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Page

- World Bank President Unveils New Vision with Eye on the Poor 3
- New Interim Strategy for Lebanon Delivers a Quick Financing Package 6
- First Fruits of New Strategy: US\$100 Million to the Power Sector and an additional US\$75 Million in the Pipeline 8
- Recent Economic Developments 10
- Reforming Regulations and Growth: the Investment Climate in Lebanon 14
- News, Recent and Upcoming Activities 16
- Bank Group Operations 20
- Recent World Bank Publications 24

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With special thanks to Mary Saba

WORLD BANK PRESIDENT UNVEILS NEW VISION WITH AN EYE ON THE POOR



Robert B. Zoellick has set external and internal priorities for his five-year tenure as president of the World Bank Group, unveiling a two-track strategy that focuses on fighting poverty and spurring growth in the poorest countries, while integrating the work of the institution's affiliated agencies under one umbrella.

The new President was quick to make his mark on the institution in an initiative that underscored emphasis on the poor and a determination to streamline and synergize the work programs of the World Bank Group's work institutions: International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Agency (IDA), Multilateral Investment Guarantee Agency (MIGA) and International Center for the Settlement of Investment Disputes (ICSID).

The World Bank Group's 11th President is a firm believer in the institution's ability to "put its money where its mouth is" in pursuing its mission: *A World Free of Poverty*. The first milestone early in his tenure was a record US\$3.5 billion commitment to IDA to enable the agency to provide grants and credits for the poorest countries. The IDA 15 package was more than double the US\$1.5 billion pledged by the World Bank Group to IDA 14 in 2005.

Significantly, IFC will be contributing for the first time to the IDA replenishment, deepening the connection between IFC and IDA.

Simultaneously, Mr. Zoellick won the Board of Executive Directors' approval for significant simplification and reduction in loan charges for the 79 creditworthy Low and Middle-Income Countries (MICs).

The new fee structure replaces a six-element system to determine a loan's cost, once classified as the most complicated among multilateral development institutions. This has been replaced by a small, front-end fee and a reduced interest rate spread. The price on IBRD's

main variable spread and fixed spread loan products has also been reduced by roughly one-quarter percentage point.

"The World Bank Group can be a much better partner with our middle-income country clients, and this is one of several steps we intend to take to honor that commitment," Mr. Zoellick said in one of a series of public discussions that shaped ideas raised during the World Bank-International Monetary Fund (IMF) Annual Meetings (October 20-22, 2007).

Summing up the expected impact of these two milestones as he marked his first 100 days in office, Mr. Zoellick said: "These decisions reflect both our commitment to IDA, the single largest source of donor funds for many poor countries, and to our middle-income country partners, who have asked us to better serve their needs through IBRD. They also show how we are determined to make IFC grow and to harness its expertise and resources in promoting the private sector even more effectively in IDA-eligible countries."

Mr. Zoellick, a veteran diplomat and international banker, came to the World Bank with a commitment to "inclusive and sustainable globalization." (*See Box 1*). "Globalization offers incredible opportunities," he said. "Yet exclusion, grinding poverty, and environmental damage create dangers.

Mr. Zoellick zeroed in on the most disadvantaged. "The ones that suffer most are those who have the least to start with – indigenous peoples, women in developing countries, the rural poor, Africans, and their children."

In discussing how the World Bank Group could support developing countries, Mr. Zoellick said: "It is the purpose of the World Bank Group to assist countries to help themselves by catalyzing the capital and policies through a mix of ideas and experience, development of private market opportunities, and support for good governance and anti-corruption – spurred by our financial resources."

"It is the purpose of the Bank Group to advance ideas about international projects and agreements on trade,

finance, health, poverty, education, and climate change so that they can benefit all, especially the poor seeking new opportunities,” he said.

Mr. Zoellick strongly believes that “inclusive globalization is also a matter of self-interest. Poverty breeds instability, disease and devastation of common resources and the environment.”

“We should be expanding the frontiers of thinking about policy and markets, pioneering new possibilities, not just recycling the passably proven with a modest financial advantage,” he said.

Given the scale of today’s challenge, the Bank is a small player, he said, stressing the need to work with multi-lateral partners – the United Nations and its specialized agencies, the IMF, the World Trade Organization and regional development banks. “We must show that multi-lateralism can work much more effectively—not just in conference halls and communiqués—but in villages and teeming cities, for those most in need,” he said.

In this context, Mr. Zoellick identified six “strategic themes”:

- Achieving the Millennium Development Goals in IDA countries, especially Africa, while addressing the need for growth;
- Working in post conflict countries, guided by the “Reconstruction” factor of IBRD;
- Introducing a more differentiated business model for Middle Income Countries (MIC) with a competitive menu of “development solutions”;
- Assuming a more active Bank Group role in regional and global public goods;
- Advancing development and opportunities in the Arab World: “An inclusive globalization must deliver benefits for all the people in these states,” he said; and
- Promoting the Bank Group as a “brain trust” of applied experience to help address the five other strategic themes and a continuous and rigorous focus on results.

Box 1: Biography

Robert B. Zoellick is a veteran diplomat and international banker. He began his five-year tenure as the 11th President of the World Bank Group on July 1, 2007.

Mr. Zoellick, 53, comes to the Bank from the Goldman Sachs Group where he served as Managing Director and Chairman of the Board of International Advisors from 2006-2007. In 2005-2006, Mr. Zoellick served as the Deputy Secretary of the U.S. State Department. He was the Department’s Chief Operating Officer and policy alternate for the Secretary of State. He also had policy responsibilities in a number of areas. From 2001 to January 2005, Mr. Zoellick served in the U.S. Cabinet as the 13th U.S. Trade Representative. He forged an activist approach to free trade at the global, regional and bilateral levels, while securing support for open markets with the U.S. Congress. Mr. Zoellick worked with Ministers from nearly 150 countries to launch the Doha Development Agenda in the World Trade Organization (WTO) in 2001, and then to complete the framework accord for opening markets in 2004. Mr. Zoellick was instrumental in completing the accession of China and Chinese Taipei to the WTO. He also completed or substantially advanced the accessions to the WTO of Cambodia, Saudi Arabia, Vietnam, Russia and others. From 1993 to 1997, Mr. Zoellick served as an Executive Vice President of Fannie Mae, the large housing finance corporation. His other jobs (1985-1993) included working with Secretary James Baker III at the Treasury Department; at the Department of State; and briefly as Deputy Chief of Staff at the White House.

Mr. Zoellick graduated Phi Beta Kappa from Swarthmore College in 1975. He earned a J.D. Magna Cum Laude from the Harvard Law School and an MPP from the Kennedy School of Government in 1981.

He has received a number of awards, including: the Knight Commanders Cross from Germany for his work on unification; the Alexander Hamilton and Distinguished Service Awards, the highest honors of the Departments of Treasury and State, respectively; the Department of Defense Medal for Distinguished Public Service; and a Doctorate of Humane Letters from St. Joseph’s College in Rensselaer, Indiana.

Mr. Zoellick has also served on many non-profit boards.

To be successful, the World Bank Group has to face internal challenges, including more client service, stronger ties with civil society and more effective work with others within the new “architecture of aid”, according to Mr. Zoellick.

In addition, he said, “We need to assist staff with better professional development and improve mobility within the organization. We need stronger human resources policies to support our field staff as we encourage greater decentralization. And we need greater voice and representation on our Board and diversity in our workforce.”

Mr. Zoellick has praised the recommendations of an independent panel which recently reviewed the work of the Institutional Integrity Department (INT) in the context of the World Bank Group’s governance and anticorruption strategy (*refer to Box 2*). The panel, lead by Paul Volcker, former US Federal Reserve Chairman, has produced “an excellent and most useful report,” Mr. Zoellick said. “The Volcker report makes clear the serious challenges ahead in overcoming the cancer of corruption in operations supported by the Bank, and it offers constructive recommendations. Now it will be up to all of us to move forward, as part of our on-going commitment to address this vital issue.”

The Bank President said improving governance and overcoming corruption are critical factors to ensure development resources reach the poor who need them. “Stealing from the poor is not acceptable,” he said.

The President has on a number of occasions addressed staff concerns regarding the Bank’s relevance in MICs and its presence in Iraq, among other issues. In terms of MICs, Mr. Zoellick stressed first that 70 percent of those living under US\$2 live in countries that are classified as middle-income because they borrow from IBRD. “We can’t leave those people out,” he stressed. Still, he noted, the Banks work there is increasingly service-oriented - countries are taking the capital from the Bank for the knowledge that comes with it. “I see the World Bank as one of the core multilateral institutions,” said Mr. Zoellick. “One of the great challenges of our age is how do we integrate these growing powers into the system...it would be a mistake to cut them out.”

