



## REPORT

### Online Training on the Surveillance of SOEs

Conducted in collaboration with IMF-METAC  
Beirut, 15-17 February, 2022

March 2022

## Key Takeaways

- a. SOEs are not clearly defined in the Lebanese public administration panorama and not all their activities are fully disclosed or monitored by Parliament and oversight agencies. As well, currently, the MOF does not assess the fiscal risk arising from SOEs.
- b. SOEs report on the basis of different accounting standards; with some, e.g., hospitals, required to report in terms of the administrative accounting requirements, whereas others report in terms of the accounting standards that apply to private companies.
- c. They also face a major challenge in asset valuation that requires further technical assistance.
- d. There is no financial information system linking SOEs to the Ministry of Finance to support risk analysis and improved oversight.
- e. With the crisis, some of the SOEs that used to generate revenue are facing financial losses that would call for further government support or for foreign or private financing.
- f. Given their cost on government, estimated at 3% of GDP, the IMF Healthcheck tool could serve a powerful tool to start gathering information about selected Lebanese SOEs and analyzing potential risks arising from the sector.
- g. Based on international standards proposed and on examples drawn from Morocco, Tunisia and South Africa, practical steps were proposed for Lebanon to enhance the collection, analysis and reporting of data on its SOEs and included the development of a financial reporting template that would be piloted with a pool of SOEs that had the minimum, necessary data available, and the Ministry of Finance.
- h. A working group of MOF representatives and five SOEs was formed to start experimenting with the tools proposed for financial reporting and help the MOF improve its analysis and surveillance of the SOEs, namely: The Port of Tripoli, Beirut and Mount Lebanon Water Authority, EDL, Régie Libanaise des Tabacs et Tombacs (to be confirmed), and Ogero (to be confirmed). The working group would focus on developing a standardized financial reporting template and address some of the reporting challenges facing SOEs. More details are included in the Roadmap (section E of the report).
- i. Recommendations on the short and medium term included the need to:
  - Build SOEs capacities in budget planning, financial analysis and reporting and improve their capacities in preparing in-year execution reports by using the financial reporting template proposed and/or the Healthcheck tool.
  - Unify accounting and reporting standards to centralize and integrate SOEs fiscal data
  - Provide the MOF staff with specialized technical training to improve their performance and efficiency on the surveillance of SOEs.
  - Improve fiscal transparency on the performance of SOEs through publishing financial data and reports.
  - Revamp the legal and regulatory framework or at least, introduce improvements to enhance the identification and surveillance of SOEs, according to IMF and OECD guidelines.



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## A INTRODUCTION

The Institut des Finances Basil Fuleihan (IOF) organized, in collaboration with the International Monetary Fund (IMF) Middle East Technical Assistance Center (METAC), an online training course on the "Surveillance of SOEs", from 15-17 February 2022.

Building on the online program provided in March 2021, this year's training aimed to further strengthen the capability of Lebanese officials with respect to the surveillance of state-owned enterprises (SOEs). It covered a refresher on the SOE Health Check Tool (an Excel based tool developed by the Fiscal Affairs Department of the IMF to analyze the financial health of SOEs and associated fiscal risks); international guidelines and good practice examples for reporting on SOEs; the development of a financial reporting template to enable the Ministry of Finance to collect the necessary data for undertaking an analysis of the SOE sector, based on the Health Check Tool; and the updating of a roadmap to improve surveillance of SOEs in Lebanon.

This report provides an overview of the training content, a summary of discussions, participants' feedback and proposed next steps.

## B EXPERTS

The training was facilitated by:

**Mr. Benoit Wiest**, IMF-METAC Public Financial Management Advisor,

**Ms. Avril Halstead**, IMF Expert from South Africa where she worked at the Ministry of Finance and Ministry of Public Enterprises having responsibility for the financial oversight of major South African SOEs.

