

2020

Economic estimates of the size of Public Procurement in Lebanon

METHODOLOGICAL NOTE



WWW.INSTITUTDESFINANCES.GOV.LB

Economic estimates of the size of public procurement in Lebanon

METHODOLOGICAL NOTE – APRIL 2020

BACKGROUND INFORMATION

In Lebanon, public procurement data is lacking at both the central and local levels of government. When available, such data is scattered and not consistent which makes adequately estimating and analyzing the economic role and impact of public procurement very challenging.

In an effort to assess procurement practices and analyze training needs at the national level, the Institut des Finances Basil Fuleihan – Ministry of Finance attempted to estimate the size of public procurement in 2011. The results of the study were published in the report “*Professionalizing Public Procurement in Lebanon: Diagnostic Review and a Vision Forward*”.¹

The average size of public procurement between 2001 and 2011 was estimated to constitute 4% of the Gross Domestic Product (GDP). Calculations were made according to the 2002 OECD standards, and excluded subsidies and transfers.²



For the methodology used in 2011:

<http://www.institutdesfinances.gov.lb/publication/professionalizing-public-procurement-in-lebanon-diagnostic-review-and-a-vision-forward/> (p.21-22 & p.79)

¹ Institut des Finances Basil Fuleihan (2014), *Professionalizing Public Procurement in Lebanon*, <http://www.institutdesfinances.gov.lb/publication/professionalizing-public-procurement-in-lebanon-diagnostic-review-and-a-vision-forward/>

² In 2011, the calculation of procurement volume was based on effective government expenditures data, excluding debt service, salaries and wages, subsidies and transfers, and general reserves. The reason behind excluding subsidies and transfers is that they relate to transfers and expenses to entities such as the Council for the South or the Council for Development and Reconstruction (CDR), which include among other expenditures for procurement, compensation or others.

CURRENT METHODOLOGY FOR PUBLIC PROCUREMENT ESTIMATIONS

In line with the Lebanese Government's commitment³ and its draft Reform Program (April 2020) prioritizing public procurement among the critical structural reforms to be implemented, and in line with the efforts undertaken since 2019 by the Ministry of Finance to modernize public procurement⁴, providing **an economic estimate of its size has become necessary**.

This estimate would help stakeholders involved in the reform process grasp its strategic importance as a key component of public financial management, as well as its role in stimulating private sector growth and ensuring an efficient delivery of services to citizens.

Given limited data availability,⁵ **the economic estimate of the size of public procurement for the years 2010-2020, at the central level** (central government, excluding public institutions and municipalities), was based on OECD standards published in *Government at a Glance, 2019* (Box 1).⁶

Box 1: The OECD methodology for calculating the size of procurement as detailed in the report "Government at a Glance 2019", is described below:

The size of general government procurement spending is estimated using data from the OECD National Accounts Statistics (database), based on the System of National Accounts (SNA). **General government procurement is defined as the sum of intermediate consumption** (goods and services purchased by governments for their own use, such as accounting or IT services), **gross fixed capital formation – GFCF** (acquisition of capital excluding sales of fixed assets, such as building new roads) **and social transfers in kind via market producers** (purchases by general government of goods and services produced by market producers and supplied to households). Public corporations were excluded in the estimation of procurement spending.

$$\text{General Government Procurement} = \text{IC} + \text{GFCF} + \text{STID}$$

Source: OECD (2019), *Government at a Glance*

A. Data Sources

The following national data sources were used to estimate the size of public procurement for the above-mentioned period:

1. GDP projections were derived from the **Draft Lebanese Government Reform Program (April 2020)**, which provides a baseline macroeconomic framework projected over 5 years (2020-2014).

