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Towards a "Reform and Recovery Budget"[1]

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Public finances are facing unprecedented crises, notably the accumulated public debt; unemployment; the inability to achieve developmental, social, cultural and health objectives; public sector bloat and economic stagnation.

The budget is the government's tool for achieving its plans and programs, in addition it reflects government's performance. The policy of unbalanced budgets along with the Country's high debt-to-GDP ratio, in addition to the government's faltering performance, its failure to pay off its domestic and foreign debts and its inability to continue to pursue borrowing, have together resulted in financial irregularities and deviation from the fundamental and normal rules of financial practice.

Perhaps the budget laws, tax regulations and public accounting provisions require restructuring to become characterized by high levels of efficiency, flexibility, speed of response, and transparency to deal with the exacerbating crises and avoid falling into their traps over and over again. The aim of such legal reform is to draw up future plans whose end objective is to achieve social justice and secure a better life for the citizens at all levels.

Assuming that financial regularity is at the core of the fundamental elements of public finance; however, such regularity is achieved only in accordance with specific principles and standards to be imposed at the present stage through a new national social contract.

Vers un nouveau contrat social pour les finances publiques, socle d'une réforme de l'Etat (Towards a new social contract for public finances, as a foundation for Government reform)[1].

As it turned out to be impossible to conclude such national social contract, the international standards set by the United Nations through the International Monetary Fund must be resorted to. These financial standards, principles and engineering mechanisms guarantee the transparency, comprehensiveness, up-to-dateness and reliability of the budget.

In this context, we remember one of the most important economists in macroeconomics and economic policies, JOHN MAYNARD KEYNES, who was behind the idea of establishing an International Monetary Fund, besides DEXTER WHITE. It is noticeable that the economic plan proposed for Lebanon is inspired by the Keynesian Perspective, as he says:

«Ideas, knowledge and science shall be international in nature, but goods shall be local as long as this is possible and appropriate, and in the first place, funding should be national".

[1] (M. Bouvier, M.C Esclassan, J.P. Lassale, Finances Publiques (Public Finances), 17e édition (17th edition), 2018- 2019, p 41)

Keynesianism helps us in setting and implementing a government budget for investment and addressing the obstacles that may be caused by the current political system[2].

These economic theories and ideas were selected and formulated as standards, regulations and guides issued by the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OCDE), and the World Bank. Such standards, known as "International public sector accounting standards IPSAS, adopted for the public sector, are inspired from the private sector (International financial reporting standards IFRS).[3]

They serve to ensure the preparation of budgets and relevant financial reports accordingly, that include a comprehensive, indicative and up-to-date demonstration of the government's financial performance, showing potential risks, which enhances confidence in officials, and allows the oversight bodies to monitor implementation ensuring accountability, as the most important standard to be taken into account is the International Standard for Disclosure of Information about Public Finances, and the adoption of immediate measures fighting against corruption and recovering stolen assets emanating from corruption (see Cabinet Decision No. 4 dated 28/04/2020, in respect of activating tax audit, accounting investigation, the application of Article 5 of the Banking Secrecy Law, the inclusion of a clause to lift secracy, and activating the Court of Audit's control in the field of subsequent monitoring of accounts of legal and natural persons who receive contributions or assets from the administration or make contracts or obligations with the latter).

There is no doubt that the direct impact of adopting such standards will be on preparing the general budget, approving it, implementing it, and monitoring its implementation.

[2] (Albert Dagher, "The Keynesian Perspective is a source for a national reform program" فكر كينز مصدر لبرنامج وطني للاصلاح, Al-Akhbar Newspaper, 4/7/2017)

[3] See the Annual report of the Court of Audit for the year 2005, where the Court has proposed the adoption of accounting systems which shall be consistent with the accounting principles in the public and private sectors, in terms of covering the revolving appropriations by reserve funds although the author of the text is fully aware that the reserve funds do not exist ...; and upon the closure of accounts, they will either have debit or credit balances, and there is nothing to preclude such accounts from having both natures ... and when the account has a debit balance, the deficit shall be funded by the corresponding advance account, while the reserve funds account shall be closed.

The government shall make a comprehensive and well-organized presentation of budget forecasts and estimates based on inclusive and macroeconomic[4] statistics and studies for the public sector (state, municipalities, public institutions and each entity funded partly or entirely by public funds)[5].

The legislative branch shall approve the budget within the deadlines and time limits set for it.

Taking into account the budget annuality principle with respect to budget presentation, discussion, and approval in due course, medium-term frameworks shall be added to the budget principles in terms of results and expectations (revenues, expenditures, and transfers), so the government shall disclose its investment project for multiple years, conduct cost analysis and organize sustainable government procurement in open and competitive tenders.

The budget will be transformed from a mere budget with items to a budget with programs and clear, auditable and measurable objectives within modern public finance frameworks.

Deviation from some of the strict principles related to the appropriation of funds will be tolerated, as such appropriations will be mutually interchangeable (fungible) as in the case of France.

In addition to regular administrative expenses (salaries and wages), economic and social expenditures (investment projects and contributions), along with tax assessments and the total tax revenues, the following items shall be added to the reform budget:

1- Emergency allocations
2- Asset and liability management
3- Public-private partnerships
4- Natural resources, their exploitation and their management
5- Environmental risks and natural disasters
6- Financial risks or financial derivatives (interest rate risk, credit risk ...)
7- Indirect borrowing, such as accounts that are payable and not yet paid, or unpaid tax refunds.

Effective oversight of budget implementation will be achieved if accompanied by internal audit based on structured financial audit reports, the effectiveness of which will show strength or weakness, depending on the comprehensiveness, timing and quality of these reports. Financial reports provide

[4] Assessing the impact of the new government policy on different population segments based on income/ gender/ geographic segments.

[5] As per Article 6 of the Public Accounting Law, “the Government Budget shall consist of a general budget, annexed budgets, and special budgets”.

accurate coverage of all public sectors including all their balance sheets (assets, liabilities, and wealth) and all their flows (expenditures, revenues, and financing sources). They also cover tax expenditures, or what is known as revenue losses by sector or field (tax policies, tax evasion ...)

The reports shall be periodic (issued every six months) or annual, in which audited financial statements shall be published for a period of twelve months. They shall include transparent and objective results with respect to the methods of using public resources in addition to financial statistics that facilitate the process of conducting financial comparisons according to international principles. The results also show the overall fiscal balance and public debt and every change in the public debt stock (based on comparison and matching between the budget law numbers, after adding additional appropriations, and actual numbers after implementation according to the closure of accounts).

These reports shall be published to become available to the public, as a way to enhance transparency and ensure the involvement of the real beneficiary i.e. the Lebanese citizen in the financial process.

The bottom line is that in light of the global trend towards digital financial sciences or financial cybernetics (cybernétique financière), and towards working on accounting systems supported by artificial intelligence that secures IT auditing or beyond when talking about forensic auditing to determine the implications of any fraud or waste in public spending, the independence of the Supreme Audit Institutions, as well the strengthening and training of its human and technical resources remain the key to reform, in the hope of recovery.