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Republic of Lebanon Update

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With special thanks to Mary Saba
EDITORIAL

The Next Five Months for Lebanon: An Opportunity for Short Term Action and Long Term Reform

The current Lebanese Government has a short remaining life of less than five months. But this is no reason to expect it to be an ineffective government. International experience suggests that some of the most aggressive reforms have been carried out by short-lived governments. In the case of Lebanon, urgently needed reforms have been pending for too long, and concerted effort is needed for the sake of the country, its economy, and its citizens.

The new Government has indeed taken up a number of issues early on in its life including fighting corruption, pushing the reform agenda in a number of critical sectors such as power and telecom, and most recently deliberating on whether or not to prepare a budget for 2005. These all send important signals on the determination of the Government to tackle critical issues.

Fighting corruption is critical - it sends a signal about the Government’s determination to address the problem. The challenge for the Government is to convince the public that it is systematically fighting the root causes of corruption, rather than targeting a few individuals out of political vendetta. Indeed, corruption is often a symptom of poor governance structures, reflecting weak measures of accountability, and transparency. Addressing these structural weaknesses requires revamping key public agencies responsible for accountability and transparency including the Civil Service Board, Central Inspection, and Court of Accounts. A specific example of this in Lebanon is public procurement. Several surveys done in the last five years have indicated that favoritism in public contracts is among main arenas for corruption. The reasons are not hard to understand: i) the regulatory framework is totally outdated and governed by more than one piece of legislation dating back to 1959 and 1963; ii) several public entities operate under different internal procedures; iii) public procurement is carried out in the absence of a central oversight agency which would ensure efficient and transparent procurement process or address bidders grievances; and iv) there are no standard bidding documents used for all public procurement. Without addressing these issues, it would very difficult to fight corruption in a sustainable way.

A new public procurement law has been drafted by a committee of Lebanese experts. If passed and implemented, it would create a quantum leap in the fight against corruption.

Fixing the power sector is another major and welcome emphasis by the new Government. Our previous issue of the Update (Second Quarter 2004) discussed the challenges and possible strategies in detail. In summary, while reforming the sector and upgrading its facilities is a long term agenda, there are immediate actions which can be taken: i) reducing the cost of fuel through better State to State agreements in the short term; ii) improving the management of EdL, mainly through a management contract to a private operator with a clear set of incentives to improve accounting and transparency measures, operational efficiency, and human resource management; and iii) developing and approving a medium term strategy for the development of the sector. Pushing the reform agendas on the power sector, as well as telecom, and water would combine to reduce the overall cost of production in the country, thus enhancing its competitiveness and growth potential.

Whether or not to prepare a budget for 2005 by a short term Government is a legitimate question. The argument for a budget for 2005 is that it is a good governance practice to prepare a budget on a yearly basis as a matter of principle. If the Government and Parliament can agree on a bold budget which reduces the deficit, raises primary surplus, cuts wasteful spending, and targets social spending to the poor, this would be significant accomplishment for the Government, the Parliament, and the country as a whole. Its positive impact will be felt immediately in increased confidence by citizens and investors and in economic indicators. The risk, of course, is that in an election season, the Parliament might be tempted to increase spending rather than reduce it. A protracted process of budget debate which exhausts the scarce time and resources of the Ministry of Finance and fail to produce an austere budget would be a lost opportunity and have the opposite effect on confidence.
The second best option would be to continue spending on a 12 month basis according to the approved budget of 2004. But this option has its risks as well. The approved budget of 2004, as everyone recalls, was a “status quo” budget, that made no attempts to reduce expenditures. As it turned out, actual expenditures were much less than budgeted expenditures. But primary expenditures (excluding debt service) rose compared to 2003. Using the same approved budget of 2004 for 2005, could result in a dramatically worse outcome in an election year. Whether the Government ends up proposing a new budget or not, the criteria for its success will be its ability to contain actual expenditures and put time and resources into pending structural reforms.

The economic, social, and environmental effects of years of political paralysis are being felt in the country. Lebanon has not fared as well as some other countries of the Middle East and North Africa in terms of its business environment (see article inside on Benchmarking Lebanon’s Investment Climate). Also, in spite of success in the area of human health, the natural environment has not faired well either since the end of the war (see article inside on The Cost of Environmental Degradation in Lebanon). Yet, Lebanon still possess some of the most pristine sites in the region, and some of the most talented professionals and entrepreneurs. International and regional good will still makes it a destiny for tourists and potential investors. In other words, it is not too late to start.

The current Government faces many challenges, but has a real opportunity to deliver tangible results. There are those who are already writing off the next six months as lost time. We hope, for the sake of the country, that they are wrong. The Bank has not witnessed such an attitude in its discussions with representatives of the new Government and expressed its readiness to be of assistance on a number of policy and investment fronts. We realize that this Government of short tenure has the international, regional, and national odds stacked up against it. Our reading is that the Lebanese public understands that, and might therefore give the Government a lot of credit for what it does manage to achieve in tackling the challenges of corruption and waste in public spending. But it will ultimately judge the Government by its actions, not its words.

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Visit our website for information on the World Bank in Lebanon, Projects & Programs, Development Topics, News & Events, Data & Statistics, Publications & Reports. The website also provides resources on jobs & scholarships, and procurement opportunities & tender processes.
How much is a cleaner environment worth? For policy makers, that question often goes largely unanswered. It's not that the environment is seen as unimportant. It's simply much easier to compare the costs and benefits of tangible projects such as airports or electrical grids than it is to weigh the merits of a landfill cleanup or a change in emissions legislation.

In the Middle East and North Africa Region (MENA), the World Bank in collaboration with the Mediterranean Environmental Technical Assistance Program (METAP) is assisting countries to generate better estimates of the real economic costs of environmental degradation. By putting hard numbers behind environmental issues, it is providing an instrument for policy makers to better integrate the environment into economic development decisions.

**Structure and Objectives of the Program**

The Cost of Environmental Degradation program, now under way in 8 MENA countries (Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria and Tunisia) consists of a country wide study and an accompanying training course. The objectives of the program are to estimate the cost of environmental degradation as a percentage of gross domestic product (GDP), to enhance local capacity in environmental economics and to provide an input to inter-sectoral environmental priority setting. The approach relies on existing data and analysis of environmental issues, and it applies commonly accepted valuation and quantitative impact assessment methodologies.

A training manual has also been developed which provides explanations of the methodologies used to assign monetary values to environmental degradation. This documentation has been translated into French and Arabic and has been used in training sessions in Egypt, Lebanon and Morocco.

