

## **Workshop Panels**

The workshop embodied four panels including the opening session, the keynote speech, and three other panels entitled as follows:

1. The Budget as a Tool for Social Development
2. A Review of the Financial and Developmental Policies in Lebanon
3. Expenditure Allocations – A Sectoral Study

### **Opening Session**

In his welcoming remarks, Dr. Salim Nasr noted the increasing public concern about budgetary issues such as its preparation, its discussion, its endorsement, and its expected financial, economic and social impact. He stated that this public concern reflected a new concept, a new understanding of the relationship between society and the State. It also provides a new public understanding of the taxation system and public spending, and sheds light on the connection between the citizen's political representation and the accountability of the government's social and economic policies and their relationship to the budgetary process. He concluded by saying that it is our responsibility as public policy researchers, as members of civil society to participate and help the Ministry of Finance in its efforts to improve the budget so that it becomes a more transparent and appropriate tool to achieve social development objectives.

Dr. Nasr's remarks were followed by the intervention of Mr. Olaf Köndgen, Konrad Adenauer's Resident Representative for Lebanon and Jordan. Mr. Köndgen stressed that an equitable and efficient budget policy is one of the most important policy tools of any government. He added that a good budget policy can be carried out if a substantial amount of money has been generated first, and in view of Lebanon's case where there is a high budget deficit, economic reform is a precondition for a sound budget policy. He said that new sources of income are needed for the country. He recommended the introduction of both a value-added tax and a fair and socially just income tax system in the future. Both of these he said are the backbone of State revenues in Western European countries.

### **Keynote Speech**

In his keynote speech, Dr. Georges Corm, the Finance Minister called for a plan to modernize the taxation system, saying that modernizing is not limited to the inclusion of the value-added tax, but also the equal distribution of the tax burden. He noted that the taxes in Lebanon are still considerably low and represent only 14% of the GDP. He clarified that the objective of the government's fiscal reform plan is to increase the tax to 19% of the GNP. Dr. Corm also mentioned that social justice is a basic vital part of any competitive economy. Concerning the issue of government revenues, he considered the main problem that the government has to address besides modernization is its fiscal legislation. He noted that fiscal legislation is not ready and suitable for Lebanon's transit into the 21st Century. He explained that one of the improvements made by the ministry was the decrease of the budget reserves from 11 or 12 percent back to its normal and legal level of one or two percent. In his concluding remarks, the Minister talked about the decrease of interest rates on the treasury bonds from 22% in 1998 to

14% (currently), which, in his opinion, is an important achievement. However he added that efforts should not stop here because even an interest rate of 14% is not good enough for the economy and the budget because 45% from the budget expenditure is still allocated to pay the interest. He said that as long as the figures remain high, the margin for development spending is very limited. Moreover, the resurgence of investment in the private sector that we call for and encourage would not materialize under such a high level of real interest.

### **Panel 1: The Budget as a Tool for Social Development**

The first panel featured three presentations and was chaired by Dr. Jihad A'zour, the advisor to the Minister of Finance. The first paper, entitled: **New Approaches to Budget Studies: Preparation and Design**, was presented by the LCPS executive director, Dr. Samira Atallah. Dr. Atallah's presentation addressed new theoretical and practical approaches related to budgetary mechanism, which were used in many countries such as Brazil, South Africa, and India in preparing and designing budgets. Taking into account that the application of positive and successful reform models on the national level is connected to the country's institutional and economic characteristics, the presentation highlighted some of the world's successful experiences that aimed at initiating effective financial and developmental policies related to specific social categories such as women, youth or marginalized groups. The presentation also highlighted the experiences that aimed at developing the budget making process by including actors from civil society and research community. It also provided a summary of all the common points of reform models used, and focused on finding a common principle regarding the reform of the budget in Lebanon.

The second paper entitled: **Government Institutions and the Budget Procedure**, was presented by the LCPS' economic researcher, Mr. Sami Atallah. In his presentation, Mr. Atallah examined the sources and the levels of the deficit in Lebanon focusing particularly on the period between 1992-1998. He considered that the deficit problem is not only an economic problem but also one that is rooted in the political system, and is linked to the conduct of government institutions whose responsibilities include the preparation, approval, implementation, and control of the budget. He explained how the budget is generally prepared, how it is approved, how it is implemented and what are the economic and political players that influence the size, allocation, and uses of the budget in Lebanon. Mr. Atallah argued that the budget deficit and the exponential increase in spending are the outcome of institutions and procedures that have failed to impose fiscal discipline. He stated that the government institutions have either failed to restrict spending by coordinating their efforts to do so or did not have the mandate to do something about it.

