Fiscal Policy Advisory and Reform
Project Number 102280

<table>
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<tr>
<th>General Information</th>
<th>Contact Information</th>
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<tr>
<td><strong>Short Title</strong></td>
<td>MOF</td>
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<tr>
<td><strong>Geographic Coverage</strong></td>
<td>Lebanon</td>
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<td><strong>Project Status</strong></td>
<td>Ongoing</td>
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<tr>
<td><strong>Start Date</strong></td>
<td>01 February 2017</td>
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<td><strong>Expected End Date</strong></td>
<td>31 January 2020</td>
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<td><strong>Implementing Agency</strong></td>
<td>Ministry of Finance</td>
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<th><strong>Project Manager</strong></th>
<th>Talal F. Salman</th>
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<td><strong>Number of Staff</strong></td>
<td>32</td>
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<th>Donors &amp; Total Budget 2017</th>
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<td>MOF</td>
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<td>Total</td>
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Background
The project comes as a result of the valuable partnership between UNDP and the Ministry of Finance (MoF), which started in 1994. The new UNDP Project at the Ministry of Finance in Lebanon, launched in February 2017, aims to build on the previous projects in advising on economic policymaking, fiscal reform and management, and technical assistance through a highly qualified team of professionals, mainly Economists, Legal Advisors, IT, Project Planning and Implementation Specialists. The Project at the Ministry of Finance was able to build capabilities at the administrative level, launch several fundamental reforms and support Ministers in crucial policymaking and reform efforts throughout the years. During the next three years, the Project at the Ministry of Finance will support the treasury in innovative policies to contain the deficit, manage the debt, and reform the Land Registry and Cadastre administration. It will also build on previous achievements in the Tax and Customs administrations towards a digital government. In addition, the project will support the management of the concessional financing offered to Lebanon towards alleviating the impact of the Syrian refugees, and Lebanon’s commitment to reducing greenhouse emissions through green climate financing tools. Finally, the project will help position the Ministry of Finance to better address the upcoming oil and gas sector needs from legislative, corporate governance, economic and fiscal sustainability perspectives.

Expected Results
- Economic and Fiscal Advisory on reform measures for revenues and expenditures,
debt management, climate finance, oil and gas revenue management

- Legal Advisory for multilateral coordination, debt issuance, international exchange of tax information, investment agreements, real estate registry reform
- Technical Assistance for increased and more efficient multilateral coordination
- Implementation of tax reform
- Implementation of customs reform
- Implementation of land registry and Cadastre reform

Achievements

Project achievements in the 2011-2016 phases include, in cooperation with the Administration:

- Economic and Fiscal Policy Support
  - The Economic Unit provided indispensable policy support and advisory to the Lebanese Republic in general and the Minister of Finance in particular. The diligent research and analysis provided by the team helped promote economic and financial stability amid a challenging environment imposed by the Syrian conflict, and provided decision makers with the clarity needed to approach new domestic and international developments, including changes in international oil prices, economic fluctuations, the upcoming commencement of oil and gas exploration, and debt sustainability.
  - The Team provided periodic assessments of government finances and macroeconomic developments, offering detailed fiscal analysis and projections to reflect effects of new policies (excise taxes, salary scale, energy subsidies), international economic developments (interest rate spreads, oil prices), and impact of crises (Syrian refugees). More specifically, the Team worked with the Ministry of Social Affairs and various government sectors to develop the Lebanon Crisis Response Plan (LCRP).
  - A number of policy and advisory notes and presentations were presented to the Minister and the Council of Ministers detailing Lebanon’s economic standing and highlighting the need for structural and policy reforms. Likewise, the team drafted and published a large number of periodic publications and thematic reports on a range of areas in fiscal finances and macroeconomic topics.
  - The Team reinforced the partnership with the Climate Change unit at the Ministry of Environment through the preparation of Lebanon’s Intended Nationally Determined Contribution under the United Nations Framework Convention on Climate Change (UNFCCC), creation of a long-lasting relation with the Green Climate Fund and the design of fiscal policies needed for the implementation of climate change actions in the transport sector.
  - On the debt side, the Team continued to successfully undertake front office functions of sovereign debt issuances in foreign currencies, coordinating with a large number of stakeholders including ministry administration, international
investors, counsels, and regulatory authorities. In that respect, Lebanon continued to successfully refinance its debt obligations and improve its debt profile at the lowest possible costs. Moreover, continued advisory on debt management strategies and debt sustainability was provided to the Minister of Finance.

- The Team had a major function in the Oil & Gas file, playing a crucial role in supporting the Ministry of Finance draft and revise key legislations in coordination with government administrations and stakeholders. This was complemented with continued strategy advisory to the Minister on the petroleum sector, including on future petroleum windfalls, revenue management, and sector transparency.

