



# LEBANON

## TECHNICAL ASSISTANCE REPORT – TAX AND CUSTOMS ADMINISTRATION: AN URGENT NEED FOR INTERVENTION

December 2023

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# TECHNICAL ASSISTANCE REPORT

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Tax and Customs Administration:  
An Urgent Need for Intervention

**NOVEMBER 2023**

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# Abbreviations and Acronyms

<b>AEOI</b>	Automatic Exchange of Information
<b>ASYCUDA</b>	Automated System for Customs Data
<b>CD</b>	Capacity Development
<b>CIT</b>	Corporate Income Tax
<b>CITC</b>	Customs IT Center
<b>CRM</b>	Compliance Risk Management
<b>DG</b>	Director General
<b>FAD</b>	Fiscal Affairs Department
<b>GDP</b>	Gross Domestic Product
<b>HCC</b>	Higher Customs Council
<b>HRM</b>	Human Resources Management
<b>IMF</b>	International Monetary Fund
<b>IOF</b>	Institute of Finance
<b>IT</b>	Information Technology
<b>ITC</b>	IT Center
<b>LCA</b>	Lebanese Customs Administration
<b>LTO</b>	Large Taxpayer Office
<b>METAC</b>	Middle East Regional Technical Assistance Center
<b>MOF</b>	Ministry of Finance
<b>PAYE</b>	Pay-As-You-Earn
<b>PCA</b>	Post-Clearance Audit
<b>PIT</b>	Personal Income Tax
<b>RM</b>	Risk Management
<b>RMU</b>	Risk Management Unit
<b>SIGTAS</b>	Standard Integrated Tax Administration System
<b>SW</b>	Single Window
<b>TADAT</b>	Tax Administration Diagnostic Assessment Tool
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>WCO</b>	World Customs Organization
<b>WTO</b>	World Trade Organization
<b>VAT</b>	Value-Added Tax

# Preface

In response to a request for capacity development (CD) support by H.E. Youssef El Khalil, Minister of Finance, an International Monetary Fund (IMF) Fiscal Affairs Department (FAD) mission visited Beirut during the period September 25 – October 6, 2023. The purpose of the mission was to confirm reform and CD priorities for the next 36 months to orient IMF CD project support. As part of the mission, and to evaluate the potential expansion of the CD project, both tax and customs administrations were reviewed.

Led by Mr. Joshua Aslett (FAD), the mission team comprised Messrs. Robert Kokoli (FAD), John Middleton and Mohammed Al-Said (both FAD external experts). The team was joined by Mr. Frank Van Driessche (Long-Term Tax Administration Advisor) and supported by Mr. Rosen Bachvarov (IMF Middle East Regional Technical Assistance Center (METAC) Regional Tax Administration Advisor), Mr. Andrew Allan (METAC Regional Customs Administration Advisor), and Ms. Rita Achkar (Local IMF Economist).

Productive meetings were held with H.E. Saade Chami, Deputy Prime Minister; H.E. Youssef El Khalil, Minister of Finance; Mr. Georges Maarawi, Interim General Director of the Ministry of Finance (MOF); Mr. Louay Haijj Chehade, Director VAT and Revenue Directorates; Ms. Rima Makki, President of the Higher Customs Council; Mr. Raymond el Khoury, Acting Director General of Customs; several other senior officials from the Ministry of Finance, Customs and the VAT and Revenue Directorates; and Ms. Lamia Moubayed Bissat, President of the MOF's Institute of Finance, along with the IOF team.

This report consists of an Executive Summary and the following sections: (I) Context for Reform; (II) Determining Current Priorities; (III) Tax Administration; (IV) Customs Administration; and (V) Capacity Development Support.

The mission team expresses its sincere gratitude for the outstanding support and cooperation that it received by the Lebanese authorities throughout its visit in Beirut.

# Executive Summary

**Four years into the ongoing economic crisis, a real and immediate concern exists that operations in Lebanon’s tax and customs administrations could collapse.** Staffing levels in the Value-Added Tax (VAT) Directorate, Revenue Directorate, and Lebanese Customs Administration (LCA) are dangerously low. Among the challenges now faced, information technology (IT) is in a dire state – with one member of regular IT staff remaining in the LCA and none in the tax directorates. The Ministry of Finance’s (MOF) IT Center, providing back-office IT support to the tax directorates, has lost nearly half of its staff. Without the support of qualified IT workers, the eventual loss of the revenue agencies’ core IT systems or data is likely to occur, bringing operations to a halt and inflicting further economic and fiscal damage.

**Making use of emergency powers, if necessary, the authorities are encouraged to intervene to protect the continuity of critical functions.** Starting with IT operations, a project needs to be organized focused on (1) retaining existing experienced staff and recruitment of a small number of key technical specialists at market salary rates (e.g., in addition to IT staff – data analysts, risk analysts and large taxpayer specialists including auditors); (2) acquiring essential resources for critical functions (e.g., key IT hardware and software); and (3) securing training for specialists, from development partners if required.

**Recognizing a downward trajectory, national dialogue on the future of Lebanon’s tax and customs administrations is urgently needed.** Since 2018, total revenues have collapsed catastrophically from 21 percent of GDP to 6.3 percent in 2022.<sup>1</sup> In that time, despite high levels of inflation and a dramatic reduction in real wages, the public servants that remain in their posts have done so with high workloads and, particularly in tax administration, in unsuitable, poorly maintained facilities. Due to many factors, including a need to prioritize maintenance of basic services, badly needed reforms have not been made – and Lebanon’s revenue agencies remain operating out of antiquated, inefficient organizational models, with antiquated digital tools in tax administration and poor use of the tools that do exist in customs.

**Inaction and underinvestment to deal with these challenges will forego substantial revenues and prolong the effects of the crisis.**

**Options to help reverse the decline in revenue administration exist, and structural mechanisms for financing reform and modernization need to be explored.** In addition to prioritizing both tax and customs administration in the existing budget, the authorities are encouraged to consider (1) expediting the introduction of a semi-autonomous tax administration (providing increased flexibility to improve staff salaries); and (2) reviewing the use of customs service charges for their potential to support tax and customs modernization, of which successful regional examples exist.

## Tax Administration

**An immediate intervention is required to stabilize IT operations and ensure the continuity of the VAT and Revenue Directorates’ core operations.** This intervention must begin by focusing on retaining qualified IT workers to provide basic administration of systems (e.g., backup of critical databases). Among

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<sup>1</sup> Source: Estimate from the IMF Article IV Consultation Staff Report, June 2023.



these workers is a need for specialists capable to administer the SIGTAS platforms specifically, along with the collection of custom-developed IT systems that it depends on (e.g., the MOF's collection gateway).<sup>2</sup> The investments required to reliably operate key IT services, including e-filing services for large taxpayers, are essential and ongoing outages likely have a direct, negative impact on revenues.

**Having addressed immediate needs, “quick wins” in tax administration should be pursued while consensus on more substantive reforms is achieved.** With international capacity development (CD) support, quick wins are possible in the areas of data analytics, data matching, and compliance strategy for large taxpayers. These topics are best sequenced and pursued jointly. Separately, staff remuneration and working conditions are essential enablers of all major reforms and must be addressed. As circumstances permit, integration of the tax directorates, which is included in the two directorates' *joint strategic plan* (2022 – 2026), remains a high priority, as does replacement of SIGTAS with a more modern IT system.

## Customs Administration

**With its IT operations, the LCA faces a more critical situation than in the tax directorates as it does not benefit from the MOF's IT Center support.** The single regular member of IT staff remaining on duty has been provided with a small contingent from the Brigade to support his work.<sup>3</sup> However, it is unlikely that this support benefits from the inclusion of personnel specifically qualified for ASYCUDA administration.<sup>4</sup> As a temporary measure, the LCA should seek additional external support in the form of experts to provide technological training specifically on ASYCUDA to the Brigade staff assigned.

**Beyond operational aspects of IT, investments are needed to deploy ASYCUDA modules – both to increase revenue and to resolve current deficiencies that impact border security.** At present, the LCA does not have a centralized risk management group (or accompanying framework and procedures). Examination results from inspections are documented on paper in lieu of ASYCUDA's “Inspection Act” form, which greatly limits the ability for effective selection procedures. Beyond a significant revenue loss, not using the functionality has implications to security (i.e., limited ability to centrally monitor infractions e.g., smuggling of firearms). Apart from risk management, deployment of key modules could yield a significant revenue increase (i.e., Valuation Control, Airway Manifest Control).

**Overreach of the Higher Customs Council (HCC) beyond administrative policy into operations should cease while work continues to introduce a new organizational structure.** In its current state, the LCA has a configuration with effectively four Director Generals (DG) concurrently (i.e., a Customs DG and three HCC members) in which decisions require consensus. The consequence is an inability to readily implement change or effectively manage critical operations. In key areas, for example HCC's administration of ASYCUDA and its selectivity module, there is overreach of HCC's original legislated mandate and authority.<sup>5</sup> In adopting a new organizational structure, the priority remains the implementation of an organizational model and governance concept for “one-head, one-body.”

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<sup>2</sup> SIGTAS refers to the Standard Integrated Tax Administration System.

<sup>3</sup> Two types of officers exist in the LCA, civil and paramilitary “Brigade” officers.

<sup>4</sup> ASYCUDA refers to the Automated System for Customs Data.

<sup>5</sup> Law 2868, Article 62 (1959); Law 123, Articles 9 to 15 (1959).



# Recommendations

## Tax Administration

### *Immediately –*

- Seek urgent intervention to ensure the continuity of mission critical functions (emphasizing stabilization of IT operations), a living wage for staff, and essential office improvements.
- Seek to expedite the introduction of a semi-autonomous tax administration.
- Review and confirm support for the proposed CD activity plan for tax administration (Section V) or provide input for any desired adjustments.

