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EDITORIAL

As the Political Dialogue Continues, Advance the Social and Economic Reform

While the National Political Dialogue moves forward, the political elite of Lebanon should also focus on the long awaited social and economic reforms. The demands of the private commercial and financial sectors, and the attempts of H.E. the Minister of Finance to introduce the economic reform agenda into the Dialogue are laudable attempts to remind the country’s political elite of their responsibilities for jumpstarting the economy and addressing neglected social needs.

Some observers have said that the social and economic reform dialogue is only aimed at the expectations of a proposed Donors’ Conference. But, Lebanon needs to undergo a reform process, not for the sake of the international community, but for its own sake, especially for the young generation. Indeed, the ultimate challenge for Lebanon is to keep its young, talented and entrepreneurial workforce at home rather than export them in return for remittances used for consumption. The challenge is to give its young workforce hope and provide them with opportunities to build and propel Lebanon into one of the strongest emerging economies with its unique Lebanese branding, something hard to beat.

But, this requires reform. “Reform talk” sometimes can get too esoteric, too removed, given too much technical jargon: debt to GDP, primary surpluses or deficits, levels of reserve, etc. all these are very important measures of inherent strengths or weaknesses in the economy, which signal deferred costs to society and to short and medium term risks. But, behind these esoteric terms are real problems experienced by ordinary citizens every day. Solving practical problems would demystify what is meant by “reform” and help build national support for constructive economic program for modernization and development.

An example is the power sector. This sector is responsible for many Lebanon’s economic, fiscal, environmental and social woes, and has also become a symbol of the inability of successive Governments to address a glaring example of public sector failure. Electricité du Liban (EdL) is costing the country over US$2 million per day in subsidies, while charging the highest tariffs in the region. A recent World Bank survey of businesses (still unpublished) reveals that 94 percent of businesses with over ten employees have parallel power generators to supplement the EdL supply (which was interrupted 220 times last year by their own estimate!).

The necessary steps for reforming the power sector are obvious. Indeed, the last three Governments came up with very similar solutions, differing only in minor details. There is agreement that EdL needs to be run efficiently – like a business. It should be corporatized under the Commercial Code; a new Board of Directors appointed, composed of members of high caliber and integrity; and management capacity needs to be enhanced through management or service contracts for specific operation and maintenance functions (including bill collection and loss reduction). As these measures go forward, ways and means of privatization can be considered. There might be legitimate questions remaining as to the scope and speed with which private sector participation can take place. These are not ideological questions, but rather empirical ones requiring immediate work on EdL’s operations, and the testing of market appetite for various forms of private participation.

Launching this process should not be delayed either for further breakthroughs in the political dialogue or the convening of a Donors’ Conference. The Lebanese people are paying daily for the cost of these delays, through added national debt, power outages, less competitive exports, lost jobs and a worsening environment.

The power sector is perhaps the most egregious, but not the only sector in dire need of reform. The state of national health, education, solid waste, social security, tax, business procedures, justice, etc. are all far from what Lebanon aspires to, is capable of achieving and deserves. Individual ministries’ efforts can be heroic, but frequently lack the needed authorizing environment (new laws), reforming procedures, selecting qualified personnel and efficient implementation.

Now that important breakthroughs have been achieved on the political dialogue front, we urge the leaders to bring social and economic dialogue in from the cold and move to tangible actions which would bring hope to young Lebanese men and women that they have a future in their beloved country.
For decades, Lebanon has been known as the “classroom of the Middle East” with a robust education system attracting students from all over the Middle East and North Africa Region (MENA) region. This system was renowned for producing the highest qualified graduates in the region - graduates who would find jobs with ease anywhere in the world.

Yet, recent evidence of the performance of Lebanese students in mathematics and science - two subjects that are fundamental for competitive knowledge-based economies - might be cause for concern. The evidence suggests that Lebanon could be losing its human capital edge. The trend, if true, can be reversed, however through a long and deep reform effort in the education sector. The Ministry of Education and Higher Education (MEHE) under the strong leadership of H.E. Minister Khalid Kabbani has indeed launched a series of long-needed reforms to address the quality of education. These reforms need to be reinforced and sustained over a long period to produce measurable results for students.

The MEHE should be commended for participating in 2003, in the well-known international assessment examination called TIMSS (Trends in International Mathematics and Science Study). TIMSS assesses student learning in mathematics and science at the 4th and 8th grade levels (Lebanon participated only in the 8th grade assessment). More than 60 countries worldwide participated in the TIMSS 2003 assessment examination. Global results of TIMSS 2003 were released in Amsterdam by the International Association for the Evaluation of Educational Achievement (IEA) more than a year ago. The results however have yet to be disseminated or debated widely in the country. In most countries, the publication of the TIMSS results, which includes a ranking of participating countries, is first-page news in all major local newspapers. This engenders a major national debate about education reform.1

This article presents a first set of analysis conducted by the World Bank of Lebanon’s performance in TIMSS 2003.2 The purpose of this article is to: (i) encourage a national debate on the reasons behind Lebanon’s low performance in such subjects, and more broadly around the performance of the education sector in the country; and (ii) stimulate a dialogue between stakeholders (students, parents, teachers, school administrators, policymakers and civil society at large) on what needs to be done to improve Lebanon’s education system. In this article, we also highlight the importance of participating in such international assessments, as well as stress the need for further analysis of the results by local academics, research institutes, and education specialists in the MEHE and in the Education Center for Research and Development (ECRD).

Results of Lebanon’s TIMSS 2003

As seen in Figures 1 and 2 below, students in Lebanon performed significantly below the international average in mathematics and science (international average scores are 467 and 474 for mathematics and science, respectively, compared to Lebanon’s scores of 433 and 393, respectively). Analyzing performance by the five domains of mathematics and science that were tested, Lebanese students performed lower than the international average in all ten domains. Compared to other MENA participating countries,3 Lebanon performed, on average, higher in mathematics, but was outperformed by all other MENA countries in science.

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1 TIMSS is an international assessment in science and mathematics established in 1995 by the International Association for the Evaluation of Educational Achievement (IEA). Country participation is voluntary. The assessment is repeated every four years (1995, 1999, 2003, the next one in 2007). Countries select a random nationally representative sample of students from public and private schools to be assessed. Close monitoring is done by the IEA of the procedure, sampling, scoring and other aspects of the assessment. In mathematics, five domains are tested: algebra, measurement, numbers, geometry, and data. In science, the five domains tested are: life science, chemistry, physics, earth sciences and environmental science. In Lebanon, the ECRD (Education Center for Research and Development) is entrusted with carrying out the TIMSS assessment. For further information on TIMSS see: http://www.timss.org/

2 To the best of our knowledge, there has not been any reporting of Lebanon’s performance in TIMSS 2003 in a major newspaper in Lebanon.

3 Analysis of the TIMSS 2003 data has been conducted by Dr. Husein Abdul-Hamid, Director of Office of Research, Evaluation and Grant, University of Maryland.

