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With special thanks to Mary Saba

EDITORIAL

To the People of Lebanon

With great sorrow, the staff of the World Bank received the news of the tragic death of Rafic Hariri, former Prime Minister of Lebanon. Mr. Hariri was a man possessed of vision, eternal optimism and the will to succeed, rebuilding Lebanon's economy to put Lebanon back on the map of the world after 15 years of strife.

Throughout turbulent times in the MENA region, Mr. Hariri maintained his optimism and worked tirelessly to steer his country through the many challenges Lebanon faced. This unshaken resolve earned Mr. Hariri the admiration and respect of leaders from around the world; and in international institutions. The World Bank was no exception.

The death of Mr. Hariri is not only a loss for Lebanon, but a loss for the MENA region and the world community at large. His stature and wisdom will be missed. Mr. Hariri's drive, determination and vision rekindled hope in the hearts and minds of the youth of Lebanon for a future filled with prosperity and free of conflict. This hope should never be eliminated.

It is in sad times like these that a nation's resolve is put to the test. The nation's grief is deep, but so is the commitment to a future in which all Lebanese people find a place to live freely in a united and prosperous homeland. The World Bank has been a partner of Lebanon in its 15 years of reconstruction. Today, the Bank reaffirms its commitment to help Lebanon achieve its full potential in the world community.

The World Bank extends its heartfelt condolences to Mr. Hariri's family, to the families of all the victims and to the Lebanese people at large. The Bank wishes its friend Beirut MP Basil Fuleihan, a speedy recovery.

PERSPECTIVES FOR PHARMACEUTICAL REFORM IN LEBANON

■ Pharmaceuticals Are a National Burden

Pharmaceutical policies are at the core of national health systems in the world. But in Lebanon, whose annual healthcare bill stands at 12.4 percent of its Gross Domestic Product (GDP) - one of the highest in the region and the world at large - medicines have emerged as a stumbling block for healthcare reform.

Pharmaceuticals account for 25 percent of the healthcare bill, and surveys indicate that up to 21.5 percent of household health spending is on drugs. In a country where about 50 percent of the population has no insurance plans to cover the cost of medication and the rest of the population is only partially covered, drugs are a significant burden, especially on the population of the lower middle class and the poor.

In a bold effort to address this critical social issue, the Ministry of Public Health recently introduced measures to lower drug prices by 12-15 percent, in a first step towards an aspired reform of the health sector. The adjustment depends largely on reducing wholesale and retail profit margins and lowering logistical costs (customers' fees, shipments, etc.).

The lack of price control systems and an insufficiently equipped regulatory body to monitor the flow of drugs into the local market are often cited as the causes of this chaos. But there are other reasons, too, for which patients share the responsibility. The primary healthcare system is not being properly utilized. Patients who need treatment seek a specialist rather than a family doctor. In general, specialists tend to prescribe "more advanced" treatments, which might not be the most economic solution for a particular problem. Also, there is an abundance of doctors and pharmacists in the country - one pharmacist for every 2,500 citizens. As such, maximizing their return from every patient or client becomes a matter of economic survival.

Experiences in other countries show that these realities often lead to over-consumption of certain goods and services. In Lebanon, many pharmacists sell prescription drugs without prescriptions, according to their own assessment and they are influenced by economic incen-

tives (more expensive drugs mean more profit for the pharmacists). It is impossible, even for a highly-educated patient, to assess whether the procedures suggested or the medicines prescribed are cost-effective and in line with scientifically confirmed "good practice".

■ An Archaic Pricing System

An initial analysis suggests that some drugs, but not all, are more expensive in Lebanon, largely due to an inflexible pricing system that is negotiated between the manufacturer or importer, on the one hand, and the Administration on the other hand. This analysis is based on a country-of-origin price, which in today's world of multinational companies is difficult to define and control. Companies can keep prices artificially high in markets that are used as reference for setting prices elsewhere. A better solution to reduce cost would be a pricing system which is based on comparisons with a number of countries that are similar in terms of economic development and medical practice.

The bigger problem, however, is the fast growth in the prescription of new drugs, supported by the marketing efforts of manufacturers and their importers. While some multinational companies have introduced internal guidelines against unethical marketing practices, there is no external control or enforcement of such rules in Lebanon. It is generally assumed that in such a situation some doctors are influenced by material incentives, such as invitations to conferences at attractive locations abroad, to prescribe a particular medicine that might not be the most cost-effective choice for the patient.

■ A Small Generics Market

In Lebanon, the generic drug market is significantly small. Nearly 80 percent of prescriptions are written for the original brand of a certain drug, and only 20 percent for generics and the so-called "branded generics". There are three main reasons for the low percentage of generic prescriptions:

- Doctors do not have enough information on the availability of therapeutically equivalent generics or are encouraged to only prescribe branded

drugs, without being held accountable for the costs caused by their prescriptions.

- Pharmacists prefer to sell more expensive branded products because of the higher profit margins.
- Patients are unaware about the generics option and, therefore, do not ask for them. Alternatively, they are skeptical of the quality of generic drugs.

These obstacles could be addressed in the context of comprehensive pharmaceutical policy reforms. The target should be a market that acknowledges and endorses innovation to benefit individual patients and public health, while promoting lower-cost generic drugs where appropriate to free resources for more expensive modern treatments. On a practical level, doctors need a compendium that makes it easy for them to identify generic alternatives and compare prices. Also, pharmacists should be rewarded for cost-conscious behavior, for example by introducing a minimum dispensing fee for cheaper, and a maximum fee for more expensive drugs. Patients will start trusting generic medicines only when they are persuaded that the regulatory process is strict and transparent, and allows only drugs with proven efficiency, quality and safety on the Lebanese market.

■ Dynamics of Public Opinion in the Political Economy

The general public plays an important role in the political economy of pharmaceutical reform. There are two dominant factors that come into play: a healthy person seeks insurance with low premium rates and expects to limit spending to the necessary level. However, once faced with a serious illness, the patient naturally expects the best possible treatment, irrespective of costs. This contradiction must be addressed and discussed in a way that engages credible public opinion leaders representing different viewpoints. Otherwise, reform processes could easily get stuck in controversial and emotional discussions. The medical profession, including public health officials, tends to ignore the views of lay people, who ought to be heard, even if they lack technical expertise. Lay people, on the other hand, are normally sensitive to potential conflicts of interest. Allowing patients and credible public figures (who speak a non-scientific language and have no financial interest in the sale of pharmaceuticals) to become involved in pharmaceutical reform is a way to address this concern and work toward building a public consensus for reform which would require concessions from all.

■ A Weak Regulatory Capacity

An essential pillar of a rational pharmaceutical policy is confidence in the regulatory body that registers drugs and controls the quality of pharmaceuticals on the market. In this regard, Lebanon has to catch up with countries in the same income bracket and with countries that have a comparably-developed health sector. The current regulatory system is described as slow, not sufficiently transparent, lacking the capacity for thorough testing and analysis and not always fair and predictable in its proceedings. Also, requirements for drug registration seem weaker than in other countries. Generic drugs, for example, can be registered without proving bioequivalence, the experimental proof that the generic drug would generate the same concentration curve of active substance for the recipient organism as the original brand.

