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With special thanks to Mary Saba
EDITORIAL

Welcoming the New Year with Optimism

The World Bank Board of Directors has endorsed the Country Assistance Strategy (CAS) for Lebanon 2006-2009, signaling a strong vote of confidence in the Government’s ability to reverse social and economic misfortunes. The December 15, 2005 Board session injected a welcome note of optimism into a year fraught with tragedies and political uncertainty.

The CAS was based on a participatory approach, building on broad consultations with the Government, Parliament, civil society organizations, development partners, the private sector and other stakeholders.

As such, this is a candid CAS which explores Lebanon’s strengths and future prospects and which analyzes macro-economic, financial, governance and social challenges facing the country. This is done out of a conviction that these challenges are not insurmountable and could, indeed, be overcome if the collective political will exists.

The Government of Lebanon should be congratulated for agreeing to the disclosure of the CAS. This disclosure is a testimony to its commitment to transparency, respect of freedom of speech and resolve to tackle the challenges ahead.

As we embark on the New Year, the Update Editorial Team reiterates commitment to promote this Quarterly as a forum for dialogue with the Government and civil society, and welcomes reader feedback. To bring the Update to full consistency with our readers’ calendar, this issue has been renamed “Third/Fourth Quarter 2005”

The Update will continue to provide its audience with up-to-date and timely information of financial and economic conditions in its “Recent Economic Developments” section (a regular feature of the publication which analyzes data available from the previous Quarter).

This issue of the Update also includes a summary of the CAS, an analysis of social spending in Lebanon, the reforms required to strengthen social safety nets and recent and upcoming activities in Lebanon.

In welcoming 2006, the World Bank team in Lebanon would like to extend to our readers, development partners and, above all, our Lebanese counterparts best wishes for a prosperous and peaceful New Year.
Working Together for Lebanon’s Transition from Reconstruction to Development

On December 15, 2005, the World Bank Board of Directors approved a four-year Country Assistance Strategy (CAS) for Lebanon. The objective of the CAS is to help build efficient and accountable institutions to support Lebanon’s transition from the current macro-economic imbalances to fiscal stability, while addressing the social and environmental implications of this transition. This article expands on the World Bank’s analysis of the present conditions and the outlook for the future as outlined in the CAS.

■ The Civil War Legacy

The tragic assassination of former Prime Minister Rafic Hariri (February 2005) was a watershed event for Lebanon. It climaxed 30 years of civil strife, war, attempts at state building and physical reconstruction in a heavily contested political environment. Throughout this period, the resilience and resourcefulness of the Lebanese people, and the willingness of investors to return have been impressive – due largely to the country’s talented and entrepreneurial workforce, a favorable geographical position and a modern financial sector able to attract large foreign investment.

■ Public Mismanagement and Poor Governance

Public mismanagement has resulted in a huge accumulated public debt, slow economic growth, weak public institutions and delayed structural reforms. Today, Lebanon faces: (i) severe macro-economic imbalances, with debt to GDP approaching 171 percent; (ii) limited employment-generating growth, resulting in higher levels of poverty and emigration; and (iii) deficient public infrastructure and services (power, telecommunications, water, wastewater), which reduce the country’s competitiveness and degrade its environment and natural resources.

While it has been very effective in maintaining peace and stability (no small accomplishment after 15 years of war), Lebanon’s governance structure has proved unable to promote economic and social development in a sustainable manner. Overlapping powers and responsibilities, clientelism and limited accountability and transparency have often resulted in policy paralysis, weak institutional structures in both the public and private sectors and perceptions of high levels of corruption. In the absence of civil service reform, administrative reform and the revamping of control agencies, fiscal, structural and sector reforms are at risk of being unsustainable.

■ The Bank’s Financial Assistance

The CAS proposes scenarios ranging from US$100 million to US$700 million: The stronger Lebanon’s commitment to, and implementation of, key structural reforms, the larger the lending envelope and accessibility to quick disbursing programmatic development policy lending.

Lending in the base and high case scenarios is subject to principles of engagement: (i) upfront reforms; (ii) readiness for implementation at the time of negotiations; (iii) agreed-upon strategies with the World Bank; and (iv) clear social impact and/or support to the fiscal adjustment effort.

In the base case scenario, the Bank’s engagement would be limited to investment lending and advisory; the high case scenario would require meeting fiscal (budget plus treasury) and indebtedness indicators.

However, inability to meet these indicators would suggest a limited political will/capacity to carry through with fiscal, portfolio and structural reforms and, therefore, a growing probability for a financial and economic crisis. In this low case scenario, Bank support for structural reforms would become irrelevant and unjustified.

■ The Three CAS Pillars

Pillar (1): Governance, Economic Management and Growth Support

This Pillar aims to support the central objective of the CAS, addressing the underlying deficiencies in the governance and management of public finance in terms of transparency, accountability, information and capacity building.
Obvious targets for improved fiscal management are state owned enterprises (SOEs). These entities exert a strong influence on the Government’s accounts, some in the form of a major drain on the budget (the most prominent example being Electricité du Liban, which cost Lebanon in 2004 one-fifth of its overall public deficit) and others in the form of important additional entrepreneurial revenues (the telephone companies, for instance, which in 2004 covered about half of the deficit). Most of these entities’ financial activities are not transparent to the Government, to Parliament or to the public.

As for pensions, the current pay-as-you-go schemes to civil and military services and end-of-service indemnities to Government contract workers [the latter being managed by the National Social Security Fund (NSSF)] are not sustainable.

The CAS proposes both lending and advisory services to meet the above set goals. Lending operations would include: investment/technical assistance lending for power sector restructuring; SOE reform/restructuring; statistical capacity; public expenditure information systems; pension and social security reform and modernization of the role of control agencies. Technical assistance would concentrate on debt management, SOE restructuring, and financial sector assessment capacity.

Additionally, the Bank would continue with its diagnostic services, some of which already are under way, such as the Public Expenditure Review and Country Financial Accountability Assessment.

**Pillar (2): Developing Human Capital and Mitigating the Poverty Effects of Transition**

This Pillar supports the CAS outcomes of: reducing poverty levels; enhancing the efficiency of the social protection scheme; rationalizing health expenditure and improving its poverty focus; and enhancing the quality of education.

Recent international experience shows that periods of economic turbulence have a profound impact on the social fabric of a developing country. To prevent the above from happening, Lebanon, as a first step, needs to develop a comprehensive “social protection” strategy that is shared among the various segments of society. Elements of the social sector and safety net strategy would include: (i) reforming the end-of-service indemnity program and the civil servant and military pension funds; (ii) enlarging the scope of and ensuring more effective and better targeted social assistance programs; (iii) increasing labor market flexibility; and (iv) evaluating the impact of social programs through a poverty and social impact analysis approach. The strategy would also need to consider how to protect public social spending (health/education) during adjustment and fiscal consolidation. A household survey presently being undertaken by the Ministry of Social Affairs/Central Administration of Statistics/UNDP/World Bank will shed light on the profile of the poor and will serve as the building block for the development of a poverty assessment.

Beyond the safety nets, Lebanon needs to continue to develop its human capital, which can be its most vibrant resource when utilized efficiently and effectively. This will require pushing on with reforms in the health and education sectors to achieve better outcomes. In the health sector there is a need to focus Government efforts on a few health policy objectives, such as: containing overall health care costs; improving financial protection for households; and strengthening the primary health care system. Pharmaceutical reform, particularly the issue of drug pricing, is one such key area. Another is the issue of integrating the various public health insurance funds to provide wider and better coverage for the poor.

In education, there is a need to build the system’s policy development capacity and to agree on a sector-wide strategy, to introduce governance models and institutional structures that can adequately manage the sector efficiently and yield quality outcomes, and to address regional educational disparities.

