# Lebanon Quarterly Update

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*With special thanks to Mary Saba*
EDITORIAL

Lebanon’s Resilience and the Will to Move Forward

Despite daunting political and security challenges, there is broad consensus in Lebanon on pushing ahead with the Reform Program unveiled at the International Conference for Support of Lebanon, or Paris III. Although the program envisages broad reform measures with impact from 2008 onwards, the Government has in the meantime undertaken substantive initiatives to kick start the Paris III program in a short period of time under extremely difficult circumstances.

These initial steps improve the chances for the Reform Program to gain momentum as the political dust settles. They have also demonstrated Lebanon’s enormous resilience, and raised credibility with the international community that has committed US$7.6 billion to reverse the country’s social and economic woes.

With Parliament effectively paralyzed by the political polarization, the Government has focused its work on reforms that are authorized and under existing laws and therefore do not require new legislation. To this purpose, a Government survey identified 106 interventions to launch implementation of the reform program. Simultaneously, to prepare for the reconvening of Parliament, draft bills are being readied to facilitate yet deeper reform interventions.

In a bold and commendable move, the Government has established a process that ensures strong ownership of the reform program and shared responsibility among public institutions. It has created three specialized Inter-Ministerial Committees (IMC) to work on the economic, social, and infrastructure and privatization pillars of the program. These committees are testimony to the Government’s drive towards greater inclusiveness, transparency and accountability.

Recognizing that wide-ranging, deep structural reforms of the type that Lebanon needs cannot be implemented without simultaneously: (i) addressing the social protection agenda; and (ii) reversing the fiscal drain from inefficiencies, much of the World Bank’s work in Lebanon over the past few months has been focused on the power sector and improvements in social service delivery and systems.

The Ministry of Health has developed a strategy for upgrading primary healthcare services, targeted interventions for maternal and child mortality reduction and institutionalization of public hospital accreditation.

Separately, the National Social Security Fund (NSSF) is building on the Bank’s expertise to develop a reform program that would expand the coverage of the social insurance system (pension and health insurance), strengthen NSSF governance and administration, improve NSSF financial sustainability and strengthen income protection policies.

The Ministry of Social Affairs (MoSA) is focusing in the short-term on three work streams: (i) elimination of duplication in service delivery and improved program implementation among the Ministries of Social Affairs, Education and Public Health; (ii) reviewing the mandate and programs of MoSA, revisiting the organizational structure and implementing process re-engineering and automation of MoSA; and (iii) establishing a targeting mechanism as a first step towards the implementation of social safety nets for the poor and vulnerable population.

The World Bank is preparing a strategy note for a one year period that would include up to US$175 million in assistance, conditioned on implementation of the Paris III agenda. The program offers broad-based support to the Paris III agenda, but essential reforms to the Social Protection and Energy Sectors will form the core of the planned work program and financial assistance. While ensuring improvements to service delivery, these reforms are critical for achievement of the medium-term macro-fiscal targets. Indeed, the energy sector, which has suffered from poor governance for years, is the single largest drain of government resources and a barrier to much needed growth.

In this issue of Update, the editorial team will present the Bank’s work program in these important reform areas. In addition to energy and social protection, the Bank has embarked on a broad effort to assist Lebanon in making more efficient use of its own resources as well as taking critical measures to permit private sector growth for new jobs. It is not business as usual; it is business most unusual for a small country facing so many challenges, yet determined to overcome.
While political uncertainty continues, the Government and the National Social Security Fund (NSSF) are nevertheless actively pursuing needed social reforms with the assistance of the World Bank. Building on past government plans, these reforms are part of the Reconstruction, Reform and Recovery package unveiled by the Government of Lebanon at the Paris III Donor Conference. The program aims to enhance social protection in parallel with other policy measures to stimulate economic growth, increase the efficiency of fiscal spending and reduce poverty and vulnerability.

Lebanon is a country prone to periodic shocks, some generated at home, others externally. Given this, Lebanon needs a much stronger and expanded social protection system, including health insurance, pensions and a well-targeted cash assistance program for the poor and the vulnerable. Unique to the region, Lebanon does not have a pension system for private sector workers. What exists is an end-of-service-indemnity for private sector employees (though the public sector and military have separate pension plans). Its health insurance system is fragmented, costly and formally caters to only 50 percent of the population. Formal safety nets are small, scattered and not targeted to the poor and vulnerable. The country relies on an informal network of social services, which act as a safety net (Non-Governmental Organizations, welfare associations, remittances, etc.). But these are susceptible to economic and political shocks. The reliance on predominately private, and primarily confession-based, safety nets can be a factor in deepening the sectarian divide. The lack of an adequate public safety net means that Lebanon does not have a tool to help absorb shock from economic adjustment that can be used to reach the poor directly.

Reforms in Times of Uncertainty

Since the 2006 summer conflict, the Government has been pursuing economic recovery and a continuation of its pre-war reform program. The war led to significant social and economic disruption, and its aftermath tested the resilience of the Lebanese economy and people. The political gridlock and instability within the country have stilled the growth of traditional economic sectors, especially tourism, and placed enormous pressures on Government spending. In recognition of these social and economic challenges, and capitalizing on international and regional donor assistance, the Government grew determined to push ahead with fundamental reforms in the human development sector. It aims to bring about fundamental change in its social protection and social assistance systems.

