



DIAGNOSTIC REPORT GOVERNANCE AND CORRUPTION

LEBANON

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Acronyms and Abbreviations

AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ADR	Alternative Dispute Resolution
ASYCUDA	Automated System for Customs Data
BdL	Banque du Liban
BHC	Higher Banking Commission
BO	Beneficial Ownership
BCC	Banking Control Commission
CA	Court of Accounts
CMA	Capital Markets Authority
CSB	Civil Service Board
CDR	Council for Development and Reconstruction
CI	Central Inspection
DGC	Diagnostic of Governance and Corruption
DG Customs	Directorate General of Customs
DGLRC	Directorate General of Land Registry and Cadaster
DNFBPs	Designated Non-Financial Business and Professions
DPMS	Dealers in Precious Metals and Stones
EFF	Extended Fund Facility
EdL	Electricité du Liban
FCS	Fragile and Conflict Affected States
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
HCM	High Council of Magistrates
HCC	Higher Council for Customs
HBC	Higher Banking Commission
IMF	International Monetary Fund
IdF-BF	Institut des Finances Basil Fuleihan
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of State Audit Institutions
LBP	Lebanese Pound
LCC	Lebanese Criminal Code
MLA	Mutual Legal Assistance

MOF	Ministry of Finance
MOJ	Ministry of Justice
MOD	Ministry of Defense
ML	Money Laundering
METAC	IMF Middle East Technical Assistance Center
NRA	National Risk Assessment
NIGD	National Institute for the Guarantee of Deposits
NACC	National Anti-Corruption Commission
NRA	National Risk Assessment
NSSF	National Social Security Fund
NSW	National Single Window platform for trade
OMSAR	Office of the Minister of State for Administrative Reforms
OFAC	US Department of the Treasury's Office of Foreign Assets Control
OBS	Open Budget Survey
PAL	Public Accounting Law
PCA	Post Clearance Audit
PEPs	Politically Exposed Persons
PFM	Public Financial Management
PPA	Public Procurement Authority
SECO	State Secretariat for Economic Affairs
SLA	Staff-Level Agreement
SOE	State-Owned Enterprise
SIC	Special Investigation Commission
STRs	Suspicious Transaction Reports
TSA	Treasury Single Account
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Trade and Development
VAT	Value Added Tax
WGI	Worldwide Governance Indicators
WCO	World Customs Organization

Preface

In response to a request from the Lebanese authorities on February 1st 2022, an International Monetary Fund (IMF) staff mission undertook a Diagnostic of Governance and Corruption (DGC) from October 2022 to April 2023.¹ The DGC mission was guided by the IMF's 2018 Framework on Enhanced Fund Engagement on Governance² (2018 Framework) and the 2022 Strategy on Fragile and Conflict Affected States (FCS).³ The 2018 Framework directs IMF staff to undertake systematic, effective, candid, and evenhanded engagements with member countries regarding governance and corruption issues that are critical to macroeconomic performance. The FCS Strategy requires IMF staff to factor corruption risks in defining policy priorities in the FCS context.

DGCs are designed to assess the severity of corruption risks, identify macro-critical governance weaknesses associated with corruption vulnerabilities in key state functions outlined in the 2018 Framework,⁴ and propose concrete reform measures. DGCs also consider the soundness and alignment of the legal and organizational arrangements for fighting corruption with international standards and good practices, and the appropriateness of the anti-corruption strategies in light of the corruption risks that are present in the key state functions.

DGCs are forward-looking exercises focused on identifying ways to strengthen governance and integrity that support strong, stable, and inclusive economic development. The analysis and recommendations of diagnostics do not cover individual corruption cases or allegations, but rather focus on structural policy issues, as well as near and longer-term reform measures. Since the adoption of the 2018 Framework, 22 DGCs⁵ have been completed with the issuing of a final report, and several assessments are underway.

The DGC for Lebanon was launched with a hybrid scoping mission on October 3-12, 2022. The main mission was conducted in three stages: the first part of the mission focused on tax and customs administration took place on December 5-9, 2022. Another mission, focused on the rule of law, anti-corruption and anti-money laundering was organized on February 27-March 3, 2023, followed by a third mission on Public Financial Management in April 2023. Since April 2022, the country has been governed by a caretaker government with limited powers. The high degree of political uncertainty and the several strikes in the public sector also created substantial obstacles to timely completion of the exercise. The political vacuum, characterized by a caretaker government and the absence of a president, which lasted for almost two years, delayed the finalization of the DGC Report. After the election of General Joseph Aoun as president, followed by the formation of a new government led by Prime Minister Nawaf Salam, the mission re-engaged with the authorities of Lebanon on the DGC. The draft Report was shared for the review and input of the authorities in March 2025, followed by the presentation of the draft to the Prime Minister and members of the Cabinet on April 30, 2025. Based on the series of meetings held in May 2025 and the written input from the authorities, further updates were incorporated into the report.

¹ The Diagnostic of Governance and Corruption was possible due to a generous financial support of the Government of Switzerland/State Secretariat for Economic Affairs (SECO). Analysis and conclusions made in this report are of IMF staff only.

² IMF Framework on Enhanced Fund Engagement on Governance, 2018

³ IMF Strategy for Fragile and Conflict-Affected States, 2022.

⁴ The 2018 Framework identifies the following key state functions: fiscal governance; central bank governance and operations, financial sector oversight, market regulations, Anti-Money Laundering (AML), and rule of law (judicial integrity, enforcement of contract and protection of property rights.)

⁵ Published reports are available at [Governance and Anti-Corruption \(imf.org\)](https://www.imf.org)

The end of the deadlock and formation of a new government have sparked long-awaited momentum for stability, reform and economic recovery. The mission recognized multiple competing priorities facing Lebanon that require urgent attention. Restoring trust between the Lebanese people and their state by strengthening governance and reducing corruption vulnerabilities is among the top priorities. President Joseph Aoun has stressed the urgency of addressing pervasive corruption, emphasizing that it can only be tackled with genuine accountability.⁶ In a meeting with the National Anti-Corruption Commission, he urged the body to enforce the law impartially and act with integrity, free from external pressures. Prime Minister Salam also declared his aim to lead a "government of reform and salvation" focused on implementing reforms that are necessary to rebuild Lebanon's political and economic institutions.⁷ The analysis and recommendations in the DGC should help the authorities of Lebanon advance its ambitious economic reform-agenda.

The mission was led by Ms. Tina Burjaliani and was comprised of Ms. Aldona Jociene, Mr. Robert Kokoli, Mr. Patrick De Mets, Mr. Joshua Aslett, Mr. Maksym Markevych, Ms. Paula Paixão e Silva Zarazinski, Ms. Natalia Salazar, Mr. Ron Snipeliski, Mr. Hans Weenink, and Mr. Mario Tamez provided input based on the desk review. The mission was assisted by political economy expert Ms. Melani Cammett.⁸

The mission wishes to express its sincere appreciation for the support and cooperation provided by the Government of Lebanon. Special thanks are extended to Dr. Lamia Moubayed for her constructive collaboration and leadership, which greatly contributed to the success of the mission.

The mission is also grateful to civil society, academia, legal professionals, private sector representatives and staff of international organizations and donors for sharing information and providing valuable insights.

The mission appreciates the support provided by Mr. Ernesto Ramirez Rigo (IMF Mission Chief for Lebanon), Mr. Frederico Lima (IMF Resident Representative in Lebanon), and Ms. Hanin Al Fakih (Economist based in Lebanon). The mission is thankful for the administrative coordination provided by Mrs. Alexandra Rajs and Ms. Ingrid Nehme.

⁶ [The head and members of the National Anti-Corruption Commission, made their legal oath before President Aoun. - Presidency of the Republic of Lebanon](#)

⁷ ['Govt of reform and salvation': Lebanon announces new administration – Firstpost](#)

⁸ Melani Cammett is Clarence Dillon Professor of International Affairs in the Department of Government and Director of the Weatherhead Center for International Affairs at the University of Harvard. Cammett has published numerous articles in academic and policy journals, consults for development policy organizations, and is the recipient of various fellowships and awards. Her books include *Compassionate Communalism: Welfare and Sectarianism in Lebanon* (Cornell University Press 2014), which won the American Political Science Association (APSA) Giovanni Sartori Book Award and the Honorable Mention for the APSA Gregory Luebbert Book Award; *A Political Economy of the Middle East* (co-authored with Ishac Diwan, Westview Press 2015).

Executive Summary

1. Lebanon is a fragile state that has faced its worst economic crisis since the civil war of 1975-1990. Lebanon borders Syria, to the east and north, and Israel to the south. Lebanon is a diverse nation with a mosaic of religions and ethnic groups. The population is estimated at approximately 5.5 million people plus a significant number of refugees from the conflicts in the region.⁹ Since its independence from the French Mandate in 1943, the country has experienced multiple armed conflicts, social unrests, and economic crises. The 1975-1990 civil war, which tore the nation apart and destroyed the economy, ended with the Ta'if Agreement sponsored by the Kingdom of Saudi Arabia and the Syrian Arab Republic and backed by the United States of America. Multiple wars and instability in the last decade have torn the country apart, undermining the institutions and economic resilience. On August 4, 2020, Lebanon experienced a devastating explosion in the Port of Beirut, which caused significant deaths and destruction. Despite outstanding political challenges, the authorities have initiated an ambitious agenda aimed at rebuilding institutions and strengthening the state. This agenda includes overcoming obstacles such as corruption and ensuring the state's presence throughout the entire Lebanese territory.

2. The Lebanese political system is based on a confessional power-sharing arrangement, which was created as a compromise among major sectarian political groups. Lebanon's sectarian power-sharing system originated with the unwritten 1943 National Pact, an informal agreement that defined Lebanon's identity and set the foundations for a consociational system.¹⁰ While it did not codify sectarian quotas, it established a constitutional custom: the President has to be a Maronite Christian, the Prime Minister a Sunni Muslim, and the Speaker of Parliament a Shia Muslim. The 1989 Ta'if Agreement retained this framework but rebalanced authority. It introduced in Parliament, government and senior public officials' positions, a system of parity between Christians and Muslims, and transferred key executive powers from the Maronite President to the Council of Ministers, headed by a Sunni Prime Minister, while also elevating the role of the Shia Speaker.

3. In April 2022, Lebanon and the International Monetary Fund (IMF) reached a Staff-Level Agreement (SLA) on comprehensive economic policies that could be supported by an Extended Fund Facility (EFF) arrangement with requested access of about US\$3 billion. Since 2019, Lebanon has been in a severe financial and economic crisis, which wiped out 15 years of economic growth and plunged nearly half of the population into poverty. The currency lost 98% of its value since 2019, whereas inflation averaged 171% in 2022. The April 2022 SLA required the successful implementation of critical ex-ante reforms related to (i) restructuring the financial sector, (ii) implementing fiscal reforms consistent with debt sustainability, (iii) reforming State-Owned Enterprises, particularly in the energy sector, (iv) strengthening governance, anti-corruption, and anti-money laundering/combating the financing of terrorism (AML/CFT) frameworks to enhance transparency and accountability, and (v) establishing a credible and transparent monetary and exchange rate system (International Monetary Fund, 2022). However, despite improvements in macroeconomic policies since mid-2023, progress in other areas has been very limited, and there has been forceful resistance from vested interests, in particular against the banking sector strategy.

4. With the 2022 SLA outdated and a new government in place, the authorities requested IMF program negotiations in March 2025. These discussions are currently underway and focus on reform areas, including (i) restoring the viability of the banking sector and protecting depositors to the maximum extent possible, (ii) achieving fiscal and debt sustainability, while enhancing social safety nets and rebuilding institutional capacity, (iii) establishing credible monetary and exchange rate policy frameworks,

⁹ The UN estimates population at 5.4m in 2023 [World Population Dashboard -Lebanon | United Nations Population Fund \(unfpa.org\)](https://www.un.org/development/desa/population/unpd-data/world-population-figures-and-projections.html); The WB estimates population at 5.5m in 2022; [Population, total - Lebanon | Data \(worldbank.org\)](https://data.worldbank.org/indicator/SP.TOT.LEBN)

¹⁰ A consociational government refers to a form of governance that functions and remains stable due to consultation among the elites of these groups.

(iv) strengthening governance and transparency, (v) enhancing the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime, and (vi) reforming State-Owned Enterprises.

5. Following the 2022 SLA, the authorities requested the IMF's collaboration in conducting a comprehensive Diagnostic of Governance and Corruption (DGC). The DGC examined the nature and severity of corruption in Lebanon and its impact on the core state functions. In particular, the following areas identified in the 2018 Framework were covered: (i) fiscal governance (Public Financial Management, revenue administration, and governance of State-Owned Enterprise (SOEs); (ii) financial sector oversight; (iii) central bank governance and operations;¹¹ (iv) rule of law (judicial integrity, contract enforcement, and protection of property rights); (v) anti-money laundering. The DGC also discusses the effectiveness of Lebanese anti-corruption frameworks in addressing corruption risks and their alignment with international good practices. The governance weaknesses and associated corruption vulnerabilities, summarized below, appear in the environment of widespread, systemic corruption, weak institutions, and weak rule of law and accountability systems.

- (i) *Fiscal governance* is characterized by an outdated legal framework and institutional arrangement, which prevents effective Public Financial Management (PFM) and increases risks of corruption and fraud. Budget formulation has been a disorderly process with limited transparency and oversight. Noteworthy is the near systemic absence of audited state accounts by the CA, which has not been submitted to parliamentary oversight, in breach of a Constitutional requirement. The Budget calendar is often breached resulting in *ad hoc* decision-making and execution of public spending without proper oversight. Off-budget spending is significant, the main component being fiscal support to EdL.¹² The risks of irregularities and corruption are also high in budget execution due to the absence of clear and enforceable procedures and controls. Internal and external oversight on PFM is weak, and several largest public institutions and enterprises have not produced audited financial statements for almost two decades. While Lebanon's fiscal governance has faced constraints for several years, as discussed in IMF Technical Assistance reports, the 2021 financial crisis exacerbated these limitations, mainly due to the significant reduction in staff and institutional capacity to carry out the various PFM functions.

Despite the adoption of a new legal framework on *public procurement*, its implementation remains slow. Delays in establishing and operationalizing the necessary institutional architecture and infrastructure required by the law (i.e., Public Procurement Authority (PPA) and the Complaints Authority).

While *SOEs* play an important role in the Lebanese economy, complex and outdated legal and institutional arrangements do not allow their effective management, which creates significant budgetary pressure, fiscal risks and rent-seeking opportunities.

The organizational structure and cumbersome decision-making process in the *tax and customs administrations* are not conducive to effective management of the system. The key institutions managing tax and customs have little autonomy and overlapping mandates, which adds to the overall dysfunction. The consensus-based decision-making, is informed by the sectarian allocation of managerial positions, makes the operation ineffective and creates significant risks of external undue influence. The absence of effective oversight and accountability frameworks increases corruption vulnerabilities.

¹¹ The Central Bank Governance and Operations in the GD is limited to the review of the legal framework and analysis of governance weaknesses that could lead to systemic corruption at the BdL. The BdL's governance practices and operations were assessed separately by a confidential Safeguards Assessment report and were not included in the DG.

¹² The size of all off-balance expenditures is not possible to determine with precision as it is not reported by the Ministry of Finance (MOF) in fiscal documents.

- (ii) The governance structure of the *Central Bank (Banque du Liban or BdL)* has significant weaknesses and is not aligned with the leading international practices related to the mandate, autonomy, decision-making and accountability of Central Banks. The structural weaknesses allowed opaque and questionable decision-making and facilitated corruption and abuse of power at the BdL. The BdL's electronic foreign exchange platform Sayrafa, which was in place until July 2023, created opportunities and generated rents for vested interests who had privileged access to the platform. Multiple criminal investigations in Lebanon and in other countries also indicate significant governance weaknesses linked to corruption vulnerabilities in the BdL.
- (iii) *Financial sector oversight*: governance weaknesses in the supervisory institutional set-up (BdL, BCC, HBC) have contributed to long-lasting vulnerabilities in Lebanon's banking sector. Significant institutional and legislative reforms are necessary. The fragmentation of the financial sector supervisory architecture, political/sectarian affiliations, concentration of power in the BdL Governor, lack of check and balances, limited public accountability and transparency, and absence of legal protection for supervisors further impede effective oversight. Furthermore, governance-related vulnerabilities in the prudential framework, such as the absence of a clear separation between banks' oversight and executive roles, ineffective board oversight, weak policies and oversight regarding conflict of interest, limited transparency, insufficient requirements on the suitability of board members and senior management, in addition to shortcomings in regulatory and supervisory framework for transactions with related parties, could be addressed by fully aligning the prudential framework with international standards.
- (iv) *Anti-Money Laundering (AML)* frameworks are in place, but their effectiveness is severely limited due to vulnerabilities to corruption. While some AML tools, such as beneficial ownership (BO) transparency, monitoring of Politically Exposed Persons (PEPs) are largely in line with international standards, their implementation is insufficient, limiting the ability of authorities to detect corruption and associated illicit financial flows, prosecute corrupt officials and recover proceeds of crime.
- (v) *Contract enforcement and protection of property rights* are negatively affected by limited judicial independence and constrained resources. These challenges have been exacerbated by the financial crisis. Courts across Lebanon are severely understaffed, underfunded, and lack basic supplies and equipment. Despite progress in judicial governance, these factors undermine the judiciary's ability to resolve cases effectively and in a timely manner, resulting in significant backlogs and delays. Since February 2025, several important measures have been undertaken to strengthen judicial effectiveness, including the completion of judicial appointments that had been blocked for several years.

6. Existing anti-corruption frameworks have been largely inadequate to address systemic corruption and break the patronage networks. The anti-corruption legal framework has improved with the adoption of key new laws, including the most recent adoption of the Law on the Organization of the Judiciary (also known as the Judicial Independence Law) by Parliament on 31 July 2025. However, weak enforcement, insufficient resources, and ongoing security, political, and financial crises have drastically limited their effectiveness. The National Anti-Corruption Commission (NACC) is not yet fully operational and remains dependent on donor support. Other important institutions, including the Office of the Minister of State for Administrative Reforms (OMSAR), Central Inspection (CI), Court of Accounts (CA), and Civil Service Board (CSB), face severe financial and human resource constraints, restricting their ability to perform their functions effectively and regularly. As a result, the enforcement of anti-corruption laws promoting transparency and accountability is limited, rendering the system weak.

7. Informed by the systemic analysis, the DGC report proposes a specific, sequenced and country-tailored reform plan. Structural changes and reforms are urgently needed to break the downward spiral and put the Lebanese economy on a path of inclusive and sustainable growth. However, the mission is mindful that structural reforms require stable political settlement with fully functional Parliament, President and Council of Ministers in place, which has been absent in Lebanon. Therefore, the DGC proposes a small number of Priority Recommendations composed of measures necessary to address structural governance weaknesses and corruption vulnerabilities, as well as actions that can contribute to enhanced transparency

and accountability pending comprehensive governance reforms (see below Table 1). These Priority Recommendations aim at creating a sufficiently effective foundation for the implementation of the full set of recommendations. The structural priority measures revolve around the issues of opacity and impunity, which empowers corrupt networks and include (i) building an independent, fair and effective judiciary and anti-corruption architecture as necessary mechanisms for increasing transparency and bringing accountability for corruption; (ii) reforming central bank governance and operations to reduce corruption vulnerabilities and improve effectiveness of the key institutions; (iii) reforming financial sector oversight, and (iv) strengthening transparency and accountability in the PFM, strengthening SOE governance, and embarking on comprehensive fiscal reform to strengthen public financial management. The mission is mindful of resource limitation identified by the authorities and welcomes the efforts launched by international partners to promote implementation of Lebanon's digital transformation strategy. The mission also recognizes the importance of civil service in advancing governance and anti-corruption reform. While the civil service reform is outside the direct scope of the DGC, addressing longstanding weaknesses in this area will be essential to support Lebanon's recovery from the severe impact of the crisis.¹³

¹³ For the impact of the crises on Lebanon's public service, see *Institut des Finances Basil Fuleihan* (2022), "Rapid Impact Assessment of the Crisis on Lebanese State Institutions (2020-2021)", URL: <http://institutdesfinances.gov.lb/publication/rapid-impact-assessment-of-the-crisis-on-lebanese-state-institutions-2020-2021-report/>

Table 1. Priority Recommendations

A. Priority Measures for Structural Reform			
	Measure	Leading Responsible Institution	Timeline¹⁴
1	Implement the Law on the Organization of the Judiciary to enhance independence from external influence, accountability, effectiveness, professionalism and fairness of the judiciary.	MOJ	MT
2	Reform the legal framework for Public Financial Management in consultation with IMF staff.	Parliament, MOF	LT
3	Reform the legal framework on State-Owned Enterprises , in consultation with IMF staff	Parliament, Council of Ministers	LT
4	Reform the legal framework on the Central Bank (BdL) , in consultation with IMF	Parliament, Council of Ministers, BdL	MT
5	Reform the legal framework and institutional set-up of the Lebanese banking supervisory authorities¹⁵	Parliament, BdL, BCC, SIC	MT
B. Priority Measures to Promote Transparency and Accountability			
6	Inform Lebanese public on anti-corruption measures undertaken by NACC and CI. In particular, <ul style="list-style-type: none"> Publish annually, information - disaggregated by type of corruption offence and official involved - about number of corruption complaints received, investigations opened, and the decisions made. Publish annually information on number of asset declarations submitted to the NACC, names of obligated subjects who have failed to make a submission and measures undertaken by NACC to receive, hold, manage and verify asset declarations. Publish, annually, information by Central Inspection about number of complaints received, investigations opened, sanctions, referrals to other competent supervisory, disciplinary and judicial authorities 	NACC, CI	ST
7	Prepare, submit to the Parliament as part of the budget documentation, and publish: <ul style="list-style-type: none"> A report on fiscal performance and medium-term fiscal objectives and the measures to achieve them. A report on extra budgetary spending in the last three years Budget allocations, accompanied by the budgets of National Social Security Fund, Council for Development and Reconstruction (CDR), Independent Municipal Fund, <i>Électricité du Liban</i> and Telecom. Expand the coverage of the requirement gradually to all public institutions (LT) A report on foreign financed capital expenditures implemented by CDR (MT) 	MOF, CDR	ST/MT/LT
8	Implement the Access to Information Law by: <ul style="list-style-type: none"> Amending the Right of Access to Information Law to introduce sanctions. Publish the list of all obligated administrations as well as the names and contact information of assigned information officers and provide regular reports on the level of implementation of the law 	NACC, Council of Ministers, all relevant state institutions	ST

¹⁴ The recommendations are classified as ST – Short Term to be implemented in up to 12 months, MT – Medium Term that may require up to 24 months, LT – Long Term that may require up to 32 months.

¹⁵ The Mission was informed that on June 5, 2025, BCC proposed, via a letter addressed to the Prime Minister, a draft framework for a new law that would transform the BCC into a separate legal entity with own budget and all necessary powers to effectively perform its functions. The BCC outlined that the draft framework includes the following areas, among others: i) governance of the authority (including appointment/dismissal of persons in charge of the governance of the authority, qualifications, independence, and no conflict of interest; ii) powers (supervisory and enforcement powers, prudential regulatory powers, and licensing powers; iii) legal protection; iv) budget; v) accountability and transparency; and vi) cooperation and information exchange.

	<ul style="list-style-type: none"> Beginning proactive publication of information by prioritizing institutions based on their size, corruption risks, administrative and digital capabilities and relevance of data and information 		
9	<p>Enhance SOE governance and improve SOEs financial reporting and transparency by</p> <ul style="list-style-type: none"> Developing financial reporting templates and providing training to SOE financial units. Publishing sound fit and proper, independence and integrity criteria for upcoming appointments of board members of largest SOEs, to be recruited under open, merit-based and transparent procedures. Developing performance agreements with the largest SOEs that set out, among other aspects, specific performance targets and goals, financing mechanisms and comprehensive reporting and proactive transparency obligations; ensuring they are made public. Ensuring that top managers and board members of the largest SOEs file their asset declarations. Preparing a comprehensive action plan for the gradual implementation of the new SOE law. 	Council of Ministers, Line Ministries	MT
10	<p>Mandate a comprehensive proactive transparency policy for the electricity sector, through</p> <ul style="list-style-type: none"> Publication of full copies of all existing and future (i) contracts and concessions authorizing private sector persons to generate electricity for EdL, (ii) distribution service provider contracts and agreements and the payment formulas and amounts (iii) fuel purchase contracts tendered by the Directorate General of Oil and any other governmental agency or body since 2015, (iv) active fuel import licenses. Publication of all financial flows between the government and EdL on a half-yearly basis. 	Council of Ministers	ST

Section I: Nature and Severity of Corruption in Lebanon

8. Informed by political economy analysis, this section discusses the nature and severity of corruption and its impact on the performance of the core state functions.¹⁶ Systemic corruption and associated governance weaknesses are among key drivers of fragility in Lebanon and root causes of the current crisis. Erosion of state institutions, fragmented governance, weak rule of law and pervasive corruption make Lebanon unable to adequately manage, absorb or mitigate external and internal risks. The country has experienced several forms of armed conflict since its independence, which have had negative impact on institution-building and have contributed to fragility. Systemic corruption and associated governance weaknesses (discussed in Section II below) have had significant impact on the performance of key state functions.

9. Public perception of corruption is high as demonstrated in reputable international indicators. According to the Arab barometer 2022, 96 percent of Lebanese citizens believe corruption is prevalent in government to a large or medium extent.¹⁷ In 2024 the share is 97 percent regarding national level entities¹⁸. Lebanon's score in the Transparency International's Corruption Perception Index has been continuously declining since 2012, and the country scored 24 out of 100 in 2023 and 22 in 2024.¹⁹ Lebanon scores 4.4 out of 10 in the Index of Public Integrity and is below world, regional and income group averages.²⁰ According to the Global Corruption Barometer, bribery rates paid by the Lebanese people to access basic public services have increased over the years and the overall bribery rate stood at 41 percent in 2019.²¹ In the Worldwide Governance Indicators compiled by the World Bank, Lebanon reached the lowest percentile ranks for the control of corruption and for the rule of law worldwide: 10th percentile and 13th percentile respectively.²²

¹⁶ Under the IMF's 2018 Framework on Enhanced Engagement on Governance, the key state functions are fiscal governance, financial sector oversight, central bank governance and operations, AML/CFT, market regulations, rule of law.

¹⁷ Lebanon - Arab Barometer 2022, at [ABVII Lebanon Country Report-ENG.pdf \(arabbarometer.org\)](#). The findings of the Arab Barometer are based on a nationally representative face-to-face survey conducted in Lebanon. The survey included 2,399 randomly selected citizens from across all governorates and was fielded from 16 December 2021 to 8 February 2022 using multistage clustered sample. The margin of error for the reported results is ±2 percentage points.

¹⁸ [AB8-Lebanon-Country-Report-EN.pdf](#)

¹⁹ Transparency International Corruption Perception Index, Lebanon [Lebanon - Transparency.org](#) The CPI aggregates data from 13 different sources from 12 different institutions that capture perceptions among businesspeople and country experts of the level of corruption in the public sector. A country's CPI score is then calculated as the average of all standardized scores available for that country and are rounded to whole numbers.

²⁰ Id.

²¹ [Global Corruption Barometer - Middle East & North... - Transparency.org](#) The surveys were conducted in the local language using a face-to-face approach in all six countries. The interviews were conducted through computer-assisted personal interviewing, except in Palestine, where the survey was administered using paper and pen interviewing. The results have a margin of +/- 2.8 percentage points at a 95 per cent confidence level.

²² [WGI 2022 Interactive > Interactive Data Access \(worldbank.org\)](#). The WGI are composite governance indicators based on over 30 underlying data sources. The data reflect the views on governance of survey respondents and public, private, and NGO sector experts worldwide. The WGI also explicitly report margins of error accompanying each country estimate. These reflect the inherent difficulties in measuring governance using any kind of data. Even after taking these margins of error into account, the WGI permit meaningful cross-country and over-time comparisons.

10. The National Anti-Corruption Strategy 2020-2025 candidly acknowledges systemic corruption, political and sectarian complicity, and deep public distrust. It adopts a multi-dimensional lens, analyzing corruption as a political, economic, social, legislative, and institutional phenomenon rooted in decades of governance failures, supported by data, surveys, and international benchmarks. By clearly defining corruption in line with UNCAC and Lebanese law, it avoids ambiguity and establishes a solid baseline. The NACS highlights pervasive corruption in the public and private sectors, alarming trust deficits, and identifies five interlinked drivers; weak political will, a collapsed economic model reliant on bribery and waste, social normalization of corruption, fragmented and weakly enforced laws, and politicized, under-resourced institutions. Building on these findings, the Strategy sets three guiding objectives: enhancing transparency, activating accountability, and ending impunity. It translates these objectives into seven outcomes and 34 outputs, ranging from legal reforms and procurement integrity to judicial independence, oversight strengthening, civil society empowerment, and sector-specific prevention. Implementation has been advanced through committees, working groups, and the National Anti-Corruption Commission, though it has been hindered by political and economic crises. Monitoring is led by Ministerial Anti-Corruption Committee and its supporting committee headed by the Minister of OMSAR, with progress reports and an independent evaluation underway to inform the updated NACS 2026–2030, ensuring lessons are learned and adaptation to emerging challenge.²³

11. Access to basic public services has been affected by corruption. According to the Global Corruption Barometer, one in four Lebanese citizens had to pay a bribe to access either public schools and clinics, or to obtain identity cards and utilities or to use the police or court system.²⁴ The 2019 World Bank's Enterprise Survey found that 21.8 percent of firms experienced at least one bribe payment request in Lebanon.²⁵ High-level corruption scandals have reduced public confidence in institutions. For instance, 79 percent of individuals surveyed in 2019 thought that Lebanese government officials and members of parliament were corrupt, and 87 percent of Lebanese believed that the government was doing a poor job in fighting corruption.²⁶

12. Attempts to create more capable state institutions to confront corruption have been resisted by vested interests. The weaknesses of state institutions in Lebanon cannot be attributed to a single cause, but political elites and their allies in business have unquestionably worked to undercut attempts at building more capable institutions since the country's independence.²⁷ In the early nineteen-sixties, the authorities tried to introduce genuine administrative reforms, root out corruption, and formulate policies to bring about socio-economic development. These initiatives were ultimately overturned and, by the time the civil war erupted in 1975, few attempts at reform had borne fruit. The Lebanese civil war further disintegrated the state. The post war political arrangement compounded the historic challenges facing the Lebanese public sector and the government gradually became the agent of individual and group-based financial interests rather than being accountable to citizens. The administrations that followed the Ta'if agreement failed to take adequate steps to build modern public services. Civil servants often report to politicians rather than to constituents through legal channels. In this context, citizens are left with no choice but to seek political connections to get services—in other words to access the state through politicians—as formal institutions fail them.²⁸

²³ Global Corruption Barometer, 2019. 54 percent of Lebanese citizens surveyed used *personal connections* to access basic public services in the 12 months preceding the 2019 survey. Accessing the courts, in particular, required the use of personal connections for 65 percent of Lebanese citizens.