This Pillar would support World Bank lending and advisory activities aimed at mitigating poverty and reinforcing the existing safety nets. New operations could include: the expansion of community- or municipal-based development programs; a health technical assistance project focused on rationalizing health expenditures through big-ticket items, such as the drug bill; greater financial protection from illness for the poor; greater use of primary health care; and a pension reform technical assistance project. Technical assistance would include a small grants program for NGOs (grants), and an HIV/AIDS IDF grant.

Bank diagnostics would focus on supporting: (i) a pension reform strategy; (ii) a poverty assessment; (iii) a labor market and gender assessment; and (iv) a multi-year program to develop a comprehensive “social protection strategy.”
Pillar (3): Natural Resource and Environmental Management

This Pillar would contribute to the CAS outcomes of improved water management, land use management and air pollution control. A key objective of the CAS is to reverse these trends and enable Lebanon to move to more sustainable use patterns. The resource most in need of better management is water. This would require an integrated approach, addressing the balancing of the competing demands of all water users (irrigated agriculture, urban water supply, industry, recreation, fisheries and ecosystems), as well as those that affect water quality (industrial pollution, urban wastewater, urban solid waste, new development, agricultural pollution). This approach would focus on obtaining the maximum benefit from water extracted and on ensuring minimal degradation of water quality in the country’s rivers, coastal zones and aquifers.

Also, the key challenge is to develop a comprehensive solid waste strategy which is sustainable, acceptable to Lebanese society, and underpinned by an appropriate policy, institutional, and financial framework. No Bank lending would be conceived in this area in the absence of a clear and broadly endorsed strategy.

Bank activities under this Pillar would include both advisory and lending services. Lending operations would include an integrated water and environmental management program in two basins – the Bekaa’a and the Litani. This program would: (i) establish a mechanism for environmental management, including reducing pollution in the Upper Litani Basin; (ii) rehabilitate and develop new urban water, wastewater, irrigation and drainage infrastructure to improve water use efficiency and increase productivity; (iii) protect biodiversity and the natural heritage; (iv) implement the land use plans for this basin; and (v) build capacity among local officials and raise public awareness regarding the sustainable management of water resources. The environmental program would be complemented by an urban water and wastewater project targeting several areas of Lebanon, in line with national priorities.

Policy notes would include a Country Environmental Analysis, which would focus primarily on water quality, coastal zone management, environmental compliance and enforcement. They would identify win/win solutions based on a cost-benefit analysis of mitigating adverse productivity and health impacts.

Other World Bank Contributors

International Finance Corporation (IFC)

Lebanon was previously one of IFC’s largest exposure countries in the region. However, in the past few years, due to the country’s macro-economic situation, IFC has been selective with its investments and has since focused on managing its portfolio in Lebanon. During the CAS period, IFC will focus on three broad objectives: (i) enhancing the Investment Climate for the Private Sector; (ii) reform of SOEs, Privatization, and Public/Private Partnerships; and (iii) supporting Private Sector Investment.

In the near term, the key focus of IFC is enhancing the Investment Climate for the Private Sector in Lebanon. The World Bank’s Doing Business Survey, 2006 edition, continued to highlight a number of obstacles. Indicators place Lebanon towards the high end of regional economies in terms of the cost to start a business, the number of days needed, and number of approvals required. Significant delays in the time it takes to enforce a contract, in addition to some of the highest costs of enforcement in the region, place a constraint on the effective operation of the private sector, and in turn negatively affects the growth of the economy and of employment, as businesses are unable to expand and operate effectively.

The Multilateral Investment Guarantee Agency (MIGA)

MIGA can support the private sector development agenda in Lebanon, particularly in infrastructure development, the attraction and retention of investments, access to the international capital markets for Lebanese companies and banks, and support for Lebanese investors venturing abroad. At this critical moment in Lebanon’s economic and political development, MIGA guarantees, by effectively mitigating the political risks associated with private investments, can play a significant role in providing assurances to foreign investors whose risk perceptions may have increased in recent months.

Lebanese investors and banks have long played an important regional role in the Middle East and Africa. Unlike their counterparts in most developed countries, Lebanese investors do not have access to national schemes to support them as they venture abroad. MIGA can bridge this gap and can, thereby, increase the potential for Lebanese firms to obtain financing (either locally or abroad) for their investments. Moreover, the presence of MIGA investors could increase tenders and decrease interest rates on loans sourced domestically or abroad.
Stark Choices Ahead

Lebanon could “muddle through” in a crisis management mode, losing further ground and facing a possible severe economic crisis. Alternatively, it could develop and implement a transition plan for credible public institutions and sustainable growth. Putting Lebanon back on a sustainable path to growth and stability would require a broad-based national dialogue involving all branches of the Government and society in working towards a social/economic recovery plan. Such a plan would need to be perceived as both credible and fair, addressing the short term transition to macro-economic stability, as well as laying the foundations for longer term employment generation and growth. The transition period would include: tightening fiscal policy in a socially equitable manner; reforming/privatizing SOEs and utilities in a transparent and productive way; reducing the stock of debt in a concerted effort with local and international creditors; restoring the minimum acceptable levels of good governance in a few critical public institutions; and mitigating the poverty effects of the transition. But, it would also include a longer term strategy for reforming public institutions and processes to enable the public sector, in partnership with the private sector and civil society, to effect quality human capital development, well-managed natural resources and an investment climate conducive to investment, growth and employment generation.

For its part, the World Bank, in partnership with other donors and development agencies, stands ready to provide assistance in a number of the above areas over the next four years. Recognizing the need for external assistance, a concerted international effort has taken place to mobilize assistance for Lebanon, a rare chance for the Government to build on this support, make a credible commitment to reform and take concrete actions to implement a program for recovery and growth.
The financial situation continued to recover in the Third Quarter of 2005 following the political turbulence of the first months of the year. By August, bank deposits had regained their January levels, thanks to the resumption since May of positive and sustained net foreign capital inflows and transfers. This recovery reinforced the widespread sentiment that Lebanon’s financial system could withstand any shock, especially after it managed to avoid a full-blown confidence crisis in the aftermath of Premier Rafic Hariri’s assassination.

But fiscal and financial challenges ahead remain formidable. The public debt is growing unabatedly, and, accordingly, the financial sector’s vulnerabilities. Unless decisive steps are taken to reverse the debt dynamics, risks of financial disruption could further increase. Indeed, past experience around the world systematically demonstrates that private markets cannot indefinitely accommodate rising public debt ratios. Even the most faithful investors can eventually lose confidence in the Government’s capacity to honor its debt, and a major crisis can then ensue, with potentially devastating effects on economic and social fabrics. This situation calls for immediate and bold reforms to reduce fiscal deficits and the stock of debt. In turn, the success of the fiscal adjustment depends on the ability to equitably distribute the burden across the population and sustain it through reforms that address fiscal imbalances at their roots, i.e. through a better use of public resources.

These recent events also underline the structural fragility of the real economy to confidence and monetary shocks. It is now likely that GDP growth in 2005 will be significantly lower than that of 2004, when it reached an estimated 6 percent in real terms. Investment and tourism might have, understandably, suffered from political and security uncertainties, but private consumption and merchandise exports seem to have suffered too. This might be due to the poor structural competitiveness of the Lebanese economy and the large impact of monetary conditions on private demand. In fact, this slowdown in economic activity should not be considered temporary and inevitable, but rather a symptom of the weak and volatile growth potential of the Lebanese economy.

Going forward, revamping the growth agenda would benefit from a deep reflection on a number of structural policy issues. This could notably include: the progressive dissociation of monetary and fiscal policy instruments and the promotion of genuine investment banking and non-bank finance; the realignment of the exchange rate anchor to trade patterns; further trade liberalization and trade facilitation; the harmonization of taxes and social contributions collected on the various types of investments and on the different factors of production; the promotion of domestic competition and the reduction of administrative barriers to investment; and a better synergy between public and private investments, from both sectoral and geographical perspectives.

