



Republic Of Lebanon
Ministry of Interior and Municipalities
First Municipal Infrastructure Project

Municipal Finance Studies Program

Final Roadmap for Modernizing Municipal Finance in Lebanon **(Final Report of Studies 1, 2 & 3)**

Submitted by:



International City/County Management Association (ICMA)

With its subcontractors:

Consultation and Research Institute (CRI)
TCG International (TCGI)

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List of Contributors (in alphabetical order)

1. **Sami Atallah**, ICMA Program Director and Team Leader for the Independent Municipal Fund Study
2. **Lea Bou Khater**, Social and Economic Development, CRI
3. **Arne Croce**, City Manager, ICMA
4. **Judit Deilinger**, Director of New Initiatives, ICMA International
5. **Patrick Doherty**, International Property Tax Expert
6. **Fares El-Zein**, Team Leader for the Property Tax Study
7. **William Emerson**, Former Town Manager of Dewey-Humboldt
8. **Nayla Geagea**, Trainee, Saghie Law Firm
9. **Scott Gibbons**, International Property Tax Expert
10. **Kamal Hamdan**, Executive Director, CRI
11. **Redha Hamdan**, Senior Economist and Statistician, CRI
12. **Lisa Lau**, Program Manager, ICMA
13. **George Liyos**, City Manager, ICMA
14. **Youmna Makhoul**, Trainee, Saghie Law Firm
15. **Rania Nader**, Public Management and Finance, CRI
16. **Rima Olleik**, Field Coordinator, CRI
17. **David Painter**, International Municipal Finance Expert
18. **Robert Peirson**, former Chief Financial Officer of the City of Santa Barbara, CA
19. **Dalal Reda**, Translator
20. **Nizar Saghie**, Legal Expert for Municipal Finance Framework Study, Independent Municipal Fund Study, and Property Tax Study
21. **Mira Saidi**, Social and Economic Development, CRI
22. **Peter Salloum**, Team Leader for the Municipal Finance Framework Study

List of Contributors (by function)

Partners:

ICMA, Judit Deilinger
CRI, Kamal Hamdan
TCGI, Chuck Billand

Project Coordinators (in alphabetical order):

Sami Atallah
Judit Deilinger
Lisa Lau
David Painter

Program Director

Sami Atallah

Authors of the Chapters:

Chapter 1: Sami Atallah, Judit Deilinger and David Painter
Chapter 2: Peter Salloum, Rania Nader, Nizar Saghie, and Robert Peirson
Chapter 3: Sami Atallah, Nizar Saghie, David Painter, and Peter Salloum (IT section)
Chapter 4: Fares El-Zein, Nizar Saghie, Patrick Doherty, Scott Gibbons, and Peter Salloum (IT section)
Chapter 5: Sami Atallah

Research and Logistical Support:

Rania Nader
Lea Bou Khater
Rima Olleik
Mira Saidi
Redha Hamdan
Nayla Geagea
Youmna Makhlouf
Dalal Reda

International Advisory Panel:

Arne Croce, Partner
William Emerson
George Liyos

List of Acronyms

BOT	Build, Operate, and Transfer
CAS	Central Administration for Statistics
CDR	Council for Development and Reconstruction
CIB	Central Inspection Board
CoA	Court of Audit
CoM	Council of Ministers
CSB	Civil Service Board
DGI	Department of Guidance and Inquiry, MoIM
IMF	Independent Municipal Fund (Study)
MC	Municipal Council
MCP	Municipal Council President
MFF	Municipal Finance Framework Study
MFSP	Municipal Finance Studies Program
MoF	Ministry of Finance
MoIM	Ministry of Interior & Municipalities
MoL	Ministry of Labor
MoPWT	Ministry of Public Works and Transportation
MoT	Ministry of Telecommunication
NSSF	National Social Security Fund
PA	Priority areas
PCU	Program Coordination Unit
PCM	Presidency of the Council of Ministers
PM	Prime Minister
PT	Property Tax Study
TAU	Technical Assistance Unit
TOR	Terms of Reference
VAT	Value Added Tax

List of Laws and Decrees

Decree-Law 118/1977	Municipal Act
Law 60/1988	Municipal Fees and Surtaxes Law
Decree 14969/1963	General Accounting Law Proposal issued by Decree
Decree 5595/1982	Accounting Principles for Municipalities & Municipal Unions Decree
Decree-Law 82/1983	Court of Audit Decree
Decree-Law 115/1959	Central Inspection Board Decree
Decree-Law 50/1967	Statute and Organization of the Civil Defense Decree
Decree 8485/1996	Municipalities and Municipal Unions subject to the use of IT in Financial Management
Decree 2460/1959	Organization of Central Inspection Board Decree
Decree 10388/1997	General Ledger Decree
Law 379/2001	VAT Law
Decree-Law 114/1959	Civil Service Board Act
Decree 3489/1965	Financial Reporting Requirements of the CoA Decree
Law 160/1992	Rent Contracts Extension Law
Decree 4082/2000	Organization of the Ministry of Interior and Municipalities Decree
Law published in 1962	Property Tax Law

Chapter 1: Overview

The purpose of this report is to provide a roadmap to policy makers on how to strengthen and modernize municipal finance in Lebanon. This roadmap is part two of the Municipal Finance Studies Program (MFSP), and is composed of three studies:

1. Strengthening the municipal finance framework whose specific objectives are to: a) increase the transparency of municipal financial operations; b) increase the accountability of municipalities to the community and to the central government; and c) increase the efficiency of financial operations.
2. Improving the independent municipal fund whose specific objectives are to: a) make the Independent Municipal Fund more independent; b) enhance the revenues and ensure the financial stability of the IMF; c) increase the reliability and timeliness of payments from the Fund to municipalities; d) make the amount paid to each municipality more predictable from one year to the next; e) encourage the most equitable distribution of Fund resources possible; and f) develop the capacity to implement and maintain the restructured IMF over the long term.
3. Modernizing the municipal property tax whose specific objectives are to: a) enhance the financial autonomy of municipalities through increased own-source revenue generation; b) improve the efficiency of revenue mobilization from municipal rental value based fees; c) encourage the most equitable possible approach to municipal property fees.

Part one of the MFSP resulted in a report entitled *Draft Strategic Framework* which examined the constraints facing municipal finance and identified the priority actions that must be taken to address these problems for each of the studies' components. It did so by first examining the legal framework that govern municipal finance; second, by assessing the existing situation based on focus groups with Municipal Council Presidents and municipal financial officers as well as interviews with central government officials particularly at the MoIM and MoF; and third by collecting and analyzing municipal expenditure and revenue data as well as relevant macroeconomic indicators.

The Arabic version of the *Draft Strategic Framework* which was initially submitted to the PCU at the MoIM on June 16, 2010, was circulated to the stakeholders, which include the General Directorate of Municipalities at the MoIM, the MoF, the World Bank, and PCU's internal consultant, for review and comments.¹ The ICMA team has carefully considered and integrated, to its best professional judgment, the stakeholders' comments and feedback. Consequently, a revised version of the report entitled *Revised Strategic Framework* was submitted to the PCU on September 21, 2010.²

The main outcome of the *Revised Strategic Framework* is the identification of 152 priority actions distributed across the 3 studies in the following way: 95 priority actions to strengthen the municipal finance framework, 26 priority actions to improve the independent municipal fund, and 31 priority actions to modernize the municipal property tax.

In part two of the MFSP which is the subject of this report, the ICMA team developed each of the priority actions into recommendations that constitute the *roadmap* to strengthen and modernize

¹ The English version of the *Draft Strategic Framework* was submitted to the PCU on June 4, 2010.

² The English version of the *Revised Strategic Framework* was submitted to the PCU on September 7, 2010.

municipal finance in Lebanon. But first, the team grouped *related* priority actions with common objectives into priority areas. For instance, all priority actions that deal with increasing the revenues of the IMF have been grouped into *one* single priority area. In this way, the roadmap to strengthen and modernize municipal finance is based on a number of autonomous and interdependent priority areas. Consequently, the ICMA team has consolidated the 152 priority actions into 27 priority areas distributed in the following way: 14 priority areas to strengthen the municipal finance framework; 6 priority areas to improve the independent municipal fund; and 7 priority areas to modernize the municipal property tax.

Each priority area is itself composed of a number of recommendations. The total number of recommendations for all three studies is 141 distributed in the following way:³ 69 recommendations to strengthen the municipal finance framework; 40 recommendations to improve the independent municipal fund; and 32 recommendations to modernize the municipal property tax (Table 1). On average, every priority area has almost 5 recommendations. However, the most frequent number of recommendations for a priority area is 2.

Table 1 Number of priority actions, priority areas, and recommendations for all 3 studies

	Priority actions	Priority areas	Recommendations
Strengthen the municipal finance framework	95	14	69
Improve the independent municipal fund	26	6	40
Modernize the municipal property tax	31	7	32
Total	152	27	141

Each recommendation is further elaborated into the following 7 components:

1. **Rationale** states why the implementation of the recommendation contributes to achieving the priority area
2. **Legal prerequisites** specifies the laws, decrees, and other legal instruments that must be adopted to execute the recommendation
3. **Inputs / Resources** identifies other non-legal inputs needed to implement each recommendation such as financial, human resources, etc.
4. **Research / consensus needed** are required inputs that are currently unknown in the sense that they require further research, investigation, or political consensus
5. **Primary implementer** identifies the authority that is responsible in implementing the recommendation
6. Scheduling information consists of two sub-components:
 - a. **Sequence** states the number of the recommendation vis-à-vis other recommendations

³ The actual number of recommendation is 138 since 3 recommendations are reflected in both the municipal finance framework study and the municipal property tax study. The 3 recommendations are intentionally stated in both studies to maintain the comprehensiveness of each study should it be examined separately.

- b. **Estimated duration** of the activity is the number of years needed to implement the recommendation. The recommendations were grouped into three categories:
 - Short term measures* are those that require less than one year to be implemented. They do not need any legal amendments. They may require a Minister’s Directives.
 - Medium term measures* are those that require between 1 and 2 years to be prepared for execution. They often require legal amendments.
 - Long term measures* are those that require more than 2 years to put in place. They may be preceded or accompanied by legal amendments and they involve institutional building such as empowering an organization, hiring of staff, and developing its IT system

Note that the estimated duration takes into account only the time needed to prepare for the action, which can be quantified. In other words, we have excluded from our estimation the time it takes for a draft Law to become a Law since many unforeseen factors could come into play making the estimates futile

In the case the recommendation is considered to be of highest priority, an **URGENT** label is posted. Note that an urgent measure is one that, once implemented, has the largest impact on the reform process
- 7. Monitoring information consists of two sub-components:
 - a. **Expected outcome** specifies the outcome that will be achieved by the recommendation
 - b. **Measurement** shows how achievement of the recommendation can be verified

In sum, each priority area contains a number of recommendations. And each recommendation is developed into 7 components. The priority areas, along with the recommendations, form the cornerstone of the roadmap to modernize municipal finance in Lebanon.

The Arabic version of the *Draft Roadmap for Modernizing Municipal Finance* which was initially submitted to the PCU at the MoIM on October 18, 2010, was circulated to the stakeholders, which include the General Directorate of Administration and Local Councils at the MoIM, the MoF, the World Bank, and PCU’s internal consultant, for review and comments.⁴ The ICMA team has also discussed the major recommendations with the General Director, Mr. Khalil Al-Hajal who offered several suggestions which were integrated into the roadmap. Mr. Al-Hajal has also expressed reservations which are included in the comments of the MoIM. These comments along with those of other stakeholders are annexed to the report as a record of each stakeholder’s contribution to the policy discussion (Appendix 1.A). The ICMA team has carefully considered and integrated, to its best professional judgment, the stakeholders’ comments and feedback. Furthermore, the team also responded to each of the comments made by General Directorate at the MoIM in appendix 1.B.

The remaining chapters of this report provide a roadmap for each of the three study topics. Chapters 2, 3, and 4 provide draft roadmaps in a template form. The chapters cover: strengthening the municipal finance framework, improving the Independent Municipal Fund, and modernizing the municipal property tax. Chapter 5 synthesizes the major findings of the MFSP and sets forth a roadmap for modernizing municipal finance in Lebanon.

⁴ The English version of the *Draft Roadmap for Modernizing Municipal Finance* was submitted to the PCU on October 4th, 2010.

Chapter 2: Strengthening the Municipal Finance Framework

The purpose of this chapter is to draft a roadmap for strengthening the municipal finance framework. The roadmap provides a strategy that aims to specifically attain the following objectives: a) increase the transparency of municipal financial operations; b) increase the accountability of municipalities to the community and to the central government; and c) increase the efficiency of financial operations.

The strategy is developed based on earlier analysis of the legal framework and existing situation that consequently led to the identification of the priority actions that address the major constraints. The priority actions that were proposed in the *Revised Strategic Framework* report were categorized along the following five components as specified in the TOR (refer to appendix 2.A for a complete list of priority actions): 29 priority actions to address the legal text and codes regulating municipalities, 14 to reform the budget and accounting systems, 26 for financial operations and reporting procedures, 15 for the management of municipal employees and salaries, 4 for human resources, and 7 for IT.

Before refining out the priority actions into recommendations, the ICMA team undertook the following two steps:

1. Ensured that the priority actions across all the three studies – 95 for study 1, 26 for study 2, and 31 for study 3 - were harmonized to achieve the overall objective of modernizing municipal finance.
2. Consolidated priority actions within each study by common objectives into priority areas. Since the priority actions were initially developed based on the TOR's five components, the ICMA team grouped related priority actions into priority areas to streamline the priority actions and avoid repetition.

Consequently, the 95 priority actions were categorized into the following 14 priority areas:

1. Rebalance the responsibilities of Municipal Council members and Municipal Council President
2. Streamline the oversight of the Ministry of Interior and Municipalities (MoIM) over municipalities' finances
3. Strengthen the oversight of the Central Inspection Board (CIB) and Civil Service Board (CSB) over municipalities
4. Strengthen the oversight of the Court of Audit (CoA) over municipalities' finances
5. Enhance municipal revenues
6. Increase the effectiveness of billing and collection
7. Improve the budgeting and accounting framework
8. Increase transparency in financial management
9. Improve organizational principles and inter-municipal cooperation
10. Enable public private partnership (PPP)
11. Empower municipal unions
12. Improve the management of human resources
13. Improve on the use of IT
14. Automate municipal finance oversight

The first priority area aims to rebalance the responsibilities between the Municipal Council members and the Municipal Council President. The five recommendations plan to enforce and strengthen the oversight role of the Municipal Council; restrict its interference in the administration; disallow the President to be a member of the bidding committee; and establish a disciplinary commission.

In priority area 2, five recommendations are put forth to streamline the oversight of the Ministry of Interior and Municipalities over the finances of municipalities through the following: support the Department of Guidance and Inquiry to assume municipal human resource development and capacity building; reduce MoIM pre-approval requirement on municipal finance decisions and abandon the MoIM's pre-approvals of expenditures; eliminate the pre-approval role of the Controller General; reduce MoIM's authority to suspend the execution of municipal financial decisions; and remove the governor's authorization to prosecute Municipal Council members.

The purpose of priority area 3 is to strengthen the oversight of the Central Inspection Board and Civil Service Board over municipalities. Four recommendations are provided which primarily empower the role of the Central Inspection Board and subject more municipalities to the Civil Service Board.

The fourth priority area plans to strengthen the oversight role of the Court of Audit over the finances of municipalities. The five recommendations aim to grant the CoA post-audit authority over municipalities; increase financial penalties; and abolish the pre-auditing of municipalities.

The aim of the fifth priority area is to enhance municipal revenues by: increasing the level of charges for 25 municipal fees; modify the tax base on industrial and classified non-residential establishments; enforcing the earmarking of revenues from certain fees to specific activities; abolishing specific municipal fees; imposing a penalty for illegal occupation of municipal and state properties; and compensating for the loss of revenue as a result of the introduction of the VAT.

The aim of priority area 6 is to increase the effectiveness of billing and collection. It is recommended that this be done by establishing reasonably enforceable legal options; establishing guidelines for contracting the collection of fees; increasing the choice of payment channels; and granting municipalities a grace period for the collection of revenues.

Priority area 7 aims to improve the budgeting and accounting framework by eliminating the duality of the accounting standards and establishing a single unified chart of accounts and budget; introducing performance based budgeting; and establishing a training program for municipal accountants.

Priority area 8 aims to increase transparency in financial management by promoting citizens' participation in financial decisions; publishing the budget; providing public access to all financial information; strengthening the authority of municipal financial officers; revising the issuance of construction permits; enhancing the transparency of municipal decision making; developing a model municipal organizational structure for financial management; and revising the practice of issuing construction permits.

In priority area 9, it is recommended that inter-municipal cooperation be encouraged through the following measures: create a legal and organizational framework for inter-municipal cooperation; resolve the current legal gap in the formation of new municipalities; establish an association for municipalities that would ultimately provide training programs and technical assistance.

The tenth priority area aims to enable the private sector to contribute to municipal work. To this end, the suggested reforms include the following: enable municipal and private sector partnership; allow municipalities to use commercial banks to collect municipal fees as well as to resort to Liban post to notify and collect fees, and to contract with auditing firms; and authorize municipalities to borrow funds.

To empower the role of municipal unions, it is recommended in priority area 11 that they be granted the authority to compel the payment of municipal dues and be given more financial resources.

To improve human resource management, eight recommendations are proposed in priority area 12: abolish the DGI pre-approval requirement for changes in municipal organizational structure; simplify and standardize the process for hiring of employees; require the establishment of human resource departments in large municipalities; set up cadre with job descriptions and qualifications; expand NSSF coverage to municipal employees; ease the transfer of employees from one municipality to another; promote the payment of salaries through commercial banks; and develop annual performance evaluation.

In priority area 13, it is recommended that IT be improved through: extending the current revenue and budget systems; establishing a Technical Assistance Unit (TAU) to manage USAID IT's project; promoting e-municipalities; establishing IT units in large municipalities to support the use of GIS; integrating the current system into a comprehensive management information system; developing a unified accounting system integrated with MIS; and setting up a human resource management system.

The 14th and final priority area is to automate municipal financial oversight so the MoIM can better manage and track municipal transactions; the CoA can better audit municipal budgets and accounts after it is provided with the needed resources; and improving the inter-linkage between municipal and MoF databases; and developing auditing systems for CoA's controllers.

In total, there are 69 recommendations. Since the study proposes many amendments to Decree-Law 118 of 1977 and Law 60 of 1988, the ICMA team strongly recommends that a new Municipal Act and a new Municipal Fees and Taxes are drafted.

Not all proposed recommendations take the same amount of time to be put in place. For each type of measure, we have estimated the duration of the measure i.e. how long it will take to prepare for the execution of the recommendation. The recommendations are classified into three categories: short term, medium term, or long term. *Short term recommendations* are those that require less than one year to be implemented. They do not need any legal amendment and they may require a minister's directives to be executed. *Medium term recommendations* are measures that require between 1 and 2 years to be prepared for execution. Often medium term measures necessitate legal amendments that take the form of issuing or amending new Laws or Decrees. Note that legal amendment is not a necessary condition but it is sufficient for a recommendation to be classified as medium term. *Long term recommendations* are measures that require more than 2 years to be put in place. They often involve institution building such as empowering an organization, hiring staff, and developing IT systems. Some of the long terms measures may be preceded or accompanied by legal amendments. Others may require at least 2 years to implement because of the complexity they are trying to address. Note that the estimated duration takes into account only the time needed to prepare for the action, which can be quantified. In other words, we have excluded from our estimation the time it takes for a draft Law to become a Law since many unforeseen factors could come into play making

the estimates futile. **Out of the 69 recommendations, 10 measures can be addressed in the short term (less than one year), 56 recommendations can be dealt with in the medium term (require 1 to 2 years), and 3 actions are classified as long term since they would need more than 2 years to prepare for (Table 2).**

Table 2: Recommendations by priority area

	Priority areas	Recommendations				
		Total	Short term	Medium term	Long term	Urgent
1	Rebalance the responsibilities of Municipal Council members and Municipal Council President	5	1	4		1
2	Streamline the oversight of the Ministry of Interior and Municipalities over municipalities' finances	5	2	3		1
3	Strengthen the oversight of the Central Inspection Board and Civil Service Board over municipalities	4		4		
4	Strengthen the oversight of the Court of Audit over municipalities' finances	5		5		1
5	Enhance municipal revenues	6		6		2
6	Increase the effectiveness of billing and collection	4		4		2
7	Improve the budgeting and accounting framework	3	1	2		
8	Increase transparency in financial management	7	1	6		1
9	Improve organizational principles and inter-municipal cooperation	4		3	1	1
10	Enable public private partnership	5		5		2
11	Empower municipal unions	2		2		1
12	Improve the	8	3	5		1

	management of human resources					
13	Improve on the use of IT	7	1	5	1	2
14	Automate municipal finance oversight	4	1	2	1	
	Total	69	10	56	3	15

Priorities and durations of the reforms

Note that not all the 69 recommendations are urgent. The ICMA team considers that some of the proposed measures are more important than others. Such measures, one implemented, tend to have the largest impact on the reform process. Hence, we have identified the urgent from non-urgent measures so that the efforts and investments by policymakers are channeled towards implementing them. Urgent measures are not necessarily easier to execute. Some of the urgent recommendations may be quickly addressed but others may take a long time to put in place. Nevertheless, such reforms must begin very soon. In this study, **the team has classified 15 out of the 69 recommendations to be urgent**, which are primarily concerned with the following: establish Disciplinary commission, reduce MoIM pre-approvals, standardize post-audit reporting, increase municipal fees, modify the tax base on industrial and classified non-residential establishments; establish guidelines for contracting out fee’s collection, increase the payment channels, publish the budget and expenditures, establish a municipal association, allow municipalities to use commercial banks and the Liban post for tax notification and tax collection, provide municipal unions with the authority to compel the payment of municipal dues, simplify and standardize existing procedures for hiring employees, establish a technical assistance unit to support the IT reforms, and extend the SUNY project.

In table 3, we map out the estimated duration for all the urgent recommendations. Its purpose is to give policymakers a sense of how much it takes to prepare for the urgent recommendations. **Out of the 15 urgent recommendations, 1 can be accomplished within one year period and 14 would require between 1 to 2 years of preparation (**

Table 3).

Table 3: Urgent recommendations by duration

Priority areas	Short term	Medium term
Rebalance the responsibilities of Municipal Council members and Municipal Council President		Establish a Special Disciplinary Commission in accordance with Article 106 of Decree-Law 118/1977
Streamline the oversight of the MoIM over municipalities' finances		Reduce MoIM pre-approval requirement on municipal financial decisions and abandon MoIM pre-approval on Municipal Council expenditure decisions
Strengthen the oversight of the Court of Audit over municipalities' finances		Simplify and standardize the post-audit and reporting requirements of the CoA to ensure their compatibility with municipal financial management practices while preserving the level of municipal accountability
Enhance municipal revenues		Increase the rates of 25 municipal fees
		Change the basis on which the industrial and classified non-residential establishments are taxed
Increase the effectiveness of billing and collection		Establish guidelines for contracting out the collection of fees
		Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee
Increase transparency in financial management		Enforce the yearly publication of the municipal budget and expenditures, as well as information related to citizen transactions, services, fee amounts, and internal business processes through Newsletter, Citizen Guide, Portal, or Billboards
Improve organizational principles and inter-municipal cooperation		Establish an association of municipalities whose functions include advocacy on behalf of municipal interests and

		participation in decisions concerning or affecting their financial activities and resources
Enable public private partnership (PPP)		Allow municipalities to use commercial banks for collection of municipal fees
		Enable municipalities to use Liban Post services for billing notification, fee collection, and citizen transactions and applications
Empower municipal unions		Provide municipal unions with the authority to compel the payment of municipal dues
Improve the management of human resources		Simplify and standardize existing procedures for hiring both permanent and limited-duration employees allowing time sharing of the limited-duration employees between municipalities
Improve on the use of IT	Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities	Establish a Technical Assistance Unit (TAU) at the MoIM

Priority area 1: Rebalance the responsibilities of Municipal Council members and the Municipal Council President

Objective: Increase the accountability of municipalities to the community and to the central government

Revised strategic framework priority actions included: 1, 51, 62, 87

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Enforce Article 52 of Decree-Law 118/1977 regarding the responsibilities of the Municipal Council in its financial oversight role of the executive authority by requiring a report stating its oversight findings to be sent to MoIM and oversight agencies</p> <p>Rationale:</p> <p>Municipal Councils’ financial oversight role is currently limited to approval of the budget end-year draft report submitted by the president. The broad language used in Article 52 allows the council to perform administrative, financial, and technical oversight on all municipal activities and report findings to oversight agencies. The lack of specific procedures (financial oversight committee and report deadline) and binding language hinder the application of this article</p>	Written directives from the Minister of Interior and Municipalities		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Short term	a) Increased accountability of the executive authority b) Number of reports submitted to oversight agencies

Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Strengthen the financial oversight role of the Municipal Council while preserving the ability of the Municipal Council President to manage municipal affairs</p> <p>Rationale:</p> <p>Aligned with the study’s recommendation of reducing central government’s pre-approvals and pre-audit requirements, the financial oversight role of the Municipal Council must be strengthened to increase accountability of the executive branch</p>	Amend Articles 39 and 49 of Decree-Law 118/1977 to include legal instrument that strengthens municipal council financial oversight role		Research the feasibility of granting the Municipal Council the authority of appointing an independent auditor, requesting explicit financial reports, enforcing discussion of a specific financial topic during the council’s meetings (role in setting the meetings’ agenda), informing oversight agencies in case of financial wrongdoing, and postponing executive financial decisions when found illegal or inappropriate
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Increased Municipal Council President’s accountability to the Council b) Number of independent auditors appointed - Number of hearings - Number of cases and/or inspection actions initiated by the Municipal Councils
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Abolish the membership of the Municipal Council President in the Bidding Committee</p> <p>Rationale:</p> <p>The President and his/her Deputy</p>	Amend Article 53 of Decree-Law 118/1977		Evaluate current practices/role of the president in municipal contracting and effectiveness of the council’s authority versus the president’s
	Primary implementer	a) Sequence	a) Expected outcome

<p>are by law members of the bidding committee in addition to two other members elected by the council. This allows the executive to control the bidding process and opens the door to corruption in public contracting and misuse of public funds and undermines the council's role in awarding contracts. The bidding committee should be composed of Municipal Council members not involved in the executive functions and the president remains in charge of overseeing the execution of the contracts</p>	<p>MoIM</p>	<p>b) Estimated duration a) 1 b) Medium term</p>	<p>b) Measurement a) Increased independence of the bidding committee and transparency of the bidding process b) Cost of services</p>
<p>Recommendation 4</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Establish a Special Disciplinary Commission in accordance with Article 106 of Decree-Law 118/1977</p>	<ul style="list-style-type: none"> - Issue the decree stated in Article 107 of Decree-Law 118/1977 - Amend articles 105, 108, and 137 of Decree-Law 118/1977 		<p>Institute and promote a code of conduct for Municipal Council members</p>
<p>Rationale: Despite being mentioned in the Law since 1977, the Special Disciplinary Commission has not yet been established by the CoM. Rebalancing the responsibilities between the Council Members and the Municipal Council President requires the establishment of the Disciplinary Commission to improve</p>	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & CoM</p>	<p>a) 1 b) Medium term URGENT</p>	<p>a) CoM appoints the commission's members b) Number of cases viewed by the commission - Number of disciplinary decisions</p>

accountability			
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Restrict Municipal Council members' interference with municipal finance staff, citizen's transactions, and executive financial decisions by giving the Municipal Council President the authority to sanction municipal staff and inform the oversight agencies in case of wrongdoing by Municipal Council members</p> <p>Rationale:</p> <p>The Municipal Council's authority is allocated to a body and not to individual members. Elected Council members are facilitating constituents' municipal applications through follow up with municipal staff influencing decisions affecting fees and processing</p>	Amend Chapter 4 of Decree-Law 118/1977 to prohibit Municipal Council members' interference with municipal finance staff, citizen's transactions, and executive financial decisions		Review existing practices affecting municipal staff efficiency, political alliance, and accountability
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) Reduced Municipal Council members' interference in executive financial decisions b) Number of council members and staff sanctioned

Priority area 2: Streamline the oversight of the Ministry of Interior and Municipalities over municipal finances

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 63, 88

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Support the Department of Guidance and Inquiry (DGI) at the MoIM to assume municipal human resource development and capacity building</p> <p>Rationale:</p> <p>In 963 municipalities and 42 municipal unions not subject to CSB control, new staff receives no training. This affects municipal finances, outcomes, services, and public trust in local government. According to Article 91 of Decree-Law 118/1977, “The Ministry of Interior shall be responsible of training the municipalities in order to assume their duties”. The DGI at the MoIM, which currently has 40 vacancies out of the 41 available positions, is needed to lead, oversee, and undertake municipal HR development and capacity building in municipal revenue</p>		<p>Recruit staff for the DGI</p>	<ul style="list-style-type: none"> - Consider ways for relocation of expertise and technical/capacity building knowledge from USAID’s Municipal Strengthening Program - Rely on the existing UN Habitat project for DGI capacity building and development of municipal training curricula - Compare municipalities that are subject to CSB oversight with other municipalities in terms of staff sufficiency and capacity and propose options for amending discrepancies - Consider using existing government institutes (Institute for Higher Administration and the Finance Institute at the MoF) for training and support to municipal staff

generation and financial management, with the ability to design and implement municipal strengthening programs, define and resolve training gaps, establish municipal training curricula, and coordinate funding and grants to local capacity building	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Short term	a) Refocusing the role of the MoIM towards monitoring and evaluation b) Number of training sessions conducted - Number of trainees - Number of curricula developed - Performance evaluation of municipal employees
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Reduce MoIM pre-approval requirement on municipal financial decisions and abandon MoIM pre-approval on Municipal Council expenditure decisions Rationale: The large number of pre-approvals required on Municipal Councils' financial decisions (e.g., Allowance for the Municipal Council President, insurance and rent contracts, fees rate) and the long and burdensome approval processes on expenditure decisions result in significant inefficiency and waste of human and financial resources for both MoIM and municipalities in addition to overlapping with the	Amend Articles 59, 60, 61, and 62 of Decree-Law 118/1977		- In-depth result-oriented evaluation of each of the pre-approvals required - Consensus between MoIM and oversight agencies based on the overall re-structuring proposed in the study, towards improving post-audit and accountability
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) This action must be accomplished after all municipalities become subject to CoA's post-audit oversight (recommendation 5 under PA 4) b) Medium term	a) Improved efficiency and accountability of municipal decisions - Refocusing the role of the MoIM towards monitoring and evaluation b) Number of pre-approvals reduced

existing pre-audit responsibilities of the CoA and post-audit functions of both CoA and MoIM. Abandon of MoIM control would only be possible after the post control and auditing are in place at the MoIM and oversight agencies (See related recommendations)		URGENT	
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Eliminate pre-approval role of the Controller General on citizen transactions and fee appraisal and consider future termination of the position</p> <p>Rationale:</p> <p>Fifty municipalities are subject to the Controller General's authority. Relying on their proper interpretation of the existing regulations, Controllers General have added a layer to the decision making process related to citizen transactions. In addition to processing delays, this opens up opportunities for corruption and decreases municipal autonomy and responsibility in issuing licenses and permits</p>	Directive issued by the Minister of Interior and Municipalities requiring proper application of Article 107 of Decree 5595/1982	Following proper implementation of an efficient pre-auditing and oversight system, conduct research to review the role of the Controller General and issue recommendations on possible termination of the position	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Short term	a) Improved municipal autonomy b) Reduced time required for the issuance of licenses and permits - Duration for the issuance of licenses and permits in municipalities subject to the Controller General's authority

Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Reduce the MoIM's power of substitution and authority to suspend the execution of municipal financial decisions</p> <p>Rationale:</p> <p>Both the power of substitution and suspension of the execution of municipal financial decisions should be restricted to cases of national security threats. These powers, currently under the authority of the Qaemakam (Head of the Administrative District), should be narrowly framed and handed to the Minister of Interior and Municipalities and/or the CoM which would strengthen municipal autonomy and reduce political interference in local affairs</p>	Amend Articles 65 and 135 of Decree-Law 118/1977		Political consensus on decentralization and empowerment of local governance
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) Improved municipal autonomy b) Number of substitutions and suspensions of municipal decisions
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Abandon the requirement of the governor's authorization for judicial prosecution of Municipal Council members</p> <p>Rationale:</p> <p>Municipal Council Presidents are not effectively held accountable by the legal system due, among</p>	Annul Article 111 of Decree-Law 118/1977		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Increased accountability of Municipal Council members b) Number of Municipal Council members held accountable by the legal

other factors, to the requirement of the governor's authorization for judiciary prosecution, postponing judicial accountability in severe cases of financial wrongdoing, misuse of public funds and corruption			system
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Priority area 3: Strengthen the oversight of the Central Inspection Board (CIB) and Civil Service Board (CSB) over municipalities

Objective: Increase the accountability of municipalities to the community and to the central government

Revised strategic framework priority actions included: 2, 27, 47

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Strengthen CIB's ability to enforce municipal compliance with the applicable laws and regulations by providing CIB with the necessary means of inspection, appropriate authority, and the resources required</p> <p>Rationale:</p> <p>CIB's lack of expertise in the use of computer systems in municipal work and the large number of municipalities (963) subject to CIB's financial oversight require a major restructuring and adequate human resources and expertise in municipal inspection. Moreover, the law does not require municipal staff to inform CIB in case of financial wrongdoing by their superiors. Strengthening decentralization of services and abolishing pre-audit measures necessitate an efficient financial inspection body</p>	<ul style="list-style-type: none"> - Amend Decree-Law 115/1959 - Amend Decree 2460/1959 		<p>Develop an action plan with tasks, responsibilities, and a timetable aiming to increase the efficiency of municipal inspection including legal review, administrative structure, performance evaluation criteria, and technical skills and capacity building</p>
	Primary implementer	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	CIB & PCM	<p>a) 1 b) Medium term</p>	<p>a) Effective CIB financial oversight b) CIB establishes an assessment and action plan on ways to improve municipal inspection - PCM approves the action plan</p>

Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Make the Municipal Council members and executive branch of municipalities subject to the authority of the Central Inspection Board	Revoke Article 137 of Decree-Law 118/1977		Political consensus needed to adopt an accountability policy towards local elected officials when handling executive tasks and managing public funds
Rationale: All municipal financial decisions are subject to the approval of either the Municipal Council or its President. Therefore, because they handle public funds, Municipal Council members and President need to be subject to CIB's authority	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CIB & MoIM	a) 1 b) Medium term	a) Effective CIB oversight b) Municipal Council Members and President subject to CIB oversight - Number of sanctions/outcomes of municipal inspection
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish a Municipal Inspection Unit at the CIB with a regional office in each governorate	- Amend Decree-Law 115/1959 - Amend Decree 2460/1959	Training of CIB's inspectors in municipal management	Develop a training curriculum for Municipal Inspectors with the CSB Project the staffing requirements based on an operating model for the Unit
Rationale: The administration of municipalities and its legal and business prerequisites necessitate a specialized inspection unit with expertise in the different municipal services and procedures. Moreover, the large number of municipalities and irregularities require a considerable number of	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CIB & CoM	a) 1 b) Medium term	a) Effective CIB oversight b) Municipal Inspection Unit established at CIB with regional offices in each governorate - Municipal Inspectors

inspectors. Therefore, a regional inspection office at each governorate would facilitate the inspection mechanism and the follow up of compliance with inspectors' recommendations			recruited/appointed - Training curriculum developed and training conducted
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Increase the number of municipalities subject to the control of the Civil Service Board Rationale: Based on Decree-Law 118/1977 and Decree-Law 114/1959, large municipalities and municipalities that are headquarters of governorates are subject to CSB control. Currently, this applies to only 10 out of 963 municipalities. Hence the need for a decree that extends CSB oversight to all large municipalities. This increase ought to improve professionalism and accountability of finance staff in municipalities	Issue a Decree based on Decree-Law 114/1959 and Article 80 of Decree-Law 118/1977 defining the large municipalities subject to CSB oversight	Training CSB's controllers in municipal HR management	Reach a consensus between CSB and MoIM on the municipalities that should be subject to the CSB's control taking into account various factors such as CSB capacity, number of staff, municipal income
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CSB & MoIM	a) 1 b) Medium term	a) Improved HR development and recruitment transparency b) At least 25 additional municipalities subject to CSB control

Priority area 4: Strengthen the oversight of the Court of Audit (CoA) over municipalities' finances

Objective: Increase the accountability of municipalities to the community and to the central government

Strategic framework priority actions included: 3, 4, 28, 29, 59, 60, 61

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Restructure the administrative and judiciary organization of the CoA to include specialized courts and augment its administrative and HR capacity to a level sufficient to support extending its post audit authority to all municipalities</p> <p>Rationale: The CoA currently falls short of fulfilling all its oversight obligations over the 46 municipalities subject to its control. There is therefore a crucial need to restructure, empower, and equip the CoA to play its role in this regard</p>	<ul style="list-style-type: none"> - Amend Decree-Law 82/1983 - Written directives from the president of the CoA 	<ul style="list-style-type: none"> - Courts specialized in Municipal financial oversight - Training CoA judges, controllers, auditors, and IT experts in municipal finance and oversight 	<p>Conduct a study on CoA's requirements in view of extending its post audit authority to all municipalities</p>
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoA	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Effective CoA oversight b) Number of specialized courts for municipal post-audit established at CoA - CoA post-audit functions extended to all municipalities
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Extend CoA's post audit authority to all municipalities and include performance and result-oriented auditing</p> <p>Rationale: Only 46 municipalities are</p>	<ul style="list-style-type: none"> - Decree extending CoA's post audit authority to all municipalities - Amend Decree-Law 82/1983 to include performance and result-oriented auditing 	<ul style="list-style-type: none"> - Establish a municipal accountability coordination committee among MoIM and the various oversight entities 	<ul style="list-style-type: none"> - Review the feasibility of broadening CoA's authority to include result-oriented and performance auditing - Review municipal accounting practices and propose reforms that include the

currently subject to CoA's administrative and judicial oversight. This jeopardizes municipal funds in the remaining 917 municipalities as a result of irregular contracts and weak monitoring of contract execution and financial management. By eliminating the CoA's pre-auditing requirements and extending its post audit to all municipalities with significant authority over the way funds are spent and the compatibility of such spending with the laws, accountability will increase and officials will be held accountable for any violations of relevant laws and regulations		- Conduct a training program for all municipal accountants and develop a guidebook on CoA's post audit requirements	development of a unified set of accounting standards that ensures municipal accountability and is commensurate with the technical capabilities of municipal officials - Design and develop a computer-assisted auditing system for CoA's auditors (refer to PA 14)
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & CoA	a) 2 b) Medium term	a) CoA's post audit authority extended to all municipalities b) Number of Municipal accountants trained - Number of post audit guidebooks distributed
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Increase the financial penalties imposed by the CoA and lengthen the statute of limitation to enhance the CoA's ability to effectively prosecute financial wrongdoing	Amend articles 60, 61, and 65 of Decree-Law 82/1983		Review the financial penalties imposed by the CoA and assess the effect of the statute of limitation on the CoA's ability to effectively prosecute financial wrongdoing
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
CoA's authority is limited to the imposition of penalties on legal violations and these penalties are not sufficient to deter wrongdoing. In addition, the	CoA	a) 1 b) Medium term	a) Effective deterrence and prosecution of financial wrongdoing b) Increased statute of limitation to a minimum of 10 years

governing law specifies a statute of limitation of five years on pursuing financial misdemeanors. This condition resulted in the failure to pursue most of these cases due to the CoA's delayed auditing of municipal accounts			Increased financial penalties imposed by the CoA to a level sufficient to prevent wrongdoing
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Simplify and standardize the post-audit and reporting requirements of the CoA to ensure their compatibility with municipal financial management practices while preserving the level of municipal accountability Rationale: The reports required by the CoA are specified in Decree 3489/1965 which does not differentiate among municipalities, government agencies, and the MoF in terms of reporting requirements. By applying the same number of reports and requirements on municipalities, the decree hampers municipal financial oversight due to: 1) the CoA's inability to audit all these documents; and 2) the municipalities' inability to abide by the decree's extensive post-audit reporting requirements	<ul style="list-style-type: none"> - Annul application of Decree 3489/1965 on municipalities - Issue a new Decree for municipal reporting requirements of the CoA 	Establish a committee from the CoA and MoIM to perform this task based on a unified set of accounting standards that ensures municipal accountability	Assess the compliance of municipalities with their legal reporting and approval obligations under current law and, wherever compliance is found lacking, evaluate whether the solution lies in better enforcement and/or legal amendments
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoA	a) 1 b) Medium term URGENT	a) Standardized CoA's municipal post-audit and reporting b) Number of municipalities preparing/sending the post-audit reports
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed

<p>Abolish all types of pre-auditing on municipalities required within the scope of the CoA functions</p> <p>Rationale:</p> <p>Due to the lack of human resources and technical capacity, CoA financial oversight has been largely limited to the pre-approval of municipal contracts to the exclusion of any kind of post-audit. This weakens the CoA’s ability to fulfill its role in protecting public funds in municipalities. Moreover, while imposing constraints on municipal contracting, the pre-auditing role of the CoA is not preventing financial wrongdoing focusing only on legal prerequisites without addressing performance or contracting needs, and leads to overlapping oversight responsibilities among CoA, the Controller General and MoIM. These excessive and at times ineffective pre-approvals of municipal operations hamper effective municipal management without ensuring appropriate accountability</p>	Amend articles 60, 61, and 65 of Decree-Law 82/1983	Conduct a training program for all municipal accountants and develop a guidebook that explains municipal contracts requirements	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoA & MoIM	a) 3 b) Medium term	a) More effective CoA financial oversight b) CoA’s pre-auditing abolished. - Number of Municipal accountants trained

Priority area 5: Enhance municipal revenues

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 5, 6, 7, 9

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Increase the rates of 25 municipal fees (refer to Appendix 2.B)</p> <p>Rationale:</p> <p>To improve municipal revenue from direct fees, reduce petty corruption, and generate revenues in line with the costs of municipal services and administration. The rate of service-related fees is not directly based on an assessment of the cost of providing these services, as is the case for the fee on attestations, certificates and technical studies whose rate (LL 2,000) is not commensurate with the cost of issuance that often requires a visit to the premises, measurement effort, and drafting of a technical report. The low cost of the municipal rate results in illegal reimbursement of staff transportation and time</p>	Amend Law 60/1988		<ul style="list-style-type: none"> - Institute a system of periodic review of the levels of fees which are tied to specific municipal services to ensure that the level is sufficient to cover the cost of providing the associated service - Assess the feasibility of allowing municipalities to establish their own fees and/or fee rates
	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term URGENT 	<ul style="list-style-type: none"> a) Increased municipal revenues b) Increased municipal fee rates
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Change the basis on which the	Amend Article 55 of Law 60/1988		Establish criteria allowing

<p>industrial and classified non-residential establishments are taxed (refer to Appendix 2.B)</p>			<p>municipalities to institute their own fee rates and exemptions within a preset classification of zoning and urban planning policy</p>
<p>Rationale:</p> <p>In many cases municipalities do not even appraise or collect the fees on industrial and classified non-residential establishments due to the small amount of revenue they could generate compared to the amount of effort required to collect them. For instance, the annual investment fee on used engines in industrial enterprises is a maximum of LL 200 per horsepower per year. The cost of collecting this tax far outweighs the amount of revenue generated. Changing the annual investment fee rate applicable on industrial and classified non-residential institutions to become equal to fees on rental value for non-residential occupations would generate a considerable revenue for municipalities</p>	<p>Primary implementer</p> <p>MoIM</p>	<p>a) Sequence b) Estimated duration</p> <p>a) 1 c) Medium term URGENT</p>	<p>a) Expected outcome b) Measurement</p> <p>a) Increased municipal revenues from fees on industrial and classified non-residential establishments b) Modified tax base of this fee</p>
<p>Recommendation 3</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Enforce the earmarking of revenues from certain municipal fees to the associated activities (e.g. public parking, sewage and pavements)</p>	<ul style="list-style-type: none"> - Written Directive from the Minister of Interior and Municipalities - Amend Article 78 of Law 60/1988 		

<p>Rationale:</p> <p>Based on the Municipal Fees Law, specific revenues generated from building permits are earmarked by law to the construction of sewage and pavements (Article 78 of Municipal Fees Law 80/1988). Moreover, fines collected on permits issued without proper parking requirements are earmarked to the building of parking spaces (Article 19 of the Construction Act Law 646/2004). Most municipalities collect these fees without funding associated activities. This situation requires addressing because of the high need for sewage systems and its impact on the environment and water quality</p>	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Medium term</p>	<p>a) Enhanced infrastructure in municipalities b) Increased revenues from the fee on the construction of sewage and pavements</p> <ul style="list-style-type: none"> - Number of municipalities initiated a sewage project - Increased number of parking lots in urban areas
<p>Recommendation 4</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Abolish specific municipal fees in light of the total revenues collected and difficulty of their administration (refer to Appendix 2.B)</p> <p>Rationale:</p> <p>Most municipalities receive no revenues from the Investment Fee on advertisements shown in movie theaters and the Weekly Investment Fee on advertisements</p>	<p>Annul Articles 37, 64, and 65 of Law 60/1988</p>		
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Medium term</p>	<p>a) Reduced administrative burden b) Abolished fees (Investment Fee on advertisement shown in movie theaters, the Weekly Investment Fee on advertisements outside of</p>

outside theaters. Moreover, very little revenue is collected from Inspection Fee on fresh imported meat			movie theaters, and the Inspection Fee on fresh imported meat)
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
Impose a penalty on illegal occupation of municipal and state properties (refer to Appendix 2.B)	Amend Law 60/1988		
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
The illegal occupation of state and municipal properties varies by municipality reaching a considerable percentage of total units subject to rental value fees in the Bekaa and North Lebanon. Most illegal dwellers do not pay any fees or penalties to municipalities including the fee on rental value. In addition, many municipalities do not appraise any fees for illegal occupation because of their illegality. Establishing a penalty (equal to the fees on rental value) on illegal occupation of municipal and state properties, will not only bring revenues for the municipalities but also discourage these practices	MoIM	a) 1 b) Medium term	a) Increased municipal revenues b) Total revenues from the penalty on illegal occupation of municipal and state properties
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
Enforce transparency of VAT redistribution and establish	- Amend VAT Law 379/2001 - Written Directives from the		- Consider various options for compensating the

<p>mechanisms to compensate municipalities for the loss of revenue resulting from the recent transformation of certain municipal fees into a VAT</p> <p>Rationale:</p> <p>The 10% surtax on telephone, electricity and water bills (Law 60/1988) was converted from a municipal fee into a VAT (Law 379/2001). Municipalities have not been receiving these revenues on regular basis and there is a lack of transparency in the management of these municipal dues with municipalities not being fully informed of the way their revenues are collected and disbursed thereby seriously hindering their ability to manage their finances. In addition, the VAT law allows public institutions to offset central government taxes they owe against collected VAT revenues which indirectly reduces the municipal share of these revenues</p>	<p>Minister of Interior and Municipalities and Minister of Finance</p>		<p>municipalities for the loss of revenue resulting from the conversion of 10% surtax on telephone, electricity and potable water bills into VAT, e.g. Increase VAT, restore surtax</p> <ul style="list-style-type: none"> - Formulate options to enforce transparency in distribution of the VAT collected by the public institutions on behalf of municipalities and the offset of central government taxes they owe against collected VAT revenues, with financial reporting due on regular basis to appropriate municipalities
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & MoF</p>	<p>a) 2 b) Medium term</p>	<p>a) Increased revenue collected by the public institutions on behalf of municipalities b) Amended VAT Law 379/2001</p>

Priority area 6: Increase the effectiveness of billing and collection

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 8, 52, 53

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Strengthen the collection of municipal fees by establishing reasonably enforceable legal options in terms of their administrative and political costs (refer to recommendation 6 under PA 3 in Chapter 4)</p>	<ul style="list-style-type: none"> - Amend Article 113 of Law 60/1988 to become obligatory for the accountant to seize the money or assets of the taxpayer in case the fees are not paid - Amend Law 60/1988 to embrace fees and fines on illegal activities 		<p>Evaluate the obstacles that weaken municipalities' ability to collect their revenues and propose changes in law or in practice that would increase the effectiveness of municipal collection operations</p>
<p>Rationale:</p> <p>In the event of non-payment of yearly fees during the legal period, Law 60/1988 provides for the imposition of a fine (2% for each month of delay) and seizure of the taxpayer's assets. The weak collection rates not only relate to the managerial capacity of municipalities, but also to lack of political will to implement legal remedies when taxpayers fail to pay their fees. Municipalities rarely move to take legal action against tax-evading citizens, because of the high political cost associated with such actions. In addition, building violations should also be subject to the fee so as not</p>	<p>Primary implementer</p> <p>MoIM</p>	<p>a) Sequence b) Estimated duration</p> <p>a) 1 b) Medium term</p>	<p>a) Expected outcome b) Measurement</p> <p>a) More efficient municipal revenue collection b) Illegal activities (without permit) pay fees and fines - Number of seizure of assets in case the fees are not paid</p>

encourage such violations			
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish guidelines for contracting out the collection of fees	Decree regulating municipal contracting for collection of fees		Consider best option (Private sector, shared services, municipal unions) and set the guidelines for contracting collection of fees
Rationale: Contracting the collection of fees to the private sector resolves the municipalities' lack of collectors (especially for small municipalities) and improves fee collection. Contracting collection of municipal fees was allowed by Law in 2002 (Budget-Law 2002) which states that a decree should be issued to regulate the contracting	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) More efficient municipal revenue collection b) Decree issued regulating municipal contracting for collection of fees - Increased revenue - Number of contracts signed
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee	- Amend General Accounting Law of 1963 - Amend Decree 5595/1982 - Amend Article 111 of Law 60/1988		- Study to determine the facilities that can be made available to taxpayers - MoIM / MoF / Liban Post Office
Rationale: Additional channels to pay taxes would translate to additional municipal revenues. For instance, the use of credit/debit cards is a primordial step towards e-municipalities and online payment of fees with the additional cost	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 (following recommendations 2 & 3 under PA 10) b) Medium term URGENT	a) Increased municipal revenues as a result of improved collection b) Municipalities are collecting fees through different channels such as banks or

borne by the taxpayer			Liban Post - Number of municipalities using new channels for payment of municipal fees - Percentage of fees collected using new payment channels
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Grant all municipalities a grace period for the collection of revenues	Amend General Accounting Law of 1963		
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
Accounting laws provide for a grace period for expenditures extending until the 31 st of January of the following fiscal year. The grace period for revenues is limited to municipalities that are subject to the Municipal Accounting Decree 5595/1982. As for municipalities that are subject to the General Accounting Law, i.e. the relatively large municipalities, the law does not provide for a grace period for revenues which causes these municipalities to stop their cashier departments from receiving any revenues before the end of the fiscal year and to undertake complex administrative and accounting procedures to shift all the accrued revenues to the	MoIM	a) 2 b) Medium term	a) Smoother closing of books at the end of the fiscal year b) All municipalities granted a grace period for the collection of revenues

following fiscal year. This results in delays in the collection of municipal revenues			
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Priority area 7: Improve the budgeting and accounting framework

Objective: Increase the transparency of municipal financial operations

Revised strategic framework priority actions included: 11, 12, 13, 24, 31, 42, 64, 65, 66, 67

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Eliminate the current duality of accounting standards by establishing a single unified chart of accounts and budget with simplified revenue and accounting systems designed specifically for municipalities</p> <p>Rationale:</p> <p>Municipalities currently follow one of two accounting systems which require two different budget systems and charts of accounts with large municipalities subjected to central government accounting standards. Municipalities should be able to retain simplified accounting rather be burdened with the systems of the central government. There is a need for a unified municipal accounting and budget system with a unified chart of accounts, taking into account CoA, CIB and MoIM oversight requirements. Moreover, the new accounting system should link budget</p>	<ul style="list-style-type: none"> - Annul the application of Decree 10388/1997 on municipalities - Annul the application of General Accounting Law of 1963 on Municipalities - Replace Decree 5595/1982 by a Decree regulating Municipal Budget and Accounting - Decree for Municipal Accounting Structure and Chart of Accounts - List of Accounts approved by MoIM and CoA 	<p>Conduct regional workshops for municipal finance managers to assess the suitability of the accounting structure used by the central government for municipal needs and ways to make municipal accounting and budgeting systems compatible with municipal functions</p>	<ul style="list-style-type: none"> - Review municipal accounting and budgeting systems and assess their effectiveness, simplicity, and compatibility with municipal functions - Assess the possibility of establishing a program-based budgeting structure - Review using double-entry accounting in municipalities and consider replacing the requirements of Decree 10388/1997 with a chart of accounts tailored to municipal operations and capabilities
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & CoA</p>	<p>a) 1 b) Medium term</p>	<p>a) Increased transparency of municipal finances b) Single unified chart of accounts and budget, revenue and accounting systems tailored to municipalities</p> <ul style="list-style-type: none"> - Number of municipalities using the new system

expenditures with fixed assets records and the transfer of these current accounts to the final fixed asset account			
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Introduce Performance-Based Budgeting (PBB)</p> <p>Rationale:</p> <p>Municipal budgeting plays an important role in controlling operations efficiently and effectively. The traditional methods of analyzing and utilizing budget figures are insufficient in measuring results and improving performance. Municipalities should be able to decide on objectives and activities that are required to be accomplished during the budget preparation process using a result-oriented budgeting framework and linking Key Performance Indicators (KPIs) to resources</p>	Decree regulating Municipal Budget and Accounting	PBB expert	Design a budget classification system that serves the need of municipalities for financial management and MoIM and central government oversight agencies monitoring and evaluation
	Primary Stakeholder	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Increased transparency of municipal finances Enabled performance measurement b) Number of municipalities using PBB - Improved results and outcomes
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish a training program for municipal accountants and a manual that explains the unified municipal budget and accounting system and the movements of accounts for every financial		Make use of the expertise and training resources of UN Habitat	With the support of UN Habitat, build the institutional capacity of the DIG at MoIM to develop municipal training programs
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement

<p>transaction</p> <p>Rationale:</p> <p>Recommendations 1 & 2 suggest major changes in municipal finances management which require a training program for municipal accountants and a guidebook that explains the new municipal accounting and budgeting systems including unified chart of accounts, treasury/cash flow management, and the program-based and performance-based budgeting structure</p>	<p>MoIM & CoA</p>	<p>c) 2</p> <p>d) Short term</p>	<p>a) Increased efficiency in municipal financial management</p> <p>b) Number of municipal accountants trained</p> <p>- Number of municipalities trained</p>
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Priority area 8: Increase transparency in financial management

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 25, 30, 44, 45, 46, 48, 49

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Promote citizen participation in financial decisions including, but not limited to, budget adoption and execution</p> <p>Rationale:</p> <p>Article 74 of Decree-Law 118/1977 charges the Municipal Council President with developing the municipal budget proposal and submitting it to the Municipal Council for their review and approval (Article 49). Municipal constituents are not involved at any level of budget preparation or execution under any form of discussion through town hall meetings, joint committee, focus groups, etc.. Public hearing prior to financial decisions improves collection of fees, volunteerism, and strengthens local democratic processes and consciousness of local governance</p>	Amend Decree-Law 118/1977 to include citizen participation and transparency in municipal governance and management		<ul style="list-style-type: none"> - Identify the best option to promote citizen participation in financial decisions - Introduce a culture of public hearings
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Stronger local democratic processes b) Municipal constituents participating in financial decisions - Number of town hall meetings conducted - Number of joint committees formed
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus

			needed
<p>Enforce the yearly publication of the municipal budget and expenditures, as well as information related to citizen transactions, services, fee amounts, and internal business processes through Newsletter, Citizen Guide, Portal, or Billboards</p> <p>Rationale:</p> <p>This recommendation complements recommendation 1 and should not be left to the sole discretion of the municipality. Few municipalities publish their yearly budget and expenditures as well as information related to citizen transactions due to the lack of binding legal instruments. Publishing the budget and expenditures, fee amounts and appraisal criteria, in addition to the municipality yearly development vision and plan, enhance accountability and citizens' trust in their local government; reduce corruption and misuse of public funds</p>	Amend Article 49 of Decree-Law 118/1977		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Stronger local democratic processes b) Municipal budget and expenditures published - Information related to citizen transactions, services, fee amounts, and internal business processes published - Number of municipalities publishing their budget and citizen related information
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Provide access to municipal	- Amend Article 45 of Decree-Law		

financial information to all taxpayers and non-voters as well Rationale: Article 45 of Decree-Law 118/1977 stated that each voter in the municipality or any stakeholder shall be entitled to request a copy of the Municipal Council’s decisions, at his own expenses, authenticated by the competent civil servant. This article does not define “stakeholder” nor the expenses for having a copy of the municipal decision, nor does it allow taxpayers to have access to other type of municipal information such as the President of the Municipal Council decisions, taxpayer list, or municipal permits	118/1977 - Access to Information Law		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Stronger local democratic processes b) Provided access to municipal financial information - Access to Information Law approved by Parliament
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Strengthen the authority of municipal financial officers and make them responsible for controlling financial irregularities Rationale: The municipal staff is not required by law to inform CIB in case of wrongdoing by their superiors. Municipal financial officers need to be empowered by law in case of	- Amend Decree-Law 118/1977 to impose amendment of all municipal personnel bylaws to enforce staff CIB notification in case of superiors’ perseverance on a wrongdoing - Amend General Accounting Law of 1963 - Amend Decree 5595/1982		Consider a certification process for municipal financial officers among the roles for TAU (refer to recommendation 2 under PA 13)
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement

perseverance in wrongdoing by superiors or the Municipal Council President. The municipal accountant must be required to report in writing to the attorney general at the CoA in case of any financial wrongdoing found during the clearance of the expenditure and before the payment of dues, each time the executive authority insists on denying the accountant's notification. A copy of the report must be sent also to the MoIM and to the Municipal Council	MoIM	a) 1 (parallel with recommendation 2 under PA 3) b) Medium term	a) Strengthened municipal financial officers' responsibility for the control of financial irregularities b) Number of financial wrongdoings reported to CIB by municipal financial officers
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish mechanisms that would increase transparency and reduce political interference in municipal financial decision making and the processing of citizen requests Rationale: Legal requirements often clash with personal connections and private and local interests upon the issuance of permits or signature of contracts, resulting in irregular permits and weak monitoring of contract execution. Many municipalities, especially the smaller ones which are not subject to the financial oversight of the	Amend Decree-Law 118/1977 to improve transparency in municipal governance and financial management		Consider a widely advertised public hearing prior to municipal budget adoption Evaluate the most common municipal practices that violate current legal requirements and recommend either legal amendments or stronger enforcement
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Reduced corrupt practices in municipal decision making b) Number of municipalities mismanaging bids and contracts

CoA, lack the technical capability to fulfill the legal requirements that precede permits or contract signature			
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
Develop a model municipal organizational structure for financial management Rationale: The distribution of functions between assessment on one hand and collection on the other is in accordance with the principle of separation of administrative and executive functions as specified in Article 168 of the General Accounting Law. This separation of functions is clearly delineated in the organizational chart of large municipalities. However, it is not applied in most of the other municipalities. The CIB does not currently verify the application by municipalities of the principle of separation between administrative and executive functions. This principle allows the protection of public funds, improves the delineation of responsibilities, and increases control over bribery and corruption	Written Directives from the Minister of Interior and Municipalities		Assess the application by municipalities of the principle of separation of administrative and treasury functions and propose mechanisms that would strengthen the CIB's ability to enforce municipal abidance by that principle
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & CIB	a) 1 b) Short term	a) Enforced separation of administrative and executive functions b) Number of municipal organizational charts with separation of functions clearly delineated

Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Revise the existing practices and mechanism for the issuance of construction permits, and the role of the Urban Planning Department (UPD) and municipal unions</p> <p>Rationale:</p> <p>Certain municipalities currently resort to the issuance of construction permits without consulting the technical unit at the UPD as required by law. These municipalities currently collect a ‘construction permit fee’ of around LL 4,000 per square meter, which violates the terms of the municipal fees law. Some municipalities collect a flat fee of LL 10,000. The role of the UPD should be reviewed towards facilitating the issuance of construction permits, improving feedback from and coordination with the municipalities which would improve both municipal revenue and urban planning</p>	<ul style="list-style-type: none"> - Amend Article 138 of Decree-Law 118/1977 - Written Directives from the Minister of Interior and Municipalities and Minister of Public Works and Transportation - Decree regulating the approval/role of the UPD prior to the municipal issuance of construction permits 		<p>Review administrative irregularities such as the issuance of construction permits by Municipal Presidents and propose changes in practice or in law</p>
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & MoPWT</p>	<p>a) 2 b) Medium term</p>	<p>a) Transparent permit issuance mechanisms b) Revised practices and mechanisms in the issuance of construction permits</p> <ul style="list-style-type: none"> - Number of municipalities issuing illegal construction permits