²⁴ 2019 Enterprise Survey – Lebanon [Lebanon-2019.pdf \(enterprisesurveys.org\)](https://enterprisesurveys.org/Lebanon-2019.pdf)

²⁵ Global Corruption Barometer, 2019.

²⁶ Caroline Gates, 1998, *The Merchant Republic of Lebanon: Rise of an Open Economy*, The Center for Lebanese Studies and IB Tauris and Co. Ltd, Oxford and London.

²⁷ Elizabeth Picard, *Lebanon, a shattered country: myths and realities of the wars in Lebanon*, 2nd ed., N.Y. 2002.

²⁸ Reconstruction and Peace in Lebanon, Post War Economic Policy, a Conversation with Sami Atallah, available at [Accord24 ReconstructionandPeace.pdf \(amazonaws.com\)](https://www.amazonaws.com/ReconstructionandPeace.pdf)

Rule of Law, Anti-Corruption, Oversight and Accountability Frameworks

13. Weak rule of law and accountability are viewed by many Lebanese as a key impediment to inclusive economic growth and stability. Corruption has undermined accountability and justice systems and rule of law more generally. On the other hand, weak transparency, accountability and rule of law exacerbate corruption risks. A survey by the Lebanese Center for Policy Studies found that most protesters' demands in October 2019 related to accountability.²⁹ Pervasive corruption and lack of rule of law are mutually reinforcing as Lebanon suffers from an almost total lack of accountability that facilitates widespread corruption and impunity. Weaknesses in the legal and governance frameworks enable political interference in accountability bodies, driving institutional deterioration. No sustainable progress in strengthening governance and reducing corruption can be achieved unless the rule of law is restored.

14. The anti-corruption legal framework and institutional architecture should respond to the corruption risks and be fully operational. The recent rounds of legal and institutional reforms³⁰ grounded in the National Anti-Corruption Strategy (NACS) are welcome, but insufficient.³¹ Security, political and financial crises that have weakened institutions have undermined the effectiveness of capacities of anti-corruption efforts. As an illustrative example, the appointment of the NACC members in January 2022 and the approval of a new National Anti-Corruption Strategy in May 2020 were applauded by civil society and the international community. However, a very slow, uncoordinated and poorly funded implementation along with the lack of tangible outcomes show the overall political consensus to foil efforts towards enhanced accountability. It took two years for the State Council to approve the NACC's by-laws, which are indispensable for its operationalization, and, to date, the commission has not been staffed pending to conduct recruitment competition. Similarly, the implementation decrees for the creation of two new procurement regulatory and oversight bodies are still pending, negatively impacting implementation of the law (see details in Section II.A on public procurement below). While the authorities reported initial work on a new Law on the CA and on a Law on Conflicts of Interest, they are not among top priorities. The Central Inspection is governed by an outdated executive decree³² with no legislative support and the AML law³³ falls short of international standards.³⁴ A draft law was submitted to Parliament by the Council of Ministers in August 2025 with the aim of responding to the FATF requirements.

15. Key oversight and accountability institutions face persistent problems of prolonged vacancies in key positions, and very limited human and financial resources. A primary reason for the prolonged vacancies is the unwillingness and inability of political elites to agree on a candidate for key positions. The four members of the Public Procurement Authority, the President and three members of the Complaints Authority, both created in the new Public Procurement Law adopted in 2021, have not been appointed by the Council of Ministers. Several seats on the Civil Service Board, which is responsible for recruitment and staffing of government institutions, including the NACC and other oversight agencies, remain vacant, with the appointment of their replacements long overdue. The funds allocated to the NACC

²⁹ [20191112-demands-english.jpg \(1920x1920\) \(aub.edu.lb\); On Justice Denied: Interrogating Amnesty and Amnesia in Post-conflict Lebanon — Yale Journal of International Affairs](https://20191112-demands-english.jpg (1920x1920) (aub.edu.lb); On Justice Denied: Interrogating Amnesty and Amnesia in Post-conflict Lebanon — Yale Journal of International Affairs)

³⁰ Several pieces of legislation supporting anti-corruption efforts were adopted and/or amended between 2017-2021 with a view of complying with UNCAC standards and commitments (ratified by Lebanon in 2009), including Law No. 175 on Combating Corruption in the Public Sector and the Establishment of the National Anti-Corruption Commission (2020); Law No. 189 on Assets and Interests Declaration, and the Punishment of illicit Enrichment (2018); Law No. 28 on the Right of Access to Information (2017, amended 2021); Law No. 214 on Recovery of Assets Derived from Corruption Crimes (2021); Law No. 244 on Public Procurement (2021); Law No. 83 on Whistleblower Protections (2018); and Law No. 84 on Enhancing Transparency in the Petroleum Sector (2018).

³¹ The NACS Progress Reports of 2021 and 2024.

³² Legislative Decree No. 115 of 12/6/1959 on the Establishment of the Central Inspection

³³ Law No 44 of November 24, 2015, Fighting Money Laundering and Terrorist Financing

³⁴ [Lebanon MER E.pdf \(menafatf.org\)](https://Lebanon MER E.pdf (menafatf.org))

in the 2022 Budget were not timely disbursed and, as a result, its administrative costs were paid by international donors³⁵. The Court of Accounts is operating without the complete roster of judges. The judiciary has been intermittently on strike for several months in recent years.

16. The new Right of Access to Information Law,³⁶ introduced a major improvement in the regulatory and legislative framework for transparency, but the implementation remains limited. The NACC's first annual report on the implementation of the Right of Access to Information Law³⁷ identifies a list of recommendations to enhance the effectiveness of the law. The report revealed that at the national level, 190 of 310 administrations were surveyed: 56% received information requests, 76% of which were answered, and 69% met the 15-day legal deadline. Locally, 20% of municipalities received requests, with 63% answered and 84% timely. Proactive disclosure is weak—62% of national and 59% of local administrations publish some information but fall short legally. Over 50% of national and 75% of local bodies lack designated information officers. Although 70% claimed legal knowledge, many misinterpret the law, hindered by limited awareness and financial/technical constraints. An earlier report by Gherbal Initiative, a civil society organization that monitors and analyzes implementation of the Right to Access to Information Law, found that in 2021, 53 percent of institutions did not even respond to access to information requests and, when they did respond, only 36 percent of requests were satisfactorily answered. Only 21 percent of institutions responded within the legally established timeframe of 15 days. In 2022, out of 204 institutions requested to disclose information on loans and grants received between 2001 and 2021, only 28 provided a complete response. Anecdotal evidence has been provided about active obstruction by ministers and heads of government entities, to the point of instructing subordinates in writing that no access to information requests should be responded to.

17. Transparency and accountability in the public sector can be enhanced through effective conflict-of-interest systems and verification and publication of asset and interest declarations by top officials. The basic legal framework for prevention of conflict of interest is in place, but insufficient, lacking detailed implementing legislation and an effective implementation mechanism.³⁸ A major leap was created by the new law on asset and interests declarations and punishment of illicit enrichment which provides the NACC and courts with the mandate to monitor and audit the declarations submitted to them and to courts. In addition, publishing asset declarations can be leveraged to facilitate the application of AML/CFT requirements, such as the identification of PEPs and application of enhanced due diligence by banks and other reporting entities.³⁹

18. Digitalization of public services can strengthen key anti-corruption measures. Lebanon adopted a comprehensive strategy for digital transformation, but the lack of resources and weak capacity

³⁵ The NACC reported that in 2022 it received 2 billion LBP from the budget to cover salaries and wages. In 2023, while the annual budget was not issued, it received 21.8 billion LBP used for salaries and wages, office rental and maintenance and other expenses, as well as 88.1 billion LBP from donors. In 2024, it received 66.4 billion LBP from the budgetary resources and spent 43.9 billion LBP to cover salaries and wages, office rentals, furnishing and maintenance, health insurance, transportation equipment and other expenses.

³⁶ The Right to Access to Information Law, No. 28 of 2017, at [الجامعة اللبنانية - مركز المعلومات القانونية :: التشريعات الحقوقية ::](http://www.ul.edu.lb) [الوصول إلى المعلومات](http://www.ul.edu.lb)

³⁷ First Annual Report on the Level of Implementation of the Right of Access to Information Law: <https://nacc.gov.lb/wp-content/uploads/2025/03/%D8%A7%D9%84%D8%AA%D9%82%D8%B1%D9%8A%D8%B1-%D8%A7%D9%84%D8%B3%D9%86%D9%88%D9%8A%D9%91-%D8%A7%D9%84%D8%A3%D9%88%D9%84-%D8%A8%D8%B4%D8%A3%D9%86-%D8%AD%D8%B3%D9%86-%D8%AA%D8%B7%D8%A8%D9%8A%D9%82-%D9%82%D8%A7%D9> (in Arabic).

³⁸ For the detailed analysis of the legal framework related to conflict of interest see Conflict of Interest in Lebanon: legal Frameworks and Recommendations, ACT, Expertise France, European Union, 2021. b460388b-cccc-4719-834c-8093eb3deed1

³⁹ The legal framework on PEPs is largely compliant with international standards but the implementation remains deficient especially outside the financial sector. See [Lebanon MER E.pdf \(menafatf.org\)](http://menafatf.org).

have hindered meaningful progress.⁴⁰ The Strategy aims to improve citizens' transactions and their experience with government services, enable Lebanon's digital economy and transform public sector operations. The Council of Ministers created⁴¹ a ministerial committee and a technical committee to follow up on the implementation of digital transformation. Introduction of electronic signatures is essential to strengthening key anti-corruption measures through enhanced digitalization, including to facilitate filing asset declarations through electronic platforms. Implementing regulations have been finally approved by the government.⁴² The mission was informed that limited IT resources, poor physical infrastructure, lack of funds to maintain software and program licenses and develop tailored applications; weak connectivity and unstable power supply, as well as unappealing salaries to recruit specialized personnel impede digitalization. Digitalization in general and e-signatures in particular are critical for the effectiveness of the e-procurement platform and for the online asset declarations project. They can contribute to digitizing other government services to promote economic inclusion and investment. Decree No. 14115/2024 implementing Law No 81/2018 on Electronic Transactions and Personal Data Law was promulgated, paving the regulatory framework for the implementation of the e-signature within a public administration. Challenges remain technical and financial.

19. Corruption remains to be the highest money laundering (ML) threat and a top predicate offence for ML in Lebanon,⁴³ which undermines effectiveness of the AML frameworks. For example, systemic corruption creates an environment where financial intelligence regarding certain crimes is not reported to the authorities and not disseminated to law enforcement. Corruption in law enforcement and judicial agencies prevents the imposition of sanctions and the confiscation of assets by refraining from prosecuting or convicting corrupt officials and other criminals, leading to the perception of impunity. The National Risk Assessment (NRA) notes that the more developed methods of financial sector misuse for ML relate to corruption. Since the beginning of the ongoing economic crisis, Lebanon's economy moved to predominantly cash-based transactions, which is a fundamental AML vulnerability that undermine effectiveness of key elements of an AML/CFT regime. As transactions bypass the formal financial sector, operations in cash impede the detection and investigation of corruption and other related offences and allow easier laundering of proceeds. In addition to the established typology of abuse of financial sector for laundering funds in offshore jurisdictions and financial centers, the large informal economy provides corrupt officials with the opportunity to channel illicit earnings directly into the legitimate economy in cash.

20. Weak coordination and exchange of information among oversight institutions and between these institutions and relevant public authorities. For example, NACC has requested access to other institutions' databases, but this process is hindered by limited resources, particularly the lack of digital linkage. Collaboration between NACC and other anti-corruption, oversight and law enforcement institutions is essential for detecting corruption, verifying asset declarations, investigating possible corruption cases and developing policies and strategies. The strong links between corruption, money laundering and tax evasion also call for formal communication channels and coordination mechanisms with Special Investigation Commission (SIC) and tax administration. Audit bodies like the CI and the CA lack " mechanisms to share information and findings with the NACC or other institutions. The new banking secrecy law (No. 306 enacted by parliament in 2022) provided for an exception from banking secrecy to the benefit of the NACC and other institutions listed in the law, which allows it to access all banking information while exercising its investigating authorities.

⁴⁰ UNDP and WB will support digitalization in 2024.

⁴¹ Decision No. 32 of February 2, 2022

⁴² Law No. 81 Relating to Electronic Transactions and Personal Data, enacted in 2018, provides the legal basis and recognition of e-signatures, while adopting a technologically neutral framework. The Council of Ministers approved Decree 5/2024 aimed at implementing the provisions of Article 8 (Official Electronic Documents) From Law No. 81.

⁴³ [ML & TF NRA - 2022 Update.pdf \(sic.gov.lb\)](#). The 2022 National ML/TF Risk Assessment (NRA) identifies corruption crimes as the main source of illicit proceeds. See also Mutual Evaluation Report 2023, at [Lebanon's measures to combat money laundering and terrorist financing \(fatf-gafi.org\)](#)

21. Corruption has eroded effectiveness and public trust in the judiciary and the prosecution service. According to surveys by the Arab Barometer in 2024, only 13% of Lebanese reported trusting the legal system, with a large majority expressing distrust in the government.⁴⁴ In the case of Lebanon, judicial corruption is primarily linked to external influences on the judiciary, the most significant of which is the *de jure* and *de facto* control of politicians over judges' career paths.⁴⁵ High-level judicial positions and reportedly entire judicial institutions have confessional labels. In return for appointment and promotion, judges are often perceived as accountable to politicians, not to the law. Judicial misconduct that may involve, for example, conflicts of interest and improper engagement with parties often goes undetected and unaddressed due to the absence of effective judicial oversight mechanisms.

22. Establishing a fully independent judiciary, which enjoys public trust, can significantly improve accountability and effectiveness of anti-corruption policies in Lebanon. For any corruption case to be properly investigated, the judiciary needs to be reformed and empowered as an independent institution that transcends sectarian political interests. President Aoun made judicial reform a priority, describing an independent judiciary as essential for what he called a "new phase" for Lebanon. Prime Minister Salam has reaffirmed this goal in his Cabinet's policy statement approved in February 2025, pledging to protect judicial independence. A new Draft Law on the Organization of the Judiciary, which aims to regulate Lebanon's judiciary and reinforce its independence, has been approved by the Council of Ministers and submitted to Parliament. The draft was prepared through a consultative process with civil society and legal experts as part of the Justice Forum and draws on the 2022 Venice Commission opinion.⁴⁶

23. The Law on the Organization of the Judiciary introduces important elements seeking to reinforce judicial independence and to minimize political interference. Among the positive features of the draft law are the introduction of elections for a majority of members of the Supreme Judicial Council (SJC), clearer term limits and transparent procedures for appointments and renewals, asset disclosure obligations for SJC members pursuant to Law No. 189/2020, stricter "cooling-off" periods limiting post-term appointments to political or administrative roles, more detailed rules for training and evaluating judges through an independent Institute of Judicial Studies, and expanded powers for the Judicial Inspection Authority to monitor performance and follow up on complaints. Moreover, the draft limits the executive's discretion by requiring that ex officio members of the SJC be chosen from shortlists proposed by senior judges. Swift adoption and implementation of the law will help address concerns raised during the mission about politicization of the judiciary. For instance, the mission was informed that judicial are often allocated to political supporters irrespective of their competence and experience. Formally, judicial appointment decree requires the signatures of the president, Ministry of Justice (MOJ) and Ministry of Defense (MOD) (in certain cases involving military judges). This reliance on the executive to formally appoint judges and the lack of clear and objective criteria can further undermine judicial independence. Similarly, the process for transferring judges is seen as largely arbitrary and subject to political interference. As a result, appointments and transfers of judges are often blocked until a political agreement on the distribution of judicial positions is reached. The public prosecutors are appointed on a sectarian political basis, and the

⁴⁴ <https://www.arabbarometer.org/wp-content/uploads/AB8-Lebanon-Country-Report-EN.pdf>

⁴⁵ [Judicial Corruption in Lebanon: The Big Political Picture - Legal Agenda \(legal-agenda.com\)](https://legal-agenda.com/judicial-corruption-in-lebanon-the-big-political-picture/); see also International Commission of Jurists (2017), 'Lebanon: the ICJ calls for extensive reforms to strengthen judicial independence and accountability', 28 February 2017, [https://www.icj.org/lebanon-the-icj-calls-for-extensivereforms-to-strengthen-judicial-independence-and-accountability; see also Lebanon-overview-of-corruption-and-anticorruption_U4-reviewed_PR_19.09.2022.pdf \(transparency.org\)](https://www.icj.org/lebanon-the-icj-calls-for-extensivereforms-to-strengthen-judicial-independence-and-accountability;_see_also_Lebanon-overview-of-corruption-and-anticorruption_U4-reviewed_PR_19.09.2022.pdf)

⁴⁶ [Lebanon - Opinion on the draft law on the independence of judicial courts, adopted by the Venice Commission at its 131st Plenary Session \(Venice, 17-18 June 2022\) - Venice Commission of the Council of Europe](https://www.coe.int/en/web/council-of-europe/131st-plenary-session/lebanon-opinion-draft-law-independence-judicial-courts-adopted-venice-commission-its-131st-plenary-session-venice-17-18-june-2022)

prosecution office is characterized by a strict hierarchy, which has in the recent past caused public confrontations between members of the judiciary.⁴⁷

24. Effective implementation of the legal framework which encompasses all principles of an independent, fair and effective judiciary is fundamentally important. To rebuild public trust and private sector confidence as Lebanon seeks to emerge from the crisis, the law should (i) strengthen independence of the HCM and its role in managing the judiciary; (ii) introduce transparent and participatory process for appointment of judges, especially the top office-holders in the judiciary (e.g. the President of the Court of Cassation, the Prosecutor General of the Court of Cassation and the President of the Judicial Inspection); and (iii) bring the procedures for transfer, promotion and discipline of judges in line with international standards and good practices to avoid real or perceived retaliation against judicial officials.

Impact of Corruption on Fiscal Governance

25. Public institutions remain vulnerable to the influence of clientelist networks that threaten fiscal affairs to be transformed into a rent-seeking opportunity. Public finance institutions, both on the revenue and the expenditure side, are tainted by fragmentation along political lines, obsolete legal frameworks and management systems that lack effective internal and external oversight and accountability. For instance, the outdated legal framework, and low fiscal transparency exacerbate governance weaknesses in the PFM,⁴⁸ as it falls short of providing efficient, transparent, accountable processes in the management of public resources throughout all phases and aspects of the budget cycle. (see the details provided in Section II). Corruption contributes to Lebanon's very high income and wealth inequality. Pre-crisis, the top 10 percent earned 55 percent of national income in Lebanon.⁴⁹ According to the World Bank, poverty in Lebanon has more than tripled over the past decade reaching 44% of the total population.⁵⁰ Based on a household survey covering the five governorates of Akkar, Beirut, Bekaa, North Lebanon and most of Mount Lebanon, the report finds that 1 out of every 3 Lebanese in these areas was poverty stricken in 2022, highlighting the critical need to strengthen social safety nets and create jobs to help alleviate poverty and address widening inequality.⁵¹

26. Rent seeking and corruption opportunities are perceived by non-governmental stakeholders to be widespread in the tax system. Tax incentives and other forms of preferential tax treatment are not clearly prescribed by law and can be used to grant favors to selected companies. The absence of transparent, clear, simple, specific and objective eligibility criteria and the wide discretion afforded to officials for granting or approving incentives create opportunities for rent seeking. The IMF's Tax Policy Technical Assistance Report of 2022 stresses the importance of scrutiny and evaluation of government decision-making processes, policies, and administration practices to enable authorities to be held accountable for their actions and take remedial action when necessary.⁵² A poor legislative framework increases the likelihood of conflicting or overlapping provisions and inter-agency jurisdictional conflicts, which is already embedded in the sectarian organizational structure of the revenue administration (see Section II.B). New incentives are introduced without proper analysis of the cost-benefit and effectiveness of their implementation is not monitored by the tax administration, including

⁴⁷ Mansour, M. and Daoud, C. (2010), *Lebanon: The Independence and Impartiality of the Judiciary*, Euro-Mediterranean Human Rights Network, <https://euromedrights.org/wp-content/uploads/2018/03/LEBANON-The-Independence-and-Impartiality-of-the-Judiciary-EN.pdf>

⁴⁸ Fiscal management is governed by the Lebanese Constitution and the Public Accounting Law (PAL) of 1963.

⁴⁹ Assouad 2021

⁵⁰ [Lebanon: Poverty more than triples over the last decade reaching 44% under a protracted crisis \(worldbank.org\)](https://www.worldbank.org/en/country/lebanon/lebanon-poverty-more-than-triples-over-the-last-decade-reaching-44-under-a-protracted-crisis)

⁵¹ Id.

⁵² IMF Tax Policy TA

through compliance and enforcement actions where needed.⁵³ For instance, the VAT exemption (and customs and excise duty) on diesel (gas and oil) appears to largely benefit the private electricity generators, as price subsidies were gradually removed and the BdL ceased to supply fuel importers with USD at a preferential exchange rate.⁵⁴

27. Corruption vulnerabilities are significant in the customs' administration. In 2013, the MoF estimated the loss of customs revenue due to corruption at the border at about 1 percent of the nation's gross domestic product (GDP).⁵⁵ The VAT compliance gap has been estimated by the MoF at about 3.3 percent of GDP and the lost custom revenue at the border in 2013 was about 1 percent of the GDP.⁵⁶ In 2015, the Finance Minister claimed that corruption at customs was costing the Lebanese state US\$1.2 billion, and asked for a management reform.⁵⁷ According to the Lebanese Transparency Association, 74 percent of the surveyed companies in 2010 had to pay bribes, in a form of cash or services, when dealing with tax inspectors.⁵⁸ The mission notes that the information provided in this paragraph needs to be reassessed with new data, but there have been no structural reforms in the customs to address the issues.

28. There has been very little political support for approving and implementing reforms to correct the flaws in the PFM system, but the government's renewed commitment offers promising prospects for progress and instills optimism for future reform. The absence of political will to undertake structural reforms coupled with the impacts of the financial crisis have exacerbated pre-existing governance weaknesses and caused the collapse of the PFM system in Lebanon. Most of the past PFM reform efforts have been adopted as part of external financial support programs for the reconstruction, recovery, and development of the country and lacked local ownership (e.g. Paris II-2002, Paris III-2007 and CEDRE-2018). While international development partners have provided technical assistance, these efforts lacked the necessary political will to materialize and produce measurable impact. Political deadlocks have been the main factor preventing the introduction of PFM reforms. Consequently, the diagnostic and key steps for reform have remained the same for decades. The incentives for meaningful reforms remain weak despite the current convergence of severe crisis.

29. Despite some progress, transparency and accountability in budget process remain limited. According to various budget transparency indicators and assessments, Lebanon performs poorly on almost all aspects of budget transparency compared to other countries in the region. For instance, in 2023 the Open Budget Survey scored Lebanon low - 17/100 on transparency, 0/100 on participation and 21/100 on budget oversight.⁵⁹ A slight improvement is observed in recent years, which is explained by the publication of the Executive's Budget Proposal. Lebanon does not produce a pre-budget statement, in-year or end-year or audit reports⁶⁰ while other key documents, such as the Enacted Budget or the Citizen Budget are published with long delays. The Court of Accounts completed the audit of accounts from 1997 up to and including 2005, in addition to the years 2017, 2018, 2019, and 2020, and submitted the results to Parliament, along with the follow-up on the audit of the remaining accounts. At present, the closing of accounts for the years 2006 and 2007 is being finalized, and a financially supported work plan by the Ministry of Finance has been put in place to complete the remaining accounts for the period 2008 to 2016.

⁵³ Id.

⁵⁴ Id.

⁵⁵ [Which Tax Policies for Lebanon? Lessons from the Past for a Challenging Future – Arab Reform Initiative \(arab-reform.net\)](https://arab-reform.net/en/reports/which-tax-policies-for-lebanon-lessons-from-the-past-for-a-challenging-future)

⁵⁶ Id.

⁵⁷ [Khalil: Corruption at Customs Costing State 1.2 Billion Dollars — Naharnet](https://www.naharnet.com.lb/en/news/1000000000000000000/khalil-corruption-at-customs-costing-state-1-2-billion-dollars)

⁵⁸ [Microsoft Word - 350.docx \(u4.no\)](https://u4.no/MSWord-350.docx)

⁵⁹ Open Budget Survey, Lebanon 2023, at [Open Budget Survey Lebanon 2023 | International Budget Partnership](https://www.transparency.org/cpi2023)

⁶⁰ Since December 2021, the monthly in-year report, the Public Finance Monitor, has not been produced and published. The latest end-year report dates 2017.

This work is expected to be finalized within a few months, so that the accounts will be completed by the end of the current year, with regular reporting to Parliament. In addition, the budget does not report a significant part of public spending related to EdL (more than 20 percent of public spending on average between 2021-23), and the reports of the Parliamentary committees, including the Budget and Finance Committee report over the executive budget proposal, are not made available to the public.

30. Procurement is one of the areas with the highest corruption risks in Lebanon. Before the recent crisis, public procurement accounted for an average of 20 percent of central government expenditure and 6.5 percent of the Gross Domestic Product (thus, around US\$3.4 billion in 2019) at the central level.⁶¹ This high level of expenditure has made public procurement a major source of rent-sharing for political and other interest groups. Bribes rigged tenders and conflicts of interest are pervasive and direct contracting is often used without justification or legal basis. Elites establish collusive networks and cartels by penetrating institutions with loyal personnel to undermine even complex institutional processes, such as infrastructure procurement.⁶² The new public procurement law addresses many of the gaps in relation to international standards. While its implementation progressed slowly during the years of the crisis, recent improvements are noteworthy. If the government continues to advance its implementation, it could mark a significant step forward in enhancing fiscal governance in Lebanon.

31. SOE performance, transparency and integrity are adversely affected by inadequate governance mechanisms. A complex maze of rules and frameworks has resulted in power structures led by line ministries that allow them to exert full control over SOEs' operational and financial decisions. The considerable legally established powers held by the different line ministries, which are in turn controlled along sectarian lines, over SOEs have politicized their operation and enabled nepotism and cronyism.⁶³ This structure facilitates benefits and favors for political and economic allies under a pervasive web of conflicts of interest and corruption in a largely opaque environment with very weak accountability. These circumstances have severely deteriorated the provision of public services and SOEs' financial performance, requiring significant budgetary support.

Impact on the Central Bank and the Financial Sector

32. The erosion of oversight and accountability systems created an environment within which the concentration of unaccountable power became possible in the recent past. Without prejudice to the ongoing criminal investigations in Lebanon, Switzerland, France and Luxembourg, publicly available information indicates possible personal enrichment, misappropriation of funds, and balance sheet manipulations by former BdL Governor Riad Salameh.⁶⁴ It is stressed that these criminal investigations have not yet been concluded. According to publicly available information from a recent forensic audit report commissioned by the authorities of Lebanon, the former Governor exercised "largely un-scrutinized authority," which goes beyond what is reasonably expected in central banks.⁶⁵ The same former Governor was designated by the US Department of the Treasury's Office of Foreign Assets Control (OFAC) as a person "whose corrupt and unlawful actions have contributed to the breakdown of the rule of law in Lebanon" in August 2023. Canada and the UK took similar action. Moreover, costly "financial engineering"

⁶¹ [Lebanon: Assessment of the Public procurement System, MAPS, January 2021.](#)

⁶² [Mahmalat et al 2022 Resource Allocation in PSAs July.pdf](#)

⁶³ Also evidenced by the long periods of time board members and CEO remain in office—sometimes for more than 20 years—even in the face of very weak financial and operating results.

⁶⁴ The MLA request sent by the Swiss authorities to Lebanon in 2021 reveals that between 2015 and 2022 US\$333 million were paid by BdL to Forry Associates Ltd, a company registered in the British Virgin Islands, allegedly owned by a brother of the former BdL governor. In addition, between 2015 and 2022, US\$111 million were paid to accounts in one Swiss and six Lebanese banks by the BdL. The beneficiaries of these payments were not disclosed citing the Banking Secrecy Law, which was amended in April 2025.

⁶⁵ Preliminary Forensic Report of Banque du Liban, Alvarez & Marsal, 2023

operations were undertaken by the BdL for years since 2016 without any meaningful scrutiny from the BdL's Board⁶⁶ and the Government Commissioner.⁶⁷

33. The design and operations of Sayrafa, BdL's former foreign exchange platform, provide an example of an opaque policy mechanism that was vulnerable to corruption and money laundering.

