



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

# **International Conference For Support To Lebanon – First Progress Report**

**Beirut, 4 April 2007**



# Presentation Outline

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Paris III - International Support to Lebanon

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Results of the Conference & Details of the Pledges

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Progress Since Paris III

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Implementation of the Program

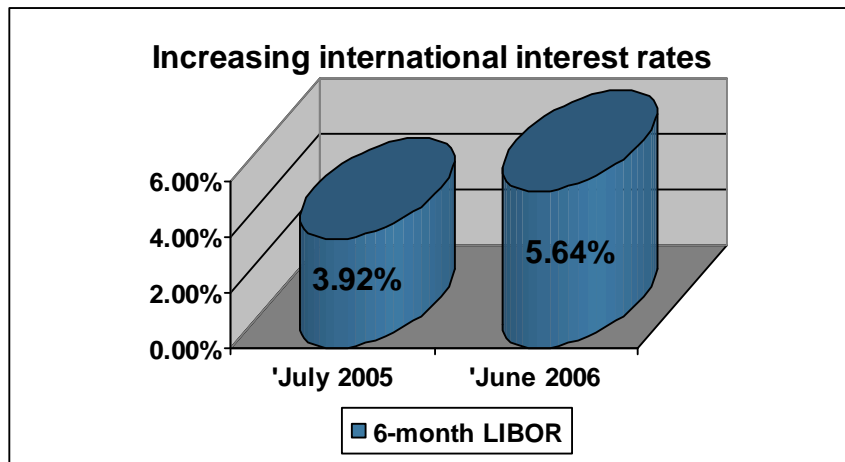
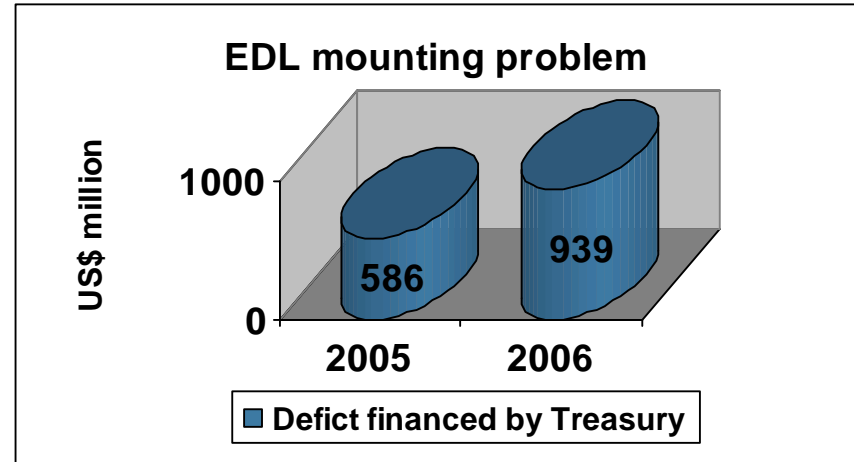
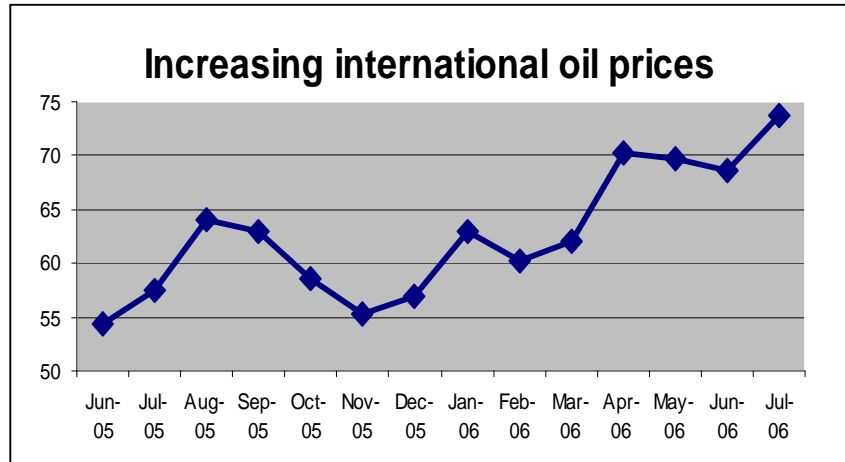
## The government has weathered significant political and security developments since June 2005

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- ❑ October 2005: Based on the U.N. Resolution 1595 to investigate Prime Minister Hariri's assassination, judge Mehlis presented his initial report to the Security Council
- ❑ December 2005: Late MP and journalist Gibran Tuani is killed by a car bomb.
- ❑ December 2005: Hezbollah and Amal ministers withdrew from the Government
- ❑ February 06, 2006: Demonstrations and riots caused by cartoons in Danish newspaper viewed as anti-Muslim
- ❑ March – July 2006: National dialogue is undertaken to build consensus regarding major political decisions
- ❑ July War: On July 12 the Israeli War starts subjecting Lebanon to major bombardment and significant losses. The air, land and sea blockade does not end till September 8th
- ❑ November 12, 2006: Resignation of 6 ministers from Hezbollah and Amal
- ❑ November 21, 2006: Assassination of the late Minister of Industry Pierre Gemayel
- ❑ February 13, 2007: Bombs exploded on two commuter buses in Ain Alak killing three people



# In addition, economic and financial developments complicated economic management



### Debt and Financing Challenge

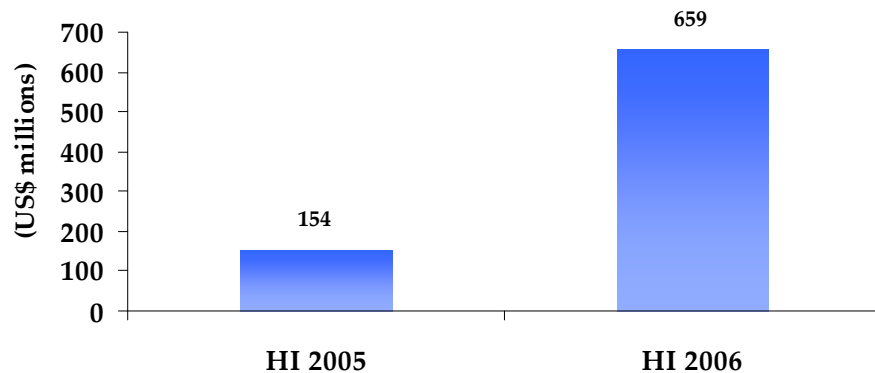
Debt maturing in 2006: US\$15.2 billion  
US\$10,4 billion in domestic currency and  
US\$4,8 billion in foreign currency

Between June 05 and Dec. 06, more than  
US\$1,295 million were transferred to EDL