Box 2: INT and the Volcker Report Recommendations

The Institutional Integrity Department (INT) has the difficult job of investigating fraud and corruption in operations supported by the World Bank Group. It also investigates allegations of staff misconduct and administers the Bank’s Voluntary Disclosure Program, which encourages companies to adopt healthy business practices.

In an effort to recognize and strengthen the INT’s mandate, an independent review panel was created to review this department’s work in the context of the World Bank Group’s Governance and Anticorruption (GAC) Strategy. The panel, led by Paul Volcker, former US Federal Reserve Chairman, released its report in September 2007, drawing praise from President Robert B. Zoellick.

The recommendations aim to improve INT’s effectiveness in the following areas:

- Developing a capacity within INT to disseminate operational advice, lessons learned and best practices resulting from its work;
- Ensuring that INT findings and recommendations are followed-up in a systematic and comprehensive manner, across all units of the Bank;
- Working with the Audit Committee of the Board to strengthen accountability of INT and consider other steps to assure INT’s independence and support;
- Reviewing and revising, as needed, staff rights in the conduct of investigations of alleged misconduct;
- Considering the reassignment of investigations of staff misconduct, not involving fraud or corruption, from INT to another office;
- Developing a policy to ensure that staff members are better informed of the outcomes of investigations of alleged staff misconduct; and
- Evaluating the Voluntary Disclosure Program after the first year to assess its effectiveness.

The Bank has posted the full Volcker Report on its website: <http://www.independentpanelreview.com> and is seeking external comments on these initial proposals.

NEW INTERIM STRATEGY FOR LEBANON DELIVERS A QUICK FINANCING PACKAGE

The World Bank has approved an Interim Strategy Note (ISN) to guide the institution's medium-term financial and technical assistance to Lebanon, taking into account the challenges in the aftermath of the summer 2006 hostilities. This article seeks to shed light on this important development in the World Bank's work program in Lebanon.

Background

The ISN is rooted in the four-year Country Assistance Strategy (CAS) for Lebanon, which the Bank concluded in December 2005. The ISN became necessary after two supervening events fundamentally changed the underlying economic and political context, rendering certain CAS assumptions and projections untenable: the summer 2006 conflict with Israel and the political impasse that has prevailed since December 2006. These developments had a negative impact not only on economic growth and fiscal performance during 2006, but also on the medium-term economic prospects. Consequently, the Bank revisited and reframed its assistance strategy in light of the new realities in Lebanon.

The ISN builds on the analytical and advisory activities that were carried out by the Bank in close collaboration with the Government of Lebanon and key stakeholders in Lebanon following the summer 2006 hostilities. These include the Economic and Social Impact Assessment (ESIA) that analyzed macroeconomic and sector development challenges in the aftermath of the hostilities and outlined sector reform priorities. In addition, the Bank's Trust Fund for Lebanon (TFL), which was created with a transfer of US\$70 million from the Bank's surplus in early September 2006, has helped rehabilitate damaged infrastructure and provided technical assistance for jump-starting economic activity. The TFL is also providing capacity building to advance critical components of the reform program in the areas of distinct Bank comparative advantages, such as social protection, energy, expenditure management and private sector development.

Strategy to Accommodate Uncertainty

The ISN has a relatively short lifespan of 12 to 15 months due to the uncertain political and economic

conditions. Moreover, the short-term horizon allows for a follow-up strategy in consultation with the new Government after the presidential elections. Bank management expects to submit a new ISN or a full CAS to the Board by December 2008.

The Strategy is anchored in the Government's Medium-Term Reform Program presented to the Paris III conference in January 2007. The Paris III Program builds on the Government's earlier efforts to launch a reform program. It is the most comprehensive and feasible program presented to date in Lebanon. Despite the politically charged environment, the reform drive has gathered momentum with the first steps toward its implementation already underway. The ISN outlines a transitional framework of technical and financial assistance to contribute to this early effort and its advancement. It emphasizes the medium-term public expenditure and social reform agenda, with emphasis on the energy sector, social protection and private sector-led growth. It is widely understood in Lebanon, and by the international community, that because of their service deficiencies and fiscal drain, quick and demonstrable reform actions in the energy and social protection areas are the essential first steps for: (i) launching the process of a transition to fiscal sustainability in the medium term; (ii) garnering support for the Government's growth and social reform agenda; and (iii) galvanizing donors to disburse their Paris III pledges to underpin reform implementation. Therefore, this ISN is focused on reforms which are critical priorities and constitute key elements of the initial reform phase.

Wide Support for Reform

Despite ongoing political instability, there is an existing broad consensus in Lebanon on the need for reform. This support needs to be maintained and encouraged. The initial reform steps will be advanced in the short term, both through the technical and financial assistance envisaged in the ISN, and through support from other donors. The proposed combination of first action reforms will, in turn, increase the chances for the Government's comprehensive reform program to gain momentum and be phased-in over time. The ISN stresses the importance of facilitating wide-ranging structural reforms by first

addressing the currently inefficient social protection agenda and reversing the fiscal drain and service decline in the energy sector. In the past four years, the Bank has developed deeper knowledge in these sectors and has played a leading role in the dialogue on reforms.

IFC and the Private Sector

The International Finance Corporation (IFC), the private sector arm of the World Bank, has significantly increased its activities in Lebanon in response to post-conflict needs and in support of the Bank's ISN. To underscore confidence in Lebanon's private sector, the backbone of the economy, IFC has pledged US\$250-275 million. Most of the funds are already committed to a number of investment climate, privatization and investment risk coverage and promotion activities. The program has the twin objectives of supporting the immediate needs of the private sector in recovery and assisting the Government of Lebanon with the implementation of the necessary administrative reforms to reduce the obstacles to private sector entry and operation and bring Lebanon closer to regional and international best practices. To complement the Bank's early energy sector reforms, advisory services to the Government on an Independent Power Producer (IPP) have been agreed.

Government Monitoring and Evaluation Process on Track

The Government of Lebanon has instituted a monitoring, evaluation and coordination system to facilitate implementation of the reform program. This will help in evaluating Lebanon's readiness for a return to a standard assistance framework. The coordination of cross-cutting reforms is undertaken through three specialized Inter-Ministerial Committees addressing economic, social and infrastructure and privatization pillars of the program. The structure is aimed at strengthening the ownership and sustainability of the reform program and is already showing encouraging improvements in this respect. The Bank's current and proposed lending and non-lending services provide an additional monitoring instrument. The ISN proposes Development Policy Loans (DPLs) that lay out a sequence of reforms consistent with the Government's program. While it is recognized that, in the limited timeframe of the ISN, progress may not be achieved in all dimensions of the economic reform program, monitoring and evaluation of the progress under DPLs, as well as through the Government's own monitoring system, will help measure what is working and what is not. This information will help the Government

adjust its reform priorities. It will also help Bank staff report back to Management on accomplishments and outcomes during the ISN period and recommend future framework for engagement.

Risks and Mitigation

While the Bank's stepped-up financial support is proposed on the back of the Government's bold program of reforms and macroeconomic policy measures presented at Paris III, the overall risks surrounding the outlook must be recognized. The outlook in Lebanon is indeed susceptible to risks which can be disaggregated into three broad sources, all closely intertwined and discussed in depth in the ISN. They include: (i) political (domestic and regional) and related security risks; (ii) macroeconomic and financial risks; and (iii) risks of a stalled reform program.

Some of the above risks could be partially mitigated by: (i) focusing the Bank's financial assistance during this upcoming period of uncertainty on the most rewarding fiscal and social components of the Government's program; (ii) emphasizing timely implementation of macroeconomic stabilization measures and irreversible reform actions; and (iii) intensifying the Bank's effort to build future capacity for reforms through analytical and advisory activities. An early engagement by the Bank in the development and implementation of a social protection strategy could help enhance consensus around the reform program and provide an additional mitigation instrument. In addition, the Bank will play an important catalytic role in assisting the implementation of the program. Finally, it is hoped that Lebanon's thriving banking sector would voluntarily participate in efforts to stabilize the Government's debt dynamics and provide its own important burden sharing and risk mitigating contribution.

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FIRST FRUITS OF NEW STRATEGY: US\$100 MILLION TO THE POWER SECTOR AND US\$75 MILLION IN THE PIPELINE

On a visit to Lebanon in September 2007, the World Bank's Vice President for the Middle East and North Africa Region Daniela Gressani signed the first Reform Implementation Development Policy Loan (RIDPL) of US\$100 million. The Loan is dedicated to reforming the energy sector, as detailed in the previous issue of the Update. Another US\$75 million is in the pipeline for Emergency Social Protection Implementation Support (ESPIS).

What is a Development Policy Loan?