The other sections of this note summarize recent developments in the real and financial sectors, public accounts and the balance of payments over the first nine months of 2005.

REAL SECTOR DEVELOPMENTS

The regrettable absence of updated economic statistics impedes rigorous monitoring of economic activity. National and external accounts are still missing. Also, there is no up-to-date information on households’ living conditions, wages or unemployment. Recent efforts exerted by the Government of Lebanon to develop quantitative information, notably National Accounts (for the period 1997-2002), households’ living conditions (for 2004), Consumer Price Indexes (on a Quarterly basis) are welcome, but remain insufficient. Government efforts should be sustained to make permanent the production and dissemination of reliable statistics in these fields, among others, as a critical element for good governance.

The sluggishness in economic activity observed in the First Half of 2005 seems to have continued over the Third Quarter of 2005. Most indirect indicators point to a deceleration in economic activity in the first nine months of 2005 compared to 2004. While the value of compensated checks had grown by 9.6 percent in the first nine months of 2004, it increased by only 2.3 percent in the first nine months of 2005, reflecting a sharp

---

1 In 2004, Lebanon ranked 109th out of the 117 countries of more than 1 million people listed by the World Bank in terms of statistical coverage (quality, periodicity and availability of data).
deceleration in the growth of economic transactions. The decline in the number of visitors to Lebanon (as measured by passengers’ arrivals and departures at Beirut International Airport, -4.0 percent in 2005 against +21.6 percent in 2004), the slowdown of construction activity (+3.0 percent in cement deliveries in 2005 against +6.4 percent in 2004; -10.6 percent in the number of construction permits in 2005 against +4.5 percent in 2004) contributed to this overall sluggishness in economic activity. Monetary conditions (see the financial section below) seem to have played a role as well, with growth in deposits positively and significantly correlated with growth in economic transactions. The coincident indicator of economic activity\(^2\) computed by the Central Bank [Banque du Liban, (BDL)] exhibited a 2 percent growth in the first nine months of 2005 compared to the same period in 2004. In 2004, the same statistics exhibited a 9.6 percent growth.

The registered drop in consumer prices would tend to confirm the drop in demand, in the face of (i) continuously high imported inflation and (ii) likely absence of any positive supply shock that could have otherwise exerted a downward pressure on the costs of production. The Central Administration of Statistics (CAS) reported a 0.6 percent decline in the Consumer Price Index over the first nine months of 2005 compared to the same period in 2004. Meanwhile, import prices increased by 10.9 percent [source: World Bank staff calculations based on Ministry of Economy and Trade, (MoET)]. At first sight, this would suggest a significant decline in the price of domestic goods sold in Lebanon, and, accordingly, in the average remuneration of labor or capital. The difference in methodologies used to calculate these various indexes could well exaggerate the induced fluctuations in the price of domestic goods. But, it is also possible that trade margins took the brunt of the decline in demand, as Lebanese traders have the possibility (in the face of limited domestic competition) to modulate their retail prices.

The slowdown in economic activity mostly reflects a decline in the private demand (given its share in overall demand, including tourism), but Government spending did not seem to have played a significant counter-cyclical role. Budget figures reported by the Ministry of Finance (MoF) do not permit an exact assessment of the extent to which the Central Government is supporting the economy via the purchase of domestic goods and services. Yet, such figures indicate that Government expenditures, excluding transfers, advances, land acquisitions and debt service hardly grew in the first nine months of 2005 (-5.7 percent compared with the first nine months of 2004). This is good news in the face of Lebanon’s badly needed fiscal adjustment. It is less good news when it appears that this compression is more than entirely due to a decline in public investment expenditures (-39 percent, excluding land acquisitions). Indeed, the decrease in public investment expenditures, already very low with respect to GDP, could well mean that Lebanon has reached the point were its stock of public infrastructure simply cannot be maintained, thus undermining its growth potential.

Rather striking is the sharp drop in the growth of merchandise exports, in spite of sustained demand in a number of client countries, Gulf countries in particular. Merchandise exports increased by 3.3 percent in value in the first nine months of 2005 (compared with the same period in 2004), and probably declined in volume terms. These figures sharply contrast with previous years’ figures (2003 and 2004 in particular), during which export growth exceeded 20 percent on average each year. While more analysis needs to be made to understand this evolution, this fact clearly illustrates the great dependence of exports to shocks of various nature, hence suggesting Lebanon’s lack of strongly competitive positions on dynamic external markets.

FISCAL DEVELOPMENTS

Public deficit decreased by 7.4 percent in the first nine months of 2005. The overall deficit went down from US$1.4 billion in the first nine months of 2004 to US$1.3 million in the first nine months of 2005. This decrease stems from a 4.4 percent decrease in total expenditures, the result mainly of a 17 percent drop in the debt service.

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\(^2\) The coincident indicator of economic activity is a linear combination of the following indicators: imports of petroleum; electricity production; value of compensated banks’ checks deflated by the Consumer Price Index; cement deliveries; number of foreign passengers; sum of merchandise imports and exports deflated by the Consumer Price Index; and Money Supply (M3) deflated by the Consumer Price Index.
Government revenue decreased by 3.2 percent in the first nine months of 2005. A slight increase in tax collection in the Third Quarter of 2005 (+1.0 percent compared with the Third Quarter of 2004) served to contain the overall decline in tax revenue in 2005, stemming from sluggish economic activity. Furthermore, continuously high oil prices forced the Treasury to lower excise taxes on petroleum (by US$137 million) to maintain the retail price on gasoline. On the other hand, revenues from direct taxation (on profits, wages and salaries, interest income, capital gains), and various fees rose by 5.8 percent, the result of continued progress in tax administration and of a prosperous year in 2004 (as some direct taxes are levied on previous year’s incomes).

Primary public expenditure grew by 3.3 percent in the first nine months of 2005. Capital expenditures dropped by 38 percent, while current primary expenditures increased by 9.4 percent. More than two thirds of the latter comes from higher transfers to the public electricity company [Electricite du Liban, (EDL)]. In the first nine months of 2005, transfers from the Treasury to EDL to service its debt, cover its losses and purchase fuel amounted to US$441 million. This captures 13 percent of non-debt public expenditures, and broadly corresponds to the budget devoted by the Government to the Ministry of Education.

The result of a declining fiscal deficit, public debt growth decelerated. Gross public debt increased by US$1.97 billion between September 2004 and September 2005, to reach US$36.8 billion, or approximately 168 percent of the Gross Domestic Product of 2004. In the last 12 months, Government’s financing needs (as measured by the sum of monthly deficits) amounted to US$1.9 billion.

The share of public debt held by commercial and central banks increased. The share of the gross public debt held by the Central Bank rose to 26 percent in September 2005 - up from 25 percent 12 months before and down from 30 percent in May. The share of the public debt held by commercial banks increased to 47 percent compared to 46 percent a year earlier. The remainder, 27 percent, is mostly retained by public funds, foreign governments and multilateral institutions.

Debt structure by currency also changed. The share of foreign currency denominated debt rose to 49.5 percent in September 2005 up from 48.0 percent a year earlier. In February, the share of the debt in foreign currency peaked to 53 percent, as commercial banks discounted a large amount of Lebanese Pounds (LBP)-denominated Treasury bills to operate conversions of deposits to the United States Dollar (US$).

**EXTERNAL ACCOUNTS**

In the Third Quarter of 2005, Lebanon benefited from large net foreign capital inflows and transfers (NFCIT), sufficient to finance the trade deficit. These inflows probably benefited from continuously high world oil prices, which traditionally foster Gulf countries’ demand for Lebanese goods (exports), services (tourism, health, education) and assets (real estate). Also, higher oil prices probably entail larger transfers from nationals working in the Gulf countries.