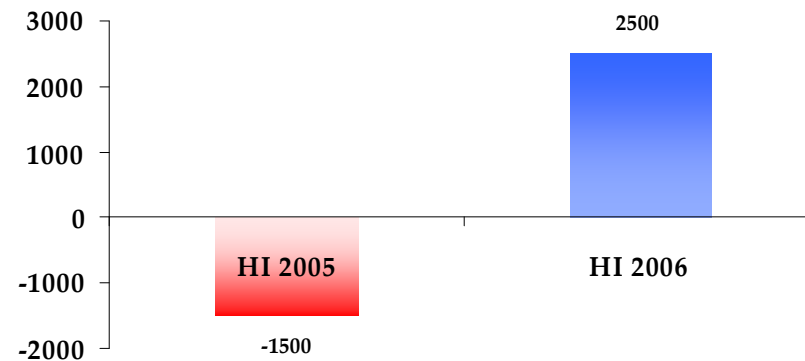


# On the eve of the war, Lebanon's economic performance had been greatly improved

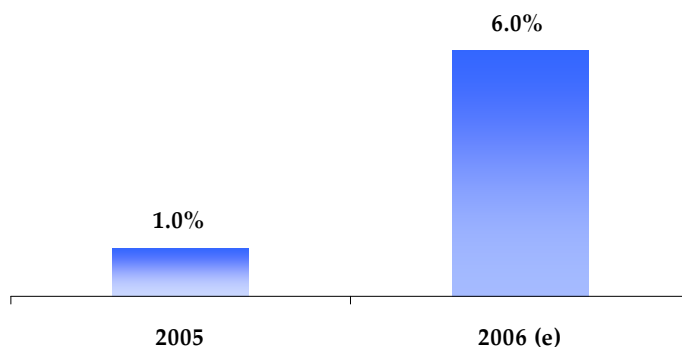
The primary surplus for half I 2006 quadrupled from half I 2005...



Balance of payments registered a surplus of USD 2,562 million by June 06



Expected real GDP growth for 2006 was five times the 2005 rate...



Surge in Foreign direct investment in 06

Record 1.6 million tourists expected

Foreign Exchange reserves ended June 06 at US\$ 11,020 million, about 115% of annual imports



## Despite these very difficult circumstances, the government managed to improve public finance

	July 04-June 05	July 05-June 06	% change
Budget Revenues	6,868,841	7,534,414	9.7%
Budget Expenditures	7,961,471	8,246,485	3.6%
Primary Budgeted Expenditures	4,389,146	4,110,253	-6.4%
Debt Service	3,572,325	4,136,232	15.8%
Total Revenues	7,317,154	7,936,029	8.5%
Total Expenditures	10,400,569	10,566,015	1.6%
Total Primary expenditures	6,828,244	6,429,783	-5.8%
Total Deficit	-3,083,415	-2,629,986	-14.7%
Primary Balance	488,910	1,506,246	308.1%



## The Israeli War on Lebanon severely hit the country and had a major direct impact

<b>More than 1,200 deaths</b>	<b>4,000 injured</b>	<b>1,000,000 displaced</b>
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<b>Sector</b>	<b>Sector</b>
<b>Transportation</b>	<b>Education</b>
<b>Electricity</b>	<b>Housing (replacement cost)</b>
<b>Telecommunications</b>	<b>Industrial/commercial (including informal sector)</b>
<b>Water and wastewater</b>	<b>Agriculture and irrigation</b>
<b>Health</b>	



## Economic impact was also significant

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- Low tourist activity with the number of tourist 6.7 % less than 2005
- Zero growth in 2006
- Disruption to demand and loss of productive capacity
- Destruction of physical capital
- Loss of human capital: population displacement and exodus
- Strong impact on Public finance: more than US\$ 1 billion



## The government responded rapidly to the recovery and economic challenge



*Aug 15, 2006*

Assessment of casualties  
Repairing basic infrastructure and public services  
Relocating displaced  
Preparing Reconstruction

*Aug 31, 2006*

Early recovery program set  
International support for Lebanon  
USD 900 million of relief and early recovery support

*Sept 18, 2006*

More than 30 countries and IFIs participating to the meeting  
Update on recent developments in Lebanon  
Reconfirm commitment to help Lebanon

*Oct-Nov, 2006*

Redesign of the National Economic Agenda of Lebanon  
Internal consultation and adoption  
Consultation with countries and institutions on ways to help Lebanon

*Jan 25, 07*

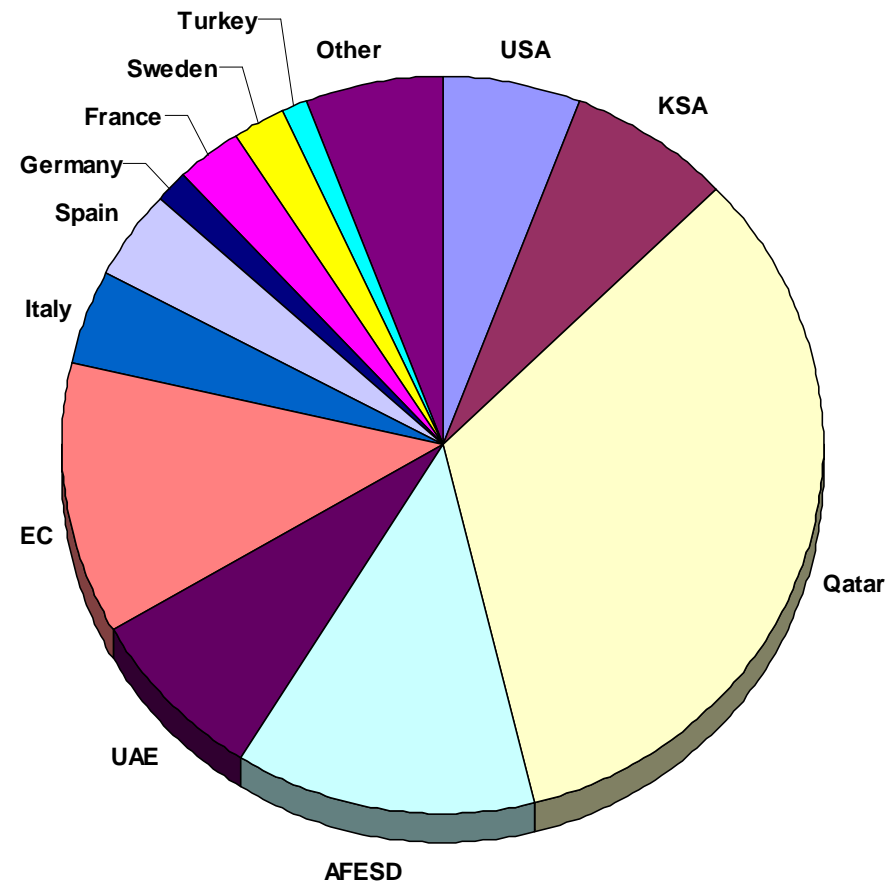
International conference to support Lebanese Recovery and reforms and Rebound