4 In 2003, eleven MENA countries that participated were: Bahrain, Egypt, Iran, Jordan, Lebanon, Morocco, Saudi Arabia, Syria, Tunisian, Palestine, and Yemen.
Perhaps a more disconcerting result is that if achievement is divided into five levels (advanced, high, intermediate, low, and below the lowest level), almost no or very few students who took the examination in Lebanon reached the “advanced” or “high international” achievement benchmark in either mathematics and science (Figure 3) indicating that, contrary to popular belief, even the highest quality schools in Lebanon are not producing highly competitive students at the international level. Furthermore, in science 52 percent, and in mathematics 32 percent, of Lebanese students were below the “lowest” level, pointing to serious quality issues at the lower end. On the positive side, TIMSS 2003 results do not show any achievement differences between boys and girls in Lebanon – an issue which in other countries is significant.

What are the factors behind the relatively poor performance in science and mathematics in Lebanon? From a first set of analysis of the TIMSS 2003 data, the major factors explaining differences in achievements are: (i) socioeconomic status of the student (as measured by parent’s level of education - students whose parents had no schooling or completed only primary education had the lowest scores in science and mathematics); (ii) school locations and population densities (schools in more populated/urban areas perform better than those in less populated/rural areas); (iii) language of instruction (explained below); (iv) teacher qualifications and instructional practices; and (v) availability of resources for instruction.
Each of the above factors associated with performance should be analyzed in depth. One factor warrants particular attention - language of instruction. Lebanon prides itself of having a tri-lingual system of education. English or French (alongside Arabic) are taught from early years in schools and become the mandatory medium of instruction for mathematics and science for all schools after the primary level. In TIMSS 2003, Lebanese students from homes where the language of instruction was “always or almost always” spoken at home had significantly higher average science scores than those who spoke it less frequently (in mathematics, language of instruction did not have a significant impact on scores, which is understandable given that mathematics relies more on numeracy than language literacy). What the above results indicate is that students whose English or French was not strong enough (either because they did not speak it at home or were not receiving an adequate level of language instruction at the primary level in school) are being hindered when it comes to learning science. It is most likely the case that these students come from disadvantaged backgrounds and from lower quality schools (which might not have adequately trained teachers in foreign languages, etc.). There are several policy implications of this – a key one might be that English and French languages must be strengthened at the primary levels.\footnote{Another possible reason behind the low science scores compared to mathematics is that science requires more resources at the school level (such as labs and equipment). Given that there are significant deficiencies in such resources in many schools in Lebanon - especially public schools - it might not be surprising that science scores emerged as they did.}

Much more extensive analysis of the rich TIMSS 2003 data set can - and needs to be conducted. The TIMSS questionnaire contains a vast range of information that can shed light on the factors associated with student performance in science and mathematics. These include: information on the national curriculum, student absenteeism, perception of teachers’ job satisfaction, extent of parental support and involvement, principals’ experience, instructional time, remedial mathematics or science education, teacher vacancies, incentives for teachers, teacher evaluation, utilization of computers, on teachers preparation and professional development, teachers pedagogical activities, students’ background, among others.

The above information will help answer questions such as: Why is performance below standards? Why is performance so much lower in science compared to mathematics in Lebanon? What are the factors behind the results? How can these issues be addressed? Answering these questions is not just important for raising the quality of mathematics and science education in Lebanon, but for the quality of education as a whole, since performance in mathematics and science are typically signaling system-wide problems.

### Other Indications of an Education System Falling Behind

TIMSS 2003 is only one measure of the performance of the Lebanese education system. There are many other indicators\footnote{See “Reforming Social Sector Spending and Strengthening Safety Nets in Lebanon”, Lebanon Quarterly Update, Third/Fourth Quarter 2005 and “Education in Lebanon”, Lebanon Quarterly Update, First Quarter 2004.} some of which already have been explained in earlier issues of this publication and have been widely reported on by the MEHE, ECRD, and education researchers in Lebanon.

For example, at a US$4,000 Gross National Income (GNI) per capita, Lebanon has a lower primary completion rate than Tunisia, Jordan, Iran, Algeria and Egypt - all countries with significantly lower GNI per capita. The primary completion rate in Lebanon also has not shown any improvement between 1995/1996 and 2003/2004. Repetition rates in grade 4 are at 18 percent and in the public schools closer to 37 percent. According the MEHE sources, the percentage of unqualified teachers in main disciplines such as languages, mathematics and sciences exceeds 80 percent in many schools. Lebanon also has one of the lowest ratios of students to teachers at the primary level (17:1) in MENA and an extremely low ratio at the secondary level (7:6), a reflection of the highly politicized process of teacher recruitment and placement, as well as the little planning in placements of schools. Such ratios also mean that a high share of financial recourses is spent on personnel and little expenditure is being made on much needed quality enhancing interventions.

### Regaining Lebanon’s Human Capital Edge

The MEHE has clearly launched a number of important initiatives to regain Lebanon’s human capital edge. Education reform has yet to become a major national priority for Lebanon. The reform needs to be compre-
hensive and focus on improving quality, relevance and efficiency in all their aspects, including addressing the difficult issues around the teachers’ workforce (contracting arrangements, incentives, qualifications, and training). Education reform also means the restructuring of the financing of the education system to make it more equitable and to focus on the poor. Optimizing the supply and distribution of schools must also be on the agenda of education reform.

Lebanon should continue to benchmark its education system internationally through the continued participation in international assessments such as TIMSS, as well as joining others such as PISA and PIRLS (PISA- Program for International Student Assessment and assesses knowledge economy and critical thinking skills of 15 year olds. PIRLS – Progress in International Reading Literacy Study - is a reading test for 4th graders). Such assessments provide an objective and diagnostic way to measure its performance over time, and a basis upon which to undertake reform and target school improvement efforts. The MEHE and the ECRD should be commended for participating in the TIMSS 2003, and for their determination to continue as demonstrated by their participation in the TIMSS 2007.

The MEHE is on the verge of launching a national education strategy and subsequently a restructuring plan of MEHE and the ECRD. The strategy is an important first step in the education reform process. It is important that all stakeholders in Lebanon – students, teachers, parents, parliamentarians, policy-makers, civil society - continue to be involved in the development of the strategy to help Lebanon take a first step in regaining its human capital edge.

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The Government of Lebanon has endorsed a Country Financial Accountability Assessment Report (CFAA), a diagnostic exercise designed to facilitate a common understanding by the borrowing country, the World Bank and their development partners of the country’s financial accountability framework.

The objective of the CFAA is to assess the design and implementation of this framework and to evaluate its ability to ensure the proper use of the country’s own resources and those provided by donors. Also, the CFAA has a developmental objective, which is to understand the capacity-building requirements for improving the country’s financial management. The CFAA is not an audit, nor does it provide assurance that all funds are being used for intended purposes.

However, the CFAA provides a well-informed and objective assessment of the strengths and weaknesses of public financial management systems, a diagnosis of problems and advice on their resolution, and also provides an indication of the level of the financial accountability risk in the country.