NFCIT’s recent resumption served to reconstitute banks’ pre-political crisis net foreign assets. Net foreign capital inflows and transfers reached US$5.5 billion in the first nine months of 2005, against US$5.8 billion during the same period in 2004. While NFCIT were US$1.1 billion lower in the first six months of 2005 than in the first six months of 2004, they were US$800 million higher in the Third Quarter 2005. Between December 2004 and May 2005 banks’ net foreign assets declined by US$1.6 billion. From June to September, net foreign assets rose by US$1.4 billion bringing the total decrease over the first nine months of 2005 to less than US$200 million.
The gross foreign currency reserves of the Central Bank, which are a major component of net foreign assets, have declined by US$1 billion since December 2004. Gross reserves first dropped from US$9.7 billion to US$7.6 billion between January and March 2005, before rebounding to US$8.5 billion by end-September. However, these movements only partially reflect the extent of deposit conversions to the US$ in the midst of political crisis. Indeed, banks agreed on diverse forms of refunding gross reserves against substantial remunerations, US$-denominated Certificates of Deposits in particular. In contrast, in periods of re-conversion of deposits to the LBP, commercial banks recuperated part of their short-term deposits in foreign currencies at the Central Bank, which has grown accustomed to maintaining gross reserves.

Trade deficit widened by 3 percent over the first nine months of 2005, compared with the same period of 2004. The increase in the trade deficit is the result of a 3 percent rise in import payments, only partially compensated by a 3.3 percent increase in export receipts. The main reason behind the increase in import payments is the rise in the oil bill, which increased by 18.3 percent. In contrast, non-oil imports decreased by 3.5 percent in nominal terms and by 6.8 percent in real terms (Source: World Bank staff calculations based on MoET).

The broad Money Supply (M3) increased by 1.5 percent between December 2004 and September 2005 (+US$700 million). This evolution reflects two contrasted periods: a 2.7 percent drop between December 2004 and April 2005, and a 4.3 percent increase between April and September 2005. Credits to the public sector were the main contributors to this net increase (+US$1,270 million), as the Central Bank met most of the Government’s financing needs in the first nine months of 2005. Credits to the private sector stagnated over the period, mirroring sluggish economic activity. Net capital inflows and transfers, while slightly negative overall (-US$304 million), dropped sharply between December and May (-US$1,697 million), before rebounding afterwards (+US$1,393 million). This last component contributed significantly to the volatility of the Money Supply observed since December 2004.

Interest rates served on deposits are on the rise, though moderately. Average interest rates on LBP-denominated deposits increased by 21 basis points (bps) since December 2004. This increase reflects a 49 bps increase between December 2004 and June 2005 and a 28 bps decrease between June and September 2005. Interest rates on US$-denominated deposits have increased by 53 bps since end 2004 (i.e., the spread on remunerations offered on LBP and US$-denominated deposits narrowed). During the same period, global interest rates went up more rapidly, with the one-month LIBOR increasing by 144 bps since December 2004. Consequently, the spread between the average interest rate served on US$ deposits in Lebanon and the LIBOR turned from a positive 83 bps in December 2004, to a negative 8 bps in September 2005. This evolution probably stresses the limited ability of the Lebanese banking sector to further lower interest rates served on deposits in the near future.

FINANCIAL SECTOR DEVELOPMENTS

The remuneration of commercial Banks’ deposits at the Central Bank grew more rapidly. The weighted average rate on LBP-denominated CDs rose by 137 bps since end-2004, from 9.53 percent to 10.9 percent. Weighted average rate on US$ deposits rose by 302 bps between December 2004 and September 2005, from 2.86 percent to 5.88 percent.

The exposure of the Banking sector to the consolidated public risk slightly increased to 53.1 percent of the banks’ consolidated balance sheet in September 2005, up from 52.6 percent in December 2004. Commercial banks’ holding of LBP-denominated Treasury Bills swelled by 10 percent to reach 11.5 percent of banks assets. During the same period, commercial banks’ holding of US$-denominated Treasury Bills (Eurobonds) declined by 2 percent, to reach 12.5 percent of banks’ assets. Banks’ deposits at the Central Bank (in the form of compulsory and voluntary reserves and Certificates of Deposits) grew by 1 percent, to reach 29.0 percent of banks’ assets.
With increased dollarization of deposits, banks’ exposure to sovereign risk in foreign currency probably increased as well. Between December 2004 and September 2005, deposits denominated in Lebanese Pounds decreased by 10 percent. Accordingly, the dollarisation rates of deposits increased from 70 to 73 percent over the same period, peaking at 79 percent in February 2005. While during the same time banks exposure to the sovereign risk increased – see above, it is likely that banks’ exposure to the sovereign risk in foreign currency (reserves and Certificates of Deposits in foreign currencies at the Central Bank) rose too.

### Commercial Banks Consolidated Balance Sheet (US$ million)

<table>
<thead>
<tr>
<th>US$ billion</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td><strong>Assets</strong></td>
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<td></td>
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<td>60.1</td>
<td>67.8</td>
<td>68.6</td>
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</tbody>
</table>

*Source: World Bank staff calculations based on BDL.*
IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of seven projects for a total commitment amount of US$321.82 million, of which US$106.45 million has been disbursed through December 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 Project 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, 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 December 31, 2005

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Approval Year</th>
<th>Loan Amount</th>
<th>Amount Disbursed</th>
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<td><strong>Total</strong></td>
<td><strong>321.82</strong></td>
<td><strong>106.45</strong></td>
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</table>
IFC Projects in Lebanon

IFC currently holds a total of US$32 million in seven companies in its investment portfolio in Lebanon. Many of these are credit lines to the banking sector to be used for on-lending, primarily for mortgages and the Small and Medium Enterprise (SME) sector. In the past year, IFC has signed two new transactions in Lebanon, representing both new activities and sectors in-country.

The first is a US$8 million transaction to partially finance the SABIS International School of Adma – a world class K-12 educational facility located north of Beirut. The SABIS International School of Adma opened its doors in September 2005. The investment represents the first for IFC with the SABIS school system, and the first in Lebanon in the education sector.

In October 2005, Banque-Libano Francaise became the first bank in Lebanon to join IFC’s global trade finance program. This program, a new initiative for IFC, supports trade with emerging markets worldwide and promotes the flow of goods and services between developing countries. IFC provides guarantee coverage of bank risk in emerging markets, allowing recipients to expand their trade finance transactions within an extensive network of countries and banks, and to enhance their trade finance coverage.

In addition to its traditional lending activities, IFC launched in 2004 the Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA), a US$100 million donor-financed technical assistance facility focused on providing technical assistance in a number of areas.

MIGA in Lebanon

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

In addition, the Lebanese investor community has become increasingly interested in MIGA’s ability to provide non-commercial risk coverage for their investments in other developing countries. In fiscal year 2002, MIGA issued US$8.1 million in Guarantees to Investcom, a Lebanese-owned company, for a telecommunications project in Benin involving the installation of a new GSM mobile telephone network. Lebanon is one of the lowest teledensity countries in the world. In fiscal year 2003, MIGA issued US$56 million in Guarantees to Investcom’s investment in Spacetel, Syria’s second mobile telephone network. Also, Lebanese investors have submitted preliminary applications in the finance, infrastructure and manufacturing sectors for investments in Cote d’Ivoire, Ghana, Sierra Leone, Gambia, Guinea, and Syria. Eligible investors include those from MIGA-member countries investing in Lebanon, Lebanese nationals repatriating funds for investments in Lebanon, as well as Lebanese investors investing in developing countries, including the Middle East region.

