

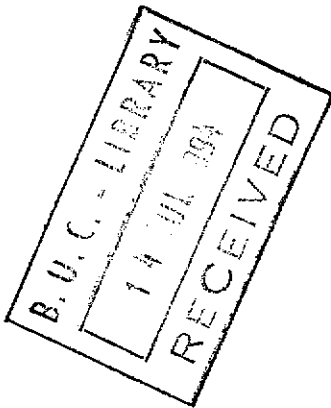
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**STRATEGIC PLANNING IN THE MINISTRY OF  
FINANCE IN LEBANON**

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**A Research Topic Proposal**

**Presented to  
The graduate Faculty  
Beirut University College**



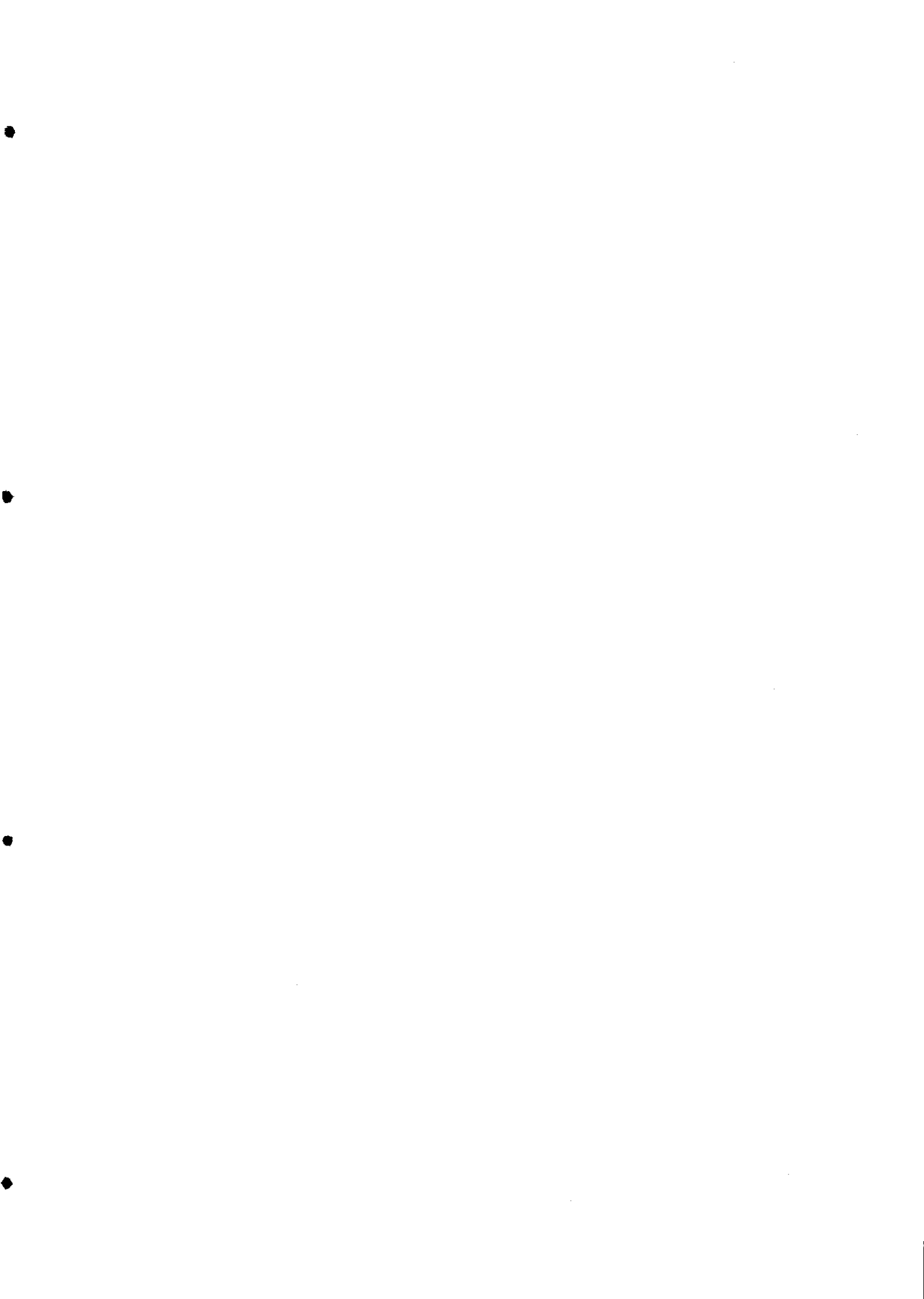
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**In partial Fulfillment  
of the Requirements for the Degree  
Master of Science  
in  
Business Management**

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**By  
Zeina Ismat Adra  
June , 1994**

BUC Graduate School



**BEIRUT UNIVERSITY COLLEGE  
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**APPROVAL OF RESEARCH TOPIC**

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**DATE : JUNE 1994**

**DEGREE : MASTERS OF SCIENCE IN BUSINESS**

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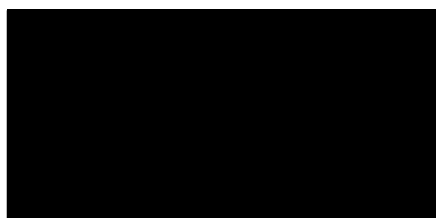
**TITLE OF RESEARCH TOPIC : STRATEGIC PLANNING IN THE  
MINISTRY OF FINANCE IN LEBANON.**

**The following professors nominated to serve as the advisors of the above candidate have approved his research work.**

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# **Chapter one : General Introduction**

## **1.1 Introduction :**

Planning is much more necessary and much more difficult to execute in underdeveloped than in advanced countries. In the first place, planning requires a strong, competent and incorrupt administration. It must be strong enough to be able to enforce its measures, such as to collect taxes or to enforce a rationing system without the intervention of the black markets. It must have a competent administrative service, with trained personnel, to understand the complex reasonably and rapidly.

Now, a strong, competent and incorrupt administration is just what an underdeveloped country does not possess, and in the absence of such an administration, it is often much better that governments adapt the state of *laissez-faire* than they should pretend to plan. At least we may say this: the main objectives of a planner must be to create an administrative machine that can do the work of planning; to train young men academically and in the tasks of administration and to weed out mercilessly the incompetent and the corrupt. Next, in the meantime, no administration should be overloaded with tasks especially those which are delicate; the quantity and the forms of planning should be limited strictly within the capacity of the existing administration.

Lebanon is an underdeveloped, "backward" country. In fact, it encounters the problems written above : Most public and governmental enterprises in Lebanon do not plan for the longterm. In fact, they don't possess the adequate staff or the technological means to do forecasting and long term planning. One of the government

sectors which lacks effective strategic planning is the "Ministry of Finance".

### **1.2 Statement of the problem :**

The actual and the ongoing underestimation of the importance of strategic planning in the Ministry of Finance in Lebanon from the past uptill now is the major problem lying behind conducting this research project.

### **1.3 Hypothesis :**

This research intends to study the following hypotheses :

1) In the Lebanese Ministry of Finance, there is neither an environmental scanning for external forces affecting the economy nor for internal factors that affect the Ministry from inside.

2) As the above hypothesis frustrates the major aspect of strategic planning , it prohibits the Ministry of Finance from formulating contingency plans for different future scenarios,and therefore no strategic planning is carried out in the Ministry of Finance.

### **1.4 Statement of the purpose :**

Strategic planning is becoming one of the most important tools available for management teams in all companies and government institutions around the world. In Lebanon, and especially in the Ministry of Finance, this available tool is not given the required attention.

As a result, the purpose of this research is to assess some of the real weaknesses in the planning of the Ministry of Finance. Besides, this research will present and analyze the planning done by the former and present Minister of Finance.

## 1.5 Methodology :

The sources of information for this study include both primary and secondary data. The primary data consist of interviews with Dr. Siham Bawab, the president of the Revenues department and taxes, and Dr. Bassil Fleihan, the private consultant of the Minister of Finance Fouad Sanioura. Also it consists of original publications of the plans of Mr. Sanioura and the former Minister of Finance Ali El Khalil. This primary data will contribute to extract the results of the study.

The secondary data include constitutional laws of the Ministry of Finance and library materials about strategic planning; and it will help to build the literature for this study.

It is worth mentioning here that the research will follow the following outline :

- Chapter two will be concerned with :
  - (A)- Reviewing the literature that deal with the issue of strategic planning; and
  - (B)- The constitutional laws concerning the organization and functions of the Ministry of Finance.
- Chapter three will include the interviews and the plans of the Ministers and as such it will uncover the research findings.
- Chapter four will include evaluation of the research findings.
- Chapter five will include the conclusion and recommendations.



## Chapter two : Literature Review

### 2-1 Definition :

Strategic Management is a continuous , iterative (with feedback) process aimed at keeping an organization as a whole appropriately matched to its environment. The process itself involves performing an environmental analysis (internal and external), establishing organizational direction (mission and objectives, strategy formulation, strategy implementation and strategic control (see figure 2.1).

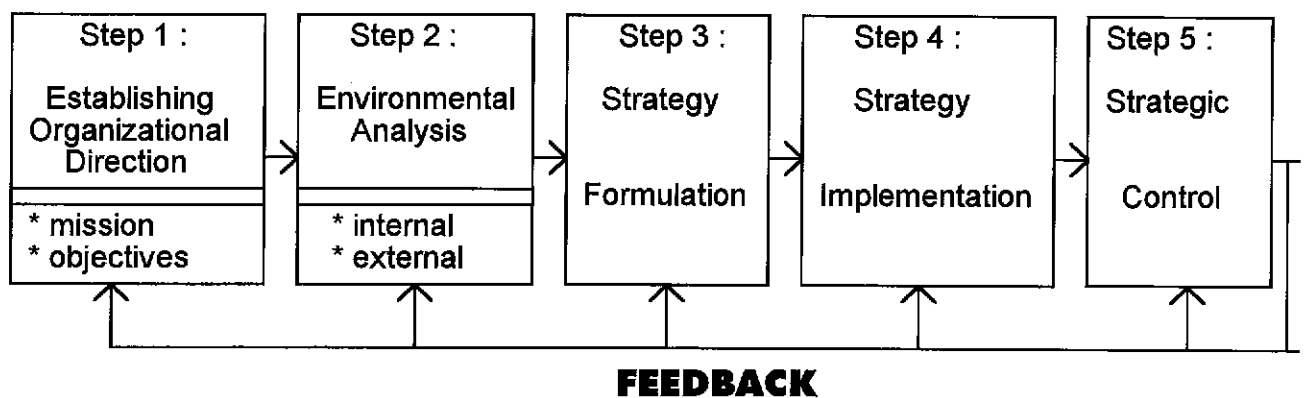


Figure 2.1 : Major steps of the strategic Management process  
( Samuel C. Certo , J. Paul Peter, 1990)

In this chapter, each element of the strategic management process will be elaborated thoroughly in order to have a clear idea about the "ideal" or theoretical description of strategic planning and to use it further as a basis for comparison with the possible Ministry of Finance strategic planning. Moreover a historical overview of the Ministry of Finance functional departments will be presented.

## **2.2 Environmental Analysis (Internal and external):**

Environmental Analysis is the process of monitoring the organization's environment to identify both present and future threats and opportunities.

In this context, the organizational environment includes all factors both inside and outside the organization that can influence progress toward the achievement of organizational objectives : Examples of some environmental variables include the following :

### Organizational Characteristics:

- \* market share
- \* quality of products
- \* discretionary cashflow/ Gross capital investment

### Industry structure :

- \* Rate of technological change in products or processes
- \* Degree of product differentiation
- \* Industry price /cost structure
- \* Economies of scale

### Market and consumer Behavior:

- \* Market segmentation
- \* Market size
- \* New market development
- \* Buyer loyalty
- \* Supplier :major changes in availability of raw materials

### Social , Economic and Political factors :

- \* GNP trends
- \* Interest rate
- \* Energy availability
- \*Government established and legally enforceable regulations

These are a sample of the environmental factors to be monitored for strategic Management (James f. Brown, Jr. , 1986).

In general, the purpose of performing environmental analysis is to assess the organizational environment so that management can react to it appropriately and thereby enhance organizational success. For example, at the Connecticut General Insurance Company, the overriding purpose of environmental analysis is to provide management with the ability to respond to critical issues in the environment. It stipulates that decision-makers in the organization must take external considerations into account.

In order to perform an environmental analysis efficiently and effectively, a manager must thoroughly understand how organizational environments are structured. The environment of an organization is generally divided into three distinct levels. The first level is the general environment which is that level of an organization's external environment made up of components that are normally broad in scope and have little immediate application for managing an organization, such as the social component, the political component, the legal component and the technological component.

The second level is the operating environment which is that level of the organization's external environment made up of components that normally have relatively specific and more immediate implications for managing the organization such as customers, competition, labor, suppliers, and international issues.

The third level is the internal environment which is that level of an organizational environment which exists inside the organization and normally has immediate and specific implications for managing the organization.

These components exist within the organization such as organizational aspects, personnel aspects, marketing aspects, production aspects and financial aspects.

As we pointed out earlier, the purpose of performing an environmental analysis is to identify the existence of threats and opportunities that may affect an organization's development toward attaining its goals. As a result, management must ensure that the information derived from environmental scanning is summarized and analyzed to determine what characterizes these threats and opportunities.

Finally, a successful environmental analysis should be linked conceptually and practically to current planning operations. Otherwise, the results of the analysis will be of little use in establishing the direction the organization will take in the long-run.

### **2.3 Organizational direction (Mission and objectives):**

The first step in the strategic management process is establishing organizational direction. There are two main indicators of the direction in which the organization is moving : organizational mission and organizational objectives. Organizational mission is the purpose for which, or reason why, an organization exists. Objectives are the targets the organization has chosen.