### *Next 6 – 12 Months*

- Integrate the reform priorities identified in this report (Section III) into the existing joint strategic plan (2022 – 2026).
- Identify a small team to receive CD support for data analytics, risk analysis, large taxpayer operations, and compliance strategy.
- Produce and implement two compliance strategies that account for unique aspects of the crisis – one for large taxpayers, and the second for all others.
- As a step towards full integration of tax directorates, re-launch an integrated Large Taxpayer Office (LTO) with criteria that includes only the very largest taxpayers.

## Customs Administration

### *Immediately –*

- Seek urgent intervention to ensure the continuity of mission critical functions (emphasizing stabilization of IT operations), and a living wage for staff.
- Request international support to review the potential increase and use of customs service fees to support modernization (tax and customs).
- Review the proposed CD activity plan for customs administration (Section V) and provide over email a letter confirming agreement to the support.

### *Next 6 – 12 Months*

- Revise the existing draft strategic plan from a “wish list” to a strategy, accounting for the reform priorities identified in this report (Section IV).
- Implement a risk management unit, framework, and procedures that mandate use of ASYCUDA’s “Inspection Act” form.
- Implement ASYCUDA’s Valuation Control module, seeking the international expertise required for support.
- As a step towards returning to the HCC’s legislated mandate and authority, transfer administration of ASYCUDA from the HCC to the DG Customs.

# I. Context for Reform

## A. Revenue Performance

1. **Revenues in Lebanon have collapsed catastrophically, falling from 21 percent of gross domestic product (GDP) in 2018 to an estimated 6.3 percent in 2022.** The extreme severity of the decline cannot be understated, with revenues approximating low levels consistent with failing states undergoing periods of conflict. While the decline may be attributed to many factors (e.g., a protracted economic contraction, artificial exchange rate valuations), prior to the ongoing crisis informality in the economy and low levels of taxpayer compliance were already serious, known challenges.<sup>6</sup> Both are likely to have been exacerbated by economic conditions. After bottoming at an estimated 6.3 percent in 2022, Table 1 projects a slight recovery in 2023 led by improvements in Value-Added Tax (VAT) and taxes on trade brought about through adoption of realistic exchange rates for valuation, including on imports.<sup>7</sup>

**Table 1. Total Revenues: 2018 – 2023 (Article IV Reform Scenario)**  
(Percent of GDP)

	2018 Act.	2019 Act.	2020 Act.	2021 Est.	2022 Est.	2023 Proj.
<b>Total Revenues</b>	<b>21.0</b>	<b>20.8</b>	<b>16.0</b>	<b>9.8</b>	<b>6.3</b>	<b>8.6</b>
<b>Tax Revenue</b>	<b>15.4</b>	<b>15.6</b>	<b>10.9</b>	<b>7.3</b>	<b>4.7</b>	<b>6.5</b>
Taxes on income and profits	5.4	6.8	5.1	2.8	1.1	1.2
Taxes on property	1.4	1.1	1.5	1.0	0.6	0.7
Taxes on domestic goods and services	5.4	4.9	2.5	2.6	2.4	3.3
<i>of which: VAT revenues</i>	4.6	4.1	1.9	2.3	2.1	2.9
Taxes on international trade	2.4	2.2	1.3	0.7	0.6	1.2
Other taxes	0.7	0.7	0.5	0.3	0.1	0.1
<b>Nontax Revenue</b>	<b>4.1</b>	<b>4.2</b>	<b>3.4</b>	<b>1.7</b>	<b>1.4</b>	<b>1.8</b>
<b>Other Treasury Revenue</b>	<b>1.5</b>	<b>1.0</b>	<b>1.7</b>	<b>0.7</b>	<b>0.2</b>	<b>0.3</b>

Source: IMF Article IV Consultation Staff Report (*Reform Scenario*), June 2023.

## B. Collecting Revenue in a Fiscal Crisis

2. **Restoration of revenues will require economic recovery, policy action, and improvements in revenue administration – all of which have a degree of mutual interdependence.** Important tax policy options exist that should continue to be pursued.<sup>8</sup> These include options for addressing distortions and administrative challenges with the tax system due to high levels of inflation (notably with thresholds e.g., VAT, and around tax brackets). Separately, and under extreme and unusual circumstances, both tax and customs administrations in Lebanon must now strategically consolidate operations, protect revenues,

<sup>6</sup> De Mets et al., *Short- and Medium-Term Actions for Stabilizing Revenue Administration*, April 2022.

<sup>7</sup> After adopting the Sayrafa rate for imports' valuation, trade revenues increased around 19 percent, from May to August 2023.

<sup>8</sup> Hebous et al., *Putting Tax Policy Back on Track*, November 2022

and support (not impede) an eventual recovery. In doing so, they are faced with serious challenges in administering taxation ranging from economic disruptions – in patterns of trade, established tax bases and consumption – to changes in behavior (taxpayers and traders) – to ongoing and severe internal operational limitations.

**3. In contemporary examples elsewhere, a core set of principles have been observed as productive for managing tax and customs administrations through a fiscal crisis.** They include:

- *Ensuring the continuity and integrity of core operations.* Typically focused on information technology (IT) systems first, budget to preserve essential services and mission critical operations is protected throughout the crisis.
- *Identifying and retaining critical staff.* If loss of staff is to occur, an emphasis is placed on retaining a minimal executive function, IT workers, staff with analytical skills, and technical specialists in key units (e.g., in a Large Taxpayer Office, LTO).
- *Investing the resources available in protecting core revenues.* Within the segments of large traders and domestic taxpayers normally defined, an analysis is performed to further target administrative resources on the most important sources of revenue at risk including VAT, Corporate Income Tax (CIT), and taxes withheld on salaries (i.e., pay-as-you-earn, PAYE).
- *Adjusting compliance strategies for a crisis scenario.* Emphasizing the use of public media channels, analytics, third-party data, and aggressive identification and referral of small numbers of high-quality cases for criminal prosecution – all to mitigate revenue impacts from an expectation of substantial changes in taxpayer behavior and degradation in compliance.

## C. An Urgent Need for Intervention

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**4. Similar principles as outlined above are not being adequately implemented in Lebanon, and there is an urgent need for national dialogue to address critical deficiencies.** In a period defined by budget shortages, inaction and underinvestment in tax and customs administration will effectively prolong the effects of the crisis. The authorities must elevate and address the reality of the exceptionally poor circumstances now in place, particularly in the VAT and Revenue Directorates. The potential impact goes beyond the loss of substantial revenues; there are real and immediate risks of outright failure of national revenue operations. Across Lebanon's tax and customs administrations, staffing is completely inadequate, organizational models are antiquated, core IT operations are in the process of failing, and the ability to produce even basic statistics is extremely limited.

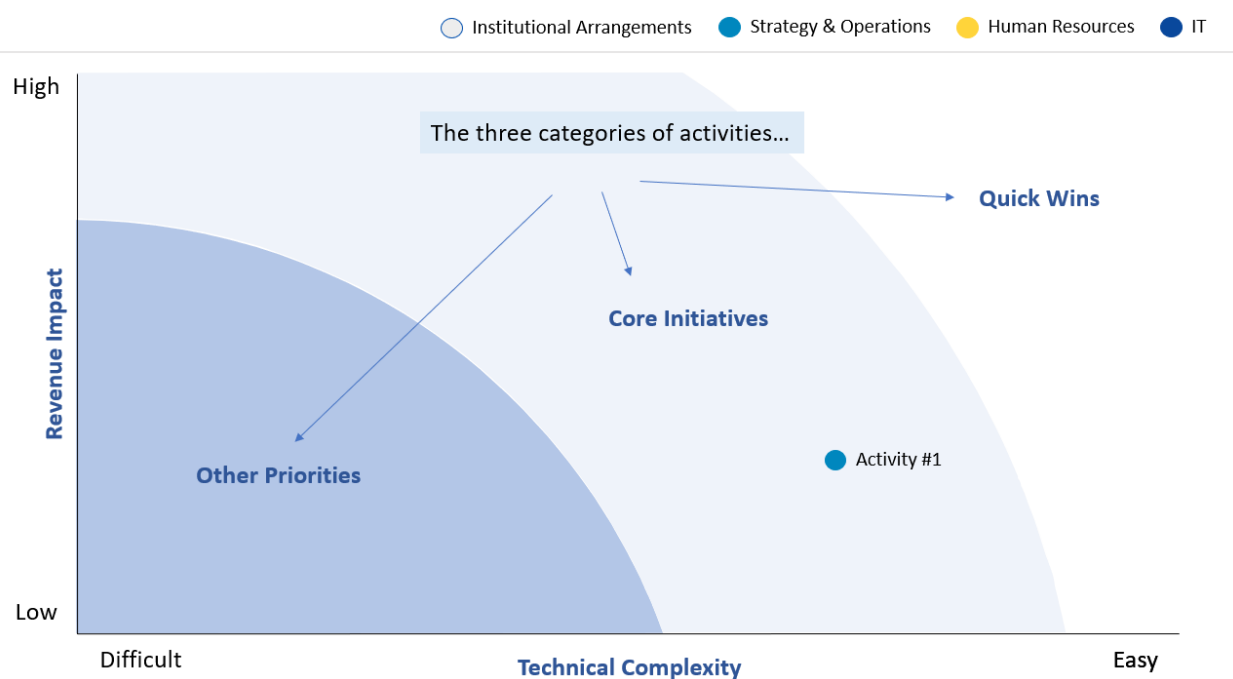
**5. Within these circumstances, a unique window for international support exists, the value of which depends on taking the decision to introduce change.** A reflection of the severity of Lebanon's current revenue position, a number of international partners have generously engaged to support revenue mobilization including the World Bank, European Union, United Nations Development Programme, and Expertise France. The IMF Fiscal Affairs Department (FAD) and the IMF Middle East Regional Technical Assistance Center (METAC) have also jointly launched a capacity development (CD) support project. To benefit from the support in place, the authorities must now understand the current priorities and mobilize to implement the tax and customs administration reforms that will help Lebanon to exit the crisis.