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

MIGA’s online investment promotion services (www.fdixchange.com and www.ipanet.net) feature 130 documents on investment opportunities and the related legal and regulatory environments in Lebanon.

Current technical assistance activities in Lebanon are:

Corporate Governance. IFC is undertaking a comprehensive review of Corporate Governance practices in the Banking Sector in Lebanon. The survey will investigate how Lebanese commercial banks incorporate corporate governance principles in their operations, particularly in terms of arrangement for supervisory and management boards, disclosure and transparency policies, protection of shareholders’ rights and internal controls. The survey will also review the current regulatory framework for corporate governance in Lebanon and identify areas for improvement.

Insurance. As part of an ongoing technical assistance program and at the request of the Government, IFC has extended its assistance on the restructuring of the Insurance Regulatory Authority and improvement in the supervision of the industry.

Privatization. In August 2005, IFC completed a valuation of Banque Libanaise pour le Commerce (BLC) a bank currently owned by Banque du Liban (BdL). The valuation was undertaken at the request of BdL and will be used to guide BdL as it returns BLC to the private sector.

Doing Business Survey. In conjunction with the Ministry of Economy and Trade, IFC has held two sessions presenting the results of the annual Doing Business Survey and examining reforms necessary to improve the business environment in Lebanon.
“The economic program will have more than one pillar – the fiscal, social, and growth. In order to be credible, it has to have the fiscal pillar, to be feasible it has to have the social pillar, and to be sustainable there should be a growth pillar.”

H.E. Jihad Azour, Minister of Finance, Lebanon Opportunities, December 2005

As Lebanon prepares to undertake difficult economic and financial reforms in the coming years, there is no escaping the prospect that these reforms might have a negative impact on the poor and vulnerable segments of society. Risks of shocks in Lebanon cannot be underestimated given the high level of public debt, the large exposure of commercial banks to sovereign risk and the general volatility caused by regional and domestic events. Even with fiscal consolidation, Lebanon will remain greatly vulnerable to confidence and other shocks. International experience has shown that financial crises can deeply hurt the social fabric and create irreversible damage to human capital.

Government policy needs to deliberately seek to alleviate the impact of adjustment on the poor and vulnerable communities. But for the Government to do this, it must have strong safety nets\(^1\) in place which can act as shock absorbers. In addition, Government spending on social sectors\(^2\) (health, education, social protection, etc.) must be effective and equitable and reach the poor. These preconditions do not exist today in Lebanon, but must form the basis of the “social pillar” of the Government’s economic program.

This article argues that enhanced social sector outcomes are a must in Lebanon, as is the development and reform of Lebanon’s social safety nets and also recommends ways to improve the efficiency and equity of social sector services and safety nets with the view to: (i) better support human capital development during the ordinary course of Lebanon’s economic development; and (ii) prevent human capital deterioration in the event of an economic downturn.

- **Social Sector Outcomes not Commensurate with Spending and Level of Development**

Social sector spending in Lebanon is high, in nominal terms and as a proportion of GDP, with more than 70 percent of that spending coming from the private sector. The sum of public and private social spending stood at approximately 21 percent of GDP in 2004, out of which 15 percent was supplied by the private sector. The remainder, which constitutes public social expenditures, stood at 6 percent of GDP. This is low compared to other countries in the Middle East and North Africa (MENA) region, but represents a high percentage of Lebanon’s public primary expenditures: in 2004, social public spending represented 26 percent of primary expenditures. If expenditures channeled through other agencies are included (functional expenditures), social public spending amounts to 38 percent of primary expenditures. Furthermore, accounting for public pensions and end-of-service indemnities would put public social expenditures at more than half of Government primary expenditures in 2004.

Yet this high level of social sector spending is not commensurate to outcomes or with Lebanon’s stage of development. International comparison of health outcomes, relative to per capita expenditures, suggests that returns to health spending are low in Lebanon. Per capita health spending in Lebanon, at approximately US$500 per year, is four times higher than that in Jordan or Tunisia. Yet, infant mortality is the same, maternity death much higher, and life expectancy only slightly better.

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\(^1\) Safety nets are defined as policies and programs which help poor and vulnerable groups cope with the consequences of economic, natural and other shocks

\(^2\) This article focuses on the major social sectors of health, education and the social programs under the Ministry of Social Affairs. However, there are other agencies and sectors relevant to the topic of safety nets and social spending including pensions, labor and broader civil service issues, pricing of utilities—such as water or electricity, provision of infrastructure—such as housing and roads, agricultural and other subsidies, support to Small/Medium Enterprises (SMEs) or microfinance and so on. Some of these have been analyzed in depth by the World Bank and presented in earlier Updates (see for example, the First Quarter 2005 issue on pensions).

\(^3\) Defined as the operations of Ministries of Education, Health and Social Affairs

\(^4\) Public social expenditures (excluding pensions) represent 9 percent of GDP in Morocco, 10 percent in Egypt, 12 percent in Iran, 14 percent in Jordan and Tunisia and 15 percent in Algeria.
A similar picture emerges for education. At US$4,000 GNI per capita in 2002, Lebanon had a lower primary completion rate than Tunisia, Jordan, Iran, Algeria and Egypt, all countries with significant lower GNI per capita. The primary completion rate in Lebanon has also not shown any improvement between 1995-1996 and 2003-2004. Another benchmark of the performance of Lebanon’s education system are the 2003 Trends in International Mathematics and Science Study (TIMSS) scores, which assess student learning in 8th grade in Mathematics and Science. In 2003, the national performance of 8th grade Lebanese students was 393 in science and 433 in mathematics. Both these scores are below the international averages of 474 and 467, respectively, and in science, Lebanon was outperformed by all participating MENA countries (except Saudi Arabia). Furthermore, when adjusted for level of income, Lebanon performs well below expectations.

Available indicators also suggest low internal efficiency of Lebanon’s public social expenditures. In education, for example, Lebanon has one of the lowest ratios of pupils to teachers at the primary level (17:1) in the region and an extremely low ratio at the secondary level (8:1). This is a reflection of the highly politicized process of teacher recruitment and placement, as well as the lack of planning in school placements. It also signals a high share of personnel expenditures relative to other education expenditures.

In health, inefficiencies are demonstrated through the low occupancy rate (56 percent) in public hospitals. Other evidence of inefficiencies is the relatively high levels of public expenditures and the contribution of the National Social Security Funds (NSSF) on hospital-based curative care versus more basic out-patient care. The Ministry of Health (MoH) spends almost 70 percent of its budget on inpatient care while devoting only less than 10 percent of its resources to out-patient type services, a pattern mirrored, albeit to a lesser degree by the NSSF. In Jordan, by contrast, MoH expenditures on hospital services constitute about 50 percent of overall expenditures.

Regional inequalities in social indicators are also significant in Lebanon. There is ample evidence to suggest that geographical allocations of public resources are driven by political rather than equity considerations.

The regional variation in the percentage of the population unsatisfied with basic needs (meaning the poor) and adult illiteracy rates is wide and points to the imbalances in access to public social services in Lebanon. Another indicator is the percent of poor who are beneficiaries of assistance provided by the Ministry of Social Affairs (MoSA). In 1999, even though the highest share of population with low satisfaction of basic needs resides in North Lebanon, that governorate had the lowest share of beneficiaries of social assistance.

The lack of coordination between providers generates large waste. There is insufficient coordination between the public and private sectors and little or ineffective regulation of the private sector. At the sector level, there is overlap of public providers in the provision of health, education and social services, hence redundant or excessive capacities.

An additional major impediment to efficient and equitable social spending is the absence of reliable and periodic data on: (i) the incidence of public social spending (targeting, coverage, cost-effectiveness) and (ii) the nature and impact of private social spending, which renders difficult the analysis of their overall social utility. Much needs to be done with regard to health, education and poverty/social statistics.