In general, a firm's organizational mission contains such information as what types of products or services the organization produces, who its customers tend to be, and what important values it holds.

To develop an appropriate organizational mission, management should thoroughly analyze and consider information generated during

the environmental analysis process. Usually, an organizational mission is normally summarized and documented in a mission statement. Some of the information that appear in the mission statement are company products and services, markets, technology, broad company objectives, company philosophy (commonly appears as part of the mission statement or in the supplemental material that accompanies it. Company philosophy is a statement reflecting the basic beliefs and values that should guide the organization's members in conducting organizational business), company self concept and public image.

The importance of the organizational mission is due to the fact that it helps focus human efforts in a common direction, ensures that the organization will not pursue conflicting purposes, serves as a general rationale for allocating organizational resources, establishes broad areas of job responsibilities within the organization, and it acts as a basis for the development of organizational objectives.

The organizational objectives focus on establishing progressively more specific organizational direction. An organizational objective is a target toward which the organization directs its efforts. Objectives provide the foundation for planning, organizing, motivating and controlling. Without objectives and their effective communication, behavior in organizations stray in almost any direction; as such, "fixing your objective is like identifying the North Star" (Demock, Marshall, 1945).

Consequently, managers should use organizational objectives as a guide for decision making, for increasing organizational efficiency, and for performance appraisal (MBO: management by objectives is a philosophy of management based on the assumption that encouraging

employees to establish personal objectives in their jobs facilitates communication and results in greater employee commitment which leads to improved performance). (Huse,1982 )

Usually, there are two different types of objectives : short-term objectives which are targets that the organization is attempting to reach within about one or two years. Long-term objectives that are targets the organization is trying to reach within about three to five years or more.

It is a fact that the areas in which organizational objectives were established have changed. In the past, most organizations have focused on one primary objective : making a profit. This shift was due to the increasing competitive, economic and environmental changes. According to Peter Drucker , organizations should aim at achieving several objectives instead of just one. Enough objectives should be set so that all areas important to the operation of the firm are covered. These areas are : Market standing, innovation, productivity, resource levels, profitability, manager performance and development, worker performance and attitude and social responsibility. (Samuel C. Certo , J. Paul Peter , 1990)

Organizational objectives should have the following characteristics : They should be specific, require a desirable level of effort, reachable, flexible, measurable and consistent in the long-run and the short-run.

Like the organizational mission, the organizational objectives should reflect the environment within which the organization operates. Organizational objectives should change as the organizational environment changes. In addition, those who establish objectives must recognize that the environmental trends *that are* taking shape will affect the future relevance of the objectives and the ability to accomplish them. Such anticipation will

make it possible to develop objective for the organization as a whole as well as for the individual.

#### 2.4 **Strategy formulation** :

Strategy is defined as a course of action aimed at ensuring that the organization will achieve its objectives. Strategy formulation, then, is the process of designing and selecting strategies that lead to the attainment of organizational objectives. The central focus of organizational strategy is how to deal better with competition. Once the environment has been analyzed and organizational direction has been stipulated, management is able to chart alternative courses of action in an informed effort to ensure organizational success.

In order to formulate organizational strategy properly, managers must thoroughly understand such various approaches to strategy formulation such as "Critical Question Analysis", "Strength /Weakness/ opportunity threat (SWOT Analysis)", the "Boston Consulting Group Growth-Share matrix", (BCG), and "the General Electrics Multifactor Portfolio matrix.

#### **\* The BCG's Growth-Share matrix :**

The Boston Consulting Group, a leading management consulting firm, developed a strategy formulation approach called the growth-share matrix which is shown in figure 2.2.

Y-axis: Market Growth Rate

X-axis: Relative Market Share

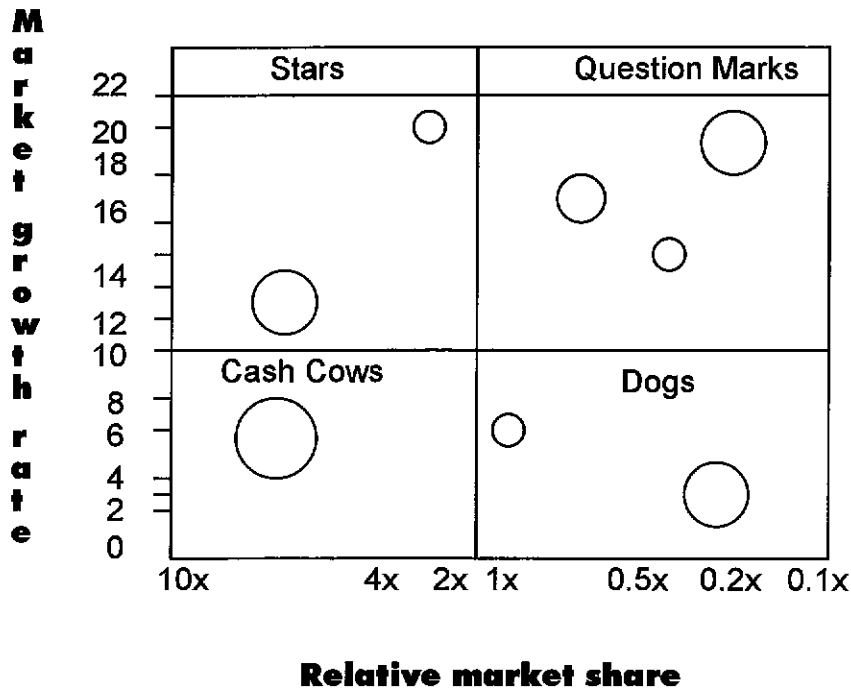


Figure 2.2 : BCG's Growth-Share matrix  
(Kotler , 1990 )

The basic underlying idea is that a firm should have a balanced portfolio of businesses ; such that some generate more cash than they use and can thus support other businesses that need cash to develop and become profitable. The role of each business is determined by two factors : the growth rate of its market and its relative market share. The market growth rate is the annual growth percentage of the market in which the business operates. The relative market share is computed by dividing the firm's market share (in units) by the market share of the largest competitor. Each of the circles in figure 2.2 represent the relative revenue of a single business.

The growth-share matrix has four cells each of which represent a particular type of business. The cells are labeled as follows :



1. **Question marks** (problem children):

they are company businesses that operate in a high-growth market but have low relative market share. Most businesses start off as question marks and they generally require the infusion of lots of funds because they want to increase their market share and eventually overtake the leader.

2. **Stars** : they are question-mark businesses that have become successful. A star is a leader in a high-growth market, but it is often cash using rather than cash generating because the organization must spend a lot of money to keep up with the high market growth rate.

3 **Cash cows** : they are businesses in markets whose annual growth rate is less than 10 percent but that still have the largest relative market share. Cash cows produce a lot of cash for the organization and they are the market leaders so they enjoy economies of scale and higher profit margins.

4. **Dogs** : they are businesses that have weak market shares in low-growth markets. They generate low profits or losses. Such businesses frequently consume more management time than they are worth and need to be phased out.

**Strategic Alternatives** : A balanced portfolio has a number of stars and cash cows and not too many question marks or dogs. Depending on the position of each business, four basic strategies can be formulated :

1. **Build market share** : This strategy is appropriate for question marks that must increase their share in order to become stars. Short-term profits may have to be foregone to gain market share and future long-term profits.

2. **Hold market share** : This strategy is appropriate for cash cows with strong share positions. The cash generated by cash cows is critical for supporting other businesses.

3. **Harvest** : Harvesting involves "milking" as much short-term cash from a business as possible. Weak cash cows that do not appear to have a promising future are candidates for harvesting, as are question marks and dogs.

4. **Divest** : It involves selling or liquidating a business because the resources devoted to it can be invested more profitably in other businesses. This strategy is appropriate for dogs or question marks that are not worth investing in to improve their position.

#### **\* The Critical Question Analysis :**

Critical question analysis provides a general framework for analysing an organization's current situation and formulating appropriate strategies. It involves answering the following four basic questions.

1- What are the purpose(s) and objective(s) of the organization? the answer to this question tells managers where the organization wants to go.

2- Where is the organization presently going? the answer to this question reveals whether an organization is achieving its goals or at least making satisfactory progress.

3- What critical environmental factors does the organization currently face ? This question addresses both internal and external environments, factors both inside and outside the environment.

4- What can be done to achieve organizational objectives more effectively in the future? the answer to this question actually results in the formulation of a strategy for the organization. Thus, managers

can formulate appropriate organizational strategies only when they have a clear understanding of where the organization wants to go , what the environment in which the organization operates is , and what it is likely to be.

Organizational strategies are formulated by top management and are designed to achieve the firm's overall objectives. This process includes two related tasks. First, general strategies must be selected and developed. Second, specific decisions must be made about what role various lines of businesses in the organization will play and how resources will be allocated among them. There are a wide variety of general strategies. Concentration strategy is one in which an organization focuses on a single line of business. Stability strategy is one where the organization focuses on its existing line or lines of business and attempts to maintain them. Growth strategies are where organizations usually seek growth in sales, profits, market share or some other measure as a primary objective. Growth strategies may be pursued by means of vertical integration, horizontal integration and diversification. In vertical integration growth is achieved through the acquisition of other organizations whether suppliers or distributors. In horizontal integration growth is achieved through acquisition of competing firms in the same line of the business. Diversification involves growth through the acquisition of firms in other industries or lines of business.

In addition, in a merger, a company joins with another company to form a new organization, and in a joint venture an organization works with another company on a project too large to work by itself.

Retrenchment strategies are strategies used when an organization's survival is threatened and it is not competing effectively. There are three basic types of retrenchment strategies : Turnaround strategy,

which is used when an organization is performing poorly but has not yet reached a critical stage. It usually involves getting rid of unprofitable products, pruning the workforce, trimming distribution outlets, and seeking other methods for making the organization more efficient. Divestment strategy which involves selling the business or setting it up as a separate corporation. Liquidation strategy is when a business is terminated and its assets sold off.

Finally, most organizations use the above strategies in combination.

In fact, the aim of this research project in chapter two is to give an overview of strategic planning; as such, it is unnecessary to elaborate on the other two steps in the strategic management process which are Strategy implementation and strategy control. However, it is useful to make a brief description of each step.

### **2.5 Strategy implementation :**

This step involves putting into action the logically developed strategies that emerge from the previous steps of the strategic management process. Without the effective implementation of strategy, organizations are unable to reap the benefits of performing an organizational analysis, establishing organizational direction and formulating organizational strategy. In order to implement the organization strategy successfully, managers must have a clear idea of several diverse issues : how much change is necessary within an organization whenever it implements a new strategy.

### **2.6 Strategic Control :**

It is a special type of organizational control that focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it is functioning properly . To

successfully perform the strategic control task , managers must understand the process of strategic control and the process of management information systems and how such systems can complement the strategic control process.

## Part (B)

*Constitutional law of the Ministry of Finance : Decree No 2868 issued 16/12/1959 with all amendments until February 1994.*

Since this project is about the Ministry of finance in Lebanon, it is important to mention how this department is organized and how it functions. The complete material of the decrees and their amendments concerning this issue are placed in Appendix A at the end of this book.

However, now we will present an **overview** about this subject.

Decree No. 5343 dated 20/12/61 says :

the Ministry of Finance shall include :

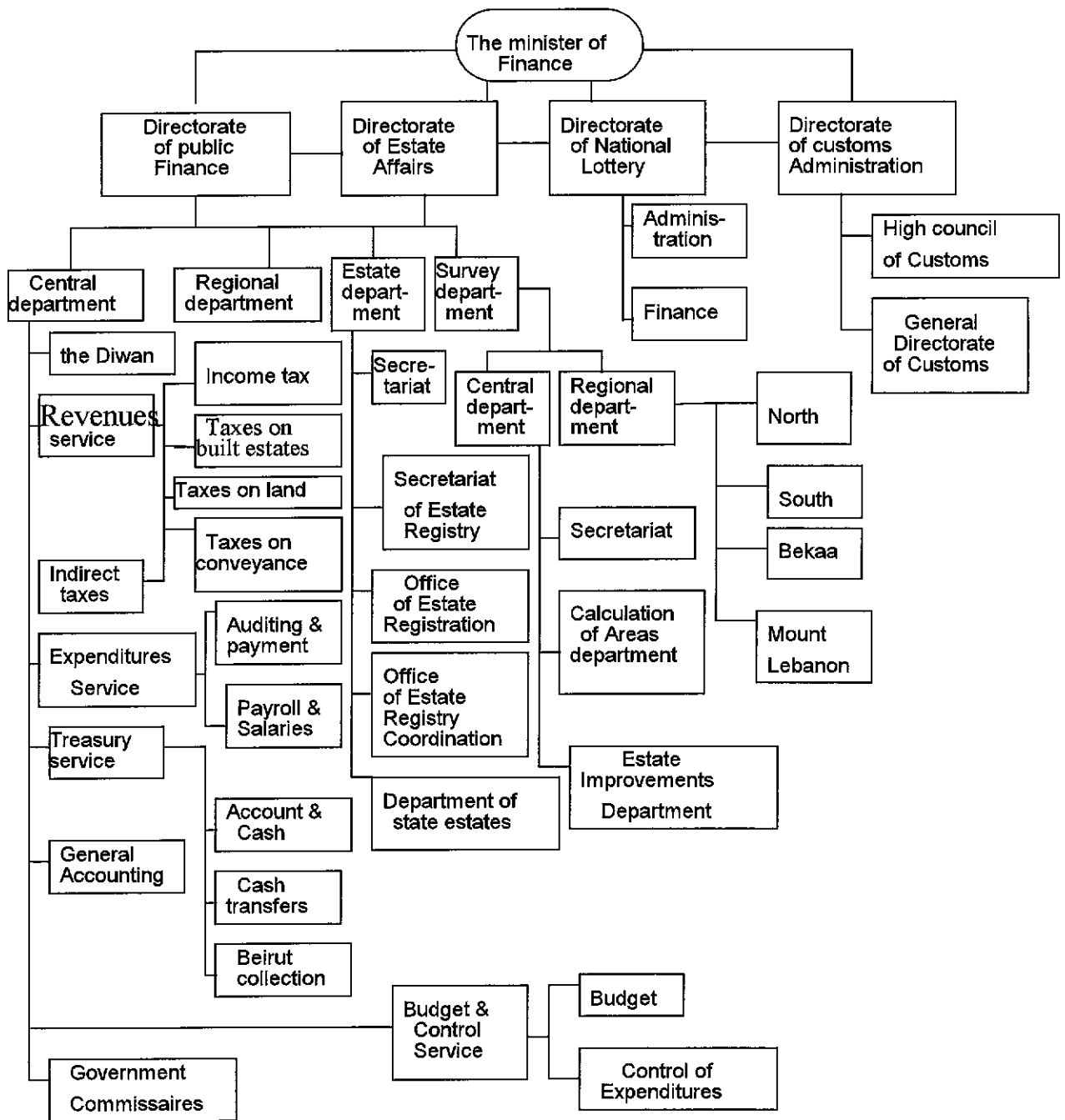
- Directorate of Public Finance.
- Directorate of Estate Affairs.
- Directorate of national lottery.
- Directorate of Customs Administration.