A modern, transparent and rigid drug approval system is important to build confidence in medicines on the market. As long as doubts about the quality of some cheaper generic drugs persist, patients and professionals will continue to opt for well-known brands. Equally important in confidence building is strict control of the distribution chain that exposes any illegal activities which put public health at risk, such as the distribution of counterfeit drugs or the sale of medications which have passed their shelf life. The Lebanese Order of Pharmacists is working hard to fill the gap in the control and execution processes, left in jeopardy by an Administration which does not have sufficient capacity in this field. But, control and enforcement are only one part of the problem. Building up confidence can also be achieved through regular and open communication on drug quality issues. Regulatory agencies in other countries routinely communicate with the public through the media, disseminating reports of findings and decisions, warnings on the discovery of bad quality drugs or new side effects and awareness messages to help professionals and patients identify bad quality drugs.

■ Support for National Manufacturers

Another important role of the regulatory agency is to control national manufacturers and license production facilities. This type of regulatory supervision will in the mid term serve as an endorsement of the quality of nationally-manufactured medications, helping manufacturers establish a strong export business. While many countries routinely upgrade their regulatory capacity and strengthen their processes, manufacturers in countries with weak supervisory bodies have increasing problems

in registering and marketing their products. On the other hand, because national manufacturers usually produce generic drugs, they are also more likely to benefit from a policy which creates incentives and stimulates growth of the generic part of the market.

■ Patents and Intellectual Property Rights

At present, since international manufacturers and their importers dominate the Lebanese market, their participation in the discussion of pharmaceutical policy reform is important. The main policy goal, supported by multinational companies and the governments of their home markets, is the strengthening of intellectual property protection in Lebanon. This would make the manufacturing and selling of copies of drugs still under patent protection in OECD countries illegal. Such a strong intellectual property regime may be beneficial to overall economic growth and would encourage foreign direct investment in Lebanon. However, the current situation gives the government of Lebanon an opportunity to capitalize on ongoing negotiations to ask for some concessions, which are likely to include the pricing system, incentives for generic competition and a marketing codex with real sanctions and external verification. If Lebanon moves closer towards OECD countries in its trade and intellectual property rules, Lebanon might as well consider introducing an OECD country level of safeguards against unlimited growth of pharmaceutical expenses and unethical marketing practices.

The current relationship between international and national manufacturers is partially collaborative, based on contract manufacturing of branded medications for the Lebanese market. But there is also competition through locally manufactured unlicensed copies of drugs still under foreign patents. The market share of these products is limited. Nevertheless, local manufacturers would expect a friendly and collaborative solution to protect their commercial interests, should Lebanon decide to broaden its intellectual property protection to include patents which predate 1999, when pharmaceutical patents were first introduced.

■ Backing the Payer

About two decades of continuous pharmaceutical reforms in Europe and other parts of the world have shown that there is no easy solution to solve the dilemma between access to state-of-the-art treatment for all, and cost containment within a limited budget. Changes in legislation,

pricing systems and payment modalities usually have a limited impact and over time, the players in the market find ways to adapt and neutralize the change.

A good example of this dilemma is the widespread practice of reference pricing with a reimbursement ceiling. Such a system existed in the Netherlands for some time, and was later abandoned because all competitors had set their price just under the ceiling, which turned out to be higher than the market price in other EU countries with free pricing competition. Instead of lowering the price for the customer, manufacturers tried to boost their market share through bonuses for wholesalers and pharmacists.

This demonstrates that, in the long term, governments are not necessarily best positioned to balance market forces and ensure an efficient and effective pharmaceutical sector. Information asymmetry and a comparative disadvantage in technical, management and negotiation skills are inherent in the public sector, independent of the development level of a country.

Europe and the United States tend to lean toward strengthening institutions to benefit the payer, so that they can negotiate on behalf of patients and secure good quality treatment at the best possible prices, moving from passive payment or reimbursement to active purchasing. This requires an integrated payment system with a sophisticated collection and analysis of input and outcome data. One potential model could be a social insurance fund that defines a benefit package and negotiates prices and performance criteria with providers, trying to strike a balance between optimal outcomes and affordability. Several variations of such systems are under development in OECD countries. While none of them is perfect, the trend clearly goes in this direction.

ECONOMIC DEVELOPMENTS IN THE FOURTH QUARTER OF 2004

The following report is based on available data on financial developments during October-December 2004. Turbulence in the aftermath of the February 14, 2005, assassination of former Prime Minister Rafic Hariri undoubtedly left its mark on Lebanon's financial scene. An up-to-date analysis of financial developments will be published in the next issue of the Update.

Recent developments over the Fourth Quarter of 2004 suggest a stabilization – possibly even a decline – in the debt to GDP ratio in 2004, the first time since 1992. Fiscal revenue continued to increase in the Fourth Quarter of 2004, the result of greater economic activity and tax collection. On the expenditure side, Lebanon is now fully benefiting from the lowering impact of the Paris II financial package on its debt service. On the other hand, primary expenditures severely slipped over the Second Half of 2004, plummeting the fiscal adjustment gains achieved over the First Half of 2004.

Debt sustainability is crucial for growth. The debt situation is at the heart of Lebanon's growth challenge, and cannot just be seen as a financial issue, notwithstanding its importance. Lebanon's debt, the highest in the world as a percentage of GDP, is coupled with high levels of real interest rates and risks, which discourage private investment – and in turn growth. The Lebanese economy is currently boosted by regional factors, but still finds little relay domestically. As a matter of fact, domestic investment has remained desperately flat in real terms since 2001. This is regrettable in the face of Lebanon's high growth potentialities. With its large education base, entrepreneurial skills, openness to the world and ability to attract foreign capital, Lebanon should grow much more rapidly every year,¹ basing its prosperity on the development of a modern, competitive and outward-oriented web of services. However, this potential cannot be realized unless the fiscal imbalances are first addressed.

¹ High deficits and debt levels entail enormous opportunity costs in terms of foregone growth. International experience suggests that increasing the fiscal deficit by 1 percentage point of GDP led, on average, to a decrease in per capita real economic growth of a 0.2 percentage point in Middle-Income Countries, where the deficit initially exceeded 2.5 percent of GDP. Applied to Lebanon, this result would mean that public deficits recorded over the past decade have cost 3 percentage points of foregone real per capita GDP growth every year.

Lebanon has not yet emerged from its macro-economic imbalances. Most of the financial benefits of the Paris II package will expire after 2005, notably soft loans from commercial banks, and the external environment might not always be as favorable to Lebanon as it is today – nominal interest rates in particular. Furthermore, the deceleration of capital inflows in 2004 is also slowing down the growth in money supply, and, accordingly, the possibilities for the Government to finance its deficit without resorting to inflation and/or higher interest rates. While the risk of a financial contingency is limited in the short term, Lebanon has not yet emerged from its macro-imbalances and will continue to remain vulnerable to a sudden reversal in confidence until it manages to restore full credibility through sound fiscal consolidation.