**Summary of Findings**

In 2000, the cost of environmental degradation in Lebanon was estimated between 2.8% to 4.0% of GDP per year, with a mean estimate of close to US$565 million per year, or 3.4% of GDP. In addition, the cost to the global environment is estimated at about 0.5% of GDP per year. Estimated costs of damage are broken down by environmental category in Table 1 and Figure 1 below.

<table>
<thead>
<tr>
<th>Environmental Category</th>
<th>US$/year (millions)</th>
<th>LBP/year (billions)</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>170</td>
<td>256</td>
<td>1.0%</td>
</tr>
<tr>
<td>Water</td>
<td>175</td>
<td>264</td>
<td>1.1%</td>
</tr>
<tr>
<td>Land &amp; wildlife</td>
<td>100</td>
<td>151</td>
<td>0.6%</td>
</tr>
<tr>
<td>Coastal Zones</td>
<td>110</td>
<td>166</td>
<td>0.7%</td>
</tr>
<tr>
<td>Waste</td>
<td>10</td>
<td>15</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>565</strong></td>
<td><strong>852</strong></td>
<td><strong>3.4%</strong></td>
</tr>
<tr>
<td>Global</td>
<td>90</td>
<td>136</td>
<td>0.5%</td>
</tr>
<tr>
<td>Environment</td>
<td><strong>655</strong></td>
<td><strong>986</strong></td>
<td><strong>3.9%</strong></td>
</tr>
</tbody>
</table>

**Figure 1 - Annual Cost of Environmental Degradation by Environmental Category (mean estimate as a percentage of GDP).**

**Water Pollution.** Sub-standard potable water quality and inadequate sanitation facilities have a cost to society. In Lebanon, it’s estimated that about 260 children die every year (10% of all child deaths) from diarrhea-related diseases associated with inadequate potable water, sanitation and hygiene. The same factors are also responsible for infectious diseases such as...
intestinal worm infections and non-fatal diarrhea. Mortality and morbidity are measured in terms of life years lost, productivity loss and the cost of treatment and care giving. In addition to health costs, Lebanon’s population consumes a large quantity of bottled water, mostly due to the perception that municipal water is of low quality. While some consumption of bottled water is associated with taste and lifestyle preferences, the cost associated with the perception that municipal water is of inferior quality is estimated at around $90 million per year. This consumption also contributes to increased plastic and glass bottle waste.

Urban Air Pollution. Despite significant improvements in overall air quality levels due, for example, to the recent banning of light diesel vehicle, the impact of air pollution on human health is still significant. Based on annual average concentrations of fine particulates (PM$_{10}$) monitored in the air of Greater Beirut and estimated for Greater Tripoli, it is estimated that about 350 people die prematurely each year due to urban air pollution. Additional cases of chronic bronchitis and other forms of respiratory illnesses are counted by the thousands. Lead concentrations in the air of Greater Beirut is estimated to cost about 0.2% of annual GDP and impair neurological development in children.

Indoor Air Pollution. A less known form of air pollution is that which occurs indoors. The use of biomass fuel for cooking and heating causes health threatening problems, especially for women and young children who spend disproportionately more time indoors than men and older children. Indoor air quality monitoring data for Lebanon are not available. However, based on the consumption of biomass (about 3% of total fuel use), it was estimated that indoor air pollution in rural areas could cause health damage of US$25 million per year, as a result of acute respiratory infections, chronic obstructive pulmonary diseases and heart disease.

Land degradation and wildlife. High population density, decades of uncontrolled and unplanned construction, rangeland degradation, and neglect of terraced agricultural land are putting strong pressure on Lebanon’s limited land and wildlife resources. In addition, more than 700 quarries, many abandoned, have destroyed habitats and vegetation and reduced the aesthetic value of surrounding properties. The destruction of forests and rangeland have also impacted habitats, especially the seasonal homes of migrating birds. While it is very difficult to provide a comprehensive estimate of the cost of degradation for all these issues, an attempt was made to capture at least part of these costs. Agriculture productivity loss from soil and terrace degradation was estimated between $60–90 million per year. The impact of only 4 non-rehabilitated quarries in Mount Lebanon on the surrounding settlements was estimated at more than $10 million per year. This is the result of decline in land and apartment prices due to the visual and aesthetic impact of the quarries. The loss of recreational value due to deforestation and unplanned construction in Aaley, Kesouran and Maten districts of Mount Lebanon province alone was assessed at a minimum of $10 million per year.

Coastal Zone Degradation. The coastal zones of Lebanon represent unique cultural, ecological, economic and recreational assets for the country. However, with more than 50% of the population concentrated on the coast, much of it has been degraded by pollution (untreated municipal wastewater, seafront solid waste dumps, etc.) and uncontrolled development of resorts and vacation homes right up to the shoreline. The degradation is particularly severe in the areas surrounding Beirut and Jounieh. The only significant stretch of beach and coastline that remains relatively unspoiled is in the southernmost part of Lebanon. The cost of coastal zone degradation in terms of domestic recreational losses (see Box 1 for more details), international tourism losses and ecological value is estimated conservatively at around $115 million per year.

Uncollected municipal and household waste. Lebanon has witnessed significant improvement in the collection of municipal and household waste in major part of the countries over the past decade. However significant impacts on health, quality of life and natural resources remain from unsanitary landfills, open dumps, and the lack of treatment of industrial, hazardous and hospital waste. Unfortunately, no study in Lebanon has quantified the risk and damage associated with these impacts and therefore no estimate are provided here.

Conclusion

It should be noted that the results presented are likely to underestimate the total damage costs from environmental degradation, since no cost estimate is provided for many sources of degradation. However,
Despite the limitations and difficulties involved in assigning monetary costs to environmental degradation, such estimates have numerous benefits:

β They can be a powerful means of raising awareness about environmental issues.

β They provide a useful mechanism for ranking the relative social costs of various forms of environmental degradation.

β They offer policy makers an instrument for integrating the environment into economic development decisions.

β By expressing damage costs as percentages of GDP, they allow for comparison with other economic indicators.

β They give environment ministries a tool for discussing the importance of environmental protection in economic terms; hard numbers are in the same metric as those used by ministries of finance or the economy.

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Box 1 - Loss in Domestic Recreational Value from Coastal Zone Degradation

Lebanon has a Mediterranean coastline of 225 kilometers. Urbanization, uncontrolled development of resorts, and the practice of dumping untreated municipal wastewater and solid waste into the sea have contributed to the degradation of the shoreline, especially around the capital and the Bay of Jounieh. This deterioration has significantly reduced the recreational value of the coastline for the Lebanese population and has forced people to travel greater distances to reach cleaner beaches.

