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With special thanks to Mary Saba

EDITORIAL

Lebanon's Challenge: From Malaise to Renaissance

In the past six months, Lebanon has witnessed events of historic proportions. During this period, the tremendous strengths of Lebanese society and economy, as well as some serious vulnerabilities were revealed. Lebanon's strengths included: the power of the population to make its voice heard in a peaceful manner; the resilience of the financial sector; considerable investor loyalty; the high credibility of the Central Bank; and the capability of the Government, even though short-lived, to deliver on reforms, if unobstructed. Finally, yet equally significant during this period, tremendous international good will was manifested towards Lebanon.

Serious vulnerabilities have become evident: while the shock of the assassination of the late Prime Minister Rafic Hariri was successfully absorbed by the markets, Lebanon's economic and financial costs added to an already heavily burdened economy; the debt burden, among the highest in the world, became even higher; Lebanon became even more dependent on the resumption of large external financial flows; and, on the electoral scene, short-term political rhetoric again took primacy over long-term agendas for national reform.

Going forward, Lebanon faces the challenge of a transformation from a condition of malaise to a political, social and economic renaissance. The main challenge now is to move the country out of a post-war, debt spiraling reconstruction phase into a vibrant emerging economy. The former Prime Minister Najib Mikati and his team have laid the foundation for such a transformation by the launching of the Beirut Pact.

The Beirut Pact provides a vision for putting the State in the service of the Lebanese citizen. In its first phase, the Pact makes no attempt to provide a recipe for reform. Instead, the Beirut Pact identifies the challenges that lie ahead and poses fundamental questions about development priorities, policy choices and necessary tradeoffs. These questions touch every aspect of political, economic and social development in Lebanon, including the role of the public sector and administrative reform; fiscal adjustment; monetary policy; public debt sustainability; social policy and safety nets; human development (health and education); sustainable use of natural resources; and private sector competitiveness and growth.

Answers to the above questions have been articulated in the past by public sector groups, local think tanks, various political parties, regional and international agencies and the World Bank (this issue, indeed, takes up a number of policy issues on which the Bank has a view, such as pension reform and health reform). It is important to stress, however, that there are not necessarily "right" answers to each question posed. But there is, however, a "right" package of answers: one which is internally consistent; reflects broad agreement among the Lebanese; and allows Lebanon to transcend its current state of political, social and economic malaise onto a sustainable path of growth and development. Only a broad-based consultative approach, with determined leadership, can lead to this package called the Beirut Pact, which Prime Minister Mikati described as the "Economic Taif" after the political accord that ended the Civil War 15 years ago.

Once the Beirut Pact is articulated, the next challenge will be to make the Pact binding over several years of implementation and not subject to manipulation for short-term political ends. Here, a time-bound action plan, endorsed by all branches of government and associations of civil society and the private sector, would give greater credence to the Beirut Pact and the ability to implement the Pact.

The international community will play a crucial role in Lebanon's transition. In the best scenario, the international community could provide technical assistance and a financial package to help Lebanon bridge the gap between the status quo and a future of higher equilibrium. In the worst of scenarios, a financial package could actually be counterproductive, simply postponing the day of reckoning when hard decisions need to be made. Indeed, even the most generous financial package of assistance would dissipate within a few years in the absence of the transformation described above.

The success of Lebanon as a model for coexistence and prosperity in the Middle East is important not only to the international community and worthy of their support, but also, and most importantly, to the Lebanese people themselves. Lebanon's political elite have an opportunity to show that the needs of the country itself can be put above factional differences and thus, help transform Lebanon toward a new era of renaissance.

Pension Reform in Lebanon: Why it is needed and why it should not be postponed

The Lebanese public pension system is unique not only in the MENA region, but probably, the world. The pension system is a key source of financial drain for the Government, provides inadequate long-term security for a sizeable group of pensioners and is marred by complex administrative procedures.

This pension system scheme classifies beneficiaries into three groups: (1) civil servants; (2) military and security personnel; and (3) private sector employees. The first two groups are covered by traditional defined benefit schemes, which is the promise made by the government to a worker as to pension income at retirement. This is normally calculated as a percentage of the last wage. But private sector employees have access only to end-of-service indemnity, where retirees are eligible only for a lump sum payment calculated according to the length of employment (on average a one-month salary per year of service) and contributions and interests accumulated from previous employment.

The three schemes cover about 26 percent of the labor force at a cost of 3.5 percent of the Gross Domestic Product (GDP), among the highest levels of spending on pensions in the MENA region, where the average is close to 2 percent of GDP. Moreover, all three schemes are fraught with serious problems in terms of financial sustainability, efficiency and equity which compromise the credibility of the fiscal framework, the recovery of the economy and the welfare of young and future generations.

Mindful of these complications, past governments have conducted assessments of alternative reform options, which ultimately culminated in a draft law which would transform the end-of-service indemnity program for the private sector into a "defined contribution," fully funded scheme. Under this option, a worker would put aside a percentage of each paycheck into a pension plan, which is usually mandated by the Government. These contributions are then placed into an account that accrues interest until the worker retires. The draft law was sent to Parliament in early 20005, but has not yet been endorsed.

Important reforms to the civil service and the military pension schemes have also been considered, but not yet developed into a concrete proposal.

A revival of the policy dialogue on pension reform, however, is essential to overcome this major challenge to Lebanon's social and economic reform drive, and further delay could be costly.

The End-of-Service Indemnity Program: risky, costly and financially unsustainable. In its current form, the End-of-Service Indemnity (EOSI) Program is a problem for all parties involved: current plan members, employers, the Government, and the Lebanese population at-large. Thus, Lebanon is one of those rare cases where a reform of the national pension system would produce only winners.

One of the main problems of the current system is that it does not provide adequate and secure income for retirement. Under the EOSI system, employers are not required to provision for their liabilities toward employees. This implies that in difficult times, commitments might not be able to be fulfilled. On the other hand, retirees are not mandated to transform the lump sum they receive into an annuity (i.e., a pension for life). As such, the retirees' flow of income during old age depends on their ability to invest wisely, which leaves them vulnerable to the vagaries of the financial market. Even under ideal conditions, the average lump sum that individuals receive might be insufficient to replace an adequate share of pre-retirement income. Indeed, while the EOSI is supposed to operate as a defined contribution system, the implicit rates of return on contributions tend to be below market levels. In other words, plan members could be receiving benefits that are 50 to 80 percent below what they could obtain from depositing savings in a bank account.

For employers the EOSI is not a good deal, either. Any mandatory insurance scheme imposes, at least in part, a tax on labor. The tax, however, is known in advance. In the case of the EOSI, on top of the statutory contribution rates, employers are subject to additional payments – of unknown amounts – to cover the difference between the capital accumulated by individual accounts

(usually involving an ad-hoc rate of return on contributions), and the benefits promised to the employee. In 2003, these "extraordinary" contributions represented 33 percent of regular contributions. Because the size of this implicit liability increases with the length of service of the employee, this system offers employers an incentive to hire short-term employees, and/or refrain from declaring the workers. This also discourages employees from switching jobs, restricting the mobility of the labor force and impairing an efficient allocation of resources.

There are also problems with current investment policies. Current arrangements do not provide incentives to mange savings in the best interest of plan members. Indeed, because employers are ultimately liable for the differences between accumulated savings and promised benefits, EOSI managers could engage in risky and/or low return activities. A review of current information systems reveals poor record-keeping practices. Consequently, upon retirement, benefits tend to be calculated on a prospective basis, which involves a discretionary mechanism to credit interests to the individual accounts.

While in appearance the EOSI is not facing financial difficulties, a closer look gives reasons for concern. The system is still running a surplus of 1.8 percent of GDP. However, as indicated above, this balance reflects "extraordinary" contributions from employers and an implicit tax on employees' savings. Although the EOSI reports to have reserves worth 15 percent of GDP, the World Bank estimates that liabilities could be as high, if not higher. In other words, to cover its current obligations the EOSI would need to receive fiscal support which would entail using general revenues to finance promises made to 20 percent of the labor force.

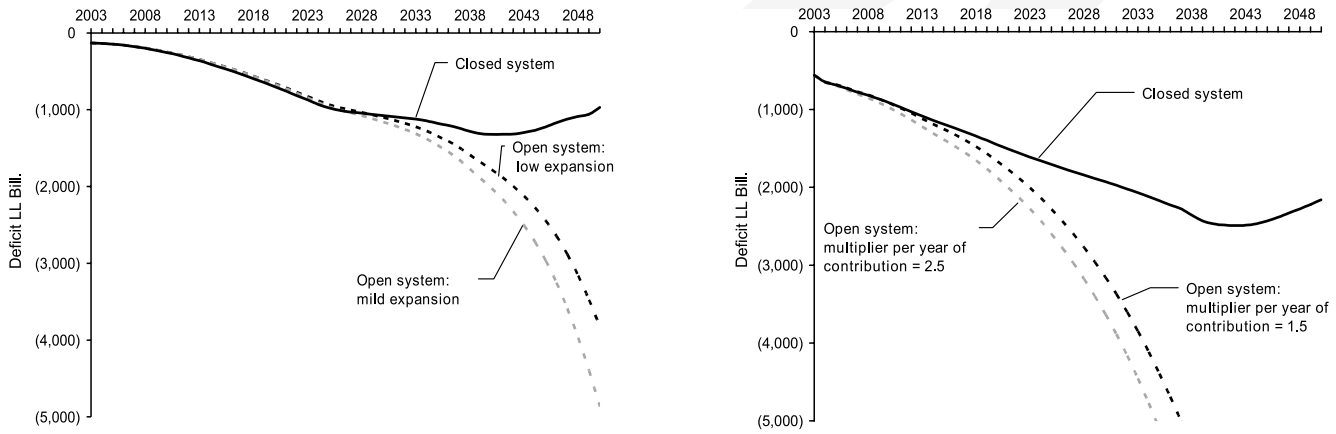
The schemes for civil servants and the military and security personnel are a major liability for the budget and young and future generations. Both schemes offer to the average full-career worker a pension equivalent to 85 per cent of pre-retirement income – among the most generous in the world. This high level of income replacement is not only unaffordable, but also reduces incentives to diversify sources of savings for retirement outside the public system – particularly among middle- and high-income workers. This is unfortunate, as it is known that the development of contractual savings outside the public system could contribute to financial sector development and economic growth. In addition, the system offers a series of ad-hoc benefits including lump sums and extra credits for each year of contribution (in the case of the military scheme). At the same time, the process used to index pensions is discretionary. This exposes retirees to the risk of inflation while making the system vulnerable to adjustments that are too high.

The two schemes are already displaying an aggregate deficit of 2.6 percent of GDP that is expected to continue to grow *(see Figure 1)*. This deficit is being financed from general revenues. The implicit contribution rates paid by the Government to the military and civil servants' pension schemes represent respectively 110 and 28 percent of the covered wage bill (the legal contribution rate is only 6 percent). The current subsidy imposes a large burden on the budget and one that only benefits 6 percent of the labor force! The same resources could be allocated towards investments with a larger social impact, for instance in education and health.

To date, the accrued pension liabilities of the two systems are estimated at 66 percent of GDP. This is the value of the pension promises to current retirees and the rights accrued by current plan members. These liabilities compromise the credibility of the fiscal framework. In the absence of reforms they would continue to grow, threatening the well-being of future generations (including low-income individuals who are outside the system) who have to finance the inherited debt through a combination of higher taxes, lower benefits and a lower non-pension budget.

A final issue relates to the fragmentation of the current system. The separate schemes for civil service, the military and private sector are problematic for a number of reasons. The most obvious reason is that this fragmentation unnecessarily increases administration costs. Instead of one information system, three are necessary. Also, different provisions and the lack of bridges to transfer acquired pension rights between schemes limits the mobility of the labor force. Finally, fragmentation is a source of inequity because the system is treating workers differently.

Figure 1: Projected Balances of the Civil Servants and Military and security personnel's Pension Systems.



The left and right panels correspond respectively to the schemes for civil servants and the military and security services personnel.

Source: World Bank. 2005. "Towards an Integrated Pension System in Lebanon: Reforming the End-of-Service Indemnity and the Schemes for Civil Servants and the Military".

Towards an integrated reform program. Any reform of the Lebanese pension system should aim for the following objectives: (i) providing adequate and secure benefits during old age; (ii) ensuring financial self-sustainability; (iii) minimizing economic distortions; (iv) ensuring that when redistribution takes place it is transparent and progressive (from high to low income workers); (v) ensuring that the system is administratively efficient; (vi) allowing for an efficient diversification of savings for retirement; and (vi) supporting economic growth.

The current draft law to reform the EOSI is a right step in this direction. The law proposes the conversion of the EOSI into a fully funded defined contribution pension system. The contributions of employees would be deposited in individual accounts which earn a market interest rate. Upon retirement, the capital accumulated in the accounts would be transformed into a pension for life. The system would also provide a minimum pension guarantee, as well as survivorship and disability pensions. Financing mechanisms would be transparent and would not generate uncertainties that discourage investment and job creation. By strengthening the link between contributions and benefits, the new system would also reduce distortions in labor markets. The scheme would provide incentives to diversify savings outside

the public system. This would help to develop contractual savings, which would contribute to financial sector development and, through this channel, economic growth.

Clearly, one should not underestimate the complexities involved in the implementation of this type of pension system. In Lebanon, the existence of a core of sound banks and insurance companies and a commitment for financial sector development facilitate the task. While the fiscal situation remains frail, the fact that unfunded liabilities of the EOSI are relatively small would reduce transition costs at least during the short term. However, the main challenge is to ensure that the new institution has the necessary capacity to mange the scheme and that an appropriate regulatory and supervisory framework is in place. It is desirable that some administrative functions (such as record keeping, the collection of contributions, as well as the management of part of the reserves) are outsourced.

As for the scheme for civil servants, two critical interventions are recommended. The first is to close the two schemes to new entrants, who would then be channeled to the reformed pension system for private sector workers. Military and security personnel and civil servants would have access to voluntary complementary private pension plans, which could be offered through the employer. The second intervention would require a review of the benefit formulas and eligibility conditions of those who remain in the "old" system - for example, eliminating the lump sum payments and the credits on years of contributions. These two interventions would not eliminate the current implicit pension debt of the system, but would bring it to more sustainable levels. The Government would continue to finance the deficit of the closed schemes, but the necessary budgetary outlays would be considerably reduced.

As such, the reform proposal would not only address the financial problem, but also contribute to a reduction in administrative costs, improve equity and facilitate the mobility of the labor force between the private and the public sector.

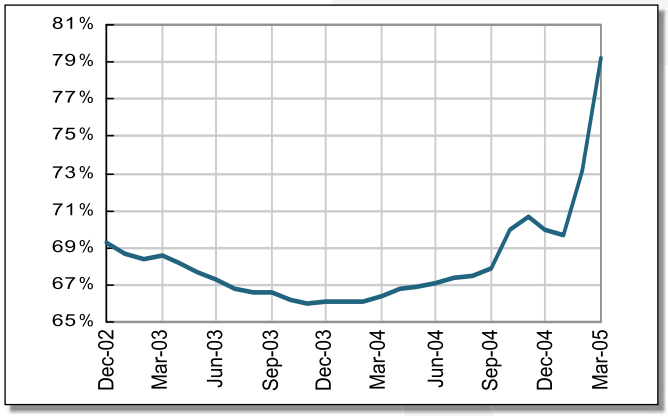
In a nutshell, Lebanon is in a unique position to initiate reforms. These reforms would contribute to fiscal stability and could facilitate the economic recovery by reducing distortions in labor markets, eliminating uncertainties which diminish incentives for investment, while contributing to financial sector development. With a new Parliament and a new Government in place, policy makers are in a position to resume the policy dialogue on pension reforms and move toward the design and execution of a multi-year reform program. This requires: (i) setting up a high level Steering Committee to oversee the design and implementation of the reform program; (ii) approving the draft law for the EOSI; (iii) preparing and submitting to Parliament a law to reform the scheme for the civil service and the military; (iv) preparing various studies (financial and fiscal impacts of the reform, assessment of the financial sector, legislative stock taking, analysis of institutional capacity) to guide the design of fiscal policies to finance the cost of the reform; (v) preparing the regulations; and (vi) being kept informed about the necessary investments in human and physical capital to strengthen institutional capacity.

Economic Developments In The First Quarter Of 2005

Overview

Lebanon's economy and financial sector weathered the shock of former PM Hariri's assassination and subsequent political developments. In the weeks following the assassination (February 14, 2005), tourism, commerce and construction activities dropped sharply, and the financial sector experienced massive conversions from Lebanese Pound-denominated deposits into foreign currency. Nonetheless, the economic activity started to rebound in March and confidence in the financial sector's resilience prevented large capital outflows. Tight coordination between the Central Bank [Banque du Liban, (BdL)] and the banking sector also contributed to the rapid stabilization of the financial situation. By mid-March, the sector began to register net capital inflows and re-conversions of deposits into the Lebanese Pound (LBP).

Figure 1. Dollarization Rate of Deposits (%)



Source: Banque du Liban (BdL)

However, the successful prevention of a severe financial crisis will bear a high cost in the medium run. The drop in the money supply and consequent increase in interest rates, the financial engineering undertaken by the Central Bank to limit outflows, and the drop in tax collection and in public investment will all entail costs in terms of foregone growth and higher fiscal deficit. This, in turn, adds to the already daunting task that faces Lebanon of inspiring growth, improving living conditions and regaining fiscal sustainability.

In the face of its new domestic and external political environment, Lebanon has a historical opportunity to address its macro-economic, social and developmental shortcomings. The multiple friends of Lebanon are perhaps more eager today than ever before to assist in the country's social and economic transformation. But, this transformation can only be activated, led and sustained from within Lebanon. It will first and foremost require a deep reflection and agreement among Lebanon's constituencies on what would constitute the right action plan in the face of current political, economic and social conditions in Lebanon today. Two dimensions warrant here particular attention: the first one relates to the design of an "optimal" policy package, and concerns primarily fiscal, monetary and structural economic policies (public administration reform, investment climate, etc.). The second is more political in nature and relates to how the cost of transformation would be shared among the population, with a particular view on its most vulnerable segments. A sustainable recovery is at this price: credibility and broad-support are the necessary conditions of its success.

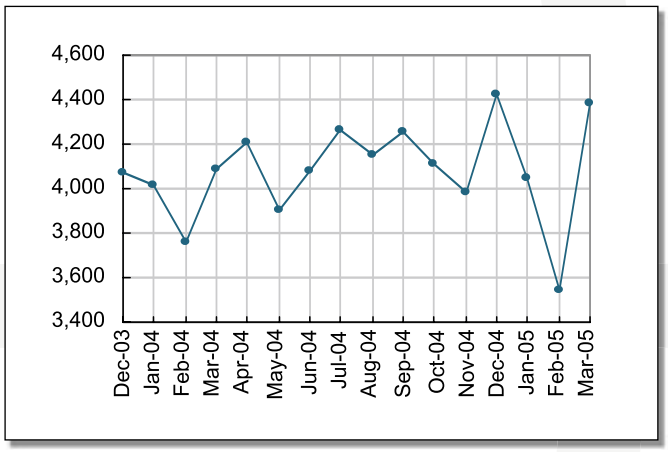
Using the most recent data available, the following briefly summarizes economic development during the period January-March 2005: real sector and external accounts indicators; public finance and the financial sector.

Real Sector and External Accounts Developments

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

There is no doubt, however, that the economic activity suffered from the political events of Q1-05. The coincident indicator of the Central Bank decreased by 1 percent between Q1-04 and Q1-05, against an increase of 12 percent between Q1-03 and Q1-04. The value of compensated checks increased by only 1 percent in Q1-05 compared with Q1-04 against 5 percent between Q1-03 and Q1-04. According to Bank Audi, the real GDP growth in Q1-05 might have been close to zero during Q1-05. The deceleration in consumer price inflation in February and March 2005 also illustrated a drop in domestic demand. According to the Consultation and Research Institute, year-on-year price inflation was lower than 1 percent in February and March, against 3 percent in January.

Figure 2. Compensated Checks (LBP billion)



Source: BdL; seasonally adjusted series.

Construction, industrial and tourism activities seemingly contracted over Q1-05. The construction sector suffered significantly from the political disturbance - probably the result of depressed anticipations and withdrawal of foreign workers during the weeks that followed Hariri's assassination. Construction permits dropped by 27 percent, and cement deliveries by 15 percent in Q1-05 compared with Q1-04. Industrial exports decreased by 18 percent compared to Q1-04. The main decreases occurred in the pearls and precious metals industry with a 68 percent drop, in addition to a 35 percent drop in the machinery and electrical instruments industry. The decrease in exports, especially machinery exports, could be linked to the decrease in exports to Iraq, which plunged by 64 percent. Imports of industrial equipment also dropped, by 3 percent compared with Q1-04, pointing to a decline in productive investments. The total activity of the Beirut airport increased by only 2 percent in Q1-05 compared to Q1-04, while the increase for the single month of January reached 2 percent. Between Q1-03 and Q1-04, airport activity rose by 21 percent.

Lebanon's balance of payments witnessed a deepening of its merchandise trade deficit combined with a contraction of its capital account surplus during the Q1-05. In spite of a depressed domestic demand, imports increased heavily in Q1-05 due to the rise in oil prices and the appreciation of the Euro against the United States Dollar (and hence, the Lebanese Pound). Besides, political events resulted in net capital outflows, which reduced the capital account's surplus of the balance of payments, and made it insufficient to cover its growing merchandise trade deficit. As a result, net foreign assets of commercial banks and the Central Bank declined in Q1-05.

Between December 2004 and March 2005, gross foreign currency reserves at the Central Bank declined by US$2 billion. This decline reflects only partially the extent of the conversions from LBP-denominated deposits to the United States Dollar. The coordination between Lebanon's Central and commercial banks, indeed, helped mitigate the drop in gross reserves. Banks agreed on diverse forms of refunding gross reserves against substantial remunerations, such as subscribing to long-term Euro-CDs.

■ Fiscal Accounts and Public Debt

In spite of a depressed economic situation, the fiscal situation improved in the first quarter of the year. The Government's total deficit decreased by 20 percent in Q1-05 compared to Q1-04 (on a cash basis) and primary balance (the difference between revenue and spending, excluding debt service) improved by 4 percent. Nevertheless, this improvement was only achieved because the drop in public expenditures was higher than the drop in revenue. Besides, the recent consolidation of public accounts by the Ministry of Finance, notably through the computation of arrears, worsens the overall fiscal picture.

Revenues decreased by 4 percent in Q1-05 compared to Q1-04. The revenue decrease (LBP70 billion) is attributed to the drop in petroleum excises by 31 percent (LBP58 billion, the result of gasoline price capping and new subsidies for diesel), in non tax revenues by 4 percent (LBP18 billion) and in taxes on property by 16 percent (LBP16 billion). This

decrease was partially compensated by a 10 percent rise in the income, profits and capital gain tax (LBP20 billion), and by an 8 percent increase in VAT collection (LBP30 billion).

The decrease in revenues was offset by a higher decrease in expenditures. Expenditures dropped by 8 percent (LBP185 billion), mainly the result of a 13 percent decrease in debt service (LBP105 billion). This was largely due to debt restructuring efforts undertaken in 2003 following the Paris II conference. The other major category of spending which witnessed a strong contraction was public investment expenditure, which declined by 32 percent (LBP64 billion) compared with Q1-04. Indeed, the absence of a voted budget for 2005 forced the administration to refrain from undertaking new investment projects and to keep current primary expenditures at their 2004 level. But this decline in public investment spending was not necessarily good news. In fact, a continued contraction in public investment spending, already low by international standards with respect to the GDP, could dent the current stock of public infrastructure through insufficient maintenance, at the expense of private sector activity and growth.

The recent computation of arrears by the Ministry of Finance, although tentative and yet unaudited, reveals sizeable contingent liabilities, estimated at LBP3425 billion by year-end 2004. Such arrears (delays of payment) have been accumulated over recent years, mainly from extra budgetary funds [National Social Security Fund (NSSF) and the Institute of the Guarantee of Deposits (IGD)], private operators (hospitals, contractors), households (through the expropriation of their land) and public employees (for which a wage increase decision was adopted by Parliament on November 5, 1998 but never applied, as confirmed by various tribunal decisions). The build-up of arrears has various consequences: poorer fiscal transparency, higher tariffs for private services, weaker social safety nets and greater difficulties in implementing investment projects[1].

As a result of continuous financing needs from the Government, the public debt continued to increase in Q1-05. Gross public debt rose by 5.7 percent between Q1-04 and Q1-05, to reach US$35.5 billion by end-March 2005 (out of which 52 percent is labelled in foreign currencies).

[1] As a large number of public investment projects (including donor-financed projects) are stalled before cases (payments of arrears) are legally settled.

Table 1. First Three Months Public Finances (LBP billion)

	2004	2005
Total receipts	**1,720**	**1,649**
Budget receipts	1,634	1,584
Tax revenues	1,162	1,131
VAT	380	410
Customs	389	333
Other tax revenues	393	389
Other	472	454
Treasury receipts	86	65
Total payments	**2,299**	**2,114**
Excluding debt service	751	731
Debt service	799	695
in LBP	467	318
in FC	333	377
Treasury payments	748	687
Surplus / Deficit	-579	-464
Primary Surplus	222	231

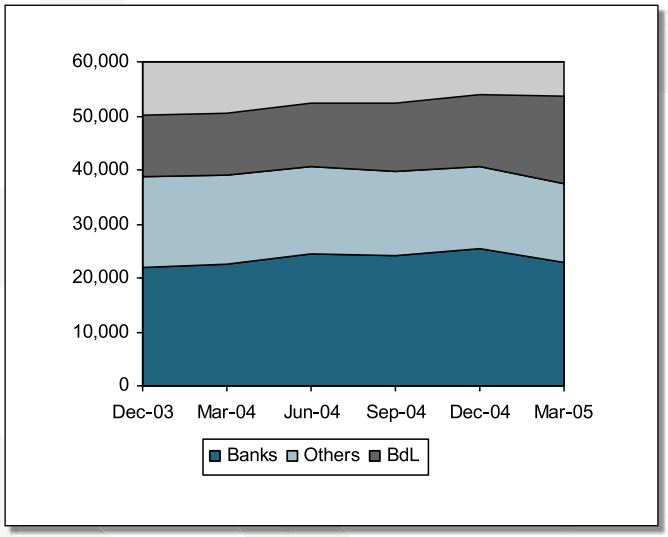
Source: Ministry of Finance. *Please Note:* Figures are on a cash basis.

Table 2. Estimated Government Arrears As of Year-End 2004 (LBP billion)

NSSF and IGD	1062
Hospitals	139
Expropriations	800
Wages	1304
Others	119

Source: Ministry of Finance.

Figure 3. Public Debt Holders (LBP billion)



Source: BdL. *Please Note:* Other holders include private agents, international and bilateral donors and public agencies (NSSF, IGD, etc).

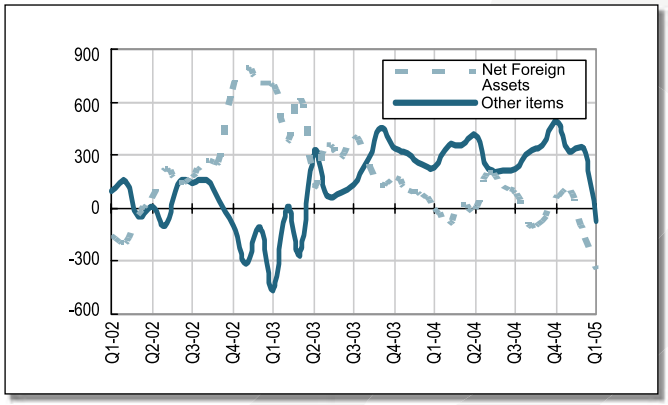
Debt structure by holders changed. With massive conversions of deposits to the United States Dollar in Q1-05, banks had no alternative but to discount at the Central Bank some of their Treasury Bills with liquidities in turn converted into United States Dollars and placed at the Central Bank (in the form of Euro CDs and other placements). As a result, the Central Bank was holding 29 percent of the Government's debt by end-March 2005, against 24 percent in December 2004.

Financial Developments

The money supply (M3) decreased by 2.7 percent between December 2004 and March 2005. Non-resident deposits, which are not included in the definition of the money supply, shrank by 12 percent during the same period. The drop in net foreign assets at commercial banks and the Central Banks (-7 percent between December 2004 and March 2005) contributed largely to this overall decline. Reflecting massive conversions to the United States Dollar, the money supply in LBP dropped by 31 percent between December 2004 and March 2005.

Reflecting the strong decline in the money supply in LBP, average interest rates on LBP-denominated deposits increased by 96 basis points between December 2004 and March 2005, from 7.0 percent to 8.0 percent. The average interest rate on United States Dollar-denominated deposits rose by 21 basis points (from 3.3 percent to 3.5 percent) over the same period [*Source:* Association des Banques du Liban, (ABL)]. Between March 2004 and March 2005 the spread between the average interest rate on United States Dollar deposits in Lebanon and the Libor decreased from 221 to 44 basis points.

Figure 4. Counterparts of Money Supply (LBP billion)



Source: BdL.

The Central Bank increased the remuneration of banks' deposits and reserves. The weighted average rate on LBP-denominated CDs rose by 49 basis points between December 2004 and March 2005, from 9.5 to 10.0 percent. The weighted average interest rate on United States Dollar deposits rose by 101 basis points between December 2004 and March 2005, from 3.0 to 4.0 percent.

Commercial banks' overall exposure to the consolidated public risk stagnated in Q1-05, but increased in foreign currency. Measured as the sum of claims on the Government and the Central Bank, commercial banks' exposure to the sovereign risk remained unchanged between December 2004 and March 2005, in proportion of commercial banks' assets (52.7 percent). This stagnation, though, masks important shifts in the nature of the banks' exposure, from LBP to United States Dollar-denominated instruments, mirroring the increased dollarization of deposits and the concerted efforts exerted by commercial banks and the Central Bank to limit outflows.

Table 3. Commercial Banks Balance Sheets (LBP billion)

	2002	2003	2004	Mar-05
Assets				
Vault Cash	0.1	0.1	0.1	0.1
Claims on Central Bank, LBP	2.5	11.6	10.3	9.5
Claims on Central Bank, FC	5.3	7	9.4	11.3
Claims on private sector, LBP	2.7	2.6	2.8	2.8
Claims on private sector, FC	12.5	12.6	13.1	13.3
Claims on public sector, LBP	10.8	7.6	7.2	5.5
Claims on public sector, FC	6.8	6.4	8.8	8.9
Claims on non-resident banks, FC	8.2	8.1	11.1	11.3
Other foreign assets, FC	1.3	1.9	2.5	1.6
Fixed Assets, LBP	1.9	1.9	2.1	2.2
Other Assets, LBP	0.4	0.4	0.4	0.4
Liabilities				
Bonds	0.1	0.0	0.1	0.1
Public sector deposits, LBP	0.4	0.9	1.0	1.1
Private sector deposits, LBP	12.7	15.7	15.5	10.3
Private sector deposits, FC	24.1	25.3	29.8	33.8
Non resident deposits, LBP	0.5	0.8	1.0	0.6
Non resident deposits, FC	5.6	6.9	8.6	7.8
Foreign Banks deposits	1.2	1.6	2.5	2.1
Capital Base, LBP	3.3	3.6	3.9	3.6
Unclassified liabilities, LBP	4.6	5.2	5.5	7.4
Total Assets = Liabilities	52.6	60.1	67.8	66.8

Source: World Bank Staff Calculations based on BdL and ABL.
Please Note: FC: Foreign Currency.

Bank Group Operations

IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of seven Projects for a total commitment amount of US$321.85 million, of which US$87.71 million has been disbursed through May 15, 2005.

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

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

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

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

Ba'albeck Water and Wastewater Project. (US$43.5 million). The major development objectives of the Project include: (a) improving the access of satisfactory water supply and wastewater services to the region's residents; (b) introducing appropriate sector reforms–particularly the development and strengthening of the capacity of the existing Ba'albeck Hermel Water and Irrigation Authority and, once it is established, the Bekaa Regional Water Authority; and (c) involving the private sector in the operation and maintenance of water and wastewater facilities by preparing for a Management Contractor (MC) through a lease or concession contract that would secure the long-term financial needs for sector investments. The World Bank Board of Directors approved the Project in June 2002.

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

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

Commitments and Disbursements as of May 15, 2005

Project Name	Approval Year	Loan Amount	Amount Disbursed
		US$ Million	
Revenue Enhancement and Fiscal Management Technical Assistance	1994	25.25	24.33
Education Development	2000	56.57	7.19
First Municipal Infrastructure	2000	80.00	49.45
Community Development	2001	20.00	1.51
Ba'albeck Water and Wastewater	2002	43.50	1.83
Urban Transport Development	2002	65.00	2.06
Cultural Heritage and Urban Development	2003	31.50	1.34
TOTAL		**321.85**	**87.71**

IFC Projects in Lebanon

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

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

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

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

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

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

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

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

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

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

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

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

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

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 into other developing countries. In fiscal year 2002, MIGA issued US$8.1million in guarantees to Investcom, a Lebanese-owned company, for a telecommunications project in Benin involving the installation of a new GSM mobile telephone network in Lebanon, which has one of the lowest teledensities in the world. In fiscal year 2003, MIGA issued US$56 million in guarantees to Investcom's investment in Spacetel, Syria's second mobile telephone network. Also, Lebanese investors have submitted preliminary applications in the finance, infrastructure, and manufacturing sectors for investments in Cote d'Ivoire, Ghana, Sierra Leone, Gambia, Guinea, and Syria. Eligible investors include those from MIGA-member countries investing in Lebanon, Lebanese nationals repatriating funds for investments in Lebanon, as well as Lebanese investors investing in developing countries, including the Middle East region.

The Investment Development Authority of Lebanon (IDAL), Lebanon's Investment Promotion Agency, has submitted to MIGA a needs assessment request. MIGA will perform the Needs Assessment by Fall 2005. The Needs Assessment will benchmark IDAL's investment promotion capacity relative to international best practices and recommend steps to improve IDAL's ability to attract FDI into Lebanon.

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

Health Sector Reform in Lebanon: Building on the Partnership with the Ministry of Public Health

Background

Despite impressive achievements in the overall public health status and life expectancy over the past decades, Lebanon still faces a number of significant healthcare challenges. Over half of the population lacks formal health insurance coverage, and more than 60 percent of overall health spending comes from out-of-pocket expenditures. Total health expenditure, as a percentage of Gross Domestic Product (GDP), is about 12.4 percent – higher than any other country in the Middle East and North Africa region. Service delivery is largely curative and dominated by an unregulated private sector, which manages up to 90 percent of all hospitals and 83 percent of health centers. The average hospital occupancy rate is low (around 56 percent) compared to the average rate of Organization for Economic Co-operation and Development (OECD) countries. Quality standards in health care are still quite modest (notwithstanding the establishment of a national hospital accreditation program), given the absence of a national approach toward continuous quality improvement in healthcare.

In addition, there is growing concern over the long-term financial sustainability of the Lebanese healthcare structure, particularly in view of the demographic and epidemiological transitions expected to occur over the next 20 years. The combination of population growth, the increasing longevity of citizens and growing contribution of non-communicable diseases to the overall illness burden will have serious implications for healthcare financing and service delivery arrangements in the country.

The World Bank is currently working closely with the Ministry of Public Health (MOH) on the preparation of a new project (Technical Assistance Loan) which aims at addressing some of the aforementioned issues. The main objectives of the new project would be to: (i) strengthen the capacity of the primary healthcare system to service the poor; (ii) support the rationalization of drug registration, pricing and utilization practices; (iii) improve the overall quality of health services, particularly primary healthcare services; and (iv) promote the development of critical tools to implement important health finance reforms.

These development objectives focus on the principles of equity, efficiency, cost-containment and quality.

The project design at this stage would include four main components which would build on earlier work achieved under the previous World Bank Health Sector Rehabilitation Project which closed on December 31, 2003. These components also include health management information activities and overlap in ways to achieve the four objectives mentioned above.

The four components are:

- **Public Health and Primary Health Care (PHC):** This component will focus on increasing the overall quality and capacity (managing a larger volume and range of basic health services) of primary healthcare services in the public and private sectors. It will also seek to strengthen the referral system to more specialized care services (i.e., to reinforce the "gate-keeping" mechanism). Five types of broad interventions are currently envisaged: (i) improving the MOH's capacity to fulfill several critical public health functions (i.e., disease surveillance); (ii) improving the service delivery capacity of PHC facilities serving poorer sub-populations by demonstrating the positive impact of new managerial and provider payment reforms; (iii) assisting the MOH in expanding, monitoring and regulating its network of contracted private PHC providers; (iv) developing quality improvement guidelines and processes for PHC providers; and (v) enhancing the academic training, continuous medical education, professional status and financial rewards of primary healthcare practitioners in the country.

- **Pharmaceutical Reform:** This component will concentrate on policy measures designed to promote the rationalization of drug registration, pricing and utilization practices by all concerned stakeholders (i.e., Government, importers, pharmacists, physicians and patients). These measures may include critical human resource training in pharmaceutical regulations; the introduction of new drug registration procedures promoting consumer and stakeholder acceptance of generic substitution through

continuous provider and patient education; promoting better prescription and dispensing practices in line with standardized treatment guidelines.

- **Quality Improvement and Accreditation Programs:** This component will built on the achievements made by the Government during the previous project and will work to develop an overall quality improvement approach for Lebanon involving a number of concrete "applications" within the areas of primary, secondary, and tertiary healthcare and pharmaceutical reform. This approach may include the following activities: (i) developing standardized clinical practice guidelines (and methods to continually update them) for critical healthcare services; (ii) introducing quality improvement topics into continuous medical, nursing and technical education programs; (iii) introducing rational drug utilization (RDU) practices among physicians and pharmacists with linkages to quality improvement processes; (iv) enhancing the existing accreditation system by moving from basic and "process" oriented accreditation standards to ones based on clinical outcome information and beginning a new accreditation system for primary healthcare facilities; (v) institutionalizing, financially and administratively, the survey work necessary for the preparation of healthcare accreditation audit reports; and (vi) improving the current Geographic Information System-based (GIS) health mapping system (Carte Sanitaire) to better monitor the quality of health care technology acquisition and critical clinical outcomes across the country.

- **Health Financing Reforms:** This component will focus on various activities designed to improve various aspects of the current health financing arrangements in Lebanon. These activities could include (i) identifying and helping to implement specific options to harmonize information, operational processes across the various public health insurance funds; (ii) assisting in the design, implementation, monitoring and evaluation of a new Diagnosis Related Groupings (DRGs) system within the Ministry of Public Health (possibly transferring the system to the other public funds); (iii) updating and institutionalizing national health accounts (NHA) to better track health expenditure flows from source of financing to end users of financing; and (iv) assisting in the development of means-testing methods for indigent healthcare coverage provided by the MOH.

News, Recent And Upcoming Activities

Environmental Carnival Climaxes Lebanon Development Marketplace 2005

In a marked departure from the political tensions that have gripped the country since mid-February, the World Bank celebrated the conclusion of its Lebanon Development Marketplace 2005 at a full-blown festival which featured marching bands, colorful banners, children's theater, folk dances and awards.

Organized in partnership with the United Nations Development Program, ***Innovation Day***, which had as its slogan ***"United for a Better Environment,"*** was timed to coincide with Lebanon's National Unity Day on April 13, 2005.

The festivities attracted representatives from civil society, the private sector, the Government and the international community to the Beirut International Exhibition and Leisure Center (BIEL) to affirm their partnership to seek a better future for Lebanon.

Innovation Day had been put on hold in the aftermath of Ex-Prime Minister Rafic Hariri's assassination on February 14, 2005. But, on short notice, the World Bank and UNDP teams, with the help of local partners, organized a carnival to spotlight Lebanon's long-forgotten environmental woes and promote Lebanon's natural beauty and rich resources.

Innovation Day climaxed a five-month contest, entitled "***Harvesting Youth and Community Ideas for a Better Environment",*** that attracted exhibitors and visitors from all ages and walks of life.

Since the launch of the contest in November 2004, 87 proposals were submitted by NGOs and youth groups, ranging in subjects from recycling household and industrial waste, to the creation of reserves for medicinal plants, organic crops, and indigenous bird species. Seven projects were selected by a small jury to share a total prize of US$130,000. The World Bank provided prize money in the amount of US$100,000 and UNDP contributed US$30,000 in prize money.

In addition to the finalists, 43 non-governmental organizations, active in environment-related fields such as eco-tourism, organic farming, health food and nature reserves, set up colorful displays further enlivening the event at BIEL. Hundreds of environmental activists, exhibitors, schools and scouts groups crowded the Royal Pavilion at BIEL for lively entertainment which featured, among other activities, presentations and documentaries about the landscape, air and water pollution and endangered species, such as sea turtles. Schoolchildren aged 10-11 years, performed in a play entitled "Ozone," and a quiz of some 20 questions raised the awareness of the young and old about some of the less familiar offenses to the environment.

"*Protecting the environment is not a luxury, but an urgent necessity,"* Omar Razzaz, the World Bank Lebanon Country Office Manager, said in opening remarks, highlighting World Bank studies that estimate the cost of environmental degradation in Lebanon at more than US$500 million a year, or 3.5 percent of the Gross Domestic Product.

Separately, Mona Hammam, UNDP Resident Representative and UN Resident Coordinator, stressed that the environment was an important component for sustainable social development and economic growth. She said that harvesting viable innovative ideas could also offer new job opportunities.

The Winners of the Lebanon development Marketplace 2005 Competition

Organization	*Project*
1 Regional Cooperative Union in South Lebanon	*Transformation of Olive Residue into Firewood*
2 The Association of Chouf Cedars	*Sustainable Use of Medicinal Plants in the Protected Area of Arz al-Chouf*
3 Association of Rural Development in Aarsal	*Creating a Recycling Plant for Processing Quarry Waste*
4 Animal Encounter	*Conserving Lebanese Biodiversity by Outreach Programs to Rural Areas*
5 Baldati Association	*Baldati.com Eco-Center*
6 Friends of Nature	*Nesting Sites for Birds in Urban Schools*
7 Scouts of Lebanon – St. Joseph Group	*Traditional Food Processing Festival*

Closing Round of the 2005 Small Grants Program in Lebanon

The final round of the World Bank's 2005 Small Grants Program (SmGP) in Lebanon has ended and grants have been awarded to the following projects:

1– *Communities Building for Better Resource Management,* by **MADA.**

2– *Library for the Blind,* by **the South Lebanese Society for the Blind (SLSB).**

3– *Public Safety Awareness Project,* by **the Lebanese Association for Public Safety**.

The 2005 round of the 2005 SmGP was initiated by a "Call for Proposals" on January 17, 2005 to a long list of NGOs, in addition to newspaper and website postings. In total, 11 project proposals were submitted to compete for total funding in the amount of US$34,000. The SmGP Committee screened and reviewed applications along a pre-determined set of evaluation criteria and the final 3 proposals selected were awarded grants to implement their projects over a maximum duration of 12 months.

The Small Grants Program was created in 1983 to complement and facilitate the social development agenda of the World Bank. The SmGP provides, through Country Offices, grants to civil society organizations (CSOs) to support the empowerment of citizens for greater ownership of development processes, thereby making these processes more inclusive and equitable.

The Lebanon Country Office has been part of the SmGP for five consecutive years. Previous grantees of the SmGP in Lebanon were: Save the Children, Center for Research and Training on Development, Imam Sadr Foundation, Amel Association, National Association for the Rights of the Disabled, Sesobel, Soins Infirmiers et Developpement Communautaire, Association for Volunteer Services, Lebanese Development Forum, Mouvement Social and the Lebanese Association of Educational Studies.

Below is a brief description of the 3 selected projects:

1–"Communities Building for Better Resource Management" by MADA in the amount of US$7,750. This proposal builds on an integrated development project initiated in 2001 in the mountains of Hermel, Akkar and Donniyeh, some of the poorest areas in Lebanon. The Project aims at promoting the integration of three different social structures (tribes, families and Bedouins) that often tend to compete rather than cooperate, into a single structure working on developing a comprehensive and harmonious development vision for their region. Work will be conducted through the definition of roles and responsibilities of various subcommittees, through negotiations, creation of conflict management and arbitration bodies, and the set up of further transparent representative mechanisms for local committee members. A parallel negotiation process will take place between Mada and the private sector represented by AlJord s.a.l. to clarify the role and engagement of the private sector for the development of the area and to agree on the institutional relationship and mechanisms. By the end of the Project, a Cooperation Agreement will be reached and signed with clear policies, monitoring mechanisms, representation mechanisms, arbitration processes and shared vision.

2–"Library for the Blind" by the South Lebanese Society for the Blind (SLSB) in the amount of US$12,500. The Project calls for the establishment of a small library (talking and Braille books) equipped with special talking computers and internet access within the SLSB's Center in Nabbatiye, South Lebanon. The Project will also undertake training courses for 20 blind and visually-impaired persons on the use of library resources and in receiving, hearing and/or reading material and information from Lebanese, as well as international resources on civic education and development and its dissemination to the rest of the visually impaired. The Project's aim is to facilitate the engagement of the blind and visually-impaired, currently marginalized due to the lack of appropriate means and tools, in various civic society and development activities.

3–"Public Safety Awareness Project" by the Lebanese Association for Public Safety in the amount of US$13,000. The Project aims at raising awareness concerning the importance of public safety information and promoting the effective exchange of relevant information and training of specialized individuals. The Project will develop a Public Safety Training Manual and CD in English and Arabic covering basic knowledge of safety measures and instructions. It will also train 50 professionals in various fields on safety practices leading to the creation of a network of Public Safety Individuals. A series of workshops on

the issue of safety practices will be conducted and a mass awareness campaign targeting mainly the youth, to disseminate knowledge and change perceptions and attitudes vis a vis public safety issues, in coordination with concerned ministries, municipalities, schools, universities... and through various mass media.

For more information about the Small Grants Program in Lebanon, visit:
www.worldbank.org/lb ***or contact***
Zeina El Khalil, zelkhalil@worldbank.org

An IDF Grant in Support of the National AIDS Program (NAP)

According to available data, Lebanon has a low HIV/AIDS prevalence rate, but there is also evidence that a number of risks exist for further transmission of the infection. Recent studies in the region have argued that the cost of inaction would be incalculable if efforts are not immediately exerted to prevent further transmission.

The Lebanese Government initiated efforts to address HIV/AIDS in the early 1990s when it established the National AIDS Program (NAP). Since then the Government of Lebanon has provided the NAP with the full political and financial support needed to carry out education and awareness activities, as well as care, including providing antiretroviral therapy to eligible patients.

Based on UNAIDS and the World Health Organization (WHO) data, it is estimated that the number of people living with HIV/AIDS in Lebanon in 2003 are 2,763. However, the many problems of data collection have led to uncertainties about the true extent of the epidemic in the country.

In 2003, with technical assistance from the World Bank, the National AIDS Program developed a National Strategic Plan (NSP) for 2004 to 2009 with four main priority areas including advocacy, monitoring, surveillance and evaluation. In May 2005, the World Bank and the Government of Lebanon signed an Institution Development Fund (IDF) grant to support the implementation of some of the NSP activities.

The purpose of this Grant is to assist the Government of Lebanon in developing a Monitoring and Evaluation (epidemiologic and programmatic) system. This Grant will enhance the capacity of the Government of Lebanon to plan, manage and implement HIV/AIDS prevention, care and treatment activities in the country. The Grant covers three major components: (1) developing a National HIV/AIDS Monitoring and Evaluation System with participatory approaches; (2) evaluation and strengthening of the current HIV/AIDS epidemiological surveillance system; and (3) developing guidelines for integrated prevention and care for vulnerable groups.

This Grant is the first World Bank IDF grant for the Middle East and North Africa Region that specifically addresses HIV/AIDS, an area that is still very much a taboo in the region. However, given Lebanon's ongoing activities in this area and readiness to tackle these issues, this Grant will contribute to the strengthening of the capacity of the Ministry of Public Health to sustain its efforts. Furthermore, the outputs of this Grant (e.g., manuals on HIV/AIDS Monitoring and Evaluation, evaluation of an HIV/AIDS surveillance system and guidelines on vulnerable groups' programs) can assist other countries in the region in implementing their HIV/AIDS programs. This IDF Grant will be implemented by the MOH/NAP with technical assistance from the World Health Organization (WHO) and in collaboration with other UN agencies of the Country's UN Theme Group on HIV/AIDS.

For more information about this IDF Grant, contact Ms. Hadia Samaha Karam,
hsamaha@worldbank.org

Structural Reforms Keys To Future Job Creation In The Middle East And North Africa

The Middle East and North Africa (MENA) region is experiencing an economic boom driven largely by soaring oil revenues, but this growth remains insufficient for addressing the region's daunting development challenge of creating jobs. The first in a series of Annual Reports that monitor major economic developments in the region, ***Middle East and North Africa Economic Developemnts and Prospects 2005*** says that close to 100 million new jobs will be needed over the next 20 years to absorb new entrants into the labor force and today's unemployed workers.

Over the last two years, economic growth averaged 5.6 percent in MENA, up from the 3.6 percent growth over the 1990s. This exceptional growth was steered by external factors—escalation in oil prices and a subsequent rise in oil production, which significantly boosted government consumption and investment. Moreover, this growth was concentrated in oil-producing countries that account for most of the regional growth acceleration. The Report points out, however, that in per capita terms, the growth upturn in MENA continues to lag behind most other regions of the world.

Structural Reforms Essential for Long Term Growth

The Report argues that, in order to meet the challenge of job creation, the region's economies need to be realigned along three fronts: (1) from closed to more open economies; (2) from a public sector-dominated to private sector-led economy; and (3) from an oil-dominated to a more diversified economy. However, the Report reveals that the MENA region has, by and large, not kept pace with worldwide progress in embracing structural reforms, as shown by its measurement of progress in reforms in the areas of trade, business environment and governance.

According to the Report, the MENA region has made great strides in trade reforms, motivated in part by regional and bilateral trade agreements. Two-thirds of MENA countries ranked above half of

all countries in the world in terms of reducing tariff and dismantling non-tariff barriers to trade. Progress was particularly strong in a few countries, including: Egypt, Jordan, Lebanon and Saudi Arabia. MENA's progress in improving the business environment, on the other hand, has been the weakest in the world. On average, MENA countries rank in the bottom-third of the world in terms of advancing a range of business regulatory and financial sector reforms. The pace of reform in politically difficult areas, such as judiciary, to improve enforcement of contracts has been particularly weak.

The Report also points to a lack of progress in improving governance, based on the twin criteria of quality of public administration and public sector accountability.

Iraq's Reconstruction Brings Economic Dividend to Region

The Report states that apart from the oil price shock, the war in Iraq and its reconstruction and reintegration represent the largest economic shock to the region in the past three to four years. From a regional standpoint, the initial economic impact of the war was limited, largely because Iraq was in many ways economically isolated from the rest of the region. In terms of Iraq's reconstruction, however, many countries in the MENA region are poised to reap numerous potential economic dividends, as a result of trade and business-related activities related to the reconstruction. Clearly, an improved security situation will need to occur to pave the way for greater progress on the reconstruction front.

Looking forward, the Report predicts that shifts in external factors will continue to shape the profile of the region's growth in the short run. Moderately easing oil prices, partially counterbalanced with European growth conditions, suggest growth will continue, particularly in the labor abundant diverse economies. Overall, regional growth is expected to average 4.9 percent in 2005, moderating to 4.3 percent in 2006.

The Report can be downloaded from:
www.worldbank.org/mna

Recent World Bank Publications

Pensions in the Middle East and North Africa: Time for Change (ISBN: 0-8213-6185-6 SKU: 16185). This is the first comprehensive assessment of pension systems in the Middle East and North Africa. While other regions—Central Asia, Eastern Europe, and Latin America, in particular—have been actively introducing reforms to their pension systems, Middle East and North African countries have lagged behind. This is explained, in part, by the common belief that, because demographics remain favorable—the countries are young and the labor force is expanding rapidly—financial problems are far in the future; as a result, pension reform does not have to be a priority in the broader policy agenda.

However, aging is not the only factor behind a financial crisis; the problem is the generosity of the current schemes. Moreover, badly designed benefit formulas and eligibility conditions introduce unnecessary economic distortions and make the systems vulnerable to adverse distributional transfers.

Leveraging WTO Accession to Design Strategy of Economic Reform for New Iraq (Working Paper Series 31217). Despite significant progress towards establishing institutional foundations of a market-based economy made over the last year in Iraq, the transition is far from complete. The challenge remains huge: what choice of institutional structures would offer incentives to maximize microeconomic efficiency, assure the allocation of resources to their best use and prevent easy policy reversals. Ultimately, the main challenge will be the choice of policies which will assure maximization of national economic welfare, rather than that of rents for the privileged few. The Paper proposes leveraging the WTO strategy to design a strategy of structural reforms and to draw on the experience of recent entrants to the European Union to design an institutional setting for the development and implementation of the strategy.

Global Monitoring Report 2005: Millennium Development Goals: From Consensus to Momentum (ISBN: 0-8213-6077-9 SKU: 16077). The year 2005 marks an important juncture for development as the international community takes stock of implementation of the Millennium Declaration—signed by 189 countries in the year 2000—and discusses how progress towards the Millennium Development Goals (MDGs) can be accelerated. The MDGs set clear goals for reducing poverty and human deprivation, and for promoting sustainable development. What progress has been made toward these goals, and what should be done to accelerate it? What are the responsibilities of developing countries, developed countries, and international financial institutions? *Global Monitoring Report 2005* addresses these questions.

Global Development Finance 2005 (Complete Print Edition): Mobilizing Finance and Managing Vulnerability (ISBN: 0-8213-5985-1 SKU: 15985). *Global Development Finance 2005 I: Analysis and Statistical Appendix* addresses two key challenges in development finance: first, how to raise resources flowing to low-income countries, which are heavily constrained in their access to market-based finance; and second, how to manage the vulnerability inherent in developing countries' access to finance—vulnerability stemming from changes in the global macro environment, as well as from shifting donor priorities (affecting aid and concessional finance) and changing debt dynamics in developing countries.

Global Development Finance 2005 II: Summary and Country Tables includes a comprehensive set of Tables of data for 136 countries which report under the World Bank Debtor Reporting System, as well as summary data for regions and income groups. It also contains data on total external debt stocks and flows, aggregates, and key debt ratios, and provides a detailed, country-by-country picture of debt. *Global Development Finance 2005* debt data are also available on CD-ROM and online, with more than 200 historical time series from 1970 to 2003, and country group estimates for 2004.

Measuring Empowerment: Cross-Disciplinary Perspectives (ISBN: 0-8213-6057-4 SKU: 16057). Poverty reduction on a large scale depends on empowering those who are most motivated to move out of poverty—poor people themselves. But if empowerment cannot be measured, it will not be taken seriously in development policy-making and programming.

Building on the award-winning *Empowerment and Poverty Reduction* sourcebook, this volume outlines a conceptual framework that can be used to monitor and eval-

uate programs centered on empowerment approaches. It presents the perspectives of 27 distinguished researchers and practitioners in economics, political science, sociology, psychology, anthropology, and demography, all of whom are grappling in different ways with the challenge of measuring empowerment. The authors draw from their research and experiences at different levels, from households to communities to nations, in various regions of the world.

World Development Report 2005 (Arabic): A Better Investment Climate for Everyone (ISBN: na SKU: 31892). Firms and entrepreneurs of all types—from micro enterprises to multinationals—play a central role in growth and poverty reduction. Their investment decisions drive job creation, the availability and affordability of goods and services for consumers, and the tax revenues governments can draw on to fund health, education, and other services.

The *World Development Report 2005* argues that improving the investment climates of their societies should be a top priority for governments. Drawing on surveys of nearly 30,000 firms in 53 developing countries, country case studies, and other new research, the Report explores questions such as:

- What are the key features of a good investment climate, and how do they influence growth and poverty?
- What can governments do to improve their investment climates, and how can they go about tackling such a broad agenda?
- What has been learned about good practice in each of the main areas of the investment climate?
- What role might selective interventions and international arrangements play in improving the investment climate?
- What can the international community do to help developing countries improve the investment climates of their societies?

Decentralization and Service Delivery (Working Paper Series 3603). Dissatisfied with centralized approaches to delivering local public services, a large number of countries are decentralizing responsibility for these services to lower-level, locally elected governments. The results have been mixed. The Paper provides a framework for evaluating the benefits and costs, in terms of service delivery, of different approaches to decentralization, based on relationships of accountability between different actors in the delivery chain. Moving from a model of central provision to that of decentralization to local governments introduces a new relationship of accountability between national and local policymakers, while altering existing relationships, such as that between citizens and elected politicians. Only by examining how these relationships change can we understand why decentralization can, and sometimes cannot, lead to better service delivery. In particular, the various instruments of decentralization, (fiscal, administrative, regulatory, market, and financial), can affect the incentives facing service providers, even though they relate only to local policymakers. Likewise, and perhaps more significantly, the incentives facing local and national politicians can have a profound effect on the provision of local services. Finally, the process of implementing decentralization can be as important as the design of the system in influencing service delivery outcomes.

The Role of Factoring for Financing Small and Medium Enterprises (Working Paper Series 3593). Around the world, factoring is a growing source of external financing for corporations and small and medium-size enterprises (SMEs). What is unique about factoring is that the credit provided by a lender is explicitly linked to the value of a supplier's accounts receivable and not the supplier's overall creditworthiness. Therefore, factoring allows high-risk suppliers to transfer their credit risk to their high-quality buyers. Factoring may be particularly useful in countries with weak judicial enforcement and imperfect records of upholding seniority claims because receivables are sold, rather than collateralized, and factored receivables are not part of the estate of a bankrupt SME. Empirical tests find that factoring is larger in countries with greater economic development and growth and developed credit information bureaus. In addition, the author finds that creditors' rights are not related to factoring.

TradeCAN 2005 (ISBN: 0-8213-5940-1 SKU: 15940). TradeCAN 2005 is a comprehensive database and versatile toolbox for the analysis of the competitiveness of nations. It is based on the official United Nations international trade statistics, using the four-digit standard international trade classification. It covers the period 1985-2002 for all exporter countries and incorporates 90 percent of world trade. Around the central concept of "market share," TradeCAN offers novel indicators of the quality, structure, and performance of international trade specialization of nations.

TradeCAN 2005 also contains a user-friendly interface that allows rapid data retrieval and easy report preparation. The "Exercises Guide" provides essential information regarding origin and coverage of the dataset, formulas, and more. The set of exercises is designed so that the reader becomes familiar with the system by using it and guides users, step by step, through the query and report options.

Annual World Bank Conference on Development Economics 2005: Lessons of Experience (ISBN 0-8213-6021-3). The Annual Bank Conference on Development Economics (ABCDE) is one of the world's best known series of conferences for the presentation and discussion of new knowledge about development. First held at World Bank headquarters in Washington, D.C. in 1988, the ABCDE has become broader in scope as the world's economies have become more interconnected and challenges have become more complex.

This year's volume, Annual World Bank Conference on Development Economics 2005, presents selected papers from the 16th ABCDE meetings, held in May 2004. It reviews the lessons of 60 years of development experience, addressing key topics such as infrastructure, behavioral economics, trade, poverty, and globalization. The volume is a critical reference guide for development research and will be of interest to practitioners and those studying international development and poverty reduction.

Conditionality Revisited: Concepts, Experiences, and Lessons. (ISBN 0-8213-6013-2). Why revisit conditionality? The tension between country ownership and conditionality emerged as a central issue in the debates about policy-based lending. Over the past quarter century, the development community has learned from the experience with policy-based lending around the world. Among the most important lessons are that conditionality cannot substitute ownership.

The approach to conditionality has shifted away from the old model of the 1980s, but has not yet settled on a new one. While there is now generally more recognition of the importance of ownership, a stronger focus on development results and greater selectivity based on country performance, there are still different views and approaches among the international financial institutions, bilateral development partners, recipient governments, and critical observers.

Conditionality Revisited takes stock of recent experience with these new approaches to conditionality over the last few years, and discusses a number of key questions. Is there still a useful role for conditionality? What is the right balance between ownership and conditionality? How has conditionality changed with the streamlining efforts of the World Bank and the International Monetary Fund? How has the content and focus of conditionality evolved? What has been the experience with different types of conditionality, and do they matter—be it ex-ante, programmatic, process-oriented, or outcome-based conditionality? How can we make partnerships in conditionality more effective? This volume of contributions by authors from a wide variety of backgrounds aims to make a contribution to the ongoing debate on development effectiveness and the future shape of conditionality.

Also available:

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