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## Lebanon Quarterly Update

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*With special thanks to Mary Saba*

## ZOELICK: MILLIONS WILL GO HUNGRY IF DONORS FAIL TO REACT TO FOOD CRISIS

The World Bank Group (WBG) has allocated a new US\$1.2 billion rapid financing facility to address the immediate needs of up to two billion people threatened with hunger and malnutrition as a result of spiraling food prices.

The funds include US\$200 million in grants targeted at the most vulnerable in the world's poorest countries.

As it announced several measures to address immediate to longer-term food challenges, WBG said it would boost its overall support for global agriculture and food to US\$6 billion next year, up from US\$4 billion, and would launch risk management tools and crop insurance to protect poor countries and small-holders.

WBG President Robert Zoellick, a tireless campaigner on behalf of the poor amid spiraling food prices, said such initiatives “will help address the immediate danger of hunger and malnutrition for the two billion people struggling to survive in the face of rising food prices, and contribute to a longer-term solution that must involve many countries and institutions.”

Grants for Djibouti (US\$5 million), Haiti (US\$10 million), and Liberia (US\$10 million) were approved on May 29, 2008. Over the coming months, the Bank expects to provide grant support to Togo, Yemen and Tajikistan.

These countries have been identified as high priority, based on rapid needs assessments undertaken in the field with the World Food Program, the Food and Agriculture Organization, and the International Fund for Agricultural Development. Rapid needs assessments have now been completed in more than 25 countries, with another 15 ongoing. The US\$1.2 billion Facility, which is designed to address immediate needs, supports safety net programs such as food for work, conditional cash transfers and school feeding programs for the most vulnerable. The Facility also provides support for food production—this year and beyond—by supplying seeds and fertilizer, improving irrigation for small-scale farmers and providing budget support to offset tariff reductions for food and other unexpected costs.



*World Bank Group President*

As part of the new Facility, the World Bank is also establishing a Trust Fund to facilitate policy and operational co-ordination among donors, and leverage financial support for the rapid delivery of seeds and fertilizer to small farmers for the upcoming planting season.

The new Rapid Response Facility stands alongside other efforts of the Bank Group to address the global food crisis. The Bank's Board of Executive Directors is considering initiatives to provide risk management tools to poor countries faced by drought and other catastrophes.

“We're working with our Board to deploy index-related hedges and insurance products to protect poor farmers and countries from weather and supply shocks,” Zoellick said.

Under a proposal to be discussed by the Bank's Board in June, Malawi could be the first of several countries to use the Bank as an intermediary to access weather derivatives. Should Malawi suffer a drought, then it would be protected against a rise in the price of imported maize. IFC is proposing to support crop and livestock insurance for in developing countries.

Zoellick described the World Bank as driving the agenda on global food policy, “but driving it in a way that works with others, that respects the role of clients...that draws from the capabilities and skills of others—private and public sectors and NGOs.”

From the World Bank/International Monetary Fund Spring Meetings, through a U.N. coordination meeting in Berne, Switzerland, in April 2008, and more recently, at the World Economic Forum in Sharm el-Sheikh, Egypt,

in May 2008, Zoellick has been stressing that high food prices were now a matter of daily struggle, sacrifice and for too many, even survival. The World Bank estimates the effect of the food crisis on poverty reduction worldwide is in the order of seven lost years and the doubling of food prices over three years could potentially push 100 million people in low income countries deeper into poverty.

In the past year alone, wheat prices have gone up by 120 percent and the cost of a loaf of bread has almost doubled. Rice has skyrocketed, rising globally about 75 percent. One example of the spiraling food prices can be seen in Bangladesh, where rice is a staple diet nationwide. Nowadays, a two-kilogram bag of rice costs about half the daily income of a poor family.

Moreover, the WBG believes this is not a temporary phenomenon, as high food prices are expected to remain so through 2015.

“This is not a natural disaster. Make no mistake, there is nothing natural about this. But for millions of people it is a disaster,” the WBG president has warned.

Zoellick said donors needed to act immediately in support of the World Food Program (WFP), which has called for some US\$755 million to meet emergency needs. He urged donors to translate financial promises into cash. “Pledges won’t feed hungry mouths,” he said. “Donors must put their money on the table, and give WFP maximum flexibility – with a minimum of earmarking – to target the most urgent needs.”

But, Zoellick cautioned that the emergency relief was not the end of the story. “The international community needs to commit to working together to respond with policy initiatives, so that this year’s crisis doesn’t become a generation’s fact of life. Already hunger and malnutrition are the underlying causes of death of over 3.5 million children every year, robbing the future potential of many millions more.”

Zoellick noted that since he began his crusade against the crisis earlier this year, over 150 countries have endorsed the New Deal for Global Food Policy.

“The New Deal must embrace a short, medium and long-term response: support for safety nets such as school feeding, food for work, and conditional cash transfer programs; increased agricultural production; a better understanding of the impact of bio-fuels and action on the trade front to reduce distorting subsidies, and trade barriers,” he said.

“We are urging countries not to use export bans. These controls encourage hoarding, drive up prices and hurt the poorest people around the world who are struggling to feed themselves,” Zoellick said.

“As we co-ordinate action, we must bring in the private sector and agri-business,” said Zoellick. “But first and foremost, donors must act now to meet the emergency (needs)... The world can afford this. The poor and hungry cannot.”

## THE WORLD BANK URGES BROAD EDUCATION REFORMS IN MENA

Countries in the Middle East and North Africa (MENA) region have made significant progress in reforming educational systems: most children benefit from compulsory schooling, quite a few have opportunities to continue their formal education, learning outcomes have improved and gender disparity has been largely redressed. But a deeper overhaul is required to meet the demands of an increasingly competitive world and realize the potential of their growing youth population.

These are the principal findings of a new World Bank flagship report, *The Road Not Traveled: Education Reform in the Middle East and North Africa*, a comprehensive economic analysis of the impact of education investments on the region, as well as demographic changes, globalization, labor migration and the role of the labor market.

The report notes that education reform alone will not drive economic growth. The region is home to large informal markets and generally lacks significant dynamic sectors that can compete internationally – characteristics that contrast sharply with East Asia and some economies in Latin America.

The report emphasizes that policy makers should use incentives, public accountability, curriculum, and labor market reforms to make the region’s economies more dynamic.

After 40 years of education investments that have closed the gender gap at the primary school level and resulted in nearly universal education, the region faces new challenges posed by globalization and the “increasing importance of knowledge in the development process,” says the report.

### The Education Systems Must Be Changed To Deliver New Skills

Today’s world of intense global competition and rapid technological change demands problem-solving, communication and language skills not being emphasized in most schools of the region, argues the report.

“Since education is the main source of knowledge creation, the task is clear,” the report says. “The education systems must be changed to deliver new skills and expertise necessary to excel in a more competitive environment.”



*Michal Rutkowski, Sector Director for Human Development and Marwan Muasher, Senior Vice President for Communications, with the Jordanian minister of planning and international cooperation and the Jordanian minister of education.*

Countries in the region are not enjoying the same returns on education investment at the higher-education level as some fast-growing middle-income countries in Asia, such as Malaysia and the Republic of Korea, and “certainly not meeting aspirations,” says Michal Rutkowski, Sector Director for Human Development in the Middle East and North Africa (MENA) region of the World Bank.

“What we see in the region is that those who graduate from universities cannot find jobs. The unemployment rate is very high among them. Therefore the average return that you observe is also not high, and this is a serious problem,” says Rutkowski.

### There Are No Proper Signals Sent To Higher Education Establishments

Rutkowski says the primary problem lies in a labor market dominated by the public sector in many countries, where university graduates will pass up opportunities in the private sector to wait two, three or four years for a public sector job offering lifetime employment and benefits above what the market offers.

“This is a major distortion for the labor market, but it also creates a situation in which there are no proper signals sent to higher education establishments in terms of which skills are in demand, and which skills are not in demand,” adds Rutkowski.

Educational reforms are expected to be costly. The number of students seeking post-compulsory education is expected to increase considerably in the next decades. Countries will also have to transmit skills and competencies to a greater swathe of the population to remain competitive, says the report.

Up until now, MENA countries focused on building schools, recruiting and training teachers and enrolling ever greater numbers of boys and girls in primary school. Special efforts were made to include girls, rural children, children of particular ethnic groups and the disabled, says the report.

But the region still lags behind East Asia and Latin America in literacy and in average years of schooling among people 15 years and older. While most boys and girls enroll in primary school, many drop out in the 5th, 6th, and 7th grades, particularly girls, to work or because of societal pressures, says Rutkowski.

Governments need to consider every investment as to how it will contribute to the education process, including how teachers are trained, and whether they're trained to do better at old-fashioned rote learning or in much needed inquiry-based learning, he adds.

### **“Soft Skills” Called Critical To Increasing Productivity**

Students in the region need more inquiry-based learning and a new set of “soft skills”—problem solving, communications, foreign language—that are critical to further advancement.

“In order to become competitive, there has got to be a shift from the ability to perform routine tasks towards those soft skills which are absolutely essential for increasing productivity,” says Rutkowski. “This shift is in the process, but the countries really need to accelerate it in order to remain competitive.”

Incentives, such as rewards for good performance for both students and teachers, and public accountability will be essential tools in achieving educational goals, says the report. Education authorities need to acquire input from a number of actors, including non-governmental organizations, advocacy groups, watchdog organizations, parents, professional organizations and others. Public financing should be much more tied to outcomes, and to innovation, Rutkowski adds.

#### **Where THE MENA Region’s Education Is Today**

Over the past four decades, MENA countries on average dedicated 5 percent of GDP and 20 percent of government expenditures to education—more than other developing countries at similar levels of per capita income.