Additional reforms are needed to push the debt ratio on a steep declining slope. Debt sustainability analyses suggest that privatizations and tighter debt management will not suffice to put the debt to GDP ratio on a steep declining curve, unless accompanied with much higher primary surplus than realized in 2003 and 2004. This will necessarily pass by a containment of non-debt expenditures. International experience suggests that fiscal stabilization, which concentrates on expenditure cuts rather than tax-based adjustment, is much more likely to succeed in reducing the debt to GDP ratio, as it better preserves growth and does not allot the whole burden of adjustment to the private sector alone.

Greater fiscal credibility could also help in reducing Lebanon's borrowing costs. The Lebanese Government has little control on interest rates, but could lower its borrowing costs by convincing investors of its capacity and will to tighten its fiscal policy. But there is no miracle at this point to meet this daunting challenge: reforms will need to be anchored in credible commitments and supported by a broad-based consensus. Enhancing the credibility of the adjustment requires tackling governance issues – the overall use of public funds – at their roots. Only when policy measures are viewed as long term and credible will borrowing costs decline. In this regard, steps recently taken by the Lebanese Government to tackle Electricité du Liban's (EDL's) structural problems, consolidate public accounts and reinforce institutional safety nets are welcome.

■ Real Sector Developments

The regrettable absence of updated economic statistics precludes the rigorous monitoring of economic activity. National accounts are missing, and there is no up-to-date information on households' living conditions, consumer prices, wages or unemployment, all of which render any policy step speculative. The World Bank is encouraged by recent efforts exerted by the Government of Lebanon to develop quantitative information, notably regarding national, fiscal and quasi-fiscal accounts, as well as households' living conditions. The Government's efforts should be sustained to institutionalize the production and dissemination of reliable statistics in these fields, which is a critical element for good governance.

Indirect indicators point to a significant acceleration of economic activity in 2004 compared with 2003. The International Monetary Fund and the Central Bank estimate that real GDP could have grown by 5 percent in 2004 (against 3 percent in 2003), while Audi Bank estimates put growth at approximately 4 percent in 2004 (against 3 percent in 2003). The coincident indicator computed by the Central Bank (Banque du Liban, BDL) recorded an 8.6 percent growth rate in 2004 (compared to a 6.5 growth rate in 2003). One of the most reliable indicators of economic transactions is the evolution of compensated checks, which grew by 8.6 percent in real terms between 2003 and 2004. The same indicator had registered a 3 percent growth between 2002 and 2003 (source: BDL). The rapid growth in airport passengers, +18 percent and foreign trade, +25 percent in 2004 compared with 2003, suggests a rise in tourism and trade activities. On the other hand, construction activity (measured by cement deliveries, +2 percent in 2004 against +5.3 percent in 2003, or construction permits, +3.4 percent in 2004 against +11.2 percent in 2003), seems to have decelerated over the course of 2004.

Private consumption and exports became the main drivers of growth between 2003 and 2004. Seemingly, GDP growth was driven in 2004 by exports of goods (+15 percent in value compared to 2003; +25 percent as measured in tons) and services (tourism in particular), public and private consumption of goods and services (some of which are domestic, others imported, as reflected in the rapid growth of merchandise imports in 2004, +31 percent in value compared to 2003; +29 percent as measured in tons). Some of these trends have now been sustained for several years and could continue to represent major sources of growth in the foreseeable future should the regional situation stabilize. In particular, tourism activity appears to be very promising,

with an annual growth rate in the number of tourists at approximately 6-7 percent a year since 1998, and a strong acceleration in tourism in the summer of 2004.² Lebanon also appears to have regained part of the market share and reputation it enjoyed before the Civil War, in particular, vis-à-vis neighboring Arab tourists, who constitute the bulk of newcomers. Currently benefiting from the surge in Iraq's reconstruction needs, Lebanon's foreign trade activity also appears to be back on a solid growth track.

On the other hand, growth in public absorption remains undesirable in the face of fiscal imbalances, and domestic investment is low. The Government's primary (non-debt, Budget plus Treasury) expenditures grew by 14 percent in 2004 (see Table 1), seemingly much more rapidly than domestic prices³ or nominal GDP. And, in spite of rapid broad money growth (+9.7 percent for M3 in 2004), banking credits to the domestic private sector have remained desperately flat in real terms since 2001,⁴ illustrating the absence of domestic investment counterparts to the current positive external shocks, which can be observed elsewhere in the MENA region (Gulf tourism, remittances and investments related to oil prices, reconstruction in Iraq).⁵

² The number of tourists visiting Lebanon in 2004 was estimated by the Immigration Department of the Surete General at 1.3 million— up from 1 million in 2003. Audi Bank estimates that average spending per tourist also slightly increased in 2004, to reach an aggregate figure of US\$500 million.

³ The Consultation and Research Institute (CRI) estimates that consumer prices grew by 2.2 percent in 2004 compared to 2003. Lebanon's Central Administration for Statistics (CAS) estimates that price levels grew by 2.6 percent between June 2003 and June 2004. Worth noticing is the CRI Index, which is believed (by its authors) to systematically underestimate actual inflation for technical reasons linked to the weighting of various basket components. By the same token, however, housing costs are not included in the CAS Index, also suggesting that prices grew faster in 2004 than reported by the CAS. Indeed, the Construction Cost Index grew by 5.9 percent in 2004.

⁴ Between December 2000 and December 2004, commercial banks' credits to the private sector grew by 8 percent (source: Banque du Liban, BDL). During the same period the Consumer Price Index rose by 8 percent (source: Consultation and Research Institute), and money supply (M3 plus non residents' deposits) increased by 47 percent (source: BDL).

⁵ On the other hand, imports of industrial machinery equipment rose by 30 percent in 2004, and could suggest a steady increase in investment expenditures. Yet, their absolute number, US\$142 million, remains marginal, as it represents less than 1 percent of GDP, and makes it, hence, difficult to derive any significant conclusion from this indicator.

■ Fiscal Accounts

Public deficit dropped in 2004. The overall deficit decreased from 37 percent of public expenditures in 2003 to 29 percent in 2004. In other words, Government revenues covered 71 percent of public expenditures in 2004, up from 63 percent in 2003.

The drop in the deficit is entirely due to lower debt servicing. In 2004, the debt service decreased by 17 percent, thanks to the direct (soft loans) and indirect effects (drop in market interest rates) of the Paris II financial package. On the other hand, the primary balance (the difference between revenue and non-debt expenditure) only slightly increased in nominal terms, from US\$620 million in 2003 to US\$660 million in 2004. In other words, Lebanon did not use the opportunity provided by a very positive economic environment in 2004 (greater economic activity and tax collection) to improve its primary balance, as most of additional revenues were used to finance additional non-debt expenditures.

