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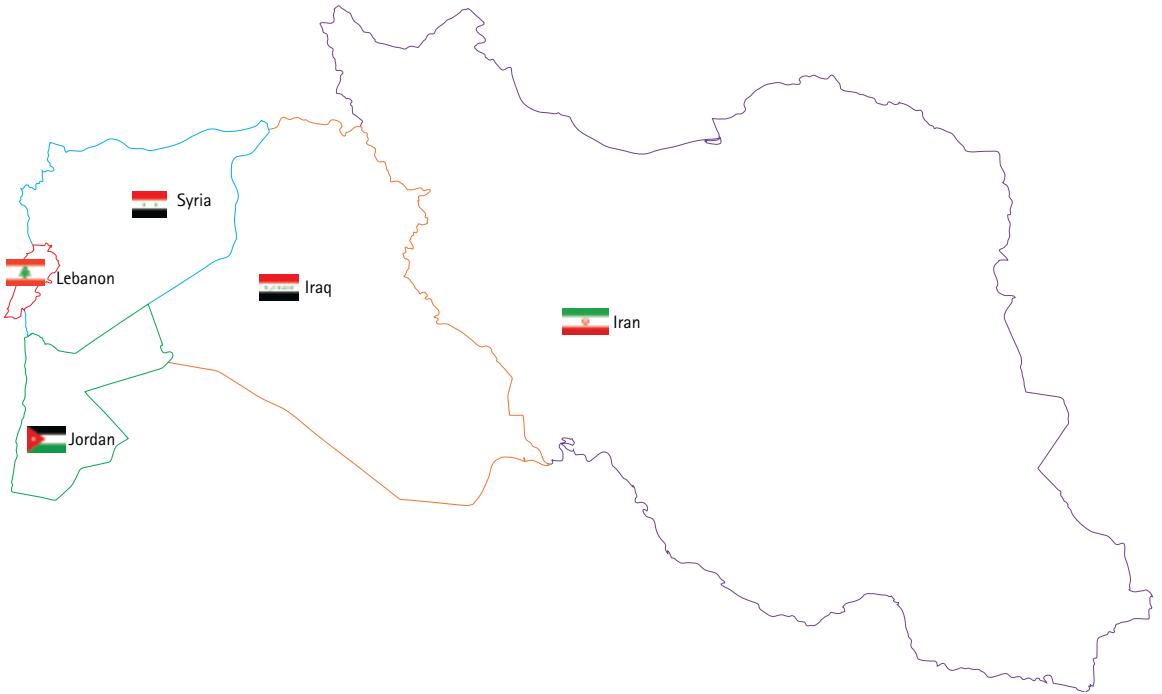
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## In this edition

# The Financial Crisis: Impact on the Middle East

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# New Look, Broader Content and More Engagement with the Audience



The Launch of this new-look Middle East publication marks another milestone in the World Bank's evolving role in global knowledge sharing not just in the Middle East, but world-wide. This newsletter seeks to reach out to the widest possible audience in our sub-region: Decision-makers, academia, private sector and the public. It aims to provide the reader with an insight into our joint work with countries, highlight social and economic development issues and promote dissemination of best international practices in economic development in a rapidly changing global environment.

Dissemination of knowledge and information and advisory services are a core business of the World Bank. They are even more critical in times of major challenges. In our sub-region, we are catering to five countries. Admittedly, Lebanon, Syria, Jordan, Iraq and Iran constitute a set of diverse economies. On one hand, there are oil producers such as Iran and Iraq, and, to a lesser extent, Syria. On the other, there are Lebanon and Jordan, which have no such natural endowment, but they have a wealth of other resources, including their human capital.

However, these countries have many geographic, demographic and cultural commonalities that can be cultivated. They also share similar development challenges: scarcity of water resources, sensitive environment and climate change, fast growing labor force and a need for creating a high number of quality jobs, necessary to maintaining social cohesion and reducing poverty as a prerequisite for political stability. Working together, we can build on the commonalities and support well-informed social and economic strategies and reform policies to cope with these challenges through high sustainable and equitable growth.

The newsletter's effort is to highlight the overarching themes. In this first issue, the editorial team solicited contributions from veteran World Bank Middle East experts to expose the immediate common challenge to the region, and the world at large: the Financial Crisis which morphed into a severe economic crisis. It was a natural choice, given that the implications are no longer the concern of only governments, but a household topic affecting citizens, some directly, some indirectly.

But while governments grapple with designing economic and financial policies to weather the storm, the world does go on and citizens still need to be adequately serviced. The financial meltdown must inspire accelerated and parallel economic and social development in our region, not slow it down. Fortunately, all the

signs point to the resolve of regional governments to reform and develop, geared largely towards the poor and the marginalized (youth, women, handicapped, ethnic minorities, etc.). The Bank is pleased and committed to supporting these efforts as noted in some of the articles in this publication.

In Lebanon, work on one of the most important social reforms is underway creation of a new defined contribution fully funded pension system to replace the ill-functioning End-of-Service Indemnity program. Irrespective of the outcome of the June 2009 parliamentary elections, there is hardly any political bloc that could argue against this nationally shared objective.

Syria, mindful of its ambitious reform agenda and the dwindling oil resources, is on a fast-track to diversify its economy and effect gradual transition towards a social market economy, with the Bank and donors offering an array of technical assistance programs to support the Government reform efforts.

Jordan is embarking on the second phase of developing its education system, after the first phase had successfully instilled knowledge economy skills into the system.

Moving to Iraq, where the portfolio is large, we have opted to present in this issue the results of an unprecedented Household Socio-Economic Survey, providing the Government with an important tool to improve the living conditions of the poor and marginalized communities.

As we move on, we will strive to improve the array of issues to provide timely and relevant knowledge to our audience, and help decision-makers develop well-informed policies. But this is possible only with the help of and feedback from our readers. We look forward to having your feedback on this "new look" newsletter including your suggestions, or development themes and topics relevant to the region that you would like us to address in the upcoming issues.

**Hedi Larbi**  
**Director**  
**Middle East Department**

# Decentralization, Outreach and Knowledge Guide the World Bank's Middle East Strategy



From Morocco to Iran, the World Bank's Middle East and North Africa (MENA) department is changing to provide better and quicker services to the clients.

One of the most important changes underway is decentralization, which shifted staff and decision-making to the country offices. The post of Regional Director for the Middle East was recently relocated from Washington to the region, when Hedi Larbi took up residence in Beirut in January 2009, to direct and oversee the work programs in Lebanon, Syria, Jordan, Iraq and Iran.

Additional competencies are being shifted to country offices to increase our presence where our clients need us most. This allows us to enhance our ability to forge more effective partnerships with clients and stakeholders, and to develop greater synergies with regional and international development partners and with donor countries. In turn, this approach allows us to provide greater support for the region's strategic priorities such as faster job creation, higher quality education, greater inclusion of youth, women and marginalized groups in the economy and society, better management of natural resources, and closer integration within the region and with the global economy.

The region comprises a very diverse set of countries. Each of them has a long and rich history and strong individual features. Although generalizations do not do justice to their rich diversity, these five countries face common challenges, which offer opportunities for cooperation and collective efforts. We need to tailor our support to their specific needs and at the same time take advantage of the common challenges to realize economies of scale in our programs.

The global financial crisis is posing new risks for the region. The sharp decline in oil prices is reducing revenues for oil-exporting countries, and also has negative impact on the flow of remittances, tourism and foreign direct investment to oil-importing countries. Overall, the contraction of international trade threatens recent gains in export diversification.

The Bank is committed to assisting the countries of the region in managing the consequences of the global crisis and at the same time addressing the underlying weaknesses of their economies – most notably in the environment for private sector development. In addition to financial instruments, we will continue to rely on knowledge and learning as the driving force for development. A key component of this work is communication. The quarterly

regional publication we are now launching is one of these tools. Our websites will also be revamped, and our Public Information Centers modernized to support the expanding outreach to public and private institutions, civil society, and academics. It is our belief that the public at large, when well-informed, can help realize the needed change.

In conclusion, I would like to invite the audience of this newsletter to share their thoughts and opinions with our editorial team, so we can improve our services to help our clients achieve their aspirations for less poverty, more and better jobs, and more sustainable economic and social development.

**Daniela Gressani**  
**Vice President**  
**Middle East and North Africa**

# The Financial Crisis: Impact on the Middle East

- by Auguste Tano Kouame\*

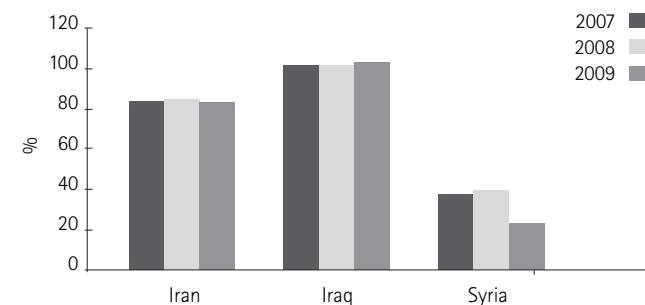


## Overview:

The five countries in the Middle East discussed in this article have diverse economic structures<sup>2</sup>. Two main characteristics set them apart. On the one hand, there are the oil exporters: Iraq and Iran and, to a certain extent Syria. Oil represents 80% or more of the exports of Iran and Iraq, and about 40% of Syria's exports in 2008 (Figure 1). On the other hand, there are the diversified, non-oil exporting economies: Jordan and Lebanon. This delineation is useful in understanding the initial conditions with which Middle East 5 countries (henceforth ME-5 countries) entered the global financial crisis as well as how they are likely to be impacted.

### Financial Systems

Figure 1. Oil Exports as share of Total Exports; 2007-2009



Source: World Bank data

One common factor among ME-5 countries was that the initial impact of the global financial crisis on their financial systems was muted. Although Lebanon, Iran and Jordan's stock market indices declined alongside other MENA countries, they declined less than in most other emerging market economies<sup>3</sup>. For example, their stock market indices lost on average about 40 percent over the past year compared to 50 percent for Gulf Cooperation Council (GCC) countries. Apart from Lebanon, which has some cross-border banking transactions and sovereign and corporate presence on the global bond market, the ME-5 region is relatively isolated from the global financial system. The decline in the ME-5 stock markets stemmed primarily from contagion from declines in the GCC and elsewhere in the world. The outflows of funds from domestic financial systems seeking safer haven may

\* Lead Economist, Mena Region

<sup>1</sup> The author would like to thank Lili Mottaghi for research support, and Jennifer Keller for valuable comments

<sup>2</sup> The five Middle East countries are Iraq, Iran, Jordan, Lebanon and Syria

<sup>3</sup> Iraq has no stock market and Syria created its own stock market only in March 2009

## Impact of the Crisis on Lebanon

Lebanon's financial market developments have been favorable despite the global financial turmoil. Deposit inflows to Lebanese commercial banks increased by 3.7 percent (US\$2.7 billion) between August 2008 and January 2009. Official foreign currency gross reserves almost doubled in 2008, increasing by 175 percent and reaching 60 percent of GDP at end-2008, up from 39 percent at end-2007. Decline in dollarization in response to lower dollar interest rates and broadly unchanged returns in Lebanese Pounds (7.3 percent) also contributed to sharp increase in reserves.

Nevertheless, the global economic slowdown could have a more substantial medium-term impact on Lebanon as in many other countries. The real GDP growth projection for 2009 has recently been reduced by the Ministry of Finance from 5.0 percent to 3.0 percent. This reduction reflects the expected lower exports and remittances, and domestic private investment. However, the other macroeconomic variables such as inflation, the current account balance and reserves, are expected to improve in 2009. The key near-term policy challenge for Lebanon is managing the impact of the global economic slowdown. This is particularly so given the reliance of Lebanon on external inflows (net foreign inflows from services exports, capital, income, and remittances reached 57 percent of GDP in 2008, up from 44 percent in 2007) and the limited room for policy stimulus.

The Government is currently discussing pre-emptive measures to support the domestic activity. These measures are expected to focus on accelerating public investment projects and providing incentives to the private sector for supporting investments and production. In addition, the Central Bank of Lebanon has recently announced plans to avoid squeeze on lending to the economy through subsidized loans in Lebanese Pounds and by reducing reserves requirements on deposits in Lebanese Pound in order to direct the excess liquidity toward lending to the economy.

have triggered redemption of stocks out of the domestic markets, thus causing declines in stock indices. Market observers maintain that this "flight to quality" effect was not, however, at play in Lebanon. Rather, the Lebanese banking system was perceived as a regional safe haven, and may have attracted more investors during the global financial crisis. This phenomenon, if correct, may explain why the Lebanon stock index declined by a lesser margin than most other indices in the MENA region.

## Initial Conditions

While the impact of the crisis of ME-5 financial systems has been limited so far, going forward, one cannot exclude a significant impact on the real economy. How countries' real economies are impacted and how they can mitigate the impact will depend in

# The Middle East



## Impact of the Crisis on Syria

Plummeting global output and trade combined with a severe drought for the third consecutive year could have a significant impact on Syria in 2009. A decrease in exports, tourism, remittances, and foreign direct investment may already be at play. Recent reports and anecdotal evidence are showing signs of a slowdown in many sectors, especially the textile industry. Export earnings are expected to decline substantially (by 16% according to the IMF, and by 34% according to the EIU) in 2009, reflecting falling oil and agricultural prices, although most of the decline will be explained by falling oil receipts. The global downturn is expected to decelerate the recent growth in tourism as well as in foreign direct investment, and to reduce remittances from expatriate workers as job losses mount in the GCC countries and other "labor-importing" countries. There is some evidence that GCC investment flows in real estate projects have nearly ceased. The external demand shock has been compounded by a domestic supply shock, namely, a severe drought that is entering its third year, with severe impact on agricultural output.

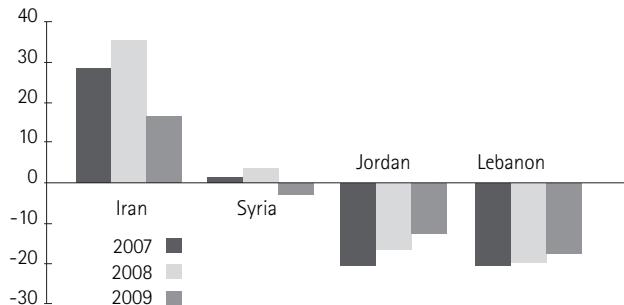
In addition, the global economic slump may worsen Syria's projected budget deficit in 2009. The 2009 budget was approved in December 2008. The budget was calculated based on a price of US\$51 for a barrel of Syrian oil of good quality, and US\$42 for a barrel of oil of poorer quality. The budget deficit for 2009 is projected at 266 billion SYP (US\$5.3 billion) – about 9 percent of GDP. Weekly non-OPEC spot prices have averaged at US\$40 per barrel during January and February 2009.

part on initial conditions. In particular, fiscal and current account balances, as well as debt level, play an important role in shaping countries' ability to mitigate the impact of the crisis.

Lebanon and Jordan entered the crisis with very high levels of fiscal and current account deficits in 2007 and 2008, with 2008 current account deficit to GDP ratios in excess of 14%, and with fiscal deficit to GDP ratios in the 8-10% range (see Figures 2 and 3). A significant difference between Jordan and Lebanon at the onset of the global financial crisis is that Jordan has a lower debt level and has in fact paid down some of its debt to the Paris Club while Lebanon has one of the highest debt-to-GDP ratios in the world.

Lebanon and Jordan, unlike the other three countries that have energy resources, have grown to depend on various forms of external financing to fund their large current account deficits. With higher spreads on sovereign bonds, poorer prospects for FDI and remittances, meeting external financing needs will be all the more challenging, particularly for Lebanon which depends

Figure 2. Current Account Balance as % of GDP: ME-Countries; 2007-2009

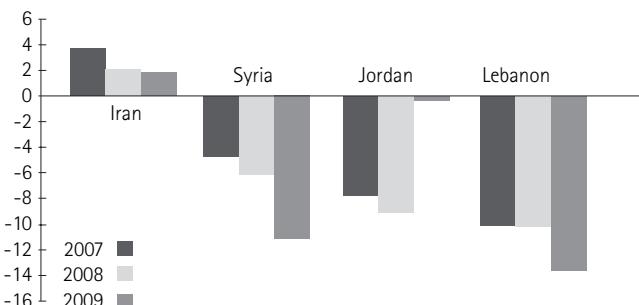


Source: World Bank data

heavily on sovereign bonds and bank financing to fund its fiscal deficit<sup>4</sup>.

