The World Bank Group and Lebanon
A Country Study
September 2012
Acknowledgements

The Bank Information Center credits the Middle East and North Africa Program’s Angelina Jarrouj as the primary author of this study. However, this study would not have been possible without the great support of Amy Ekdawi and Nadia Daar whose diligent input and valuable feedback contributed immensely to this study. We would also like to thank our partner organization in Lebanon the Middle East Advocacy and Research Center (MARC) for providing us with suggestions and recommendations especially related to information on the political and economic context in Lebanon, and the World Bank office in Lebanon for fact-checking World Bank-related information used in the study.

We thank you all for making this study possible.
Table of Contents:

I. What is the purpose of this study?-------------------------------------------------------------1

II. What is the World Bank Group?---------------------------------------------------------------1

III. Why care about the World Bank Group?--------------------------------------------------------2

IV. Political and Economic Context in Lebanon -----------------------------------------------3
   A. Politics
      1. 1990-2000
      2. 2000-2005
      3. 2005-Present

   B. Economy
      1. Structure of the Economy
         a) Banking Sector
         b) Remittances
      2. Growth and Inequality
      3. Inflation and Unemployment
      4. Deficit and Debt
      5. Foreign Aid and Investment

   C. Current Development Challenges
      1. Maintaining a prudent approach to economic management
      2. Implementation of key structural reforms
      3. Sectarian politics
      4. Non-holistic approach to development
      5. Corruption

V. The World Bank Group in Lebanon -----------------------------------------------14
   A. World Bank in Lebanon
      1. Recent involvement
         a) Paris III, January 2007
         b) Interim Strategy Note (ISN) FY 2008-2009
         c) Country Partnership Strategy (CPS) FY 2011-2014
      2. The Bank's current portfolio in Lebanon
B. International Finance Corporation (IFC) in Lebanon
   1. Recent involvement
      b) Country Partnership Strategy (CPS) FY 2011-2014
   2. The IFC’s current portfolio in Lebanon

C. Multilateral Investment Guarantee Agency (MIGA) in Lebanon

D. International Centre for Settlement of Investment Disputes (ICSID) in Lebanon

VI. What points of leverage does civil society have over the World Bank Group?

A. Country Strategies

B. Project-related consultations

C. Safeguard Policies
   1. Inspection Panel
   2. Integrity Vice Presidency (INT)
   3. Compliance Advisor Ombudsman

D. Media

E. Executive Directors

F. Access to Information Policy

G. Enhanced Action Plan

VII. Further Resources
List of Acronyms:

BIC: Bank Information Center
CAS: Country Assistance Strategy
CPS: Country Partnership Strategy
CSO: Civil Society Organization
DPL: Development Policy Loan
ED: Executive Director
ESIA: Economic and Social Impact Assessment
GDP: Gross Domestic Product
IBRD: International Bank for Reconstruction and Development
ICSID: The International Centre for Settlement of Investment Disputes
IDA: International Development Association
IFC: International Finance Corporation
IFI: International Financial Institution
IMF: International Monetary Fund
ISN: Interim Strategy Note
MIGA: The Multilateral Investment Guarantee Agency
NGO: Non-governmental Organization
PPP: Purchasing Power Parity
RIDPL: Reform Implementation Development Policy Loan
SME: Small and Medium Enterprise
TFL: Trust Fund for Lebanon
WBG: World Bank Group
I. What is the purpose of this study?

The purpose of this study is to provide interested or affected individuals/groups with information on the World Bank Group (WBG) and its involvement in Lebanon and to help them understand how they might influence its activities. In addition, this study provides a useful tool for a broader audience such as practitioners, academics, students, donors and anyone interested in understanding the context of the WBG in Lebanon. The World Bank Group is one of the most influential International Financial Institutions (IFIs), which are public investment and development institutions owned by their member governments that provide funding, technical assistance, policy advice, research and other non-financial support to governments in “developing” and “transition” countries. Many IFIs also provide financing to companies investing in the developing world. The International Monetary Fund (IMF) is another example of a well-known IFI.

This study focuses on the World Bank Group for two main reasons. First, it is the IFI that is most involved in Lebanon through its different projects and programs. Second, at the Bank Information Center (BIC), we work with civil society in developing and transition countries to influence the World Bank Group and its policies. Although we pay close attention to other IFIs, our main focus is the World Bank Group.

II. What is the World Bank Group?

The World Bank was created in 1944, initially to help rebuild Europe after World War II. Today, the World Bank’s professed mission is to fight poverty and promote economic growth and development in the world.

For the purposes of this paper, it is important to differentiate between the World Bank and the World Bank Group. Although these terms are often used interchangeably, they are not the same. The World Bank Group (WBG) is comprised of five separate arms:

1. The International Bank for Reconstruction and Development (IBRD): gives loans at near-market interest rates to middle-income countries.\(^1\)

2. The International Development Association (IDA): gives grants and discounted loans to low-income countries.\(^2\)

---


\(^2\) *What is IDA?*, International Development Association.
3. The International Finance Corporation (IFC): “provides investments and advisory services to build the private sector in developing countries.”

4. The Multilateral Investment Guarantee Agency (MIGA): “promotes foreign direct investment into developing countries by providing political risk insurance (guarantees) to the private sector.”

5. The International Centre for Settlement of Investment Disputes (ICSID): “provides facilities for conciliation and arbitration of international investment disputes.”

IBRD and IDA work primarily with governments and together constitute the “World Bank” (henceforth referred to as the Bank). The IFC and MIGA are the WBG’s two private sector arms and directly support private companies investing in developing countries.

III. Why care about the World Bank Group?

Everyone has the right to take part in the development decisions that affect his or her life, livelihood, and the environment. The WBG may be affecting you directly through the projects and policies it finances in Lebanon, or indirectly through its influence on your government, investors and the development discourse in general. Whether you agree with the policies that the WBG promotes and the programs it finances or not, these may have direct impacts on your daily life.

In Lebanon, the WBG’s operations influence the post-war reconstruction process, access to finance, the efficiency of infrastructure services, education standards, health services and the environment to cite only a few examples of the extent of their reach. Consequently, its actions may affect you and your communities.

- **The WBG may be a good advocacy target.** The WBG wields significant influence over economic and political actors in Lebanon, including the government, but also donors, development agencies and investors. Working on the WBG and influencing its operations in Lebanon may help you achieve some of the changes you and/or your organization seek at a local, national or international level.

---

3 [About IFC](#), International Finance Corporation.
4 [About MIGA](#), Multilateral Investment Guarantee Agency.
5 [About ICSID](#), International Centre for Settlement of Investment Disputes.
The WBG may be an important source of information. Whether or not you agree with the WBG’s strategies and the policy recommendations it makes, the information generated by the WBG can often be useful to civil society actors. It may be difficult to access similar data from other sources. And because the WBG has obligations to provide public access to information, civil society actors have grounds on which to assert their right to documentation about development projects and policies supported by this institution.

The WBG can be a “lightning rod” for international attention. Because governments, private companies, civil society and media around the world pay attention to the activities of global institutions like the WBG, exposing the link between the WBG’s activities and the issue(s) on which you work may help to attract more attention than you might otherwise receive. Also, addressing the IFI dimension of an issue that concerns you may help you form alliances with other organizations working on the WBG. This access to transnational civil society advocacy networks can help amplify your message and strengthen your campaign.

IV. Political and Economic Context in Lebanon

Lebanon is a small, high-middle-income country located on the eastern shore of the Mediterranean Sea with an area of 10,452 km². It has a population of 4.1 million and a sizable Diaspora of several million. Lebanon is highly urbanized where over 85% of the population lives in cities and about half lives in the capital Beirut. It is also the most water-abundant country in the Middle East and North Africa (MENA) region, which is considered the driest region of the world.

A. Politics

To better understand the role of the World Bank Group in Lebanon, it is important to provide some background information on the recent political context in which the WBG had been operating, especially since the country has been witnessing intermittent conflict for the last four decades. Although the paper will focus on the WBG’s recent involvement in Lebanon (starting around 2005), this section will go back farther in time to discuss the political and economic events that led to the more recent context.

---

7 Lebanon, The World Factbook, Central Intelligence Agency.
Lebanon is a sectarian-based democracy in which power is divided among representatives of different religious sects and legislative decisions are made through a consensus decision-making process. This model, while highly representative from some perspectives, often results in years of bottle-necked decisions. Sectarianism underpins public life in Lebanon and plays a major role in determining political and economic decisions as well as defining the relationship between citizen and state.

1. **1990-2000**

Historically, Lebanon had been a model for social and economic development in the region, until 1975 when a 15-year civil war destroyed the country’s social and physical infrastructure and severely damaged the economy. Post-war policies and reconstruction efforts during the 1990’s did not lead to the desired outcomes, and in many ways, further aggravated the political, social and economic situation in the country. Reconstruction plans, although largely successful, mainly focused on the rehabilitation of physical infrastructure and “lacked a comprehensive developmental vision for the Lebanese economy.” Although social expenditure increased after the war, social policies failed to promote social inclusion and reduce inequality due to institutional inefficiencies and duplication of efforts. Annual growth rates were less than half the rates predicted for the post-war era. Public debt and public deficit increased rapidly as interest payments on loans exceeded capital expenditures, a result of an expansionary public expenditure policy adopted by the government. Most notably, the sectarian divisions in the country were further widened by the partial implementation of the Taif Accords which called for the gradual abolishing of the political sectarian system in Lebanon but in fact, as many argue, simply constituted a reshuffling of power distribution among the main religious sects in Lebanon.