³ Stipulated in Article 5 of Section 2 of Diab Government Declaration (February 2020)

⁴ Institut des Finances Basil Fuleihan, Briefing Note on Public Procurement Reform in Lebanon, <http://www.institutdesfinances.gov.lb/publication/briefing-note-on-public-procurement-reform-in-lebanon/>

⁵ In the absence of budget integration and of operating information systems

⁶ OECD (2019), *Government at a Glance*

<https://www.oecd-ilibrary.org/docserver/8ccf5c38->

<en.pdf?expires=1586248271&id=id&acname=quest&checksum=106D16BA6B892C69C0D32B1247D58E7D>

2. Planned procurement expenditures were extracted from the Lebanese **Budget law** for the year 2020.
3. The various categories of effective expenditures (by economic classification) that correspond to on-budget public procurement were obtained from the **Lebanese Ministry of Finance Public Finance Reports**, issued and published for the years 2010 to 2019.

To read MOF Annual Reports:

<http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>

4. Foreign-funded procurement was calculated based on the data provided by the **Council for Development and Reconstruction (CDR) 2018 Progress Report**.⁷ Calculations were based on the cumulative amounts spent on awarded contracts (completed and in-progress) from 1993 until 2017 (inclusive). A yearly average was calculated and added to annual on-budget procurement, to avoid a significant underestimation of the size of public procurement in Lebanon compared to other countries.

To read CDR Progress Report:

http://www.cdr.gov.lb/enq/progress_reports/pr102018/PReng.pdf

B. ESTIMATES CALCULATIONS

Economic estimates of the size of public procurement were calculated in LBP billion, based on data published regarding the **period 2010-2019**, and based on budget data and projections for the **year 2020**.

1. Size of public procurement in central government expenditures⁸

For the 2010-2019 period, the size of public procurement in government spending was calculated following the above-mentioned OECD standards. Figures were extracted from effective expenditures data (at the central level of government only) of the following spending categories:⁹

I. Size of public procurement in central government expenditures (I.1+I.2)

I.1 Current expenditures (*equivalent to Intermediate consumption*)

1. Material and supplies
2. External services
3. Transfers to EDL (for gas and fuel purchasing, excluding transfers for debt service)
4. Other current expenditures (hospitals and others such as court orders & reconciliations, mission costs, etc.)

I.2 Capital expenditures (*equivalent to GFCF*)

⁷ In Lebanon, the CDR is responsible for most of the capital / investment expenditures.

⁸ At central government level only, without volume of procurement done by public institutions and municipalities, due to lack of data.

⁹ Social transfers in kind (STIK) mentioned in OECD methodology are not applicable in Lebanon.

II. CDR procurement-average: the annual average value of foreign-funded CDR awarded contracts for large infrastructure projects was calculated for the period 1993-2017 (inclusive), and based on the assumption that the annual value would not vary for the years 2018 and 2019.



Total size of public procurement = (I) + (II)

For the year 2020, the size of public procurement was calculated based on:

1. Available budget data,¹⁰ assuming that the budget is the government's procurement plan and that it therefore presents the government's intentions and priorities;
2. the CDR annual average of the value of awarded and previously calculated contracts, with the assumption that it would remain the same as the previous years.

2. Share of public procurement in government expenditures

The share of public procurement in government on-budget expenditures was calculated for central Government (including CDR, excluding public institutions, and municipalities), as follows:



Share of public procurement in government expenditures =
 $\text{Size of public procurement (I) / Total government expenditures} * 100$

3. Share of public procurement in the GDP

The calculation of the yearly contribution of public procurement to the economy was based on the following steps:

I. Value of GDP

- The GDP values for the years 2010-2018 were extracted from the data published by the Lebanese Ministry of Finance (Public Finance Reports).¹¹
- The GDP values for the years 2019 and 2020 were based on the Ministry of Finance's estimates (for 2019) and projections (for 2020) that were included in the draft Government Reform Program (April 2020).¹²

¹⁰ Institut des Finances Basil Fuleihan, *Citizen Budget 2020*, <http://www.institutdesfinances.gov.lb/publication/citizen-budget-2020/>

¹¹ Lebanese Ministry of Finance, *Public Finance Reports (2010-2019)*, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>

¹² Lebanese Ministry of Finance, April 2020 (Estimations in light of the actual economic and financial crisis. GDP projection for 2020 does not take into account COVID-19 outbreak in Lebanon, where its impact is expected to be minimal at best given the current state of the Lebanese economy).