A survey undertaken in 2002 assessed incremental travel costs as a proxy to quantify the loss in recreational value. It showed that 415,000–580,000 day trips each year were being made from the Beirut area to five natural beaches located between 28 and 62 kilometers from Beirut. The incremental travel cost to these areas was estimated at US$21 per day per visitor, on the basis of additional travel distance; a vehicle operating cost of US$0.45 per kilometer; a time value of US$3.7 per hour of travel time per person; and observed vehicle occupancy. Total incremental travel costs came to US$10 million–US$12 million per year.

Environmental Damage Costs - Regional Comparison

(annual costs as percentage of GDP)

Notes: Date of the estimates are 1999 for Algeria, Egypt, and Tunisia, 2000 for Lebanon and Morocco, and 2001 for Syria.
Recent developments over the third quarter reinforced the likelihood of a decline in the debt to GDP ratio in 2004 – the first time since 1992. Fiscal revenue continued to increase in the third quarter 2004, the result of accelerated economic activity and greater tax collection. On the expenditure side, Lebanon is now fully benefiting from the mechanical effect of the Paris II financial package on its debt service. On the other hand, and in contrast with the first six months of 2004, primary expenditures severely slipped over the third quarter of 2004. As a result, the primary surplus could approach 3.5 percent of GDP in 2004 - against 4.3 percent forecasted three months back. The debt to GDP ratio would hence drop by approximately 3 percentage points of GDP in 2004 compared with a year earlier, against 4 percent forecasted three months back.

Debt sustainability, though, is not yet guaranteed. Most of the financial benefits of the Paris II package will disappear after 2005 (soft loans from commercial banks in particular) and the external environment might not always be as favorable to Lebanon as it is today - nominal interest rates in particular, which have started to grow again on the domestic financial market. While the risk of a financial contingency is limited in the short run -- as most of the foreign currency denominated-debt maturing in 2004-5 has already been rolled over, Lebanon has not yet emerged from its macro-imbalances and will continue to remain vulnerable to a sudden reversal in confidence until it manage to restore full credibility through sound fiscal consolidation.

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 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 much higher primary surplus than realized in 2004. This will necessarily include a containment of non-debt expenditures. International experience suggests that fiscal stabilization that concentrates on expenditure side cuts rather than tax-based adjustment is more likely to succeed in reducing the debt to GDP ratio, as it better preserves growth, and does not let the private sector bear the whole burden of adjustment alone. Obviously, unproductive public expenditures should be targeted in priority. Some of them are easy to identify, like transfers to Electricité du Liban (EDL) for instance. Others are less obvious, and the World Bank forthcoming Public Expenditure Review will try to identify waste and inefficiency in public spending which, if cut, would allow Lebanon scope for expanding and improving public services and social expenditures with potentially high positive impact.

Greater fiscal credibility could also help in lowering Government borrowing costs. The Lebanese Government has little control on interest rates, but could also lower its borrowing costs by convincing investors of its capacity and will to tighten its fiscal policy. But there is no miracle there to meet this daunting challenge: reforms will need to be anchored in credible commitments and supported by a broad-based consensus. Enhancing the credibility of the adjustment requires tackling governance issues – the overall use of public funds - at their roots. Only when policy measures are viewed as long term and credible will borrowing costs decline. In this regard, a good communication strategy and some key institutional reforms can pay off rapidly. Gaining broad-based political support for the adjustment will require to distribute the burden evenly and to reinforce social protection in the process.

**Real Sector Developments**

The regrettable absence of updated economic statistics precludes the rigorous monitoring of economic activity. Not only national accounts are missing, but also up-to-date information on households’ living conditions and unemployment, which makes any policy step speculative. The World Bank is encouraged by recent efforts exerted by the Government to develop quantitative information, notably regarding national accounts and 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.

Indirect indicators point to a significant acceleration of economic activity in the first nine months of 2004 compared with the same period in 2003. The International Monetary Fund estimates that real GDP could grow by 5 percent in 2004 (against 3 percent in
2003), while the Audi Bank estimates that it could grow by approximately 4 percent (against 3 percent in 2003). The coincident indicator computed by the Central Bank (Banque du Liban, BDL) is recording a 9.6 percent growth rate in the first nine months of 2004 (compared with a 5.5 growth rate in 2003). One of the most reliable indicator of economic transactions is the evolution of compensated checks, which grew by 7.6 percent in real terms in the nine months of 2004 compared with the first nine months of 2003. The same indicator had registered a 3.8 percent growth between 2002 and 2003. The rapid growth in airport passengers, +22 percent, tourism, +29 percent, and foreign trade, +29 percent, suggest a rise in tourism and trade activities. On the other hand, construction activity (measured by cement deliveries, +6 percent), which had been one of the main growth drivers in the first half of 2004, seems to have decelerated over the third quarter of 2004.

Private consumption and exports became the main drivers of growth between 2003 and 2004. Seemingly, GDP growth was driven in the first nine months of 2004 by exports of goods (+23.4 percent over the first nine months of 2003, some of which are re-exports) and services (tourism in particular), public and private consumption of goods and services (some of which are domestic, some of which are imported, as reflected in the rapid growth of imports in the first nine months of 2004, +34.8 percent compared with 2003). Some of these trends have now been sustained for several years, and could continue to represent major sources of growth in the foreseeable future, should the regional situation stabilize. In particular, tourism activity seems to be very promising, with an annual growth rate in the number of tourists of approximately 6-7 percent a year since 1998, with a strong acceleration over the last two summers. Lebanon seems to have regained part of its market shares and reputation enjoyed before the war, in particular vis-à-vis neighboring Arab tourists, which constitute the bulk of new-comers. Foreign trade activity seems also to be back on a solid growth track, as currently benefiting from the surge in Iraq’s reconstruction needs.

On the other hand, growth in public absorption remains undesirable in the face of fiscal imbalances, investment concentrated in real estate, and the overall surge of economic activity continues to be driven, for a large share, by external and volatile factors (Gulf tourism, remittances and investments related to oil prices, reconstruction in Iraq), as the same acceleration is observed elsewhere in the MENA region. In Lebanon itself, in spite of rapid broad money growth, banking credits to the domestic private sector have actually decreased in real terms since 2000, illustrating the absence of domestic investment counterpart to the current positive external shocks. The bulk of private investment (domestic and foreign) finds little room in which to base its potential for growth, other than non-traded goods and services – land, real estate and Government debt.