The overall objectives of the Lebanon CFAA are to: (i) provide relevant information to the World Bank and the Government on the public sector financial accountability arrangements in the country; (ii) identify and document the most significant fiduciary risks in the Government’s Public Financial Management (PFM) systems; and (iii) document the existing program of reforms and capacity building, making additional recommendations, where necessary. Accordingly, the CFAA reviewed the three main pillars of the PFM system: the budget formulation and execution process, the accounting and reporting system in-place for all public entities and the internal control system, comprising the executive, internal auditors, and the legislature. The important role of the Court of Accounts, the external auditor of the Government, was of particular importance in the Report.

The CFAA concludes that the overall risk assessment of the PFM system in the Government of Lebanon is significant. Based on the assessments performed under the CFAA, a number of key reforms would enable the Government to reduce its Fiduciary Risk Rating to “Moderate”. To achieve
this “Moderate” rating, the priorities for the next two-three years should be focused on:

• Establishing a unified budget framework that accounts for the financial activities of the public sector and presents it in a consolidated, audited set of financial statements for the public sector.

• Strengthening internal controls by making amendments to the Law on Accounting through the introduction of an internal audit function and enhancement of the internal control environment.

• Reforming the Court of Accounts to make it independent of the Government, remove it from the Government’s internal financial control processes and focus its work on expressing an opinion on the fairness of the Government’s annual financial statements and on performance audits of Government entities.

• Addressing the urgent issue of capacity development of all staff involved in financial management, budgeting planning, execution and control and internal audit.

FINDINGS

The Report findings may be summarized, by pillar assessed, as follows:

Budget

The budget entity does not cover all of the activities of the central Government. In the Government budget, significant additional expenditures are not accounted for. There is a need for the Government to continue its work on a unified budget framework that enables proper management of its finances. This would assist the Government to better control public revenues and expenditures, maintain its social safety nets, and improve its financial relations with public utilities. The current budget framework is not unified for the entire public sector; many of its financial activities are still not transparent to the Government itself, to Parliament, or to the public. The scope of Government activities accounted for in the annual budget submitted to Parliament is incomplete in several respects. First, there is a dual budget system in operation. The first budget is the regular one prepared by the Ministry of Finance (MOF) and approved by Parliament; it covers central Government spending as executed by 29 first-line entities and 76 second-line entities. The second budget is the Foreign Financed Investments (FFI) budget, prepared by CDR and approved by COM. The CFAA recognizes that major efforts by the MOF were exerted since 2001 in increasing transparency by disclosing all public finance, debt, and trade information on a monthly, quarterly and yearly basis through regular reports. The information is disclosed as part of the budget statement to Parliament and is posted on the MOF website.

The absence of hard budget ceilings at the beginning of the budget formulation process has meant that there is no budget “challenge” process. No one challenges the assumptions of the component budgets as they are being prepared and rolled up within each Ministry. This function should be a fundamental responsibility of the Ministry financial budget staff in support of the Minister. As a result, Ministerial budget requests are unrealistic, and negotiations requiring reconciling requests with resource constraints are conducted outside of the line Ministry, often at the political level. The traditional bottom-up approach uses last year’s budget levels as a baseline for the increases sought in the current submission. Proper scrutiny by the MOF would force the Ministries to justify the entire base, rather than incremental increases. This capacity of financial analysis and budget challenge can be developed either by a specific department inside the MOF Budget Directorate, or through a new function to be developed in the MOF Budget Directorate counterparts for every Ministry and spending agency.

Accounting and Reporting

The CFAA reviews existing accounting policies and reports. The CFAA concludes that international public sector accounting and auditing standards should be required by law for all government entities in Lebanon, as appropriate to their status. The Government currently follows a modified cash basis of accounting for its appropriations. The present chart of accounts complies with the GFS 1986 standard and the Government had indicated a desire to move over time to a GFS-2001-compliant framework. That framework can also support a long-term move (over five to ten years) to performance-based budgeting, and a phased migration from the current modified cash-based accounting to a full accrual basis, as recommended by the IMF. The CFAA also noted that this move would provide a basis of accounting that would be common across all government budgets, including those of extra-budgetary entities and public enterprises.
Internal Audit

There is no internal audit function operating within the Government of Lebanon. In a system of modern internal control, management is responsible for establishing and maintaining effective internal controls. It is the role of the internal auditor to provide management with independent and objective advice on the performance of the management controls and its operations and how risks in the control framework can be reduced. Establishing and implementing modern internal control represent a major challenge for the Government of Lebanon. The CFAA has concluded that much work remains to be done in order to educate both management and future internal auditors on the new and supporting role that the internal audit must play to implement the modern internal control model and internal audit. A comprehensive medium-term plan for legislative change, management education, internal auditor training and staff communication is required if the internal audit is to be successfully implemented.

External Audit

A major activity of the Court of Accounts (COA) is the exercise of ex-ante control of budgetary commitments. The COA’s structure and functions were modeled on the Belgian and French Cours des Comptes in the early 1960s, when the Lebanese legislative base was established. During Lebanon’s lengthy civil war, there was no opportunity to update the law to take into account developments in the field of external auditors to government, such as INTOSAI. Presently, all commitments of budgetary expenditures, over rather low thresholds, are submitted for prior approval to the COA. In 2002, 1,713 transactions were referred; approximately 5 percent were rejected.

The COA’s exercise of ex-ante control poses two problems. First, it duplicates the approval that is performed by the commitment officer, undermining accountability and responsibility, and second, it violates the INTOSAI principle of independence, because the COA will subsequently have to perform an ex-post audit of the very transaction it approved ex-ante. This issue has been identified in previous studies, and a draft law is before Parliament that would remove this function from the COA, among other changes. However, it is important that the Government has in place a well trained team of auditors to perform the ex-ante verification prior to removing this function from the COA.

The COA performs a valuable service through its compliance audit activities. The COA is capable of providing even better value to the Government, Parliament and the citizens of Lebanon through its transformation into a modern SAI, fully utilizing international audit standards for attest and performance audits and for governing its internal procedures.

The computerization of account processing in the MOF will enable the COA to have on-line access to the MOF final account database. This improvement will permit the COA to examine the accounts on an ongoing basis and see the closing accounts very shortly after the end of each financial year. The computerization of account processing should also dramatically reduce the audit time for final accounts and permit a much more timely opinion that Parliament could consider as it receives the final accounts from the Government. This computerization will also support the COA’s expression of an audit opinion of the Government’s financial statements that conforms to international standards, a major requirement for COAs in other countries.

CONCLUSION

The Government has devoted considerable effort to improving its budget processes and has made good progress. Many other reforms have been proposed and a number are being implemented, including the GFS 1986-compliant chart of accounts, harmonized classifications between budget preparation and execution, establishment of a Treasury within the MOF, and an upgraded financial management information system. With what the CFAA is recommending, the PFMS for the Government of Lebanon will be able to follow on public funds and insure transparency and efficiency.