Development policy-based lending is part of the funds committed at the International Conference for the support of Lebanon, or Paris III. At the time, the World Bank committed US\$700 million in financing to support the Government's reform program. The RIDPL, which aims to accelerate medium-term reforms in public expenditure and the social and energy sectors, comes at difficult political, economic and financial times. But, its framework is seen by both the Bank and the Government as an appropriate instrument to address policy and institution-building challenges identified in the Paris III Reform Program. The RIDPL gives the Government of Lebanon access to the Bank's technical expertise while leading the reform agenda. The RIDPLs would be single-tranche operations anchored in medium-term stabilization and sector strategies. This encourages quick implementation of key initial reforms, while providing both sides with flexibility to adjust to changing circumstances with respect to the next phase. A programmatic series of RIDPLs could be considered under the framework of a new Interim Strategy Note (ISN) or Country Assistance Strategy (CAS). In addition, the RIDPLs are sequenced so as to limit exposure in case of any unforeseen political or economic changes.

Energy and Reform

The first RIDPL focuses on initial steps in energy reform and select areas of the Paris III agenda that are part of the broader fiscal adjustment program. The energy sector has for years been marred by weak management and administration, and a highly inefficient power infrastructure. This has resulted in unreliable electricity supply, low consumer confidence in the utility, inadequate cost recovery and considerable dependence on budgetary subsidies,



Gressani, MENA VP, at the DPL signing ceremony

amounting to 20 percent of Government revenues and about 3.3 percent of GDP in 2006. A fiscal impact analysis of the Government's energy reform program, presented and supported under the first RIDPL, indicates that reforms will have substantial savings over time, halving subsidies to the sector by 2010. Against this background, the first RIDPL outlines a macro-fiscal consolidation path consistent with the Government's reform program and the path presented in this ISN. It discusses in more detail the steps needed to contain the 2007 fiscal deficit and initiate the important structural reforms articulated in the Paris III Program. The Government's expected actions towards future reduction of the fiscal deficit and public debt ratios in the coming months would include the initiation of the privatization program and energy reforms, and active preparation/implementation of the expenditure and tax policy reforms which are expected to be phased-in as of 2008. Donors are also encouraged to disburse their Paris III pledges in a timely fashion. In addition, the social insurance reform agenda is expected to gradually eliminate the Government's implicit liabilities and generate fiscal space by reducing reliance on budgetary transfers over the medium to long term. The first RIDPL is based on the Government's commitment to the Paris III agenda as demonstrated by satisfactory performance through much of the year.

Social Reform

The second RIDPL for Emergency Social Protection Implementation Support (ESPIS) focuses on the implementation of select areas of the Government's social reform agenda. The objective of the ESPIS is to accelerate and improve the quality of the implementation of the package of social sector reforms presented by Lebanon at the Paris III donor conference in the areas of social insurance, safety net, and health expenditures. This will be achieved through the provision of implementation support and capacity building for the National Social Security Fund (NSSF), Ministry of Social Affairs (MOSA), and Ministry of Public Health (MOPH). Over the medium term, the set of reforms supported by this project will be expanded in order to ensure the transition to a social protection system which provides adequate income protection and security to all population groups, while ensuring financial sustainability and equity, and minimizing economic distortions.

The project will: (i) improve the control of expenditures and revenues within the NSSF, as well as the quality of services, by setting up an electronic claims processing and a utilization control system and a registration and contributions collection system; (ii) ensure financial sustainability of the NSSF by identifying the needed set of reform measures to control expenditures and optimize revenues; (iii) improve the poverty focus of existing or new safety net programs in MOSA by developing and piloting a new targeting mechanism; and (iv) control health expenditures by the MOPH through establishing a utilization review function, developing of hospital admission criteria and protocols, implementing hard ceilings on contracts with private hospitals and realigning MOPH coverage towards more cost-effective health services and hospital facilities. These activities will be achieved through the provision of implementation support to the NSSF.

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RECENT ECONOMIC DEVELOPMENTS

The unsettled political and security context that has prevailed since last summer's conflict with Israel has prevented the economy from recovering. Real GDP is expected to grow by only 1 percent during 2007. The coincident indicator of Banque du Liban (BdL) declined by 3.8 percent on average between the First Half of 2007 (H1-07) and the same period in 2006. Key macro-economic indicators, such as the primary balance (-1.3 percent of GDP in 2006) and the debt ratio (178 percent of GDP in 2006), have not improved. The pressure to spend has been strong, and nominal public expenditures increased by 11 percent during the first nine months of 2007 (year on year basis). Fortunately, their impact was moderated by buoyant domestic revenue collection during the same period (21.4 percent increase). However, debt dynamics continued to be worrisome, because of high fiscal deficits and slow-disbursing external support. On a positive note, inflation was moderate with the Consumer Price Index (CPI) rising by about 3.7 percent (year on year basis), while the financial system remained resilient.

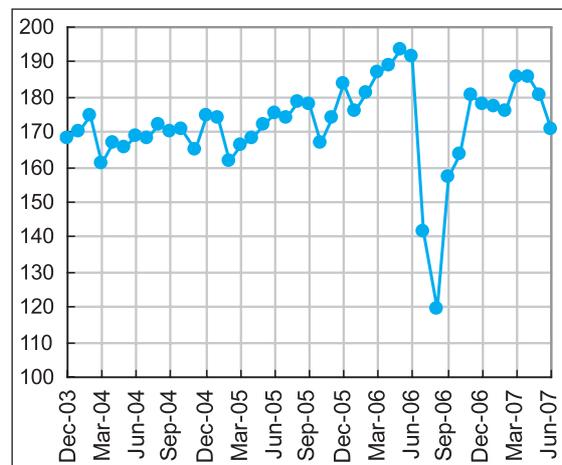
Poor economic conditions have added urgency to the Government's reform efforts. The ongoing reform program aims to balance fiscal measures needed for stabilization with structural measures needed for higher growth. Despite the current politically charged environment, the reform momentum has been maintained with initial steps focusing on power, social sector and public financial management reforms. Overall implementation of the program has been supported by a monitoring, evaluation and coordination mechanism. In parallel, discussions are underway with Paris III donors to finalize the terms of the financial assistance pledges totaling US\$7.6 billion. To date, the finalization has been completed for only US\$3.4 billion of the pledges, which comprise about US\$1.3 billion budget support, US\$1.1 billion project lending, US\$0.7 billion private sector support and US\$0.3 billion technical or in-kind assistance. However, further significant progress in the implementation of reforms and the acceleration of disbursement of donor funds requires a durable political settlement that has not yet materialized.

Real Sector Developments

Indirect economic indicators point to a mixed performance in economic activity during the first nine

months of 2007 compared to the same period a year ago. The Coincident Indicator of the BdL showed signs of moderate recovery during the First Quarter of 2007 (Q1-07), but then retreated so that by June 2007 it had declined by 3.8 percent against a 9.9 percent increase in the same period of 2006. Total spending, as measured by the volume of cleared checks, declined by 4 percent in real terms in the First Half of 2007, compared to an increase of 10 percent in 2006. As such, cleared checks have increased by 53 percent in real terms during the Q3-07. For the first nine months, cleared checks rose by 11.2 percent in real terms. Tourism suffered a setback in the first half of 2007, with a 14.3 percent decline in the number of passengers arriving at Beirut Airport. However, over eight months, arrivals rose by 13.6 percent. Public spending was the most dynamic component of domestic absorption: primary public expenditures increased by 27 percent in the first nine months of 2007 compared to the same period in 2006. A portion of this increase is, however accounted for by post-hostilities reconstruction and recovery spending that was financed by external grants. CPI inflation so far has been moderate in 2007, estimated at 3.7 percent, also reflecting the slow pace of economic activity.

Figure 1. BdL Coincident Indicator



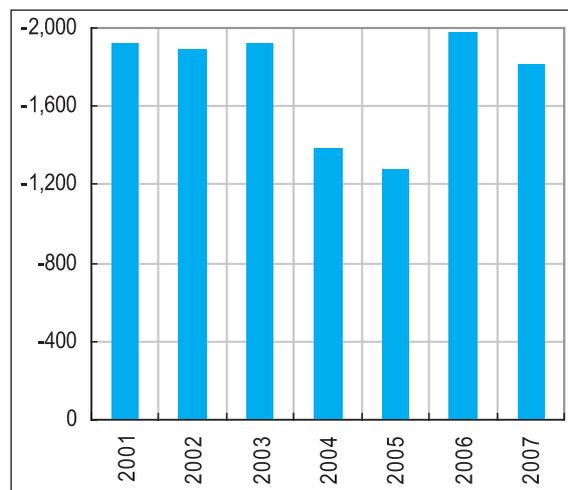
Source: Central Bank of Lebanon (BdL).