II. Share in GDP

The share of public procurement in GDP was calculated as follows:

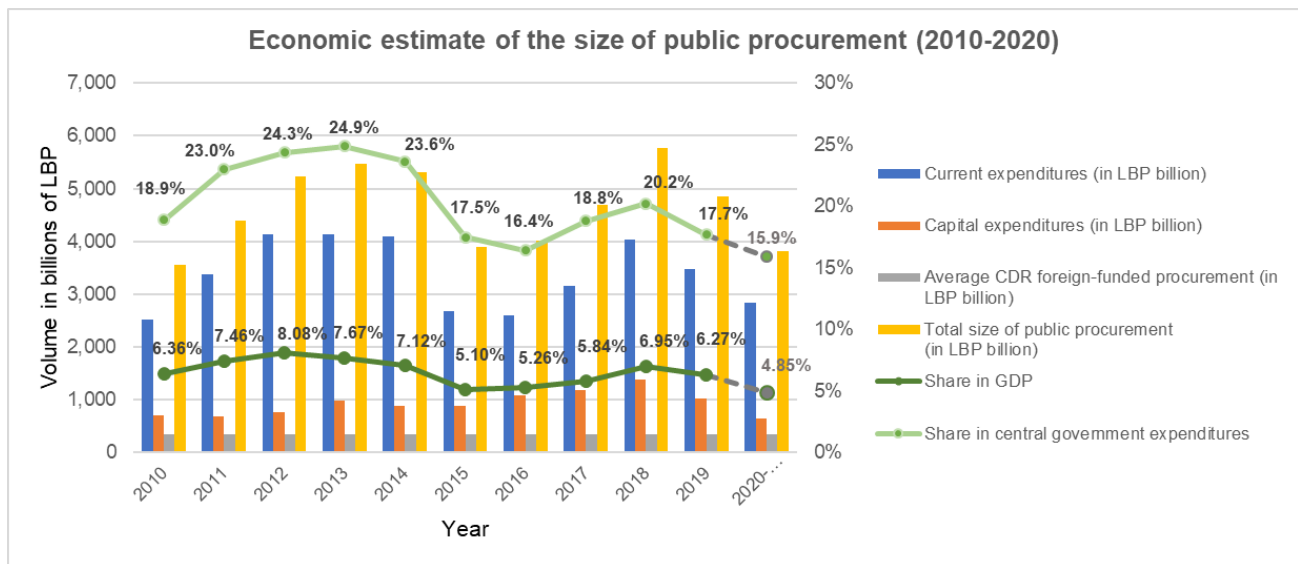


$$\text{Share of public procurement in GDP} = \frac{\text{Total size of public procurement (I+II)}}{\text{GDP}} * 100$$

C. FINAL OUTCOME

As a result of the above-mentioned calculations, **the size of public procurement was estimated at 20% of central government expenditures and 6.5% of GDP for the 2010-2020 period.**

The graph below provides a summary overview of the size of public procurement (in LBP billions) at the central level, its share in central government expenditures (in %) and in GDP (in %).