Finally, a strategic vision for overall human development or specific sectors is missing. The Government is preparing some sector strategies (for example, in education) but a broader approach needs to integrate all social aspects.

Given the above inefficiencies, inequities, misallocation of resources and the almost total absence of sector-wide strategy and reliable data, the justification for raising public social spending for developmental purposes appears relatively weak, at least before significant efforts are made to address the shortcomings presented above. The next section provides some recommendations that can help put Lebanon on the path to achieving better social sector outcomes.

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5 In 2003/2004, there were 348,144 students and 42,352 teachers in the public sector, excluding universities, reflecting a pupil/teacher ratio of nine. In six of the 26 governorates, the pupil/teacher ratio was below five.

6 Worth noting, however, is that the Ministry of Health made important progresses in that regard in the recent years by putting in place an accreditation system for public and private hospitals, hereby setting quality and price standards.

7 One example is the overlap between the MoSA activities in the areas of education, training and health with those provided by the Ministry of Education and MoH.
*Recommendations to Achieving Better Social Sector Outcomes in Lebanon*

Lebanon needs to define its long term social strategy and plan for it. A first step towards this needs to be the development of a comprehensive and integrated social sector strategy based on sector specific strategies in the areas of health, education and social protection. Such strategies need a consensus by all stakeholders, and they must subsequently guide policy and budget formulation and allocations. To support the formulation of the social strategy, a “Higher Council for Social Policy” could be created with a mandate to set priorities, coordinate implementation of social policy nation-wide and monitor and evaluate the impact of social policies.

From a purely public expenditure perspective, various cross-cutting reforms need to be considered. An important principle to keep in mind is that public expenditures should focus on key public goods domains (for instance, primary health care, education and social protection), and complement the provision of social services supplied by the private sector, particularly given the historically large size of the latter in Lebanon. In addition, better regulation of the private sector is needed (such as setting up an accreditation and quality assurance mechanism for universities) and enhanced coordination between the private and public sectors must be sought. Beyond general, yet important recommendations regarding public expenditure management or civil service reform, the following actions need to be considered in the social sectors:

- Public social sector spending must be focused on poor and low-income groups and on reducing regional disparities;
- Targeting and means-testing of programs must be introduced;
- Overlap between different ministries and agencies in provision and financing of social sector services must be reduced; and
- Information and data systems must be developed and utilized for: (i) efficiently supporting budgetary allocations and monitoring of public expenditures on the social sectors; (ii) identifying private expenditures by private and non-governmental providers (for cost and competition/efficiency purposes) and also by users (household expenditures for effectiveness/equity purposes); and (iii) conducting incidence analysis (benefits of social services).

*Social Safety Nets*

Crisis can irreversibly affect human capital in the absence of adequate safety nets. One basic objective of social policy is much more humble than improving human development: it is the prevention of irreversible losses in human capital. A major effect of crises (economic, manmade or natural disasters) is a relatively quick deterioration of social indicators and an aggravation of poverty, in particular. The recent macro-economic crises in many Asian (1997–1999) and Latin American (1994–1995, 1999) countries have prompted governments to reassess the adequacy of their social safety nets to assist poor and vulnerable population groups. Similarly, the waves of natural disasters and the economic and social consequences that have afflicted Africa and many countries in Central America and South Asia over the past two decades also suggest the need for more effective responses to crises.

Safety net programs have two functions in economic and social policy. Their traditional role is to redistribute income and resources to the needy in society, helping them to resist the short term effects of poverty. A more recently recognized role of safety nets is to help protect the incomes and human capital investments of the poor and vulnerable groups in times of crisis. Effective social safety nets must be able to respond in a timely and flexible manner to changing needs without relying extensively on administrative discretion. Setting up safety nets during a crisis is difficult. Increasing evidence suggests that it is better to have mechanisms in place beforehand that can be scaled up (and down) as needed.

There is a wide range of social safety net instruments that can be used, but each has different demands on administrative capacity and none can be applied to all

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There are additional areas of government interventions that can have effects on the social sectors but are not examined in this article, though they should be part of any social or human development strategy. Such issues range from an overall assessment of the performance of the government’s budget process (including specific recommendations for the budget, for example performance based budgeting) to sectoral issues in education, health, pensions, labor, employment, unemployment policies, civil service performance and reform, water, electricity, housing, roads, infrastructure, rural development, civil society/NGOs, SMEs development, informal and inageneration policies including microfinance and producer subsidies.
countries, all circumstances and all times. The different forms of safety nets used world-wide include:

- Cash and in-kind transfer programs;
- Subsidies on basic goods, for example fuel or specific foodstuffs used by the poor;
- Labor-intensive public works programs in which the poor work for food or cash;
- Human development programs targeted to the most vulnerable groups, like school-based feeding programs for young children;
- Mechanisms to ensure access to essential public services, such as school vouchers, scholarships or fee waivers for health care services or for heating in cold climates.

**Formal safety nets in Lebanon are generally inadequate.** A few institutional safety nets exist, but none of them can play an important counter-cyclical role in the event of a sudden financial crisis. The formal system, which roughly amounts to 2 percent of GDP, is fragmented and does not operate within an overall strategy. Most of these programs are also inefficient, costly and not reaching the poor.

Though not technically safety nets in the pure sense of the word (but part of wider social protection systems), the End-of-Service Indemnity Fund managed by the NSSF, which could be mobilized to cushion the impact of massive lay-offs is mostly invested in LBP-denominated Treasury Bills, whose value would necessarily shrink in the event of a currency crisis. Moreover, the Government would be in an even more difficult position to reimburse the arrears it accumulated with the NSSF. The same applies to the Institute of Guarantee of Deposits, whose funds are invested in LBP-denominated Treasury Bills. The pension schemes for military and civil servants are financed on a pay-as-you-go basis, and have no reserves. Health care benefits covered by the MoH and the public insurance funds would also be adversely affected by a financial crisis given their heavy reliance on general revenue financing. Finally, there is no unemployment insurance system in Lebanon.

**Informal safety nets in Lebanon are strong; however they can be equally susceptible to a crisis.** Lebanese families (inside and outside of Lebanon) and communities traditionally provide informal safety nets in Lebanon – as they did, for instance, during the war, but these mechanisms could prove to be inadequate (for instance, if it becomes technically more difficult to send money from abroad in the midst of a banking crisis), or insufficient in the case of a systemic shock. Lebanon’s wide NGO network and active civil society organizations, on the other hand, could become instrumental in the event of a crisis, as they are probably more robust to financial or political disruption.

An important issue plaguing all of Lebanon’s safety net programs is the lack of targeting of the programs, which is partly related to the near absence of timely and reliable poverty data, and partly a result of lack of political will to target programs to the most needy, regardless of confessional considerations.

### Recommendations to Reform Lebanon’s Social Safety Nets

International experience tells us that effective safety nets must be in place before an adversity occurs or major economic reforms are undertaken. In designing and planning for safety nets, desirable principles to be observed include: adequacy in terms of coverage and benefit levels (but in a sustainable way that does not result in dependency); efficiency (well targeted with little leakages to the non-poor); efficacy (consistency to policy objectives); and transparency.

**Lebanon needs to both reform and develop its social safety net system.** It needs to reform what currently exists, and potentially expand safety nets in other areas. It will take time to establish a largely coherent social safety net program in Lebanon given the current conditions, but this is all the more reason why reform needs to start today.