2. **2000-2005**

Post-war reconstruction and reform efforts continued during the 2000s and were made possible through international financial aid, public debt and private investments. Beyond reconstruction, the Lebanese government turned its attention to the economy, achieving sustainable growth and addressing the issue of public debt. For that purpose, the Lebanese government led by then Prime Minister Rafik Hariri launched an economic reform program in an effort to improve socio-economic conditions in the

---


9 Ibid.
country. Hariri had played an important role in the reconstruction and reform phase during the 90s where he embarked on the largest construction program in the history of the country, which included the rebuilding of the central Beirut district. To support the Lebanese government’s efforts in this process, representatives of several governments, international organizations and financial institutions such as the World Bank Group pledged billions of dollars to the Lebanese government during the Paris I and Paris II conferences in 2001 and 2002 respectively.

Although the economy showed promising signs of recovery, several political disruptions hindered the full implementation of the reforms presented in the Paris I and II conferences and further devastated socio-economic conditions in the country. The most recent of these events were the 2005 assassination of then Prime Minister Rafik Hariri, the July 2006 Israeli war and the political stalemate that lasted 18 months during 2007 and 2008.

3. 2005-Present

On February 14, 2005, Hariri was assassinated along with another member of parliament and twenty civilians in a car bomb explosion, and a number of other politically motivated assassinations followed. Although the economy initially responded negatively to the shock of these events with growth rates, foreign investment and local consumption all decreasing dramatically, it soon bounced back after parliamentary elections were held at the end of the year and an ambitious economic recovery program was devised to restore the public’s confidence. As the Lebanese government prepared to present its program in front of an international conference (later held in January 2007 and dubbed Paris III following similar conferences in Paris in 2001 and 2002), Israel launched massive attacks against Lebanon in July 2006 that led to severe economic and social devastation: schools, businesses, villages, houses and a large portion of the country’s infrastructure was destroyed, and thousands of civilians were killed or injured. Direct costs from the war were estimated at $2.8 billion and indirect costs associated with output were estimated at $2.2 billion.

At the end of 2006, the unity government that was formed in 2005 collapsed with the opposition (March 8 Alliance) demanding more power and veto over decisions in the

10 Hariri (1944-2005), forlebanon.net.
12 Ibid.
government which was ruled by the March 14 Alliance. This resulted in a political stalemate between 2006 and 2008 that lasted 18 months and involved the two alliances. During that period, the country had no acting legislative body for a year and a half and no president for six months paralyzing the country and its economy. A series of sit-ins, protests and clashes took place during 2007 and escalated into intense sectarian clashes during 2008 further aggravating political divisions in the country. In May 2008, rival Lebanese political groups met in Doha, Qatar and reached an agreement to put an end to the political crisis crippling the country. The resulting Doha Agreement satisfied the opposition’s demand for veto power, “laid out the essential steps for long-term stability that the different parties would agree to” and paved the way for the election of a new president.\textsuperscript{13}

Despite short periods of relative calm and prosperity such as during 2009 when the political atmosphere in the country was conducive to growth and allowed for an economic boom, the political situation continues to present challenges to governance and economic growth prospects in Lebanon.

\section{B. Economy}

In addition to the prevailing political atmosphere in the country, it is important to consider the recent economic context in which the World Bank Group has been operating in Lebanon. While the previous section briefly touched on the unique relationship between politics and the economy in Lebanon, this section will focus on specific economic indicators, provide a critical analysis of each of them and show how they are interrelated. This analysis will allow for a better understanding of the full economic story that is only partially reflected in those indicators alone.

\subsection{1. Structure of the Economy}

Lebanon’s economy is service-oriented and is mostly based on financial services, trade and tourism. Agriculture, Industry and Services make up 5.1%, 15.9% and 79% of the Gross Domestic Product (GDP) respectively (2010 estimate).\textsuperscript{14} The fact that the Lebanese economy is highly dependent on the services sector makes it more vulnerable to external shocks. Growth that is based on the services sector cannot be sustainable in a fragile political and economic context as the one that exists in Lebanon. Agriculture and industry are very important in maintaining a sustainable economy in Lebanon especially that these sectors once constituted a major part of the economy.

\textsuperscript{13} Ibid.
\textsuperscript{14} Economy: Lebanon, The World Factbook, Central Intelligence Agency.
a) Banking sector

An analysis of the Lebanese economy would be incomplete without a discussion of the banking sector which is the main pillar of the Lebanese economy with a size equivalent to 350% of GDP in 2009. Banks are the main lenders to individuals and businesses in Lebanon: domestic credit (except to the central government) provided by the banking sector was 165% of GDP in 2009. They are also the “main channel for capital inflows into Lebanon” and play an important role in financing the government.

The Lebanese banking sector has long been praised for its secrecy and conservative practices, the latter of which allowed it to withstand the most recent global financial crisis of 2008-2009: in fact, the banking sector in Lebanon proved to be the most resilient in the Middle East and North Africa region during the crisis as evidenced by the growth in domestic banking sector assets during the first nine months of 2009 which was 65% greater than that for the same period in 2008. Other factors also contributed to the Lebanese financial sector’s resilience such as stringent regulatory measures, interest rate and risk management, heavy reliance on domestic depositors and mostly domestic lending.

However, many argue that this demonstrated resilience is not sustainable in the long term and is not “equivalent to permanent financial immunity” especially in the absence of necessary structural reforms. Also, the Lebanese banking sector is considered “deposit-rich” where deposits - mainly by Lebanese investors - make up more than 80% of Lebanese banks’ funding: bank deposits to GDP ratio is 293% and the loans-to-deposit ratio is only 31%, one of the lowest in the world. Although the availability of deposits helps in easing off the negative effects of financial shocks on the economy as a whole, the shortage of credit provision in general, and particularly in times of crisis, negatively impacts the poorest who are most likely to bear the brunt of any economic losses. We can say then, that although the conservative nature of the banking sector in Lebanon protects the country’s economy against external shocks, it is precisely those cautious elements that may negatively impact the most vulnerable population.

15 Fall in Lebanese public debt to GDP ratio spurs rating upgrades, The Daily Star, April 1, 2010.
17 Main Characteristics, Lebanese Banking Sector, Association of Banks in Lebanon.
18 Lebanese banking sector demonstrates resilience, siyese.com.
19 Ibid.
20 Ibid
21 Ibid
b) Remittances
Remittance flows into Lebanon play an important role in supporting the Lebanese economy especially during times of crisis such as the financial crisis of 2008-2009. As mentioned before, Lebanon witnesses high levels of “brain drain” and the Lebanese diaspora is considered one of the biggest in the world in terms of proportion to resident population.\(^{22}\) It is estimated that there are around 12 to 15 million Lebanese outside of Lebanon compared to around 4 million in Lebanon. This highly skilled, entrepreneurial and loyal diaspora maintains strong linkages to its country of origin particularly through remittances. In 2009, worker’s remittances received by Lebanon were $7.6 billion\(^{23}\) or 22% of GDP\(^{24}\) and Lebanon ranked as the sixth top remittance-receiving country in the world (as a percentage of GDP).\(^{25}\) This large and relatively steady inflow of money constituted a critical lifeline for the economy during the different wars and conflicts that the country experienced. Remittances also played a major role in the reconstruction phases following the civil war and 2006 war and helped the economy stay afloat during the most recent financial crisis at a time when foreign investment and private investments decreased dramatically. They continue to play an indispensable role in real estate and private sector investment as well as in supporting basic expenses such as food, education and health.\(^{26}\)

2. **Growth and Inequality**
GDP at Purchasing Power Parity PPP* (in current $US) was $38.34 billion for 2005\(^{27}\) and $34.53 billion for 2009.\(^{28}\) GDP per capita at PPP was $13,510 for 2008 (UNDP) and $13,070 in 2009 (World Bank). GDP per capita in Lebanon is significantly greater than the aggregate figure for the MENA region mostly because countries in the region vary greatly in terms of resources, population, size and structure of the economy and standards of living. However, it is consistent with that of other upper-middle-income countries. Real GDP growth was 1% in 2007 (UNDP) and 9% in 2009 (World Bank). This large increase in economic growth was mainly due to rising domestic demand as a result

\(^{*}\)GDP at Purchasing Power Parity (PPP): A nation’s GDP at PPP exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States (CIA World Factbook).
\(^{23}\) Data: Lebanon, The World Bank
\(^{25}\) Ibid.
\(^{26}\) World Bank estimates remittances into Lebanon at $8.2 billion in 2010, The Daily Star, November 11, 2010.
\(^{28}\) Data: Lebanon, The World Bank.
of large financial inflows into the country, a stable government and the economy not affected by the international financial crisis. Also, the tourism sector witnessed a significant growth rate of 38.9% with more than 2 million tourists visiting Lebanon during 2009.