These policy reforms build on a long-standing agenda to transform and modernize the NSSF, as well as to introduce important changes to the policies and programs enforced at the Ministry of Social Affairs (MoSA) and the Ministry of Public Health (MoH). The NSSF, representing the core institution of the social protection system in Lebanon, is plagued with systemic problems threatening its financial sustainability and its ability to fulfill its mandate. The MoSA is providing limited social assistance but could nevertheless improve the targeting efficiency of its coverage by adopting new mechanisms to better allocate its resources to the poor and vulnerable. Similarly, the MoH is providing health coverage for the uninsured and the poor which is not means-tested and is oriented primarily towards expensive hospital-based care.

Tackling the Giant

The mandate of the NSSF is to provide health insurance coverage, and end of service indemnity, and family allowance benefits to private sector workers and their dependants. It has a governing board of 26 members representing the Government, private employers and worker unions. It operates under the umbrella of the Minister of Labor, and its revenues come from private sector contributions, Government transfers and investment income.

Over the years, the NSSF has been unable to modernize its core business functions, financial management system and its human resource policies. Its business func-
tions of collection, beneficiary registration, contracting and payments are severely out of mode and not underpinned by modern technology. Its financial management system is still based on cash accounting and needs to be transitioned to a more effective accrual-based system. Its human resource composition lacks the modern skills to operate a modern social security-system. Along with these severe institutional constraints, there are fundamental problems with the design of the three schemes currently operated by the NSSF: the End of Service Indemnity Fund (pension), the Sickness and Maternity Fund (health insurance); and the Family Allowance fund (social assistance).

The current End of Service Indemnity Fund operated by the NSSF suffers from several important weaknesses. It does not provide adequate income support for pensioners and distorts the labor market, and, by design, it is not financially sustainable. The Sickness and Maternity Fund is already in financial deficit due to weak actuarial underpinnings and excessive and un-monitorable expenditure on expensive inpatient care, outpatient care and drugs. The Family Allowance Fund, similarly, is in deficit, because of the imbalance between revenues and covered benefits.

The current reform plan of the Government, supported by the World Bank, is aiming to tackle these problems in close cooperation with the board and management of the NSSF. The objective of the reform plan is to strengthen and expand the role of the NSSF as the institution at the core of Lebanon’s social protection system. It aims to improve services to its clients, while ensuring its own financial sustainability. The reform plan consists of four main areas: (i) developing a policy framework for health insurance in Lebanon which would define the mandate of the various players (NSSF, MoH, others); (ii) strengthen governance and administration of the NSSF; (iii) bring about financial sustainability of the NSSF; and (iv) implement a new pension system once Parliament approves the draft pension law.

Improving the Targeting of Social Assistance and Health Spending

Economic growth is necessary but not sufficient to ensure that all members of society participate in and benefit from it. This would require well-designed and implemented social safety net policies and interventions that contribute to more inclusive growth and enhance efficiency. The objective of the social safety net policies and programs is to complement the benefits of growth and improve the welfare of chronically and transient poor and vulnerable households, including individuals and families facing difficult life circumstances such as disability, family dysfunction, loss of parents, delinquency, physical and mental abuse, etc. Safety nets provide a minimum level of income support to poor households enabling them to undertake higher return but higher risk earning activities.

MoSA allocates close to 70 percent of its budget (a mere 0.3 percent of GDP) to NGOs on the assumption they deliver services to the poor and needy in their communities. There is currently no reliable mechanism to know whether the intended beneficiaries are indeed being reached. Governments worldwide have adopted modern and scientific methods for selecting and monitoring intermediaries for providing social services, and this is also under way in Lebanon. In addition, Governments are increasing adopting social assistance measures that would directly target the poor and vulnerable. One such method, applicable for Lebanon, is called the proxy-means testing (PMT) targeting mechanism. This mechanism allows the Government to test eligibility for social assistance in an environment where strict means-testing (income and asset tests) is not possible. Tried in many developing countries with characteristics like Lebanon, PMT targeting can be effective in enabling the Government to focus its assistance where it is mostly needed. The World Bank is currently working with MoSA on implementing a PMT mechanism in Lebanon.

The MoH acts as the insurer of the last resort for those not covered by the NSSF and the other insurers in the country. It covers only hospital-based care and certain pharmaceutical expenses and is supposed to provide coverage for only the poor and the uninsured (e.g. pensioners). But in practice it is not means-tested. The MoH provides support primarily through expensive hospital care and not through outpatient services. Its claims processing system has been computerized, but at present is not being used effectively to reduce the number of inappropriate admissions. The coverage is pre-authorized by MoH medical control officers, but no explicit admission protocols are followed. This system has few in-built control measures to control hospital expenditures and is also complicated by the changes in coverage associated with other insurance funds (e.g. by rising unemployment that deprives previously covered persons from insurance).

The Bank is also providing assistance to MoH to rationalize its expenditures through a number of reform measures: (i) introducing an effective utilization review and management system; (ii) designing and putting into
place a public-private strategy to make greater use of the public sector services for MoH beneficiaries; and (iii) setting an administrative cap on the monthly ceilings of the negotiated MoH contracts with the private sector hospitals. Along with these measures to rationalize overall hospital expenditures, there is an initiative to help the Ministry of Health to bring greater predictability and financial stability to its core primary health care services and public health functions. These measures, taken collectively, will ensure a re-alignment in MoH expenditures with more broad-based and effective public health and primary healthcare programs.

Moving Forward

As discussed in the editorial of this newsletter, wide-ranging, deep structural reforms of the type that Lebanon needs should be implemented alongside the Government’s bold social protection agenda. This agenda, aims to reform the NSSF, the institution at the core of Lebanon’s social protection system. It also seeks to establish a modern, scientific targeting system. If properly implemented, these reforms answer to the needs of all Lebanese, regardless of confession, region or political affiliation. All parties in Lebanon need to rise above their political and sectarian sensitivities and rally behind this opportunity to serve the nation at large. The price of inaction or lack of agreement is too high for Lebanon and its future generations.