## II. Determining Current Priorities

6. A subjective methodology has been applied to identify and classify current reform and CD priorities in Lebanon’s tax and customs administrations. Building from prior analysis by IMF experts, and through dialogue between the authorities and the current mission team, a list of reform and revenue-generating activities were identified. Subsequently, each was assessed in terms of its likely (1) impact to revenue, positive or negative; and (2) technical complexity, representing the difficulty to implement in an ideal scenario (e.g., with adequate resources, legislative support). Making use of the concept illustrated in Figure 1, the initiatives were then plotted as circles (e.g., “Activity #1” in Figure 1) and classified into one of three basic categories:

- Quick Wins – Relatively easy initiatives helpful in building and maintaining momentum.
- Core Initiatives – The primary initiatives that typically comprise the bulk of a reform program.
- Other Priorities – Additional reform initiatives to be carefully analyzed before implementing.

Figure 1. Prioritization Methodology



*Note: Activities requiring immediate attention are designated by a: ○*

7. While results from the prioritization exercise included in this report should be actioned, care should also be taken to account for practical realities. Assessments by the mission team are based on extensive experience regionally and beyond. However, as is the case elsewhere, Lebanon’s tax and customs administrations operate in a unique context. Annex I contains the mission’s rationale for prioritizing each of the activities presented in the next sections of the report. In the instances where there may be disagreement with the resulting classifications or concerns over the underlying logic applied, the authorities are encouraged to follow up to discuss the specific matters in further detail.

## III. Tax Administration

**8. This Section describes the current situation in the VAT and Revenue Directorates and confirms key reform and CD priorities for the next 36 months.** Short and medium-term reform recommendations made by previous FAD missions remain important and need to be included in the tax directorates' strategic plans.<sup>9</sup> To date, and as described in more detail in Annex II, some progress on prior recommendations has been made. Acknowledging current implementation difficulties, the most critical of the initiatives contained in this Section – those that will support crisis recovery and / or quick revenue wins – have also been identified for early implementation, with CD support possible from the IMF and other development partners as required.

### A. Current Situation

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**9. The continuity and integrity of core revenue operations are at high and immediate risk.** The tax administration has been affected by a detrimental decline in available resources. Current resources can barely ensure day-to-day basic functioning of the tax system and safeguard core activity such as tax registration, filing, and payment. Critical operations for tailoring and implementing a compliance strategy for a crisis scenario, such as analytics, the use of third-party data, fraud prosecution, and enforced collection, have largely ceased.

**10. Staffing is completely inadequate across both VAT and Revenue Directorates.** On top of long-standing recruitment freezes, resignations are recently increasing, in particular more technical staff (e.g., critical information technology personnel and technical specialists). Vacancy rates are very acute, with filled positions falling from around 50 percent in 2020 to around 40 percent currently.<sup>10</sup>

**11. The collapse in purchasing power for official wages is driving pervasive absenteeism across the tax administration.** Mitigating measures such as bonus payments for a 14-day presence a month had limited impact. Actual presence of remaining staff is estimated to remain extremely low compared with pre-crisis levels. A resumption to high levels of workforce deployment must be urgently pursued to preserve essential services and operations.

**12. Critical IT systems for tax collection are failing, affecting core revenue operations directly.** The IT systems across the tax administration are degraded and obsolete. Many essential information technology support agreements and software licenses have expired (e.g., for database, infrastructure support). There is no anti-virus software or a proper firewall. While systems are backed up, retrieval of all current tax data cannot be guaranteed as there is no effective testing environment and limited capacity for existing staff to perform the tests. The MOF IT Center has seen most of its senior staff resign and is running with only about half normal staffing levels overall. During the mission two further specialists indicated an intention to resign by the end of the current month.<sup>11</sup>

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<sup>9</sup> Strategic plans are currently being drafted.

<sup>10</sup> The Revenue Directorate has an approved staffing of 2032 and actual staffing of 974. The VAT Directorate has an approved staffing of 331 and actual staffing of 148.

<sup>11</sup> Normal staffing 35, current staffing 19 – source, MoF.

**13. There are no IT staff for maintenance of the SIGTAS tax administration systems.** Regular failures have prompted the authorities to defer repeatedly the deadlines for Personal Income Tax (PIT), CIT, VAT, and PAYE declarations. Due to staff losses, paper-based tax returns (e.g., yearly PIT returns) remain unprocessed. New development work, such as the extension of electronic filing to all tax returns, is no longer feasible. Moreover, the limited ability to produce basic statistics directly affects the monitoring of filing and payment compliance.

**14. There is a lack of basic working conditions for staff which severely affects operations.** The state of working offices and facilities is extremely degraded, with a shortage of computing and other office equipment (e.g., printers, ink, and paper), as well as of resources for operational support. Electrical power is often unavailable and expenditures for field work and audit have ceased to be provided.

**15. Challenges within the tax system as well as external distortions add to the sustained revenue failure.** The disparity between the market exchange rate and the predetermined “official” exchange rate has caused significant collection problems and given rise to new fraud patterns. Relatedly, the high inflation adversely affects payment compliance and makes nominal thresholds (e.g., the VAT registration threshold) meaningless, thereby amplifying the dysfunction of revenue administration. The severe socioeconomic crisis is expected to have significantly expanded the endemic tax evasion and informality in the economy and caused substantial changes in taxpayer behavior. Finally, internal challenges such as the outdated organizational model of the tax administration have been long recognized as an impediment for improving tax compliance.

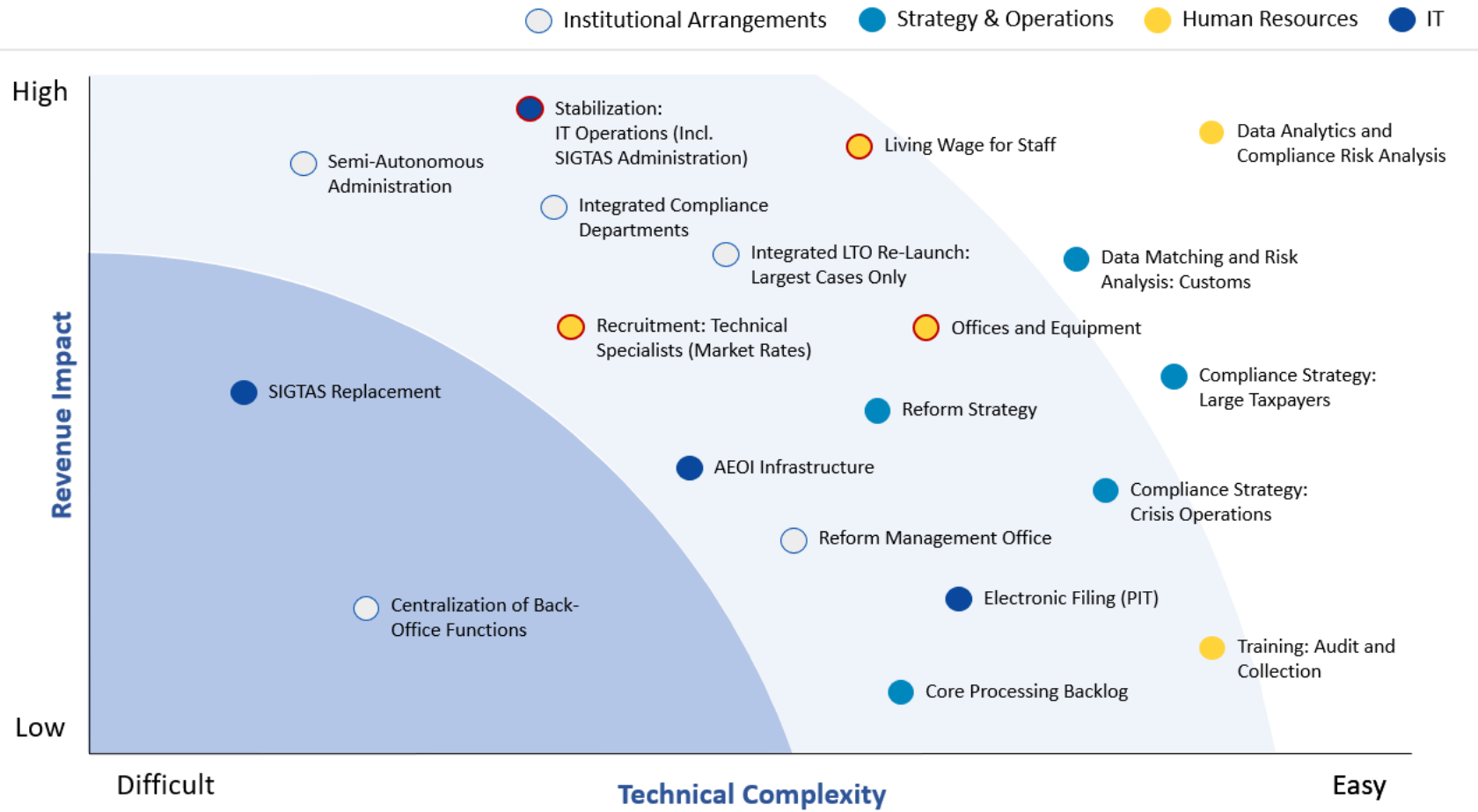
**16. There is virtually no capacity to implement major reforms.** A joint strategic plan, 2022 to 2026, covering both VAT and Revenue administrations has been prepared and has received ministerial approval. However, implementation of the reform initiatives that are envisaged by the tax administration is suspended owing to the current circumstances. As relief for these harsh conditions is not expected for the near-term, short-term actions should focus on solving the most urgent issues. For major reforms, getting back to some form of normality is a necessary precondition.

## **B. Reform and CD Priorities**

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**17. Figure 2 presents the results of an analysis of current tax administration priorities prepared using the methodology in Section II.** The figure is followed by tables that describe each of the activities illustrated. This information should be used to help update strategic plans and focus CD support. In Lebanon’s unique circumstances, the current priorities for both tax directorates largely entail crisis management. Progress towards the implementation of major reforms is being held up either through resource constraints or obstacles beyond the Director of VAT and Revenue’s remit and require higher levels of authority to implement.