Priority area 9: Improve organizational principles and inter-municipal cooperation

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 10, 14, 15, 16, 17, 18, 34, 50, 86

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Encourage and create a legal and organizational framework for inter-municipal cooperation</p> <p>Rationale:</p> <p>The law does not currently encourage municipalities to enter into cooperation agreements with other municipalities. However, Article 83 of Decree-Law 118/1977 allows a municipality to establish as needed administrative, financial and technical units in addition to police, guards and firemen and rescuers. The latter units may be common between two or more municipalities and common civil servants may be appointed by them. Despite this legal instrument, there is a need for a legal framework to enforce inter-municipal cooperation on a broader level including shared services, joint development and infrastructure projects. Establishing shared financial services would improve revenue</p>	<p>Amend Decree-Law 118/1977 to include the legal instruments required to authorize cooperation agreements among municipalities</p>		<ul style="list-style-type: none"> - Assess the degree to which municipalities are currently using their ability to hire common specialized staff - Assess the potential for funding through IMF of the municipal shared services outside the scope of the municipal unions - Evaluate the legal changes required to authorize cooperation agreements among municipalities
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Medium term</p>	<p>a) Improved municipal cooperation outside the scope of municipal unions b) Number of joint projects Number of hired common specialized staff</p>

and municipal finance especially in rural areas. Incentives should be considered such as funding cost through IMF			
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Resolve the current legal gap in the authority for the formation of new municipalities by issuing laws that regulate the formation of municipalities, and the annexation and de-annexation of towns to or from existing municipalities</p> <p>Rationale:</p> <p>Following the overwriting of Articles 3, 4 and 5 of Decree-Law 118/1977 by Article 45 of Law 665/1997, there is currently no legislation regulating the creation of municipalities including criteria such as the minimum population size or the value of annual revenues. The Minister of Interior and Municipalities was given the prerogatives of creating municipalities. Indeed, more than 200 municipalities have been created since the law was amended in 1997, most of which are underperforming financially and administratively. Strict criteria on minimum potential revenue is necessary to prevent the</p>	<p>Amend Decree-Law 118/1977 to include legal instrument for the formation of new municipalities and the annexation and de-annexation of towns to or from existing municipalities</p>		<ul style="list-style-type: none"> - Identify the best option for the classification of municipalities, criteria for the formation of new municipalities and annexations, and consider the establishment of a two-tier level of local government system with elected councils to strengthen decentralization and municipal collaboration - Document the status of the current villages without elected Municipal Councils - Consider options to expand municipalities to all villages without elected Municipal Councils
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) Strengthened decentralization and municipal collaboration b) Legal gap in the authority for the formation of new municipalities resolved - New criteria for the

formation of financially non-viable municipalities			formation of new municipalities established
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish an association of municipalities whose functions include advocacy on behalf of municipal interests and participation in decisions concerning or affecting their financial activities and resources	<ul style="list-style-type: none"> - Amend Decree-Law 118/1977 to include legal instrument for the formation of an association/institution of municipalities - Written Directives from the Minister of Interior and Municipalities 	Mobilize funding to support the municipal association/institutions, e.g. IMF, National Budget	Identify the best option for the association/institution leadership, ownership, and oversights
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
The current lack of transparency in the relationship between municipalities and various levels of government prevents municipalities from being fully informed of the way their revenues are collected and disbursed. The absence of an institution that represents municipalities and acts as a counterpart in discussions with the central government or any formal channels through which to comment on central government decisions directly affects their financial resources	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term URGENT 	<ul style="list-style-type: none"> a) Improved transparency in intergovernmental financial relations b) Established association of municipalities <ul style="list-style-type: none"> - Number of members - Number of central government's consultations with association/institution of municipalities
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Enable the association to provide municipal training programs, technical assistance and	<ul style="list-style-type: none"> - Association of Municipalities Bylaws - Written Directive from the 	Qualified human resources, trainers, and expertise in municipal	Assess the difference between municipalities that are subject to the authority of the CSB and

<p>consultation which helps municipalities prepare terms of reference, managing bids and contracts, monitoring contract execution, and financial management</p> <p>Rationale:</p> <p>The administrative staff of municipalities is in dire need of in-depth training on various levels including the development of a municipal training curriculum and materials, HR improvement strategy and institutional capacity building. There is also a need for a specialized unit in charge of organizing public competitions and training municipal employees in order to gradually build the competence in municipal and financial management and IT skills of municipal staff</p>	Minister of Interior and Municipalities	management and financial management	other municipalities in terms of the sufficiency of human resources and capacity building and propose options for municipal training programs
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & Association of Municipalities	a) 2 (following recommendation 3) b) Long term	a) More professional municipal staff b) Number of municipal training programs developed - Number of training sessions conducted - Number of trainees

Priority area 10: Enable Public Private Partnership (PPP)

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 19, 20

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Enable municipal/private partnership for efficient use of municipal properties and promote BOT contracts as a tool for local investment and development</p> <p>Rationale:</p> <p>In this form of project financing, a private entity receives a concession from the municipality to finance, design, build, and operate a facility stated in the contract. This enables the private entity to recover its investment, operating and maintenance expenses in the project which is transferred to the municipality at the end of the concession period. BOT contracting is an efficient tool for investment and development successfully employed by the central government (infrastructure for mobile telecommunications and restoration of the Jeita Grotto) which, if applied at local level, promotes local economic growth</p>	<ul style="list-style-type: none"> - Amend Decree-Law 118/1977 to include legal instrument for BOT contracts - Decree regulating BOT contracting mechanism and bid's evaluation criteria 		<ul style="list-style-type: none"> - Evaluate the legal changes required to authorize BOT contracts - Identify the best option for BOT contracting and oversight mechanism
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Medium term</p>	<p>a) More efficient use of municipal properties b) BOT contracts made possible</p> <ul style="list-style-type: none"> - Number of BOT contracts - Number of jobs generated

therefore, improves municipal revenue from various fees			
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Allow municipalities to use commercial banks for collection of municipal fees Rationale: In many cases municipalities do not even collect certain fees due to lack of staff. Currently, municipalities are not allowed to have a bank account in a commercial bank. Permitting the municipalities to open accounts in commercial banks and the payment of bank collection fees would allow the municipalities to use commercial banks for collection of municipal fees, increase municipal revenues, and facilitate payment of fees for taxpayers	<ul style="list-style-type: none"> - Amend the General Accounting Law of 1963 - Amend Decree 5595/1982 - Amend Article 111 of Law 60/1988 		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Improved municipal revenue collection b) Municipalities allowed the use of commercial banks for collection of municipal fees <ul style="list-style-type: none"> - Number of municipalities using commercial banks for collection of fees - Percentage of fees collected by commercial banks
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Enable municipalities to use Liban Post services for billing notification, fee collection, and citizen transactions and applications Rationale: The system of notifying taxpayers of their liability through the use of	<ul style="list-style-type: none"> - Amend the General Accounting Law of 1963 - Amend Decree 5595/1982 - Amend Article 111 of Law 60/1988 		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Improved municipal revenue collection

<p>advertisements in the official gazette means that they receive no direct notification of their liability to pay. In large municipalities, the use of Liban Post services for billing notification, and also for fee collection and citizen transactions and applications reduces the delays/burden, opportunities for corruption, and waste of municipal human and financial resources. It also saves citizens time and effort especially when many live outside their home-towns and have properties in various municipalities</p>		URGENT	<p>b) Municipalities allowed the use of Liban Post for billing notification, fee collection, and citizen transactions and applications</p> <ul style="list-style-type: none"> - Number of municipalities using Liban Post - Percentage of fees collected by Liban Post - Percentage of citizens transactions using by Liban Post
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Enable municipalities to contract with auditing firms and certified auditors</p> <p>Rationale:</p> <p>More than 90% of the municipalities do not have staff with finance or accounting certificates/diplomas. The lack of qualified accountants has a significant impact on financial management, oversight reporting, and financial transparency and accountability. Enabling municipalities to contract with auditing firms and certified</p>	<ul style="list-style-type: none"> - Amend the General Accounting Law of 1963 - Amend Decree 5595/1982 - Amend Article 111 of Law 60/1988 		
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term</p>	<p>a) Increased financial transparency and accountability</p> <p>b) Number of municipalities contracting with auditing firms and certified auditors</p>

auditors increases transparency and facilitates financial management, oversight and accountability			
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
Authorize municipalities to borrow funds from the private sector for development projects using their revenues and assets as collateral	<ul style="list-style-type: none"> - Amend Decree-Law 118/1977 to include legal instrument for municipalities to borrow funds in the private sector - Issue a PPP law 		Assess the legal constraints for borrowing funds from the private sector and establish a legal and regulatory framework for municipal borrowing from the private sector
Rationale:	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
Municipalities are currently given broad authority to perform development projects without the authority to raise the capital necessary to actually implement those projects. Municipal revenues and assets, including municipal properties, can be used as collateral for borrowing funds in the private sector to finance sustainable development projects	MoIM	<ul style="list-style-type: none"> a) 2 b) Medium term 	<ul style="list-style-type: none"> a) Increased number of sustainable development projects b) Municipalities authorized to borrow funds in the private sector

Priority area 11: Empower municipal unions

Objective: Increase efficiency of financial operations

Revised strategic framework priority actions included: 21, 26

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Provide municipal unions with the authority to compel the payment of municipal dues</p> <p>Rationale:</p> <p>The finances of the union consist among other revenues of: 10% of the actual revenues of member municipalities in addition to a percentage of the budget of member municipalities benefiting from a specific project of common interest. Many municipalities are deficient in paying the dues to the union for lack of financial resources. Meanwhile, the only legal means for the union to collect municipal dues is through the MoIM</p>	Amend Article 128 of Decree-Law 118/1977		Review the authorities granted to municipal unions in order to compel the payment of municipal dues and to empower them to play an active role in local government empowerment
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term URGENT</p>	<p>a) Stronger and more active municipal unions</p> <p>b) Unions able to collect payment of municipal dues without going through the MoIM</p>
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Grant the unions the ability to include unincorporated villages which are currently under the authority of the MoIM</p> <p>Rationale:</p> <p>Out of the 2,702 villages, around</p>	Amend Chapter 7 of Decree-Law 118/1977		<ul style="list-style-type: none"> - Review the formation, membership, board representation/election, and regional scope of the union - Political consensus on decentralization and empowerment of local

1,300 villages are unincorporated and under the authority of the MoIM. This affects local development in around half of the villages. Currently, Unions of Municipalities shall consist of several municipalities without any jurisdictions on unincorporated villages which affects development projects in regions where such villages are located within the project's geographical area. Currently, MoIM is not collecting property-related fees located at unincorporated villages, this recommendation improves the revenue of the unions and municipal services in these villages			governance
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) Enhanced development in regions that include unincorporated villages b) Unions granted jurisdiction over unincorporated villages - Number of development projects initiated by the unions in unincorporated villages

Priority area 12: Improve the management of human resources

Objective: Increase the efficiency of financial operations

Revised strategic framework priority actions included: 70,71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 84, 85, 92

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Abandon the DGI pre-approval requirement for changes in municipal organizational structure for the municipalities not subject to CSB control</p> <p>Rationale:</p> <p>The delay in approving organizational structure affects recruitment of municipal finance officers, municipal revenue and financial management, especially for newly established and municipalities with obsolete administrative structures which require amendment. For the municipalities not subject to CSB control, the DGI at the MoIM oversees the compliance of the municipal employees' bylaws and organizational structure prior to the minister's approval</p>	Amend Decree-Law 115/1959	Training the MoIM staff to review municipal organizational structure	Develop standard organizational structure that specifies the various municipal units, the various titles or positions under each administrative unit, in addition to personnel bylaws and flexible salary scale for municipalities
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Promotion of issuance and reform of municipal organizational structures b) Number of organizational structures amended/issued. - Duration for approval of an organizational structure
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Simplify and standardize existing procedures for hiring both permanent and limited-duration	<ul style="list-style-type: none"> - Amend Articles 83 and 84 of Decree-Law 118/1977 - Amend Decree-Law 114/1959 		<ul style="list-style-type: none"> - Review the pre-approval requirements imposed by the MoIM and the CSB

<p>employees allowing time sharing of the limited-duration employees between municipalities</p> <p>Rationale:</p> <p>Municipalities that are subject to the control of the Civil Service Board can resort to contractual workers (Article 84 of Decree-Law 118/1977). Most municipalities lack the required human resources to perform budgeting or accounting related tasks or manage comprehensive revaluation, mapping, assessment, billing, collection and enforcement of fees. The absence of qualified personnel is a serious obstacle to strengthening municipal financial capacity</p>	<p>- Decree regulating time sharing of the limited-duration employees between municipalities</p>		<ul style="list-style-type: none"> - Establish a role for the CSB in the recruitment of certain municipal employees - Evaluate the potential of establishing a system that allows and regulates municipalities to hire employees based on limited-duration contracts
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & CSB</p>	<p>a) 1 b) Medium term URGENT</p>	<p>a) More efficient human resource management b) Simplified hiring of permanent and limited-duration employees</p> <ul style="list-style-type: none"> - Allowed time sharing of limited-duration employees between municipalities - Number of time sharing employees between municipalities recruited
<p>Recommendation 3</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Require large municipalities to set up HR departments and provide support for HR management to medium and small sized municipalities</p> <p>Rationale:</p> <p>There is a deterioration of human resources in large municipalities with an increasing number of</p>	<p>Amend Article 83 of Decree-Law 118/1977</p>		<p>Evaluate the need for the creation of a specialized unit in charge of human resources in major municipalities including the organization of competitions and the provision of training</p>
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM, Municipal Councils of large municipalities</p>	<p>a) 1 b) Medium term</p>	<p>a) Improved HR management b) Established HR department</p>

<p>unfilled vacancies, as well as an increase in the average age of their employees. Therefore, there is a need for a specialized unit in charge of organizing public competitions and training municipal employees in order to gradually build the competence of municipal staff. For medium and small municipalities, on the other hand, the DGI at the MoIM could provide support for HR management</p>			<p>in large municipalities</p> <ul style="list-style-type: none"> - DGI providing support for HR management in medium and small sized municipalities - Number of municipalities supported by DGI yearly
<p>Recommendation 4</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Draft a standard human resource manual for municipal employees; standardize job descriptions, minimum qualifications, titles, and grades; and develop standardized personnel forms</p> <p>Rationale:</p> <p>Municipal HR management is in dire need for a new organizational structure and a modern salary scale, new job descriptions and requirements. Older municipalities tend to have an outdated administrative organization which is no longer compatible with current challenges, the actual workload, and the human capital needed for the functioning of the</p>	<p>Written directives from the Minister of Interior and Municipalities</p>		<ul style="list-style-type: none"> - Assess the benefits and disadvantages of the adoption of the same salary scale in municipalities and central government agencies - Assess the needs and cost of filling all the required IT personnel in municipalities whose organizational structure includes an IT unit - Develop standard personnel forms for all municipalities - Assess the potential to develop a standardized HR system for municipal employees, workers, police, and guards which could be tailored to the needs of

<p>municipality. On the other hand, most new municipalities have not developed an organizational structure and a salary scale due to the absence of models that are tailored to municipal needs, in addition to the burdensome pre-approval requirements. Moreover, the absence or deficiencies of procedure manuals in most municipalities have resulted in confusion over the roles and responsibilities of municipal units</p>			particular municipalities while allowing employee mobility among municipalities
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & CSB	a) 1 b) Short term	a) Improved HR management b) Standard human resource manual developed <ul style="list-style-type: none"> - Standard personnel forms used by all municipalities - Approved IT salary scale - Flexible municipal salary scale
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Expand NSSF coverage to all municipal employees and enforce/guarantee the payment to NSSF of municipal dues</p> <p>Rationale:</p> <p>Municipal employees and contractual workers cannot enjoy the coverage of the National Social Security Fund. Municipalities end up providing all the benefits including family allowances, health benefits, school tuition, etc. which represents a significant burden for municipalities. Moreover, many municipalities do not currently have a special fund for end of</p>	Amend Article 82 of Decree-Law 118/1977		Assess the reasons behind the lack of NSSF coverage for municipal employees and the possibilities of extending coverage to those employees
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM, MoL, and NSSF	a) 1 b) Medium term	a) Enhanced quality of municipal jobs b) Municipal employees benefit from NSSF coverage <ul style="list-style-type: none"> - Number of municipal employees benefiting from NSSF - Number of municipalities short of payment NSSF dues

service benefits			
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
Allow employees to be transferred from one municipality to another while maintaining their grades, salaries, and benefits	<ul style="list-style-type: none"> - Amend Article 83 of Decree-Law 118/1977 - Revoke all prerequisites for employees being a constituent of the local government 		
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
Facilitating inter-municipal transfer of municipal employees helps in establishing a cadre of municipal managers and experts with diverse proficiencies, opening opportunities for an adequate market of municipal expertise and educational development. This also opens the prospects for municipal staff in small municipalities to get promoted into a higher grade based on their competences	MoIM	<ul style="list-style-type: none"> a) 2 (following recommendation 5) b) Medium term 	<ul style="list-style-type: none"> a) Development of a professional cadre of municipal employees b) Transfer of employees from one municipality to another tolerated <ul style="list-style-type: none"> - Number of employees transferred from one municipality to another
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
Promote the payment of salaries through commercial banks	Written Directives from the Minister of Interior and Municipalities		
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
The payment of salaries through wire transfer to personnel accounts at commercial banks was first established successfully at Beirut municipalities in 2007. Although both existing accounting laws (General Accounting Law of	MoIM	<ul style="list-style-type: none"> a) 1 b) Short term 	<ul style="list-style-type: none"> a) Enhanced human resource management b) Increased payment of salaries through commercial banks <ul style="list-style-type: none"> - Number of municipalities using bank wire for the payment of salaries

<p>year 1963 and Decree 5595 of year 1982), allow payment of municipal dues through a bank wire, many large municipalities pay staff salaries by advancing cash to an appointed employee who later handles the payment to the appropriate staff</p>			
<p>Recommendation 8</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Develop a Municipal Employee Annual Performance Evaluation system with appropriate forms, measurement and performance appraisal criteria</p>	<p>Written Directives from the Minister of Interior and Municipalities and CSB for the municipalities subject to CSB's control</p>		<p>Establish a general template for municipal units that specify the authorities, responsibilities, and functions for each unit</p>
<p>Rationale:</p> <p>Performance evaluation is a constructive process to acknowledge an employee's performance and increase transparency in manager-employee relationships. Subordinates gain clear understanding of what goals and objectives are expected from them, their own personal strengths and areas for development, and a solid sense of their relationship with their supervisor. This ultimately increases accountability of municipal finance officers, municipal revenue, and</p>	<p>Primary implementer</p> <p>MoIM & CSB</p>	<p>a) Sequence b) Estimated duration</p> <p>a) 3 b) Short term</p>	<p>a) Expected outcome b) Measurement</p> <p>a) Improved human resource management b) Developed Municipal Employees' Annual Performance Evaluation system - Number of municipalities performed employees' annual performance evaluation</p>

effectiveness of financial management			
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Priority area 13: Improve on the use of IT

**Objective: Increase the transparency of municipal financial operations
Increase efficiency of financial operations**

Revised strategic framework priority actions included: 22, 23, 32, 33, 37, 39, 40, 41, 43, 44, 68, 69, 81, 82, 83, 89, 90, 91, 93, 94, 95

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities</p> <p>Rationale:</p> <p>With funding provided by USAID, SUNY developed two computerized budget systems (MBS) as well as a municipal revenue system (MRS) that were installed in 700 municipalities. This leaves over 200 municipalities that have not received systems or training. Although these systems were initially developed in 1999 and may fall short of being adequate, it is recommended that they be rolled out, in the short term, to all municipalities. All municipalities should be using a standardized system for assessment and billing, so as to allow standardized data exchange with MoIM and national training</p>		<p>Receive the MRS and MBS's source codes, manuals, design, user guides, and installers from SUNY upon the signed cooperative agreement with MoIM</p>	<ul style="list-style-type: none"> - Set up institutional mechanisms to install the MRS and MBS in all municipalities - Assess upgrade of the current IT systems in light of the actual internet speed - Assess the training and capacity building needs of municipal staff toward allowing them to effectively use computerized systems - Consider UN Habitat project or a specialized IT company for the implementation of this recommendation until the TAU is operational (refer to recommendation 2)
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Short term URGENT</p>	<p>a) Improved budget preparation and execution and increased municipal revenues b) Existing Revenue and Budget</p>

			<p>Systems implemented in all municipalities</p> <ul style="list-style-type: none"> - Nationwide standardization of municipal finance procedures and regulations - Number of municipalities using current IT systems
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a Technical Assistance Unit (TAU) at the MoIM (refer to recommendations 1 & 2 under PA 7 in chapter 4)</p> <p>Rationale:</p> <p>To provide technical and professional support and guidance to municipalities, in order to ensure continuity in the reform program and to drive the reform process forward in a timely manner</p>	<p>Amend Article 34 of Decree 4082/2000 (Organization of MoIM) to establish a TAU under the authority of the Director General</p>	<ul style="list-style-type: none"> - Institutional development expert - Legal expert - Receive the hardware, software and databases license, and systems' training programs from SUNY as per the signed cooperative agreement with MoIM - For proximity reason, it is recommended that the TAU operates through technical support units in each Mohafaza - Financial assistance by central government, municipal budgets, and international donors 	<ul style="list-style-type: none"> - Technical study on the establishment of the TAU including justification, structure, functions, and working modalities - Consider ways to temporary recruit key USAID project's staff - Integrate the Municipal Observatory within the TAU - Consider UN Habitat project for a TAU's quick startup and capacity building - Consider relying on regional or national specialized IT companies for maintenance and support of USAID project's IT systems under the oversight of the TAU
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term</p>	<p>a) Sustainability of municipal technical support</p>

		URGENT	b) A functional technical cooperation unit at the central level
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Promote paperless and e-municipalities in local administrations by enabling IT and internet use in the administration of municipal applications, citizen services and payment of fees</p> <p>Rationale:</p> <p>The process of computerization in municipalities ought to be the subject of a comprehensive strategy that begins with a process of administrative and legal reform including the allowance of electronic signatures. Such reforms would allow the development of e-municipalities which have several advantages including better relations between citizens and their local authority; increased revenues from municipal fees; increased transparency; and diminished opportunities for corruption</p>	<ul style="list-style-type: none"> - Approval of the digital signature and electronic evidence bills in committees since 2002 - Remove all existing legal constraints for the use of electronic citizen services and payment of fees including the requirement for manual issuance of receipts - Written Directives from the Minister of Interior and Municipalities 		<ul style="list-style-type: none"> - Establish Internet security procedures required for the implementation of web-enabled financial systems - Assess the legal mechanisms that would permit electronic signature and submission of documents thereby facilitating the use of IT for citizen services and payment of fees
	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
	MoIM & large municipalities	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Increased efficiency and transparency of municipal services b) Number of municipal internet portals for citizen's applications - Number of electronic applications
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish an IT unit in large municipalities with the ability to support GIS technology	<ul style="list-style-type: none"> - Amend Decree 8485/1996 - Amend large municipalities' bylaws 		<ul style="list-style-type: none"> - Establish a standard organizational structure for IT Unit in large

<p>Rationale: It is necessary to establish or modernize the IT unit in large municipalities and ensure that it includes the necessary positions with a salary scale that allows attracting the required qualifications. The lack of qualified human capital, whether on the level of administrative employees or individuals specialized in IT or civil engineering, is one of the main reasons behind the partial utilization of GIS technology provided by SUNY in ten municipalities which still rely on the donor to manage, extract, and maintain data. The TAU would manage the maintenance and modernization of existing IT systems in addition to the development of new IT systems</p>	<ul style="list-style-type: none"> - Written Directives from the Minister of Interior and Municipalities 		<p>municipalities (refer to section 3.6 of the Revised Strategic Framework for IT Unit’s Job Description)</p> <ul style="list-style-type: none"> - Assess the needs and cost of filling all the required IT personnel - Address mechanisms to strengthen cooperation between municipalities and the Real Estate Directorate within the Ministry of Finance especially in regard to the provision of digital maps of the municipal territory
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & large municipalities</p>	<p>a) 1 b) Medium term</p>	<p>a) Enhanced IT capabilities b) IT unit established in large municipalities</p> <ul style="list-style-type: none"> - Number of IT personnel recruited - Number of municipalities using GIS technology
<p>Recommendation 5</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Integrate the existing finance-related systems into a more comprehensive Management Information System (MIS)</p> <p>Rationale: SUNY developed the computer</p>	<ul style="list-style-type: none"> - Amend the legal texts that currently require municipalities to perform manual accounting in certain cases - Annul the application of Decree 10388/1997 - Annul the application of General 	<p>SUNY’s developed systems’ source code and design (Database structure, entity relationship, and functional hierarchy diagram)</p>	<p>Develop specifications for a new comprehensive, integrated, and unified financial management system designed specifically for municipalities with web-enabled and GIS capabilities, and give a role to both MoIM & CoA</p>

<p>systems for municipalities between 1998 and 2010 using hard-coded programs to exchange data amongst the various systems which requires hardware resources and is time-consuming with a high probability of system-generated errors and bugs. There is a need for proper integration, debugging, and database normalization across systems to improve performance, compatibility, and data validation. Moreover, the presence of two different budget systems requires two accounting systems. Therefore, the existing systems code needs upgrading to adapt to a unified budget regulation and facilitate electronic exchange between the budget system and the other information systems. The new MIS must include auditing and log tables with specific modules and access rights for the oversight agencies and MOIM auditing tasks</p>	<p>Accounting Law of 1963 on Municipalities</p> <ul style="list-style-type: none"> - Replace Decree 5595/1982 by a Decree regulating Municipal Budget and Accounting - Amend Decree for Municipal Accounting Structure and Chart of Accounts - List of Accounts approved by MoIM and CoA 		<p>during the design, development and testing phases to ensure compatibility of systems and databases (refer to recommendations 1 & 2 under PA 14)</p>
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 2 (following recommendations 1 & 2 under PA 7) b) Long term</p>	<p>a) Integrated financial management systems b) Developed comprehensive finance-related Management Information System (MIS)</p> <ul style="list-style-type: none"> - Web-enable MIS - Access rights allocated for the oversight agencies and MoIM auditing tasks - Number of municipalities installed new MIS
<p>Recommendation 6</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Develop and deploy a unified accounting system for all municipalities, integrated with the MIS, and compatible with any new unified budget and accounting regulations</p>	<ul style="list-style-type: none"> - Annul the application of Decree 10388/1997 on municipalities - Annul the application of the General Accounting Law of 1963 on municipalities - Replace Decree 5595/1982 by a 	<p>Source code and design (Database structure, entity relationship, and functional hierarchy diagram) of the existing systems</p>	<p>Set up a uniform use of IT in budget and financial management at the municipal level including common database structure, functional hierarchy, and business processes which</p>

<p>Rationale:</p> <p>Recently, SUNY developed a computerized accounting system compatible with the budgeting and revenue systems for the municipalities subject to the General Accounting Law (piloted in Beirut). In parallel, a post-audit computer system was developed for the CoA to electronically audit the municipalities subject to the General Accounting Law using the accounting system. These systems only apply to municipalities that are subject to the General Accounting Law, hence the need for a new system that is compliant with a unified accounting system for all municipalities and includes an automated fixed asset module linked to the budget expenditures with fixed asset records and the transfer of these current accounts to the final fixed asset account</p>	<p>Decree regulating Municipal Budget and Accounting</p> <ul style="list-style-type: none"> - Decree for Municipal Accounting Structure and Chart of Accounts - List of Accounts approved by MoIM and CoA 		<p>would enable MoIM and CoA access to electronic data and insure compatibility with auditing and accounting requirements</p>	
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>	
	<p>MoIM & CoA</p>	<p>a) 2 (parallel with recommendation 3 and following recommendations 1 & 2 under PA 7) b) Medium term</p>	<p>a) Increased municipal accountability b) Electronic data exchanged with the banks and oversight agencies</p> <ul style="list-style-type: none"> - All accounting auditing reports required are system generated - Automated treasury's management and cash flow 	
<p>Recommendation 7</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>	
<p>Develop a human resource management system and a payroll module for all municipalities integrated with the MIS</p> <p>Rationale:</p>		<p>Source code and design (Database structure, entity relationship, and functional hierarchy diagram) of the existing human resources</p>	<p>Develop options for the establishment in all municipalities of a payroll IT system that is linked to the budget, human resource, revenue, and accounting systems</p>	

<p>The lack of computerization of human resource management and the absence of a database of information related to all municipal employees deprive municipalities of the information needed to assess the current condition of their human resources and their needs. Moreover, most municipalities continue to issue their payroll schedules manually, which represents a significant problem, especially for municipalities that employ a large number of workers. Currently, five municipalities which are subject to the control of the CSB are using a payroll system that was developed by USAID for the CSB. However, due to the complications of electronic data exchanges with CSB, municipalities continue to rely on USAID for its operation and maintenance. Moreover, the payroll does not allow linkage to other system modules</p>		management system	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 (Parallel with recommendations 3 & 5) b) Medium term	a) Enhanced human resource management b) Developed human resource management system and a payroll system for all municipalities <ul style="list-style-type: none"> - Number of municipalities using the IT system to manage HR - Number of municipalities using the IT system to issue payroll

Priority area 14: Automate municipal finance oversight

Objective: Increase the accountability of municipalities to the community and to the central government