¹ Primary public expenditures historically accounted for 15 percent of domestic absorption. Public expenditures during the first nine months of 2007 include US\$605 million reconstruction and recovery spending from the July 2006 hostilities, which are financed by foreign grants.

A nearly four-month conflict in the Nahr el-Bared refugee camp led to enormous loss of life, property and economic activity. The conflict in Nahr el-Bared broke out on May 20, 2007, and lasted for 105 days, killing at least 430 people and wounding hundreds of others, many of whom were disabled. The region directly hit by the conflict included the camp (31,000 inhabitants) and the surrounding six municipalities (20,000 inhabitants). Preliminary estimates show total asset losses of about US\$160 million. Many small enterprises were totally or partially destroyed. The health and education infrastructure was severely damaged, with three hospitals and four clinics requiring either reconstruction or extensive repair, and over 15 schools, mainly kindergarten, destroyed or damaged. The destruction of public buildings (community centers, etc.) represented the second largest loss after the housing sector. Other infrastructure services, like water supply, electricity and telecommunications were less affected.

The first nine months of 2007 saw a rise in both expenditures and revenues. The fiscal deficit reached US\$1.8 billion compared to US\$1.98 billion in the same period of 2006 (see Figure 2). The primary surplus increased to US\$574 million compared to US\$127 million in cumulative terms as of September 2006. Total expenditures, excluding recovery and reconstruction expenditures (US\$605 million or 8.9 percent of the total), increased by 11 percent reflecting a combination of a 13.9 percent rise in debt service and a 9.2 percent increase in non-debt expenditures. The increase in debt service reflected rising debt stock (by 1.3 percent between September 2006 and September 2007) and rising average interest rates on debt instruments. The increase in primary expenditures, on the other hand, underlined the significant increase in transfers to the Electricite du Liban (EdL), which jumped from US\$598 million in cumulative terms in September 2006 to US\$756 million in September 2007. On a positive note, cumulative revenues - excluding foreign grants for reconstruction and recovery (US\$605 million) - increased by 21.4 percent as of end September 2007, largely due to rising receipts from telecommunications operations, customs and Value Added Tax (VAT). Petroleum tax receipts have also risen sharply, but are likely to be less buoyant in the Last Quarter of the year given the increase in

Figure 2. Cumulative Public Deficit in Millions of US\$ – First Nine Months of the Year



Source: Ministry of Finance and World Bank staff calculations.

international oil prices and preservation of the implicit cap on oil prices.²

Debt dynamics continue to be a source of concern. Gross public debt reached US\$41.4 billion by end-May 2007, increasing by 2.5 percent over end-2006, when the debt was already at 178 percent of GDP. The stock of debt was reduced to US\$39.8 billion in June 2007 through the retirement of about US\$2 billion equivalent public debt, using the surplus on the gold valuation account of BdL. Since then, the stock of debt increased to reach US\$40.6 billion in September 2007. Most of the debt increase occurred in BdL's portfolio, with the increased reliance on the Central Bank to finance fiscal deficit in the Third Quarter of the year. Hence, despite the debt write off in June 2007,³ BdL's holdings of public debt stood at 19.9 percent of the total debt in September 2007 compared to 19.6 percent at end-2006. The average maturity of domestic debt declined to 1.47 years in H1-07 from 1.61 years in December 2006, and the average weighted interest rate increased to 8.67 percent in September 2007, from 8.59 percent in December 2006. On the other hand, both interest rates and maturities on foreign currency debt increased during the same period. This reflected the re-issuance of maturing US\$1 billion Eurobonds⁴ in

² The Government introduced an implicit cap on domestic oil prices three years ago by compensating for the rise in international oil prices through a decline in excises on oil products. With the decline in international oil prices by 3.8 percent in the First Half of 2007 (year-on-year), excise revenues increased automatically. Elimination of the cap in a way to allow excise revenues to return to their pre-cap levels in 2007 is one of the monitorable triggers under the IMF's current EPCA program.

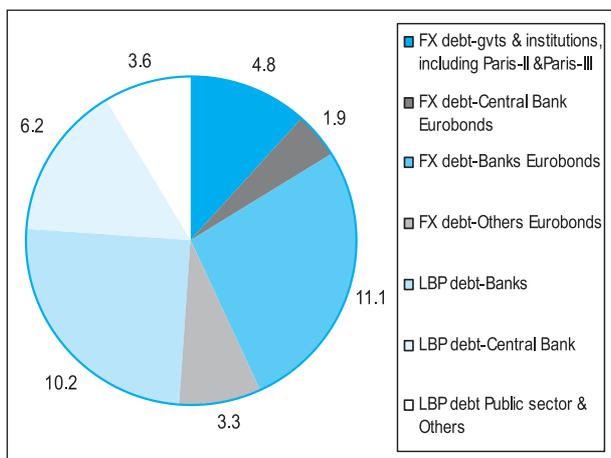
³ In June, the Central Bank retired US\$2 billion worth of public debt from its portfolio using the surplus on the gold valuation account.

⁴ The US\$1 billion Eurobonds had a maturity of two years and an interest rate of 6.5 percent. The re-issuance is composed of two parts: a US\$569 million with a maturity of one year and a 6.375 percent interest rate; the remainder, US\$431 million, with a maturity of 14 years and an 8.25 percent interest rate.

February 2007 at higher maturities (seven years) and higher interest rates (7.18 percent). Some relief was provided by the disbursement of a US\$300 million soft loan from the United Arab Emirates (at 2.5 percent) and the restructuring 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 date, only about half of the total US\$7.6 billion pledged has been allocated (US\$3.4 billion), of which only a fraction has been disbursed (see Figure 3).

Figure 3. Public Debt in Billions of US\$ – September 2006



Source: Ministry of Finance and World Bank staff calculations.

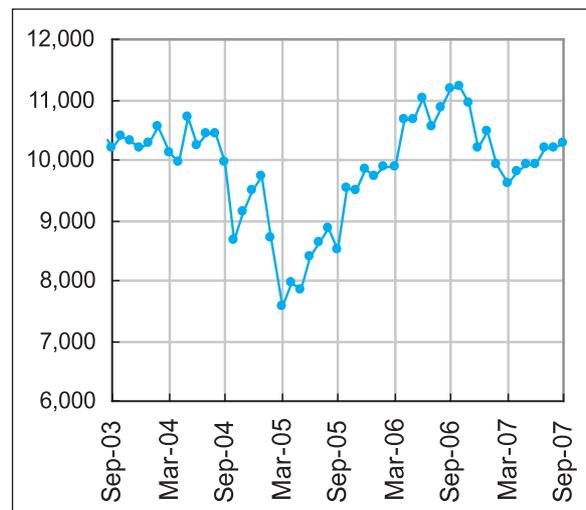
External Accounts

External transactions reflect the slow recovery in economic activity, the unstable political/security environment and the base effect of the July 2006 conflict. Imports of goods increased by 15 percent in Q1-07 and then only by 2 percent in Q2-07. In the

⁵ The Association of Banks in Lebanon (ABL) publishes a monthly estimation of the average maturity and interest rate of Lebanon’s public debt. The average maturity of foreign currency debt reached 6.4 years in December 2006, and then increased slightly to 6.43 years in May 2007. Since June 2007, the ABL is performing a new calculation of the average maturity taking into account “that Eurobonds issued in the context of the Paris-II Conference are redeemable in 20 semiannual payments starting from year six after the issue date (i.e starting 2008)” —source: ABL, Lebanese Treasury Securities, June 2007. According to this new calculation, the average maturity of Eurobonds is 5.31 years, a figure that cannot be compared with the earlier data.

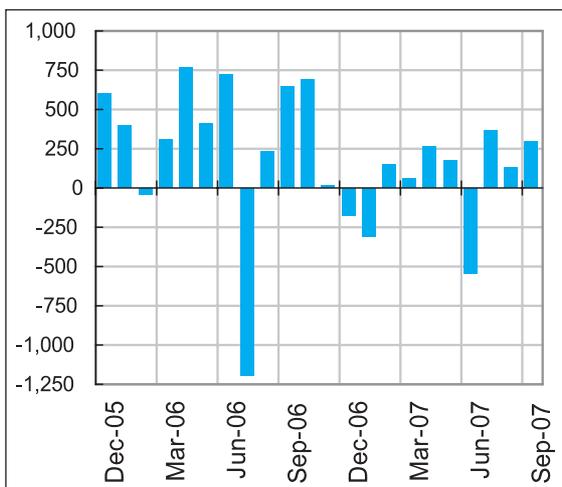
Third Quarter, based on data available for July and August, imports increased by 140 percent compared to the same period in 2006. This is due to the base effect of the July conflict in 2006 when trade was virtually interrupted. Overall increase in imports reached 28 percent over eight months. Similarly, exports of goods increased by 20 percent in Q1-07 but then declined by 12 percent in Q2-07 due to a major reduction in the export of precious metals. In the months of July and August, exports increased by 131 percent. Over eight months, the overall increase in exports reached 17.3 percent. The trade-in-goods deficit for the first eight months of the year rose to US\$5.81 billion compared to US\$4.43 billion in the same period of 2006. Exports of services followed the same pattern as exports of goods: the arrival of passengers at Beirut Airport declined by 14.3 percent of in H1-07 over the same period in 2006 then doubled in July and August compared to the same period in 2006. Over the eight-month period, passenger arrivals increased by 13.6 percent. More broadly, net foreign assets increased by only US\$580 million in the first nine months of 2007 compared to an increase of US\$2.25 billion over the first nine months of 2006 (see Figure 4). This suggests that net exports of services, remittances, transfers and capital inflows remained stable at US\$7.2 billion in cumulative terms between September 2006 and September 2007 despite the interruption of services and transfer flows during the 2006 conflict. BdL’s gross foreign reserves slightly increased to US\$10.3 billion in September 2007 from US\$10.2 billion in December 2006 (see Figure 5).