High global demands on official sources – both bilateral and multilateral – from other countries might also constrain available financing; this would particularly affect Jordan. In this constrained environment, it will therefore be important to contain the fiscal deficit and government contribution to the current account deficit in 2009, while still addressing urgent spending needs to mitigate the impact of the crisis (see Figure 3).

Figure 3. Fiscal Balance as % of GDP: Middle East Countries; 2007-2009

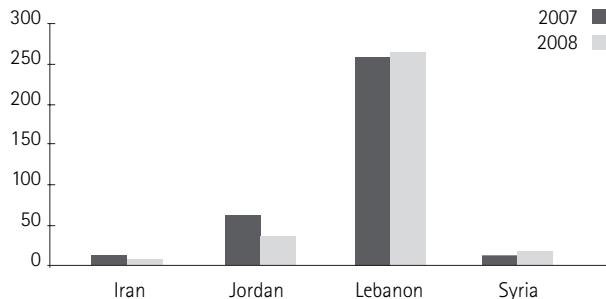


Source: World Bank data

Iran and Iraq entered the crisis with fiscal and current account surpluses, thanks to the high price of oil up to mid-2008, and Syria had a small current account surplus but a fairly large fiscal deficit. With the sharp decline in oil prices since reaching a peak of US\$147 per barrel in July 2008, Iran, Iraq and Syria have seen a tightening of their fiscal space virtually overnight. At the same

<sup>4</sup> FDI flows are projected to decline from about 25% of GDP in 2008 to about 9% of GDP in 2009 in Lebanon (source: IMF)

Figure 4. Total External Debt as % of GDP, 2006-2008



Source: World Bank data

time, prospects for external financing for them are quite dim due to a combination of the tight global financing environment and the history of limited financial transfers to these countries for development needs.

Beyond these macro economic considerations of the initial conditions, ME-5 entered the crisis with a challenging position from a social and structural perspective due to a long standing social contract and difficult to retract commitments. First, ME-5 countries share the characteristics of high unemployment (Figure 5). Their unemployment rates are generally much higher than developing countries averages. In fact, with low female labor force participation and improving female education indicators, unemployment in ME-5 countries may be underestimated. Another characteristic of ME-5 is their high level of youth unemployment. Second, in some ME-5 countries, subsidies are high and seen as part of the social contract (Iran, Syria), and other inefficiencies in state owned enterprises creates a burden on public finances similar to subsidies (Lebanon, Iraq). Third, the political economy can make it difficult to implement reforms quickly to respond to a fast changing global environment (Iran, Iraq, and Syria).

#### Potential Impact on the Real Economy

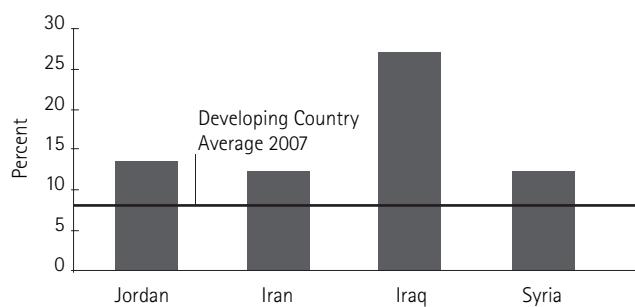
While the impact of the global financial crisis on ME-5 financial systems has been limited, the impact on the real economy can be significant. ME-5 GDP growth rates are expected to be markedly lower than in 2008 although they remain higher than in many emerging market economies and in most other MENA countries (Table 1). Industrial production has declined in most ME-5 countries, with the steepest decline observed in Iraq and Jordan.

Declining oil export values are the main drivers behind economic slowdown in Iraq, Iran and to a certain extent Syria; and declining remittances and FDI are the main drivers of economic slow-

#### Impact of the Crisis on Iraq

The main channel of impact of the global financial crisis on Iraq's economy has been through depressed oil prices, affecting both export and fiscal revenues. Iraq's low integration on the world market has shielded it from a more direct impact of the global financial crisis through the country's financial sector. Iraq's banking sector remains underdeveloped and centered on the domestic market. Levels of direct foreign investment and private capital flows are still very low. Nevertheless, the current contraction in world demand will have a significant impact on Iraq in light of its extreme oil dependence (oil accounts for almost all export and fiscal revenues). World demand for crude has already declined in the last six months and the expectation that demand will continue to decline, is weighing heavily on crude prices. Public finances and balance of payments have already been adversely affected. The oil price for the 2009 budget was re-adjusted twice (in November 2008 and January 2009) downwards. Iraq's fiscal position is projected to worsen with oil revenues expected to contract by 26 percent according to IMF projections, reversing a strong fiscal position (overall fiscal surplus of 8.2 percent of GDP in 2008). A deficit of about 17 percent of GDP was forecast by the IMF for the year. The actual 2009 deficit figure may turn out to be considerably higher than that since Iraq's crude is selling at below US\$ 40 per barrel, while the revised 2009 budget is based on the assumption of US\$50 per barrel. The Government announced it would allow for cuts in recurrent and capital spending in a supplementary budget if oil prices continue their downward trend.

Figure 5. Unemployment Rates, 2007: Middle East Countries



Note: data is not available for Lebanon

Source: IMF and World Bank data

down in Lebanon and Jordan. With current projections calling for crude oil to average US\$47 per barrel, ME-5 oil exporters will see significantly lower oil revenues than in 2008. Remittances and tourism receipts are likely to be significantly impacted in 2009. In fact, recent estimates for remittances project a decline of 5% worldwide in 2009. Anecdotal evidence suggests that many Jordanian and Lebanese migrant workers in the Gulf have lost their jobs. This will likely have an impact on remittances in

# The Middle East



## Impact of the Crisis on Iran

The Iranian economy's most significant challenge is the fall in oil export revenues due to the reduction in global demand and subsequent fall in global oil prices. So far, through the end of Iranian year 1388 (March 20, 2009), the magnitude of this impact was relatively modest, due to exceptionally high oil prices and revenues in the first half of the Iranian year. (March-August 2008). However, the 2009-2010 budget, which was approved last week by the Iranian Majlis (Parliament) and the Guardian Council noted major fiscal contraction. The contraction looks even larger in the final version of the bill, which does not include revenues from an increase in domestic energy prices proposed by the Government. Compared to the 2008-2009 budget, revenues and expenditures of the Central Government are expected to decrease in 2009-2010 by more than 10 percentage points of GDP, from 28.7 percent to 18.4 percent. Current revenues (taxes) are budgeted to fall by 1.8 percent of GDP, showing signs of an expected slow-down in economic activity; while disposal of capital assets (oil revenues) is expected to fall by 5.6 percent of GDP; withdrawals from the Oil Stabilization Fund (OSF) are also expected to be lower, limited by the OSF's low current balance. As for expenditures, these are budgeted to fall by 8.6 percent of GDP in the current year, and capital expenditures are expected to fall by 1.7 percentage points of GDP.

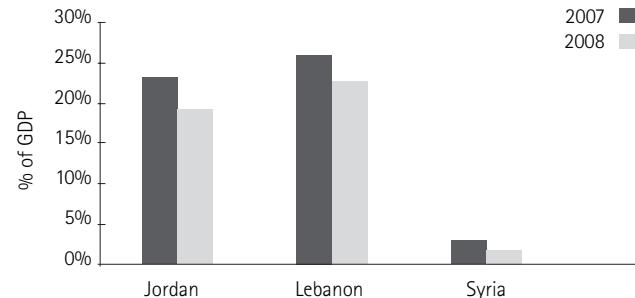
Table 1. GDP Growth; 2009 versus 2008

	GDP growth, %	
	2008	2009f
Iran	5.6	3.5
Jordan	5.5	4.2
Lebanon	5.5	4.0
Syria	3.7	2.5
MENA	5.8	3.9
Of which; GCC	6.1	4.3
Developing Countries	6.3	4.5

Source: World Bank data

2009, a lifeline for these two countries (see Figure 7). There are concerns that some migrant workers losing their jobs abroad will return home, which could add to already high unemployment. However, on the flip side, some – though not all – returning migrants may bring with them their savings and skills acquired abroad – both of which could contribute to the home countries investment and productivity. With declining oil prices and the fall in asset prices eating into private wealth in the Gulf,

Figure 7. Remittances inflows % of GDP



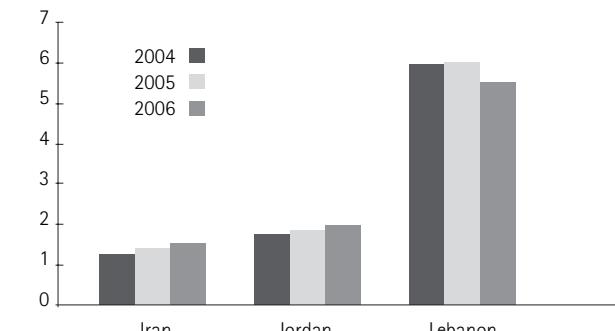
Source: World Bank data

tourism revenues, another lifeline for Lebanon and Jordan (see Figure 8), are likely to decline in 2009.

## Way Forward

The depth of the global crisis will require that the measures envisaged by ME-5 policy makers be deepened, complemented with additional measures, or in some cases revisited to meet the dual challenge of mitigating the impact of the global financial crisis on the economy and people in the short term while re-

Figure 8. Tourism Receipt Billion USD



Source: World Bank data

moving bottlenecks to sustainable and inclusive growth in the future. This entails, among other challenges, carefully crafting fiscal stimulus packages.

In the next few months, ME-5 will probably step up efforts to design stimulus packages to mitigate the social and economic impact of the global economic crisis. As they do so, it would be critical to:

- Take a hard look at existing subsidy and safety net programs in order to better target them and free up resources for the poor as well as those who are deeply affected by the crisis
- Pay attention to addressing constraints and bottlenecks to long term growth. Investment in removing such bottlenecks

can help create jobs and boost consumption in the short term while enhancing potential growth in the post crisis era

- Improve the domestic business environment so as to free up entrepreneurial energies and stimulate private investment for a strong post-crisis recovery.

The World Bank Group should stand ready to help mobilize financing or provide knowledge and advice as part of ME-5 countries' effort to confront the global downturn and build a strong future.

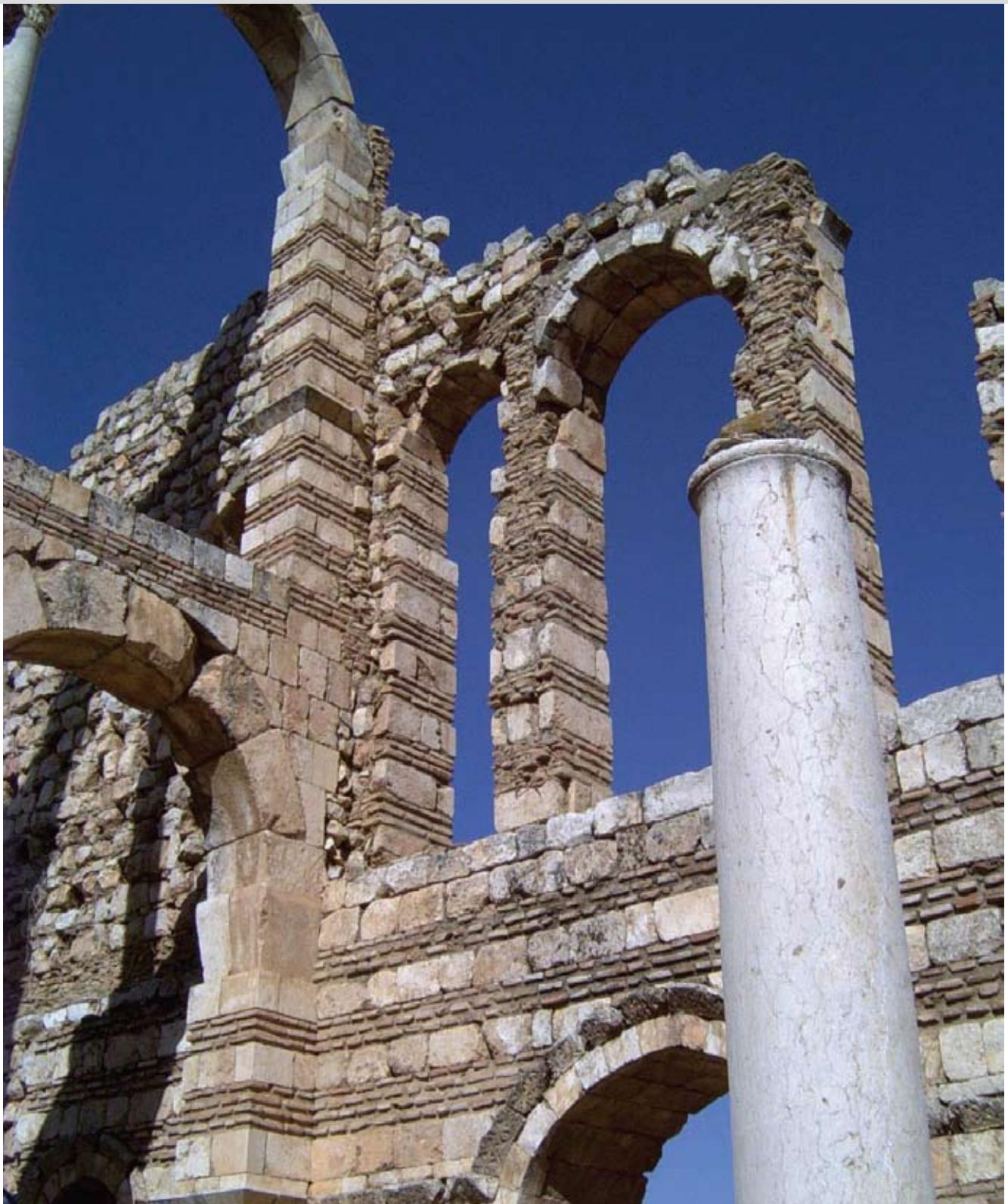


Temple of Bacchus, Baalbeck, Bekaa Valley, Lebanon

### Impact of the Crisis on Jordan

Jordan's limited integration with global financial markets has buffered it from recent global financial turmoil preventing major losses among banks or capital flight. The Central Bank of Jordan has taken preemptive steps to maintain confidence and support the domestic money market, including full guarantee of all bank deposits at the onset of the crisis. However, the ongoing turmoil is generating other effects that will impact the domestic economy. The three most important of these derived effects are declining global commodity prices, particularly oil (which would have a positive impact on trade deficit but a negative impact on transfers and capital account), declining private capital flows to developing countries (which were a major source of growth for Jordan in the recent past), and sharply lower global and regional growth outlook (which would affect exports and remittances). Based on potential impact of these effects, Jordan's growth rate is expected to slip to 3.0–4.0 percent during 2009 (after averaging over 7.0 percent during 2004–07, and remaining high at around 5.5 percent in 2008). While growth will decline, other macroeconomic variables such as inflation, the current account balance and reserves, will improve relative to 2008, largely because of lower oil prices and a lower volume of imports. The key near-term policy challenge for Jordan is managing the impact of the global economic slowdown, given limited room for policy stimulus. This is particularly so, due to deterioration in Jordan's fiscal position in 2008 as a result of bold budgetary compensation measures to mitigate the impact of the sharp rise in fuel and food prices. The Government is currently considering increasing public capital spending with funding out of expected savings from lower than projected subsidies due to lower fuel and food prices. Looking forward, there remain key risks related to financing of the current account deficit, which is estimated to remain high at around 11.0 percent of GDP in 2009.