Revised strategic framework priority actions included: 35, 38

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Create an ICT system in the MoIM which manages and tracks the transactions of municipalities and municipal unions</p> <p>Rationale:</p> <p>There is a need for using ICT in processing municipal transactions at the MoIM. The electronic linkage of information via a workflow system and communications network accessible to MoIM entities allows the exercise of financial oversight without delaying the required approvals and improves post-audit effectiveness. Communication between municipalities and the Ministry is also enhanced through e-mail with synthesis of information and reporting. For sustainability reasons, the TAU (MoIM) should provide support and training for operation and maintenance of MoIM's</p>			<ul style="list-style-type: none"> - Assess ways to improve the computerization of the budget oversight performed by MoIM and Controller General - Set MoIM electronic auditing requirements - Prepare an Invitation for Bids (IFB) for hardware and software required to ensure completion of the work
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM</p>	<p>a) 1 b) Long term</p>	<p>a) Enhanced IT capabilities b) IT deployed at MoIM Improved post-audit functions</p> <ul style="list-style-type: none"> - Number of municipalities sending pre-approval transactions electronically - Reduced delays in processing transactions

computerized systems			
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Provide the CoA with the resources and equipment necessary to electronically audit municipal accounts Rationale: The CoA should have oversight authority over IT systems pertaining to financial management within the municipalities in order to ensure that the correct principles and criteria are adopted for all financial and accounting transactions, while allowing the CoA to oversee the municipal accounts electronically. CoA must establish mandatory specifications for finance-related IT systems and impose penalties for municipalities who fail to use them, which require the establishment, within the CoA, of an IT unit specialized in financial systems and electronic oversight	Decree establishing a specialized IT Unit at the CoA	<ul style="list-style-type: none"> - Training for CoA's staff on municipal management and electronic auditing - Allocate cost in CoA budget 	Review CoA's existing IT Unit organizational structure and resources
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoA	a) 1 b) Medium term	a) More effective CoA oversight b) Finance-related IT systems approved by CoA prior to deployment in municipalities <ul style="list-style-type: none"> - Technical support provided to CoA's auditors
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Improve the inter-linkage between municipal and MoF databases by setting standards at the field level of data, allowing the exchange of		Establish a structure for cooperation amongst different municipal IT unit and central	<ul style="list-style-type: none"> - Identify the best choice of solutions for data exchange and transfer - Assess the role of the MoIM,

<p>electronic data, and providing access to online data with proper security measures</p> <p>Rationale:</p> <p>The standardization of revenue and accounting references in all municipalities, especially the mechanisms of revenue appraisal, fees evaluation, vacant properties, and the general accounting structure will allow the development of a standardized database. This will in turn allow the exchange of various data with the MOF, ensure speed and accuracy of data extraction, and that the target data structured under a schema is an accurate representation of the source data structured under a different schema</p>		<p>governments IT units especially at MoIM, MoF and CoA</p>	<p>the MoF, and the CoA in establishing an IT policy which specifies the technical criteria required for all municipalities</p> <ul style="list-style-type: none"> - Establish Internet security procedures required for electronic data exchanges
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoF & MoIM</p>	<p>a) 1 (parallel with recommendation 5 under PA 13) b) Short term</p>	<p>a) Increased municipal revenues</p> <ul style="list-style-type: none"> - Taxpayer and property information more accurate <p>b) Number of municipalities exchanging revenue-related data with MoF electronically</p>
<p>Recommendation 4</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Develop an auditing system for the CoA's controller and auditors using Computer Assisted Auditing Techniques (CAAT) to perform electronic auditing functions of municipal budget and accounting systems</p> <p>Rationale:</p> <p>The CoA is currently unable to</p>	<p>Amend Decree 8485/1996 in order to require the computerization of finance related activities in all municipalities and municipal unions</p>		<ul style="list-style-type: none"> - Review the compatibility of the records, data, and reports required by the CoA with the municipal budget and accounting systems - Set CoA electronic auditing requirements - Prepare an Invitation for Bids (IFB)
	<p>Primary implementer</p>	<p>a) Sequence</p>	<p>a) Expected outcome</p>

<p>fulfill all its administrative and financial obligations and there is a crucial need to equip the CoA with ICT to play its role in this regard. In 2006, SUNY developed an accounting system for municipalities which are subject to the General Accounting Law and a pre-audit system for the CoA, followed in 2010 by a post-audit system for municipalities subject to CoA oversight. With a unified accounting system suitable to all municipalities and simplified post-audit reporting, the municipalities will be able to prepare and electronically submit financial and accounting information to the CoA and provide electronic access to its database for CoA's staff performing on-site audits</p>		b) Estimated duration	b) Measurement
	CoA	<p>a) 2 (following recommendation 4 under PA 4 and parallel with recommendation 6 under PA 13)</p> <p>b) Medium term</p>	<p>a) More effective CoA oversight</p> <p>b) Developed auditing system to perform electronic auditing functions of municipal budget and accounting</p> <ul style="list-style-type: none"> - Number of municipalities submitting electronic auditing report - Number of on-site electronic audits performed

Chapter 3: Improving the Independent Municipal Fund

The purpose of this chapter is to draft a roadmap for improving the Independent Municipal Fund. The roadmap provides a strategy that aims to specifically attain the following objectives: a) make the IMF more independent; b) enhance the revenues and ensure the financial stability of the IMF; c) increase the reliability and timeliness of payments from the Fund to municipalities; d) make the amount paid to each municipality more predictable from one year to the next; e) encourage the most equitable distribution of Fund resources possible; and f) develop the capacity to implement and maintain the restructured IMF over the long term.

The strategy is developed based on earlier analysis of the legal framework and existing situation that consequently led to the identification of the priority actions that address the major constraints. The priority actions that were proposed in the *Revised Strategic Framework* report were categorized along the following five components as specified in the TOR (refer to appendix 3.A for a complete list of priority actions): 5 priority actions to address the sources of the funds, 14 for the uses of funds, 3 for degree of municipal financial autonomy, 1 for human resource, and 3 for IT.

Before fleshing out the priority actions into recommendations, the ICMA team undertook the following two steps:

1. Ensured that the priority actions across all the three studies – 95 for study 1, 26 for study 2, and 31 for study 3 - were harmonized to achieve the overall objective of modernizing municipal finance.
2. Consolidated priority actions within each study by common objectives into priority areas. Since the priority actions were initially developed based on the TOR's five components, the ICMA team grouped related priority actions into priority areas to streamline the priority actions and avoid repetition.

Consequently, the 26 priority actions were categorized into the following 6 priority areas:

1. Establish an independent IMF institution
2. Make detailed information about IMF revenues and expenditures publicly available
3. Increase and stabilize IMF revenues
4. Regulate withdrawals and deductions from the IMF including Civil Defense expenses
5. Establish distribution formulas and disbursement modality for local entities
6. Diagnose the financial over-dependency of municipalities on the IMF

A note on the priority areas and how they relate to each other is in order. The first priority area states that a new independent institution must be set up to manage the IMF. The aim of this priority area is to guarantee the independence of the IMF and to be consistent with the Decree-Law 118 of 1977 (articles 86 and 87) which states that the IMF must be independent and its revenues deposited into a trust fund. To this end, priority area 1 is composed of 10 recommendations that deal with the characteristics of the new institution which includes its legal status, composition of its board, its prerogatives, its financial and human resources, its internal regulations, and its IT system. Consequently, the subsequent priority areas (priority areas 2 through 6) have been developed in light of the establishment of the new IMF institution.

Priority area 2 is concerned with making detailed information about IMF revenues and expenditures publicly available through the following 4 recommendations: consolidate the IMF accounts; periodically publish the annual reports; audit the revenues and expenditures; and submit the report to the parliament.

The third priority area plans to increase and stabilize IMF revenues. It is made up of the following 4 recommendations: transfer a share of the VAT on mobile phones into the IMF (alternatively a share of the total VAT); revise the tax base of built real estate; ensure that any decrease in IMF revenues does not exceed that of central government revenues; and allow the government to transfer funds into the IMF.

Priority area 4 aims to regulate the withdrawals and deductions from the IMF through the following 8 recommendations: have the Court of Audit conduct post-audit on withdrawals and deductions from the IMF; have the newly created IMF institution assess and approve any withdrawals or deductions; prohibit any withdrawal or deduction made by the central government; set up a transitory provision governing the on-going agreements contracted by the central government; revise the current arrangement with waste collection companies and require municipalities to buy-into the revised contract; define the state's responsibility in financing the civil defense expenses; redefine the contribution of the municipalities that are currently benefiting from civil defense services; and ensure the participation of the newly created IMF institution in the administrative board of the civil defense.

The purpose of priority area 5 is to establish a distribution formula and a disbursement modality through the following 11 recommendations: determine the share of the IMF to be distributed among municipalities, municipal unions, and villages without municipalities; introduce a distribution formula that takes into account the funding needed for municipalities to fulfill their responsibilities based on resident population; introduce a distribution formula based on socio-economic condition of the areas under the jurisdiction of the municipalities; introduce a distribution formula based on the tax effort exerted by the municipality; establish the criteria, variables, and formulas to distribute the IMF to municipal unions, municipalities, and villages without municipalities; make provision for foreign donors to give funding to municipalities; issue IMF distribution orders by the newly established institution within a 4 months period, disburse the IMF funds to municipalities, municipal unions, and villages without municipalities in one payment; establish ways to allocate and manage funds going to villages without municipalities; integrate villages without municipalities into the Municipal law; and return taxes collected from the villages back to them.

Priority area 6 diagnoses the over-dependency of municipalities on the IMF. Three recommendations are put forth: work with the Municipal Observatory to identify and collect data and information needed to implement the IMF funding criteria; assess the needs of the municipalities; and audit the municipalities whose ratio exceeds a certain level in order to diagnose the source of the problem.

Since the study recommends that the distribution of the IMF revenues must be governed by a Law rather than by a Decree, there is a need to draft a new IMF distribution law rather than amend Decree 1917 of 1979. Furthermore, since 21 out of the 40 recommendations

require the amendment of Decree-Law 118 of 1977, the ICMA team strongly recommends that a new Municipal Act is drafted rather than amending the existing Law.⁵

Not all proposed recommendations take the same amount of time to be put in place. For each type of measure, we have estimated the duration of the measure i.e. how long it will take to prepare for the execution of the recommendation. The recommendations are classified into three categories: short term, medium, term, or long term. *Short term recommendations* are those that require less than one year to be implemented. They do not need any legal amendment and they may require a minister's directives to be executed. *Medium term recommendations* are measures that require between 1 and 2 years to be prepared for execution. Often medium term measures necessitate legal amendments that take the form of issuing or amending new Laws or Decrees. Note that legal amendment is not a necessary condition but it is sufficient for a recommendation to be classified as medium term. *Long term recommendations* are measures that require more than 2 years to be put in place. They often involve institution building such as empowering an organization, hiring staff, and developing IT systems. Some of the long terms measures may be preceded or accompanied by legal amendments. Others may require at least 2 years to implement because of the complexity they are trying to address. Note that the estimated duration takes into account only the time needed to prepare for the action, which can be quantified. In other words, we have excluded from our estimation the time it takes for a draft Law to become a Law since many unforeseen factors could come into play making the estimates futile. **Out of the 40 recommendations, 3 measures can be addressed in the short term (less than one year), 33 recommendations can be dealt with in the medium term (require 1 to 2 years), and 4 actions are classified as long term since they would need more than 2 years to prepare for** (Table 4).

⁵ Note that the team has proposed in the templates below under legal prerequisites to amend articles in the Municipal Act rather than draft a new Law only because Decree-Law 118 of 1977 remains to be as of today the legal framework that governs the sector.

Table 4: Recommendations by priority area

		Recommendations				
	Priority areas	Total	Short term	Medium term	Long term	Urgent
1	Establishing an independent IMF institution	10		6	4	5
2	Make detailed information about IMF revenues and expenditures publicly available	4	1	3		1
3	Increase and stabilize IMF revenues	4		4		1
4	Regulate withdrawals and deductions from the IMF including Civil Defense expenses	8	2	6		1
5	Establish distribution formulas and disbursement modality for local entities	11		11		5
6	Diagnose the financial over-dependency of municipalities on the IMF	3		3		
	Total	40	3	33	4	13

Priorities and durations of the reforms

Note that not all the 40 recommendations are urgent. The ICMA team considers that some of the proposed measures are more important than others. Such measures, one implemented, tend to have the largest impact on the reform process. Hence, we have identified the urgent from non-urgent measures so that the efforts and investments by policymakers are channeled towards implementing them. Urgent measures are not necessarily easier to execute. Some of the urgent recommendations may be quickly addressed but others may take a long time to put in place. Nevertheless, such reforms must begin very soon. In this study, **the team has classified 13 out of the 40 recommendations to be urgent**, which are primarily concerned with the following: 5 measures to establish a new IMF institution; 5 actions to develop a new IMF distribution formula; one measure to make the data publicly available; one action to transfer a share of the VAT on mobile phones or deduct a share of the total VAT to the IMF; and one recommendation to revise the waste collection contracts.

In table 5, we map out the estimated duration for all the urgent recommendations. Its purpose is to give policymakers a sense of how much it takes to prepare for the urgent recommendations. **Out of the 13 urgent recommendations, 2 can be accomplished within one year period and 11 would require between 1 to 2 years of preparation** (Table 5).

Table 5: Urgent recommendations by duration

Priority areas	Short term	Medium term
Establishing an independent IMF institution		Establish the legal status of the new IMF institution
		Establish the composition of the new IMF Board
		Establish the of the new IMF institution
		Provide the resources required to operate the institution from the existing IMF revenues
		Establish a cadre for the IMF institution
Make detailed information about IMF revenues and expenditures publicly available	Publicly issue annual reports on IMF revenues and expenditures including withdrawals, deductions, and distributions to municipalities from the two IMF related accounts	
Increase and stabilize IMF revenues		Transfer a share of VAT on mobile phones OR deduct a certain share from total VAT revenues for the IMF
Regulate withdrawals and deductions from the IMF including Civil Defense expenses	Revise the current arrangement with waste collection companies and require municipalities to actively buy-into the revised contract	
Establish distribution formulas and disbursement modality for local entities		Determine the share of the IMF to be distributed to local entities
		Introduce a distribution formula based on the funding needed for each type of local

		<p>entity to fulfill their responsibilities using dwellings, electricity, water, or telephone services as proxies of population (in the absence of resident population data)</p>
		<p>Introduce a distribution formula based on socio-economic condition of the areas under the jurisdiction of each type of local government unit (i.e. development index, surface area)</p>
		<p>Introduce a distribution formula based on the tax effort relative to tax potential as a basis for funding local entities (estimating the tax potential of the municipality becomes a research input)</p>
		<p>Establish the weight to be assigned to each of the distribution criteria that would be used to distribute IMF to each type of local government units</p>

Priority area 1: Establish an independent IMF institution

Objective: Make the IMF more independent

Develop the capacity to implement and maintain the restructured IMF over the long term

Revised Strategic framework priority actions include: 1, 2, 6, 10, 11, 12, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish the legal status of the new IMF institution to include the following:</p> <ul style="list-style-type: none"> - It is an independent administrative body - Its transactions shall not be subject to any prior audit - In counterpart, the accounting shall be subject to the CoA - Its decisions can only be subject to challenge before the State Council <p>Rationale: To guarantee the independence of the IMF</p>	<p>Introduce a new provision to Decree-Law 118/1977 to establish the new institution</p>	<p>Legal expert</p>	<ul style="list-style-type: none"> - Research the legal status of similar institutions that manage intergovernmental grant systems - Need political consensus on making the IMF an independent institution
	Primary implementer	a) Sequence	a) Expected outcome
	MoIM	b) Estimated duration	b) Measurement
		<ul style="list-style-type: none"> a) 1 b) Medium term URGENT 	<ul style="list-style-type: none"> a) More independent institution b) Legislation approved by Parliament
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish the composition of the new IMF Board to include the following: representatives of municipalities and municipal unions elected by Municipal Council Presidents and that they make up at least half the board</p>	<p>Introduce a new provision to Decree-Law 118/1977 to define the Board's composition</p>	<p>Legal expert</p>	<ul style="list-style-type: none"> - Research the composition of the board similar institutions that manage intergovernmental grant system - Need political consensus on the composition of the board

<p>members; Members of the Parliament elected by the Parliament; and central government officials appointed by the CoM</p> <p>Rationale:</p> <p>To ensure the participation of the municipalities in the IMF</p>			of the institution
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Participation of the municipalities in managing the IMF b) Half of the members of the board are Municipal Council Presidents and the remaining members are Members of Parliament and central government officials
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish the prerogatives of the new IMF institution to include at least the following:</p> <ul style="list-style-type: none"> - Assess and approve decisions on withdrawals, deductions including waste collection - Measure the impact of any legal amendment draft which may affect the prerogatives or revenues of municipalities or municipal unions - Monitor the collection of the IMF funds - Distribute the IMF revenues to municipalities and municipal unions - Work with the Municipal Observatory to collect, analyze, and archive data on 	Introduce a new provision to Decree-Law 118/1977 to determine the institution's prerogatives	Legal expert	<ul style="list-style-type: none"> - Research the prerogatives of similar institutions that manage intergovernmental grant system - Need political consensus on the prerogatives of the institution
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) IMF exercising decision making authority over the funds transferred to it b) This includes the following: <ul style="list-style-type: none"> - Number of decision issued regarding withdrawals and deductions - Number of studies on the impact of legal amendments regarding municipal prerogatives or revenues

<p>municipalities' financial, economical and social conditions</p> <ul style="list-style-type: none"> - Audit municipalities whose dependency ratio is high - Publish annually the IMF revenues and expenses - Recommend legal reforms <p>Rationale:</p> <p>To empower the IMF institution in making decision</p>			<ul style="list-style-type: none"> - issuing internal report on the condition of municipalities based on data collected and analyzed - Number of published reports on revenues and expenses of the IMF
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Provide the resources required to operate the institution from the existing IMF revenues</p> <p>Rationale:</p> <p>To have financial support that would allow it to independently function</p>	<p>Introduce a new provision to Decree-Law 118/1977 to determine the institution's resources</p>	<ul style="list-style-type: none"> - Legal expert - Financial expert 	<ul style="list-style-type: none"> - Research the resources of similar institutions that manage intergovernmental grant system - Estimate the expenses of managing the IMF institution - Need political consensus on the resources of the institution
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term URGENT 	<ul style="list-style-type: none"> a) IMF obtains sufficient operating resources to function as an independent entity b) Funds in a budget to manage the IMF
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a cadre along with the</p>	<p>Introduce a new provision to Decree-</p>	<ul style="list-style-type: none"> - HR expert 	<p>Conduct a study on human</p>

<p>job description and skills needed to operate an independent IMF organization with the roles and responsibilities outlined in prior recommendations</p> <p>Rationale: To assure that the new IMF is staffed with appropriate skills and experience</p>	Law 118/1977 to establish a cadre for the IMF institution	- Legal expert	resources needed for the IMF management in compliance with its functions
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) IMF cadre well adapted to its functions b) An organization structure approved and staffing plan completed
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Adopt the institution's internal regulations (which would include quorum, majorities, different committees etc.)</p> <p>Rationale: To implement and assume its prerogatives provided to it by the amended Decree-Law 118/1977</p>	Within a predetermined period of time from the establishment of the institution, issue an implementation decree in order to organize the different committees	Legal expert	Research the internal regulation of similar institutions
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	Newly established IMF institution	a) 2 b) Medium term	a) Independent and participatory intergovernmental grant system and operation of the IMF as specified by law b) IMF operating regulations published
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Hire qualified staff to manage the IMF as an independent IMF organization with the roles and responsibilities outlined in prior recommendations</p>		HR expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	Newly established IMF institution	a) 3 b) Long term	a) IMF functioning properly within its governing laws and policies

<p>Rationale:</p> <p>To assure the professional and skillful management of IMF resources</p>			b) Employment of staff to manage and implement the needed functions of the IMF
Recommendation 8	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Adopt IT in the management of the IMF annual budget preparation, financial management, expenditure transaction, accounting transactions, and the distribution of municipal shares based on the adopted criteria as well as adopt GIS technology to store, manage, generate statistical analysis, and create interactive queries to geographically present data linked to municipalities and unions</p> <p>Rationale:</p> <p>MoIM does not currently possess the required IT hardware and software systems to manage the distribution of municipal and municipal union revenues from the IMF as well as the administrative and financial management of the fund</p>		IT expert	Prepare system designs, detailed hardware/software specifications, and an Invitation for Bids (IFB) for hardware and software required to ensure completion of the work
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	Newly established IMF institution	a) 3 b) Long term	a) Automated IMF management and improved management of IMF fund b) Availability of information on the distribution of municipal shares, number of financial and accounting reports generated by the computer system, GIS used to produce statistical analysis and present data geographically
Recommendation 9	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish an electronic mechanism for the exchange of information related to the finances of the IMF between MoIM and MoF		Steering committee of administrative and technical staff from MoIM and MoF	- Review the compatibility of the records, data, and reports required by IMF with the MoF accounting systems

<p>Rationale:</p> <p>There is a need to make the data on the taxes and fees that constitute the IMF transparent in order to better assess whether new taxes and fees must be imposed. Furthermore, there is a need to audit and review the taxes and fees that go into the IMF to ensure that the full and the correct amount of each revenue is being collected and is properly accounted for in the IMF</p>			<ul style="list-style-type: none"> - Identify the best choice of solutions for data exchange and transfer - Establish security procedures required for electronic data exchanges
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	Newly established IMF institution	<p>a) 3</p> <p>b) Long term</p>	<p>a) Data exchanged electronically between MoF and IMF and improved audit and review of the taxes and fees that go into the IMF</p> <p>b) MoIM has online access to information about IMF funds</p>
Recommendation 10	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a website for the IMF that allows interactions with municipalities and municipal unions and make the annual reports accessible on the internet</p> <p>Rationale:</p> <p>The lack of transparency of the data, confounded with the withdrawals and deductions taking place without the consultation of municipalities, have created an environment of mistrust between central and local governments. The website will provide thereby interaction between the IMF and</p>		IT expert	Prepare an Invitation for Bids (IFB)
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	Newly established IMF institution	<p>a) 3</p> <p>b) Long term</p>	<p>a) Increased transparency of IMF management</p> <p>b) Number of electronic submission and number of website hits per month</p>

municipalities and municipal unions			
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Priority area 2: Make detailed information about IMF revenues and expenditures publicly available

Objective: Enhance the revenues and ensure the financial stability of the IMF

Revised Strategic framework priority actions include: 1, 9

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
Consolidate the two IMF related accounts into one account Rationale: To transparently show all the taxes and fees that must be deposited into the account and all the spending taken out of the account			
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF & MoIM	a) 1 b) Short term	a) Enhanced transparency and accountability b) Merging of the two existing accounts into one where all the IMF taxes and fees as well as the withdrawals, deductions, and distribution to municipalities and municipal unions are shown
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Publicly issue annual reports on IMF revenues and expenditures including withdrawals, deductions, and distributions to municipalities from the two IMF related accounts (and publish a summary in newspapers) Rationale: Making the data of the IMF publicly available enhances	Amend Article 87 of Decree-Law 118/1977	Legal expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Mistrust reduced between the government and municipalities regarding the IMF revenues, withdrawals, and deductions b) Annual report published

transparency			each year in local newspapers
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Have the consolidated account that includes all revenues and expenditures related to the IMF externally audited</p> <p>Rationale: To ensure that the IMF taxes and fees as well as the withdrawals, deductions and distributions to municipalities are legal and accurate</p>	Amend Article 87 of Decree-Law 118/1977	- Legal expert - Auditor	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF & MoIM	a) 2 b) Medium term	a) Enhanced credibility of the IMF revenue reports b) Audit reports submitted to IMF Board by external auditors
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Submit an annual report to Parliament detailing the IMF's receipts of all taxes and fees as well as the withdrawals, deductions, and distributions to municipalities</p> <p>Rationale: To enhance transparency and accountability</p>	Amend Article 87 of Decree-Law 118/1977	Legal expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF & MoIM	a) 3 b) Medium term	a) Informed decision of IMF revenues for all parties including the opposition b) Annual report on the IMF revenues and spending is submitted to the Parliament

Priority area 3: Increase and stabilize IMF revenues

Objective: Enhance the revenues and ensure the financial stability of the IMF
 Make the amount paid to each municipality more predictable from one year to the next

Revised Strategic framework priority actions include: 2, 3, 4, 5, 13

Recommendation 1a (alternative to 1b)	Legal prerequisites	Inputs / resources	Research / consensus needed
Transfer a share of VAT on mobile phones to the IMF Rationale: Since mobile phone bills cannot be traced geographically to a municipality, the VAT should be transferred to the IMF	Amend Article 55 of VAT Law 379/2001 to specify that VAT on mobile phones should be transferred to the IMF	- Legal expert - Telecommunication expert - Tax expert	Need political consensus to assign a share of the VAT on mobile phones to the IMF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF & MoT	a) 1 b) Medium term URGENT	a) Increase in the IMF revenues distributed to municipalities b) Observe a transfer from MoT to the IMF account
Recommendation 1b (alternative to 1a)	Legal prerequisites	Inputs / resources	Research / consensus needed
Deduct a certain share from total VAT revenues for the IMF Rationale: The reduction of tariffs, which formed the bulk of IMF revenues in 2000, was replaced with a VAT. Consequently, municipalities ought to get a share of the VAT revenues as stated in Law 379	Amend VAT Law 379/2001	- Legal expert - Tax expert	Conduct a study to assess the implications of this recommendation and to determine the share that ought to be transferred
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF	a) 1 b) Medium term URGENT	a) Increase in the IMF revenues distributed to municipalities b) Transfer of a VAT share is on-going on a regular basis

Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Revise the tax base on built property tax so that owners pay taxes on the cumulative property (rather than on each property separately)</p> <p>Rationale: To make the built property tax more progressive and consequently increase its share of the IMF revenues</p>	Amend Article 57 of the Property Tax Law	<ul style="list-style-type: none"> - Legal expert - Tax expert 	Conduct a study to assess the implication of this recommendation on the base of the built property tax and on how to improve the collection of this tax
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Increased revenue from built property tax in the IMF revenues distributed to municipalities a) Amount of the transfer from built property tax collected by MoF to the IMF account
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Ensure that the rate of decrease in IMF revenues from year to year does not exceed that of central government revenues</p> <p>Rationale: To reduce the volatility of the IMF revenues distributed to municipalities</p>	Amend Article 87 of Decree-Law 118/1977	<ul style="list-style-type: none"> - Legal expert - Tax expert 	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF	<ul style="list-style-type: none"> a) 2 b) Medium term 	<ul style="list-style-type: none"> a) Increased predictability of funds available for distribution to municipalities b) IMF revenues distributed to municipalities is highly correlated with central government revenues
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Allow the government to transfer from the general budget fund	Amend Article 87 of Decree-Law 118/1977 to allow both governmental	Legal expert	

(fund not earmarked) as grants to the IMF Rationale: Allowing the government the flexibility to inject funds into the IMF in order to support the needs of municipalities	funds and foreign grants		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoM, MoIM, and MoF	a) 2 b) Medium term	a) More needs of municipalities met through increased IMF revenues distributed to municipalities b) Amount of the general budget transfer to the IMF

Priority area 4: Regulate withdrawals and deductions from the IMF including Civil Defense

Objective: Make the IMF more independent
 Ensure the financial stability of the IMF
 Develop the capacity to implement and maintain the restructured IMF over the long term

Revised Strategic framework priority actions include: 6, 7, 10, 11, 12

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
Have the CoA conduct a post-audit on withdrawals and deduction from the IMF Rationale: To create a check on deductions to be sure they are legal, justified, and serve the interests of municipalities			
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoM & MoIM	a) 1 b) Short term	a) Increase IMF revenues that will be distributed to municipalities, and decrease in spending by central government b) CoA post-audits on-going
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Have the newly established IMF institution assess and approve any withdrawals or deductions (submitted with all the required details including the purpose and the entity to which the fund will be transferred to) from the IMF Rationale: To create a check on withdrawals and deductions to be sure they are	Defined in recommendation 3 under PA 1		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CoM & MoIM	a) 1 b) Medium term	a) Increase IMF revenues that will be distributed to municipalities, and decrease in spending by central government b) System for reviewing and approving withdrawals and

legal, justified, and serve the interests of municipalities			deductions is operation
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Prohibit any agreement that would lead to withdrawal and deduction made by the central government without the approval of the Board of the newly established IMF institution Rationale: To prevent the arbitrary assignment of IMF funds to entities other than municipalities	Amend Article 88 of Decree-Law 118/1977 to include this prohibition	Legal expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Increase the autonomy of municipalities, and reduction in discretionary withdrawals and deductions b) Review and approval process operating
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Set up a transitory provision governing the on-going agreement contracted by the central government on behalf of municipalities Rationale: To respect already signed agreement by the central government	Amend Article 88 of Decree-Law 118/1977 to include this transitory provision	- Legal expert - Financial expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF	a) 1 b) Medium term	a) Increase in the autonomy of municipalities, and protection of the rights of third parties b) Special provisions is operating
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
Revise the current arrangement with waste collection companies and require municipalities to			Audit the contract with waste collection companies including the cost per ton

actively buy-into the revised contract Rationale: To create a more transparent and better justified charge for waste collection services	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	CDR	a) 1 b) Short term URGENT	a) Lower deductions and consequently more money to be distributed to municipalities, municipal unions and villages w/o municipalities b) Cost effective agreements between municipalities and waste collection companies
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
Define the State's responsibility in financing the Civil Defense expenses Rationale: To attain transparency in the allocation of responsibility and finance towards Civil Defense between central government and municipalities	Amend Article 30 of Decree-Law 50/1967 to define the state's responsibilities	- Legal expert - Financial expert	Audit the needs of Civil Defense and estimate the yearly spending for a decent level of services
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF	a) 2 b) Medium term	a) Predictable expenditure made from the IMF b) Establishment a specific share of Civil Defense to be paid by the State
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
Redefine the contribution of the municipalities that are currently benefiting from Civil Defense services Rationale: To create a more transparent and	Amend Article 30 of Decree-Law 50/1967	- Legal expert - Financial expert	Conduct a study to assess how each category of municipalities (beneficiaries and non beneficiaries) contribute to financing the civil defense
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement

justifiable level of contribution	MoIM & MoF	a) 2 b) Medium term	a) An equitable contribution by all municipalities benefiting from Civil Defense services b) Charging different types of municipalities different amount
Recommendation 8	Legal prerequisites	Inputs / resources	Research / consensus needed
Ensure the participation of a representative of the newly established IMF institution on the administrative Board of the Civil Defense Rationale: To empower municipalities in determining the Civil Defense services they require and the appropriate cost of those services	Review the legal status of the civil defense to ensure the participation of municipalities in its central bodies	Legal expert	- Conduct a study for the reform of the civil defense legal status and administration - Initiate a public debate regarding this matter
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 3 b) Medium term	a) An equitable contribution by all municipalities benefiting from Civil Defense services b) Appointment of representatives of Municipalities on the board of civil defense