This decree was amended by decree No. 4093 dated 24/2/82 and executed by decree No. 185 dated 28/1/83. This amendment includes an addition of a directorate of administrative affairs in the central unit of the directorate of public finance (see figure 2.3 and 2.5 for better details). Such an action reveals the rising need to have more advanced administrative body in the Ministry of Finance because during this period of the Lebanese war many of the governmental departments were suffering from administrative and control problems .

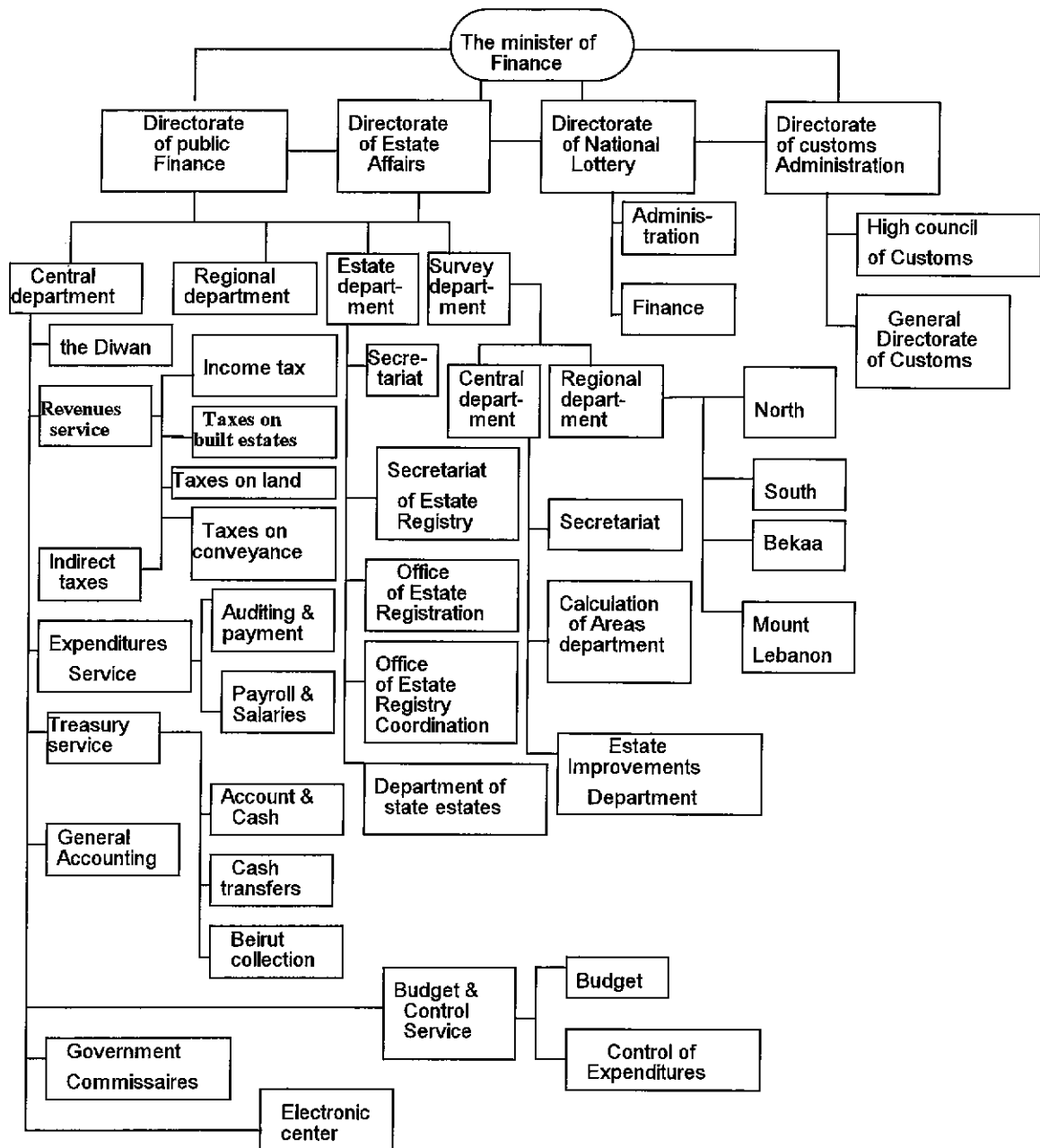
In 1970, the decree No. 14140 was published in the official gazette concerning the establishment of a permanent cadre in the electronic

center in the Ministry of Finance and fixing the conditions of appointment and the salaries (see figure 2.4). This step marks a positive move toward introducing technology to the Ministry. However this occurred before the war. To be rational at this point, we should admit that the Lebanese war has played a negative role on computerizing the tasks performed by the Ministry.

The major amendment which took place and which still has not been published in the official gazette is the law project presented by Mr. Fouad Sanioura and related to the reorganization of the directorate of public Finance and the government commissariat. The importance of this amendment lies in the creation of a directorate of planning and studies and statistics in the directorate of public Finance. Moreover, this law-project includes the establishment of a consultative system which shall be attached to the Ministry of Finance and composed of experts in finance, economics and statistics, which shall coordinate with the units dependant to the Ministry of Finance and Banque du Liban and shall put the studies and all information and statistics related to both economical and financial positions and the balance of the expenditure and give the results and the suggestions for the improvement of these positions .(see figure 2.6 to best appreciate the planned changes) (AL Safir, 1994)

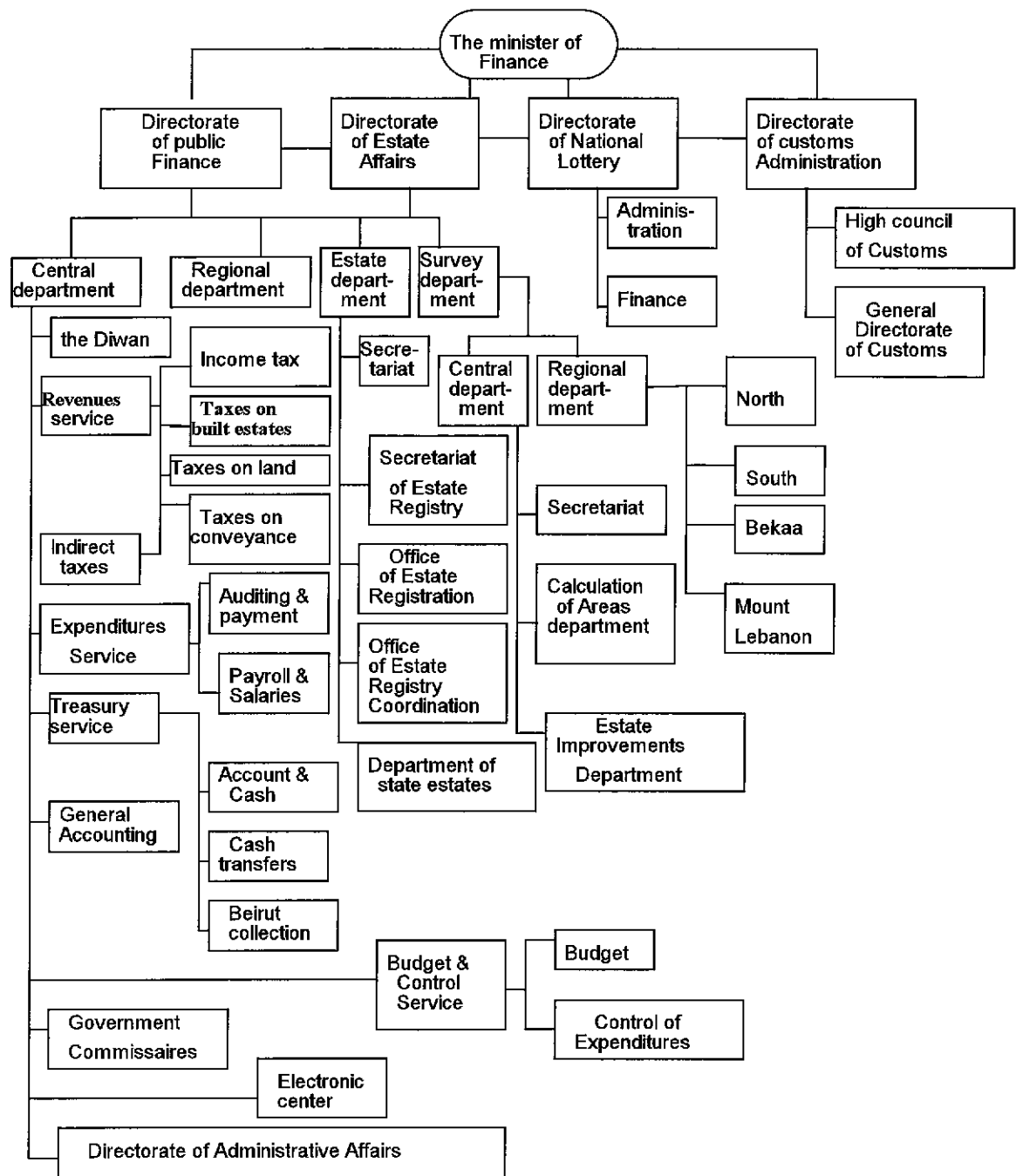


**Figure 2.3 : Organizational chart of the Ministry of Finance**  
 (Developed by the author according to Decree no. 5343, 1961)

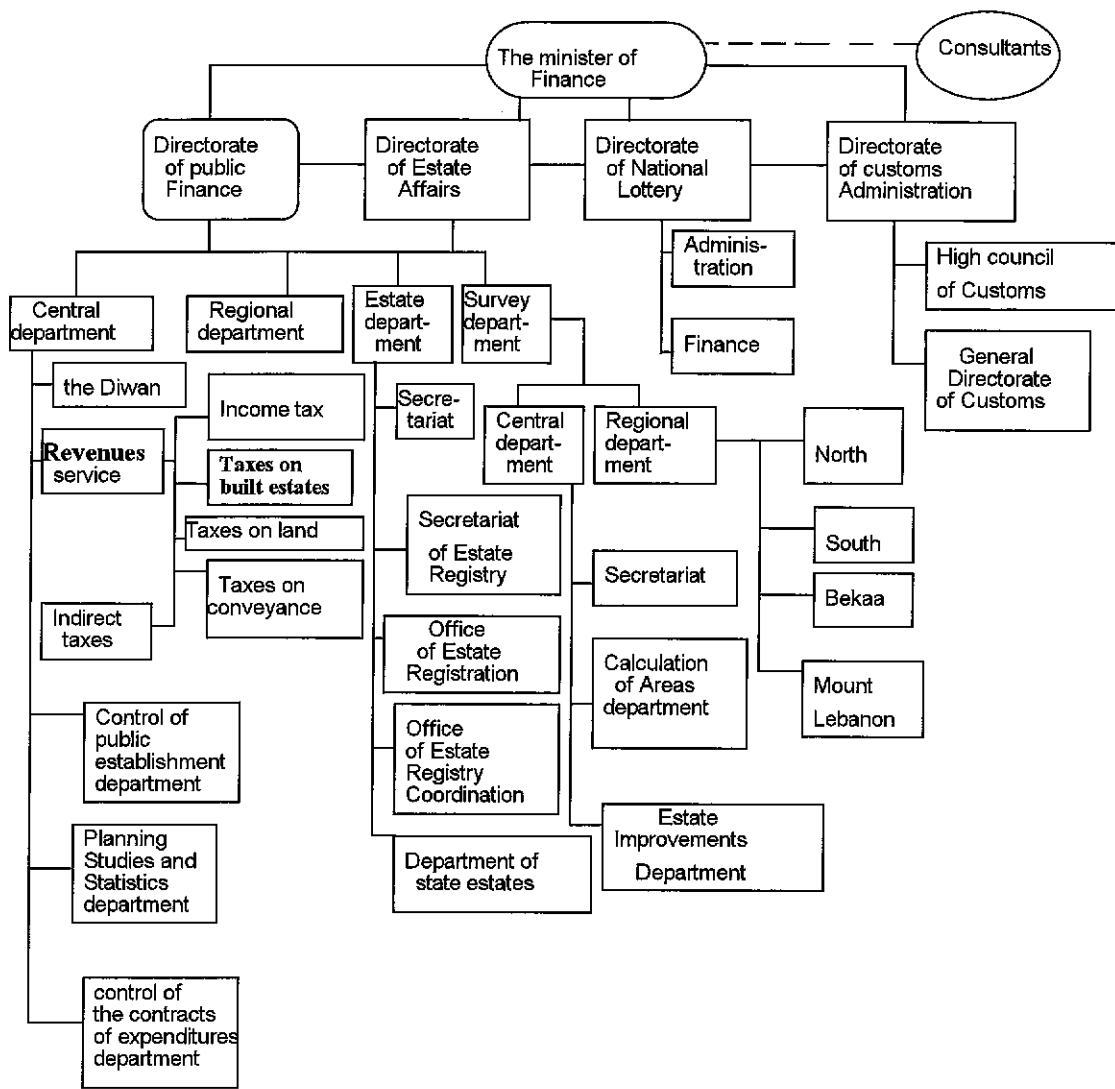


**Figure 2.4 : Organizational chart of the Ministry of Finance**  
 (Developed by the author according to Decree no. 14940, 1970)





**Figure 2.5 : Organizational chart of the Ministry of Finance**  
 (Developed by the author according to Decree no. 4093, 1982)



**Figure 2.6 : Organizational chart of the Ministry of Finance**

**(Developed by the author according to the 1994 law project proposed by Mr. Saniour**

## Chapter three : Research findings

This chapter is designed to give a review of the different planning strategies used prior and after 1992 by both Ministers of Finance Mr. Ali El Khalil and Mr. Fouad Sanioura. Moreover, this chapter will explore any correlation between the planning efforts of both administrations; its purpose is to be able to compare later these efforts to the ideal or theoretical strategic planning presented in chapter two.