# The Middle East



Anjar, Lebanon

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# Lebanon

## Moving Forward with Pension Reform in Lebanon

- by Haneen Sayed\* and David Robalino\*\*



### Adding final touches to the current draft pension law<sup>1</sup>

Lebanon today has the unique opportunity to move forward with one of the most important social reforms in decades: the creation of a new defined-contribution fully-funded (DC-FF) pension system to replace the ill-functioning End-of-Service Indemnity (EOSI) program.

In many countries, pension reform brings long-term benefits but also short-term costs; there are winners but also losers. What is unique in Lebanon is that the new pension system is likely to be good for all: current and future generations, employers and employees, and also the Government. This is because of the many problems of the EOSI and the strengths of the new system – if well designed and implemented.

The EOSI has never been an adequate program to provide income support during old-age. Individuals who retire only have access to a lump sum that most of the time is rapidly consumed. This happens at the same time that retirees lose access to health insurance! Moreover, the value of the lump sum tends to be below what workers could get in exchange for their contributions in a solvent bank. The EOSI cannot play the function of unemployment insurance either – contrary to what some have suggested – because of stringent rules to access accumulated balances. In addition, the EOSI is an employer based program that cannot be expanded to the entire labor force -- in particular workers in the informal sector and the self-employed.

The EOSI is not a good program for employers either. First, it imposes unknown and substantial costs when individuals retire since the employer is responsible for covering any differences between the promised benefits and the balance accumulated in the individual accounts. Second, the design of the program reduces incentives for individuals to switch jobs since when they do they implicitly loose acquired rights. As for the Government, and future generations, the lack of a transparent link between contributions and benefits can generate unfunded liabilities if employers default on their obligations. These will need to be financed either through higher taxes and/or lower expenditures in other social programs.

The new pension system can address these problems. First, it will pay a pension for life upon retirement (it can also be in-

herited by survivors) not a lump sum<sup>2</sup>. Second, the capital value of the pension will be higher than the lump sum today – in part because contribution rates are higher but also because the new system opens the opportunity to revisit investment policies and the way the individual accounts are revalorized. Thus, rates of return on savings are expected to be higher and will be calculated in a transparent way. Third, there will be a transparent link between contributions and benefits. This will facilitate the mobility of the labor force (workers who switch jobs will keep their balance in their individual accounts), and also provide better incentives to enroll and contribute, and better options to expand coverage to the informal sector and the self-employed. Fourth, the new system will be more predictable for all: retirees will be shielded from inflation risks<sup>3</sup>, employers will not face sudden payments when employees retire, and there will not be unfunded liabilities for the Government and future generations -- other than those related to the financing of part of a minimum pension guarantee (see below).

But to secure these gains, some technical problems with the current draft Law need to be addressed in order to ensure that: (i) the rules to calculate the pension at retirement are made explicit; (ii) all retirees have access to a minimum level of income during old-age; (iii) the transition to the new system is manageable from an institutional point of view; (iv) unfunded liabilities are not created by breaking the link between contributions and benefits; (v) there are mechanisms in place to better shield individuals close to retirement from the impact of rare but potentially large financial shocks; and (vi) having proper controls over the institutions in charge of the management of workers' savings.

This note briefly discusses each of these issues.

#### How will the pension be calculated in the new system?

The new Lebanese pension system is a defined-contribution fully-funded scheme. Active individuals contribute to the pension system and their contributions are invested in financial assets. Each plan member thus has an account where savings plus interests accumulate.

<sup>1</sup> This note refers to the draft of the Law that was approved on October 27, 2008 by the Joint Parliamentary Committees

<sup>2</sup> The Draft Law also sets provisions to finance health insurance during old-age

<sup>3</sup> This assumes that the Law mandates the issuance of annuities indexed by inflation

# Lebanon



At the time of retirement, the capital in the individual account is transformed into an annuity (i.e., a pension for life). The formula used to do the transformation is very simple. In essence, the pension is equal to the accumulated capital divided by an annuity factor that depends on life expectancy at the age of retirement (and a discount factor<sup>4</sup>). As an illustration, the annuity factor at age 60 is currently estimated at 14.36. At ages 65 and 70 the annuity factors drop to 12.23 and 10.13 respectively. This is because as the retirement age increases individuals are expected to receive pensions for a shorter period of time and therefore the value of the pension can be higher. In the new system annuity factors could be set either directly by the NSSF (if the NSSF bears the financial and longevity risks associated with the payment of pensions) or through a competitive bidding among insurance companies (if the risks associated with the payment of pensions is transferred to insurance companies).

Table 1 provides some examples of the value of the pension relative to the last salary for various retirement ages (60, 65 or 70), years of contributions (30 or 40), contribution rates (12.25 percent or 15 percent), and returns on investments (low and high). For example, with a contribution rate of 12.25 percent (the current level), individuals retiring at age 65 with 40 years of contributions would receive a pension equivalent to between 50 and 60 percent of their last salary (depending on the

**Table 1: Pension Value Relative to Last Salary**

		Number of years of contributions			
		Low return		High return	
Contribution rate	Retirement age	30	40	30	40
12.25%	60	29.8%	41.9%	35.0%	52.2%
	65	35.0%	49.2%	41.1%	61.3%
	70	42.3%	59.4%	49.7%	74.1%
15%	60	36.5%	51.3%	42.9%	64.0%
	65	42.9%	60.3%	50.4%	75.1%
	70	51.8%	72.8%	60.8%	90.7%

*Notes: The low return and high return scenarios assume that the difference between the real rate of return on investments and the real growth rate of wages are 1 and 2 percent per year respectively.*

*Source: Authors' calculations.*

<sup>4</sup> The discount factor appears in the formula because it is used to calculate the expected present value of future pension payments

rate of return on investments). If the contribution rate increases to 15 percent, the value of the pension would also increase to between 60 and 75 percent of the last salary.

It is important to notice that the EOSI, by design, pays a rate of return on contributions that are lower than the rates of return that the new system can pay. Indeed, in the EOSI, the rate of return is more or less equal to the growth rate of wages, which is usually below the "market" interest rate. As an example, with a 12.25 contribution rate an individual who retires at age 65 after 40 years of contributions would receive a pension equivalent to only 40 percent of pre-retirement earnings.

For the current Draft Pension Law there are two recommendations:

- To indicate how the pension will be calculated (i.e., make explicit the formula provided above).
- At this stage, however, the Law should not define the annuity factors. These will require more precise calculations of life-expectancy at various ages, as well as setting the proper discount rate.
- The Law should also leave open for the regulations the design of the pay-out-phase, which among others will imply deciding whether the NSSF or insurance companies manage longevity risks.

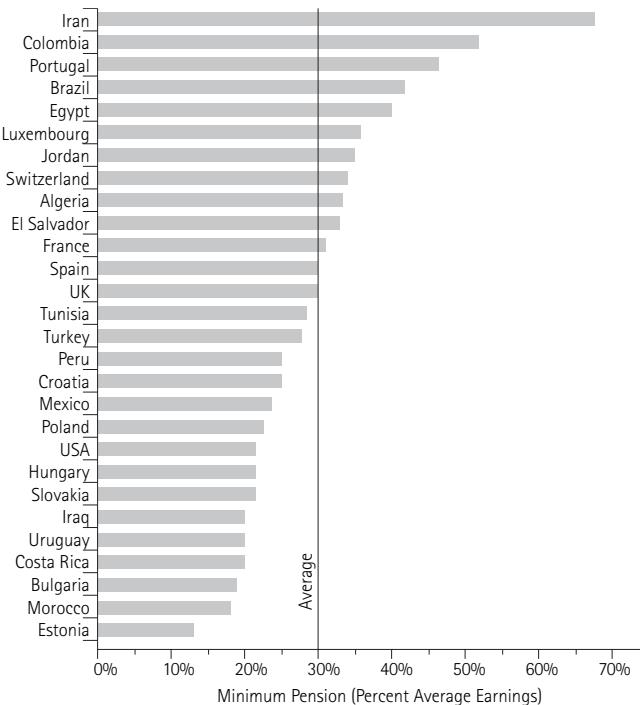
## Should the Law set a minimum pension guarantee?

Any pension system has two main objectives. First, to allow individuals who retire to *replace a given share of pre-retirement income* (insurance function). Second, to prevent poverty during old-age and thus ensure that all individuals have a minimum level of income when they retire (adequacy function).

The second objective is as important as the first and thus the majority of countries offer minimum pension guarantees. These take different forms (e.g. flat payments universal or targeted, or top-ups to contributory pensions below a minimum) with benefit levels ranging between 10 and 60 percent of economy wide average earnings (see Figure 1). In general, however, benefits above 25 percent of average earnings are likely to be very costly, unsustainable and can damage incentives to contribute and to work. At the same time, it is important that this minimum pension does not disappear over time and to this end it should be linked to a real variable in the economy that captures standards of living.

In the case of Lebanon the recommendation is to define in the Law a minimum pension guarantee that would meet the fol-

Figure 1: Minimum Pension Guarantees Around the World



Source: Robalino et al. (2005) and Whitehouse (2007).

l owing criteria:

- It would be defined as a function of the average covered wage in the NSSF (this is because in Lebanon there are no official estimates of economy wide average earnings). A range between 15 to 20 percent would be appropriate.
- There would be an eligibility restriction of at least 20 years of contributions.
- The eligibility age for the minimum pension would start at age 65 and be indexed automatically with life-expectancy. This is critical to ensure the financial sustainability of the system.
- Ideally, the minimum pension would be a flat payment (all plan members would be eligible) that is reduced as a function of the contributory pension (e.g. 30 cents for each increase of 1 dollar in the contributory pensions).
- The Law would also indicate how the annual cost of the minimum pension is distributed between employees, employers, and the Government. In other words, the Law would not fix a contribution rate, since the cost of the minimum pension and its evolution over time are unknown. Instead, the Law would define the share of total costs that will be financed by contributions from employees, employers and the Government.

There are no rules for the allocation of costs among the three parties. It is important to emphasize, however, that because initially the system will only cover part of the labor force – the formal sector where earnings tend to be higher -- transfers from the government that are too high can be regressive.

### Who "switches" to the new system?

Decisions about switching rules are very important and need to be analyzed carefully. Indeed, they affect: (i) the transition costs to the new system; (ii) administrative complexity; and (iii) the time the new system has to setup the pay-out phase. The older the plan members who are allowed to switch, the more costly the transition, the more complex its administration, and the shorter the period of time before the new system starts to pay pensions<sup>5</sup>.

Transition arrangements have varied widely among countries that have implemented reforms. For instance, in Hungary, only 20 percent of those aged 40 and over switched to the new system. In the Dominican Republic close to 80 percent switched. Based on international experiences, the recommendations for Lebanon are to:

- Make the new system mandatory for new entrants to the labor market and those younger than 35 or 40 years of age.
- Consider the possibility of allowing voluntary switching for individuals older than the mandatory age but younger than 50.
- Individuals older than 50 and those close to retirement should not be mandated to switch to the new system.

### Should pension rights accrue even when contributions are not paid?

Trying to protect employees by allowing them to accrue pension rights when contributions are not paid generates the wrong set of incentives. Indeed, employers would have less incentives to pay because they know that employees will receive pensions anyway. Similarly, employees would have less incentives to monitor payments since their pension would be unaffected.

Accruing pension rights without contributions also generates unfunded liabilities in the system and threatens its financial sustainability. Indeed, the NSSF would have to pay pensions even if contributions were not received. When these contributions can-

<sup>5</sup> Clearly, a gradual transition also implies having two systems running in parallel. But one is already there and the other will require additional resources and information systems in any case

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not be collected the Government would need to intervene.

Clearly, the Government has the obligation to ensure that employers respect labor market regulations, enroll their workers in the social security, and pay mandatory contributions on time. This, however, is better done by ensuring the current Draft Law mandates:

- Having in place institutional arrangements to report misconduct and evasion.
- Imposing severe penalties on employers that evade.
- Developing institutional capacity to monitor and enforce compliance.

## How to protect retirees from financial crisis?

The recent financial crisis has raised concerns about defined contribution fully-funded pension systems, where pensions depend on the value of financial assets at retirement. Indeed, between September 2007 and September 2008 mandatory pension funds have had losses ranging between 8 and 30 percent of assets (see World bank 2008). Nonetheless, some of the concerns are misplaced; if well designed, pension system based on DC-FF systems can be resilient to financial shocks.

First, pensions are long-term investments and in the majority of countries where DC-FF systems have been introduced, gross rates of return on assets have been positive. Second, over the short-term, only a fraction of plan members are close to retirement and therefore exposed to financial losses. For instance in Chile, the most mature DC-FF system, only 4 percent of plan members would need to retire over the next 5 years. For them, some form of time-bound guarantee on their principal could be considered. Third, if the DC-FF system allows new retirees to gradually withdraw savings and differ annuitization, even those close to retirement can avoid financial losses. Finally, only few countries rely exclusively on DC-FF systems. In half of the countries with DC-FF pillars, less than 50 percent of the pension wealth comes from financial assets.

In the case of Lebanon, to ensure that plan members are not over exposed to financial risks, the Law could incorporate the following provisions:

- Allow for deferred annuitization and phased withdrawal at the time of retirement. This means that retirees are not forced to transform their savings into a pension (i.e., purchase an annuity) when assets are undervalued. The Law at this stage does not need to develop the details of these

two provisions; it simply should indicate that they will be introduced when the regulations for the pay-out-phase are prepared.

- Allocate part of the contribution rate to a portfolio that pays a constant rate of return on contributions and that is backed by non-tradable Government bonds<sup>6</sup>. The yield on the bonds would be set in order to replicate the sustainable rate of return on contributions in a pay-as-you-go system (e.g. the growth rate of the average covered wage). This measure will ensure that only part of the retirement package is exposed to financial risks.

## How to ensure that workers savings are properly managed?

International experience indicates that sound governance and a well structured approach to investment management can ensure that the assets in a public pension fund remain secure and achieve competitive long term returns.

In the case of Lebanon there is room to improve current governance and investment management arrangements. As it stands, the Draft Law mandates the creation of an Investment Committee reporting to the Board of the NSSF which is responsible for investment policies. This Committee is composed of five experts and the Director of the NSSF. One of the members acts as the Chairman. The Investment Committee is then responsible for executing investment policies. Following best practices, however, the Board of the NSSF should not be responsible for designing or overseeing investment policies. Moreover, the Investment Board should not be directly involved in the implementation of investment policies.

The Law instead could consider the following alternative:

- There would be an independent Public Investment Board (PIB) responsible for the overall management of the assets of the new pension system. But its members would be required to fulfill qualifications of expertise and experience in the fields of finance, economics, and actuarial science. The Director of the NSSF would be part of the Board. And, in addition, there could be representatives from the Ministry of Finance, and the Central Bank.
- The Investment Board would be responsible and accountable for the strategic guidance and oversight of the management of the assets of the pension fund. The Board would establish an overall investment strategy by defining long

<sup>6</sup> This is equivalent to allocating part of the contribution rate to a Notional Defined Contribution pillar like in the case of Poland, Sweden and soon Egypt

term return targets, risk tolerance and risk management procedures and an allocation among major investment categories and instruments to implement the strategy. The Board would then be responsible for monitoring the implementation of the strategy and measuring performance against the strategy.

- The day to day operations of the PIB would be undertaken by an Executive Officer selected by the Board who would be supported by a team of technicians and administrative staff. The Executive Officer would then engage professional asset managers to implement the strategic asset allocation established by the Board and provide regular reports on the performance of managers in relation to defined benchmarks. Asset Managers can be local or foreign companies. In addition, the Law should ensure that:
- A comprehensive regulatory and supervisory framework is put in place to establish standards for the selection of the members and activities of the Public Investment Board and other parties in the pension system. The Law does not have to develop the framework at this stage, but should indicate a time-frame to develop the necessary regulations according to international best practices. It should ensure that members of the Board broadly represent the interests of the members of the pension system, are free from conflicts of interest in their actions and are held personally accountable for their actions as members of the Board.
- Assets of the funds are held by a third party custodian who may only follow proper instructions in their disposition and to be liable for any misuse of the assets.
- Asset Managers meet a prescribed set of standards including minimum capital and experience levels, be engaged through standard written contracts at specified fee levels in an open competitive process, and be liable for the consequences of any deviations from the contracts.
- The Executive Officer meet specific requirements for skill and expertise, fulfill regular reporting requirements to the Board, be free of any conflicts of interest and be required to follow the proper instructions of the Board.
- There be a regular independent audit of the status of the pension funds and public disclosure of the results of the audit as well as regular disclosure of the investment performance of all fund managers and the fund as a whole.
- A public body such as the Central Bank be provided with authority to establish, modify as necessary, and further implement regulations and have the responsibility for regu-

lar oversight and supervision of all of the activities of the Board, the Executive Officer, Custodians and Asset Managers, including the authority to obtain information and impose sanctions as required to achieve compliance with the requirements of the law and regulations.