Although GDP growth was high in 2009, almost double that in the MENA region and other upper-middle-income economies, this growth does not benefit the Lebanese population equally. 28% of the population is considered poor, living on US $4/day (Lebanon’s upper poverty line) and 8% is considered extremely poor, living on US $2.4/day (Lebanon’s lower poverty line). There are significant regional disparities, and poverty is mostly concentrated in the Northern and Southern regions. The richest 20% of the population received 43.55% of the national income and the poorest 20% received 7.07% of that income between 2004 and 2005. GDP growth does little to explain poverty statistics, uneven growth and regional disparities.

3. Inflation and Unemployment

The inflation rate reached 10.8% in 2008 and dropped significantly to 1.2% in 2009. This large drop in inflation, although partly attributed to the favorable political environment following parliamentary elections and the spur in economic growth, was mainly due to a decrease in the prices of imported goods such as food and oil: the quantity of imported goods increased by 17% between 2008 and 2009 while the prices of these goods increase by a mere 0.7% during the same period. While low inflation rates are generally desirable, the rapid fall in inflation between 2008 and 2009 is cause for concern. Experts argue that "in a country where over 80% of goods in the country are imported, it can be hard to tell how much inflation is locally generated and how much comes from abroad," especially in the absence of reliable data. This makes the inflation rate hard to control. Moreover, the fact that the Lebanese pound is pegged to the US dollar, which has been losing value against the euro, makes the inflation rate highly susceptible to fluctuate and the economy prone to external shocks.
It is also thought that when inflation in an economy is low, unemployment is high. The World Bank estimates unemployment in Lebanon at more than 7.9% in 2008, which is significantly high.\(^{35}\) Youth unemployment (ages 15-24) represents almost half of all unemployment in Lebanon. Although women are as educated as men, female participation in the labor force is low at 37% compared to 55% in other middle-income countries. This is due to several factors including the fact that women face wage discrimination and challenging working conditions compared to men.\(^{36}\)

The absence of labor and social protection laws, the low domestic rates of return and the failure of the economy to create employment opportunities to absorb highly-skilled labor market entrants result in high levels of "brain drain."\(^{37}\) In fact, it is argued that if it were not for the migration of skilled graduates, unemployment would actually be higher.\(^{38}\) This attests to the severity of the issues facing the Lebanese labor market.

4. **Deficit and Debt**

The Lebanese budget deficit was estimated at around $3 billion in 2009.\(^{39}\) The country also suffers from a high current account deficit. According to the twin deficits hypothesis, the budget and account deficits are highly correlated: **a large budget deficit leads to a large current account deficit.** Indeed, the Lebanese economy witnessed a budget deficit that was around 6% and a current account deficit that was 15.5% of GDP in 2009. This means that the government’s spending exceeded its revenues from taxes, and its payments for exports exceeded its income from imports. These deficits make the GDP growth figures mentioned above appear not so optimistic.

Net public debt was 148% of GDP in 2009.\(^{40}\) According to one study, Lebanon ranked as the country with the third highest estimated public debt in a country comparison of 130 countries in 2010.\(^{41}\) Lebanon’s high public debt makes it more vulnerable to external shocks and presents a challenge for sustainable, broad-based growth.

---


\(^{36}\) Ibid.

\(^{37}\) Ibid.

\(^{38}\) Lebanon’s youth unemployment rates following widespread regional trend, Tamara Qiblawi, The Daily Star, January 31, 2011.

\(^{39}\) Economy: Lebanon, The World Factbook, Central Intelligence Agency.


According to the World Bank, Lebanon’s total outstanding and disbursed (unpaid) debt for 2009 totaled around $34 billion. The country’s total debt represented 98.3% of its GDP in 2009. Private and bilateral donors constitute the major sources of Lebanon’s external debt. The very high figures for public and external debt (148% and 98.3% of GDP respectively) are cause for alarm. They indicate that the Lebanese government is financing a substantial amount of its spending by borrowing internally as well as from foreign countries and international institutions such as the World Bank. The high debt burden means less money to invest in the growth of the economy and Lebanese citizens will eventually bear the brunt of this burden.

5. Foreign Aid and Investment

Lebanon enjoys good relationships with European countries and the US and hence, receives good amounts of aid and foreign investment interest from those countries among others. Net Official Development Assistance (ODA) and official aid to Lebanon totaled around $1 billion in 2009. The top three donors in 2008 were France, the United States and the European Commission. Although its open-market economy might theoretically enable the environment for private investment, in reality this does not materialize due to other factors. The system suffers from inefficient bureaucracy, lack of transparency and absence of accountability mechanisms which lead to an environment that is not conducive to business and investment.

In 2011, Lebanon ranked 113 out of 183 countries in the Ease of Doing Business Index which measures business regulations in a certain country and is prepared by the International Finance Corporation (IFC). Regulations for Dealing with Construction Permits, Enforcing Contracts and Closing a Business make the business environment less conducive to the starting and operation of a local firm in Lebanon. Moreover, Lebanon scored 32 on the 2010 Open Budget Index (OBI) prepared by the International Budget Partnership (IBP). This index measures budget transparency and accountability in different countries, and Lebanon’s score indicates that there is minimal budget information that is made publicly available.

In short, it is not enough to look at growth numbers in order to determine the state of a country’s economy, especially in such a complex political and economic context as that

43 Ibid.
which exists in Lebanon. It is crucial to analyze a wide range of statistics in order to better understand the Lebanese economy and hence its state of development. This will help us better understand the work of the World Bank Group in the country.

C. Current Development Challenges
The World Bank identifies the two challenges below among the most pressing challenges currently facing Lebanon:

1. Maintaining a prudent approach to economic management
Although the Lebanese economy did not witness a decrease in growth rates during the most recent international financial crisis, the country remains vulnerable to external shocks due to very high public debt and twin deficits. The Bank argues that careful fiscal management and good monetary policies are important for maintaining trust in the financial sector and managing risk and exposure to global crises.  

2. Implementation of key structural reforms
While proper fiscal management is necessary for creating long-term growth in Lebanon, it is not enough to sustain this growth potential. According to the Bank, implementing structural reforms to address the root economic causes will help in creating jobs and promoting long-term sustainable growth. Structural reforms in the water, energy and private sectors specifically will improve the business environment in Lebanon and lead to long-term growth in the Lebanese economy.  

Beyond those mentioned by the Bank, some of the other challenges that pose a threat to development in Lebanon include:

3. Sectarian politics
As discussed previously, sectarianism underpins political life in Lebanon and ultimately affects economic decisions and people’s daily lives. This model while highly representative from some perspectives often results in years of bottle-necked decisions. Many argue that real development cannot be achieved in this environment where the interests of groups override the interests of the nation. Effective social and economic

47 Ibid.
changes are only possible if those benefitting from development efforts are fairly represented in the decision process and national interests are prioritized. As such, sectarianism in Lebanon is non-conducive to effective development, and serious political reforms are needed if concrete development outcomes are expected.

4. **Non-holistic approach to development**

Effective development policies cannot ignore the prevalent social conditions in a given country particularly in the more underdeveloped regions of the country. While economic reforms and prudent fiscal management may be necessary to achieve growth in the Lebanese economy, social reforms are as necessary to ensure that the growth is equitable and sustainable, especially since social development is given little attention in Lebanon. Great efforts are needed in this area to make the development process more meaningful for the Lebanese people. Social conditions should be accounted for and integrated into every step of the development process including in policies, projects and measurement indicators. It is also very important to involve stakeholders representing the concerns and grievances of development targets in these processes, be it those affected communities themselves or in certain cases members of broader civil society such as non-governmental organizations (NGOs) and academics. One should also consider that although there are over 7,000 civil society organizations registered in Lebanon, only around 600 are actually thought to be active. This necessitates the strengthening and training of select organizations that are able to effectively engage in the design, implementation, monitoring and evaluation of development initiatives.

5. **Corruption**

Corruption constitutes a major hindrance to development in Lebanon. It is particularly prevalent in the public sector where political and sectarian interests take precedence over the general public interest resulting in inefficient policies, stalled processes and negative development impacts. Corruption also poses a threat to the private sector where there is a lack of a regulatory and monitoring framework in place. The absence of clear governance structures and accountability mechanisms further exacerbates the problem of corruption, as communities are not able to raise their concerns and grievances around development initiatives that might involve corruption. Serious reforms are then needed in the areas of governance and accountability. While ensuring greater transparency and better development outcomes, this will also serve to encourage more investments in Lebanon.

48 : Rasha Abou Zaki, Al Akhbar, June 3, 2011 (translation).
V. The World Bank Group in Lebanon

A. World Bank in Lebanon

Although Lebanon is a member of both IBRD and IDA, being a high-middle income country, it can only receive funding from the former. IDA does not provide direct funding to the country, however; it acts as an administrator of several funds from which Lebanon receives funding. To better understand the overall work of the World Bank in Lebanon, this section will deal with both IDA and IBRD collectively as the World Bank, with distinctions between the two institutions’ work drawn where necessary.

