

# Contextual Analysis

The Budget Challenges in Brief



Funded by  
the European Union



TRANSPARENCY  
INTERNATIONAL  
the global coalition against corruption



TRANSPARENCY  
INTERNATIONAL  
LEBANON - NO CORRUPTION

This publication was funded / co-funded by the European Union. Its contents are the sole responsibility of Transparency International - Lebanon and do not necessarily reflect the views of the European Union.

In line with Transparency International Lebanon – No Corruption policy, to provide open-source information to the public, this publication can be used with the citation of its source. If it is not cited, TI-LB reserves its rights to take the necessary legal measures against anyone who uses the content of this publication without mentioning the source.

## Why looking into the budget process is essential prior to conducting any localized assessment?

- The Lebanese budget structure and process as it is today, was established more than half century ago by the constitution (amended) and the Public Accounting Law (PAL) 14969/1963 (amended) and were barely upgraded since then.
- The Citizen Budget has reflected in its first pages a pragmatic definition of the current state budget as stipulated by the PAL.
- Article 3 of the PAL defines the budget as “a legislative instrument in which national revenues and expenditures are estimated for the upcoming year, and by which the levy of taxes and spending is allowed” (Insitute of Finance, 2020).
- The definition clearly indicates that the budget law is still foreseen by the legislator and most practitioners as a legal and accounting tool for public money collection and disbursement. It referred to the traditional structure of line-item budget. While in modern societies, the budget (and more widely public finances) is at the core of achieving the government functions as defined by Musgrave (i) allocating public goods, (ii) redistributing income, and (iii) stabilizing the economy.
- As the legal framework is clearly binding, the traditional and outdated vision of the state budget in Lebanon was automatically translated into poor budgeting practices at the line-ministries' level.
- Assessing any line ministry for budget transparency, budget participation, or any other pillar of sound fiscal governance, cannot be done irrespective of the state budget's structural deficiencies.

## What is the budget process?

**Table 1:** Lebanon Budget Phases - Reference: Citizen Budget 2022

Phase	Description	Stakeholders	Deadline
<b>Issuance of the budget circular*</b>	The ministry of Finance issues a budget circular including overall fiscal guidance and fiscal projections.	MoF Line-ministries	April 15
<b>Budget preparation</b>	All line-ministries prepare their respective budgets and submit it to the budget directorate for discussion.	Line-ministries	May 31
<b>Discussion and negotiation</b>	The budget directorate summons all line ministries to discuss the respective budget proposals and to negotiate the budget allocations.	Budget directorate Line-Ministries	July 31
<b>Compilation and draft budget</b>	The Ministry of Finance compiles all budget proposals into one single document and submits the draft budget to the Council of Ministers.	MoF	August 31
<b>Revision and approval and submission of the draft budget</b>	The council of Minister reviews and amend the budget draft according to national priorities, validates the draft and submits it to the parliament.	Council of Ministers	September 31
<b>Revision and discussion of the draft budget</b>	The Finance and Budget committee reviews the complete version of the draft budget and submits a report to the parliament assembly.	The Finance and Budget committee	December 31
<b>Approval of the draft budget</b>	The parliament reviews and approves the draft budget.	Parliament	
<b>Ratification of the budget law</b>	The budget law is ratified.	Parliament	
<b>Publishing of the budget law</b>	The budget law ** is officially published in the official gazette.	President of the Republic	

\* The budget circular is brief and is not considered as a pre-budget statement. Additionally, fiscal predictions in the budget circular are not binding. What seems like a medium-term budgetary framework is rather an indicative assumption framework.

\*\* The budget law is also published in a more disaggregated version on the MoF website. It includes all detailed budgets of line-ministries.