#### Conclusions and recommendations

- The new pension system will benefit all Lebanese. Lebanon should not miss the opportunity to move forward with the reform. However, certain technical problems with the current Law need to be corrected.
- The new pension Law should specify the value of the minimum pension guarantee as a percentage of average covered earnings in the NSSF, and indicate how costs will be distributed between employers, employees, and the Government.
- Switching to the new system should be gradual and should not involve individuals close to retirement.
- Employers need to be accountable for paying employees contributions: pension rights should not accrue if payments are not made.
- To reduce the exposure of plan members to financial risks, the new Pension Law should incorporate provisions for deferred annuitization.
- The Government could also consider allocating part of the contribution rate to a portfolio that pays a fixed rate of return on contributions and is backed by non-tradable Government bonds.
- There is a need to improve current arrangements for investment management. In particular, the Public Investment Board should be an independent institution whose members are selected on the basis of their professional qualifications and expertise in the management of pension funds. The PIB and any asset manager involved in the implementation of investment policies should be subject to regulation by the Central Bank.

# Gender-Based Differences Among Entrepreneurs and Workers in Lebanon

- by Randa Akeel\*



Are there significant differences between the perceptions and labor market experiences of male and female entrepreneurs and workers in Lebanon? Are such differences important to the optimal deployment of females in the workforce? This report approaches these issues empirically through two surveys conducted in 2007<sup>1</sup>. The first was a survey of 235 firms<sup>2</sup> (109 female owned and 126 male owned) and the second a survey of 615 workers (342 females and 273 males).

## Main Findings

### Entrepreneurs

a. Female entrepreneurs provide greater professional opportunities for other females than do male entrepreneurs. On average 47 percent of the labor force in female owned enterprises was composed of women compared to 34 percent in male owned enterprises. Seventy-three percent of female owned firms had Boards with 20-50% female members as compared to only 36 percent of male owned firms.

b. Women entrepreneurs provide better treatment to workers and are especially sensitive to the needs of female employees. The survey data show that 50 percent of female-owned firms offered family health insurance coverage to workers compared to 37 percent of male-owned firms. Eighty percent of female employees were given maternity leave upon request in female-owned firms compared to 72 percent in male-owned firms.

c. In male owned firms more than 6 percent of female employees' requests for annual leave were rejected compared to less than 0.5 percent of such requests by male employees. However, in female owned firms only 0.53 of annual leaves submitted by women and 0.1 percent submitted by male employees were denied.

d. Female entrepreneurs have a better perception of female workers: 40 percent consider female employees as more skilled/productive compared to 32 percent of male entrepreneurs.

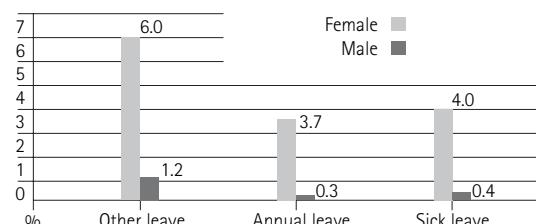
e. Female entrepreneurs listed financial and regulatory constraints higher among investment climate challenges than did male counterparts. 64% percent of male entrepreneurs who financed their capital or operations had access to a bank loan compared to only 48% of female entrepreneurs.

### Workers

f. Female workers are better educated than male workers. Sixty five percent of female workers have completed college education or above compared to 46 percent for males. In addition female workers tend to be single and younger. The average age of female workers is 31 while that of male workers is 35. Among female workers 68 percent are single and 29 percent are married. The corresponding numbers among male workers are 47 percent and 51 percent.

g. Female workers face more challenging working conditions. A female employee's request for leave for unexpected travel or funeral attendance is five times more likely to be rejected compared to the same request by a male employee. The rejection rate for sick leave requests by female workers is 11 times higher than that for male workers (Figure 1).

Figure 1: Percentage of leave requests denied by gender of the employee



\* Economist, MENA Region

<sup>1</sup> The survey was held nationwide; however, most of the substantive responses came from the Greater Beirut area where two thirds of business activities in Lebanon take place

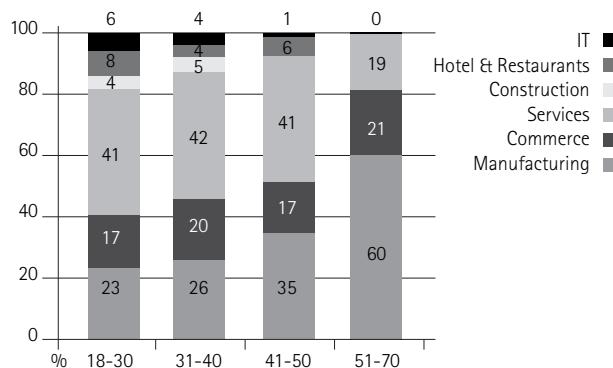
<sup>2</sup> Although weights were developed to achieve population representation, it should be noted that the firm samples do not provide a statistical incidence of female entrepreneurship in the Lebanese private sector per se, however, given the small number of female entrepreneurs and employers in Lebanon as shown by other sources it can somewhat reflect the situation on the ground. Annex 1 (of the main report) provides a detailed breakdown and explanation of the sampling and the data

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The data also shows that "leave discrimination" occurs mostly for un-married females without small children. Leave rejection rates for female and male workers with small children are practically non-existent and are almost the same (0.55 percent versus 0 percent respectively).

h. Younger women now tend to be more evenly spread across the main sectors of economic activity than older women (figure 2)

**Figure 2: Female Employment by Sector**



i. Although income stability and high position are relevant to both female and male workers, non-wage conditions are especially important for women. When asked to prioritize, female workers stressed availability of flexible work, proximity to the home, no child at home, availability of nurseries while male workers listed monetary factors such as fixed salary, benefits, and availability of social security coverage.

j. Nearly 27 percent of the wage difference<sup>3</sup> between male and female employees is shown by statistical analysis to be plausibly attributable to discrimination. Wage gaps exist even within the same sector and occupation even after controlling for different levels of education<sup>4</sup>. However, the survey data show that the gender wage gap does not exist for younger workers (under 30 years of age) while at the same time women are just as likely as men to get promotions.

## Conclusions

The findings of this report show that compared to males, female entrepreneurs tend to hire more women and to provide better working conditions to them (as well as to male workers). Thus making it easier for more women to become entrepreneurs should make a positive contribution both to female labor force participation and to working conditions in the country. Public policy should focus in particular on two key constraints that female entrepreneurs face: access to finance and complex regulations. Examples include expanding loan guarantee schemes for small businesses such as the one offered by Kafalat in Lebanon to ease access to financing for SMEs. Setting up such a program that focuses on supporting female entrepreneurs could

be explored. Similarly loan guarantee programs for individual loans such as those offered to students could be structured to support women wanting to pursue private sector related initiatives. Business regulatory proceeding could be made easier through one stop shops.

The findings also show that some categories of female workers (such as single women) find it more difficult to get leave for various reasons. Married women (especially those with children) appear to struggle in maintaining the same level of work commitment compared to those not married, exhibiting high absenteeism and leave requests. In addition, the low level of married female workers in the sample suggests that more women choose not to participate in the labor force when married. To support work for women with children government could support initiatives for childcare such as extending the school day, early childhood education and after school programs. In addition, revisions to the labor law should focus on facilitating flexible and part-time employment regulations and conditions.

In terms of areas for further research, a gender based analysis of financing could highlight the ways by which women face these issues differently than men. In the Lebanese banking system, loans are highly collateralized and typically provided under an individual's name than to a company making it more difficult for women. In addition since the findings in this report pertain to formal sector firms. It would be useful to complement these with a gender -based survey of the informal and micro enterprise sectors as well.

<sup>3</sup> Data is only for wages hence this does not refer to earnings

<sup>4</sup> Differences in working hours: variables such as sex, age, and marital status affect the number of working hours. After controlling for these variables, there appeared no statistically significant difference in the number of working hours between female and male employees

# Lebanon Partnership Program



On August 2, 2007, the World Bank's Board of Executive Directors endorsed the World Bank's Interim strategy Note (ISN). The three pillars identified in the 2005 CAS continue to guide the Bank's program in Lebanon with a shift in focus on supporting early reform implementation. The three pillars are:

- (i) Governance for economic management and growth support;
- (ii) Development of human capital and the mitigation of the poverty effects of transition; and
- (iii) Resource and environmental management.

The ISN presents a program for 12 to 15 months focusing on analytical assistance backed by financial resources to advance the implementation of the medium term expenditure and social reform agenda. The program includes two Development Policy Loans supporting the broader reform program with a particular focus on the energy and social protection sectors.

## Trust Fund for Lebanon

During the September 2006 Annual Meetings, the World Bank's Board of Governors approved a grant of US\$70 million for a Trust Fund for

Lebanon to support the Government's reconstruction efforts following the recent hostilities. The money comes from the Bank's surplus, and does not involve any additional debt burden for Lebanon. The Trust Fund is being used to scale up existing projects and advance projects already under preparation. Part of the grant will go to the International Finance Corporation (IFC), the private sector arm of the World Bank Group. The IFC, in close cooperation with the Government, is preparing a program to rehabilitate Lebanon's private sector, focusing, among other elements, on small and medium enterprises and the removal of administrative barriers.

At the request of the Government, the World Bank carried out an Economic and Social Impact Assessment, which in 2006 provided important inputs into the preparation of the Government's reconstruction and reform program. The Government adopted this program on January 4 in advance of a Donor Conference which took place in Paris on January 25 where the Bank pledged to offer up to \$700 million over the next four years (2007-2011).

	Approval Date	Commitment Amount	Undisbursed Amount	Sector Board	Closing Date
		in US\$ M			
Ba'albeck Water and Wastewater	Jun 02	43.5	18.2	Water	Dec 09
Urban Transport Development	Jun 02	134.7	80.6	Transport	Dec 11
Cultural Heritage and Urban Development	Apr 03	31.5	14.9	Urban Development	Dec 09
Trust Fund					
First Municipal Infrastructure	Nov 06	30	20.7	Public Sector Gov.	Dec 09
Beka'a Emergency Water	Mar 07	15	14.7	Water	May 10
Emergency Power Sector	Mar 07	5	2.9	Energy & Mining	Jun 09
Emergency Social Protection Implementation Support	Aug 07	1	0.1	Social Protection	Mar 09
Second Emergency Social Protection Implementation Support	Sep 08	6	5.6	Social Protection	Mar 12
Emergency Financial Management Capacity Support	Mar 09	4	-	Economic Policy	Sep 11

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## Recent News and Events

### US\$70 million Additional Financing Loan Agreement to the Transport Sector

The Ministry of Finance, the Council for Development and Reconstruction and the World Bank signed on January 30, 2009 an additional financing loan agreement in the amount of US\$70 million to the ongoing Urban Transport Development Project implemented by the CDR.



(L-R) Middle East Director Hedi Larbi, Minister of Finance Mohammed Chatah and CDR President Nabil Jisr at the signing ceremony

The project seeks to improve traffic management, regulate on-street parking in selected zones, improve traffic flow along seven main corridors, improve transport planning, and organize public transport services. The project comprises five components: (a) traffic management program; (b) parking improvement program; (c) corridor improvement program; (d) technical assistance to the Ministry of Public Works and Transport for capacity building, transport planning, public transport regulation, air quality management and transport feasibility studies; and (e) project management.

The additional financing will be used for three purposes. The first is to cover a financing gap in already committed contracts. The second is to cover the counterpart contribution to the project (the Bank would finance 100 percent of the contracts). The third is to finance activities appraised as part of the original project, but for which no other financier has been found.

### The World Bank and Parliament Team Up to Campaign for Power Sector Reforms and National Water and Sanitation Strategies

The Lebanese Parliament convened a two-day workshop on the beleaguered water sector in Lebanon on February 27-28, 2009, attracting a wide array of stakeholders from the public and private sectors, as well as international donors.

*This seminar is part of the World Bank-Lebanese Parliament Seminar Series initiated in September 2008. The series aims to promote knowledge exchange and global best practices that could help shape development policies in Lebanon, as well as strengthen engagement with legislature, civil society and the private sector. This seminar was held under the patronage of Parliament Speaker Nabih Berri, was organized by the Parliament's Public Works, Water and Energy committee with logistical and technical support from the World Bank Water Sector and External Affairs teams.*

The water sector in Lebanon poses a serious challenge to the Government's reform and development agenda. Although the country is blessed with resources, Lebanon has lagged behind the level of development in this sector which other Middle East and North Africa have achieved over the years, largely because of poor management, weak institutional capacity and financial constraints. The workshop concluded with an open discussion in which the diverse stakeholders agreed to submit written recommendation to Parliament's specialized committee. The Committee will then discuss the recommendations, endorse them and submit to the Council of Ministers to promote the development of a clear strategy for this ailing sector.

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## US\$4 million World Bank Grant to the Ministry of Finance for Reforms

The Ministry of Finance signed on March 16, 2009 a US\$4 million grant agreement with the World Bank to implement administrative reforms at the Finance Ministry aimed at improving the management of funds and resources and making sure they are fairly invested.



(L-R) Country Manager Demba Ba, Minister of Finance Mohammed Chatah, Director General of Ministry of Finance Alain Bifani

The grant is a small part of a US\$70 million trust fund that the World Bank granted Lebanon following the July 2006 war to support a program of emergency assistance for economic and social recovery and allocated as follows: US\$30 million to scale up the ongoing First Municipal Infrastructure Project, US\$15 million for an Emergency Water Supply Project for the Western Bekaa area, a US\$5 million power sector technical assistance project, a US\$1 million Emergency Social Protection Implementation Support Project to help accelerate and improve the quality of the Government's social sector reform package, and US\$15 million in financial assistance from the International Finance Corporation, the private sector arm of the World Bank.

## The World Bank and the Ministry of Environment Launch a Country Environmental Analysis

The World Bank and the Ministry of Environment launched on March 12, 2009 the *Country Environmental Analysis (CEA)*, an activity aimed at assisting the Government in mainstreaming specific environmental issues into relevant sector activities.

In recent years, at the request of the Government, the World Bank undertook several surveys to assess the post-war cost of environmental degradation in Lebanon. The results were alarming. For example, the Cost of Environmental Degradation in 2000 was estimated at 565 million U.S. dollars per annum, or 3.4 percent of the GDP. After the 2006 hostilities, the Bank made another reassessment and the figure was in excess of 700 million dollars. From an economic perspective, these are unsustainable figures, hurting many potentially productive sectors, such as tourism, agriculture, water, and urban cities to name but a few. There also are serious social impacts on the health and the well-being of the Lebanese citizens and their cultural heritage.

The CEA will go well beyond technical and diagnostics analysis by bringing in the "political economy" at play in two main areas: water and wastewater and solid waste. This will include the definition of strategic objectives and set mechanisms for achieving them, as well as the preparation of a business plan and identification of additional investment needs to meet the requirements of these two critical sectors.

# Syria Short and Medium-Term Growth Prospects:

Challenges and Opportunities

- by Jorge Araujo\*



The Syrian economy has undergone significant structural changes over a relatively short period of time. These changes largely respond to the Syrian Government's modernization efforts and to its decision to gradually transition towards a social market economy, capable of generating productive jobs and allocating resources more efficiently, while preserving a strong focus on social welfare and human development. These modernization efforts are taking place in a geopolitical context in which Syria's international standing is changing rapidly and significantly. They also help address the challenge posed by the decline in Syria's physical production of crude oil – once its main source of fiscal and export revenues. This article documents these structural changes as well as the challenges and opportunities facing the Syrian economy over the short and medium terms.