## C PARTICIPANTS' PROFILE

15 Participants from 10 public institutions and State-Owned Enterprises attended the training.

The majority of participants were senior officials working in a managerial position within financial departments. (Appendix 1: List of participants)

Various economic sectors were represented, notably electricity, water authorities, ports, health, council for development and reconstruction in addition to general controllers from the Ministry of Finance.

## D TRAINING CONTENT

The training was conducted in a virtual format, over a period of 3 half days, from 9:00 AM till 12:30 PM. The following topics were addressed: (Agenda in Appendix 2)

### 1- Surveillance of SOEs in Lebanon: update from 2021

Dr. Rajaa Cherif, Director of Public Accounting at the Lebanese Ministry of Finance (MOF), indicated that in Lebanon, the term "SOE" is not clearly assigned to specific institutions. Public institutions, among which those that have a commercial or investment activity and can be considered as SOEs, encompass both public institutions that are responsible for operating special facilities, including water and electricity infrastructure, airports and ports, as well as universities, museums and hospitals.

The legal framework governing SOEs in Lebanon is complex and fragmented. Twelve SOEs are governed under the public institutions law from 1970 and report to the MOF. However, subsequently, other SOEs have been established and enjoy various statutes and do not necessarily report to the

MOF, unless they benefit from financial support/budget transfer from the government. That said, there are statutory requirements for the SOEs' financial information to be audited. There are financial controllers from the MOF at all the SOEs, who are responsible for monitoring budget execution. In addition, the majority is subject to a compliance audit by the Court of Accounts, responsible for checking actual expenditures vis-à-vis the budget.

**Currently, the MOF does not assess the fiscal risk from SOEs as they are of the view that the external audit is supposed to assess compliance with the law, highlight risks and provide the SOE Boards, Government and Parliament with a summary of the financial situation of the SOEs.**

**The SOEs report on the basis of different accounting standards;** with some, e.g., hospitals, required to report in terms of the administrative accounting requirements, whereas others report in terms of the accounting standards that apply to private companies. The SOEs are required to finalize their financial statements within 6 months of the end of the financial year.

Although there is a law requiring automation/digitalization at the SOEs, some SOEs have not yet automated their systems. **Such automated systems could be connected directly to the MOF, enabling improved oversight and risks analysis.** SOEs fail to submit the required financial information (including budget, and financial statements) on time and need assistance in compiling their budgets.

From the SOEs perspective, compiling the budget is difficult due to the lack of the comprehensive planning framework and uncertainty about the allocations from the government that they are due to receive.

There are a number of cross-cutting challenges affecting many of the SOEs. The economic crisis and devaluation of the Lebanese Pound have created operational problems such as negatively impact on revenues and creating difficulties purchasing imports. **SOEs, particularly those established prior to the civil war in Lebanon, are experiencing challenges establishing the value of their assets.**

Generally, the SOEs are not required to generate a profit, but are rather expected to break even. Any profits that are generated are to be transferred to the Treasury. However, currently many SOEs are realizing losses, e.g. EDL. Likewise, SOEs that are largely administrative institutions implementing public policies, are receive the majority of their funding in the form of budget transfers from the government and are unable to cover all their costs on their own. With the crisis, the government is not in a position to be able to support these companies, and in time, they may need to attract foreign or private investors.

## 2- SOE Health Check Tool: refresher from 2021

Ms. Halstead presented an overview of the SOE Health Check Tool, explaining the structure of the tool, what it can do and how the outputs it generates can be used. She demonstrated how to capture the SOE financial statement information into the tool and explained how the generated outputs could be scrutinized, both for individual companies and the SOE portfolio as whole, and how these could be used for analyzing fiscal risks and reporting on SOEs. Participants were requested to attempt to capture the financial information for a SOE into the tool.

## 3- International guidelines and illustrations of reporting and transparency

Mr. Wiest explained the **importance of good reporting and transparency on the financial performance of SOEs, to improve surveillance by the MOF and better inform policy decisions, focusing on the real issues faced by the SOEs.** Reporting can demonstrate that the government has a good understanding of the fiscal risks from the SOE sector and has sound framework and credible plan to manage them. This **can contribute to make sovereign financing costs more**

affordable.