## The government garnered international support and convened the Stockholm donor conference

- ➔ Conference took place on August 31, 2006
- ➔ Conference was organized by the Swedish government
- ➔ Government approached conference with a portfolio of early recovery needs amounting to US\$ 537 million
- ➔ 60 participants, pledges received from 38 donors
- ➔ Conference resulted in pledges close to US\$ 900 million

Distribution of pledges by country





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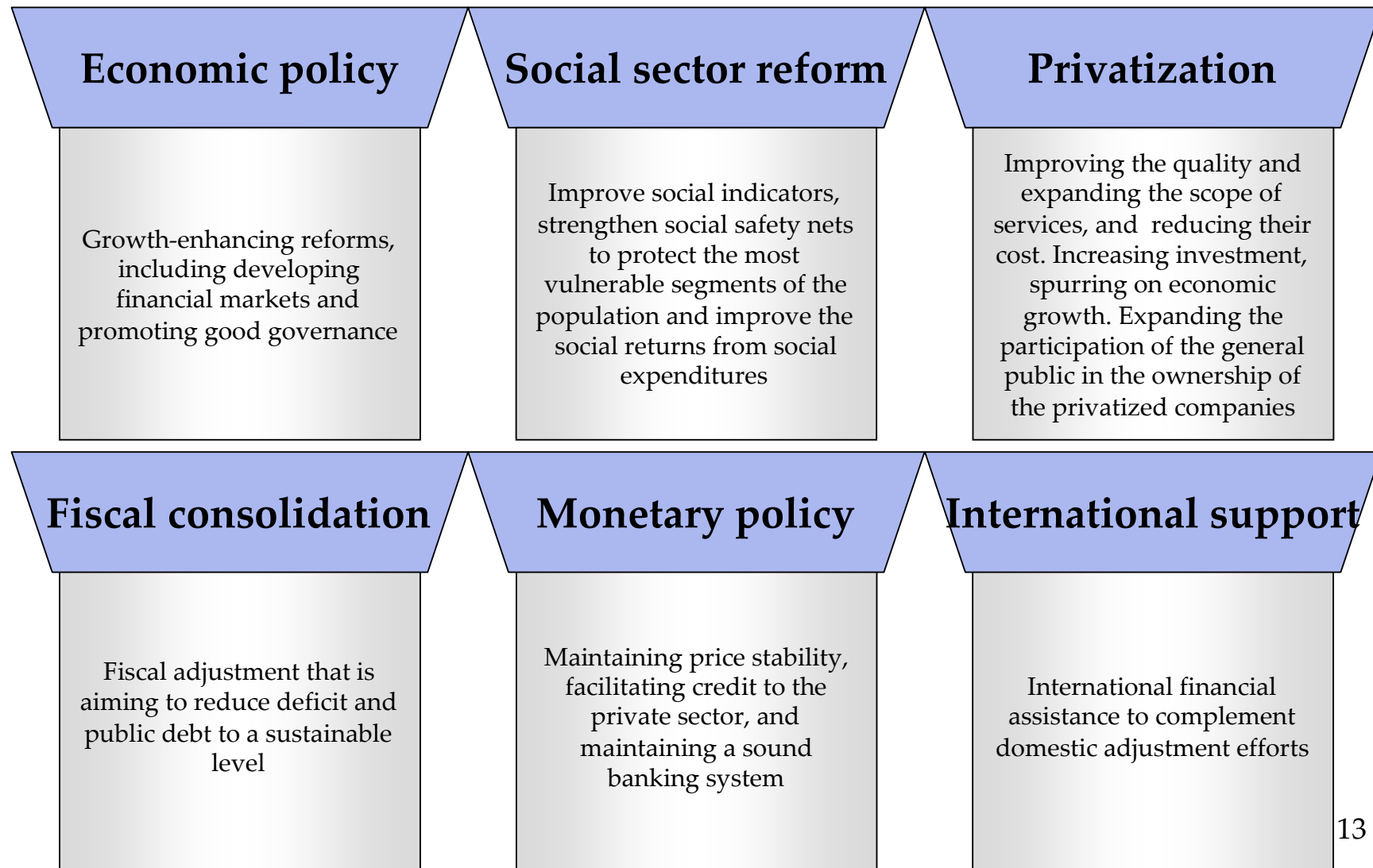
## In January 25, the Paris III Conference was convened to garner the international community's support

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- ❑ The International Conference for Support to Lebanon was a great success:
  - The international community demonstrated its support to Lebanon
  - Lebanon officially launched its reform program which was strongly backed by donors
  
- ❑ Pledges reached a record amount of \$ 7.6 billion
  
- ❑ Since then we have worked closely with governments and institutions to better understand their pledges:
  - The Government has been in contact with all donors to get the details of their pledges
  - Delegations and missions visited Lebanon and discussed the programming of the funds