Table 1. Fiscal Accounts

Figures in US\$ million	2001	2002	2003	2004
Total receipts	3,082	3,878	4,414	4,985
Budget revenues	2,826	3,581	4,125	4,693
Tax revenues	1,965	2,650	2,986	3,429
VAT	0	659	903	1,170
Customs	1,079	1,070	1,089	1,072
Other tax revenues	885	921	994	1,187
Other	861	931	1,139	1,265
Treasury receipts	256	297	289	291
Total payments	5,886	6,725	7,026	6,992
Excluding debt service	2,277	2,564	2,611	2,842
Debt service	2,860	3,066	3,233	2,668
in LBP	2,302	2,174	2,062	1,490
in FX	559	892	1,172	1,178
Treasury payments	749	1,096	1,182	1,482
Surplus / Deficit	-2,805	-2,847	-2,612	-2,007

Source: Ministry of Finance

Government revenues increased by 13 percent in 2004. Beyond GDP growth, which mechanically sustained revenue growth, Lebanon also increased its capacity to collect taxes and generate revenues, for a given level of economic activity. Various elements explain this trend: the lowering of the threshold for VAT exemption, the full effect in 2004 of the tax on interest revenues introduced in 2003, and the restructuring of cellular phone companies. It should also be

noted that Lebanon benefited in 2004 from a rapid nominal growth in imports and private consumption, on which most taxes (tariffs and VAT) are based. From an accounting point of view, the increase in VAT revenues accounted for almost half of the total revenues increase in 2004; other tax revenues (interest and property taxes notably) accounted for a third; and non-tax revenues (mainly telecom receipts) contributed to the remaining increase.

However, concurrently, primary expenditure grew rapidly as well, by 14 percent in 2004 compared to 2003. While primary spending had been contained during the first six months of 2004, it severely slipped thereafter. Compared with the same periods in 2003, primary expenditures were respectively 22 and 29 percent higher in the Third and Fourth Quarters of 2004. A detailed breakdown of expenditures was not available as the Update went to print – only the split between Budget and Treasury expenditures. The latter, which mainly finances arrears, transfers to municipalities and public enterprises (EDL in particular) grew by 25 percent in 2004, while Budget expenditures grew by 9 percent. Compared with the Budget Law 2004, actual primary expenditures were US\$440 million higher than budgeted, while the debt service was US\$180 million lower than budgeted; revenue was US\$440 million higher than budgeted, and therefore, the overall deficit was US\$180 million lower than budgeted. This performance, though, cannot be considered satisfactory in the face of the highly positive external environment Lebanon benefited from in 2004 and the lack of ambition for fiscal consolidation reflected in the Budget Law 2004.

As a result of fiscal imbalances, debt continued to grow in 2004. Gross public debt reached US\$35.8 billion by end-2004, up from US\$33.3 billion a year before. This corresponds to a 7.6 percent annual increase, and marks an acceleration compared to 2003, when public debt grew by 6.1 percent. However, accelerating in 2004, debt growth remains largely contained compared to the years preceding the Paris II Conference. Between 1999 and 2002, the average annual growth rate in public debt had reached 14 percent.

The public debt profile evolved towards longer maturities. The weighted average life of Lebanese Pound Treasury Bills (TBs) increased to 18 months in December 2004, compared to little less than 15 months in December 2003. Following the swap operation in August 2004 and the new issuance of Eurobonds in November 2004, the average life of Eurobonds increased to 6 years by year end, up from 5.8 years by the end of

June 2004. In the sense that it reduces the frequency at which the Government needs to roll-over its debt, the extension of maturities is good news.

The share of the public debt labeled in foreign currency also increased. The share of the public debt labeled in Lebanese Pounds (LBP) decreased from 53.4 percent in 2003 to 49 percent in 2004. The dollarization of the debt presents some advantages, as borrowing costs in foreign currencies are lower than that in local currency, thereby reflecting a positive perceived exchange rate risk. The downside of this is an increased default risk, as the Government cannot print foreign currencies. Fortunately, this risk is considered mitigated by the high level of foreign liquidities in Lebanese banks, some US\$23 billion by end-2004. Finally, the increased dollarization of the public debt reflects that of the Government's main creditors, the depositors in Lebanese banks. In 2004, the share of deposits labeled in foreign currencies rose significantly, to reach 70 percent against 66 percent by end-2003.

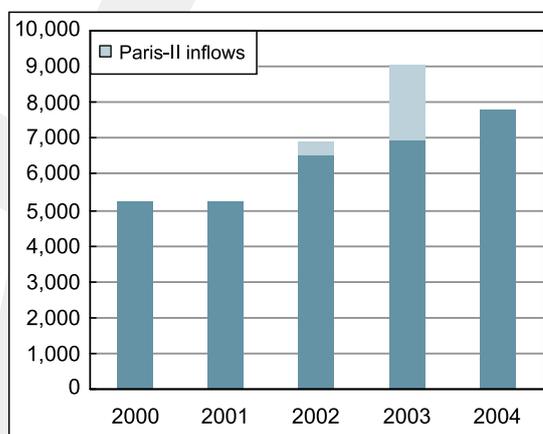
Lebanese Banks continued to absorb new public debt in 2004. Lebanese banks' exposure to public debt (as a percentage of their assets) was broadly kept in 2004 at its 2003 level, but their share in total debt continued to grow. By end-2004, Lebanese commercial banks were detaining 48.4 percent of the gross public debt, up from 43.4 percent a year back. The Central Bank saw its share stagnating, at 17.5 percent in 2004 against 17.2 percent a year before. Nevertheless, the increase in the absolute value of the debt means that the Central Bank resorted to money creation to finance approximately one-fourth of the public deficit in 2004. In contrast, other public institutions, such as the National Social Security Fund and the Institute of Guarantee of Deposits held only 4 percent of the debt by end-2004 against 5 percent in December 2003. Moreover, the share of the debt directly held by households decreased from 6 percent in 2003 to 2.4 percent in 2004. The remainder, 28 percent of the gross public debt – about US\$10 billion, was mainly held by non-residents, including foreign governments and international financial institutions. This share was broadly kept at its 2003 level.

■ External Accounts

Private capital inflows rose substantially in 2004, but fell short of compensating for the decline in public transfers. Net capital inflows continued to decrease throughout the year 2004. Cumulated net capital inflows at end-2004 were estimated at US\$7.8 billion, against US\$9 billion in 2003. If Paris II inflows were excluded,

net private capital inflow in 2004 exceeded that of 2003 by US\$840 million. For the Last Quarter of the year alone, private net capital inflows for 2004 were US\$270 million higher than in 2003.

Figure 1. Cumulated Net Capital Inflows (US\$ million)



Source: World Bank Staff Calculations

The merchandise trade deficit soared by US\$2 billion in 2004 compared to 2003. Merchandise exports continued to grow in 2004 (+15 percent, to reach US\$1.7 billion), but at a lower pace than in 2003 (+46 percent). The Last Quarter of 2004 even witnessed a decrease in exports by 4.5 percent compared to the same period in 2003. The increase in exports could not, in any case, compensate for the substantial rise in imports. Imports rose by 31 percent in 2004, compared to 11 percent in 2003, to reach US\$9.4 billion.

With higher trade deficit and lower net capital inflows, the net foreign assets of commercial banks and the Central Bank hardly grew in 2004. In cumulated terms, the change in Lebanon's net foreign assets was limited to US\$169 million, with a positive US\$265 million change in the First Half of 2004 and a negative US\$96 million in its Second Half. Gross reserves at the Central Bank decreased by US\$700 million compared to December 2003. The decrease in reserves is linked to the 3.9 percentage point increase in the dollarization rate of deposits (see below). However, the impact of the dollarization of deposits was partly offset by the Euro-bond emissions of May and November, as well as by increased commercial banks' deposits in United States Dollars (US\$) at the Central Bank. World Bank Staff estimates those deposits to have increased by US\$1.4 billion since December 2003.