## A. The Transition Thus Far: Economic Reforms and Structural Changes

Syria has embarked in a process of gradually moving away from a State-led growth model and towards a social market economy. While economic reforms have been underway since at least 2000, the gradual move away from a State-led growth model was enshrined in the Government's Tenth Five-Year Plan (TFYP), approved by the Parliament in 2005. The TFYP articulates the economic transition plan. Economic diversification and social equity are the central themes of the TFYP, which covers a broad array of economic reforms.

The reforms aim to strengthen both the real and financial sectors as well as to enhance the economy's ability to provide a robust supply response. Important progress toward exchange rate unification has been achieved; the investment regime is being liberalized; and trade liberalization has proceeded with a visible impact on the volume and composition of trade flows. Furthermore, Syria's financial system is also undergoing a fundamental transition. While state banks still account for about 80 percent of the assets in the banking system, private banks have grown rapidly since first licensed in 2004. Seven conventional privately-owned banks as well as two Islamic banks account for approximately 17 percent of all banking assets. Private insurance companies have been established in growing number since 2005, and the Damascus Stock Exchange has just been opened for business. These reform efforts are also critical to

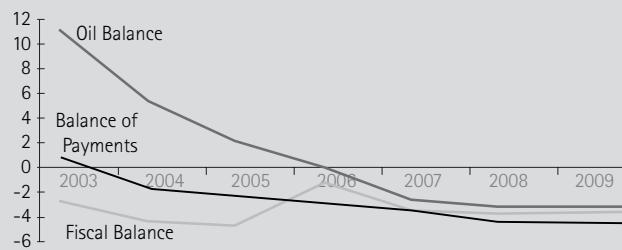
respond to the dramatic change underway in the composition of Syria's endowment of natural resources and the associated decline in revenues from crude oil (see Box 1).

### Syria's Twin Deficits

Declining oil production (and eventual depletion of oil reserves) is already having a major fiscal and balance-of-payments impact. After peaking at 650,000 bpd in 1995, crude oil production has plummeted to about 380,000 bpd in 2007. With declining output and rising consumer demand for petroleum products, Syria's overall oil balance has turned negative in 2007. Oil production is expected to decline further over the coming years and eventually leading to depletion of recoverable reserves by 2030.

This phenomenon poses a dual problem for the Syrian authorities: The need to offset the economic impact of falling oil production while searching for new revenue sources. Continuing implementation of policies aimed at fiscal consolidation and economic diversification can prevent further deterioration of Syria's balance of payments and fiscal stance over the medium. The chart below illustrates the looming problem of the "twin deficits":

### Syria's Twin Deficits (in percent of GDP)



Syria's overall sound macroeconomic performance over the past few years has complemented the progress made on the structural front. Driven mostly by the non-oil sector, real GDP growth has averaged about 5 percent between 2004 and 2008. In response, unemployment rates have consistently fallen over this period, from 12.3 percent in 2004 to 8.3 in 2006. During the same period, inflation has tended to be confined to one-digit levels<sup>2</sup>.

An important aspect of Syria's macroeconomic performance has been the effort towards fiscal consolidation over the past few years. Public spending as a share of GDP showed a declining trend during the past few years, although this has significantly affected capital expenditures (see chart 1). On the revenue side, preparatory work for the introduction of a

\* Lead Economist, MENA region

<sup>1</sup> With contributions by Hania Sahnoun, Chadi Bou Habib, James Lim, Stefano Mocci, and Fahrettin Yagci, which are gratefully acknowledged

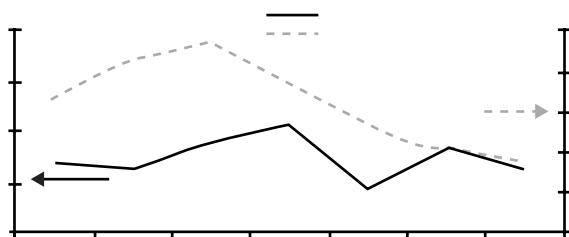
<sup>2</sup> However, inflationary pressures largely brought about by rising international food and fuel prices in the first part of 2008 led to an estimated inflation of 14.5 percent for the year 2008

# Syria



VAT is underway. On the expenditures side, the current and the investment State budget have been unified under the Ministry of Finance. In addition, the authorities launched in May 2008 a program to reduce fuel subsidies. Remaining energy subsidies will be phased out and replaced by a targeted cash transfer program. The program would initially target the poorest 15 percent of the population, and is expected to be launched by the Ministry of Social Affairs and Labor in late 2009.

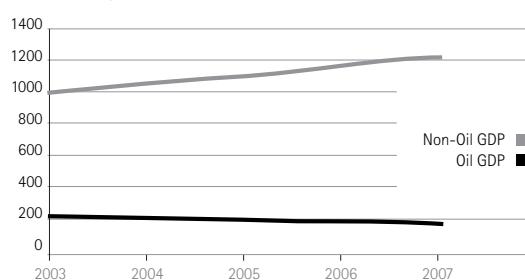
**Chart 1: Government Expenditures, 2004-2008 (% of GDP)**



**Partly as a result of the reform process, and partly as a natural reaction to the declining oil industry, the Syrian economy has gone through major transformations during the first decade of the 21st century.** Three areas should be highlighted: (i) the increasing importance of non-oil activities; (ii) the growing role of the private sector; and (iii) the expansion and diversification of foreign trade.

**The non-oil sector has become the engine of growth in the Syrian economy.** The shrinking oil sector has not prevented healthy growth rates for the non-oil GDP, which on average grew more than 7 percent per year between 2004 and 2008. While agriculture remains the principal non-oil sector, the past few years have witnessed a substantial growth in the finance and insurance sector and, most notably, in wholesale and retail trade. Chart 2 shows how Syria is fast becoming a "former" oil economy.

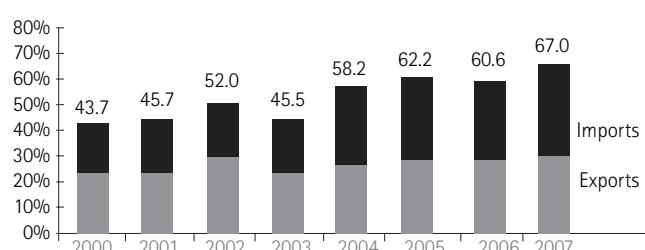
**Chart 2. The Non-Oil Sector as the Engine of Growth (in Billions of Syrian Pounds)**



**The State-led development model is therefore giving way to private sector-led growth in Syria.** Propelled by improvements in the business environment and by the need to move away from oil dependence, the private sector has assumed an increasingly important role. In fact, between 2000 and 2007, public sector GDP grew at 1.1 percent per year, compared to the 7.2 percent growth of private sector GDP. In 2007, nearly two thirds of GDP was generated by the private sector. While relatively low compared to other countries in the region, credit to the private sector has grown from around 10 percent of GDP in 2003 to about 15 percent during the 2005-2008 period, with private banks becoming an increasingly important credit provider.

**Syria's move towards greater economic openness has been followed by a commensurate increase in external trade volumes and greater diversification.** Total foreign trade – imports plus exports – increased by almost 25 percentage points of GDP, from 43.7 percent of GDP in 2000 to 67 percent of GDP in 2007 (see Chart 3). More importantly, Syria's export diversification process has already begun, marking a shift away from oil dependence. The share of fuel exports in total exports fell from 76.4 percent in 2000 to 37.9 percent in 2007. In contrast, exports of consumer goods rose from 8.9 percent of total exports in 2001 to 32.5 percent in 2006, while exports of intermediate goods rose from 1.8 percent of total exports in 2001 to 12.4 percent in 2006.

**Chart 3. Syria: External Trade Flows (% of GDP)**



## B. The Way Forward: Dealing with Short-Term Shocks and Deepening Ongoing Reforms

**Syria has been battered by short-term shocks coming from both the demand and the supply side.** Plummeting global output and trade combined could have a significant impact on Syria in 2009. A decrease in exports, tourism, remittances, and foreign direct investment is already be at play. The global downturn is expected to decelerate the recent growth in tourism as well as in foreign direct investment, and to reduce remittances from expatriate workers as job losses mount in the GCC countries and other "labor-importing" countries. There is

some evidence that GCC investment flows in real estate projects have nearly ceased. Recent gains from reduced unemployment may be temporarily reversed by the downturn. The external demand shock has been compounded by a domestic supply shock, namely, a severe drought that is entering its third year, with severe impact on agricultural output and potential upward pressure on domestic prices.

**Continuing progress on major reform areas would impart the Syrian economy greater resilience to withstand the shock-waves from crises, both present and future.** To support the reform process, a sequenced, time bound growth strategy should be developed to guide the next steps towards a social market economy. Critical areas requiring sustained efforts – many of which are already underway – include:

- **On the social and human development side,** continuing progress in strengthening social protection mechanisms – while phasing out inefficient and inequitable universal subsidy schemes – is essential to mitigate the adverse impact of external demand shock and drought on Syria's population. Unemployment insurance and targeting mechanisms are among the key social policy reform priorities. Furthermore, investments in improving the quality and cost effectiveness of education and health care are required to sustain human capital accumulation, thereby increasing social welfare and labor productivity.
- **On the fiscal side,** the limited space for additional fiscal expansion requires renewed attention to (i) strengthening public financial management; (ii) rationalizing and increasing the efficiency and effectiveness of public spending, particularly through the phasing out of fuel and other subsidies; and (iii) finding non-oil sources of fiscal revenues, such as introducing a VAT, expected for 2010, simplifying the income tax regime and strengthening tax administration.
- **On the trade side,** export diversification in goods and services needs to be deepened, with a particular focus on (i) identifying rising sectors with strong export potential and competitive edge, including tourism and cultural heritage; (ii) improving the efficacy and efficiency of existing arrangements for free zones; and (iii) developing an appropriate export incentive system.
- **On the financial sector side,** it is key to implement the actions identified as part of the Financial Sector Assessment (FSAP) recently conducted by the Bank and the IMF in cooperation with the Central Bank and the Ministry of Finance. This is all the more important as Syrian banks might be affected by "third round ef-

fects" as the risk of default of their clients may increase as a result of weakening demand.

- **On the private sector development side,** continuing with reforms aimed at improving the investment climate are probably the best response the government can give to depressed "animal spirits" on the part of investors affected or influenced by the global crisis.

**Syrian policymakers would also benefit from sector-level assessments of constraints and opportunities to sustained, broad-based growth.** For example, the agricultural sector—accounting for about 25 percent of Syria's GDP – is internationally competitive in some products (such as olive oil and certain nuts), while being highly protected and inefficient in others. Syria's infrastructure also needs to be significantly modernized – together with putting in place the appropriate regulatory framework – in key areas such as transport, electricity and water and sanitation. Developing the legal and institutional framework for Public Private Partnership (PPP) would help encourage private sector engagement in infrastructure projects. Finally, strengthened water and wastewater management would have positive spillovers at the regional level, with direct benefits not only to Syria but also to Iraq as well as countries in the Mediterranean basin.

**Therefore, the Government of Syria should not be swayed by short-term setbacks associated with the global crisis.** The response to these short-term shocks should be designed with longer-term goals in mind. While mitigating the impact of the global crisis, the Government should sustain and accelerate the implementation of its program to build a stronger, diversified, competitive and more resilient economy.

# Fast Growing Cooperation with Syria: Advisory and Technical Assistance



Syria has embarked on a comprehensive program of reform aimed at transitioning towards a social market economy, with the underlying theme of economic diversification to sustain high job-creating growth that is well distributed among its people.

To support this transition, Syria is engaged with the World Bank in a development program that comprises technical assistance and advisory services in the areas of economic growth and transition, human development and social protection, and sustainable development.

Specifically, in support of the transition to a social market economy, the Syrian Government is preparing with the Bank's support a **Country Economic Memorandum (CEM)** focusing on non-oil sources of growth. In collaboration with the Office of the Deputy Prime Minister for Economic Affairs, the Bank will review Syria's economic reform process to date and examine the main opportunities for, and constraints to, broad-based economic growth.

The Government has also launched with the Bank's assistance a review of its fiscal, public financial management and governance issues. Additionally, the Ministry of Finance is moving towards a Medium Term Expenditure Framework and results-oriented budget. To this effect, the ministry and the Bank have initiated work on a **Public Expenditure Review (PER)**, which will provide analysis and tools, which the Ministry of Finance can use to enhance fiscal discipline, strategic prioritization of resource allocation and effectiveness and efficiency of public spending. The PER will be complemented by a **Country Procurement Assessment Report (CPAR)**, which will assess procurement and contract management practices following the implementation of the new procurement law. It will also present recommendations and an action plan proposed for Government implementation with a view to improve the procurement system in Syria.

The Government of Syria and the Bank are working closely on the preparation of a workshop on good governance. A **Governance Symposium**, under the auspices of the Deputy Prime Minister for Economic Affairs, will be held in May 2009 and will address, through targeted sessions, crucial issues such as civil service reform, corporate governance, the role of non-governmental actors, public financial management, control of corruption, and governance indicators. It is expected that, based on event's policy and technical discussions, an **Action Plan for Further Improving Governance** will be developed and proposed for implementation by concerned institutions.

A **Public Financial Management System (PFMS)** already is under preparation by the Ministry of Finance. The system aims at improving fiscal control by linking policy and budget management; supporting budget integration to increase the focus on service delivery/quality, and improving fiscal/budget reporting to improve performance and transparency.

The Ministry of Economy and Trade (MoET), with Bank support, is preparing a **Review of Trade Policy Reforms** to help the government sequence and prioritize its trade policy reform efforts as part of a coherent strategic framework. The review is being conducted in two stages. The first, diagnostic stage, which is underway, aims to assess the progress so far in reforming the trade regime and to identify the areas where further work is needed in order to: (i) deepen trade policy reforms to achieve greater economic efficiency and competitiveness; and (ii) expand and diversify non-oil exports. In the second stage, in-depth studies will be undertaken in some of the areas identified during the diagnostic stage - such as non-tariff barriers, export processing zones, trade financing and export promotion - and a time-bound action plan will be prepared for immediate implementation by the MoET.

To support private sector development, the MoET, also with Bank support, is conducting an update of its 2005 **Investment Climate Assessment** through a new survey of private enterprises to provide up-to-date information and advice to the Government on priorities for investment climate reform. In this connection, the Bank and the government jointly organized, in early March 2009, a workshop on Doing Business (DB) Indicators, to build the government's capacity in understanding the methodology underpinning the DB survey, and identify potential reforms to improve the business environment. During the workshop, participants discussed and agreed on a reform action plan, which will be implemented by the authorities.

Moreover, the Bank is also engaged in providing capacity building to the **Public/Private Partnerships (PPP) Unit in the Prime Minister's Office** to enhance its ability in carrying out PPP transactions, establishing an appropriate institutional framework, and sharing with counterparts lessons from international experience. The World Bank has mobilized a grant from its Public-Private Infrastructure Advisory Facility (PPIAF) to cover the cost of additional technical assistance agreed for the preparation of PPP policy paper, review and finalization of a PPP law, and the establishment of an appropriate institutional frame-

work for PPP in Syria. This will help Syria attract private sector investors in infrastructure projects currently under preparation by the authorities.

To enhance its capacity for economic survey processes and analysis, the Syrian Central Bureau for Statistics is working with the Bank through a **Trust Fund for Statistical Capacity Building** to secure technical assistance on economic surveys. Three main areas have been identified: the design of questionnaires, support to the conduct of the surveys and capacity building on data processing and analysis.

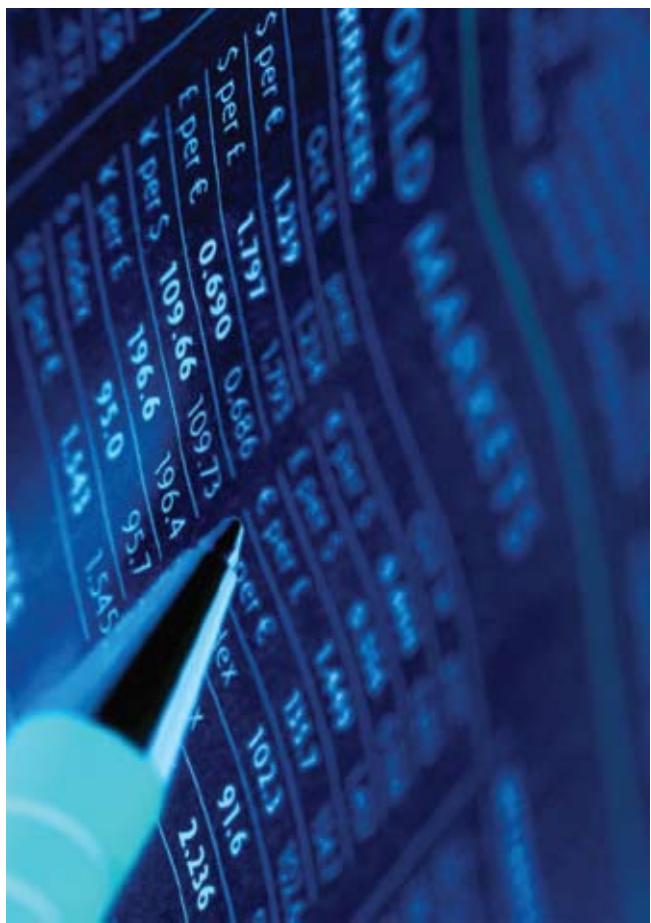
In the area of human development and social protection support, the Bank and the Ministry of Social Affairs and Labor have been working for more than two years on enhancing **Syria's policy making and implementation capacity in social protection**. Specifically, this task aims to enhance the capacity of the Ministry of Social Affairs and Labor to analyze and improve implementation of social protection policies and programs. Capacity development activities target two areas of social protection, namely social safety nets and pension reform. In this connection, a **Regional Conference on Employment and Growth under the MILES** framework was held in Damascus in March 2009, to assist the governments of Syria, Lebanon and Jordan in developing to develop an integrated policy framework for continued reform focusing on alleviating the binding constraints to growth and job creation in the sub-region.

Complementing the ongoing work on Social Protection, a multi-year technical assistance program was recently launched on **Reform Options for Social Insurance (Pensions and Unemployment Insurance)**. This will support the Ministry of Social Affairs and Labor, and the Prime Minister's Office, in designing and implementing options for pension and unemployment insurance systems. This includes examining the fiscal feasibility and options for introducing viable forms of social insurance.

Together with the Ministry of Education, the Bank is working on the development of a comprehensive **Education Sector Strategy**. The strategy will review issues in the pre-tertiary education system and provide recommendations for reform of the sector. The strategy will be complemented by analytical work on public spending in education as part of the overall PER exercise, assessing efficiency and equity of education expenditures (and outcomes).

An **Electricity Sector Strategy Study** is being prepared in collaboration with the Ministry of Electricity. It aims to identify options to improve the financial and technical performance of the electricity sector, particularly on cost-effective ways to reduce the electricity demand and supply gap. It will also provide options for sectoral reforms and institutional changes needed to improve the efficiency and quality of service delivery and to enable private participation in electricity sector investments.

Finally, the Bank is working with the Ministry of Transport on the development of the sector. In this area, the work is specifically focusing on the role and importance of the transport sector in the Syrian economy; the development of a framework for assessing the sector's investment priorities to improve efficiency and effectiveness of urban transport systems in major Syrian cities; and ultimately draft a **national transport action plan**.



## *Financial crisis*



### Regional Conference on Growth and Job Creation in Syria, Jordan, and Lebanon

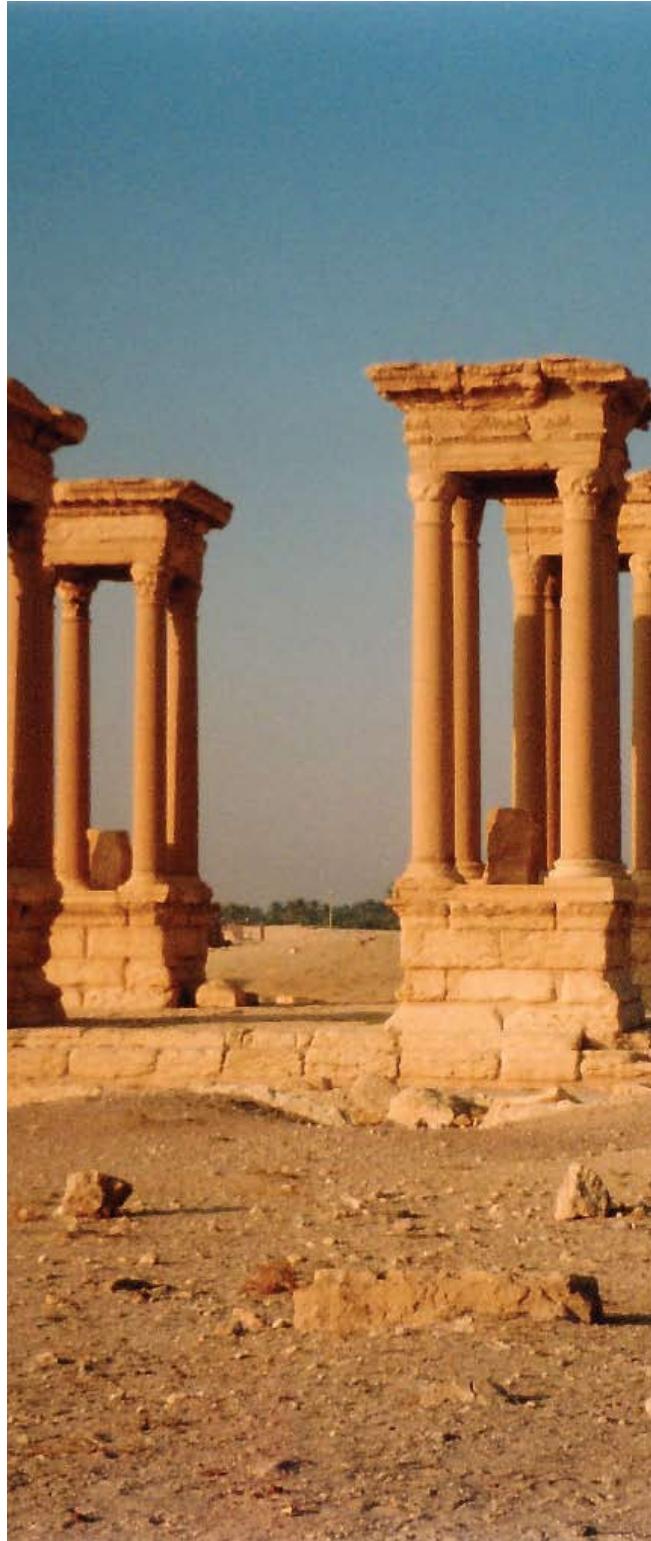
The World Bank convened a regional conference titled "An Integrated Approach to Growth and Job Creation in Syria, Jordan, and Lebanon" in Damascus on March 22-24, 2009. The conference was held under the auspices of Deputy Prime Minister for Economic Affairs of the Syrian Arab Republic Abdullah Dardari and in cooperation with the Ministry of Economy, and the Ministry of Social Affairs and Labor.



(L-R) Human Development Coordinator for Lebanon, Syria and Jordan, the World Bank Haneen Sayed, Deputy Prime Minister Dardari, Minister of Social Affairs Dalia Hajj Aref, World Bank Mideast Director Hedi Larbi

Participants included high level representatives from various ministries/agencies from each of the three countries. The conference exposed the participants to the MILES framework (Macroeconomy, Investment Climate, Labor, Education, and Social Protection) and to its five components in theory and practice. It also presented examples of integrated policies already taking place in the region (Jordan social insurance and labor reforms, for example). MILES provides a framework to integrate sector policies within a cross-sector program to promote the creation of good quality jobs. Implementation of MILES requires work at three operational levels:

- Technical work and policy analysis within sectors to improve the effectiveness of current programs;
- Policy coordination across sectors to avoid contradiction and exploit synergies; and
- Assessing tradeoffs in the implementation of policies/programs across sectors given fiscal, human resources, and institutional constraints.



Tetrapylon, Palmyra, Syria

# Jordan

## Education Reforms for Knowledge Economy: From ERfKE I to ERfKE II

- by Sophie W. Warlop.\* and Haneen Sayed\*\*



**"The Hashemite Kingdom of Jordan has the quality competitive human resource system to provide all people with long-life learning experiences relevant to their current and future needs in order to respond to and stimulate sustained economic development through an educated population and a skilled workforce".** With these words from His Majesty King Abdullah II, delivered at the "Vision Forum for the Future of Education" held in September 2002, Jordan embarked on an ambitious and comprehensive program for education reform called Education Reform for Knowledge Economy (ERfKE). Under the leadership of the Ministry of Education (MOE), this program has now entered its sixth year of implementation and is currently regarded as a model for education reform throughout the Arab region. The first ERfKE project is nearing completion and the second ERfKE project will be approved shortly.

### Background

Education has long been a priority investment for Jordan. In 2003, the Government of Jordan (GoJ) entered into an agreement with the World Bank and other partners to initiate and implement the first phase of a reform program entitled Education Reform for the Knowledge Economy (ERfKE I) "to support the Government of Jordan to transform the education system at the early childhood, basic and secondary levels to produce graduates with the skills necessary for the knowledge economy." ERfKE I was supported by 12 donors, led by the World Bank, under the auspices of the Ministry of Education (MoE) which ensures that the donors' operations converge towards the set development objective.

The ERfKE I project, currently in its final year of implementation, has provided significant outputs needed for the next phase of reform. These outputs include: (i) formulating a strategic development plan for the sector with clear goals and objectives; (ii) re-defining the learning outcomes for all subjects from grades 1 to 12; (iii) developing new curriculum, teacher guides, learning resource materials and learning assessment tools for all subjects; (iv) delivering intensive teacher training; (v) equipping schools with ICT infrastructure and related e-learning resource materials; (vi) building new schools; and (vii) initiating quantitative and qualitative development of the early childhood development sector (see Box 2).

These outputs are significant. However, they remain in the realm of system changes directed by the centralized authority of the Min-

\* Program Analyst

\*\* Human Development Coordinator for Lebanon, Syria and Jordan

### Box 1: Education Indicators

Jordan's education indicators have improved consistently since the mid-nineties. The illiteracy rate is 8.9 percent, the third lowest illiteracy rate in the Arab world; the primary gross enrolment ratio has increased from 71 percent in 1994 to the 98.2 percent in 2006; the transition rate to secondary school has increased from 63 percent to 97 percent over the same period; and the transition rate to higher education has varied between 79 percent and 85 percent of secondary school graduates over the past five years. Jordan also ensures a high level of gender parity in access to basic services. As a result, it has achieved 90 percent parity in literacy, full parity in primary and secondary enrollment, and increased life expectancy for both sexes. In the years between 1999 and 2007, Jordan made significant gains on international surveys of student achievement, with a particularly impressive gain of almost 30 points on the science portion of the Trends in International Mathematics and Science Study (TIMSS) over that period. While these gains cannot be attributed solely to the impact of the investment in the ERfKE program, they nonetheless suggest that Jordan has established significant positive momentum in student performance which continued investment should support.

istry without impacting significantly on organizational change. Areas where progress was slower were those that involved significant organizational change (decentralization, institutionalization of strategic planning), and those that required a change in behavior of teachers and officials (new pedagogy and classroom practices, new management roles). This is a fairly predictable outcome with a system reform of this magnitude – it is easier to bring about changes to documents, procedures and policies than it is to transform organizational structures or human behavior.

### From ERfKE I to ERfKE II: Getting Down to the School Level

Jordan's education system today needs to continue to accelerate the pace of reform of pre-primary, basic and secondary education in order to support Jordan's aspirations for employment creation, stimulation of economic diversification, income generation and reduction of poverty.

While very significant strides have been made with regard to developing and implementing systemic reforms of the curriculum, learning materials, learning assessment, and introduction of information and communication technologies into both learning and management, there is not sufficient evidence yet of *impact of many of the most important innovations at the level of the school and the classroom*. In addition, the institutional framework and capacity to manage the reforms need to be further strengthened to sustain the gains made in ERfKE I, and embed

# Jordan



## Box 2: Key Achievements under ERfKE I

- Development and dissemination of National Education Strategy (2006).
- Re-definition student learning outcomes for all subjects Grades 1-12 (emphasizing performance of skills and competencies based on relevant curriculum content).
- Design and development of new curriculum: textbooks, teacher guides, learning resource materials (including e-content) and learning assessment tools.
- Delivery of teacher training for all teachers (new curriculum, teaching strategies, ICT as a tool for learning).
- Extensive upgrading of schools with ICT: infrastructure and access to e-learning materials (2700+ connected to the high-speed (ADSL) learning network).
- Improvements in quality of physical learning environments (159 new schools, 466 classroom extensions, 177 KGs renovated and equipped).
- Establishment of new ECE system (curriculum, training, resources) related to international standards for early childhood education and increased access.
- Initiation of a monitoring and evaluation culture and capacity for assessment of the results of reform interventions.

the reforms into the system at every level down to the school and classroom. Measures taken in governance and decentralization need to be consolidated by further clarifying the roles and responsibilities of various actors and by enhancing the capacity of the field directorates to effectively support the decentralization process. Furthermore, taking into account the initiatives that are on-going at the field directorate and the school level to modernize the overall administration and establish a performance-based management system, there is a need to increase accountability in school management, to empower communities, and to create more effective partnerships with civil society.



ERfKE II will be guided by the following principles: (i) an imperative to focus on the school as the locus of change while continuing to support the enhancement of institutional framework and capacity building at the central level; (ii) the need for a focus on teachers as the key actors in change; (iii) the need for the ministry to serve as a facilitator and driver of change as opposed to being an implementer of change, which was its predominant role during the first phase of the reform; (iv) the need to direct capacity building at the decentralized level; and (v) the adoption of a participatory approach as opposed to a directive approach.

The following sector issues will capture close attention during the next phase of the ERfKE reform.

**• System Management:** The challenge in the next phase will be to move down to the school level in order to ensure that learning gains are achieved at the level of the school and the classroom.

**• Policy and Strategic Planning Capacity:** The MoE management system needs a significantly strengthened policy and strategic planning capacity, including an institutionalized monitoring and evaluation function that will guide the development of a more decentralized system.

**• Quality:** In international assessments (TIMSS & PISA), Jordan has performed well in comparison with other countries in the Region, but well below many countries at comparable income and education expenditure levels, and at or below the international averages. National assessments have revealed that the majority of students still perform below desired achievement levels. In addition up to 30 percent of students drop out before completion of 12th Grade.

**• Teacher Policy:** There are significant challenges regarding teacher recruitment, utilization, professional development and morale. There is still a relatively low level of actual use of the new methods and approaches in the classroom, and the new learning materials are often used in a conventional teaching approach. With the exception of early grade primary teachers, most teachers enter the classroom without any sustained training in pedagogical approaches or basic classroom skills.

**• Physical Facilities:** A recent school utilization study indicates that the number of MoE students is expected to increase by 124,634 between 2008 and 2013. There will be a need to provide an additional 3,360 classrooms over this time period. The same study also reveals a dichotomy in the provision of educational infrastructure in the Kingdom. There exists concurrently considerable excess capacity and wide-scale over-crowding of schools – much of it linked to rented facilities.

• **ECE (Early Childhood Education):** Significant achievements in construction, teacher training, curriculum development, teacher professional development, parent involvement and standards setting have helped make this one of the more dynamic elements of Jordan's education system. Yet significant challenges remain: continued expansion of access to Kindergarten Year Two (KG2) for the roughly half of children without access to KG2 classes competes with growing demand for greater public investment in Kindergarten Year 1 level provision; poor urban communities and children in rural areas compete for access to public provision; quantitative expansion competes with the need for consolidation of quality.