The difference between the lower exchange rate available on Sayrafa and the unofficial market rates created arbitral opportunities and generated rents for vested interests that have privileged access to the platform. (Box 1) It is noteworthy that the Sayrafa platform was discontinued in August 2023.

Box 1. ML and corruption vulnerabilities of multiple currency practices in Lebanon

On April 3, 2020, BdL issued Circular 149 establishing the Electronic Exchange Platform, known domestically as Sayrafa. Starting in January 2022, BdL significantly expanded Sayrafa removing the monthly ceilings for commercial banks. In August 2023, the BdL under its new leadership halted provision of foreign exchange at below market rates to the private sector.

Due to the lower exchange rate available at Sayrafa, BdL was the main seller of foreign exchange on the platform, incurring losses. In addition to commercial banks, access to Sayrafa, under monthly limits, was granted to money transfer and foreign exchange companies, public servants, and other select individuals and corporations. Reportedly, the limits for the subsidized access to foreign exchange through Sayrafa were illegally breached for well-connected persons. In addition, subsidized foreign exchange was provided to finance certain imports and, against the BdL regulations, importers often over-invoiced the value of goods and services to receive higher access to foreign currency. The absence of sufficiently effective mitigation measures (e.g., source of funds checks, AML supervision of banks), and the opacity of the access criteria, participants and trading data, increased corruption, fraud and money laundering risks.

Multiple currency practices, including ML and corruption opportunities, that created or reinforced vested interests, hindering unification of exchange rates and broader financial sector and governance reforms. At the same time, dispersed costs of multiple currency practices, in which the costs are borne indirectly by the broader society, in particular through the loss of central bank reserves and higher inflation as less liquidity is absorbed, decreased the impetus for reforms. Considering low transparency, governance weaknesses and the strength of entrenched interests in Lebanon, multiple currency practices are particularly vulnerable to ML and corruption.

34. The commercial banks' corporate governance framework has weaknesses that make the sector vulnerable to corruption. A portion of the Lebanese commercial banking sector is owned by individuals with close political links or have politically affiliated major shareholders.⁶⁸ The absence of a clear separation of ownership, oversight, and executive roles,⁶⁹ inadequate requirements to ensure more independent executive directors on boards, poor corporate policies and oversight of conflicts of interest,⁷⁰

⁶⁶ The Board is also referred to as the Central Council. This BdL body approves the central bank's policy decisions and executive regulations. It is composed of the governor, the four vice governors, and two government representatives (the Directors-General of the Ministry of Finance and of the Ministry of Economy and Trade). This presence of the government representatives on the Board allows government influence of the BdL.

⁶⁷ Alvarez & Marsal, 2023.

⁶⁸ See Jad Chabaan, Jonathan Cole, Nithar Ghanem and Sami Khalabi, *They Still Got the Power: The enduring Connection Between Lebanon's Banking Sector and the Ruling Class*, Economic Research Forum, Working Paper 1678, 2023. Chaaban, 2019, Pp. 334.- 336. Matias Braun, Claudia Raddats, 2010, *Banking on Politics: When Former High-Ranking Politicians Become Bank Directors*, The World Bank Economic Review, Volume 24, Issue 2, Pp. 234-279.

⁶⁹ The Lebanese Code of Commerce introduced this requirement in 2020. The majority of Lebanese banks need to separate the functions of Chairman of the Board and Chief Executive Officer (CEO). Additionally, some family-owned banks need to separate the function of major shareholder and CEO.

⁷⁰ For example, Vice-Chairperson of the bank's board was a member of Parliament.

weak fit and proper requirements for board members and senior management, and insufficient transparency⁷¹ make the sector vulnerable to corruption. Family-owned banks are more vulnerable to those risks. Before the crisis, banks were able to attract professionals to their boards, but many board members, particularly independent non-executive directors, have recently resigned from bank boards since the recent crisis started.

35. There is a risk of abuse arising from transactions with related parties due to a non-comprehensive regulatory framework. The supervisory authorities have separate regulations on related-party transactions that focus solely on lending. According to IMF's 2016 Financial Sector Assessment Program (FSAP),⁷² the Banking Secrecy Law was named as an impediment for supervisory authorities in identifying related parties (and, therefore, related-party transactions). However, the mission notes that the Law was amended in April 2025. As family-owned banks dominate in Lebanon, having a strong regulatory and supervisory framework is particularly important.

36. The financial sector supervisory architecture is fragmented among different institutions where the responsibilities and powers are not adequately allocated based on the functional role of each institution. The decision-making powers are concentrated at the level of the BdL's Governor and collegial decision-making, which would lead to more effective banking supervision, was not promoted.

37. As in other areas of the public sector, supervisory authorities do not adhere to the transparency and accountability standards in exercising the banking supervision mandate. In the current severe economic crisis, in which the banking sector plays a central role, limited information has been published since 2020. The HBC's supervisory decision-making is neither transparent nor subject to review. Its decisions are irrevocable with no administrative or judicial recourse available. The BdL regularly publishes secondary legislation (circulars) issued to the banking sector, but other information on its licensing and supervisory functions, including decision-making, is limited. The banking secondary legislation is not subject to public consultation and drafts are usually submitted only to the Banking Association. The supervisory authorities do not have internal operational procedures for decision-making processes related to the main supervisory functions—banks' licensing (authorization), regulation and supervision, which creates risks of abuse.

38. The rules and procedures to prevent, identify and manage conflicts of interest within the supervisory authorities are ineffective. The BdL's requirements to avoid conflicts of interest do not extend to close family members. Senior managers and supervisors are excluded from internal procedures for identifying and properly managing conflicts of interest. The BdL Central Council and BCC Board should oversee the implementation of effective policies and procedures in this area. The policies and procedures should be regularly audited by internal audit and compliance function strengthened.

Impact on Public Service Delivery: Electricity Sector as an Example

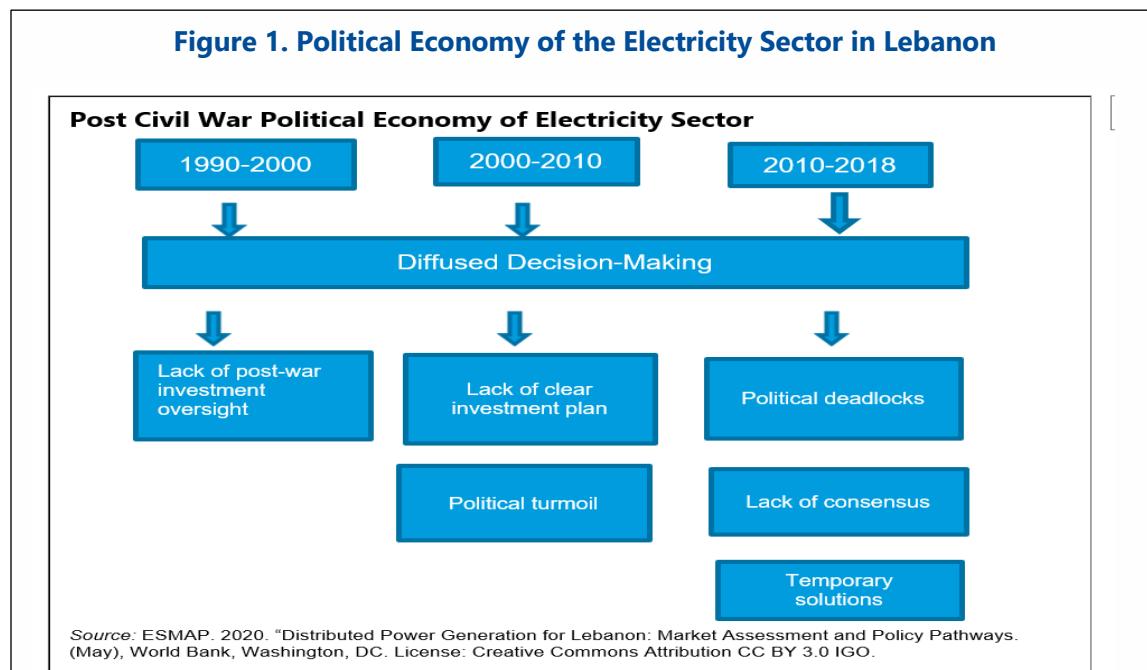
39. This sub-section illustrates how corruption and patronage systems impact public service delivery, looking at how they brought the electricity sector of Lebanon to collapse. Service delivery in Lebanon is characterized by clientelism and is vulnerable to corruption. In the context of weak state capacity, non-state providers affiliated with political groups have replaced public agencies in the provision of vital services such as healthcare, education, food and security. Many citizens are dependent on political leaders and parties for access to basic services and public entitlements. Those who lack such connections and do not have independent means, live under more precarious conditions.⁷³

⁷¹ For example, many banks do not disclose which board members are independent.

⁷² Lebanon: Financial System Stability Assessment, IMF, 2017, at [Lebanon: Financial System Stability Assessment](#)

⁷³ Melani Cammett, Compassionate Communalism: Welfare and Sectarianism in Lebanon, Arab Studies Institute, The Arab Studies Journal, Spring 2017, Vol. 25, No. 1 (Spring 2017), pp. 160-164.

40. Limited access to electricity has a severe impact on the most vulnerable households. Lack of access to electricity was central to public grievances during the October 2019 protests and continues to be a contributor to poverty and inequality.⁷⁴ For example, a 2019 IMF study found that the average family in Southern Lebanon devoted 12 percent of their income to private generators for electricity.⁷⁵ By contrast, in Mount Lebanon, the richest region,⁷⁶ 2 percent of the family income is devoted to private generators.⁷⁷ The situation seems to deteriorate since 2019. In its 2023 report “Cut off From Life Itself, Human Rights Watch found that the average household spent 44 percent of monthly income on generator bills. For those in the bottom quintile who accessed a generator, their generator bills consumed 88 percent of their monthly income, on average, compared to 21 percent for the top quintile.⁷⁸



41. Deep-rooted political economy considerations that enable systemic corruption explain the breakdown of the Lebanese electricity sector (Figure 1). As discussed above, the Lebanese state has been largely ineffective in providing basic services to its citizens. The civil war of 1975-1990 caused extensive damage to the electricity sector and its infrastructure. During the conflict, armed groups used power plants as a military and political tool to provide free electricity to area within their control and while depriving access to those living in areas controlled by their rivals.⁷⁹ After the civil war, the electricity sector was further transformed into a vehicle to maintain and enhance patronage networks by granting jobs and

⁷⁴ [Lebanon: Electricity Crisis Exacerbates Poverty, Inequality | Human Rights Watch \(hrw.org\)](https://www.hrw.org/report/2019/10/15/lebanon-electricity-crisis-exacerbates-poverty-inequality)

⁷⁵ A household average monthly income in Southern Lebanon is equivalent to 69 percent of the national average.

⁷⁶ A household average monthly income in Mount Lebanon is equivalent to 130 percent of the national average.

⁷⁷ IMF Article IV Staff report, Special Issues paper, 2019

⁷⁸ Cut Off From Life Itself, Human Rights Watch, 2023, at [“Cut Off From Life Itself”: Lebanon’s Failure on the Right to Electricity | HRW](https://www.hrw.org/report/2023/01/17/cut-off-life-itself-lebanon-s-failure-right-electricity)

⁷⁹ Nahas, An Economy and a State in Lebanon, p. 114; Fardoun, Ibrahim, Younes, and Louahlia-Gualous, Electricity of Lebanon, p. 37 in Human Rights Watch

benefits to loyalists and profiting from lucrative contracts—a trend that also plagued the rest of the public sector in Lebanon.⁸⁰

42. Corruption risks are present at every level of the electricity sector. One of the greatest areas of graft is the import of fuel for power stations. The fuel importers account for significant market share and many of them are politically affiliated, which facilitates obtaining state licenses to import oil products.⁸¹ The fuel importers have profited from the exchange rate subsidy for fuel between 2019-22, benefited from a lack of regulations related to storage maintenance, and were able to transport included outside Lebanon and distribute oil without scrutiny.⁸² IMF estimated that between 2019 and 2023 BdL provided US\$9.9 billion for the payment of import subsidies as well as salaries and pensions at preferential rates.⁸³ The opaque contracting process, lack of control of PEP activities, strong patronage networks, and lack of accountability have exacerbated corruption risks.⁸⁴ Along with fuel importers, private generator owners are also perceived as part of patronage networks in Lebanon.⁸⁵ The existence of private generators was a response to the continuous failure of the authorities over decades to reform and upgrade the energy sector and fill a gap between the demand and delivery (37 percent as of 2018) that has been created by the lack of much needed energy availability. These private power generators follow a subscription-based model, and create a complex informal economy, which is largely outside regulation and government oversight.⁸⁶ The owners of private generators have become a formidable political power, often enjoying close relationships with local and national political leaders. A World Bank study of 2020 shows that the fuel importers and dealers and agents, benefit the most from the existence of diesel generators and together account for around US\$2 billion of revenue per year.⁸⁷ An inflated workforce in the sector is also perceived to be a mechanism for the exchange of political favors, reflecting a clientelist system where jobs and contracts are granted to politically affiliated persons.⁸⁸

43. Decades-long neglectful policies, widespread corruption and elite capture of state resources resulted in the near total collapse of Lebanon's electricity system. The sector has long been at the center of Lebanon's fiscal and economic challenges. Over the decades, EdL, the public utility

⁸⁰ Ali Ahmad, Neil McCulloch, Muzna Al-Masri, and Marc Ayoub, From Dysfunctional to Functional Corruption: The Politics of Reform in Lebanon's Electricity Sector, Anti-Corruption Evidence, Working Paper 30, December 2020, at https://www.aub.edu.lb/ifi/Documents/publications/working_papers/2020-2021/20201218_from_dysfunctional_to_functional_corruption_working_paper.pdf

⁸¹ [Lebanon oil import politics FINAL.pdf \(thinktriangle.net\)](#) The links were ascertained through Lebanon's Company Registry, and an analysis of ownership (shareholders) and management (boards of directors) of various companies involved in the oil importing sectors. A further three companies have reported links to political figures.

⁸² [Lebanon oil import politics FINAL.pdf \(thinktriangle.net\)](#)

⁸³ Selected Issues Paper, IMF 2024

⁸⁴ The so-called “dirty fuel” scandal was exposed in 2020 after an operator of EdL power plants raised concerns about the fuel being non-compliant. Several high-profile investigations are ongoing, involving dozens of influential business and public figures, with two individuals having been sanctioned by the United States.

⁸⁵ While private generators originally emerged through simple models, where small entrepreneurs, cooperatives often composed of people who live in the same building, or a local government provided electricity as a municipal service, the model transformed into a system of generator owners, who expanded their networks to the extent of owning hundreds of generators and delivering electricity to thousands of customers.

⁸⁶ [World Bank Document](#) ESMAP. 2020. “Distributed Power Generation for Lebanon: Market Assessment and Policy Pathways. (May), World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO.

⁸⁷ [Distributed-Power-Generation-for-Lebanon-Market-Assessment-and-Policy-Pathways.pdf](#)

⁸⁸ Ali Ahmad, Neil McCulloch, Muzna Al-Masri, and Marc Ayoub, From Dysfunctional to Functional Corruption: The Politics of Reform in Lebanon's Electricity Sector.

company⁸⁹ with exclusive rights to generate, transmit and distribute electricity, has operated with a deficit, which has been financed through fiscal means from 1993 until today. While tariff and exchange rate adjustments in 2022 and 2023 have reduced EdL's operating deficit, it is still not self-sufficient and relies on state support to finance fuel imports. Moreover, the lack of reliable and continuous electricity provision continues to be a major problem that remains unaddressed.

44. Despite a dire situation and a broad public consensus on the need for reform, vested interests have held back reform efforts. Parts of the Lebanese political elite continued to benefit from the dysfunctional energy sector.⁹⁰ Despite significant investments, the state proved unable to ensure uninterrupted provision of electricity. An estimated US\$3.66 billion was spent by the government on electricity sector projects between 1990 and 2019.⁹¹ International donors contributed US\$1.28 billion in funding for electricity projects through Lebanon's CDR between 1992 and 2021.⁹² In the context of severe corruption, the high levels of state and donor spending provided political actors with opportunities to exploit for the benefit of patronage networks.⁹³

45. Weak operational capacities and governance structures facilitated the capture of EdL by political and economic elites and further undermining its performance. A mix of actions and omissions by the authorities includes (i) decades of mismanagement of investment aimed at increasing and diversifying generation capacities; (ii) perpetuating the use of imported fuel for power generation, favoring cartels with political connections; (iii) maintaining electricity tariffs below cost recovery; (iv) allowing the proliferation of illegal small-scale private power generators, often linked to political parties or local authorities;⁹⁴ (v) weakening EdL's ability to reduce non-technical losses and improve collection rates; (vi) adopting complex and opaque frameworks for distribution service providers and failing to enforcing them; (vii) refusing to implement existing legal reforms aimed at creating a market regulator, unbundling EdL and facilitating orderly private sector participation;⁹⁵ (viii) capturing EdL's management and procurement structures, (ix) blocking external audits, and (x) tolerating large numbers of temporary workers in EdL while freezing the hiring of additional staff.

46. EdL's deterioration was also enabled by an anachronistic governance framework in the context of poor accountability mechanisms. Contrary to international standards and best practices, SOE Laws and decrees from the 1960s⁹⁶ allow the Ministry of Energy and Water to exercise ownership,

⁸⁹ Until 2022, EdL was classified by the GFSM as an extrabudgetary fund (not as SOEs), which had implications for its financing, reporting, accounting, etc.

⁹⁰ Diwan, J. Haidar, Do Political Connections Reduce Job Creation? Evidence from Lebanon, in: *Crony Capital. Middle East – Bus. Polit. Lib. Arab* Spring, 2019. <https://global.oup.com/academic/product/crony-capitalism-in-the-middle-east-9780198799870?cc=us&lang=en&>

⁹¹ Marc Ayoub, How much has the Lebanese state actually spent on electricity? *Al-Sifr*, October 27, 2022, <https://alsifr.org/electricity-expenditure-lebanon>.

⁹² The Center for Security and International Studies compilation of data on international donor spending in the electricity sector in [230303_Todman_PoweringRecovery_ArabWorld_0.pdf \(csis-website-prod.s3.amazonaws.com\)](https://csis-website-prod.s3.amazonaws.com)

⁹³ Christine Sylva Hamieh and Roger MacGinty, "A Very Political Reconstruction: Governance and Reconstruction in Lebanon after the 2006 War," *Disasters* 34, No. 1 (2010)

⁹⁴ A Ministry of Economy circular specifying acceptable emission limits for generators and a MoF decision imposing a 30 percent income tax on commercial diesel generator owners, went unenforced. [*lebanon0323_reportcover_8.5x11_\(hrw.org\)](https://hrw.org)

⁹⁵ In 2002, the government approved a new comprehensive law to deeply transform and regulate the electricity sector. Its main objectives were to corporatize and unbundle the electric company into production, transmission and distribution units, encourage private participation in generation and distribution, modernize the electricity sector and create an independent regulator.

⁹⁶ Decree number 16878 of October 7, 1964, which legally established EdL, and (ii) Law 4517 passed in 1972, which regulates public establishments, including commercially and industrially oriented companies.

regulatory and policymaking powers over EdL, generating conflicts of interest. Political influence on the appointment, and removal of board members and management and on operational decisions, is commonplace. There are no independent members on the EdL Board, and no sound provisions to prevent and detect conflicts of interest. The General Director is appointed by and is accountable to the government and not the Board. There are no corporate governance guidelines or regulations, no Board committees and no internal accountability systems supervised by the Board. Performance monitoring and effective oversight mechanisms are absent. Transparency is minimal as reporting requirements are weak and not enforced to the point that EdL has not issued audited financial statements since 2010.

47. In search of solutions, many Lebanese who can afford them have purchased and installed solar systems. Starting from almost no installed renewable capacity in 2010, the market for domestic solar systems grew to 100 MW by 2019, while total installed capacity doubled to 200 MW in 2021 and is estimated to have reached 1,300 MW by the end of 2023.⁹⁷ Reportedly, at least 17 communities across Lebanon have adopted hybrid mini-grids that combine solar panels and diesel generators to compensate for the weaknesses of the central grid. These communities try to integrate solar power into preexisting neighborhood generator grids, reduce reliance on diesel, and provide consumers with cheaper and more reliable energy.⁹⁸ However, resorting to renewable energy remains unaffordable for many Lebanese.

48. Structural measures are needed to enhance the electricity sector. While reforming EdL is necessary, parallel efforts to address underlying systemic corruption in the public sector by breaking patronage networks and increasing transparency and accountability are required.

Recommendations to Reduce the Severity of Corruption in Lebanon

Measure	Leading Responsible Institution	Timeline
Implement the Law on Organization of the Judiciary to enhance independence, effectiveness, professionalism and fairness of judiciary.	Judiciary, MOJ	ST
Adopt the National Anti-Corruption Strategy (2026-2030), while continuing the implementation, monitoring and evaluation of the current strategy of 2020-2025.	Council of Ministers	MT
Institutionalize coordination and cooperation between oversight bodies, the National Anti-Corruption Commission and law-enforcement bodies by establishing and sharing databases and findings.	NACC, CI, CA, SCB, Higher Disciplinary Council, PPA	MT
Provide the necessary tools and resources to the NACC to perform its mandate effectively. In particular: <ul style="list-style-type: none"> Amend Law N0 175 to remove the requirement that the NACC's by-laws should be approved by other bodies and allow the NACC to autonomously decide on recruitment, rotation and termination of its personnel. Provide the NACC with an adequate budget and human resources for its operations. 	Parliament, Council of Ministers, NACC	MT

⁹⁷ Interview with Pierre Khoury, Lebanese Center for Energy Conservation, Ministry of Energy and Water Resources, Beirut, May 27, 2022 in [230303_Todman_PoweringRecovery_ArabWorld_0.pdf](https://www.csis.org/productions/230303_Todman_PoweringRecovery_ArabWorld_0.pdf) (csis-website-prod.s3.amazonaws.com)

⁹⁸ Alix Chaplain, "Strategies of power and the emergence of hybrid mini-grids in Lebanon," Jadaliyya, March 8, 2022, <https://www.jadaliyya.com/Details/43932>.

<p>Modernize the legal and institutional frameworks of the Court of Accounts following international standards and best practice (INTOSAI). In particular:</p> <ul style="list-style-type: none"> • Transparent, merit-based and participatory appointment of members of the Court of Accounts that ensures their independence from other branches of government and protects them from external influence. • Legal and institutional safeguards to ensure the Court of Accounts' financial and operational autonomy • Take more legislative and administrative measures to expand the Court of Accounts' control capacity to the maximum possible extent and grant it power and capacities to oversee performance. • Gradually fill the vacant positions in the Court of Accounts cadre and expand it with necessary technical expertise in a transparent, merit-based and participatory approach, and provide it with operational and digital capacities. • Develop the Court of Account's capacity to increase reliance on ex-post controls, particularly in auditing the final state accounts, while gradually reducing reliance on the ex-ante control function. • Strengthen Parliament's role in the oversight and analysis of the state budget, final accounts and its cooperation with the Court of Accounts. • Issue the necessary organizational provisions for the preparation of accounts of bodies subject to control, identifying and unifying bookkeeping methods and submitting them to the Court of Accounts for audit and review, in line with international standards. • Activate the ex-post control of accounts and employees, and raise the value of fines imposed by the Court of Accounts on public officials for violations committed in proportion to the impact of damages and losses affecting public funds. 	Parliament, Council of Ministers	MT
<p>Modernize and strengthen the Central Inspection by:</p> <ul style="list-style-type: none"> • Develop and enact necessary legal provisions to enhance the effectiveness and independence of Central Inspection and bring within its mandate municipal councils' chairs and members, regulatory authorities, and large SOEs. • Publish, annually, information by Central Inspection about number of complaints received, investigations opened, sanctions, referrals to other competent supervisory, disciplinary and judicial authorities. 	Parliament, Council of Ministers, CI	MT
<p>Implement the Access to Information Law by:</p> <ul style="list-style-type: none"> • Amending the Right of Access to Information Law to introduce sanctions. • Publish the list of all obligated administrations as well as the names and contact information of assigned information officers and provide regular reports on the level of implementation of the law • Beginning proactive publication of information by prioritizing institutions based on their size, corruption risks, administrative and digital capabilities and relevance of data and information 	Parliament, NACC, Council of Ministers, CI	MT
<p>Strengthen enforcement of the whistleblower protection law by reinforcing the necessary coordination mechanisms between NACC, the judiciary and the security forces to ensure the needed protection for whistleblowers.</p>	NACC, judiciary, law enforcement	MT
<p>Establish an effective conflict-of-interest system for public officials in line with international good practices, particularly the United Nations Convention Against Corruption, the OECD Guidelines for Managing Conflict of Interest in the Public Service, and the G20 High-Level Principles for Preventing and Managing Conflict of Interest in the Public Sector and Good Practices Guide.</p>	Council of Ministers	MT
<p>Take measures to ensure that asset and interest declaration of top officials are published</p>	Parliament, Council of Ministers	MT
<p>Inform Lebanese public on anti-corruption measures undertaken by NACC and CI. In particular,</p>	NACC	ST

<ul style="list-style-type: none"> Publish annually, information - disaggregated by type of corruption offence and official involved - about number of corruption complaints received, investigations opened, and the decisions made. Publish annually information on number of asset declarations submitted to the NACC, names of obligated subjects who have failed to make a submission and measures undertaken by NACC to receive, hold, manage and verify asset declarations. Publish annually information by Central Inspection about number of complaints received, investigations opened, sanctions, referrals to other competent supervisory, disciplinary and judicial authorities 		
Take all necessary steps to operationalize e-signatures in Lebanon, based on Law No. 81 Relating to Electronic Transactions and Personal Data, the Decree on Electronic Official Documents and Electronic Signatures.	Council of Ministers	ST
Update and strengthen EdL's governance framework and financial performance, following international standards and best practice, including by: <ul style="list-style-type: none"> Unfreezing hiring by EdL, while issuing an interim human resources policy, that shall be approved or modified by the new board of directors. Initiating the appointment of brand new, professional and expert board members, through a transparent, competitive and merit-based process, ensuring that more than half of them are independent. Preparing, publishing and implementing a performance agreement between the government and the new Board, with clear financial and non-financial targets, an overall framework for financial support for EdL, [interim] financial controls by government, reporting requirements and monitoring and accountability mechanisms. Developing, publishing, and implementing an action plan aiming at publication of EdL's outstanding externally audited financial statements. Aligning its legal framework to the new ownership, management and oversight model adopted in the new SOE law. 	Council of Ministers	MT
Mandate a comprehensive proactive transparency policy for the electricity sector, including publication of full copies of all current and future: <ul style="list-style-type: none"> contracts and concessions authorizing private sector persons to generate electricity for EdL. distribution service provider contracts and agreements and the payment formulas and amounts. fuel purchase contracts tendered by the Directorate General of Oil and any other governmental agency or body since 2015. active fuel import licenses. financial flows between the government and EdL on a half-yearly basis. 	Council of Ministers	ST

Section II. Analysis of Governance Weaknesses and Corruption Vulnerabilities in Core State Functions

This section provides detailed analysis of governance weaknesses and corruption vulnerabilities in core state functions of fiscal governance, central bank governance and operations, financial sector oversight, AML/CFT, and the rule of law (contract enforcement and protection of property rights).

A. ANALYSIS OF GOVERNANCE WEAKNESSES IN PUBLIC FINANCIAL MANAGEMENT

49. Many governance weaknesses in the PFM system stem from the outdated and fragmented legal framework; therefore a reform of the PAL is highly necessary. Fiscal management is mainly governed by the Lebanese Constitution and the Public Accounting Law (PAL), which was issued in 1963. The law has problems in form and in substance, affecting efficiency, transparency, and accountability in the management of public resources throughout all phases and aspects of the budget cycle (Box 2).

Box 2: Weaknesses in the Public Accounting Law (PAL) of 1963

Weaknesses in design and normative status

- The PAL is a combination of two main pieces of legislation related to i) the budget process, and ii) accounting rules.
- The PAL is not an organic or high-level law
- Along with general budget principles, the PAL also includes procedural rules which normally are issued through secondary or implementing regulations.

Substantive weaknesses

- The PAL does not follow basic modern principles and practices of budget planning, execution, report, control, and audit.
- It does not comply with the basic budgetary principles of unity, universality, annuality and equilibrium. In particular, the law
 - does not require the budget to be prepared with due regard to government fiscal policies, strategic plans, and realistic macroeconomic and fiscal projections,
 - does not cover all public entities, so that a substantial portion of government resources is decided and executed outside the budget processes, rules and controls,
 - includes operations such as Treasury Advances that have been overused and undermine proper budget execution and control,
 - does not include effective control and external audit processes, and
 - does not contain strict fiscal reporting requirements, reducing fiscal transparency and accountability.

50. Governance weaknesses in the Lebanese PFM system increase the risks of mismanagement of public funds, fraud, and corruption. A sound PFM system can enhance fiscal governance and reduce opportunities for corruption, minimize the discretion of politicians and bureaucrats and enhance the ability to detect and sanction irregular practices by increasing fiscal transparency. A robust PFM system can be particularly effective when the rule of law and justice system function well in response to wrongdoings.

51. Weak institutional capacity, severely undermined by the brain drain resulting from the compounded crisis, has exacerbated existing risks of mismanagement and corruption. It also poses a significant threat to the government's ability to design, implement and report on needed reforms.

Restoring core PFM functions requires the Ministry of Finance to accelerate efforts to upskill and reskill its employees as well as public sector workforce engaged in PFM functions to rebuild a capable and efficient financial administration. Promoting standardized PFM standards and practices is expected to enhance transparency, consistency, and accountability in financial operations, thereby fostering better governance and oversight and reduce vulnerabilities to mismanagement, ultimately mitigating fiduciary risks.