Priority area: 5	Establish distribution formulas and disbursement modality for local entities
Objective:	<p>Make the IMF more independent</p> <p>Increase the reliability and timeliness of payments from the fund to municipalities</p> <p>Make the amount paid to each municipality more predictable from one year to the next</p> <p>Encourage the most equitable distribution of IMF resources possible</p>

Revised Strategic framework priority actions include: 8, 14, 15, 16, 18, 19

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Determine the share of the IMF to be distributed among local entities</p> <p>Rationale:</p> <p>The first step in developing a formula is to assign the share that each type of local entity is to receive from the IMF</p>	Amend Article 86 of Decree-Law 118/1977	<ul style="list-style-type: none"> - Legal expert - Financial expert - Public management expert 	<ul style="list-style-type: none"> - Conduct a study to determine municipalities and unions needs and the most likely provider of the services taking economies of scale into consideration - Public debate on the adequate balance between municipalities' autonomy and encouraging inter-communal cooperation
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term URGENT</p>	<p>a) Increased predictability of the IMF distribution</p> <p>b) An established allocation to each type of local government unit from the IMF revenues by Law</p>
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Introduce a distribution formula based on the funding needed for	Amend Article 86 of Decree-Law 118/1977	<ul style="list-style-type: none"> - Legal expert - Economist 	Conduct a study to determine the funding needed for each type

<p>each type of local entity to fulfill their responsibilities using dwellings, electricity, water, or telephone services as proxies of population (in the absence of resident population data)</p> <p>Rationale:</p> <p>To take into account the resident population that would consequently require more services</p>			of local entity to fulfill their responsibilities using dwellings, electricity, water, or telephone services as proxies of population (in the absence of resident population data) and other objective criteria
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Relatively more financial resources to local entities with more resident population b) A share of IMF revenues distributed to local government units based on resident population proxies
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Introduce a distribution formula based on socio-economic condition of the areas under the jurisdiction of each type of local government unit (i.e. development index, surface area)</p> <p>Rationale:</p> <p>To provide financial resources to poorer local entities to achieve equity</p>	Amend Article 86 of Decree-Law 118/1977	- Legal expert - Financial expert	Conduct a study to determine the best formula that will address the local entity's socio-economic condition
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) More equitable distribution of IMF resources b) A share of IMF revenues distributed specifically to poorer local entities
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Introduce a distribution formula	Amend Decree-Law 118/1977 to:	- Legal expert	Conduct a study to:

<p>based on the tax effort relative to tax potential as a basis for funding local entities (estimating the tax potential of the municipality becomes a research input)</p> <p>Rationale:</p> <p>To give incentives to municipalities to exert more effort to collect local taxes</p>	<ul style="list-style-type: none"> - Define the tax potential - Define the tax effort - Set up the distribution formula based on the tax effort and the potential effort 	<ul style="list-style-type: none"> - Economist - Tax expert 	<ul style="list-style-type: none"> - Determine the tax potential and the tax effort of municipalities - Determine the average tax potential and the average tax potential per category of municipality based on number of council seats - Set up the distribution formulae in order to advantage municipalities with low tax potential and high tax effort
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) More IMF resources to municipalities which exerted more effort, and greater local tax collection effort overall b) A share of IMF revenues distributed to municipalities which have exerted more effort to collect local taxes
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish the weight to be assigned to each of the distribution criteria that would be used to distribute IMF to each type of local entity</p> <p>Rationale:</p> <p>To quantify and stabilize the objectives of the IMF distribution</p>	Amend Article 88 of Decree-Law 118/1977 to determine the criteria, variables, and formula	<ul style="list-style-type: none"> - Legal expert - Economist 	Study the services that should be allocated to each type of local entity and determine the appropriate variables for IMF distribution
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) A more predictable and equitable allocation to

formulas allocated to municipal unions		URGENT	municipal unions b) Legal distribution mechanism established
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
Make provisions for foreign donors to give funding to local entities through the IMF	Add new provision to Decree-Law 118/1977 to regulate foreign donation through the IMF	Legal expert	Conduct a study to determine the public policies in this respect
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
To provide a channel for foreign donors to give out aid to local government units	MoIM	a) 1 b) Medium term	a) Potentially more financial resources to local government units b) Transfer of foreign aid to local entities
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
Issue IMF distribution orders by the newly established institution within 4 months from the beginning of the calendar year	Amend Article 86 of Decree-Law 118/1977 so that the disbursement of the IMF revenues is required to be made within a period of 4 months from the beginning of the calendar year	Legal expert	
Rationale:	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
To make the transfers predictable	CoM, MoF, and MoIM	a) 1 b) Medium term	a) More predictability in the IMF distribution b) Issuance of IMF distribution decrees within 4 months of the start of each year
Recommendation 8	Legal prerequisites	Inputs / resources	Research / consensus needed
Immediately after issuing the distribution order, disburse the	Refer to recommendation 3 under PA 1		

IMF funds to the municipalities, municipal unions, and village w/o municipalities in one payment Rationale: To make the funds available for municipalities to be able to deliver services	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoF, MoIM, and IMF	a) 1 b) Medium term	a) Reduced uncertainty in the timing of the IMF transfer and the ensuring of full payment increases financial planning and development b) Transfer of all IMF revenues to individual municipalities, unions, and villages w/o municipalities within 4 months of the start of each year
Recommendation 9	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish ways to allocate and manage funds assigned to villages without municipalities Rationale: To enable villages to adequately manage any funds provided by the IMF	Amend Decree-Law 118/1977 to mention villages without municipalities that will be organized according to an implementation decree	- Legal expert - Financial management expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Non-municipal villages able to receive IMF transfers b) Mechanism established to receive and manage funds
Recommendation 10	Legal prerequisites	Inputs / resources	Research / consensus needed
Integrate villages without municipalities into Decree-Law 118/1977 as beneficiaries of the IMF Rationale:	Amend Article 87 of Decree-Law 118/1977	Legal expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) All villages benefit from the IMF revenues

Include villages without municipalities as beneficiaries of the IMF since they contribute to the IMF revenues and hence ought to benefit from the IMF funding			b) Funds allocated to villages without municipalities
Recommendation 11	Legal prerequisites	Inputs / resources	Research / consensus needed
Return taxes collected from the villages back to them Rationale: The money collected from these villages should be returned back for equity purpose	Amend Article 86 of Law 60/1988 to specify that the state will collect taxes on behalf of the villages without municipalities	Legal expert	
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 b) Medium term	a) Achieve equity b) Transfer of funds from the IMF to these villages

Priority area 6: Diagnose the financial over-dependency of municipalities on the IMF

Objective: Encourage the most equitable distribution of IMF resources

Revised Strategic framework priority actions include: 17, 20, 21, 22

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
Work with the Municipal Observatory to identify and collect data and information needed to implement the IMF funding criteria Rationale: To assure that the best data and information is available for fiscal dependency comparisons	Refer to recommendation 3 under PA 1		Identify the key variables needed for collection and analysis
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Strong knowledge of the conditions of municipalities b) Data identified to be collected; system established to collect and input data
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Periodically assess the needs of the municipalities and consequently the share of these needs covered by the IMF Rationale: To monitor the degree to which the IMF is meeting the fiscal needs of municipalities	Refer to recommendation 3 under PA 1		Define and measure the necessary criteria to measure municipal needs
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Strong knowledge of the status and conditions of municipalities, and benchmarking municipalities' performances based on various criteria b) Assessment completed regularly

Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Audit and analyze the municipalities whose dependency ratio exceeds a certain level in order to diagnose the source of the problem</p>	<ul style="list-style-type: none"> - Amend Decree-Law 118/1977 to provide for dependency ratio - Refer to recommendation 3 under PA 1 	<ul style="list-style-type: none"> - Legal expert - Financial expert 	<p>Conduct a study to determine the dependency ratio as well as the audit measures</p>
<p>Rationale:</p> <p>To promote greater fiscal independence of municipalities</p>	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Reduced dependency on IMF for municipalities that are excessively dependent b) Analyses and audit reports issued on the fiscal status of municipalities and actions taken to reduce dependency

Chapter 4: Modernize Municipal Property Tax

The purpose of this chapter is to draft a roadmap for modernizing the municipal property tax. The roadmap provides a strategy that aims to specifically attain the following objectives: a) increase the financial autonomy of municipalities through increased own-source revenue generation; b) improve the efficiency of revenue mobilization from municipal rental value based fees; c) encourage the most equitable possible approach to municipal property fees.

The strategy is developed based on earlier analysis of the legal framework and existing situation that consequently led to the identification of the priority actions that address the major constraints. The priority actions that were proposed in the *Revised Strategic Framework* report were categorized along the following five components as specified in the TOR (refer to appendix 4.A for a complete list of priority actions): 9 priority action to deal with the liability for the rental value fee, 8 to address the appraisal and assessment of rental value fee, 6 for billing and collection of rental value fee, 3 for municipal property management, 2 for human resources, 2 for IT, and 1 for the institutional mechanism.

Before fleshing out the priority actions into recommendations, the ICMA team undertook the following two steps:

1. Ensured that the priority actions across all the three studies – 95 for study 1, 26 for study 2, and 31 for study 3 - were harmonized to achieve the overall objective of a modernizing municipal finance.
2. Consolidated priority actions within each study by common objectives into priority areas. Since the priority actions were initially developed based on the TOR's five components, the ICMA team grouped related priority actions into priority areas to streamline the priority actions and avoid repetition.

Consequently, the 31 priority actions were categorized into the following 7 priority areas:

1. Identify the liability of persons and properties for the rental value fee
2. Expand the tax base and conduct periodic appraisals of rental value fee
3. Standardize billing procedure and enhance collection and enforcement
4. Improve municipal capacity to manage properties within their jurisdictions
5. Build the capacity of municipal human resources
6. Improve the use of IT
7. Establish an institutional mechanism for technical and professional support

Priority area 1 which identifies the liability of persons and properties subject to the rental value has ten recommendations which address the following: make the 'owner' liable for the rental value fee; redefine the unit of assessment; subject illegally constructed properties, illegal occupants, vacant properties, and vacant land to the rental value fee; assess the impact of the current exemptions on foregone revenue; consider removing exemption from commercial organizations; compensate municipalities for foregone revenues; and increase fines for non-declaration of occupancy.

The second priority area aims at expanding the tax base and conducting periodic appraisals of the rental value fee. Seven recommendations are presented and they deal with the following: develop a

national and common framework for assessment; establish assessment units at the local level; have municipalities identify all properties subject to the tax; revalue all properties based on the new guidelines regularly; establish a new appeal system; conduct regular revaluation; and investigate and select the appropriate assessment methodology.

In priority area 3, it is recommended that billing is standardized and collection and enforcement are enhanced. The six recommendations are as follows: roll out the current IT system to all municipalities; train municipal staff on billing and collection procedures; set billing and collection dates; increase the options for payments as well as the minimum rental value fee; and diversify legal actions against non-compliers.

Improving municipal capacity to manage properties within their own jurisdiction is the fourth priority area. Three recommendations are put forth: require residents to register property transfers in the municipality; strengthen municipal capacity to operate a property database; and exchange data with the national cadastre and built property tax administrations.

To build the capacity of municipal human resources, two recommendations are suggested in the fifth priority area: empower municipal unions to assist municipal administrations in financial tasks; and facilitate the sharing of services among municipalities.

The sixth priority area aims to enhance the use of IT for assessment, billing, and collection for the rental value fee as well as for municipal property management.

In priority area 7, an institutional mechanism, the Technical Assistance Unit (TAU), is recommended to provide technical and professional support to municipalities for improving property tax management. Two recommendations are put forth: the first is to establish the TAU; and the second is to equip it with the staff and resources required to fulfill its mandate.

Since the study proposes many amendments to Law 60 of 1988, the ICMA team strongly recommends that a new Law on Municipal Fees and Taxes is drafted.

Not all proposed recommendations take the same amount of time to be put in place. For each type of measure, we have estimated the duration of the measure i.e. how long it will take to prepare for the execution of the recommendation. The recommendations are classified into three categories: short term, medium term, or long term. *Short term recommendations* are those that require less than one year to be implemented. They do not need any legal amendment and they may require a minister's directives to be executed. *Medium term recommendations* are measures that require between 1 and 2 years to be prepared for execution. Often medium term measures necessitate legal amendments that take the form of issuing or amending new Laws or Decrees. Note that legal amendment is not a necessary condition but it is sufficient for a recommendation to be classified as medium term. *Long term recommendations* are measures that require more than 2 years to be put in place. They often involve institution building such as empowering an organization, hiring staff, and developing IT systems. Some of the long term measures may be preceded or accompanied by legal amendments. Others may require at least 2 years to implement because of the complexity they are trying to address. Note that the estimated duration takes into account only the time needed to prepare for the action, which can be quantified. In other words, we have excluded from our estimation the time it takes for a draft Law to become a Law since many unforeseen factors could come into play making the estimates futile. **Out of the 32 recommendations, 6 measures can be addressed in the**

short term (less than one year), 24 recommendations can be dealt with in the medium term (require 1 to 2 years), and 2 measures should be addressed in the long term action (Table 6).

Table 6: Recommendations by priority area

	Priority areas	Recommendations				
		Total	Short term	Medium term	Long term	Urgent
1	Identify the liability of persons and properties for the rental value fee	10	2	8		1
2	Expand the tax base and conduct periodic appraisals of rental value fee	7		7		
3	Standardize billing procedure and enhance collection and enforcement	6	2	4		3
4	Improve municipal capacity to manage properties within their jurisdictions	3	1	1	1	1
5	Build the capacity of municipal human resources	2	1	1		2
6	Improve on the use of IT	2		2		
7	Establish an institutional mechanism for technical and professional support	2		1	1	1
	Total	32	6	24	2	8

Priorities and durations of the reforms

Note that not all the 32 recommendations are urgent. The ICMA team considers that some of the proposed measures are more important than others. Such measures, one implemented, tend to have the largest impact on the reform process. Hence, we have identified the urgent from non-urgent measures so that the efforts and investments by policymakers are channeled towards implementing them. Urgent measures are not necessarily easier to execute. Some of the urgent recommendations may be quickly addressed but others may take a long time to put in place. Nevertheless, such reforms must begin very soon. In this study, **the team has classified 8 out of the 32 recommendations to be urgent**, which are primarily concerned with the following: one measure addresses the person liable for the tax; 3 measures tackle the billing procedures and collection including the extension of the current revenue system, increasing the choice of payment channels, and raising the minimum rental value fee; one measure establishes a mechanism for the exchange of data between MoIM, MoF cadastre administration, and municipalities; and two recommendations to

build the capacity of municipal human resources either through unions or the sharing services between municipalities; and finally, one action sets up a technical assistance unit to lead the reform process at the MoIM.

In table 7, we map out the estimated duration for all the urgent recommendations. Its purpose is to give policymakers a sense of how much it takes to prepare for the urgent recommendations. **Out of the 8 urgent recommendations, 3 can be accomplished within one year period and 5 would require between 1 to 2 years of preparation (Table 7).**

Table 7: Urgent recommendations by duration

Priority areas	Short term	Medium term
Identify the liability of persons and properties for the rental value fee		Make the ‘owner’ liable for payment of the rental value fee
Standardize billing procedure and enhance collection and enforcement	Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities	Increase the availability and choice of payment channels available to taxpayers for the payment of rental value fee
		Increase the minimum rental value fee
Improve municipal capacity to manage properties within their jurisdictions	Establish a mechanism for the exchange of data between MoIM, municipalities, MoF cadastre administration, and property tax administration	
Build the capacity of municipal human resources	Empower municipal unions to assist municipal administrations in conducting financial tasks including collection of rental value fee	Facilitate the sharing of services in those areas not covered by municipal unions
Establish an institutional mechanism for technical and professional support		Establish a Technical Assistance Unit at the MoIM

Priority area 1: Identify the liability of persons and properties for the rental value fee

Objective: Improving the efficiency of revenue mobilization from municipal rental value based fees
Increasing the financial autonomy of municipalities through increased own-source revenue generation

Revised strategic framework priority actions included: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Make the ‘owner’ liable for payment of the rental value fee</p> <p>Rationale: To ensure that the person liable to the tax is easily identified. Since owners of properties change less frequently than occupants, taxing the owner should reduce the administrative burden of the rental value fee</p>	<ul style="list-style-type: none"> - Amend Article 4 of Law 60/1988 to make the owner/usufructuary liable in case of legal occupancy else, the occupant is held liable - Amend Article 4 of Law 60/1988 to define who constitutes an “owner” - Amend Law 160/1992 in order to guarantee the owner’s right to collect the rental value fee from the tenant - Amend Law 60/1988 - Transitory provision: suspend the implementation for two years concerning the new lease contracts - Amend Article 15 of Law 60/1988 to ensure the identification of owners/usufructuary 	<ul style="list-style-type: none"> - Property tax expert - Legal expert 	<ul style="list-style-type: none"> - Research international experience - Reach consensus between MoIM and MoF
	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
	MoIM	a) 1	a) Owner/usufructuary is liable

		b) Medium term URGENT	to payment of rental value fee - Increased local revenues b) Owners making payments for the rental value fee
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Redefine the ‘Unit of Assessment’ to include un-built spaces used as extensions of built spaces for residential or commercial or any other profit making purposes</p> <p>Rationale: To ensure that the correct land and buildings are included in the assessment of individual properties</p>	Amend Article 3 of Law 60/1988	- Property tax expert - Legal expert	- Existing practice / international practice - Reach consensus between MoIM and MoF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Improved revenues as result of clear assessment b) Clear definition of the ‘Unit of Assessment’
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Make illegally constructed properties subject to the rental value fee (this does not legalize the construction itself, but obligates occupants to pay for services they receive)</p> <p>Rationale: To ensure consistency of treatment between municipalities and to ensure that all those who benefit from municipal services contribute towards the cost</p>	Written directives from the Minister of Interior and Municipalities	MoIM and MoF undertake research in the existing situation	- Conduct research on the estimated number of units affected by decision and estimated revenues - Reach consensus between MoIM and MoF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF	a) 1 b) Short term	a) Increased rental value due to billing illegally constructed properties b) Illegal properties are being billed

Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Make illegal occupants subject to the rental value fee</p> <p>Rationale: Illegal occupants are those who reside in a premise without the consent of the owner. This measure does not legalize the occupancy itself, but obligates occupants to pay for services they receive, thereby ensuring consistency of treatment between municipalities</p>	<ul style="list-style-type: none"> - Amend articles 4 & 7 of Law 60/1988 in order to cover illegal occupancy - Written directives from the Minister of Interior and Municipalities 	<p>MoIM and MoF undertake research into the existing situation</p>	<ul style="list-style-type: none"> - Research into the existing position - Reach consensus between MoIM and MoF
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	<p>MoIM & MoF</p>	<p>a) 1 b) Medium term</p>	<p>a) Increased revenues as a result of subjecting illegal occupants to the rental value fee b) Illegal occupants are paying the rental value fee</p>
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Make vacant (built) properties in urban zones subject to the rental value fee</p> <p>Rationale: To encourage owners to bring vacant properties into use and to raise additional revenues for municipalities</p>	<p>Amend Law 60/1988 to include the following:</p> <ul style="list-style-type: none"> - Determine the geographic scope of the rental value fee regarding vacant units in highly populated areas. Then issue decree designating concerned municipalities - Determine the units subject to the fee including residential/non-residential, unfurnished premises, etc. - Determine the criteria to assess the state of vacancy including the vacancy period, nature of the vacancy, etc. 	<ul style="list-style-type: none"> - International property tax expert - Legal expert 	<ul style="list-style-type: none"> - A comprehensive study to consider all aspects of the taxation of vacant properties for the purposes of rental value fee - Reach consensus between MoIM and MoF

	<ul style="list-style-type: none"> - Provide for exemptions from vacancy fee - Determine the taxable amount i.e. rental value - Fix a progressive rate based on the duration of vacancy, e.g. the applicable rate increased by 2 points per year of vacancy within a determined maximum rate - Define what is considered to be an 'urban zone' 		
	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Increased revenues from rental value fee b) Owners of vacant properties pay rental value fee to municipalities
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Make vacant land in urban areas (i.e. un-built properties) subject to the rental value fee</p> <p>Rationale:</p> <p>To encourage owners to bring vacant land in to use and to raise additional revenues for municipalities and to implement the right to housing</p>	<ul style="list-style-type: none"> - Amend Article 3 of Law 60/1988 in order to determine the following: The geographic scope of the rental value fee regarding vacant land in highly populated areas. The government should then issue a decree in order to designate concerned municipalities/urban areas - Provide for exemptions for public parks, the displaced, etc. 	<ul style="list-style-type: none"> - International property tax expert - Legal expert 	<ul style="list-style-type: none"> - A comprehensive study to consider all aspects of the taxation of vacant land for the purposes of rental value fee - Reach consensus between MoIM and MoF
	Primary implementer	<ul style="list-style-type: none"> a) Sequence b) Estimated duration 	<ul style="list-style-type: none"> a) Expected outcome b) Measurement

	MoIM	a) 1 b) Medium term - The implementation decree should be adopted after the adoption of the Law	a) Increased revenues from rental value fee b) Owners of vacant land in urban areas pay rental value fee on their lands
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
Assess the impact of the current exemptions in terms of foregone revenue Rationale: To determine the cost of exemptions and to provide data on which exemptions cost municipalities most in terms of loss of revenue		- Property tax expert - Legal expert	- Study on the relevance of the exemptions and comparison with international experience - Reach consensus between MoIM and MoF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF	a) 1 b) Short term	a) Recommendations for a revised set of exemptions b) Clear guidelines on what properties are to be exempted in the future
Recommendation 8	Legal prerequisites	Inputs / resources	Research / consensus needed
Pending the results of recommendation 7, remove the exemptions from all those properties that are commercial in nature and that are organized and conducted for profit or are not being used for the purpose of the organization that is benefiting from the exemption	Amend Article 13 of Law 60/1988. Religious foundations (Awkaf) should be subject to the same rules	- Property tax expert - Legal expert	- Review of existing exemptions - Reach consensus between MoIM and MoF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 (pending results of recommendation 7) b) Medium term	a) Removal of exemptions - Increased revenues from rental value fee on previously

<p>Rationale: For equity reasons, exemptions should only be provided to non-commercial organizations</p>			<p>exempted properties b) Previously exempt properties are paying rental value fee</p>
<p>Recommendation 9</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Compensate municipalities for the revenue foregone as a result of exemptions</p> <p>Rationale: Since the exemptions are imposed by the central government, municipalities should receive compensation for the exemptions since they (municipalities) are providing municipal services to exempted properties</p>	<p>Amend Article 13 of Law 60/1988 by:</p> <ul style="list-style-type: none"> - Introducing the principle of compensation in case of any subsequent exemption - Transferring the compensations to the IMF <p>Primary implementer</p> <p>MoIM & MoF</p>	<p>Agreement between MoIM and MoF</p> <p>a) Sequence b) Estimated duration</p> <p>a) 3 (pending the implementation of recommendation 8) b) Medium term</p>	<ul style="list-style-type: none"> - Determine the cost of the existing exemptions - Reach consensus between MoIM and MoF <p>a) Expected outcome b) Measurement</p> <p>a) Increased municipal revenues from rental value fee b) Municipalities are receiving payments from central government in compensation for exemptions</p>
<p>Recommendation 10</p>	<p>Legal prerequisites</p>	<p>Inputs / resources</p>	<p>Research / consensus needed</p>
<p>Increase fines for non-declaration of occupancy</p> <p>Rationale: To encourage taxpayers to provide information and to ensure that the fines are cost effective to</p>	<p>Amend Article 14 of Law 60/1988</p> <p>Primary implementer</p>	<p>Government lawyer in consultation with MoIM</p> <p>a) Sequence b) Estimated duration</p>	<ul style="list-style-type: none"> - Ensure that fines are set at a level sufficient to encourage compliance - Reach consensus between MoIM and MoF <p>a) Expected outcome b) Measurement</p>

impose and enforce	MoIM & MoF	a) 1 b) Medium term	a) Revised level of fine - Increased revenues b) New Fines are implemented by municipalities
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Priority Area 2: Expand tax base and conduct periodic appraisals of rental value fee

Objective: Improving the efficiency of revenue mobilization from municipal rental value based fees
Encouraging the most equitable possible approach to municipal property fees

Revised strategic framework priority actions included: 11, 12, 13, 14, 15, 16, 17

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a national framework for assessment that adopts a common approach to the valuation of all properties</p> <p>Rationale: To ensure consistency of valuation and horizontal equity between taxpayers</p>	Amend articles 5, 7, 8, and 16 of Law 60/1988	<ul style="list-style-type: none"> - Technical assistance from an experienced property tax expert to advise on valuation guidelines - Cooperation with MoF - Municipal resources - Financial assistance from the national Government 	<ul style="list-style-type: none"> - Technical support - Consensus and cooperation between MoF and MoIM
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF	<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) Standardized and fair assessments as a result of the Unified National Framework for valuations b) Guidelines completed and issued to municipalities
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish Assessment Units in municipalities, municipal unions, or through cooperation between 2	Amend Article 8 of Law 60/1988 (Assessment Unit in municipalities or unions) and refer to recommendation	Municipal Resources	<ul style="list-style-type: none"> - Establish guidelines - MoIM

<p>or more municipalities that are not members of unions</p> <p>Rationale:</p> <p>To ensure that the municipalities have the capacity to undertake municipal surveys and revaluations</p>	2 under PA 5		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Improved municipal revenues as a result of improved assessment process b) Assessment units are established and are properly functioning
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Have municipalities identify all properties that are or should be subject to the rental value fee. Identification process would take place through a municipal survey conducted by the municipality itself, the union of municipalities, a group of municipalities, private sector contractor, or interested university departments</p> <p>Rationale:</p> <p>Revaluations are incomplete in absence of updated database on properties</p>	Amend Article 15 of Law 60/1988	<ul style="list-style-type: none"> - A consultant with relevant experience of property surveys to advise on methodology of survey - Municipal resources to undertake survey - Financial assistance from the National Government for survey 	<ul style="list-style-type: none"> - Determine appropriate methodology for undertaking the survey - Consensus between: MoIM and municipalities MoIM and municipal unions municipalities and municipal unions where the latter exists
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Comprehensive database of all properties in Lebanon per municipality - Increased revenues as a result of comprehensive survey b) Survey on municipal properties completed and data is being used by

			municipalities
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
Revalue all properties within each municipality's boundary in accordance with nationally determined guidelines	Amend articles 5, 7, and 8 of Law 60/1988	<ul style="list-style-type: none"> - Municipal resources - Financial assistance to be provided by National Government 	Transitional scheme to be agreed to assist those affected by large swings in valuation
Rationale: To ensure equity and consistency in rental value fee and to improve municipal revenues	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 (following recommendations 1 & 3) b) Medium term	a) All properties within municipal boundary are revalued according to new national framework <ul style="list-style-type: none"> - Fairer valuations - Increased revenues b) Completion of revaluation process <ul style="list-style-type: none"> - Changes in levels of revenues
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish an appeals system which provide taxpayers with the right of appeal against the assessment of their property if they consider it to be incorrect as well as establishment of a new Appeals Committee in each municipality to hear objections on fee assessments and make any necessary changes	Amend Article 8 of Law 60/1988 (Appeal Unit in municipalities or Unions) and refer to recommendation 2 under PA 5 Note: The amendment should identify clear guidelines on the formulation/constitution of the appeals committee to ensure that "conflict of interest" will not happen. Municipal Council members and employees should not be members of such committee. There should be laid	<ul style="list-style-type: none"> - MoIM and MoF to agree an appeals process - Municipal resources to set up Appeals Committee 	Guidance developed by MoIM and MoF
Rationale:			

To provide equity to taxpayers aggrieved by their assessment	down criteria to the establishment of the committee in order to achieve objectivity and fairness		
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 3 (pending implementation of recommendations 1, 2 and 4) b) Medium term	a) Citizens have a channel to voice their grievances (Appeal committees could also be shared services through unions or cooperative agreements between municipalities) b) Appeals committees and process are established and being used by municipalities
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Conduct regular revaluations at 3 to 5 yearly intervals and index the tax on an annual basis so that there would be an annual increase in rental value based on increases in nationally set criteria such as minimum wages or price of construction materials</p> <p>Rationale:</p> <p>To ensure that the tax base maintains its real value so the revenue to the municipality is maintained in real terms</p>	Amend Article 8 of Law 60/1988 (indexation, revaluations)	<ul style="list-style-type: none"> - International property tax expert - Legal expert 	<ul style="list-style-type: none"> - Pre-feasibility study to determine the optimum valuation periods and consideration of indexation of values annually and between valuations - Reach consensus between MoIM and MoF
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 3 (pending implementation of recommendations 1, 2, and 4) b) Medium term	a) Increased revenues through periodical revaluations and indexation b) Design of national formula for periodical revaluations and annual indexation

			approved by MoF and MoIM
Recommendation 7	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Investigate and then choose from among the different assessment methodologies available for the purpose of assessing properties for rental value fee:</p> <ul style="list-style-type: none"> - Capital value approach - Rental value approach - Overall or Unit approach <p>Note: Assessment methodology chosen should be part of a broader fiscal policy that would take into consideration the overall fiscal pressures on taxpayers</p> <p>Rationale:</p> <p>To ensure that the property tax has an appropriate tax base reflecting the property market and adequate evidence is available for future revaluations</p>	The legal amendments are subject to the findings reached	<ul style="list-style-type: none"> - International consulting team - Legal expert 	<ul style="list-style-type: none"> - Pre-feasibility study to determine the optimum valuation methodology - MoIM and MoF
	Primary implementer	a) Sequence	a) Expected outcome
	MoIM & MoF	b) Estimated duration	b) Measurement
		<ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> a) A new valuation methodology for rental value purposes based on comprehensive research of the property market in Lebanon b) New valuation methodology designed and nationally implemented

Priority Area 3: Standardize billing procedure and enhance collection and enforcement

Objective: Improving the efficiency of revenue mobilization from municipal rental value based fees
Increasing the financial autonomy of municipalities through increased own-source revenue generation