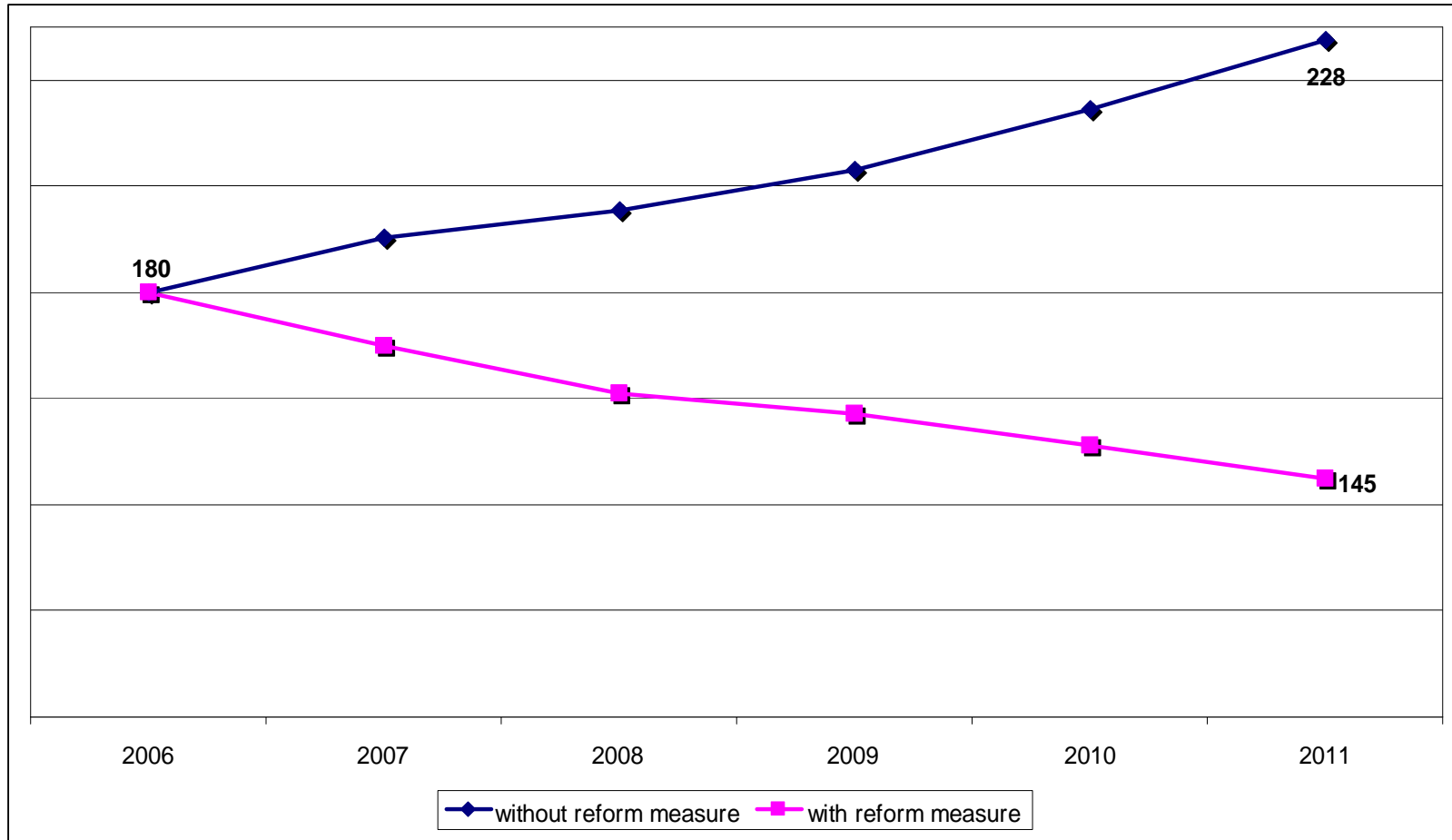
# The economic reform program has six main pillars...





## ...and is instrumental for a declining Debt to GDP trend

Debt to GDP (%)





## A full economic and social reform agenda was developed and is being implemented

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### Medium-Term Economic Reform Program

- ▶ A comprehensive Medium-term economic reform program to solve main issues faced by Lebanon, with international assistance

### Vision for growth - 2015

- ▶ study provides sector specific growth recommendations and vision for the future for the next 10 years

### Sectoral Strategy

- ▶ Reform strategies for the main infrastructure and social sectors, with actions to be conducted by government

### Social reform plan

- ▶ A social agenda for reform and development of social safety net, and improvement of service delivery

### Private sector recovery plan

- ▶ A comprehensive program for the recovery of the private sector, with financial support, tax incentives and promotion

### Fiscal reform plan

- ▶ New strategy for fiscal reform and public finance modernization



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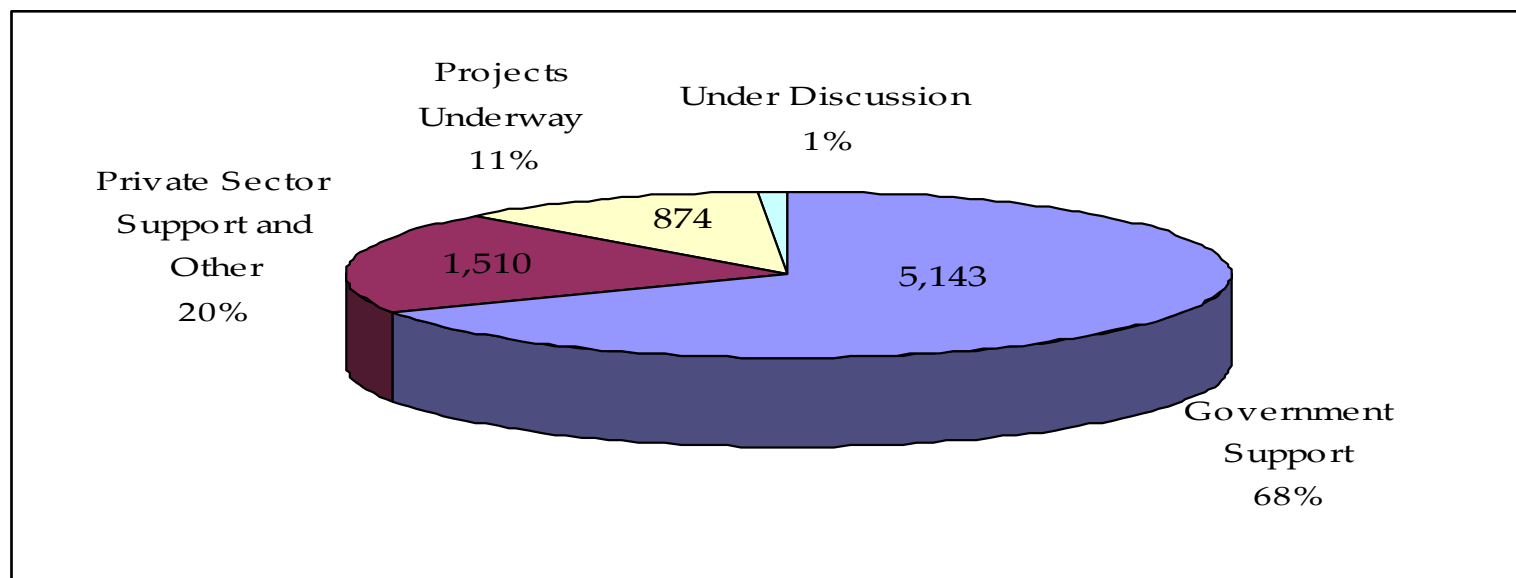
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Implementation of the Program

## Donors expressed their support to the reform program by pledging \$7.6 billion

- ▶ Pledges were divided into four main categories, namely (a) government support; (b) private sector support and other ; (c) projects underway; and (d) funds currently being discussed





## Support at Paris III was wide

### Paris III pledges over \$100 million

Country	Total	Projects Under-way	Private Sector	UN System/ UNIFIL/ NGOs	To BDL	Grant to Government		Loan to Government		Under review
						Budgetary Support	Project financing	Budgetary Support	Project financing	
EIB	\$1,248	\$260	\$709						\$280	
Saudi Arabia	\$1,100					\$100			\$1,000	
World Bank	\$975		\$275					\$300	\$400	
United States	\$890		\$120	\$185		\$586				
AFESD	\$750	\$300							\$450	
France	\$650		\$163					\$488		
EC	\$486	\$139				\$282		\$65		
UAE	\$300							\$300		
IDB	\$250	\$5					\$30		\$215	
AMF	\$250							\$250		
Italy	\$156						\$20		\$98	\$39
Germany	\$134	\$43					\$91			
UK	\$115	\$80		\$35						



## Government support came in the form of loans and grants

	Budgetary Support	Project Financing	BDL	Total
Grants	981	198	-	1,179
Loans	1,403	2,486	75	3,964
Total	2,383	2,684	75	5,143

- ▶ Project financing loans and grants are expected to replace existing budgeted expenses or help restructure the economic sectors.