- In bilateral and multilateral coordination, the economic team met, supported, and followed up as official focal point for the Ministry with a number of international organizations and rating agencies. The team coordinated regular assessment visits of S&P, Fitch and Moody’s rating agencies and provided needed support and data in order to ensure that Lebanon’s credit rated is continually updated and has the necessary visibility for international investors and lending agencies. Likewise, the team coordinated and supported the International Monetary Fund in their annual visits for the Article IV Mission, and the World Bank and International Finance Corporation periodic and technical assistance missions.

• Legal Advisory

- The project Legal Team provided legal review and advisory support to the debt management with regard to all Eurobonds and debt exchange transactions. It was responsible for numerous debt exchange transaction / debt replacement with BDL/ refinancing and new notes issuances as well as the issuance of special bonds for contractors and expropriations. It worked on the preparation and review of the legal documents (base prospectus, mandate letter, final terms.....) related to the issuance transactions; on the requests for opinion to the Department of Consultation and Legislation at the Ministry of Justice regarding different issues related to the borrowing laws, issuance during a takeover government, foreign debt maturities, interpretation of the terms” issued and outstanding”....; and on the Council of Ministers resolutions concerning the authorization of the minister of finance to execute issuance transactions.

- The Legal Team assisted in the review and drafting of financial regulations and borrowing laws. It advised and assisted MOF in drafting, presenting and discussing proposed laws at Parliamentary Committees; and attended weekly meetings at Parliament to discuss the amendment of the Code of Commerce and discussions related to other draft laws (bankruptcy law, insolvency practitioners’ law...).

- The Legal Team reviewed, commented and conducted the negotiations of World Bank loans and grants on behalf of MoF, worked on seeking approval from various entities, obtaining the legal opinion of the Ministry of Justice and coordinated with CDR and the concerned ministries for the implementation of the projects. The team worked with the Cash Management Department to reduce the steps /time of the procedure of the grants from the negotiation till the COM approval.

- The Team reviewed and led negotiations on behalf of both the MoF and the MOEW to secure international financing for contracts awarded by the MOEW (EKF and HSBC, Sonatrach and KPC, etc). The Team reviewed all the international and bilateral agreements (UNCTAD, IFAD, S&P, EIB etc).
The Legal Team successfully transferred the tax conventions file to the administration in mid-2011, following which support was provided to deal with specific issues. The capacity of the tax conventions team at the Revenue Directorate was developed through intensive training. The legal team was also responsible of studying and commenting the international agreement including tax exemptions.

The Legal Team managed to re-activate negotiations regarding investment agreements that were initiated in past years but were not finalized due to a number of unresolved issues. The Legal Team also started negotiations on investment agreements with new countries. The legal team amended the Lebanese model in accordance with the UNCTAD recommendations.

The Legal Team worked and still working on the Global Forum on Transparency and Exchange of Information for Tax Purposes file, in close collaboration with the Revenue Directorate and Banque du Liban.

The team represent the ministry in the Money Laundering and terrorism Commissions to follow-up on the report evaluating the anti-money laundering and financing terrorism rules applied in Lebanon;

The Team revised in the Oil & Gas file the Tax Law for Petroleum Activities, Onshore Petroleum Resources draft law, worked on the Extractive Industries Transparency Initiative and is preparing the Sovereign Wealth Fund law.

**Multilateral Coordination Support**

The project throughout the past six years was mandated to insure the ongoing support to the Minister of Finance in managing and enhancing the relationship with the International Financial Institutions (IFIs) and donors, including portfolios development in line with the Government priorities, monitoring, reporting and follow-up on portfolios of mainly World Bank and European Investment Bank.

In addition, following the Syrian crisis and the impact of the Syrian refugees on Lebanon’s resources, public services and infrastructure, the project supported the Minister and the administration in:

- The technical committee of the Lebanese Crisis Response Plan (LCRP), an inter-governmental committee on managing the humanitarian and development aid for the Syrian crisis.
- The newly created Concessional Financing Facility (CFF), an international initiative between the World Bank, United Nations and the Islamic Development Bank to address the impact of the Syrian refugees crisis by providing financing for development projects. The project ensured the best terms for loans, expedited grants targeted to alleviate the impact of the influx of refugees on the infrastructure, the economy and the livelihood of the most vulnerable Lebanese.

**Tax Reform**

The EU funded STR3 twinning project “Modernizing the Administrative and Operational Capacity of the Tax Administration” was implemented. The project was a major step forward in the establishment of a modern Tax Administration by improving its performance and information security and enhancing collection, both quantitatively and qualitatively.
The MoF auditorium was equipped and launched, providing a modern training center for tax officials, along with the provision of a CRM for a modernized Call Center.

To improve compliance, new risk analysis techniques and a set of risk grids were developed, with notably the implementation of ALTO (a Computer Assisted Audit Techniques) and SYNFONIE (risk analysis application). Also, a new audit module was developed to allow for detailed audit cases amendments and tracking. In the same line, new automated business functions and standardized audit reports were developed and automated for all types of taxes along with proper linkages among systems.

