relaunch the bid for the CMM project to increase the number of bidders and add competitiveness	
Launch and award tender for service contracts for distribution	No bids were received. Relaunch the bid for Service Provider (SP) project	
Develop additional generation capacity through Independent Power Project (IPP), install additional capacity in Deir Ammar with private sector participation	Structured financing via IPP is very expensive. It should be used as a last resort, only if no other means of financing is available. Instead, the MoEW proposes Public-Private-Partnership (PPP) where the public sector provides the financing and the private sector provides the construction and operation of the plant	
Undertake asset registration and valuation of EdL assets	Not applicable until there is agreement on the corporatization of EdL	

Telecom Regulatory Authority

Programs/Initiatives	Planned Action Steps for 2009	Action Steps Taken from January 2009 to End March 2009
TRA establishment and institution building	Developing internal policies and procedures MIS implementation Financing Building Capacity (staffing, training, ...)	Continuous training Submitted the budget for 2008
Regulatory Framework	Finalize the revision of the consultation received Draft remaining regulations	Issued the Code of Practice for Value Added Service Providers for public consultation Reviewed the replies received on closed consultations (access to public properties, migration to digital broadcasting,...)
Broadband Licensing	Preparing the Request for Application Finalizing the draft decrees to be submitted to the Minister of Telecommunications Finalizing all needed documents (Licenses, refarming plan, ...)	Issued the draft decree for the Rights of Way use for public consultation Completing the drafting of the decree for the Right to Use fees Reviewing the replies to the refarming plan consultation Finalizing the technical requirements for broadband licenses
Mobile Privatization	Re-launch the process upon political decision Under the Management Agreement regime: Monitoring the Quality of Service Monitoring the distribution rules to avoid black market	Reviewed the guidelines for the distribution policy Reviewed the quality of service indicators in coordination with the MoT and the Mobile Network Managers
FM and TV broadcast		Issued the following documents for public consultation: Digital Migration Strategy for TV Broadcasting plan 'Improving FM Broadcasting' paper

**UPDATED RESULTS OF THE CONFERENCE
AS OF MARCH 31, 2009**

UPDATED RESULTS OF THE CONFERENCE AS OF MARCH 31, 2009

By end March 2009, 74 percent (\$5,583 million) of the Paris III pledges were signed into agreement and 42 percent (\$3,179 million) were fulfilled. The increase of \$200 million in signed agreements from the last quarter is mainly attributed to the signature of several project support loans. As detailed in the last progress report, with the exception of project support, the near totality of pledges was signed into agreements.

- Budget support agreements reached \$2,134 million, with \$1,492 million received, an increase of \$1 million from last quarter attributed to agreement on \$1.2 million support from Greece and its receipt.
- Project support agreements signed increased to \$1,233 million, up from \$1,047 million in the first quarter. Three loan agreements were signed: \$70 million with the World Bank, €70 million (\$91 million) with the European Investment Bank, and KWD 6 million (\$20.5 million) with the Arab Fund for Economic and Social Development.
- Agreements for private sector support remained at \$1,431 million and disbursements increased to \$819 million (up from \$785 million).
- Signed agreements for support through the United Nations increased by \$11 million since the last progress report due to a contribution of €8 million from the European Commission for the rebuilding of Nahr el-Bared.

Table 1. Updated Status of Pledges by Type of Support (millions of US\$)

	Pledged	Signed	Received
Budget support*	1,737	2,134	1,492
Banque du Liban	43	43	43
Project support	3,481	1,233	107**
In kind	362	327	303
Private sector support	1,463	1,431	819
Support through the UN	334	317	317
Support through civil society organizations	99	99	99
Under review / unrealized	12		
Total	7,532	5,583	3,179

Source: MOF collected data by March 31, 2009

* Includes Malaysia debt transaction for \$500 million

** Not all information is available on donor implemented projects.

UPDATED RESULTS OF THE CONFERENCE

AS OF MARCH 31, 2009

Table 2. Updated Signed Grant and Loan Agreements (above \$10 million, US\$ million)				
Donor	Total Pledged	Grants Signed	Loans Signed	Total Signed
European Investment Bank	1,248		891	891
Saudi Arabia	1,100	100		100
World Bank Group	975		475	475
United States	890	770	220	990
Arab Fund for Economic & Social Development	750		442	442
France	650		599	599
European Commission	486	167	65	232
United Arab Emirates	300		300	300
Islamic Development Bank	250	5	245	250
Arab Monetary Fund	250		375	375
Italy	156	52		52
Germany	134	57	21	78
International Monetary Fund	77		77	77
Spain	53	48		48
Egypt	44	15		15
United Kingdom	35	35		35
Belgium	26	13		13
Turkey	20	20		20
Canada	17	2		2
Norway	15	15		15
Oman	10	10		10
Other*	47	28		28
Malaysia			500	500
IMF (EPCA II)			37	37
Total	7,532	1,337	4,246	5,583

Source: MOF, CDR and Presidency of the Council of Ministers, data collected by March 31, 2009

* A detailed breakdown of all pledges and intended uses is available in the Paris III - Eighth Progress Report available at www.finance.gov.lb.