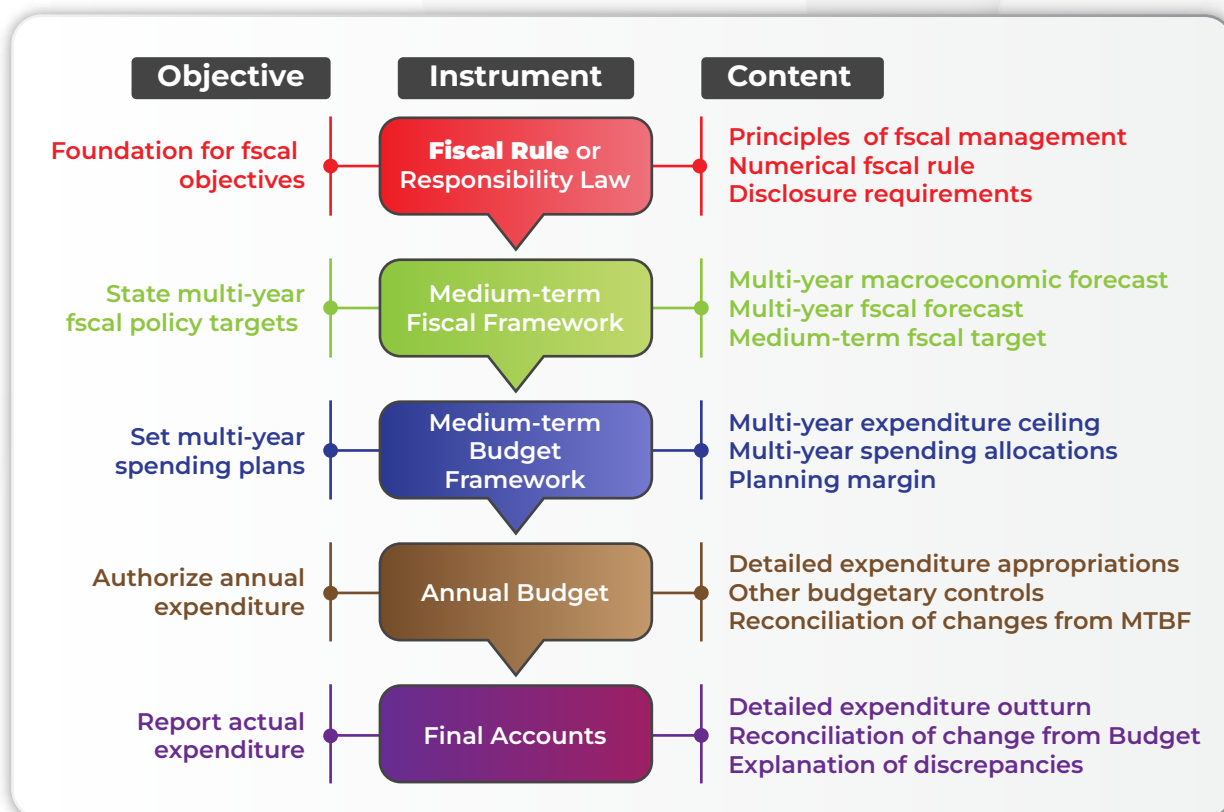
## What are the main shortcomings?

The modern budget serves as tool for two main functions: the fiscal policy on one hand and public policies on the other. The following section highlights the main shortcomings of Lebanon current state budget with particular emphasis on its relationship with the above-mentioned functions.

- While the budget should serve as tool to implement the state fiscal policy, the current budget formulation is not anchored in a solid fiscal framework. As shown in table 1, the only document that officially frames the government fiscal policy is none other than the budget circular, which is very basic compared to international best practices where the annual budget is framed by the MTBF, MTF, and fiscal rules that are very first foundations of fiscal policy (Steger, 2019). In fact, the budget circular format provides minor guidance on ceilings (only indicative ceilings) and does not define mandatory spending envelop for each spending entity.
- The budget is dissociated from policy objectives. The budget current nomenclature is referred to as line-item budgeting. It is a form of budget presentation that clusters the proposed expenses by department and by type of expenses. Programs and objectives are not embedded into budget lines, and consequently it is very difficult to establish automatic linkages between public policies and spending. In the current context, line-ministries are more likely to plan their fiscal year based on spending projections rather than policy objectives to be achieved. Additionally, the timeframe given to spending entities for budget preparation is often not sufficient for administrations to make realistic proposals.