- ▶ The grant element of the loans according to IMF estimates could be as high as \$1,367 million

### Grant Element of Loans

(in US\$ millions)	Low estimate	High estimate
Budgetary support	539	863
Project financing	182	505
<b>Total</b>	<b>721</b>	<b>1,367</b>



## Both countries and institutions played an important role

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	Countries	Institutions	Total	In percent
Arab Donors	\$1,462	\$1,250	\$2,712	36%
European	\$1,171	\$1,734	\$2,906	38%
Other international <sup>[1]</sup>	\$941		\$941	12%
IFIs <sup>[2]</sup>		\$1,050	\$1,050	14%
<b>Total</b>	<b>\$3,574</b>	<b>\$4,034</b>	<b>\$7,609</b>	

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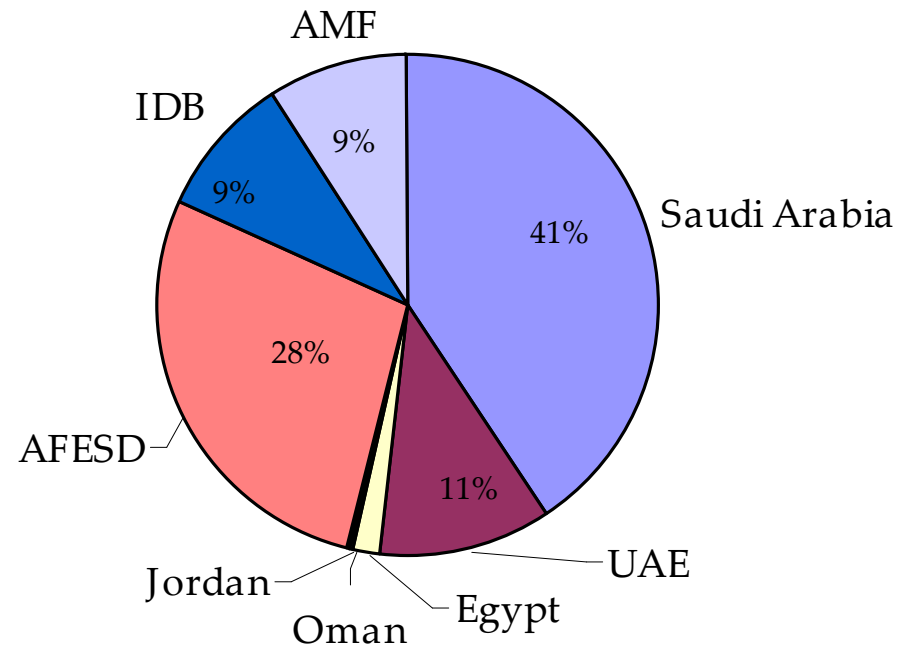
<sup>[1]</sup> Other includes United States, Turkey, Canada, Australia, China, Japan, Brazil, Malaysia, South Korea

<sup>[2]</sup> IFI include the World Bank and IMF



## Saudi Arabia, AFESD and UAE led the support by Arab countries with 79 percent of pledges

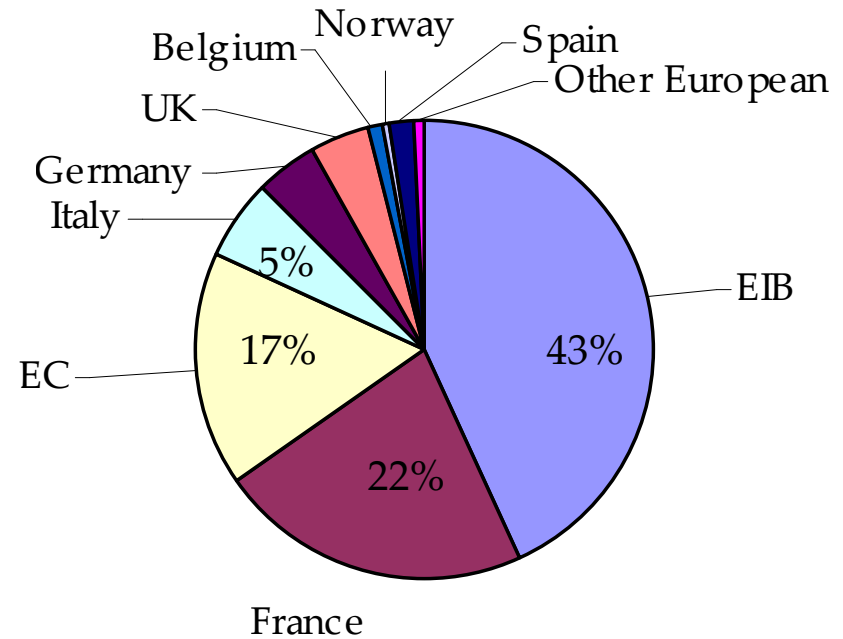
Country	Total Pledged
Saudi Arabia	\$1,100
AFESD	\$750
UAE	\$300
IDB	\$250
AMF	\$250
Egypt	\$44
Oman	\$10
Jordan	\$8
<b>Total</b>	<b>\$2,712</b>





## EIB, France and EC represented 82 percent of European contributions

Country	Total Pledged
EIB	\$1,248
France	\$650
EC	\$486
Italy	\$156
Germany	\$134
UK	\$115
Spain	\$52
Belgium	\$26
Norway	\$15
Other European*	\$23
<b>Total</b>	<b>\$2,906</b>