### **3.1 The Mission and philosophy of the Ministry of finance :**

The mission of the Ministry of finance is to set a budget of the state and to maintain macroeconomic stability. Through the revenues of the Ministry of finance, its budget and expenditures the monetary policy will be set. In fact, after the knowledge of the GNP and the level of external and internal debt the Ministry will be able to make the economy flourish. Through the budget, the Ministry of Finance defines and develops strategies for all the Ministries. For example, if the Ministry of Health needed a certain amount of funds to build hospitals , to increase the number of beds or to buy equipment, it informs the Ministry of Finance; then, after realizing the required studies and reviews , a compromise between the two Ministries on the

amount of funds allocated from the budget will be reached. This compromise will direct the strategy of the Ministry of Health.

As to the philosophy of the Ministry it is the following : "We are here to serve Lebanon and its citizens"; even though there is no written statement for it . (s. Bawab,1994) .

### **3.2 Strategic Planning of the Ministry of finance during 1991**

Mr. Ali El Khalil has put a plan to cope with the disastrous situation: destruction of the Ministry's main buildings, lack of employees within the Ministry and the questionable taxation.

In fact, the directorate of Finance has suffered from many difficulties during the war , starting from the destruction of its building and equipment, to the burning of many files and documents in these buildings, and the disappearance of the employees responsible for tax collection. Thus Mr. Ali El Khalil set medium to long term goals to deal with this situation.(The Ministry of Finance's publication , 1991)

#### **3.2.1 The medium to long-term goals set by Mr. Khalil for the internal problems of the ministry :**

These goals are :

1) the necessity to avail places for employees by repairing the building of the Ministry of Finance near Riad El Solh Square and the section hired by the Ministry in the Arab Bank Building and the building of the Syndicate of pharmacists which is also hired by the Ministry .

2) The necessity to recruit employees in order to fill the vacant places so that to quickly ensure the minimum level of employees required. In fact, the proportion of the vacant places was around 50 % then. This problem as we will see later has not been solved and is still within the concerns of Mr. Sanioura.

3) The necessity to reestablish the electronic center which was destroyed previously; and this is an urgent matter because it is impossible for the administration which deals with thousands of assessments and documents to prepare the schedules manually.

4) The central department of the Directorate General of Finance is not adequate for the good organization of work. This department was built thirty years ago, and it has been restored since twenty years; however, the volume of work has considerably increased, including the number of taxpayers and other additional responsibilities such as the public debt.

5) It is necessary to do job rotation among the employees of the Ministry and to follow a policy of redistribution of work among the controllers of expenditure contracts. Indeed, employees have spent a long time in the same work and this fact affects negatively their performance.

This concept of Job rotation was not included in Mr. Sanioura's plans for the Ministry.

### **3.2.2 Short to Medium term objectives set by Mr. El Khalil for taxation:**

The war has largely stopped the operation of tax collection ;and in fact it is difficult to eliminate its effects during a short period of time. Concerning taxation, Mr. El Khalil has suggested the following:

1) A full survey of tax payers must be made; and all the information concerning them must be inserted in computers. In fact, the number of unknown tax payers have increased tremendously and some tax payers have changed the location and the nature of their work. This problem still has not been solved uptill now and Mr. Sanioura is intending to deal with it.

Concerning this matter, Mr. El Khalil has contacted the Reconstruction and Development Council to provide some help because this project requires financial and technical capacities which the Ministry cannot afford.

2) Legislations will be suggested in the project of the "Budget Law" of 1991 related to imposing penalties and sanctions in order to motivate tax payers to regulate their situation. Mr. Sanioura has proposed similar sanctions in the project of tax laws.

3) A very short-term objective : The competent tax departments (central and regional ) are to issue schedules and put them for collection without waiting for the results of the tax survey.

4) the tax regulations must be reconsidered to make them convenient with the present (1991) situation this requires a full review of laws and regulations, taking into account the capacity of the systems for their execution. For this matter, committees of competent employees will be formed and the International Monetary Fund will present the technical assistance .Mr. Fouad Sanioura has set a similar objective : to review tax regulations periodically in order to fit with the present and future situations.

5) a. The tax law related to the profits made through sales of estates must be amended. This amendment will adjust also other taxes on estate ; such as tax of alienation (It is the tax on the conveyance of a property from one person to another) and tax of remittance (It is the

tax on the conveyance of money from one person to another , for example through buying a property )in a manner that will prevent and discourage the taxpayer to decrease the value of the estate he buys or inherits. A similar objective to decrease such taxes was set by Mr. Sanioura.

b. The tax related to the public maritime estate will be modified with retrospective effect. The goal is to increase those taxes because chalets, restaurants and motels make substantial profits from their operations.

c. Legislations should be issued concerning the constructions infractions, and if these infractions are settled through penalties, a large amount of funds can be collected.

d. A new tax will be suggested ;this tax shall be imposed on every person who has a remunerating job whether commercial , industrial or free profession, no matter what the result of his work is profit or loss. This tax shall be additional to the usual income tax.

e. Forming tax committees in all regions , responsible for evaluating the tax payers profits.

f. Making the state departments , the notaries, and the state registry provide the Ministry of finance with copies of their formalities and contracts. Also , asking the Chamber of Commerce and Industry and the Association of Industrialists to give information about their members.

g. To control the ports through the government authorities to help the Regie (the government establishment for the sale of tobacco ) in preventing smuggling; and also the legal position of the Regie as the only source for the sale of tobacco must be set.

h. The following procedure must be taken in order to improve tax collection:

1-Submit the tax collectors to special regulations and grant them large monetary compensations for the infractions they discover.

2-Give the heads of the General Administration the wide authority to control and investigate the works of the employees in the tax department.

Mr. Sanioura has not set a similar objective because he assumed that the "Administrative Reform" was enough. And, according to Dr. S. Bawab (the 1994 Manager of the tax department of the Ministry) there is a bribee and there is a bribor; and to deal with such a problem the whole mentality of the Lebanese must be changed...

3-Submit the employees to periodical and practical training to enable them to control tax collection effectively and impartially.

I- Increase the indirect taxes (Budget Law of 1990 and 1991) because these taxes are easily collectable and their revenue is substantial.

The indirect taxes are many; among them: the fiscal stamp, taxes on passports and departure, estate registration, car mechanics, judicial taxes, hotels, theatres, cinemas, cement and combustibles.

This is similar to what Sanioura's Administration has planned and implemented. (The Ministry of Finance's publication, 1991)

### **3.2.3 Problems and Suggestions concerning the Budget :**

The budget is the mirror of the general policy of the state; It is the executive frame for any governmental project. It is not a mere description of what happened and what will happen but it has to include the basis for economic and social changes : It must have a



dynamic character. Untill now, the budget has not included any possibility of a threatening event such as war, Israeli Competition, etc.

In fact, a correction factor can take into account these concerns.

According to Mr. El Khalil, the budget has many problems :

1) The absence of an economic plan on the level of the government showing the expected results for a period of time and the means to realize them. The budget is an essential tool for the execution of such a plan. Dr. S. Bawab (during Sanioura's administration) has mentioned this same problem.

2) Some of the funds requested by the General Administrations ("Al Idarat El 'Ama") are not justifiable because these Administrations do not bind themselves to the instructions of the Ministry. Thus the decision for giving them funds is not based on an objective or scientific basis. Dr. Fleihan ( Mr. Sanioura's advisor) has mentionned the same problem.

3) The budget does not reflect the true expenditures; because lots of treasury loans are made outside the budget. This makes the expenses outside the budget arrive sometimes at triple of the amount credited. This occurs because the Council of the Cabinet sometimes approves to meet some expenditures outside the budget; or the Lebanese Bank takes in charge directly these expenses under the pressure of urgent needs to ensure the purchase of wheat ,flour and combustibles.

4) The amounts of funds paid do not match the volume of work executed ; in fact there is overstaffing in some administrations (Ministry of education ) or employees working partly ...

According to Mr. Sanioura , the "Administrative Reform " has dealt with such a problem .

To deal with the issue , Mr. El Khalil has suggested the following :

a- For the short-term:

1) Filling the vacant places in the service of the treasury and expense control and providing the necessary offices for employees to enable them to do their work as usual.

2) Improvement and application of the Instructions made for the preparation of the budget by the Ministries and general Administrations.

3) The central service must know the recording of the credits contracted in order to provide periodical reports. In addition, the annual credits should be recorded in chronological order so that not to burden the treasury. All this is linked to the reestablishment of the Electronic center.

4) Create a statistical department for the development and formulation of the budget and this step will lead to setting a long-term budget. Mr. Sanioura has set a similar objective.

In all cases, the state must have a policy for orienting the general expenditures: Prioritization of the expenses, control of the execution, reviewing the number of employees in the public sector and their distribution in needy departments.

Concerning the reconstruction of Lebanon, Mr. El Khalil mentioned that Lebanon is in need of outside financing and that contacts with the International Monetary fund, the World Bank and the Arab Fund for Development must be maintained to provide loans for Lebanon.

b) In the long-term :

The budget must not be considered as mere expenditure of funds but as realization of projects and execution of the social and economic

plans prepared by the government; In preparing and executing the budget, the following must be done

- Show the main purposes and goals of the government.
- Draw the necessary means to realize each purpose; this includes economic and financial studies to show the expected results.
- Divide the responsibilities of program execution among the administration and employees.
- Evaluate the results of the achieved projects to show the effectiveness and efficiency.

#### **3.2.4 Short-term goals for the service of expenditures and payment :**

- 1) Filling the vacant places as soon as possible in this service.
- 2) Increasing the number of employees.
- 3) Encouraging the employees of this service by rewarding them.
- 4) Introducing computers and electronic machines in this service.

These short-term objectives are still pursued by the actual Ministry of Finance under Sanioura's administration.

#### **3.2.5 Medium to long-term objectives for the Public Debt :**

- 1) Auditing and controlling the accounts of the municipalities.
- 2) Auditing and controlling the accounts of public establishments.
- 3) Auditing and controlling the corporate bodies.
- 4) controlling the sale of public estates
- 5) Consolidating all the accounts of the state
- 6) Enforcing the financial status of the state through the immobilization and circulation of assets.

- 7) Preparing the balance of payments.
- 8) Preparing the national accounts.
- 9) Establish a statistical department that will gather any economical, financial and statistical data.
- 10) Preparing analytical and statistical studies for all public assets.

There is an obvious agreement between the two administrations on point number 9) .

Dr. Fleihan, Mr. Sanioura's advisor, said that the Ministry's Administration is unable to do any forecasting due to the lack of a statistical department and qualified staff; he said there was no solid base of information and data for debt creation and other important macroeconomic factors such as : Balance of payment, expenditures, flows of capital ... Thus they are trying now to set a list of indicators and monitor them on a weekly basis only.

### **3.2.6 Goals regarding Customs Duties :**

The customs duties constituted 40% of the general income before the war according to Mr. El Khalil. They are substantial revenues for the treasury.

Thus , the following must be done :

- The price of the customs dollar must be increased (100 LLfor one customs dollar in 1991).
- This increase must be accompanied by a policy aiming to reduce customs tariffs on necessity goods so that not to hurt the citizen by this increase (the Ministry of Finance Internal Publication, 1991)

These were the main issues tackled by former Minister of Finance Mr. Ali El Khalil. Now, we will present the plan done by the present minister Mr. Sanioura.