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



Source: Central Bank of Lebanon (BdL)

Figure 5. Gross Reserves of BdL (US\$ Billion)



Source: Central Bank of Lebanon (BdL)

Financial Sector Developments

The financial sector showed resilience to political/economic uncertainties. Broad money supply (M3)⁶ increased by 9.5 percent as of end-September 2007 over end-December 2006, compared to a 3.1 percent increase registered during the same period last year. The most dynamic component of Money Supply was resident deposits, with those in foreign currency increasing by 10.6 percent and those in domestic currency increasing by 6.6 percent. Lending to the private sector increased, reflecting refinancing schemes to help clients who suffered from the summer-2006 hostilities.

Domestic and foreign currency interest rate movements diverged. The average interest rate on US Dollar deposits increased by 20 basis points between end-2006 and September 2007, while that on Lebanese Pound-denominated deposits declined by 35 basis points. This reflected, in part, increased BdL financing to the Government by US\$2.2 billion between end-2006 and September 2007. This exceeds the financing requirement for the fiscal deficit with part of the Central Bank financing helping in rolling over maturing TBs from other debt holders. This policy helped keep interest rates on the Government's Lebanese Pound borrowing low.⁷ The dollarization of deposits increased to 76.5 percent in September 2007, from 76.2 percent at end-2006.

⁶ M3 equals money in circulation in Lebanese Pounds plus deposits in Lebanese Pounds, plus deposits in foreign currencies.

⁷ If the financing were to come from commercial banks, this would have increased pressure on bank's resources in Lebanese Pound, and banks would have had to increase depositors' rate in Lebanese Pound. Consequently, they would have asked for higher remuneration on Lebanese Pound-denominated Treasury Bills, which would have increased public debt service.

REGULATIONS AND GROWTH: HOW TO REFORM THE INVESTMENT CLIMATE IN LEBANON

Lebanon's investment climate reformers can simplify regulations, facilitate the property registration process, strengthen investor protections and reduce the cost and time of the export and import processes to make the country more attractive to local and foreign investors.

Of 178 world economies surveyed in the recent Doing Business Report 2008, Lebanon ranked 85th. Lebanon was placed 132nd in terms of ease of starting a business, 113th when dealing with licenses, 121st in enforcing contracts and 83rd where investor protection is concerned.

However, the ease of doing business ranking does not tell the entire story. The indicator is limited in scope, covering only business regulations. It does not account for a country's proximity to large markets, the quality of its infrastructure services, the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions. Still, a high ranking on the scale means that the government has created a regulatory environment conducive to operating a business.

Lebanon is impressively ahead of other countries in terms of paying taxes – where it ranks within the first 20th percentile in the world. Positive and negative credit data on both firms and individuals are made public. The public credit registry distributes more than two-year-old historical credit information. Data on all loans below 1 percent of income per capita also are available, and the law allows borrowers to inspect their data in the public credit registry at any time. Moreover, any type of asset may be used as collateral. During reorganization, secured creditors' claims are exempted from any automatic stay on enforcement. This means that secured creditors are able to seize their collateral when a debtor enters reorganization; there is no "automatic stay" or "asset freeze" imposed by the court. In addition, the law authorizes parties to agree on out-of-court enforcement by contract.

But the laws and bureaucratic procedures in public institutions compound the effects of complex regulations. It takes a trader 27 days to complete export formalities, and 38 days to fulfill import ones. In comparison, it takes only 13 days for both cases in the United Arab

Emirates. While in Saudi Arabia a trader needs to submit five documents to be able to import goods, seven are required in Lebanon. Time to export and import could be considerably reduced by extending hours of operation at customs, allowing pre-arrival customs clearance and reducing free demurrage time.

Business regulation reforms are needed in Lebanon. In fact, to start a business, an entrepreneur needs to pay an initial minimum capital equivalent to 60.4 percent of Gross National Income (GNI) per capita. In addition, the entrepreneur has to wait 25 days and pay 5.9 percent of property value to register a property. This could possibly be made easier if time limits were enforced at the Land Registry and Urban Planning Authority. Moreover, making registration fees fixed instead of based on a percentage of the property value, and combining them all into one fee for the entire registration process could eliminate bribes and cut total property registration fees.

When it comes to protecting investors, Lebanese shareholders are stuck between a rock and a hard place. The law restricts a shareholder plaintiff's ability to hold directors liable for self dealing or if the transaction was unfair, oppressive or prejudicial to minority shareholders. It is also not easy for shareholders to hold a Chief Executive Officer or a Board of Directors liable for damage to the company. It is even more challenging for the shareholder plaintiffs to sue directly or derivatively for damage a transaction has caused to a company. Lebanon could enhance its rank on the investor protections index by following its neighbors' trend reforming some of the requirements of its Commercial Code. First, it could change the Commercial Code to make it require directors to pay the damages to the company and repay the profit made from this type of transaction. Second, the law could also make directors liable for misusing and deviating from the tasks assigned to them after ensuring that the Commercial Code states clear directors' tasks and subject directors to duties of care and loyalty. Establishing information systems in the courts also could facilitate the commercial contracts enforcement process, which currently takes 721 days to be completed. Making it easier to sue directors, allowing shareholders to open company books for inspection and regulating approved related-party transactions are all ways of better protecting investors in Lebanon.

Reforms go beyond the fixes that improve the rankings on any world-wide accepted indicator. Indeed, equity returns are highest in countries that are reforming the most (Figure 1). With emerging markets aggressively improving their business regulations, there has hardly been a better time to invest.

The Middle East and North Africa saw 25 reforms including three negative changes—in 11 of its economies. Lebanon undertook no reforms related to facilitating business regulations (according to Doing Business database) during 2006/2007.

Figure 1. Shareholders benefit from reform



Source: Doing Business database, Morgan Stanley Capital International data

Lebanon can learn from its neighboring countries. Saudi Arabia and Egypt lead the MENA region in terms of reforming the investment climate. Egypt outpaced other reformers worldwide and in MENA in making it easier to do business in 2006-2007. Saudi Arabia eliminated the minimum capital requirement. Saudi entrepreneurs once had to set aside US\$124,464 – the fifth largest minimum capital requirement in the world. New business owners can now put that capital to work immediately—hiring staff, renting office space and marketing new products. Egypt cut the minimum capital required to start a business, from 50,000 Egyptian Pounds to just 1,000 and halved the time and cost of start-up. It reduced fees for registering property from 3 percent of the property value to a low, fixed amount. It eased the bureaucracy that builders face in getting construction permits. It launched a new one-stop shop for traders at Egyptian ports, cutting the time to import by seven days and the time to export by five. And, it

established a new private credit bureau that will soon be making it easier for borrowers to get credit.

Other notable investment climate reforms have been initiated in the MENA region. These reforms could enhance economic growth, if implemented properly, in Lebanon. For instance, Saudi Arabia eliminated the minimum capital requirement of 1,057 percent of income per capita and reduced the days needed for company start-up from 39 to 15. It also sped up trade, reducing the number of documents required for importing and cutting the time needed for handling at ports and terminals by two days for both imports and exports.

The Lebanese Government can do some quick win reforms. These are reforms that can be implemented by Ministerial signatures, surmounting the challenging political situation and paralyzed legislative institutions. A Ministerial signature can, for example, fasten the property registration process and reduce time needed to obtain a construction license.

* The interpretations and conclusions expressed in this article are those of the author and do not necessarily reflect the view of the World Bank or the governments and staff it represents.

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To order the *Doing Business 2008* report, please refer to the Recent World Bank publications section of *Update* on page 24.

NEWS, RECENT AND UPCOMING ACTIVITIES

Smooth Transition as Management Changes in MENA Take Effect



Joseph P. Saba, long-serving veteran of the World Bank's Middle East and North Africa (MENA) Department, has handed over management of the institution's work programs in Iran, Iraq, Jordan, Lebanon and Syria to new Country Director Hedi Larbi, a former Sector Manager and equally acclaimed expert on the region.

MENA Vice President Daniela Gressani said the senior management changes were effective December 1, 2007.

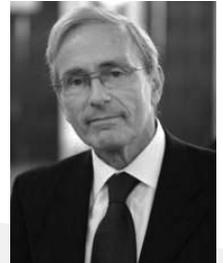
Mr. Saba was named Director, Technical Cooperation Department (MNATD) in the MENA region. Ms. Gressani identified Mr. Saba's three top priorities in his new position as: (i) increasing the quality and responsiveness to the clients' needs of fee-based advisory services; (ii) strengthening the partnership between the Bank and the six member countries of the Gulf Coordination Council; and (iii) sharing the experiences and coordinating with similar initiatives in other regions.

A U.S. national, Mr. Saba joined the Bank in 1991 as a Senior Private Sector Development Specialist in the Trade and Finance Division of the Energy, Mining and Transport Department in the ECA/MNA Region. He has since held various positions, his most recent assignment being Country Director for Iran, Iraq, Jordan, Lebanon, and Syria.

Mr. Saba's successor as Director for Iran, Iraq, Jordan, Lebanon and Syria will be based in Beirut, a relocation of the position that highlights the Bank-wide decentralization process.

A Tunisian national, Mr. Larbi joined the Bank in 1993 as a Transport Planner in the infrastructure division of the West Central Africa Department. He has since held various positions, with his most recent assignment being Sector Manager in MENA's Sustainable Development department.

According to Ms. Gressani, Larbi's top priorities in his new assignment are to (i) develop and implement strategies and programs to help the five countries meet their development priorities, lead the Bank's dialogue and maintain strong partnerships; (ii) provide leadership to the country teams and ensure effective functioning of the country management team; and (iii) be a strong contributor to the Regional Leadership Team.



Mr. Larbi was selected to this position through the Bank-wide competitive managerial selection process.

The outgoing Director, whose tenure experienced bouts of political and social turbulence beyond the Bank's mandate and control, escorted Mr. Larbi on a familiarization trip to the region in November 2007 to ensure a smooth transition for both the staff and for the clients and stakeholders at large.

In his departure statement, Mr. Saba told the staff that he was "certain you are in good hands with Hedi and wish him the very best."

Mr. Larbi paid tribute to Mr. Saba's accomplishments. "I wanted to express my deep appreciation for your commitment, professional competence, high moral integrity, and excellence you brought to the MENA region in general and to the Mashreq countries in particular."

Mr. Larbi thanked his predecessor for "the coaching and mentoring you have been extending to me and for your consistent willingness to go well beyond what was necessary and expected during this transition period."

World Bank Concludes Youth Entrepreneurship Competition



The World Bank Group has concluded this year's Youth Entrepreneur Competition with the selection of three projects for cash awards totaling US\$1,500 each. The awards were distributed on September 18, 2007, during a ceremony hosted by the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon

The winning projects were:

- Freelance Outsourcing for Training Experience and Recruitment, authored by Edmond Ramly;
- The Lebanese Biodiesel Initiative by Sherif Maktabi; and
- P & V Eco Holidays by Anthony Beshara.

The winners were selected from a group of about 50 applicants. Additionally, 10 semifinalists were recognized for their dedication and pursuit of excellence in entrepreneurship. With additional funding from FedEx, the semifinalists were given token cash awards of between US\$110 and US\$270.

The competition, which was organized jointly by the International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank, and its sister organization, the International Finance Corporation (IFC), is a pilot project designed to enhance the ability of Lebanese youth to capitalize on individual initiatives and creativity to develop entrepreneurial skills.

In a statement to the audience, the World Bank Country Manager for Lebanon, Demba Ba, said Lebanon's youth "give a whole new meaning to entrepreneurship."

"Whether at home or in the Diaspora, Lebanese entrepreneurs, especially young entrepreneurs, have time and again displayed unwavering resilience in the face of challenges. You have displayed creativity and innovation across five continents," he said.

GOL Adopts Proxy Means Testing in Social Reform



The Government of Lebanon has decided to introduce a targeting mechanism to its aspired-for comprehensive social safety net, and has requested the World Bank's assistance in developing Proxy Means Testing (PMT) to improve the efficiency and effectiveness of Government interventions.

A World Bank mission visited Lebanon in September 2007 for dialogue with the Government and a workshop on PMT, which is widely used in developing countries to target social assistance programs, which aim to reduce poverty and improve the inclusiveness of vulnerable communities.

The introduction of PMT is stipulated in the US\$1 million World Bank Grant for the Emergency Social Protection Implementation Support Project (ESPISP). According to Component 2, the Project will support the: (i) development of a Proxy Means Testing (PMT) targeting formula; (ii) development of an operational manual for the new targeting mechanism; (iii) development of an information management system; and (iv) piloting of the targeting mechanism.

Implementation of targeting will ultimately result in a national database of poor and vulnerable households in Lebanon.

INTERVIEW: Nadir Mohammed, Director, Strategy and Operations in the Middle East and North Africa



The World Bank's Middle East and North Africa (MENA) Department has appointed Nadir Mohammed Director for Strategy and Operations.

Mr. Mohammed, a Sudanese national, joined the Bank in December 1998 as Country Economist in the Middle East and North Africa Social and Development Economics Department. He has since held various positions in different departments. His most recent assignment was Country Manager for Albania. Prior to joining the World Bank, Mr. Mohammed worked with the African and the Islamic Development Banks.

In his new post, Mr. Mohammed's three top priorities will be: (i) advise the Regional Management Team on key corporate, regional and cross-cutting issues; (ii) work closely with the other members of the Regional Management Team to strengthen the Bank's effectiveness in delivering results for our clients at the country and regional levels; and (iii) provide strategic direction and effective management to the Client Services Department to deliver high quality policy and technical support to the Region.

Update is pleased to share with its readers the text of a recent interview with Mr. Mohammed as he assumes his post:

Q: What are some of your initial impressions as you rejoin the World Bank's Middle East and North Africa Region?

A: I am very happy to be back to the MENA region. I feel like coming back home after a very fruitful and enriching assignment in ECA. I consider myself a MENA citizen. As you know, my country Sudan is a member of the Arab League, with strong cultural, political and economic links across with the MENA region. Events and developments in MENA also impact on my country. In addition, I lived, worked and studied in many countries across the region (Saudi Arabia, Egypt, Yemen, Lebanon, Tunisia, Djibouti, etc).

Q: How do you define "Development Effectiveness"?

A: As an institution, we strive to deliver the best services to our clients through project financing, knowledge

transfer and economic and sector work. Our ultimate objective, as a regional team, is to improve the quality of the World Bank's lending operations and support other departments in doing so by relying on the experience we have in financial management and procurement services, environmental and social safeguards and finally maintaining operational quality standards set by the institution.

As we move ahead, we will intensify our efforts on results and outcome monitoring of projects to ensure that any program supported by the World Bank receives the attention it merits with regards to finance-related aspects as well as to the knowledge we can share with our clients. Building country systems is one way of ensuring this support is sustainable. It is indeed a measure of the development effectiveness that we are aiming to achieve. We are also seeking more partnerships with other donors to leverage additional resources and reduce transaction costs. Achieving sustainability will rely on ensuring a degree of consistency and relevance of our collective assistance and policy advice, as a donor community, to development priorities in the region.

The combination of better quality, ensuring the fiduciary aspects of lending and that resources go to their intended purposes, harmonization with other donors, improving the consistency of our policy dialogue and advice are all ways of raising the development effectiveness of our initiatives.

Q: What are the challenges for MENA over the next couple of years?

A: The main priorities for the MENA region are *political stability* and sustainable economic development. The region has been effected by a number of conflict situations and we hope that stability will prevail in a region that is as geographically, socially and economically interconnected as MENA. The impact of what happens in one country is felt instantly in others.

It will be critical over the next few years to sustain the good momentum of *economic reforms* which is taking place in MENA countries at varying speed. Creating an environment that is conducive to foreign direct investment will reduce the persistently high *unemployment* rates prevailing across the region. On the other hand, *education reform* remains a priority for the region

to ensure that the outcomes of the education systems match the needs of the jobs created by *the private sector*. Finally, good *governance*, *gender equity* and sustainability of *water* resources also feature among the key regional priorities. We certainly expect that the World Bank Group's programs will meet some of the needs for assistance while addressing this set of regional priorities.

Q: How does the World Bank balance between the needs of low income and middle income countries across the region?

A: Countries in the region are predominantly middle income countries. The only countries in MENA that are eligible for financing from the International Development Association (IDA) are Yemen and Djibouti. In both, we hope to provide the needed support through IDA credits and grants and a range of knowledge products.

Middle-Income Countries (MICs) in MENA face similar challenges that other MICs across the world continue to address. In these countries, the World Bank's role is to find the most effective way of responding to the increasing need for financial assistance and the high demand for knowledge. In consultation with our clients and partners, we developed a menu of options that can suit the diverse needs taking advantage of the institution's global experience to enhance our product diversity, quality and flexibility while ensuring a quick response. The World Bank Group applies the same global culture and standards to MENA as it does to other regions across the world.

Q: What are the key features of the World Bank strategy in the region?

A: The World Bank strategy for the MENA region was presented to our Board of Directors earlier this year. The strategy reflects three economic transitions: the first is from public dominance to a more active private sector base; the second is from closed economies to more open economies that can play an active role in a rapidly globalizing world, and finally from an oil-dominated economic base to a more diversified and stable economy. While going through these transitions, specific challenges remain to be addressed such as governance, water, gender and high unemployment. An update of the strategy is currently underway to ensure refinements of the strategy in light of recent economic, political and social developments in the region.

Q: To what extent is the World Bank engaging with public constituencies (beyond governments) across the region?

A: The World Bank's MENA strategy is based on strong partnerships and is guided by our clients and partners. A crucial part of how we do business is engaging with civil society actors including non-governmental organizations, parliamentarians, private sector agents, donor representatives and political parties. These entities have significant knowledge and experiences that we can build on to enhance the development effectiveness of World Bank-financed projects and policy advice. This is also an important aspect in addressing the demand for good governance through existing and newly formed groups including water user associations, parents' councils in schools, fishery management organizations, other professional, vocational and private sector networks.

Consulting these groups helps the World Bank teams in designing projects and evaluating their impact. We have consulted widely with important development actors in the region while preparing Country Assistance Strategies. I believe that the more we engage with civil society organization, the more relevant we are to countries in the region.

As a global development institution, we place high emphasis on outreach activities to disseminate better our economic and sector reports and studies. There is certainly value in disseminating this analytical work beyond policy making circles to universities, think tanks and across professional networks. In the MENA region, the World Bank outreach team has launched Public Information Centers which provide access to non-governmental actors to learn more about our work and offer the opportunity to deepen our engagement on the grounds of transparency and in making development everybody's business.

BANK GROUP OPERATIONS

■ IBRD Ongoing Projects

The current IBRD portfolio in Lebanon consists of 11 active projects for a total commitment amount of US\$435.58 million, of which US\$286.81 million had been disbursed by December 31, 2007.

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\$80.0 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.

Community Development Project (CDP) (US\$20.0 million). This Project is designed to raise living standards in targeted poorer communities, and to raise economic activity levels in such communities by investing in grass-roots social and small infrastructure activities and in employment creation. The Project was approved in June 2001.

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\$65.0 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: (i) operate and maintain water and waste water facilities in the Beka'a Region, (ii) undertake rehabilitation works using the operations and the investment fund to be made available by the government, and (iii) 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 in 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, 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 December 31, 2007				
Project Name	Approval Year	Loan Amount	Amount Disbursed	Closing Date
Education Development	2000	44.58	29.96	Dec. 2007
First Municipal Infrastructure	2000	80.00	69.43	June 2008
Community Development	2001	20.00	18.47	Feb. 2008
Ba'albeck Water and Wastewater	2002	43.53	18.74	Sep. 2008
Urban Transport Development	2002	65.00	34.40	June 2009
Cultural Heritage and Urban Development	2003	31.50	12.81	Dec. 2009
First Municipal Infrastructure Project Supplemental	2006	30.00	2.09	Dec. 2009
Beka'a Emergency Water Supply and Modernization	2007	15.00	0.25	May 2010
Emergency Power Sector Reform Capacity Reinforcement	2007	5.00	0.57	June 2009
Reform Implementation Development Policy Loan	2007	100.00	100.00	Jan. 2009
Emergency Social Protection Implementation Support	2007	1.00	0.09	Apr. 2009
Total		435.58	286.81	

■ 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 the Lebanese society. The Grant aims to fill a serious information gap on livelihoods and social conditions.

■ IFC Projects in Lebanon

Since the hostilities in the summer of 2006, the International Finance Corporation (IFC) has focused its activities on supporting the recovery of the private sector, and in continuing technical assistance efforts with the Government of Lebanon to ease the administrative burden on the private sector.

At the Paris III conference, IFC pledged between US\$250-US\$275 million to support Lebanon's private sector. In March 2007, IFC became the first multinational institution to disburse to the private sector. IFC's Executive Vice President signed the first of a series of agreements with banks to provide access to finance for Small and Medium Enterprises (SME) directly or indirectly affected by the 2006 conflict. In June 2007, additional agreements were concluded with banks, including the first transaction on a Guarantee Facility to support SME's. This Guarantee Facility is supported by the World Bank through a trust fund for the facility. IFC has also financed Admic, a large retail group, and SABIS an educational company.

In addition to its traditional lending activities, IFC's Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA), a US\$100 million, donor-financed Technical Assistance facility, has focused on a number of areas relating to recovery from the hostilities and to implementing administrative reform.

Privatization: In June 2007, IFC signed an agreement with the Government of Lebanon to assist in the development of an additional 450mw of capacity in the power sector, to be provided by the private sector.

■ 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

Microfinance: IFC sponsored a roundtable program to match international experts in microfinance in conflict areas with Lebanese microfinance institutions to help them develop techniques to recover from the hostilities, and is working with the WBG's CGAP to carry out a market and administrative review of the sector.

Administrative Barriers Survey: The joint World Bank/IFC Foreign Investment Advisory Services Group has finalized a survey of administrative barriers in Lebanon to identify reforms necessary to improve Lebanon's business environment. Discussions are now underway on a program to implement the survey recommendations.

Business Enabling Environment: IFC continues its work on a Technical Assistance Agreement with the Ministry of Economy and Trade to assist in the reform and streamlining of the business registration process. This Program will take approximately one year and will tackle one of the issues in which Lebanon performed most poorly in the Doing Business Survey.

Corporate Governance: In partnership with the Association of Lebanese Bankers, IFC undertook a comprehensive review of Corporate Governance practices in the Banking Sector in Lebanon. Now, IFC is rolling out an extended Corporate Governance program that will focus on raising standards in businesses across all sectors.

Gender: As part of a wider regional program, IFC recently published a survey of barriers to women entrepreneurs in Lebanon. This survey examines current practices in Lebanon compared to other countries in the region.

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.fdiexchange.com and www.ipanet.net) feature 130 documents on investment opportunities and the related legal and regulatory environments in Lebanon.

RECENT WORLD BANK PUBLICATIONS

World Development Report 2008: Agriculture for Development (ISBN: 0-8213-6807-9, ISBN-13: 978-0-8213-6807-7 SKU: 16807). The world's demand for food is expected to double within the next 50 years, while the natural resources that sustain agriculture will become increasingly scarce, degraded and vulnerable to the effects of climate change. In many poor countries, agriculture accounts for at least 40 percent of GDP and 80 percent of employment. At the same time, about 70 percent of the world's poor live in rural areas and most depend on agriculture for their livelihoods.

World Development Report 2008 seeks to assess where, when and how agriculture can be an effective instrument for economic development, especially development that favors the poor. It examines several broad questions:

- How has agriculture changed in developing countries in the past 20 years? What are the important new challenges and opportunities for agriculture?
- Which new sources of agricultural growth can be captured cost effectively, in particular in poor countries with large agricultural sectors as in Africa?
- How can agricultural growth be made more effective for poverty reduction?
- How can governments facilitate the transition of large populations out of agriculture, without simply transferring the burden of rural poverty to urban areas?
- How can the natural resource endowment for agriculture be protected? How can agriculture's negative environmental effects be contained? This year's report marks the 30th year the World Bank has been publishing the World Development Report.

Doing Business 2008 (ISBN: 0-8213-7231-9, ISBN-13: 978-0-8213-7231-9 SKU: 17231). Regulations affecting 10 areas of everyday business are measured: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. *Doing Business 2008* updates all 10 sets of indicators, ranks countries on their overall ease of doing business and analyzes reforms to business regulation – identifying which countries are improving their business environment the most and which ones

slipped. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why. *Doing Business 2008* focuses on how complex business regulations dampen investment, growth and job creation in all businesses, and especially opportunities for women entrepreneurs.