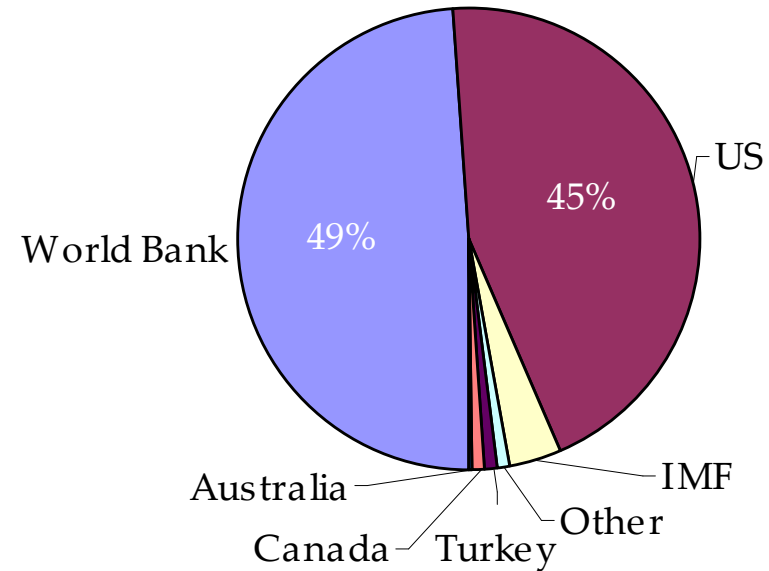


\* Other European include Greece, Sweden, Denmark, Ireland, Austria, Cyprus, Finland, Luxembourg, Portugal, Slovenia



## The World Bank, US and IMF represented 97 percent of the remaining contributions

Country	Total Pledged
World Bank	\$975
United States	\$890
IMF	\$75
Turkey	\$20
Canada	\$15
Other*	\$16
<b>Total</b>	<b>\$1,991</b>



\*Other includes Australia, China, Japan, Brazil, Malaysia, South Korea



## Donors expressed interest in certain sectors particularly the power sector

<b>Power Sector</b>	EIB (estimated \$182 million), World Bank (estimated \$100 million); AFESD (existing projects) and Egypt
<b>Water / Wastewater Sector</b>	EIB (approximately \$60 million in new projects), IDB (estimated at \$90 million), and Germany
<b>Social Sector</b>	World Bank (estimated at \$100 million), IDB (estimated \$30 million), Italy, Germany, Turkey, and Canada
<b>Transportation</b>	IDB and AFESD (existing projects)
<b>Admin Reform &amp; Privatization</b>	AFESD (existing projects), EC, Canada and EIB
<b>Security</b>	United States, Germany, and Denmark

## Support to the private sector represented 17 percent of the total pledges

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- ▶ The Lebanese Government has been active in mobilizing funds to enhance economic growth through facilitate financing to the private sector.
- ▶ \$1,279 million in aid is expected to be dedicated to the support of the private sector. These funds are mostly in the forms of soft loans which increase small and medium size companies' access to credit.
- ▶ Support includes loans from EIB, World Bank, US, France, and Belgium.



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## Since the Paris III Conference, close consultations have continued with donors - (1)

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Missions to Lebanon have included those from:

- 1. The IMF:** An IMF area department mission visited Lebanon from February 12th – February 16th. A second mission was concluded on March 19<sup>th</sup> to discuss the details of the EPCA Program.
- 2. EIB:** A technical mission visited Lebanon to determine best uses of its loans the week of January 29th. Of particular interest were the power, water and waste water sectors.
- 3. The World Bank:** Several missions have visited Lebanon to discuss the Bank's contribution particularly in the power and the social sector.
- 4. UAE/ Abu Dhabi Fund for Development:** The delegation signed a US\$ 300 million loan agreement for budgetary support with the Lebanese government.

## Since the Paris III Conference, close consultations have continued with donors - (2)

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Missions to Lebanon have included those from:

5. **Italy:** Two missions came to Lebanon during February and March one to discuss the reform program and another to discuss programming of the Italian pledge.
6. **Islamic Development Bank:** A mission visited Lebanon the week of February 26th and reviewed possible projects for financing.
7. **Agence Française de Développement:** Delegation discussed loans being provided to the private sector through intermediary banks.
8. **European Commission:** The delegation discussed the government's reform program and programming of EC's contribution
9. **IFC:** A high level mission visited Lebanon to concluded first part of contribution and plan support on Power restructuring and PPP projects

## In addition several missions are planned for the coming weeks

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Missions planned for the coming weeks:

- **Saudi Arabia:** High level mission from the Ministry of Finance and the Saudi Fund for Development.
- **Arab Monetary Fund:** A mission is visiting Lebanon next week to sign with banks private sector facilities and prepare SAF.
- **France:** mission from French Trésor and Agence Française de Développement is planned in the week of April 16, to discuss French contribution.
- **AFSED:** High level delegation will discuss next week the details of their contribution.

## The first loan agreement for budgetary support was signed between the Lebanese and the UAE Governments on February 20<sup>th</sup>

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- ▶ Size of the loan: \$300 million.
- ▶ Coupon payments: 2.5 percent interest paid on amounts withdrawn and not repaid with interest accruing from the date of amount withdrawal.
- ▶ Maturity and Repayment schedule: 20 years including a 5 year grace period for principal repayment.
- ▶ Intended uses: Budgetary support/Debt repayment.



## A mission to discuss the IMF program - EPCA was concluded Monday March 19<sup>th</sup>

- ▶ The Government of Lebanon has entered into discussion with the International Monetary Fund to receive assistance in implementing the reform program through the IMF's Emergency Post-Conflict Assistance (EPCA).
- ▶ The program also aims at supporting the government's efforts at maintaining macroeconomic stability and reaching sustainable growth levels.
- ▶ An IMF area department mission visited Lebanon from February 12<sup>th</sup> – February 16<sup>th</sup> and reviewed the results of the Paris III conference as well as the end of year fiscal, monetary and real sector information.
- ▶ A second mission arrived in Lebanon on March 7<sup>th</sup> to discuss the details of the EPCA Program and was concluded on March 19<sup>th</sup>.



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## The Government of Lebanon is determined to implement the reform program

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- ❑ As we turn the page on the “International Conference for Support to Lebanon”, we move on to meet the formidable challenge that lies ahead: The implementation of the economic reform program (2007-2011).
- ❑ The GoL is currently working with Booz Allen Hamilton on establishing a Program Coordination Office to assist relevant government institutions in planning, implementing, and monitoring the progress of reforms
- ❑ Certain guiding principals are adopted to ensure successes: strong government ownership, shared responsibility among government institutions, inclusiveness, accountability, and sustainability, all while institutionalizing the process.