Revised strategic framework priority actions included: 18, 19, 20, 21, 22, 23

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities</p> <p>Rationale:</p> <p>With funding provided by USAID, SUNY developed two computerized budget systems (MBS) as well as a municipal revenue system (MRS) that were installed in 700 municipalities. This leaves over 200 municipalities that have not received systems or training. Although these systems were initially developed in 1999 and may fall short of being adequate, it is recommended that they be rolled out, in the short term, to all municipalities. All municipalities should be using a standardized system for assessment and billing, so as to allow standardized data exchange with MoIM and national</p>		<p>Receive the MRS and MBS's source codes, manuals, design, user guides, and installers from SUNY upon the signed cooperative agreement with MoIM</p>	<ul style="list-style-type: none"> - Set up institutional mechanisms to install the MRS and MBS in all municipalities - Assess upgrade of the current IT systems in light of the actual internet speed - Assess the training and capacity building needs of municipal staff toward allowing them to effectively use computerized systems - Consider UN Habitat project or a specialized IT company for the implementation of this recommendation until the TAU is operational (refer to recommendation 2) - Agreement of municipalities and MoIM required
	Primary implementer	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>
	MoIM	<p>a) 1 b) Short term</p>	<p>a) Improved budget preparation and execution and increased</p>

training		URGENT	<ul style="list-style-type: none"> municipal revenues b) Existing Revenue and Budget Systems implemented in all municipalities - Nationwide standardization of municipal finance procedures and regulations - Number of municipalities using current IT systems
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Conduct training on billing and collection techniques (including the importance of timely collection) for all municipalities. Training could be contracted out to the Institute of Finance (Basil Fuleihan Institute (among other options including contracting out to universities and the private sector)</p> <p>Rationale: Municipal employees need to train on new billing and collection techniques</p>		Resources provided by MoIM	<ul style="list-style-type: none"> - Development of a comprehensive training plan and material - Agreement of municipalities and MoIM required
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	<ul style="list-style-type: none"> a) 1 b) Short term 	<ul style="list-style-type: none"> a) Improved revenues as a result of training on billing and collection b) Training to enhance billing and collection is conducted to finance staff of municipalities
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Specify mandatory billing dates and collection dates	Amend Article 104 of Law 60/88 (Issuing tax payers' lists, advertisement)	Legal expert	Research in relation to existing law and practice

<p>Rationale:</p> <ul style="list-style-type: none"> - To standardize billing and collection times and deadlines - To allow for better cash flow management within municipal administration - To allow for better financial planning - To provide tax payers with predictability in planning for their payments 	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term</p>	<p>a) Better management of municipal financial records because of improved revenue forecasting and predictability of cash flows</p> <p>b) All municipalities are following a standard framework and time frame for billing and collection</p>
Recommendation 4	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee</p> <p>Rationale:</p> <p>Additional channels to pay taxes would translate to additional municipal revenues. For instance, the use of credit/debit cards is a primordial step towards e-municipalities and online payment of fees with the additional cost borne by the taxpayer</p>	<ul style="list-style-type: none"> - Amend General Accounting Law of 1963 - Amend Decree 5595/1982 - Amend Article 111 of Law 60/1988 	<ul style="list-style-type: none"> - MoIM / MoF committee to synchronize payment methods among MoF, MoIM and municipalities 	<ul style="list-style-type: none"> - Study to determine the facilities that can be made available to taxpayers - MoIM / MoF / Liban Post Office
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term URGENT</p>	<p>a) Increased municipal revenues as a result of improved collection</p> <p>b) Municipalities are collecting fees through different channels such as banks or Liban Post</p> <ul style="list-style-type: none"> - Number of municipalities using new channels for payment of municipal fees - Percentage of fees collected

			using new payment channels
Recommendation 5	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Increase the minimum rental value fee</p> <p>Rationale:</p> <p>The minimum rental value fee is outdated and inconsistent with current prices and previous and future inflationary effects. The present minimum value is symbolic. Hence it deprives municipalities of significant revenues, and does not provide for equity among tax payers</p>	Amend Article 12 of Law 60/1988	<ul style="list-style-type: none"> - Property tax expert - Resources provided by MoIM 	<ul style="list-style-type: none"> - Technical study to consider the economic and fiscal impact on municipalities and the social impact on affected taxpayers - MoIM / MoF
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term URGENT</p>	<p>a) Increased revenues from rental value fee</p> <p>b) New rates for minimum rental value fee are implemented in municipalities</p>
Recommendation 6	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Diversify legal actions that could be taken against non-compliance. Actions that could be contemplated to strengthen enforcement:</p> <ul style="list-style-type: none"> - Requests for information about employer / wages / salary 	<ul style="list-style-type: none"> - Amend articles 109, 112, and 113 of Law 60/1988 to diversify legal actions that could be taken against non-compliers - Amend Article 113 of Law 60/1988 to render the municipal discharge as a prerequisite for some formalities in the municipality 	<ul style="list-style-type: none"> - International property tax expert - Legal expert 	<ul style="list-style-type: none"> - Technical study to develop best practice in enforcing payments - Reach consensus between MoIM and MoF

<ul style="list-style-type: none"> - Refusals of Declarations of Payment - Removal and sale of goods - Deduction from earnings - Deductions from state benefits - Bankruptcy - Legal charge against property - Sale of property - Prison sentence <p>Rationale: To improve enforcement</p>	<p>Primary implementer</p> <p>MoIM</p>	<p>a) Sequence b) Estimated duration</p> <p>a) 1 b) Medium term</p>	<p>a) Expected outcome b) Measurement</p> <p>a) Improved compliance of taxpayers</p> <ul style="list-style-type: none"> - Increased municipal revenues <p>b) Modification of current penalties on non-compliance</p>
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Priority Area 4: Improve municipal capacity to manage properties within own jurisdictions

Objective: Improving the efficiency of revenue mobilization from municipal rental value based fees
Increasing the financial autonomy of municipalities through increased own-source revenue generation

Revised strategic framework priority actions included: 24, 25, 26

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
Require residents to register property transfers in the municipality. This would also entail the collection of a fee to cover the expenses of maintaining the register Rationale: To ensure that municipalities have a comprehensive database of all property transfer	<ul style="list-style-type: none"> - Amend Article 90 of Law 60/1988 to increase the fee to be collected on behalf of municipalities - Amend Article 15 of Law 60/1988 to ensure notification of any transfer of property or usufruct 	Legal expert	Research for the purpose of developing guidelines
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term	a) Better organized and more inclusive property records b) Property transfer is being registered in municipalities and fees are collected for the service
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Strengthen the capacity of municipalities to enable them to host a 'municipal property database' Rationale: To ensure that municipal		TAU at MoIM (refer to recommendations 1 & 2 under PA 7)	Development of training plans
	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 2 (pending the establishment of the	a) Municipalities empowered to

employees know how to implement the new system and maintain the database		TAU, refer to recommendations 1 & 2 under PA 7) b) Long term	host “municipal property database” b) Completion of training plan and training sessions for municipalities
Recommendation 3	Legal prerequisites	Inputs / resources	Research / consensus needed
Establish a mechanism for the exchange of data between MoIM, municipalities, MoF cadastre administration, and property tax administration. This should be transferred to the TAU at the MoIM to handle data transfer once it is established (refer to recommendations 1 & 2 under PA 7)		- Committee from MoIM and MoF to design the mechanism for data exchange - Cost to be met by National Government	- Development of protocols for data sharing - Consensus between MoIM and MoF to approve data exchange mechanisms
Rationale To ensure that municipalities have access to information that will assist in maintaining the accuracy of their databases	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM & MoF (Cadastre)	a) 2 (pending the establishment of the TAU, refer to recommendations 1 & 2 under PA 7) b) Short term URGENT	a) Increased revenues for municipalities as a result of improved database on municipal properties b) Completion of data sharing protocols and their implementation

Priority Area 5: Build the capacity of municipal human resources

**Objective: Encourage the most equitable possible approach on municipal property fees
Improve the efficiency of revenue mobilization from municipal rental value based fees**

Revised strategic framework priority actions included: 27, 28

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
Empower municipal unions to assist municipal administrations in conducting financial tasks including collection of rental value fee	Ensure the implementation of Article 123 of Decree-Law 118/1977	Legal expert	<ul style="list-style-type: none"> - Determining the feasibility of the Unions undertaking responsibility for financial tasks - MoIM / Municipal unions
Rationale	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
To provide municipalities with the capacity to undertake financial tasks in order to improve efficiency	MoIM	a) 1 b) Short term URGENT	a) Improved financial management capacities as a result of pooling resources and economies of scales b) Municipal unions assume responsibilities of financial management on behalf of their member municipalities
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Facilitate the sharing of services in those areas not covered by municipal unions	<ul style="list-style-type: none"> - Amend Article 83 of Decree-Law 118/1977 to facilitate the sharing of services between municipalities with less intervention from the MoIM - Adopt regulation concerning employees within the Common Units 	<ul style="list-style-type: none"> - International institutional expert with knowledge of ‘shared services’ - Legal expert 	<ul style="list-style-type: none"> - Study to determine the feasibility of developing shared services in the Lebanon including recommendations on the optimum size for a shared service
Rationale			
To provide municipalities with the capacity to undertake financial tasks in order to improve			

efficiency	Primary implementer	a) Sequence b) Estimated duration	a) Expected outcome b) Measurement
	MoIM	a) 1 b) Medium term URGENT	a) Better financial management capacities in municipalities that are not members of unions b) Non-union municipalities are sharing the performance of financial management tasks through bilateral agreements

Priority Area 6: Improve on the use of IT

Objective: Encourage the most equitable possible approach on municipal property fees
 Improve the efficiency of revenue mobilization from municipal rental value based fees

Revised strategic framework priority actions included: 29, 30

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a new IT system for the assessment, billing, and collection of rental value fee</p> <p>Rationale: The current Municipal Revenue system does not link property database with assessment and billing. Moreover, the current system does not tackle collection. It is for this reason that the study recommends designing a new system for municipal finance that would integrate assessments, billing, and collection and relate them electronically to municipal database on properties. The IT unit would assist municipalities with better management of their property database</p>	<p>Amend Decree 8485/1996 in order to extend the “process of computerization” to all municipalities and to create an IT Unit in municipalities or unions or a shared IT Unit for small municipalities in areas not covered by unions</p> <p>Primary implementer</p> <p>MoIM (the CoA must approve the system)</p>	<ul style="list-style-type: none"> - International IT Expert - International property tax expert - International public finance expert <p>a) Sequence b) Estimated duration</p> <ul style="list-style-type: none"> a) 1 b) Medium term 	<ul style="list-style-type: none"> - Pre-feasibility study to develop a specification for a new IT system - Reach consensus between MoIM and MoF on the specifications <p>a) Expected outcome b) Measurement</p> <ul style="list-style-type: none"> a) Enhanced assessment, valuation, billing, collection, and financial analysis and forecasts through the new IT system b) Design and installation of municipal financial management system in all municipalities
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed

<p>Establish an electronic database for municipalities to manage their municipal property registry including: designing the system, installing it in municipalities and training municipal staff on its use</p> <p>Rationale</p> <p>To assist municipalities in upgrading, maintaining and retrieving data on property on timely basis</p>			Research to develop the specification for the property management database
	Primary implementer	<p>a) Sequence</p> <p>b) Estimated duration</p>	<p>a) Expected outcome</p> <p>b) Measurement</p>
	MoIM	<p>a) 1</p> <p>b) Medium term</p>	<p>a) Enhanced capacity to manage properties within municipalities and produce better urban planning schemes</p> <p>- Better knowledge of tax base</p> <p>b) Design and installation of property dataset in all municipalities and / or municipal unions</p>

Priority Area 7: Establish an institutional mechanism for technical and professional support

**Objective: Encourage the most equitable possible approach on municipal property fees
Improve the efficiency of revenue mobilization from municipal rental value based fees**

Revised strategic framework priority actions included: 31, 32

Recommendation 1	Legal prerequisites	Inputs / resources	Research / consensus needed
<p>Establish a Technical Assistance Unit (TAU) at the MoIM (refer to recommendation 2 under PA 13 of Chapter 2 and appendix 4.B for the functions and prerogatives of the TAU)</p> <p>Rationale: To provide technical and professional support and guidance to municipalities, in order to ensure continuity in the reform program and to drive the reform process forward in a timely manner</p>	<p>Amend Article 34 of Decree 4082/2000 (Organization of MoIM) to establish a TAU under the authority of the Director General</p>	<ul style="list-style-type: none"> - Institutional development expert - Legal expert - Receive the hardware, software and databases license, and systems' training programs from SUNY as per the signed cooperative agreement with MoIM - For proximity reason, it is recommended that the TAU operates through technical support units in each Mohafaza - Financial assistance by central government, municipal budgets, and international donors 	<ul style="list-style-type: none"> - Technical study on the establishment of the TAU including justification, structure, functions, and working modalities - Consider ways to temporary recruit key USAID project's staff - Integrate the Municipal Observatory within the TAU - Consider UN Habitat project for a TAU's quick startup and capacity building - Consider relying on regional or national specialized IT companies for maintenance and support of USAID project's IT systems under the oversight of the TAU
	<p>Primary implementer</p>	<p>a) Sequence b) Estimated duration</p>	<p>a) Expected outcome b) Measurement</p>

	MoIM	a) 1 b) Medium term URGENT	a) Sustainability of municipal technical support b) A functional technical cooperation unit at the central level
Recommendation 2	Legal prerequisites	Inputs / resources	Research / consensus needed
Equip the TAU with the staff and resources needed to fulfill its mandate		- Institutional development expert - HR expert	
Rationale:	Primary Implementer	a) Sequence b) Estimated Duration	a) Expected outcome b) Measurement
TAU should be staffed with highly qualified personnel in order to facilitate the implementation of the assigned tasks		a) 2 (pending the implementation of recommendation 1) b) Long term	a) Enhance TAU capacity to deliver b) An operational TAU

Chapter 5: Pillars of Municipal Finance Reform

This chapter synthesizes all the recommendations across the three studies – strengthening municipal finance framework (chapter 2), improving the independent municipal fund (chapter 3), and modernizing property tax (chapter 4) - into six pillars of reform needed to strengthen and modernize municipal finance in Lebanon.

The first two pillars of reform address the revenues, withdrawals and deductions, and distribution criteria of the IMF as well as the creation of a new independent IMF institution to manage the funds' finances.

- A. Establish a new and independent IMF institution with enhanced revenues and regulated central government withdrawals and deductions from the IMF:** The study recommends that the IMF be an independent administrative body with its own staff and at least half of its board members be Municipal Council Presidents. The purpose of this newly created institution is to monitor and report on the IMF taxes and fees collected, regulate the withdrawals and deductions, distribute and disburse the revenues to municipalities and municipal unions, and diagnose the over-dependency of municipalities on the IMF. The study also recommends that the allocated taxes and fees – custom fees, insurance fees, and tax on income, profits, and capital gains – as well as a share of the VAT on mobile phones are audited and transferred into the IMF.
- B. Establish a more equitable distribution formula:** The aim of the second pillar is to establish a new IMF formula since the existing criterion – registered population, direct revenues, and development projects assigned for small municipalities – misallocate resources. To this end, the study recommends that IMF distribution criteria are based on resident population (or a relevant proxy such as primary dwellings), socio-economic index, and tax effort exerted by municipalities in collecting local taxes. The study recommends that the IMF is disbursed on timely basis and in one payment to ensure predictability.

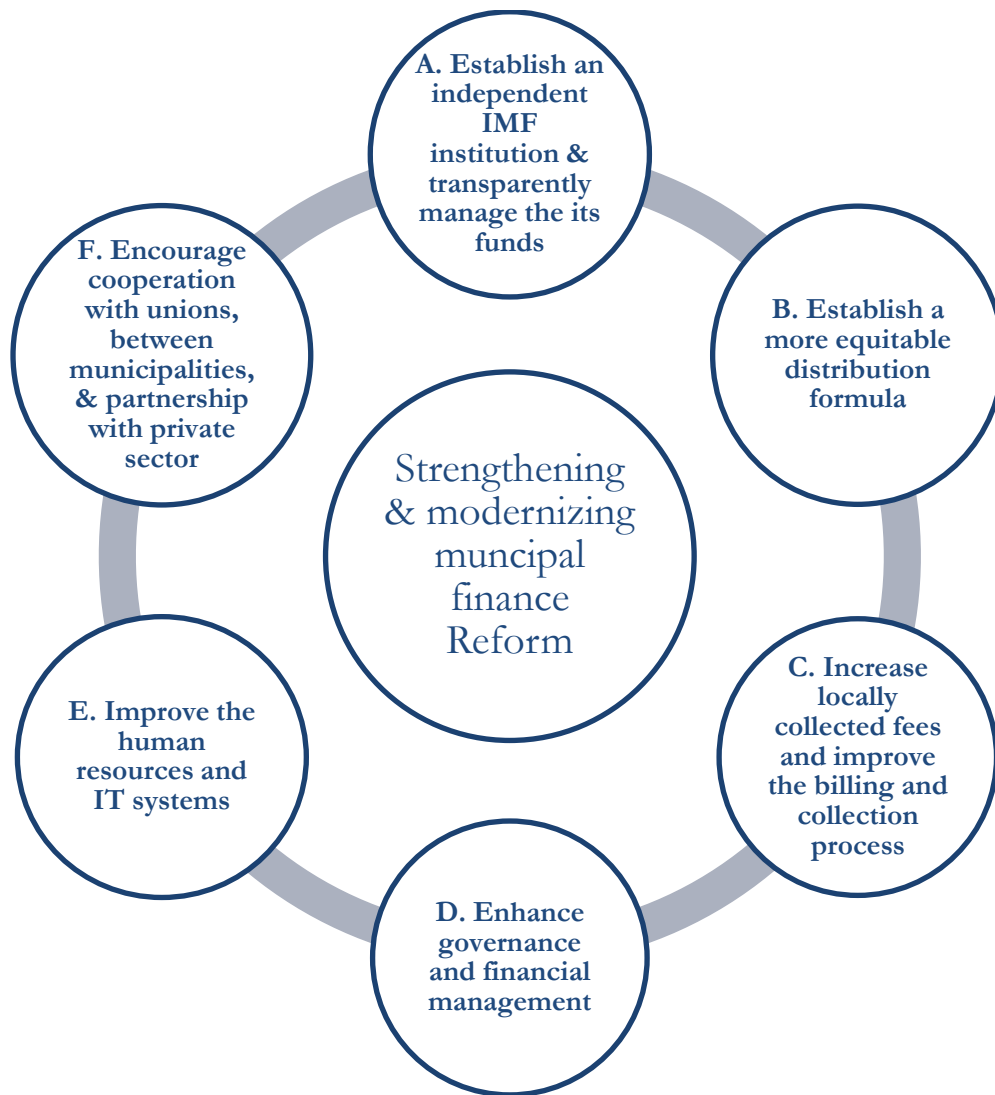
The next 4 pillars deal with locally collected taxes and fees, governance structure of municipalities, their human resources and IT systems, and partnership with other actors.

- C. Increase locally collected fees and improve the billing and collection process:** The objective of this pillar is to raise municipal revenues by primarily enhancing locally collected taxes and fees. To this end, it is recommended that the 36 taxes and fees be reduced to 22 and their taxes and fees (which are very low) be increased. Furthermore, since the rental value fee, which is a major local tax, is currently collected below its potential of 0.016% of GDP compared to 0.6% for developing and transitional countries, the study suggests series of measures which include the following: redefine the unit of assessment, subject illegally constructed properties, illegal occupants, vacant properties and lands in urban areas to the rental value fee, revalue the tax base and allow periodical appraisals, which is currently prohibited, standardize billing procedures, and improve collection and enforcement with the support of the private sector.
- D. Enhance governance and financial management:** The fourth pillar of reform is to enhance accountability both within the Municipal Council and over the municipality by the

Ministry of Interior and Municipalities, the relevant oversight agencies, and citizens. To this end, the study recommends, among others, to rebalance the responsibilities between the Municipal Council members and the Municipal Council President by strengthening the financial oversight of the Municipal Council over the executive branch while restricting their interference in the work of the municipal staff. It also recommends to improve the budgeting and accounting framework and to enhance the capacity of municipalities to manage properties within their jurisdiction. To improve municipal governance, the study recommends that the: Ministry of Interior and Municipalities streamlines its oversight over municipal finances and reduces its pre-approval role, the oversight agencies are empowered to conduct post-audit rather than pre-audit; and citizens participate in and have access to budget and financial decisions.

- E. Improve the human resources and IT system:** For municipalities to function effectively, they must have the appropriate human resource capabilities and IT system. To this end, the study recommends, among others, the following: to simplify and standardize the process for hiring of employees, set up cadre with job descriptions and qualification, expand NSSF coverage, and develop employee performance evaluation. Furthermore, the IT system must be improved through some of the following measures: extend the current revenue and budget systems, integrate the current system into a comprehensive management information system, develop a unified accounting system integrated with MIS, and enhance the use of IT for assessment, billing, and collection for the rental value fee. The study recommends that a technical assistance unit is established at the MoIM to help municipalities in the assessment in their IT system and human resource management.
- F. Encourage cooperation with municipal unions, between municipalities, and partnership with the private sector:** The final pillar of reform is to enhance the role of municipal unions, encourage the formation of a municipal association, and establish closer partnership with the private sector. To this end, the study recommends that unions are granted some authority to compel payment of dues as well as they are empowered to assist municipal administrations in financial tasks and facilitate the sharing of services. In addition, the study recommends that inter-municipal cooperation be encouraged to create an association that represents the interests of municipalities and unions. Finally, it is recommended that municipalities establish partnerships with the private sector to eventually borrow funds, and to contract with auditing firms to deliver services.

Figure 1: The six pillars of strengthening and modernizing municipal finance



The 141 recommendations are distributed across the 6 pillars as follows (Table 8):

- Pillar 1 is made up of 5 priority areas and a total of 29 recommendations
- Pillar 2 is made up of 1 priority areas and a total of 11 recommendations
- Pillar 3 is made up of 7 priority areas and a total of 37 recommendations
- Pillar 4 is made up of 6 priority areas and a total of 29 recommendations
- Pillar 5 is made up of 5 priority areas and a total of 22 recommendations
- Pillar 6 is made up of 4 priority areas and a total of 13 recommendations

Table 8: Number of recommendations distributed across the 6 pillars of reforms

	Pillars of reform	Study	Priority area	No. of Recommendations
1	Establish a new and independent IMF institution with enhanced revenues and regulated central government withdrawals and deductions from the IMF	IMF	1	10
		IMF	2	4
		IMF	3	4
		IMF	4	8
		IMF	6	3
	<i>Sub-total</i>			29
2	Establish a more equitable distribution formula	IMF	5	11
				11
3	Increase locally collected fees and improve the billing and collection process	MFF	5	6
		MFF	6	4
		PT	1	10
		PT	2	7
		PT	3	5*
		PT	4	3
		PT	7	2
	<i>Sub-total</i>			37
4	Enhance governance and financial management	MFF	1	5
		MFF	2	5
		MFF	3	4
		MFF	4	5
		MFF	7	3
		MFF	8	7
	<i>Sub-total</i>			29
5	Improve the human resources and IT system	PT	3	1
		PT	6	2
		MFF	12	8
		MFF	13	7
		MFF	14	4
	<i>Sub-total</i>			22
6	Encourage cooperation with municipal unions, between municipalities, and partnership with the private sector	PT	5	2
		MFF	9	4
		MFF	10	5
		MFF	11	2
	<i>Sub-total</i>			13
	TOTAL			141

*Not that the total number of recommendation under priority area 3 in the PT study is 6. However, one of its recommendations is assigned to pillar 5.

Overall, the recommendations are grouped into three categories: short term, medium term, and long term.

Short measures

Short term measures are recommendations that require less than one year to be put in place. Such recommendations require no legal amendments. Some of these measures require a Minister's Directive. Out of the 18 short term measures, 7 are in need of a Minister's Directives and 11 require no legal amendments.

Table 9: List of short term recommendations by study and priority area

Study	PA	Recommendations	
MF	1	1	Enforce Article 52 of Decree-Law 118/1977 regarding the responsibilities of the Municipal Council in its financial oversight role of the executive authority by requiring a report stating its oversight findings to be sent to MoIM and oversight agencies
MF	2	1	Support the Department of Guidance and Inquiry (DGI) at the MoIM to assume municipal human resource development and capacity building
MF	2	3	Eliminate pre-approval role of the Controller General on citizen transactions and fee appraisal and consider future termination of the position
MF	7	3	Establish a training program for municipal accountants and a manual that explains the unified municipal budget and accounting system and the movements of accounts for every financial transaction
MF	8	6	Develop a model municipal organizational structure for financial management
MF	12	4	Draft a standard human resource manual for municipal employees; standardize job descriptions, minimum qualifications, titles, and grades; and develop standardized personnel forms
MF	12	7	Promote the payment of salaries through commercial banks
MF	12	8	Develop a Municipal Employee Annual Performance Evaluation system with appropriate forms, measurement and performance appraisal criteria
MF	13	1	Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities
PT	3	1	
MF	14	3	Improve the inter-linkage between municipal and MoF databases by setting standards at the field level of data, allowing the exchange of electronic data, and providing access to online data with proper security measures
IMF	2	2	Consolidate the two IMF related accounts into one account
IMF	4	1	Have the CoA conduct a post-audit on withdrawals and deduction from the IMF
IMF	4	5	Revise the current arrangement with waste collection companies and require municipalities to actively buy-into the revised contract
PT	1	3	Make illegally constructed properties subject to the rental value fee (this does not legalize the construction itself, but obligates occupants to pay for services they receive)

PT	1	7	Assess the impact of the current exemptions in terms of foregone revenue
PT	3	2	Conduct training on billing and collection techniques (including the importance of timely collection) for all municipalities
PT	4	3	Establish a mechanism for the exchange of data between MoIM, municipalities, MoF cadastre administration, and property tax administration.
PT	5	1	Empower municipal unions to assist municipal administrations in conducting financial tasks including collection of rental value fee

Medium term measures

Medium term measures are recommendations that require between 1 and 2 years to be prepared for execution. Often medium term measures necessitate legal amendments that take the form of issuing or amending new Laws or Decrees. Note that legal amendment is not a necessary condition for a recommendation to be classified as medium term, however, it is sufficient. Although there are 111 medium term measures across all 6 pillars and 3 studies, 128 legal prerequisites are required: 123 legal amendments covering 18 Laws and Decrees and 5 new Decrees must be issued for the reform process to begin.⁶ Only 2 recommendations require no legal changes.

The ICMA team has classified the 130 interventions or mostly legal amendments by the Law and Decree that they ought to change.

Table 10: List of recommendations that require amending Decree-Law 118/1977

Law or Decree		Number of amendments	
Municipal Decree-Law 118/1977		52	
Study	PA	Recommendations	
MFF	1	2	Strengthen the financial oversight role of the Municipal Council while preserving the ability of the Municipal Council President to manage municipal affairs
MFF	1	3	Abolish the membership of the Municipal Council President in the Bidding Committee
MFF	1	4	Establish a Special Disciplinary Commission in accordance with Article 106 of Decree-Law 118/1977
MFF	1	5	Restrict Municipal Council members' interference with municipal finance staff, citizen's transactions, and executive financial decisions by giving the Municipal Council President the authority to sanction municipal staff and inform the oversight agencies in case of wrongdoing by Municipal Council members
MFF	2	2	Reduce MoIM pre-approval requirement on municipal financial decisions and abandon MoIM pre-approval on Municipal Council expenditure decisions
MFF	2	4	Reduce the MoIM's power of substitution and authority to suspend the execution of municipal financial decisions

⁶ Note that the discrepancy between the number of medium term measures (111) and the number of legal prerequisites (128) is explained by the fact that some recommendations require more than one legal amendment to take effect.