### **3.3.1 The Financial position before the formation of the actual government (1992) :**

The government has started in a difficult period of economic instability and pressured atmosphere. The long events in Lebanon have caused the destruction of the infrastructure and the establishments in both the public and the private sectors causing a loss estimated to be not less than 25 billion dollars. It has also caused the emigration of human power thus weakening the productivity. All these factors decreased the level of local production and consequently the per capita income. The war had a major role in shaking the economic stability leading to the non confidence in the Lebanese currency. Also, the incapacity of the state to collect its taxes and revenues had a negative result and an accrued aggravation of the deficit ; this led the government to seek internal financing by first issuing treasury bonds with high interest in order to encourage savers and banks to subscribe ; and second by taking loans from the Lebanese Bank. This move, added to its political instability, increased the devaluation of the Lebanese pound. This made the Lebanese economy enter an empty circle. The situation got worse with the increase of salaries and wages of the public sector by the end of 1991. As a result, in the beginning of 1992 the Lebanese Bank was obliged to interfere in the exchange market to support the Lebanese currency after it had lost 450 million dollars of its reserves causing even more inflation : In September 1992 the US. dollar was exchanged for 2830 Lebanese pounds.

In the light of the above, the government saw that in order to get out of this circle, it has to face all the challenges of this stage and create an adequate atmosphere for economic development; which in turn shall help in attracting the private sector involvement and foreign support

and direct them toward reconstruction. Thus, Mr. Sanioura is assessing the present situation in order to be able to set objectives to regulate the problems in the light of the mission: "to maintain macroeconomic stability"; Mr. El Khalil did not tackle such an issue fully; he was more concerned with the internal problems of the Ministry and the rapid financing of the treasury. (Al Liwaa; 1994)

### **3.3.2 The financial position of the state under the new government :**

The government was aware of the difficulties it will meet and it started putting programs for dealing with these problems . The first task of the government was to recuperate the confidence of the world in Lebanon . It contacted many countries and the International Arab Establishments which have stopped to deal with Lebanon because of its financial situation . Then the government tried to reestablish security and stability and build the new state through reforming the administration and orienting it toward the good service of the citizen...

Second , the goal was to increase the productivity of the employees in the public sector by providing them with new methods of work and training them and improving their living conditions . It is important to mention that the Administrative Reform has to go a long way and will need a complete operation attached to a series of procedures ; beginning with the selection of employees , the reduction of the administrative formalities to save the employees rights , ensuring their appropriate placement , and the control of the administrative work by applying the principle of reward and punishment .

The rates of interest on treasury Bills and Bonds : in %

	<u>3 months</u>	<u>6 months</u>	<u>1 year</u>	<u>2 years</u>
August 1992	34	35	34	33
December 1993	17	19	20.8	22
June 1994	15.21	16.32	16.31	19.15

(Al Liwaa' newspaper,1994)

During Mr. El Khalil's era the rates on T- bills were higher, in fact Mr. El Khalil was seeking to attract immediate funds for the treasury by increasing those rates; so that people will turn their dollar accounts into Lebanese pounds and buy T-bills. The rates on T-bills were decreased in order to strengthen the Lebanese pound position, also the Balance of payments showed a surplus of 1137 million dollars until the end of 1993 in comparison with a deficit of 500 million dollars which turned to a net of surplus of 50 million dollars by the end of 1992; this might be attributed to the trust in the government when it was formed in 1992. Also, the volume of revenues in 1993 has reached 1792 billions Lebanese pounds i.e an increase of 810 billions lebanese funds or 82.5% from 1992 revenues. The public internal debt has reached 5100 billions pounds and the external debt has reached 375 million dollars. The government is trying to reduce the deficit gradually through dominating the rates of the internal public debt to keep the stability of the Lebanese currency. In fact, the orientation of expenditures and the improvement of tax collection has led to effective decrease of 16 % of the deficit in the public sector .

The increase in 1993 revenues by 82.5% over 1992 revenues is due to the improvement of tax collection and not to the increase of taxes in 1992 . Moreover, the Lebanese pound was strengthened by 40% and the national currency deposits have increased from 18.3% in

september 1993 to 37.7% in january 1994 i.e. an increase of 106%. Also it is expected that the level of Investment in 1994 will arrive at 1700 billions lebanese pounds. Thus the government has restored the confidence in the Lebanese currency and the Lebanese Bank reserve in foreign currency was considerably reinforced. Studies showed that the average growth in 1993 was between 6-8% and the government expects a higher rate for 1994. (Al Liwaa' newspaper, 1994)

### 3.3.3 **The Budget :**

The Success of the government in supporting the financial stability enabled it to reserve a great part of the revenues to activate the development and reconstruction and to obtain the financial aids and loans from foreign and local establishments. An example of budget allocations follows :

1994 : 36% for current expenses against 40% in 1993

28% for debts against 45% in 1993 .

36% for development and Reconstruction against 15% in 1993

Moreover, the funds allocated for social affairs in the project of the budget of 1994 amount to 1541 billion Lebanese pounds, i.e. 38% of the total budget ( 40% increase from the 1993 budget ) . The project of the budget of 1994 aims to reduce the deficit from 50% in 1993 to 45% for 1995; while the effective deficit for 1992 exceeded 56%. It is expected that the revenues of 1994 will cover more than 67% of the total expenditures in comparison with 1993 which amounted to 58%. (Al Safir, 1994)

In response to the question "Will the Ministry raise taxes in case it was short of funds and it was unable to get more loans ? " the answers were contradicting : the advisor of Mr. Sanioura, Dr. Fleihan said that the Ministry will increase taxes, while Dr. Bawab the manager of the



taxation department said that this can never happen and that the people financial conditions will be at stake.

#### 3.3.4 **Taxation** :

The new law-project (1994) has reduced taxes from 40% to 10% on salaries , wages, industrial and commercial companies, and free professions; while taxes on financial companies were reduced from 26% to 10%. The purpose of these reduction is to encourage investment and increase the revenues of the treasury by imposing logical taxes that do not burden productivity. This law-project also, by decreasing taxes, aims at decreasing unemployment through increasing investments. This approach to taxation differs widely from Mr. El Khalil's approach.

Also the government has adapted the project of changing the indirect taxes rate in the schedule No.9 decreed with the 1994 budget. This project includes the following : (Al Diyar , 1994)

- 1) Adjustment of some old taxes to the inflation rate
- 2) Ensuring some revenue for the treasury and for some specific reconstruction projects such as the rehabilitation of the Beirut International Airport and the road leading to it .
- 3) Ability of taxes revenue to cover partially some services rendered by the Public Administrations.
- 4) Increasing the taxes on vehicle mechanics and passports because these taxes are not paid frequently. (this is similar to Mr. Khalil's suggestions)
- 5) Amendment of the tariffs of some services like ,water,telephone...

The Ministry of finance also developed and reinforced the customs administration in order to improve the government revenues; thus it

reviewed the customs tariffs and set control on revenue collection while taking into account the Lebanese industry to enable it to compete inside the Lebanese market by controlling tariffs. Mr. El Khalil did propose a similar improvement of the customs tariffs and administration.

The tax law project proposed by Mr. Sanioura aims to encourage investments; in fact, encouraging investment through useful legislations is the best way to lead to :

- An increase in the national wealth and consequently the national revenue .
- Creation of new jobs for the increasing workforce in the market.
- Availability of hard currencies that can be used to buy equipments.
- Reinforcement of the national currency.

In fact, the tax regulations have been stipulated to increase investments and also to encourage saving; since saving is the primary source of investment, thus the tax policy of the Ministry of Finance aims to achieve social and economic development. The first principle is to give priority to production and manufacturing by reducing taxes. Tax reduction incentives are important for many concerns, among them :

First, Lebanon has adopted long time ago the system of economic freedom, the fact that encouraged the private sector to grow and become a major portion of the GNP; and , the participation of the public sector is very weak and it is not expected to increase because of many reasons: the principle of economic freedom in Lebanon, the International support for this kind of economic principle and the competitive efficiency and productivity of the private sector. This is why the major part of development depends on the private sector activities and this development must be triggered through tax

reductions or incentives. In fact if most of the production in Lebanon was done through establishments of the Public sector, it would be necessary to obtain the necessary financing to equip these establishments by increasing taxes. Second, by reducing taxes, the aim is not only to increase the number of factories or to enlarge their activities but it is also an invitation for the emigrated capital as well as the foreign and Arab capital to enter the Lebanese Market and participate in the reconstruction and development. After opening the Ex Soviet market to foreign investors and the rising economic needs of the Asian and Latin American countries, there is an urgent need to provide competitive tax regulations in Lebanon to attract foreign capitals. Third, the decrease in direct taxes, other than being by itself an incentive for investing, it conforms with the nature of the prevailing social and administrative conditions not only in Lebanon but also in all developing countries.

In fact, Direct taxes are despised because they can not hide in prices of goods and appear as a duty to be paid as such. This is why lots of taxpayers try to avoid or reduce them through using different accounting methods or other deviant ways. Thus reducing direct taxes will increase the government revenues because these reduced taxes will not let people try to avoid them. The risks of such an act are greater than their mere declaration and payment on the due date. From this arises the need to increase the sanctions and penalties on the defaulters. As the direct taxes were reduced, some people might think that the state is compensating this reduction by an increase in indirect taxes which is levied on all citizens and that this decision is unfair. In fact, the indirect taxes have not been touched. What was amended are some taxes which already exist and they have been adjusted following

the inflation rate or the raising cost of some services. Water, Electricity and Telephone are still sold far below their cost.

As for the customs taxes, lots of food goods and daily consumption articles are exempted from it. Those taxes are levied on products considered to be complementary.

After having presented the Goals of the new taxation system, the most important tax stipulations for 1994 will be presented in

Appendix B .

Prison, sanctions and fines will be imposed :

1) on the tax payer who fails to declare his profits within the legal period.

2) On the tax payers who does not post in his books all his revenues.

3) On the tax payer who posts imaginary expenses in his books to decrease his profits.

Finally, to increase investments, the following conditions must be present :

1- Economic and political stability.

2- Existence of a guarantee that no nationalization will be made.

3- Liberty of money transfers

4- No discrimination between the foreign and the Lebanese transactions.

5- Availability of the main services in Lebanon : Telephone, electricity, etc.

6- Availability of the highly qualified man power.

## **Chapter 4 : Evaluation of the Research Findings**

This chapter will analyze and compare the research findings of chapter three with the ideal strategic planning presented in chapter two.

### **4.1 Evaluation of the long-term planning of the Ministry:**

As mentioned before, strategic planning is the basis for success of many organizations; and the Ministry of Finance can be considered as the major decision - making center of the government. In fact, through the Ministry of Finance, the government's resources and funds are collected and then allocated to the different governmental institutions and projects. Thus the Ministry of Finance, through the preliminary preparation of the budget, is determining the strategies that will be developed by the different Ministries. From this stems the need of a long-term strategic plan, to be used by this Ministry, to help it set and accomplish its mission and objectives. As mentioned before, the mission of the ministry is to maintain Macro-economic stability and to prepare the government's budget.

Unfortunately, and as declared by Dr. Bawab and Dr. Fleihan, there is no strategic planning as such in the Ministry of Finance. In fact, on the government level, as Mr. El Khalil and Dr. Bawab agreed, there are no long-term plans. In the 1960's with General Chehab, there was a Ministry planning which started to set long-term plans; but in the 1990's, there are no long-term plans; even the short-term plans are dispersed because there is no general plan put by the government to coordinate all the consecutive efforts of the Ministries (Bawab, 1994).

For example, the budget is prepared on yearly basis; and only a special part of it is for long-term projects like the highway between Beirut and Saida (maximum 4 to 5 years). Beyond that period, the Ministry of Finance does not possess the adequate means to enable it to do forecasting and predictions; It also does not have the qualified staff that will monitor the economic indicators on a long-term basis (Fleihan, 1994).

#### **4.2 Evaluation of the Environmental Analysis in the Ministry of Finance :**

Strategic planning means reconciling the organization's resources (tax revenues, personnel, T-bills revenues) with the threats and opportunities that exist in the organization's environment. Most organisations, whether governmental institutions or private businesses, face similar challenges from their environments. These challenges can be classified into four categories :

Technological, economic, societal and political .

**Technology** is critical for many organizations including the Ministry of Finance : Breakthroughs in data and information processing, computer obsolescence, improvement of telecommunications, are only a few of a myriad of environmental threats and opportunities that confront the Ministry's strategies . In fact, there is an urgent need for introducing computers in the Ministry Finance. Computers will increase the efficiency and rapidity in performing some tasks such as the preparation of tax schedules; also, they will enable the Ministry to do forecasting and predictions. If this factor is considered by the Ministry as an opportunity , and computerization is implemented, this will provide the Ministry with a major strategic advantage .Otherwise,

i. e. if computers are not introduced , the Ministry will be at a strategic disadvantage; as manually performed tasks would have become obsolete. **Economics** , is another critical factor : privatization, unemployment, changes in discretionary income, inflation and the availability of funding are examples of areas that must affect the planning of the Ministry. The opening of the Ex-soviet markets, Israeli Competition, the EC's or international Monetary Fund involvement, the Arab countries position, also represent important economic aspects of strategic planning.

**Society** by itself is another major challenge: the claims of employees in the public sector; for example the council of Education have threatened to go on a strike if their salaries are not increased adequately (Al Liwaa',1994); the claims of the Labor Union to increase the minimum salary per month or else they would go on a strike. (Al Diyar, 1994), the changes in the work patterns , the changes in moral and public attitudes, are other areas of concerns for the Minister as a strategist. The **Political** climate includes the possibility of frictions among different interest groups : The Council of the Cabinet, the Parliament, Labor Unions, etc; also the influence of other countries such as neighbour countries or others : for example, the political relations with Syria, the peace process with Israel, the confidence of the world in Lebanon; these factors should be assessed : Threat or opportunity ? Peace with Israel means that Israeli products will enter the Lebanese market and compete with the local production : this is a major threat. These threats (possibility of war, Israeli competition, claims of employees of public sector, frictions with the labor union,etc.) and opportunities( privatization, computerization , International Monetary fund loans) mentioned here are the main environmental factors the Ministry of Finance ought to consider when

formulating its strategies. Unfortunately in the Ministry of Finance, there is no assessment for some of these environmental factors that might affect its plans. In fact, the full plans presented by Mr. El Khalil and Mr. Sanioura are based on one assumption : "Other things being equal and remaining as such". In fact, the actual and former ministers believe that including any threatening event such as the possibility of war or Israeli competition in their planning is totally irrelevant and that it hinders their efforts (Fleihan,1994). For example, Dr. Fleihan said they could not include the possibility of a war because they are unable to predict the extent of destructions and damages this war will result in.