Figure 2. Tax Administration: Reform and CD Priorities (Next 36 Months)



Note: Activities requiring immediate attention are designated by a: ○



## Institutional Arrangements

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>Antiquated Organizational Design.</b> The current division of tax administration between the two directorates under the MoF is an impediment to effective compliance risk management. It creates inefficiencies for government and adds to burdens on business.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Semi-Autonomous Administration.</b> A semi-autonomous tax administration is established covering all taxes and delivering business-like operations free from political influence, with the flexibility to secure budget and resources for modern administration.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> As Circumstances Allow</p>
<ul style="list-style-type: none"> <li>▪ <b>Limited and Inefficient LTO Operations.</b> Compliance risks in the large business segment are not fully managed. The LTO deals only with direct taxes; VAT is not included.<sup>12</sup> The large taxpayer criteria have been eroded by inflation and the passage of time.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Integrated LTO Re-Launch: Largest Cases Only.</b> An LTO managing compliance across all taxes for the largest businesses delivering stronger revenue performance, reduced taxpayer burdens and other collateral benefits.<sup>13</sup></li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> 6 – 12 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Limited Capacity to Support Reforms.</b> A strategic plan has been prepared but capacity is lacking for reform management across the two directorates. Crisis management is currently the primary focus, and low levels of staffing impede the ability to take on projects.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Reform Management Office.</b> Successful reform program delivery through effective reform governance, and a dedicated office with staff coordinating all reform projects to ensure effective planning, risk management, and benefits realization.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> As Circumstances Allow</p>
<ul style="list-style-type: none"> <li>▪ <b>Duplication of Functions.</b> Functions including planning, legal, general administration and IT are duplicated in the two directorates, unnecessarily increasing costs of compliance and collection.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Centralization of Back-Office Functions.</b> Centralized functions leading to much improved effectiveness and efficiency through flexibility in</li> </ul>	<p><b>Type:</b> Other Priority  <b>Timing:</b> 12 – 18 Months</p>

<sup>12</sup> Some coordination of audit risk assessments between LTO and the VAT large taxpayer audit department is taking place.

<sup>13</sup> For example, better commercial awareness; deeper understanding of the complex structures and tax arrangements used by large and multinational businesses; expertise in addressing international taxation and aggressive tax planning risks; and strengthening community perceptions about the professionalism of the tax administration and the fairness of the tax system, both of which influence voluntary compliance.

resource deployment and a new ability for specialization of staff.

- **Limited and Inefficient Compliance Operations.** Separate units within the directorates are carrying out compliance activities in isolation, dramatically limiting their effectiveness.
  - **Priority: Integrated Compliance Departments.** A project to integrate compliance operations across the Revenue and VAT Directorates is implemented, focusing on delivery of compliance strategies.
- Type:** Core Initiative  
**Timing:** 6 – 12 Months

## Strategy and Operations

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>An Integrated Strategy Exists (2022 – 2026).</b> The single, joint strategy for both VAT and Revenue Directorates includes reforms including integration into a single tax administration and replacement of the existing SIGTAS IT systems.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Reform Strategy.</b> The current strategy is enhanced to take into account the current reform priorities identified, along with potential concepts for semi-autonomous administration and the structures for implementing a major reform.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> Next 6 – 18 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Inefficient Large Taxpayer Compliance Management.</b> Compliance risk is managed tactically using “single action” techniques (e.g., audit) that are under stress due to staffing levels. No integrated compliance improvement plan is in place for large taxpayers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Compliance Strategy: Large Taxpayers.</b> Based on research and risk analysis, an integrated compliance strategy is adopted focusing on the prevention of tax leakage from identified revenue risks using operational or policy-based interventions.</li> </ul>	<p><b>Type:</b> Quick Win  <b>Timing:</b> Next 6 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Ad-Hoc Crisis Response to Compliance.</b> Risk management is applied tactically by the two tax directorates across the taxpayer base, without an integrated strategic approach that accounts for crisis-based behavioral changes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Compliance Strategy: Crisis Operations.</b> A compliance strategy is implemented explicitly for the crisis, focusing limited resources on vital areas of non-compliance capable of generating revenue.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> 6 – 12 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Limited use of Customs Data.</b> The supply of import and export data from the LCA, critical for Compliance Risk Management (CRM), is intermittent at best</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Data Matching and Risk Analysis: Customs.</b> The regular two-way exchange of data is established to facilitate risk assessment,</li> </ul>	<p><b>Type:</b> Quick Win  <b>Timing:</b> Next 6 Months</p>

(believed to have stopped since 2021) and tax data to support customs compliance plans are not provided.

identification, and prevention of key forms of evasion and fraud (including VAT).

- **No Electronic Filing for PIT Returns.** A substantial backlog of unprocessed PIT returns covers several tax years, substantially undermining PIT collection and compliance.

- **Priority: Core Processing Backlog.** Current returns are processed promptly and effectively, and taxes due assessed. The current backlog is addressed by prioritizing most current years.

**Type:** Core Initiative  
**Timing:** Immediate for Current Year Returns; Remaining Backlog as Circumstances Allow.

## Human Resources

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>Sustained Loss of Staff.</b> Due to inflation, salaries have lost almost all of their purchasing power. The directorates are running on almost skeleton staffing levels, further impacted by frequent resignations. Wage erosion impacts recruitment opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Living Wage for Staff.</b> Salaries are paid at the level of a basic living wage in the immediate term, stemming the drain of trained resources and enabling service delivery to progress towards pre-crisis levels and beyond, also opening the possibility for recruitment.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> Next 6 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Poor Working Conditions.</b> Offices are without power, supplies and basic services. This impacts staff morale, effectiveness and efficiency, and taxpayer and business community confidence in the overall quality of the administration of taxes in Lebanon.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Offices and Equipment.</b> Properly equipped and serviced office accommodation are retained to the standards of a modern tax administration, facilitating good taxpayer service and compliance management, and enhanced business effectiveness.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> Next 6 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Difficulty Producing Statistics.</b> Analytics capacity is lacking in both directorates. Only limited third-party data sources are utilized. These limitations adversely impact CRM directly, performance management and operational service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Data Analytics and Compliance Risk Analysis.</b> Using data from a wide range of internal and external sources, with input from analysts, analysis is produced that supports enhanced revenue collection and administrative efficiency, repaying investments many times over.</li> </ul>	<p><b>Type:</b> Quick Win  <b>Timing:</b> Next 6 Months</p>

- |  |  |  |
|--|--|--|
| <ul style="list-style-type: none"> <li>▪ <b>Absence of Adequate IT Staff.</b> Regular IT administration is not occurring, and systems are failing, posing a major risk to revenue. Filing deadlines are being extended due to the ongoing failures. Public sector employee remuneration policies inhibit recruitment.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ <b>Priority: Recruitment: Technical Specialists (Market Rates).</b> The IT department is staffed with a small number of technical specialists recruited from the private sector at market rates to support emergency IT operations throughout the crises.</li> </ul>                        | <p><b>Type:</b> Core Initiative<br/><b>Timing:</b> Immediate</p>     |
| <ul style="list-style-type: none"> <li>▪ <b>Loss of Audit and Collection Staff.</b> Beyond the overall number of staff that have left the revenue directorates, senior technical staff have departed and the ability to direct experienced audit and collection resources to address complex topics, including in support of key compliance strategies, is limited.</li> </ul> | <ul style="list-style-type: none"> <li>▪ <b>Priority: Training: Audit and Collection.</b> Making use of international CD support, a small number of audit and collection officers are trained on the specific techniques necessary to implement key compliance strategies (i.e., for large taxpayers, crisis operations).</li> </ul> | <p><b>Type:</b> Core Initiative<br/><b>Timing:</b> 6 – 24 Months</p> |

## Information Technology (IT)

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>IT Systems and Key Services are Failing.</b> Through a combination factors – facilities, electricity, lack of IT staff, absence of support contracts – SIGTAS and its e-filing services experience outages. The integrity of basic IT functions is in question (e.g., application of security patches, database backups).</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Stabilization: IT Operations (Incl. SIGTAS Administration).</b> Because of the revenue implications of outages, the entirety of back-office resources are relocated into an appropriate facility (or the cloud), existing technical staff are retained and protected throughout the crisis – and new staff to support SIGTAS operations are recruited.</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> Immediate</p>
<ul style="list-style-type: none"> <li>▪ <b>Electronic Filing for PIT is Not Available.</b> The resulting paper-based filing is inefficient for taxpayers and the tax administrations, adding to the existing processing backlog.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Electronic Filing (PIT).</b> Taxpayers may file all types of tax return, including PIT, electronically, without the need to speak with a revenue official as part of the filing process.</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> December 2024 (End of Tax Year)</p>
<ul style="list-style-type: none"> <li>▪ <b>Antiquated Digital Tools.</b> The two core tax administration IT systems in use, both derived from</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: SIGTAS Replacement.</b> A new integrated IT system covering all direct and indirect taxes</li> </ul>	<p><b>Type:</b> Other Priority <b>Timing:</b> As Circumstances Allow</p>

SIGTAS and introduced over 20 years ago, are degraded and obsolete – with a configuration reflecting two separate rather than one integrated tax administration (VAT and Revenue Directorate).

supporting all revenue functions and operations is introduced. Applications supporting case and risk management, and performance reporting are natively integrated in the new system.

- **International Exchange of Information Has Ceased.** Lebanon had in previous years fulfilled obligations for Automatic Exchange of Information (AEOI), reporting data to 67 tax administrations.

- **Priority: AEOI Infrastructure.** The required IT infrastructure and procedures are sufficiently implemented to pass a Global Forum peer review and begin receiving data for compliance work.

**Type:** Core Initiative  
**Timing:** 6 – 24 Months

## Recommendations

### *Immediately –*

- Seek urgent intervention to ensure the continuity of mission critical functions (emphasizing stabilization of IT operations), a living wage for staff, and essential office improvements.