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In the Fourth Quarter of 2005, the financial and fiscal situation continued to improve, but not sufficiently to reduce structural imbalances and related vulnerabilities. Following the difficult first months of 2005, the financial situation stabilized, thanks, in particular, to the resumption of large capital inflows from the Arabian Gulf, fueled by ever-high oil prices. In turn, the Government was able to return to the market to meet financing needs (although at higher terms), and the Central Bank (Banque du Liban, BDL) to sell a large number of Government bonds acquired during the first half of the year. In 2005, the public deficit was reduced by one percentage point of GDP compared with 2004 (from 10 to 9 percent), due to large cuts in investment expenditures and lower debt service. But the debt to GDP ratio continued to grow (173 percent of GDP by end-2005), and related financial vulnerabilities accordingly. And, while growth could rebound in 2006 from its very low level in 2005, this will certainly not suffice to invert or simply stabilize the debt to GDP ratio, unless structural reforms are implemented boldly and rapidly.

In this regard, the preparation of a comprehensive plan of reform by the Government is highly welcome. Recognizing the need to tackle problems at their roots, the Government’s 5-year plan foresees administrative, social, financial and economic reforms to rationalize public spending, improve governance, strengthen safety nets and raise Lebanon’s growth potential. In all these domains, Government intentions can - and should - be debated, in order to forge the necessary consensus to insure their implementation. But it is also important to understand the need for a reform plan that embraces simultaneously fiscal, social and economic issues. Indeed, experience worldwide suggests that developing positive synergies between these different pillars is crucial for the success of stabilization plans. A fiscal stabilization plan that would be designed and implemented for its own sake has all the ingredients for failure. In contrast, if used to reinforce the efficiency of public service delivery, the plan would maximize its chances of achieving its objectives of higher growth, greater social protection and fiscal sustainability.

The other sections of this article summarize recent developments in the real and financial sectors, public accounts and the balance of payments throughout the year 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.

GDP growth was anemic in 2005, reflecting Lebanon’s high vulnerability to confidence shocks and weak potential. In the absence of official statistics, National Accounts estimates for 2005 are at best tentative. Yet, all indirect indicators point to a serious deceleration of economic activity in 2005, and World Bank staff estimate nominal GDP growth between 1 and 2 percent in 2005 (compared to 9 percent in 2004). Perhaps the result of tighter monetary conditions, banking credits to the private sector were only extended by the equivalent of 2 percent of GDP in 2005, against 4 percent in 2004. Moreover, tourism dropped (-11 percent in 2005; as measured by the number of tourist arrivals at the airport), and private demand consequently stagnated (as suggested by VAT and compensated checks growth, -4 and +3 percent respectively). And unlike previous years, public absorption (consumption and investment, from a national account perspective) barely contributed to growth in 2005 (-5 percent, against +13 and +11 percent respectively in 2004 and 2003). Merchandise export (and re-export) growth (+8 percent in value), and construction activities (as measured by cement consumption, +16 percent in tons) on the other hand, continued to support economic activity, benefiting, in particular, from sustained demand from gulf countries.

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).
Thus, this poor economic performance reflects the large influence of monetary and confidence conditions on key demand components, but probably also the weak long-term growth potential of the Lebanese economy, which, according to staff calculations, hardly exceeds 3 percent a year in real terms (and 5 percent in nominal terms)\(^2\). In recent years, growth issues were put aside by most observers, rightly concerned by shorter-term financial issues related to the debt overhang. But, as the Government of Lebanon now recognizes the critical importance of addressing economic imbalances through deep structural reforms, the need to systematically review determinants of growth becomes more imperative. In this regard, the World Bank is currently conducting a growth diagnosis (along with an Investment Climate Assessment) to identify the most binding supply constraints to growth. The poor provision of public goods and services (including corruption), the over-evaluation of the real exchange rate and the existence of high barriers to entry in many sectors are among the possible reasons for constraints to growth.

\(^2\) As the ratio of investment over GDP went down from 31 percent in the period 1994-1997 to less than 21 percent since 2001, there is little doubt that the growth in the stock of infrastructure and productive capacities decelerated as well. Other elements determining the long term GDP growth potential of any economy, labor, human capital accumulation and technical progress in particular, could not have compensated for such a deceleration. Indeed, with the large emigration flows (2 percent of active population every year, young skilled workers in particular) witnessed since 1991, it is doubtful that employment and human capital grew up rapidly. Besides, low competition pressures faced by Lebanese entrepreneurs did possibly not encourage them to seek productivity gains on a large scale to contain production costs. Finally, the composition of its investment (as reflected by the sharp decline in imports of machinery equipments (which have been on a declining trend since 1993, -7 percent per year in real terms) and the large share of residential investments does not suggest strong efforts to modernize productive capacities.

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### Estimated Recent Macro Economic Developments

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<td>GDP (US$ billion)</td>
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<td>18.46</td>
<td>19.98</td>
<td>21.87</td>
<td>22.21</td>
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<tr>
<td>Private consumption (% of GDP)</td>
<td>85.3</td>
<td>84.6</td>
<td>82.7</td>
<td>87.3</td>
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<tr>
<td>Public consumption (% of GDP)</td>
<td>17.6</td>
<td>17.3</td>
<td>15.2</td>
<td>15.0</td>
<td>15.2</td>
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<tr>
<td>Private investment (% of GDP)</td>
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<td>15.8</td>
<td>16.3</td>
<td>17.1</td>
<td>17.5</td>
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<tr>
<td>Public investment (% of GDP)</td>
<td>4.6</td>
<td>3.9</td>
<td>4.0</td>
<td>4.2</td>
<td>2.7</td>
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<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>41.0</td>
<td>36.1</td>
<td>37.0</td>
<td>44.0</td>
<td>43.2</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>15.1</td>
<td>15.9</td>
<td>18.8</td>
<td>20.5</td>
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*Source: World Bank staff calculations.*

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### FISCAL DEVELOPMENTS

**Fiscal deficit dropped in 2005.** The central Government’s overall deficit (Budget plus Treasury) declined from US$2.16 billion in 2004 to US$1.96 billion in 2005 (a 10 percent decline), or from 9.9 to 8.8 percent of GDP approximately (including foreign-financed expenditures)\(^3\).

**Two important factors favored this performance from the expenditure perspective: lower debt service and compressed capital expenditures.** Debt service as a percentage of GDP declined from 12.2 percent in 2004 to 10.6 percent in 2005. This corresponds to a reduction in the average interest rate paid on the gross public debt\(^4\) from 7.3 to 6.3 percent. To a significant extent, this decline in the debt service reflects below-market Central Bank financing and other non-market operations (such as those taken at the Paris II Conference), as Government bonds sold on the market (in Lebanese Pounds and foreign currencies) have persistently been issued at higher rates in previous years. But, the Government is also benefiting from the overall decline in interest rates on Lebanon’s financial markets observed since late 2002, the effect of which was in full force in 2005, as most of the debt issued before 2003 had been rolled-over by then. The other main element of expenditure containment (similar in magnitude, US$310 million saved against US$323 million for debt service) is the very sharp compression in capital expenditures. While favorable from a fiscal consolidation perspective, this containment is more worrisome from a growth perspective. Indeed, at less than 3 percent of GDP, it is doubtful that the current level of public investment (including...