IBRD was established in 1944 as the original institution of the World Bank. On April 14, 1947, Lebanon became the 44th member of the World Bank after signing the IBRD Articles of Agreement. On August 25, 1955, Lebanon received its first ever loan from IBRD, and it was for the project “Litani Power and Irrigation Project.”

IDA was established in 1960 and is the World Bank’s “fund for the poorest.” On April 10, 1962, Lebanon signed the IDA Articles of Agreement, becoming the 60th member of IDA. Having said this, Lebanon did not become a recipient of funds from IDA simply by virtue of it becoming a member. Eligibility for IDA funds depends on a country’s relative poverty measured as GNI (Gross National Income) per capita below a certain threshold. Since Lebanon’s GNI per capita places it in the high middle-income country category, it is not eligible for IDA funds.

1. Recent involvement

The Bank currently has 9 active projects with a total commitment of around $450 million. The framework for the Bank’s engagement in Lebanon has been shaped by the political and economic events in the country’s recent history and the resultant strategies and programs such as the government’s reconstruction efforts and the Bank’s Interim Strategy Note (ISN) in 2007 and Country Partnership Strategy (CPS) in 2010. The section below outlines the different strategies and activities through which the Bank has engaged in Lebanon in recent years.

50 Lebanon Signs the IBRD Articles of Agreement, Archives, World Bank, April 14, 1947.
52 What is IDA?, International Development Association, World Bank.
54 Ibid.
a) Paris III, January 2007

The 2005 assassination of Prime Minister Rafik Hariri led to a popular uprising and the election of a new government in Lebanon. One of the main objectives of this government was to introduce and implement a comprehensive reform program. As the government prepared to announce its reform program to a Donors Conference in Beirut with the hope of receiving international support, hostilities between Israel and Hezbollah erupted in July 2006.\(^5\) The conflict resulted in the displacement of over a quarter of the Lebanese population and an estimated $2.8 billion in direct costs with more than 60% of the damage affecting the housing sector.\(^6\)

In response to the hostilities and in order to support recovery and reconstruction efforts, the World Bank created the Trust Fund for Lebanon (TFL) in September 2006 with a grant of $70 million of IBRD surplus money (this does not include money that the Bank had already allocated for Lebanon in the form of loans).\(^7\) The funds were to be used as follows:

- $30 million for basic services and infrastructure in municipalities
- $15 million for Bekaa water sector
- $15 million for private sector operations (IFC)
- $5 million for capacity building in the energy and water sectors
- $4 million for capacity building in fiscal management
- $1 million for social protection\(^8\)

The TFL was later replenished in order to provide additional grants for critical sectors such as the $6 million grant for the Second Emergency Social Protection Implementation Support Project signed in 2008.

In addition, the World Bank assisted the Lebanese government by conducting an Economic and Social Impact Assessment (ESIA) which assessed the challenges facing the economy and its different sectors and the impact of the 2006 hostilities and suggested appropriate reforms that need to be undertaken. The ESIA served as valuable input to the government’s reform program which had been adjusted to address the new issues


resulting from the 2006 conflict and was adopted by parliament on January 4, 2007. On January 25, 2007, the Lebanese government presented this comprehensive reform program during the “International Conference for Support to Lebanon” known as “Paris III” which was attended by representatives of 36 countries and 14 international institutions. The aim of the conference was to seek international financial support for the Lebanese government to facilitate the implementation of the medium-term goals of its reform program which included stimulating growth in the economy, improving social indicators, reducing inequality and public debt and achieving social and political stability. In that conference, the World Bank pledged $700 million over four years to the government of Lebanon for budgetary support and project lending. Grants for recovery and reconstruction are not included in this figure and came mainly from the TFL as shown above. Out of the $700 million, $100 million was allocated for a power sector Reform Implementation Development Policy Loan (RIDPL) and $75 million for a social sector RIDPL. The latter DPL was later dropped and it remains unclear why.

Non-socially conscious aid and neoliberal conditionalities

From the financial support that was provided by the Bank to the Lebanese government in the aftermath of the 2006 war (TFL, budget support and project lending), only a small proportion was dedicated to the social sector, even if we were to factor in the social sector RIDPL that was mentioned above but which was dropped. Most of the Bank’s assistance for Lebanon went to support sectors such as water, power and infrastructure. Although it is important that the Lebanese government focus on these types of reconstruction efforts, it is equally important to realize and address the effects of war on society and social services. The World Bank’s mandate to alleviate poverty and promote development around the world is therefore questionable in this context where its projects and programs for a post-conflict Lebanon are mainly infrastructural and do little to address the reeling social sector.

Although the international community pledged $7.6 billion in financial assistance in the form of loans and grants to the Lebanese government during Paris III, many loans, especially those provided by international institutions such as the Bank, were accompanied by strict conditionalities, some of which were reminiscent of the structural adjustments imposed on developing countries by the World Bank and IMF in

62 Ibid.
the latter part of the last century. Indeed, the $100 million power sector RIDPL extended by the World Bank to the Lebanese government as a result of Paris III is conditional on two things: reducing the debt burden, and accelerating the process of reform in targeted sectors. The $75 million social sector RIDPL which was later dropped was also conditional on significantly reducing the country’s debt and faster implementation of economic reforms. Many argue that the promised assistance was granted in return for a reform program that is designed to serve the interests of multinational corporations and will, if anything, make the poorest Lebanese worse off.

The energy sector RIDPL called for corporatizing the state-owned enterprise EdL (Electricite du Liban) and ultimately privatizing it in line with the government’s aim to reduce the role of the public sector “to ensure improved conditions for economic growth.” Privatization, which almost inevitably results in the short term loss of jobs, seems like an extreme measure for a country that is just coming out of a war that caused millions of dollars worth of destruction and makes the World Bank’s role in the fight against poverty questionable. It is also argued that many of the suggested reforms are contradictory. Besides reducing the debt burden, the Bank called on the Lebanese government to eliminate its budget deficit and improve its social security system. Reinforcing the social security system, however, requires increased spending and is therefore incompatible with the goal of reducing the budget deficit, both areas in which the World Bank is involved in Lebanon.

In terms of accountability and participation, it is important to note that Development Policy Loans (DPLs) are usually concessionary or “soft” loans that “provide quick-disbursing financing to support a country’s policy and institutional reforms.” They differ from investment loans (project lending) in that they finance policies as opposed to projects, they have more flexible terms and are accompanied by less stringent requirements and safeguards by the Bank. For example, governments are not obligated to conduct consultations with stakeholders on DPLs but are required to do so for investment lending to ensure proper participation. Since a lot of the Bank’s financial support to the Lebanese government in Paris III came in the form of budget support and

---

67 Ibid.
DPLs, it is very hard to ensure proper participation of stakeholders and hold the Bank and the Lebanese government accountable for development outcomes of those projects.

b) Interim Strategy Note (ISN) FY 2008-2009

The World Bank prepares a Country Assistance Strategy (CAS) for a period of 3 to 5 years for every country in which it operates. In exceptional circumstances, the Bank prepares a shorter-term strategy for countries facing political/economic uncertainties. This shorter term strategy is called an Interim Strategy Note (ISN). In 2005, a **CAS had been prepared to outline the Bank’s strategy in Lebanon for the years 2006-2009**; however, two intervening events necessitated the preparation of an Interim Strategy Note (ISN): the 2006 Israeli attacks on Lebanon and the political instability experienced by the country from December 2006 onwards. Due to the negative impact these two events had on the economic situation and outlook in Lebanon, the Bank had to redefine its strategy by preparing an **ISN which outlined its support for the country for the following 12 to 15 months** and was approved in August 2007. **Lebanon’s ISN**, which was a product of both the Bank and the IFC, **was anchored in the government’s reform program** that was finalized in 2007 and was built around the same three pillars as the 2005 CAS that the Bank had previously prepared:

1. governance, economic management and growth support
2. human capital development and poverty reduction
3. resource and environmental management

The program the Bank presented in the ISN aimed to provide analytical as well as financial assistance to the Lebanese government to support it in its recovery process. The two RIDPLs that resulted from the Paris III Conference (see previous section on Paris III) were included in the ISN as well as other smaller grants for social and fiscal support, technical assistance programs in the areas of capacity building and financial management and analytical support in reviewing and assessing different sectors.

Since the ISN was anchored in the government’s reform program, it discussed similar issues and steps to be taken as those found in the Paris III document, except that the ISN outlined the specific role the World Bank would play in this medium-term reform program and explained how the Bank would coordinate with other donors and the other

---


arms of the World Bank Group in order to achieve the desired goals of the Lebanese government and the international donor community. Unsurprisingly, the ISN focused on the private sector through private sector reform, technical assistance to the financial sector, capacity building in financial management and public expenditure, as well as privatization of the electricity and telecommunications sectors. The ISN discussed the importance of reforming the social sector in Lebanon especially since the Lebanese government was not spending enough money on health, education and social programs and was achieving poor results when resources were spent. Although the social sector RIDPL previously mentioned was proposed by the Bank to address this issue, it was later dropped.

In addition to the Bank’s support through the ISN, Lebanon was able to access multiple trust funds administered by the Bank such as the Institutional Development Fund (IDF), Development Grant Facility (DGF), Cities Alliance (CITIES), Persistent Organic Pollutants Trust Fund (POPs) and the State and Peace-Building Fund (SPBF) among others. The grants given to the Lebanese government supported post-war reconstruction and recovery efforts and capacity building in public institutions and totaled around $72 million.

A bold strategy and unachieved reforms
Although Lebanon showed good progress in the areas of recovery and reconstruction, the reform program that was presented during the Paris III conference and formed the basis of the ISN was left largely unachieved. More importantly, the World Bank’s commitment to the Lebanese social sector did not materialize as evidenced by the dropping of the social sector RIDPL, and its short-term strategy for Lebanon as reflected in the ISN did not result in the support that was badly needed by the country at that time. While the internal political situation in Lebanon can be partly blamed for the failure to implement these reforms, one can argue that the World Bank through its ISN did not properly consider how fragile the conditions of the Lebanese economy and political system were at that time.

The comprehensive reform program had been conceived before the 2006 hostilities and the start of the political crisis at the end of 2006 and might have been too bold or risky to undertake given the dire situation of the country in 2007 and 2008, despite the fact that it had been modified to address the new challenges resulting from these events. The consensus around the need for the implementation of the medium-term reform

program quickly disappeared, and reforms were not implemented. This raises the question: Could the World Bank be held partly responsible for the failure of the ISN to achieve any concrete results, given that the ISN was anchored in the Lebanese government’s ambitious reform program? Although it could be argued that the reform program had been developed by the Lebanese government and not by the Bank, it is up to the Bank to ensure that its strategies and financial support to governments are well thought-out and effective and ultimately generate positive development outcomes.

c) Country Partnership Strategy (CPS) FY 2011-2014

By the end of 2009, Lebanon achieved some sort of political stability with the election of a ‘National Unity’ government. In the light of this seemingly stable atmosphere, the Board of Directors at the World Bank approved the latest strategy for the Bank’s work in Lebanon on August 31, 2010. The Country Partnership Strategy (CPS) outlines the Bank’s planned involvement in Lebanon for the years 2011 to 2014, and estimates a lending capacity to the government of between $375 million and $500 million to finance different social and economic projects and programs in the country.

The strategy stresses the need for investment coupled with immediate reforms that target priority sectors identified by the Lebanese government such as electricity, water, transport, telecommunications, social protection and education. According to the Bank, this will create a favorable environment allowing for the implementation of deeper structural reforms. The following four areas were identified as strategic goals critical for supporting Lebanon’s economic growth:

1. Fiscal Stability and Public Financial Management
2. Competitive Business Environment
3. Economic Infrastructure
4. Human Capital Development and Social Protection

The strategy highlights specific country development goals which, with the Bank’s support, will help the Lebanese government achieve the above four strategic goals.

- To promote growth and fiscal stability, the Bank stresses the importance of careful debt management, improving the efficiency and quality of public expenditure and enhancing the capacity of statistics-gathering.

---

74 Ibid.
• To improve the competitiveness of the Lebanese business environment, the Bank supports the simplification of the regulatory framework to make the environment more conducive to businesses, promoting SMEs (small and medium enterprises) particularly women-owned SMEs, minimizing trade-related restrictions and improving the capacity and quality of telecommunications.

• To improve the economic infrastructure in the country, the Bank will support the Lebanese government in increasing the supply of electricity and water and improving the capacity of relevant authorities, improving urban transport infrastructure, managing solid waste and promoting environmental sustainability and promoting local development particularly at the municipal level to manage the growing disparities in living standards across different regions.

• To promote the development of human capital and improve social protection, the Bank plans to support the Lebanese government in improving the quality of public schools and teaching, providing more efficient social protection to the most vulnerable groups like the sick and the elderly and improving social safety net programs that target the poorest.\textsuperscript{75}

The World Bank prepared the CPS based on the lessons learned from its failure to support the Lebanese government in implementing its reform program as outlined in the ISN as well as the World Bank Group’s experience in the country during the last five years. As stated in the CPS, the Bank learned not to underestimate the complex and idiosyncratic political situation in Lebanon and its effect on decision-making and to design simple, realistic and flexible projects and programs that are able to respond to any arising challenges. This new understanding is reflected in the CPS through the \textit{two-tiered approach that the Bank plans to adopt in Lebanon for the following four years.} Tier I, also called the Core Program, consists of specific investments in priority sectors and basic services as well as technical assistance and analytical work in order to support the reform process. The Bank will continue supporting its existing portfolio in Lebanon and engage in new activities in the above focus areas. Tier II is more flexible and allows the Bank to engage more deeply in areas or sectors that need structural reforms but only after the core program’s progress and results have been evaluated and it is decided that it is possible to move from Tier I to Tier II.

A non-inclusive and unsustainable strategy for development
An analysis of the CPS document reveals several weak points in the strategy.

Although the CPS discusses the issue of regional disparity and poverty being concentrated in areas in the North and South of Lebanon, it does not seem to offer tangible solutions to address this problem. Particularly, the CPS discusses infrastructure projects in the water, electricity and transport sectors that mainly target the Greater Beirut area and the highly populated areas neighboring it, and efforts to promote the business environment are geared towards big businesses and the developed private sector whose activities are mostly concentrated in urban areas. Although there is an important focus in the CPS on gender inclusion efforts and programs targeting women such as promoting women-owned SMEs (Small and Medium Enterprises) in areas outside of Beirut, these efforts will be mostly concentrated in the “governorates surrounding the Beirut area.” While this is an important step towards promoting the participation of women in business, these efforts fail to include women in the remote rural and poorer areas of Lebanon who have more difficulty accessing credit markets and lack the proper opportunities. It is worth noting that the current portfolio for Lebanon shows that the World Bank is engaged in projects across the country such as a cultural heritage project which involves six cities, an education reform project that aims to improve the quality of teaching in public schools across the country, and a project to support the implementation of social protection systems and services. Notwithstanding, these efforts to promote development in under-served regions should be further expanded and systematized into the Bank’s portfolio in Lebanon through its programs and strategies given that poverty is mainly concentrated in the North and South of the country.

The CPS pays great attention to the services and trade sectors in the Lebanese economy perhaps because together they account for 73% of jobs. The productive sectors of the economy, agriculture and industry, which usually provide job markets for poorer communities, are largely disregarded in the Bank’s strategy for Lebanon. We question why there are no sustainable agricultural programs that take advantage of Lebanon’s status as the most water-abundant country in the driest region of the world. The strategy’s focus on the water sector is mainly in the areas of water supply and sanitation

in the Greater Beirut area. It is important to note that the issue of productive sectors is more complicated than it might appear: agriculture and industry are heavily reliant on the power and water sectors which are highly inefficient in Lebanon and therefore a restructuring of those latter sectors is urgent in order to improve efficiency and support the economy in general and the productive sectors specifically. However, equitable development also necessitates programs and projects that specifically target the productive sectors of the economy since this is what will boost employment for the majority of poor communities. Therefore, efforts in the productive sectors should be made in parallel with the larger restructuring projects to ensure that the vital sectors of agriculture and industry are sustained. On a final note, regarding the agricultural sector, the Results Matrix in the CPS suggests minimizing trade restrictions in an effort to achieve integration with regional partners. While integration has its benefits, it also has the potential to harm the already shrinking sectors of agriculture and industry by exposing Lebanese farmers and manufacturers to competition from neighboring countries.

In addition to the weak points just mentioned in the content of the strategy, the process of formulating and approving the CPS was also lacking. The Bank requires broad consultations with multiple stakeholders when developing a country strategy and that is to ensure more participation, accountability and transparency and consequently the design of a better strategy. **Although the World Bank stresses that it had carried out broad consultations with multiple stakeholders from civil society, private sector, government, academia and the donor community, consultations with Lebanese civil society were ineffective and overall not very meaningful.** BIC attended one of the sessions organized by the Bank to consult with civil society on the CPS in October 2009. The meeting was characterized by a weak turnout: it was by invite only and was attended by 15 to 20 people alongside representatives from the World Bank and the IFC. In contrast, the Bank consulted extensively with the main political parties in Lebanon, academics, the private and public sectors and the donor community. Although these efforts are commendable, this reflects a weak effort on the part of the Bank to meaningfully engage Lebanese civil society, those who represent the broader and specific concerns of citizens and who are often keenly aware of the development needs of the country. Despite that, Lebanese civil society was still able to seize an available window of opportunity in order to push for greater participation in the Bank’s strategy. In taking advantage of the “simultaneous disclosure” clause in the Bank’s new Access to Information policy that allows the release of certain types of documents (such as CPS documents) before their approval by the Bank’s Board of Directors, a group of Lebanese CSOs (the World Bank Working Group in Lebanon) read and commented on the CPS before its approval by the Board and sent a letter **to the Bank expressing their concerns**
which included many of the points noted in the analysis above. The group sent another more detailed position paper after the CPS was approved.