MENA countries have reached almost full primary education enrollment and increased enrollment in secondary schools almost threefold between 1970 and 2003, and fivefold at the higher education level.

Gender-parity for basic education is virtually complete. Although the MENA region started from relatively low levels of gender parity, indexes for secondary and higher education is not significantly different from Latin America and East Asia.

Illiteracy rates have been halved in the past 20 years and the absolute difference between male and female adult literacy rates has declined rapidly.

# ECONOMIC DEVELOPMENTS THROUGH THE FIRST / SECOND QUARTER OF 2008

## Overview

Despite the unsettled political and security context, the economy has shown some signs of recovery in 2007. Available indicators suggest real economic growth of 2 percent as well as improvements in fiscal indicators during 2007. While rising debt service payments and transfers to the electricity company put upward pressure on expenditures, their impact was more than compensated by strong domestic revenue growth. As a consequence, the primary balance (after grants) registered a surplus at 2.3 percent of GDP (compared to 1.6 percent in 2006). Growth in debt financing needs was checked both by the fiscal outturn and by the retirement of about US\$2 billion equivalent public debt using the surplus on the gold valuation account. Inflation was moderate at around 4 percent; however, given recent hikes in commodity prices, inflation has been accelerating since the last quarter of 2007. This, in turn, is generating pressure for wage and salary adjustments both in the public and the private sector.

The reform program promised under Paris III is proceeding slowly because of the ongoing political impasse. Due to continuing disagreements between the ruling majority and the opposition, Parliament has not been meeting. As a result, some prominent fiscal measures that were promised under Paris III,

such as an increase in the rates of the Value Added Tax (VAT) and the sale of selected telecommunication licenses have not been undertaken to date. However, some steps have been taken with respect to power, social sector and public financial management reforms that do not require approval by Parliament.

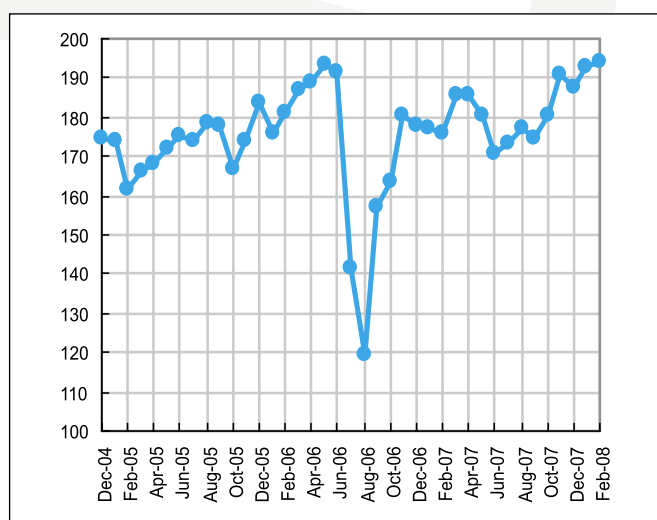
**The rise in oil prices is having mixed impacts on Lebanon's economy.** The general increase in international prices, and in particular, the oil prices, are having a detrimental effect on the current account and trade balances and on consumer prices. However, the rise in regional oil revenue is having a positive spillover on Lebanon through the rise in foreign inflows and through the increase in the demand for Lebanon's goods and services. This is particularly true in the construction and real estate sectors that witnessed strong dynamics in the first quarter of 2008 (Q1-08).

## RECENT ECONOMIC DEVELOPMENTS

### Real Sector Developments

Several indirect indicators of economic activity point to a higher-than-expected recovery in 2007. The Coincident Indicator of the Central Bank of Lebanon (BdL), which is a proxy for overall activity, increased by 5.8 percent compared to a 1.4 percent decline it registered in 2006 (see Figure 1). The volume of cleared checks (which proxies transactions and domestic demand), increased by 13.8 percent in real terms (deflated by the consumer price index, CPI) in 2007. Primary public expenditures increased by 11 percent in real terms compared to 2006 (12.9 percent excluding oil subsidies to the electricity company). A portion of this increase is, however, accounted by post-hostilities reconstruction-recovery spending that is financed by external grants.<sup>1</sup> Foreign demand for goods and services also recovered in 2007: exports increased by 18 percent in real terms and tourism sector benefited from a 14.5 percent rise in the number of passengers arriving at Beirut Airport in 2007. Overall, real economic growth

Figure 1. BdL Coincident Indicator



Source: Central Bank of Lebanon (BdL).

<sup>1</sup> Primary public expenditures historically accounted for 15 percent of domestic absorption. In 2007, public expenditures included US\$594 million reconstruction-recovery spending from July 2006 hostilities which are financed by foreign grants.

is expected to be realized around 2.0 percent in 2007, up from 1 percent originally expected.

Preliminary figures for Q1-08 show accelerated economic activity. The BdL coincident indicator increased by 9.5 percent over the first two months of the year, compared to the same period in 2007. Also, cement deliveries

increased by 10 percent over the same period. The volume of cleared checks rose by 20 percent in real terms (deflated by the consumer price index) in Q1-08 compared to the same period in 2007. Also, construction permits increased by 35 percent over the same period, precluding a strong development in the construction activity in the coming years.

**Box 1. Impact of Exchange Rate and International Oil Prices on Current Account and Inflation in Lebanon**

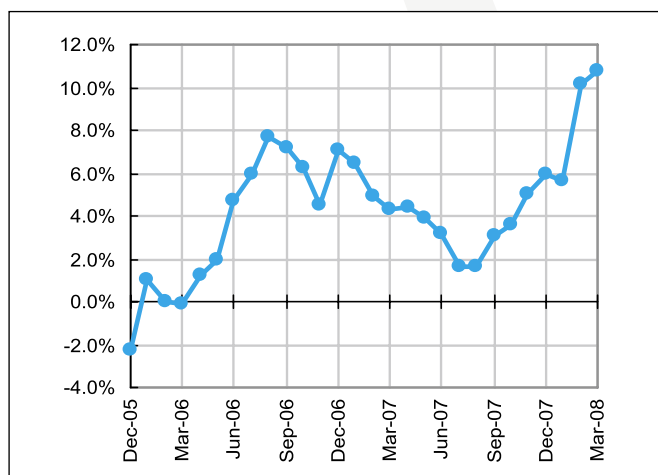
The high oil price/low dollar environment has contributed to deterioration in trade account in Lebanon and inflationary pressures. The upward trend in oil prices have been reflected in rising import bill. In addition, Lebanon’s imports predominately originate from countries with appreciating currencies against the US dollar (Switzerland, Euro Area, Japan, China), while exports are mainly flowing to Arab countries, which like Lebanon, peg their currencies to the US dollar. In turn, combined affect of these two factors have been reflected in increasing trade imbalance: over the last four years, the total net price effect is estimated to cost some US\$1.92 billion increase in trade-in-goods deficit, equivalent to about 6.1 percent of the trade deficit during this period on average.

Imported goods in Lebanon account for over one third of domestic absorption (about 33 percent in 2007). Price changes for imported goods, including oil imports, have, therefore, a significant impact on inflation. A preliminary analysis demonstrates this based on the pattern of the consumer price index: in 2007, the combined impact of rising oil prices and exchange rate movements on the CPI is estimated to be equivalent to over 70 percent of the CPI inflation (which was 4 percent on average). It should be noted that the inflationary impact of oil price has been checked by the cap that the Government introduced on oil prices in 2004 which was maintained by diminishing excise taxation on oil products. Simulations for 2008 show that if oil prices increase by 30 percent over their average level in 2007 (to levels nearing US\$100/barrel) that would be fully passed on to consumers (which is likely as increasing international prices wiped out the excise taxes on oil products in 2007 at which point domestic prices started reflecting the movements in the international oil prices) this would contribute to a 1.5 percentage points increase in CPI. Similarly, a further 10 percent depreciation of the US dollar in 2008 would increase the CPI by an additional 1.3 percentage points.

**Inflation has been moderate in 2007, but has significantly picked up in 2008.** Inflation (as measured by the CPI) remained at around 4.0 percent, also reflecting the

slow pace of economic activity. However, inflation has been accelerating since the last quarter of 2007, partly reflecting the rise in international oil prices and the depreciation of the US dollar against the Euro which pushes import prices up (see Box 1 for a summary for a detailed analysis). This pattern, in turn, is generating pressure for wage and salary adjustments both in the public and the private sector.

**Figure 2. CPI inflation**



Source: Consultation and Research Institute (CRI).

The Consumer Price Index (CPI) increased by 8.9 in the first quarter of 2008 against a 5.2 percent increase in the same period of 2007 (year-on-year). The rise in the overall CPI is driven by a strong increase in the prices of food items.

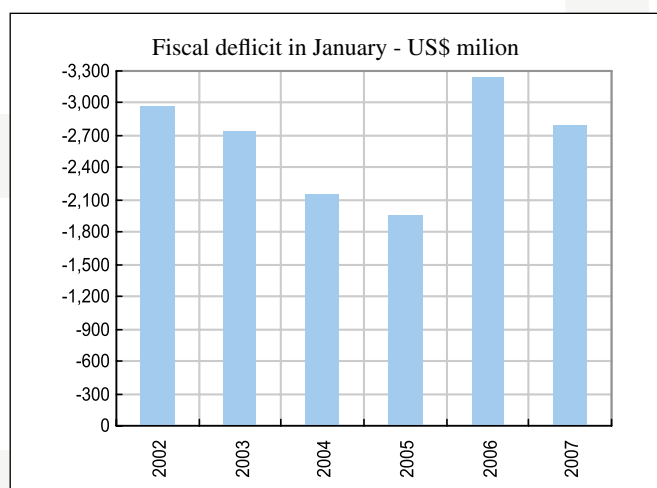
**Fiscal Developments**

**Fiscal indicators have improved.** The fiscal deficit declined to US\$2.8 billion (11.6 percent of GDP) compared to US\$3.3 billion in 2006 (14.6 percent of GDP) and the primary balance registered a surplus of US\$479

million (2.0 percent of GDP) compared to a US\$216 million deficit in 2006 (1 percent of GDP) (See Figure 3). This improvement is explained largely by a growth in revenues of 19.6 percent compared to 2006.