■ Financial Markets Developments

Money growth decelerated in the Fourth Quarter 2004.

Money supply growth remains critical to finance Government deficit. Money supply increased by 10.2 percent over the year compared to a 13.6 percent increase between 2002 and 2003. The deceleration in 2004 is mainly due to the low 1.4 percent growth of the money supply in Lebanese Pounds (M2) compared to 29 percent in 2003. Growth in money supply was driven by the increase in domestic credits by 10 percent, while net foreign assets increased by 2.5 percent since end-2003. Credits to the public sector have risen by 15 percent, while credits to the private sector have increased by 5 percent since end-2003.

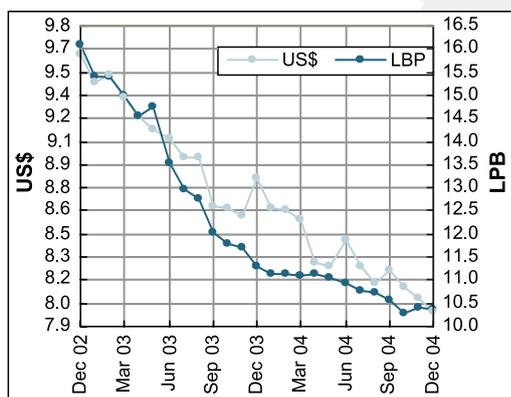
The dollarization of deposits rose again in 2004, to reach 70 percent in December 2004 against 66 percent in December 2003.

The drop in the spread between the US\$ and LBP remuneration on deposits – 68 basis points (bps) between December 2003 and August 2004 – might have been felt too abruptly by depositors in the face of continuous perceived exchange rate risk, hence, encouraging conversions to foreign currencies. Since then, the spread only further dropped by 8 bps, but increased political turmoil might have further altered depositors' confidence in the ability of the authorities to maintain the parity.

Interest rates on deposits decreased in 2004.

(Weighted) average interest rates on LBP-denominated deposits decreased by almost 100 bps and stood at slightly higher than 6.8 percent in December 2004, down from 7.8 percent at end-2003. In comparison, the decrease in US\$ interest rates was more moderate, as average interest rates on US\$-denominated deposits decreased by approximately 20 bps in 2004, from 3.4 percent in December 2003 to 3.2 percent in December 2004. By end-2004, the spread between average rates on deposits in LBP and US\$ stood at 360 bps, down from 436 bps by end-2003.

Figure 2. Average Lending Rates



Source: Banque du Liban

Symmetrically, interest rates on private lending decreased in 2004. Average interest on US\$-denominated loans decreased to less than 8 percent by year-end 2004, down from 8.8 percent in December 2003. Interest rates on LBP loans decreased to around 10.4 percent in December 2004, down from 11.3 percent in December 2003. The spread between lending and depositors interest rates in LBP stood at 354 bps at end-2004, standing at the same level as that of end-2003. The spread between lending and depositors interest rates in US\$ continued to decrease and reached 473 bps in December compared to 538 bps in December 2003. The decrease in lending interest rates is consistent with the relative stagnation of lending to the private sector, and with the change in the structure of lending towards more subsidized loans.

Despite the tendency for an increase in global interest rates, the authorities managed to negotiate favorable conditions for the issuance of Eurobonds in November 2004.

The US\$1,375 million issuance of November 2004 was divided into three parts. The first part, about US\$625 million, was constituted in five-year bonds with a six-month variable interest rate set at 5.9 percent, which is respectively 190 and 133 bps below the rates offered on the swap operation in August 2004 and on Eurobonds issued in May 2004 (for similar maturities). The second part, about US\$425 million, consisted of five-year bonds with a fixed interest rate at 7 percent, or respectively 76 and 19 bps below the rates of August and May 2004. The third part, US\$325 million, comprised eight-year bonds with a fixed interest rate of 7.75 percent, for which no direct comparator (with similar maturities) exists. Yet, rates offered on this new issuance are respectively 61 bps and 8 bps lower than that offered in August and May 2004 on seven-year bonds.

Interest rates on Treasury Bills also declined in 2004.

In 2004, almost all Treasury Bills coming to maturity were rolled-over, at longer maturities and lower interest rates. The latter declined on average from 9.1 percent in 2003 to 6 percent in 2004. On the other hand, the Government did not issue any new Treasury Bills in 2004. As a result, the outstanding stock of TBs available on the market remained roughly unchanged at LBP 26,368 billion, or equivalently, US\$17.5 billion.

The structure of banks' assets continued to reflect the strong tie between the banking sector and the public sector (Government and Central Bank).

Commercial banks' deposits at the Central Bank represented 29 percent of their total assets by end-2004, while claims on the Government (in LBP and foreign currencies) represented another 24 percent. While these ratios are slightly

below those of December 2003, the banks' exposure on the public sector increased by more than US\$3 billion in 2004 in absolute terms, and by US\$928 million in the sole Fourth Quarter. Foreign assets of banks reached 20 percent of total assets in December 2004, compared to 16.5 percent in December 2003, mirroring the increased dollarization of deposits.

Erratum

In the Third Quarter 2004 issue of the Update, a technical error resulted in the inadvertent publication of the Recent Economic Development article during the editing process. The Update Editorial Staff regrets the error.

BANK GROUP OPERATIONS

■ IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of seven Projects for a total commitment amount of US\$321.85 million, of which US\$85.20 million has been disbursed through March 31, 2005.

Revenue Enhancement and Fiscal Management Technical Assistance Project (REFMTAP). (US\$25.25 million). The Project seeks to support Government efforts to enhance revenue and strengthen fiscal management.

Education Development Project (EDP). (US\$56.6 million). This Project is designed to support the Government's efforts to enhance the capacity of the Ministry of Education to function as an effective manager of the education sector and to restore the credibility of the Public Education System.

First Municipal Infrastructure Project (FMIP-I). (US\$80.0 million). This Project aims at addressing urgent municipal works while setting the stage for the gradual assumption of responsibility for municipal services at the local level.

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

Ba'albeck Water and Wastewater Project. (US\$43.5 million). The major development objectives of the Proj-

ect include: (a) improving the access of satisfactory water supply and wastewater services to the region's residents; (b) introducing appropriate sector reforms— particularly the development and strengthening of the capacity of the existing Ba'albeck Hermel Water and Irrigation Authority and, once it is established, the Bekaa Regional Water Authority; and (c) involving the private sector in the operation and maintenance of water and wastewater facilities by preparing for a Management Contractor (MC) through a lease or concession contract that would secure the long-term financial needs for sector investments. The World Bank Board of Directors approved the Project in June 2002.

Urban Transport Development Project (UTDP). (US\$65.0 million). The Project's objectives are to provide the city of Beirut and the Greater Beirut Area with the basic institutional framework that is currently lacking, and to support critical investments needed to maximize the efficiency of existing urban transport infrastructure. The World Bank Board of Directors approved the Project in June 2002.

Cultural Heritage and Urban Development Project (CHUD). (US\$31.5 million). The Project will finance site conservation, enhancement investments, and associated urban infrastructure improvements in selected sites, and provide technical assistance to strengthen the capacity of the Directorate General of Antiquities, Ministry of Tourism, and targeted municipalities in cultural heritage preservation and tourism development. A signing for implementation of the Project was held in July 2003.