Employment and Shared Growth: Rethinking the Role of Labor Mobility for Development (ISBN-13: 978-0-8213-7107-7). The vast majority of the poor get their income from work, and access to productive employment is often the only way out of poverty. However, the understanding of policy makers and their advisors on the mechanisms that make employment an effective transmission channel between growth and poverty reduction remains somewhat limited. This Report brings together contributions from top specialists on a selected number of priority issues in this area. Using examples from all continents, it discusses why multi-segmented labor markets offer a good starting point for analysis; what role the informal sector plays for employment; how worker mobility affects income; whether self-employment is an engine of growth; and how firm dynamics affect both growth and employment through job creation and destruction.

Minimum Wages and Social Policy: Lessons from Developing Countries (ISBN-13: 978-0-8213-7011-7 SKU: 17011). Offering evidence from both detailed individual country studies and homogenized statistics across the Latin American and Caribbean region, this book examines the impact of the minimum wage on wages, employment, poverty, income distribution and government budgets in the context of a large informal sector and predominantly unskilled workforces.

Exploring Lebanon's Growth Prospects (WPS4332). This Paper attempts to identify Lebanon's greatest constraints to economic growth, following a growth diagnosis approach. It concludes that fiscal imbalances and barriers to entry are most binding on long-term growth. Macroeconomic imbalances and related perceived risks affect the nature of investment decisions in Lebanon, in favor of liquid instruments rather than longer-term productive investments. Further, many barriers to entry discourage agents from investing in a number of markets: legal impediments to competition, corruption and a set of fiscal incentives favoring the allocation of resources

to non-tradable sectors, where potential demand and investment opportunities are scarcer. In turn, using a steady-state computable general equilibrium model, the paper assesses the long-term growth impact of a selected set of policy reforms envisaged to lift such constraints. Results suggest that 1 to 2 percentage points of additional GDP growth per year could be gained through public expenditure reform, greater domestic competition, and tax harmonization.

Moving Out of Poverty (Volume 1): Cross-Disciplinary Perspectives on Mobility (World Bank ISBN: 0-8213-6991-1, ISBN-13: 978-0-8213-6991-3 SKU: 16991). This book brings together the latest thinking about poverty dynamics from diverse analytic traditions. While covering a vast body of conceptual and empirical knowledge about economic and social mobility, it takes the reader on compelling journeys of multigenerational accounts of three villages in Kanartaka, India, twelve years in the life of a street child in Burkina Faso and much more. Leading development practitioners and scholars from the fields of anthropology, economics, political science and sociology critically examine the literature from their disciplines and contribute new frameworks and evidence from their own works.

The **Moving Out of Poverty Series** launched in 2007 is under the editorial direction of Deepa Narayan, Senior Advisor of the World Bank and former director of the pathbreaking **Voices of the Poor Series**. It features the results of new comparative research across more than 500 communities in 15 countries to understand how and why people move out of poverty, and presents other work which builds on interdisciplinary and contextually grounded understandings of growth and poverty reduction.

A Guide to the World Bank, Second Edition (ISBN: 0-8213-6694-7, ISBN-13: 978-0-8213-6694-3 SKU: 16694) The World Bank Group is a vital source of financial and technical assistance to developing countries around the world. Its focus is on helping the poorest people in the poorest countries by using its financial resources, staff and extensive experience to aid countries in reducing poverty, increasing economic growth and improving quality of life. In partnership with more than 100 developing countries, the Bank Group is striving to improve health and education, fight corruption, boost agricultural support, build roads and ports, and protect the environment. Other projects are aimed at rebuilding war-torn countries or regions, providing basic services such as access to clean water, and encouraging investments that create jobs.

In addition to this critical groundwork around the world, various parts of the World Bank Group are involved in activities ranging from conducting economic research and analysis to providing financial and advisory services to governments and private enterprises. These activities reflect the emphasis the institution places on sharing development knowledge, which is gleaned not only from decades of experience.

This completely revised and updated Second Edition provides an accessible and straightforward overview of the World Bank Group's history, organization, mission and purpose. Additionally, for those wishing to delve further into subjects of particular interest, the book guides readers to sources containing more detailed information, including annual reports, Web sites, publications and e-mail addresses for various departments. It also provides information on how to work for, or do business with, the World Bank.

A good introduction for anyone interested in understanding what the World Bank Group does and how it does it, this book shows readers who want to learn more where to begin.

International Migration, Economic Development & Policy (World Bank ISBN:0-8213-6935-0, ISBN-13: 978-0-8213-6935-7 SKU: 16935). International migration has become a central element of international relations and global integration due to its rapidly increasing economic, social and cultural impact in both source and destination countries. This book provides new evidence on the impact of migration and remittances on several development indicators, including innovative thinking about the nexus between migration and birth rates. In addition, the book identifies the effect of host country policies on migration flows, examines the determinants of return and repeat migration, and explores the degree of success of return migrants upon return to their country of origin.

More Than a Pretty Picture: Using Poverty Maps to Design Better Policies and Interventions (ISBN: 0-8213-6931-8, ISBN-13: 978-0-8213-6931-9 SKU: 16931). The allocation of resources and the design of policies tailored to local-level conditions require highly disaggregated information. Data on poverty at the local level is typically not available because most household surveys are not representative past the regional level. This Volume aims to promote the effective use of Small Area Estimation Poverty Maps in policy making. It presents the range of policies and interventions which have been informed by poverty maps, focusing on the political economy of poverty maps and the key elements to their effective use by policy

makers. The Volume also looks at the future of poverty maps in terms of new techniques and new areas of application.

Setting Standards for Communication and Governance: The Example of Infrastructure Projects (ISBN: 0-8213-7169-X, ISBN-13: 978-0-8213-7169-5 SKU: 17169). This title outlines a number of practical initiatives to strengthen the role of development communication in infrastructure projects. The authors aim to facilitate better quality projects and to build consensus on the type of governance reforms needed to fight corruption, drawing on the experience of development agencies like the World Bank and Transparency International.

It starts by characterizing corruption vulnerabilities in infrastructure and proceeds to illustrate where communication has added value on a number of recent projects, both in regard to making the projects more sustainable and by incorporating anti-corruption measures into project preparation and implementation. It draws on examples of mainly World Bank-supported projects from the road, transport, power and water sectors in different governance contexts. Five standard-setting initiatives are then outlined, which focus on promoting best practice to better integrate development communication into the project cycles of World Bank-supported infrastructure projects.

How to Build M&E Systems to Support Better Government (ISBN: 0-8213-7191-6, ISBN-13: 978-0-8213-7191-6 SKU: 17191). A growing number of governments are working to improve their performance by creating systems to measure and help them understand their performance. These systems for Monitoring and Evaluation (M&E) are used to measure the quantity, quality and targeting of the goods and services - the outputs - that the state provides and to measure the outcomes and impacts resulting from these outputs. These systems are also a vehicle to facilitate understanding of the causes of good and poor performance.

The studies of this volume start by focusing on exactly what monitoring and evaluation has to offer to governments, then focuses on the experience of several countries that have succeeded in building a well functioning government. It analyzes the lessons from building government M&E systems in developing and developed countries, and at the end maps out those issues where international experience with government M&E systems is not well understood or well documented.

Information and Communications for Development 2006: Global Trends and Policies (ISBN: 0-8213-6346-8, ISBN-13: 978-0-8213-6346-1 SKU: 16346). Informa-

tion and Communication Technology (ICT) is rapidly evolving, changing rich and poor societies alike. It has become a powerful tool for participating in the global economy and for offering new opportunities for development efforts. ICT can and should advance economic growth and reduce poverty in developing countries. It has been 20 years since the first telephone operator was privatized, a little over 10 since the World Wide Web emerged, and 5 since the telecommunications bubble burst. How have the ICT sector and its role in development evolved? What have we learned? How can we move forward?

Information and Communications for Development 2006: Global Trends and Policies contains lessons from both developed and developing countries. It examines the roles of the public and private sectors, identifying the challenges and the benefits of adopting and expanding ICT use. The report first assesses topics essential to building an information society, including investment, access, diffusion, and country policies and strategies. It then introduces the new World Bank ICT At-a-Glance tables for 144 economies, which show the most recent national data on key indicators of ICT development. The tables enable assessments and comparisons both over time and across economies, so they help gauge ICT capacity, performance, and progress.

Assessing what has worked, what hasn't, and why, this report is an invaluable guide for understanding how to capture the benefits of ICT around the world.

Performance Accountability and Combating Corruption (ISBN: 978-0-8213-6941-8). This volume provides an analytical framework and operational approaches needed for the implementation of results-based accountability. The volume makes a major contribution to the literature on public management and evaluation. Major subject areas covered in this book include: performance based accountability, e-government, legal and institutional framework to hold government to account; fighting corruption; external accountability and the role of supreme audit institutions on detecting fraud and corruption.

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