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On January 25, 2007, the Government of Lebanon presented a comprehensive Reconstruction, Recovery and Reform Program that was warmly welcomed by the international donor community and attracted US$7.6 billion in pledges of financial support. The World Bank pledged up to US$700 million to the Paris III, augmenting an earlier US$70 million Lebanon Trust Fund (LTF). The latter was a Grant from the Bank’s surplus, extended to Lebanon in the aftermath of the hostilities with Israel in the summer of 2006.

The first Bank-supported operation is now well advanced and comprises a Reform Implementation Development Policy Loan. This operation supports a set of reforms under the Government’s Paris III program. These focus on key areas, where change already has begun: (i) energy sector reform; (ii) modernization of the business environment; and (iii) social protection reform. The operation places particular emphasis on a first set of energy reforms and key measures to enhance Lebanon’s public financial management system.

Why Energy Sector Reforms?

The energy sector plays an instrumental role in delivering growth and fiscal sustainability to Lebanon. The poor service provided by the sector was identified in the Investment Climate Assessment (ICA) of 2006, as a major barrier to businesses in Lebanon. According to the ICA, consumers incur 220 interruptions of service per year on average (133 interruptions in Beirut and 300 outside of Beirut). The average firm reports losing seven percent of its sales value due to these interruptions. The most affected firms are textile and clothing firms, which report losing 10 percent of sales, and hotels, which estimate their losses at 9 percent as a result of power interruptions. Residential consumers also suffer substantially from the unreliable services of the national power utility, Electricité du Liban (EdL), and are forced to pay for alternative backup arrangements, often through a fixed monthly fee (regardless of the amount of consumption).

Finally, but very importantly, the sector has for too long severely drained the Government’s budget resources through enormous subsidies that were needed to operate the sector. In tandem with the increase in international oil prices and a deterioration in the overall efficiency of the sector (due to insufficient billing and technical losses), the subsidy requirements have doubled in the past few years to reach 3.3 percent of the Gross Domestic Product (GDP) in 2006, excluding debt servicing. This comes to a dollar a day per person in Lebanon.

What Will the Reforms Do?

The energy reform program being supported aims to achieve service reliability, cost reduction and overall good governance of the sector. The actions in the reform program include:

- Restructuring EdL through corporatization to pave the way for eventual privatization.
- Reducing losses through investment in remote metering and rehabilitating the distribution network.
- Improving billing and collection through more accurate consumption data, as well as better enforcing bill collection under private sector management.
- Lowering of the electricity generation through a conversion from using expensive gas-oil to natural gas.
- Overall, better supervising the sector through the already established Inter-Ministerial Reform Committee under the chairmanship of the Prime Minister, and the eventual establishment of a sector regulatory agency.

The loan will be presented to the World Bank Board for approval on August 2, 2007.

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Political and security challenges, with detrimental consequences on economic activity, marred the start of 2007. The impact was most apparent in the tourism sector and private investment activity, albeit less perceptible on the real sector in general. The reconstruction of infrastructure moved forward with strong Arab and international involvement. There also was some recovery in the agriculture and industry sectors, although factories that were destroyed during the hostilities in the summer of 2006 have not yet been reconstructed.

The landmark development for Lebanon in the First Quarter of 2007 (Q1-07) was the International Conference for Support of Lebanon, or Paris III, on January 25, 2007. The international community pledged US$7.6 billion, mostly in soft loans, over five years to finance both the reform program presented by the Government, and a series of projects, with the private sector being an integral part of the economic revival effort. While only few funds were disbursed in Q1-07, the major impact of Paris III was to strengthen the monetary and financial sectors in Lebanon against any confidence crisis in an environment where politics, economy and fiscal situations were not at their best. Indeed, deposits and money supply continued to grow at a strong pace, and stock exchange was on the rise.

Real Sector Developments

Lebanon’s real economic growth showed signs of recovery in Q1-07. The high liquidity in the region and strong international support helped strengthen economic activity in the Quarter, despite adverse political developments. However, this remains lower than Lebanon’s growth potential, which is already weak, not exceeding three percent. Moreover, since demand indicators showed contradictory signs, it was difficult to reach clear growth projections. On the foreign demand side, for example, there was a 6.8 percent decline in the number of passengers arriving at Beirut Airport in Q1-07, compared to the same period last year. This would suggest a decline in foreign demand. Yet, 20 percent rise in exports indicated a strong demand for Lebanese goods. Netting the two tendencies to get the total impact on growth remains difficult. The same goes for domestic absorption. Compensated checks declined by 0.3 percent in nominal terms between Q1-06 and Q1-07, and by 5 percent when deflated by the Consumer Price Index (CPI). Another indicator that reflected the evolution of domestic absorption were expenditures on imports which increased by 15 percent. Finally, public demand was another growing component of domestic absorption, with primary public expenditures increasing by 25.7 percent in Q1-07 compared to Q1-06.

Fiscal Developments

Fiscal data for the First Quarter showed a continued increase in expenditures and deficits, despite good revenue performance. Total deficit increased to LBP993 billion from LBP608 billion in 2006.


2 Compensated checks are a proxy for domestic transactions, which are mainly private sector operations.

3 Domestic absorption (or total expenditures) is the sum of consumption and gross domestic investment. The ratio of imports of goods and non-factor services to domestic absorption has been around 32 percent on average between 1997 and 2004.