MFF	2	5	Abandon the requirement of the governor's authorization for judicial prosecution of Municipal Council members
MFF	3	2	Make the Municipal Council members and executive branch of municipalities subject to the authority of the Central Inspection Board
MFF	3	4	Increase the number of municipalities subject to the control of the Civil Service Board
MFF	8	1	Promote citizen participation in financial decisions including, but not limited to, budget adoption and execution
MFF	8	2	Enforce the yearly publication of the municipal budget and expenditures, as well as information related to citizen transactions, services, fee amounts, and internal business processes through Newsletter, Citizen Guide, Portal, or Billboards
MFF	8	3	Provide access to municipal financial information to all taxpayers and not only to voters
MFF	8	4	Strengthen the authority of municipal financial officers and make them responsible for controlling financial irregularities
MFF	8	5	Establish mechanisms that would increase transparency and reduce political interference in municipal financial decision making and the processing of citizen requests
MFF	8	7	Revise the existing practices and mechanism for the issuance of construction permits, and the role of the Urban Planning Department (UPD) and municipal unions
MFF	9	1	Encourage and create a legal and organizational framework for inter-municipal cooperation
MFF	9	2	Resolve the current legal gap in the authority for the formation of new municipalities by issuing laws that regulate the formation of municipalities, and the annexation and de-annexation of towns to or from existing municipalities
MFF	9	3	Establish an association of municipalities whose functions include advocacy on behalf of municipal interests and participation in decisions concerning or affecting their financial activities and resources
MFF	10	1	Enable municipal/private partnership for efficient use of municipal properties and promote BOT contracts as a tool for local investment and development
MFF	10	5	Authorize municipalities to borrow funds from the private sector for development projects using their revenues and assets as collateral
MFF	11	1	Provide municipal unions with the authority to compel the payment of municipal dues
MFF	12	2	Simplify and standardize existing procedures for hiring both permanent and limited-duration employees allowing time sharing of the limited-duration employees between municipalities
MFF	12	3	Require large municipalities to set up HR departments and provide support for HR management to medium and small sized municipalities
MFF	12	5	Expand NSSF coverage to all municipal employees and enforce/guarantee the payment to NSSF of municipal dues
MFF	12	6	Allow employees to be transferred from one municipality to another while maintaining their grades, salaries, and benefit
IMF	1	1	Establish the legal status of the new IMF institution to include the

			following; it is an independent administrative body; its transactions shall not be subject to any prior audit; in counterpart, the accounting shall be subject to the CoA; and its decisions can only be subject to challenge before the State Council
IMF	1	2	Establish the composition of the new IMF Board to include the following: representatives of municipalities and municipal unions elected by Municipal Council Presidents and that they make up at least half the board members; Members of the Parliament elected by the Parliament; and central government officials appointed by the CoM
IMF	1	3	Establish the prerogatives of the new IMF institution
IMF	1	4	Provide the resources required to operate the institution from the existing IMF revenues
IMF	1	5	Establish a cadre along with the job description and skills needed to operate an independent IMF organization with the roles and responsibilities outlined in prior recommendations
IMF	2	1	Publicly issue annual reports on IMF revenues and expenditures including withdrawals, deductions, and distributions to municipalities from the two IMF related accounts (and publish a summary in newspapers)
IMF	2	3	Have the consolidated account that includes all revenues and expenditures related to the IMF externally audited
IMF	2	4	Submit an annual report to Parliament detailing the IMF's receipts of all taxes and fees as well as the withdrawals, deductions, and distributions to municipalities
IMF	3	3	Ensure that the rate of decrease in IMF revenues from year to year does not exceed that of central government revenues
IMF	3	4	Allow the government to transfer from the general budget fund (fund not earmarked) as grants to the IMF
IMF	4	2	Have the newly established IMF institution assess and approve any withdrawals or deductions (submitted with all the required details including the purpose and the entity to which the fund will be transferred to) from the IMF
IMF	4	3	Prohibit any agreement that would lead to withdrawal and deduction made by the central government without the approval of the Board of the newly established IMF institution
IMF	4	4	Set up a transitory provision governing the on-going agreement contracted by the central government on behalf of municipalities
IMF	5	1	Determine the share of the IMF to be distributed among municipalities, municipal unions, and villages without municipalities
IMF	5	2	Introduce a distribution formula based on the funding needed for each type of local entity to fulfill their responsibilities using dwellings, electricity, water, or telephone services as proxies of population (in the absence of resident population data)
IMF	5	3	Introduce a distribution formula based on socio-economic condition of the areas under the jurisdiction of each type of local government unit (i.e. development index, surface area)
IMF	5	4	Introduce a distribution formula based on the tax effort (relative to tax

			potential) as a basis for funding local entities (estimating the tax potential of the municipality becomes a research input)
IMF	5	5	Establish the weight to be assigned to each of the distribution criteria that would be used to distribute IMF to each type of local entity
IMF	5	6	Make provisions for foreign donors to give funding to local entities through the IMF
IMF	5	7	Issue IMF distribution orders by the newly established institution within 4 months from the beginning of the calendar year
IMF	5	9	Establish ways to allocate and manage funds assigned to villages without municipalities
IMF	5	10	Integrate villages without municipalities into Decree-Law 118/1977 as beneficiaries of the IMF
IMF	5	11	Return taxes collected from the villages back to them
IMF	6	1	Work with the Municipal Observatory to identify and collect data and information needed to implement the IMF funding criteria
IMF	6	2	Periodically assess the needs of the municipalities and consequently the share of these needs covered by the IMF
IMF	6	3	Audit and analyze the municipalities whose dependency ratio exceeds a certain level in order to diagnose the source of the problem
PT	5	2	Facilitate the sharing of services in those areas not covered by municipal unions

Table 11: List of recommendations that require amending Law 60/1988

Law or Decree		Number of amendments	
Municipal Fees and Surtaxes Law 60/1988		At least 30	
Study	PA	Recommendations	
MFF	5	1	Increase the rates of 25 municipal fees
MFF	5	2	Change the basis on which the industrial and classified non-residential establishments are taxed
MFF	5	3	Enforce the earmarking of revenues from certain municipal fees to the associated activities (e.g. public parking, sewage and pavements)
MFF	5	4	Abolish specific municipal fees in light of the total revenues collected and difficulty of their administration
MFF	5	5	Impose a penalty on illegal occupation of municipal and state properties
MFF	6	1	Strengthen the collection of municipal fees by establishing reasonably enforceable legal options in terms of their administrative and political
MFF	6	3	Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee
PT	3	4	
MFF	10	2	Allow municipalities to use commercial banks for collection of municipal fees
MFF	10	3	Enable municipalities to use Liban Post services for billing notification, fee collection, and citizen transactions and applications
MFF	10	4	Enable municipalities to contract with auditing firms and certified auditors

IMF	5	11	Return taxes collected from the villages back to them
PT	1	1	Make the 'owner' liable for payment of the rental value fee
PT	1	2	Redefine the 'Unit of Assessment' to include un-built spaces used as extensions of built spaces for residential or commercial or any other profit making purposes
PT	1	4	Make illegal occupants subject to the rental value fee
PT	1	5	Make vacant (built) properties in urban zones subject to the rental value fee
PT	1	6	Make vacant land in urban areas (i.e. un-built properties) subject to the rental value fee
PT	1	8	Pending the results of recommendation 7, remove the exemptions from all those properties that are commercial in nature and that are organized and conducted for profit or are not being used for the purpose of the organization that is benefiting from the exemption
PT	1	9	Compensate municipalities for the revenue foregone as a result of exemptions
PT	1	10	Increase fines for non-declaration of occupancy
PT	2	1	Establish a national framework for assessment that adopts a common approach to the valuation of all properties
PT	2	2	Establish Assessment Units in municipalities, municipal unions, or through cooperation between 2 or more municipalities that are not members of unions
PT	2	3	Have municipalities identify all properties that are or should be subject to the rental value fee. Identification process would take place through a municipal survey conducted by the municipality itself, the union of municipalities, a group of municipalities, private sector contractor, or interested university departments
PT	2	4	Revalue all properties within each municipality's boundary in accordance with nationally determined guidelines
PT	2	5	Establish an appeals system which provide taxpayers with the right of appeal against the assessment of their property if they consider it to be incorrect as well as establishment of a new Appeals Committee in each municipality to hear objections on fee assessments and make any necessary changes
PT	2	6	Conduct regular revaluations at 3 to 5 yearly intervals and index the tax on an annual basis so that there would be an annual increase in rental value based on increases in nationally set criteria such as minimum wages or price of construction materials
PT	3	3	Specify mandatory billing dates and collection dates
PT	3	4	Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee
PT	3	5	Increase the minimum rental value fee

PT	3	6	Diversify legal actions that could be taken against non-compliance
PT	4	1	Require residents to register property transfers in the municipality. This would also entail the collection of a fee to cover the expenses of maintaining the register

Table 12: List of recommendations that require amending Decree 14969/1963

Law or Decree		Number of amendments	
General Accounting Law Proposal issued by Decree 14969/1963		9	
Study	PA	Recommendations	
MFF	6	4	Grant all municipalities a grace period for the collection of revenues
MFF	6	3	Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee
PT	3	4	
MFF	7	1	Eliminate the current duality of accounting standards by establishing a single unified chart of accounts and budget with simplified revenue and accounting systems designed specifically for municipalities
MFF	8	4	Strengthen the authority of municipal financial officers and make them responsible for controlling financial irregularities
MFF	10	2	Allow municipalities to use commercial banks for collection of municipal fees
MFF	10	3	Enable municipalities to use Liban Post services for billing notification, fee collection, and citizen transactions and applications
MFF	10	4	Enable municipalities to contract with auditing firms and certified auditors
MFF	13	5	Integrate the existing finance-related systems into a more comprehensive Management Information System (MIS)
MFF	13	6	Develop and deploy a unified accounting system for all municipalities, integrated with the MIS, and compatible with any new unified budget and accounting regulations

Table 13: List of recommendations that require amending Decree 5595/1982

Law or Decree		Number of amendments	
Accounting Principles for Municipalities and Municipal Unions Decree 5595/1982		7	
Study	PA	Recommendations	
MFF	6	3	Increase the availability and choice of payment channels available to taxpayers for the payment of the rental value fee
PT	3	4	
MFF	8	4	Strengthen the authority of municipal financial officers and make them responsible for controlling financial irregularities
MFF	10	2	Allow municipalities to use commercial banks for collection of municipal fees
MFF	10	3	Enable municipalities to use Liban Post services for billing notification,

			fee collection, and citizen transactions and applications
MF	10	4	Enable municipalities to contract with auditing firms and certified auditors
MF	13	5	Integrate the existing finance-related systems into a more comprehensive Management Information System (MIS)
MF	13	6	Develop and deploy a unified accounting system for all municipalities, integrated with the MIS, and compatible with any new unified budget and accounting regulations

Table 14: List of recommendations that require amending Decree-Law 82/1983

Law or Decree		Number of amendments	
Court of Audit Decree-Law 82/1983		4	
Study	PA	Recommendations	
MF	4	1	Restructure the administrative and judiciary organization of the CoA to include specialized courts and augment its administrative and HR capacity to a level sufficient to support extending its post audit authority to all municipalities
MF	4	2	Extend CoA's post audit authority to all municipalities and include performance and result-oriented auditing
MF	4	3	Increase the financial penalties imposed by the CoA and lengthen the statute of limitation to enhance the CoA's ability to effectively prosecute financial wrongdoing
MF	4	5	Abolish all types of pre-auditing on municipalities required within the scope of the CoA functions

Table 15: List of recommendations that require amending Decree-Law 115/1959

Law or Decree		Number of amendments	
Central Inspection Board Decree-Law 115/1959		3	
Study	PA	Recommendations	
MF	3	1	Strengthen CIB's ability to enforce municipal compliance with the applicable laws and regulations by providing CIB with the necessary means of inspection, appropriate authority, and the resources required
MF	3	3	Establish a Municipal Inspection Unit at the CIB with a regional office in each governorate
MF	12	1	Abandon the DGI pre-approval requirement for changes in municipal organizational structure for the municipalities not subject to CSB control

Table 16: List of recommendations that require amending Decree-Law 50/1967

Law or Decree		Number of amendments	
Statute and Organization of the Civil Defense Decree-Law 50/1967		3	
Study	PA	Recommendations	
IMF	4	6	Define the State's responsibility in financing the Civil Defense expenses
IMF	4	7	Redefine the contribution of the municipalities that are currently benefiting from Civil Defense services
IMF	4	8	Ensure the participation of a representative of the newly established IMF institution on the administrative Board of the Civil Defense

Table 17: List of recommendations that require amending Decree 8485/1996

Law or Decree		Number of amendments	
List of Municipalities and Municipal Unions subject to the use of IT in financial management Decree 8485/1996		3	
Study	PA	Recommendations	
MFF	13	4	Establish an IT unit in large municipalities with the ability to support GIS technology
MFF	14	4	Develop an auditing system for the CoA's controller and auditors using Computer Assisted Auditing Techniques (CAAT) to perform electronic auditing functions of municipal budget and accounting systems
PT	6	1	Establish a new IT system for the assessment, billing, and collection of rental services fee

Table 18: List of recommendations that require amending Decree 2460/1959

Law or Decree		Number of amendments	
Organization of Central Inspection Board Decree 2460/1959		2	
Study	PA	Recommendations	
MFF	3	1	Strengthen CIB's ability to enforce municipal compliance with the applicable laws and regulations by providing CIB with the necessary means of inspection, appropriate authority, and the resources required
MFF	3	3	Establish a Municipal Inspection Unit at the CIB with a regional office in each governorate

Table 19: List of recommendations that require amending Decree 10388/1997

Law or Decree		Number of amendments	
General Ledger Decree 10388/1997		2	
Study	PA	Recommendations	
MF	13	5	Integrate the existing finance-related systems into a more comprehensive Management Information System (MIS)
MF	13	6	Develop and deploy a unified accounting system for all municipalities, integrated with the MIS, and compatible with any new unified budget and accounting regulations

Table 20: List of recommendations that require amending Law 379/2001

Law or Decree		Number of amendments	
VAT Law 379/2001		2	
Study	PA	Recommendations	
MF	5	6	Enforce transparency of VAT redistribution and establish mechanisms to compensate municipalities for the loss of revenue resulting from the recent transformation of certain municipal fees into a VAT
IMF	2	1a/1b	Transfer a share of VAT on mobile phones to the IMF Deduct a certain share from total VAT revenues for the IMF

Table 21: List of recommendations that require amending Decree-Law 114/1959

Law or Decree		Number of amendments	
Civil Service Board Act Decree-Law 114/1959		1	
Study	PA	Recommendations	
MF	12	2	Simplify and standardize existing procedures for hiring both permanent and limited-duration employees allowing time sharing of the limited-duration employees between municipalities

Table 22: List of recommendations that require amending Decree 3489/1965

Law or Decree		Number of amendments	
Financial reporting requirements of the CoA Decree 3489/1965		1	
Study	PA	Recommendations	
MF	4	4	Simplify and standardize the post-audit and reporting requirements of the CoA to ensure their compatibility with municipal financial management practices while preserving the level of municipal accountability

Table 23: List of recommendations that require amending Law 160/1992

Law or Decree		Number of amendments	
Rent contracts extension law Law 160/1992		1	
Study	PA	Recommendations	
PT	1	1	Make the ‘owner’ liable for payment of the rental value fee (to guarantee the owner’s right to collect the rental value fee from the tenant)

Table 24: List of recommendations that require amending Decree 4082/2000

Law or Decree		Number of amendments	
Organization of the Ministry of Interior and Municipalities Decree 4082/2000		1	
Study	PA	Recommendations	
MF	13	2	Establish a Technical Assistance Unit (TAU) at the MoIM
PT	7	1	

Table 25: List of recommendations that require amending the Property Tax Law

Law or Decree		Number of amendments	
Property tax law published in 1962		1	
Study	PA	Recommendations	
IMF	3	2	Revise the tax base on built property tax so that owners pay taxes on the cumulative property (rather than on each property separately)

Table 26: List of recommendations that require amending the large municipalities’ bylaws

Law or Decree		Number of amendments	
Amend Large municipalities’ bylaws		1	
Study	PA	Recommendations	
MF	13	4	Establish an IT unit in large municipalities with the ability to support GIS technology

Table 27: List of Laws and Decrees that must be issued

Law or Decree			
Approve the digital signature and electronic evidence Law			
Study	PA	Recommendations	
MFF	13	3	Promote paperless and e-municipalities in local administrations by enabling IT and internet use in the administration of municipal applications, citizen services and payment of fees
Issue a new Decree regulating municipal contracting for collection of fees			
Study	PA	Recommendations	
MFF	6	2	Establish guidelines for contracting out the collection of fees
Issue a new Decree regulating Municipal Budget and Accounting			
Study	PA	Recommendations	
MFF	7	2	Introduce Performance-Based Budgeting (PBB)
Issue a new Decree establishing a specialized IT Unit at the CoA			
Study	PA	Recommendations	
MFF	14	2	Provide the CoA with the resources and equipment necessary to electronically audit municipal accounts
Issue a new Decree for municipal reporting requirements of the CoA			
Study	PA	Recommendations	
MFF	4	4	Simplify and standardize the post-audit and reporting requirements of the CoA to ensure their compatibility with municipal financial management practices while preserving the level of municipal accountability

No legal amendments are required for the following 2 medium term recommendations.

Table 28: List of recommendations that require no legal amendments

Study	PA	Recommendations	
MFF	13	7	Develop a human resource management system and a payroll module for all municipalities integrated with the MIS
PT	6	2	Establish an electronic database for municipalities to manage their database of municipal property

Long term measures

Long term actions are measures that require more than 2 years to put in place. They often involve institution building such as empowering an organization (recommendation 4 under PA 9 in the MFF), hiring of staff, and developing its IT system. Some of the long terms measures may be

preceded or accompanied by legal amendments. Others may require at least 2 years to implement because of the complexity of the issues they are trying to address. More precisely, out of the 9 long term measures, 8 measures are preceded by legal amendments which pave the way either for hiring of staff in the case of newly established IMF institution or the TAU or for setting up an IT system for the IMF institution; 1 measure (recommendation 1 under PA 14 in the MFF study) has no legal amendment but the time and effort required to implement exceeds the period of 2 years.

Table 29: List of long term recommendations by study and priority area

Study	PA	Recommendations	
MFF	9	4	Enable the association to provide municipal training programs, technical assistance and consultation which helps municipalities prepare terms of reference, managing bids and contracts, monitoring contract execution, and financial management
MFF	13	5	Integrate the existing finance-related systems into a more comprehensive Management Information System (MIS)
MFF	14	1	Create an ICT system in the MoIM which manages and tracks the transactions of municipalities and municipal unions
IMF	1	7	Hire qualified staff to manage the IMF as an independent IMF organization with the roles and responsibilities outlined in prior recommendations
IMF	1	8	Adopt IT in the management of the IMF annual budget preparation, financial management, expenditure transaction, accounting transactions, and the distribution of municipal shares based on the adopted criteria as well as adopt GIS technology to store, manage, generate statistical analysis, and create interactive queries to geographically present data linked to municipalities and unions
IMF	1	9	Establish an electronic mechanism for the exchange of information related to the finances of the IMF between MoIM and MoF
IMF	1	10	Establish a website for the IMF that allows interactions with municipalities and municipal unions and make the annual reports accessible on the internet
PT	4	2	Strengthen the capacity of municipalities to enable them to host a 'municipal property database'
PT	7	2	Equip the TAU with the staff and resources needed to fulfill its mandate

Priorities of reform across the six pillars

Implementing the 138 recommendations across the six pillars at once is a tall order for any government. Moreover, not every proposed measure has equal impact on the reform process. To focus the reform effort, the ICMA team has identified the measures that are deemed most urgent. These recommendations are not necessarily easy to implement or take the shortest time to be executed. In fact, the urgent measures are those that, once addressed, will have the largest return on strengthening and modernizing municipal finance in Lebanon. **The ICMA team has identified the following 33 urgent recommendations across the six pillars of reform and grouped them into ten policy actions.** Under each pillar, the ICMA team has identified the following: policy actions, the urgent recommendations (with reference to the study, priority action, and recommendation number), and their expected outcome (Figure 2).

A. Establish a new and independent IMF institution with enhanced revenues and regulated central government withdrawals and deductions from the IMF:

Under this pillar, the team has identified two urgent policy actions:

1. ***Establish a new and an independent IMF institution*** which requires the following five recommendations:

Table 30: Urgent recommendations for policy action 1 under pillar A

Study	PA	Recommendations	
IMF	1	1	Establish the legal status of the new IMF institution
IMF	1	2	Establish the composition of the new IMF Board
IMF	1	3	Establish the of the new IMF institution
IMF	1	4	Provide the resources required to operate the institution from the existing IMF revenues
IMF	1	5	Establish a cadre for the IMF institution

The expected outcome of this policy action is *an independent and participatory management of IMF funds supported by financial and human resources.*

2. **Ensure efficient and transparent management of IMF resources** which requires the following three recommendations:

Table 31: Urgent recommendations for policy action 2 under pillar A

Study	PA	Recommendations	
IMF	2	1	Publicly issue annual reports on IMF revenues and expenditures including withdrawals, deductions, and distributions to municipalities from the two IMF related accounts
IMF	3	1a/1b	Transfer a share of VAT on mobile phones OR deduct a certain share from total VAT revenues for the IMF
IMF	4	5	Revise the current arrangement with waste collection companies and require municipalities to actively buy-into the revised contract

The expected outcome of this policy action is *reduced mistrust between the central government and municipalities, increased revenues, and reduced spending*.

B. Establish a more equitable distribution formula:

There is only one policy action under this pillar:

3. **Develop a new IMF distribution formula** which is made up of the following five urgent recommendations:

Table 32: Urgent recommendations for policy action 3 under pillar B

Study	PA	Recommendations	
IMF	5	1	Determine the share of the IMF to be distributed to local entities
IMF	5	2	Introduce a distribution formula based on the funding needed for each type of local entity to fulfill their responsibilities using dwellings, electricity, water, or telephone services as proxies of population (in the absence of resident population data)
IMF	5	3	Introduce a distribution formula based on socio-economic condition of the areas under the jurisdiction of each type of local government unit (i.e. development index, surface area)
IMF	5	4	Introduce a distribution formula based on the tax effort (relative to tax potential) as a basis for funding local entities
IMF	5	5	Establish the weight to be assigned to each of the distribution criteria that would be used to distribute IMF to each type of local entities

The expected outcome of this policy action is *increased local revenues*.

C. Increase locally collected fees and improve the billing and collection process:

Two urgent policy actions are identified under this pillar:

4. **Increase municipal fees** is made up of the following five urgent recommendations:

Table 33: Urgent recommendations for policy action 4 under pillar C

Study	PA	Recommendations	
MFF	5	1	Increase the rates of 25 municipal fees starting with construction license fee, monthly investment fee for temporary advertisements, yearly investment fee on equipment/machines used in industries, penalty on illegal occupation of municipal and state properties
PT	3	5	Increase the minimum rental value fee
MFF	5	2	Change the basis on which the industrial and classified non-residential establishments are taxed
PT	1	1	Make the ‘owner’ liable for payment of the rental value fee
PT	4	3	Establish a mechanism for the exchange of data between MoIM, municipalities, MoF cadastre administration, and property tax administration

The expected outcome of this policy action is *increased local revenues*.

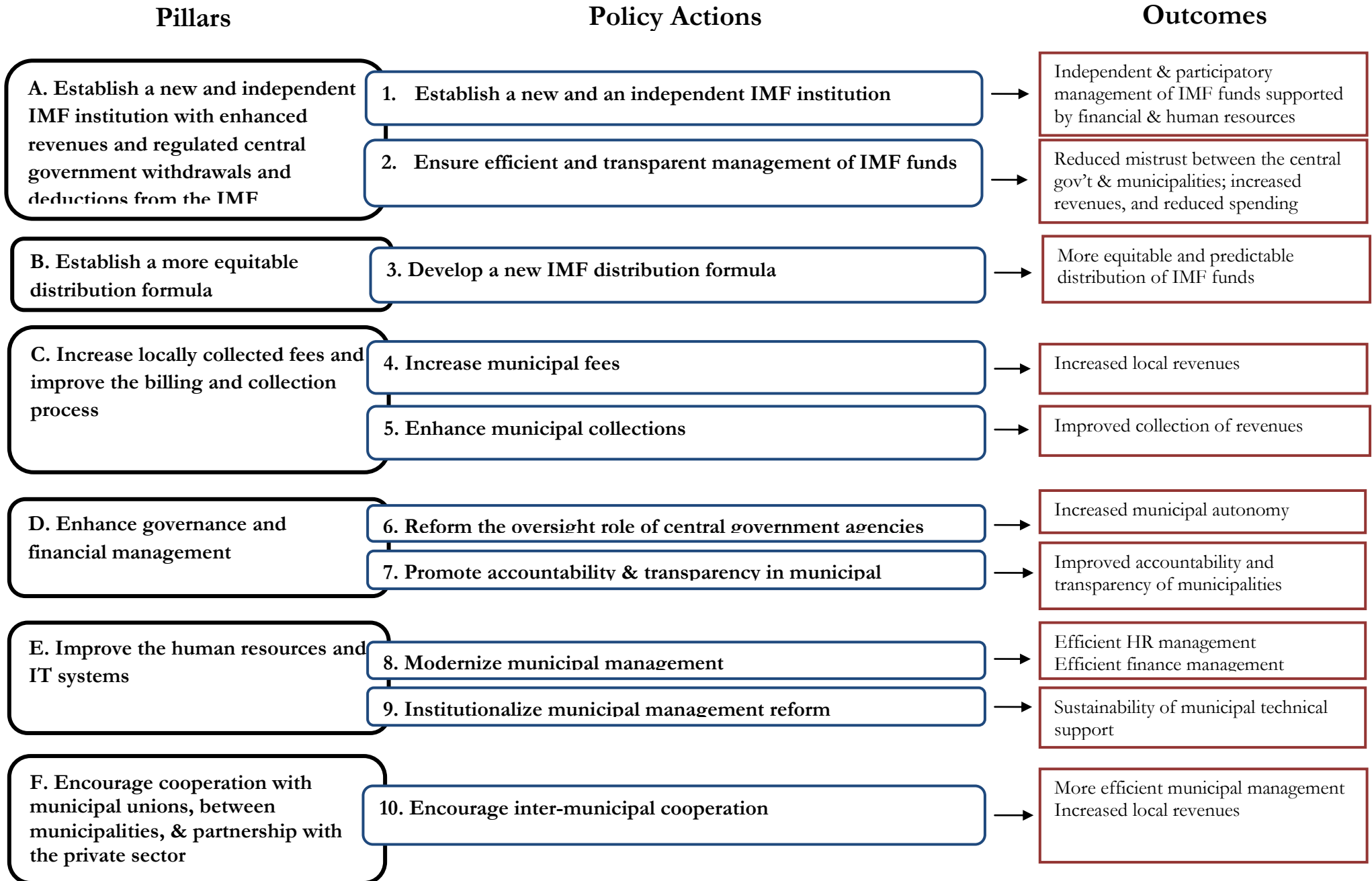
5. **Enhance municipal collections** is made up of the following four urgent recommendations:

Table 34: Urgent recommendations for policy action 5 under pillar C

Study	PA	Recommendations	
MFF	6	2	Establish guidelines for contracting out the collection of fees
MFF	10	2	Allow municipalities to use commercial banks for collection of municipal fees
MFF	10	3	Enable municipalities to use Liban Post services for billing notification, fee collection, and citizen transactions and applications
PT	3	4	Increase the availability and choice of payment channels available to taxpayers for the payment of rental value fee

The expected outcome of this policy action is *improved collection of revenues*.

Figure 2: Summary of proposed pillars, related policy actions, and their expected outcomes



D. Enhance governance and financial management:

The two urgent policy actions are:

- 6. Reform the oversight role of central government agencies** which has two urgent recommendations:

Table 35: Urgent recommendations for policy action 6 under pillar D

Study	PA	Recommendations	
MFF	2	2	Reduce MoIM pre-approval requirement on municipal financial decisions and abandon MoIM pre-approval on Municipal Council expenditure decisions
MFF	4	4	Simplify and standardize the post-audit and reporting requirements of the CoA in a way that ensures their compatibility with municipal financial management practices while preserving the level of municipal accountability

The expected outcome of this policy action is *increased municipal autonomy*.

- 7. Promote accountability and transparency in municipal governance** starting with the following two urgent recommendations:

Table 36: Urgent recommendations for policy action 7 under pillar D

Study	PA	Recommendations	
MFF	1	4	Establish a Special Disciplinary Commission in accordance with Article 106 of Decree-Law 118/1977
MFF	8	2	Enforce the yearly publication of the municipal budget and expenditures, as well as information related to citizen transactions, services, fee amounts, and internal business processes through Newsletter, Citizen Guide, Portal, or Billboards

The expected outcome of this policy action is *improved accountability and transparency of municipalities*.

E. Improve the human resources and IT systems:

The two urgent policy actions under this pillar are:

8. *Modernize municipal management* which has two urgent recommendations:

Table 37: Urgent recommendations for policy action 8 under pillar E

Study	PA	Recommendations	
MFF	13	1	Extend current Revenue (MRS) and Budget (MBS) Systems to all municipalities
PT	3	1	
MFF	12	2	Simplify and standardize existing procedures for hiring both permanent and limited-duration employees allowing time sharing of the limited-duration employees between municipalities

The expected outcome of this policy action is an *efficient HR and financial management system*.

9. *Institutionalize municipal management reform* has one urgent recommendation:

Table 38: Urgent recommendations for policy action 9 under pillar E

Study	PA	Recommendations	
MFF	13	2	Establish a Technical Assistance Unit (TAU) at the MoIM
PT	7	1	

The expected outcome of this policy action is *sustainability of the municipal technical support*.

F. Encourage cooperation with municipal unions, between municipalities, and partnership with the private sector:

The one policy action under this pillar is as follows:

10. *Encourage inter-municipal cooperation* has four urgent recommendations:

Table 39: Urgent recommendations for policy action 10 under pillar F

Study	PA	Recommendations	
MFF	9	3	Establish an association of municipalities whose functions include advocacy on behalf of municipal interests and participation in decisions concerning or affecting their financial activities and resources
MFF	11	1	Provide municipal unions with the authority to compel the payment of municipal dues
PT	5	1	Empower municipal unions to assist municipal administrations in conducting financial tasks including the collection of rental value fee
PT	5	2	Facilitate the sharing of services in those areas not covered by

			municipal unions
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The expected outcome of this policy action is *more efficient municipal management and increased local revenues.*

In brief, there are 10 policy actions which are made up of 33 urgent recommendations distributed across the six pillars of reform (and the three studies). Out of these 33 urgent measures, 28 are considered to be medium term actions (i.e. between 1 to 2 years) and only 5 are considered to be short term. In effect, the municipal finance reform must begin very soon since its benefits can only be begin to be accrued in at least 1 to 2 years.

Appendix 1.A – Comments on the Draft Roadmap for Modernizing Municipal Finance

The Draft Roadmap for Modernizing Municipal Finance was submitted in English on October 4, 2010 and in Arabic on October 18, 2010 to the PCU at the MoIM. The report was then circulated to the relevant stakeholders who were granted a 30 day review period to furnish the IMCA team with comments and feedback on the roadmap and its recommendations. This appendix includes the comments that were received in the following order:

1. World Bank, October 15, 2010
2. PCU internal consultant, October 18, 2010
3. Director General and staff, MoIM, December 1, 2010
4. MoF, January 4, 2011

Appendix 1.B – ICMA’s reply to the comments on the Draft Roadmap for Modernizing Municipal Finance

This appendix replies to the comments made by the MoIM.