• **Technical, and Vocational Education and Training (TVET):** Enrollment in secondary vocational education as a share of total secondary enrolment declined from 18 percent in 2000 to 12 percent in 2005, suggesting a critical demand side problem, at a time of growing need for skills for the economic transformation articulated in the National Agenda. This suggests the need for significant realignment of MoE vocational programs based on input from the employer community and deeper analysis of labor market information.

ERfKE II includes the following five components:

• **Establishment of a national school-based development system.** The component will focus on the creation of an effective, school-based development process as the main vehicle to deliver to all young people of the Kingdom a quality education focused on developing the abilities, skills, attitudes and values associated with a knowledge-based economy. In each school, a school self-evaluation process will lead directly to the production of the school's own school development plan.

• **Policy, Planning, Monitoring and Evaluation, and Organizational Development** to fully support and inform the adoption of a school centered approach to the delivery of education services.

• **Teaching and Learning Resources.** The objective will be to review and develop teacher employment, utilization and professional development policies and practices, fine-tune a limited range of curriculum and student assessment arrangements made under ERfKE I, and ensure support for associated new developments.

• **Special Focus Program Development.** The objective of this component is to improve inclusive access to learning for all children in Jordan through special focus on three critical subsectors: early childhood education, special education and vocational education.

• **Quality Physical Learning Environments.** The objective of this component is improved provision of quality education facilities in a cost effective and sustainable manner so that students have access to environmentally friendly and efficiently operated quality physical learning environments. A detailed planning analysis has assessed the current situation regarding access to and utilization of physical facilities, and has revealed the need for further substantial investment in construction and rehabilitation to reduce overcrowding and accommodating projected enrolment increases, while facilitating more efficient utilization of underutilized schools.

ERfKE II builds on the experience and achievements of ERfKE I and is guided by international best practice. Its strategic focus reflects a deliberate emphasis on ensuring that the system changes (curriculum and assessment reform, teacher development, policy and strategy capacity) are manifested in changes in learning outcomes in schools and classrooms. ERfKE II is expected to garner similar donor support for the program that ERfKE I has enjoyed. The success of ERfKE will be measured by increases in national assessments scores aligned with knowledge economy skills; increase in enrollment rates at the KG2 level (as well as modest increases at the secondary level); increase in schools implementing school improvement plans; application of national teacher standards; increase in employer satisfaction in skills and abilities of labor market entrants holding vocational education certificates; and the decrease in number of underutilized and overcrowded schools.

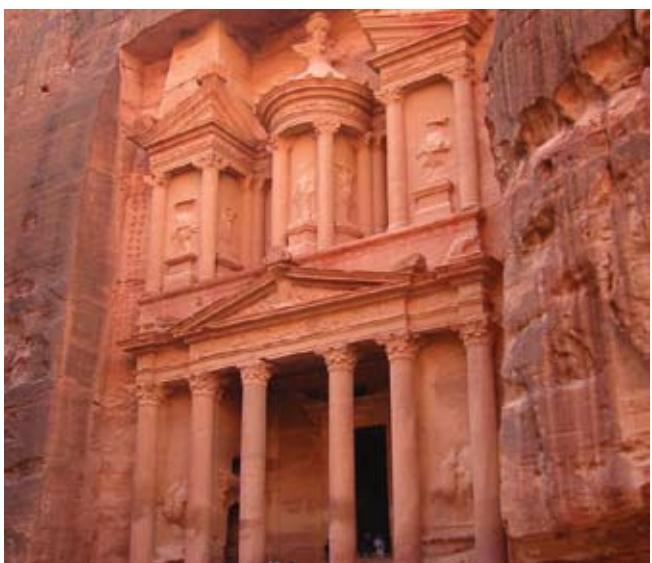


Photo by moogdrog.

# Jordan Partnership Program



The Joint World Bank-IFC country assistance strategy for 2006–10 is aligned with the government priorities, as expressed in particular in the National Agenda, of poverty alleviation and the creation of higher productivity jobs, while assisting the country in its transition through the medium-term economic shocks. The program revolves around four clusters:

- strengthening the investment environment and building human resources for value-added, skill-intensive, and knowledge-based economy;
- supporting local development through increased access to services and economic opportunities;

- reforming social assistance and expanding inclusion; and
- restructuring public expenditures.

## Portfolio

The active portfolio includes seven active projects for a total of \$303.5 million focusing on assisting Jordan achieve a regionally balanced and equitable growth including access to services, employment opportunities, and private investments outside Amman, enhancing social protection, reforming the general education and the vocational and training sectors. The portfolio also includes a partial risk guarantee for the construction of the Amman East power plant, four global environment facility

grants focusing on renewable energy, energy efficiency, and environment. The Bank and the Greater Amman Municipality also signed an Emissions Reduction Purchase Agreement, the first municipal carbon finance partnership in the Middle East.

Overall performance of the portfolio is good, both from the perspective of implementation and development impact. This reflects the generally good project implementation capacity of Jordanian institutions, Jordan's strong ownership of the program, and the quality of the dialogue between the Bank and the government of Jordan.

	Approval Date	Commitment Amount in US\$ M	Undisbursed Amount	Sector Board	Closing Date
<b>Investment Lending</b>					
First Education Reform for Knowledge Economy Project	May-03	120.00	7.05	Education	Jun-09
Amman Development Corridor	Jun-04	71.00	39.65	Transport	Dec-11
Regional and Local Development Project	Dec-06	20.00	18.61	Urban Development	Dec-11
Cultural Heritage, Tourism and Urban Development Project	Jan-07	56.00	49.00	Urban Development	Sep-12
Employer Driven Skills Development Project	Jun-08	7.50	6.98	Education	Sep-13
Social Protection Enhancement Project	Jun-08	4.00	3.99	Social Protection	Aug-13
Amman Solid Waste Management Project	Sep-08	25.00	25.00	Urban Development	Jun-14
<b>Guarantee</b>					
Amman East Power Guarantee		45.00	45.00	Energy and Mining	
<b>Global Environment Fund</b>					
Conservation of Medicinal/Herbal Plants	May-03	5.00	2.18	Environment	Dec-09
Integrated Ecosystems/Rift Valley	Jun-07	6.15	5.40	Environment	Jul-13
Promotion of a Wind-Power Market	Jun-08	6.00	6.00	Energy and Mining	Dec-12
Energy Efficiency		1.00	1.00	Energy and Mining	Jun-11
<b>Montreal Protocol</b>					
Ozone Depleting Substance (ODS) Phase-out II	Oct-96	5.00	0.41	Environment	Jun-10
<b>Carbon Finance</b>					
Amman - Ghabawi Landfill Gas to Energy Project	Jan-09	15.00	15.00	Urban Development	-

# Iraq Iraqis, World Bank Defy Risks For Socio-Economic Data

- by Susan R. Razzaz\*



**O**n January 12, 2009, Iraq's Ministry of Planning and the World Bank released the first statistical results of the broadest and most systematic household survey ever undertaken in Iraq. The yearlong study collected socioeconomic data from a representative sample of the entire national population. Baghdad and each of Iraq's 18 governorates were included –120,000 persons living in 18,000 individual households in all.

## A Milestone in Reconstruction

Publication of the Tabulation Report from the Iraq Household Socio-Economic Survey (IHSES) is a milestone in the reconstruction of Iraq. Despite its long history as a regional leader in higher education and research, Iraq's human resources and institutional capacities were badly decimated during two long decades of upheaval and isolation. Tens of thousands of trained professionals—in critical technical fields such as statistics, economics, and computer science—lost not just their jobs. Many fled the country, or indeed, lost their lives.

The most recent survey of income and expenditure was carried out not only 20 years but also several wars ago. In the intervening years, similar field surveys covered some but not all parts of the country. The more recent surveys included income and expenditure data but not related socioeconomic information on education, health, infrastructure, and so forth. Most of the questionnaires from the 2002 survey were lost, when the offices of the Central Organization for Statistics and Information Technology (COSIT, the national statistics department) were looted in 2003. The Consumer Price Index (CPI) in use today is based on woefully outdated 1993 data.

The recent IHSES survey differs from previous surveys not only in its coverage but also in its technical soundness. Internationally recognized methods and extensive quality control were applied. The 360-question survey instrument—filled out for more than 120,000 individual respondents—generated roughly 44 million separate pieces of information. Yet with widely accessible software tools such as SPSS and Stata, this vast database is also notable for the relative ease with which it can be updated, shared, and analyzed.

The IHSES Tabulation Report completes the first component of the Household Survey and Policies for Poverty Reduction (HSPR) project, a technical support agreement signed with the Government of Iraq in 2006. The 986-page report provides a first look at the new data. It

is descriptive, not analytic—dozens of demographic, social, and economic variables broken down by age, sex, urban/rural, governorate, income and expenditure groups, and so forth (See illustrative highlights on the facing page.) The report also includes a technical description of the objectives and methodology, the full questionnaire, supervision forms, and the training manual that guided interviewers in the field.

Data of this sort is particularly significant in light of the planning and reconstruction challenge that Iraq faces. The country desperately needs to revitalize its economy and to diversify beyond its current oil dependency. Tens of thousands of new jobs, especially for young people, need to be generated in the private sector. The country's current food rations program, a relic from the embargo-era, is nearly universal in its coverage, but is also vastly inefficient. Reforms are needed to create a food program that is effective and well targeted in protecting the poor, and efficient in the use of public resources. Iraq's formerly excellent education and health systems need to be rebuilt and modernized. After decades of neglect, the country's physical infrastructure—especially in the regions that are poorest and most battered by war—must be rebuilt and planned for the future.

IHSES data is now becoming integral to analysis, policy planning, and public debate. A High Committee representing Parliament, the prime minister's office, planning and finance, key line ministries, the Kurdistan Regional Government, and national universities is currently drafting a national Poverty Reduction Strategy. On a particularly contentious issue such as how to transition from a universal food, ration system to a targeted safety net, policy makers must first know who is poor, where, how food rations are currently used, and how various groups would be affected under competing reform scenarios. Similarly, improving education requires first knowing whether children are not attending schools, where; and if not, why not. (Are the schools too far away? Are children working? Is the cost of education too high? Is the return to education too low?)

The IHSES data set is particularly useful because it includes income and expenditure information that permits analysis of the causes of poverty. Living conditions surveys do not provide this level of information. The database is also providing practical information for calculating national accounts and for updating the outdated Consumer Price Index. The national poverty strategy, to be completed by July 2009, is based on the poverty line and poverty analysis conducted using the IHSES study.

\* Senior Economist, MENA region



## An Emerging Statistical Snapshot of Iraq Today

**Adverse environmental conditions.** The following percentages of people suffer from these conditions in their housing: stagnant water (56.4%); insects and rodents (49.9%); excess humidity (39.0%); nearby open sewage outlets (36.3%); nearby garbage and dirt (36.1%); security risks (30.7%); insufficient light (28.2%); foul odors (28.2%); dust (28.1%); noise (22.0%); insufficient ventilation (15.1%); smoke and gases (13.8%).

**Water supply.** 81.3% of individuals live in dwellings connected to public water networks—from 98.3% of housing units in Baghdad to just 45.6% in rural areas. However, only 12.5% of persons who are connected to the public network report that their supply of water is stable. 29.2% report daily interruptions; 17.6 report weak water supply; and 16.4% report interruptions more than once a week. In rural areas, 45.6% of households are connected to public networks; while 26.1% use rivers and creeks; 9.5% use tanker trucks; 8.2% use open wells; and 4.7 use public taps.

**Electricity.** The public electrical grid is identified as the main source of electricity for 76.4% of individuals; however, it provides on average of only 7.9 hours of power per day. The lowest rate is in Baghdad, with only 5.0 hours of power supply per day. Only 22.4% of persons are able to rely solely on the public network for electricity to their housing unit. 75% of individuals supplement the public network with one or two other power sources. On average, community generators provide 6.4 hours and private generators provide 4.0 hours of additional power per day.

**Human consequences of civil strife.** 4.9% of all injuries during the previous month were attributed directly to civil conflict. The percentage of disabilities caused by war, civil conflict, and land mines (14.1%) is approximately equal to disabilities caused by chronic disease (14.0%). However, the percentage attributed to war, civil armed conflict, landmines, chemical strikes, depleted uranium (14.3% taken together) is slightly greater than the percentage of disabilities related to nonwork-related diseases.

**Labor force participation and unemployment.** Labor force participation rises with level of education. Among persons 15 or older, only 24.2% of the illiterate participate in the labor force, compared with 92.6% among those with higher degree. The overall unemployment rate was 11.7% for both men and women, though higher among young adults (16.9% for 20-24 year-old men and 35.7% for 20-24 year old women).

**Rations.** 99.7% of households have at least one ration card. During the period of the survey, 79.1% of households received wheat rations during the previous month, but only 58.1% received their ration of rice. Wheat flour received as rations accounted for 55.4% of total wheat flour consumed in the previous month.

**Assistance.** 60.7% of Iraqi households received some form of assistance during the previous year, including 44.1% from government, 14.2% from friends and relatives, 2.1% from international organizations, and 0.3% from private organizations.

**Risks from violence.** During the past 12 months, 6.6% of households were directly affected by violence due to the abnormal security situation; 3.0% were affected by kidnappings and threats to life; and 2.9% were affected by other violence. 30.7% of individuals live in housing where they are affected by security risks.

**Sources of income.** Overall, households receive 45.3% of their income from wages and salaries, 25.0% from self-employment and employer income, 19.8% from property income, 5.2% from social security, and 9.9% from transfers. However, this varies geographically. For example, wages and salaries account for 31.4% of household income in Al-Najaf but 56.7% in Basrah; self-employment and employer income for 8.8% in Diala but 43.1% in Al-Najaf; and property income for 14.2% of household income in Al-Muthanna but 27.3% in Erbil.

**Distribution of expenditures.** Overall, 35.6% of household expenditure goes to food—ranging from 24.1% in Erbil to 44.5% in Al-Anbar. 29.0% goes to housing, water, gas, electricity, and fuels. 10.4% of expenditure goes to transportation—ranging from 4.2% in Diala to 20.6% in Erbil.

*I was arrested twice. Once another researcher was arrested with me, and they confiscated our computer.*

*[Q: But what for? You're a government employee doing your job, no?]*

*Of course. I wasn't doing anything wrong. But so what? What matters is that if they take you, that's it. You might end up being there for one, two, or three years; and you'll never know why.* [He thinks about this and then adds:]

*If you are just arrested, you're lucky. If you're not lucky, you just get killed.*

*– Interviewer, Al-Anbar*

*For me, the hardest part of interview was the second part—asking about women's underwear. I'm a man.*

*That made me feel shy.*  
*– Interviewer, Baghdad*

*We couldn't travel freely. Even me. I used to have to go to the ministry in Baghdad twice a month. When I would tell people that I had gone there, they would say, 'How could you!?'*

*You know, it's just 60 kilometers. But that was considered a huge trip.*  
*– Central supervisor, Fallouja*

*I did help them as much as I could. I gave them money from whatever I had. But afterward, not during my work. I couldn't do that during my work, not during my mission. Because the other families that were included in the survey, they might think that we were there to give assistance. So that's why I couldn't give them anything while I was on the job.*  
*– Interviewer, Al-Sulaimaniya*

Iraq's increasing capacity to use data in policymaking represents an even greater milestone than its capacity to collect data in the field. Across the board, government ministries and technical agencies have suffered over the past two decades from budgetary neglect, loss of trained personnel, and politicization. Today, they are not only rebuilding, many are working together in unaccustomed technical collaborations—for example, on the national poverty reduction strategy.

Moving beyond data collection, COSIT has set up a new data analysis unit under the same technical assistance that produced the IHSES database. Approximately 1,500 person days of training were provided, including statisticians from the Kurdistan Region Statistical Organisation (KRSO). With newly learned skills in SPSS and Stata, the new units have been able to respond quickly and professionally to information requests on the poverty reduction strategy, the census and other surveys conducted by COSIT various statistical departments.