# The reform initiatives can be allocated to 12 “Natural Owners” under 3 Inter-Ministerial Committees

## Mapping of Paris III Programs and Initiatives with “Natural Owners”

Not Exhaustive

### I Social Inter-Ministerial Committee

<b>A. Minister of Social Affairs</b> <ul style="list-style-type: none"> <li>▶ Restructure the Ministry of Social Affairs</li> <li>▶ Develop strategy and enhance management of social sector</li> <li>▶ ...</li> </ul>	<b>B. Minister of Health</b> <ul style="list-style-type: none"> <li>▶ Upgrade primary healthcare (PHC) services</li> <li>▶ Implement targeted interventions for maternal and child mortality reduction ...</li> </ul>	<b>C. Minister of Education</b> <ul style="list-style-type: none"> <li>▶ Undertake education sector reform</li> <li>▶ Achieve Universal Basic Education (UBE)</li> <li>▶ ...</li> </ul>	<b>D. Minister of Labor/NSSF</b> <ul style="list-style-type: none"> <li>▶ Reform the administration of NSSF</li> <li>▶ Strengthen financial governance and operations</li> <li>▶ ...</li> </ul>
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### II Economic Inter-Ministerial Committee

<b>E. Minister of Finance</b> <ul style="list-style-type: none"> <li>▶ Adjust expenditures and revenues</li> <li>▶ Reform financial management</li> <li>▶ ...</li> </ul>	<b>F. Minister of Economy</b> <ul style="list-style-type: none"> <li>▶ Encourage investment</li> <li>▶ Promote and strengthen Intellectual Property</li> <li>▶ ...</li> </ul>	<b>G. BDL Governor</b> <ul style="list-style-type: none"> <li>▶ Maintain floor on BDL gross reserves</li> <li>▶ Assure price and exchange rate stability</li> <li>▶ ...</li> </ul>	<b>H. OMSAR</b> <ul style="list-style-type: none"> <li>▶ Promote governance and transparency in the public sector</li> <li>▶ ...</li> </ul>
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### III Infrastructure & Privatization Inter-Ministerial Committee

<b>I. Minister of Telecom</b> <ul style="list-style-type: none"> <li>▶ Establish the Telecom Regulatory Authority</li> <li>▶ Privatize Liban Telecom</li> <li>▶ Privatize Mobile Telecom</li> <li>▶ ...</li> </ul>	<b>J. Minister of Energy/EDL</b> <ul style="list-style-type: none"> <li>▶ Undertake reform program and enabling initiatives for EDL</li> <li>▶ Reduce losses and government subsidies</li> <li>▶ ...</li> </ul>	<b>K. HCP Secretary General</b> <ul style="list-style-type: none"> <li>▶ Corporatize and privatize the power sector</li> <li>▶ Privatize other public entities</li> <li>▶ ...</li> </ul>	<b>L. CDR President</b> <ul style="list-style-type: none"> <li>▶ Restructure CDR's capacity to undertake reconstruction and development capital investments</li> <li>▶ ...</li> </ul>
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## Reforms have progressed significantly particularly in the power and social sector

### Power Sector

- A sector reform strategy was set by Ministry of Energy and Water
- An inter-ministerial power committee that meets on a regular basis was established and is monitoring key milestones
- A sector roadmap with specific milestones was completed
- Issued IPP Law to complement Electricity Law 462
- Secured World Bank grant to build sector capacity.
- Undergoing discussions to program loan to reform sector
- Short-listed consultants to assist Ministry of Energy and Water, EDL and the government in power reform

### Social Sector

- An Inter-Ministerial Committee was formed to oversee the reforms chaired by the Prime Minister
- A technical team to support the committee was identified and is in the process of elaborating on the committee's workplan
- A social protection support loan from the World Bank is under discussion. The loan will be based on an action plan focused on: social safety nets, social protection, and social insurance.
- National Social Security Fund (NSSF) presented a reform plan to the Prime Minister that is being adjusted
- The Draft Law on Pension and Social Protection is in the final stages of discussions in the Parliamentary Committee



## As well as privatization and fiscal reforms

### Privatization

- Working with Citigroup and JP Morgan preparing for the sale of the mobile assets and issuance of two mobile licenses.
- The Telecom Regulatory Authority was set-up and board members were designated. The TRA has started performing its duties.
- Preparing draft law allowing for the sale of mobile assets in cooperation with the TRA.
- Proposals received pursuant to an RFP for a technical review of the two mobile networks. Review of proposals is underway.
- Working with Booz Allen Hamilton on corporatization of Liban Telecom through merging Ogero and two Ministry of Telecommunications directorates.