Domestic revenues reached 24 percent of GDP (or US\$5.8 billion), reflecting mainly an increase in VAT receipts (by 21.0 percent over 2006) and in transfers from the telecom surplus (by 28.0 percent over 2006). It should be noted that the surge in the world oil prices in the last four months of 2007 affected not only expenditures (with increased transfers to the EdL to cover its growing losses) but also revenues, as the cap on retail oil prices introduced in 2004 meant that the Government would lower excise taxes. This policy eventually led to complete elimination of excise tax revenues in 2007, when the oil prices hit about US\$80/barrel, at which point increase in international oil prices started being reflected in local market prices<sup>2</sup>. Once this is factored in, the revenue collection performance in 2007 appears even more impressive.

**Figure 3. Cumulative Public Deficit (US\$ million)**



Source: Ministry of Finance & World Bank staff calculations

On the other hand, total expenditures (excluding externally financed reconstruction and recovery spending) increased by 5.5 percent in 2007, reaching 36 percent of GDP (or US\$8.6 billion). Among the primary drivers of this increase are the debt service payments (registering 8.4 percent increase over 2006) and transfers to the power company, Electricité du Lebanon (EdL), (registering 8.0 percent increase over 2006). The increase

<sup>2</sup> Other subsidies were also adjusted in 2007; e.g., subsidy to sugar beet farmers reduced and will soon be eliminated; subsidy to wheat farmers has been virtually eliminated and replaced by subsidy to bread makers; subsidy on gas oil for the winter season remained more or less at its 2006 level; and subsidy to tobacco farmers slightly increased.

in debt service payments reflects rising debt stock (by 4.1 percent between end-2006 and end-2007) and rising average interest rates on debt instruments in domestic currency.

Figures for Q1-08 show an improvement in fiscal balances compared to Q1-07. This is reflected in a 20 percent rise in revenues. Revenues increased due to a 20 percent increase in VAT and an 18 percent increase in non-tax revenues, mainly transfers from the telecom surplus. The performance of the VAT is partly reflecting higher prices of goods and services. Expenditures increased by 5.6 percent only, despite the rise in transfers to the electricity company (by 46 percent) and in debt service (by 7.9 percent). Indeed, the rise in expenditures was kept moderate due to a 4.6 percent decrease in non-debt expenditures excluding transfers to EdL. Overall fiscal deficit declined to US\$482 million from US\$659 million in Q1-07. The hike in the prices of oil and food items has increased demands for measures to improve the standards of living.

**Debt dynamics continue to be a source of concern.**

Gross public debt reached US\$42.1 billion by end-December 2007, reaching 174.2 percent of GDP down from 177.5 percent at end-December 2006. The stock of debt has increased by 4.1 percent over 2006, despite the retirement of about US\$2 billion worth public debt (equivalent to 8 percent of GDP) in June 2007 from BdL's portfolio, using the surplus on the gold valuation account. As a result, the BdL holdings at end-2007 were down to 18.7 percent of the total debt compared to 19.7 percent at end-2006. The average maturity of domestic debt remained stable at 1.6 years between end-2006 and end-2007, and the average weighted interest rate increased slightly from 8.59 percent to 8.86 percent. On the other hand, average interest rates on foreign currency debt declined slightly to 7.12 percent in 2007. This reflects the disbursement of a US\$300 million soft loan from the UAE (at 2.5 percent interest rate) and the re-structuring of US\$500 million of Eurobonds held by Malaysia to obtain higher maturities and lower interest rates (down from 5.85 percent on average to 3.75 percent). Disbursements of Paris III pledges were slower than expected. To end-December 2007, only about half of the total US\$7.6 billion pledged has been allocated (US\$3.5 billion)<sup>3</sup> and actual disbursements have amounted to about US\$1.0 billion. In early February

<sup>3</sup> The allocated amount is composed of about US\$1.3 billion budget support, US\$1 billion project lending, US\$0.9 billion private sector support, and US\$0.3 billion TA/in kind assistance.

2008, Standard and Poor's downgraded Lebanon's long-term sovereign foreign credit rating by one level from B- to CCC+ on the basis of increased political instability. This was followed in mid-February 2008 by a confidence boosting US\$1 billion deposit by Saudi Arabia to the BdL. The timing of this deposit coincided with the rolling-over of a large amount of matured Eurobonds (US\$875 million) in early March 2008; and might have helped achieve relatively favorable terms for this transaction (with slight increase in the interest rate to 9.18 percent and 5-year maturity).

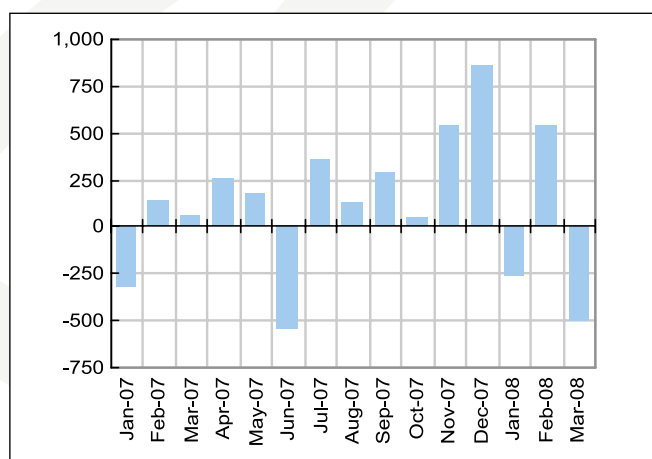
Cross public debt increased by US\$1 billion to US\$43.1 billion in Q1-08. The share of debt denominated in foreign currencies declined to 50 percent of total debt from 50.5 percent at end-2007. Average weighted interest rates on debt continued to increase, reaching 9.04 percent on LBP denominated debt (against 8.86 percent at end-2007) and 7.18 percent (against 7.12).

### External Accounts

External transactions reflect the recovery in economic activity and the positive impact of regional and international foreign inflows. Imports of goods rose by 26 percent in 2007 due to the combination of an 8.0 percent increase in the first half of the year and of a 46 percent increase in the second half. Similarly, exports of goods increased by 23 percent due to the combination of a 0.8 percent increase in the first half of the year and of a 53 percent increase in the second half. The foreign trade performance in the second half of 2007 is explained by the low-base effect due to summer conflict with Israel in 2006. The trade-in-goods deficit in 2007 rose to US\$9 billion (37 percent of GDP) compared to US\$7.1 billion in 2006. On a positive side, exports of services increased in 2007, as evidenced by a 14.5 percent rise in the arrival of passengers at Beirut Airport. More broadly, net foreign assets increased by US\$2.0 billion in 2007 (inclusive of US\$1.0 billion disbursements from Paris III pledges) compared to an increase of US\$2.8 billion in 2006 (see Figure 4). This suggests a sharp increase in net exports of services, remittances, transfers and capital inflows to US\$11 billion in 2007 compared to their 2006 level at US\$9.7 billion.

The trade-in-goods deficit continued to rise during Q1-08, reaching US\$2.6 billion against US\$2.1 billion in Q1-07. The net effect of the increase in international prices of exports and imports is the responsible of the entire increase in deficit. Net foreign assets declined by US\$214 million in Q1-08 compared to a US\$100 million decline in Q1-07. Net exports of services, com-

Figure 4. Change in Net Foreign Assets (US\$ million)

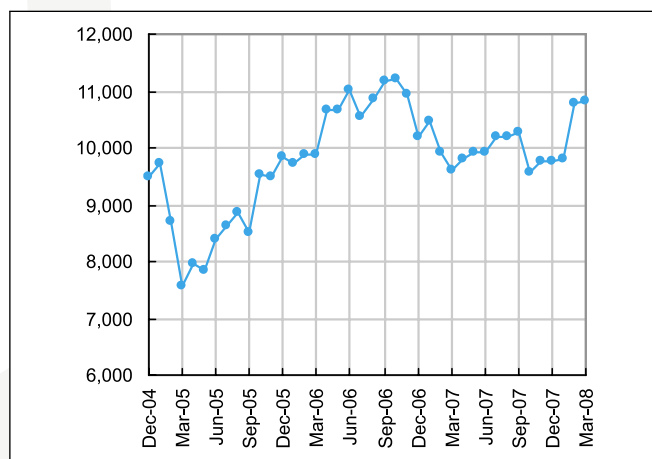


Source: Central Bank of Lebanon (BdL)

bined with remittances, transfers and capital inflows reached US\$2.4 billion in Q1-08 against US\$2 billion a year earlier.

**Reserves of the Central Bank have declined.** Gross foreign currency reserves declined to US\$9.8 billion in December 2007 (40 percent of GDP) from US\$10.2 billion in December 2006. Figures for Q1-08 show an increase in gross reserves to US\$10.8 billion. In mid-February 2008, the BdL received a confidence boosting US\$1 billion deposit from Saudi Arabia.