Moreover, he said that if the International Monetary fund or the World bank refuses to give loans for the government ( a major threat) and if the treasury is in great need for financing he will advise the Minister to increase the taxes.

According to Dr. Bawab, the Ministry is considering that peace is the status quo and from this basic point , it is developing its plans.

As to Israeli competition, they still have not done any studies concerning such a threat on the Lebanese production ( Fleihan,1994) Concerning privatization, It is considered as a means to improve the Infrastructure without increasing the government debt; like the construction of the highway between Beirut and Damascus; this is a good opportunity for the government, but the issue is people's reaction to any additional payment of fees for using this highway. (Fleihan,1994). As to the employee's internal resistance to computerization of work, this is an important problem which can not be ignored. In fact, lots of employees of the Ministry have been performing the same job manually for more than twenty years; and they might be computer phobic, the fact that will prevent them from



making the best out of or even accepting any training. According to Dr. Bawab, this is not a problem, and the Ministry is going to implement such a change in a Revolutionary manner; i.e. any employee that will refuse to cooperate and to adapt to the new situation will be simply laid off. Of course this is not a suitable approach to use for implementing such a change; especially that the Ministry until now is still suffering from a lack of employees and that the salaries and career opportunities offered by the Ministry are not attractive enough to bring the qualified staff needed to work over there.

#### **4.3 Comparison between El Khalil and Sanioura 's planning:**

The importance of this comparison stems from the fact that communication and coordination of information and plans is vital to any organization including the Ministry of Finance. In fact, when Mr. El Khalil was assigned as Minister of Finance , he had to deal immediately with some important internal problems like the destruction of the Ministry 's main buildings and the lack of employees . Thus , he suggested a plan to deal with this situation . Mr. Sanioura , on the other hand , did not have to deal with this issue of availing a location for the Ministry ; however , he and Mr. El Khalil agreed that there was and still is an urgent need to recruit qualified employees to fill the vacant places .

Mr. El Khalil suggested to submit the employees to job rotations and work redistribution , because spending a long time performing the same task affects negatively the employees performance . This is important strategically because the employees work will be monitored and evaluated in a more effective way ; this will improve the strategic control and feedback which are crucial if strategic plans are to be

implemented properly in the Ministry .This important suggestion was unfortunately not implemented or taken into consideration by Mr. Sanioura .

Both Ministers agreed on the need to introduce computers and reestablish the Electronic Center to improve the efficiency in preparing the schedules and documents .

Mr. Sanioura proposed an increase in the salaries of employees in the public sector after studying the effect of such an increase on inflation (Al Liwaa, 1994).

Concerning taxation, the Ministry of Finance is still facing the same problem Mr. El Khalil had to face three years ago; which is its inability to know the total number of tax payers. In fact, the number of unknown tax payers have increased tremendously and lots of the known tax payers have changed either their job locations or their jobs.

Mr. El Khalil had suggested to make a full survey of the tax payers to deal with this issue. Mr. Sanioura published in the newspapers the schedules and deadlines for paying the various taxes, some of them with retrospective effect; he also threatened the defaulters through imposing penalties and sanctions. However, this problem is still not solved completely (Bawab, 1994).

To solve the problem of bribery, Mr. El Khalil suggested to impose strong penalties on tax collectors and to submit them to periodic control; he also proposed to grant them large monetary compensations for the infractions they discover. Under Sanioura's administration, the institutional reform was considered as a solution to that problem...

Whether efficient or not, this is not the issue here; according to Dr. Bawab, there is a bribee and there is a bribor; thus the whole mentality of the lebanese people should change to overcome such a problem (Bawab, 1994). This societal factor represents a major threat

for the Ministry's good functioning and Its public image. As to direct taxes, Mr. El Khalil did not suggest any change from the already existing taxes; he just proposed a new tax on the professional exercise; and this new tax will be additional to the usual income tax. By contrast, Mr. Sanioura suggested a decrease in direct taxes to promote investment and saving. They both suggested an increase in indirect taxes because these taxes are easily collectable and provide substantial revenues for the treasury. Also, they both proposed an increase of the customs dollar and customs tariffs, except tariffs on necessity goods, which should be reduced. This increase will protect the Lebanese Industry from the threat of foreign competition (Israeli or other) and it will make the Lebanese people to buy locally produced goods because they are cheaper.

Concerning the budget, Mr. El Khalil suggested the creation of a statistical department for its development and formulation. Mr. Sanioura did implement this proposal: in fact in the recent proposal of reorganization of the Ministry, one of the departments of the General Directorate for the budget will be a directorate of planning studies and statistics (Al Safir ,1994) . This is important strategically because the Ministry will be able to make surveys and forecasts which will help it in its long-term planning. Concerning macroeconomic policies, Mr. El Khalil proposed an issue of treasury bonds giving high interests while Mr. Sanioura suggested to decrease the interest on them. Moreover, Mr. Sanioura has set as objective to decrease the deficit to 45% in 1995, to encourage the private sector growth and to decrease unemployment by increasing investment. (Fleihan,1994). The major propositions of both ministers are summerized in table 4.1 .

As a conclusion, both ministers were involved in tactical planning rather than strategic planning. They were setting medium-term

programs and supporting them with short-term plans rather than long-term programs. Mr. El Khalil was more involved in planning for the internal problems of the Ministry. In fact, Mr. El Khalil has asked from the different directorates and departments of the Ministry to give him reports about their present situation (1991); so that he will be able to assess their problems and put plans to cope with them. Mr. Sanioura was more involved with assessing the past and present situation of the country and planning to improve the financial situation of Lebanon . In fact , Mr. Sanioura has brought consultants specialized in economics, such as Dr. Fleihan (from the UN development program) and others to help him in doing these assessments.

Mr. El Khalil	Mr. Sanioura
* <u>Internal problems:</u>	
- Avail adequate locations for employees	none
- Increase the number of employees	same
- training the employees	same
- Reestablish the Electronic Center and Introduce Computerization	-Introduce computerization
- Job rotation	none
* <u>Taxation problems :</u>	-Increase Salaries of employees.
- Making a full survey of tax payers	* <u>Taxation:</u> none
-Reconsideration of old tax legislations	Same
- issuing new tax legislations	Same
-Impose penalties and sanctions on defaulters	
-Decrease tax on alienation and remittance	Same
-A new tax on the professional exercise (Additional to Income tax)	none
- Give tax collectors monetary compensations for discovering infractions	none (Administrative reform)
-Increase Indirect taxes	-decrease direct taxes
-Increase custom dollar and tarriffs but reduce tariffs on necessity goods	- Adjust indirect taxes for inflation; but increase only taxes on vehicle mechanics and passports
* <u>Budget problems :</u>	-tax exemptions on some companies
- It must be long-term	-Same (custom\$ and tariffs )
-Create a statistical department for its development and formulation	* <u>Budget:</u> -Yearly basis
-prioritization of expenditures	-Same (statistical department )
* <u>Macroeconomic policies :</u>	-Same (prioritization of expenditures)
-Issue T- bills with high interest rate.	*-Decrease interest on T-bills -Reduce deficit to 40% (1995) -Encourage private sector growth; investment and decrease unemployment.
	- Issuing gold, bronze and silver 49
	medals to finance the treasury

## **Chapter 5 : Conclusion and Recommendation**

As a conclusion, the Ministry of Finance does not have strategic planning. It mainly has short to medium-term or tactical planning. This planning is mainly to solve the current problems; Whether inside the Ministry or outside related to stabilize the financial position of the country by formulating monetary policies with the help of the Lebanese Bank.

In fact, the Ministry of Finance is currently in a transitory period : after seventeen years of war resulting in stagflation (stagnation and inflation) , it has to start up all over again and regulate its situation. After this transitory period, the Minister will be able to put a general strategy for the work of the Ministry; and this strategy will be parallel and conforming to the long-term plan set by the government.

To enable the Ministry to do strategic planning the following procedures are recommended :

1- To inform the Council of the Cabinet ,the President and the Parliament about this issue in order to minimize resistance and coordinate the consequent planning efforts.

2- To inform the employees of the Ministry through circulars about the Ministry's intentions and the major reasons lying behind these intentions.

3- To introduce computerization, including statistical package softwares and others to help the Ministry develop an adequate source

of data. Some of the information will be used to prepare tax schedules and others and the remaining will be used to do forecasting.

4- Recruit highly skilled personnel, specialized in statistical analysis and financial and economic forecasting. This highly qualified staff will be able to monitor the economic indicators on a long-term basis. These employees must be adequately compensated for their efforts.

5- Properly train the remaining employees on the new softwares introduced to minimize their resistance to change.

6- Inform the Ministries to provide long-term schedules of their credit needs which must be based on a totally objective and scientific assessment.

7- Do environmental scanning and analysis as to any factors that might affect positively or negatively the plans and the budget of the Ministry. In fact the Ministry's planning should allow for unforeseen events of various kinds.

8- Develop contingency plans for a number of different future environments or alternative futures called scenarios.

A plan must be formulated for each scenario these scenarios include the technological, economic, political and social factors. The scenarios must be expressed mostly in qualitative and verbal terms rather than numerical ones, to prevent the blind spots that often occur when only numerical information is used.

\* To build a scenario, the Ministry must do the following :

- 1) Identify the key variables that affect the Ministry.
- 2) Develop different sets of assumptions about the future.
- 3) Estimate how the key variables will change in the future.
- 4) Develop written descriptions of each of the predicted future environment.

then a plan will be developed for each scenarios.

For example :

- Opportunities : Privatization, International Monetary fund loans, Arab countries monetary grants for Lebanon , introducing computers.
- Threats : The Increasing demands and needs of the Labor Union and others like the Council of Education, and frictions with the Parliament.

If construction of all the highways in Lebanon is done by private companies , this will improve infrastructure without increasing the government debt thus this is considered as a saving of funds however if the Labor Union goes on a strike and demands higher wages , we must bargain with it in order not to burden the treasury. If the peace process results in Israeli goods entering the lebanese market we must suggest an increase of customs tariffs and quotas on these goods.

9- After following the above steps, the Ministry will be able to prepare preliminary long-term budgets for the different future scenarios. First, the Ministry will prepare a basic long-term budget in the light of the existing status Quo (considering " Others things being Equal").

Then the Ministry will be able to prepare the remaining preliminary budgets, by including in the basic budget estimated corrective factors depending on the future scenarios expected. These corrective factors will be estimated by the competent highly qualified personnel the Ministry has recruited.

These are the main recommendations for the ministry to enable it to strategically plan:

Step 1 : Establishing the Ministry direction :

Mission : To maintain macroeconomic stability and to prepare the budget.



### Objectives :

#### Long term :

- to increase Investment
- to decrease unemployment
- To have a fair taxation policy
- Optimization of the resources
- to be able to monitor the environment threats and opportunities.
- Public image (being proactive)

#### Medium to short-term:

- to decrease the deficit
- to computerize the tasks
- to make a survey of all taxpayers
- to have job rotation and employee training
- to respond to the Labor Unions and the Council of Education
- to deal with Israeli competition
- to consider privatization of highways construction
- Prioritization and control of expenditures
- To ensure adequate revenues.

### Step2 : Environmental Analysis

#### 1- Internal : Assessment of:

- Employees performance
- Effect of introducing computers on employees (resistance to change)
- Employees compensation, salaries and their attitudes toward it.

- Employees moral attitude toward bribery

## 2- External : Assessment of :

### Internationally :

- The relationship with Syria
- The peace process with Israel
- The EC's involvement
- The Arab countries involvement
- The international monetary fund and the World Bank position toward Lebanon.

### Locally :

- The Parliament, the president and the Council of Cabinet position toward any new Legislation suggested by the Ministry.
- Claims Employees of the public sector
- The labor union; the Council of education demands.
- Privatization effect.

Step 3 : Strategy formulation : After analyzing the environmental factors and their effect on the Ministry, several strategies must be formulated by the Minister to achieve the Ministry's objectives.

First, general strategies must be selected and developed. Second, specific decisions must be made about what role the various directorates and departments of the Ministry will play and how the resources must be allocated among them and among the different Ministries.

Step 4 : Strategy implementation and Control: it involves putting into action the strategies selected by the Minister and its consultative System. Then a proper monitoring and evaluation of the strategic management process must be done with feedback effect to enable the Ministry to spot every deficiency and correct it immediately.

Strategic planning is important; in fact, the ultimate objective of any strategy, used by any organization including the Ministry, tend to be the access and control of the required resources. For the Ministry, this almost always includes treasury bonds revenues, tax revenues and personnel. Moreover, strategic planning means reconciling the Ministry's resources with the threats and opportunities of the environment. This is why different contingency plans are needed to face the challenges of the environment and to become proactive instead of reactive.

## APPENDIX A

Official Gazette no.2869 dated 19/12/59  
Decree No. 2868 issued on 16/12/1959  
with all amendments until 30/12/61.  
Organization of the ministry of Finance.

The president of the Lebanese Republic.

Pursuant to Legislative Decree No.123 dated 12/06/59 related to special stipulations concerning the Ministry of Finance.