Reform must begin by first, developing a framework for social policy through developing sector strategies (mentioned earlier) and establishing the related governing body, “Higher Council for Social Policy”. Second, conducting annual household income and expenditure surveys must become the norm in Lebanon, building on the current multi-purpose household survey. These surveys must be used for targeting of programs and regular

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9 Formal safety nets in Lebanon can be classified to include the following programs: social assistance programs under MOSA; programs of the Fund for the South, Higher Council for Relief, National Committee for the Disabled, social funds; hospital fee waiver system, producer subsidies (wheat, sugar, tobacco), housing subsidies; and microfinance programs.
Small Grants Program 2006 in Lebanon

The World Bank Lebanon Office launched on January 24, 2006 the new round of the Small Grants Program (SmGP) for civil society organizations. The SmGP will allocate the total of US$34,000 to project proposals submitted by eligible civil society organizations throughout the country.

The Small Grants Program (SmGP) was created in 1983 to complement and facilitate the social development agenda of the World Bank. The SmGP provides, through Country Offices, grants to Civil Society Organizations (CSOs) engaged in initiatives aiming at empowering groups and individuals that have been marginalized and excluded from participating in the public realm. The purpose of the Small Grants Program is to support the empowerment of citizens to have greater ownership of development processes, thereby making these processes more inclusive and equitable.

The SmGP supports activities that promote dialogue, dissemination and linkages among organizations to foster civic engagement. Civic engagement is defined as: citizen, either individually or as organized groups, interacting with the public sector to strengthen mechanisms for inclusion, accountability and participation in order to influence development outcomes.

The Lebanon Country Office has been part of the Program for six consecutive years. Previous grantees of the program have implemented various initiatives targeting empowerment and civic engagement in the fields of health, education, youth, disability, and gender.

How to Apply for a Grant?

The 2006 call for proposals is communicated to a long list of NGOs, as well as through the Country Office Website. The call for proposals involves a two phase application process, where interested organizations are invited to submit their proposals along pre-defined eligibility and selection criteria. Applications received will be screened and reviewed by a Small Grants Committee to ensure that the criteria are met, after which the awarding decision will be communicated to the winning civil society organizations in May 2006 and project implementation should be completed over a one year span.

For more information on the Small Grants Program in Lebanon, visit: http://www.worldbank.org/lb or contact Zeina El Khalil, zelkhalil@worldbank.org
Reflecting their rising role in international trade, services have become an important component of trade agreements. Services feature prominently as well in the process of WTO accession in which a large number of countries, including the MENA region, are currently engaged. And, services lie at the heart of a large and growing network of regional trade agreements concluded of late, or still under negotiation, including again within the MENA region.

Despite the flurry of negotiating and rule-making activity described above, experience with services policy reforms is still young. Significant challenges exist in building the regulatory institutions that are needed to remedy market failures, appropriately sequence service sector reforms and establish mechanisms that promote the availability of essential services among poor people. International trade negotiations in services raise additional challenges.

Against this background, the World Bank Institute (WBI), in collaboration with the Canadian International Development Agency and the International Development Research Centre, has recently organized a distance learning course on Trade in Services that was addressed to a group of five countries in the MENA region: Egypt, Jordan, Lebanon, Saudi Arabia and Yemen. The first two countries are already WTO members, while the latter three are currently in the midst of WTO accession negotiations where services liberalization and its link to ongoing domestic reform efforts assume a prominent role.

The distance learning course featured six half-day sessions taught consecutively over a four week period. The sessions revolved around the following sub-themes: 1) Telecommunications and Financial Services, 2) Transport and Movement of People (mode4), 3) Law and Economics of Services Trade, 4) Regionalism and Statistics, 5) Cross-Border Trade in Services and E-Commerce and 6) State of Play of Services in the Doha Round.

In addition, after each session, participants in each site had the chance for off-line follow-up activities with their local Moderator and with participants in the other sites.

The course was attended by Government officials, researchers in academia, think tanks and regional research networks, representatives from professional associations and consumer groups.

For more information on the World Bank Institute Learning Program and Courses, please visit: http://www.worldbank.org/wbi

Improving Lebanon’s Business Environment

The International Finance Corporation (IFC), the private sector arm of the World Bank Group, and the Lebanese Ministry of Economy and Trade cosponsored a conference entitled “Doing Business in 2006: Improving Lebanon’s Business Environment” on November 14, 2005, in Beirut. The initiative was organized by the Business Enabling Environment (BEE) team of IFC’s technical assistance facility in the Middle East and North Africa (PEP-MENA).

The objectives of the conference were to: assess the extent to which Lebanon’s business regulations present an impediment to the private sector; review how Lebanon’s regulatory environment compares relative to other countries in the region; and discuss specific reform activities necessary to systematically improve Lebanon’s investment climate. The conference is part of a bigger BEE reform program, and will, therefore, be followed by a series of meetings with policy makers and stakeholders to highlight and discuss potential areas of technical assistance intervention by IFC PEP-MENA. The ultimate aim is to improve the attractiveness of Lebanon as a location for private investment, which fits as part of Lebanon’s new Cabinet’s economic reform program.
In response to requests from student and civil society organizations, the World Bank and its local and international development partners have extended until January 19, 2006 the deadline for receiving proposals for the Lebanon Development Marketplace (LDM) 2006.

The LDM 2006 is a World Bank initiative that includes a competition for cash prizes totaling US$230,000 to be awarded to innovative project proposals that promote youth issues.

The competition, entitled Youth in Governance: Shaping the Future, is being funded by the World Bank, in partnership with the Global Opportunities Fund of the United Kingdom, the United Nations Development Programme (UNDP), the United Nations Children’s Fund (UNICEF) and the Lebanese Transparency Association (LTA).

Addressing the conference, Minister of Economy and Trade Sami Haddad expressed concern over Lebanon’s ranking as 95th out of 155 countries surveyed on the ease of Doing Business. The rank is an average based on the time and number of procedures needed to pay taxes, hire and fire workers, get credit, register property, deal with licenses, trade across borders, close a business, start a business, protect investors and enforce contracts.

Minister Haddad called on the private sector to work together with the Government to improve Lebanon’s indicators.

IFC PEP-MENA’s initiative is strongly supported by Lebanon’s Ministry of Economy and Trade. It aims to allow all relevant stakeholders, including businessmen from the private sector, relevant associations and Chambers of Commerce and industry and government officials – who were the conference’s main speakers - to voice their concerns and engage in fruitful dialogue regarding the difficulties faced in business conduct. This contribution will assist the World Bank Group in identifying areas that need immediate reform efforts and will be followed by high level meetings with Lebanese policymakers in the various identified fields, in order to mobilize the necessary resources to improve the Lebanese business environment.

The IFC mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives. IFC finances private sector investments in the developing world, mobilizes capital in international financial markets, helps clients improve social and environmental sustainability, as well as provide technical assistance and advice to governments and businesses.

For more information, visit http://www.ifc.org, or contact Julia Brickell, jbrickell@ifc.org

World Bank Extends Lebanon Development Marketplace 2006 Application Deadline

In response to requests from student and civil society organizations, the World Bank and its local and international development partners have extended until January 19, 2006 the deadline for receiving proposals for the Lebanon Development Marketplace (LDM) 2006.

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A Joint Project Agreement was signed among the partners during a ceremony on November 25, 2005, that also marked the official call for proposals. After January 19th, a technical committee representing the partners and experts in youth and governance issues will choose the finalists, who will then be invited to present their ideas at a public forum, or Innovation Day, which is when the winners will be announced.

This is the second consecutive year that the World Bank is organizing the event. In 2005, the competition, entitled Harvesting Youth and Community Ideas for a Better Environment, was organized in cooperation with UNDP. Seven winners shared US$130,000 in cash prizes.