Appendix 2.A – Priority actions to strengthen the municipal finance framework as stated in the Revised Strategic Framework

1. Develop recommendations for rebalancing the responsibilities and authorities granted to the Municipal Council and its President by the Municipal Act;
2. Review the oversight roles of the various central government agencies, including the Ministry of Interior and Municipalities, Central Inspection Board (CIB), the Civil Service Board (CSB), and the Court of Audit (COA);
3. Review the balance between pre- and post- administrative and judicial auditing mechanisms;
4. Assess the compliance of municipalities with their legal reporting and approval obligations under current law and, wherever compliance is found lacking, evaluate whether the solution lies in better enforcement and/or legal amendments;
5. Review the fees collected by municipalities in terms of the amount of revenue they generate as compared to their cost of administration;
6. Assess the feasibility of allowing municipalities to establish their own fees and/or fee rates;
7. Assess the feasibility of conducting a periodic review of the levels of fees which are tied to specific municipal services to ensure that the level is sufficient to cover the cost of providing the associated service;
8. Propose legal options to strengthen collection of municipal taxes and fees. These options should be reasonably enforceable in terms of their administrative and political costs;
9. Review the impact on municipal revenues of the recent transformation of certain municipal fees into a VAT and propose ways of compensating for this loss of revenue;
10. Evaluate the potential of creating an independent association of Lebanese municipalities which would be able to represent their interests before other levels of government;
11. Evaluate the feasibility of creating a single budgeting (and accounting) framework tailored to municipal needs and capabilities;
12. Evaluate the effectiveness and simplicity of the current budget preparation and approval procedures and recommend improvements;
13. Assess the feasibility of and implementing nationwide accounting and budgeting framework (chart of accounts, etc.) designed specifically for municipalities (implementation will require amending the law);
14. Review the current minimum legal conditions required for the formation of new municipalities;

15. Review the current legal conditions for the annexation and de-annexation of towns to or from existing municipalities;
16. Review the development of legal mechanisms that would avail municipalities of the right to participate in all decisions concerning or affecting their financial activities and resources;
17. Evaluate the establishment of an association of municipalities, independent from the central government, whose functions include advocacy on behalf of municipal interests and capacity building through training and development of best practices;
18. Evaluate the legal changes required to authorize cooperation agreements among municipalities;
19. Evaluate the legal changes required to authorize contracting certain municipal activities to the private sector, such as the payment of fees through commercial banks or Liban Post;
20. Evaluate the legal changes required to authorize municipalities to borrow funds in the private sector using their revenues and assets as collateral;
21. Review the authorities granted to municipal unions in order to empower them to play an active role in local government empowerment;
22. Assess the legal mechanisms that would permit electronic signature and submission of documents thereby facilitating the use of ICT for citizen services and payment of fees;
23. Review the legal texts that currently require municipalities to perform manual accounting in certain cases;
24. Review municipal accounting and budgeting systems and assess their compatibility with municipal functions;
25. Review current law towards increasing transparency in municipal financial management;
26. Assess the potential of allowing municipalities to participate in the development of the budget of municipal unions;
27. To put the decision-making authority and executive authority of municipalities under the authority of the Central Inspection board;
28. Review the pre-audit requirements of the Court of Audit and assess any amendments that would increase municipal autonomy without decreasing the Court of Audit's ability to oversee municipal management;
29. Assess the potential of simplifying the post-auditing requirements of the Court of Audit in a way that ensures their compatibility with municipal activities while preserving the level of municipal accountability;
30. Review the laws which regulate the preparation and implementation of the budget;

31. Assess the possibility of establishing a single chart of accounts framework and budget, revenue and accounting system for all Lebanese municipalities, designed specifically for municipalities;
32. Examine ways to facilitate the electronic exchange of information between the budget system and the other information systems (revenue, accounting, asset management, human resources management, a system for the publication of salary scales, etc.);
33. Assess ways to improve the computerization of the budget oversight performed by the MoIM and other central government oversight agencies (Court of Audit, General Controller, etc.), taking into account the presence of two municipal budget systems;
34. Assess the need for a technical consultation body which helps municipalities prepare terms of reference, managing bids and contracts;
35. Assess the need for an Information system in the MoIM which manages and tracks transactions related to municipalities and municipal unions;
36. Review of the current IT systems in light of the internet speed and modern technologies to facilitate maintenance and modernization;
37. Review the need to improve the inter-linkage among the various governmental databases;
38. Review Internet security procedures;
39. Assess the role of the MoIM and the COA in establishing an IT policy which specifies the technical criteria required for all municipalities;
40. Consider developing a comprehensive, integrated, unified accounting system in addition to a unified accounting structure for all municipalities;
41. The development of a single municipal chart of accounts that is tailored to municipal functions;
42. Consider development of an automated fixed asset system;
43. The linking of budget expenditures with fixed assets records and the transfer of these current accounts to the final fixed asset account;
44. Assess the application by municipalities of the principle of separation of functions and propose mechanisms that would strengthen the CIB's ability to enforce municipal abidance by that principle;
45. Review the functions entrusted to municipal financial officers toward strengthening their authority over and responsibility for the control of financial irregularities;
46. Review administrative irregularities such as the issuance of construction permits by Municipal Presidents and propose changes in practice or in law;

47. Review the current balance between pre- and post-audit mechanisms applied by the COA and the CIB and propose amendments that would render that oversight more effective and efficient;
48. Review the most common municipal practices that violate legal requirements and assess whether legal amendment or enforcement is needed on a case by case basis;
49. Propose mechanisms that would increase transparency and reduce political interference in municipal decision making and the processing of citizen requests;
50. Evaluate the potential of establishing an institution that represents municipalities and provides training and technical assistance in the development of terms of reference, the drafting and review of contracts, and the monitoring of contract execution;
51. Review the authorities and responsibilities of the Municipal Council in a way that strengthens their oversight role while preserving the executive authority's ability to manage;
52. Evaluate the obstacles that weaken municipalities' ability to collect their revenues and propose changes in law or in practice that would increase the effectiveness of municipal collection operations;
53. Assess the need to grant municipalities a grace period for revenues as well as expenditures;
54. Assess the possibility of shifting the burden of payment of the rental value fee to the owner while placing the financial burden on the occupant;
55. Evaluate the development of a model appraisal process which specifies the criteria to be used by all municipalities and streamlines appraisal and appeal mechanisms;
56. Assess the potential of granting municipalities the authority to reappraise rental values;
57. Develop clear definitions of vacant units that are compatible with municipal abilities to verify vacancy status;
58. Review the rental value fee exemptions granted by the central government and propose mechanisms to compensate municipalities for the loss of revenue;
59. Review the reports required by the COA within the scope of its pre- and post-audit functions on accounts and employees;
60. Review the financial penalties imposed by the COA and the assess the effect of the statute of limitation on the COA's ability to effectively prosecute financial wrongdoing;
61. Assess the need for extending the COA's post audit authority to all Lebanese municipalities;
62. Review current legal mechanisms available for holding the Municipal Council President and Municipal Council members accountable while taking into account the elected status of these officials;

63. Review the oversight requirements of the Ministry of Interior and Municipalities and propose amendments that would strike a balance between administrative effectiveness and accountability;
64. Review municipal accounting practices and propose reforms that include the development of a unified set of accounting standards that ensures municipal accountability and is commensurate with the technical capabilities of municipal officials;
65. Assessing the suitability of the accounting structure and the chart of accounts used by the central government for municipal needs;
66. Developing a municipal chart of accounts;
67. Establishing a training program for municipal accountants and a guidebook that explains the movement of accounts for every financial transaction;
68. Reviewing the compatibility of the records, data, and reports required by the Court of Audit with the accounting structure and chart of accounts;
69. Assess the potential of establishing computerized accounting system in all municipalities;
70. Assess the benefits and disadvantages of the adoption of the same salary scale in municipalities and central government agencies;
71. Assess the potential of developing a model municipal organizational structure;
72. Propose mechanisms to simplify the pre-approval procedures of the Research and Guidance Department and the Ministry of Interior and Municipalities in regard to the establishment and modification of a municipality's organizational structure;
73. Evaluate the potential of establishing a system that allows and regulates municipalities to hire employees based on limited-duration contracts;
74. Assess the potential to develop a standardized human resource system for municipal employees, workers, police, and guards which could be tailored to the needs of particular municipalities while allowing employee mobility among municipalities;
75. Review the pre-approval requirements imposed by the Ministry of Interior and Municipalities and the Civil Service Board;
76. Assess the reasons behind the lack of NSSF coverage for municipal employees and the possibilities of extending coverage to those employees;
77. Assess the need for and the potential to establish personnel departments in municipalities;
78. Evaluate the potential of developing standard personnel forms to be used by all municipalities;

79. Evaluate the potential of developing standardized and specific titles, job descriptions and qualifications tailored to the needs of municipalities;
80. Propose a methodology for the development of a template human resource procedure manual that specifies the authorities, responsibilities, and functions of each municipal unit and outlines administrative procedures for each of those units;
81. Develop recommendations for the establishment of a human resource management system in municipalities that are not subject to the oversight of the Civil Service Board;
82. Develop options for the establishment in all Lebanese municipalities of a payroll IT system that is linked to the budget, human resource, revenue, and accounting systems;
83. Assess the training and capacity building needs of municipal servants toward allowing them to effectively use the payroll system;
84. Assess the potential of allowing the payment of salaries through commercial banks;
85. Assess the difference between municipalities that are subject to the authority of the Civil Service Board and other municipalities in terms of the sufficiency of human resources and capacity building and propose options for amending those discrepancies;
86. Assess the degree to which municipalities are currently using their ability to hire common specialized staff;
87. Evaluate the potential of establishing a Special Disciplinary Commission in accordance with Article 106 of the Municipal Act and assess the need for any amendment of articles 105, 108 and 137 of this same Act;
88. Evaluate the need for the creation of a specialized unit in charge of human resources including the organization of competitions and the provision of training;
89. Evaluate the potential of establishing technical support units in each Mohafaza to perform functions such as IT system development, maintenance, and support services;
90. Assess the potential of equipping the COA with the ability to electronically audit municipal accounts;
91. Address mechanisms to strengthen cooperation between municipalities and the Real Estate Directorate within the Ministry of Finance especially in regard to the provision of digital maps of the municipal territory;
92. Assess the needs and cost of filling all the required IT personnel in large municipalities whose organizational structure includes an IT unit;
93. Assess mechanisms to establish linkages among the municipal budget, revenue, accounting, and personnel systems;

94. Evaluate the potential of computerizing the cashier and collection transactions of municipalities;
95. Assess the potential of developing a unified accounting system for all municipalities.

Appendix 2.B – List of modified municipal taxes and fees

Type of fee	Municipal Fees Law (Law # 60 of year 88)	Current Value of the fees Amendments: budget law 14/90, budget law 107/99, law 490/96, law 671/97, and law 366/94	PROPOSED AMENDMENTS	Increase proposed	Rationale
License fee for public occupation of municipal property Minimum-maximum	500-5,000	2,000-20,000	40,000–400,000	x20	Validation through focus groups/meetings with municipal finance officers, applicants’ input, license real cost and cost of service
License fees for gas stations Minimum-maximum	10,000-50,000	40,000-200,000	800,000-4,000,000	x20	Applicants’ input and license real cost
License fee for classified institutions Minimum-Maximum	First Category 5,000- 50,000 Second Category 2,500- 25,000 Third Category 1,000- 10,000	20,000-200,000 10,000-100,000 4,000-40,000	400,000-4,000,000 200,000-2,000,000 80,000-800,000	x20	Focus groups/meetings municipal finance officers and cost of service
License fee for permanent advertisements Minimum-Maximum	1,500-15,000	6,000-60,000	None.	0%	
License fee on temporary advertisements	300-3,000	1,200-12,000	120,000-1,200,000	x100	Market input, license real

Minimum-Maximum					cost and cost of service. The existing low cost is making advertisement inappropriate and dangerous for the traffic
License fee for public/meeting places	10,000 -100,000	40,000-400,000	400,000-4,000,000	x10	Market input, license real cost and cost of service
Minimum-Maximum					
License fee on gambling clubs	20,000-200,000	120,000-1,200,000	1,200,000-10,200,000	x10	This is a specific fee to casinos and hippodromes
Minimum-Maximum					
Street Vendor Licenses	500	2,000	200,000-2,000,000	x100	Focus groups/meetings with municipal finance officers
Construction License fee	1.5%: 1-25,000	1.5%: 1-25,000	1.5%: 1-100,000	100%	Focus groups/meetings with municipal finance officers
From the sale price of the sq meter of the property	2%: 25,001- 100,000	2%: 25,001- 100,000	2%: 100,001 and above		
For every square meter of construction	1%: 100,001 and above	1%: 100,001 and above			
Annual Garage fee on touristic enterprises		5% of the value of the garage fee according to the agreed upon estimates	None	0%	
Fines on non-implemented works on buildings		15% of the license fees according to the estimates each year	None	0%	
Fee on the construction of sewage and pavements based on the price of the square meter of the land –per meter ²	0.5 per thousand	0.5 per thousand	1.5 per thousand	200%	Focus groups/meetings with municipal finance officers. This increase is required for rural/urban areas without a sewage system in place and for upgrading existing

					sewage systems
Expenditure fee on specific items Allowance on the construction permit fee	10%	10%	None	0%	
A fee on the use of municipal public property Allowance on the construction permit fee	5%	5%	None	0%	
Restoration fee	5,000	10,000	200,000	x20	Focus groups/meetings with municipal finance officers, applicants' input, license real cost and cost of service
Attic fees	A quarter of the construction permit fee	A quarter of the construction permit fee			
Fence fee	5000	10,000	1,000,000	x100	Focus groups/meetings with municipal finance officers, applicants' input, license real cost and cost of service
Annual Investment Fee on permanent advertisement For ever square meter of the advertisement Minimum-maximum	Broadcast 250-2,500 Non-broadcast 150-1500	1,000-10,000 600-6,000	10,000-100,000 6,000-60,000	x10	Focus groups/meetings with municipal finance officers
Monthly investment fee for the temporary advertisements For each meter ² of advertisement space Minimum-Maximum	50-500	200-2,000	4,000-40,000	x20	The existing low cost is making advertisement inappropriate and dangerous for the traffic

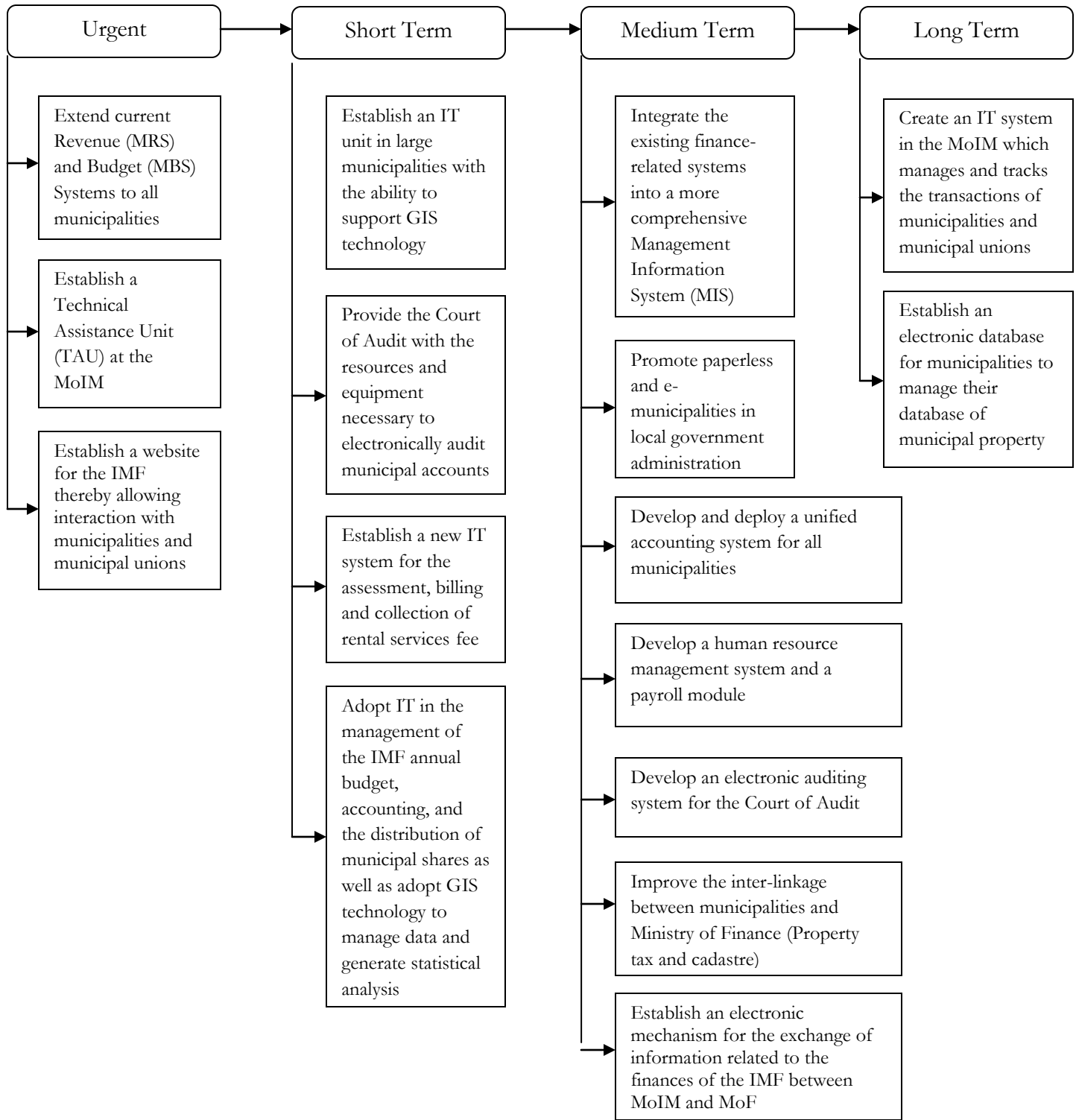
Yearly investment fee for reunion places Minimum-Maximum For each hotel room	1,000-10,000	4,000-40,000	None	0%	
Nightclubs and entertainment venues	15,000-150,000	60,000-600,000	600,000-6,000,000	x10	Focus groups/meetings with municipal finance officers and cost of services
Bars and clubs	5,000-50,000	20,000-200,000	200,000-2,000,000	x10	Focus groups/meetings with municipal finance officers and cost of services
Restaurants	10,000-100,000	40,000-400,000	80,000-800,000	100%	Focus groups/meetings with municipal finance officers and cost of services
Cafes and bakeries, sweet shops	5,000-50,000	20,000-200,000	40,000-400,000	100%	Focus groups/meetings with municipal finance officers and cost of services
Casinos	50,000-500,000	200,000-2,000,000	2,000,000-20,000,000	x10	Applicable only on the Casino du Liban
Pools, beaches and gyms	25,000-250,000	100,000-1,000,000	200,000-2,000,000	100%	Focus groups/meetings with municipal finance officers and cost of services
Per piece of equipment at the entertainment centers	5,000-50,000	20,000-200,000	None	0%	
Investment fee on gambling venues- for each party – Minimum-Maximum	2,500-25,000	10,000-100,000	30,000-300,000	200%	Applicable only for Beirut Hippodrome
Yearly investment fee of the selling price of the licensed area for the use of public	Fixed location: no less	No less than 2%	No less than 6%	200%	Market's demands, focus groups/meetings with

municipal property Minimum-Maximum	than 2 % Non-fixed location: no less than 1% 500-5,000	No less than 1% 2,000-20,000	No less than 6% 6,000-60,000		municipal finance officers and cost of services
Yearly Investment fee on gas stations – for each meter/counter Minimum-Maximum	2,500-25,000	10,000-100,000	30,000-300,000	200%	Focus groups/meetings with municipal finance officers
Yearly Investment fee on equipment/machines used in Industries per horse power Minimum-Maximum	5-50	20-200	Between 2% and 20% of the rental value for classified institutions. Based on a municipal council decision taking into consideration geographic zoning and economic development policy	Expected increase equal to the fees collected from fees on rental value for non- residential areas.	This increase was mainly driven by the cost of services and pollution engendered by the industries. This was also discussed during the focus groups
Weekly Investment Fee on advertisements outside of cinema Minimum-Maximum	250-2,500	1,000-10,000	Cancel this fee. Not appraised or collected in all municipalities.	Fee Abolished	Not being appraised or collected. Refer to revenue in the sample provided
Investment fee on advertisement shown in cinema- from the value of the ad	5%	5%	Cancel this fee. Not appraised or collected in all municipalities.	Fee Abolished	Not being appraised or collected. Refer to revenue in the sample provided
A fee on animals which are butchered within its boundaries	Sheep and Goats: 500 Cows and Veal: 1,000	Sheep or Goats: 2,000 Cows and Veal: 4,000	None	0%	

	Camel or horse: 1,500 Pigs: 2,000	Camels or Horses: 6,000 Pigs: 8,000			
Inspection fee on fresh imported meat Outside the municipal boundaries – for each Kg.	5	20	Cancel this fee. Not appraised or collected in all municipalities	Fee Abolished	Not being appraised or collected. Refer to revenue in the sample provided
Auction fee- percentage of selling price	2.50%	2.50%	None	0%	
Trade fee on combustible products- from the sale price	2%	2%	None	0%	
Maintenance fee for sewage and sidewalks- from the rental value	1.50%	1.50%	None	0%	
Fees on attestations, certificates and technical studies	500	2000	10,000-200,000 Depending on type/municipality	x10 (Average 20,000)	Focus groups/meetings with municipal finance officers and cost of services
Works on behalf of 3rd parties	20% increment on all of the works	20% increment on all of the works	None	0%	
Fee on the rental value For residential Non-residential	5% - no less than 1,000 7%, no less than 2, 000	5%- may it be no less than 25,000 7%- may it be no less than 50,000	5%- may it be no less than 75,000 7%- may it be no less than 150,000	40% increase in average nationwide based on estimated 1/5 of occupations are charges a minimum fee.	This is a moderate increase compared with the cost of municipal services taking into consideration overall economic and social factors nationwide
Registration fee on rent contracts	50	3,000 – In Stamps	None	0%	

<p>Penalty on illegal occupation of Municipal and State properties</p>	<p>N/A</p>	<p>N/A</p>	<p>For residential: 5% of the rental value of the illegally built unit and may it be no less than 50,000</p> <p>Non-residential : 10% of the rental value of the illegally built unit or the land used and may it be no less than 100,000</p> <p>This penalty is to be upraised and collected in addition to the fee on rental value</p>	<p>It varies depending on the size of illegal occupations. We cannot provide an exact estimation here but in more than 200 municipalities in rural areas, the proposed penalty will have a considerable effect on amount of revenues appraised (between 20% and 200%) and around 5% of total revenues from fees rental value nationwide</p>	<p>This is a new fee proposed on illegal occupations. Establishing new municipal revenue as Penalty, equal to the fees on rental value, on illegal occupation of Municipal and State properties, will not only bring revenues for the municipalities but also discourage this type of occupation</p>
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Appendix 2.C – Integrated IT systems across the three studies



Appendix 3.A – Priority actions to improve the Independent Municipal Fund as stated in the Revised Strategic Framework

1. There is a need to make the data on the taxes and fees that constitute the IMF transparent in order to better assess whether new taxes and fees must be imposed. Furthermore, there is a need to audit and review the taxes and fees that go into the IMF to ensure that the full and the correct amount of each revenue is being collected and is properly accounted for in the IMF;
2. There is a need to develop a mechanism whereby the implication of any change by any authority in the base or rate of any tax or fee on the revenues of the IMF is properly examined and alternative sources are found as replacement;
3. Develop the appropriate mechanism where the VAT revenues, which replaced municipal taxes and fees, are transferred to the IMF;
4. Examine the option of enhancing the revenues of the IMF by changing the tax base and rate of existing taxes, introducing new taxes, or transferring the revenues from existing taxes such as the VAT on mobile phones. Furthermore, the overall basket of taxes and fees must ensure sustainability (i.e. steady growth in revenues) and stability (i.e. some taxes should be counter-cyclical or at least neutral to compensate for the pro-cyclical nature of the existing taxes);
5. Assess the possibility of allowing the government to transfer general budget fund (fund not earmarked) as grants to the IMF. Currently, there is no mechanism whereby the law does not allow IMF to be financed by government contribution;
6. Reassess the institutional framework under which the withdrawals are taking place. To this end, examine the role of municipalities in the decision making process, including the spending and monitoring the expenses;
7. Reconsider whether civil defense must be funded primarily by the IMF and assess the tax base (and coverage) of the municipalities' share for the civil defense; and
8. Integrate villages without municipalities into the Municipal law (Decree-Law 1977) to establish their share from the IMF as well as the management of the money allocated (i.e. how much, who will spend it, and on what);
9. Consolidate the IMF accounts in order to transparently show the revenues deposited and the expenditures made from the account;
10. Reassess the institutional framework under which the deductions are taking place. To this end, examine the role of municipalities in the decision making process, including the spending and monitoring the expenses;
11. Prepare annual detailed budget for the general expenses covering salaries, works, services, and equipments in order to reduce unpredictability in spending and consequently the amount deducted from the IMF;
12. Buy-in into the contract of the waste collection companies with CDR which would involve sharing information about the full costs of the service. Furthermore, examine the payment mechanism between the municipalities, CDR, and service providers;

13. Identify alternative solutions that could be used as a basis for resolving the volatility problem;
14. Develop the appropriate criteria and formula that meets the desired objective of equity, needs, and incentives. The criteria may have to advocate aspects such as the minimum basic needs of municipalities to be operational, actual socio-economic condition of the area under the jurisdiction of municipalities, and an incentive system to encourage the collection of local taxes;
15. To limit central government discretion in distributing the IMF revenues and to ensure predictability and consistency, the new formula should be determined by law;
16. Identify the data and information needed to implement the IMF funding criteria. There is a need to develop a mechanism whereby the needs of the municipalities are examined;
17. Develop an institutional setup whereby the data is collected on an on-going basis and municipalities' needs are periodically assessed;
18. Ensure that the IMF decrees are issued on time and periodically. There is a need to examine the possibility of reducing the official period of issuing decrees from 9 months to 3-4 months;
19. Ensure that the transfers are made in one payment or at least in periodical payments that are specified by law in advance in order to allow municipalities to plan;
20. Assess the needs of municipalities and estimate the share of these expenditures to be covered by the IMF. To this end, enhance the revenue of the IMF accordingly;
21. Integrate the dependency factor into the IMF distribution criteria whereby the basic needs of the municipalities are met to be able to provide services;
22. When the dependency ratio exceeds a certain level to be defined, the law must develop a mechanism to audit such municipalities in order to find long term solution to this abnormal level of dependency;
23. Reconceptualize the human resource component of the IMF by establishing clear job description and qualification as well as the capacity to manage the IMF;
24. Adopt IT in the management of the IMF and the computerization of the following activities:
 - a. Annual budget of the IMF;
 - b. Financial statement of the IMF;
 - c. Expenditure transactions, accounting transactions and the distribution of municipal shares based on the two adopted criteria; and
 - d. Use GIS technology to store, manage, generate statistical analysis, create interactive queries, and geographically present data linked to municipalities and unions. To this end, a national map with multiple layers of information and data that pertain to IMF indicators would be created. This would include the following: criteria for

distribution of funds, installments and distributions of IMF funds, installment and distribution of IMF fund, municipal dependency to IMF, deduction, IMF contribution to development projects, and requests for IMF contribution to development projects;

25. Establish an electronic mechanism for the exchange of information related to the finances of the IMF between MoIM and MoF. The proposed IT system should be compatible with the system already installed at the MoF;
26. Establish a website for the IMF thereby allowing interaction with municipalities and municipal unions. The website would allow the following:
 - e. The electronic submission of requests for contribution to developmental projects;
 - f. The publishing of all reports related to the revenues and expenditures of the fund, and;
 - g. The publishing of developmental projects prior to their approval in order to allow municipalities to comment on these projects and effectively participate in the establishment of a national strategy for local development.

Appendix 4.A – Priority actions to modernize the municipal property tax as stated in the Revised Strategic Framework

1. Change Liability for Rental Value Fee from Tenant to Owner;
2. Redefine the ‘Unit of Assessment’;
3. Charge fees on Illegal Buildings;
4. Charge fees on Illegal occupants;
5. Make Vacant Properties Subject to Rental Value Fee;
6. Make Un-built Properties Subject to Rental Value Fee;
7. Undertake Full Review of the Current Exemptions;
8. Remove Specific Exemptions;
9. Compensate Municipalities for Foregone Revenues;
10. Increase Fines for Non-Declaration of Occupancy;
11. Design a national framework for assessment;
12. Establish an assessment unit in each municipality or municipal Union;
13. Conduct municipal survey to capture all properties that are or should be subject to the rental value fee;
14. Revalue all properties in accordance with nationally determined guidelines;
15. Develop and establish an appeals system;
16. Conduct regular revaluations at 3 to 5 year intervals and increase rental value according to national index, annually ;
17. Review the methodology of assessment;
18. Extend Current IT System to all municipalities;
19. Provide Support and Training to Municipalities on New Assessment, Billing and Collection Techniques;
20. Specify Specific Payment Dates;
21. Increase the Availability and Choice of Payment Channels;

22. Raise Minimum Fees;
23. Diversify legal actions that could be taken against non-compliance;
24. Mandate Registration of Acquisition/Disposal Operations at the municipal administration and Specify Fees;
25. Strengthen Institutional Capacities of Municipalities and Unions to Host Property Databases/Records;
26. Provide Municipalities with Access to Cadastre Database and Built Property Tax Database at MoF;
27. Facilitate Unions to Assist Municipal Administrations;
28. Facilitate the Sharing of Services in those Areas not Covered by Unions;
29. Design a new IT System for the assessment, billing and collection of rental value fee;
30. Design a municipal property management database system;
31. Establish Institutional Mechanism TAU to Lead Change.

Appendix 4.B – Functions of the Technical Assistance Unit

The Municipal Finance Studies Program (MFSP) recommends the establishment of a Technical Assistance Unit (TAU) for Municipal Finance at the central level. Such an institution would champion future reforms in municipal finance and act as an institutional memory that ensures the sustainability of reform efforts.

It is recommended that the TAU be located at the MoIM for the following reasons:

- The TAU needs to communicate on a daily basis with the MoIM. Since the MoIM is the relevant tutelage authority for municipal governance, the TAU cannot fulfill any of its functions without the sanction of the MoIM.
- Municipalities would cooperate with an administrative unit only if it were part of the Lebanese Government apparatus. Municipalities report to the Qaimaqam, Muhafez and the Minister of Interior. They are under no legal obligation to cooperate with or report to any institution or entity outside of the Ministry of Interior. In case the TAU were located outside MOIM, there is a good chance that municipalities would refuse to cooperate with it.
- The most efficient way to establish the TAU is to create the unit at MoIM. Establishing the TAU as an independent public institution or within a national association of municipalities (which does not yet exist) would be much more time consuming.

As part of its mission, the TAU would follow up the implementation of the reform plan proposed by the MFSP. Its functions include the following:

- Monitoring and evaluating the implementation of the reform plan. The TAU would monitor implementation at the local as well as central levels, including following up on legal amendments and executive decisions required to get the reform program on track. Since some laws would require years of deliberations in the Parliamentary committees, TAUMF is to provide the consecutive MOIM ministers with feedback on which components of the reform program are yet to be implemented.
- Coordinating the efforts of donor organizations in the domain of municipal finance. The TAU would hold periodic meetings to brief donors on the status of implementation and future needs of reform. This would contribute to avoiding overlap and waste in donor-driven/funded projects.
- Facilitating the implementation of the reform program proposed by the MFSP. The MFSP highlights the difficulty of implementing reform recommendations in certain municipalities due to their weak institutional capacities. For such municipalities, the TAU would provide support in the form of technical know-how (TOR drafting, negotiating with banks and Liban post, contract drafting, etc...), thus ensuring that they are not left out of the reform process.