Pursuant to Legislative Decree No.111 dated 12/06/59 related to the organization of the Public Departments.

Pursuant to Legislative Decree No.116 dated 12/06/59 related to administrative organization.

Pursuant to Legislative Decree No.9 dated 21/11/39 related to fixing of the date when the laws and regulations shall come in force.

Pursuant to the suggestion of the Minister for Finance.

And after approval of The Cabinet.

Decrees what follows :

1. The Ministry of Finance shall administer the public money and shall keep it and shall govern the affairs of the treasury and the currency and customs and national lottery as also the estate affairs and the survey and all attached to the same bylaws and regulations.

2. Canceled by decree No.5343 dated 20/12/61 and replaced by the following text :

The Ministry of Finances shall include :

- General Directorate for Finance.

- Directorate of Estate Affairs.

Directorate of National Lottery Customs Administration.

## **Chapter I**

Directorate of Public Finance

3. The Directorate of Public Finance shall be composed of :

- Central departments
- Regional departments

### **I. The Central Departments**

4. The Central Departments shall be composed of :

- The Diwan (Head ship of department)
- Service of the budget and control of expenditure.
- Service of Revenues.
- Service of expenditure.
- Service of the treasury.
- Service of general accounting.

#### **1. The diwan**

5. Canceled by decree No.8343 issued 30/12/61 and replaced by the following text : The Diwan of the General Directorate of the Ministry of Finance, in addition to the authorities granted by laws and regulations, the duties and the authorities of the joint administrative service, is responsible for the concerns the Directorate of Estate Affairs and the Directorate of National Lottery.

#### **2. The service of the budget and control of expenditure**

6. The Service of the Budget and Control of expenditure shall be composed of :

- Department of the budget.

- Department of control of the expenditure

Controllers of the expenditure contracts shall be attached to it.

7. The department of the budget shall take in charge :

- Collecting the information and doing the studies which can help in suggesting the basis which must be adopted for the organization of the budget project for the next year.

- Preparing the budget project of the State and the attached budgets and their distribution.

- Preparing extraordinary budgets projects and their distribution.

- Studying the applications for credit transfers, their opening, their carrying it forward and putting the tests projects necessary for them.

- Evaluation of the employees and the scale of their salaries and their indemnities as to their effect on the budget.

8. The Ministry of Finance shall have to ask all departments for the information and documents which support the department of Budget in fulfilling its duties.

9. The department of expenditure control shall take in charge to control the expenditure contract in the various ministries and supervise the responsible in it for this work.

### 3. Service of Revenues

10. The service of the Revenues shall be composed of :

- Department of Income Tax.

- Department of taxes on built estates.

- Department of taxes on lands.

- Department of taxes on conveyance.

- Department of indirect taxes.

11. (as amended by decree No.8343 dated 30/12/61).

The Headship of the Service of Revenues shall take in charge :

- To supervise the departments dependent to it in the center and in the departments next to them.

- To coordinate the tax projects.
- To study the International Tax agreements.
- To gather the tax statistics.
- To present the cases related to taxes in front of the State Council.

The department of tax legislation shall join the Head ship of the service, in order to help it in executing the last four duties.

12. The department of taxes on land shall be subjected to the stipulations of the alienation as shown in the texts special to it.

13. The departments of the Revenues shall take in charge, exception made for the department of indirect taxes, the following :

- To receive the declarations and auditing them.
- Calculate the tax and prepare the schedules.
- To study the objections on taxes.
- To keep the accounts of the taxes.
- To keep the files, schedules and registers.

14. The department of indirect taxes shall take charge all affairs related to indirect taxes.

And in particular the following duties :

- To prepare receipt vouchers.
- To control the infractions and impose the fines.
- To study the objections.
- To keep the accounts.
- To control the payments of the oil companies
- To control collection of privileged companies payments.
- To keep the files, schedules and registers, also the documents and the corroborative papers.

#### 4. Service of Expenditure

15. The service of Expenditure shall be formed of :

- Auditing and payment department.
- Payroll Section and pensions salaries.

16. The department of control and expenditure shall audit the formalities of the settlement of the expenditure.

17. The department of Payroll and pension salaries shall take in charge all that have a relation with the payment of salaries, formalities of pension, end of service benefits, indemnities of the orders of merit according to special rules.

18. The financial employees charged to control the formalities of expenditure in the ministries shall be attached to the Head of the service of expenditure.

#### 5. Service of Treasury

19. The Service of Treasury shall be composed of :

- Accounts and Cash departments.
- Cash transfer departments.
- Beirut collection department.

20. Canceled by decree No.332 dated 12/11/64 and replaced by the following text:

- The Head of the Service treasury shall be considered as chronological Head for all finance accountants and employees attached to them.

21. Canceled by decree No. 332 dated 12/11/64 and replaced by the following text:

- The Head of the accounts and cash departments shall take in charge, in his quality of Central Finance Accountant (1) the administration of public budget and the treasury, either directly or through local accountants, and the consolidation of the accounts.

22. The department of Accounts and Cash shall take in charge :



- To administer the operations of the treasury and keep the accounts.
- To execute all operations of budget related to the District of Beirut, for the account of the central accounting sections.
- To pay the authorized advances and follow up their settlement within the fixed period.
- To cash in trusts, securities and confiscated money or reject them.
- To coordinate the cash flow among the safes.
- To follow up the settlement of all loans.
- To keep the documents and the corroborative papers related to these operations.

23. The Department of Cash transfers shall take in charge :

- To ascertain of the transfer or payment voucher, within the conditions of the law.
- To register the contents of the transfers in its records.
- To submit the payment vouchers and payment orders to the competent ministries and the concerned persons and receive them after payment.
- To prepare the information and necessary statement for the accounts.

24. The department of Collection in Beirut shall take in charge insuring the collection of the taxes in the District of Beirut.

#### 6. Service of General Accounting

Art 25- The service of General Accounting shall be composed of one single administration and shall take in charge :

- To Audit the accounts of the general budget and the accounts of the treasury and the accounts of the budgets of the establishments and public services and independent cash safes and their consolidation.
- To record the revenues of the taxes of all kinds.
- To record the registrations in all budget executive departments and the treasury operations and consolidation of the accounts.

- To audit the monthly and annual statements prepared by the accountants and to consolidate their result and follow up all mistakes discovered.

- To assure the liaison with Accounts of the Diwan.

- To present monthly information about the situation of the reserve money and liabilities of the treasury.

- To prepare the settlement of accounts each year.

26. Financial auditors shall submit their report to the Head of the Service who in turn submit it to the General Director of Finance with his comments.

#### 7. The government Commissaries

27. The government commissaries and the delegates of the government under the tutor ship and the control of the Ministry of Finance shall be attached to the General Director of Finance, also the financial auditor of the Regie des Tabacs et Tombacs.

28. The government commissaries shall maintain with the bank of emission the contracts between the state and the bank and in particular they shall be in charge of :

- The affairs of cash money and foreign currency.

- The consolidation of the accounts in foreign currency belonging to the Government; and to give the license with the approval of the Ministry of Finance.

29. To give government commissaries and its delegates shall exercise the authorities stipulated in the law of the independent services or in special texts.

## Chapter II

### The regional Departments

30. The regional departments shall be formed of Finance Head ship in the center of each district, except for the district of Beirut, and of a local accounts department in the center of each district. The regional departments shall work under the supervision of the Mohafez or the Kaimacam.

31. The Head of Finance shall manage the finance departments in the district and he is the direct manager for all its employees.

32. The Head ship of the Finance shall take in charge the authorities and the duties according to the texts of law and particularly :

- To ensure the establishment of all taxes.
- To ensure the collection and auditing of taxes.
- To consolidate the accounts of the departments and present them to the central departments.

- To supervise all finance formalities in the district.

33. The accounts department of the district shall take in charge :

- To collect taxes through tax collectors attached to it.
- To ensure the operations of the treasury.
- To effect cash transactions.
- To investigate about the finance infractions.
- To inform the Finance Head ship of the Mohafazat of all that can lead to a new assessment or modification in the assessment.

### Chapter III

#### Directorate of Estate Affairs.

34. The Direction of estate affairs is attached directly to the Minister of Finance and shall take in charge all that have a relation with the estate regulation and survey operation.

35. The directorate of Estate Affairs shall be composed of:

- the estate departments
- The survey departments.

#### The Estate departments

36. The estate departments shall be composed of :

- The central departments.
- The regional departments.

#### The Central departments

37. Amended by decree no. 8245 dated 30/12/61.

The Estate departments shall be composed of :

- The Secretariat
- The secretariat of estate registry in Beirut
- The office of estate coordination in Beirut, to which is attached the estate registry in Beirut.

- The Head ship of the estate registry office shall be carried out by an employee with the title of subsidiary secretary of estate register, who will sign all estate formalities included in the duties and competence of this office, according to Art.41 of legislative decree No. 2868.

- Department of State estates.

38. The Secretariat shall take in charge the duties and authorities given in laws and regulation.

39. The Secretaries of the estate registries and their assistants shall exercise the authorities given to them by law and in particular :

- To make the estate registries and all other registries keep on recording the formalities and suits and confiscations and insurances or similar cases.
- To control the estate formalities, ratify their legality, accept their registration, give the title deeds, give statements and copies of them.
- To take the necessary decisions in respect of estate formalities and the corrections to be made on the estate registry and the maps of the survey.

- To apply the registrations of the registry on maps of the survey.
- To keep the additions documents and official deeds and others, and the corroborative papers within the files of minutes related to them.

To keep maintaining the records and the files.

(. added to Art.8 of legislative decree No.8345 dated 30/12/61 :

The Secretaries of the estate registry shall put, in the Mohafazat of North Lebanon and South Lebanon and the Bekaa at the disposition of the estate judges in these mohafazats, the necessary number of clerks and office boys whose number shall be determined by a further decree from the Minister of Finance, and these clerks shall carry out the duties stipulated in Art. 42 of decree No.2868.

40. The Heads of the subsidiary offices shall exercise the authorities given to them by law and specially to keep the daily registers and to organize the minutes.

41. As amended by decree No. 8345 dated 30/12/61 :

The office of estate registry in Beirut shall take in charge :

- To prepare estate folios, copied from the minutes and ratified by the estate judge and from fixed registers folios; to control the posting and the registrations and to record the area of the estates from the registers of the survey; and gather all these folios in special files assigned by the administration.

- To prepare title deeds and certificates of registration.

- To prepare the indexes.

42. The Estate registry in Beirut shall help the judge for estates in Mont Liban in the following works and shall put under his disposition the necessary number of clerks and office boys, and the number shall be determined later by the Ministry of Finance.

- To receive minutes, statistics registers, photocopies of limitation, indexes, from the service of survey.

- To ensure the proclamation of the opening of the fixed delay for objections and to notify it to the concerned.

- To receive the objections.

- To ensure the proclamation of the minutes of closing the fixed delay for objections and to notify it to the concerned.

- To put marks of confirmation on minutes and statistics registers.

- To establish the suits for estates, prepare the convocation of the litigants and notify them.

- To write the minutes during the estate trials.

- To register the decisions taken by the estate judge and copy them on the statistics estate registers.

- To register the amendments decided on minutes and the statistics register and the alphabetical indexes.

- To receive the estate contracts, collect their taxes and present them to the estate judge, register the minutes in the statistics registers and the alphabetical indexes, after the ratification of the contract by the estate judge.

- To depose the minutes, immediately after confirmation, in the secretariat of the estate registry or the competent judicial department.

43. The department of the State Estates shall manage these estates and particularly :

- To register the estates in special registers.

- To ensure their investment lease and maintenance.

- To follow up the cases in front of the courts.

- To represent the Government in the formalities of limitation and liberation and right of decision.

- To keep its files.

The regional departments

44. The regional departments shall be composed in each Mohafazat of a secretariat of estate registry and in each district of a subsidiary office, and under the supervision of the Mohafez or Caimacam, they will carry out the authorities given by law and regulations related to the secretariat of estate registry and the subsidiary office in the central departments.

The service of Survey

45. The service of survey shall be composed of :

- The central departments.
- The regional departments.

The central departments

46. As amended by law of 06/02/62.

It shall be composed of :

- Secretariat
- Department of final drawing, calculation of the area.
- Department of estate improvements.

47. The secretariat of the central departments shall carry out the authorities given by laws and regulations to the Diwan.

48. Canceled by law of 06/02/62,

49. The department of final drawing and calculation of areas shall take in charge :

- To put the lines of length and width and the heads of the systems on the maps.
- To control the preliminary drawing and ensure its correctness ; and correct the mistakes in case of necessity.
- To apply the aerial amended photographs and the drawing of the modification of the limits decided by the estate judge.
- To draw the preliminary maps issued by the geographical department and the aerial photography.
- To prepare copies of these maps.

- To measure the area.

To prepare special registers for the areas of the estates.

- To put copies of the final maps in the competent secretariat and prepare reports of them.

50. The department of estate improvement shall work under the supervision of the additional estate judge and shall have in charge :

- To evaluate the estates, categorize them before merging or parcellation.
- To put schedules of areas of each estate owned by each individual and for its evaluated price.
- To prepare new plan for roads and culverts and meadows.
- To prepare the maps for any additional modifications.
- To distribute the new estates on individuals within each locality, on the basis of the valuation price, and owned by each individual before merging.
- To prepare final survey for new estates.
- To submit the estates to their owner and prepare a minute for each.

#### The regional departments

51. The regional departments of survey in Beirut and other mohafazats shall have in charge to :

Determine the estates, put the provisional maps, prepare their minutes and the statistics records and the alphabetical indexes, and record the facts and the objections.