International guidelines setting out **good practices** in respect of reporting and disclosure in relation to SOEs were presented. These covered the relevant sections of the **IMF's Fiscal Transparency Code, the OECD guidelines for disclosure on SOEs by the Government and IMF and World Bank guidelines for reporting by SOEs.**

**Selected country examples were shared, including the tool for data collection and analysis used in Morocco, reporting on SOEs being done by Tunisia, and the reporting by SOEs and analysis thereof conducted in South Africa.**

**Practical steps for Lebanon to enhance the collection, analysis and reporting of data on its SOEs were discussed.** These included issues relating to the standardization of data from different entities. It was proposed to create different reporting templates for the public institutions (e.g., hospitals) and the SOEs (e.g., EDL). **It was suggested that a template could be developed and piloted with a few SOEs and government hospitals that had the minimum, necessary data available** (ideally 3 years of historical data – 2018, 2019 and 2020 as well as 2021 as soon as it becomes available – and the forward looking budget for 2022), in close collaboration with the Ministry of Finance.

In addition, issues relating to the accounting basis on which the SOEs report and the fact that some SOEs' accounts have not been certified by the auditors were discussed. In such cases, it was mentioned that the SOE Health Check Tool could still be used for analysis, while bearing in mind that inaccuracies in the financial reporting by the SOEs could translate into distortions in the results produced by the tool. It was highlighted that initially the analysis may be used for internal purposes, until such time that the MOF is confident in the quality and comprehensiveness of the data.

The importance of transparency in enabling the SOEs to attract foreign or private investors was highlighted.

#### **4- Improve surveillance of SOEs: Developing a financial reporting template**

Ms. Halstead presented the **draft of a financial reporting template that would allow data from the SOEs to be input directly into the SOE Health Check Tool for analysis by the MOF.** The template provided for the collection of annual data and the comparison of the actual performance of the SOE vis-a-vis its budget as well as its performance in the previous year. In addition, a quarterly reporting template for the collection of in-year data that would allow any fiscal risks that were materializing to be quickly identified so that mitigating action, could be adopted. The template for quarterly reporting allowed for the SOEs' performance in the most recent quarter to be compared with the previous quarter, the same quarter in the previous year as well as with its current year budget. At the end of each quarter, the template provided for the SOEs to update their year-end forecasts so that these could be used for analysis in the SOE Health Check Tool. Both the annual and quarterly reporting templates required that SOEs provide explanations for deviations and the remedial action they were to take to get their performance back on track.

In discussing the template, the SOEs highlighted that they could have difficulties completing it as their budget is not broken down into the line items used in the tool and, normally, their financial reporting is based on the budget. The budget is produced on a cash basis. In addition, the constraints relating to the valuation of the property, plant and equipment were reiterated. The IMF indicated that, if the historical valuations were not available, it would be ideal to undertake a valuation of the assets to determine the value at which they should be reflected in the financial statements. However, as this process required valuation specialists with expertise in the specific assets owned by the SOEs, it could be costly and take time to complete. In the interim, proxies would need to be found that were based on a good best estimate.

## 5- Update of the roadmap to improve surveillance of SOEs in Lebanon

The experts discussed with participants a roadmap for improving SOE surveillance in Lebanon. As a first step, it was decided to form a working group of a up to five SOEs: Port of Tripoli, Beirut and Mount Lebanon Water Authority, EDL, Régie Libanaise des Tabacs et Tombacs (to be confirmed), and Ogero (to be confirmed). Initially, no hospitals would be included. The working group would focus on developing a standardized financial reporting template and addressing some of the reporting challenges facing the SOEs. Learning from pilots with the members of the working group could then be applied to the broader SOE sector. This would allow the MOF to improve their analysis and surveillance of the SOEs.

The IoF agreed to draft letters that could be sent by the Director General to the SOEs identified for participation in the pilot exercise, requesting their participation and provision of the requisite information.