Commitments and Disbursements as of March 31, 2005

Project Name	Approval Year	Loan	Amount
		Amount	Disbursed
US\$ Million			
Revenue Enhancement and Fiscal Management Technical Assistance	1994	25.25	24.33
Education Development	2000	56.57	6.08
First Municipal Infrastructure	2000	80.00	48.04
Community Development	2001	20.00	1.51
Ba'albeck Water and Wastewater	2002	43.50	1.83
Urban Transport Development	2002	65.00	2.06
Cultural Heritage and Urban Development	2003	31.50	1.34
TOTAL		321.85	85.20

■ IFC Projects in Lebanon

Uniceramic. The Project supports the modernization of the company's existing production line and the expansion of the plant's capacity of glazed ceramic floor tiles.

Bank of Beirut and the Arab Countries (BBAC) Credit Line. The Project offers innovative residential mortgages to middle income customers.

Banque Saradar SAL. The Project involves an equity investment in common shares of the company.

Byblos Bank Syndicated Credit. The Project aims at providing long-term project finance to small- and medium-sized enterprises in Lebanon for infrastructure project finance, and to increase its housing loan portfolio.

Société Générale Libano-Européenne de Banque. IFC extended a Line of Credit to Société Générale Libano-Européenne de Banque to be utilized in support of its housing finance program.

Fransabank. IFC extended a credit line to Fransabank to support its housing finance program.

Agricultural Development Company (ADC). The Project is designed to rehabilitate and expand the existing facilities of ADC, which is involved in the poultry business, into an integrated broiler meat production facility.

■ MIGA in Lebanon

Lebanon has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1994. Over the past decade, MIGA has received 23 preliminary applications from investors in Austria, Canada, France, Luxembourg, Saudi Arabia, and Spain for investments in Lebanon in the finance, infrastructure, telecommunications, and tourism sectors. In addition, the Lebanese investor community has become increasingly interested in MIGA's ability to provide non-commercial risk coverage for their investments into other developing countries. The Agency has underwritten one infrastructure project in Syria in the amount of US\$75 million. In fiscal 2002, MIGA issued US\$8.1 million in guarantees to Investcom, a Lebanese-owned company, for its telecommunications project in Benin involving installation of a new GSM mobile telephone network in the country, which has one of the lowest teledensities in the world.

Lebanon Leasing Company (LLC). The Project involves the establishment of Lebanon's first leasing company, providing leasing finance to local small- and medium-size enterprises. It also includes two credit lines from IFC to fund LLC's leasing activities.

Middle East Capital Group (MECG). The Project consists of the establishment of the first regional investment bank in the Middle East, and is headquartered in Beirut.

Banque Libano-Française. The Project offers innovative residential mortgages to middle income customers.

Bank of Beirut Lebanon Credit Line. The Project consists of credit lines to four Lebanese private sector commercial banks for on-lending to local small- and medium-sized enterprises in the private sector, and to middle income families to finance either the purchase of their first residence, or the expansion of their existing home.

Idarat, SAL. The Project funds the company's investment program in hotels and restaurants, and is designed to help revive the tourism industry, which is a key sector in Lebanon.

Idarat SHV (Société Hôtelière "de Vinci" SAL). The Project supports the Company's investment in a Greenfield 5-plus star "boutique" all suites hotel in an up-scale residential district of Beirut.

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

MIGA's online investment promotion services (www.fdixchange.com and www.ipanet.net) feature 90 documents on investment opportunities and the related legal and regulatory environment in Lebanon.

LEBANON DEVELOPMENT MARKETPLACE – 2005 COMPETITION

The first phase of the Lebanon Development Marketplace Competition entitled *“Harvesting Youth and Community Ideas for a Better Environment”* has been completed with 18 finalists selected to compete for seed funds for project implementation.

In all, 87 applications were submitted to the World Bank Office by the January 14, 2005 deadline. The projects were selected for the final stage along set criteria: innovation, impact, sustainability and replicability and the institutional capacity of the applicant organizations.

A total grant amount of US\$130,000 has been raised for the Competition, with the World Bank contributing US\$100,000 and the United Nations Development Programme (UNDP) contributing US\$30,000.

“Harvesting Youth and Community Ideas for a Better Environment” is a competition aimed at supporting community innovations and initiatives to clean up and protect the Lebanese landscape, air, and water. The aim of the Competition is to raise awareness about environmental degradation; involve the youth and local communities in creative thinking and implementation; and pilot new ideas on the environment which could be scaled up at the national level.

A workshop was convened at the World Bank Office to help guide the 18 finalists draft full proposals for the final phase of the Competition, during which they would compete for start-up funding of up to US\$20,000 per project. The winners will be announced on the impending *Innovation Day*, which culminates this year’s Competition and during which an independent jury will select seven to eight final proposals for funding.

Applicant	Proposal
1 Regional Cooperative Union in South Lebanon	Transformation of Olive Residue into Firewood
2 Lebanese House for Environment	Adoption of Olive Tree for its Resuscitation
3 The Association of Chouf Cedars	Sustainable Use of Medicinal Plants in the Protected Area of Arz Al-Chouf
4 Lebanese Association for the Protection of Natural and Archaeological Sites in the Chouf	Protecting and Cleaning the Barouk River Banks and the Environment, and Enhancing Local Economy
5 Association of the Friends of Tannourine Cedars	Cultivation of Medicinal Plants, Capacity Building for Farmers
6 Association of Rural Development in Aarsal	Creating a Recycling Plant for Processing Quarry Waste
7 Lebanese Scouts Association	Breeding the Endangered Lebanese Partridge
8 Cultural Charity Association-Al Doha Secondary School	Processing Food Waste for Pet Consumption
9 Catholic School of Christ the Savior	Recycling of Used Tires
10 Torch of Passion and Unity	Composting, Reprocessing Waste from Silk Factory
11 Lebanese Geological Society	Embellishment of Ain Mreisseh Corniche Waterfront
12 Animal Encounter	Conserving Lebanese Biodiversity by Outreach Programs to Rural Areas
13 Baldati Association	Eco-Club: Creation of Country-Wide Virtual Environmental Societies
14 A Rocha	Eco-Guide Training Module
15 Friends of Nature	Nesting Sites for Birds in Urban Schools
16 Association for Volunteer Services	Learning to Care for the Environment
17 Public School of Haqleet	Plantation of Productive Trees – Chestnut and Carob
18 Scouts of Lebanon – St. Joseph Group	Traditional Food Processing Festival

NEWS, RECENT AND UPCOMING ACTIVITIES

Launch of the World Bank's Public Information Center at the Institute of Finance



The World Bank Lebanon Office and the Institute of Finance of the Ministry of Finance opened the first **Public Information Center (PIC)** in Lebanon on January 18, 2005.

The mission of Public Information Centers (PICs) is to effectively disseminate Bank and development-related information in order to enhance public understanding of the Bank's role in member countries and to encourage dialogue with the public. Activities of PICs complement the World Bank's efforts to communicate and interact with various public institutions, as well as civil society organizations. PICs aim to establish forums for research, information exchange and knowledge for informed decision-making, and promote civic engagement of various groups in development-related activities.