Figure 5. Gross Reserves of the BdL



Source: Central Bank of Lebanon (BdL)

### Financial Sector Developments

**The financial sector has been resilient in the face of the ongoing political uncertainties.** Broad money (M3)<sup>4</sup> increased by 12.4 percent (US\$6.6 billion or 27.3 percent of GDP) as of end-December 2007 over end-December 2006, depicting a stronger dynamic

than in 2006 when M3 increased by 7.8 percent. The most dynamic component of money supply was resident deposits, with those in foreign currency increasing by 15.1 percent and those in domestic currency increasing by 5.8 percent. Lending to the private sector increased by 16 percent (US\$2.4 billion or 10 percent of GDP), which is the highest increase observed since 1998. The renewed dynamic of private lending reflects: (i) the strong rise in Banks' resources, while new credit to the Government has been slowing down (remaining at US\$855 million and 3.5 percent of GDP in 2007); and (ii) refinancing schemes to help clients who suffered from the summer-2006<sup>5</sup> hostilities.

The rise of money supply accelerated in Q1-08, with M3 increasing by 2.8 percent (US\$1.8 billion) compared to end-2007 and by 13.5 percent compared to March 2008. The increase in the lending to the private sector remained strong in Q1-08, reaching 5.9 percent (US\$1 billion) compared to end-2007.

**Domestic and foreign currency interest rate deposits are both on the decline.** The average interest rate on US dollar deposits declined by 7 basis points (bpt) between end-2006 and end-2007 and that on Lebanese pound denominated deposits declined by 9 bpt. This reflects both availability of relatively large resources and increased BdL financing to the Government. The

BdL provided the Government with US\$1.5 billion of financing in 2007, which is equivalent to 54 percent of total deficit. This policy helped keep interest rates on Government's Lebanese pound borrowing low.<sup>6</sup> The dollarization of deposits increased slightly to 77.3 percent by end-2007 from 76.2 percent at end-2006.

Figures for Q1-08 show a further decline by 85 bpt in the average interest rate on US dollar deposits, compared to December 2007, and a decline by 18 bpt in that on Lebanese pound denominated deposit. The dollarization of deposits slightly regressed to 76.7 percent of the total at end-March 2008.

<sup>4</sup> M3 equals money in circulation in Lebanese pounds plus deposits in Lebanese pounds plus deposits in foreign currencies.

<sup>5</sup> Following the July 2006 war, the BdL issued several circulars (particularly #121, 127, 135 and 137) amending banking and credit laws/regulations in order to refinance businesses that have been directly and indirectly affected by the summer 2006 hostilities.

<sup>6</sup> If the financing were to come totally from commercial banks, this would have increased pressure on bank's resources in Lebanese pound, as the Bank's would have asked for higher remuneration on Lebanese pound denominated Treasury Bills (considering risks in the face of increasing political and security tensions), which would have increased public debt service

## INTERVIEW: JULIA BUCKNALL, LEAD NATURAL RESOURCES SPECIALIST FOR MENA



*The Middle East and North Africa (MENA) region is the most water scarce region of the world, but in recent years the amount of water available per person has declined dramatically. Furthermore, as a result of the region's high population growth rate, per capita water availability is projected to fall by half of what it currently is by 2050. These estimates are based on current or constant rainfall patterns. Yet, the global projections for climate change actually indicate a drop in rainfall precipitation of 20 percent to 40 percent, while an increase in temperatures will mean increased evaporation. Based on available indicators, the MENA region will be seeing a lot more people trying to manage with a lot less water.*

**Q: Can you give us a sense of the current status of water in MENA? Are there concerns that the region will run out of drinking water?**

A: While it often sounds like drinking water is a key concern, the reality is that nearly every area in the region will find a drinking water option. It may be expensive, but desalinization of sea water is a viable option for most areas. In certain places, such as Yemen's Sana'a Basin, in Jordan, and in West Bank and Gaza, the drinking water situation will be especially challenging, but we can expect people will find water to drink.

At the moment about half of the countries of the region are consuming more water on average than they are receiving in rainfall, partly because they augment their supplies with desalinization, but mainly because they're using stored water from aquifers. While this is an acceptable practice in a particularly dry year, it is not acceptable or sustainable to use aquifers as a constant source. As a result of overuse, we have seen the levels of aquifers drop significantly in recent years. If this pattern continues, the water from aquifers will not be completely exhausted, but water will become more costly to extract and quality will decline. Given

these circumstances, people will simply adapt until they eventually abandon the source.

**Q: If water scarcity increases, as most indicators predict, where will the impact be felt most?**

A: Where water scarcity makes the most impact is in food production. Eighty-five percent of the water in the MENA region is used for irrigation and that is potentially the main area from which the growing urban demand can be met. While there is some potential in adopting more efficient irrigation practices, there's no getting around that action must be taken to reduce the amounts of water used for agricultural purposes. That is institutionally, and politically, very difficult.

With less groundwater available for agriculture, the region is going to be much more dependent on trade for food products. While this scenario is acceptable, we should remember that as the region's dependence on trade gets higher and higher, there are economic risks, and volatility in a region like the Middle East is not to be taken for granted. The region imports about 50 percent of its grain already, and we've seen recent sudden increases in the prices of grain have a big impact on consumers in the region. Clearly, the volatility in food prices is going to be felt in the region and may result in political consequences.

**Q: What is the World Bank doing to assist MENA countries deal with the water challenge?**

A: The Bank has a lot of innovative projects to help countries manage water resource challenges. The key focus now is to encourage countries to get consumption down to the level of average precipitation, and that means future levels of precipitation, not just the current levels. The Bank is promoting systems to assist countries with "water accounting", in the same way they would do financial accounting. They need to look in the bank to see if the resources will be available. To achieve this, the Bank is advancing the use of remote sensing technology to map water use in basins over different periods of time. By linking this data to physical models, people can predict what the localized responses might be to future climate shocks, estimate levels of potential

runoff, and what would be the safe yield from aquifers. Making the information available seems to be the only choice that we have. And that's what was so exciting about doing remote sensing work. Everyone can see the results. It's freely available on the Web, and it can be a very powerful way to demonstrate this reality.

The Bank has also been instrumental in establishing and facilitating meetings of the Arab Water Council. The Council's membership includes all of the region's water ministers and provides a venue where they can share their experience, knowledge and data, and coordinate actions as a region. It is our hope that they will soon begin developing a common dataset for the Arab world, and begin tracking how much water is being used and what is available.

***Q: What about water and sanitation? Are there actions to be taken in this area that can help reduce water scarcity?***

A: This depends very much on the country situation. In poor countries such as Yemen, the idea would be to expand services to as many people as possible and make sure that the utilities that provide the services will have sustainable financing to maintain infrastructure and provide adequate levels of service. In post-conflict countries, the challenge is to get basic services restored and make those sustainable as quickly as possible. In the middle-income countries, there are a number of specific challenges. For example, in the 1970s many countries made major investments in sanitation infrastructure and those investments are now ready for replacement. Because of the water scarcity, countries are looking to more expensive options such as wastewater reuse, and desalinization, which affects the price for consumers and the financing structure for many of the utilities. Many of the utilities are not financially sustainable, so the Bank is designing some new and interesting models to improve accountability for service quality, and to improve sustainability of the financial infrastructure.

***Q: What kind of impact did the Water flagship report have on the region?***

A: The flagship report had a surprisingly big impact, and did in fact strengthen interregional cooperation. One of the key messages of the report is that a lot of the things

that influence the water sector have nothing to do with water. Issues such as trade, finance, and landholding need dialogue to take place with Ministries of Finance and Agriculture, for example. Another conclusion was that the technically competent people working on water in the region need much more training and capacity building, specifically in areas such as change management and reform, navigating the political economy, and understanding the legal implications of the cross sectoral work.

To address these issues, the Bank provided financing to establish the Arab Water Academy, which will be launched in summer 2008 in Abu Dhabi. The Academy will bring leaders from the water sector, and outside the sector too, from around the Arab region to learn international best practices and provide a forum to discuss how to effect change within their own circumstances. Essentially, this is a mid-career learning program and I think it has great potential to effect change in the region.

***Q: The issue of water for MENA seems awfully daunting. Are there any positive messages that you can share?***

A: What we find is that people adapt when faced with water scarcity, and people in MENA will find a way to live with less water. The question remains whether this accommodation happens in a planned way, without really damaging the poor, or if it happens in a jerky, crisis-to-crisis kind of way. These are the two choices, frankly. There is hope that they will take proactive steps, and there are many things the countries can do.

The political imperative for doing what needs to be done has increased. Countries need to manage water in a more sustainable way, and really evaluate what investments they are making. The challenges are real and obviously, so it is important now they push the issue further up the development agenda.

## 2006 HOSTILITIES FURTHER DEPLETED LEBANON'S VULNERABLE ENVIRONMENT

The World Bank has recently published an Economic Assessment of the Environmental Degradation in Lebanon that was directly caused by the July-August 2006 hostilities – a report that has been warmly welcomed by the Ministry of Environment and friends of the environment at-large. Indeed, as described by the Ministry of Environment, it was the first time that a study has been conducted in Lebanon to evaluate the overall post-conflict environmental damages in dollars and cents.

The study estimated the overall cost of environmental degradation at US\$729 million, or about 3.6 percent of GDP in 2006. It revealed that damage caused by the 34-day hostilities was higher than degradation over an entire year of peace. A World Bank study had estimated environmental damage in 2000 at US\$565 million or 3.4 percent of GDP.

The real value of the study, as highlighted by the Ministry, lies in the documentation of the deep and intense repercussions of the hostilities on the environment in Lebanon and the world at-large. It provides a convincing tool of the irreversible and disastrous impacts of hostilities on the environment. The study has become an international reference, and was quoted by the U.N. Secretary General of the United Nations Ban Ki-Moon in a report presented to the General Assembly at its 62nd meeting. The study also provides a good tool for the prioritization of rehabilitation and protection activities, as well as raising awareness on the impacts of war.

According to the report, the conflict had a devastating impact on the country's fragile environment. The massive destruction of infrastructure left enormous amounts of debris and rubble, and the bombing of a power plant in Jiyeh on July 13 and July 15, 2006, caused the spill of about 12,000-15,000 tons of oil into the Mediterranean Sea. The widespread fires and oil burning deteriorated the air quality, especially in Southern Beirut. These damages significantly affected the country's economy, environment and its public health.



*Polluted Coastline*

Several damage assessments were carried out in the aftermath of the conflict. None of them, however, focused on the impact of the hostilities on the environment.

### Objective and Scope

The ultimate goal of the study was to present the overall picture of environmental degradation and to identify the natural resources mostly affected by the conflict. While the study did not aim to examine the future needs for environmental protection, it revealed the main areas affected by environmental damage. It is hoped that the findings would help the Government to raise awareness on the needs and on the priority areas for funding environmental protection.

The approach was different than that of previous studies undertaken by the Bank, most of which focused on estimating the annual costs of environmental degradation.

### Methodology

The choice of valuation methods was largely based on the availability of data concerning each impact.

The report estimated the present value of current and future losses associated to the 2006 hostilities. Some impacts would occur during one year, such as water shortage, while others would take place over several years - the oil spill and forest fires.

In many national level valuation studies, estimating the environmental damages is unavoidably constrained by data scarcity. Data constraints usually impose the use of assumptions and simplifications, which gives rise to order of magnitude estimates rather than precise results. In this report, data constraints are even more severe than in other studies. Two reasons explain the problem: (i) its timeliness – less than one year after the hostilities occurred - makes it difficult to find accurate data in secondary sources; (ii) no events comparable to this one - in terms of hostilities inducing an oil spill - are available, except for the 1991 Gulf War, thus no past experience from similar studies exists.

The main impacts not covered by this report and which should be more comprehensively analyzed in the future include:

- The impacts of the oil spill on health (such as skin diseases or digestive diseases due to eating contaminated fish);
- The impacts of the oil spill on ecosystem services (such as habitat for spawning, potential groundwater contamination) and on marine biodiversity;
- The impacts of water degradation and damage to wastewater infrastructure on health;
- The impacts of short-term exposure to air pollution on health;
- The impacts of unexploded ordnances in forest areas on people’s livelihoods.

Ideally, estimating *the* net losses would appropriately reflect the value of environmental damages. However, data limitations prevented the valuation of net losses for most categories of impacts<sup>1</sup>. Available information allowed estimating only the *gross losses* for all impacts.

## Findings

The overall cost of environmental degradation in Lebanon caused by the 2006 hostilities is estimated to be between US\$527 and US\$931 million, averaging out at US\$729 million, or about 3.6percent of GDP in 2006 (Table 1). A previous study (Sarraf, et. al., 2004) estimated the annual costs of environmental degradation in

2000 at about US\$565 million or 3.4 percent of GDP<sup>2</sup>. It is also interesting to note that on average, the environmental damage caused by one day of the hostilities is about US\$21.5 million compared to US\$1.7 million per day in times of peace<sup>3</sup>.

**Table 1: Overall Cost of Environmental Degradation Caused by the July 2006 Hostilities in Lebanon**

Impacts	US\$ million min	US\$ million max	US\$ million average	Percent of GDP <sup>4</sup>
Waste	206.8	373.5	290.2	1.4
Oil Spill	166.3	239.9	203.1	1.0
Water	131.4	131.4	131.4	0.6
Quarries	15.4	175.5	95.5	0.5
Forests	7.0	10.8	8.9	0.0
Air			n.a.	n.a.
Total Environmental Cost Caused By Hostilities	526.9	931.1	729.0	3.6

**Figure 1. Environmental Damages by Categories**

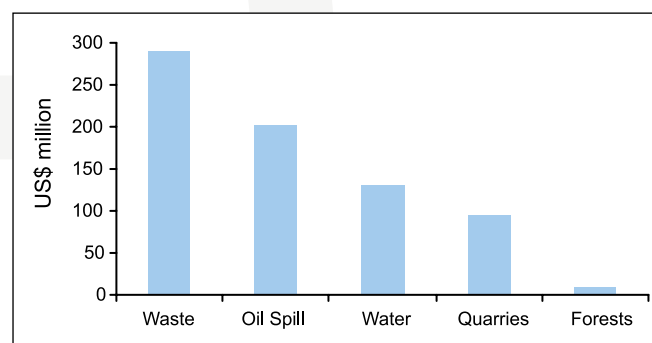


Figure 1 illustrates the main components of the estimated damage cost. Once again, the limited data availability implies that the estimated costs are only indicative for the true value of damages. Despite these limitations, the report shows that the largest estimated impact of the hostilities is on the waste sector, mainly due to the high costs of disposing demolition waste and to the casualties and losses in agriculture production caused by unexploded ordnances in South Lebanon. The impact of the oil spill comes second in importance, and is mainly given by the high costs of cleaning the *oiled waste, the*

<sup>2</sup> The study estimated the cost of environmental degradation due to air pollution to 1.1 percent of GDP to water degradation to 1 percent to land and wildlife degradation to 0.6 percent to coastal zone degradation to 0.7 percent and to waste management to 0.1 percent of GDP.

<sup>3</sup> Adjusted from 2000 to 2006 using the GDP deflator.

<sup>4</sup> Based on an estimated GDP for 2006 of US\$20.5 billion (Economic Intelligence Unit, 2006).

<sup>1</sup> Except for the impacts on restaurants.

cost of oil burnt and spilled and the income losses of coastal services (e.g. beach resorts). The third most important impact is on water, primarily reflected by the additional costs of getting water and repairing the water infrastructure damaged in South Lebanon. The effect on quarries is relatively significant, especially in terms of landscape damages due to the non rehabilitation of quarries at the completion of excavation. The impact on forests seems the least important, though it should be noted that it was only conservatively estimated<sup>5</sup>. While the deterioration of air quality (due to the burning of fuel tanks in Jiyeh and in Beirut International Airport and the dust from demolition waste) has certainly affected people's health in certain neighborhoods, unfortunately there is no dose response function that links short-term exposure to high level of pollution to health impacts. Hence, this impact has not been quantified in the study.

### Looking Forward

Understanding the real importance of the environmental damage can be improved by comparing the hostilities' impacts on different sectors. Damages to the environment (estimated at US\$729 million in this study) represent an additional 20 percent to 25 percent to the value obtained from previous damage assessments<sup>6</sup>. This sheds light on the importance of the environmental damage caused by the hostilities and on the need of allocating substantial funds to environmental conservation in Lebanon.

The hostilities resulted in emerging environmental and exacerbated long-lasting environmental issues (such as waste management and quarrying activities).

With about 40 percent of the total estimated damage, Lebanon needs to pursue its effort of cleaning demolition and military waste. In addition, it needs to resolve its long-lasting waste management issue by: (i) agreeing to allocate land for sanitary landfills in different Mohafazats; (ii) enacting the *Integrated Waste Management Law* and implementing the *National Solid Waste Strategy* in a competitive and cost effective manner; and (iii) providing incentives to municipalities to treat their waste (financial incentives, such as carbon finance, can alleviate the financial burden imposed by the waste sector).

While substantial efforts have been devoted to clean up the oil spill, the magnitude of the damage cost (about 24 percent of the total damage cost) suggests that fund-raising efforts to continue the clean-up and especially to deal with the oiled waste are particularly important.

The reservoirs and the water network in South Lebanon have been, to a large extent, rehabilitated; these efforts need to continue so as to provide water supply to all the communities affected by water shortage.

The reconstruction is likely to add more pressure on quarrying activities. Lebanon needs to address this long-lasting issue by enforcing the recently enacted decrees<sup>7</sup> relative to the establishment and operation of quarries, and also needs to properly enforce the rehabilitation of quarries at the end of operation to avoid leaving behind huge environmental and landscape damage, as was done in the past.

In view of the above, it is important that investment in the reconstruction of Lebanon takes into consideration the results of this study and the allocation of sufficient funds for mitigating measures to protect the environment.

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<sup>5</sup> For example, the damages due to UXOs scattered in forests could not be valued due to limited information on the UXOs location at the time of data compilation.

<sup>6</sup> Government of Lebanon (2006a) and World Bank/ESIA (2006a).

<sup>7</sup> Decree 8803 of 2002 amended by Decree 16456 of 2006.

## NEWS, RECENT AND UPCOMING ACTIVITIES

### INTERVIEW: Ritva Reinikka, New Director for the Social and Economic Development Group in the Middle East and North Africa



*In this interview, Ritva Reinikka the new Director for the Social and Economic Development Group (MNSSED) at the World Bank's Middle East and North Africa (MENA) region shares her vision and plans for managing challenges and opportunities in the region and the World Bank. The MNSSED scope of work*

*covers economic policy, poverty, public sector, gender, private sector development and finance.*

*Reinikka's appointment follows her field assignment as the World Bank's Country Director in Southern Africa. Prior to that Reinikka was research manager in the Development Research Group at World Bank Headquarters.*

**Q: What are the challenges of your new job?**

A: As a newcomer to MENA a challenge for me is to get to know our client countries. My first visit to Egypt allowed me to meet key counterparts of our largest borrower. Together with my old department and the African Development Bank we also hosted a conference in Cairo for Africa's middle income countries, including our North African clients. The upcoming World Economic Forum in Sharm El Sheikh will give me another opportunity to meet many more counterparts, and a trip to Morocco is planned for June. These are all efforts to meet this challenge.

Another challenge is to get to know the MNSSED team and the rest of the region. Thanks to our recent retreat, I was able to meet and interact with the entire team of our committed and talented economists and sector specialists both in headquarters and field offices. I asked for taped interviews from the region's country and sector directors to get a better sense from them of what they expect from my team and where they think there are opportunities for further collaboration. Directors said, for example, that country economists are important integrators, and I pledged to do my best to help them play this role. In the past, the position of

MNSSED director was merged with that of the regional chief economist. The region is now in the process of separating these two offices and hiring a chief economist. This will also mean some redefinition in the scope of my department's work.