ANNEX: PROCUREMENT ESTIMATES DATA SET

Economic estimates of the size of public procurement in Lebanon
April 2020

No	Expenditures (in LBP billion)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020- estimation
1	Materials and supplies	277	329	305	455	390	356	465	537	535	492	
2	External services	103	135	122	153	150	141	143	165	205	157	
3	Transfers to EDL	1,697	2,525	3,296	2,990	3,125	1,682	1,377	1,987	2,638	2,265	1,500
4	Other current	440	378	404	532	425	494	611	476	664	571	
5	Current expenditures (in LBP billion)	2,517	3,367	4,127	4,130	4,090	2,673	2,596	3,165	4,042	3,485	2,828
6	Capital expenditures (in LBP billion)	701	676	760	987	883	888	1,079	1,193	1,382	1,028	651
7	Size of on-budget procurement in central government expenditures (in LBP billion)	3,218	4,043	4,887	5,117	4,973	3,561	3,675	4,358	5,424	4,513	3,479
8	Total central government expenditures (in LBP billion)	17,047	17,601	20,081	20,563	21,032	20,393	22,412	23,186	26,821	25,479	21,892
	Average CDR foreign-funded procurement (in USD)	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400	226,878,400
9	Average CDR foreign-funded procurement (in LBP billion)	342.02	342.02	342.02	342.02	342.02	342.02	342.02	342.02	342.02	342.02	342.02
10	Total size of public procurement (in LBP billion)	3,560	4,385	5,229	5,459	5,315	3,903	4,017	4,700	5,766	4,855	3,821
11	GDP (in LBP billion) - MOF data	55,965	58,810	64,752	71,185	74,693	76,523	76,321	80,500	82,912	77,419	78,706
12	Share in central government expenditures	18.9%	23.0%	24.3%	24.9%	23.6%	17.5%	16.4%	18.8%	20.2%	17.7%	15.9%
13	Share in GDP	6.36%	7.46%	8.08%	7.67%	7.12%	5.10%	5.26%	5.84%	6.95%	6.27%	4.85%

Notes:

- 1- Transfers to EDL exclude transfers to cover debt service; they cover only purchasing of gas and fuel as per contracts signed with suppliers.
- 2- Current expenditures is equivalent to intermediate consumption in the OECD methodology of public procurement calculation.
- 3- Capital expenditures is equivalent to gross fixed capital formation or investment expenditures in the OECD methodology of public procurement calculation.
- 4- CDR foreign-funded procurement-average is the annual average value of CDR contracts awarded (for the period 1993 to 2017), estimated at 226,878,400 USD per year, an equivalent to 342.02 LBP billion per year.
- 5- The source of GDP figures considered for the calculation of PP share is the Lebanese Ministry of Finance's annual published data (Public Finance Reports for the period 2010 to 2018). The GDP value for 2019 and 2020 are estimates by the Ministry of Finance as a preliminary projection of real output contractions (Source: Lebanese Ministry of Finance recent estimation in light of economic slowdown and financial crisis, the debt default and the outbreak of Coronavirus - April 2020)
- 6- USD/LBP exchange rate used is the official rate of USD 1 = LBP 1507.5
- 7- Contracts value estimation in 2020 budget was done based on 2 types of categories: 1) Selection that includes material and supplies, external services, EDL, capital expenditures: 100% of their value was considered as PP contracts, 2) Other selections, with an assumption that 50% of the value of these other current expenditures would go to PP contracts. The categories selection is in line with the one done to estimate effective expenditures for the years 2010 to 2019.

THE TEAM

This note was drafted by Ms. Basma Abdul Khalek and reviewed by Ms. Sabine Hatem, under the supervision of Ms. Lamia Moubayed Bissat.

Ms. Rana Rizkallah and Mr. Iskandar Boustani contributed to the background research and analysis.

COPYRIGHT DISCLAIMER

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, photocopied, recorded or otherwise, without the prior permission of the Institut des Finances Basil Fuleihan.

It should be referenced as follows: “Economic estimates of the size of public procurement in Lebanon”, Institut des Finances Basil Fuleihan, 2020.

For additional use, please contact the Institute of Finance on the following email address: institute@finance.gov.lb

This publication is available on the Institute’s website: www.institutdesfinances.gov.lb.

© All rights reserved to the Institut des Finances Basil Fuleihan, 2020.

ABOUT THE INSTITUTE OF FINANCE

The Institut des Finances Basil Fuleihan is a center of excellence that contributes to national capacity development in public financial management and governance. The Institute is an autonomous public institution operating under the tutelage of the Lebanese Minister of Finance.

512, Corniche El-Nahr
P.O.Box. 16-5870, Beirut, Lebanon
Tel: +961 1 425 146/9
Fax: +961 1 426 860
www.institutdesfinances.gov.lb



IOFLebanon



IOFLebanon



IOFLebanon



InstituteOfFinance