2. The Bank’s current portfolio in Lebanon

A quick look at Bank-funded projects and programs in Lebanon reveal that the World Bank has been mainly involved in the following sectors in the country: water and sanitation, power, education, health, infrastructure, public administration, social protection, reform and reconstruction.

The Bank currently has 9 active and 3 proposed projects in Lebanon. While a project is still in the preparation phase, civil society can take advantage of some structured opportunities to influence its design. It is during this stage that environmental and social impact assessments are conducted, and consultations with affected communities may take place depending on the project’s environmental and social risk category. Contact BIC to find out more about what you can do to influence project selection and design at the World Bank before projects are finalized and approved by the Bank’s Board of Directors. Following is the list of projects that were active in Lebanon as of the time that this study was last updated (note that the closing dates of the projects are subject to change):

Active Projects:

Capacity Building to Implement the Statistical Master Plan: This $129,000 technical assistance grant aims to assist the Lebanese government in carrying out the following key activities that will lead to the comprehensive implementation of the existing Statistical Master Plan (SMP): reforming the current statistical law, review of the existing SMP and design of an implementation plan, and restructuring the Central Administration for Statistics (CAS). This grant is provided by the Trust Fund for Statistical Capacity Building (TFSCB), a multi-donor trust fund administered by the World Bank. For more information about this project click here:

![Lebanon SMP II - revised GFR 07-26-11.pdf](Lebanon SMP II - revised GFR 07-26-11.pdf)

Approval date: September 29, 2011
Closing date: N/A

National Volunteer Service Program:
Approval Date: August 9, 2011
Closing Date: N/A
Greater Beirut Water Supply Project: This $370 million project aims to provide potable water to the Greater Beirut area and the low-income neighborhoods of Southern Beirut which have been witnessing severe water shortages for the last four decades. The project also aims to strengthen the capacity of the Beirut Mount Lebanon Water Establishment, the regional water authority overseeing those areas. To finance the project, IBRD is providing a $200 million loan, the Lebanese government is contributing $30 million and the remaining $140 million will be provided by local sources inside the country.

Approval date: December 16, 2010
Closing Date: June 30, 2016

Second Education Development Project: This $42.6 million project aims to improve the quality of teaching and the learning environment in general and preschool education and to increase the capacity of educational authorities, departments and schools. It is being financed by a $40 million loan from IBRD, and the remaining $2.6 million is provided by the Lebanese government.

Approval date: November 30, 2010
Closing date: December 31, 2016

Lebanon Emergency Fiscal Management Reform Implementation Grant: This $4 million grant from the TFL aims to support the implementation of the reforms in the public expenditure and debt management system, as part of the broader reform program presented to the international community by the Lebanese government during Paris III.

Approval date: March 12, 2009
Closing date: June 30, 2013

Second Emergency Social Protection Implementation Support Project: This project is financed by a $6 million grant from the TFL and compliments the First Emergency Social Protection Implementation Support Project which was approved in 2007 as a result of Paris III. It aims to improve the quality of implementation of social sector reforms that were set forth in Paris III, particularly in the areas of social insurance, safety nets, health and education.

Approval date: September 5, 2008
Closing date: March 31, 2013
**Emergency Power Sector Reform Capacity Reinforcement Project**: The project’s **total cost is $8 million with $5 million provided by the TFL in the form of a grant and the remaining $3 million furnished by the Lebanese government**. The project aims to speed up the implementation of power sector reforms that are part of the Paris III reform program with a particular focus on restructuring Electricite du Liban (EdL), Lebanon’s state-owned electricity company, to eventually privatize it. The government will use a portion of the funds to hire consulting companies to facilitate this process.

Approval date: March 19, 2007  
Closing date: December 31, 2012

**Cultural Heritage and Urban Development Project**: The main objectives of this project are the rehabilitation of key historical sites in Baalbeck, Beirut, Byblos, Saida, Tripoli and Tyre and supporting the Ministry of Tourism and local municipalities in promoting cultural heritage tourism that will produce economic benefits to the residents of these areas. **The total cost of the project was initially $61.89 million with the IBRD providing $31.5 million in the form of a specific investment loan. The rest of the money will be provided by the Lebanese government and other donor governments.**

As a result of over-run costs of activities originally planned under the project, **IBRD approved Additional Financing for the project in the amount of $27 million on April 12, 2012 bringing IBRD’s total commitment to $58.5 million.**

Approval date: April 17, 2003  
Closing date: December 31, 2015

**Urban Transport Development Project**: This project aims to establish key institutions and provide infrastructural investments to support the urban transport system in Beirut and the Greater Beirut areas. It will help the Lebanese government address the challenges of the transport system in an efficient, socially responsible and cost-effective manner and promote Lebanon’s position as central strategic competitor in the region. **The total cost of the project was initially $115.17 million with $65 million provided by the IBRD through a specific investment loan and the rest furnished by the Lebanese government and foreign sources.**

As a result of unanticipated costs and financing shortages though, **IBRD provided Additional Financing in the amount of $69.7 million, which was approved on January 22, 2009, bringing the total IBRD contribution to $134.7 million.**

Approval date: June 13, 2002  
Closing date: December 31, 2013
Proposed Projects:

Social Promotion and Protection Project: This project aims to improve the living standards and economic status of the population at the individual level and reduce regional disparities at the community level. The total project cost is $40 million out of which IBRD is providing $30 million in the form of a specific investment loan and the Lebanese government the remaining $10 million.

Estimated Board Approval date: December 13, 2012
Closing date: N/A

Innovation and SME Growth: The project aims to enhance the ecosystem infrastructure to promote innovation, competitiveness and growth of private sector firms in Lebanon. The proposed project will consist of a Funding facility which will provide two types of funding: development grants and equity investments. IBRD is providing a specific investment loan for $32.6 million covering the total cost of the project.

Estimated Board approval date: July 10, 2012
Closing date: N/A

Mobile Internet Ecosystem Project: This project aims to strengthen the nascent mobile internet ecosystem in Lebanon by tackling the barriers and missing links that preclude the rapid development of a mature and internationally competitive industry and it includes three components: skills development, strengthening of the mobile internet industry and enhancement of the mobile internet environment. The total project cost is $10 million out of which IBRD is providing $5 million in the form of a specific investment loan and the Lebanese government the remaining $5 million.

Estimated Board approval date: February 7, 2013
Closing date: N/A

Gain a more in-depth critical perspective of the World Bank on BIC’s website.

The World Bank’s Lebanon webpage provides background information about the Bank’s activities in the country, Country Partnership Strategies and reports on trends in Lebanon (many available in Arabic).

B. International Finance Corporation (IFC) in Lebanon

The IFC is the private sector arm of the World Bank Group. It provides loans and equity financing to private businesses investing in developing countries as well as advice and technical services to companies, industries and governments. On December 28, 1956,
Lebanon signed the IFC Articles of Agreement, becoming the 44th member of IFC.\(^78\) As of June 2010, IFC had committed $1.1 billion in Lebanon.\(^79\)

1. Recent involvement


The IFC played a big role in the recovery and reconstruction of Lebanon after the 2006 hostilities through its “Lebanon Rebuild Program” which targeted the financial sector. Its main objectives were to support the recovery of the private sector and to assist the government in implementing the reforms needed to promote private sector operations. The IFC collaborated closely with the World Bank and pledged $250-275 million for investment projects and advisory services during Paris III as outlined in the 2007 Interim Strategy Note.\(^80\)

Investments committed:

- Up to $200 million for credit lines and risk sharing facilities to Lebanese banks to support Small and Medium Enterprises (SMEs) ($14 million provided by TFL). These investments target those companies and individuals who were adversely affected by the hostilities.
- Up to $75 million for trade finance agreements and investments in the real estate and retail sectors.\(^81\)

Advisory Services (committed and as projected in the ISN) would focus on the following key areas:

- Privatization in the power sector
- Administrative reform to promote the business environment
- Access to finance which focuses on supporting growth, governance and reforms in SMEs and microfinance institutions ($1 million provided by TFL)\(^82\)

\(^78\) IFC Articles of Agreement Signed by Lebanon, Archives, World Bank, December 28, 1956. 
\(^79\) IFC in Lebanon, International Finance Corporation. 
\(^81\) Ibid
The IFC committed around $770 million to support reconstruction efforts between the end of the 2006 conflict and 2010 when the CPS was approved. While it is important that the IFC’s support for Lebanon focused on local private enterprises and particularly small and medium ones, it is unclear whether this financial support went to those directly affected by the 2006 conflict. A quick look at the IFC’s committed investments under the ISN reveals that the majority of them targeted established banking and finance institutions that are based in urban areas. The individuals who were most affected by the hostilities were the poorer inhabitants of Southern Lebanon and the suburbs of Beirut who clearly cannot access credit from such institutions. An analysis of Paris III and the ISN reveals the IFC’s shortcomings in the process of rebuilding Lebanon.

b) Country Partnership Strategy (CPS) FY 2011-2014
The IFC continued its close collaboration with the World Bank which led to the preparation of the first joint Country Partnership Strategy (CPS) for Lebanon in 2010. As mentioned previously, the CPS outlines the IBRD and IFC’s strategy in Lebanon for the fiscal years FY 2011-2014. **The IFC’s strategy for Lebanon is to provide investments and advisory services to complement the lending and technical assistance of the IBRD.** While continuing its support for greater access to finance for SMEs, during FY11-FY14, the IFC aims to focus on sustainable energy, environment, and private provision of education, health and infrastructure services. Some of the IFC’s advisory services in Lebanon include those targeting women-owned SMEs to promote gender inclusion in the private sector, PPPs, renewable energy and cleaner production processes. Meanwhile, some investment projects include trade finance programs for the private sector to minimize trade restrictions and student-loan programs provided by the banking sector. An analysis of the CPS reveals some of the gaps in the IFC’s approach to Lebanon’s development needs.

2. The IFC’s current portfolio in Lebanon
The IFC’s work in Lebanon falls under Investments or Advisory Services. **It invests mainly in the banking, retail and education sectors and its advisory services are geared towards improving the business regulatory environment, facilitating access to credit and financial markets and encouraging public-private partnerships in infrastructure projects.** Following are the nine investment projects that the IFC is financing in Lebanon:

---

82 Ibid
MobiNetS: MobiNetS Lebanon S.A.L. Offshore is a company specialized in providing professional services and software solutions to telecom operators and suppliers and is headquartered in Beirut. This project is estimated to cost $12.7 million over the next two years of which the IFC will provide $2.5 million which will be used to hire high-level management and technical staff.

CF Byblos Equity: The project aims to support the growth of Byblos Bank, a local private bank. Byblos provides commercial banking as well as investment services in 75 local and 10 overseas branches. The investment project has a total cost of $150 million fully financed by the IFC through equity, a loan and share options.

Butec: Butec Group Holding S.A.L is an engineering and construction company based in Beirut with operations in Lebanon, Qatar, Algeria and Abu Dhabi. It is mainly involved in utilities, water, oil and gas and infrastructure projects. Under this investment, the IFC will provide up to $20 million in shares in the company’s equity capital, and this project aims to support Butec in expanding its business in Qatar, Algeria and Abu Dhabi. See project-related documents here.

ADMIC: This $40 million project aims to support ADMIC in its operations and short term debt that were affected by the 2006 hostilities and the political issues in Lebanon. ADMIC is a privately-held Lebanese company that is involved in retail and real estate. The IFC will provide $20 million from the total cost of the project. See project-related documents here.

Bank of Beirut: Bank of Beirut is a commercial bank headquartered in Beirut with 41 branches in the country. This project aims to provide Bank of Beirut with an SME Risk Sharing Facility of up to $25 million that will help increase access to finance to private sector companies and individuals who were adversely affected directly and indirectly as result of the 2006 conflict. The project is part of the Lebanon Rebuild Program, the IFC’s program for Lebanon after the 2006 conflict.

Fransabank S.A.L SME Risk Sharing and Corporate Credit Line: Through this project, the IFC will provide up to $50 million for senior corporate credit lines and SME risk sharing facilities in response to the 2006 hostilities and the post conflict needs of Lebanon. Fransabank is headquartered in Beirut and is a full-service financial institution providing banking, financial and investment services to individuals, private companies and foreign companies among others. This project is part of the Lebanon Rebuild Program, the IFC’s program for Lebanon after the 2006 conflict.

Credit Libanais: This $80 million project aims to increase access to finance to private sector companies and individuals who were adversely affected by the 2006 hostilities. Credit Libanais is located in Beirut and provides a full range of banking services. It is also
part of the Lebanon Rebuild Program. It is unclear if the IFC is financing the full cost of the project.

**BLOM Bank S.A.L:** This $100 million project aims to increase access to finance to private companies and individuals who were adversely affected by the 2006 hostilities. BLOM is one of the oldest banks in Lebanon owns several subsidiary banks and has local as well as foreign branches. It is also part of the Lebanon Rebuild Program targeting Lebanese banks. IFC is financing the full cost of the project through a loan.

**SABIS International School ADMA:** This $25.8 million project will support the construction of an elementary and secondary school in the city of Adma as well as the provision of educational products and services such as textbooks, learning tools, curricula based on international standards and teaching and learning evaluations. The **IFC will provide a loan of $7.8 million of the total cost of the project.** SABIS Educational Systems Inc. has two regional corporate offices one in Beirut and one in Minnesota, USA, provides education system management services for schools and operates schools in the North America, Europe, Asia, Africa and the Middle East. See project-related documents [here](#).

In addition to the above investment projects, the IFC has one advisory services project in Lebanon, **Independent Power Plants in Lebanon**, which is currently on hold. The objective of the project is to provide assistance to the Lebanese government to introduce privatization to the power sector in Lebanon for the purpose of improving the efficiency and decreasing the cost of electricity supply.

**Take a more in-depth and critical look at the IFC on BIC’s website at:** [www.bicusa.org/ifc](http://www.bicusa.org/ifc)

The **IFC’s Lebanon webpage** provides background information about the IFC’s activities in the country, and reports on trends in Lebanon (many documents are available in Arabic).

**C. Multilateral Investment Guarantee Agency (MIGA) in Lebanon**

MIGA is the World Bank’s other private sector arm. It promotes foreign direct investments in developing countries by providing private companies with political risk insurance (guarantees). It also assists certain governments with legal services and strategic advice on attracting private investment.
Since its founding, MIGA has issued around $1 billion in guarantees in the MENA region, although no guarantees were issued during the 2010 fiscal year. In fact, the MENA region constitutes the smallest portfolio for MIGA.\(^85\)

On October 19, 1994, Lebanon signed the MIGA Articles of Agreement becoming the 127\(^{th}\) member of MIGA.\(^86\) MIGA provides two kinds of guarantees to a country: guarantees to foreign private investors investing in the country (the country as a host) and guarantees to local companies in that country investing in other developing countries (the country as investor). According to the MIGA website, **the agency has not been involved in any projects inside Lebanon** meaning that MIGA has not provided insurance for any foreign companies investing in Lebanon (**Lebanon as the host country**). This comes as a surprise especially given that in 2004, MIGA expressed its intent to promote its presence in Lebanon and the MENA region and that there were several projects in the pipeline for investments going into Lebanon.\(^87\) Moreover, under the ISN, MIGA aimed to support the World Bank and IFC in their work in Lebanon by encouraging foreign investment in the country and providing guarantees for investors in the private sector, which one would think especially important given the volatile economic and political context of the country which necessitates insuring and guaranteeing investments. However, we still have not seen these guarantees materialize and it would be interesting to learn why this was the case. MIGA supported Lebanon as an **investor country** for the first time in 2002 through an $8 million guarantee for a telecommunications project that a Lebanese investor was financing in Benin.\(^88\) Consistent with the ISN FY 2008-2009, MIGA has been involved with Lebanon as an investor country through the following projects\(^89\):

**MTN Syria**: In 2011, MTN Dubai Ltd. of Lebanon, a telecommunications company, applied for MIGA guarantees of $156.4 million to protect its investment in MTN Syria for a period of up to 10 years. The project is still in the proposed phase and has not been approved yet.

Investor country: Lebanon  
Host country: Syrian Arabic Republic

\(^85\) Middle East and North Africa, Regions, Multilateral Investment Guarantee Agency  
\(^86\) MIGA Articles of Agreement Signed by Lebanon, Archives, World Bank, October 19, 1994.  
\(^88\) Ibid.  
\(^89\) MIGA, IFC, MIGA and WBI Programs, Interim Strategy Note for the Republic of Lebanon for the Period FY08-FY09, World Bank, July 9, 2007.
MTN Afghanistan: In 2011, MTN Dubai Ltd. of Lebanon, a telecommunications company, applied for MIGA guarantees of $82.1 million to protect its investment in MTN Afghanistan for a period of up to 10 years. The project is still in the proposed phase and has not been approved yet.

Investor country: Lebanon
Host country: Afghanistan

Congo Oils and Derivatives SARL: This guarantee of $4.32 million protects the investments of African Company for Oil Derivatives; Freiha Feed Company; Ralph Freiha; and Yousef Freiha and Sons in Congo Oil and Derivatives SARL for a period up to 10 years. This guarantee was approved in 2009; however, it is currently not active.

Investor countries: Lebanon, Virgin Islands (British)
Host country: Congo, Democratic Republic of

Bel Impex: MIGA has issued $6.3 million in guarantees to Lebanese nationals Antoine Boulos and Gabriel Boulos to cover their investments in Bel Papyrus Ltd. and Bel Impex Ltd. of Nigeria for a period of 10 years. The project was approved in 2005 and is currently still active.

Investor country: Lebanon
Host country: Nigeria

Under the new CPS FY 2011-2014, MIGA aims to provide guarantees to support efforts for regional integration especially in the power sector in coordination with the World Bank and IFC. It will be interesting to see if MIGA begins guaranteeing foreign companies investing in Lebanon in this CPS period and engaging with Lebanon as a host government.