\(^3\) Figures reported by MOF do not include foreign-financed capital expenditures, even though the latter are all financed with loans.

\(^4\) As measured by the debt service divided by the debt stock of the previous year.
maintenance operations) suffices to simply maintain the current stock of public infrastructure. This compression stems from the absence of a budget law for 2005, which would not have permitted engagement in new investment expenditures.

Oil prices, on the other hand, exerted a high toll on expenditures and revenues. Treasury advances to the public electricity company to cover its losses (part of which resulted from higher production costs with higher oil prices) and financial obligations (debt service and principal repayment) rose by 69 percent in 2005. This corresponds to an additional cost for Treasury of approximately 1 percent of GDP. Moreover, in order to maintain the cap on retail gasoline prices introduced in May 2004, Treasury had to further reduce petroleum excise taxes (-44 percent), in the face of rising world prices. Maintaining this cap is approximately costing Treasury an additional 1 percent of GDP in terms of foregone revenue each year. Finally, lower economic activity impacted indirect tax revenues -- VAT receipts dropped by 4 percent, and customs duties by 9 percent. The loss of tax revenues from these two sources represents about 0.4 percent of GDP, and was almost entirely offset by an increase in revenues from direct taxation (on profits, wages and salaries, interest income, capital gains), the result of continued progress in tax administration and of a prosperous year 2004 (as most direct taxes are levied on previous year’s incomes). Non tax revenues also rose substantially due to an 11 percent increase in the Telecom sector transfers.

Public debt continued to grow unabatedly. Gross public debt reached US$38.51 billion by end-2005 (or approximately 173.4 percent of GDP), up from US$35.86 billion in 2004. The difference, US$2.64 billion, exceeds Government financing needs in 2005, US$1.96 billion, the result of the pre-financing strategy followed by Treasury in the Second Half of 2005. These excessive liquidities were, in majority, put in public sector deposits, which grew from US$3.07 billion in 2004 to US$3.59 billion in 2005. The market debt – i.e., the debt held by private agents (in contrast to that held by the Central Bank, the Social Security Fund, the Institute of Guarantee of Deposits and donors) grew by US$1.92 billion (from US$21.13 billion to US$23.06 billion), suggesting that Government financing needs had all been met by the private sector in 2005. This represents a strong reversal compared with the First Half of 2005, during which all Government financing needs had been met by the Central Bank. In 2005, Lebanese commercial banks acquired the equivalent of US$1.68 billion worth of Treasury Bills (US$1.16 billion) and Eurobonds (US$0.52 billion). As a result, the share of the debt labeled in foreign currency declined, from 51.2 percent in 2004 to 49.8 percent in 2005.

The debt dynamic remains severely unsustainable. In 2005, the primary surplus declined to reach approximately 1.8 percent of GDP (against 2.3 percent in 2004). The primary surplus required to stabilize the debt to GDP ratio varies in time, with interest rates and the GDP, and is, therefore, difficult to identify accurately. Using interest and GDP growth rates observed in 2005 would give a debt-stabilizing primary surplus of 8 percent of GDP (or 6-7 percentage points of GDP adjustment). These calculations do not include Government arrears, or the need to take into account upside risks (a rise in the difference between interest and GDP growth rates) to calculate the primary surplus required to service the debt in all circumstances – the definition of debt sustainability.

### Fiscal Accounts as a Percentage of GDP

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>20.9</td>
<td>21.3</td>
<td>22.1</td>
<td>22.8</td>
<td>22.1</td>
</tr>
<tr>
<td>Non-debt expenditures</td>
<td>19.9</td>
<td>19.7</td>
<td>19.6</td>
<td>20.5</td>
<td>20.4</td>
</tr>
<tr>
<td>Debt expenditures</td>
<td>16.8</td>
<td>16.7</td>
<td>16.2</td>
<td>12.2</td>
<td>10.6</td>
</tr>
<tr>
<td>Primary balance</td>
<td>1.0</td>
<td>1.5</td>
<td>2.4</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-15.7</td>
<td>-15.1</td>
<td>-13.7</td>
<td>-9.9</td>
<td>-8.8</td>
</tr>
<tr>
<td>Gross public debt</td>
<td>165.7</td>
<td>170.0</td>
<td>167.0</td>
<td>163.9</td>
<td>173.4</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations. Figures include foreign-financed capital expenditures.

### EXTERNAL ACCOUNTS

Following a difficult First Half, tensions on the BOP receded in the Second Half of 2005. As of May 2005, net capital inflows and transfers which had been on the decline since February 2005, started to rebound. As of October 2005, the amounts lost had been regained and Lebanon concluded the year with (commercial and Central) Banks’ net foreign assets US$750 million higher (3.4 percent of GDP) than at end-2004. The reduction in
the Current Account Deficit (by 1.1 percentage point of GDP, thanks, in particular, to the containment in import demand) broadly contributed for a third of the reconstitution of the banks’ foreign currency reserves.

Despite deteriorating terms of trade, the import bill remained unchanged, reflecting a drop in domestic demand. Imports of goods and services remained broadly unchanged in nominal terms compared with 2004, at US$9.6 billion. Simultaneously, import prices rose by 10 percent (source: World Bank staff calculation), in spite of the appreciation of the Lebanese Pound/US$ vis-à-vis the Euro (in which half of imports are labeled). This suggests a drop in import volumes of approximately 9 percent in 2005 compared with 2004. This decline is confirmed by a number of indicators regarding trade activity, including the number of containers (-7 percent) or the weight of merchandise (-12 percent) imported through the Beirut Port.

Export merchandise growth decelerated, but remained robust, fueled by Arab demand. While lower than in recent years (above 20 percent annually between 2001 and 2004), and in spite of greater logistical difficulties to cross the border with Syria, merchandise export growth remained high in 2005, at around 8 percent. Excluding exports to Switzerland (very speculative in nature, as mostly constituted in precious metals), exports grew even faster, at 12 percent compared with 2004. Two-thirds of new exports went to Arab markets: Syria (+29 percent), United Arab Emirates (+15 percent), Saudi Arabia (+24 percent), Egypt (+38 percent) and Kuwait (+21 percent). On the other hand, exports to Iraq severely contracted (-30 percent), the equivalent of a 5 percent loss in total exports.

Tourism, on the other hand, dropped, in the face of a more difficult security situation. Direct tourism receipts (hotels, restaurants, shopping, transportation, etc.) have been estimated to have accounted for approximately 5 percent of GDP in 2004. Educational, health and financial services provided to non-residents, accounted for an additional 5 percent of GDP. In 2005, the number of tourists (as measured by Customs) declined by 11 percent compared with 2004, and we estimate that receipts from exports of services could have declined by 2.4 percent in 2005 compared with 2004.