4 Primary public expenditures historically amounted to 15 percent of share domestic absorption.
Primary balance declined to LBP120 billion compared to LBP339 billion in Q1-06. This was largely due to the increase in expenditure: total expenditure increased by 22.7 percent as a result of a combination of a 17.7 percent rise in debt service and a 25.7 percent increase in non-debt expenditures. Debt service increased due to: (i) an increase in debt stock by 8.5 percent between March 2006 and March 2007; and (ii) an increase in average interest rates on debt instruments in domestic currency (see paragraph below). Primary expenditures increased due to a major rise in transfers to the electricity company (EdL) to LBP353 billion in Q1-07, from LBP66 billion in Q1-06. While large and amounting to 70 percent of the rise in primary expenditures, this increase in transfers to EdL should, however, not be totally attributed to deterioration in EdL finances. Indeed, since September 2005, the Algerian and Kuwaiti oil companies have been supplying EdL with fuel oil and gas oil, and the Government started paying for all purchases (old and new) in the summer of 2006. On a positive note, cumulative budget revenues increased by 10 percent as of end-March 2007, compared to end-March 2006, with 66 percent of the increase reflecting a 17.5 percent rise in both customs and Value Added Tax (VAT) receipts.

The increase in public debt accelerated in Q1-07, in line with the deterioration of fiscal balances. Gross public debt reached LBP62,157 billion at end-March 2007, increasing by 1.9 percent since end-2006, compared to a 1.3 percent increase between end-2005 and March 2006. Debt denominated in LBP increased by 3.7 percent in Q1-07, while debt denominated in foreign currencies remained unchanged. Consequently, the share of debt denominated in foreign currency declined to 49.6 percent in March 2007 from 50.5 percent at end-2006. On the other hand, the composition by type of holder also changed in Q1-07. Indeed, the increase in the debt portfolio held by the BdL amounted to 81 percent of the total debt increase. Greater Central Bank involvement in financing the deficit raised its share in the total debt to 20.7 percent from 19.6 percent at end-2006. The average maturity of domestic debt declined to 1.44 years from 1.61 years in December 2006, while the average weighted interest rate remained stable at 8.59 percent, which corresponds, in effect, to a rise in interest rates. On foreign currency debt, average maturity rose to 6.53 years from 6.4 years in December 2006, and weighted interest rates also increased to 7.22 percent from 7.18 percent. The rise in foreign currency debt maturity and interest rate was due to the re-issuance of maturing US$1 billion Eurobonds in February 2007 at higher maturities and higher interest rates.

External Sector

Foreign accounts suffered from the negative impact of the unstable political and security conditions. The trade in goods deficit increased by US$240 million between Q1-06 and Q1-07. This was due to a 15 percent increase in imports to US$2.7 billion, partially compensated by a 20 percent increase in exports to US$622 million. Export of services declined as evidenced in a 6.8 percent drop in the arrival of passengers at Beirut Airport in Q1-07, compared to the same period in 2006. Furthermore, net foreign assets declined by US$100 million in Q1-07 against a US$662 million increase during the same period in 2006; which suggested a decline in net inflow of services, income, transfers and capital to US$2 billion from US$2.5 billion in Q1-06. Finally, non-resident deposits in commercial banks declined by 7.6 percent in Q1-07, compared to end-2007.

In line with the decline in foreign accounts, Central Bank reserves have been on a downward trend since the beginning of the year. Gross foreign currencies reserves first increased from US$10.2 billion in December 2006 to US$10.5 billion in January 2007, and then US$431 million, has a 14 year maturity with an 8.25 percent interest rate. The combination of the two tranches gives an average maturity of 7 years and an average new interest rate of 7.18 percent for the US$1 billion issuance.

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5 The maturing US$1 billion had a maturity of 2 years and an interest rate of 6.5 percent. The re-issuance is of two tranches: a US$569 million tranche with a maturity of one year and a 6.375 percent interest rate. The second tranche, US$431 million, has a 14 year maturity with an 8.25 percent interest rate. The combination of the two tranches gives an average maturity of 7 years and an average new interest rate of 7.18 percent for the US$1 billion issuance.
declined to US$9.6 billion in March. In terms of goods imports, gross reserves declined to 10.7 months in Q1-07, from 13 months for the whole year 2006.

Prices, Money and Banking

The Consumer Price Index (CPI) continued to increase in the First Quarter of 2007, after its pace accelerated in the summer 2006 conflict and its immediate aftermath. The CPI increased by 5.2 percent on average in Q1-07 against a decrease by 0.3 percent in Q1-06. This upward trend in the CPI is also in line with the price increase observed in several countries in the region following the rise in regional oil wealth. However, inflation in Lebanon further accelerated during and after the summer 2006 hostilities. Indeed, while CPI increased by 1.4 percent in the First Half of 2006 compared to the same period in 2005, inflation increased by 6.4 percent in the Second Half, and the upward tendency continued in Q1-07.

Money Supply (M3) kept the same dynamics as in Q1-06, suggesting a growing insulation of the monetary sector from political and economic developments. M3 increased by 1.8 percent as of end-March 2007, compared to end-December 2007. A year earlier, M3 increased by 1.9 percent during the First Quarter. The most dynamic component of the Money Supply was resident deposits in foreign currency which increased by 2.15 percent, while resident deposits in LBP increased by 1.6 percent. Money in circulation declined by 6.4 percent. From the counterparts’ side, the changes in net claims on public sector alone accounted for 71 percent of the change in Money Supply, thus pointing to the growing financing of the deficit, more specifically by the Central Bank, during the First Quarter of the year. Change in net foreign assets contributed to only 18 percent of the increase in M3.

The interest rate continued to increase in Q1-07, but at a moderate pace despite the rise in political and security risks. The average interest rates on LBP-denominated deposits increased by only two basis points since December 2006. This is due to the continued stabilization policy followed by the Central Bank, reinforced by the positive impact of large international support to Lebanon in the Paris III conference. Average interest rates on US$ deposits increased by 12 bpt between end-2006 and March 2007.

The political instability increased the volatility of the Beirut Stock Exchange (BSE). The BLOM index for the BSE increased by 3 percent during Q1-07. The index has increased by 0.6 percent in January, and then remained stable in February, before increasing by 2.4 percent in March. In contrast, the index increased steadily during the same period of last year, rising by 19.6 percent between end-2005 and end-March 2006.
US$327,000 Grant to Improve Environmental Laws

“Resource and Environmental Management” is one of three pillars of the World Bank’s Country Assistance Strategy for Lebanon. As such, it is no wonder that the Bank has focused attention and allotted resources to the preservation of the country’s limited, yet important, resources and to the reversal of serious environmental degradation that has afflicted the country over the years, more specifically during the years of strife.

Commitment to Better Environment

Just before the 2006 summer hostilities, the World Bank underscored its commitment to this vital sector. On July 5, 2006, the Bank approved a Grant of US$327,000 to the Government of Lebanon to improve the enforcement of environment legislation. After the end of the conflict, the Bank pushed through with the grant, signaling confidence in Lebanon’s resilience and ability to overcome distress.

What is an IDF Fund?

The Grant is funded through the Institutional Development Fund (IDF), an important instrument that helps build institutional capacity in the fields of financial and procurement procedures, monitoring and evaluation systems and judicial reforms. This is the second IDF grant approved by the World Bank for Lebanon. The first one aimed to develop an HIV/AIDS monitoring and evaluation system at the Ministry of Health.

Legislation Development and Application System in Lebanon.

Legislation Enforcement is the Key

While the number of environmental legislative texts is a good indicator of the environmental maturity of the country and its efforts toward sustainable development, the enforcement of such legislation is what really dictates whether it has an effective impact on the environment or not.

Region-Wide Environmental Awareness

Increasingly, the Middle East and North Africa region is growing more aware of the costs and benefits of environmental degradation, thanks to estimates published in 2000 by the World Bank in collaboration with the Mediterranean Environmental Technical Assistance Program (METAP). The cost of environmental degradation in Lebanon at that time was estimated at between 2.8 and 4.0 percent of the Gross Domestic Product (GDP). The mean estimate was close to US$565 million per year, or 3.4 percent of GDP.

MENA Catches up with the Rest of the World

Mounting international focus on environmental degradation has whetted the appetite of MENA governments, and estimates released so far have served as a wake-up call to policy makers regarding the need to accelerate the process of regulatory laws. In Lebanon, there is no real shortage of laws, but their enforcement remains very limited.

Post-War Degradation Serious

A World Bank Study conducted after the summer 2006 conflict unveiled a variety of damages related to the environment. The hostilities caused direct impacts on natural resources by affecting the coastal area, water resources, air, forests, quarries and waste. Some of the most striking degradation was caused by an oil spill, which affected the marine biodiversity and taxed the economy on the coast.
What will the World Bank Grant Do?

The World Bank Grant will strengthen the capacity of the Ministry of Justice (the main beneficiary of the Grant) to improve the level of enforcement of laws prohibiting further degradation. The World Bank will work jointly with the Ministry of Environment and the United Nations Development Program (UNDP) to implement the Grant.

Capacity Building, Too

The project includes reviewing, and comparing with international case studies, the environmental jurisprudence in Lebanon, establishing an environmental expert testimony database, introducing a course on environmental law at the Institute of Judicial Training and raising awareness on environmental policies and legislation in the legal community through widespread dissemination of information. As of today, an environmental lawyer has been recruited and has started work at the Ministry of Justice.

A Litmus Test for MENA

A successful implementation of this activity, which is new to Lebanon and unique in the region, will definitely encourage its replicability in other countries. While judicial systems vary widely across countries, the methodology selected to implement this grant (such as producing an on-line data base of environmental jurisprudence, introducing a course in the institute of judicial training and establishing a list of environmental experts testimony database) can be useful to other countries in enforcing environmental legislation.

For more information, contact Ms. Maria Sarraf, Senior Environmental Economist, msarraf@worldbank.org
IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of six projects for a total commitment amount of US$284.60 million, of which US$150.14 million had been disbursed by June 30, 2007.

Education Development Project (EDP) (US$44.6 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. The project was approved in March 2000.

First Municipal Infrastructure Project (FMIP-I) (US$80.0 million). This Project aims to address urgent municipal works while setting the stage for the gradual assumption of responsibility for municipal services at the local level. The Project was approved in June 2002.

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. The Project was approved in June 2001.

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 Beka’a 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 project was approved 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 Project was approved 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. The Project was approved in April 2003.

Commitments and Disbursements as of June 30, 2007

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Approval Year</th>
<th>Loan Amount</th>
<th>Amount Disbursed</th>
<th>Closing Date</th>
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<tr>
<td>Education Development</td>
<td>2000</td>
<td>44.58</td>
<td>25.84</td>
<td>Dec. 2007</td>
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<tr>
<td>First Municipal Infrastructure</td>
<td>2000</td>
<td>80.00</td>
<td>68.07</td>
<td>June 2008</td>
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<tr>
<td>Community Development</td>
<td>2001</td>
<td>20.00</td>
<td>11.00</td>
<td>Mar 2007</td>
</tr>
<tr>
<td>Ba’albeck Water and Wastewater</td>
<td>2002</td>
<td>43.53</td>
<td>15.01</td>
<td>Sep. 2008</td>
</tr>
<tr>
<td>Urban Transport Development</td>
<td>2002</td>
<td>65.00</td>
<td>21.50</td>
<td>June 2009</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2007</strong></td>
<td><strong>284.61</strong></td>
<td><strong>150.14</strong></td>
<td></td>
</tr>
</tbody>
</table>

For more information on projects, please visit: http://www.worldbank.org/lb.
**IBRD Ongoing Grants**

**First Municipal Infrastructure Supplemental Project (US$30.0 million).** This Grant aims to restore basic services and rebuild municipal infrastructure in the areas hardest hit during the summer 2006 hostilities, and provide technical assistance to and build the capacity of municipalities to mitigate the impact of hostilities on municipal finances.

**Mechanism for National Reconstruction (US$1.25 million).** The Grant supports the establishment by the Government of Lebanon of a system to manage and monitor the reconstruction funding in an effective and transparent manner, promoting international standards and good practice.

**Rapid Social and Livelihoods Assessment (US$99,000).** The objective of the Grant is to feed into the strategic planning processes related to post-hostilities reconstruction. As such, it is expected to identify social policies and interventions to help those affected by the hostilities and vulnerable segments of the Lebanese society. The Grant aims to fill a serious information gap on livelihoods and social conditions.

There are also two Institutional Development Fund (IDF) grants currently under implementation that predate the hostilities. They support: (1) a program to strengthen the capacity of national HIV/AIDS surveillance and monitoring and evaluation systems ($350,000) and (2) a program to strengthen the capacity of the Ministry of Justice and the Ministry of Environment in judicial enforcement in environmental affairs ($327,000), implemented by UNDP.

**IFC Projects in Lebanon**

Since the recent hostilities in the summer of 2006, the International Finance Corporation (IFC) has focused its activities on supporting the recovery of the private sector, and in continuing technical assistance efforts with the Government of Lebanon to ease the administrative burden on the private sector.

IFC is in the process of implementing a series of projects in the financial sector, all aimed at providing access to finance for Small- and Medium-Enterprises (SMEs) which were directly or indirectly affected by the hostilities. To further support the private sector, IFC has expanded the trade finance lines held with three banks, both by increasing the overall amounts of these lines and lengthening their tenor. The trade finance activity is complemented by a number of lines opened to banks for on-lending to the private sector, and the establishment of a Guarantee Facility for SMEs. This Guarantee Facility is also supported by the World Bank trust funds for the Facility.

In addition to its traditional lending activities, IFC’s Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA), a US$100 million, donor-financed technical assistance facility has focused on a number of areas relating to recovery from the hostilities and to implementing administrative reform.

**Microfinance Portfolio Recovery** – IFC sponsored a roundtable program to match international experts in microfinance in conflict areas with Lebanese microfinance institutions to help them develop techniques to recover from the hostilities.

**Administrative Barriers Survey** – The joint World Bank/IFC Foreign Investment Advisory Services group has finalized a survey of administrative barriers in Lebanon to identify reforms necessary to improve Lebanon’s business environment. Discussions are now underway on a program to implement the survey recommendations.

**Business Enabling Environment** – IFC continues its work on a technical assistance agreement with the Ministry of Economy and Trade to assist in the reform and streamlining of the business registration process. This program will take approximately one year and will tackle one of the issues in which Lebanon performed most poorly in the Doing Business Survey.

**Corporate Governance** – In partnership with the Association of Lebanese Bankers, IFC undertook a comprehensive review of Corporate Governance practices in the Banking Sector in Lebanon. Now, IFC is rolling out an extended Corporate Governance program that will focus on raising standards in businesses across all sectors.

**Gender** – As part of a wider regional program, IFC recently completed a survey of barriers to women entrepreneurs in Lebanon. This survey examines current practices in Lebanon compared to other countries in the region and will soon be published.
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 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.fidichange.com and www.ipanet.net) feature 130 documents on investment opportunities and the related legal and regulatory environments in Lebanon.
The International Finance Corporation (IFC), the private sector arm of the World Bank Group, signed on June 15, 2007, new agreements targeting: (i) the Electricity Sector; (ii) Small Business Financing; and (iii) the Lebanese retail business. The agreements are part of the World Bank Group’s pledges at the Paris III donor community conference to support Lebanon. The signing ceremony was held at the Grand Serail under the auspices of Prime Minister Fuad Siniora, Minister of Finance Jihad Azour and Minister of Economy and Trade Sami Haddad. IFC Director for the Middle East and North Africa, Michael Essex, signed on behalf of the financial institution.

**Public Private Partnership in the Power Sector**

IFC concluded its first public-private partnership advisory agreement with the Government of Lebanon to help build a new independent power plant and establish a concession for an existing 450-megawatt electricity facility in Deir Ammar with private sector participation.

As explained in the Energy Sector article in this issue of the Update, Lebanon has long suffered from widespread electricity shortages, which have increased as a result of the conflict in 2006. With support from the World Bank Group, the country has begun to reform its electricity sector, with the aim of reducing electricity losses, increasing operational efficiencies and improving the quality and reliability of power infrastructure and supply. Through this project, IFC will help the Government develop the framework for private sector participation in electricity generation and ensure transparency in the bidding process. The project will also provide a model for public-private partnerships in other sectors.

**Small Business Financing through the Bank of Beirut and Credit Libanais**

IFC signed two agreements with Bank of Beirut and Credit Libanais as part of its overall strategy to extend financing to banking intermediaries, helping the private sector and Small-and Medium-Enterprises (SMEs) recover from the recent conflict in Lebanon.