An IMF mission visited Lebanon between February 19 and March 5, 2009 to conduct Article IV consultations and to review performance under the economic program supported by Emergency Post-Conflict Assistance (EPCA). The IMF mission found that the Lebanese economy showed resilience in the face of the global financial and economic crisis. The main findings of the mission emphasize the strength of the Lebanese financial sector and the prudent macroeconomic and financial policies of recent years. The end December 2008 EPCA indicative targets were all met. However, the IMF pointed out that some of the monitorable actions were not completed, partly due to the financial and economic crisis. The report warns of the risk of a spillover effect from the global recession, in particular in relation to the slowdown in the Gulf region. The IMF's Mission Concluding Statement is reproduced in the appendix.

A Lebanese delegation participated in the World Bank/IMF Spring Meetings on April 25-26 in Washington DC. The delegation updated the main donors on progress achieved in the implementation of the reform program and discussed funding requirements and resource mobilization in a number of bilateral meetings.

A. SUPPORT TO THE PUBLIC SECTOR

	Budget Support	Project Financing	BDL	In-kind	Total
Grants	400	533		362	1,295
Loans	1,337	2,948	43		4,327
Total	1,737	3,481	43	362	5,622

Source: MOF collected data by March 31, 2009

1. Budget Support

As of end March 2009, budget support signed agreements reached \$2,134 million, an increase of \$1 million compared to end December 2008. The grant of \$1 million was agreed to with Greece and approved by the Council of Ministers on 17 February 2009. The grant is allocated to the Ministry of Public Works to reconstruct a bridge in Riyak and construct 23 pedestrian bridges in several areas of Lebanon.

Also, the Minister of Finance and USAID amended the Grant Agreement signed on 31 August 2008 to allow for the disbursement of an additional \$50 million (of the total \$250 million grant signed). The grant is expected to be disbursed in the second quarter of 2009 as direct payments to the World Bank to decrease Lebanon's debt. The remaining disbursements by different donors of approximately \$500 million are linked to the implementation of reforms.

The only remaining unsigned Paris III budget support pledge is by the World Bank for an amount of \$200 million.

UPDATED RESULTS OF THE CONFERENCE

AS OF MARCH 31, 2009

Table 4. Status of Budget Support Pledges (US\$ million)				
Donor	Grant Budget Support	Loan Budget Support	Signed	Received
Saudi Arabia	100		100	100
World Bank		300	100	100
United States	250		250	125
France		488	488	222
European Commission	39	65	104	20
United Arab Emirates		300	300	300
Arab Monetary Fund		107	167	
International Monetary Fund (EPCA I)		77	77	77
Greece		1.2	1.2	1.2
Oman	10		10	10
Slovenia	0.13		0.13	0.13
Malaysia			500	500
International Monetary Fund (EPCA II)			37	37
Total	400	1,337	2,134	1,492

Source: MOF collected data by March 31, 2009

2. Project Financing

Signed agreements amounted to \$1,233 million out of \$3,481 million pledged for project financing. Table 5 shows commitments and disbursements for project financing, an increase of \$186 million from the last quarter.

The main developments since end December 2008 are as follows:

World Bank

On 30 January 2009, the World Bank and the Ministry of Finance and CDR signed a loan agreement for \$70 million as additional financing for the Urban Transport Development Project, which aims to improve the Greater Beirut area urban transport infrastructure. The additional financing supports this objective and covers cost overruns, the counterpart contribution, additional works such as three intersections at Dekwaneh, Mucharafieh, and Jal El Dib, equipment and training of the traffic police. The World Bank Board of Directors approved the extension on 22 January 2009. The loan agreement is awaiting ratification by Parliament.

The Arab Fund for Economic and Social Development

On 4 February 2009, the Arab Fund for Economic and Social Development and the Council for Development and Reconstruction signed KWD 6 million loan agreement. The loan is for the building and rehabilitation of the road of Syr el-Dannieh - Jubal el-Humr - Hermel.

European Investment Bank (EIB)

On 3 April 2009, EIB and CDR signed a loan agreement for €70 million for a new waste water treatment facility in the Kesrwan region. EIB approved in principle the loan in the first week of December 2008. The Lebanese Council of Ministers reviewed the agreement on 20 December 2009 and delegated signature to the Council of Development and Reconstruction.

Progress continued on the different on-going projects financed by EIB. On 30 January 2009, EIB disbursed €6 million from the loan for the Lebanese Highway Project bringing total disbursements to €18 million of the €60 million loan. There were no disbursements on the other projects.

European Commission

On 21 January 2009, the European Commission and the Ministry of Interior and Municipalities signed a memorandum of understanding for technical and financial support for the June 2009 parliamentary elections for an amount of €4 million.

Italy

On 8 January 2009, Italy transferred a grant of €8.8 million to the Council for Development and Reconstruction for the implementation of a number of agreed projects.

Table 5. Updated Summary of Project Financing (US\$ million)

Donor	Grant Project Finance	Loan Project Finance	Signed	Received
European Investment Bank	20	520	346	60
Saudi Arabia		1,000		
World Bank		400	70	
Arab Fund for Economic & Social Development		665	357	
European Commission	358		103	19
Islamic Development Bank	2	245	247	0
Italy	26	98	26	26
Germany	134	21	78	N/A
Spain	5			0
Belgium	4		4	0
Canada	4			0
Norway	1		1	1
Denmark	1		1	N/A
Total	533	2,948	1,233	107

Source: MOF, CDR and Presidency of the Council of Ministers collected data by April 4, 2009

UPDATED RESULTS OF THE CONFERENCE

AS OF MARCH 31, 2009

3. In-Kind Contributions

Signed in-kind contributions totaled \$327 million at end March 2009, of which 93 percent were implemented.