Capital inflows and transfers seemingly rebounded. The absence of reliable balance of payment data on transfers compared to capital inflows renders difficult the estimate of the Current Account Deficit. At best, it is possible to estimate the sum of the two, when the trade deficit and the variation in banks’ net foreign assets are known. Thus, in 2005, one could estimate that trade in services, income, transfers and capital inflows amounted to approximately US$5.7 billion on a net basis, up from US$5.3 billion in 2004 and down from US$7.0 billion in 2003.

FINANCIAL SECTOR DEVELOPMENTS

Money supply rapidly regained what it had lost in the first months of 2005, thanks to foreign inflows. Between end-2004 and end-2005, broad money, as measured by M3, grew by 4.4 percent, after having declined by 2.7 percent until April 2005. Counterparts of money supply suggest that foreign inflows were the main drivers of this rebound-- while net foreign assets grew by 8.6 percent over the period (after having declined by 10 percent between end-2004 and April 2005), claims on the public sector, private sector and other items grew by 3.5, 1.3 and 3.1 percent respectively.

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Counterparts of Money Supply in 2005

-US Billion

Source: World Bank staff calculations based on BDL.

The resumption of capital inflows was only partially accompanied by a de-dollarisation of deposits. After having peaked at almost 80 percent in May 2005, the share of deposits labeled in foreign currencies thereafter stabilized at approximately 73 percent. Still, this rate can be considered high from a historical perspective. Indeed, it is only the second time since the instauration of a de facto peg with the US$ that such a high rate can be observed.

Interest rates served on deposits are on the rise, possibly reflecting global upward pressures. Interest rates served on the Lebanese Pound–labeled deposits gained 69 basis points between December 2004 and December 2005, while interest rates served on US$–labeled deposits gained 84 basis points. All in all, the average interest
rate served on deposits reached 4.7 percent in December 2005. In a similar vein, lending rates in US$ to the private sector (90 percent of total credits to the private sector, see below), which had been on the decline since 2002, stabilized throughout 2005, with a slight increase by the end of the period.

The increase in interest rates also was reflected in the Government’s last issuance of Lebanese Pound-denominated bonds - “Treasury Bills”. In 2005, all Treasury Bills (with the exception of those with a 3-month maturity) were issued at higher rates, with increases ranging from 70 to 110 basis points, depending on the maturity. On average, every additional year of maturity now costs Treasury 90 basis points, mirroring the structurally high liquidity of Lebanese Pound-denominated deposits. With the issuance of two new maturities (48 and 60 months) which did not exist before, Treasury was able to slightly flatten the interest curve, which, in 2004, added on average 110 basis points to each additional year. The average maturity consequently increased (from 546 days by end-2004 to 592 days by end-2005), and the weighted average interest rate accordingly (from 5.99 percent by end-2004 to 7.62 percent by end 2005). Drawing an interest rate curve for US$-denominated bonds – “Eurobonds” is rendered more difficult given the paucity of issuances. In 2005, the Government issued a 10-year Eurobond with an annual rate of 8.5 percent and a seven-year Eurobond with an annual rate of 7.6 percent. In 2004 the Government had issued two seven-year Eurobonds at annual rates of 7.9 and 7.8 percent respectively.

The structure of banks’ assets continued to reflect the strong tie between the banking sector and the public sector (Government and Central Bank). In 2005, the Central Bank remained the largest debtor of the banking sector, capturing 29 percent of bank’s assets (unchanged compared with end-2004), in the form of compulsory and voluntary reserves and Certificates of Deposit. The Government was the destination of another 25.2 percent of bank’s assets (up from 23.6 percent by end-2004), in the form of Treasury Bills and Eurobonds. Thus, commercial banks exposure to the sovereign risk continued to rise in 2005, from 52.7 percent to 54.1 percent of banks’ assets.

In the course of 2005, the Central Bank was able to reconstitute its gross foreign currency reserves. In the first months of 2005 (March-April), the Central Bank saw its gross foreign currency reserves declining by US$1.9 billion. Since then, the Central Bank was able to replenish its foreign currency reserves, thanks to the resumption of foreign capital inflows and the de-dollarization of deposits. By end-2005, gross reserves amounted to US$9.7 billion (44 percent of GDP and 12 months worth of imports).
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$112.63 million has been disbursed through February 28, 2006.

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.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Approval Year</th>
<th>Loan Amount</th>
<th>Amount Disbursed</th>
<th>Closing Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Municipal Infrastructure</td>
<td>2000</td>
<td>80.00</td>
<td>58.48</td>
<td>June 2007</td>
</tr>
<tr>
<td>Community Development</td>
<td>2001</td>
<td>20.00</td>
<td>1.92</td>
<td>Dec. 2006</td>
</tr>
<tr>
<td>Ba’albeck Water and Wastewater</td>
<td>2002</td>
<td>43.50</td>
<td>4.84</td>
<td>Dec. 2007</td>
</tr>
<tr>
<td>Urban Transport Development</td>
<td>2002</td>
<td>65.00</td>
<td>5.97</td>
<td>June 2009</td>
</tr>
<tr>
<td>Cultural Heritage and Urban Development</td>
<td>2003</td>
<td>31.50</td>
<td>2.60</td>
<td>Dec. 2009</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>321.82</strong></td>
<td><strong>112.63</strong></td>
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</tr>
</tbody>
</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.

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

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

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.

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Lebanon is hosting the Middle East and North Africa Development Forum (MDF), drawing more than 500 regional policymakers and civil society actors to Beirut in April 2006 for open policy dialogue to promote social, economic and political development. The choice of venue for the prestigious three-day event offers new evidence of the regional and international support Lebanon enjoys.

■ Background

The MDF is organized by a partnership comprised of the World Bank Group, the United Nations Development Programme (UNDP) and think tanks in the Middle East and North Africa region. The MDF host partner organizing the Beirut gathering is the Lebanese Center for Policy Studies (LCPS).

The MDF partnership is dedicated to: (i) empowering civil society to participate in shaping public policy; (ii) contributing to national and regional policy debates in key areas; (iii) improving the extent and quality of research on economic and social policy issues; and (iv) creating vibrant networks of development actors in the region.

Since its inception, the MDF has convened four times:
- MDF3 (March 5-8, 2000, Cairo, Egypt) “Voices for Change, Partners for Prosperity.”
- MDF2 (September 3-6, 1998, Marrakech, Morocco) “Participation and Development.”
- MDF1 (May 12-17, 1997, Marrakech, Morocco) “Knowledge for Development in the Information Age.”

■ Program Objective

MDF5 will promote development programs that leverage regional expertise with the rest of the world. The main theme for the MDF5 is “Reforms in the Middle East and North Africa (MENA) Region” with special emphasis on how to enforce change in the MENA region, which is particularly lagging behind. The program addresses what works and does not work in fostering reforms, and the dynamics of the political economy in the MENA region.