**Fiscal Accounts**

Public finance continued to improve in 2004. Total deficit decreased to 27 percent of total payments in 2004, down from 37 percent in 2003. Primary surplus reached 10 percent of expenditures, up from 6.3 percent a year earlier. As a ratio of GDP, prolonging the trend observed over the first nine months of the year, primary surplus is forecasted to reach approximately 3.5 percent of GDP at year-end, a ratio comparable to that of 2003 (3.2 percent of GDP). Nevertheless, the primary surplus requested for the stabilisation of the debt to GDP ratio is now at only 1.4 percent of GDP, as debt service largely decreased in 2004.

Increased revenues remain the main engine of the fiscal consolidation. Revenues increased by 14 percent in 2004, and by 19.5 percent annually on average since 2001. Average annual nominal GDP growth over the same period should seemingly not exceed 5 percent. The share of public revenue to GDP is hence believed to have increased from 17.6 percent in 2001 to 23.5 percent in 2004. The main increases in revenues in 2004 is due to greater VAT collection. The latter increased by 30 percent over the first nine months of 2004, the result of greater domestic activity, imports, and the lowering of the exemption threshold. Increase in VAT explains two-fifth of the total revenue increase. Other tax revenues, principally tax on interest revenues and real estate taxes, increased by 21 percent compared to 2003 and contributed for one-third of the total increase. Non-tax revenues, mainly Telecom receipts, increased by 14 percent and represent the remaining one-fourth of the total increase in revenues.

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1 Between December 2000 and September 2004, commercial banks’ credits to the private sector grew by 6 percent (source: Banque du Liban, BDL). During the same period the consumer price index rose by 9 percent (source: Consultation and Research Institute), and money supply (M3 plus non residents’ deposits) increased by 40 percent (source: BDL).
The drop in debt service was almost offset by a rapid slippage of primary expenditures in the third quarter of 2004. While expenditures decreased by 7.3 percent in the first half of the year, they increased by 1 percent in the third quarter, which brings the total decrease over the nine months down to a mere -1.7 percent. The decrease in overall (debt and non debt, budget and treasury) expenditures is the result of a 16 percent drop in debt service. Debt service is now absorbing 51 percent of revenues, against 73 percent in 2003 and 93 percent in 2001. In contrast, primary expenditures increased by 9.6 percent over the first nine months of 2004. The most rapid increase occurred in the third quarter and reached 22 percent compared to the third quarter of 2003. The ratio of primary expenditures to GDP increased from 17 percent to 20 percent between 2001 and 2003 and could reach 20 percent at year-end 2004.

The debt dynamic has been contained in 2004, and its profile (maturities) improved. Public debt increased by 7.0 percent between September 2003 and September 2004, and amounted, by that time, at US$34.9 billion in gross terms. A year earlier, debt increased by only 5.4 percent. However accelerating in 2004, debt growth remains largely contained compared to the pre-Paris II period, when it reached 14 percent on average between 1999 and 2002. The weighted average life of Lebanese Pound TBs increased to 449 days in September compared to 407 days in June and to 327 days in September 2003. Following swaps on maturities in August, average life of Eurobonds increased to 6.14 years in September, up from 5.8 years in June. The share of public debt in LBP (versus the debt denominated in foreign currencies) stood at 52 percent in September 2004, compared to 53 percent a year earlier. Commercial banks held 46 percent of the debt in September 2004, against 49 percent a year earlier. The Central Bank detained 20 percent of the debt, against 15 percent a year earlier. Other public institutions, like the Social Security and the Institute of Guarantee of Deposits, as well as residents of Lebanon now hold 8 percent of the debt against 12 percent in September 2003. The remainder, 26 percent in 2004 and 24 percent in 2003, is mainly held by non-residents, including foreign Governments and international financial institutions.

**EXTERNAL ACCOUNTS**

Private capital inflows are on the rise, but insufficient to compensate for the decline in public transfers. Net capital inflows continued to decrease throughout the year 2004. Cumulated net capital inflows in September 2004 reached US$5.8 billion, against US$7.3 billion in September 2003. If we exclude Paris-II inflows though, net private capital inflow for the nine months of 2004 exceeds that of 2003 by US$0.6 billion. However, in June, the additional private net capital inflow for 2004 compared to 2003 reached US$0.7 billion. This suggests a decrease in the net private capital inflow by US$1.45 million in the third quarter of 2004 compared to the same period of 2003. The fact that such a development occurred while Lebanon had supposedly one of its best tourist season in the last decade is noteworthy.

**Figure 1. Cumulated Net Capital inflows over nine months (US$ million)**

![Graph showing cumulative net capital inflows from 2000 to 2004](source: World Bank Staff calculations)
The trade deficit widened by US$1.5 billion in the first nine months of 2004 compared with 2003. While merchandise exports continued to grow in 2004 (+23.4 percent, to reach US$1.3 billion), they grew insufficiently to cover additional imports and maintain the trade deficit at its 2003 level. Imports, through the combination of higher prices (the depreciation of the LBP vis-à-vis the Euro) and higher demand grew up by 34.8 percent to reach US$6.8 billion. Consequently, the cumulated trade deficit widened and amounted by end-September 2004 at US$5.5 billion. Prolonged over the last three months of the year, it would correspond to a deficit at approximately 36 percent of GDP.

Figure 2. Cumulated Merchandise Trade Deficit (US$ million)

Source: World Bank Staff calculations

Higher trade deficit and lower net capital inflows halted the growth in banks’ net foreign assets. In cumulated terms, change in Lebanon’s net foreign assets was hence limited to +US$0.3 billion compared with the first nine months of 2003. The third quarter 2004 was particularly deceptive in this regard, as net foreign assets (in commercial banks as well as the Central Bank) merely increased by US$30 million during the summer. Gross reserves at the Central Bank decreased by US$260 million compared to June and by US$225 million compared to September 2003. Symmetrically, commercial banks’ foreign assets grew by US$520 million between September 2003 and 2004. This movement principally reflects the growing dollarization of deposits, by one percentage point in 2004 (see below), through conversions to foreign currencies. But the mechanical effect on the Central Bank’s gross reserves was mitigated by the emissions of Eurobonds in September and voluntary deposits in foreign currencies of commercial banks at the Central Bank. We estimate those special deposits to have increased by US$ 2.6 billion since September 2003 and by US$950 million since June 2004.