The table below summarizes the current status and further actions to be taken on the short to medium term.

| Main action  | Description   | Timeline   | Status      | METAC |
|--|---|------------|-------------|-------|
| Set up a working group with the Ministry of Finance, financial controllers, a selected number of SOEs and the Institute of Finance | <ul style="list-style-type: none"> <li>Select the SOEs that will participate in the working group (ideally to include large, systemically important and high risk SOEs as well as a cross section of other SOEs)</li> <li>Define regularity of meetings and the agenda</li> </ul> | Short-term | In progress | Yes   |
| Within the working group, define the key elements to improve surveillance of SOEs  | <ul style="list-style-type: none"> <li>Select the key financial indicators to monitor, based on the tool presented during the training;</li> <li>Define what kind of financial data selected SOEs would need to share with the MoF and the financial controller</li> </ul>        | Short-term | In progress | Yes   |



|   |  |             |             |     |
|---|--|-------------|-------------|-----|
| Begin collecting standardized data on the selected SOEs | - Gather data from selected SOEs / Public Institutions in using the standardized Excel format discussed during the workshop on a quarterly basis   | Short-term  | In-progress | Yes |
| Analyze the data together with SOEs                     | - Analyze the data using the SOE HCT   | Short-term  | Not started | Yes |
| Improve reporting within the Ministry of Finance        | - Submit a report to the director of the Ministry of Finance to inform policy decisions and mitigate fiscal risks  | Short-term  | Not started | Yes |
| Identify and solve financial information gaps           | - Identify gaps of information in the financial data provided by SOEs<br>- Develop and execute a plan to address those gaps  | Medium-term | Not started | Yes |
| Improve transparency and external reporting on SOEs     | - Study the possibility to publish a first report on the financial performance of SOEs based on key public corporations (examples of Egypt and Tunisia);<br>- Liaise with the Macro Fiscal Unit to feed information on SOEs into the draft fiscal risk statement   | Medium-term | Not started | Yes |
| Revise the legal framework                              | - Identify gaps in the existing legal framework<br>- Make a clear distinction between general government entities and public corporations based on the Government Fiscal Statistics Manual (GFSM) 2014 classification<br>- Ensure adequate access to information for the Ministry of Finance to monitor fiscal risks from SOEs | Medium-term | Not started | Yes |



## E LESSONS LEARNED AND RECOMMENDATIONS

Many challenges are facing public Institutions and SOEs sector in Lebanon as they are asked to continue delivering public services in an extraordinarily complex environment with extremely limited budget and resources, no crisis management strategy, no vision forward.

Are included below some recommendations to help SOEs overcome their challenges at both internal and external levels:

- Build their capacities in budget planning, financial analysis and reporting
- Improve their capacities in preparing in-year execution reports by using the financial reporting template proposed and/or the Healthcheck tool.
- Deploy a unified accounting system that would centralize and integrate fiscal data
- Subject all SOEs accounts to external auditors certified by the MOF
- Improve fiscal transparency on the performance of SOEs through publishing financial data and reports
- Provide the MOF staff with specialized technical training to improve their performance and efficiency on the surveillance of SOEs
- Set up clear guidelines and template for financial reporting to be adopted by all SOEs
- Start with a small working group to implement the proposed workplan with the support of METAC, IOF and the MOF.
- Revamp the legal and regulatory framework or at least, introduce improvements to enhance the identification and surveillance of SOEs, according to IMF and OECD guidelines and principles.

## F EVALUATION OF THE WORKSHOP

A detailed summary of the participants' evaluations is available in Appendix 3.

It is to be noted that participants expressed their interest and satisfaction as to the training's content and relevance of the SOE Health Check Tool. They also expressed their need to acquire further skills in preparing and analyzing their financial statements.

The program achieved a high degree of satisfaction reaching **8.33/10**.