**Q: What are the immediate policy challenges that are currently on your agenda?**

A: From day one I have been working together with the team to respond to rapidly increasing food prices. This involves leading a regional task force of sector and country directors. The objective is to serve our clients better by integrating various aspects of the food price crisis, such as fiscal, trade, poverty, social protection, agriculture and water. The MENA countries are being much affected because they are large net food importers. For example, in Yemen, where price for wheat doubled in a year, poverty may have already increased by 6 percentage points reversing the gains in poverty reduction since 1998. Large food and energy subsidies are quite unique to MENA, ranging from 3 to 15 percent of GDP. Rising food prices have made reforming these programs even more difficult. Governments are looking to the Bank for policy advice on how to respond. The Bank is also exploring the creation of a rapid financing facility for especially fragile, poor countries.

**Q: What are the key responsibilities of your department?**

A: My department has a wide range of responsibilities: from heading the region's work on economic policy, to leading poverty analysis, supporting increased trade and competitiveness, facilitating public sector reform and improved governance, promoting gender equity, improving the investment climate for the private sector, and to enhancing financial markets. These are the themes where we take leadership for the Bank in the MENA region. But we do not operate in a silo. This is why I have focused my time over the first couple of months to listening and interacting with as many client representatives as possible and various World Bank

sector colleagues, including the IFC. My priority is to ensure that we work closely with other sectors and have an open dialogue with clients.

***Q: What are some of the opportunities you see to enhance the role of the private sector in MENA's development?***

A: I am particularly keen to ramp up the Bank's support of private sector development in MENA. I believe this is imperative for the region to create job opportunities for a rapidly expanding labor force. In recent years, the Bank has conducted investment climate assessments (ICA) to better understand what prevents firms from investing more, growing, and creating jobs. The ongoing analytic and policy work includes issues such as access to finance, regulatory reform, land policy, corporate legal reform, and tax reform. In my past assignments I have also worked a lot with the ICAs and find them to be a useful tool for defining the reform agenda and for operational work.

We are also currently preparing a regional flagship report on private sector development which will be launched soon. Stay tuned!

***Q: Where do you see progress on the governance agenda in MENA?***

A: MENA is home to some of the largest public sectors in the world, and hence efficient use of resources, transparency and public participation are particularly important. Over the past few years, the governance agenda has become one of the most important development issues for the MENA region as a whole. A variety of regional forums from Alexandria to Doha have underscored the importance of governance in fostering an enabling environment for private sector growth and ensuring that quality services are delivered to the public. Most of my career in the Bank I have worked on topics related to governance—especially on information, participation and client power—and very much want to contribute to it in MENA, too.

***Q: What is your mission going forward?***

A: I subscribe to the idea that the World Bank is a development cooperative whose purpose is to serve its member countries as effectively as possible. In Southern Africa I used to say that the Bank Group is about development not ideology. So, my "mission" is to help put this spirit into practice regarding economic

and private sector development in MENA by leading and supporting a team of over 50 economists and other professionals.

***Q: What are some of the new ideas that will serve your vision for a more effective response?***

A: Despite promising efforts and initiatives, the MENA region is still lagging behind other regions with similar income levels in terms of women's access to economic opportunity, decision making, and in certain cases, equitable treatment under the law. Going forward, I hope that the Bank can significantly scale up analytic work and policy dialogue among MENA clients on gender.

Another passion of mine is impact evaluation. With limited resources and nearly unlimited needs, impact evaluations should be an integral part of policy and public spending decisions. We need to know what works, what doesn't and why. I intend to work with my team and our counterparts to put together a multi-sector impact evaluation program. This should serve the MENA region particularly well. Data collection and analysis is notoriously circumspect in MENA, and dissemination is even more limited, preventing greater transparency and accountability from the public sector. Promoting impact evaluation, and ensuring that these evaluations are reported well, can be an effective way to improve performance of public services.

***Q: Based on your experience, how different or similar is development work in MENA from what you had to deal with in Southern Africa?***

A: To be sure, the two regions are very different. Yet, there are many similarities, too. The Southern Africa department spanned from the most pressing poverty in Madagascar to the increasingly sophisticated needs of middle income countries like South Africa or Botswana. MENA region has a similar variability. Job creation is a burning development issue for both regions. In Southern Africa, we were ramping up business 24/7, both lending and advisory services, with most demanding clients. In MENA we need to do the same thing. I believe that working collaboratively with other development organizations, such as the Arab funds and donors, governments, private sector and civil society is critical to the Bank's and my department's success.

## IFC and Arab Monetary Fund Support Development of Private Credit Bureaus in the Middle East and North Africa

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IFC signed a Memorandum of Understanding with the Arab Monetary Fund to help create a vibrant and effective credit bureau industry in the Middle East and North Africa. The event took place during the 2008 World Bank Group and IMF Spring Meetings.

IFC and the Arab Monetary Fund will consolidate efforts to harmonize the region's credit reporting systems and implement international best practices. Over the next three years, the two organizations will assess credit information infrastructures in the region's Arab countries to address gaps and challenges facing most of these countries. They will also work to raise awareness of credit reporting and its benefits to local economies. These efforts will help identify strategies and action plans to establish business enabling and regulatory environments for private credit bureaus.

By developing private credit bureaus, this initiative will help increase knowledge sharing on credit reporting between countries; increase the efficiency of financial intermediaries; support the growth of micro, small, and medium enterprises; mitigate lending risks; and help central banks supervise financial sectors.

## World Bank Broadens Transport Agenda

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The World Bank Group launched a new transport business strategy for 2008-2012 that will help partner countries to establish the governance, strategies, policies and services to deliver transport for development in a way that is economically, financially, environmentally and socially sustainable.

Called Safe, Clean, and Affordable... Transport for Development, the business strategy strengthens the alignment of the transport sector approach with the Millennium Development Goals adopted by the United Nations in 2000. At the same time, it widens the directions and deepens the routes that will be taken to meet the evolving development agenda. It gives more attention to emerging trends, such as trade globalization, urbanization of populations; rising concerns about climate change, the increase in traffic congestion; and the recognition of access as a key to both economic opportunity and good governance.

Dr. Jassim Al-Mannai, Director General and Chairman of the Arab Monetary Fund's Board, said, "Capacity building and sound policies are crucial in establishing economic and financial reforms. We are delighted to cooperate with IFC in this initiative. We are convinced that the assistance to Arab countries will help them comply with Basel II requirements and enhance the central banks' supervisory powers."

Lars Thunell, IFC Executive Vice President and CEO, said, "Credit bureaus are crucial in allowing individuals and small businesses to have greater access to finance. We look forward to working with the Arab Monetary Fund to create credit bureaus that will have a wide reach and positive impact in the region."

IFC's regional credit bureau program, launched in 2005, is managed by IFC Advisory Services in the Middle East and North Africa - PEP-MENA. IFC's activities include help in developing a legal and regulatory framework and advisory services for starting and expanding credit bureaus, with a focus on strategy, technical partner selection, and outreach and awareness events.

The Bank Group consulted widely in preparing its new business strategy, seeking contributions from over 75 transport development partners, governments, professional institutions, civil society organizations, multilateral and bilateral donors, and putting an early draft on its external website for four months to elicit public comments.

Since the Bank's 1996 transport strategy, Sustainable Transport, was endorsed by the World Bank's Board of Directors, the Bank Group has committed around US\$42 billion for more than 530 dedicated transport operations and transport components in over 500 non-transport specific projects in more than 100 client countries. Lending in fiscal year 2007 reached over US\$5 billion, amounting to 20 percent of World Bank Group new annual commitments.

*For more information on this strategy, visit:  
<http://www.worldbank.org/transport>*

## BANK GROUP OPERATIONS

### ■ IBRD Ongoing Projects

The current IBRD portfolio in Lebanon consists of 10 active projects for a total commitment amount of US\$415.58.58 million, of which US\$279.47 million has been disbursed by May 31, 2008.

**Education Development Project (EDP)** (US\$44.6 million). This Project is designed to support the Government's efforts to enhance the capacity of the Ministry of Education to function as an effective manager of the education sector and to restore the credibility of the Public Education System. The project was approved in March 2000.

**First Municipal Infrastructure Project (FMIP-I)** (US\$80 million). This Project aims to address urgent municipal works while setting the stage for the gradual assumption of responsibility for municipal services at the local level. The Project was approved in June 2002.

**Ba'albeck Water and Wastewater Project** (US\$43.5 million). The major development objectives of the Project include: (i) improving the access of satisfactory

water supply and wastewater services to the region's residents; (ii) introducing appropriate sector reforms – particularly, the development and strengthening of the capacity of the existing Ba'albeck Hermel Water and Irrigation Authority, and, once it is established, the Beka'a Regional Water Authority; and (iii) involving the private sector in the operation and maintenance of water and wastewater facilities by preparing for a Management Contractor (MC) through a lease or concession contract that would secure the long-term financial needs for sector investments. The Project was approved in June 2002.

**Urban Transport Development Project (UTDP)** (US\$65 million). The Project's objectives are to provide the city of Beirut and the Greater Beirut Area with the basic institutional framework that is currently lacking, and to support critical investments needed to maximize the efficiency of existing urban transport infrastructure. The Project was approved in June 2002.

**Cultural Heritage and Urban Development Project (CHUD)** (US\$31.5 million). The Project will finance site conservation, enhancement investments, associated urban infrastructure improvements in selected sites and

provide technical assistance to strengthen the capacity of the Directorate General of Antiquities, Ministry of Tourism and targeted municipalities in cultural heritage preservation and tourism development. The Project was approved in April 2003.