The World Bank has so far established PICs in 70 capital cities and has 60 satellite PICs in 80 countries worldwide, and there is at least one PIC in every country where the Bank operates. While PICs have traditionally been established in Country Offices, the recent trend is to open them in coordination with a partner institution in a conveniently located premise which ensures free and open access to the widest possible audience. The InfoShop coordinates with all Public Information Centers to ensure broad dissemination of information related to the Disclosure of Information Policy.

PICs maintained at various World Bank Country Offices or at partner organizations, serve as the central contact for individuals seeking information on Bank operations and related documents. They offer project documents specific to the country in which the office is located, and offer a library of recent Bank publications. They also offer Internet access in order to browse through the World Bank's online resource databases, videos, and popular journals and periodicals.

In Lebanon, the choice of the partner organization was based on the Institute of Finance's role as one of the leading institutions in knowledge dissemination and

capacity building. The Institute of Finance also houses a Library of Finance which holds a large collection of publications, journals, periodicals and information sources.

A typical day at the PIC witnesses various activities which aim to promote public awareness of and access to documents, publications and data, respond to public inquiries, arrange seminars, dialogues, workshops, and record and share programs with other countries. The PIC will seek to establish further partnerships with other international and funding organizations to enrich its collection of resources and expand the scope of its activities.

In the Middle East and North Africa region where information flow is limited, PICs operating in partnership with local institutions are strengthening the World Bank's ability to exchange and disseminate knowledge. Central and satellite PICs have already been established in Algeria, Egypt, Lebanon, Morocco, West Bank and Gaza and Yemen. Many of these PICs were opened in partnership with public organizations, universities, national libraries and chambers of commerce. Plans are underway to open PICs in Jordan, Iran and Tunisia during the course of 2005.

Visit the PIC at the Institute of Finance, 512, Corniche al-Nahr, 4th Floor, tel: 01-426177

For further information, contact Zeina el Khalil, Public Information Associate, zelkhalil@worldbank.org

Arabic Glossary of Development Terms



The launch of the publication “**The Arabic Glossary of Development Terms**” took place at the UN House in Beirut on December 17, 2004. This 325-page publication addresses a present deficiency in Arabic/English translation. It should contribute to a better understanding by regional NGOs of the terminology used by international development organizations and thereby help those NGOs in getting access to international funds.

The Glossary is based on an initiative of the Imam Sadr Foundation (ISF), a Lebanese NGO which deals with improving the living conditions of marginalized groups in rural and poor suburban areas, through direct service delivery, capacity building and empowerment activities. The ISF presented this initiative to the Small Grants Program of the World Bank in 2002. The ISF initiative aspired to develop a tool which would contribute to better comprehension and use of uniform development terminology in Arabic and also contribute to facilitating better public understanding of the work and policies of various donor agencies and United Nations organizations.

The proposed initiative fulfill the purposes of the Small Grants Program’s objectives: to support civil society organizations in their work to strengthen marginalized or excluded groups and individuals’ abilities to realize greater ownership of development processes, thereby making these processes more inclusive and equitable.

In addition to the World Bank Grant, ISF also sought the support of the UN Economic and Social Commission for Western Asia (ESCWA) and thus, a Steering Committee was formed to oversee the compilation of the Glossary. Furthermore, subcommittees of technical experts from ESCWA, as well as independent experts, researchers, academics and social activists in various fields were formed to undertake the review of existing literature, the compilation of lists of terms, the development of definitions, and their review and validation.

This 325-page Glossary consists of 14 chapters and an alphabetical listing of all terms in Arabic, English and French. The chapters vary in length and cover the following topics: Environment, Human Development and Empowerment, Human Rights, International Relations, Telecommunications and Technology, Gender, Local Development, Health, Education, Economy and Public Finance, Microfinance, Project Management, Interna-

tional Agreements, and International Organizations and Agencies.

This Glossary targets individuals and communities involved in development at large, namely, civil society organizations, interacting with various international donor agencies involved in project proposal writing and training activities and the Glossary also targets use by students, researchers, academics, and the media.

While the Glossary does not claim to be an exhaustive and comprehensive tool, neither in number nor in substance, it does aim to provide the right base to initiate dialogue and exchange, and provide the framework for interaction and improvement.

In that respect, this Glossary can be accessed at <http://glossary.imamsadrfoundation.org>, for on-line search in Arabic, English or French. An interactive window has also been created to allow exchange of comments, queries and potential additions and/or amendments to the definitions.

For more information, contact:

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glossary@imamsadrfoundation.org.lb

or **Zeina El Khalil,** zelkhalil@worldbank.org

RECENT WORLD BANK PUBLICATIONS

Migration and Trade in MENA: Problems or Solutions? (WPS31092). The Middle East and North Africa (MENA) region is going through a difficult demographic transition which is putting enormous pressure on its labor market. MENA countries are increasingly unable to generate the number of jobs needed to absorb their growing populations. As a result, unemployment has increased considerably during the past two decades, with significant heterogeneity among countries. Migration has been an important safety mechanism to reduce pressure on domestic labor markets in the past, transfer oil rents from the Gulf and increase income prospects for households through remittances. While the economies of the MENA region have not integrated much via trade, they have integrated via migration, which has played the role of both substitute and complement to trade. Migration to the Gulf and to countries in Europe helped reduce the unemployment rates of the region, as well as supply needed workers for the Gulf (and Europe). This Paper analyzes migration and trade in the MENA region from the employment perspective, as well as the extent migration and trade can provide as a solution to the ever-growing employment problem.

Labor Market Reforms, Growth, and Unemployment in Labor-Exporting Countries in the Middle East and North Africa (WPS3328). The Paper studies the impact of labor market policies on growth and unemployment in labor-exporting countries in the Middle East and North Africa. The analysis is based on a framework that captures many of the main features of the labor market in these countries. The Paper presents a variety of policy experiments, including a reduction in payroll taxation, cuts in public sector wages and employment, an increase in employment subsidies, a reduction in trade unions' bargaining power, and a composite reform program. The key message is that to foster broad-based growth and job creation in the region, labor market reforms must not be viewed in isolation, but rather as a component of a comprehensive program of structural reforms.

Customs Modernization Handbook (ISBN: 0-8213-5751-4 SKU: 15751). Trade integration contributes substantially to economic development and poverty alleviation. In recent years much progress was made to liberalize the trade regime, but customs procedures are often still complex, costly and non-transparent. This situation leads to misallocation of resources.

The Handbook provides an overview of the key elements of a successful customs modernization strategy and draws lessons from a number of successful customs reforms, as well as from customs reform projects that have been undertaken by the World Bank. The Handbook also describes a number of key import procedures that have proved particularly troublesome for customs administrations and traders, and provides practical guidelines to enhance their efficiency.

Intellectual Property and Development: Lessons from Recent Economic Research (ISBN: 0-8213-5772-7 SKU: 15772). International policies toward protecting intellectual property rights have seen profound changes over the past two decades. Rules on how to protect patents, copyright, trademarks and other forms of intellectual property have become a standard component of international trade agreements. Most significantly, during the Uruguay Round of multilateral trade negotiations (1986-1994), members of what is today the World Trade Organization (WTO) concluded the Agreement on Trade Related Intellectual Property Rights (TRIPS), which sets out minimum standards of protection that most of the world's economies have to respect.