IFC’s risk-sharing facility of up to US$25 million will help Bank of Beirut increase access to finance for the private sector, particularly for smaller businesses. A US$15 million credit line investment in Credit Libanais, one of the country’s largest banks, will help the bank reach more people through diverse services. Through the agreements, IFC will help provide term funding to private sector enterprises that are recovering from the conflict. IFC’s investment will help increase financing to SMEs, an important engine of growth and job creation.

Strengthening Lebanon’s private sector is a key priority for IFC. The Corporation is channeling up to US$200 million through banks to increase access to finance for private sector companies and individuals affected by the conflict. On a recent visit to Lebanon, Lars Thunell, IFC’s Executive Vice President and Chief Executive Officer, signed agreements to provide financing to BLOM Bank and Fransabank. He also signed an advisory services package to scale up Kafalat, a local company whose guarantees help smaller businesses obtain commercial bank loans.

**Expansion in the Retail Business – ADMIC Sal**

IFC signed an investment agreement with ADMIC Sal, Lebanon’s largest retail chain, to support its plan to open a new department store and restructure its ongoing operations. These efforts will help restore consumer confidence in the economy in times of distress such as the current situation.

The US$20 million financing represents IFC’s first investment in the Lebanese retail sector. It includes a US$13.5 million loan and a US$6.5 million equity investment. The success of ADMIC Sal - a retailer that incorporates best practice modern retailing methods—is important to the country’s retail sector and, more broadly, to the economy, which has been saddled with repercussions of political polarization. ADMIC Sal is sending a strong, positive message as its operations return to stability and it prepares to open a new department store, encouraging a return of shoppers that would also benefit its suppliers and other retailers. IFC’s investment exemplifies a renewal of confidence in the country and enhances the company’s ability to serve its customers.
Introducing the World Bank to Syria

The World Bank organized on June 17-18, 2007, a two-day workshop in Damascus to introduce the institution’s mission, structure and operations to senior Syrian policy makers and officials.

The Workshop, held in collaboration with the Ministry of Economy and Trade, was organized at the request of the Government of Syria with special emphasis on how the Bank might be a partner for Syria in its economic development drive.

A two-hour ministerial session, chaired by Deputy Prime Minister Abdallah Dardari, started the workshop. It was followed by a full-day session, co-chaired by the Minister of Economy and Trade Amer Lutfi and World Bank Country Director Joseph Saba with the participation of about 70 senior public sector officials, deputy ministers and heads of departments, representatives of private sector firms, private research centers, the media, the European Union and the Japan International Co-operation Agency (JICA).

The agenda included an overview of the Bank’s mission, the World Bank Group’s five agencies, its organizational structure, funding sources and lending cost structure. The workshop also covered the Bank’s products and services, including the project cycle and policies governing operations. It provided cases of the Bank’s engagement in a number of vital sectors in various countries of the Middle East and North Africa Region, namely education, water, infrastructure and financial development, demonstrating how the Bank adapts to the needs of its clients and responds to their developmental agenda as an independent and objective partner and resource provider in financial and advisory capacities.

Since 2002, the Bank has been providing the Government of Syria with limited, though increasing technical assistance. The success of the technical assistance program, increasing contacts in a number of important economic spheres and a proven ability of the Bank to contribute to Syria’s economic reform program prompted an agreement to develop a more strategic relationship to be expressed in an Interim Strategy Note (ISN). The ISN would establish a development partnership to provide selective Bank assistance at Syria’s request for poverty reduction, human development, growth and improved environmental management in furtherance of Syria’s Tenth Five-Year Development Plan. Available Bank instruments would include: investments and guarantees for key projects; analytical, knowledge and capacity building services; and sectoral technical assistance. Explanation of these instruments and the ways and means for their use is important to enable Syria to make informed demands for services.
Recent World Bank Publications


With analysis and data extending from short-term bank lending to long-term bond issuance in both local and foreign currency, Global Development Finance 2007 is unique in its breadth of coverage of the trends and issues of fundamental importance to the financing of the developing world, including coverage of capital raised by developing country based corporations. The report is an indispensable resource for governments, economists, investors, financial consultants, academics, bankers, and the entire development community.

World Manga: Passages (ISBN: 978-0-8213-6917-3, SKU: 16917). A collection of all six World Manga titles in one comprehensive volume, Passages follows the adventures of Rei as he falls in love, gets attacked by a shark, rides an elephant, watches a man dig up a skeleton, solves the mystery of a lagoon with vanishing fish, is kidnapped by brutal mercenaries, exposes corrupt public officials, and even transforms into a girl-ewww! And, in the course of this graphic novel, Rei and his animal spirit guide encounter the depths of poverty, disease, global warming, warfare, discrimination, and corruption. But through courage, compassion, and their indomitable human spirit, he and his friends take on life’s challenges in places where the odds are stacked against them - yet leave the world better off for having passed through it.

Performance Accountability and Combating Corruption (ISBN: 978-0-8213-6941-8, SKU: 16941). This volume provides an analytical framework and operational approaches needed for the implementation of results-based accountability. The volume makes a major contribution to the literature on public management and evaluation. Major subject areas covered in this book include: performance based accountability, e-government, legal and institutional framework to hold government to account; fighting corruption; external accountability and the role of supreme audit institutions on detecting fraud and corruption.


The data topics include:
- People
- Environment
- Economy
- Technology and infrastructure
- Trade
- Finance


The data topics include:
- Agriculture
- Forests and biodiversity
- Energy
- Emissions and pollution
- Water and sanitation
- Environment and health
- National accounting aggregates

The Little Data Book on Information and Communication Technology 2007 (ISBN: 978-0-8213-6973-9, SKU: 16973). This new addition to the Little Data Book series presents at-a-glance tables for over 140 economies showing the most recent national data on key indicators of information and communications technology (ICT), including access, quality, affordability, efficiency, sustainability, and applications.