### *Next 6 – 12 Months*

- Integrate the reform priorities identified in this report (Section III) into the existing joint strategic plan (2022 – 2026).
- Identify a small team to receive CD support for data analytics, risk analysis, large taxpayer operations, and compliance strategy.
- Produce and implement two compliance strategies that account for unique aspects of the crisis – one for large taxpayers, and the second for all others.
- As a step towards full integration of tax directorates, re-launch an integrated Large Taxpayer Office (LTO) with criteria that includes only the very largest taxpayers.

## C. The Case for Semi-Autonomous Administration

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**18. In Lebanon, the creation of a semi-autonomous tax administration covering all taxes could greatly increase efficiency and promote more rapid implementation of major reforms.** Overall, tax administrations structured based on the type of tax (e.g., VAT, direct taxes), rather than the type of work performed are more costly for government, more burdensome for taxpayers, and less effective for managing and administering the broader tax system.

**19. A merger of the two directorates in Lebanon would require a new governance model for the tax administration.** Autonomy is an enabler to achieve modernization and build capacity. The aim is to enable the tax administration to manage certain operations effectively without requiring time consuming external approval. The administrative autonomies provided could include budget flexibility, organizational flexibility, flexibility for human resources management (HRM) (including with staff salaries), performance management, strategic planning, and autonomy for operational decisions to administer tax law.

**20. A first step is building consensus among the main political stakeholders on the degree and model of autonomy to be implemented.** There are several possible models. Policy decisions would need to specify the degree of autonomy intended, the legal powers of the head of the tax administration, the governance framework, the relationship with other agencies, the framework for receipt and use of information by the tax administration, accountability, and initial staffing of the organization. Box 1 provides an overview of the key features of a semi-autonomous tax administration.

## Box 1. Features of Semi-Autonomous Tax Administration

### What is a semi-autonomous tax administration?

- A separate and dedicated body with responsibility for all tax administration functions.

### What are its key features?

- Establishment by separate legislation.
- Organized under the general supervision of the Minister of Finance.
- Funded by payment from a parliamentary appropriation authorized for the Minister of Finance.
- Non-political appointment of the head of the administration, with a fixed term of office and legally empowered to administer and enforce revenue laws.
- Ability to move funds between different budget categories, within defined limits, to provide operational flexibility.
- Authority to design and change organizational structure, make the majority of its recruitment, promotions and appointments, and determine grading structure and compensation level.
- Responsibility for integrity, performance measures, training, strategic planning, reporting, and discipline including dismissal.
- Not subject to general civil service laws and regulations with respect to employment.
- Subject to a suitable regime for accountability and transparency (including public reporting requirements, and possibly a management board including private sector representatives).

## Tax Administration

### *Immediately –*

- Seek to expedite the introduction of a semi-autonomous tax administration.



## IV. Customs Administration

**21. This Section describes the current situation in the LCA and confirms key reform and CD priorities for the next 36 months.** As is the case with the two tax directorates, short and medium-term reform recommendations made by previous FAD missions remain important for the LCA and need to be included in their strategic plans.<sup>14</sup> To date, and as described in more detail in Annex II, some progress on prior recommendations has been made. Acknowledging again current implementation difficulties, the most critical of the initiatives contained in this Section – those that will support crisis recovery and/or quick revenue wins – have also been identified for early implementation, with CD support from FAD and other development partners as required.

### A. Current Situation

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**22. At present, the LCA is caught in an extremely difficult situation.** The LCA is on the brink of collapse, not only because of the severe national crisis, but also through its lack of decision making. This is due to its complicated organizational structure, which is preventing the LCA from using all options and mechanisms that the current legal framework provides for. Unusual situations normally require adoption of intuitive and flexible measures, and the present “double-headed” customs management arrangement is unable to provide the agility needed.

**23. Customs personnel are now working reduced time as allocated budget is insufficient to pay full time staff.** As a matter of policy, public administration workers are only required to work for 14 days a month, leaving customs struggling to maintain 24 hours’ presence at the ports of entry and provide normal clearance services. There are limitations on the vehicles in use and on fuel, whilst the customs IT system needs considerable investments in both infrastructure and professional staff to sustain long term services. There also high levels of vacancies among civil LCA staff, with only 310 actual staff presently compared to 680 authorized. The Brigade maintains 1670 actual staff out of an authorized 2365.

**24. The LCA has not moved yet into the newly reconstructed offices in the Port of Beirut.** While the offices are almost ready for regular use, the HCC has not taken a decision to allocate funding to the DG of Customs for office furniture. In addition to regular operations, the new offices have space for accommodation of the Customs IT Centre (CITC) but, because of indecision, they cannot move there – all the while, in the interim period, they rent a private facility for the CITC for USD \$340,000 per year.

### B. Reform and CD Priorities

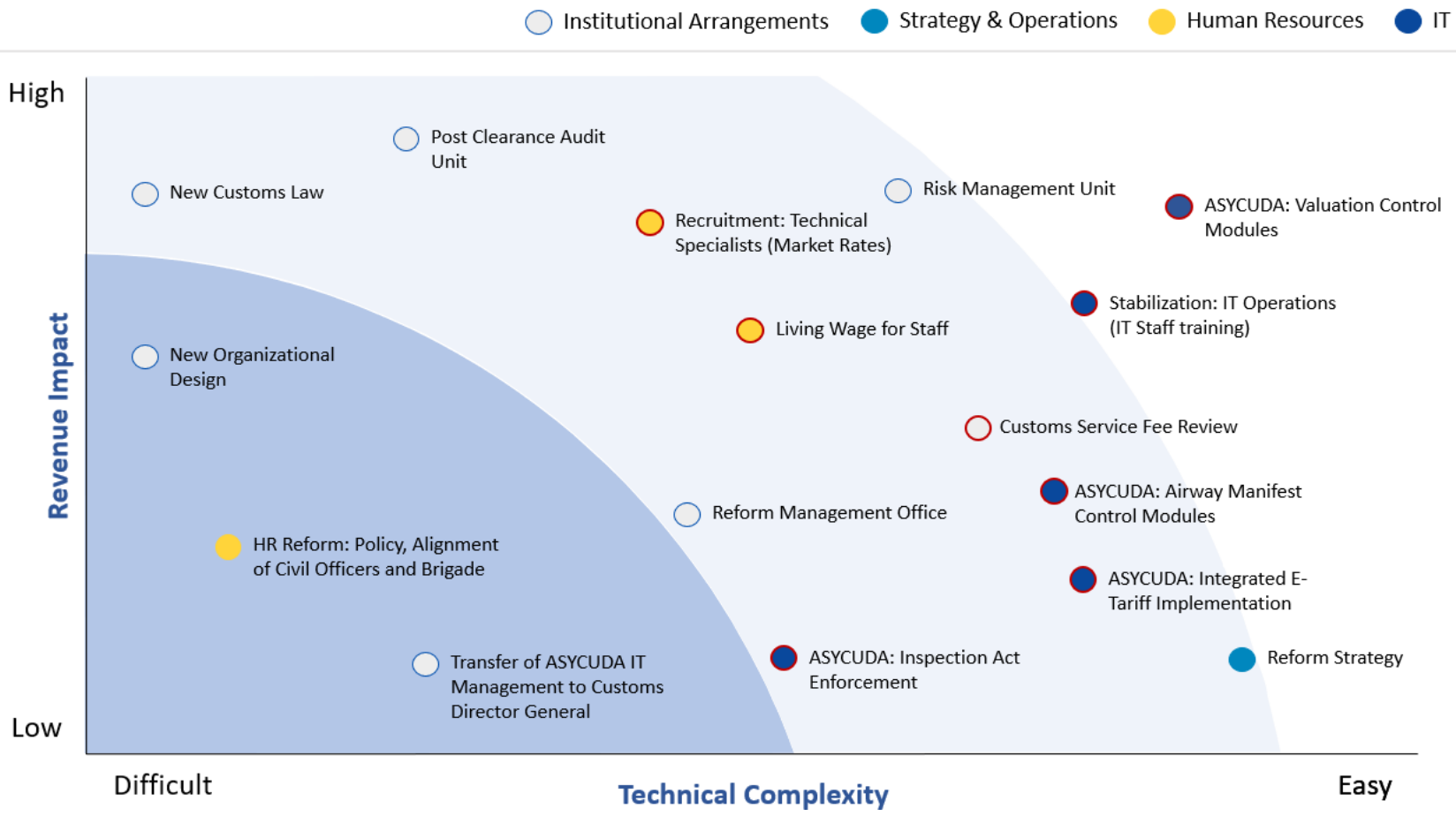
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**25. Figure 3 presents the results of an analysis of current customs administration priorities prepared using the methodology in Section II.** Like the tax directorates, the current priorities for the LCA largely entail crisis management and better use of existing tools (i.e., ASYCUDA). Deployment of the ASYCUDA modules, along with the supporting organizational arrangements will dramatically improve operations. Key among the institutional support required is establishment of a risk management unit.

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<sup>14</sup> Strategic plans are currently being drafted.