### **Iraq Not a "Normal" Survey**

#### **Environment**

A census or national-level field survey represents no small undertaking for any country under any circumstances. Yet even so, Iraq in 2006 and 2007 was as far from "normal" as any country could be. In September–October 2006, the month before the 350-person IHSES team went to the field, causalities from war and civil violence were estimated at up to 3,000 per month. In "hot" areas—Baghdad, Al-Anbar, Diala, and Salahuddin among others—markets were shut down; government offices were closed; and if roads were open at all, they were dotted with checkpoints and in some places explosive devices. Kidnapping, bombings, and terrorist attacks occurred daily. It was an unlikely moment at which to launch a nationwide field survey.

Terms such as "difficult situation" and "need for innovative methods" hardly do justice to "accommodations" that, in many cases, were literally matters of life or death. First, interviewers and local supervisors had to be hired locally. They needed not only to be well known and neutral, but capable of negotiating the pervasive suspicion. Threats were made to many of them, sometimes because names alone reveal tribal or ethnic affiliations. In some cases, multiple identity cards had to be issued so that interviewers could move from one neighborhood to another (a separate ID card in each sock, as one interviewer recently recalled). Rather than use government vehicles, fieldworkers frequently rented old cars or arranged local transportation with

a well-known taxi driver. Governorates coordinators frequently converted their homes into temporary offices rather than risk going in to government offices. A work ethos evolved that seemed matter of fact in its heroism. In Al-Anbar, for example, interviews had to be suspended for a week while the local team waited out a siege. Yet as soon as the siege was lifted, they moved on, working longer hours to make up for their lost time.

Preparations began with the selection of interviewers—mostly young university graduates with backgrounds in statistics, economics, and social science. They were chosen through a widely publicized competitive process, based on rigorous interviews, examination scores, and relevant experience. Successful candidates received 23 days of intense training beginning in the classroom with theory but moving rapidly to the field for hands-on practice. The more senior governorate coordinators and regional supervisors participated in this training, but also went through a more advanced training themselves including a refresher about halfway through the fieldwork.

The 156 fieldworkers were organized into 56 teams, each comprised of three interviewers, a local supervisor, and a data entry operator. The governorate and regional coordinators worked directly on the ground with the local teams. A decentralized operational structure was critical to the "unusual" environment, because supervisory presence and decision-making authority devolved to the field enabled continuous adaptation to the rapid, often unpredictable circumstances. Thus, the teams were able to maintain steady momentum. Indeed, they worked 13 solid months with interruption, even where physical movement was often restricted.

The three-part, 354-item questionnaire consisted of 18 sections. A daily ledger was provided to each household to record all items of household consumption and expenditure. A time-use sheet broken down by 15-minute increments was used to record activities for every member of the household older than 10 years for a full 7-day week. Seven separate one-to-two hour sessions were required with each household. The full questionnaire was filled out for 18,144 households, on average 6.9 persons each.

The three-part questionnaire recorded, first, standard socio-demographic information, including household composition, languages spoken, schooling, housing characteristics, health, recreation and hobbies, past employment, and job searching. A second part recorded all nonfood expenditures for the past 30 days—every item from school fees to fuel to the cost of reuphol-



stering a chair. The third part of the questionnaire recorded recurring food and nonfood expenditures, as well as details on jobs during the past year; wage earnings from every source of employment; nonwage activities (agriculture, family business, gifts, pensions, donations, and so on); income from property transfers; an inventory of durable goods (bicycles, refrigerators, televisions, and so forth); as well as loans, credit, and outside assistance.

Data entry was decentralized not only because physical transportation of questionnaires was dangerous in every sense, but, most importantly, it makes it easier to follow up on potential errors. As soon as data was entered, a specially tailored program was run to spot anomalies and to flag potential errors. With continuous back-and-forth feedback with the data team, interviewers (and their local supervisors) were able to return to households, repeatedly if necessary, to ensure that every questionnaire was accurate, usable, and complete.

### The Dual Meaning of "Ihses"— Numbers and Feelings

In English, the abbreviated acronym IHSES refers to the particular 2006–07 household survey and by extension the database that it produced. In Arabic, however, the word "ihses" has another meaning, "feeling." It is perhaps "feeling," not a job to generate statistics, that explains the remarkable determination of the IHSES field teams.

While it is true that many areas of Iraq were safe and relatively calm during the survey, it is equally true that the local teams worked through continuous uncertainty, and sometimes through murderous violence at extraordinary personal risks. Attempts were made, to the extent that they could be, to keep the teams safe. Sampling methods were adjusted to produce representative results from "hot zones."<sup>1</sup> Yet reality is that violence and danger could not be skipped, and the central cities, other urban areas and rural areas of each governorate were visited.

What explains the willingness of these young people (and their supervisors and managers, who were not so young) to work under continuous stress, insecurity, and fear day after day for 13 months?

Certainly, the answer is not simply: A paycheck. To the contrary, banking and cash disbursement systems were nonexistent in many areas of the country. To everyone's frustration, financial managers for the survey struggled to provide regular salary payments and reimbursements. Many of them had to pay their own expenses out of pocket for months, yet the travel itself continued.

A subsequent research effort is being made to capture some of this history. Interviewer stories make clear that every member of the IHSES field team experienced continuous stress at minimum, and many/most experienced at least occasional brushes with life-threatening risk. If not their own experiences, virtually all the interviewers describe hostile questioning, unpredictable detentions, and encounters with local security forces, militias, and foreign troops. They describe some of their stories as hard to believe about themselves in retrospect—sitting with families recording details on children's vaccinations and the number of kilometers to the nearest post office, with mortar shells exploding and snipers firing from rooftops in the background. Indeed, interviewers describe not only not being able to complete interviews because the house no longer existed the following day, but then having to track down the former occupants.

It would be easy—but far too easy—to credit the IHSES achievement to comfortable explanations such as logistical geniuses, unusually talented government officials, superb technical assistance, brilliant supervision, and so forth. Perhaps. But not really. Explanations have to do with motivations and human terrain that is far harder (though in some respects far easier) to understand. These are the explanations relating to ihses in the Arabic sense of feeling. Most remarkably perhaps, these feelings are by no means limited to stories of violence and personal tragedy. To the contrary, beyond every account of suffering, there is another about kindness, generosity, and Iraqis' traditional hospitality no matter how grim the circumstances.

A tragedy occurred in the early morning hours of August 2, 2007, that has come to symbolize the level of commitment that broadly characterized IHSES. Operations Director Louay Haqqi was brutally assassinated on his way to his office in Baghdad.

For everyone, the shock, trauma, and feeling was intense. What happened next was most extraordinary perhaps because it seemed so typical. The team stopped, it grieved, and it honored its Operations Director. Then, it returned to the field for four more months of work, completing the survey for which Louay literally gave his life.

<sup>1</sup> See *Tabulation Report, Volume 1, Section 4.F*

(“Exceptional Measures”)

The *IRAQ HOUSEHOLD SOCIO-ECONOMIC SURVEY Tabulation Report* can be downloaded from [www.worldbank.org/iq](http://www.worldbank.org/iq)

# Iraq Oil, Gas and Fiscal Implications

Iraq's oil sector contributes around 65% of Iraq's GDP and over 90% of public revenues, and is therefore central to Iraq's fiscal position and critical to the health of the Iraqi economy. The current contraction in world demand for crude oil as a result of the global financial crisis will have a significant impact on Iraq in light of its extreme oil dependence. World demand for crude has already declined in the last six months and the expectation that demand will continue to decline, is weighing heavily on crude prices.

The recent drop in world oil prices to around US\$45/bbl, less than half of the 2008 average, has already adversely affected Iraq's public finances and balance of payments. The oil price for the 2009 budget was readjusted downwards twice (in November 2008 and January 2009). Iraq's fiscal position is projected to worsen with oil revenues expected to contract by 26 percent according to IMF projections, reversing a strong fiscal position (overall fiscal surplus of 8.2 percent of GDP in 2008).

With oil prices at current levels Iraq will not have sufficient public revenues to fund its 2009 budget. A deficit of about 17 percent of GDP was forecast by the IMF for the year. The actual 2009 deficit figure may turn out to be considerably higher than that since Iraq's crude is selling at below US\$ 40 per barrel, while the revised 2009 budget is based on the assumption of US\$50 per barrel. The Government announced it would allow for cuts in recurrent and capital spending in a supplementary budget if oil prices continue their downward trend. Iraq has sufficient reserves to cover a deficit this year, but this may not be the case in 2010.

Although Iraq's oil exports have risen steadily from 1.4 million bpd in 2005 to 1.8 million bpd in 2008, this is insufficient to offset the recent drop in world oil prices. The level of Iraq's oil exports has also been hampered by a recent decline in production from a high of 2.53 million bpd in June of 2008 to a recent 2.16 million bpd.

In response to Iraq's worsening fiscal position Iraq's government is now fully focused on the performance of its most significant economic sector. In late February of this year it convened a symposium to thoroughly review oil policy, and to discuss how to increase oil production and exports over the coming year. The symposium was chaired by Iraq's Prime Minister, and attended by the Deputy Prime Minister, the Ministers of Oil, Finance and Planning, and a range of senior government officials.

## The structure of Iraq's oil and gas sector:

Iraq is estimated to hold 115 billion barrels of proven oil reserves, and possibly much more undiscovered oil in unexplored areas of the country. Iraq is also estimated to contain at least 110 trillion cubic feet of natural gas. About 70 percent of Iraq's natural gas reserves are associated (i.e., natural gas produced in conjunction with oil), with the rest made up of non-associated gas (20 percent) and dome gas (10 percent). Since most of Iraq's natural gas is associated with oil, progress on increasing the country's oil output will directly affect the gas sector as well. Most associated gas is simply flared off. Some gas is used for reinjection for enhanced oil recovery and also for power generation. Action to increase the amount of gas made available for power generation through gas capture and production could provide Iraq with significant economic benefit.

Following a major reorganization in 1987, the Iraq National Oil Company (INOC) became part of the Ministry of Oil (MoO). The MoO is the functional head of the oil industry, and oversees a number of functionally-defined state-run companies. These include an exploration company, a drilling company, three production companies (North Oil, South Oil and Maysan), a pipeline company, three refineries, an oil products distribution company, two gas companies, a gas filling company (supply and distribution of LPG for domestic use), an oil tanker company, an oil projects company (design and engineering of upstream and downstream projects), and the State Oil Marketing Organization (SOMO).

Iraq exports crude oil through two main channels, the port of Basra in the south and the Kirkuk-Ceyhan pipeline to Turkey in the north. Oil is marketed on behalf of the Ministry of Oil by SOMO. The latter retains none of the sales revenues which are transferred directly to the Development Fund for Iraq (DFI), and thereby to public revenues through the Ministry of Finance.

International experts were also invited to give their views on Iraq's oil and gas policy development. Opinions were shared by notable Iraqi expatriates with experience in Iraq's oil and gas sector, alongside experts from Italy, Norway, US, France, Trinidad and Tobago and Japan. At the invitation of Iraq's Deputy Prime Minister, the World Bank also attended the Symposium.

In his opening remarks, the Prime Minister, H.E. Nuri Al-Maliki, stated that the Country's overall security and prosperity were dependent on its energy sector. He asked the Symposium to develop specific actions and recommendations to stop and reverse the current decline in production, and to maximize exports to meet the country's public revenue needs. The Prime Minister requested attention to development of Iraq's oil policy and to reform of its public institutions and legal and regulatory structure.



The Symposium was one of the most substantial events on the oil and gas sector in Iraq in which the Bank has been involved and was evidence of a new sense of urgency within the Government to address oil and gas policy development and oil revenues. The challenges of rehabilitating and improving Iraq's oil and gas infrastructure and of reforming and building the sector's institutions are immense, and although they have been present for some time, until now they have been masked by booming revenues from high oil prices.

The Symposium developed a number of key recommendations for sector policy; and emphasized the need for international assistance in the development of Iraq's oil and gas sector. The Government of Iraq is now looking to implementation of these recommendations to increase oil exports by up to 0.5 million bpd and at least partly address its worsening fiscal position. At the request of Iraq's Government the World Bank is now considering ways in which it might support the development of Iraq's energy sector.

In addition to the support it provided to Iraq's Oil and Gas Sector at this Symposium, the World Bank also continues to support Iraq's energy sector through interventions in the electricity sector, where it has been engaged since 2004. The Bank is financing emergency power station rehabilitation of Hartha power station in southern Iraq, and Dokan and Derbandikan hydropower stations in northern Iraq through two IDA credits totaling US\$144 million. The Bank is also providing the electricity sector with advisory assistance through a US\$6 million Iraq Trust Fund grant.



*Al Basrah Oil Terminal, Iraq*

[www.sigir.mil](http://www.sigir.mil)

# Iraq Partnership Program

The Joint World Bank-IFC Interim Strategy Note for 2009–11 benefited from a stocktaking of the Bank Group's engagement with Iraq to date as well as extensive consultations with Government of Iraq, the donor community, and other stakeholders, including representatives from private sector and civil society organizations. Activities under this ISN fall under one or more of three thematic areas of engagement:

- Continuing to support ongoing reconstruction and socio-economic recovery;
- Improving governance and the management of public resources, including human, natural and financial;
- Supporting policies and institutions that promote broad-based, private-sector-led growth.

## The International Reconstruction Fund Facility for Iraq (IRFFI)

The International Reconstruction Fund Facility for Iraq aims to help donors channel resources and coordinate support for reconstruction and development in Iraq through two trust funds: The World Bank Iraq Trust Fund (ITF) and the UNDF Iraq Trust Fund. The ITF finances reconstruction and capacity building projects, within the framework of Iraq's National Development Strategy and International Compact with Iraq.

## Portfolio

The Iraq portfolio includes three closed projects in capacity building, textbook provision, and community infrastructure development, and twenty active projects. Fifteen of these are financed by the ITF and five are financed by the International Development Association (IDA) and are concentrated in sectors such as water, road rehabilitation, health, energy, education and social protection.

	Ap- roval Date	Com- mitment Amount	Undis- bursed Amount	Sector Board	Closing Date							
		in US\$ M										
<b>ITF</b>												
<b>Completed</b>												
Capacity Building I	Feb 04	2.5	-	Public Sector Governance	Jun 05							
Textbook Provision	May 04	38.8	-	Education	Dec 06							
Community Infrastructure	Dec 04	20	1.4	Social Development	Dec 08							
<b>Active</b>												
School Reconstruction & Rehabilitation	Oct 04	60	28.4	Education	Jun 09							
Capacity Building II	Nov 04	7	1.4	Public Sector Governance								
Health Rehabilitation	Nov 04	25	9.6	Health, Nutrition, Population	Feb 10							
Private Sector Development	Nov 04	65	24.8	Fin & Priv Sector Development	Mar 10							
Baghdad Water Supply & Sanitation	Dec 04	65	46.6	Water	Jun 10							
Water Supply, Sanitation & Urban Reconstruction	Dec 04	110	74.6	Water	Dec 09							
Community Infrastructure (Supplemental Grant)	Apr 08	26	26.0	Social Development	Jun 10							
Disabilities	Nov 05	19.5	14.8	Health, Nutrition, Population	Sep 09							
Social Protection	Jun 06	8	6.2	Social Protection	Feb 10							
Household Survey and Policies TA	May 06	3.6	1.1	Poverty Reduction	Sep 09							
Household Survey and Policies Grant	May 06	5.5	0.1	Poverty Reduction	Sep 09							
Marshlands School Construction	Oct 06	6	1.9	Education	Jun 09							
Environmental Management	Dec 06	5	4.6	Environment	Aug 10							
Emergency Electricity	Mar 07	6	5.5	Energy & Mining	Sep 10							
Regional Health Emergency Response	Jun 08	8.7	8.3		Jun 10							
<b>IDA</b>												
Third Emergency Education	Nov 05	100	105.1	Education	Jun 09							
Emergency Road Reconstruction	Jun 06	135	132.2	Transport	Jun 10							
Dokan and Derbandikan Hydropower	Dec 06	40	41.2	Energy & Mining	Dec 10							
Emergency Electricity	Mar 07	124	126.7	Energy & Mining	Jun 11							
Emergency Water Supply	Jun 08	109.5	101.3	Water	Dec 13							