Little Data Book on Private Sector Development 2007 (ISBN: 0-8213-7076-6, ISBN-13: 978-0-8213-7076-6, SKU 17076). The Little Data Book on Private Sector Development 2007 is one of a series of pocket-sized books intended to provide a quick reference to development data on different topics. It provides data for more than 20 key indicators on business environment and private sector development in a single page for each of the World Bank member countries and other economies with populations of more than 30,000. These more than 200 country pages are supplemented by aggregate data for regional and income groupings.

This book is intended as a quick reference for users of World Development Indicators, WDI Online, and the Atlas of Global Development. It also includes data from the World Bank’s Doing Business project and Enterprise Surveys.

The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level (ISBN: 0-8213-6725-0, ISBN-13: 978-0-8213-6725-4, SKU: 16725). Corruption... How can policymakers and practitioners better comprehend the many forms and shapes that this social pandemic takes? From the delivery of essential drugs, the reduction in teacher absenteeism, the containment of illegal logging, the construction of roads, the provision of water and electricity, the international trade in oil and gas, the conduct of public budgeting and procurement, and the management of public revenues, corruption shows its many faces. The Many Faces of Corruption attempts to bring greater clarity to the often murky manifestations of this virulent and debilitating social disease. It explores the use of prototype road maps to identify corruption vulnerabilities, suggests corresponding “warning signals,” and proposes operationally useful remedial measures. The Many Faces of Corruption is thus an invaluable reference for policymakers, practitioners, and researchers engaged in the business of development.

Making the Most of Scarcity (Arabic Edition): Accountability for Better Water Management in the Middle East and North Africa. (ISBN: 0-8213-7096-0, ISBN-13: 978-0-8213-7096-4, SKU: 17096). Water in the Middle East and North Africa region is a source of major social and economic problems stemming from scarcity, variability, unreliable services, and environmental damage. The situation is likely to become even worse in the future, unless current practices change: by 2050 per capita availability will fall by half, water quality will deteriorate further, and more aquifers will become depleted. Climate change is predicted to worsen the problems by increasing temperatures and causing more droughts and floods.

While water professionals have been advocating comprehensive water reforms for years and many countries have improved their water policies and institutions, some of the most politically sensitive elements of reform remain untouched. This report suggests that a series of factors are now emerging that represent a potential opportunity to break this impasse. Turning the potential into reality will depend upon three things:

- Adopting reforms that respond to the dynamics of the political economy;
- Recognizing that water policies cannot act alone, but that water outcomes are often determined by other sectors, such as trade, agriculture, finance, and energy; and
- Choosing policies and practices that make government institutions and service providers more accountable to the public.

Making the Most of Scarcity will be of interest to readers working in the areas of agribusiness and markets, agriculture, urban and rural development, water supply, and water resources, as well as those responsible for setting policies in the areas of environment, economics, and social protection.

Budgeting and Budgetary Institutions (ISBN: 0-8213-6939-3, ISBN-13: 978-0-8213-6939-5, SKU 16939). Budgeting and Budgetary Institutions play a critical role in resource allocation, government accountability, and improved fiscal and social outcomes. This volume distills lessons from practices in designing better fiscal institutions, citizen friendly budgets, and open and transparent processes of budget preparation and execution. It also highlights newer concepts of performance budgeting, accrual accounting, activity based costing, and the use of information and communication technology in budgeting. These tools of analysis are
supplemented by a review of budgeting in post-conflict countries and two country case studies on the reform of budgeting systems.

**Local Public Financial Management** *(ISBN: 0-8213-6937-7, ISBN-13: 978-0-8213-6937-1, SKU: 16937).* Transparent and prudent local financial management has come to be recognized as critical to the integrity of local public sector and to gaining and retaining trust of local residents. Such integrity and trust is sometimes lacking in some local governments in developing countries, especially in the Africa region. This book attempts to provide practical guidance to local governments interested in establishing sound financial management systems.

**Local Budgeting** *(ISBN: 0-8213-6945-8, ISBN-13: 978-0-8213-6945-6, SKU: 16945).* This book provides a comprehensive treatment of all aspects of local budgeting needed to develop sound fiscal administration such as setting priorities, planning, financial control over inputs, management of operations and accountability to citizens. Topics covered include fiscal administration, forecasting, fiscal discipline, fiscal transparency, integrity of revenue administration, budget formats, and processes including performance budgeting, and capital budgeting.

**Annual World Bank Conference on Development Economics 2007, Regional: Beyond Transition.** *(ISBN: 0-8213-6843-5, ISBN-13: 978-0-8213-6843-5, SKU 16843).* This annual conference is a global gathering of the world’s leading scholars and practitioners. Among the attendees are participants from developing countries, think tanks, NGOs and international institutions. This book addresses issues such as:

- Inequality and growth in transition
- Trade liberalization, inequality and poverty in Latin America and the Caribbean
- Can economic policy overcome geographic disadvantage in Eastern Europe and the Commonwealth of Independent States?
- Patterns of spatial convergence and divergence in India and China

**Also available:**

- **Gender and Development in the Middle East and North Africa: Women in the Public Sphere** *(ISBN: 0-8213-5676-3 SKU: 15676).*
- **Better Governance for Development in the Middle East and North Africa** *(ISBN: 0-8213-5635-6 SKU: 15635).*
- **Trade, Investment, and Development in the Middle East and North Africa: Engaging with the World** *(ISBN: 0-8213-5574-0 SKU: 15574).*

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**Data and Statistics**

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

To access the on-line databases, visit:  
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