The third paper, entitled: **Social Spending Versus Social Investment**, was presented by Dr. Joey Ghaleb, LCPS principal researcher in the Economic Studies Program. Dr. Ghaleb stated that a government's fiscal budget is a major tool that can be used to yield social welfare improvement. The government budget could be the mechanism to implement a long-term social strategy, as a government budget decision affects people's lives. He described how the budget should reflect the country's socio-economic policy priorities by translating policies and political commitments into expenditures and taxation, as is done in developed countries that strategize and develop visions to achieve social and economic development. He explained that in developing countries such as Lebanon, governments face external and internal pressures, and

constraints to the extent where fiscal budgets become documents intended to pay the bills and keep the government functioning for another 12 months. Dr. Ghaleb presented three types of social spending that include 1) standard (typical) investment (project with long-term returns), 2) social spending (assistance intended to meet immediate social needs), and 3) social spending with hidden investment features. He explained that while developed countries, because of their economic advantage, do not give priority to the traditional social investment but to the hidden investment, the emerging nations rely more on public investment projects where the state ends up competing with the private sector. It was concluded that in Lebanon's case and looking at the budget from the third type (hidden social investment) angle, the government's social policy, through the budget, is not as unsuccessful and limited as some might argue. He said that there is a need to do long-term planning, and the State should provide the proper economic environment to promote private social investment.

### **Panel 2: A Review of the Financial and Developmental Policies in Lebanon**

The second panel encompassed two presentations and was chaired by Dr. Samira Atallah. The first paper entitled: **The Prospects of Reforming the Structure of Public Finance** was presented by Mr. Ghaleb Abi Mosleh, a Senior Director and the Head of the Training and Development Department at the Central Bank of Lebanon. His presentation revolved around the question of whether the Lebanese economy specifically, the financial policy is in need for structural adjustment or whether the government's current remedies are sufficient to solve the stagnating economy. The presentation first addressed what the main objectives of an economic system should yield (such as the creation of new employment opportunities, and achievement of constant growth, and the even distribution of revenues), and then related it to the achievement of those objectives in Lebanon. Mr. Abi Mosleh stated that most of the statistical and economic estimates show negative indications of the economic performance, and questioned whether the current economic situation can be sustained. He noted that to achieve structural reform of public finance, the government must implement it within an integrated economic plan that relies on the interconnectedness of the economic sectors. He concluded his presentation by emphasizing that the key component to solving the financial, economical, and social problems is to comprehensively reform the administration and this would ultimately lead to a modern state of institutions void of corruption and obstacles.

The second paper entitled: **Public Finance Policies and the Challenges Facing the Agriculture Sector and Rural Areas in Lebanon** was presented by Dr. Ahmad Baalbaki, a professor of rural development at the Lebanese University. Dr. Baalbaki gave a historical overview on the needed agricultural products from outside. He noted that in Lebanon agricultural production is not only driven by the market demand but by political pressure and the interest of individual traders and businessmen in rural areas. This situation led the government to focus and direct most of its agricultural spending towards marketing and sales activities. The government focused on marketing unneeded agricultural products that are not included in the agro-food cycle. He emphasized the need for a new transitional policy that would prepare the country for integration within the Arab market and would prepare the government to design a comprehensive agricultural policy.

### **Panel 3: Expenditure Allocations - A Sectoral Study**

Chaired by Dr. Salim Nasr, the third panel included two presentations. The first presentation was a **Case Study of the Ministry of Social Affairs** and was given by Dr. Najib Issa who is a professor of Economics at the Lebanese University. In his presentation, Dr. Issa discussed the establishment, functions, and evolution of the Ministry of Social Affairs. He mentioned that some of these functions include the planning and supervision of all social projects in the country, the implementation of social projects related to orphans, the disabled and other marginalized groups, as well as the implementation of social development projects related to training and rural development etc. Dr. Issa observed that even though the law that led to the ministry's establishment bestows that one of the ministry's responsibility is to plan, oversee and monitor all the social projects in the country, in reality, the ministry is doing nothing of the sort. He also noted that the law of establishment details the custodian functions of the ministry and does not highlight the development aspects and functions. The presentation also highlighted the obstacles and the limited capabilities of the ministry, which include the lack of human and financial resources at a time when the social problems have multiplied in the country. He focused on the ministry's expenditure structure and its relation to the budget, and gave an account of the factors and criteria that need to be considered when assessing the ministry's performance especially in relation to the diverse activities it conducts.

The second presentation entitled: **The Budget and the Health Sector** was presented by Mr. Roger Melki who is a senior economist at the Economic Research and Consultation Center. Mr. Melki's presentation focused on the budget allocated to the health sector in light of the government's public health policies, the developments witnessed by the health sector over the past three decades, and the political and economic crisis that Lebanon passed through between 1975 and 1990. He noted that the condition of the health sector in Lebanon is related to the economic and political choices as well as the share of public finance that can be allocated to this sector. Mr. Melki also discussed the health expenditures, the health ministry's burdens, and the health-related budgeted expenditures (1992 - 2000) which are divided between the ministry of public health, and the state cooperatives covering government employees, the internal security forces, and the Lebanese army. He noted that the health ministry's share of total budget expenditure has been estimated at 3 percent for the past five years and after a peak of 4.6% in 1992. He explained that excluding public debt servicing, the health ministry budget reaches about 5% of total public allocations, thus ranking it among the primary expenditures of the state budget. Mr. Melki concluded his presentation by providing a set of recommendations related to the health ministry's administrative and financial capabilities, as well as the government's health policies.