Figure 3. Customs Administration: Reform and CD Priorities (Next 36 Months)



Note: Activities requiring immediate attention are designated by a: ○

## Institutional Arrangements

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>Customs Service Fees are Inadequate.</b> Fees are currently limited to overtime based on the declared value in the customs declaration. Almost all services provided by customs in Lebanon are free of charge or, if charged, are less than the incurred cost of the actual service itself.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Customs Service Fee Review.</b> Customs service fees are reviewed, and services charged based on cost recovery in line with WTO and WCO agreements, with retention of fees recovered for reinvestment in modernization (potentially, based on regional examples, for both tax and customs).</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> Immediate</p>
<ul style="list-style-type: none"> <li>▪ <b>Existing Legal Framework Not Implemented.</b> The LCA operates according to the Customs Law in force (1984, amended in 2001). Features of a modern customs administration are provided for in the existing law, but are not yet implemented (e.g., risk management, paperless declarations, pre-arrival information and summary declaration on arrival, appeals).</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: New Customs Law.</b> A new Customs Law to align legal framework with international standards and modern customs practice. Modern customs law is drafted to be short, consolidated law laying down main principles and standards, whilst the operational framework is further developed through implementing regulations and additional detailed instructions.</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> 12 – 24 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Governance is Deeply Problematic.</b> The LCA effectively has four DGs concurrently (three members of the HCC cabinet plus the DG), which impedes effective decision-making. In practice, the HCC has exceeded its legal mandate to act as a policy deciding and performance monitoring body, by interfering with key operational matters (e.g., administration of ASYCUDA, risk management).</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: New Organizational Design.</b> A modern organizational structure and governance arrangement that takes into consideration new customs functions – including Post-Clearance Audit (PCA), Risk Management (RM), intelligence, Single Window (SW), and compliance – assuring timely decision making in line with international standards and modern customs practices.</li> </ul>	<p><b>Type:</b> Other Priority <b>Timing:</b> As Circumstances Allow</p>
<ul style="list-style-type: none"> <li>▪ <b>No Reform Management Unit Exists.</b> Several reform activities are currently ongoing, however there is no single unit within the organizational structure of LCA for coordination, monitoring, and</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Reform Management Office.</b> A Reform Management Office is established, reporting to the DG Customs and tasked with monitoring,</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> 6 – 12 Months</p>

implementation of strategic interventions and foreign donor programs.

coordination and implementation of strategic modernization plans, and donor funded projects.

- **Post Clearance Audit is Weak.** Declarations are audited on an ad-hoc basis, with no systematic approach for audit and two units (both HCC and customs) are currently conducting audit in isolation of each other. Audit results are not used to inform RM nor reflected in ASYCUDA.

- **Priority: Post Clearance Audit Unit.** A PCA function is established in accordance with WCO recommendations, and all audit activities are conducted by one unit that interacts with other functional areas in customs (RM, intelligence, anti-smuggling, clearance).

**Type:** Core Initiative  
**Timing:** 6 Months

- **No Risk Management Unit Exists.** No dedicated function exists, nor do the respective and typical governance arrangements and procedures (e.g., a risk committee) to aid in implementing structured processes for selectivity and profiling in ASYCUDA.

- **Priority: Risk Management Unit.** A RM unit is established, and RM is conducted according to WCO recommendations and good practices. A RM framework and procedures are documented, and selectivity is maintained in ASYCUDA using a structured process.

**Type:** Core Initiative  
**Timing:** Immediate

- **ASYCUDA is Managed Inappropriately.** ASYCUDA is currently managed under the HCC (ostensibly a policy body) which creates a problem when resolving daily issues faced by customs administration operations, due to delays in decision making and communication.

- **Priority: Transfer of ASYCUDA IT Management to Customs Director General.** The automated system will be seamlessly updated with operational information related to risk, audit, inspections and profiles for selectivity, which will improve efficiency, compliance, and governance. Day to day IT related problems (ensuring connectivity, resolving technical problems) will be more easily resolved.

**Type:** Other Priority  
**Timing:** Immediate

## Strategy and Operations

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>The Draft Strategic Plan Needs Revision.</b> The LCA is developing a reform strategy through HCC which established a working group for the purpose. The first draft shared with the mission needs substantial work to turn it from a ‘wish list’ into a strategic reform plan.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Reform Strategy.</b> A well-developed medium-term strategic plan will help LCA focus all resources on stabilizing the service and return it to pre-blast standards. It will also serve as a results-based guide for other donors’ input.</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> Next 12 Months</p>

## Human Resources

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>Two Types of Officers Exist in the LCA.</b> There are civil customs officers regulated by civil service law and paramilitary officers regulated by Customs Brigade Law. Although the Brigade reports to DG Customs for operational work, there are restrictions on how they are deployed. This limits the flexibility that LCA has to adapt to changing circumstances and respond to temporary or seasonal workloads.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: HR Reform: Policy, Alignment of Civil Officers and Brigade.</b> Reform of HRM policy and alignment of status of Brigade with civil customs personnel must be a priority action. The LCA’s HRM policy needs alignment with civil service status in Lebanon, but it is better if a new HRM policy is developed based on the EU customs competency framework<sup>15</sup>.</li> </ul>	<p><b>Type:</b> Other Priority  <b>Timing:</b> Next 12 Months</p>
<ul style="list-style-type: none"> <li>▪ <b>Inflation Has Reduced Real Wages.</b> Real wages are far lower than the minimum living level and local market private sector wages. LCA staff, especially those with technical experience, and particularly IT experts, are leaving the service in large numbers. Although the HCC could use its fees for service mechanism to compensate staff wages and</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Living Wage for Staff.</b> The fees for service mechanism needs review to gauge its potential for adjustments to staff remuneration. The IMF can support LCA in the review, provided there is the political will and assurance that funds raised by fees are retained for revenue administration, to be</li> </ul>	<p><b>Type:</b> Core Initiative  <b>Timing:</b> Next 6 Months</p>

<sup>15</sup> See: <https://circabc.europa.eu/ui/group/46a95fc1-7492-452a-a7b3-14df834c452f/library/8241a849-3589-4380-9fe1-1b2cc11daab3/details>

distribute bonuses, this has not been activated due to lack of decision making.

managed in transparent fashion, for sustaining and stabilizing services provided to the trade community.

<ul style="list-style-type: none"> <li>▪ <b>A Nearly Complete Absence of IT Experts.</b> The ASYCUDA IT system is almost at a state of collapse. The Customs IT Center (CITC) has only one old server, and no qualified staff to troubleshoot the system, let alone to develop functionalities. The present situation is extremely serious, with lack of decision making having aggravated the situation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Recruitment: Technical Specialists (Market Rates).</b> The HCC must allocate service fee funding to pay market rate salaries to IT experts. The IMF can support the training of permanent staff assigned to CITC on IT needs for maintaining and developing the ASYCUDA system.</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> Next 6 Months</p>
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## Information Technology (IT)

Current State	Reform or CD Priority	Remarks
<ul style="list-style-type: none"> <li>▪ <b>Critical Lack of Staff and Resources.</b> The LCA uses the ASYCUDA World-UNCTAD developed IT system for customs processing. There is only one officer remaining on the regular IT staff who has the technical capacity to maintain the system to meet daily needs. A server shortage of equipment exists, and many officers do not have PCs or tablets.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: Stabilization: IT Operations (IT Staff Training).</b> It is critically important that basic IT administration tasks are performed. The CITC should move immediately to the new customs building, releasing rent money currently paid for IT offices<sup>16</sup>, using those funds for hiring, system stabilization and equipment.</li> </ul>	<p><b>Type:</b> Quick Win <b>Timing:</b> Immediate</p>
<ul style="list-style-type: none"> <li>▪ <b>Examination Results are Captured on Paper.</b> Results are not captured via the ASYCUDA “Inspection Act” form (available but not being used) – results are instead documented on paper. The practical effect is a limited ability to centrally monitor examinations, detect and respond to threat patterns and / or</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Priority: ASYCUDA: Inspection Act Enforcement.</b> The Inspection Act form is activated in the system and mandated for use by operational staff in the clearance of goods. This will provide information to RM and intelligence units, once established. Equipment is needed for all staff to access the system (e.g., PCs, tablets).</li> </ul>	<p><b>Type:</b> Core Initiative <b>Timing:</b> Next 6 Months</p>

<sup>16</sup> HCC pays about USD \$340,000 yearly in rent for CITC accommodation to a building not owned by customs administration whilst the newly reconstructed customs building in Port of Beirut with an EU grant remains unutilized because of lack of some \$30,000 to purchase office furniture and set up the office networking.

malicious actors. This issue could reasonably be labeled a “national security risk.”

- **Limited Automation Support for Manifests.** The Aircraft Manifest Control Modules are not developed in the automated system; the Manifest module that provides for optimal cargo management is implemented only for the seaports, not airports and land borders.

- **Priority: ASYCUDA: Airway Manifest Control Modules.** The aircraft Manifest Control Modules are developed and deployed, enabling monitoring of arriving shipments against shipments declared.

**Type:** Other Priority  
**Timing:** Next 6 Months

- **Tariff Reference Tables in ASYCUDA are Dated.** The current schedule of customs tariff in LCA ASYCUDA is based on HS 2017 edition having the commodities classified at the 8-digit classification range. HCC concluded tariff conversion to WCO 2022 HS in MS Excel, but they requested technical support to upload and activate it in ASYCUDA.

- **Priority: ASYCUDA: Integrated E-Tariff Implementation.** The new schedule of tariffs based on the WCO HS 2022 edition is uploaded and activated in the ASUCUDA system. Upon doing so, the LCA meets its obligations according to the WCO HS convention.

**Type:** Core Initiative  
**Timing:** Next 6 – 12 Months

- **Only Basic Value Limits are Used in Selectivity.** Misdeclaration of values is one of the major methods of duty evasion. Due to the lack of RM, PCA, proper selectivity and profiling, the HCC have decided to deploy value limits as a tool for selectivity. This tool is currently an automated simple average of declared value that is easily manipulated by declarers.

- **Priority: ASYCUDA: Valuation Control Modules.** Selectivity will be based on multiple parameters to prevent manipulation, including values. FAD will support the LCA to customize the ASYCUDA valuation module to implement risk-based selection for valuation verification (this measure will not replace the need for full PCA and RM programs).

**Type:** Quick Win  
**Timing:** Next 4 – 6 Months (Maximum)



## Recommendations

### *Immediately –*

- Seek urgent intervention to ensure the continuity of mission critical functions (emphasizing stabilization of IT operations), and a living wage for staff.
- Request international support to review the potential increase and use of customs service fees to support modernization (tax and customs).

### *Next 6 – 12 Months*

- Revise the existing draft strategic plan from a “wish list” to a strategy, accounting for the reform priorities identified in this report (Section IV).
- Implement a risk management unit, framework, and procedures that mandate use of ASYCUDA’s “Inspection Act” form.
- Implement ASYCUDA’s Valuation Control module, seeking the international expertise required for support.

