



September 15, 2008
Seminar on the Electricity Sector in Lebanon

Your Excellencies, Speaker Nabih Berri and Members of Parliament,
Distinguished Ministers and guests
Ladies and Gentlemen,

It is an honor for me and for the World Bank Group to be invited to participate and to speak at this important event. It is a pleasure to be among such a diverse group of political, technical and entrepreneurial stakeholders, who have gathered here today seeking remedies to Lebanon's ailing electricity sector.

Ladies and Gentlemen,

Reliable and reasonably priced energy is critical for economic growth, social development, fiscal sustainability and regional and global integration. Indeed, several studies undertaken by the World Bank, in many countries, show a very clear correlation between access to energy and GDP growth.

In Lebanon, and for obvious lack of investments and timely reforms, the energy sector is neither reliable nor reasonably priced. This sector is creating a heavy burden on public resources and becoming an obstacle to social and economic development. Moreover, the electricity sector became a symbol of the challenges facing Lebanon in its drive to improve governance, restore macroeconomic equilibrium and promote growth and employment generation.

Fiscally, we know that the sector absorbs an inordinate large amount of the Government budget, 4 to 5 percent, and up to 30 percent of Government revenues. Plainly described, this is not a rational use of public resource that otherwise the government could use to provide citizens with adequate social services in other areas, such as health care, education, sanitation and security.

For consumers, the problem is quite drastic. They are paying massive amounts of money for energy service. They pay EdL for the few hours of electricity they get, and again for self or private backup power generation to make up for the rest of their needs. According to our studies, continuous service provision, costs the average Lebanese household an additional 25 percent – *or even more with the recent and prevailing high oil prices* - over

what is paid to EdL. Access to energy at affordable rates will allow Lebanese households to spend their hard earned money on food, education, health care services and on the children's future.

Today, the Lebanese business community also suffers from power outages during 200 days of the year. This is equivalent to an estimated loss of close to US\$400 million a year. Of course most industries have their own generation facilities, at high financial, and possibly environmental, costs due to the fuel emissions.

Nationwide, self-generation to complement the insufficient capacity of the power system is close to 35 percent, and set to reach 60 percent by 2015 if no additional capacity is added and urgent rehabilitation undertaken.

In the coming sessions, my Lebanese and World Bank colleagues will be presenting the detailed analysis behind some of the numbers I mentioned here.

Power problems are not unique to Lebanon. Inadequate capacity, lack of spending for operations and maintenance, and insufficient tariffs are common symptoms in developing countries. But the issue that is exceptional in Lebanon is the difficulty in agreeing to a long-term vision that spells out where the sector is today, where we want it to be 10-15 years from now, how to go about reaching this goal, making decisions and focusing on implementation and actions on the ground. Decisions and implementation are yet to be accelerated in Lebanon.

Because of the political nature of some decisions, in the power sector, there is no one solution that fits all. The best course in this sense is first to understand the technical problems, second identify and analyze the solution options and then adapt the solutions to the political economy context of the country. Essentially, to facilitate the decision making process and turn around the sector, one should start with the unbundling of the technical and political dimensions of the problem.

The main technical and policy options for the Lebanon electricity sector are known. Too many studies have been carried out: 64 studies since 1996. What is needed is: (i) cheaper fuel for power production; (ii) investment in new equipment and major rehabilitation of existing power plants; (iii) better billing and collection; and (iv) tariff adjustments to better reflect cost, with targeted subsidies as needed for low income groups. This will require institutional strengthening to address weaknesses in EdL, the capacity to plan and regulate the sector and most of all commitment and courage, or perhaps, one should say, political will. All these actions should be taken simultaneously.

Ladies and Gentlemen,

The status quo is not acceptable but the good news is that the status quo can be reversed. And Lebanon will benefit tremendously from reforming and building an efficient energy sector.

What the people and businesses in Lebanon are after is a reliable, cost-efficient and environmentally friendly service. Such a service undoubtedly will attract investment flows, and revive the appetite and the entrepreneurial spirit of the Lebanese private sector the main drivers of growth in Lebanon.

Ladies and Gentlemen

There is a long-standing relationship between Lebanon and the World Bank Group. We are very committed to assist and support you through the implementation of the reforms which have to be made. At present, our support, in cooperation with EdL, the Ministry of Energy and Water and the Ministry of Finance, is focused on developing possible solutions and policy reforms through budget support and Technical Assistance. We believe this has been the right focus, given that without reforms, investments will not be able to generate the aspired for benefits.

Excellencies, distinguished guests, ladies and gentlemen, thank you for this opportunity and thank you for convening in this very open manner to debate. I hope this seminar will help us build a consensus on a set of priorities and an action plan to save the electricity sector. The World Bank Group will support you in all areas you deem required and valuable, hoping that in the very near future decisions will be made and implementation will start to rapidly reverse this situation and improve the sector performance.

On behalf of my colleagues here present, I would like to extend our deep appreciation to his Excellency, Speaker Nabih Berri, for sponsoring this event, and to the Committee of Public Works, Energy and Water, especially its chairman, His Excellency Mohammed Kabbani, for initiating this consensual, taboo-free approach towards reviving Lebanon's electricity sector.

I thank you and wish you a successful seminar.