How will developing countries fare in this new international environment? This book brings together empirical research that assesses the effects of changing intellectual property regimes on various measures of economic and social performance—ranging from international trade, foreign investment and competition to innovation and access to new technologies. The studies presented point to an important development dimension to the protection of intellectual property. But, a one-size fits all approach to intellectual property is unlikely to work. There is a need to adjust intellectual property norms to domestic needs, taking into account developing countries' capacity to innovate, technological needs, and institutional capabilities. In addition, governments need to consider a range of complementary policies to maximize the benefits and reduce the cost of reformed intellectual property regulations

The Impact of Macroeconomic Policies on Poverty and Income Distribution: Macro-Micro Linkage Models (ISBN: 0-8213-5778-6 SKU: 15778). The Report deals with theoretical challenges and cutting-edge macro/micro linkage models. The authors compare

the predictive and analytical power of various macro/micro linkage techniques using the traditional RHG approach as a benchmark to evaluate standard policies, such as, a typical stabilization package and a typical structural reform policy.

Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs (ISBN: 0-8213-6065-5 SKU: 16065). The accelerated pace of globalization has stimulated dramatic changes in trade, finance, intellectual property, private investment, information and communications technology, health, environment, security and civil society. Addressing the challenges posed by globalization often requires collective action at the global level. Increasingly, global programs are used as a means to organize global collective action, particularly for providing global public goods.

The World Bank is an important participant in such programs and activities because its global reach, its ability to mobilize resources, and its multisectoral expertise position it well to deal with the challenges of globalization. *Addressing the Challenges of Globalization* derives crosscutting lessons for the Bank on program selectivity, design, implementation, governance, management, financing and evaluation. The book also identifies areas where further Bank action on its global-level strategy and programming is needed to improve the global program effectiveness.

Strengthening Country Commitment to Human Development: Lessons from Nutrition (ISBN: 0-8213-6037-X SKU: 16037). Malnutrition persists in most developing countries. It contributes to the deaths of 3.4 million children annually and reduces the intelligence, health, and productivity of those who survive. Nutrition programs—indeed all human development programs—succeeds or fails depending in part on the commitment of politicians, bureaucrats, and communities to properly implement them, both initially and over the long term.

Focusing on a variety of country programs in nutrition—both successful and failed—the book describes practical ways to assess and strengthen commitment and outlines an agenda for “learning by doing.” In addition to political will, programs need to build support and commitment across government and civil society, from local leaders to parents. To sustain that commitment, organizational structures and processes must be designed to motivate communities and officials over the fifteen to twenty years it takes to successfully implement

a national nutrition program.

Spending Wisely: Buying Health Services for the Poor (ISBN: 0-8213-5918-5 SKU: 15918). With a special focus on strategic purchasing and contracting of services from nongovernmental providers, this Report reviews ways to make public spending on health care more efficient and equitable in developing countries. It is recommended that:

- experiments and pilot projects for improving public sector hospitals should focus on mission clarity and organizational simplification;
- programs for improving the composition of utilization should experiment with payments to consumers and with health labor force composition and training; and
- initiatives to attract providers to rural areas should use explicit deferred compensation contracts to improve monitoring.

Local Approaches to Environmental Compliance: Japanese Case Studies and Lessons for Developing Countries (ISBN: 0-8213-6101-5 SKU: 16101). Despite recognition of the ill effects of pollution and the enactment of environmental regulations, pollution monitoring and compliance in developing countries continue to lag. *Local Approaches to Environmental Compliance* demonstrates how community and local government initiatives played a key role in arresting pollution during Japan's industrialization in the 1960s and 1970s. The approaches described are relevant to current pollution problems and are reviewed from the perspective of developing countries.

Street Addressing and the Management of Cities (ISBN: 0-8213-5815-4 SKU: 15815). The most spectacular change in Sub-Saharan Africa over the last few decades has been the dramatic demographic shift from rural areas to cities. As a result, more than 50 percent of the city streets in the region have no names or addresses, and the problem is particularly acute in the poorest neighborhoods.

This Report reviews the role of addressing within the array of urban management tools and explores the links between addressing and civic identity, urban information systems, support to municipal services, tax systems, land management and tenure issues, slum upgrading, support to concessionary services, and economic development. It outlines current and future applications, highlights practices in many African countries, and offers a

methodological guide for implementing street addressing initiatives which is widely applicable in other parts of the world.

Infrastructure Services in Developing Countries: Access, Quality, Costs, and Policy Reform (WPS3468).

The Paper reviews the evidence on the state of infrastructure in the developing world, emphasizing investment needs and emerging policy issues. While the assessment is seriously constrained by data gaps, it provides useful insights on the main challenges ahead, emphasizing that, in addition to the widely discussed access problems, the poorest also face major affordability and service quality issues which were not well addressed by the reforms of the 1990s. The Paper makes a case for a stronger commitment by the international community to generate information needed to assess and monitor infrastructure needs and policies.

Agriculture Investment Sourcebook (ISBN 0-8213-6085-X). Investing to promote agricultural growth and poverty reduction is a central pillar of the World Bank's current rural strategy, Reaching the Rural Poor (2003). One major thrust of the strategy outlines the priorities and the approaches that the public sector, private sector, and civil society can employ to enhance productivity and competitiveness of the agricultural sector in ways that reduce rural poverty and sustain the natural resource base. These actions involve a rich mixture of science, technology, people, communication, management, learning, research, capacity building, institutional development, and grassroots participation.

This Sourcebook addresses how to implement the rural strategy, by sharing information on investment options and identifying innovative approaches that will aid the design of future lending programs for agriculture. It provides generic good practices and many examples which demonstrate that investment in agriculture can provide rewarding and sustainable returns to development efforts.

This Sourcebook is divided into eleven self-contained modules. Each module contains three different types of subunits that can also be stand-alone documents: I. Module Overview, II. Agricultural Investment Notes, and III. Innovative Activity Profiles. The stand-alone nature of the subunits allows flexibility and adaptability of the material. Selected readings and web links are also provided for readers who seek more in-depth information.

The Sourcebook draws on a wide range of experiences from donor agencies, governments, institutions, and other groups active in agricultural development. It is an invaluable reference tool for policy makers, professionals, academics and students, and anyone with an interest in agricultural investments.

Also available:

- *Gender and Development in the Middle East and North Africa: Women in the Public Sphere* (ISBN: 0-8213-5676-3 SKU: 15676).
- *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract* (ISBN: 0-8213-5678-X SKU: 15678).
- *Better Governance for Development in the Middle East and North Africa* (ISBN: 0-8213-5635-6 SKU: 15635).
- *Trade, Investment, and Development in the Middle East and North Africa: Engaging with the World* (ISBN: 0-8213-5574-0 SKU: 15574).

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Data and Statistics

The World Bank offers multiple databases online, some free of charge, and some on an annual subscription basis. Almost all the data reported in the site mentioned below are derived, either directly or indirectly, from official statistical systems organized and financed by national governments.

To access the on-line databases, visit:

<http://www.worldbank.org/data/>