FINANCIAL MARKETS DEVELOPMENTS

Money growth decelerated in the third quarter of 2004. Money supply growth remains critical to finance Government deficit. Money supply increased by 6.4 percent over nine months since December 2003 compared to a 9.6 percent increase between year-end 2002 and September 2003. The deceleration in 2004 is mainly due to the low 2 percent growth in M3 between June and September, the half of the growth rate in 2003 during the same period. Growth in money supply was driven by the increase in domestic credits by 5 percent, while net foreign assets only increased by 2 percent since end 2003. Credits to the Government rose by 6.7 percent while credits to the private sector increased by 3.3 percent since year-end 2003.

Figure 3. Counterparts of money supply (US$ million)

Source: World Bank Staff calculations

The movement of dollarization accelerated in the third quarter of 2004, to reach 67.9 percent of deposits in September, compared to 67.1 percent in June and 66.1 percent at year-end 2003. The drop in the spread between the US$ and LBP remuneration on deposits might have contributed to this increase in dollarization until August. However, as half of the overall increase in dollarization seems to have occurred in the month of September, this suggests that political tensions dominated the market evolution starting this date. Interest rates on deposits witnessed contrasted evolutions in the third quarter of 2004. Average interest rate on LBP denominated deposits remained unchanged at 6.92 percent between June and September 2004 after
decreasing from 7.79 percent at end 2003. Average interest rate on US$ denominated deposits increased to 3.30 percent in September from 3.17 percent in June, but remained below the 3.43 percent of December 2003. The spread between average rates on deposits in LBP and US$ has then decreased to 362 basis points (bps) in September, down from 375 bps in June 2004 and 436 in December 2003.

**Lending interest rates continue to decline.** Interest rates on private lending decreased in the third quarter. Average interest on US$ denominated loans decreased to 8.07 percent in September from 8.41 percent in June and 8.81 percent in December 2003. Interest rates on LBP loans continued to decrease and reached 10.69 percent in September against 10.95 percent in June and 11.32 percent at year-end 2003. The spread between lending and depositors interest rates in LBP decreased to 377 bps in the third quarter from 403 bps in June but remains higher than the spread at year-end 2003 (353 bps). The spread between lending and depositors’ interest rates in US$ continued to decrease and reached 477 bps in September compared to 524 bps in June and to 538 bps in December 2003. The decrease in lending interest rates is consistent with the stagnation of lending to the private sector and with the change in the structure of lending, increasingly towards subsidized loans.

**Government borrowing costs on the rise.** In contrast, average interest rates on LBP denominated Certificates of Deposits issued by the Central Bank and held by the commercial banks reached 9.47 percent in September, compared to 9.44 percent in June and to 9.07 percent in December 2003. Interest rates on US$ assets are varying between 3.9 percent and 4.0 percent since May 2004, after a sharp drop from 5.07 percent in December 2003. All in all, and despite the decrease in interest rates on loans to the private sector, the tendency is for a rise in interest rates. The swap of Eurobonds and new emissions in August (for a total amount of US$1.5 billion) occurred at 50 to 60 bps above the rates on the latest Eurobonds issuance in May. For the swap of LBP denominated Treasury Bills announced in October (for an amount of three thousand LBP billion, or US$2 billion), the additional rates over primary market issuances varied from 45 bps to 100 bps according to maturities.

**Figure 4. Average Lending Rates**

Source: Banque du Liban

**Structure of assets continues to reflect the tight link between the banking sector and the public sector (Government and Central Bank).** Commercial banks’ deposits at the Central Bank amount to 31 percent of banks total assets. Commercial banks’ loans to the Government in LBP and foreign currencies absorb another 23 percent of banks’ assets. While these ratios remain stable since December 2003, the exposure on the public sector increased by US$700 million between June and September 2004 and by US$2.2 billion since end 2003. Foreign assets of banks reached 18 percent of total assets in September compared to 17 percent June 2004, due to the increase in the dollarization of banks’ deposits.
IBRD Ongoing Projects

The current World Bank portfolio in Lebanon consists of nine Projects for a total commitment amount of US$387.82 million, of which US$134.31 million has been disbursed through October 31, 2004.

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.

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.

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 (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.

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 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.

**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.
**Introduction**

Since the end of the war, Lebanon has attempted to regain its regional position as a center for trade, investment and finance. The country has clearly made significant progress in a number of areas, and a number of sectors, such as real estate and tourism, have regained their dynamism. But the overall record remains mixed, calling for concerted attention to areas of weakness. This article relies on the World Bank’s *Doing Business 2005*\(^1\) database to assess the strengths and weaknesses of the Lebanese business environment.

The Lebanese figures are contrasted to the average for the Middle East and North Africa (MENA) and the Organization for Economic Cooperation and Development (OECD) regions, as well as to individual countries such as Singapore. The figures provide useful benchmarks against which Lebanon can measure its performance. The business environment is assessed along seven criteria: starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts and closing a business.

**Starting a Business**

The ease of starting a business is assessed in terms of the number of procedures required, duration in days, cost of starting the business measured as a percentage of gross national income (GNI) per capita and minimum capital requirement as a percentage of GNI per capita. In terms of number of procedures for starting a business, Lebanon ranks 2nd in the MENA region, requiring six procedures, which is equal to the OECD average, and well below the MENA average.

As for the time required for opening a business, Lebanon ranks 3rd in MENA measuring slightly worse than the average of 40 days, but way behind the OECD average of 25 days. This is a somewhat surprising result: It calls into question why these procedures, though limited in number, are so protracted.

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\(^1\) *Doing Business in 2005* is part of the annual World Bank reports investigating the scope and manner of regulations that enhance or constrain business activity. It offers quantitative indicators on business regulations and their enforcement compared across 145 countries.
The minimum capital for opening a business compared to per capita income is relatively low in Lebanon, the third lowest in the MENA region. Still it is almost double the requirement in OECD.

On average, out of four indicators for starting a business, Lebanon ranks 6th in the region. Lebanon has scored relatively well when it comes to the minimum capital required and the number of procedures. But this positive score is offset by the long duration for starting a business and the high cost accompanied with it.

This suggests that there remains scope for cutting the costs of setting up a business as well as the minimum capital required to do so. Some countries have combined several administrative functions into a single access point for would-be entrepreneurs; others improved information systems. More procedures mean more delays and more opportunities for bureaucrats to extract bribes. Two procedures are enough to start a business in New Zealand: notification of existence, and registration for tax and social security. The time and cost to set up a business go hand in hand. Lebanon can reduce the number of procedures while maintaining the same level of regulation. Turkey was able to do this by launching one-stop registration through combining seven procedures into a single visit to the company registry.