**First Municipal Infrastructure Project Supplemental** (Trust Fund US\$30 million). This Grant aims to: (i) restore basic services and rebuild municipal infrastructure in the municipalities and villages hardest hit during the summer 2006 hostilities; and (ii) provide technical assistance to and build the capacity of municipalities to mitigate the impact of the hostilities on municipal finances.

**Beka'a Emergency Water Supply and Modernization Project** (Trust Fund US\$15 million). The objectives of the Project are to: (a) operate and maintain water and waste water facilities in the Beka'a Region; (b) undertake rehabilitation works using the operations and investment fund to be made available by the Government; and (c) bill and collect on behalf of the Regional Water Utility for all its customers.

**Emergency Power Sector Reform Capacity Reinforcement Project** (Trust Fund US\$5 million). The objectives are to accelerate the design and implementation of reforms by enhancing the capacity of the Ministry of Energy and Water (MEOW), the Electricite du Liban (EdL) and the Higher Council for Privatization (HCP).

**Reform Implementation Development Policy Loan I** (US\$100 million). The Project will help advance critical reforms of the Government's economic reform program with a particular emphasis on energy, the business environment and social protection to reduce the need to subsidies and improve the investment and employment environment.

**Emergency Social Protection Implementation Support Project** (Trust Fund US\$1 million). The Project will help accelerate and improve the quality of the Government's social sector reform package through the provision of implementation support and capacity building at the National Social Security Fund (NSSF), the Ministry of Social Affairs (MOSA), and the Ministry of Health (MOH).

*For more information on projects, please visit:  
<http://www.worldbank.org/lb>.*

**Commitments and Disbursements  
as of May 31, 2008**

Project Name	Approval Year	Loan	Amount	Closing Date
		Amount	Disbursed	
US\$ Million				
Education Development	2000	44.58	31.79	Dec. 2008
First Municipal Infrastructure	2000	80.00	70.47	June 2008
Ba'albeck Water and Wastewater	2002	43.50	20.72	Sep. 2008
Urban Transport Development	2002	65.00	38.21	June 2009
Cultural Heritage and Urban Development	2003	31.50	13.40	Dec. 2009
Municipal Infrastructure	2006	30.00	2.80	Dec. 2009
West Beka'a Emergency Water Supply	2007	15.00	0.25	May 2010
Emergency Power Sector Reform Capacity Reinforcement	2007	5.00	1.46	June 2009
Reform Implementation Development Policy Loan	2007	100.00	100.00	Jan. 2009
Emergency Social Protection Implementation Support	2007	1.00	0.37	Apr. 2009
<b>Total</b>		<b>415.58</b>	<b>279.47</b>	

## ■ IBRD Ongoing Grants

### *Institutional Development Fund (IDF) Grants*

**National HIV/AIDS Monitoring and Evaluation** (US\$350,000). This Program aims to support the development of an integrated national monitoring and evaluation (epidemiologic and programmatic) system to enhance the capacity to plan, manage and implement HIV/AIDS prevention, care and treatment, and mitigation programs throughout the Lebanese territory.

**Supporting the Judiciary System in the Enforcement of Environmental Legislation** (US\$327,000). This Program aims to strengthen the capacity of the Ministry of Justice and the Ministry of Environment in judicial enforcement in environmental affairs and is implemented by UNDP.

**Developing Capacity Building Tools for Sustainable Governance** (US\$338,000). The objective of the Project is to build the capacity of the Institute of Finance in developing and providing a sustainable source of high quality, specialized training in public financial management (PFM), project management and leadership building through the development of new curricula and case studies, and by delivering high quality training and capacity building.

### *Post Conflict Fund (PCF) Grants*

**Mechanism for National Reconstruction** (US\$1.25 million). The Grant supports the establishment by the Government of Lebanon of a system to manage and monitor the reconstruction funding in an effective and transparent manner, promoting international standards and good practice.

**Rapid Social and Livelihoods Assessment** (US\$99,000). The objective of the Grant is to feed into the strategic planning processes related to post-hostilities reconstruction. As such, it is expected to identify social policies and interventions to help those affected by the hostilities and vulnerable segments of Lebanese society. The Grant aims to fill a serious information gap on livelihoods and social conditions.

## ■ IFC Projects in Lebanon

### Overview

IFC's total committed portfolio in Lebanon is currently nearly US\$240 million in eight companies. The portfolio is predominantly comprised of financial market projects. IFC re-engaged in Lebanon's financial sector after an approximate seven year hiatus in new-lending to assist in the World Bank Group's reconstruction efforts in the country following the June 2006 conflict. IFC pledged a total of up to US\$275 million in reconstruction and technical assistance at the Paris III donor conference, primarily to support the financial sector.

### IFC Strategy in Lebanon

IFC's focus since re-engaging in Lebanon has been on reconstruction and Paris III reform implementation support. In Fiscal Year 2008, emphasis has moved towards providing technical assistance focusing on long-term reforms, removal of obstacles for growth of MSMEs, and to encouraging public/private partnerships and privatizations. IFC is targeting investments in the financial sector (particularly trade and MSMEs), and in the retail and manufacturing sectors, especially companies seeking regional growth.

### Recent Investments

The following recent investments have taken place:

- Global Trade Finance Program – three existing lines were doubled in size, making a total of US\$100m available.
- Lebanon Rebuild Program-- US\$90 million in credit lines and US\$70 million in Risk Sharing Facilities (RSF) were signed as part of the US\$160 million Lebanon Rebuild Program. This effort was supported by US\$15 million in funds provided by the World Bank through the Lebanon Trust Fund, which went toward Technical Assistance (TA) and support of the Risk Sharing Facilities.
- ADMIC-- a US\$20 million investment (US\$13.5 million in loans, US\$6.5 million in equity) was made in ADMIC, Lebanon's largest retail group.

## Advisory Services

IFC has provided advisory services in several areas to assist in the recovery from the 2006 hostilities, implementation of administrative reforms, and addressing weaknesses in the Lebanese economy that reduce access to finance for the private sector.

- PPP Support to the Energy Sector: In June 2007 IFC signed an agreement with the Government of Lebanon to assist in the sale of an existing power plant and the development of an additional 450mw of capacity in the power sector, to be provided by the private sector. The technical options report laying out the proposed structure of the two transactions is in the final stages and will be submitted to the Government shortly.
- Business Enabling Environment: In September 2007, the Government of Lebanon signed an agreement with Libanpost to implement Phase I of the IFC/Ministry of Economy and Trade program to assist in the reform and streamlining of the business registration process. This reform program has been underway for over one year, and the signing in September 2007 was to address one of the issues in which Lebanon performed most poorly in the Doing Business Survey.
- SME Access to Finance Support: IFC is supporting access to finance to SME's through technical assistance to banks to improve their SME units, and is also working with Kafalat, the Lebanon SME guarantee agency to help them with improving and expanding their business practices – allowing them to serve their customers better and faster.
- Administrative Reforms: IFC completed an administrative reform project to reform the business startup process, and the Government of Lebanon signed into place the first phase of the recommended reforms.
- Corporate Governance: IFC is in the final stages of rolling out a program to support better corporate governance, including the launch of an institute of directors and support to a number of companies to improve their corporate governance.
- Credit Bureau Program: IFC is in the final stages of developing a program with the Association of banks and Central Banks to establish a private credit bureau in Lebanon, thereby improving access to finance for retail and SME customers.

## Future Projects and Advisory Services

In Fiscal Year 2008, IFC has made two additional RSFs (US\$45 million) as part of the Lebanon Rebuild Project, and has completed appraisal of two new projects – one in the microfinance sector and one in the construction sector. Other future activities include:

- Possible investments with additional companies in the manufacturing and retail sectors, and to support a student loan program.
- Phase II of a program to assist the development of Kafalat, the SME guarantee agency will begin in June 2008.
- A project to examine the potential for a private credit bureau is expected to begin in June 2008.

### ■ MIGA in Lebanon

Lebanon has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1994. Over the past decade, MIGA has received more than 20 preliminary applications from investors in Austria, Canada, France, Luxembourg, Saudi Arabia and Spain for investments in Lebanon in the finance, infrastructure, telecommunications and tourism sectors.

In addition, the Lebanese investor community has become increasingly interested in MIGA's ability to provide non-commercial risk coverage for their investments in other developing countries. In fiscal year 2002, MIGA issued US\$8.1 million in guarantees to Investcom, a Lebanese-owned company, for a telecommunications project in Benin involving the installation of a new GSM mobile telephone network. Lebanon is one of the lowest teledensity countries in the world. In fiscal year 2003, MIGA issued US\$56 million in Guarantees to Investcom's investment in Spacetel, Syria's second mobile telephone network. Also, Lebanese investors

have submitted preliminary applications in the finance, infrastructure and manufacturing sectors for investments in Cote d'Ivoire, Ghana, Sierra Leone, Gambia, Guinea and Syria. Eligible investors include those from MIGA-member countries investing in Lebanon, Lebanese nationals repatriating funds for investments in Lebanon, as well as Lebanese investors investing in developing countries, including the Middle East region.

The Investment Development Authority of Lebanon (IDAL), Lebanon's Investment Promotion Agency, has submitted to MIGA a Needs Assessment request. MIGA performed the Needs Assessment in March 2006. The Needs Assessment will benchmark IDAL's investment promotion capacity relative to international best practices and recommend steps to improve IDAL's ability to attract FDI into Lebanon.

MIGA's online investment promotion services ([www.fdxchange.com](http://www.fdxchange.com) and [www.ipanet.net](http://www.ipanet.net)) feature 130 documents on investment opportunities and the related legal and regulatory environments in Lebanon.