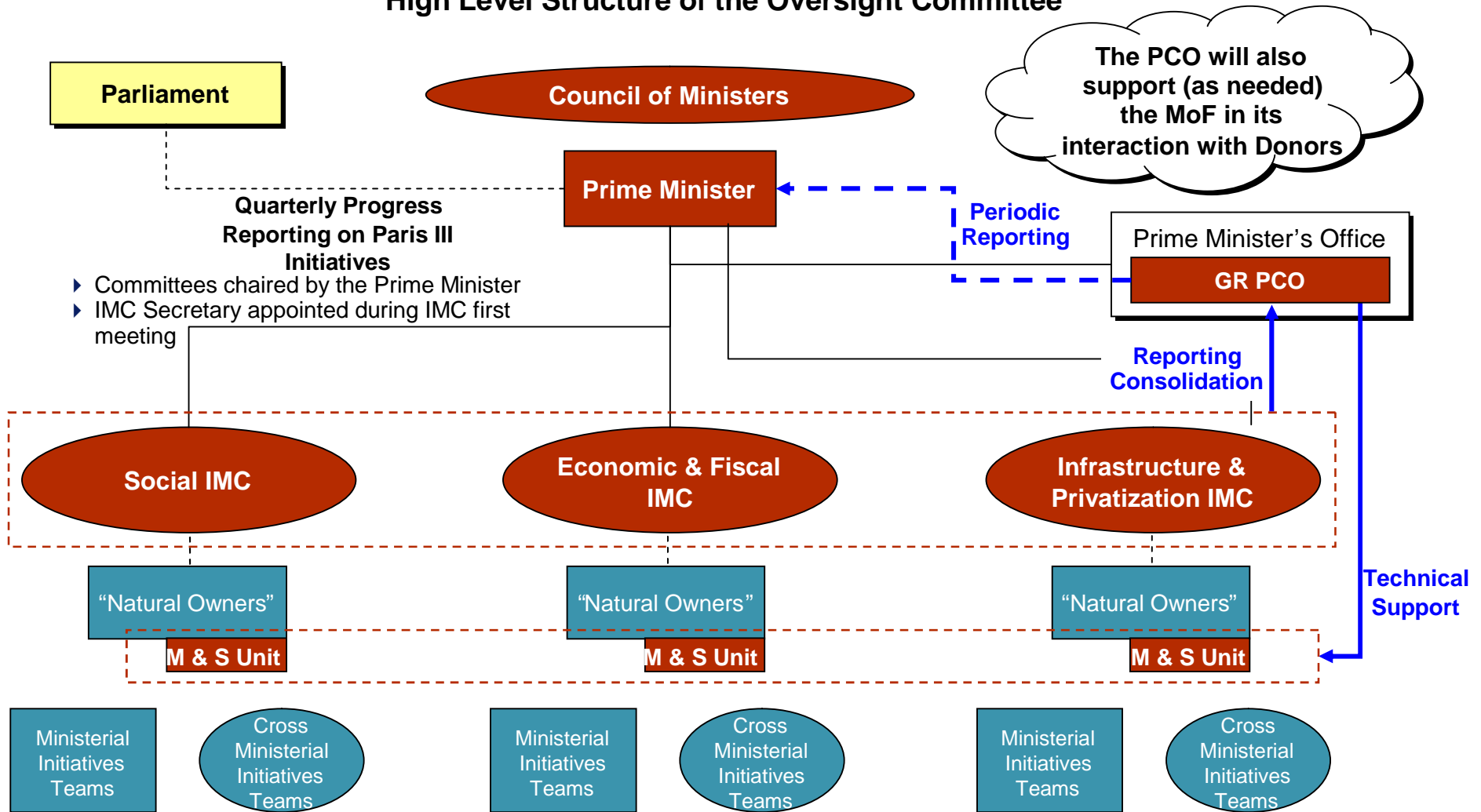
### Fiscal Measures

- A team was formed to follow-up and implement expenditure reform measures.
- Through working with METAC on cash management and budget reforms, a work plan was finalized. Plan includes short, medium and long term targets and identifies technical assistance needs.
- Finalized debt management report to be issued on regular basis supplementing the monthly report Public Finance Monitor.
- Prepared 2007 financing strategy.
- Reorganization of the tax administration progressed as a new structure was drafted.
- An audit and compliance central units established within the tax administration.
- Progressed on e-taxation project by finalizing registration forms.



# The three Inter-Ministerial Committees (IMC) – The GR PCO, reporting to the Prime Minister, will liaise with and support all concerned stakeholders

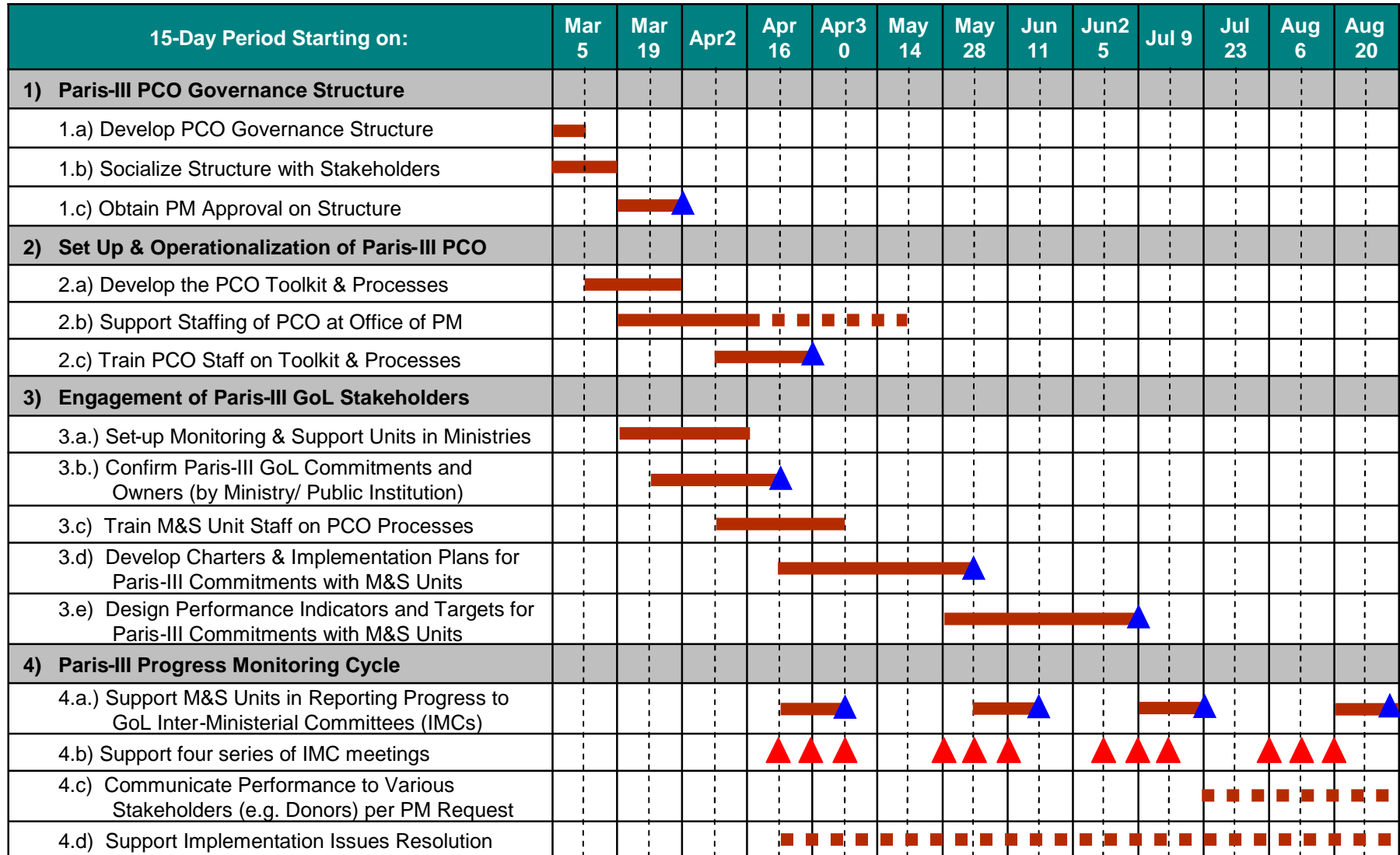
## High Level Structure of the Oversight Committee



Note: M&S Unit = Monitoring & Support unit reporting to "Natural Owners" (Ministers/ Institutions Head) to be set-up as needed



Between March and August 2007, the GR PCO is expected to engage twelve “natural owners”, and launch up to 102 initiatives





## Concurrently, a donor coordination office at MOF is responsible for fund mobilization

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The Donor Coordination Office (DCO) is the focal entity within government dedicated to mobilizing funds and coordinating, programming, monitoring and reporting on external assistance to the reform program.

### Responsibilities:

- ☑ **Follow up on donor pledges** and commitments with recipients and implementing entities to ensure proper disbursement and utilization of funds according to agreements reached with donors.
- ☑ Assign a dedicated team and a central mechanism to **interface with donors** transparently and to capture information about external assistance and its uses systematically.
- ☑ **Coordinate with international and regional** multilateral and bilateral agencies and facilitate partnerships with national entities being public, private and NGOs.
- ☑ **Manage and maintain the financial monitoring** and reporting system and issue semi- annual progress reports to indicate uses and impact of funds.
- ☑ **Forecast external funding needs** and integrate those in the MOF's annual budget plans.