Take a closer critical look at MIGA on BIC’s website.

__________________________

D. International Centre for Settlement of Investment Disputes (ICSID) in Lebanon

The ICSID was established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States which came into effect on October 14, 1966. Its main role is to arbitrate disagreements between foreign investors and governments and is considered the leading international arbitration institution in such disputes.91 Lebanon ratified the Convention and thus became a member of ICSID on April 25, 2003.92

According to the ICSID website, only one case has been recorded for Lebanon. An Italian company by the name of Toto Costruzioni Generali S.p.A filed a request for arbitration against the Republic of Lebanon concerning a highway construction contract. Toto claimed that the Lebanese government had jeopardized his work and caused damage to the project which negatively affected the company’s reputation.93 The case was registered on July 3, 2007 and is currently still pending.

VI. What points of leverage does civil society have over the World Bank Group?

Over the years, civil society groups have found various ways to influence the programs and policies of the World Bank Group; some are official channels while others are not.

A. Country Strategies

One way to engage the WBG is through participation in shaping its strategies for engagement in your country, such as the World Bank’s Country Partnership Strategy (CPS). The Bank is obligated to consult the public on the strategies it develops for every country. It is up to the Bank to make sure that these consultations are inclusive, participatory and involve multiple stakeholders representing diverse interests. However, it often fails to do so and also does not routinely disclose draft strategy documents for input from civil society. Sometimes, even finalized strategies or other documents related

91 About ICSID, International Center for the Settlement of International Disputes.
to its operations are kept confidential. However, under the simultaneous disclosure clause in the Bank’s new Access to Information Policy, the Bank can make public such documents as country strategies, project appraisal documents and program documents as long as the client country agrees to that. This allows civil society the opportunity to view these documents and try to influence the Board’s decision prior to Board approval of the documents. As noted earlier, the Lebanon CPS FY 2011-2014 was made public before the Board’s approval which gave civil society organizations in Lebanon the chance to comment on the strategy and demand greater participation in strategy consultations. As of now, it seems that the next strategy for Lebanon will be developed around 2014 for the years 2015-2019 and consultations should be held around this time as well, unless the current strategy is extended. This presents an opportunity for civil society and other stakeholders to push for more participation in the design of the strategy. It is critical for Lebanese civil society to monitor this process to ensure that the Bank is including a broad range of stakeholders and engaging them in a proper manner.

B. Project-related Consultations
The WBG also requires its clients, whether governments or private companies, to consult with the communities that might be affected by projects it finances, particularly in the case of environmentally and socially risky projects. These consultations can provide opportunities for the public to influence how projects are designed and implemented, and what measures are taken to protect the interests and rights of the local population. The World Bank held two consultations in 2010 for the Greater Beirut Water Supply Project. However, these consultations were considered non-comprehensive by some who attended and did not involve those communities who will be most affected by this project. Therefore, it is important to understand and monitor the World Bank’s work in Lebanon from a civil society perspective in order to take advantage of opportunities and demand accountability from the World Bank in the cases where its policies are not observed. To learn about upcoming consultations on strategies, projects or programs for Lebanon see the Monthly Operational Summary for the Middle East and North Africa Region.

C. Safeguard Policies
The WBG has its own social and environmental “safeguard policies” that establish mandatory standards and procedures that it and its clients must follow when preparing and implementing projects it finances. The WBG also has internal accountability mechanisms through which communities can complain when they think those standards have been violated.
1. **Inspection Panel**

The Inspection Panel is an independent body through which citizens and communities who are negatively affected by World Bank projects can submit their complaints and grievances. Thus far, there has been one case from Lebanon. A Lebanese citizen representing himself and 50 other inhabitants of the Greater Beirut area submitted a complaint to the Inspection Panel against the Greater Beirut Water Supply Project claiming several policy violations by the World Bank.

Read our update on the matter: [Inspection Panel receives complaint over proposed water project in Lebanon](#)

Read our Problem Project page: [Greater Beirut Water Supply Project](#)

Visit the [Inspection Panel website](#) to learn more about this mechanism and how to file a Request for Inspection.

2. **Integrity Vice Presidency (INT)**

INT is an independent arm of the World Bank that investigates allegations of fraud and corruption in Bank projects as well as possible Bank-staff misconduct. If you suspect corruption in Bank-funded projects in your country or the involvement of Bank staff in questionable conduct or operations relating to these projects, INT provides you with the platform to file a complaint. It is unclear if there have been any cases from Lebanon.

Visit [INT’s website](#) to learn more about this unit and how to report fraud allegations.

You can also contact the Fraud and Corruption Hotline at: +1800.831.0463

3. **Compliance Advisor Ombudsman (CAO)**

CAO is an independent mechanism through which communities affected by the social and environmental impacts of IFC or MIGA projects can submit their complaints. The Ombudsman function of the CAO directly responds to complaints and suggests alternative ways to resolve the issue.

Visit the [CAO website](#) to learn more about this mechanism

If you believe that you are or will be affected by an IFC or MIGA project and want to submit a complaint to the CAO, see the [CAO Operational Guidelines](#) for a step-by-step guide to the process.
D. Media

One of the most important tools that civil society groups have to influence the WBG is the media. Because this institution is sensitive to its reputation, highlighting concerns in the press can often help civil society achieve remedies or prevent future harm.

E. Executive Directors

The Executive Director (ED) representing your country can serve as an important entry point for your engagement with the World Bank. Your ED is responsible for a portfolio of countries including yours and has specialized staff working on the different countries of the portfolio. He/She and his/her office serve as an important advocacy target. BIC has prepared and published an Executive Director Advocacy toolkit to highlight the importance of establishing a relationship with your ED and provide you with advocacy tools to do so.

The ED who is currently representing Lebanon on the Board of Directors is Merza Hasan (from Kuwait). To learn more about your ED’s work and to contact his office click here.

F. Access to Information Policy

The World Bank adopted a new Access to Information policy that became effective in July 2010. The policy is considered one of the most progressive adopted by any international financial institution and an important step in the Bank’s efforts to be more transparent in its policies and operations. Under the policy, many documents are made publicly available which allows civil society to hold the Bank accountable for its work. BIC has prepared and published an Access to Information policy guide (also available in Arabic) to help civil society in better understanding the policy and obtaining the information they need.

To access World Bank documents, policies and publications use the World Bank’s Access to Information portal at: www.worldbank.org/wbaccess

G. Enhanced Action Plan

The Middle East North Africa (MENA) management at the World Bank developed an Enhanced Action Plan in 2009 as an effort to improve its engagement with civil society in the region. This came as a result of an Inspection Panel case filed by a Yemeni organization in response to the refusal of the Bank’s office in Sana’a to translate an important program document. This led the Bank to review its relationship with civil society in the region and adopt a first-of-its-kind action plan for the region. The plan highlights the Bank’s efforts to engage MENA civil society through such things as increased disclosure of documents, translation of documents into Arabic and
improving its Arabic website. Civil society in the MENA region can take advantage of this plan to better engage and influence the Bank and enhance information flow between civil society and the Bank.

To learn more about these and other tools that civil society groups can use to influence the World Bank Group and other IFIs, see the following publications from the Bank Information Center:

- “IFIs and the Middle East & North Africa: A Primer for NGOs”

To find out more about the World Bank Group and other international financial institutions in the Middle East & North Africa (MENA) region generally, visit BIC’s MENA webpage.

VII. Further Resources

In addition to the links and resources provided in the study, following are resources that will allow you to obtain further information on the World Bank Group’s activities in Lebanon and better understand its role in the development of the country:

➢ Public Information Center
   Library of Finance
   Institute of Finance
   512, Corniche el Nahr,
   Syndicate of Pharmacists Building, 4th Floor

   Phone: +961-1-426- 177
   Operation Hours: Monday-Friday: 8:00am - 6:00pm; Saturday: 8:00am - 1:00pm
   Contact Persons:
   Ms. Josiane Chebly Kfoury, Librarian
   Ms. Sawsane Jouni, Librarian assistant
   E-mail: bibliotheque@if.org.lb

   For more Information, please contact:
   Zeina El Khalil
   E-mail: zelkhalil@worldbank.org
World Bank Country Office
Bourie House 119, Abdallah Bayhum Street
Marfaa- Solidere P.O. Box 11-8577
Beirut, Lebanon 1107 2270

Phone: +961-1- 987-800
Fax: +961-1- 986- 800
Contact: Mona Ziade
E-mail: mziade@worldbank.org

IFC Field Office
Bourie House 119, Abdallah Bayhum Street
Marfaa- Solidere P.O. Box 11-8577
Beirut, Lebanon 1107 2270

Phone: +961-1 -987- 800
Fax: +961-1- 987-601
Contact: Thomas Jacobs, Senior Country Officer
E-mail: TJacobs@ifc.org

Regional Contact Persons
• Lara Saade
  Communications Officer (World Bank)
  Middle East and North Africa
  E-mail: LSaade@worldbank.org

• Riham Mustafa
  Communications Officer (IFC)
  Middle East and North Africa
  E-mail: RMustafa@ifc.org