A diverse audience of over 500 experts from MENA countries, plus Turkey, will be attending this event. As key regional actors, women and youth will play an active role in the conference.

■ Main Themes

MDF5 will address reform policy issues in areas such as:
- Judicial and legal reform;
- Local governance reform and community empowerment;
- Role of the state and private sector development;
- Trade reform;
- Small and medium enterprise development, entrepreneurship;
- Corporate social responsibility;
- Youth empowerment; and
- Gender and institutional reform.

■ Expected Outcomes

The program will give guidance through networks on how to focus learning activities, technical assistance and support to reforms in a more informed way over the next two years in the run-up to the next MDF. These activities will include face-to-face and distance learning debates, joint projects, seminars, training, on-line discussions, newsletters, etc.

The following donors are contributing to the MDF5:
- The Ford Foundation;
- Government of Italy;
- Government of Spain;
- Government of Sweden;
- United Nations Development Programme; and
- The World Bank Group.

For more information on the MDF, please visit: www.worldbank.org/mdf
The World Bank and its partners have concluded the first phase of the Lebanon Development Marketplace (LDM), selecting 24 proposals for this year’s competition: “Youth in Governance: Shaping the Future.”

The finalists were among 67 applications submitted between November 18, 2005, and January 19, 2006, by academic institutions, non-governmental organizations and student and youth clubs and groups from all over Lebanon.

The World Bank and its partners, the Global Opportunities Fund of the British Foreign and Commonwealth Office, the United Nations Development Programme, the United Nations Children’s Fund and the Lebanese Transparency Association, have raised US$230,000 for cash prizes to be shared by up to 12 projects.

The winners will be selected by an independent jury during a public display of the finalists’ ideas tentatively planned for April 6, 2006.

**For more information, please contact Ms. Mona Ziade, Communications Officer, mziade@worldbank.org**

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**The Finalists are:**

<table>
<thead>
<tr>
<th>Institution Name and Project Title</th>
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<tbody>
<tr>
<td>1. MASAR: <em>The Age Basket</em></td>
</tr>
<tr>
<td>2. Popular Aid for Relief and Development (PARD): <em>Youth Development Project</em></td>
</tr>
<tr>
<td>3. Center for Conflict Resolution and Peace Building (CCRP)</td>
</tr>
<tr>
<td>4. The National Association for Vocational Training and Social Services: <em>Strengthening the Involvement of the Youth in Community Matters in the Refugee Camps in Lebanon by Conflict Resolution Workshops for Youth Community Workers</em></td>
</tr>
<tr>
<td>5. Development Action without Boarders NABA’A: <em>Youth Festival and Human Rights</em></td>
</tr>
<tr>
<td>6. Universite Saint Esprit de Kaslik (USEK): <em>Small Business Development Center</em></td>
</tr>
<tr>
<td>7. 05AMAM: <em>Mock Youth Municipal Council in Jabal Akroum, Akkar-</em></td>
</tr>
<tr>
<td>8. Lebanese Physical Handicapped Union: <em>Unlocking Potential for Youth with Disabilities</em></td>
</tr>
<tr>
<td>9. Sustainable Democracy Center: <em>Lebanon Model UN Conference (LMUN) 2007</em></td>
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<tr>
<td>10. Injaz Lebanon: <em>Injaz Company Program</em></td>
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<tr>
<td>11. Lebanese Association for Democratic Elections: <em>Youth and Democracy Awareness</em></td>
</tr>
<tr>
<td>12. The Tharwa Project: <em>Youth Engagement in the Lebanese Political System</em></td>
</tr>
<tr>
<td>13. Rene Moawad Foundation (RMF): <em>Inter-regional Initiative for Promoting Working Children of North and South Lebanon on Human Rights</em></td>
</tr>
<tr>
<td>14. Lebanese American University: <em>Tool Kit to Build Awareness about Global Issues and Spread the Culture of Diplomatic Negotiation and Simulation of Model UN</em></td>
</tr>
<tr>
<td>15. Universite Saint Joseph - Faculite des Sciences Economiques: <em>LebYouth Internship Databank</em></td>
</tr>
<tr>
<td>16. Enough Violence and Exploitation (KAFA): <em>Youth Clubs for Gender Equality and Non Violence</em></td>
</tr>
<tr>
<td>17. Nahwa Al-Muwatiniya (Na-am): Youth in Action: <em>Public Service Accountability Campaign</em></td>
</tr>
<tr>
<td>18. Association for Forest Development and Conversation AFDC: <em>A COMMON Political Declaration Environment</em></td>
</tr>
<tr>
<td>19. Lebanese Association for Youth Centers: <em>Introducing the Youth to their Rights and Duties</em></td>
</tr>
<tr>
<td>20. BASSMA NGO: <em>ROOTS</em></td>
</tr>
<tr>
<td>21. Nahar Ash-Shabab: <em>Youth Shadow Government</em></td>
</tr>
<tr>
<td>22. The Group of the UN 1st Summer School on Conflict Prevention and Transformation: <em>What We Can Do</em></td>
</tr>
<tr>
<td>23. Basil Fuleihan Foundation: <em>Basil Fuleihan Innovative Good Governance Award Paper Competition</em></td>
</tr>
</tbody>
</table>
The World Bank has launched a Development Policy Seminars program for Lebanon, offering an open forum for stakeholders to discuss development policy issues and transfer international best practices to the Middle East and North Africa region. Since January 2006, the Lebanon Country Office has sponsored three such seminars.

Migration, Remittances and Innovation

This seminar, entitled “Migration, Remittances and Equity,” was presented by Professor Natasha Iskandar of New York University on January 17, 2006 at the U.N. House. In her presentation, Dr. Iskandar chronicled the radical transformation of rural electricity provisions in Morocco during the 1980s and 1990s. Her presentation demonstrated how collaboration between emigrants who heralded from the Souss region of Morocco and the national government produced unanticipated innovations in basic infrastructure provision and transformed an area of Morocco long considered resistant to development into a hub of economic growth.

Equity and Development


Co-sponsored by the American University of Beirut (AUB), the event was chaired by the institution’s president, John Waterbury.

Explaining the findings of the annual report, Ms. Prennushi stressed that equity was not only an ethical issue, but also a prerequisite for national economies. Increasing equity also improves efficiency and production, which in turn improves incomes and standards of living.

The World Development Report has been a regular feature of the institution’s publications for 30 years, and has been focusing on poverty reduction since the conclusion of the Millennium Development Goals in 2000.

“By taking the theme of equity for this year, we don’t mean to move away from the issue of poverty, but to deepen the analysis on the subject,” Ms. Prennushi told a large audience of economists, students and professors. She acknowledged that defining equity is difficult, but the World Bank considers that two principles govern equitable societies: first, equal opportunity is provided and second, extreme deprivation is avoided. “In other words, equitable societies do not allow people to starve or go without healthcare,” she said. Moreover, several factors are examined to measure the extent of equity in each society. These include the opportunity to life and the opportunity to consume and earn.