Country	In-kind	Signed	Fulfilled
United States	286	286	286
Egypt	44	15	15
Turkey	20	20	
Greece	5		
China	4	4	
South Korea	1		
Brazil	1	1	1
Malaysia	1	1	1
Total	362	327	303

Source: MOF, CDR collected data by March 31, 2009

In the last quarter, Malaysia reported on the activities undertaken with the \$1 million grant. Malaysia implemented projects in the South, including:

- Basic utilities: artesian water well in Antara, three units of generators, water purification units in seven schools in different villages;
- Infrastructure: rehabilitation of an orphanage, a mosque, two schools and home for the elderly;
- Medical assistance through Malaysian peacekeepers;
- Education: ICT equipment for schools;
- Environment: reforestation project and other in-kind contribution.

B. SUPPORT TO THE PRIVATE SECTOR

In the first quarter of 2009, there were no new agreements signed between donors and the private sector. Total commitments remained at \$1,431 million. However, disbursements increased to \$819 million, up by \$21 million.

Table 7. Summary of Private Sector Support (US\$, million)			
Donor	Pledged	Signed	Disbursed
European Investment Bank	709	545	194
World Bank Group	275	305	250
United States	120	220	220
Arab Fund for Economic & Social Development	85	85	
France	163	111	74
Arab Monetary Fund	100	165	80
Belgium	12		
Total	1,463	1,431	819

Source: MOF, CDR, BDL collected data by March 31, 2009

Developments registered in the first quarter of 2009 included the following:

European Investment Bank

- On 3 March 2009, the Council of Ministers submitted to Parliament for ratification the loan agreement between the European Investment Bank, the Council for Development and Reconstruction (CDR) and Banque du Liban (BdL) to provide loans to the private sector totaling €100 million. BdL will manage the on-lending to the private sector, with the interest subsidized by a European Commission grant of €7.5 million, approved earlier. This loan is similar to a previously signed EIB loan for private sector support managed by BdL.
- EIB continued disbursement of the previously signed loan agreement with CDR and BDL to support the private sector. On 7 January 2009, it transferred to Banque du Liban (BdL) €12 million, the fourth and final tranche. The total loan was for €60 million with the interest subsidized from €7.5 million grant from the European Commission. BdL in turn has provided these funds to small and medium enterprises.
- Of the loan agreements signed between EIB and the private banking sector, EIB disbursed €4.7 million to Fransabank during the first quarter of 2009.

France

- France, through the Agence Française de Développement, continued disbursing private sector support. As of end March 2009, €57 million was disbursed. The commercial sector received 45 percent of the loans, the industrial sector 25 percent, the agriculture sector 12 percent, and the combined health, construction and tourism, sectors 18 percent.

UPDATED RESULTS OF THE CONFERENCE

AS OF MARCH 31, 2009

C. SUPPORT THROUGH THE UNITED NATIONS

Signed agreements for support channeled through the UN are estimated at \$317 million, an increase of \$11 million. In the last quarter, the European Commission reported €8 million for the reconstruction and recovery of Nahr el-Bared. The categorization of the pledge was revised from project support to support through the United Nations.

Table 8. Updated Summary of Support Through UN (US\$ million)

Donor	Pledged	Signed
United States	185	185
European Commission	21	21
Italy	20	13
Spain	37	37
United Kingdom	35	35
Belgium	6	6
Canada	13	2.2
Norway	3	3
Sweden	5	5
Australia	5	5
Denmark	2	2
Japan	2	2
Austria	1	1
Finland	1	0.6
Cyprus	0.2	0.2
Total	334	317

D. SUPPORT THROUGH CIVIL SOCIETY ORGANIZATIONS

Signed agreements for support channeled through the UN are estimated at \$317 million, an increase of \$11 million. In the last quarter, the European Commission reported €8 million for the reconstruction and recovery of Nahr el-Bared. The categorization of the pledge was revised from project support to support through the United Nations.

APPENDIX



INTERNATIONAL MONETARY FUND Lebanon

2009 Article IV Consultation Mission Mission Concluding Statement

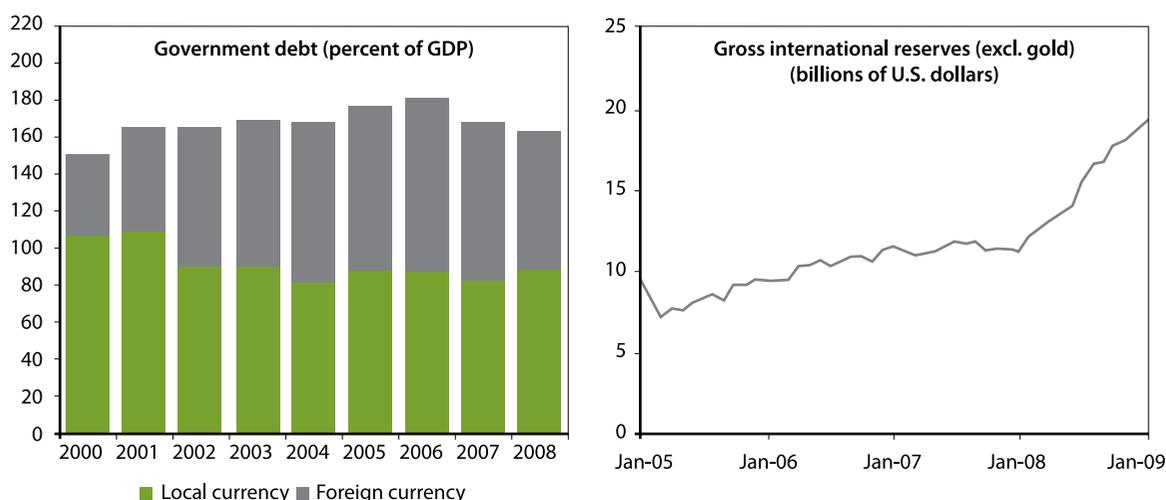
March 5, 2009

1. An International Monetary Fund (IMF) mission visited Beirut February 19 - March 5, 2009 to hold discussions for the 2009 Article IV consultation. The mission also reviewed performance under the December 2008 - June 2009 economic program supported by Emergency Post-Conflict Assistance (EPCA). The mission met with the Minister of Finance, the Governor of the Banque du Liban (BdL), the Ministers of Economy and Trade, Energy, Labor, and Telecommunications, officials from the prime minister's office, various ministries and agencies and the public electricity company (EdL), as well as representatives of parliament, political parties, and the banking sector. The mission wishes to thank the authorities for the open and constructive discussions and their warm hospitality.

I. ACHIEVEMENTS AND CHALLENGES

2. The Lebanese economy has shown a remarkable strength in the face of the unfolding global financial crisis. The domestic financial system has had virtually no direct exposure to distressed financial products or markets and remains very liquid, while the real economy continues to show considerable resilience. Despite large fiscal and external vulnerabilities related to the size of the public debt and the government financing requirement, prudent macroeconomic and financial policies strengthened the economy's ability to weather external shocks. Such policies have included the maintenance of fiscal primary surpluses, a cautious interest rate policy, and strict oversight of the financial system. These primary surpluses have contributed to lower the debt-to-GDP ratio by nearly 20 percentage points since 2006, an encouraging headway toward fiscal consolidation. The authorities have maintained interest rates at appropriate levels to support ongoing deposit inflows, rapid dedollarization, and a strengthening of the external position. Strict financial oversight has shielded banks from exposure to troubled international banks, structured products and wholesale financial markets. Together, these policies have helped maintain confidence in the Lebanese economy and financial system, allowing for a steep build-up of international reserves, even during the global financial crisis.

IMF MISSION CONCLUDING STATEMENT



3. The IMF has supported these policies through a quarterly monitoring framework and two drawings under Emergency Post-Conflict Assistance (EPCA). All end-December 2008 quantitative indicative targets under the EPCA-supported program have been met, some of which with wide margins, underscoring that the program has been effective as a tool to support the authorities' successful efforts to preserve macroeconomic and financial discipline in the increasingly challenging external environment.

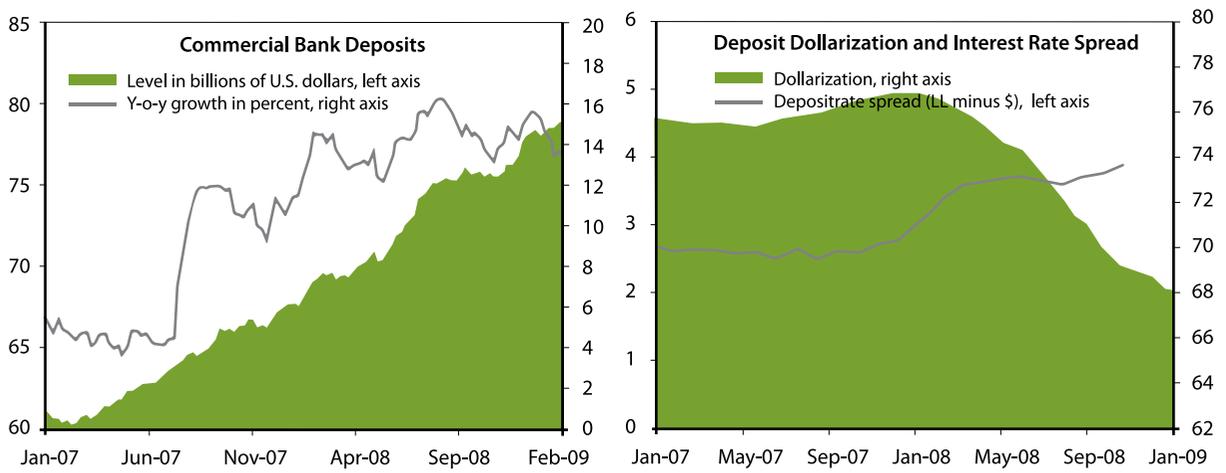
4. These successes do not leave room for complacency, since difficult challenges lie ahead. The deepening global recession and the dysfunctional international credit markets make it even more urgent for Lebanon to address its still high underlying vulnerabilities, chief among them the very high level of public debt.

- Near term. It will be essential to reinforce the recent progress toward fiscal consolidation and to continue shoring up international reserves. At the same time, well-targeted social policies are needed to shield the impact of the expected economic slowdown on the most vulnerable groups of the Lebanese society. Continued donor support is also an essential ingredient to any successful policy strategy.
- Medium term. Lebanon needs to embark on an aggressive path of fiscal consolidation, in line with the policies laid out in the Paris III agenda. Fiscal consolidation, in turn, would reduce the cost of monetary stabilization.

II. BRACING FOR THE IMPACT OF THE GLOBAL RECESSION

5. The impact of the global financial crisis on Lebanon has so far been muted. Deposit inflows took a short breather in the aftermath of the Lehman failure, but have resumed at a rapid pace since then. Deposit dollarization has been declining steadily, on the back of a growing interest differential in favor of the local currency, and because of continued confidence in the Lebanese financial system. There have been no pressures on the peg, which continues to serve as the lynchpin for Lebanon's financial stability. The BdL has continued to accumulate international reserves at a swift pace. Eurobond spreads spiked after the Lehman failure, but have since come down markedly and are now below the emerging market average. The banking system has withstood the global financial crisis unscathed.

6. However, the global recession and especially the weakened economic outlook in the Gulf are likely to affect the Lebanese economy. Lower global liquidity and a pronounced global downturn, including in the Gulf region, are likely to affect remittances, tourism, foreign direct and portfolio investment, and deposit inflows. As a result, economic growth will likely drop to 3-4 percent in 2009, from over 8 percent in 2008. The external current account balance is likely to improve, helped by lower oil prices and slower economic growth, but capital inflows may weaken. As a result, commercial bank deposit growth may slow somewhat following the strong increase in 2008. Inflation has come down quickly from last year's food and fuel price-induced spike and will likely remain subdued in the period ahead.



III. SUCCESSFUL SUPPORT BY EPCA

7. Performance under EPCA has been broadly favorable, although there have been slippages in structural policies. The quantitative indicative end-December targets on international reserves, the primary fiscal balance, government borrowing from the BdL, and non-accumulation of domestic and external arrears have been met. The authorities have taken advantage of falling oil prices to restore gasoline excises (a welcome step in addition to the policy measures under EPCA). By contrast, the decline in oil prices has reduced the pressure to adjust electricity tariffs, resulting in the non-observance of the corresponding end-December monitorable action. Moreover, in light of the tight international capital markets, the government has postponed the privatization of the two mobile phone companies, so that the issuance of a request for applications, an end-March 2009 monitorable action, will not be met. In January 2009, the BdL has formally established an investment committee and drafted formal guidelines for foreign reserve management (end-December 2008 monitorable action). It has also adopted formal policies for the selection, appointment, and rotation of its external auditors, well ahead of the end-June 2009 target date. Overall, the mission shares the authorities' belief that the EPCA-supported program has contributed to safeguard macroeconomic stability, and has laid the foundations for tackling Lebanon's vulnerabilities.

IV. PRIORITIES AND CHALLENGES IN 2009

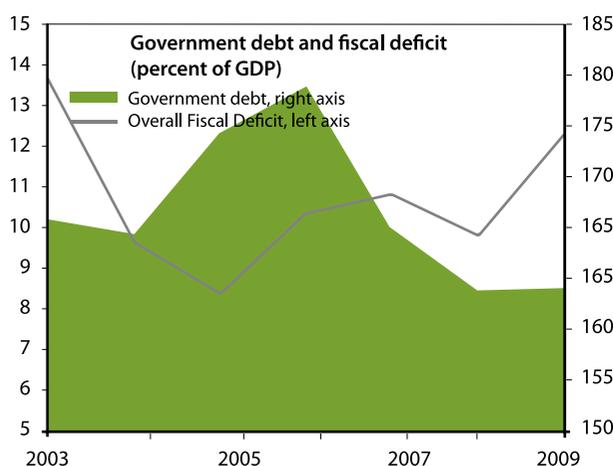
8. Going forward, the Lebanese economy and financial system are faced with three key risks.

- First, the global recession and slowdown in the Gulf will likely affect capital flows and economic activity in Lebanon. While a soft landing remains the most likely outcome, there is a significant downside risk.
- Second, government financing may be more difficult than anticipated. While under our baseline scenario, commercial banks would be sufficiently liquid to absorb the expansion of public debt inherent in the draft budget, a stronger fiscal expansion, higher interest rates on government debt, or slower deposit inflows could complicate government financing and require the preparation of contingency plans.
- Third, Lebanon remains exposed to political and security shocks that would adversely affect economic and financial conditions.

Given these risks—particularly when taken together—prudent fiscal and monetary policies, ongoing vigilance in financial supervision, and proactive contingency planning should top the policy agenda.

REDUCING GOVERNMENT FINANCING RISKS

9. Despite substantially higher projected revenues relative to 2008, the draft 2009 budget implies a reduction in the primary fiscal surplus and a significant increase in financing requirements. Lower oil prices provide large gains (2.7 percent of GDP) through the recovery in gasoline excises and lower transfers to EdL. In addition, the budget envisages the introduction of rent collection on seashore properties, the collection of a 2 percent capital gains tax on a one-off revaluation of assets, the abolition of VAT refunds on exempted activities, and the option to increase the tax on interest income, together adding up to 0.5 percent of GDP in revenues. However, there have also been substantial expenditure pressures: the wage bill is slated to increase by 33 percent (2.1 percent of GDP), given one-off retroactive payments, substantial new hiring, and an adjustment in the salary scale; and there are ambitious plans to expand domestically-financed capital expenditure by around 0.9 percent of GDP compared to 2008. With the planned revision of electricity tariffs now shelved, the draft budget targets a primary balance (excluding grants) close to zero, compared to a surplus of 0.5 percent of GDP in 2008. With this, the overall deficit would increase to 12.3 percent of GDP, which would maintain the debt-to-GDP ratio at 162 percent of GDP. The authorities have indicated that, in the event of further spending pressures or revenue shortfalls, they would consider taking measures to prevent a further increase in the deficit and a rise in the debt-to-GDP ratio in 2009.



10. **The heightened external, political, and financing risks call for a more ambitious fiscal target.** The substantially higher government net financing requirement inherent in the draft budget, together with the tight international credit markets, could imply the need for more than doubling the new financing from commercial banks, at a time of a projected slowdown in deposit growth. The unchanged debt-to-GDP ratio could signal a pause in the so far successful strategy of debt reduction. Moreover, much of the increase in the wage bill will raise spending permanently, whereas the likely reduction in transfers to EdL reflects volatile oil prices, exposing the fiscal position to further risk. These developments underscore that there is no room for countercyclical fiscal policy. The mission believes that a primary surplus of around 2 percent of GDP would be desirable. This target would avoid an increase in required net financing as percent of GDP and keep the trend of a reduction in the debt-to-GDP ratio intact, signaling that fiscal policy continues to be oriented toward consolidation.
11. **Cautious budget implementation and fiscal consolidation measures after the elections should help achieve a higher-than-budgeted primary surplus.** The political circumstances, the likely slowdown in economic activity, and the soaring wage bill will make it difficult to make continued headway toward fiscal consolidation. Nonetheless, given the heightened risks, the mission suggests that any revenue overperformance should be saved and that any shortfall in capital expenditures should be preserved to safeguard the EPCA targets, support confidence, and pre-empt possible financing bottlenecks. In case agreement on a budget can not be reached, alternative fiscal measures, including expenditure restraint, would be needed to compensate for those revenue measures envisaged in the budget. Following the elections, the new government should consider swift adoption of the fiscal consolidation measures included in the Paris III policy package.
12. **Given the expected economic slowdown, the government's draft anti-crisis action plan is welcomed.** This plan includes an acceleration and reprioritization of infrastructure spending within existing expenditure ceilings by the Council for Development and Reconstruction, an expansion of interest subsidies for LL-denominated bank lending to the corporate sector, various measures to improve the business climate, and incentive programs to support job creation. Care should be taken to avoid additional expenditure pressures from these programs. The mission believes that a targeted redirecting of expenditures would have been a more effective means to address the social effects of the anticipated economic slowdown than the planned generalized expansion of the wage bill. Thus, the mission encourages the authorities to continue their efforts to develop, with World Bank assistance, a system for targeted social assistance and a social sector strategy.
13. **The financing of the increased fiscal deficit will be affected by the seizure in international capital markets.** Given the ongoing global financial deleveraging, financing prospects in international markets are severely impaired. At the same time, domestic commercial banks, the main source of government financing, will likely experience a slowdown of deposit inflows, given the global recession and the economic slowdown in the Gulf. Nonetheless, our baseline scenario suggests that, with an assumed slowdown of deposit growth to around 10 percent this year from over 15 percent in 2008, market financing in both LL and U.S. dollars should remain comfortable, even with little rollover from external financing sources. The Eurobond exchange currently under way is an important and proactive first step towards securing the necessary financing and buttressing confidence. Parliamentary authorization is needed for the government to tap the market for its additional foreign exchange borrowing requirement.

- 14. Contingency plans are essential in case government financing becomes tight.** The risk that election-related political uncertainty and the unfolding of the global crisis translate into a more substantial drop in deposit inflows cannot be ruled out, which could complicate government financing. We have discussed with the authorities the elements of contingency plans for that case, which entail a combination of fiscal adjustment, a lower pace of reserve accumulation, higher interest rates, and the mobilization of additional support from the international community.
- 15. Some progress is under way in structural fiscal reforms.** Parliament approved the tax procedure code by end 2008 but several associated regulations are still pending. A cash management unit was established by end 2008 and is implementing a pilot project on monthly payment forecasts in collaboration with three line ministries. The authorities indicated that the draft Global Income Tax bill would be submitted to the Council of Ministers by end-March and soon thereafter to Parliament, implying a minor delay in the corresponding end-March monitorable action. The ministry of finance is also in the early stages of a new project to restructure the tax administration.

STRENGTHENING FURTHER THE INTERNATIONAL RESERVE BUFFER

- 16. Given the various risks to the Lebanese economy, there is not much scope for lowering domestic interest rates in the near term.** A growing interest differential and continued confidence have been the key drivers of strong deposit inflows, even during the international financial crisis. While local currency interest rates have already declined somewhat, we support a cautious approach to interest rate policy for the period ahead. Interest rates should be gradually reduced further only once there is more evidence that deposit growth will indeed be holding up at comfortable rates. This approach should contribute to further building international reserves at the BdL, a key factor to safeguard confidence in the midst of the global crisis and in the run-up to the June parliamentary elections.
- 17. Safeguarding the peg continues to be key for financial stability.** Maintenance of the peg is essential given the large currency mismatches of the government, corporate and household sectors related to the still widespread dollarization and the government's high debt and debt service obligations in foreign currency. Moreover, although the recent strength of the U.S. dollar has led to some real appreciation of the Lebanese pound, the real effective exchange rate remains broadly in line with fundamentals. In the medium term, more decisive progress in structural reforms, including the energy and telecom sectors, is needed to boost productivity and support the long-run viability of the peg.

THE BANKING SECTOR REMAINS KEY FOR LEBANON'S FINANCIAL STABILITY

- 18. The banking sector has been little affected by the global financial crisis and remains highly profitable.** Banks source 90 percent of their non-equity funding from deposits, which has served them well in recent months when global wholesale funding has dried up. Moreover, proactive regulation and supervision by the BdL and the Banking Control Commission (BCC) have strictly limited banks' engagement in structured products and real estate speculation. Lebanese banks have also had very little exposure to foreign financial institutions that have failed in the context of the global financial crisis. Recent stress-testing by the BCC suggests that even under a number of shock scenarios banks remain well-capitalized, and the enhanced monitoring of commercial bank operations outside Lebanon is welcomed.

19. However, significant underlying vulnerabilities remain, suggesting the need for continued vigilance in bank supervision. Banks carry a large maturity mismatch, since their loan portfolio and holdings of public debt are largely funded from short-term deposits. They also carry a substantial indirect currency exposure from foreign exchange lending to the government and the domestic private sector. Moreover, given their substantial holdings of foreign assets, banks could still be affected by the global financial crisis going forward. They could also be exposed to higher non-performing loans in Lebanon and the region in light of the projected economic slowdown. Given these vulnerabilities, banking supervision needs to remain vigilant. In order to provide an additional cushion to the banking sector, the BdL has recommended that commercial banks limit dividend payments to 25 percent of 2008 profits. The bank merger law, once implemented, would provide the BdL with a useful toolkit in case a bank might face difficulties. This should be accompanied by the extension of legal protection to bank supervisors, in line with international best practices. Over the medium term, reforming the deposit insurance system would also be a welcome measure.

V. A MEDIUM-TERM PLAN TO TACKLE VULNERABILITIES

- 20. The high public debt-to-GDP ratio remains the key vulnerability.** While this ratio has fallen markedly since 2006, it remains among the highest in the world. Lebanon should thus adhere to a decisive path of fiscal consolidation to maintain the debt on a gradual path toward the restoration of sustainability.
- 21. The Paris III policy agenda provides a useful anchor for the debt reduction strategy.** Actions taken by the government to modernize and expand the telecom sector are welcome, as the sector has the potential to become a more buoyant driver of growth. In that respect, privatization of the mobile phone providers as soon as market conditions allow remains an important further step to reinvigorate economic growth and to reduce the debt. Since the losses of EdL still absorb too large an amount of budgetary resources, it remains a pressing priority to reform the energy sector which would help increase its efficiency and reduce debt. Despite the fall in international oil prices, current electricity tariffs still imply a significant untargeted subsidy, underscoring the need for a tariff revision. A gradual increase in the VAT rate from 10 to 15 percent, the introduction of the global income tax, and cuts in non-essential expenditures would also contribute to the necessary fiscal tightening.
- 22. Timely and flexible disbursement of Paris III pledges is another important element of this strategy.** Welcome progress has been made in the disbursement of these pledges, but disbursements have fallen short of expectations and have not been fully aligned with the goal of debt reduction. The mission supports the authorities' request that donors provide as much budgetary support as possible, or at least align their disbursements to the government's existing spending priorities.
- 23. Even with an ambitious debt reduction strategy, Lebanon will remain vulnerable to shocks for many years.** With full implementation of the strategy, primary surpluses (excluding grants) could reach 5.5 percent of GDP over the medium term, and with this, government debt could decline to around 136 percent of GDP by 2014. However, substantial risks remain: higher interest rates, lower economic growth, or delays in policy implementation could imply a renewed increase in the debt-to-GDP ratio and correspondingly lead to heightened financing risks. In parallel to the reduction in the level of debt, the composition of the debt portfolio should be gradually shifted toward local currency-denominated liabilities in order to reduce over time the government's large currency mismatch.

24. Over the medium term, the BdL's balance sheet should be strengthened. The accumulation of international reserves by the BdL has been essential to strengthen confidence and safeguard macroeconomic stability. The decline in international interest rates has, however, highlighted the costs of this policy. To ensure sufficient inflows to finance the large government deficit, the BdL has to maintain relatively high domestic interest rates through the sale of its securities, which hurt its financial position and complicate debt dynamics. Looking forward, the mission believes the BdL should consider shifting towards using its large t-bill portfolio as the main tool for sterilizing excess liquidity. This would lower the sterilization cost for the BdL and support fiscal discipline by making the cost of government financing more transparent. Over the medium term, the continued improvement of the economy's financial situation and de-dollarization will help strengthen the BdL's balance sheet. Privatization of the assets held by the central bank once market conditions permit will also help its financial balance, while contributing to the government's growth agenda.

Lebanon: Selected Economic Indicators, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Prel. Act.	Prel. Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)									
Output and prices									
Real GDP (market price)	0.6	7.5	8.5	3.0	4.0	4.0	4.5	4.5	4.5
GDP deflator	1.9	3.8	6.5	5.0	2.0	3.0	1.9	2.1	2.2
Consumer prices (end-of- period)	7.2	6.0	6.4	3.9	2.9	2.6	2.6	2.1	2.2
Consumer prices (period average)	5.6	4.1	10.8	3.6	2.1	3.2	2.0	2.2	2.2
(In percent of GDP)									
Investment and saving									
Gross capital formation	22.7	27.4	21.4	21.1	23.5	20.5	22.5	32.1	29.8
Government	2.5	2.4	1.7	2.9	2.7	2.4	2.5	2.6	2.6
Nongovernment	20.2	25.0	19.8	18.2	20.8	18.0	20.0	29.5	27.2
Gross national savings	17.1	20.3	10.1	10.5	13.5	10.4	12.9	23.2	21.9
Government	-7.8	-8.5	-8.2	-9.4	-7.0	-8.2	-6.2	-3.4	-1.4
Nongovernment	24.9	28.8	18.3	20.0	20.5	18.7	19.1	26.7	23.3
(In percent of GDP)									
Public finances (cash basis)									
Revenue (including grants)	25.1	24.4	24.8	25.2	24.4	23.4	23.8	25.3	25.3
of which: grants	2.9	1.4	0.9	0.4	0.4	0.2	0.2	0.3	0.3
Expenditure	35.5	35.3	34.6	37.5	34.2	34.0	32.5	31.4	29.3
Budget balance (including grants)	-10.4	-10.9	-9.9	-12.3	-9.8	-10.7	-8.7	-6.1	-4.0
Primary balance (including grants)	2.6	1.7	1.6	0.5	3.3	2.8	4.1	5.7	5.8
Primary balance (excluding grants)	-0.4	0.3	0.7	0.0	3.0	2.6	3.8	5.4	5.5
Total government debt	180	168	162	162	146	144	144	141	136
(Annual percentage change, unless otherwise indicated)									
Monetary sector									
Credit to the private sector 1/	-5.7	15.8	18.5	10.0	20.8	11.0	9.0	9.1	9.2
Reserve money	-1.9	9.6	19.1	20.5	11.2	8.8	8.9	8.9	8.9
Broad money 2/	6.4	10.9	15.5	10.0	10.0	9.0	9.0	9.0	9.0
Velocity of broad money (level)	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Interest rates (period average, in percent)									
Three-month treasury bill yield	5.2	5.2	5.2	...	...	...	...	...	...
Two-year treasury bill yield	8.7	8.7	8.6	8.1	8.0	8.4	7.6	7.2	7.3
(In percent of GDP, unless otherwise indicated)									
External sector									
Exports of goods (in US\$, percentage change)	40.8	27.1	26.3	5.0	9.0	10.0	11.0	11.5	12.0
Imports of goods (in US\$, percentage change)	11.3	27.6	36.8	-5.1	6.4	6.4	6.9	8.3	8.3
Balance of goods and services	-13.9	-18.6	-18.5	-14.1	-12.8	-11.4	-10.1	-9.6	-9.0
Current account excluding official transfers	-8.9	-7.9	-11.8	-10.7	-10.3	-10.1	-9.6	-9.0	-8.0
Current account including official transfers	-5.6	-7.1	-11.4	-10.5	-10.0	-10.0	-9.6	-8.9	-7.9
Foreign direct investment	11.9	8.0	7.1	5.5	13.8	7.3	6.1	6.4	6.7
Total external debt	199	194	191	182	181	186	194	194	194
Gross reserves (in millions of U.S. dollars)	11,353	11,496	18,769	20,866	24,312	25,391	27,148	29,322	32,376
In months of next year imports of goods and services	6.6	4.9	7.9	8.3	9.1	8.9	8.8	8.9	9.1
In percent of short-term external debt 3/	31.7	29.7	40.5	43.5	47.4	44.2	41.8	41.6	43.5
In percent of banking system foreign currency deposits	30.1	26.5	42.8	47.0	49.8	47.7	46.8	46.3	46.9
In percent of total banking system deposits	21.9	19.7	28.2	28.4	30.1	28.8	28.3	28.0	28.3
<i>Memorandum items:</i>									
Nominal GDP (in billions of U.S. dollars)	22.4	25.0	28.9	31.3	33.2	35.6	37.9	40.4	43.1
Net imports of petroleum products (in millions of U.S. dollars)	-2,247	-2,554	-3,781	-1,766	-2,171	-2,496	-2,790	-3,034	-3,294
Local currency per U.S. dollar (period average)	1,508	1,508	1,508	...	...	...	...	...	...
Real effective exchange rate (annual average, percent change)	2.3	-4.5	...	...	...	...	...	...	...
Stock market index	1,184	1,454	1,182	...	...	...	...	...	...

Sources: Lebanese authorities; and Fund staff estimates.

1/ For 2007, the low headline growth reflects a change in reporting of non-performing loans.

Underlying private sector credit growth has trended above 10 percent in 2007.

2/ Defined as currency in circulation plus resident and non-resident deposits.

3/ Short-term debt on a remaining maturity basis.





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