For more information, please contact Mona Ziade, mziade@worldbank.org
Global Economic Prospects 2006: Economic Implications of Remittances and Migration (ISBN 0-8213-6344-1). International migration, the movement of people across international boundaries to improve economic opportunity, has enormous implications for growth and welfare in both origin and destination countries. An important benefit to developing countries is the receipt of remittances or transfers from income earned by overseas emigrants. Official data show that development countries’ remittance receipts totaled US$160 billion in 2004, more than twice the size of official aid. This year’s edition of Global Economic Prospects focuses on remittances and migration. The bulk of the book covers remittances, including their size, determinants, development impact and steps to strengthen financial infrastructure and reduce transaction costs. It also presents available data on migration flows and examines current thinking on issues pertaining to migration and its development impact.

Trade, Doha, and Development: A Window into the Issues (ISBN 0-8213-6437-5). In today’s economically integrated world, trade matters more for development than ever before. This book addresses the key trade issues relevant to the ongoing multilateral trade negotiations and the evolution of the world trading system. Topics include: a general overview of the Doha Round, potential gains from trade liberalization for developed and developing countries, agriculture, manufacturing trade, services, trade facilitation, TRIPs and the regulatory agenda, regional trade agreements, aid for trade and much more. This is an essential and accessible primer for policymakers, development practitioners, academics and journalists.

Economic Development and Multilateral Trade Cooperation (ISBN 0-8213-6063-9). How can international trade agreements promote development and how can rules be designed to benefit poor countries? Can multilateral trade cooperation in the World Trade Organization (WTO) help developing countries create and strengthen institutions and regulatory regimes that will enhance the gains from trade and integration into the global economy? And should this even be done? These are questions that confront policy makers and citizens in both rich and poor countries, and they are the subject of Economic Development and Multilateral Trade Cooperation. This book analyzes how the trading system could be made more supportive of economic development, without eroding the core WTO functions.

Poverty and the WTO: Impacts of the Doha Development Agenda (ISBN 0-8213-6314-X). Poverty reduction is deemed to be a centerpiece of the Doha Development Agenda currently being negotiated under the auspices of the WTO. Yet, there is considerable debate about the poverty impacts of such an agreement. Some are convinced it will increase poverty, while others are equally convinced that it will lead to poverty reduction. This book brings the best scientific methods to bear on this question, taking into account the specific characteristics embodied in the Doha Development Agenda.

Agricultural Trade Reform and the Doha Development Agenda (ISBN 0-8213-6239-9). Agricultural trade reform is critical to a favorable development outcome from the Doha Development Agenda. But agricultural policies and the policy reforms being contemplated are fiendishly complicated, and the devil is in the details. Agricultural Trade Reform and the Doha Development Agenda builds up from the essential detail of the tariffs and other protection measures, and uses this information to provide an analysis of the big-picture implications of proposed reforms.

Providing the most complete and up-to-date analysis of the range of agricultural issues under negotiation in the multilateral trade negotiations underway at the World Trade Organization (WTO), this book is a valuable resource to policymakers, the agricultural private sector and academics in developing and assessing the negotiating options.

International Migration, Remittances, and the Brain Drain (ISBN 0-8213-6372-7). International migration, the movement of people across international boundaries, has enormous economic, social and cultural implications in both origin and destination countries. Using original research, this book examines the determinants of migration, the impact of remittances and migration on poverty, welfare, and investment decisions and the consequences of brain drain, brain gain and brain waste.
Water, Electricity, and the Poor: Who Benefits from Utility Subsidies? (ISBN 0-8213-6342-5). While consumer utility subsidies are widespread in both the water and electricity sectors, their effectiveness in reaching and distributing resources to the poor is the subject of much debate. Water, Electricity, and the Poor brings together empirical evidence on subsidy performance across a wide range of countries. It documents the prevalence of consumer subsidies, provides a typology of the many variants found in the developing world, and presents a number of indicators useful in assessing the degree to which such subsidies benefit the poor, focusing on three key concepts: beneficiary incidence, benefit incidence and materiality. The findings on subsidy performance will be useful to policy makers, utility regulators and sector practitioners who are contemplating introducing, eliminating or modifying utility subsidies, and to those who view consumer utility subsidies as a social protection instrument.

1 World Manga: Passage I: Poverty - A Ray of Light (ISBN 0-8213-6404-9). Fifteen-year-old orphan Rei survives by his wits and guts on the mean streets of the world. His fortunes take a strange turn when he meets a trainer wielding some powerful transformational magic who offers to coach him to achieve his dream of becoming the greatest martial artist in the world! But it seems Rei’s trainer is more interested in developing his mind, spirit and-ugh!- heart than his thrashing, raging, fighting moves! The stakes get higher when Rei meets a young woman fighting just to survive! Can Rei vanquish the specter of poverty...

Manga are Japanese-style comics or graphic novels which have become the rage among young readers around the world. Teaming up with Viz, the second largest English-language manga publisher, the Bank has launched a new series of comic books, each highlighting a key development issue. The stories follow the adventures of 15-year-old Rei who discovers that the only way to become a true warrior is to understand the challenges facing the poor and disadvantaged people he befriends along the way. Rei’s humorous side-kick is a wise “spirit guide” which morphs into different animal guises as it introduces Rei to each new challenge. The first three volumes will focus on poverty, HIV/AIDS and the environment. An appendix in each book provides further information, websites, and other resources so readers can explore the themes introduced in the story.


The wealth estimates provide a unique opportunity to look at economic management from a broader and comprehensive perspective. The book’s basic tenet is that economic development can be conceived as a process of portfolio management, so that sustainability becomes an integral part of economic policy making. The rigorous analysis, presented in accessible format, tackles issues such as growth, development and equity.

Where is the Wealth of Nations? is organized in four sections. The first part introduces the wealth estimates and highlights the main facts on the level and composition of wealth across countries. The second part analyzes changes in wealth and how they matter for economic policy. The third part deals with the level of wealth, its composition and links to growth and inequality. The last part reviews existing applications of resource and environmental accounting.

MENA Publications

Preventing HIV/AIDS in the Middle East and North Africa: A Window of Opportunity to Act (ISBN: 0-8213-6264-X SKU: 16264). The HIV/AIDS epidemic has the potential to impede and even reverse development if not addressed early enough. Poverty and income inequality have been shown to facilitate the diffusion of HIV epidemics. While abject poverty in the Middle East and North Africa region remains low, a significant proportion of the population (23.2 percent) live under US$2 per day and are extremely vulnerable in their ability to cope with shocks.

In order to preserve the benefits of national and regional development investments put in place by governments and donor agencies, greater investments to improve HIV/AIDS advocacy, information and prevention strategies are needed now to maintain the current low prevalence levels. This book outlines the role of the Bank in confronting the HIV/AIDS epidemic in the region based on a review of needs and gaps at the regional and country level.

working paper sheds light on the recent key economic developments in the region and the forces underlying the region’s diverse economic outcomes. It analyzes the region’s short term growth prospects given global forecasts and current structural features of the economies, as well as the region’s prospects for longer term growth based upon progress in implementing comprehensive structural reforms. With economic headlines increasingly devoted to the rise in oil prices and what this implies for the MENA region, this first issue devotes particular attention to this theme, analyzing the impact of the oil price shock on the MENA region in terms of its relative size, its transmission channels throughout the broader region and the manner in which windfall revenues have been managed.

Lebanon - Legal and Judicial Sector Assessment (Working Paper 32144). Lebanon has had an illustrious legal and judicial history in the Middle East, notably, having trained judges to serve throughout the region and having established a legal framework to support its previous preeminence as a financial center. Despite the end of the civil war over ten years ago, however, Lebanon has not regained its footing in the legal and judicial sector. In part, this is an ongoing legacy of the war. The institutions of the sector by and large did not function during this period and the rule of law suffered accordingly. The institutional cost associated with the war and its aftermath, such as the atrophying of skills and lack of institutional development, combined with Lebanon’s continued economic difficulties, have created a long-standing need for investment in human resource development. A backlog in cases is one manifestation of this problem, as the Government has been unable to hire additional judges or train court staff.

Also available:


