Project Information Document/Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 15-Aug-2018 | Report No: PIDISDSC24367
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
<th>Project Name</th>
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<tbody>
<tr>
<td>Lebanon</td>
<td>P166580</td>
<td></td>
<td>Lebanon Municipal Investment Program (P166580)</td>
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<table>
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<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<td>MIDDLE EAST AND NORTH AFRICA</td>
<td>Apr 22, 2019</td>
<td>Sep 02, 2019</td>
<td>Social, Urban, Rural and Resilience Global Practice</td>
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<tr>
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<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<td>Investment Project Financing</td>
<td>Ministry of Finance</td>
<td>Council for Development and Reconstruction (CDR)</td>
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### Proposed Development Objective(s)

The proposed Program Development Objective is to address municipal infrastructure and service delivery deficits in selected cities of Lebanon while laying the foundation for municipalities to mobilize private sector finance for municipal services.

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

<p>| | |</p>
<table>
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<td>Total Project Cost</td>
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### DETAILS

**World Bank Group Financing**

| International Bank for Reconstruction and Development (IBRD) | 100.00 |

Environmental Assessment Category: B - Partial Assessment

Concept Review Decision: Track II-The review did authorize the preparation to
Other Decision (as needed)

B. Introduction and Context

Country Context

1. **An uncertain political environment and severely limited fiscal space.** With the continuing turmoil in the region, increasing public debt already above 140% of GDP, and subdued GDP growth, Lebanon’s economy remains vulnerable. The Syrian Crisis, now entering its seventh year, has been very costly for the Lebanese economy. Bank estimates show that the total fiscal impact of the Syrian conflict exceeds $2.5 billion for the 2012-2014 period. At 1.8 percent in 2016, economic growth in Lebanon has stagnated significantly and is well short of its pre-Syrian Crisis level of 9.2 percent (2007-10 average). The fiscal situation in the country is a persistent challenge with declining revenues and increasing interest payments, which have reached nearly one-third of the budget. This widening fiscal deficit has had a direct impact on the fiscal transfers from the Independent Municipal Fund (IMF) to local governments coupled with a sharp erosion of public services across all key sectors, both in terms of access and quality. Despite Lebanon’s weak public finances, addressing municipal infrastructure and service delivery gaps and boosting social spending by central and local governments is a matter of immediate priority.

2. **Restoring pre-crisis growth levels capable of reducing poverty in Lebanon is constrained by a large infrastructure deficit that threatens to stifle future prosperity in the country.** Levels of access to and the quality of basic services – such as water, sanitation, drainage, affordable housing, energy, and transportation – are low and in many cases degrading. The World Economic Forum Global Competitiveness Index 2017-2018 ranked Lebanon’s overall quality of infrastructure among the worst in the world (130 out of 137), lagging behind Bangladesh, Lesotho and Mali (See Figure 1 below). According to the WEF report, road quality is particularly bad with a ranking of 121 out of 137). While an accurate survey of road conditions is still being developed, in a survey was conducted back in 2000, the Ministry of Public Works and Transport (MPWT) estimated that only 15 percent of roads in the main network are in good condition. Further aggravating the situation is the absence of a reliable public transportation system. Consequently, Lebanon has one the highest per capita rates of road accidents in the world. The World Health Organization estimated the total number of road traffic fatalities in 2015 at 1,088, with an associated economic cost at between 3 percent and 5 percent of GDP.

*Figure 1: World Ranking of Infrastructure Quality*
3. **An infrastructure deficit that hinders productivity and discourages private investment.** As illustrated in Figure 2 below, Lebanon falls well below comparator countries at a similar level of economic development -- indeed it is a significant outlier with infrastructure quality estimated at 42 percent lower than its level of economic development. While official estimates of water access are near Lebanon's comparator group (92 versus 95 percent coverage), measuring access to "safely managed drinking water" using Sustainable Development Goal (SDG) calculation criteria yields a much more worrying picture, i.e. only 48 percent of households meet this criteria versus 85 percent of its peer countries at a similar level of economic development. Consequently, nearly one in three Lebanese households buy alternative sources of drinking water, usually from mobile water trucks or in bottles, at rates that are double or triple the cost of water accessed through the network. Water quality is also deteriorating as a result of surface and underground water pollution caused by decades of urbanization, lack of proper solid waste management systems, and dumping of waste water in rivers, sea outfalls and valleys. Affordability of housing is another problem in Lebanon, where the price of housing is extremely high relative to income, forcing people to live outside main urban areas, increasing sprawl and commuting time, in a spiral that generates further productivity losses and increasing. If Lebanon continues its alarming pace of underfinancing infrastructure investments in a "do nothing" scenario, the widening infrastructure gap projects to become unsurmountable, as reflected in Figure 3 below.