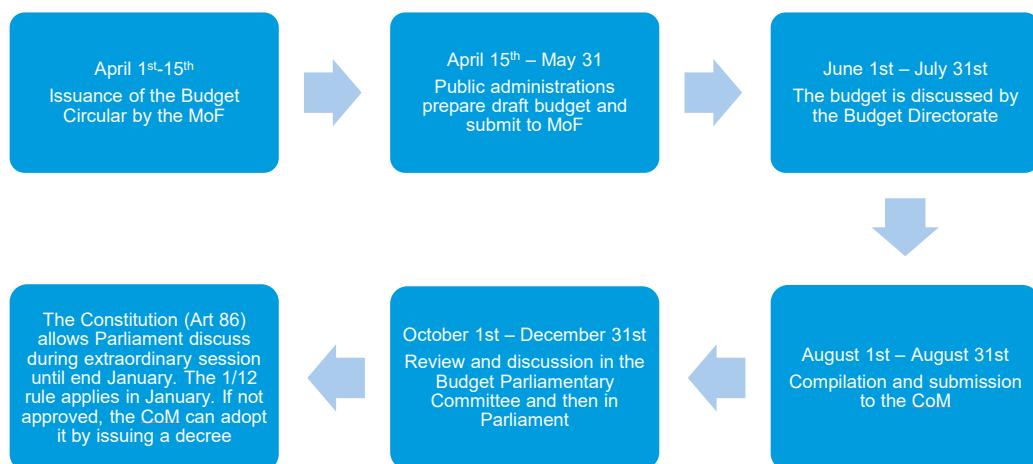
Governance Weaknesses in the Budget Preparation Process

52. The budget process is essentially a bottom-up exercise not guided by a medium-term perspective and does not respond to fiscal objectives. In this context, there is an increased risk of allocating short- and medium-term resources based on non-objective criteria or on criteria that are misaligned with medium-term economic, social, and fiscal goals. Line ministries or institutions with the most significant political power may influence budget allocations at the expense of cuts in other ministries whose allocations are relevant to medium-term economic and social development. Some of the practices increase these risks include:

- The budget is not aligned with a medium-term development perspective, which in turn would be based on costed sectoral plans and policies as well as clear and measurable economic and social targets.
- A medium-term fiscal framework is no longer prepared and attached to the budget circular ahead of the budget preparation process. Global expenditure ceilings, coherent with fiscal sustainability, are not set.
- Budget documentation covers only revenue and expenditure for the budget year but does not provide adequate information on medium-term budget projections. The fiscal report, which was regularly produced until 2021, was suspended, although efforts have been made to resume this practice. However, basic fiscal information remains incomplete, and the MoF frequently has to estimate certain revenues and expenditures.
- The Lebanese government uses line-item budgeting with limited linkages with policy objectives.

53. The formulation of the budget is a disorderly process that has led to the use of distortive and non-transparent practices. The government often breaches the budget calendar (Figure 3). This means that line ministries and other entities do not have enough time to prepare their budgets. Especially during 2020-2022, given the volatility of macroeconomic variables, forecasting revenues and expenditures has become difficult, resulting in delays in presenting the budget to the Council of Ministers and the Parliament.

Figure 3. The Budget Calendar



Source: IMF staff based on PAL and the Lebanese Constitution

54. Parliament also often delays the discussion and approval of the budget within the statutory timeframe. In 13 of the last 20 years, Parliament failed to approve the budget (2006-2016, 2021 and 2023) and the government did not make use of the provision included in Article 86 of the Constitution, which allows the Government to approve the budget by a Decree in case of the Parliamentary failure.⁹⁹ As a consequence, during these years public spending was largely decided and executed on an ad-hoc basis and subject to little Parliament's oversight. This practice led to the extensive use of distortive and non-transparent figures for spending, such as the Treasury Advances, which give rise to ad-hoc allocations with little oversight.¹⁰⁰ The absence of budget approval for many years undermined Parliament's role in the budget process, giving the country one of the lowest ratings in the Open Budget Survey (OBS).¹⁰¹ The 2022 Budget was presented to the Parliament in March 2022 and was approved in September. The 2023 Budget was submitted to Parliament again with a significant delay in September 2023 and was never approved. The situation improved in 2024 and 2025, as the budgets were approved with shorter delays—in January 2024 and March 2025, respectively.

55. A significant percentage of expenditures is decided outside parliamentary discussions and executed outside budget processes and controls, undermining parliamentary oversight and the ability to detect irregular practices. Annex 2 briefly describes the most prominent off-budget institutions partially or fully exempted from Lebanon's budget rules, procedures, and controls. The proliferation and size of various off-budget items have consequences for fiscal management. First, the figures for expenditures and fiscal balance reported in the budget are misleading, being less favorable once off-budget expenditures are included. In addition, since off-budget spending escapes the rules, processes, and controls of the budget, and given that many institutions have often operated within a weak governance framework, the risk of fraud and irregularities increases.

56. Off-budget spending is significant, although its exact size is not known with accuracy. (See Annex 2). While, the Ministry of Finance does not report the size of off-budget spending in any fiscal document, the Citizen Budget compiled by the Institute of Finance Basil Fuleihan estimates that off-budget spending could amount to about 15.5% of GDP. Financially Wise (2022) estimated that this percentage can reach 60% of the executed budget in 2018¹⁰². In addition, BdL's quasi-fiscal operations such as FX subsidies (US\$2.0 billion in 2020 and US\$2.6 billion in 2021) contributed to the government's deficit in 2022.¹⁰³ The proliferation and size of various off-budget items have had negative consequences for fiscal management, resulting in inaccurate and misleading figures for expenditures and the fiscal balance. With many institutions operating within a weak governance framework, the risk of fraud and irregularities increase.

57. As the crisis worsened in 2021-2022, budget formulation became more of a formality, not supported by in-depth analysis or discussion (IdF-BF, 2021). Representatives of 70 public entities surveyed by the Institut des Finances indicated that there is low capacity and poor coordination both among entities and within them during the preparation of the budget, a shortcoming compounded by the lack of an integrated financial management system. Units in charge of budget preparation in line ministries also

⁹⁹ This provision is conditional on submitting the budget proposal to the parliament within the constitutional deadlines, which was not the case.

¹⁰⁰ The use of treasury advances has increased during the crisis given that allocations fixed in the previous budgets were not sufficient to cover the growing needs.

¹⁰¹ The Open Budget Survey examines the role that legislatures play in the budget process and the extent to which they provide oversight. Each country is scored on a scale from 0 to 100 based on 18 equally weighted indicators.

¹⁰² <https://img1.wsimg.com/blobby/go/60707d2b-840a-4362-935e-bce14573870a/downloads/Lebanon%20off-budget%20spending.pdf?ver=1698322656955>

¹⁰³ BdL undertook large-scale quasi-fiscal operations starting in late 2019, including subsidies for fuel and medicine imports as well as the provision of preferential exchange rates for various purposes, until a change in leadership in August 2023. IMF Article AIV Staff Report, Special Issues Paper, 2024

indicate that the budget calendar is not respected, and the budget circular is often communicated with delays and for budget preparation. The survey also mentioned the lack of a modern PFM law as the second main weakness of the budget preparation process.

58. The stagnation of public administration during the crisis has significantly contributes to the worsening of the weaknesses affecting the budget process in Lebanon. While civil service diagnosis and reform are beyond the scope of the DGC, the mission stresses the crucial role of civil service in implementing reforms, including those proposed by the DGC. Without functional public service, any progress in the PFM system is likely to be ineffective. Rebuilding the public service requires that the staff of the MOF and other agencies regain human capacity, including through training and capacity building, as well as access to other necessary resources. Implementing training programs for the relevant staff in line ministries would also be beneficial.

Governance Weaknesses in the Budget Execution Phase

59. Lebanon presents weaknesses in many aspects of budget execution. Significant gaps between budget estimates and actual outturn illustrate these weaknesses. According to budget documents, between 2017 and 2020,¹⁰⁴ expenditures were on average under-executed, by 21 percent, while the percentage of under-executed revenues was 5 percent (Figures 4 and 5). However, as mentioned above, since at least 20 percent of public spending occurred outside the budget, expenditures under-execution does not necessarily imply an effective decrease in the fiscal deficit. Investment execution is low (50%), Among the explanations for low rates of execution of investment spending are the important use of carryovers and delays in tender processes, often resulting from the need to pay salaries and pensions (Table 2).¹⁰⁵

Figure 4: Expenditure: Budget Estimates and Outturns (LBP billion)

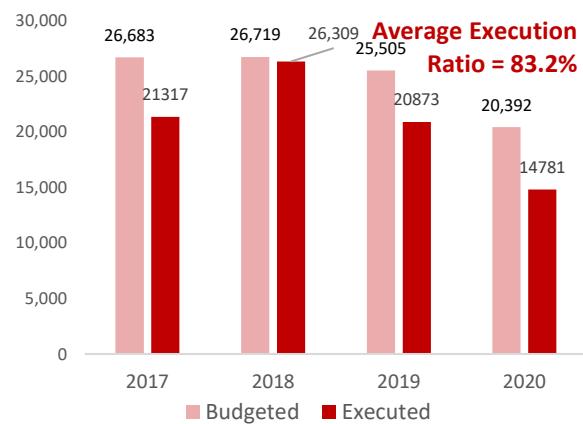
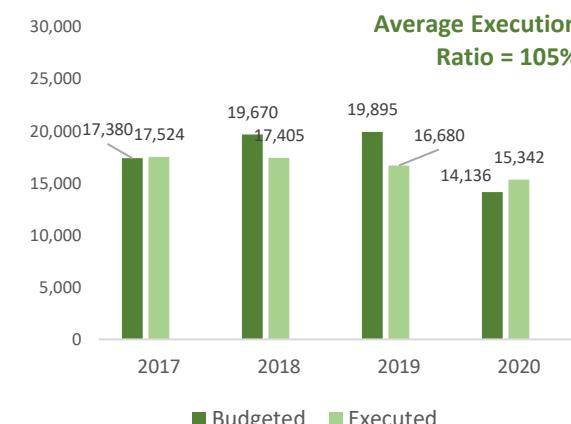


Figure 5: Revenue: Budget Estimates and Outturns



¹⁰⁴ Figures on estimates and outturns are not available for 2021 as the budget was not approved and for 2022 as the MoF has not produced definitive numbers.

¹⁰⁵ However, for having a better picture of investment execution, it would be relevant to analyze the execution of projects managed by the CDR that are not included in the budget.

Table 2: Execution Ratio by Economic Distribution of Spending (%)

	2017	2018	2019	2020	Average
Personnel costs	103.32	100.31	97.05	95.32	99.0
Debt interests	104.87	99.2	97.13	62.18	90.8
Capital expenditures	46.7	71.23	45.21	39.29	50.6
Consumable goods	90.7	109.4	79.27	81.15	90.1
Services	98.16	82.55	85.45	56.21	80.6
Other current exp.	42.65	105.65	30.18	30.93	52.4

Source: [Lebanon Citizen Budget Dashboard](#).

i) Governance weaknesses in expenditure control

60. Multiple, cumbersome, and redundant controls in the budget execution process create incentives to execute spending outside of budget control. These weaknesses have long been identified and only marginally corrected. Duplications are identified at the commitment, verification, and payment stages.¹⁰⁶ Successive changes in the threshold that determine whether the Ministry of Finance or the CA should carry out the commitment control have made this process cumbersome in daily practice. An additional limitation is that at this stage the commitment is approved based on the available allocations and is not related to the cash availability, which may lead to the accumulation of arrears when the corresponding payment is due.

ii) Cash management and arrears accumulation

61. Since 2004, the Government has started the process of establishing a full-fledged Treasury Single Account (TSA) to improve cash management practices; however, this process remains incomplete (project law No. 13796). Several constraints have been identified in previous IMF technical assistance activities, including: i) the fragmentation of the Treasury's account at the BdL since the legal framework (Law 49/87) still allows public institutions and municipalities to open accounts in their own name within the BdL; ii) In addition, the BdL cannot provide details to the cash management department of the MoF about accounts outside its perimeter because of restrictions imposed by the Bank Secrecy Law; and iii) it is not possible for the MOF to know its consolidated liquidity position in real time since the BDL technological platform only can provide this information for the previous day.

62. Expenditure arrears accumulation has been a recurring problem in Lebanon, although its size has diminished because of exchange rate depreciation. Expenditures arrears, which were pronounced in 2021 and 2022, are not new in Lebanon and began accumulating years ago.¹⁰⁷ Assessing and quantifying arrears has been difficult because there is no legal definition of arrears in the country, and the Integrated Financial Management Information System (IFMIS) does not allow determination of the moment when a payment falls into arrears. In 2022, the IMF recommended several measures to address these issues, but the recommendations have not been implemented despite the technical assistance received by the inter-agency group on this matter. Typically, and especially during times of crisis, if a government fails to establish a clear payment prioritization - considering factors such as the age of invoices and the potential impact of delayed payments on service delivery - the risk of discretionary decision-making

¹⁰⁶ Philip Gerson, Mona El-Chami, Asmaa ElGanainy, Manal Fouad, John Gardner, Pierre Messali and David Webber (2011), Lebanon-Strengthening Public Financial Management, IMF Technical Assistance Report.]

¹⁰⁷ Arrears toward the National Social Security Fund (NSSF) started building before 2004 and many public institutions such as Electricité du Liban and Ogero (Organisme de Gestion et d'Exploitation de l'ex Radio Orient – the Telecom public company) have experienced billing issues both toward the public sector and the population at large. Other, such as arrears due to hospitals, are more linked to the current increase in health costs and the COVID crisis.

increases. Also, when the issue of arrears worsens, suppliers may be incentivized to raise the costs of producing goods and delivering services to the government as compensation for payment delays, which in turn has implications for public spending. Although the size of the arrears has decreased in recent years due to the depreciation of the exchange rate and is currently more manageable, arrears accumulation remains a recurring problem that should be addressed in the future. Adopting the recommendations of the 2022 technical assistance can help achieve this goal. Recent efforts by the government to improve cash management practices should also be highlighted. Decision 22 of 2025, issued by the Council of Ministers, authorizes the Ministry of Finance to request account-statements from ministries and other public administrations at any time, allowing the Ministry to gain a better picture of its cash situation. Similarly, the Ministry of Finance has not approved any treasury advances this year, which has positively affected the cash position.

Governance Weaknesses in Public Procurement

63. Slow and ineffective implementation of the Public Procurement Law is one of the main weaknesses in the budget execution process. Lebanon has an outdated and fragmented public procurement system with considerable capacity and technology gaps, resulting in inefficiencies and high risks of corruption. For the period 2011-2020, public procurement accounted for 20 percent of central government expenditures and 6.5 percent of GDP on average at the central level only (Figures 6 and 7; source: Institut des Finances). A Central Inspection survey, to which 120 institutions responded, indicates that the exceptional practice of awarding contracts by mutual consent (62 percent) surpassed the basic principle of public tendering (7 percent) and 94 percent of contracts were not controlled by the Central Tender Board (Figure 8).¹⁰⁸

Figure 6. Public Procurement (LBP billion)

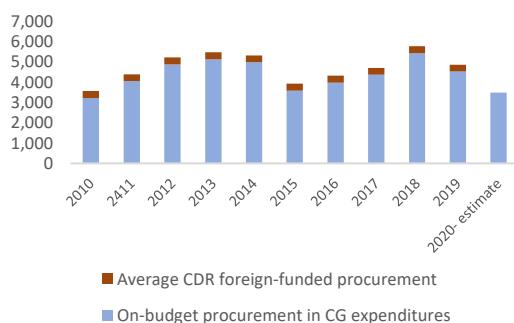
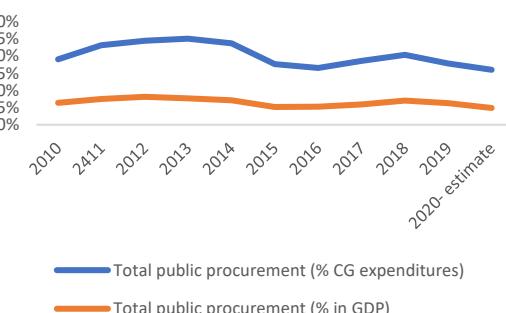
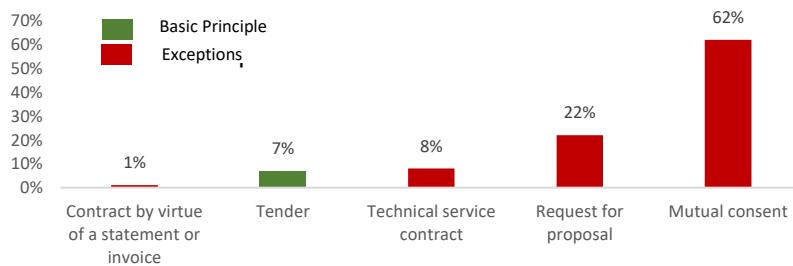


Figure 7. Public Procurement (%)



¹⁰⁸ The Public Accounting Law stipulates contracts pertaining to the provision of materials, works, and services should be awarded through a public tendering process. In exceptional circumstances, contracts may be awarded through a limited tender, request for proposal, mutual consent, or by virtue of a statement of invoice.

Figure 8. Basic Principle and Exceptions in Extending Public Procurement Contracts (%)



Source: Figure 6 and 7: Institute des Finances ; Figure 8: [Central Inspection \(2022\)](#).

64. In July 2021, the Lebanese Parliament approved a long overdue new Public Procurement Law to improve governance and reduce corruption.¹⁰⁹ The law resulted from an evidence-based diagnostic¹¹⁰ and is founded on eight pillars: 1) the creation of the Public Procurement Authority and the Complaint Authority, 2) standard procurement documents, 3) guidelines and other tools, 4) training and professionalization, 5) communication, dialogue and awareness, 6) a central electronic platform, 7) risk management, and 8) resource mobilization and partnership. A National Strategy for Public Procurement Reform was adopted by the Council of Ministers in May 2022 along with an Action Plan for the period 2022-2024 in which concrete measures were associated with each pillar of the strategy.

65. The new Public Procurement Law contains a modern and comprehensive legal framework that largely follows the standards of the United Nations Convention Against Corruption (UNCAC) for a competitive and transparent procurement system. It includes a broad definition of covered contracting entities with the aim of capturing all public sector institutions, agencies and bodies, SOEs and even private companies operating public utilities.¹¹¹ The law provides (i) detailed regulations on the different procurement methods and procedures, (ii) preference for open bidding, (iii) e-procurement, (iv) enhanced transparency and integrity requirements, including a solid framework on conflicts of interest, and (v) professionalization of procurement, including an obligation for continuous training of procurement personnel. The law creates a new independent regulatory authority, the Public Procurement Authority or (PPA), as well as an independent administrative review body, the Complaints Authority, which will serve both Public Procurement and Public Private Partnership complaints. The law also includes a detailed dispute resolution mechanism, merit-based appointments, definitions of conflicts of interest, sanctions for law infringements and some protections from undue influence.

66. Several actions have been taken to facilitate the implementation of the law. The 2024 report of the 3RF Anti-Corruption, Public Financial Management, Public Procurement, Civil Service and Public Administration Reform Working Group on Public Procurement recognizes the benefits of the law as a key pillar of good governance and sustainable development. Following the ratification of the Public Procurement Law, several actions were taken to facilitate its implementation: (i) the development of the Public Procurement Reform Strategy (May 2022) and action plan (2022-2024); (ii) the development of the Capacity

¹⁰⁹ The law entered into force on July 29, 2022. Further amendments were introduced in 2023.

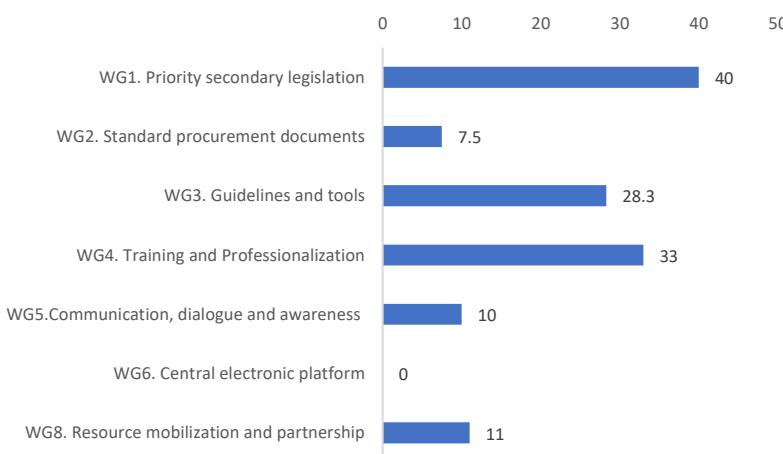
¹¹⁰ The diagnostic used the MAPS II instrument (Methodology for Assessing Procurement Systems) and a full-fledged report and recommendations for reform roadmap was produced.

¹¹¹ However, resistance to come under the applicability of the law still remains. The PPA urged *Casino du Liban* and *Middle East Airlines* to comply with the Public Procurement Law provisions arguing that it applies to any company whose shares are owned by the State and which operates in a monopolistic environment and public services managed by private companies for the benefit of the state. Other public institutions, such as the Banque du Liban, have requested to the Council of Ministers their exclusion from the applicability of the law ([Public Procurement Secretariat \(November 2022\)](#)).

Building Strategy, (iii) the development of the E-Procurement Strategy, (iv) the development of the Public Procurement Law Communication Strategy; (v) a mapping of the Public Procurement Stakeholders; and (vi) the development of Standard Procurement Documents.

67. However, the implementation of the law has been slow. The [Secretariat's document of November 2022 contains](#) a quantitative implementation progress assessment for seven of the eight pillars, which is summarized in Figure 9.¹¹² For pillars with multiple components, a simple average of individual component progress was calculated. There has been little progress on fundamental issues such as the creation and operationalization of the Public Procurement Authority (PPA) and the Complaints Authority (40 percent), while in others, such as the creation of the e-procurement platform, no progress has been made (0 percent). Both agencies' creation decrees and by-laws have been awaiting approval by the Council of Ministers for almost a year and no calls for candidates have been announced to appoint their members. The E-procurement platform was originally scheduled to be operational by August 2022, but the authorities have not announced the expected new timeframes for its completion. The reasons for the slow progress in the implementation of the law are varied: reluctance to tackle corruption networks, weak institutions with severely limited human and financial capacity, as well as overall resistance to change.

**Figure 9. Progress in Public Procurement Law Implementation
(Average % progress by pillar, November 2022)**



Source: [Public Procurement Secretariat \(November 2022\)](#).

68. The government is committed to advancing the implementation of the new public procurement legislation. The Public Procurement Authority (PPA) is expected to begin appointing members to its two boards and hiring staff to fulfill their responsibilities effectively. According to Article 88 of the law, the Director General of the now-defunct Tender Board will serve as President of the new Public Procurement Authority. Until the appointment of the remaining four members, the President will have the authority to carry out all functions of the PPA. The process of selecting the PPA board members is expected to be launched soon on CSB's recruitment platform. However, the slow progress in appointing board members and staffing the PPA means that decisions typically made by a collective body are currently made by a single individual, creating a governance weakness. Nonetheless, positive developments, such as the recent approval of the PPA's decrees and internal regulations by the Central Supervisory Board (CSB) that allowed the PPA to begin the recruitment of 58 staff members are welcome.

¹¹² No material improvement is identified since the end of 2022.

69. The rollout of the electronic platform has been slow, putting a potential grant intended to finance its implementation at risk. Timely publication of detailed bids, tenders, contracts with their respective terms and conditions, and periodic procurement reports is necessary to promote transparency, accountability, and mitigate corruption risks. In 2021 and 2022, a series of consultations were held with stakeholders, including the PPA, the Office of the Secretary of OMSAR, civil society, the private sector, and the donor community. A draft e-procurement strategy was prepared in cooperation with the World Bank and a funding proposal was submitted to the Global Procurement Partnership. Negotiations, audit and review of the implementing agency and preparations of the grant documents were completed but are yet to be signed by the Minister of Finance. Progress on this front, particularly in securing funding for the e-procurement platform, is stalled by bureaucracy and slow processes ([Public Procurement Secretariat \(November 2022\)](#)).

70. Given the delay in implementation of the e-platform, the PPA is temporarily using its website to publish relevant information. This measure has begun showing positive effects by issuing alerts on possible irregularities in contracts and in compliance with the law. This is the case, for example, of the recent PPA's decision to revise the contract for the extension of Beirut Airport arguing that, considering its amount, it falls under the Public Procurement Law and the tender process should have been open and competitive.

71. Despite these positive signs of progress, the poor implementation of Law could undermine one of the key legal advancements in the fight against corruption. Just two weeks after the Law entered into force, amendments to the law were submitted by two parliamentary groups to exempt municipalities, citing limited capacity at the municipal level, and unions from its provisions. Following these discussions in which relevant stakeholders participated, minor amendments were introduced to smoothen implementation for procuring entities, with special attention to the smaller entities. More recently, on April 18, 2023, a second round of amendments was approved to exempt municipalities from the obligations of the law, citing the need for facilitating the implementation process.

Weak Oversight of PFM

72. The internal¹¹³ and external¹¹⁴ audit of government expenditure is not clearly defined or differentiated in Lebanon. In principle, there is a threshold that determines which institution—either the MOF or the CA—is responsible for oversight. If a transaction falls below this threshold, the financial controller at the MOF is responsible; if it exceeds the threshold, the responsibility shifts to the CA. However, this threshold has changed numerous times, causing confusion and, in some instances, duplication of efforts. Currently, a legal amendment is being prepared that will propose increasing the threshold by 400 times. It is crucial to assess how this change will impact on the MOF's workload in relation to the CA and its capacity to perform this function efficiently. Additionally, the roles and responsibilities of the two

¹¹³ Internal control is exercised by the Central Inspection in Lebanon. The CI is a primary audit and inspection agency, which reports to the Presidency of the Council of Ministers, conducts administrative and financial controls through inspections across the public administration and imposes disciplinary measures as needed. The CI also advises public sector institutions on the improvement of their structures and processes, coordinates joint actions between relevant public administrations, and proposes recommendations to the Council of Ministers on the reorganization of the public administration, institutions and municipalities.

¹¹⁴ The external audit in Lebanon is a responsibility of the Court of Accounts. The CA is the highest financial tribunal overseeing the management of public funds. It exercises administrative and judicial controls on the government administration, some municipalities, some public enterprises (as allowed by the relevant governing law), and institutions. There are two types of controls: i) ex-ante controls to approve the use of public funds in transactions over a certain threshold and ii) an ex-post control to confirm the correct use of these funds. The Court of Accounts can investigate and penalize public officials who engage in misuse or fraudulent use of public funds.

institutions are often redundant, overlapping, and conflicting, causing delays and inefficiencies for budget execution ([MAPS, 2021](#)).¹¹⁵

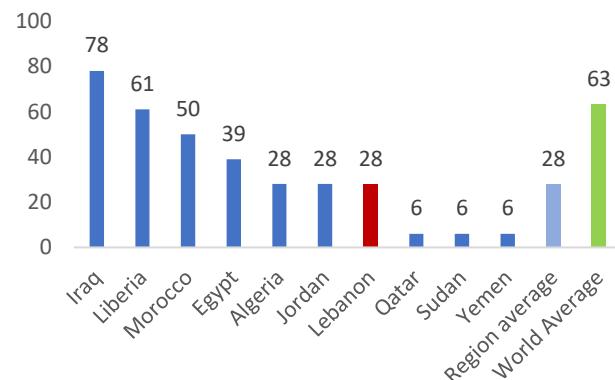
73. There is no clear legal basis for internal control at institutional level.¹¹⁶ In fact, internal management control processes are weak in public entities and institutions. Data collected by the CI shows a weak organizational culture, which contributes to failures in recording basic transactions and producing adequate financial reports. The latest results of a survey fielded by the CI confirm the lack of strategic planning and clear implementation standards in the Lebanese public administration.¹¹⁷ According to the survey, financial management regulations relevant for accounting purposes are largely disregarded, violating Articles 214 and 215 of the PAL, which obligate all public administration institutions to maintain accounting records for materials. This, however, is essential for monitoring the management of public funds to avoid misuse and embezzlement. Based on the survey, this aspect showed significant breaches, with 65 percent of institutions failing to maintain any accounting records. Finally, between 2017 and 2022 390 grants were received by 43 public entities and institutions,¹¹⁸ but 81 percent were not monitored and only 48 percent were included in the budget.

74. The Central Inspection launched a Strategy in 2017 to advance internal control, e-government and public administration, achieving some positive results for mapping the main gaps. As an implementation tool for the strategy, it has developed IMPACT, a digital platform that collects and publishes real-time information on different aspects of public. The platform has served to collect relevant information on internal control and human resource management processes within public entities, some of which has been presented in this document.

75. The external oversight of the budget provided by the Court of Accounts shows several weaknesses (Boustany et al., 2021):

- According to PAL, the Court of Accounts should submit year-end financial accounts to Parliament ahead of the promulgation of the budget. According to the Open Budget Survey, between 2010 and 2021, an audit report was prepared for 2012 only.
- The Court of Audit only produces compliance reports. Performance audit reports have only covered some critical sectors (transportation, communication and water).
- The audit standards adopted in the current reporting systems are not in line with international standards.
- From an administrative perspective the Court of Accounts does not have statutory independence from the Government. Its president is appointed by “virtue of a decree issued by the Council of Ministers

Figure 10. Supreme Audit Institution Oversight Score 2021 (max=10)



Source: OBS Report 2021

¹¹⁵ The main weaknesses of the ex-ante model are that it involves detailed reviews and approval procedures of each individual expenditure which is cumbersome and time-consuming and reduces budget execution efficiency. Also, the ex-ante model tends to produce specific observations and comments and does not allow to have a complete picture of the execution phase and to identify structural problems in budget management.

¹¹⁶ This function was abolished in 1958 when it was centralized at the Central Inspection

¹¹⁷ [Central Inspection, 2022](#)

¹¹⁸ Question on grants were responded by 94 institutions.

upon the proposal of the Prime Minister" (Article 4 of the Court of Audit Decree 82), over which it is expected to exercise scrutiny. However, the president's revocation is subject to the approval of the legislature or judiciary.

76. Compared to the regional and the global average, the oversight function of the Court of Accounts is poorly rated. The Open Budget Survey (OBS) assesses whether countries have an institutional framework for supreme audit institutions that ensure them with the independence and resources needed for adequate oversight. The OBS shows that the function undertaken by the CA ranks low compared to other countries in the region and the global average (Figure 10).

77. The oversight function of the PFM system should be strengthened. The CA recognizes these limitations and informs the mission of its recent efforts to address them. With the assistance of a reputable consulting firm specializing in accounting and auditing, CA is working to modernize and improve its operations. It is also necessary to strengthen the Central Inspection by clarifying its legal authority and functions in line with international standards and avoiding overlaps with other oversight bodies, improving the coordination mechanisms with other control agencies and ensuring it has adequate staff capacity and technological tools.

Ownership and Management of State-Owned Enterprises

78. A fragmented and heterogenous legal and institutional ecosystem undermines the state's ability to undertake its ownership functions in a professional and informed manner. These enterprises play an important role in the Lebanese economy by delivering essential public services. However, the state's limited capacity to efficiently monitor and oversee SOEs creates significant room for mismanagement and corruption. Ultimately, this situation weakens SOEs' overall financial and operational performance, generates significant budgetary pressures and fiscal risks, erodes public trust on reliable public service delivery and creates uncertainty for suppliers and contractors.

79. Law No. 517 provides a common governance for SOEs but fails to adequately distinguish between commercial and non-commercial entities. Labeled as "public establishments" these entities are statutory bodies governed under public law¹¹⁹, possess their own legal personality and assets and are created and regulated through decrees¹²⁰. The definition of "public establishments" is broad and omits a key element distinguishing commercial or "for profit" orientation to identify commercial entities. This lack of differentiation overlooks the special circumstances and needs of each type of entity, impacts their classification, monitoring, and evaluation and leads to the application of uniform principles and governance frameworks for both types. Such an approach can prove insufficient for commercial enterprises, which typically require more robust financial performance and monitoring frameworks—due to their substantial fiscal risks—and more agile and sound corporate governance frameworks. The Lebanese legislative system includes more than 174 entities and a large number of agencies and autonomous bodies which are of a commercial, administrative, and investment-related nature.

80. The law establishes a decentralized ownership system where Line Ministers substantial power over SOE operations. All relevant SOE decisions are subject to the approval of the Line Ministry¹²¹

¹¹⁹ For example, public service hiring rules apply.

¹²⁰ As statutory bodies, the Companies Law and other private law regimes do not apply to these entities.

¹²¹ Article 22 of Law 4517 provides for the approval by the Line Ministry of the following: Internal systems, employee system, financial, accounting and investment systems. Business programs, budget, balance and financials, use of reserves and allocation of profits, treasury advance requests, borrowing, tariffs and prices and fees, contracts for works and services in excess of 100,000 1.5 Lebanese pounds as per the decision of the Council of Ministers 14063 dated 3/10/2024, arbitration and reconciliation claims, accepting donations and gifts, and other decisions that the Council of Ministers decrees. All must be decided within 15-30 days or they are deemed approved on a lapse of time basis.

and the MoF¹²², which blurs lines of accountability and weakening boards' mandate and autonomy¹²³. The line ministry also exercises oversight over SOEs, generating conflicts of interest between ownership and regulatory functions. SOE board members and CEOs are appointed or recruited by the Line Ministry, as is a Government Commissioner who in some cases participates and votes in board meetings. Reporting by the Committee of irregularities to the prosecutor at the Court of Accounts and to other accountability institutions may only be done with the favorable vote of the Line Ministry and the MoF.

81. Law No. 517, adopted in 1972, is now largely outdated, suffers from serious governance weaknesses and is not aligned with international standards¹²⁴ and good practices. The main weaknesses in the law and its implementation include:

- There is no clear and uniform legal definition of a SOE, which leaves ample space for interpretation on the applicability of the law to public entities¹²⁵.
- The lack of rules regarding indirect ownership (subsidiaries and other legal arrangements) incentivizes discretionary and arbitrary decisions and allows for misuse of public funds.
- The law authorizes the creation of SOEs by decree of the Council of Ministers, without having to provide a rationale for state ownership or feasibility or financial sustainability studies.
- The governance model does not provide for the separation of the ownership, regulatory and policy functions. Usually, all these powers are concentrated in the line ministries, creating conflicts of interest.
- Board appointments are usually done along sectarian lines and are not merit-based or transparent and there are no safeguards to shield board members from undue political influence (e.g. they can be removed without cause at any time). Public servants may be appointed to the Board (regardless of their skills and experience) and there is no requirement for independent board members. The CEO is appointed by and accountable to the government —based on the suggestion of the line minister—instead of to the Board and the same person can serve as chairman of the board and CEO.
- There are no mechanisms to assign clear objectives to SOEs nor to consistently monitor and evaluate their performance. There are no follow-up mechanisms on implementation of audit recommendations. SOEs must prepare quarterly and annual reports and send them to the Line Ministry and MoF (along with Central Inspection and Court of Accounts), but publication is not required and there do not seem to be any sanctions and enforcement mechanisms. There are no comprehensive reporting and transparency policies or requirements.¹²⁶

82. In addition, multiple legal instruments grant SOEs numerous exceptions, special treatments and individual governance models. Even though Lebanon has a general SOE legal framework that sets an overall common governance model (Law 4517), in practice SOEs have been created through different legal instruments that establish specific governance mechanisms and rules for individual SOEs, which are reflected in the applicable legal framework, the legal form, the ownership and corporate governance models, oversight mechanisms, and transparency and reporting requirements and practices. This makes auditing and oversight more difficult, as there are no standardized financial reporting and auditing rules, impedes the professionalization of state ownership, creates multiple governance and accountability

¹²² Article 29 of Law 4517 provides for the approval by the Ministry of Finance of the following: financial, accounting and investment systems, budget and financial statements, reserve use, profit allocation, borrowing, tariffs, prices and fees (one month to approve with *time-lapse approval*).

¹²³ While financial discipline controls may be appropriate in some cases, other aspects unduly interfere with Board responsibilities and regular operational decisions, e.g. approving the business plan, internal control systems or individual contracts or operations.

¹²⁴ OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024)

¹²⁵ The Ministry of Justice has issued interpretations through the Legislation and Consultation Authority.

¹²⁶ The government, with EBRD support, is carrying out a comprehensive assessment of the SOE legal framework

mechanisms with different degrees of effectiveness, blurs lines of accountability and responsibility for the enterprises performance and generates opportunities for mismanagement. Furthermore, the annual budget laws often include special provisions and treatments for SOEs. The following are examples of such special frameworks:¹²⁷

- *EdL* has a Board of Directors and a CEO, who also serves as Chairman of the Board. The Ministry of Energy exercises administrative guardianship and has the power to approve all major operational and administrative decisions, while the MoF approves all financial decisions and the CA can only perform ex-post audit.
- *Touch*, and *Alfa*, two state-owned telecommunication companies, are directly managed by the Minister of Telecommunication, who, contrary to the SOE good governance principles,¹²⁸ exercises some powers and responsibilities of the board of directors and the CEO, in addition to the shareholding and oversight functions.¹²⁹ This entails, for example, that every expenditure, operation or contract surpassing US\$50,000 requires ministerial approval. The Board of Directors has only executive members and plays a protocolary role. An Internal Audit was recently introduced with a direct reporting line to the Ministry.
- *Middle East Airlines*, a corporation wholly owned by Lebanon's Central Bank, adopted the governance structures provided for in the company laws. The Board is responsible for the overall financial and operational performance of the company while BdL's shareholding functions are carried out directly by the Governor with no transparency or accountability. There are no internal regulations or policies that govern the Central Banks's ownership functions.
- The *Port of Beirut*, a “national public property”, is managed by a temporary governing body, the “Temporary Committee for Management and Investment of the Port of Beirut”. The Committee is responsible for spending its revenues, specifying the work needed, and awarding corresponding contracts. Unlike a registered corporation, the Temporary Committee does not publish balance sheets or financial statements, and it is not in itself a legal entity. It is not subject to any transparency requirements. There are no standardized financial reporting and auditing rules, which impede the professionalization of state ownership, creates multiple governance and accountability mechanisms with different degrees of effectiveness and generate opportunities for mismanagement.

83. While the Ministry of Finance has the legal mandate to exercise financial supervision over SOEs, in practice its oversight role is minimal, due to lack of political will and low capacity. The law provides for the appointment of Financial Controllers by the MoF in all SOEs and they are responsible for overseeing their day-to-day financial management although their level of effectiveness and professionalism is uneven. They can sit in Board meetings and should be allowed access to all documents and information, to audit the collection of revenues and fees and to review the legality of expenditures and availability of funds. Financial Controllers need prior MoF approval to report irregularities to the CI or the CA, weakening yet another accountability mechanism. Reporting by SOEs to the MoF is uneven, as it receives and processes information from only part of the portfolio. There are no uniform formats for financial reporting, electronic accounting systems nor effective enforcement mechanisms. The use of public and private accounting schemes makes aggregate analysis challenging, also impacting MoF's ability to adequately monitor fiscal risks. In addition, the government does not have a complete list of its SOEs and their classification (in part also due to the problem of their legal definition).

¹²⁷ Authorities conveyed that other SOEs, like Regie Tabac, water establishments and oil entities also have exceptions in the legal framework.

¹²⁸ OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024)[OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition | OECD iLibrary \(oecd-ilibrary.org\)](https://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises_2015-edition_97953333.html)

¹²⁹ This arrangement, originally envisioned as temporary, has remained for many years. Authorities expect to launch tenders to assign new management agreements for both companies soon.

84. SOEs show poor reporting and auditing practices. Many SOEs still rely on paper-based accounting and do not prepare adequate financial statements, if at all. They are required to undergo an independent external audit by private auditors and are subject to the ex-post and ex-ante oversight by the Central Inspection and the Court of Accounts¹³⁰, generating overlaps and inefficiencies. The majority of SOEs are not audited by independent external auditors and even when audits do occur, auditors' opinions are often qualified. Authorities reported that audit tendering criteria focused primarily on price have often yielded unreliable audits, which do not provide stakeholders with reliable assurance on the financial position of these entities.

85. For several of the largest enterprises, the most recent audited financial statements date back to 2008. Large SOEs can tender and contract the financial audits to internationally recognized auditing firms, provided these firms are on the list of approved auditors issued by the MoF. However, the initiation of the audit is subject to the approval of both the line Ministry and the Minister of Finance, whose approvals have often been withheld or significantly delayed. The last audited financial statements for many of these entities (such as EdL¹³¹ and CDR) also date back to 2008. In some cases, the entities have indicated that they prepared and submitted their financial statements to the MOF, but the statements have not been audited.

86. Data and information on SOEs' performance and operations are not publicly available, and integrity mechanisms are not systematically applied. SOEs have shown strong resistance to implementing their transparency and disclosure obligations, arguing they are not covered by access to information law or simply ignoring these obligations. Only a handful of SOEs prepare and publish annual reports as mandated by law and overall transparency across the portfolio remains very weak. Asset declarations have not been consistently filed by SOE upper management and when they are, they are not verified. While the new Public Procurement Law applies to SOEs, its implementation and compliance remain uneven, with very weak monitoring

87. Addressing the systemic governance weaknesses of Lebanon's SOEs requires a pragmatic, phased approach that delivers early gains while building momentum for deeper structural reforms. Overall reform objectives should include enhancing transparency, accountability and operational efficiency, mitigating fiscal risks and restoring public confidence. Reform measures should prioritize actions that can be implemented without legislative changes, enabling immediate progress while laying the institutional groundwork for a comprehensive legal overhaul aligned with international standards and good practices.

88. In the short term, authorities should focus on executive actions to enhance transparency and oversight. Significant steps can be taken under existing mandates, including conducting a full inventory and classification of all SOEs based on international standards¹³², and publicly disclosing the results. A triage process should follow to determine which entities should be maintained, merged, dissolved, or reverted to government control. Simultaneously, financial reporting practices must be improved by developing standardized templates, training financial units, and publishing financial data of major SOEs. Other measures needed to institutionalize performance management and professionalize SOE leadership include ensuring the timely approval of external audits, introducing performance management agreements with clear targets and transparency obligations, and publishing merit-based criteria for board appointments.

¹³⁰ Mainly for financial matters, not administrative.

¹³¹ According to EDL, the 2020 external audit report was completed and disseminated to relevant stakeholders. It was also published on their website. In addition, EDL confirms that the audit reports for 2021 and 2022 will be finalized by September 2025, shared with relevant stakeholders and published on the website.

¹³² The OECD's SOE Guidelines and the IMF's 2014 Government Finance Statistics Manual (GFSM) provide valuable principles that emphasize the commercial orientation of SOEs and offer guidance on distinguishing between commercial and non-commercial entities. Adopting these principles could help create a more accurate and effective framework for managing Lebanese SOEs, ensuring that each type of entity is governed by appropriate and relevant standards.

89. Initial but decisive improvements in SOE governance can be achieved without altering their legal nature through corporatization. Under existing laws and legal powers, the government can enforce compliance with private and international standards across three key areas: (i) the appointment of board members based on established good practices, (ii) adherence to high standards of accounting, reporting, and disclosure, and (iii) the implementation of strict auditing procedures. While corporatization may have proven helpful in other countries, it should not be regarded as an essential first step in Lebanon, given the operational complexities and potential delays associated with the process, especially amidst the current crisis. Corporatization through broad SOE reform also entails difficult and disruptive legislative actions with political ramifications that must be carefully navigated to achieve desired outcomes. Additionally, the lack of reliable information regarding the financial situation of many SOEs poses significant uncertainties and fiscal risks, further emphasizing the need for immediate and prioritized actions without waiting for the corporatization process to unfold.

90. In the medium term, a new SOE law, aligned with international standards and good practices, should be enacted to consolidate the gains from earlier reform measures and ensure sustainable governance for Lebanon's SOE sector. This law should establish a unified SOE governance framework and clearly define the rationale for state ownership. It should also separate ownership, regulatory, and policy functions; empower independent boards; and ensure that CEOs are accountable to their boards rather than to political authorities. Comprehensive reporting, auditing, and anti-corruption provisions should be embedded in the law, along with a strengthened role for the MOF in fiscal oversight.

Recommendations to Address Governance Weaknesses in PFM, Public Procurement, Governance of SOEs

Measure	Leading responsible Institution	Timeline
Strengthening Public Financial Management		
Reform the Legal Framework for Public Financial Management in consultation with IMF staff	Parliament, Council of Ministers, MOF	LT
Prepare and submit to Parliament as part of the budget documentation: <ul style="list-style-type: none"> • A report on fiscal performance and medium-term fiscal objectives and measures to achieve them. • A report on extra-budgetary spending in the last three years • Budget allocations, accompanied by the budgets of National Social Security Fund, Council for Development and Reconstruction (CDR), Independent Municipal Fund, <i>EdL</i> and Telecom. Expand the coverage of the requirement gradually to all public institutions (LT) • A report on foreign financed capital expenditures implemented by CDR (MT) 	Council of Ministers, MOF	ST
Limit the use of treasury advances, carryovers and address the expenditure arrears <ul style="list-style-type: none"> • limit the use of treasury advances to the specific cases stated in the PAL. • Issue secondary legislation (or include a provision in the annual budget) to limit the treasury advances to 5 percent of total budget expenditures in each fiscal year. • Issue secondary legislation (or include a provision in the annual budget) to limit carryovers to current and capital expenditures of the previous year for which goods and services have been received to satisfaction. 	MOF, Council of Ministers, Parliament	ST
Issue secondary legislation (or include a provision in the annual budget) to limit carryovers to current and capital expenditures of the previous year for which goods and services have been received to satisfaction.	Parliament	LT
Ensure annual submission and audit of government accounts by the Court of Accounts and the submission of the Audit Report to the Parliament	Council of Ministers, Court of Audit	ST
Standardize fiscal reporting, enhance its effectiveness and expand the coverage <ul style="list-style-type: none"> • by issuing comprehensive guidelines, forms, and templates for budget preparation (ST) • Upgrading the current Integrated Financial Management Information System, (MT) and • expanding the range of spending entities linked to the Ministry of Finance (MT) 	MOF	ST & MT
Strengthen institutional capacity in PFM by: <ul style="list-style-type: none"> • Enhancing capacity through mandatory continuous education programs, accelerating ongoing capacity development efforts and introducing certification programs. • Effectively leveraging the in-house expertise (e.g. Institute of Finance Basil Fuleihan) 	MOF, Parliament, IoF	MT
Strengthening Public Procurement		
Expedite implementation of the Public Procurement Law by <ul style="list-style-type: none"> • Issuing decrees to create PPA. • Initiating transparent and merit-based recruitment of the PPA Board members. • Expediting the development of an e-procurement system for works, goods and services 	Council of Ministers, MOF, PPA, Parliament	MST

<p>Expedite implementation of the Public Procurement Law by</p> <ul style="list-style-type: none"> • Issuing decrees to create the Complaints Authority. • Initiating transparent and merit-based recruitment of the CA members. • Issuing decrees that establish PP as a profession within the structure of the civil service. • Expediting the development of an e-procurement system. • Aligning other decrees and bylaws related to oversight and control bodies with the Public Procurement Law, namely the law governing the Court of Audit functions 	<p>Council of Ministers, MOF, PPA, Parliament</p>	<p>MT</p>
Strengthening the SOE Legal Framework		
<p>Conduct a full and comprehensive inventory of SOEs, including their classification into commercial and non-commercial entities, based on international standards (GFSM), and making it public.</p>	<p>Council of Ministers</p>	<p>ST</p>
<p>Classify SOEs into groups (triage) to identify those that should be liquidated or dissolved, merged, reverted to government or maintained, making the results public. The triage should be based on (i) the SOE inventory and classification, (ii) financial evaluations, and (iii) a well-structured and consistent rationale for state ownership.</p>	<p>Council of Ministers, Line Ministries, Higher Council for Privatization</p>	<p>ST</p>
<p>Implement the SOE triage outcomes by liquidating, dissolving, merging, or reverting selected entities to government control. Ensure all actions are publicly reported.</p>	<p>Council of Ministers</p>	<p>MT</p>
Strengthening SOE Governance		
<p>Enhance SOE governance and improve SOEs financial reporting and transparency by:</p> <ul style="list-style-type: none"> • Developing financial reporting templates and providing training to SOE financial units. • Immediately uploading financial information of the largest SOEs to a dedicated website and keeping it updated. • Establishing high quality accounting, auditing, reporting and disclosure standards in line with international standards and best practices. • Ensuring that MoF timely approves SOE external audits requests. • Publishing sound fit and proper, independence and integrity criteria for upcoming appointments of board members of large SOEs, to be recruited under open, merit-based and transparent procedures • Developing performance agreements with the largest SOEs that set out, among other aspects, specific performance targets and goals, financing mechanisms and comprehensive reporting and proactive transparency obligations; ensuring they are made public. • Ensuring that top managers and board members of the largest SOEs file their asset declarations. • Preparing a comprehensive action plan for the gradual implementation of the new SOE law. 	<p>Council of Ministers, MOF, Line Ministries</p>	<p>MT</p>
<p>Enact a new SOE Law following international standards and best practice to establish a new SOE governance architecture and legal framework, ensuring <i>inter alia</i> that:</p> <ul style="list-style-type: none"> • The legal definition of SOEs adequately covers the SOE portfolio, in line with international standards and good practices and limits special regimes and treatments for SOEs owned by the government. • A strong and clear rationale for state ownership is introduced, as well as strict procedures and requirements for the creation of new SOEs that are financially and operationally sustainable. • Ownership, regulatory and policy functions are separate. • Ownership and oversight functions are exercised under a more centralized and efficient model with a clear delineation of the roles and responsibilities of government bodies, and effective audit and accountability mechanisms. 	<p>Parliament, Council of Ministers</p>	<p>MT</p>

<ul style="list-style-type: none"> • Boards of Directors are empowered to adopt operational, financial and administrative decisions and are ultimately accountable for the SOEs' performance. • Government controls do not unduly affect SOEs' autonomy while balancing the need to properly manage fiscal risks and address corruption vulnerabilities. • The majority of board members are independent and have appropriate and sufficient safeguards to insulate them from political influence. • Board members are recruited and appointed through transparent, merit-based and participatory processes. • The CEO and board members serve for a defined and limited term. • CEOs are appointed by and accountable to the Boards of Directors and cannot simultaneously serve as chairmen. • Extensive financial and non-financial reporting and disclosure requirements and policies are in place, including external audits, coupled with effective sanctions and enforcement mechanisms. • A comprehensive performance contracting, monitoring and evaluation framework for SOEs and boards of directors is established and regulated. • The MoF has an adequate mandate and sufficient powers to perform effective financial oversight over SOEs and monitor and analyze fiscal risks arising from state ownership, including by harmonizing the SOE Law with the PFM legal framework. • The role of MoF's financial controllers is reinforced. • All anti-corruption and integrity laws and frameworks (such as access to information, asset declarations, public procurement and anti-corruption criminal laws) are fully applicable to SOEs, their employees and management, including board members. 		
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B. GOVERNANCE WEAKNESSES IN REVENUE (TAX AND CUSTOMS) ADMINISTRATION

Tax Administration

91. The tax administration's outdated organizational structure and limited autonomy have led to serious inefficiencies and created unnecessary opportunities for corruption. By operating through two separate directorates, VAT and Revenue, substantial duplications are embedded throughout tax administration operations. These duplications are evident in many areas including IT, where multiple outdated systems are separately used separately for core operations. The negative consequences are felt by both the tax administration and taxpayers. Beyond organizational design, tax administration has limited autonomy. The authorities should consider whether operational decision-making on tax matters takes place within appropriate settings to ensure that tax affairs are determined free of political influence. This consideration should extend beyond operations and include human resource and budgetary matters with the aim of moving towards a modern, semi-autonomous and function-based model of integrated tax administration.¹³³

92. An organizationally independent and fully functional internal audit unit for both tax administration directorates has not been established. A small group of staff, reporting to the Director of the VAT and revenue directorates, undertakes checks on his instructions, however, these mainly involve reviewing audit files to ensure procedures were followed. No formalized annual internal audit plan or program of work has been formulated. No formal reporting of results of completed reviews has been made available. The staff carrying out these activities receive no special training in internal audit activities.

¹³³ For more detailed analysis see Lebanon:%20Technical%20Assistance%20Report-Tax%20and%20Customs%20Administration:%20An%20Urgent%20Need%20for%20Intervention%20(imf.org)

93. Apart from the IT department, there is no central repository of internal controls. Policies, processes, and procedures, related to an individual staff member's administrative work, can be found on internal IT systems of the tax administration but they are in an unstructured format preventing the production of a complete list of internal controls across all areas. Information technology system controls cover a standard range: user access restrictions; audit trails; and system access reports.

94. The Administrative Departments of both the Revenue and VAT Directorates are responsible for overseeing internal affairs. Officers in these departments also report to the Director but lack special powers to conduct formal investigations into serious misconduct. The limited number of administrative staff, coupled with the legal restrictions on their responsibilities, which officially fall under the Audit and Verification Unit in the Directorate of Revenues and the Planning and Administrative/Financial Coordination Department in the VAT Directorate—further hampers effective oversight. This is especially problematic given that only 5 of 24 verification auditors are currently available, and the VAT department has been understaffed, with its former head on leave for three years until a recent appointment. Integrity-related statistics are not maintained as there is no formal reporting on cases investigated. No evidence of co-operation with other investigatory agencies was provided although it was stated that the office monitors cases handled by the Central Inspection when tax administration staff are under its scrutiny. However, no evidence was provided about this. The development of integrity and ethics policy, including codes of conduct, does not appear to be prioritized

95. Staff of both the Revenue and VAT Directorates are expected to adhere to an informal code of conduct which differs from the existing code of conduct for all civil servants and has limited authority. This document covers a range of expected staff behaviors including following instructions from a superior; managing work absences; and refraining from making political statements. New staff joining the department are made aware of this code as it forms part of their induction training. A formal code of conduct and job descriptions have been drafted but not yet approved for use.

96. Oversight bodies are not actively monitoring the tax administration's financial operational performance. The CA, the CI and the recently established NACC each have similar powers regarding operational supervision. While the CA and CI have offices for financial inspection, the limited number of inspectors, burdened with heavy workloads and facing the same financial challenges as other public sector workers, hinder effective oversight.

97. Annual audits of the tax administration's financial performance were previously conducted by the CA. This is an *ex-post* control required by the Constitution, which stipulates that no annual budget can be approved unless the previous year's accounts are certified by the CA. The MOF has not sent financial information from public institutions (including tax administration) to CA since January 1, 2019. Reasons for the delay include disruptions caused by the Covid pandemic, the Beirut port explosion, and the ongoing financial and economic crisis. Consequently, the CA is currently unable to conduct any audits of the tax administration's financial performance. The CA could also conduct operational performance audits but there is no annual program specifying which functions are to be reviewed. It was indicated that operational activities selected by the CA for review were determined on an *ad hoc* basis; however, there is no evidence to confirm that any such reviews have actually been conducted.

98. The Central Inspection, which reports directly to the Council of Ministers, is authorized to review general MOF operations and investigate cases of maladministration. It has an annual verifications program with has not yet included any activity related to the tax administration. Also, the High Council of Discipline and the CSB could investigate complaints submitted by taxpayers. No evidence was provided regarding the number and type of cases investigated by these bodies and the findings have not been published.

99. Reports on activities are prepared, however details of full financial and operational performance for each tax administration directorate are not included. The MOF issues directives requiring the production of annual reports for both the VAT and Revenue Directorates. Evidence obtained shows details for a limited range of administrative activities mainly focusing on audit results; objection

handling; and collection activities. These reports are neither in a uniform format nor comprehensive. The reports are not publicly released.

Customs Administration

100. As a matter of practice, the HCC president and DG Customs Director General are affiliated with different political parties and sectarian groups. The Regional directorates of Beirut, Tripoli, and Shtoura are also aligned with different political parties or sectarian groups. Many decisions related to customs administration require the consensus of the three HCC Board members and the approval of DG Customs. However, no legal provisions specify the timeframe within which the Director General must provide an opinion and there is effectively no internal accountability mechanism if the Director General delays the process or refuses to comply with an HCC decision.

101. Risk-based controls are unreliable partly due to a historical lack of cooperation between the HCC and DG Customs as well as a paralyzed decision-making process. A risk management unit was established under DG Customs in January 2024, which could signal major improvements in customs clearance and reduce the HCC's direct involvement in selectivity controls and processing.¹³⁴ However, intelligence, investigation, and information analysis functions that could feed into risk assessment processes are missing. Although a Post Clearance Audit (PCA) Unit composed of anti-smuggling and field visits sections exists, no framework for risk-based PCA is in place and the unit needs proper guidelines, an audit manual, training and reinforcement. In addition, the Control Directorate of HCC, which is legally supposed to act as internal audit, interferes in the operational control of trade.

102. Despite multiple attempts at reform, customs operations in Lebanon remain largely manual, increasing risks of corruption, smuggling, and abuse of power. The United Nations Trade and Development (UNCTAD) Automated System for Customs Data (ASYCUDA) World system is used for declaration processing however there is no reliable information to assess its effectiveness. A risk-based selectivity module, activated in the ASYCUDA World system, selects goods into three channels (Yellow, Red, and Green) for customs control. Lack of feedback and statistics from the operational level to the HCC makes it impossible to assess its effectiveness. The ASYCUDA implementation requires IT support to become sustainable, safe, and secure to be used for management information and accurate trade statistics.

103. A national single window platform for trade has not yet been operationalized. Although Memorandums of Understanding (MOUs) have been signed between several governmental bodies, little tangible progress has been achieved. The Ministry of Public Health used the ASYCUDA platform until April 2023, when it requested a suspension pending improvements to its own information system. Attempts by HCC to advance the implementation of an MOU with the Industrial Research Institute, affiliated with the Ministry of Industry, have been unsuccessful.

104. The designation of reliable companies increases the risk of corruption. Lebanon launched a scheme to approve reliable and compliant traders with the benefit of expedited customs clearance. Accredited parties are granted access to simplified procedures and expedited processing of their shipments subject to minimal checks at customs. However, it did not progress properly, and it is unclear how compliant companies are determined in the absence of reliable data on customs control outcome. There are no formalized relations with the private sector nor is there ongoing consultation. Meetings are held with the Chamber of Commerce and Industry or select private companies only upon request.

105. Significant revenues are lost due to smuggling. The anti-smuggling function is performed by the paramilitary wing of the customs administration called the Brigade. The Brigade diverts goods on-route for proper clearance by customs and also prepares the required documentation. The Brigade lacks both equipment and the budget necessary to maintain an operational vehicle fleet. Border control is generally

¹³⁴ Referring to HCC Decision No. 2024/3. Note that when the risk management unit becomes fully operational, it will develop and manage selectivity criteria, among performing other functions.

weak, and customs administration lacks equipment and resources necessary to enforce adequate controls. Responsibility for combating post-release smuggling lies with the Audit and Anti-Smuggling Department and the Land-Based Enforcement Units. Many of these units, particularly the Anti-Smuggling Investigation Division, had been unable to perform their duties for an extended period due to logistical and technical obstacles caused by the Beirut Port explosion.¹³⁵

Resource-Constraints in the Customs Administration

106. The customs administration suffers from serious staffing shortages to the point of jeopardizing the fulfillment of its mission. Already weak and eroded public sector institutions in Lebanon have been further affected by the ongoing financial crisis¹³⁶ and the customs administration is no exception. Customs employ civilian officials recruited by the Public Service Board and military personnel, known as Brigade, who are recruited directly by the HCC or GD Customs, depending on the rank from a cohort of military academy graduates. There are no clear rules for staff grading, career development and rotation. Staff appraisals are not based on performance management, and if bonuses are distributed, higher level positions receive a disproportionately larger share than the lower levels, which can be perceived as unfair. Salaries are not commensurate with the mission or the demands of the work. Accordingly, personnel retention is low.

Internal and External Oversight and Accountability Mechanisms in the Customs Administration

107. There is no statutory body within the customs administration responsible for hearing, and disciplining infringements committed by customs personnel. There is also no internal audit or investigation function to refer cases of wrongdoing or ethics breaches. If any disciplinary offence is detected, it must be referred to external oversight bodies for further action. The Code of Ethics does not foresee any sanctions in case of an ethics breach. The Code of Ethics is, however, published on the customs website and staff receive copies of it. There is a legal obligation for all customs personnel to declare their assets and wealth, including those of their close family, every three years, although good international practice is to declare yearly.¹³⁷ More importantly, no evidence has been provided on the actual implementation of the requirement to declare. The customs administration should develop and approve a World Customs Organization (WCO)-standard Code of Ethics to comply with the principles of the WCO Arusha Declaration on Integrity.

108. Despite the limited controlling power of the HCC, complicated and inefficient processes allow for total impunity within the customs administration. Acting on reasonable suspicion that a staff member violated a law or regulation or is involved in helping trade operators to commit an offence, controllers at the HCC can initiate an audit. In practice, it hardly happens as such a decision requires consensus from all HCC board members and the approval by the DGC. DG Customs is authorized to propose a disciplinary measure through the HCC, which then may be sent to the Minister of Finance by the HCC. The Minister of Finance may refer the case to one of the external oversight bodies (i.e., the Central Inspection for disciplinary measures, and to the judicial system for criminal charges). In practice, the report is either not approved by one of the parties involved or not referred to an oversight body by the Minister of Finance in the first place.

109. External oversight is equally weak and inefficient. The CSB, CI, CA, High Disciplinary Council and the newly created NACC all have theoretical jurisdiction over customs, but none is exercising meaningful oversight. In some instances, this is due to HCC not releasing information needed by external auditors to perform their work.

¹³⁵ The authorities informed that staff and equipment have been provided to address constraints.

¹³⁶ [Impact Assessment of the Crisis on Lebanese Public Administrations & Institutions - IOF \(institutdesfinances.gov.lb\)](http://institutdesfinances.gov.lb)

¹³⁷ The customs administration complies with legally prescribed deadlines for the frequency of declaration and has by internal order further mandated that all personnel file, categories one to five.

110. Governance weaknesses linked to corruption vulnerabilities in customs administration should be addressed as a priority. In 2018, the HCC proposed a reform strategy to improve operations; however, this has not been implemented. The reforms focused on: (i) simplifying procedures, (ii) accepting e-payments, (iii) enhancing electronic data entry, and (iv) establishing an online e-single window for coordinated service with all of Lebanon's border agencies. In addition, the IMF Middle East Technical Assistance Center (METAC) provided capacity development to HCC in implementing the recommendations¹³⁸ of the 2022 technical assistance mission¹³⁹ on revenue administration. However, the plans did not progress due to a lack of approval and funding required for the HCC and DG Customs to advance implementation.

Recommendations to Address Governance Weaknesses in Revenue Administration

Measure	Leading responsible Institution	Timeline
Ensure that the legal framework provides transparent, clear, simple, specific and objective eligibility criteria for tax incentives and other forms of preferential tax treatment with minimal discretion afforded to officials for granting or approving incentives, and a mechanism put in place to ensure that incentives granted are periodically reviewed.	Parliament, Council of Ministers, MOF	MT
Move towards a semi-autonomous tax administration that fully integrates the VAT and Revenue Directorates, ensuring that the integrated tax administration has operational autonomy and freedom from undue interference.	Parliament, Council of Ministers, MOF, Tax Administration	LT
Prepare and publish an annual report outlining the full financial and operational performance of the tax administration within 6 months of the end of the fiscal year.	Tax Administration	ST
Adopt a new model of governance within which day-to-day administrative and operational work should be carried out by DG Customs without interference from the HCC or the need for consensus decisions between the head of DG Customs and HCC members. In particular, <ul style="list-style-type: none"> • Review and articulate a revised role for HCC regarding oversight and administrative policies; • Review and articulate a revised role for the DG Customs regarding operational decisions; • Define improved oversight and accountability mechanisms regarding both HCC and DG Customs; and • iv) Adopt the legislation, amendments, or instructions required to operationalize the new model. 	Council of Ministers, MOF, Customs Administration	MT
Designate a lead agency to advance the adoption of a national single window for trade, according to international good practices.	Council of Ministers, MOF	ST
Ensure that the tax and customs administrations are subject to external audits and are responsive to requests for information	MOF	ST
Introduce effective internal control mechanisms for tax and customs administration.	MOF, Tax Administration, Customs Administration	MT
Adopt an enhanced version of the existing codes of ethics for tax and customs administration that meets the relevant international standards and includes provisions for disciplinary actions and sanctions.	MOF, Tax Administration, Customs Administration	MT

¹³⁸ METAC Technical Assistance Report on Short Term Actions for Revenue Improvement of April 2022 by Maureen Tracey.

¹³⁹ Technical Report, April 2022 on Short- and -Medium Term Actions for Stabilizing Revenue Administration by De Mets, Van Bodegraven, Dance, Nagy, Richer.

Fully operationalize the Risk Management Unit and adjust the ASYCUDA selectivity to automatically select consignments to customs control channels.	MOF, Customs Administration	MT
Implement an AEO program for compliant and trustworthy companies.	MOF, Customs Administration	MT

C. THE CENTRAL BANK: ANALYSIS OF THE LEGAL FRAMEWORK¹⁴⁰

111. This section summarizes the relevant findings of a desk review of the objectives, autonomy, decision-making structure of BdL, and its ownership interest in companies. The analysis and recommendations focus on addressing structural governance weaknesses that may have facilitated the alleged corruption and abuse of power within BdL. The mission was informed of recent efforts by the BdL's new leadership to strengthen governance and operations, and their commitment to enhancing transparency and reporting. The notable efforts include the approval of the Audit Committee Charter by the BdL Central Council in May 2025 and the establishment of a committee to support the transition to IFRS-based financial statements.

112. BdL's legal framework, the Code of Money and Credit (the Code), is outdated and deviates from leading international practices. The Code defines the "overall duty" of the BdL is to safeguard the currency as "a fundamental guarantee for permanent economic and social development". More specifically BdL is tasked with (i) maintaining a sound Lebanese currency, (ii) ensuring economic stability, and (iii) preserving the basic structure of the banking system, as well as (iv) developing the monetary and financial markets (Article 70). This provision is broad, and open to interpretation and does not provide for price and financial stability to prevail in case of potentially conflicting objectives. The latter objective enables BdL to conduct "Financial Engineering"¹⁴¹ and quasi-fiscal operations, such as the participation in Lebanese public utility companies or mixed national companies within the limit of its own funds.¹⁴² In addition, during the mission, conducted when the previous BdL leadership was still in place, it was noted that BdL's shareholding functions (see below paragraph 114 and the Annex 8) were exercised solely at the Governor's discretion, with very weak transparency and accountability. Finally, it is concerning that the Code permits extensive monetary financing which exceeds the best international practices.¹⁴³ In particular, the Code lacks adequate safeguards on monetary financing for the public sector. Specifically, it: (i) allows the BdL to provide short-term advances to the Treasury up to a statutory limit at rates that may be up to one percentage point *lower* than the BdL's discount rate (Articles 88 and 93); (ii) allows the BdL to provide loans to the Treasury and SOEs *that are not subject a statutory limit* for a period of 10 years in "circumstances of unusual seriousness or in cases of absolute necessity" (Articles 91, 92, 93 and 94); and (iii) does not prohibit the BdL from purchasing government securities in the primary market (which enabled the BdL's financial engineering).

¹⁴⁰ This section is based on a desk review of the Code of Money and Credit; Decree No. 13513 of August 1, 1963, as amended. It does not include discussions on financial reporting and accounting, internal and external audit, and other operational issues, which are covered by the IMF Safeguards Assessment.

¹⁴¹ From 2016 onwards, BdL used a complex scheme to pay unsustainably high interest rates on FX deposits from banks, who could in turn offer retail depositors high interest rates on their FX deposits. As BdL's FX holdings dwindled, both the commercial banks' and BdL's balance sheets deteriorated (cf. Annex IV and V in IMF (2023), "Lebanon: 2023 Article IV Consultation").

¹⁴² Article 110(f).

¹⁴³ See articles 88, 91, and 92 for *direct* monetary financing. Moreover, Article 76(d) allows the BdL to consider banks' investments in Government bonds or in bonds issued with Government guarantee as part of the reserves up to a specific ratio determined by the BdL, which might allow for *indirect* monetary financing.

113. The BdL's functions as provided by the Code are not fully aligned with best practices. It is unclear whether BdL's key responsibility for licensing, supervising and regulating the activities of banks and financial institutions - as discussed below under Financial Sector Oversight - is exercised in a manner that ensures collegial decision-making and robust internal checks and balances.

114. BdL holds shares in several companies that are not related to the core functions of the central bank. As a result of different nationalization initiatives and acquisitions that took place decades ago, BdL directly holds shares in Middle East Airlines s.a.l, Intra Investment Company s.a.l., Midclear s.a.l, and Arab Investment Company s.a.l. It also indirectly holds shares through Middle East Airlines and Intra in Casino du Liban s.a.l, Finance Bank s.a.l, various air-service provider companies as well as real estate and construction companies in Lebanon and in France (see Annex 4). BdL maintains that these corporations are exclusively governed by Lebanon's company laws.¹⁴⁴ BdL's shareholding activities are not regulated and are therefore exercised at the Governor's sole discretion and with very weak transparency and accountability.¹⁴⁵ The BdL has expressed its commitment to divesting its shareholdings once conditions are conducive, with the objective of reinforcing reserve buffers and improving institutional efficiency.

Autonomy

115. The BdL lacks full operational and functional autonomy. Articles 41-46 of the Code provide for a "*Government Commissariat with the Central Bank*" established at the Ministry of Finance to supervise the BdL's accounts and enforce the Code. While the Commissioner is not authorized to interfere with the management of the BdL, they may require the Governor to suspend any resolution deemed contrary to the law and regulations, referring to the matter to the Minister of Finance. If the case is not addressed within five days of suspension, the resolution may be carried out. In addition, the Code lacks an explicit prohibition on BdL officials to seek instructions or on the government or any third party from giving instructions or influencing the BdL. In fact, Article 75 requires the agreement of the Minister of Finance for the BdL to act to ensure exchange stability, and more specifically Foreign Exchange (FX) operations (i.e., to act either as buyer or seller of bullion or of foreign exchange). Also, Article 83 provides that in exceptional circumstances, BdL can, with the agreement of the Minister of Finance, buy and sell currencies directly to the public. The involvement of the Minister of Finance limits the autonomy of the BdL.

116. Contrary to best practices, the BdL lacks institutional autonomy. A primary concern is that Article 29 of the Code allows the Minister of Finance to request the Governor to summon the Central Council, which is the BdL's Board. In addition to the Governor and four Deputy Governors, the Directors-General of the Ministry of Finance and of the Ministry of Economy and Trade are voting members of the Central Council members. While the latter two members sit on the Central Council in their personal capacity (not sitting on the Council as "Government proxies"), this system nevertheless inherently creates conflict of interest and potential for Government influence over the Bank (Article 28). In fact, Article 30 provides that the Board is not allowed to meet without one of them being present.

117. As regards personal autonomy, the Code's eligibility and disqualification criteria need further refinement to ensure merit-based appointments in all cases. Specifically, Article 20 states that functions are incompatible with any sort of legislative mandate, public function, activity in any enterprise, or other professional work, irrespective of whether such activity or work is remunerated. During their term of office, they are equally barred from holding, taking or receiving any interest whatever in a private enterprise. The term "interest" covers any participation or association to a private enterprise, including loans, except for holding shares in joint stock companies. In line with leading practices, shareholdings in supervised financial institutions should be defined as a disqualification criterion. In addition, it is concerning that appointment of Governor and Deputy Governor are made by the Council of Ministers on the proposal of

¹⁴⁴ This interpretation seems to also exclude the application of integrity enhancing laws, such as the Public Procurement or the anti-corruption laws.

¹⁴⁵ For instance, only Middle East Airlines and Intra Investment prepare externally audited financial statements which are not made public.

Minister for Finance (Article 18). This falls short of a true double veto procedure involving two separate political bodies, considering that the Minister for Finance reports to, and sits on, the Council of Ministers. As discussed below, the appointment and dismissal criteria should also be developed and extended to the executive directors of the Banking Control Commission (BCC). Article 18(4), which allows the terms of office of the Governor and Deputy Governors to be renewed "once or several times" is not aligned with leading practices as this permits for potentially unlimited terms of office.

118. The provisions on conflicts of interest should be strengthened. First, the definition of conflicts of interest should be expanded to include close family members. Also, the Code lacks wording that would (i) require the Governor and Deputy Governors to report any conflicts, and (ii) desist from participating in any meetings where issues might be discussed which could give rise to any conflicts of interest. The dismissal grounds are mostly well designed but include "physical incapacity duly reported" which could be open to interpretation and abuse. In addition, the concept of "serious mismanagement" is not clearly defined in the Code. Also, under the Code, the Deputy Governors may only be relieved of their functions on the proposal of the Governor, which further reinforces the role of the Governor. Finally, important aspects such as due process and judicial control of dismissal procedures are lacking.

119. Article 13 explicitly states that the BdL has financial autonomy, but this should be further aligned with good practices. The Code is silent on the applicability of international accounting rules. In line with best practices the Code should be amended to introduce a dynamic provision relating to the level of the BdL's general reserves to its monetary liabilities. Also, the Code's provisions on unrealized gains and losses are not aligned with leading practices (Article 115).

Decision-Making Structure

120. The governing structure of the BdL is not aligned with best practices (see Article 28, Article 35). As already noted, the BdL Central Council consists of the Governor, four Deputy Governors, and the Directors-General of the Ministry of Finance and of the Ministry of Economy and Trade. With only two external members (and government employees at that), the Central Council does not have a majority of non-executive Directors. This is a significant concern as it prevents effective internal oversight over executive management in the BdL.

121. The Code does not assign to the Central Council an oversight function, nor do the BdL's decision-makers have a fiduciary responsibility towards the BdL.¹⁴⁶ BdL asserts that the Directors-General of the Ministry of Finance and Ministry of Economy and Trade are expected to fulfill their fiduciary duties towards the BdL and not their respective Ministries. However, the presence of government representatives inherently creates conflict of interest, potential for Government influence and may hinder effective exercise of internal oversight over the executive management of the BdL. Central bank laws, in line with the leading practices, provide for a board with a majority of non-executives with clear oversight functions to ensure checks and balances in the central bank. In this respect, it is also a concern that there's no mention of an Audit Committee in the Code, which would aid the Council in exercising oversight.¹⁴⁷

122. The executive management of the BdL is centered in the Governor. The management of the BdL concerns the Governor, assisted by the Vice-Governors, as well as by the Central Council (Article 17). Thus, there is no collegial decision-making with respect to executive management decisions. The Code lists a six-person Consultative Committee, which may be consulted by the Governor on problems of a general nature, matters of monetary and credit policies, and advice on measures he has under

¹⁴⁶ The Code does not include provision for BdL's financial reporting, internal and external audit, and internal control systems.

¹⁴⁷ The mission was informed that the BdL is working on introducing the internal audit function, starting with building capacity and managing key vulnerabilities.

consideration (Articles 35 to 38). Given its advisory nature, this does not provide for collegial decision-making. In fact, the *Governor has a very strong position* in the Bank. The no collegial decision-making is reinforced by the statements that: (i) the Governor has the “widest powers in the management and administration of the Bank, (ii) is entrusted with the enforcement of the Code and of the resolutions of the Central Council, (iii) organizes the services of the Bank and defines their duties, and (iv) is the Bank’s legal representative. The Code adds that this list of the Governor’s functions is not exhaustive (Article 26).

Accountability

123. The Code lacks important provisions on the Bank’s accountability and transparency. In addition to the missing provisions on an Audit Committee and the observance of internationally accepted accounting standards (i.e., IFRS), the Code is also silent on external audits (nor details on the selection procedure and selection criteria) and BdL’s internal audit function. Finally, and importantly, the BdL resorted to unconventional accounting policies which allowed it to obscure financial engineering activities and carry forward the resulting losses. This is an additional motivation for amendments to the Code, which could require audits by reputable and independent external auditors with experience in auditing central banks, and include a provision to ensure that external audits also observe international accepted standards (i.e., International Standards on Auditing). Transparency would be enhanced if the legal amendments require publication of the audit opinion and audited financial statements on the BdL website within four months of the end of the financial year. BdL informed the mission that article 117 of the Code of Money and Credit specifies the reports to be published, and therefore, publication of a complete financial statement or any other reports not explicitly mentioned in article 117 (including P&L) can constitute a breach of the law. Therefore, according to BdL, a legal amendment is needed.

Recommendations to Strengthen Central Bank Governance

Measure	Leading responsible Institution	Timeline
Reform the BdL legal framework , in consultation with IMF staff, to strengthen, <i>inter alia</i> , <ul style="list-style-type: none"> • the BdL's mandate (clearly define the objectives, indicate which should prevail and prohibit quasi-fiscal operations), • functional and institutional autonomy (eliminate the "Government Commissariat", and eliminate mechanisms that permit governmental influence), • personal autonomy (including a true double-veto procedure appointments and limit the term of reappointments, for the Governor and Deputy Governor, and expand the conflict-of-interest regime), • financial autonomy (include a dynamic provisioning mechanism, and prohibit monetary financing), governance (revisit the composition of the Central Council and establish a collegial executive management) • transparency and accountability (add a reference to the application of internationally recognized accounting standards and include provisions on external and internal audit functions). 	BdL, Parliament	MT
Prepare a strategy for divestment of corporate interest to strengthen BdL's reserves and improve its efficiency; and disclose the principles and scope of the strategy.	BdL	ST
To ensure transparency and accountability in the ownership and oversight of BdL's portfolio of companies, pending the divestment, enact a publicly available framework that governs BdL's shareholding functions , including corporate governance roles and responsibilities, strong reporting and disclosure requirements and participatory accountability mechanisms.	BdL	ST

D. FINANCIAL SECTOR OVERSIGHT

124. This section provides analysis of key governance vulnerabilities in the financial sector oversight.¹⁴⁸ The focus is on the banking sector given that it is the dominant sector in Lebanon and its critical importance to financial stability. Financial sector oversight in this report considers the governance of the banking supervisory authorities—BdL, the BCC and the HBC—and the oversight of governance-related prudential frameworks in the banking sector. The governance framework for financial sector oversight focuses on those elements of the Basel Core Principles for Effective Banking Supervision (BCP), which are the international standards for banking supervision, that are more related to governance issues. As a DGC is a forward-looking exercise, this section focuses on governance vulnerabilities which have the potential to be associated with corruption.

Supervisory Architecture and Primary Legislation

125. Significant institutional reforms are necessary to resolve governance vulnerabilities within the supervisory authorities, which have contributed to the fragility of the banking sector. Three authorities have responsibility for banking sector oversight (the BdL, BCC and HBC), with the BdL and its Governor playing a key role in the institutional framework. The Governor is Chairman of the BdL's Central

¹⁴⁸ This diagnostic benefited from 1) the Financial System Stability Assessment (published in January 2017) Lebanon: Financial System Stability Assessment (imf.org); 2) METAC technical assistance to support BCC in implementing banking regulation and supervision reforms.

Council, the HBC, the SIC and the Capital Markets Authority (CMA). This concentration of supervisory decision-making power should be reviewed with the aim of reforming the institutional set-up and introducing effective checks and balances over decision-making within the supervisory authorities. The BCC was created in 1967 as an independent commission to supervise banks, but it lacks some important powers, for instance, it does not have any sanctioning powers, licensing powers and prudential regulatory powers. The BCC performs its assigned by law supervisory functions (on-site inspections, off-site monitoring) independently from BdL, with most decisions taken at the BdL and HBC level. The BdL has responsibility for issuing secondary legislation for banks and for the licensing (authorization) of banks, although it does not have dedicated departments for such functions¹⁴⁹ and any operational procedures covering these functions. The HBC was also created in 1967 as a special administrative body within the BdL. It has a semi-judicial character, functioning as a legal tribunal, but some of this body's enforcement powers could be under the BCC's direct responsibility.

126. Primary legislation, the Code of Money and Credit (the Code) has not been significantly updated since 1973.¹⁵⁰ The Code governs the activities of the BdL, BCC and HBC, and activities within the financial and banking system. Since 1967, there have been no changes in the supervisory architecture, but an extensive set of secondary legislation has been issued by the BdL leading to a complex patchwork of regulation.¹⁵¹ The 2016 FSAP recommended developing an up-to-date cohesive body of primary legislation for the banking industry and its supervisor, and to ensure future revisions on a set timescale.¹⁵²

Independence, Accountability, Transparency, and Decision-Making

127. Legislative changes are required to safeguard supervisory institutional independence from the Government and prevent interference with the supervision function by the banking industry. The Ministry of Finance, the Ministry of Economy and Trade, and the Banking Association should not have representatives in the supervisory decision-making bodies. The 2016 FSAP recommended reconsidering the practice of the Association of Banks proposing one of the board members to the BCC who is also a member of the HBC. In addition, the National Institute for Guarantee of Deposits (majority owned by banks) has the power to nominate a member to the BCC and the Chairman of the National Institute for the Guarantee of Deposits (NIGD) sits on the HBC. The HBC also has a representative from the MOF¹⁵³. It is important to reduce the scope for possible industry and political interference over the supervisory activities and decision-making of the BdL, BCC, and HBC.

128. The appointment and dismissal requirements of banking supervision officials should be enhanced. Appointments to Lebanese supervisory authorities take into consideration the confessional power-sharing arrangement to ensure that each of Lebanon's sectarian communities is properly represented in the public sector. The appointment criteria and transparency around such appointments (e.g. BCC, HBC, and BdL) should be further enhanced. As highlighted in the 'Central Bank' section, the

¹⁴⁹ The BdL's Governor and Central Council usually receive the material for decision-making from the BdL's Legal department and BCC. The BdL's Corporate Governance unit is responsible for issuing prudential requirements for banks' corporate governance. It is good practice for supervisory authorities to have dedicated departments for regulation and licensing (authorization) functions.

¹⁵⁰ CMC's Title III addressing "Banking Regulations" has not undergone amendment since June 1977 and Law 28/67 was last amended in November 1991 (concerning Title 2" Provisions relating to the setting up of the National Institute for Guarantee of Deposits"). The Ministry of Justice informed that there is a draft bill proposing amendments to the Code of Money and Credit, where the main proposed changes focus on ensuring BdL's good governance, enhancing accountability, and strengthening transparency.

¹⁵¹ For example, corporate governance requirements for banks are set in six BdL circulars.

¹⁵² A Committee, formed by the PMO in 2023, has been reviewing the CMC (limited scope of review).

¹⁵³ The HBC has also a representative from the judiciary approved by the Higher Judiciary Council as per Law No. 28/67. The approved judge shall have at least 10 years of judicial experience. Currently, the Public Financial Prosecutor from the Court of Cassation serves this role.

Law requires that the Governor and Deputy-Governors must be university graduates and have the experience and moral qualities for the proper discharge of their duties. The requisite university studies and professional experience should be clarified in the Law. The appointment and dismissal criteria should also be developed¹⁵⁴ and extended to the executive directors of the BCC. Any shareholding in a supervised financial institution should be specified as criterion for disqualification. As recommended in the 2016 FSAP, the reasons for removal from office of senior management of supervisory authorities should be publicly disclosed.

129. Primary legislation does not include legal protection for staff of the supervisory authorities.

The 2016 FSAP recommended introducing legal protection for staff of supervisory authorities. International standards require that laws should provide protection to the supervisor and its staff against lawsuits for actions taken in good faith while discharging their duties and against the cost of defending these actions. Legal protection shields decision-making undue influence or the threat of potentially significant legal consequences.

130. There is a lack of public accountability and transparency around the banking supervision mandate of supervisory authorities. International standards require the supervisor to publish its objectives and to be accountable through a transparent framework for the discharge of its duties. The BCC's website has limited information. As the decisions of the HBC are irrevocable with no administrative or judicial recourse, it is essential that the HBC is accountable for its supervisory decision-making and that the process is transparent. The BdL regularly publishes secondary legislation (circulars) issued to the banking sector, but other information on its licensing and supervisory functions, including decision-making, is limited. Moreover, banking secondary legislation is not subject to public consultation (drafts are usually submitted only to the Banking Association).

131. The supervisory authorities need to strengthen their criteria for avoiding conflicts of interest and to introduce effective internal procedures for identifying and managing such conflicts of interest. The existing requirements in primary legislation for avoiding conflicts of interest should be further strengthened¹⁵⁵ (e.g., as highlighted in the 'Central Bank' section, the BdL's requirements to avoid conflicts of interest could be expanded to include close family members). In addition, the supervisory authorities do not have internal procedures for identifying and properly managing conflicts of interest of senior management and supervisors. The BdL Central Council and BCC Board should oversee the implementation of effective policies and procedures in this area. The policies and procedures should be regularly audited by internal audit and compliance function strengthened. As noted, the supervisory authorities do not have documented internal operational procedures for decision-making processes related to the main supervisory functions—banks' licensing (authorization), regulation and supervision.

132. The responsibilities and powers of the enforcement regime for banks should be materially revised. The BCC—an independent supervisory authority—does not have enforcement powers.¹⁵⁶ When a supervisor needs to act to address a bank's unsafe and unsound activities, the BCC has to propose corrective and sanctioning measures to the BdL's Central Council or, in a severe situation, to the HBC. The

¹⁵⁴ The Ministry of Justice informed that the draft law bill on the amendment of the Code of Money and Credit proposes the amendment of article 18 as such that the Governor and his deputies must have university degrees and at least fifteen years of experience in legal, economic, financial, banking, or information technology affairs, as well as the moral qualities required to perform their duties. The Governor, his deputies, their spouses, or their minor children must not own, directly or indirectly, more than five percent of the financial instruments issued by companies subject to the supervision of the BdL. The Governor or any of his deputies must not have held any political or partisan position upon appointment or during the preceding three years.

¹⁵⁵ The Ministry of Justice informed that Article 20 of the draft law bill on the amendment of the Code of Money and Credit suggests that: the Governor and his deputies shall disclose to the Council of Ministers, through the Minister of Finance, any interests which may conflict with their membership in the Council, and in the event of any conflict.

¹⁵⁶ According to article 9 of the Law 28/67, the BCC has the authority to lay down for each bank a corrective action plan. It does not have the power to impose penalties or other sanctions.

HBC has certain enforcement powers¹⁵⁷ which allow it to act at an early stage. These include issuing warnings and prohibiting the undertaking of certain operations or imposing other limitations on banks. However, Lebanese supervisory authorities do not have the power to apply sanctions to the management, and/or to the Board, or individuals therein. Only banks may be sanctioned, not individuals.¹⁵⁸ The 2016 FSAP recommended extending the perimeter of supervisory sanctioning powers to cover individuals within banks. It also recommended a review of supervisory resources and institutional capacity to adequately meet this expanded perimeter and increasingly demanding supervisory tasks.

Banks' Corporate Governance and Related Parties

133. Lebanese banks have weaknesses in the composition of boards of directors in light of the crisis. The mission learned that prior to the crisis, banks were able to attract professionals to their boards, but many board members, particularly independent non-executive directors, have recently resigned from banks' boards. The BdL mentioned that banks are currently facing challenges in complying with the requirement to have a number of independent non-executive directors on their board committees (risk, audit, remuneration and AML/CFT). Supervisory authorities have been looking¹⁵⁹ to strengthen boards of banks.

134. The corporate governance regulatory framework for banks should be strengthened. The corporate governance requirements for banks are set out in the primary legislation¹⁶⁰ and in six BdL circulars.¹⁶¹ Some of these requirements are outdated and do not reflect the latest international standards. The supervisory authorities should consider issuing comprehensive secondary legislation setting out the requirements for banks' corporate governance in line with the Basel Corporate Governance Principles for banks (2015) and other international standards. Particular attention should be given—especially at family-owned banks—to the following topics: (i) clear separation of ownership, oversight, and executive roles;¹⁶² (ii) requirements covering board composition; (iii) effective board oversight; (iv) policies and oversight of

¹⁵⁷ According to article 208 and 209 of the CMC, the HBC has the power to i) issue a warning; ii) prohibit the undertaking of certain operations or impose other limitations, iii) reduce or suspend credit facilities granted by the BdL, iv) appoint an auditor controller or manager; and v) delist the bank. The decisions of the HBC are irrevocable, with no administrative or judicial recourse (article 209 CMC).

¹⁵⁸ Law 308 grants the BdL's Central Council the right to object or reject any Lebanese bank's board member and to prevent him/her from continuing his/her mandate. In addition, Law 192 grants the BdL, only in cases of mergers, the right to sue officials of the merged banks before competent courts in case of misconduct or breaches of the Law.

¹⁵⁹ In 2022, the BdL launched a corporate governance survey for banks, which it used to assess the weak points of each bank. The survey includes questions related to: i) the board's functioning, composition, responsibilities, policies, succession planning; ii) board committees; iii) senior management; and iv) control environment. There are plans to submit the results of this survey to the BdL Central Council for decision-taking on regulatory and supervisory reforms needed to strengthen the banks' boards and senior management.

¹⁶⁰ The Code of Money and Credit. Also, the Lebanese Code of Commerce is applicable to banks (joint-stock companies). The Code of Commerce was amended in 2020 adapting many of its articles to modern standards (for the first time since 1942). The BdL's circulars have not been updated to reflect the amendments of the Code of Commerce.

¹⁶¹ The relevant BDL circulars are: i) Corporate Governance (No. 106; dated 26/7/2006); the Information requested on the management of banks and financial institutions (No. 114; dated 14/12/2007); iii) Board of Directors and Board Committees (No. 118; dated 21/7/2008); iv) Remuneration Policy and Remuneration Board Committees (No. 133; dated 6/8/2014); v) Board Members Succession Plan (No. 142; dated 5/10/2017), and vi) Internal Control and Internal Audit in Banks and Financial institutions (No. 77; dated 15/12/2000).

¹⁶² . The majority of Lebanese banks need to separate the functions of Chairman of the Board and Chief Executive Officer (CEO). Additionally, some family-owned banks need to separate the function of major shareholder and CEO. The revised Lebanese Code of Commerce (2020) allows banks does not oblige them to split these functions.

conflicts of interest v) fit and proper requirements for board members and senior management, (vi) increasing the dynamics of boards;¹⁶³ and (vii) enhancing disclosure and transparency.¹⁶⁴

135. The framework, tools, and techniques for assessing the suitability of members of the board and senior management should be enhanced and modernized. Supervisory authorities should review the process for approving board members of banks. Strong boards can help safeguard the integrity of the banking sector and minimize opportunities for corruption. It would be useful to update the regulation on fit and proper requirements for banks to include additional criteria such as: (i) the assessment of potential conflicts of interests (personal, professional, financial and political); (ii) members of the board, particularly in the case of non-executive directors, possessing independence of mind given their responsibilities on the board; (iii) members of the board having sufficient time to fully carry out their responsibilities; and (iv) collective assessment of the members of the board. Supervisors need to update their tools and techniques for assessing the suitability of board members and senior management, taking into consideration good practices. Clearly documented internal operational procedures for decision-making processes are necessary for strengthening this function.

136. In order to prevent abuses arising from transactions with related parties, the regulatory framework and supervisory oversight in this area should be strengthened. The 2016 FSAP provided several recommendations to enhance the related-party regime. The FSAP concluded that it is possible that supervisory authorities are not identifying related parties (and, therefore, related-party transactions) due to the Bank secrecy law¹⁶⁵. As family-owned banks dominate in number in Lebanon, a strong regulatory and supervisory framework around related party transactions should be in place. The supervisory authorities have a separate regulation on related-party transactions but that focuses only on lending. Governance requirements for oversight and monitoring related-party transactions at board level should also be enhanced. In terms of supervisory oversight of related-party transactions, the supervisory methodology should be enhanced, after updating regulations, to allow for a comprehensive assessment of all transactions with related parties and the necessary corrective interventions.

¹⁶³ For example, some Independent Directors have been in situ since more than 10 years, etc.

¹⁶⁴ For example, many banks do not disclose which board members are independent.

¹⁶⁵ The amendment of the Banking Secrecy Law as of April 24, 2025 (Law No. 1 dated April 24, 2025) removed the banking secrecy impediment to effective supervision.

Recommendations to Strengthen Financial Sector Oversight

Measure	Leading responsible agency	Timeline
Enhance the governance of the Lebanese banking supervisory authorities: <ul style="list-style-type: none"> Revise the supervisory architecture (including structure, responsibilities and powers of the BdL, the BCC and the HBC, based on role of each authority), reduce the concentration of decision-making powers at the level of the BdL's Governor and promote more collegial decision-making, to allow for more effective banking supervision. Revise primary legislation to i) address the fragmented supervisory architecture; ii) safeguard supervisory institutional independence from the Government and banking industry interference; iii) strengthen the appointment and dismissal requirements for officials related to banking supervision; iv) introduce legal protection for the staff of the supervisory authorities; v) enhance the accountability framework of the supervisory authorities; vi) strengthen the provisions for checks and balances; and vii) extend the perimeter of supervisory sanctioning powers to cover individuals. Enhance internal governance and control arrangements, including the operational procedures for decision-making, conflicts of interest, checks and balances and oversight. Improve the accountability and transparency of the banking supervision function through additional disclosures. 	Parliament, Council of Ministers, BdL, BCC	MT
Strengthen the regulatory and supervisory framework for banks' corporate governance and related parties by aligning them closer to international standards and good practices: <ul style="list-style-type: none"> Update banks' corporate governance regulatory framework for banks by aligning it more closely to the Basel corporate governance principles for banks (2015) and other relevant international standards. These revisions should cover the need for a clear separation of ownership, oversight, and executive role, requirements for board composition, effective board oversight, policies for and oversight of conflicts of interest, fit and proper requirements for board members and senior management, requirements for increasing the dynamics of boards, and disclosure and transparency Modernize the regulatory framework related to eligibility of members of the boards and senior management and accordingly the supervisory tools and techniques for assessments Strengthen the regulatory framework and supervisory oversight of transactions with related parties, in particular: (i) define 'related-party transactions' and extend the arm's-length rule for all such transactions; (ii) enhance governance requirements for all transactions with related parties, including oversight and monitoring at the banks' board level; and (iii) review a supervisory methodology for the comprehensive assessment of transactions with related parties. 	Council of Ministers, BdL, BCC	MT

E. EFFECTIVENESS OF ANTI-MONEY LAUNDERING LEGAL AND INSTITUTIONAL FRAMEWORKS

137. Aligned with the IMF's 2018 Framework, the discussions below focus primarily on the vulnerabilities to laundering proceeds of corruption. Accordingly, this section focuses on (i) misuse of legal persons and beneficial ownership, (ii) preventive measures related to PEPs and reporting of suspicious transactions, (iii) investigation of laundering of proceeds of corruption and prosecution of offenders, (iv) international cooperation to deliver appropriate information, financial intelligence, and evidence, and facilitate action against corrupt officials and their assets. The DGC also examines the

mechanisms through which corruption vulnerabilities undermine the effectiveness of the AML framework and institutions. While this analysis draws on the broader AML/CFT weaknesses identified in FATF and FSRB mutual evaluations, which comprehensively assess all aspects of AML/CFT systems, its scope is narrower, focusing specifically on laundering of corruption proceeds and impact of corruption on the effectiveness of AML/CFT system. The mission was informed of the FATF Action Plan prepared by the Lebanese authorities to facilitate implementation of FATF-recommended measures. The existence of this Action Plan does not preclude AML/CFT coverage in the DGC. On the contrary, DGCs have routinely included AML/CFT analysis and recommendations in similar contexts, as they assess macro-critical governance and implementation risks and complement—rather than duplicate—FATF-mandated actions.

AML/CFT Preventive Measures and Supervision

138. Limited transparency and lack of accountability constitute significant impediments for effective implementation of AML/CFT preventive measures. The rules related to access to information, asset disclosure by top officials, BO transparency, and monitoring of PEPs are generally in line with international standards, but their implementation is insufficient.¹⁶⁶ This limits the ability of authorities to detect corruption and the associated illicit financial flows, prosecute corrupt officials, and recover proceeds of crime.

139. The legal framework related to PEPs has gaps in implementation. Lebanon applies the same requirements to foreign and domestic PEPs (FATF Standards require stricter measures for foreign PEPs), reflecting the high level of ML risk from proceeds of domestic corruption. In addition to regular customer due diligence, reporting entities in Lebanon are required to (i) put in place risk management systems to determine whether a customer or the beneficial owner is a PEP; (ii) obtain senior management approval before establishing business relationships; (iii) take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and (iv) conduct enhanced ongoing monitoring on that relationship. The same requirements are also applicable to family members or close associates of all types of PEPs. Most banks and other core financial institutions broadly understand and report implementation of enhanced due diligence measures for PEPs, emphasizing that in the context of Lebanon, banks' compliance officers know well who a PEP, a family member or associate are. However, establishing the source of funds and wealth is increasingly difficult in the cash-based economy of Lebanon, and it is unclear how effective the limited indirect measures taken by reporting entities are in verifying the source of funds and wealth. Similarly, reporting entities are challenged in applying enhanced ongoing monitoring, namely in scrutiny of transactions undertaken by PEPs, to ensure that the transactions being conducted are consistent with the institution's knowledge of PEPs and their risk profile, including the source of funds for transactions. In 2024, SIC issued a guidance "On the Identification & Treatment of PEPs for AML/CFT Purposes". MENAFATF 2023 mutual evaluation concluded that banks and most components of the financial sector have satisfactorily implemented enhanced due diligence measures for PEPs. However, there are shortcomings in the understanding and application of enhanced measures towards PEPs by certain exchange companies. Notaries, DPMS, and real estate brokers did not have a clear understanding of the definition of PEPs, how to identify them, and how to apply the necessary measures towards them.¹⁶⁷

140. Reporting of suspicious transactions, a key AML instrument to detect corruption crimes and related ML, is undermined by widespread informality and low levels of reporting. Most of the suspicious transaction reports (STRs) are submitted by banks, reflecting banks' key role in the financial sector, followed by money transfer companies and exchange companies. The level of reporting has fallen significantly since the beginning of the economic crisis, from 529 STRs in 2019 to 166 in 2023, as the role of Lebanon as a regional financial hub decreased and more transactions shifted to informality and cash-based payments. In addition to the generally low number of submitted reports, in the Designated Non-Financial Business and Professions (DNFBPs) sector in particular, reported transactions are not in line with the various ML risks in the context of the country, including insufficient reporting on the complex, higher-

¹⁶⁶ See [Lebanon MER E.pdf \(menafatf.org\)](https://menafatf.org/)

¹⁶⁷ MENAFATF 2023 MER

level corruption. The notaries sector, which is rated as high risk, submitted a limited number of STRs, while there were no cases of reporting by Dealers in Precious Metals and Stones (DPMS) and real estate brokers, which is particularly important in the context of a cash-based economy.

141. Limited corporate transparency facilitates the misuse of legal persons especially in high-level corruption cases. While beneficial ownership information is available in Lebanon through several avenues,¹⁶⁸ its accuracy is limited. The legal framework does not provide proportionate, effective and dissuasive sanctions for violation of the BO requirements. Against the backdrop of resource constraints in the Commercial Registry, which needs to be addressed as the Registry has 8 officials responsible for all of the aspects of the operations-, the Registry has stopped requesting the criminal records of natural persons in 2018.¹⁶⁹ In addition, the Registry is not linked to other sources of BO and legal ownership information, primarily from the tax service, for the purposes of cross-checking and identification of inaccurate or outdated information.

142. In Lebanon, where most commercial banks are politically affiliated and often owned or influenced by PEPs, the market entry for financial institutions does not provide safeguards against laundering proceeds of corruption. The procedures for determining the BOs are based on determination of legal ownership, which is insufficient to identify indirect control of financial institutions. The BdL relies on commercial global software to identify PEPs among the bank owners and senior management during the market entry process, and in the case the PEP is detected, the file is sent to the Central Bank Council for approval. Fit and proper tests for dealers in precious metals and stones and real estate agents, which are only subject to registration procedures with the Commercial Registry, are absent.

143. The SIC governance structure raises concerns regarding operational independence and undue influence. The SIC, financial intelligence unit and AML/CFT supervisor in Lebanon, is managed by a commission of four members, that appoint a Secretary General to supervise its staff and operations. The BdL Governor is an ex officio chairman of SIC, while a judge from the Higher Banking Commission and chairman of the Banking Control Commission are ex officio members. The fourth member is appointed by the Council of Ministers upon proposal of the BdL Governor. In this context, the AML Law requires the reporting entities report suspicious transactions to the SIC Chairman (BdL Governor) as opposed to SIC as a financial intelligence unit. BdL is of the view that SIC's governance arrangement safeguards its independence, and the MENAFATF mutual evaluation rated the technical compliance of AML/CFT legislation on Financial Intelligence Unit (Recommendation 29) as largely compliant. However, for the reasons outlined below, the mission is of the view that the current governance structure continues to present risks of potential undue influence warranting careful consideration and targeted reforms.

- The independence of the FIU's governance committee is critical to ensuring its operational autonomy. The Egmont Group of Financial Intelligence Units has identified that the inclusion of officials from other public entities on FIU governance bodies can compromise independence, as such members may prioritize their institutions' interests over those of the FIU. The Egmont Group also emphasizes the need for a documented, apolitical, merit-based, and transparent process for appointing the Head of the FIU.¹⁷⁰

¹⁶⁸ Commercial Registry, the tax department in the Ministry of Finance, banks as well as companies themselves require BO disclosure. One of the avenues to access BO information, used by the SIC as the main agency responding to the beneficial ownership requests from abroad and in developing financial intelligence for domestic law enforcement, is from the financial institutions, particularly banks, which collect it as part of the due diligence measures. The MENAFATF mutual evaluation assessed the effectiveness of Lebanon's AML/CFT regime in achieving Immediate Outcome 5 as moderate – the second lowest rating out of four.

¹⁶⁹ Reinstating of checks of founders against criminal records is important as this is a foundational measure to prevent legal persons from being used for criminal purposes.

¹⁷⁰ See Egmont Group of Financial Intelligence Units (2018). Understanding FIU Operational Independence and Autonomy, The Egmont Group of Financial Intelligence Units. BdL argues that the SIC is a commission with multiple powers including freezing and supervisory powers, not a Financial Intelligence Unit governance board or committee,

- The Governor's authority, as Chair of the SIC, to request—or delegate the power to request—information from Lebanese or foreign authorities (judicial, administrative, financial, or security) grants extensive influence over core operational decisions. Such powers are inconsistent with the Egmont Group's good-practice standards, which call for clear separation between governance and operational functions.
- The power of the BdL's Central Council to approve the SIC budget may undermine its financial independence, even if, as the BdL notes, the SIC prepares its own budget and the Central Council's role is limited to endorsement. The Egmont Group warns that the level of corruption in a jurisdiction can have a significant impact on the operational independence and autonomy of an FIU as higher levels of corruption can lead to greater risks of interference from politicians and/or government officials in operational cases to curtail anti-corruption efforts.

All these factors underscore that the current SIC governance structure falls short of ensuring the operational independence and autonomy of SIC, leaving it vulnerable to undue influence and weakening Lebanon's capacity to effectively combat laundering of proceeds of corruption.

144. The legislative changes adopted in October 2022 provide for direct access by the judicial authorities to banking information, in addition to the SIC. Since 1956, the banking secrecy regime prevented direct law enforcement access to information held by commercial banks and the SIC decided to grant or deny the request of the Cassation Public Prosecutor to access banking information needed in a criminal investigation. The new Law adopted by Parliament on 18 October 2022 and amended on April 24, 2025, has amended Lebanon's decades-old banking secrecy rules, allowing authorized bodies (such as regulators, supervisors, tax administration, investigative judges, in addition to the SIC) to access bank records from the past ten years. This reform—a key anti-corruption and transparency measure—aims to help investigations into financial misconduct and remove obstacles to banking sector accountability.

145. The frequency of onsite inspections considers the institutional risk ratings and size of the institutions. Considering the significant ML risks from proceeds of corruption and important role abuse of cross-border payments played in the past corruption typologies, the SIC should continue thematic focus on PEPs as well as firms active in procurement and other high-risk sectors (e.g. receiving subsidies or otherwise policy-dependent) and to conduct review of cross-border transfers, particularly to higher ML risk countries, made by banks since the beginning of the crisis. Considering weaknesses in ongoing monitoring of client activity by financial institutions, the SIC should update the guidance on application of ongoing monitoring and reporting of suspicious transactions.

Recovery of Proceeds of Corruption

146. Lebanon needs to focus on parallel financial investigations to identify and trace the proceeds of corruption and prosecuting related money laundering. Parallel financial investigations by Lebanon's law enforcement are limited to identifying assets and instrumentalities used in committing the crime, but not broader ML investigations. This is a significant gap due to the large amount of criminal proceeds generated by corruption crimes that can be recovered. Despite the prominence of corruption offences in the suspicious transactions reported to the SIC and in law enforcement investigations, corruption is underrepresented in launched ML investigations. As a result, only six ML convictions were achieved in 2017-2021 in cases of corruption, which is not in line with the corruption and related ML risks

and therefore not covered by the Egmont Group paper cited in this paragraph. The mission respectfully disagrees noting that the broader mandate of SIC cannot justify structural weaknesses related to its operational independence in performing the FIU mandate. BdL also asserts that the independence of the SIC is enshrined in Article 6 of the Law No. 44/2015 and that operational independence is a prerequisite for Egmont Group membership and the SIC has been a member since 2003. While these points are noted, they do not eliminate the significant weaknesses in SIC's governance structure and the scope for executive influence raising concerns regarding its operational independence.

in Lebanon. The ML investigations are also limited to self-laundering¹⁷¹, a critical limitation in the context of Lebanon due to the importance of enablers that provide professional services that allow criminals to launder the proceeds of corruption. In addition, Lebanon should prosecute autonomous money laundering cases where the perpetrator of underlying corruption is not identified, and the ML offence is prosecuted separately from the corruption offence. Considering Lebanon's past role as a financial center, pursuing autonomous ML would allow to prosecute ML of and confiscate foreign proceeds of corruption without prosecution of underlying corruption crimes in foreign countries. The authorities reported that a draft Action Plan on Guideline for Parallel Financial Investigation is being prepared by the Public Prosecution.

147. The Lebanese AML/CFT regime needs fundamental improvements in its efforts to recover proceeds of corruption. Identification and tracing of criminal proceeds to facilitate asset recovery is conducted by the Cassation Public Prosecution, law enforcement agencies and SIC. Despite the adequate legal framework, the Lebanese authorities have not applied provisional measures, such as asset freezes and seizures, to achieve confiscations in ML cases (except in one case), which suggests absence of an asset recovery objective on the policy level. Moreover, a significant share of provisional measures is applied by the SIC, rather than by law enforcement, because of parallel financial investigations arising from predicate crimes such as corruption. This highlights the absence of focus on tackling illicit proceeds and is an example of the fragmentation of public institutions, that render them ineffective and vulnerable to external undue influence by political groups. Overall, the value of proceeds of corruption confiscated remains very low and does not correspond to the significant corruption risks faced by Lebanon — the mission was informed that, on average, it amounted to only about US\$4.9 million annually during the 2017–2021 period. Focus of law enforcement on the instrumentalities of crime and assets that are directly linked to the commission of crime as well as the absence of efforts to confiscate properties of value equivalent to the proceeds of corruption contribute to the low effectiveness of asset recovery efforts in Lebanon. Recognizing the importance of the matter, Public Prosecution is considering strategies to improve effectiveness of handling corruption cases.

International Cooperation

148. Effective international cooperation in ML and corruption cases is particularly important given Lebanon's historical role as a regional financial center, its weak rule of law and accountability mechanisms, and the importance of transnational elements of corruption in Lebanon. Mutual legal assistance (MLA) and extradition are essential to pursue corrupt officials and recover illicit assets due to the prominence of transnational aspects of corruption in Lebanon. This is particularly relevant in grand corruption cases, in which perpetrators travel and reside abroad and use foreign jurisdictions to obfuscate the trail of criminal proceeds. In addition, constructive and timely assistance to foreign jurisdictions is equally important given Lebanon's historical exposure to ML risks from proceeds of foreign corruption. Lebanon receives MLA requests, including those on seizures and confiscations of assets (i.e. primarily mostly funds in bank accounts), that are proceeds of foreign corruption.

149. Lebanon generally has a complete legal framework on extradition and to provide and request mutual legal assistance from foreign authorities.¹⁷² The legal framework provides for a broad range of options for mutual legal assistance and extradition in corruption cases, including use of the UNCAC, the United Nations Convention against Transnational Organized Crime and the application of the reciprocity principle. However, dual criminality is required for an offence to be extraditable and considering that not all mandatory and non-mandatory offences under UNCAC are criminalized, an extradition is easily rejected. For instance, Lebanon does not criminalize active trading in influence (article 18 of UNCAC), and the preparation of an offence, unless the act of preparation represents a crime itself (para 3 of article 27 of the UNCAC). The criminal law does not provide an obligation to extradite or prosecute (“*aut dedere aut judicare*”) in cases where extradition is barred. For instance, Lebanon does not extradite its nationals and

¹⁷¹ Self-laundering is laundering of assets acquired from a person's own criminal activity.

¹⁷² NACC has advised that it is aware of the importance of international cooperation to recover the proceeds of corruption; accordingly, it adheres to international and regional organizations such as GlobE and ACINET.

the dual criminality requirements can be an impediment due to the shortcomings in the criminalization of corruption.

150. Lebanon generally has a comprehensive legal framework governing extradition and provision and request of mutual legal assistance The legal framework provides for a broad range of cooperation options in corruption cases, including reliance on the UNCAC, the United Nations Convention against Transnational Organized Crime and the application of the reciprocity principle. Nevertheless, certain gaps remain, notably the absence of criminalization of some UNCAC mandatory and non-mandatory offences, for example active trading in influence (article 18 of UNCAC), and preparatory acts for corruption, unless those acts constitute independent crimes under the Lebanese Law (para 3 of article 27 of the UNCAC). The criminal law does not provide an obligation to extradite or prosecute (“*aut dedere aut judicare*”) in cases where extradition is barred. For instance, Lebanon does not extradite its nationals and the dual criminality requirements for the extradition can be an impediment due to the shortcomings in the criminalization of corruption. Lebanon expressed an expectation for better support from foreign competent legal authorities with respect to its own legal assistance requests.

151. In practice, the international cooperation mechanism in corruption cases is not used effectively. Lebanon has requested cooperation only in seven cases related to corruption. Importantly, efforts by the authorities to recover the proceeds of corruption from abroad—through MLA requests to identify, freeze, seize, confiscate and repatriate assets—proceeds of corruption, are absent. This is a particularly notable AML deficiency as it is not commensurate with Lebanon’s context and risk profile, where corruption is considered the most serious crime that generates criminal proceeds in large amounts.

152. The evidentiary burden on the countries requesting mutual legal assistance is overly high and confiscation of property of value equivalent to proceeds of corruption should be allowed. Burdensome requirements imposed by Lebanon on the states requesting mutual legal assistance¹⁷³ hinder effective and timely investigation and prosecution of corruption cases involving Lebanese subjects and should be simplified¹⁷⁴. The authorities reported that the mutual legal assistance requests with missing information can still be processed if the information provided is sufficient to identify the subject. In addition, Lebanon should allow to identify, freeze, seize or confiscate on the request of foreign authorities not only the direct proceeds of corruption, but also property of equivalent value, which is important in the context of Lebanon’s challenges in financial investigations and to identify beneficial ownership. Introducing such a measure would close a critical gap, as equivalent value confiscation is particularly important when the original proceeds cannot be located, have been dissipated, or converted.

153. Lebanese law does not allow for the transfer of criminal proceedings to other states, which may in certain instances be in the interests of the proper administration of justice. In line with Article 47 of the UNCAC, Lebanon should consider adopting legal provisions that would allow the transfer of corruption criminal proceedings for prosecution by foreign authorities on a case-by-case basis where such transfer is considered to be in the interests of the proper administration of justice¹⁷⁵. Such transfers could be pertinent where multiple jurisdictions are involved, or when corrupt Lebanese officials reside or maintain illicitly obtained assets abroad. In light of deficiencies in domestic enforcement and transnational economic activity of Lebanese officials, enabling foreign prosecutions through transferred proceedings could reinforce accountability, facilitate the recovery of illicit assets, and contribute to restoring public trust in Lebanon’s institutions. Transfer of corruption proceedings can be considered for a transitional period, considering the

¹⁷³ The requirements, for example, include person’s title, occupation, address, date and place of birth, passport data, and regarding legal persons the address of headquarters and branches, registration date and place, the names of the board members, major shareholders, and their addresses. Lebanese authorities reported active engagement with the requesting state to seek clarifications or additional details, when necessary, to enable execution

¹⁷⁴ Review of implementation of Chapter IV of UNCAC by Lebanon recommended to simplify evidentiary requirements in line with the UNCAC article 44(9).

¹⁷⁵ Bilateral treaties were concluded with Cyprus, Egypt, Russia and Jordan to permit the transfer of convicted persons upon their consent if they are sentenced to imprisonment.

urgent need for a law enforcement response to significant corruption risks and past wrongdoings as well as addressing perception of impunity and restoring trust in public officials.

Recommendations to Strengthen AML Frameworks

Measure	Leading responsible Institution	Timeline
Adopt and implement a national strategy on recovery of proceeds of corruption domestically and from abroad,	MOJ	ST
Develop and implement guidelines for parallel financial investigations with a focus on corruption offences	MOJ	ST
Incorporate provisions for the seizure and confiscation of property of equivalent value , to ensure that offenders are deprived of illicit gains even where direct proceeds cannot be located or have been dissipated or converted	Ministry of Justice, Parliament	LT
Reform the governance structure of the SIC to promote its operational independence, using a transparent, merit-based selection process for SIC management	Parliament, Council of Ministers, Parliament	MT
Strengthen international cooperation in criminal matters related to corruption and ML. <ul style="list-style-type: none"> Incorporate the obligation to <i>extradite or prosecute</i> into the Lebanese criminal legislation Allow transfer of criminal proceedings to another state in the interests of the proper administration of justice Develop systems and procedures for timely processing of incoming and outgoing MLA requests and for the coordination of seizure and confiscation measures Lower the evidential burden on the countries requesting mutual legal assistance. 	Parliament, MOJ, Council of Ministers,	MT
Strengthen BO transparency by <ul style="list-style-type: none"> Revising the legal framework to allow the Commercial Registry to (i) conduct risk-based verification of BO information, and (ii) apply effective and dissuasive sanctions for failure to provide accurate BO information. Restoring operation of the Commercial Registry's website to ensure public access to BO information Ensure interoperability of systems between the Commercial Registry and the MoF 	MOJ, MOF, Council of Ministers,	ST
Strengthen implementation of preventive measures for PEPs by extending enhanced due diligence obligations to financial institutions, notaries, dealers in precious metals and stones, and real estate brokers, with a focus on identifying PEPs and their family and associates.	SIC	ST
Conduct a review of cross-border financial transfers , executed by banks since the onset of the crisis, with particular scrutiny of transfers to high-risk jurisdictions, and issue guidance on ongoing monitoring of transactions.	SIC	ST
Strengthen financial integrity controls by BdL and all licensing and registration authorities for market entry, including fit and proper tests, especially in the banking sector.	BdL	ST

F. CONTRACT ENFORCEMENT AND PROTECTION OF PROPERTY RIGHTS

154. While Lebanon has a well-established legal and institutional framework for enforcement of economic rights, concerns about the independence of the judiciary and the unfolding crisis pose a significant threat to the effective delivery of justice. The current financial crisis took a toll on the judiciary, leading to a deterioration of infrastructure and significantly diminishing judicial salaries. Courts across Lebanon, including first instance civil courts with jurisdiction over commercial and property rights disputes, are severely understaffed, underfunded, and lack basic supplies and equipment. Judges and judicial employees who went on strike several times in 2022-2023 struggle to operate at a basic level. Those factors, combined with vulnerabilities to external interference, that still exist despite the signs of progress such as appointments of judges after years of blockage by political branches, can undermine the ability of the judiciary to resolve cases in an effective, impartial, and timely manner, leading to significant backlogs and delays.

155. Other structural weaknesses need to be addressed to strengthen the rule of law in Lebanon. Structural weaknesses related to transparency and accessibility of judicial decisions and court performance statistics, reliance on manual case processing and a related lack of a court management system, and insufficient use of alternative dispute resolution mechanisms pose obstacles to the effective resolution of disputes. Regarding property rights, particularly real estate, a burdensome registration process involving several institutions and so-called “brokers” causes significant delays while also increasing corruption vulnerabilities. The land administration system suffers from lack of infrastructure resulting in incomplete mapping and spatial data. Mass valuation would be necessary to ensure the transparency of the property market.

156. Moving forward, a comprehensive judicial reform to ensure an independent and accountable judiciary should be a key element of Lebanon’s reform agenda. This includes continued efforts to limit vulnerabilities to external influence, implementation of the newly adopted law as well as digitalization, increase of wages and resources. An independent and efficient judiciary provided with sufficient financial and human resources will not only increase security of economic rights, but also help reduce corruption vulnerabilities across all state functions. As authorities seek to implement reforms to address the current crisis, judicial reforms need to be prioritized.

Contract Enforcement

157. Lebanon has an appropriate legal and judicial framework for contract enforcement based on the French civil law system. Lebanon has a legal system inspired by the French civil law system with three degrees of jurisdictions: first instance courts, Courts of Appeals, and a Court of Cassation. First instance courts can be presided over by a single judge or by a chief judge with two assistant judges depending on the type of claim. Civil cases can be appealed to the Court of Appeals. The Court of Cassation is the highest court in the country and has a specialized commercial chamber. The regulatory framework for commercial law is regulated primarily by the Commercial Code, the Civil Code, and the Code of Obligations and Contracts. Disputes related to the enforcement of contractual and property rights are resolved through first instance civil courts. First instance civil courts have general jurisdiction over all civil cases, including commercial disputes. There is one specialized commercial court located in Beirut.

158. While the framework seems appropriate, the efficiency and predictability of contract enforcement are undermined by a range of factors. Because of the general jurisdiction of lower-level civil courts, judges do not necessarily have specialized expertise in commercial law which undermines the quality and efficiency of commercial dispute resolution. Laws are not widely available and only accessible through the Official Gazette for a fee. Similarly, judicial decisions are updated and published online by a third-party provider, but the cost for accessing the material is significant. Courts rely primarily on manual proceedings and do not maintain statistics on the enforcement of commercial disputes. Backlogs and delays are reportedly significant. The filing of initial complaints and service of process cannot be done electronically. Court automation, electronic service of process in particular, would help reduce corruption vulnerabilities that may emerge during in-person interactions with judicial officers. Concerns over judicial

independence and inadequate judicial governance also impact the efficient resolution of contractual disputes and the overall delivery of justice as explained in the section below.

159. Courts struggle to function at a basic level, facing a severe lack of human and financial resources, leading to backlogs and delays. The current financial crisis took a toll on judiciary, leading to a deterioration of infrastructure and significantly diminishing judicial salaries. Because of the sharp decrease in compensation and extremely poor working conditions, judges and court officers went on strike in 2023, while others decided to resign. Coupled with the risk of brain-drain among the young, this seriously undermines the appropriate functioning of the justice system. With less than 0.5 percent of the government budget allocated to the Ministry of Justice, the judiciary lacks financial independence even during normal times. Moreover, judges noted that specialized and continuing training should be prioritized to improve the effectiveness and quality of judicial decisions and help them better serve the public.

160. There is a need for raising awareness and education about alternative dispute resolution (ADR) mechanisms among judges and lawyers. Lebanon is considered an arbitration-friendly jurisdiction with a modern and comprehensive legal framework regulated primarily by the 1983 Code of Civil Procedure. Lebanon is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. As courts continue to face significant challenges and delays, arbitration has emerged as an option for resolving commercial disputes more effectively. The Lebanese Arbitration and Mediation Center of the Beirut Chamber of Commerce has its own procedural rules with a tribunal that presides over domestic and international proceedings. Judicial mediation law provides parties with an opportunity to choose mediation to resolve disputes in judicial proceedings. While the legal and institutional framework for ADR is considered adequate, practitioners have emphasized the need for additional training for judges and lawyers.

161. The sharp depreciation of the Lebanese pound and legal uncertainty related to the exchange rate also undermines the predictability of contract enforcement. Given the rapid decrease of the value of the Lebanese pound until its stabilization since mid-2023 and high inflation, Lebanese courts have not been able to define and apply a uniform approach to minimize potential currency losses in judicial disputes. In 2023, the courts were reportedly using different exchange rates defined on a case-by-case basis. This legal uncertainty and lack of uniformity can undermine the timely resolution of disputes and impact the security of both commercial and property rights. Moreover, it can increase the risks of monetary loss for parties in those disputes. While this is particularly challenging for domestic cases that were initiated when the pound was pegged to the US Dollar, it can continue to affect cases moving forward.

Protection of Property Rights

162. Lebanon has a well-developed legal framework for property rights, but challenges in the land registration process and land management system remain. The right to property ownership is guaranteed by the Constitution. Real estate decrees No. 188 and 189 from 1926 and related amendments establish the rules and procedures for registering, transferring, disposing, and securing real property. Secured interests are recognized and enforced under Lebanese law. Ownership of real property is enforced by registering the deed in the Directorate General of Land Registry and Cadastre (DGLRC) within the Ministry of Finance. The GGLRC oversees property registration and maintains an online land registry of the eight governorates that comprise Lebanon. However, mapping data is still incomplete and covers only approximately 60% of the Lebanese territory. Land disputes are common on the border with Syria where delineations have been revised or changed following the civil war. The land management system would benefit from improved infrastructure and a mass valuation system to ensure mapping data is accurate and complete as well as to improve transparency of the property market.

163. The process for registering a land title can be complex and time-consuming, significantly increasing corruption vulnerabilities and undermining security of property. Obtaining a land title in Lebanon involves multiple steps. Under decrees No. 188 and 189, an instrument affecting a real property title or possession (e.g., a purchase agreement) must be authenticated by the head of the registration office where the property is located. After authentication, the instrument also needs to be registered in order to be valid. Registration must be done in-person or through a legally authorized representative. GDLRC local

offices are responsible for both authentication and registration processes. The use of third-party brokers to streamline the registration process and reduce delays is reportedly a common practice, significantly increasing opportunities for corruption and fraud. Other documents depending on the type of transaction may be required, including a tax clearance document and an urban plan certificate. An electronic land registration system, particularly the possibility of authentication by electronic signature, would be needed to streamline the process while reducing corruption vulnerabilities.

164. Recent corruption cases highlight the vulnerability of the system and the need for a more streamlined process. Recent indictments against a number of registration officers and brokers allegedly involved in corruption highlight the significant vulnerabilities of the land registration system and the need for streamlining and reducing in-person interactions. Corrupt practices include overestimation of property values, so that officers can keep a portion of the tax payment, and the request of bribes for registration. These practices are said to be common in registration offices and have reportedly existed for a number of years.

165. Notaries public are increasingly being used as a more efficient and reliable alternative to a burdensome land registration process. Under Lebanese law, notaries public are authorized to authenticate real estate transactions, but the document still has to be subsequently registered at the registration office. Indeed, the transfer of ownership is effective only when the registration is completed at the real estate registry. In practice, property owners often seek the services of a notary public given the understaffing and backlog of cases in local registration offices and corruption concerns, such process still requires registration at the real estate registry. To the extent such registration is not completed, the buyer will continue to bear risks resulting from the seller. Therefore, while notaries can help streamline the registration process, current legislation still requires interactions with registration officers. In this context, authorities pointed to a draft law on the modernization of real estate transactions that would allow notaries public to complete the registration process at the real estate registry in a “one-stop shop” from start to finish, reducing the number of in-person interactions that may give rise to corruption risks. The Council of Notaries Public in France is working with the Lebanese Council of Notaries to support subsequent automation and capacity building of notaries that would be required to operationalize the law.

166. The authorities recognize that the land registration and management system need to be strengthened and streamlined. Given the complexity of the land registration process and corruption concerns, authorities recognize that the process should be streamlined and automated. Spatial planning and construction will also help support the efficiency and reliability of Lebanon’s land management system. Incomplete mapping data and unreliable valuation systems contribute to more inefficiencies and lack of transparency. Authorities highlighted the importance of an improved spatial data infrastructure as well as the need for mass appraisal to ensure that data related to property ownership is accurate, current, and usable. Improved data and geographic coverage in the land management system will ultimately contribute to enhanced transparency and security of property rights, while also reducing corruption vulnerabilities.

Recommendations to Strengthen Contract Enforcement and Protection of Property Rights

Measure	Leading responsible Institution	Timeline
Strengthen the capacity, transparency, and efficiency of first instance courts, in particular by <ul style="list-style-type: none"> Implementing electronic filing of initial complaints and electronic service of process, thereby reducing opportunities for undue influence and corruption 	MOJ	MT
Institutionalize specialized and continuing training programs for judges and judicial personnel in civil and commercial law through the Institute of Judicial Studies to enhance quality, uniformity, and predictability of judicial decision-making.	MOJ	ST
Automate and modernize the land registration process by <ul style="list-style-type: none"> implementing decree introducing e-signature as a valid method for authenticating real estate transactions at the GDLRC 	MOJ, MOF	MT
Finalize the outstanding mapping of the Lebanese territory and provide complete, accurate and publicly accessible spatial and cadastral data on the GDLRC website	MOF	LT
Ensure full digitization and simultaneous verification of records of the Land Registry	MOF	LT
To eliminate discretionary evaluations and ensure standardized fee system, establish a fixed property fee schedule through the committee designated under enforceable Decree No. 274 (dated 18 April 2007). This committee should be tasked with setting and unifying prices across municipalities and relevant Ministry of Finance departments	MoJ, MoF	ST
Connect Notaries Public and Land Registrars with Civil Registry Department to ensure the timely verification of the identities of the contracting parties , and ensure there is no forgery in the presented ownership documents.	MoF	ST
Reorganize the structure of Land Registry offices to ensure effective coverage and allocate necessary human resources recruited based on merit-based competition.	MoF	MT
Activate the role of the central financial and administrative inspection to constantly monitor employees' work to ensure that they perform their duties in compliance with applicable rules and laws.	MoF	MT

Annexes

ANNEX 1: ANTI-CORRUPTION LEGAL AND INSTITUTIONAL FRAMEWORKS

Anti-Corruption Institutions

The NACC is central to Lebanon's anti-corruption framework and strategy, as it is responsible for main corruption prevention functions and for criminal investigation and prosecution of corruption offenses. The NACC was given a broad mandate and is charged with (i) supervising the implementation of the transparency and access to information framework, (ii) collecting and verifying asset declarations filed by public officials, (iii) providing protection to whistleblowers, (iv) contributing to the spread of an anti-corruption culture, (v) providing opinions on all anti-corruption-related reforms and policies, (vi) receiving and investigating corruption complaints, (vii) prosecuting corruption cases in the criminal courts, and (viii) asset recovery. The main features of the NACC are described in Box 3 below.

An innovative mechanism for appointing members of the NACC was introduced in its law, seeking to promote plurality and transparency, ensure candidates are selected based on merit and protect them from political influence. Almost 2 years after the law was enacted, the current NACC members were appointed¹⁷⁶ through a widely scrutinized process, although stakeholders' opinions on the results are mixed. Legal provisions grant NACC members immunities from prosecution and protection from arbitrary dismissal. The legally mandated even number of members of the NACC (6) can lead to deadlock in decision making.

Although the NACC was envisaged as an independent agency, important constraints to its autonomy were included in the legal framework. Even as the law purports to grant the NACC "financial and administrative independence", and mandates that its members and employees "shall perform their duties with absolute independence from any other authority", it also limits the NACC's operational autonomy by requiring that (i) the NACC's by-laws—an essential legal instrument for its governance and operations—be approved by the State Council (art. 9), (ii) international assistance and cooperation be requested through the Ministry of Justice, (iii) public officials respond to the NACC's request to produce documents "without delay within the legal framework" leaving ample margin for arbitrarily delaying investigations as there is no legally established timeframe (art. 17), (iv) requests for bank account information and freezing be approved or denied by the SIC, and (v) all NACC staff be recruited through the CSB. In addition, the law (vi) is not clear on the NACC's power to remove or rotate its personnel, who are subject to the civil service regime, (vii) seems to only grant the NACC the power to collect information and documents from public sector officials, but not from the private sector (art. 17), and (ix) does not provide the NACC with appropriate and effective mechanisms to enforce its decisions (particularly regarding collecting or being given access to documents and information). In addition, the NACC was administratively placed under the office of the Prime Minister.

¹⁷⁶ Decree No. 8742, dated February 3, 2022

Box 3. Lebanon's National Anti-Corruption Commission - Main Features arising from its Law

The National Anti-Corruption Commission is an independent administrative authority with legal personality, financial and administrative independence. It is formed by six members, including the President and the Vice-President, appointed by decree of the Council of Ministers, for a non-renewable period of six years.

NACC members are: 2 retired judges, elected by a conference of judges (including administrative judges) convened by the High Council of Magistrates; 1 lawyer, 1 accountant, 1 expert on banking or economics and 1 expert on governance, public finance or anti-corruption, chosen by the Council of Ministers from a list of three possible candidates prepared by the Lebanese Bar Association, the Lebanese Association of Certified Public Accountants, the Banking Control Commission and the Minister of State for Administrative Reform. The NACC's main functions are:

- a) Receiving corruption complaints, investigating corruption crimes, reviewing them and, when necessary, referring them to all other competent supervisory, disciplinary and judicial authorities.
- b) Monitoring the status, cost and causes of corruption, as well as the efforts to fight and prevent it and drafting and publishing special or periodic reports.
- c) Expressing its opinion, by its own choice or upon the request of the competent authorities, regarding standing or draft legislations, decrees, decisions, and regarding policies and strategies related to the fight against corruption and its prevention.
- d) Contributing to the spread of the culture of integrity in public administrations, public establishments and in society and to spread the knowledge needed to fight and prevent corruption.
- e) Receive, hold, manage and audit asset declarations, in accordance with the provisions of the Law on Illicit Enrichment.
- f) Protect and motivate whistleblowers in accordance with the provisions of the Law on Whistleblowers protection.
- g) Receive and investigate complaints about the non-application of the Right of Access to Information Law and making decisions thereon; advise the competent authorities on the implementation of the law; draft and publish an annual report in this regard; and participate in community education to ingrain this right.
- h) Ask the competent authorities to take all available precautionary measures.
- i) Coordinate with other regional and international organizations or institutions to recover assets

Upon the conclusion of an investigation, the NACC may take any of the following decisions:

- To refer the matter to the competent public prosecutor, who must inform the NACC of the progress of the investigation and its outcome; if the public prosecutor decides to close the case with no further suit, the NACC may ask him to broaden the scope of the investigation.
- To file a direct complaint before the competent court to request the punishment of the perpetrators and ruling on civil obligations in favor of the state. The NACC may appeal decisions issued in this regard.
- To file the necessary lawsuits and measures before the competent judicial or administrative authorities, to demand the resetting of the situation and the recovery of funds and compensation, as a result of the acts of corruption proven by a final administrative or judicial decision.

Transparency and Access to Information

Lebanon's legal framework on access to information was strengthened in 2021 to facilitate implementation and simplify access requirements. Main enhancements included the possibility of submitting access requests via email or electronic means and clarifying that requesters do not need to demonstrate any interest in obtaining the information and that granting access to information does not necessitate any approval from the institution or entity's top official. An implementation decree published in 2020 also contains provisions that clarify different aspects of access to information processes and obligations. Box 4 describes the key elements of the access to information framework.

Box 4. Main Elements of the Access to Information Law

Institutional coverage:¹⁷⁷ (i) Public administrations, (including the Directorate General of the Presidency of the Republic, the Directorate General of Parliament, and the Directorate General of the Council of Ministers); (ii) Public institutions; (iii) Independent administrative entities; (iv) Courts, entities and councils of judicial or arbitrary nature, be it ordinary or extraordinary (including the Constitutional Council, judicial, administrative, financial courts, and religious courts); (v) Municipalities and Unions of municipalities; (vi) Private institutions and companies charged with managing public facilities or properties (including those granted concessions); (vii) Mixed companies; (viii) Public interest foundations; (ix) Sector Regulatory Authorities, and (x) All other public law persons that are not included above in this list.

Reasons for denying access to information:¹⁷⁸ (i) Secrets related to national defense, national security and general security; (ii) Insights on the state's foreign affairs of confidential nature; (iii) Private lives of individuals and their mental and physical health; (iv) Secrets protected by law such as professional confidentiality; (v) Investigations before being read out in a public session, secret trials and juvenile and family trials; (vi) regarding the content of court files, cases and recourses, they shall only be accessible in accordance with the applicable rules of procedure; (vii) Records of private meetings of parliament or parliament committees, unless decided otherwise; (viii) Deliberations and decisions of the Council of Ministers of confidential nature; (ix) Preparatory and unfinished administrative documents, and (x) Opinions rendered by the State Council, except by concerned individuals under the supervisory procedure.

Proactive transparency obligations:¹⁷⁹ Publish on the institutional website in a searchable, copyable and downloadable format:

- All operations involving the payment of public money of over 5 million LBP, including the amount, payment method and purpose, beneficiary and legal basis under which the operation was made (such as bidding, mutual consent, execution of a judgment), excluding public employees' salaries and benefits
 - Decrees, decisions, instructions, circulars and warrants which contain an interpretation of laws, regulations or documents of regulatory nature, within 15 days from its issue date
 - All laws and regulations
 - Annual reports

Information officers: All covered institutions and entities must appoint them. They are responsible for receiving, processing and responding to access to information requests and for locating the requested information.

Access to information procedures: Requests may be filed by email, without the need to demonstrate any interest and for free, with the Information Officer, who has 15 days for granting or denying access (may be extended for an additional 15 days). Decisions on access do not require any superior approval. Decisions to deny access must be reasoned and can be challenged before the NACC, who must decide on the matter within 2 months. Non-favorable decisions may be appealed by citizens either at the State Council or civil courts, both under the fast-track procedures.

Deficiencies in statistical data collection and administration, lack of resources and appropriate archival systems and rules are cited as main constraints to more effective implementation of the access to information framework. Other challenges include lack of properly functioning, maintained and updated websites across government, staff shortages, civil service strikes and unavailability of electricity and internet services. Civil society organizations report that even when institutions are willing to respond to access requests, they face difficulties in locating and collecting requested information and data, in light of the still prevalent use of paper, given that digitalization of government activities has not been prioritized.

Stronger implementation of Access to Information Law is a top priority for the NACC. It planned to launch its Access to Information Department in September 2023 and publish a comprehensive list of institutions and entities covered by the access to information law and the names of their Information

¹⁷⁷ Article 2 of Law No. 28 on the Right of Access to Information

¹⁷⁸ Article 5 of Law No. 28 on the Right of Access to Information

¹⁷⁹ Articles 7, 8 of Law No. 28 on the Right of Access to Information

Officers. A first report on the state of access to information has been published,¹⁸⁰ but the Access to Information Department has not yet been created.

Asset Declaration by Public Officials

Lebanon's asset declarations legal framework has improved, but the prohibition to publish asset declarations filed by high-level officials is a significant obstacle towards accountability. Enhancements include an expanded definition of public officials who are obliged to declare¹⁸¹; broad coverage of assets and interest to be declared; mandatory declaration upon assuming office, periodically every three years and upon leaving office; increased sanctions for failing to declare and granting the NACC full access to declarations for verification and investigation purposes. The new law also contains a detailed format for asset declarations that can only be amended by the NACC.

Introducing sanctions for failure to declare is a step in the right direction but applying them in practice may prove difficult and ineffective. The law provides for retention of salaries and *ipso jure* termination after three months of continued non-compliance. While retaining public officials' salaries until their asset declarations are properly filed may be seen as a dissuasive, in practice imposing this kind of sanction may not yield desired results. First, this mechanism does not provide the NACC with self-executing powers to autonomously impose and enforce sanctions. Instead, it must rely on public administrations' will and disposition to stop paying infringing personnel their salaries, which may prove difficult in the context of entrenched corruption. Second, the law provides that the computers of the various concerned administrations shall be linked with each other and with a statistical database, in addition to the creation of electronic interfaces that allow reporting, cessation of payment, and detection of gaps, which in the Lebanese context of important deficiencies in government's IT capabilities, accounting and reporting systems, will be hard to attain. Third, in the time these systems are operational, a bureaucratic chain of circulars and memoranda must be prepared and sent around to stop payments.

However, implementation of the new asset declarations framework faces significant challenges The absence of digital tools to link information sources and lack of coordination mechanisms will limit verification efforts. The NACC informed that creating and rolling out an online asset declarations system is at the top of its priorities, and that its operationalization will hinge on the adequate rollout and implementation of e-signatures under Law No. 81 Relating to Electronic Transactions and Personal Data and the respective implementing decree¹⁸². Moreover, overall IT shortcomings in Lebanon's public sector will be a significant obstacle for the implementation of this project. In addition, some public entities have argued they are not covered by the law and therefore their employees are not obliged to file asset declarations.

Criminalization of Corruption

Lebanon has the main elements of anti-corruption criminal laws and institutions in place. The key laws in the anti-corruption legal framework in Lebanon include the Lebanese Criminal Code (LCC), the Criminal Procedure Law, the AML/CFT Law, and the Illicit Enrichment and Asset Declaration law.

The main corruption crimes are adequately criminalized in Lebanon, but criminal legislation needs strengthening, in particular to address indirect corruption offences. Lebanon criminalized active and passive bribery in the LCC (Articles 351-353), including to the benefit of legal entities. However, the LCC does not cover the indirect commission of an act of bribery (e.g. accepting gifts or privilege offered by reason of the office), which is characteristic of more complex corruption crimes, and represents an important gap. While passive trading in influence is criminalized in LCC (Article 357), important deficiencies should

¹⁸⁰ [5A-Access-to-Information-Guide-A-Handbook-for-Administrations.pdf](#)

¹⁸¹ Article 1 Law No. 189 on Assets and Interests Declaration, and the Punishment of illicit Enrichment

¹⁸² On February 10, 2024. The Council of Ministers approved the Decree on Electronic Official Documents and Electronic Signatures

be rectified as trading in influence only covers undue monetary advantages (due to the use of term “remuneration”) but does not cover the indirect commission of the act. Lebanon should consider criminalization of active trading in influence, when a person, who is seeking the influence, is promising, offering, or giving undue advantage to a public official. In addition, Lebanon should criminalize active bribery of foreign public officials and officials of public international organizations.

Lebanon's criminal law fully criminalizes embezzlement, abuse of functions and provides for liability of legal persons. Embezzlement is criminalized in Articles 359-362 of the LCC, the Court of Accounts Law (Article 60) and the Public Accounts Law (Article 191). Further, Articles 363 and 364 LCC criminalize misappropriation and misuse of public funds, while the abuse of functions is comprehensively criminalized in Articles 350, 363-364, and 371-377 of the LCC. Lebanese legislation also provides for civil, administrative (LCC Articles 108-111) and criminal liability (LCC Article 210) of a legal person. In addition to the general criminalization of natural persons, the LCC also provides liability for legal entities for actions of their managers, representatives and employees.

In general, the sanctions established in the criminal law for corruption offences appear to be sufficiently dissuasive. There are no sentencing guidelines; judges are free in the determination of the sanction, taking into consideration the punishment for a particular crime set forth in the LCC, the gravity of offences, circumstances of the case, the impact of the offence on public funds and any repetition of the crime. While statutory sanctions appear to provide the opportunity to apply proportionate and dissuasive sanctions for corruption offences, a low number of convictions, particularly for high-level officials, underpins overall effectiveness of the anti-corruption criminal justice system.

The scope of the immunities from prosecution for public officials appears limited, with possibilities to prosecute dependent upon approval, although a parallel regime for ministers imposes an additional barrier. In regard to Members of Parliament (MPs), immunity applies only while Parliament is in session, and the prosecutor is required to obtain permission from the relevant Parliamentary committee. Outside parliamentary sessions, MPs do not enjoy immunity. Similarly, the Public Prosecution has to obtain the approval of the administration prior to prosecution of civil servants if the crime arises out of his or her employment, which may impose additional barriers to effective and timely prosecution of corrupt officials. According to Article 70 of the Constitution of the Lebanese Republic, the Parliament has a right to impeach the ministers and the prime minister for high treason or breach of duties. To adjudicate these impeachment cases a special Supreme Council for the Judgment of Presidents and Ministers is formed, consisting of seven MPs and eight judges. An impeachment case can be referred by the Parliament to the Supreme Council with a two-thirds qualified majority and two-thirds votes of 15 members are required to impeach a minister. So far, no cases were submitted to the Supreme Council and the authorities should consider lowering the high barrier imposed by this process to prosecute ministers even for suspected corruption cases.

ANNEX 2: OFF-BUDGET SPENDING

Main Off-Budget Spending Items:

- **Extrabudgetary entities and funds.** The budget does not include estimates of relevant extrabudgetary funds. The most important extrabudgetary fund is the National Social Security Fund (NSSF). Its function is to provide health insurance coverage (sickness and maternity care), family allowances, end-of-service indemnities, and work-related accidents and diseases to employees (private sector and part of the public sector). NSSF revenues come from private and public sector contributions. In addition, the law on the NSSF states that health services are subsidized through a government transfer, equivalent to 25% of the NSSF health expenditures.¹⁸³ The NSSF budget is approved by its Board of Directors and validated by the MoF. However, it does not need Parliament's approval, nor is there a requirement for submitting financial reports to Parliament. The government budget captures only the transfer to the NSSF; however, this transfer has not taken place in the last ten years, or it has been small, leading to a significant accumulation of government arrears with the NSSF. During the crisis, the financial situation of the NSSF has been deteriorating rapidly, which could represent fiscal contingencies. Besides its extrabudgetary character, there are other governance deficiencies in the NSSF. The Independent Municipal Fund is another extrabudgetary fund, which collects, distributes, and transfers an important share of municipal revenues. The transfers to the Independent Municipal Fund are included in budget expenses but the Fund does not report on revenues and expenditures to the tutelage ministry (Ministry of Interior). Other important extrabudgetary entities are the Council of the South Fund for the Displaced, and the Higher Relief Committee.
- **The Council for Development and Reconstruction (CDR) is only partially included in the budget.** The CDR is an autonomous public institution, responding to the Council of Ministers, in charge of managing public investment projects. It is financed by domestic sources (state budget and local governments budgets) and foreign resources (grants and loans). The CDR budget is approved by the Board of Directors after discussion with the Council of Ministers. CDR's operations are partly financed from (i) donors' funds; (ii) regular project subsidies granted by the line ministries; (iii) transfers coming from the budget; and (iv) from municipalities. Only investment financed through the budget is included in the state budget given that municipalities have independent budgets approved by their local legislators and investment projects financed by foreign sources are approved by Parliament through Program Laws. In addition, the execution of approved Program Laws for investment projects may take several years, which distorts the annuity principle of the budget.
- **BdL quasi-fiscal activities and some donor-funded expenditures are not reflected in fiscal accounts.** Between late 2019 and 2023, when the parallel exchange rate began to diverge from the official rate, BdL started providing foreign currency at preferential rates for essential imports and government spending, generating substantial costs. Lebanon also received substantial official assistance in grants and loans. This unreported funding distorted the size of government expenditures and the fiscal deficit.
- **Annexed budgets.** Annexed budgets were established to consider the special conditions applying to some public institutions of a commercial character, which enjoy financial independence but are not fully autonomous. The three last independent budgets (Telecom, the General Directorate of Cereals, and the National Lottery Directorate) were gradually incorporated into the budget in 2021. However, in practice, the integration process is still to be completed. For example, only net financial balances of these entities (and of other public corporations) are included in the budget submitted to Parliament, meaning that separate estimates of revenues and expenditures are not specified as it should be.
- **Treasury advances:** The law creates the possibility for the MOF to extend treasury advances to public institutions, or municipal administrations, to meet the financing of an urgent need of the public administration (Article 203-2013 of the PAL). Institutions must repay the advance within the fiscal year. If not repaid, the

¹⁸³ Decree 13955, 1963.

advance should be regularized through a transfer in the next budget. However, repayments don't occur often, especially in the case of large public institutions. Transfers to EdL have not been included in the budget, having been treated as a loan in line with their *de jure* but not their *de facto* character, leading to an inaccurately low fiscal deficit. Besides, treasury advances are approved directly by the Council of Ministers, without a previous analysis and positive concept from the MOF, and their execution occurs outside the budget processes and rules. Treasury advances impose serious challenges for budget execution and cash management. The mission was informed that the authorities are currently working on a decree to regularize all treasury advances and plan to regularize them in 2026 budget.

- **Foreign Grants and Loans:** an important percentage of grants and loans received by public entities and institutions are not included in the budget and are not subject to any monitoring (see Section III.A).

ANNEX 3: BDL'S EQUITY HOLDINGS

Direct Shareholdings as of December 31, 2022

Corporation	% ownership	Book Value of BDL Share	Remarks
Intra Investment Company s.a.l.	35.22%*	US\$111,096,630	at Fair Value
Middle East Airlines s.a.l.	99.23%	US\$643,281,982	at Fair Value
Midclear s.a.l.	99.86%	US\$2,176,517	at Fair Value
Arab Investment Company s.a.a.	1.70%	US\$10,318,006	at Fair Value
Total BDL Financial Assets		US\$766,873,135	

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<i>Middle East Airlines s.a.l.</i>	<i>99.23%</i>	<i>\$643,281,982</i>	<i>at Fair Value</i>
<i>Midclear s.a.l.</i>	<i>99.86%</i>	<i>\$2,176,517</i>	<i>at Cost, Fair Value > Cost</i>
<i>Arab Investment Company s.a.a.</i>	<i>1.70%</i>	<i>\$10,318,006</i>	<i>at Cost, Fair Value > Cost</i>
Total BDL Financial Assets		\$766,873,135	

Source: Banque du Liban

*The Lebanese state reportedly owns another 10%.

Disclaimer from the Source:

1- The above-mentioned fair values are indicative and subject to change, and may not fully reflect the value at which the investment may be sold.

2- Where market valuation approach is chosen, most recent benchmarks were used. Market benchmarks fluctuations may have a positive or adverse effect on the value of the investment.

3- Adverse impact of the pandemic is still weighing on the aviation sector, thus earnings and other market benchmarks are subject to change after full recovery.

4- In the case of MEA, if the equity method was used, the value of BDL share in MEA would be \$863M based on the 2021 audited report (non-consolidated/most recent available to BDL). Difference may partly be owed to distortion in market benchmarks due to effect of Covid 19 on the aviation sector which started to decrease, and to other factors.

5- MEA is non enlisted company, its shares are not publicly traded, so the study is limited to the available data from comparable entities.

List of Subsidiaries of Intra Investment Company and Percentage of Ownership

Intra Subsidiaries	% of Ownership
Lebanese companies	
Casino du Liban s.a.l.	52.32%
Finance Bank s.a.l.	98.75%

Modern Building Company s.a.l.	100%
Société Immobilière et Financière du Port de Beyrouth s.a.l.	60.08%
Société Mixte du Froid s.a.l (subsidiary of Société Immobilière et Financière du Port de Beyrouth s.a.l.)	17.27%
Studio Baalbeck s.a.l.	97.5%
French companies	
Lebanese Real Estate Company s.a.	67.39%
Franco-Lebanese Real Estate Company s.a.	57.23%

Source: BdL

List of Subsidiaries of Middle East Airlines and Percentage of Ownership

MEA Subsidiaries	% of Ownership
Mideast Aircraft Service Company SAL (MASCO)	99.94%
Middle East Airport Services SAL (MEAS)	99.96%
Middle East Airline Ground Handling SAL (MEAG)	99.95%
Lebanese Beirut Airport Catering Company SAL (LBACC)	77.37%
Cedar Executive SAL	99.98%
Lebanese Helicopter SAL	99.63%

Source: BdL