## C. The Higher Customs Council

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**26. Badly needed reforms in the LCA have been persistently stalled due to a requirement for consensus between the DG Customs and HCC, the latter operating beyond its legal mandate.** In the current scenario, all three of the HCC’s members and the Customs DG must agree for decisions to be taken. This greatly impedes the introduction of any substantive change. According to the law in force, the HCC is to act as an administrative policy and strategy body.<sup>17</sup> Today, there is clear overreach of the council which, apart from legal concerns, contravenes all norms of accepted international good practice. Examples of this overreach include:

- *Administration of the CITC and ASYCUDA World.* The HCC has, in apparent contravention to the law, assumed responsibility for IT operations. While the council itself is subject to external audit, auditors have historically been refused access to ASYCUDA and its data – the effect being that audits of the system are not being performed to confirm its proper use.
- *Management of Risk Selectivity Criteria.* In a regular scenario, management of selectivity criteria through a risk management committee and operational unit is a core function, accompanied by structured procedures. The current arrangement whereby the HCC itself manages criteria contravenes all regular norms of contemporary customs administration.
- *Conduct of Field Audits.* Within the HCC, a control department is in place that acts as an internal audit function. In the course of an internal audit, if evidence is found that trade has

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<sup>17</sup> Law number 123 dated 12 Jun 1959 on “Determine the provisions for the Ministry of Finance, the Customs Administration, and the National Lottery Directorate” (Articles 9 to article 15); Law number 2868 dated 16 Dec 1959 on “Organization of the Ministry of Finance” Article 62 (Reduplicated 3 times) and article 62 duplicated); Law number 707 dated 16 Jun 1983 on “Putting the expedited draft law referred to the House of Representatives pursuant to decree No. 406 dated 3/30/1983 aimed at implementing the Customs Automated Center Authority into effect”, and Law number 1418 dated 31 Dec 1983 on “Organizing the Customs Automated Center Service”.

occurred in manner not compliant with the law, the HCC's same control department should not then conduct on-site visits to company premises to perform a field audit (instead referring the respective case to investigations and the PCA unit).

**27. Many inefficiencies and dysfunctions in the LCA are created by existence of the HCC and are widely acknowledged, including by the council itself.** Ramifications of the current governance arrangement's negative influence on reforms extend beyond revenue and into serious matters of border security. An urgent need exists to address the matter by taking firm steps to create a single customs administration ("single body") led by a single individual with full executive authority ("single head").

## Recommendations

### *Next 6 – 12 Months*

- As a step towards returning to the HCC's legislated mandate and authority, transfer administration of ASYCUDA from the HCC to the DG Customs.

## V. Capacity Development Support

### A. Proposed IMF CD Activities

**28. With the full launch of the dedicated IMF CD project for tax administration, an intensive program of support is now available.** In addition to direct support provided through the project’s long-term resident advisor, the delivery of specialized expertise is possible. Based on findings in this report, and the activity plan in Table 2, the following activities to bring in this expertise are proposed (for joint delivery by both FAD and METAC). Flexibility will be maintained throughout the life of the CD project. As circumstances allow, the program will pivot from a focus on immediate needs and quick wins to more substantial reform topics.

**Table 2. Tax Administration: Proposed CD Activity Plan (2023 – 2026)**

CD Activity	Timing	Remarks
<b>Immediate Needs</b>		
Stabilization: IT Operations	2024	Technical advice, as required
<b>Quick Wins</b>		
Data Analytics and Compliance Risk Analysis	2023 – 2024	Analytics support with SIGTAS data
Data Matching and Risk Analysis: Customs	2024	Analytics support with customs data
Compliance Strategy: Large Taxpayers	2024	Collaborative development of strategy
<b>Core Initiatives</b>		
Compliance Strategy: Crisis Operations	2024	Collaborative development of strategy
Integrated LTO Re-Launch: Largest Cases Only	2024 – 2025	Within existing structures, if required
Integrated Compliance Departments	2024 – 2025	Within existing structures, if required
Reform Strategy	2024 – 2025	TADAT assessment and strategy
Training: Audit and Collection	2024 – 2026	In support of compliance strategies
Semi-Autonomous Administration	2024 – 2026	Technical advice, as required
Reform Management Office	2025 – 2026	Support to establish reform office
<b>Other Priorities</b>		
SIGTAS Replacement	2025 – 2026	Strategy, procurement requirements

**29. A possibility to expand customs administration CD support may exist, and the authorities are encouraged to explore the proposed activities in Table 3.** The activities that have already been committed to through METAC are highlighted with an asterisk (\*). All other activities are tentative based on findings in this report, resources, and the IMF’s ability to field the expertise required. Should interest in receiving the support proposed below exist, a confirmation from the authorities is necessary for the IMF to begin the process of securing the resources required (effectively expanding the IMF’s tax administration CD project into customs administration).

**Table 3. Customs Administration: Proposed CD Activity Plan (2023 – 2026)**

CD Activity	Timing	Description
<b>Immediate Needs</b>		
Stabilization: IT Operations	2023 – 2024	ASYCUDA technology training
<b>Quick Wins</b>		
* ASYCUDA: Valuation Control Modules	2023 – 2024	Implementation of the module
ASYCUDA: Manifest Control Modules	2023 – 2024	Implementation of airway manifests
<b>Core Initiatives and Other Priorities</b>		
Risk Management Unit	2024 – 2025	Implementation of risk management unit
ASYCUDA: Inspection Act Enforcement	2024 – 2025	Support for implementation
New Customs Law	2024 – 2025	Implementation of new customs law
* Customs Service Fee Review	2023 – 2024	Review and advice on current fees
* Reform Strategy	2023 – 2024	Support to finalize current strategy
* Post-Clearance Audit Unit	2025 – 2026	Support to improve capabilities

## Recommendations

### *Immediately –*

- Review and confirm support for the proposed CD activity plan for tax administration (Section V) or provide input for any desired adjustments.
- Review the proposed CD activity plan for customs administration (Section V) and provide over email a letter confirming agreement to the support.

# Annex I. Rationale for Prioritizing Activities

## Tax Administration: Rationale for Activities

Activity	Rationale for Prioritizing Activities
<b>Quick Wins</b>	
Data Analytics and Compliance Risk Analysis	Essential and urgent to extract vital performance and risk data and inform compliance improvement strategies and action plans.
Data Matching and Risk Analysis: Customs	A source of data that has remained untapped for several years. Offers significant potential to uncover unregistered traders and other businesses that are under-declaring income tax and VAT liabilities.
Compliance Strategy: Large Taxpayers	Provides a multi-faceted and targeted response to the risks to revenue collection posed by the businesses contributing most to the national budget.
<b>Core Initiatives</b>	
Stabilization: IT Operations (Incl. SIGTAS Administration)	Essential and urgent to avoid an almost inevitable collapse of obsolete IT systems, and related loss of data and impairment of revenue collection.
Semi-Autonomous Administration	The current inefficient organization structure impedes effective compliance risk management and imposes burdens on business through duplication of tax interactions. Operating in a business-like manner free from political influence, the proposed new structure has the budget flexibility to deploy resources where they are most needed and reduce business cost burdens, but implementation requires input from multiple stakeholders with diverse needs and outlooks.
Living Wage for Staff	Essential and urgent to stem the constant stream of staff departures, restore resource deployment levels and enhance revenue mobilization.
Integrated LTO Re-Launch: Largest Cases Only	Integrating the oversight of all taxes due from large businesses enhances compliance risk management practices, supports stronger revenue collections, strengthens sustainable revenue administration capabilities, and reduces burdens on large taxpayers.
Integrated Compliance Departments.	Integrated compliance operations will greatly improve the effectiveness of compliance strategies, promoting limited duplication of work and further reducing burdens on taxpayers.
Recruitment: Technical Specialists (Market Rates)	Needed to fill gaps in critical business areas caused by the loss of key specialist staff to better-paid private sector jobs or by emigration.

Offices and Equipment	Providing even basic levels of serviced accommodation and equipment facilitates better taxpayer services and compliance risk management, enhances operational effectiveness and community confidence in the system of taxation, and motivates staff.
Reform Strategy	The reform strategy will align individual projects to the overall strategic plan, and ensure proper prioritization, sequencing, timelines, and delivery budgets.
Reform Management Office	Coordination and sound reform management practices are critical to delivery of multiple related reform projects on time, within budget, and of acceptable quality.
Audit and Collection Training	Delivery of key compliance strategies may require industry expertise (e.g., with telecommunications), which will benefit from the delivery of training courses and support by international experts.
Compliance Strategy: Crisis Operations	Provides sharp focus for the tax administration's limited resource capacity on the most intense risks to collections where early action can generate additional revenue and protect the tax base.
Electronic Filing (PIT)	A relatively straightforward extension of existing electronic service provision that improves operational efficiency and compliance management and reduces burdens on taxpayers.
Core Processing Backlog	Resource-intensive with uncertain direct return on the investment, but important to reinforce the structural stability of the PIT system.
AEOI Infrastructure	The ability to receive data on taxpayer accounts held abroad, in context of a compliance strategy, could have a substantial revenue impact in Lebanon's specific circumstances.
<b>Other Priorities</b>	
SIGTAS Replacement	Deployment of a new Commercial Off the Shelf IT system that supports the integrated administration of all taxes collected by the VAT and Revenue Directorates, in place of the obsolete and increasingly declining SIGTAS system, is an essential for modern tax administration. Challenges include budget funding for the investment and the length of time needed for acquisition.
Centralization of Back-Office Functions	Centralizing enterprise-wide functions such as IT, analytics and data management, tax debt management, and risk assessment offers enhanced flexibility and operational efficiencies.