With respect to e-services, the income tax (corporations), VAT and DASS e-declarations were launched, enabling taxpayers to fill-in and submit their declarations easily online, while reducing data entry errors. A mobile tax application “Daribati” was also launched allowing taxpayers to browse their VAT due amounts.

As for the capacity building, training was delivered to staff, support was provided to international organizations missions and workshops, and to study visits undertaken by regional Tax Administrations.

GDLRC Reform

At the General Directorate of Land Registry and Cadastre (GDLRC), the Acreage Books Automated System and the Vulnerability Patching procedures were implemented. New modules, considered as main decision-support tools to the administration, and a new information system for the Private State Land Division were developed. Also, a new project enabling the identification of property owners at Beirut registry office was developed, and a GDLRC Hotline support system was developed and implemented.

The GDLRC’s functional needs and requirements were assessed, resulting in the preparation of a Land Registry and Cadastre Reforms Project document, and a GDLRC business plan for 2017-2021. In this framework, support was provided to five World Bank missions. Moreover, several laws, decrees and decisions to modernize the GDLRC were drafted.

On e-services, a new GDLRC portal was launched with the aim of increasing transparency and allowing access to information. Three e-services were developed, implemented and launched, to provide better services to citizens. A radio spot to promote the new e-services was prepared.

Security of systems and premises was enhanced through issuance of identification cards for staff and real estate agents. Also, a new Land Registry and Cadastre Office in the Marjaayoun-Hasbaya region was inaugurated.

Customs reform

To provide better conditions for economic growth through trade facilitation and to expedite the process towards WTO accession, we aimed during the last 6 years to improve procedures and controls governing the movement of goods so as to reduce associated cost burdens and to maximize efficiency while safeguarding legitimate regulatory objectives via:
Preparing, being in charge and implementing all the administration decisions related to the EU twinning project which analyzed and streamlined the business processes relevant to customs (i.e., manifest, import/export, inspection, accounting, transit, warehouse, free zone, gates, post clearance and legislation review);

Preparing, being in charge and implementing all the administration decisions related to the EU CUSTOM MED Project which aimed to share experiences and developed new initiatives with selected regional Mediterranean partners;

Analyzing, developing and implementing the paperless project

Enriching the main Customs application (i.e., AsycudaWorld) by:

Analyzing, developing and implementing several new modules (manifest, Free zone, national transit, overtime, spreadsheets between departments, pledges, petroleum warehouses, private warehouses, specialized cars, temporary declarations, container drug, statistical reporting, cars permit, triptic, penalties, export permit, fines, special permission and land manifest)

Adding new features (transactions traceability, barcode, comprehensive selectivity rules, red lane management, location of goods manipulation, black lists, car certificates, warehouses delay time, search engines enrichment, guarantees, CME interface, linking the declaration and manifest modules, declaration suspension, manifest redesign (e.g., distribution, cars page, merging bill of ladings, additional controls, inventory, BL subline manual discharge)

EDI exchange with other administrations (Ministry of Telecommunication, Ministry of Interior, CNSS, POB authority)

Continuous update of AsycudaWorld by organizing workshops with international UNCTAD experts in Lebanon

Finalizing of a Single Window and E-Government generic Memorandum of Understanding

Finalizing of the E-payment agreement via electronic transfers

Designing and implementing a big monitoring project for all the Customs IT equipment (e.g., servers, network lines, network devices, UPSes, ACs, ...)

Designing and implementing a big security project for all the Customs IT equipment by creating different DMZs and VLANs in addition to installing the following devices: HP ArcSight, FortiManager, FortiAnalyzer, FortiDB, Forti SandBox, HP Tipping Point, Fortigate , Symantec Protection Suite, Web and e-mail Filters

Building capacities by:

Supporting the Customs developers in AsycudaWorld code writing

Organizing several trainings and workshops for the Customs employees, airlines, forwarders and brokers

Creating a Customs Intelligence Unit and developing all the required programs for a better targeting system

Organizing and being in charge of many international workshops (i.e., via world bank and TAIEX)

Preparation of all the Customs IT budget and tenders
• Enhancing the Customs network infrastructure via a fiber that connects the Customs headquarters (Higher Customs Council, General Directorate of Customs and the Central Customs Accounting) with the Port of Beirut and the Customs Computer Center
• Full administration of the whole Customs: Network equipment, Microsoft products, IT security devices, monitoring equipment
• 24/7 phone support for Customs IT (i.e., applications, connections, services, ...)
• Miscellaneous IT work: Creation of a cloned environment, airport cargo building relocation, construction of a Customs wireless network, establishing Voice over IP connections.

Issues and Difficulties

The Project overall met to a large extent its work plan for the past 6 years; certain delays in implementation of operational and policy matters were caused by a political impasse that reigned between 2014 and 2016. The new Project, which started in February 2017, will capitalize on the new momentum post the election of a President to continue with the achievements of the past 6 years, and continue contributing to national changes.