Reducing costs can be straightforward. Scrapping minimum capital requirements is a difficult reform because it requires legislative change. But Lebanon was able to do it once by revising its company legislation in 1998, which cut capital requirements to 82 percent of its per capita income. Lebanon can cut the minimum capital requirement to even less than the 82 percent.

Experience with reform shows that new entry of formal businesses grows when regulation is relaxed and the administrative process simplified. Enticing enterprises to the formal economy has two economic benefits for they tend to grow to more efficient sizes and pay taxes, increasing the tax base for government revenues.

**Hiring and Firing Workers**

The data is based on an assessment of employment laws and regulation as well as specific constitutional provisions governing this area.

The index may take values of 0-100 with higher values indicating more rigid regulation. The indicator gives businessmen an idea of the impending indirect costs linked to their ability to adjust to shocks, such as new technologies, macroeconomic shocks and privatization. Lebanon ranks third in the MENA region in terms of rigidity of employment, doing well above the MENA average and close to that of OECD.

Lebanon has adopted redundancy as grounds for dismissal. However, high firing costs - 103 weeks of wages, as compared to the regional average of 74.3 - might be its downside especially with the relative high minimum wage of the Lebanese workers as compared to that of the Syrians. This has led many businessmen to employ non-Lebanese workers informally to preserve their competitive ability in the Arab market.

When compared to Singapore, Lebanon is well behind. Lebanon’s working conditions should be more focused on comparing them to the region.

**Registering Property**

Heavy regulation and weak property rights act as an implicit tax on the value of property. They also increase the transaction cost of trading. High costs of registration and land use/urban planning rigidities can hurt the poor in restricting them to owning informal assets that cannot be used as collateral to obtain loans. Hernando
De Soto calls this “dead capital.” Considerable benefits can be achieved when the process of formalizing property rights is combined with improvements in the land registry, collateral registry and access to credit.

It takes 24 days to register property in Lebanon, well below the MENA average of 54 days and OECD’s norm of 34 days.

Lebanon ranks 5th when it comes to the cost of registering property, close to OECD’s 5 percent.

Getting Credit

Improving credit information and the laws to create and enforce collateral - both in and out of bankruptcy - is not just about creditor rights. It also benefits deserving debtors by increasing their chances to access credit. Credit markets work best with an effective assessment of the borrower’s credit history, an ability to use a wide range of assets as collateral cheaply and enforcement of collateral out of court.

The data on credit information sharing institutions confirms the presence/absence of public credit registries and private credit information office. A public credit registry is defined as a database managed by the public sector, usually by the Central Bank, which collects information on the standing of borrowers in the financial system. It role is to facilitate exchange of credit information among banks and financial institutions. The coverage indicator reports the number of individuals and/or firms listed in the private credit bureau as of 2004 with current information on repayment history, unpaid debts, or outstanding credit. The number is scaled to the country’s population (per 1,000 capita). A coverage value of 0 indicates that no bureau operates.

In terms of public registry coverage, Lebanon ranks 3rd, while in terms of private coverage only Kuwait has such coverage. The MENA region is well behind when compared to the OECD average of 76 in public and private credit registry coverage.

In Lebanon, the issue is not so much whether there is access to credit, but who has access to such credit. Observing the Lorenz Curve describing banking credit allocated to the private sector in Lebanon, one can infer that there is inequality in the distribution of credit. One percent of the borrowers get 52 percent of the banking credit, while 45 percent get only two percent of the credit. Having access to credit is directly linked to investment and job creation, especially within small and medium enterprises (SME). The concentration of credit in the hands of few family-owned businesses is a major constraint to the development of small and medium
enterprises. The establishment of “Kafalat” as a way to reach SMEs is a step in the right direction.

**Protecting Investors**

DBD distinguishes three dimensions of investor protection: disclosure of ownership and financial information; legal protection of small investors; and enforcement capabilities in the courts or security regulators. DBD 2005 focuses on the first two. The data comes from a survey of corporate and security lawyers and is based on relevant corporate governance laws and regulations applicable to a standard company.

The index captures seven ways of enhancing disclosure. It varies between 0 and 7, with higher values indicating more disclosure.

Lebanon ranks 8th in the disclosure index, well below the average of the MENA and OECD.

**Enforcing Contracts**

The DBD contains two main indicators of efficiency of the judicial system on the enforcement of commercial contracts. The first is the number of procedures mandated by law or court regulation, requiring interaction between the parties or between them and the judge or court officer. The second indicator is an estimate – in calendar days – of the duration of the dispute resolution. Time is measured as the number of days from the moment the plaintiff files the lawsuit in court until the moment of actual payment.

Lebanon ranks 5th in the number of procedures for enforcing contracts, a bit below MENA average but double that of the OECD.

Lebanon does much worse in terms of the duration for enforcing contracts, ranking last. It takes firms triple the time to enforce a contract in Lebanon than the OECD average.

In Lebanon, debt recovery takes two years. The problem does not lie in the quality of judges or the lack of resources, but in the overly bureaucratic judicial procedures that judges and the litigants face when resolving a dispute. In the absence of efficient courts, fewer investments and business transactions take place.

The debt collection can be simplified by establishing summary proceedings and introducing case managements, which would reduce corruption. Appeals should also be limited. Increasing the free of appeal could help. Lebanon can decrease its debt-recovery cost, which is running 26 percent of the debt, by enhancing the efficiency in enforcing judicial rulings. Judicial reforms in Jordan has accounted for more than half the debt recovery progress.
Closing a Business

The cost measure is defined as the cost of the entire bankruptcy process, including court costs, insolvency practitioners’ costs, the cost of independent assessors, lawyers, accountants, etc… The Time Measure is the average duration that insolvency lawyers estimate is necessary to complete a procedure.

Lebanon ranks 6th in the number of years for closing a business, just above the average of MENA but double that of OECD.

Lebanon, however, does much worse in terms of overall cost of closing a business, ranking 11th in MENA region and costing 2.6 percent more than the OECD average.

The reverse is true in Jordan, which has introduced reforms such as limiting appeals, having specialized expertise in the courts and paying administrators for maximizing the exit value. The effort to develop bankruptcy laws has been misdirected into establishing complex procedures for reorganizing businesses in distress. Simplifying the process, reducing the number of procedures and moving the process out of the courts would decrease the actual cost of closing a business in Lebanon.

Conclusion

Based on the Doing Business Database, Lebanon needs to improve the investment climate, given the significant progress in neighboring countries like Jordan, Turkey and Tunisia (one of the regional leaders). Overall, Lebanon is doing reasonably well, but it risks regression if it fails to push forward with reforms, especially that other emerging economies – in the Gulf for example - are aggressively reforming their business procedures.