## G APPENDICES

### APPENDIX 1: LIST OF PARTICIPANTS

| Name of Participant | Organization                               | Function                                  |
|---------------------|--|---|
| Joumana Karam       | Kartaba public hospital                    | Accountant                                |
| Dr.Firas Zeidan     | Council for Development and Reconstruction |   |
| Omar al Hoz         | Port of Tripoli                            | Head of financial department              |
| Ali Abbani          | Electricity of Lebanon                     | Head of unit                              |
| Rana Dakroub        | Ministry of Finance                        |   |
| Randa Ismail        | Ministry of Finance                        |   |
| Josiane Saideh      | Ministry of Finance                        | Financial Controllers                     |
| Raja Cherif         | Ministry of Finance                        | Director of Public Accounting directorate |
| Ramia Yehya         | Abdallah Rassi public hospital             | Head of administrative unit               |
| Assaad Haddad       | Port of Beirut                             |   |
| Patrick Khazen      | Port of Beirut                             | Financial Controller                      |
| Joe Maroun          | Beirut and Mount Lebanon water authority   | Director of common affairs                |
| Zahi Charaf         | Hasbaya public hospital                    | Accountant                                |
| Samar Madah         | Hasbaya public hospital                    | Head of unit                              |
| Hisham Ayoubi       | Ministry of Finance                        | Financial Controllers                     |

## APPENDIX 2: TRAINING AGENDA

| Day 1:      |  |
|-------------|--|
| 9:00-09:30  | <p><b>Opening session</b></p> <p>Welcome Remarks (Institute of Finance, METAC)</p> <p>Presentation of participants</p> <p>Goals and expectations for the webinar</p>   |
| 10:00-11:00 | <p><b>Surveillance of SOEs in Lebanon: update from last year</b></p> <p>Update from authorities on any recent development regarding the economic situation of SOEs and surveillance from the Ministry of Finance</p> |
| Break       |  |
| 11:15-12:30 | <p><b>SOE health check tool: refresher from last year</b></p> <p>METAC presentation and practical exercise</p>   |
| Day 2:      |  |
| 09:00-10:00 | <p><b>International guidelines and illustrations of reporting and transparency on SOEs</b></p> <p>METAC presentation/s</p>   |
| 10:00-11:00 | <p><b>Using the SOE health check tool for reporting on SOEs</b></p>  |
| Break       |  |
| 11:15-12.30 | <p><b>Improve surveillance of SOEs: work on a practical output</b></p> <p>Draft a financial reporting template to report on the financial situation of key SOEs</p>  |
| Day 3:      |  |
| 09:00-10:00 | <p><b>Improve surveillance of SOEs: work on a practical output (continued)</b></p> <p>Draft a financial reporting template to report on the financial situation of key SOEs</p>                                      |
| 10:00-11:00 | <p><b>Update the roadmap to improve surveillance of SOEs in Lebanon</b></p>  |
| Break       |  |
| 11:15-12.00 | <p><b>Conclusion and evaluation</b></p>  |

## APPENDIX 3: EVALUATION RESULTS

### Training content and management

|  |                        | Weak | Fair | Good | Very Good |
|--|------------------------|------|------|------|-----------|
| Did the program answer your expectations?                        |                        | 0    | 0    | 3    | 3         |
|  |                        | 0%   | 0%   | 50%  | 50%       |
| Were the hands-on exercises sufficient?                          |                        | 0    | 1    | 4    | 1         |
|  |                        | 0%   | 17%  | 66%  | 17%       |
| Were the training materials sufficient and appropriate?          |                        | 0    | 0    | 4    | 2         |
|  |                        | 0%   | 0%   | 66%  | 34%       |
| How do you evaluate your interaction within the group?           |                        | 0    | 1    | 4    | 1         |
|  |                        | 0%   | 17%  | 66%  | 17%       |
| Was the exchange of experiences with participants useful?        |                        | 0    | 1    | 5    | 0         |
|  |                        | 0%   | 16%  | 84%  | 0%        |
| To what extent were the training topics related to your career?  |                        | 0    | 1    | 1    | 4         |
|  |                        | 0%   | 16%  | 16%  | 68%       |
| How do you evaluate the logistical organization of the training? | Training facilities    | NA   | NA   | NA   | NA        |
|  | Coffee Breaks          | NA   | NA   | NA   | NA        |
|  | Equipments / logistics | NA   | NA   | NA   | NA        |

### 2- Trainer's evaluation

|  |  | Weak | Fair | Good | Very Good |
|--|--|------|------|------|-----------|
| Did the trainer use interactive learning techniques? |  | 0    | 1    | 4    | 1         |
|  |  | 0%   | 17%  | 66%  | 17%       |
| Was the trainer able to deliver the information?     |  | 0    | 0    | 3    | 3         |
|  |  | 0%   | 0%   | 50%  | 50%       |
| Did the trainer answer your questions?               |  | 0    | 2    | 3    | 1         |
|  |  | 0%   | 33%  | 51%  | 16%       |
| Did the trainer manage the group effectively?        |  | 0    | 1    | 4    | 1         |
|  |  | 0%   | 17%  | 66%  | 17%       |

What is your overall assessment of the trainer's performance?

0: No Answer --- 1: Weak---10: Very Good

| 0  | 1  | 2  | 3  | 4  | 5  | 6  | 7   | 8   | 9   | 10 |
|----|----|----|----|----|----|----|-----|-----|-----|----|
| 0  | 0  | 0  | 0  | 0  | 0  | 0  | 3   | 1   | 2   | 0  |
| 0% | 0% | 0% | 0% | 0% | 0% | 0% | 50% | 16% | 34% | 0% |

Average

7.8

### 3- Training Impact

|  | Weak    | Fair     | Good     | Very Good |
|--|---------|----------|----------|-----------|
| To what degree have you acquired new knowledge / skills during the program                         | 0<br>0% | 1<br>16% | 3<br>50% | 2<br>34%  |
| To what extent the knowledge / skills acquired during the program can be applied in the workplace? | 0<br>0% | 1<br>16% | 3<br>50% | 2<br>34%  |

|   | Yes      | No       |
|---|----------|----------|
| Are there any aspects you would improve in your work? | 4<br>66% | 2<br>34% |

If yes,  
Specify major practical steps you would implement

**Major steps:**

Control and audit

Re evaluate fix assets

Applying the content to the financial reports of companies and public institutions, analyzing the data according to the tool sent by the trainers

Evaluate and rework the financial statements

Trying to use and implement the health check tool

| If no,<br>Select the cause or reasons that prevent the application | No. |
|--|-----|
| ™Current work procedures   | 2   |
| Current work environment   | 2   |
| I need follow up in the workplace                                  |     |
| ™ I need to acquire additional skills                              |     |
| ™The topic in not aligned with the current business priorities     |     |
| ™other   |     |

|   | Yes      | No      | N/A      |
|---|----------|---------|----------|
| Are you going to share the knowledge you acquired during this program with your superior? | 5<br>84% | 0<br>0% | 1<br>16% |
| Would you recommend this program to other colleagues?                                     | 4        | 0       | 2        |

|  |     |    |     |
|--|-----|----|-----|
|  | 66% | 0% | 34% |
|--|-----|----|-----|

**Do you have any additional training needs?**

Analyzing the financial statements  
Preparing financial statements

**Do you have any additional suggestions or comments?**

**What is your overall degree of satisfaction of the program?**

0: No Answer --- 1: Weak---10: Very Good

| 0  | 1  | 2  | 3  | 4  | 5  | 6  | 7   | 8  | 9   | 10 |
|----|----|----|----|----|----|----|-----|----|-----|----|
| 0  | 0  | 0  | 0  | 0  | 0  | 0  | 2   | 0  | 4   | 0  |
| 0% | 0% | 0% | 0% | 0% | 0% | 0% | 34% | 0% | 66% | 0% |

**Average**

**8.33**