**Figure 1:** The Overall Fiscal Framework – Best Practice

**Reference:** Medium-Term Budgeting Planning: Methods and Tools, IMF 2019



- **The legislative framework is outdated.** While most countries around the world have adopted an organic budget law to organize and manage the budget process, Lebanon still relies on the public accounting law and its amendments.
- **Some spending cannot be accurately identified** as it is classified under specific labels that are not indicative of the spending types. For instance, salaries and wages are usually classified under budget line 13, however much spending associated with salaries could be also found under line 14. This compromises the overall level of transparency: budget data might be accessible but not necessarily accurate.
- **The Budget is not comprehensive of the central government finances.** In addition to treasury expenses that would never be reimbursed, more than 70 public entities operate and spend from outside the budget. Reported off-budget spending exceeded 60% of total spending, and 15% of GDP (Financially Wise, 2022). Table 2 shows a list of public entities enjoying financial and administrative independence and spending totally or partially off the Lebanese state budget.
- **The budget process is partially automated.** The planning phase for instance is still done manually and not integrated in the current system (Hatem, 2022). This undermined the quality of the budgeting process as it needs to undergo additional and unnecessary treatment of data and information.

**Table 2:** List of Entities under the Tutelage of MoSA and MoEW

Public Entity	Authority of Tutelage	Financing modalities
Electricité du Liban	Ministry of Energy and Water	Spends from outside the budget
The Litani River Authority	Ministry of Energy and Water	Spends partially from outside the budget
Beirut and Mount Lebanon Water Establishment	Ministry of Energy and Water	Spends from outside the budget
North Lebanon Water Establishment	Ministry of Energy and Water	Spends from outside the budget
Bekaa Water Establishment	Ministry of Energy and Water	Spends from outside the budget
South Lebanon Water Establishment	Ministry of Energy and Water	Spends from outside the budget
Lebanese Center for Energy Conservation	Ministry of Energy and Water	Spends from outside the budget
Social Development Centers	Ministry of Social Affairs	Spends mainly from the budget and partially off the budget

- The financial systems across the public sector are neither unified nor integrated with that of the Budget Directorate, which compromised the benefits of automation within these institutions (Hatem, 2022). For instance, some of the public institutions operating off the budget use private accounting systems which renders its financial accounts incompatible with the government finances (Financially Wise, 2022).
- Public administrations and institutions suffer a systematic lack of participation and/or coordination in the budget planning process. In fact, the budget process inside these institutions is not framed by a discussion of policy objectives and performance measures, but rather is a collection of budget estimates generated at the departmental level.
- The overall planning capacity of the system is weak. A thorough observation of the budget data shows that the government has been systematically overspending on salaries and wages, and systematically underspending on capital expenditures and social policies.
- The overall level of budget transparency is very low. Lebanon averaged 9/100 on the budget transparency index (IBP, 2022) significantly below other countries of the region such as Morocco (61), Tunisia (42), Egypt (43), Morocco (48). Lebanon also scored 0/100 on budget participation.

Given this challenging context, it is more likely that systemic<sup>1</sup> deficiencies and gaps negatively impact the performance of any administration subject to the assessment irrespective of its own commitment or investment to achieving meaningful budget participation.

<sup>1</sup> By systemic, the research refers to the system.

## Bibliography

Financially Wise. (2022). Off-Budget Spending: A risky business for Lebanon - A review of the government off-budget spending and risks. Beirut: Financially Wise. Retrieved from <https://financially-wise.org/study-off-budget-spending>

Hatem, S. (2022). Rapid Impact Assessment of the Crisis on Lebanese State Institutions (2020-2021). Beirut: Institute of Finance. Retrieved from <http://www.institutdesfinances.gov.lb/publication/rapid-impact-assessment-of-the-crisis-on-lebanese-state-institutions-2020-2021-report/>

IBP. (2022). Open Budget Survey 2021. Retrieved from <https://internationalbudget.org/open-budget-survey/country-results/2021/lebanon>

Institute of Finance. (2020). Lebanon Citizen Budget. Beirut. Retrieved from <http://www.institutdesfinances.gov.lb/publication/citizen-budget-2020/>

Steger, G. (2019). Medium-Term Budgeting Planning: Methods and Tools. Kuwait: IMF.



**A:** Sodeco Square Center, Bloc B, 4<sup>th</sup> Floor, Ashrafieh, Beirut - Lebanon  
**T:** +961 1 616 001/2/3 | **M:** +961 70 035 777  
**E:** [transparency@transparency-lebanon.org](mailto:transparency@transparency-lebanon.org)

[WWW.TRANSPARENCY-LEBANON.ORG](http://WWW.TRANSPARENCY-LEBANON.ORG)