## Customs Administration: Rationale for Activities

Activity	Rationale for Prioritizing Activities
<b>Quick Wins</b>	
Stabilization: IT Operations (IT Staff Training)	Essential and urgent to avoid an almost inevitable collapse of Customs IT systems, and related loss of data and impairment of revenue collection.
ASYCUDA: Valuation Control Module	Essential for better control of value of imported goods based on risk-based automated selectivity.
<b>Core Initiatives</b>	
New Customs Law	A new customs law will enable LCA to implement recognized international standards in customs and trade (Safe framework, Authorized Economic Operations, etc.), improving integration in the global supply chain.
Post Clearance Audit Unit	PCA acts as a trade performance review and improved compliance mechanism, extending customs controls beyond the clearance instance of goods, streamlining controls and clearance times, thus speeding up trade whilst provide for protection and recovery of any lost revenues.
Recruitment: Technical Specialists (Market Rates)	Essential for stabilization, maintenance, and development of customs IT systems.
Risk Management Unit	Risk management is a core customs function enabling customs to concentrate efforts and resources to mitigate risks to revenue, improve security and social protections. Without risk management customs cannot effectively facilitate trade and improve compliance.
Living Wage for Staff	Essential and urgent to stem the constant stream of staff departures, restore resource deployment levels and enhance revenue mobilization.
Customs Service Fee Review	Revisions to the fee may raise funding required for modernization (particularly IT) and proving a living wage for staff through award of performance-based allocations.
Reform Management Office	Essential for project management, reporting, monitoring of implementation of strategic plans and coordination of foreign donor input.
ASYCUDA: Airway Manifest Control Modules	Essential for automated cargo management and to ensure that all unloaded goods are cleared through declaration processing.
ASYCUDA: Integrated E-Tariff Implementation	Essential to ensure that all tariff and non-tariff measures are properly implemented during the clearance process.



ASYCUDA: Inspection Act Enforcement	Essential for capturing feedback from the results of the customs controls, and necessary for risk profiling and selectivity. Provides information that is critically important when seeking to understand and mitigate border and national security threats.
Reform Strategy	Will enable the LCA to focus its efforts and scarce resources to make progress in identified areas of priority, especially on at least recovering the standards of service being provided before the blast.
<b>Other Priorities</b>	
New Organizational Design	This is essential to align the organization based on the functions needed to implement a modernized customs law, modern customs techniques, and strategic goals.
HR Reform: Policy, Alignment of Civil Officers and Brigade	Essential to align the status of all customs personnel so every member of staff can be flexibly allocated to carry out multi-task functions whilst specializing also in multiple roles, allowing the organization to quickly respond to changing environment and trade patterns.
Transfer of ASYCUDA IT Management to Customs Director General	ASYCUDA is the main customs IT processing system, and it is used during clearance as an operational tool. That is why its administration must be performed at the operational level (not via the HCC). It is also essential that customs operational staff, risk management, investigation, intelligence and PCA have controlled (i.e., managed) access to the system as well as the underlying database(s) so that they can retrieve reports and the data for ad-hoc analysis. The HCC should have access to standard pre-packaged and tailored reports that track overall customs performance and inform policy and strategic decisions.

## Annex II. Status of Prior Recommendations

### Tax Administration

#### Tax Administration: Status of Prior Recommendations – Short-Term Activities

Short-Term Activity	Status	Remarks
<p>Approve a plan of actions to deliver revenue restoration by the end of 2022:</p> <ul style="list-style-type: none"> <li>▪ Focus revenue collection on: (i) industries / individuals that were less significantly impacted by the crisis; and (ii) new businesses that have emerged or grown due to the pandemic.</li> <li>▪ Launch a new instalment scheme for payment of VAT, PAYE, and other tax liabilities.</li> <li>▪ Identify large debtors owing more than LBP 5 Billion, manage these under a dedicated team, and profile these cases using a comprehensive template.</li> <li>▪ Re-launch the LTO under new eligibility criteria and merge VAT administration for large taxpayers into the LTO.</li> </ul>	<p><b>In-Progress</b></p> <p><b>In-Progress</b></p> <p><b>In-Progress</b></p> <p><b>In-Progress</b></p>	<p>Initial focus was on the healthcare sector, which had flourished during the pandemic, sectors receiving subsidies (e.g., fuel, food), and on tourism which has recovered well.</p> <p>Articles prepared for all types of taxes including PAYE and VAT, done so exceptionally and for one time since the tax administration considers VAT and PAYE “trust” monies must be paid in full and on time. The articles were not approved by parliament due in part to currency devaluation.</p> <p>Cases identified and calls made to encourage payment of debts. Approximately 40% of the large debts were settled as a result of the calls.</p> <p>Plan prepared but not implemented, as up-to-date turnover data to support establishing new LTO criteria are not available yet owing to extension of return filing deadlines.</p>

<ul style="list-style-type: none"> <li>Secure additional Virtual Private Network (VPN) access points for remote work for a critical mass of the staff.</li> </ul>	<b>Not started</b>	Not considered necessary owing to changed circumstances – staff attending office more regularly than in early 2022.
Secure a short-term injection of emergency financing for ICT expert recruitment and system maintenance.	<b>Not Started</b>	Budget funds not available
<p>Approve a plan of actions for critical work force needs in 2022:</p> <ul style="list-style-type: none"> <li>Finalize a set of revenue critical positions in the VAT and Revenue Directorates and in customs.</li> <li>Develop a work force plan for continued availability of these roles.</li> <li>Transfer staff to these roles as temporary transfers or secondments.</li> </ul>	<b>In-Progress</b>	Revenue-critical positions identified focusing on compliance and taxpayer services in VAT directorate, and in Beirut. Staff being deployed flexibly in those offices. Regional offices not yet started due to staff shortages.
Establish a Program Management Office to coordinate the various reform initiatives.	<b>In-Progress</b>	Strategic Plan 2022–26 covering VAT and Revenue Directorates contains reform objectives and priorities. Approved by Minister in 2022. PMO not yet actioned.
Introduce reforms for the taxation of digital goods and services.	<b>In-Progress</b>	VAT ‘place of supply’ rules included in draft Budget Law. An article also included that makes any income generated in Lebanon by foreign platforms through selling goods or rendering services to Lebanon taxable.
Establish a cross agency Shadow Economy Standing Taskforce.	<b>In-Progress</b>	UNDP-funded street searches performed to identify unregistered tourism and hospitality businesses. Approximately 80 businesses reviewed of which 35 percent were found to be not registered for Income tax and 65 percent not registered for VAT. Unregistered businesses that were uncovered are in process of being registered.
Request IMF support for the development and implementation of the revenue modernization strategy.	<b>Complete</b>	Covered during current FAD mission.

### Tax Administration: Status of Prior Recommendations – Medium-Term Activities

Medium-Term Activity	Status	Remarks
Implement a multi-tax commercial off-the-shelf system (COTS) for integrated computer support to VAT and income taxes administration.	<b>In-Progress</b>	Included as an objective in Strategic Plan 2022-26. No further progress.
Develop a road map and plan for integrated tax administration commencing with the HQ and the LTO.	<b>In-Progress</b>	Included in Strategic Plan 2022-26. Awaiting Cabinet decision but planning for operational integration within existing structures starting January 2024.
Consider a semi-autonomous tax agency as the future governance model of tax administration.	<b>In-Progress</b>	Included in Strategic Plan 2022-26. Awaiting Cabinet decision.
Ensure the tax administration has operational autonomy and freedom from political interference in the determination of an individual's tax affairs.	<b>In-Progress</b>	Included in Strategic Plan 2022-26. Awaiting Cabinet decision.
Conduct a pilot industry compliance strategy targeting the highest risk industry identifying those operating outside the system, with the intent to increase registration, filing, and payment.	<b>In-Progress</b>	Commenced – see short-term initiative on tourism and hospitality businesses. Yet to be extended.
Launch an initiative focusing on the shadow economy from a whole-of-government perspective.	<b>In-Progress</b>	Early stages. Exploratory meetings held with other relevant ministries.

## Customs Administration

### Customs Administration: Status of Prior Recommendations – Short-Term Activities

Short-Term Activity	Status	Remarks
Restore essential infrastructure to enable customs activity to return to at least the level before the blast in the port of Beirut.	<b>In-Progress</b>	Building refurbished but staff has not moved in yet due to a lack of funding for furniture and IT networking.
Reinforce post-clearance audit (PCA) programs for large and at-risk traders.	<b>Not Started</b>	PCA function lacks staff and understanding of the role; currently, they react to offences on an ad-hoc basis.
Develop a system of risk analysis to have a first assessment of the risks in arriving cargo and a selection for controls and containers to be scanned on the basis of safety and security factors.	<b>Not Started</b>	RM framework developed by development partners but not yet approved by HCC. There are no staff assigned yet to risk management. The RM function needs to be established with policy, procedures, staff and capacity development support.
Fully utilize ASYCUDA and add needed extra modules, in order to enhance it from an electronic mailbox and calculator to a real import system.	<b>Not Started</b>	There is lack of staff, capacity and funding to sustain the function.

### Customs Administration: Status of Prior Recommendations – Medium-Term Activities

Medium-Term Activity	Status	Remarks
Develop and fully implement an Authorized Economic Operator (AEO) Program.	<b>Not Started</b>	Cannot be started as risk management and PCA functions are not in place.
Develop and fully implement a Single Window Program under Customs leadership, with border controls of goods in the focus, and in cooperation with ministries, government agencies, and other organizations involved in the border control of goods.	<b>In-Progress</b>	Started with one partner (Ministry of Health) and subsequently suspended. Political will is needed to reactivate the initiative, as is stabilization of the existing, core customs IT system.
Refocus the mandate of the High Customs Council to ensure its higher -level policy role and operational decision making is exclusively delegated within the customs administration.	<b>Not Started</b>	HCC has exceeded their legal mandate.
Develop an automated valuation reference database.	<b>In-Progress</b>	In progress but needs support with ASYCUDA.
Develop a risk management strategy together with a compliance management strategy to improve the effectiveness of customs controls through risk management, inspection controls and PCA.	<b>Not Started</b>	Not started
Introduce a system of electronic (pre)-arrival declarations through the introduction of a summary declaration.	<b>Not Started</b>	Not started
Introduce an automated register of all goods off-loaded, serving to discharge the manifest and allow easy writing-off of the manifest of those goods for which declaration are lodged.	<b>In-Progress</b>	Completed for seaports, not airports and land borders.