- To execute the modifications decided by the estate judge.
- To effect the necessary measurements to prepare the maps and the final survey.
- To prepare the technical accounts resulting from work.
- To prepare the preliminary drawing for survey maps.
- To execute the topographic formalities, by pursuing the instructions of the secretary of estate registry.



- To prepare the weekly reports and other reports.

52. The employees of regional departments in the mohafazats, except Beirut , are attached to the Mohafez from the technical side.

#### Chapter IV

##### Directorate of National Lottery

53. The Directorate of National Lottery shall be attached to the Minister of Finance, and shall take in charge all financial works related to the national lottery, preparing and issuing the lottery and public affairs, and preparing the accounts.

54. The direction of the national lottery shall be composed of :

- The administrative department.
- The Finance department.

55. The administrative department shall exercise the following authorities and in particular :

- Advertising
- The printing of the lottery papers, the receiving and submitting of them.
- To Control the execution of the sale.

56. The finance department shall take in charge to administer the funds of the lottery and keep their accounts.

#### Chapter V

##### The joint Administrative Service

57. Canceled by decree No.8343 dated 20/12/61

## Chapter VI

### Administration of Customs.

58. The administration of the customs will take in charge under the supervision of the Minister of Finance :

- To collect the taxes on goods imported and exported.
- To prepare the customs legislations and tariffs and to participate in preparing the commercial agreements which have a relation with the Customs.

- To prevent illegal entry or export of goods.

59. The administration of Customs shall be composed of :

- The High council of Customs.
- The Directorate general of customs.

#### The High Council of Customs

60. The high council of customs shall exercise the authorities and duties stipulated in special rules related to this council

61. Amended by decree No.8348 dated 30/12/61. A Diwan and a service of control composed of employees related to the cadre of the General Directorate of Customs shall be attached to the High Council of Customs..

62. The Diwan of the High Council, in addition to the cargoes assigned to the Diwan by virtue of laws and regulations shall :

- Study the customs legislations affairs and the private and general positions of the customs.
- Study the customs tariffs and explain them and prepare their indexes and assign the group responsible for their execution.

- Study the customs agreements projects.
- To ensure the communications means with the administrative and international committees which deal in the affairs of smuggling.

63.- renewed by decree No. 8348 dated 30/12/61.

The service of control shall inspect the services and departments and customs brigades.

#### Directorate General Customs

Art. 62 - The Director General of Customs, in addition to the authorities granted in special stipulations, and within laws, shall have to :

- Supervise the customs committee from administrative side.
- To transfer the members of the customs brigades and the individuals.

64. The Directorate General of Customs shall be composed of :

- The central Administration
- The customs regions.

#### The Central administration

65. The central administration shall be composed of :

- The Diwan
- The service of Head secretariat
- The customs committee.

66. The Diwan shall , in addition to the duties assigned to the diwan and service of joint administration, have to assemble the customs statements, put the statistics on foreign trade and publish them, study all the formalities related to customs duties and the private and public positions, suggest the modifications, follow up all the cases discovered and refer them to investigation, correct the mistakes study the cost of goods and determine them; direct the department of control and research.

67. As amended by decree No.6523 dated 21/04/61 :

The Diwan of the Directorate General shall be composed of the following departments :

- The department of customs affairs.
- The department of administrative affairs
- Department of account and stationery
- Department of statistics and auditing
- Department of search for smuggling.

Each of these departments shall be headed by an employee, at least head of department, and an assistant to the General Director shall help this latter in the distribution of duties among them and their coordination. and he shall take the place of the General Director in case this latter is absent.

68. The head service secretary shall have to :

- Consolidate the accounts
- Keep the accounts and customs revenues
- Prepare the receipts and the payments .
- Issue receipt and payment vouchers for the account of the treasury.
- Consolidate the files of customs infractions.
- To perform all the formalities related to customs taxes.
- To supervise the guaranteed engagements.

69. The secretary shall be considered as central delegate for the administration

70. The customs committee shall take in charge :

- Perform all the duties given to it by the customs law.

#### The regional regions

Lebanese territories are divided into three customs regions :

71. 1st - its center is Beirut, and its authorities include Beirut Mount Lebanon and south Lebanon .

2nd- Its center is Tripoli, and its authorities include the Mohafazat of North Lebanon

3rd - Its center is Chtaura, and its authorities include the Mohafazat of Bekaa.

72. An employee of grade of head of office shall have in each of the regions an assistant who will help him in the inspection and, who shall replace him in case of absence without the necessity of a special mandate.

The head of the region, in addition to the authorities given to him by the Customs law and the legislative texts related to the customs affairs, shall supervise all brigade units in the region, and shall be the direct supervisor of the employees.

73. The Head of the region shall be assisted by controllers and assistant controllers and clerks.

74. The region shall consist of :

- Customs offices
- Customs brigades

75. The customs offices shall be divided into three categories whose responsibilities shall be determined by laws and regulations

76. The following offices shall be classified as first category :

- in first region : Beirut- the port - the international airports.
- in the second region : Tripoli
- in the third region : El Masnaa

77. The office of Beirut-the port consist of :

- Departments of importation and exportation
- Accounts departments
- Manifest department and customs warehouses and the free zone.
- Department of warehouses for customs
- Transit department and provisional entry
- Six control departments.
- Department of parcels and postal packets.

78. The department of importation and exportation shall take in charge :

- To control the manifests and warehouses of goods for local consumption or exportation, or re exportation or transshipment or interior trading, and their registration and settlement.

- Registration of the import and export licenses and their settlement.

79. The accounts department shall take in charge :

- To keep accounts book of Beirut customs.

- To ensure the cash formalities.

- To keep the goods confiscated and deposited

- To ensure the sale by auction

- To keep all the customs statements

80. The department of manifest and warehouses and free zone shall take in charge:

- To receive the statements of cargoes exported or imported and their registration and settlement.

- To count the goods on importation and completing their formalities.

- To control the period of storage of goods in customs warehouses.

- To control the cars reserved for international transit.

81. The department of customs warehouses and private warehouses in the free zone shall take in charge:

- To keep the registrations of the warehouses and control the work therein.

- To control the customs statements and their settlement.

To control the application for entry in the warehouses in the free zone and their registration, and to control the work.

82. The department of transit shall take in charge to control the customs statements declared for goods in transit, and international transit, and provisional entry and provisional importation and their registration and settlement.

83. The departments of control shall take in charge:

- To control the goods.

- To apply the restrictions imposed on importation and exportation.

- To settle the taxes due on them.

- To supervise the control of the goods in the hall of the travelers.

84. The department of parcels and postal packets shall take in charge the customs formalities for parcels received via the post and exported via it.

85. As amended by Decree No.8348 dated 30/12/61.

The head of Beirut- port office shall be assisted by two persons who must be head of department at least, and they shall have the responsibility to supervise department of control and offices under the authority of the Head of Office.

86. Canceled Art.86 to 91 by decree No.8348 dated 30/12/61 and replaced by the new following articles:

The service of Beirut airport office shall be composed of:

- Department of import and export
- Department of travelers and free market
- Department of control

87. (new) The department of importation and exportation shall take in charge:

- To finalize the customs formalities in respect of goods imported and exported via Beirut airport.
- To ensure the formalities of cash to keep the accounts of Beirut airport.
- To keep goods deposited or confiscated and control the period of storage.
- To ensure the sale by auction.
- To keep the customs statement
- To keep registration of the customs warehouse and control the work in it.

88. (new) The department of travelers and free market shall take in charge :

- To search the travelers and finalize their formalities



- To control the free market and control the registrations of the owners of the stores

- To supervise the entry and the exit of the goods in the zone.

89. (new) The department of control shall take in charge:

- To inspect the goods.

- To apply the restrictions imposed on importation and exportation

- To liquidate the taxes imposed on them.

Al Safir, 1994: The Ministry of state Fouad Sanioura, has put a law-project relating to the reorganization of the General Directorate for the ministry and the government commissariat as follows:

1. The General Directory of the Ministry of Finance shall be composed of the following:

- The central units: The service of the Diwan.

- The directorate of Revenues

- The directorate of the Treasury.

- The Government Commissaries (Number four as Head of Services).

2. The Regional units:

- Head ship of Finance in each Mohafazt (except the Mohafazt of Beirut)

4. The General Directorate shall be composed of:

- Service of the Diwan

- Directorate of Budget

- Directorate of controlling the public establishments and local committees.

- Directorate of planning studies and statistics.

- Directorate of controlling the contracts of expenditure.

4. A consultative system shall be attached to the Ministry of Finance composed of experts in finance and economy and statistics, which shall coordinate with the units of the Ministry of Finance and the Lebanese Bank in order to make the studies and provide all the information and statistics related to both economical and financial positions and the balance of payments and give the results and the suggestions to improve these positions.

5. Joint administrative committee shall be created in the cadre of the Ministry of Finance, attached directly to the Minister of Finance and shall carry out the duties and authorities given to it by laws and regulations.

6. The Government shall have the right (by virtue of the decrees taken in the meeting of the cabinet and according to the suggestion of the Ministry of Finance, and after approval of the Committee of Civil Service and within a period of three months as from date of issuing this law ):

- To create the services within the frame of the new created directorates in the two Art. first and third to name the positions of each category, and determine their duties and authorities .

2. To set the salaries and wages and indemnities and revenues of all kinds.

3. To fix the special conditions for recruitment in all the categories and jobs, and the promotion and transfer from and to these categories.

7. The Government Commissariat shall be taken in charge by an employee of the first category attached to the Minister of Finance, and

shall do the reorganization of this commissariat , including the creation of services and departments before or after, also organize the positions of the employees, according to the stipulations of Art.6 of this law.

8. The law project executed by decree No.185 dated 28/01/73 shall be canceled.

9. This law shall come in force upon its publication in the Official Gazette.

## - Appendix B-

### 1) taxes on commercial , industrial and non commercial profits :

the rates have been reduced tremendously , as the tax rate begins from 30% instead of 6% for the same tax bracket subject to taxation before the amendment; which is 0-7,500,00 LL; and the extreme tax rate ends by 10% on the tax bracket which exceeds 37,500,00 LL. However the tax rate for the same bracket before the amendment was 23% and that rate was to increase successively on the ascending parts to reach 50% for the bracket that exceeds 2000 times the least average wage i.e 400,000,000 LL. Also , the tax brackets were reduce from 12 to 4 . taxes on financial companies were reduce from 26% to 10% and the extra allowances were canceled; thus making the taxes reduce by about on third . The taxes on persons and companies having no location in Lebanon were reduce from 15% to 10% on any profits earned in Lebanon

### 2) Taxes on Salaries and wages

Tax brackets were reduced from 13 to 5 with a tax rate beginning by 20% for the first bracket and ending by 10% for the last one ; instead of 2% to 32% as in the past

### 3) taxes on movable capitals :

The law has exempted tax payment on the interest of any kind of bank account and it has decreased the tax on movable capitals from 12% to 5% . A fine of 3% has been imposed monthly in case of delay in the payment.

### 4) the Permanent exemptions from taxes :

The legislative decree no.144 dated 12/6/59 exempted permanently from taxes the profits of educational institutions, cooperatives, hospital and orphanage.

5) The provisional exemptions from taxes:

In order to encourage investments, law no 27/80 exempted from tax payment for a period of 10 years industrial factories established in Lebanon as from 1980, if the following conditions are met :

- If the company's commodity have not been produced before in Lebanon .

- If the factory is located in a special area which the government wants to develop . There is no doubt that this legislation has been made to encourage the formation of industries in rural areas to improve their conditions.

In order to increase investments, it is necessary to encourage the formation of holding and offshore companies. The holding companies shall be subjected to a lump sum annual tax amounting to 6% of their capital when it does not exceed 50 million LL . This rate is decreased to 4% for the amounts between 50 and 80 million LL. The Legislative law of 24/6/83 no. 46 exempted the offshore companies from income taxes and imposed an annual lump Sum tax amounting to one million LL by virtue of the budget law of 1991. The law exempted from taxes the dividends of distributed by offshore companies.

6) Taxes on constructed properties :

They were also decreased by virtue of the law project. While the tax rate was 11% and ascending on the rent revenue exceeding 350,000 LL, the new tax is ascending and starts by 4% on the first tax bracket of 0-20 million LL and ends by 10% on the tax bracket of 60 million and above.

7) Taxes on alienation :

The share of the spouse or father or mother has been exempted from taxation up to the part amounting to 40 million LL; while this bracket was only from 0-25 million LL. As for the branches of the family, the tax on alienation has been reduced to 3% on the bracket amounting to 30 million while it was 6% for the bracket up to 10 million LL, 7% for the bracket 10-20 million LL and 8% for the bracket 20-30 million LL.

(Al Diyar,1994)

## APPENDIX C

Mr. El Khalil 's background :

He was born in Tyre in 1937 ; he studied economics first at the American University of Beirut ; then he travelled to France to prepare his PHD in Economics. He worked as a teacher at the American University of Beirut and at the Lebanese University. First he was elected deputy of Tyre; then he was assigned as Minister of finance by four government.

( Prime Ministers Rachid El Solh, Omar Karame, Takieddine El Solh)

Mr. Sanioura's background :

Born in Saida in 1943, Mr. Sanioura has studied at AlMakassed school where he became a good friend to Mr. Hariri ( the actual Prime Minister). Then he went to the American University of Beirut where he got his masters degree in Economics. Then he travelled to the US to get his PHD in Economics. He worked as a teacher at AUB and he had other private work. In 1977 he was assigned by Mr. Salim El Hoss ( the former Prime Minister) as the president of the committee of control of banks (" لجنة الرقابة على المصارف "). In 1988 he was assigned as a director for the Meditteranean Bank and its branches. Then in 1993 he became the Minister of Finance.

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