Lebanon has a rare wealth of development ingredients - a talented workforce of professionals and entrepreneurs. But it lacks some of the most basic ingredients that most countries have come to take for granted (transparent, predictable, and enforceable rules and regulations for doing business)! Acquiring the latter is purely a matter of will.

Compared to the selected countries, Lebanon falls behind in when it comes to the complexity and difficulty the businessmen face in trying to exit the business.

The Lebanon Development Marketplace (LDM) is a country-level replica of the international competition, which the World Bank organizes yearly at its headquarters in Washington D.C. It provides a better focus on local development issues, and tailors solutions to country needs and circumstances.

“Harvesting Youth and Community Ideas for a Better Environment” is aimed at supporting community innovations and initiatives to clean up and protect the Lebanese landscape, air and water. It aims at linking social entrepreneurs, with poverty fighting and development ideas in the domain of Environment, to partners with the resources to implement them.

The objective of the competition is to raise awareness about environmental degradation; involve the youth and local communities in creative thinking and implementation; and pilot new ideas on the environment which could be scaled up at the national level, through a venture capital approach, while diversifying risk and encouraging innovation.

ELIGIBILITY AND THEMES

The LDM is an open, transparent and competitive initiative open to youth groups, local communities, national NGOs, academic institutions in both urban and rural communities. While municipalities are not eligible for competing on their own, community-based organizations are encouraged to coordinate with their local municipalities the implementation of the proposed initiatives.

The competition is open along a long list of environmental sub-themes, which include, among others: Biodiversity, Climate Change, Coastal and Marine Management, Desertification, Energy, Forest and Forestry, Land Resources Management, Persistent Organic Pollutants (POP), Pollution Management (air, sea/river water...), Recycling, Waste Management (solid waste, hospital waste, wastewater...) Water Resources Management, etc...

FINANCING

So far, a total grant amount of US$130,000 has been raised for the competition, with the World Bank contributing US$100,000 and the UNDP (the LIFE Programme) and the UN Resident Coordinator Office contributing US$30,000. Depending on the number and size of finalist proposals, it is envisaged that 5 to 8 awards will be provided to participants (with a maximum award size of US$20,000 per proposal). The number of final awards may be increased with additional contributions to the pot from other donors. The World Bank and UNDP are seeking the support of international and national partners either financially or in kind.

COMPETITION PHASES

Phase 1 - Call for Proposals (November 26, 2004 – January 14, 2005). Proposal outlines conforming to competition eligibility criteria and conditions should be typed in Arabic or English and submitted by mail to the World Bank Country Office.

Phase 2 - Review of Proposals (January 15, 2005 – March 7, 2005). Organizations whose proposals are selected by assessment panels comprising experts in the environment field, including the competition’s sponsors, academia and NGOs, will be requested to submit full-fledge detailed proposals.

Phase 3 - Final selection (April-June, 2005). Finalists will be invited to display their projects on Innovation Day (to be announced), where an independent panel of jurors comprising reputed experts will evaluate each exhibit against an objective scorecard and announce winners.

For more details on the Lebanon DM process, eligibility criteria, and application templates: www.worldbank.org/lb or www.undp.org.lb
Computer Donation Program of the World Bank

The World Bank has recently launched a worldwide donation of recycled computers, office equipment and supplies and furniture to non-profit NGOs located in Washington DC and other countries where the Bank has facilities.

The second phase of the program has been announced. Nonprofits NGOs located in countries where the Bank has a presence are invited to apply to the program. Nonprofits/NGOs which provide programs in the areas of education, job training, opportunities for youth, maternal and child health, adult literacy mentoring and other critical community services with non-profit status in the country in which they are located are eligible to apply to this donation program.

Interested NGOs may apply for the computer donation program through an application process posted on the web. NGOs will be served on a first-come first-serve basis.

For more information, visit:
www.worldbank.org/lb or contact
Guitta El Alam, gelalam@worldbank.org

Development Marketplace 2005

Development Marketplace (DM), a World Bank program that helps to identify and directly support innovative bottom-up development ideas that deliver results, is launching its call for proposals for 2005. DM is an excellent opportunity for the Bank to support innovative local ideas, engage members of civil society, private sector and so forth. Since its inception in 1998, DM has awarded roughly US$25 million to more than 500 projects through Global and Country-level Marketplaces.

This year DM will focus entirely on a global initiative on the environment, calling for proposals on Innovation for Livelihoods in a Sustainable Environment. The objective is to engage the development community in productive environmental initiatives and inventive partnerships that will test new approaches and offer high potential impact in poverty reduction, economic development, and environmental sustainability.

Proposals are welcome from a range of development Innovators; civil society groups, social entrepreneurs, private foundations, academia, private sector corporations, as well as, staff from the World Bank and other donor organizations.

In the past, Global DMs have supported a broad range of initiatives. DM 2005 will set the stage for a new thematic approach. The idea behind this approach is to incubate solutions to some of the most demanding challenges in a particular sector and to use the results to inform the thinking and knowledge sharing within the World Bank and in the development community at-large.

Proposals can be sent from November 19 through January 21, 2005 and submitted through the DM website. Finalists will be announced in late-March 2005. The Bank will award roughly US$3 million in grants to the best project ideas. The maximum award amount will be US$150,000. This is a public event open to all in the development community.

Unlike the country-level competition, the global DM is a broader level competition where applicants compete against each other at the international level.

For more information about Development Marketplace, visit:
www.developmentmarketplace.org
Small Grants Program 2005 in Lebanon

The World Bank Lebanon Office will launch the new round of the Small Grants Program in January 2005.

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

The SmGP supports activities that promote dialogue, dissemination, and linkages among organizations to foster civic engagement. Civic engagement is defined as: citizen, either individually or as organized groups, interacting with the public sector to strengthen mechanisms for inclusion, accountability and participation in order to influence development outcomes. It is important to distinguish between direct service delivery (which the SmGP does not support) and activities that foster new relationships, and ideas about civic engagement.

Proposals and Funding

Activities supported by the SmGP may include, but are not limited to, workshops and seminars to enhance civic engagement skills and /or knowledge, appropriate communication campaigns to influence policymaking or public service delivery, costs of publications or audio-visual materials or other innovative networking efforts that small organizations generally find difficult to fund through their regular program budgets.

The activity should be completed within one year of the date the grant is awarded and the budget should not exceed the maximum amount of US$15,000. The Small Grants Program rarely funds more than half of the proposed budget for an activity, and therefore prefers that its grants help leverage additional contributions from other sources. Priority is given to organizations which have not been previously supported by the SmGP.

