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Lebanon's Transition from Violence to Reconstruction and Development

- President Chirac, Prime Minister Siniora, Secretary General Ban Ki-Moon, President Barroso,

- Lebanon today stands at a critical crossroad. After a long and costly civil war, Lebanon had managed — against great odds — to begin the transition from violence to reconstruction and development.

- That effort encountered many challenges and a number of severe shocks. Nevertheless by July 2006, much had been achieved. Macroeconomic and fiscal indicators were improving. There was solid growth and demonstrable fiscal discipline.

- But then came the war of last summer which inflicted enormous damage on Lebanon's society and economy, along with terrible human suffering. That brought the positive trends to a halt and compounded existing challenges.

Cost of Conflict

- On top of the human tragedy — hundreds killed, thousands wounded — the war imposed a great burden on an already-fragile economy. About $2.4 billion in direct damages plus another $700 to $800 million in indirect damages.

- Instead of the 6 percent growth that had been projected for 2006, the economy declined by 5 percent.

- Even worse, the war caused incalculable damage to the fabric of a civil society known for its vibrant energy and enterprising spirit.

- 120 thousand people lost their jobs, and now face the risk of sliding into poverty.

- One million people were displaced at the height of the hostilities— one-quarter of the population of Lebanon.

- About 200,000 people emigrated during the hostilities, many of them young and highly skilled.

- The good news is that Prime Minister Siniora and his government have shown strong leadership in rebuilding from the devastation of war. In the first six months, substantial progress has been achieved in providing financial assistance to those most affected -- repairing infrastructure, opening schools, and cleaning up environmental damages.
• But as the Prime Minister also noted, Lebanon’s needs go beyond reconstruction. Lebanon now seeks our help to realize the hopes and dreams of its people, and its potential as a positive force in a troubled region.

**Endorsement of Government’s Reform Program**

• To steer Lebanon back to the path of recovery, the Government of Lebanon has presented to us today an ambitious, comprehensive and coherent reform package. It addresses three critical agendas:

  i. structural reforms to stimulate growth;

  ii. fiscal adjustments to raise revenue and promote the efficient use of public resources; and

  iii. third – critical for the success of the first two elements – social safety nets, special programs targeted to the poorest and most vulnerable, to ensure that they do not suffer unfairly and that they share in the benefits of reforms.

• Restoring Lebanon’s economy cannot happen overnight. And it cannot be achieved by one individual or group. To reach its ambitious, but achievable goals, Lebanese society as a whole must equitably share the benefits and the burdens of these reforms.

• We commend the Government on its preparation of detailed action plans for specific sector reforms, critical to successful program implementation.

• We particularly welcome the announcement that the Government of Lebanon has invited the IMF to provide an Emergency Post-Conflict Assistance program. This will help give confidence to both Lebanese and international stakeholders that the program is on track and that the Government is moving forward. This vote of confidence is essential.

• There is no question that the challenges that lie ahead are formidable. But the opportunities too are enormous. The greatest burden falls on the government of Lebanon to implement its ambitious reform program. But this is our chance as donors to help Lebanon succeed. Success in this effort will benefit all people of Lebanon and the region as a whole. None of us can afford the price of failure.

**World Bank Support**

• The World Bank Group has made an extraordinary effort to increase our support to the people and government of Lebanon during this critical period.

• For our staff working on Lebanon, their work is much more than just a job – it is a mission that they approach with passion and commitment and it makes me proud, as head of the World Bank Group, to be associated with them. Immediately after the truce, staff who had been evacuated returned to Lebanon to work with the Government to assess the situation and lay the foundation for long term development.

• An **Economic and Social Impact Assessment** of the hostilities was conducted in close collaboration with the Government, the private sector, international donors and other stakeholders. This assessment, completed in November, is a critical input to the latest reform package.
On the financing front, the World Bank Group is providing support in three areas:

First, we have taken the unprecedented step of providing grants from World Bank Group income. $70 million in grants have been contributed for recovery and reconstruction efforts, and to support reforms in the power sector. An additional $1 million grant has been made available to improve the Government’s ability to manage funds for reconstruction projects transparently and efficiently.

Second, the IFC—the private lending arm of the World Bank Group—will provide $250 to 275 million in financing for Lebanon’s financial and business community, including a guarantee program for small and medium-sized enterprises and a trade finance facility.

We are now also ready to extend up to $700 million in IBRD financing to support the implementation of the Government’s program, particularly its efforts to stimulate growth and to meet the needs of the poorest and most vulnerable elements of the population. We expect that a significant part—up to $400 million—of that amount can be made available in 2007, initially to support sector reforms, especially the power sector.

This package of World Bank Group financial assistance—totaling more than $1 billion—exceeds our earlier plans, and is part of a comprehensive and extraordinary international effort. That reflects our assessment that the program in front of us merits exceptional support because it addresses boldly the fundamental requirements for a strong recovery that benefits all people of Lebanon.

Based on the implementation of the IMF program and sustained donor support over the life of the program, we expect that the capacity of Lebanon to absorb increased levels of finance will be improved, and accordingly we are prepared to consider increasing our assistance over time.

Finally, we are prepared to continue and intensify our efforts in assisting the Government to implement its programs, to build institutional capacity, to improve procurement and financial management to undertake sector reforms, with a particular focus on those sectors such as power, which are key to the overall success of the program.

Lebanon’s need is greater today than ever before—and the international response needs to be greater. We believe our resources—combined with a strong role for the IMF and a robust donor and Lebanese stakeholder response—can serve as an important catalyst to put the country back on the path to strong recovery and sustainability.

Ladies and gentlemen, the people of Lebanon have called on the world to help revive their economy. We have an opportunity now, after the tragic events of last year, to restore hope and stability that the Lebanese people and their children so deeply deserve.

They have presented us with the first ever comprehensive plan that could bring jobs, education, safety nets and a better future within the reach of every citizen.

Now it is up to us to do everything we can to help Lebanon realize its great potential not only as an economic model but also as a model of diversity for the whole region.

When I was in Indonesia recently, a Muslim cleric pointed me to a wonderful saying from Surat Al Hujurat in the Holy Quran: ‘I have created you nations and tribes so you may know one another.’ The region needs more of that understanding and this conference today gives us all the opportunity to contribute to that goal.
Let me close by thanking the Government of France for convening and hosting this conference and thanking the Government of Lebanon for giving us all the opportunity to participate in an undertaking of great importance and potential benefit for all.