



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **LEBANON**

Tax and Customs Administration:  
An Urgent Need for Intervention

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### **High-Level Summary Technical Assistance Report** Fiscal Affairs Department

**Lebanon**

**Tax and Customs Administration: An Urgent Need for Intervention**  
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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** This summary provides an overview of guidance provided to Lebanon's Ministry of Finance, its VAT and Revenue Directorates, and the Lebanese Customs Administration. Building on prior IMF advice, it conveys an urgent need for intervention to address loss of staff and a risk of failure with key IT operations in the respective agencies. Separately, the accompanying technical assistance report provides confirmation of broader reform and capacity development priorities for the next 36 months.

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## Background

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 to launch a CD project organized jointly with the IMF Middle East Regional Technical Assistance Center (METAC) and dedicated to tax administration in Lebanon.

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. This review included an evaluation of current issues.

## Summary of Findings

**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 and 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.**

## Recommendations

**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.

**Additional priorities have been identified in the accompanying technical assistance report, along with recommendations for their implementation.**

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