The SmGP in Lebanon

The Lebanon Country Office has been part of the Program for five consecutive years now. Previous grantees of the SmGP in Lebanon are: 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.

Small Grants cannot fund: Research programs, formal academic training programs, operational projects, ongoing institutional core support (such as equipment), scholarships, fellowships, study programs, individuals applying on their own behalf, or nonlegal entities. Proposed activities should not compete with or substitute for regular World Bank instruments; the activity should be clearly distinguishable from the Bank’s regular programs.

How to Apply for a Grant?

The 2005 call for proposals will be initiated early January 2005 to a long list of NGOs, and through the country office website. The call for proposals will comprise of the SmGP guidelines and eligibility criteria, in addition to an application template. Applications received will be screened and reviewed by a Small Grants Committee to ensure that the criteria are met, after which the awarding decision will be communicated to the winning CSOs in May 2005.

For more information about the Small Grants Program in Lebanon, visit:

www.worldbank.org/lb or contact
Zeina El Khalil, zelkhalil@worldbank.org
Doing Business in 2005: Removing Obstacles to Growth (ISBN: 0-8213-5748-4; SKU: 15748). Doing Business in 2005: Removing Obstacles to Growth is the second in a series of annual reports investigating the scope and manner of regulations that enhance business activity and those that constrain it. New quantitative indicators on business regulations and their enforcement can be compared across 145 countries—from Albania to Zimbabwe—and over time.

The previous report, Doing Business in 2004: Understanding Regulation, presented indicators in five main topics: starting a business, hiring and firing workers, enforcing contracts, getting credit and closing a business. Doing Business in 2005 updates these measures and adds another two sets: registering property and protecting investors. The indicators are used to analyze economic and social outcomes, such as productivity, investment, informality, corruption, unemployment and poverty, and identify what reforms have worked, where and why.

In Doing Business in 2005, you will also find answers to such questions as: Which are the Top 10 reformer countries since last year? Which are the Top 20 economies for doing business?, as well as Which countries implemented more harmful regulations?

Cost of Environmental Degradation - The Case of Lebanon and Tunisia (Working Paper 29902). This Paper is the first step in a process supported by the Mediterranean Environmental Technical Assistance Program (METAP), towards using environmental damage, and cost assessments as instruments for integrating environmental issues into economic and social development. The specific objectives of this Paper are threefold: (1) provide an estimate of the cost of environmental degradation; (2) provide an analytical framework that can be applied periodically by professionals to assess the cost of environmental degradation over time; and, (3) provide a basis for a training program for ministries, agencies, institutes and other interested parties to incorporate assessments of environmental degradation costs into policymaking and environmental management. The Paper also provides cost estimates of select remedial actions that may be necessary to protect and restore the environment, and, presents a discussion comparing damage and remediation costs and the potential benefits of remedial action for some environmental issues. The cost of remediation has been estimated for a limited number of actions for each environmental category, and, although the cost of remediation is the focus here, and mainly of investments and programs, a discussion of the policy context is warranted. Reducing degradation, and protecting the environment should be viewed in the context of economic and sector policies and development, and in the broader framework of environmental management. A comparison of benefits (reductions in damage) and costs (remedial actions), can be useful to point to environmental issues, for which benefits of remediation are likely to exceed the cost of remedial actions.

Current World Trade Agenda: Issues and Implications for the Middle East and North Africa Region (Working Paper 27396). The Paper discusses the imperatives for trade reform in the MENA region and presents an overview of the process and rules of multilateral negotiations and MENA countries' involvement. It also examines the three sector areas of agriculture, services, and textiles and clothing. This Paper focuses on three key questions for the MENA region: (1) How will trade liberalization in agriculture, services and implementation-completion of the textiles and clothing agreements affect MENA prospects?; (2) How should the MENA countries position themselves going forward in these negotiations?; and (3) How can the MENA countries shape their domestic policies and unilateral/multilateral trade policies to maximize the gains and minimize potential downsides, from such prospective and far-reaching negotiations?

Reforms and Growth in Middle East and North Africa Countries: New Empirical Evidence (Working Paper 29886). This Paper analyzes the linkages among economic reforms, human capital, physical infrastructure, and growth for a panel of 44 developing countries over the period of 1970-80 to 1999. The authors generate aggregated reform indicators using principal component analysis and show that the growth performance of the MENA region has been disappointing, because these economies have lagged behind in terms of economic reforms. However, the analysis also reveals that the growth dividend of some reforms has been small. This is the case when structural
reforms are implemented in an unstable macroeconomic environment (which corresponds to the situation of the MENA countries in the 1980s), and when macroeconomic reforms are accompanied by a low level of structural reforms (as observed during the 1990s).

Deeper Integration and Trade in Services in the Euro-Mediterranean Region: Southern Dimensions of the European Neighborhood Policy (ISBN: 0-8213-5955-X SKU: 15955). The Arab countries of the southern Mediterranean rim have long suffered from economic stagnation and an increasing marginalization in the global economy. Deeper economic integration with the enlarged European Union—accounting for a quarter of global GDP and foreign direct investment—could become a main driver for economic development in the southern Mediterranean countries. The planned Euro-Mediterranean free trade area for goods is a first step in that direction, but additional measures are needed to translate geographic proximity into economic growth; especially, the removal of non-tariff barriers, the liberalization of services trade, and comprehensive behind-the-border policy reforms. The European Neighborhood Policy, launched in 2003, could provide an appropriate policy framework for an integration strategy between the EU and its southern periphery.

This Report analyzes the adjustment needs and policy options associated with deeper integration between the two sides of the Mediterranean Sea. It puts specific emphasis on the dynamics of deeper integration at the company level, including issues such as outward processing trade, supply-chain integration, and the outsourcing of back-office functions. In addition to a general discussion of deeper integration and trade in services liberalization, the title also contains a detailed assessment of individual sectors—especially the backbone services and other markets of particular relevance for deeper integration. Even though the main focus is on regional integration, the title also factors multilateral liberalization issues into its analysis, as well as options, for the pursuit of an open regionalism.

World Development Report 2005: A Better Investment Climate for Everyone (ISBN: 0-8213-5682-8 SKU: 15682). 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. Their contribution depends largely on the way governments shape the investment climate in each location—through the protection of property rights, regulation and taxation, strategies for providing infrastructure, interventions in finance and labor markets, and broader governance features such as corruption.

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?

Data and Statistics

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

To access the on-line databases, visit: http://www.worldbank.org/data/