## RECENT WORLD BANK PUBLICATIONS

**World Development Indicators 2008** (ISBN: 0-8213-7386-2 ISBN-13: 978-0-8213-7386-6 SKU: 17386). Looking for accurate, up-to-date data on development issues? World Development Indicators is the World Bank's premier annual compilation of data about development. This indispensable statistical reference allows you to consult over 900 indicators for some 150 economies and 14 country groups in more than 80 tables. It provides a current overview of the most recent data available, as well as important regional data and income group analysis in six thematic sections: World View, People, Environment, Economy, States and Markets, and Global Links. The CD-ROM editions contain 46 years of time series data, covering 1960 to 2006, and offer mapping, charting, and data export formats.

**Global Monitoring Report 2008: MDGs and the Environment: Agenda for Inclusive and Sustainable Development** (ISBN: 0-8213-7384-6 ISBN-13: 978-0-8213-7384-2 SKU: 17384). *Global Monitoring Report 2008*, the fifth in an annual series, is essential reading for those who wish to follow the global development agenda and debate in 2008. The year marks the midpoint toward the 2015 deadline for achieving the Millennium Development Goals (MDGs). It is also an important year to work toward a consensus on how the world is going to respond to the challenge of climate change, building on the foundation laid at the Bali climate change conference in December 2007. The report spans this agenda. It provides a comprehensive assessment of progress toward the MDGs and related policies and actions. It addresses the challenge of climate change and environmental sustainability and assesses its implications for development.

The report's assessment of MDGs at midpoint presents a mixed picture, one of both significant progress and formidable challenges. The first MDG, reducing extreme poverty by half, is likely to be met at the global level, thanks to a remarkable surge in global economic growth over the past decade. But, on current trends, the human development MDGs are unlikely to be met. Prospects are gravest for the goals of reducing child and maternal mortality, but shortfalls are also likely in primary school completion, nutrition, and sanitation MDGs. The potential effects of climate change compound the challenge of achieving the development goals and sustaining progress.

The report's messages are clear: urgent action is needed to help the world get back on track to achieve the MDGs; and urgent action is also needed to combat climate change that threatens the well-being of all countries, but particularly of poor countries and poor people. The goals of development and environmental sustainability are closely related, and the paths to those goals have important synergies.

**Migration and Remittances Factbook 2008** (ISBN: 0-8213-7413-3 ISBN-13: 978-0-8213-7413-9 SKU: 17413). The *Migration and Remittances Factbook 2008* attempts to present the numbers and facts behind the stories of International migration and remittances, drawing on authoritative, publicly available data. It provides a snapshot of statistics on immigration, emigration, skilled emigration, and remittance flows for 194 countries, and 13 regional and income groups. Some interesting facts from the Factbook:

- Nearly 200 million people, or 3 percent of the world population, live outside their countries of birth. Current migration flows, relative to population, are weaker than those of the last decades of the nineteenth century.
- The volume of South-South migration is almost as large as that of South-North migration.
- International migration is dominated by voluntary migration, which is driven by economic factors. In 2005, refugees numbered only 13.5 million, or just 7 percent of international migrants. The share of refugees in the population of low-income countries was more than five times larger than the share in high-income OECD countries.
- Worldwide remittance flows are estimated to have exceeded US\$318 billion in 2007, of which developing countries received US\$240 billion. The true size, including unrecorded flows through the formal and informal channels, is believed to be significantly larger.

**Remittances and Development: Lessons from Latin America** (ISBN: 0-8213-6870-2 ISBN-13: 978-0-8213-6870-1 SKU: 16870). Workers' remittances have become a major source of financing for developing countries and are especially important in Latin America and the Caribbean (LAC), which is at the top of the ranking of remittances-receiving regions in the world. While there

has been a recent surge in analytical work on the topic, this book is motivated by the large heterogeneity in migration and remittances patterns across countries and regions, and by the fact that existing evidence for LAC is restricted to only a few countries, such as Mexico and El Salvador. Because the nature of the phenomenon varies across countries, its development impact and policy implications are also likely to differ in ways that are still largely unknown. This book helps fill the gap by exploring, in the specific context of Latin America and Caribbean countries, some of the main questions faced by policymakers when trying to respond to increasing remittances flows.

**Financing Energy Efficiency: Lessons from Brazil, China, India, and Beyond** (ISBN: 0-8213-7304-8 ISBN-13: 978-0-8213-7304-0 SKU: 17304). While energy efficiency projects could partly meet new energy demand more cheaply than new supplies, weak economic institutions in developing and transitional economies impede developing and financing energy efficiency retrofits. This book analyzes these difficulties, suggests a three-part model for projectizing and financing energy efficiency retrofits, and presents 13 case studies to illustrate the issues and principles involved.

**Institutional Pathways to Equity: Addressing Inequality Traps** (ISBN: 0-8213-7013-8 ISBN-13: 978-0-8213-7013-1 SKU: 17013). Questions of equity and inequality have moved to the center of debates on development and poverty reduction. This reflects growing awareness that even countries with high rates of growth can experience stagnating or increasing inequality, and that inequality can itself limit the poverty reducing effects of growth. Indeed, recent work indicates that, in addition to its intrinsic value, equity should be valued for its positive impacts on growth and the poverty-reducing effects of such growth.

These concerns are coupled with questions of governance. This is because institutional arrangements affect not only overall rates of growth but also the distributional effects of growth, and are themselves more or less equitable in their structure and functioning. How given institutional arrangements emerge over time, with their implications for growth and equity, remains less understood.

*Institutional Pathways to Equity: Addressing Inequality Traps* tackles the relationship between equity and development, the place of institutions in determining these relationships, and the conditions under which particular institutional arrangements can either block

or promote transitions toward more equitable forms of development. The chapters, originally commissioned as background documents for the preparation of the *World Development Report 2006*, are prepared by leading scholars from the fields of economics, political science, sociology, geography, and development studies.

The book speaks directly to current discussions on inequality, poverty and growth, and will contribute to the construction of a historically-informed political economy of development. The book specifically highlights the importance of inequality, institutional change through social mobilization, and institutional change through state policies. The authors show that, under certain conditions, state institutions can and have taken a leading role in promoting policies to redress inequitable social relations and so weaken the social foundations of inequality traps.

This book is part of a new series, *New Frontiers in Social Policy*, which examines issues and approaches to extend the boundaries of social policy beyond conventional social services toward policies and institutions that improve equality of opportunity and social justice in developing countries. Other titles in the series include *Assets, Livelihoods, and Social Policy*, and *Inclusive States: Social Policy and Structural Inequalities*.

**National Assessments of Educational Achievement Volume 1: Assessing National Achievement Levels in Education** (ISBN: 978-0-8213-7258-6, SKU: 17258). The National Assessments of Educational Achievement Series introduces readers to key concepts and issues related to assessments of student achievement levels. The first volume focuses on policy issues which should be addressed when designing and carrying out a national assessment. It features country case studies, and descriptions of major international and regional assessment programs. The remaining books in the series cover test development, sampling, data cleaning, statistics, report writing and using national assessment results to improve educational quality.

**Poverty and the Environment: Understanding Linkages at the Household Level** (ISBN: 978-0-8213-7223-4, SKU: 17223). Drawing upon recent analytical work prepared inside and outside the World Bank, this report identifies key lessons concerning the linkages between poverty and the environment. With a focus on the contribution of environmental resources to household welfare, the analysis increases our understanding of how specific reforms and interventions can have an impact on the health and livelihoods of poor people.

## MENA Publications

**The Road Not Traveled: Education Reform in the Middle East and North Africa** (ISBN: 0-8213-7062-6 ISBN-13: 978-0-8213-7062-9 SKU: 17062). *The Road Not Traveled: Education Reform in the Middle East and North Africa Region* evaluates the impact of past investment in education in the region and proposes a new approach to future education reforms. The book shows that the region has invested heavily in education, and was able to make remarkable progress. Most eligible children, boys and girls, are now enrolled at different levels of instruction. Fertility and infant mortality rates, as well as life expectancy have all improved. However, the contribution of past investments in education to economic growth, poverty reduction and income distribution were modest. Moreover, the education systems are not fully prepared to deal with the increasing role of knowledge in economic development, an emerging youth bulge and the growing financial constraints on expending education. Nor are most economies of the region prepared to absorb an increasingly educated labor force in dynamic and productive sectors. Thus, the region must travel a new road.

This new road has two pillars: the first is an approach to education reform that focuses on incentives and public accountability, beside the education process itself; the other emphasizes closing the gap between the supply of educated individuals and labor demand both internally and externally.

Despite its density and rich economic content, the book is intended to be read, discussed and utilized by a diverse and wide regional audience, including policy-makers, civil society and academia, both inside and outside the education sector.

**Breaking the Barriers to Higher Economic Growth: Better Governance and Deeper Reforms in the Middle East and North Africa** (ISBN: 978-0-8213-7415-3, SKU: 17415). *Breaking the Barriers* reflects the collected thinking of the World Bank's Office of the Chief Economist for the MENA Region on the long-term development challenges facing the region and the reform priorities and strategies for effectively meeting these challenges. It is a comprehensive reform agenda to "break the barriers" to higher economic growth, to ensure sufficient jobs can be created for the region's rapidly growing labor force. At its core, it requires the region's public sector-dominated economies to move to private sector-driven economies, from closed economies to more open economies, and from oil-dominated and

volatile economies to more stable and diversified economies. This book examines some of these reforms and the complex issues surrounding their successful implementation. In order for the countries of the MENA region to successfully implement the reforms needed for higher growth and job creation, they will also need to address the fundamental weaknesses in governance throughout the region.

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