THE REPUBLIC OF LEBANON

34606

The World Bank Group

FIRST QUARTER 2004

A Quarterly Publication of the Lebanon Country Office

Lebanon Quarterly Update

In this edition

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With special thanks to Mary Saba

EDITORIAL

MOVING FORWARD IN LEBANON THROUGH PUBLIC DISCOURSE!

Since the end of the Civil War, Lebanon has made great strides towards rebuilding its infrastructure and maintaining its internal stability. In spite of these considerable achievements, however, Lebanon's mission is far from accomplished. Indeed, future measures will be critical for both putting its economy on a sustainable path towards growth, as well as ensuring its social stability and cohesion.

But, trying to predict the future in Lebanon over the medium term is an increasingly treacherous undertaking, tantamount to trying to predict the weather in England on any particular day! Indeed, as part of the World Bank's Country Assistance Strategy (CAS) exercise, the World Bank team in Lebanon has been working on various possible scenarios for the development of Lebanon's economy over the next four years, and implications for World Bank programs in Lebanon. The sources of uncertainty are considerable: international market uncertainty; regional political instability; local macro-economic imbalances; imminent Presidential elections in the Fall of 2004; a subsequent change in the Government of Lebanon's Executive Branch in the Winter of 2004; and finally the Government of Lebanon's Parliamentary elections in the Spring of 2005.

In Lebanon, therefore, it is hardly surprising that the private sector and civil society show signs of anxiety about the future. While these groups are confident in Lebanon's capacity (in terms of its access to capital, entrepreneurship, and skills) to overcome its predicament, they are less confident in the ability of the political process to both lead and implement a consensus on a reform package.

All stakeholders in the future of Lebanon have an opportunity, perhaps an obligation to the country, to reduce the uncertainty associated with the transition. Obviously, international and regional factors are beyond Lebanon's control. But, the Lebanese reform agenda ought to be at the center of the current debate. Even if views differ on the best means to help Lebanon overcome its predicament, a broad based agreement on the ends can go a long way to reassure the public.

What the public needs is not a promise of a future miracle. It needs straight talk and credible commitments on the road ahead: the impending challenges; the possible solutions; the costs involved; the sharing of the costs; and the way to recovery and growth. Admittedly, such straight talk is very difficult in an election year: candidates of any persuasion would be loathed to talk about the pain of a transition period. But, if coupled with straight talk about the cost of paralysis and no action, and straight talk about all the gains which would be realized from an aggressive period of reforms which Lebanon sorely needs, the Lebanese public is smart enough to listen. Now, some cynics may argue that the airwaves are jam-packed with political pundits discussing a host of public policy issues (privatization, the debt, the budget, social programs, etc.).yet, while this is certainly true, these issues tend to be presented as individual instruments, as transactions, and outside the context of the necessary bundle of public policy measures and reforms.

At least four axes of public policy issues present themselves for discussion. The first axis for public discourse is governance itself. The emphasis here is not on corruption per se-- as important as it is. After all, corruption is a symptom of a deeper problem of weak institutions of accountability, checks, and balances. The emphasis is rather on: first, cementing all the gains that the Lebanese already have in terms of rights and freedoms; and second, the long agenda of pending reforms on public accountability, civil service and administrative reforms - all critical for ending the state of malaise in the public sector and creating a nimble government that is capable of responding effectively to challenges and taking advantage of arising opportunities.

The second axis for public discourse is macro economic management. The challenge for the next government is to: (a) bring the country's indebtedness on a clearly declining trend through fiscal discipline and debt management; and (b) move aggressively to remove the constraints to sustainable growth. The two are related-- reducing debt to GDP requires strong growth, but strong growth, in turn, requires interest rates to fall, among other things (see the following article on Lebanon's Debt Crisis by M. Nabli).

The third axis for public discourse is the broad area of social programs and poverty alleviation, including employment generation, health, education, and a well functioning social safety net. The poor and near-poor

are particularly vulnerable during periods of economic adjustment even though they are not directly exposed to the financial sector. Even when a country manages to successfully shelter the economy against crises, the poor still suffer disproportionately from the impact of fiscal contraction. This requires a concerted policy to mitigate the adverse consequences on these segments of society. This is not only necessary for its own sake, but also a way to build social consensus around the recovery program.

The fourth axis for public discourse is natural resources and the environment. Typically, and during difficult transition periods, many capital investments and maintenance operations of a public good nature tend to get postponed. While this might be unavoidable in a context of fiscal contraction, it might cause degradation to the natural environment that is difficult to reverse. The risk is especially high for the contamination of ground water aquifers, pollution of coastal areas, and improper disposal of solid waste. It is important to raise public awareness on the irreversibility of much of this damage and create the support for investment and maintenance in these areas in the interest of future generations.

The core of these axes is technical and experts need to take the lead in formulating proposals. But most questions are in the nature of public choice and lend themselves to national public discourse. International experience shows, that a well informed public behaves much more responsibly than one that depends on tabloid news and rumors. Thus, Parliamentarians, representatives of civil society, and the public at large need to better understand the social implications, the share of burden and the tradeoffs involved, and make informed choices.

No international prescriptions/measures can substitute for local consensus. Along with international, regional, and local partners of Lebanon, however, the World Bank can play an outside role as a catalyst who poses questions and provides international experience. It is our hope that through such a partnership and the tremendous international goodwill, Lebanon can take the lead to forge a consensus that reduces uncertainty and enhances a common vision for a prosperous future.

Lebanon's Public Debt and the International Experience

By Dr. Mustapha Nabli

Chief Economist
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Most countries are indebted, and public debt is not necessarily a problem. The danger lies in the ability to sustain the debt, whether in terms of its ratio to the Gross Domestic Product, or when measured according to other indicators such as the consolidated deposits in private banks. Public debt is sustainable when a Government is able to pay the debt-servicing bill without having to resort to radical economic policy changes, especially on financial front. This depends on the level of economic growth and the Government's ability to increase its revenue. In the case of Lebanon, there is unanimous agreement that the debt is no longer sustainable.

The debt dynamics are such that the Government, sooner or later, will no longer be able to service it. Although Lebanon has witnessed a remarkable ability to adopt and benefit from international developments, it does not mean that it is shielded. To the contrary, the Lebanese have to wake up to the reality that sooner or later they will to confront the public debt dilemma.

Since the end of the war, impressive reconstruction efforts were made - yet Lebanon continues to face important macro-imbalances, which hamper growth, job creation, and social development. In the face of its insolvency, Lebanon appears to be resilient to crisis, but not eternally immune. It can count on structural factors (dedicated Diaspora, international support, and efficient financial system to provide the necessary liquidities), as well as on a favorable external environment (high oil prices which impact the economic growth in the whole region, interest rates low). But risks of financial crises in Lebanon cannot be ruled out. Although soft loans pledged at Paris II have sharply reduced the risk in the foreseeable future, some characteristics of the Lebanese financial sector make it crisis-prone, with a combination of: (i) Very high degree of financial intermediation (ii) Capital account openness (iii) Concentration of banks' liabilities (iv) Highly indebted Government (v) High exposure of commercial banks to sovereign debt.

First Lesson: Ex-post adjustment is both tough and costly

Economic cost of ex-post adjustment is high. The average cost of an emerging market currency crisis is estimated at 8 percent of cumulative foregone GDP growth, rising to 18 percent if coupled with a banking crisis. The cost of a banking-cum-monetary crisis could rise to more than 30 percent (Mexico 1982, Indonesia 1998, Argentina 2002).

The poor bear the brunt of ex-post adjustments. Financial crises originating from either domestic or external factors (contagion) can have a deep impact on the social fabric of developing countries. Crises hurt the poor and others, but the decline is more devastating for the poor because they typically have meager savings and lack of access to both public or market social protection and insurance. Recent experience shows that financial crises are normally followed by an increase in poverty levels and income inequalities, even though the poor are generally not directly exposed to the financial sector (low deposits, low detention of financial assets, low direct participation –jobs or capital– to the financial sector). Risk-averse workers have little to gain from open capital accounts in good times, still they stand to lose more in times of crises. In some extreme cases (Argentina, 2002) the entire middle class slipped into poverty with poverty rate rising from 38 to 57 percent of the population between 2001 and 2002.

Comparative statistics on growth and poverty during crises

	GDP growth	Poverty growth
Indonesia 1998	-13.1%	20.0%
Korea 1998	-6.7%	65.2%
Malaysia 1998	-7.4%	20.9%
Thailand 1997	-1.4%	24.0%
Argentina 1995	-2.8%	22.7%
Mexico 1995	-6.2%	23.7%
Argentina 2002	-10.9%	50.1%

Source: World Bank

Second Lesson: Ex-ante action helps offset the high costs of ex-post adjustment

International experience indicates that the punishment exacted by the market in ex-post situations is many times worse than the crime. The reason is that lenders and depositors panic, withdraw their savings and cause the financial system to swiftly shut down. This makes a recovery virtually impossible for many years. Assets depreciate, wages decline and unemployment rises. The 1930 Great Depression is a classic case that resulted in a decade of lost productivity and widespread unemployment and poverty. This collapse forced the introduction of new foundations for modern institutions to address the potential causes of crisis before the collapse of the banking sector and to pre-empt the spread of panic and fear. These institutions are the consequence of the implementation of both, modern macro-economic policy, banking supervision rules and principles of prompt ex-ante intervention . History shows that , in the case of the Great Depression, the decline stopped only with the outbreak of World War II.

For all the reasons exposed above, most countries now act to intervene decisively through painful ex-ante measures to resolve or avoid ex-post adjustment. In modern history, successful measures of ex-ante adjustment were introduced in Brazil or Hungary in the 1990s. Turkey is another recent example, where the adjustment remains under way.

The tough ex-ante measures would inevitably inspire recession, but they remain less painful than the ex-post forces of the market. The U.S. experience of the 1980s, compared to that of Japan in the 1990s, offers a striking example of the results of the ex-ante measures as opposed to the high cost of ex-post adjustment. Amid clear signs of a savings and debt crisis, in the 1980s, the U.S. government introduced swift actions, which were both painful and costly, reducing the GDP over three years by 4%. But this was significantly better than the ex-post outcome in Japan of the financial system's inability the redress the debt crisis, where the depression and a protracted deflation lasted a decade, causing massive economic losses. Comparing Brazil to Argentina offers another classic example of ex-ante versus ex-post resolutions. Brazil, which was grappling with a stifling debt crisis, introduced tough ex-ante fiscal, financial and privatization measures to prevent an ex-post crash. In contrast, Argentina, its neighbor, was ultimately unable to create the political climate needed for the resolution of its debt and financial system imbalances and has been heavily taxed by ex-post resolutions, which pushed more than half of its once affluent middleclass into dire poverty.

Why do some countries adjust ex-ante, while others do not ? Conditions differ from one country to another, although some lessons can be drawn from the international experience. Most countries act early, but others do not. The reasons for such behavior are many.

Among other reasons, they might range from fears that policy change would increase moral hazard for politicians, to alleged geopolitical importance of a country, to expectations of a bailout by external creditors or foreign institutions, (as witnessed in Argentina, Mexico, Bolivia, Ecuador, Turkey). In some cases, expectations of a miracle or unexpected positive developments run high. In many cases, the lack of experience and absence of precedents limit the ability to predict early on the consequences of an imminent crisis. But more often, it is the political inability of countries to put their own house in order that is the fundamental reason. It is the inability to forge a political consensus needed to undertake swift and painful ex-ante fiscal and financial measures, which would be shouldered equitably by all segments of the society. Comparing Indonesia to South Korea is a good example of the consequences of an inability to act, even after a crisis occurs. Only in rare cases, when a financial system is shallow and the main cause for the crisis is a shortage in foreign liquidity rather than insolvency, the cost of ex-post solutions can be limited, such as the Russian example.

Third Lesson: Political understanding is important to avoid crisis–Beirut I, not Paris III

By all accounts, reducing the debt is a political-economic challenge. Good technical solution cannot suffice. Lebanon faces difficulty to adjust ex-ante because the adjustment is politically painful. The Paris II package might have stumbled because it did not enjoy broad-based support. Experience shows a fragmented government is incapable of defining clear goals for the reform process or proceeding with it. In recent years, progress has been achieved to curb the debt dynamics, but this was not sufficient to stabilize the debt to GDP ratio. Much remains to be done to trigger a strong decline in the ratio of the debt to the GDP. The fiscal consolidation effort was enormous, there are clearly limits to its effectiveness and this is starting to show. Privatization is helpful, but as part of a full fiscal package.

Who would shoulder the cost? Each segment of the society would seek to have the other pay the price of adjustment. It is the prisoner dilemma where all segments will lose in the end if each side sought to evade the cost. But the losses would be significantly reduced if spread across the society under a clear, pre-emptive strategy. For an adjustment to be politically viable, those who had benefited from the debt – especially the more prominent lenders - would have to contribute to the cost of adjustment in a manner proportional to the profits earned. The fact that Lebanon's debt is largely domestic is helpful in this regard, as it is in the interest of creditors to maintain financial, social and political stability. In other words, it is in their interest to sit at the table and discuss possible solutions, rather than flee. Fiscal consolidation costs should be equitably distributed across groups (civil servants, tax payers), and privatization should benefit to the population (cheaper utility costs, debt proceeds used to reduce the debt stock). Social safety nets for the more vulnerable groups of society have to be secured.

Sharing costs requires an open debate and credible commitments to generate broad-based support for the reform. The ingredients of a credible commitment are: clear objectives, an action plan, a timetable, public monitoring of progress indicators, and full accountability for results. International experiences show that successes and failures to adjust through reform are characterized by:

FAILURES	SUCCESSES
Divided government	Cohesive government
Unaccountability	Accountability
Inconsistent objectives	Credibility
Soft targets	Hard targets
Losses shared inequitably	Losses distributed evenly
Social protection weak	Social protection reinforced

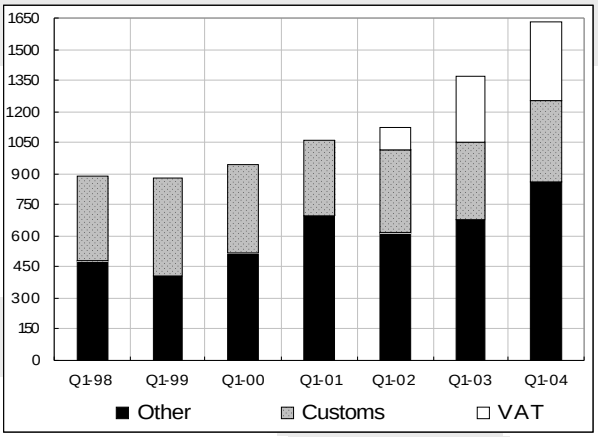
This assessment embodies the current situation in Lebanon, where waiting for a miracle is futile and reliance on outside factors or emergency foreign support will not pay. The Lebanese have to look inwards and endeavor to achieve a solid internal agreement on reform, which is inevitable. In other words, the Lebanese need to work for a Beirut-I, instead of aspiring for a Paris III.

ECONOMIC DEVELOPMENTS IN THE FIRST QUARTER OF 2004

The First Quarter of 2004 confirmed the acceleration of economic activity recorded during the second half of 2003. Various indirect indicators point to a steady pick up of economic activity: trade, tourism or construction activities compared with a year ago or the last quarter of 2003.

This is good news in itself, but also for government's accounts, which improved remarkably. The consequence of greater economic activity, indirect taxes rose significantly, by 12 percent in the First Quarter 2004 compared with a year ago. Combined with (i) increased non tax revenues from public enterprises, (ii) a containment in primary expenditures, and (iii) the decrease in the debt service stemming from Paris II-related restructuring efforts, the deficit in the First Quarter 2004 was lower than (ex-post) budgeted. Should primary expenditures continue to be contained in 2004, the debt to GDP ratio could eventually stabilize at its 2003 level.

Figure 1. Revenues of the First Quarter (LBP billion)



Source: World Bank staff calculations based on MoF.

But Lebanon's economy is not out of trouble. In the absence of additional adjustment, debt would revert rapidly to an unsustainable path. The current public deficit remains far too high to stabilize the debt over the medium term, and the situation could be aggravated by a less favorable external environment. The rise in global interest rates is looming, and could impact the government's borrowing costs. Besides, the impact of imported inflation could be felt on real interest rates, the balance of payments and fiscal accounts.

Additional fiscal reforms are needed to push the debt ratio on a steep declining slope and restore a macroeconomic environment more conducive to growth. Lebanese authorities are fully cognizant of the need to reduce fiscal imbalances and have already undertaken major efforts in this regard, mainly through increased tax collection, debt restructuring, and the adoption of privatization laws. Yet, debt sustainability analyses suggest that privatizations and tighter debt management will not suffice to put the debt to GDP ratio on a steep declining curve, unless accompanied with higher primary surplus than budgeted in 2004. The level of the primary surplus needed to stabilize the debt to GDP ratio varies over time, depending on interest rates and GDP growth, and is therefore difficult to accurately identify. What is nonetheless clear is that the current primary surplus (at around 3 percent of GDP) is too small to bring down the debt ratio to a level that is much lower than the present one.

Further tax hikes and lower public expenditures are obviously costly for the society. As such, support for economic reform can only be gained if (i) the risks of inaction are clearly spelled out and understood and (ii) the burden of the adjustment equally shared among the entire population. Beyond technical solutions or reverting to the international community for additional financial assistance, Lebanon will fix its imbalances through greater consensus on the pace and design of fiscal reforms.[1]

REAL SECTOR DEVELOPMENTS

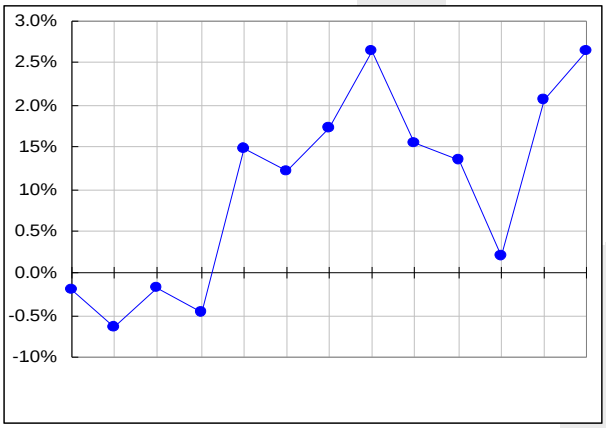
The regrettable absence of updated economic statistics precludes the rigorous monitoring of economic activity. Not only are national accounts missing, but also up- to-date information on households' living conditions and unemployment are nonexistent, which makes any policy step speculative. The World Bank is encouraged by recent efforts by the government to develop quantitative information, notably regarding national accounts and households' living conditions. Government efforts should be sustained to make permanent the production and dissemination of reliable statistics in these fields, as a critical element for good governance.

[1] See World Bank's Chief Economist address on the topic in the same issue (page 4).

The coincidence indicator from the Central Bank recorded in the First Quarter of 2004 an 8.6 percent annual growth rate[2], up from 6.5 percent 3 months earlier. This surge clearly reflects an increase in economic activity, in real and nominal terms. Indirect indicators notably suggest a strong acceleration in construction and tourism activities in the First Quarter 2004. Construction permits and cement deliveries grew respectively by 35 and 45 percent compared with the First Quarter 2003. The number of tourists also was one-third higher in the First Quarter of 2004 than that of the First Quarter of 2003. This confirms the structural increase in tourism activity in recent years. Although significant, these increases should be somewhat discounted by the fact that the period of comparison, First Quarter of 2003, was one of utmost prudence for investors and tourists amid a looming war in Iraq.

While growth in domestic demand was until recently sustained by public consumption, private sector absorption apparently became its main driver in the First Quarter of 2004. Public consumption (primary expenditures, Budget plus Treasury) grew by 5 percent in nominal terms in the First Quarter of 2004, compared with the First Quarter of 2003 (see Table 1). During the same period, imports rose by 14 percent, and VAT receipts by 20 percent. Under the assumption of a VAT collection rate on imports at its level of the last Quarter of 2003, we estimate that private absorption could have grown up by at least 5-6 percent in the First Quarter of 2004 compared to the same period last year.

Figure 2. Quarterly evolution of the CPI

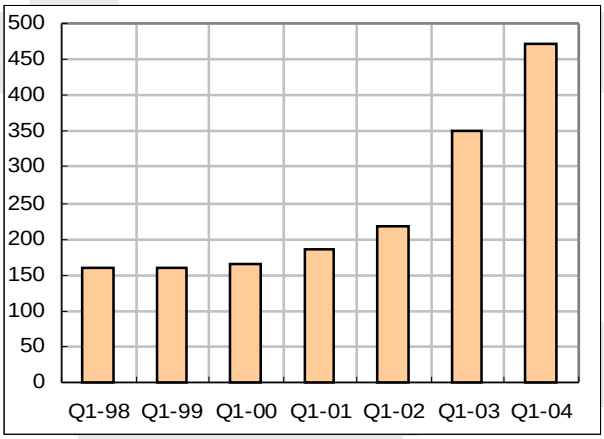


Source: World Bank staff calculations based on CRI.

Part of the increase in private absorption could reflect an acceleration in price inflation. While imported inflation[3] so far has been contained (maybe due to the contraction of importers trade margins in a context of depressed domestic demand), the acceleration of domestic demand could entail quicker inflation in 2004. Consumer price data from the Consultation and Research Institute suggest an acceleration of inflation in the First Quarter of 2004. The annual rhythm of inflation was at 3 percent in this period, compared to 2 percent in the last quarter of 2004. Also, once corrected for seasonality effects, we estimate that prices could have risen by 2 percent between the last Quarter of 2003 and the First Quarter of 2004.

The recent rise in oil prices (and other raw commodities) could further accelerate consumer price inflation in Lebanon. Accounting for direct and indirect transmission effects of international oil prices on the Lebanese market, we estimate that a 10 percent increase in the oil barrel price could add 0.4 to 0.7 percentage points to the Consumer Price Index.

Figure 3. Quarterly exports of goods
(US$ million)



Source: World Bank staff calculations based on Customs.

Merchandise exports, on the other hand, continued to grow. Compared with the First Quarter of 2003, export receipts grew by 34 percent in the First Quarter of 2004. This confirms the structural increase in export activity over the past two years. Exports of base metals, machinery equipment and electrical instruments amounted to two thirds of the increase.

[2] The same coincident indicator, when excluding growth in money supply (M3) from its calculation, grew by 7.7 percent in annual rhythm (March 2004-April 2003, compared with March 2003-April 2002), against 5.1 percent in the calendar year 2003 compared with 2002.

[3] Since July 2001, the Lebanese Pound depreciated 42 percent vis-a-vis the Euro. Out of the 14 percent increase in import values (in US$) between Q1-03 and Q1-04, approximately half of it results from the sole appreciation of the Euro.

MACROECONOMIC IMBALANCES

Parliament endorsed the 2004 budget in April, with little change to the Cabinet's draft. The budget was approved by a slim majority of 65 deputies (out of a total of 128). The budget foresees a deficit of approximately 11 percent of GDP (down from 14 percent in 2003), mainly as a result of lower debt service and Treasury expenditure. The budget does not envisage major tax reforms, nor does it foresee privatization proceeds. Hence, this budget represents a major departure from the Government's recovery plan presented at the Paris II conference in November 2002, and spelled out in the budget law 2003.

Table 1. First Quarter Public Finances
(US$ million)

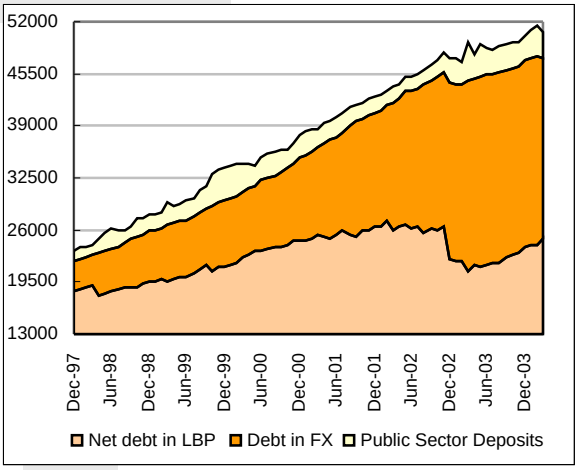
	2002	2003	2004
Total Receipts	**812**	**986**	**1,141**
Tax Revenues	526	644	771
VAT	73	210	252
Customs	260	244	258
Other tax revenues	193	190	261
Other	219	262	313
Treasury Receipts	**67**	**80**	**57**
Total Payments	**1,437**	**1,606**	**1,525**
Excluding Debt Service	446	436	498
Debt Service	640	655	530
In LBP	511	441	310
In FX	129	214	221
Treasury payments	352	515	496
Surplus/Deficit	**-625**	**-620**	**-384**
Primary Surplus	**14**	**35**	**147**

Source: Ministry of Finance

Public revenues are on the rise. Budget revenue increased by 20 percent during the First Quarter 2004, in comparison with the First Quarter 2003. During the same time, Treasury revenue decreased by 29 percent. The increase in Budget revenue is notably linked to (i) the rise in phone subscription fees, (ii) the lowering of the VAT threshold and (iii) the rise in the value of imports (hence import tax receipts). The increase in non-tax revenue, which includes revenue transfers from the Ministry of Telecommunications, contributed 28 percent to the total increase. Additional VAT receipts contributed another 24 percent, and custom duties 8 percent. The increase in other tax revenue explained the remaining 40 percent of the total increase. This is notably due to the full effect in the First Quarter 2004 of the 5 percent tax on deposits' interests introduced in February 2003. Additionally, its tax base widened between the First Quarter of 2003 and the First Quarter of 2004 for two reasons: first, interest rates declined 11 percent between the First Quarter of 2003 and the First Quarter of 2004, while deposits grew 15 percent during the same period; second, while interest rates on U.S. dollar denominated deposits are lower than interest rates on LBP deposits, which increased on average by 25 percent between the First Quarter of 2003 and the same period this year. In comparison, interest rates on U.S. denominated deposits rose by (only) 10 percent. The result of good fiscal performance translated into revenue collection in the First Quarter of 2004 amounting to a little more than a quarter of budgeted annual public revenue (Budget plus Treasury), compared to less than 22 percent in the same period last year.

Containment of public expenditures. Total public expenditures decreased by 5 percent as a result of a 19 percent decrease in debt service and a 5 percent increase in expenditures other than debt service (primary expenditures, Budget plus Treasury). Expenditures in the First Quarter of the current year amounted to 23 percent of budgeted figures, the same ratio as that in the First Quarter of 2003.

Figure 4. Gross Public debt
(LBP billion)



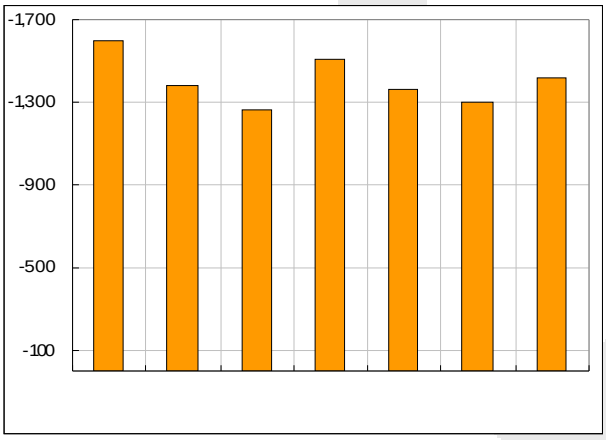
Source: World Bank staff calculations based on ABL.

Debt at end-March reached LBP 50,681 billion (US$33.6 billion). The debt increased by 2.5 percent over the past year. Between end 2003 and March 2004, the debt decreased by US$544 million following the reimbursement of maturing eurobonds. As a result of this reimbursement, the share of the debt denominated in foreign currency accounts now accounts for 45 percent of total debt against 48 percent in March 2003.

A second critical element of macro-economic stability is the evolution of the Balance of Payments (BoP). The BoP (as measured by the variation in banks' foreign assets) deteriorated in the First Quarter of 2004 (compared with the First Quarter of 2003), as a result of a widening trade deficit and lower net (public plus private) capital inflows.[4] In percentage, exports grew by 34 percent and imports by 14 percent, but, in value, exports increased by US$120 million while imports rose by US$240 million. This entailed a 9 percent increase in trade deficit compared with the First Quarter of 2003. The current rise in oil prices could add pressures on the trade balance in the months to come.

The increase in the trade deficit was nevertheless somewhat offset by greater private capital inflows (including good tourist receipts). Net capital inflows reached US$2.15 billon in the First Quarter of 2004 against US$4.13 billon in the same period last year. This includes US$2.20 billion of Paris-II funding (and hence approximately US$1.93 billion worth of net private capital inflows in the First Quarter 2003). Tourism receipts are believed to have substantially contributed to the rise in net private capital inflows. Despite the lack of figures on tourism receipts, the 21 percent increase in passengers arriving at Beirut International Airport and the 33 percent increase in the number of tourists are significant indicators of a rise in tourism activity.

Figure 5. Trade deficit
(US$ million)



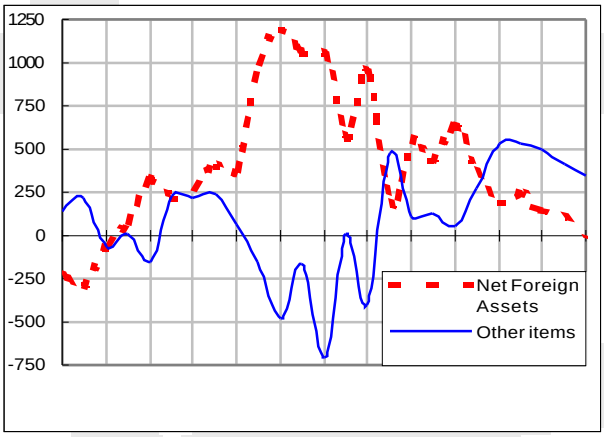
Source: World Bank staff calculations based on BDL

Signs of the end of the Paris-II financial dynamics are obvious. The large capital inflows and substantial increase in reserves triggered by the Paris-II financial engineering are over. Deposits have increased by 2 percent since the end of 2003, but dollarization rates have been slightly reversing. Consequently, foreign currency reserves are stagnating, with a slight decrease from US$10.2 billion in December 2003 to US$10.1 billion in March 2004.

Financial Developments

The growth in money supply is still robust, but on a declining trend. Continued rapid money supply growth is critical to finance future Government deficit. Money supply M3 (Resident deposits in LBP and foreign currency + currency in circulation) grew by 1.6 percent since the end of 2003, that is, at a slower pace than the 1.9 percent experienced between the end of 2002 and March 2003. The slight deceleration in money supply growth stems mainly from lower capital inflows, which peaked a year ago, but have since begun diminishing. Such a decline was partially offset by higher domestic credits.

Figure 6. Counterpart of Money Supply
3 months moving average (M3, LBP billion)

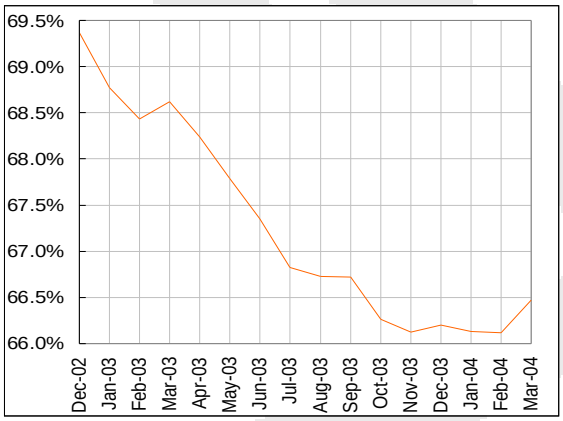


Source: Word Bank staff calculations based on BDL.

Dollarization rates are stabilizing. The continuous decline in the dollarization rates that have been observed since June 2002 was put to an end in early 2004. This stabilization is concomitant to the facts that (i) the growth in banks' foreign assets decelerated and (ii) the spread between deposits' remuneration in U.S. Dollars and LBP continued to narrow in the First Quarter of 2004 (by 33 basis points on average).

[4] As measured by the sum of the trade deficit and the variation in bank's foreign assets.

Figure 7. Dollarization of Deposits



Source: Word Bank staff calculations based on BDL.

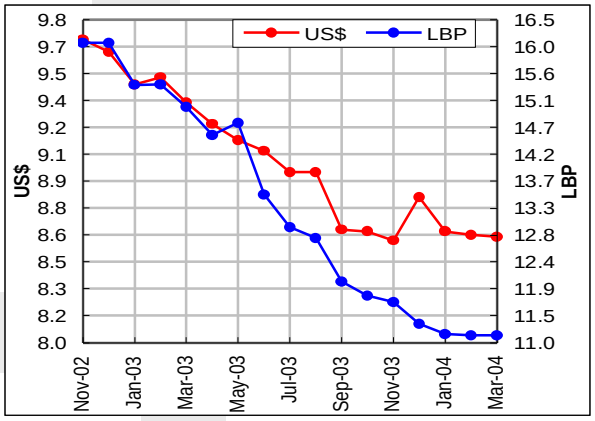
The emission of new eurobonds in May was very successful. In May 2004, the government issued US$1.3 billion worth of Treasury bills labeled in foreign currencies (US$ and Euro), which were successfully absorbed by the market. The extent to which these emissions were financed by available domestic savings or new capital inflows is still unknown (as of the writing of this note). As a result, the Treasury shall not face any major difficulty to roll-over the foreign debt maturing in the second half of 2004.

Banks' portfolio structure of public bonds is evolving. Over the last, commercial banks have slightly modified the nature of their financial engagements vis-à-vis the sovereign risk. In the face of limited new emissions of T-bills, banks have invested most of their Lebanese Pounds liquidities in Certificates of Deposits to the Central Bank (portfolio was multiplied by 5.9 between the First Quarter of 2003 and the same period this year). During the same period, the government resorted to Central Bank financing, and the T-bills portfolio of the latter rose by LBP 7,000 billion (US$4.6 billion). Conversely, commercial banks seemingly subscribed massively to the emissions of new eurobonds. Consequently, the share of foreign currency-labeled government bonds in total banks assets is believed to have increased substantially.

Public debt's profile also is evolving. In March 2003, the average maturity and yields over the foreign currency denominated debt were respectively 6.3 years and 7.4 percent, compared with 6.1 years and 7.7 percent in March 2004. In other words, the yield curve moved upwards within a year. As far as the Lebanese Pound-denominated public debt is concerned, an opposite trend emerged: average yields dropped from 13.0 to 8.8 percent between March 2003 and March 2004, while average maturity rose from 1.0 to 1.1 years. These changes illustrate to a large extent the fact that the tension (the gap between supply – the deposits, and demand –government borrowing) was more pronounced on foreign currency- denominated debt instruments than on LBP ones.

Interest rates stagnate. The decline in lending interest rates observed since Paris II was not prolonged over the First Quarter 2004. This stagnation is concomitant to a decelerated growth in money supply, and a forceful comeback of the Treasury (through its emissions of Eurobonds and Treasury bills) on the domestic financial market in the First Quarter 2004.

Figure 8. Average lending rates
(percent)



Source: Word Bank staff calculations based on ABL.

BANK GROUP OPERATIONS

IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of 13 Projects for a total commitment amount of US$534.75 million, of which US$220.56 million has been disbursed through May 31, 2004.

Irrigation Rehabilitation and Modernization Project (IRMP). (US$57.23 million). The Project is designed to help increase agricultural production, agriculture-based income and employment in previously neglected rural areas, and achieve improved sustainable management of water resources.

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.

Health Sector Rehabilitation Project (HSRP). (US$35.7 million). The objective of this Project is to improve Lebanon's health conditions through better allocation and use of resources in both the public and private sectors.

Solid Waste / Environmental Management Project (SWEMP). (US$25.0 million). This Project is designed to help improve the methods of solid waste collection and disposal; improve cost recovery and modernize municipal management and finance systems; and strengthen the management capacities of sector institutions.

National Roads Project (NRP). (US$42.0 million). The objective of this Project is to improve the capacity of the road administration to undertake the rehabilitation of the primary road network.

Agriculture Infrastructure Development Project (AIDP). (US$24.0 million). The Project's objectives are: (a) increasing farmers' incomes and conserving the environment through land terracing and development and storage of runoff water; (b) improving access to rural areas; and (c) upgrading institutional capabilities.

Vocational and Technical Education Project (VTEP). (US$29.0 million). The Project's objective is to improve the performance of the VTE System by making it more demand-driven and responsive to market needs.

General Education Project (GEP). (US$56.6 million). This Project is designed to support the Government's efforts to enhance the capacity of the Ministry of National 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 (MIP-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.

Commitments and Disbursements as of May 31, 2004

Project Name	Approval Year	Loan Amount	Amount Disbursed
		US$ Million	
Irrigation Rehabilitation and Modernization	1994	57.23	56.95
Revenue Enhancement and Fiscal Management Technical Assistance	1994	25.25	20.69
Health Sector Rehabilitation	1994	35.70	33.52
Solid Waste/Environmental Management	1995	25.00	10.03
National Roads	1996	42.00	30.85
Agriculture Infrastructure Development	1996	24.00	17.78
Vocational and Technical Education	1998	29.00	5.86
General Education	2000	56.57	3.22
Municipal Infrastructure – I	2000	80.00	36.31
Community Development	2001	20.00	1.40
Ba'albeck Water and Wastewater	2002	43.50	1.14
Urban Transport Development	2002	65.00	1.79
Cultural Heritage and Urban Development	2003	31.50	1.02
TOTAL		**534.75**	**220.56**

Ba'albeck Water and Wastewater Project. (US$43.5 million). The major development objectives of the Project include: improving the access of satisfactory water supply and wastewater services to the region's residents; 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 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 Board of Directors approved the Project in June 2002.

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

N.B: It is worth noting that December 31, 2003, marked the closing date of 4 projects in the IBRD Lebanon portfolio. These projects are: *the Irrigation Rehabilitation and Modernization Project, the Health Sector Rehabilitation Project, the Solid Waste and Environmental Management Project and the Vocational and Technical Education Project.* These projects benefit from a 4-month grace period ending on April 30, 2004, during which expenditures can still be made from the Loan proceeds for services, goods and works executed and delivered prior to the Loan closing date.

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 lease finance to local small- and medium-size enterprises. It also includes two credit lines from IFC to fund LLC's leasing activities.

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

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

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

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

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

EDUCATION IN LEBANON AND THE WORLD BANK

By Roger Pearson
Education Training Specialist

Lebanon has a long tradition of education through local institutions and various foreign religious missions. As a former regional and cultural trading center, Lebanon used to be considered "the classroom of the Middle East" attracting local and expatriate students to both secondary schools and universities from all the countries of the Arabian gulf, middle East and North Africa. Since the civil war however, Lebanon's public educational institutions have been challenged to maintain basic standards.

Lebanon's school system is based on the French Baccalaureate system with some adjustments to accommodate local culture. The education ladder comprises the following four parts:

- Primary education of six years duration which is free and compulsory for children aged between 6 to 11 years;
- Intermediate education of three years duration, provided free to children aged 12 to 15 years;
- Secondary education of three years duration which provides the choice of an academic track or a vocational track; and,
- Higher education. At the end of each of the last two years of the secondary cycle, students sit for government administered Baccalaureate examinations, similar to the French system. Successful completion of Baccalaureate exams is required for entry into Lebanese universities.

Lebanon currently has a total of 2,677 schools of which 1,324 are public, 1,353 private, and 381 religious or other specialty schools. Approximately 60% of schools in Lebanon use French and Arabic as the primary languages of instruction. 20% use English and Arabic, while the remaining 20% use French, English and Arabic equally. In 2002, some 899,508 students were enrolled in general education with 188,411 at the intermediate level (44% in public schools) and 106,293 at the secondary level (54% in public schools). At the Higher Education level, in 2002 there were some 124,730 students enrolled in 41 registered institutions of higher education, resulting in 15,686 graduates.

Total per capita expenditures on education are amongst the highest in the world, and private spending is at particularly high levels. Primary education is almost universal, and enrollments in secondary and tertiary education are amongst the highest in the MENA region. Gender distribution is even, but inter- and intra-regional disparities are significant. Macro level issues affecting general education, vocational education, and higher education relate to a weak policy development capacity, highly centralized governance models, and institutional structures that are inadequately staffed to manage the sector with efficiency.

The General Education (GE) sector is faced with addressing issues of weak institutional and management capacity and low efficiency and quality. Heavy repetition and dropout at all levels of education contribute to low internal efficiency. On average educational outcomes are lower in the public sector than in the private sector. Complex political, religious and community relationships interfere with rational distribution of school facilities. Physical facilities in public schools are often rented or inconsistent with the requirements of a healthy learning environment.

In the Vocational and Technical Education (VTE) sector, the primary issues relate to the absence of mechanisms for dialogue with, or information about, employers and the labor market, and the issue of program quality. This results in a supply driven model with low levels of internal and external efficiency. In terms of quality, the VTE system currently suffers from curriculum designed with inadequate input from the employer community, a significant lack of training materials and equipment, and evaluation mechanisms that focus on academic knowledge as opposed to employer articulated skills and abilities. In addition, the majority of instructional staff are engaged on a part time basis, with few having prior training in pedagogical principles. VTE continues to be the second best solution for low academic achievers, or those who are unable to pursue studies in general education.

§ The World Bank Education Loans

These issues have been the focus of government attention since the end of the civil war, resulting in approaches to the World Bank during the latter part of the 1990s seeking resources to address physical rehabilitation, support for systemic reform and institutional capacity building. Two loans of respectively US$ 56.57million and US$63 million

were subsequently negotiated for the GE and VTE sectors respectively. During the initial stages of project implementation, challenges were experienced within both projects associated with the project design characteristics, implementation capacity, and changes in political priorities.

As implementation of the two projects proceeded, it became increasingly apparent that there was a series of core issues that were interconnected and common to both sectors. As a result, early in 2004 agreement was reached with the government to adopt an integrated sector-wide approach to the further development of education in Lebanon.

Building on this agreement, the General Education loan was renamed and restructured as the "***Education Development Project***" focusing principally on the following core issues:

i. developing an integrated sector strategy for the general and vocational education streams;
ii. undertaking a comprehensive assessment of the financing of both public and private general and vocational education;
iii. undertaking an organizational review that would provide guidance on the institutional structures and capabilities necessary to achieve the strategic goals for both education streams; and
iv. developing and commissioning an Education Management Information System. A positive and constructive implementation environment has now been established, leading to the following progress on the respective core issues.

§ Education Sector Strategy

In 1999, a high level committee undertook identification of policy goals for the general education stream. Strategic planning activities associated with the UNESCO sponsored "Education for All" (EFA) program built on these goals and are continuing. While EFA focuses primarily on the question of access, the development of a national education strategy also needs to address wider issues of quality and efficiency and sector financing. The formulation of a national strategy is currently being prepared under the leadership of HE the Minister of Education and Higher Education with support from the World Bank funded Education Development Project. The minister chairs an executive committee responsible for guiding the planning process. This process has been developed, discussed and endorsed through national meetings attended by more than 150 professionals representative of all stakeholder groups. A Committee of Experts has been established and charged with undertaking research in identified areas preparatory to the initiation of a broadly based process of national consultation. Regional meetings attended by over 1400 delegates have been held in all regions of the country. Student forums attended by 450 students were scheduled concurrently with the regional meetings. Workshops convened during the meetings addressed various topics. The themes of access and equity; financial resources; governance; human resources; quality; and, the role of the school in Lebanon's development guided discussion during the workshops. A summary of workshop findings was subsequently presented to a national meeting of some 300 delegates in May 2004. Building on these findings, a strategic development plan for general education is currently under preparation for consideration by all stakeholders and ministry endorsement in October 2004. Development of a strategic framework for the VTE stream was undertaken in 2002 and endorsed by the Council of Ministers. Consultants have been contracted to expand this framework into a full strategy and associated implementation plan. This work is currently in hand, adopting a participatory process similar to that followed by the GE stream. As a final step, an integrated national strategy is expected to be published early in 2005.

§ Education Sector Financing

A Public Expenditure Review (PER) conducted by the World Bank in 1999 found major areas of concern relating to education sector financing. Specifically, the PER noted that although a large share of GDP is spent on education, qualitative outcomes are not proportionally high, and differ significantly by sub-sector. Many of the disparities in funding and outcomes stem from the unique characteristics of the Lebanese education system. The private unsubsidized sector is the largest in terms of enrollment and also in terms of funding. The public sector follows closely in terms of funding, but has a little over half the number of students. Finally, the private subsidized sector has the least number of enrolled students. There is however a low level of correlation between funding levels and student achievement.

In both the GE and VTE streams, the government and private employers together weave a complex web of grants and other payments to staff with school-age children. These subsidies increase with the level of fees, which means that families have a

clear incentive to send their children to private schools. Since the receipt of grants is not linked to financial need, economically disadvantaged families often have no alternative but to send their children to public schools. Furthermore, given that non-salary recurrent expenditures in public schools is financed by school funds rather than by the central government, the amount of resources available at the school level is highly dependent on the prevailing economic conditions in the community. This further exacerbates the private-public school resource divide, which in turn often overlaps with regional disparities in terms of income. In order to better understand these complexities and inter-relationships, a process is currently in hand to select consultants who will undertake a comprehensive study that will: (i) provide a detailed review of public and private funds used for education purposes in Lebanon in order to track flows of funds and identify who is spending what; (ii) assess the efficiency of the transfer of public and private funds to education and to what extend they achieve equity goals; (iii) assess the performance of each sub-sector of education and how efficiently each one of them uses its resources; and, (iv) present projections for sector financing needs including how education will be paid for in the future, the share of the state, and under which conditions alternative schemes will be both sustainable and equitable.

§ Education Management Information System

The foundation for all effective strategic and operational planning is information. Data regarding the academic, financial, personnel, administrative and asset management issues for both the GE and VTE streams are currently compiled manually and are not interlinked for easy analysis. In order to address this issue, contracts have previously been awarded to two different companies to develop the characteristics of individual Educational Management Information System (EMIS) that would serve the needs of each educational stream. Recognizing the inter-relationships and commonalities between the two streams, output from the two consulting assignments is now being synthesized into a statement of requirements for the procurement of an integrated system. Concurrent with work on building the EMIS, School Management Information Systems are being put in place to support management at the local level while also serving the central system. An Information Management Unit (IMU) that has been established by the MEHE, together with a program of end user training, is supporting all the foregoing activities.

§ Organizational Review and Development

Prior to 2000, each education stream was managed by an individual Ministry, each having its own Directorate General and associated administrative support. These mandate of these ministries have subsequently been integrated into a single Ministry of Education and Higher Education (MEHE). In addition to MEHE, the Education Center for Research and Development (ECRD) plays an important role in undertaking studies relating to student achievement, curriculum development, teacher training, examinations and assessment. It is apparent that in order to achieve the policy coherence and efficiencies associated with the creation of a single ministry, together with the adoption of new strategic priorities for the sector, there is a need to review the previous organizational structures and associated capabilities. Resources have been made available under the Education Development Project to support the government in undertaking this review, assisting in such institutional restructuring as may be agreed, and providing professional development for to ensure that the required skill sets are in place. As an initial step in this process, a consultant has been recruited to undertake an organizational audit of the existing education sector institutions. The purpose of the audit is, (i) to identify and document the current mandate, structure, capacity, staffing levels, and functional efficiency of the MEHE; its Directorates General; and the ECRD in Lebanon; (ii) prepare and present a report on the findings with a particular focus on the extent to which the mandate of each organization, and that of their respective functional units, is being fulfilled; and (iii) prepare Terms of Reference for a Technical Assistance activity that will recommend and support organizational development that would be necessary to achieve the goals of the education sector strategy that is currently under development.

When outputs from the foregoing activities have been achieved, it is expected that a solid base of information, consensus, understanding, and institutional capacity will be in place to initiate a sector reform program that will once again place Lebanon at the forefront of human capital development in the region.

For more information, please contact:

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THE LEBANON DEVELOPMENT GATEWAY: A CRTD-A INITIATIVE

The Development Gateway (DG) is an independent non-profit organization initiated in July 2001 by the World Bank in response to the growing recognition that sustained development requires a long-term approach based on access to relevant information, involvement of all divisions and country ownership and direction of the development agenda. The DG is an enabler of development facilitating the improvement people's lives in developing countries by building partnerships and constructing information systems. The DG, currently a network of 58 Country Gateways and 75,000 registered individuals, is a valuable foundation for resources and collaboration on sustainable development.

The Lebanon Development Gateway is a project supported by the Development Gateway Foundation and implemented, in its first phase by the ***Collective for Research and Training on Development-Action***[1] ***(CRTD-A)***. It aims to strengthen knowledge-based interaction and good practice on gendered sustainable development amongst civil society organizations, government organizations and the private sector so as to improve livelihoods and full civil rights for women and men. The LDG intends to take full advantage of the opportunities created by ICT and thus facilitate platforms for exchange, dialogue and cooperation.

In doing so, the LDG aims to involve the government, the NGO community and the public and private sectors of Lebanon, in implementing improving and increasing the accessibility of relevant gender and social development information and resources in Arabic, English and most likely French. The LDG will also act as a meeting ground that will catalyze the exchange of dialogue and further collaboration between concerned stakeholders.

The LDG believes that the usage of Information and Communication Technology (ICT) could help improve lives by tackling the challenges that today's Lebanon faces. These challenges include poverty, illiteracy, unemployment and the struggle to increase knowledge sharing.

The LDG began functioning on its planning phase on February of 2004, and will continue to be operational on this first stage for eight months after the commencement. The activities to be deployed in the first phase include the preparation of key documents and studies on Lebanon's e-readiness, thereby also providing an evaluation of the e-needs of actors following Lebanon's ICT construction with particular focus on the gendered dimensions of e-readiness and e-needs. The e-readiness assessment should provide an insight into the present state of ICT usage for social development in Lebanon. The e-needs will in hand aim to recognize the specific needs of development stakeholders in relation to development awareness and cutting edge information.

The planning phase will aim at accumulating sufficient information, which will be used in the creation of a prototype web portal; a gateway which will aim at serving as a knowledge bank through the application of ICT technologies. The creation of the cutting-edge Internet portal will aim at promoting social and economic development in Lebanon, furthermore providing current and accurate development information, services, products and resources to Lebanon's development stakeholders; increasing collaboration between all sectors for development and encouraging the use of ICT to Lebanon's development community.

This phase will produce a marketing study that will warrant the sustainability of the LDG portal. It will conclude with the production of a governance report which will recognize and categorize the best structure and institutional framework and agenda for the LDG.

These outputs will be developed using an inclusive approach which will comprise of diverse consultation processes such as workshops, e-dialogues, online surveys, data and information gathering and bilateral meetings.

For more information on the LDG, please visit:
http://www.developmentgateway.org/

More information on CRTD-A, please visit:
http://www.crtd.org, http://www.iris-Lebanon.org
http://www.mamag-glip.org

[1] *CRTD–A* is a Lebanese NGO active in planning, implementing servicing programs, initiatives and activities in the fields of gender, poverty, social development and participatory development.

NEWS, RECENT AND UPCOMING ACTIVITIES

The World Bank Awards Four Small Grants to Civil Society Organizations

The World Bank has recently awarded four Small Grants in the amount of US$10,000 each to the following four Lebanese Civil Society Organizations.

- ***Association for Volunteer Services***: for the publishing and dissemination of a manual entitled "Learning to Serve: Education, Volunteering and Community Service", in both Arabic and English editions, to guide schools and universities and their community partners in how to develop a diversity of programs that engage students in community service and develop in them a lifelong spirit of civic engagement.
- ***Lebanese Association for Educational Studies:*** for raising awareness about the plight of marginalized school-age students, and provide educators and school administrators with the basic knowledge and tools to identify and attend to academic, emotional and social needs of marginalized students.
- ***Lebanese Development Forum***: for supporting the production of a Compact Disc (CD) on the issue of Adolescence in the Arab World, based on the Report entitled "The Arab Adolescent Girls: Reality and Prospects" to be used as a reference training tool to increase inter-generation public awareness and promote effective networking.
- ***Mouvement Social Libanais***: for supporting the production of a short film where the poor are role models and heroes, and conduct workshops within the NGOs community to raise their involvement in development, and launch a public media campaign to develop civic engagement of citizens against poverty.

These grants form part of the World Bank's Small Grants Program allocated on a yearly basis to Country Offices, to be awarded, on a competitive basis, to Civil Society Organizations engaged in activities related to civic engagement for the empowerment of marginalized and vulnerable groups.

For more information on the Small Grants Program, please visit: *http://www.worldbank.org.lb*

Ministry of Health, World Bank Mark Closure of Health Project

Lebanon's Ministry of Health and the World Bank have announced the successful completion of the Health Sector Rehabilitation Project, which calls for reforms to reduce one of the world's highest health spending bills.

Minister of Health Suleiman Franjieh told a visiting World Bank mission on May 11, 2004, that although the US$35 million project had largely achieved its development objectives, the Ministry would need continued World Bank's support in implementing the reforms and introducing new policies.

Michal Rutkowski, the World Bank's Human Development Sector Director for the Middle East and North Africa (MENA), said the Bank was "very happy" with the partnership with the Ministry under a broad strategy that aims to reduce the exorbitant annual health bill of US$2 billion, which is 12 percent of the GDP.

At this rate, the health sector in Lebanon is the costliest in the region, while the outcomes are generally mediocre. The Bank, according to Mr. Rutkowski, wanted to continue to support the Government to introduce a "more effective, and less costly" health system.

George Schieber, the World Bank's Health and Social Protection Sector Manager for MENA, who has worked on the project for the past six years, said the steps taken by the government so far were "very profound" and that the Bank was interested in "helping the Government proceed with the reforms.

Tapping Lebanon's Human Capital: Building Partnerships for Local and Regional Capacity Enhancement

Despite a largely weak capacity in the public sector, Lebanon is renowned for high caliber specialists, academic institutions and significant potential in certain economic sectors which it has been "exporting" to the region and the world at large for many decades. To build – and further bolster - this human capital, the World Bank (WB) is devising strategies that promote partnerships with local universities, educational institutions, associations and NGOs to deliver capacity enhancement activities for local and regional audiences.

Lebanon has several key advantages that enable it to serve as a center for capacity building: (i) it can offer training in three languages - Arabic, French and English – to cater to the needs of the Eastern and Western parts of the region; (ii) it offers a wide range of good facilities and infrastructure for learning activities, including high connectivity; (iii) it provides easy travel access; and (iv) it hosts key regional institutions such as ESCWA, UNESCO, and others who would be natural partners in such work. In so doing, Lebanon can serve as a "sub-regional training hub", complimenting the Bank's knowledge hub in the city of Marseilles.

The WB, through its training arm, the World Bank Institute (WBI), has already established a successful partnership with the American University of Beirut (AUB(for capacity building in the Health Sector Reform and Sustainable Financing. This partnership, which started in early 1999, has been progressively growing and the program has gained national and regional acclaim in offering training and knowledge sharing to countries such as Iran, Iraq, Egypt, Jordan, and Lebanon.

Recently, the Institute of Finance and the WB/WBI signed a Memorandum of Understanding (MoU), launching a knowledge partnership that would build on Lebanon's human capital advantage and foster knowledge-sharing activities in the Middle East and North Africa (MNA) region. The agreement envisages cooperation in three broad areas: (i) joint dissemination and learning activities through conferences, workshops and other events to address development issues in Lebanon and the MENA region; (ii) partnership in distance learning activities through the WB's Global Development Learning Network; and (iii) exchange and dissemination of experiences, data, and publications.

Both the Government and the WB have indicated their commitment to developing Lebanon as a sub-regional hub, stressing that partnering with local institutions is a key element in leveraging combined resources and deepening the understanding of local and regional conditions to better adapt the global experiences to regional needs.

The overall goal is to be a more effective partner in development not only for Lebanon but for the region as a whole.

World Bank's Workshop on International Financial Standards

The World Bank held a three-day workshop on International Financial Reporting Standards (IFRS) and their application in the world-wide evolution of financial markets between June 14 and 17, 2004, at the Gefinor Rotana Hotel in Beirut.

The workshop attracted more than 50 Lebanese financial experts, auditors, international specialists and delegates from the Ministry of Finance.

The program featured presentations and case studies compiled by David Cairns, Visiting Professor at the London School of Economics and Political Science and former Secretary-General of the International Accounting Standards Committee.

Mr. Crains explained the financial reporting standards that will be applied in 2005 by the European Union with regard to companies trading in the financial markets.

Recent World Bank Publications

World Development Indicators 2004 (ISBN: 0-8213-5729-8 SKU: 15729). The 400-page print edition of World Development Indicators 2004 allows the reader to consult over 80 tables and over 800 indicators for 152 economies and 14 country groups, as well as basic indicators for a further 55 economies. There are key indicators for the latest year available, important regional data, and income group analysis. The report contains six thematic presentations of analytical commentary covering: World View, People, Environment, Economy, States and Markets, and Global Links. This information allows readers to monitor the progress made toward meeting the Millennium Development Goals endorsed by the United Nations and its member countries, the WB, and a host of partner organizations in September 2001.

The CD-ROM editions contain 40 years of time series data for more than 200 countries from 1960-2002, single-year observations, and spreadsheets on many topics. It contains more than 1,000 country tables and the text from the World Development Indicators 2004 print edition and the World Bank Atlas 2003. The Windows® based format permits users to search for and retrieve data in spreadsheet form, create maps and charts, and fully download them into other popular software programs for study or presentation purposes.

World Development Report 2004: Making Services Work For Poor People (Available online: http://econ.worldbank.org/wdr/wdr2004/). Broad improvements in human welfare will not occur unless poor people receive wider access to affordable, better quality services in health, education, water, sanitation, and electricity. Without such improvements in services, freedom from illness and freedom from illiteracy - two of the most important ways poor people can escape poverty - will remain elusive to many.

The World Development Report 2004: Making Services Work for Poor People says that too often, key services fail poor people - in access, in quantity, in quality. This imperils a set of development targets known as the Millennium Development Goals (MDGs) which call for a halving of the global incidence of poverty, and broad improvements in human development by 2015.

The report provides powerful examples of where services do work, showing how governments and citizens can do better. There have been spectacular successes and miserable failures in the efforts by developing countries to make services work. The main difference between success and failure is the degree to which poor people themselves are involved in determining the quality and the quantity of the services which they receive.

Global Development Finance: Harnessing Cyclical Gains for Development (ISBN: 0-8213-5741-7 SKU: 15741). By providing a comprehensive review of recent trends in and prospects for all development-related flows (including debt, equity, official aid, and workers' remittances), Global Development Finance 2004 enables government officials, economists, investors, financial consultants, academics and policymakers in the development community to better understand, manage, and promote the key challenge of financing development in today's globalized environment.

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