Rediscovering Relevant Development Policy

On March 22, 2006, Ali Abdel Gadir Ali, Deputy Director General of the Kuwait-based Arab Planning Institute, discussed a paper he had authored on alternative approaches to the design of development policy at a seminar at the U.N. House.

The paper, titled “Rediscovering Relevant Development Policy, raises the question of whether “good economic policy” is pertinent to development as prescribed in the Washington Consensus - a package of policy prescriptions that range from fiscal discipline and tax reforms to trade liberalization and privatization.

Dr. Ali argued that under “poverty reduction,” as the overarching objective of development, the definition of “good economic policy” needs to be revisited, and that what is needed is “good development policy.”

The paper provides evidence that “good economic policy” does not necessarily slow the spread of poverty as measured by the head-count ratio, nor does it affect the welfare of the poor as measured by the per capita consumption of the poor. Given the fundamental factors that govern changes in poverty over time, both growth enhancing policies, in the sense of capital accumulation, and redistributive policies are required.

For more information, visit:
http://www.worldbank.org/lb
The World Bank Institute (WBI) and the Institute of Finance (IoF) have organized the “Forum of Training Schools and Institutes on Governance in the MENA Region” at the IoF, on March 15 and 16, 2006. The official opening ceremony took place on March 15th at 9:30 AM at the IoF, under the auspices of the Minister of Finance, Mr. Jihad Azour and the Minister of Culture, Mr. Tarek Mitri.

The Forum brought together directors and high level managing and technical staff of schools and institutes specialized in the training of government civil servants in the MENA region, as well as representatives of European training and capacity building institutes with the following objectives:

- To engage in a dialogue on the necessity of reinforcing training in the region, in particular on governance and public administration issues;
- To discuss means for continuously building the capacities of schools and institutes to deliver training and undertake curriculum reform;
- To exchange expertise and good practices among the various countries;
- To create networks and build partnerships in pursuit of improved performance of training schools, especially in the area of governance;
- To explore the technical and financial contribution of international partners to implement the above agenda.

During this Forum, participants were invited to engage in a dialogue on the importance of reinforcing training in the MENA region, in particular on governance and public administration issues, create a regional network and build partnerships to improve their performance, especially in the area of governance.

A Steering Committee was designated to work on several joint projects such as a website, the exchange of trainers and the development of new training modules on governance. This Committee will pave the way to build the network of training schools and institutes of the MENA region.

This Forum was one of the activities undertaken by the IoF in 2006, in the context of preparations for the IoF’s 10th anniversary celebration at to be celebrated in the end of 2006.

For more information, visit www.if.org.lb
Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa (ISBN No. 0-8213-6527-4 SKU: 16527). The Report provides an overview of trends in income poverty and human development indicators over the last forty years. It notes that since the mid-1980s, there has been little progress in the poverty situation in the MENA region although human development indicators have continued to improve. Accelerating poverty reduction and sustaining human development improvements are important challenges for the region in the future.

The future challenge for the MENA region will be obtaining faster growth in a sustainable manner, since growth remains the best guarantee of rapid income poverty reduction. At the same time, the region has to build on its experiences to date with education, health and social safety net reforms. In particular, the region needs to shift the focus of education policy from quantity to quality and the focus of health policy towards better serving the poor. More attention must be paid to the consequences of the ongoing demographic transition. Finally, it is important to develop new and more efficient social insurance mechanisms to improve the ability of the poor to cope with adverse shocks that may occur as MENA countries move toward more open economies.

The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East and North Africa Region (Working Paper Series 3837). The Middle East and North Africa (MENA) region’s trade performance over the past two decades has been disappointing. Efforts to boost trade through a plethora of regional trade agreements (RTAs) are underway. This Study examines the potential contribution of regional trade agreements, as well as trade facilitation improvements, in enhancing the development prospects of the region. Using the Global Trade Analysis Project (GTAP) model and database, both intra-regional integration and integration with the European Union are observed to have a favorable impact on welfare in the MENA region. The welfare gains from integrating with the European Union are observed to be at least twice as much as intra-regional integration. Furthermore, these welfare gains are observed to at least triple when the implementation of the RTAs is complemented with trade facilitation improvements.

Globalization for Development: Trade, Finance, Aid, Migration, and Policy (ISBN: 0-8213-6274-7 SKU: 16274). Globalization and its relation to poverty reduction and development are not well understood. The Book identifies the ways in which globalization can overcome poverty or make it worse. The Book defines the big historical trends, identifies main global flows—trade, finance, aid, migration, and ideas—and examines how each can contribute to undermine economic development.

By considering what helps and what does not, the Book presents policy recommendations to make globalization more effective as a vehicle for shared growth and prosperity. It will be of interest to students, researchers and anyone interested in the effects of globalization in today’s economy and in international development issues.

International Trade in Health Services and the GATS: Current Issues and Debates (ISBN: 0-8213-6211-9 SKU: 16211). Health ministries around the world face a new challenge: to assess the risks and respond to the opportunities of the increasing openness in health services under the World Trade Organization’s (WTO) General Agreement on Trade in Services (GATS). International Trade in Health Services and the GATS addresses this challenge head-on by providing analytical tools to policymakers in health and trade ministries alike who are involved in the liberalization agenda and, specifically, in the GATS negotiations.

This Book informs and assists policymakers in formulating trade policy and negotiating internationally. There is ongoing and animated international debate about the impact of GATS on public services in general and health, in particular. In response, the Book offers different perspectives from more than 15 leading experts. Some of the authors stress opportunities linked to trade in health services, others focus more on the risks.

Corruption and Decentralized Public Governance (Working Paper No. 3824). This Paper examines the conceptual and empirical basis of corruption and governance and concludes that decentralized local governance is conducive to reduced corruption in the long run. This is because localization helps to break the monopoly of power at the national level by bringing decision making
closer to people. Localization strengthens government accountability to citizens by involving citizens in monitoring government performance and demanding corrective actions. Localization as a means to making government responsive and accountable to people can help reduce corruption and improve service delivery. Efforts to improve service delivery usually force the authorities to address corruption and its causes. However, one must pay attention to the institutional environment and the risk of local capture by elites. In the institutional environments typical of some developing countries, when in a geographical area, feudal or industrial interests dominate and institutions of participation and accountability are weak or ineffective and political interference in local affairs is rampant, localization may increase opportunities for corruption. This suggests a pecking order of anticorruption policies and programs where the rule of law and citizen empowerment should be the first priority in any reform efforts. Localization in the absence of rule of law may not prove to be a potent remedy for combating corruption.

How Important Are Financing Constraints? The Role of Finance in the Business Environment (Working Paper No.3820). What role does the business environment play in promoting and restraining firm growth? Recent literature points to a number of factors as obstacles to growth. These factors: inefficient functioning of financial markets; inadequate security and enforcement of property rights; poor provision of infrastructure; inefficient regulation and taxation; and broader governance features, such as corruption and macroeconomic stability are discussed without any comparative evidence on their ordering.

Also available:


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/](http://www.worldbank.org/data/)