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**Figure 2: Quality of Infrastructure and Level of Development: Lebanon Lags Behind**
4. **The country is characterized by a high concentration of economic activities and jobs in a limited number of urban centers.** Three out of four of the country’s main economic sectors, i.e. construction/real estate, service industry and tourism (except agriculture) are concentrated in the main coastal cities (Greater Beirut, Tripoli, Byblos, Saida, and Tyre), and 44 percent of the labor force is concentrated in the Greater Beirut and Mount Lebanon areas. Yet, Lebanon’s rapidly evolving urban landscape poses significant challenges for urban growth, especially in secondary and tertiary cities. At the economic level, the country’s export-oriented economy favors coastal agglomeration at the expense of secondary and tertiary cities, as well as rural areas of the country’s hinterland. This has given rise to the retreat of the agricultural sector and loss of valuable agricultural land due to uncontrolled urban expansion and sprawl. Major cities are rapidly shifting from a concentric hub-and-spoke urban form to a polycentric one, resulting in costly urban mobility challenges and environmental degradation, which undermines the economic prospects for these urban areas, while potentially resulting in unsustainable urban growth patterns over the long term. In a recent Technical Assistance carried out by the Bank, the Center for Remote Sensing of the Lebanese National Center for Research estimated that Lebanon loses each year about three square kilometers of already scarce agricultural land, due to urban sprawl.
5. **The socio-economic consequences of unmanaged urban growth and uneven economic development is a deep and growing urban divide and striking income disparities, which has been exacerbated by the Syrian crisis.** Lebanese cities are witnessing a highly speculative housing market, thereby contributing to the rapidly increasing deficit in affordable housing. At the municipal finance level, smaller, tertiary cities have limited local expenditure autonomy; low collection rates; modest own source revenues; and unpredictable transfers from central government with low equalization effect. Local governments rely heavily on intergovernmental fiscal flows from the IMF, but these are highly dependent on the country’s economic performance and extremely unpredictable. There are limited sources of financing for subnational governments seeking to undertake multi-year economically-viable investments, such as water supply, sanitation, solid waste, drainage, affordable housing and urban transport projects.

### Sectoral and Institutional Context

6. **Lebanon has a three-tier administrative structure, with a dual system of governance** (as depicted below). The blue shaded tiers are deconcentrated authorities at the regional level, represented by 9 governorates (mouhafazat) and 26 districts (qada). The orange shaded tiers are the decentralized authorities at local level represented by more than 1,100 municipalities (baladiyat), and some 53 unions of municipalities, which comprise two-thirds of all municipalities as members. A union of municipalities has between 3 and 53 member municipalities with an average of 14 municipalities. Half of the unions have less than 10 member municipalities and another half are not contiguous, which hinders their ability to take on any spatial and regional development planning role.

7. **The Lebanese municipal sector suffers from three major weaknesses.** First, Lebanon has an extremely large number of municipalities (1,100) relative to its geographic size and number of residents. It has three times more municipalities than Tunisia, a country that is roughly sixteen times larger than Lebanon, and 25 times more municipalities than Cyprus, which is comparable in surface area to Lebanon. Second, a significant number of municipalities are financially distressed and under-staffed. The majority of municipalities are small and lack qualified manpower – 70 percent of them have registered population of less than 4,000; it is estimated that almost 40 percent do not have a single employee; and fiscal transfers from the center are both unpredictable and inconsistent (see figure below). Third, there is a large gap between the mandate conferred on municipalities by law, which is already limited, and the services provided by them in practice. Municipalities are authorities with financial and administrative autonomy, but the influx of displaced Syrian has imposed new demands on municipal services and budgets that requires intervention and support from central government and the donor community.
Figure 4: Intergovernmental Fiscal Transfers Distribution and Correlation with Poverty Rates

8. The financial resource gap for municipalities is widening and existing financing instruments have shown to be limited and inadequate to respond to the needs in urban and local infrastructure investments. This gap stems primarily from four factors. First, only a small proportion of centrally-collected taxes reach local governments as fiscal transfers. A growing share is devoted to government agencies that implement projects on behalf of local governments. Second, the share of local government spending in total public expenditures is only 6 percent. Transfers to local governments constitute only 0.4 percent of GDP, a very low share compared to other countries (e.g. 1.5 percent in Tunisia and 3 percent in Morocco in 2014). Thirdly, there are questions about the independence and transparency of the IMF, where collected taxes and fees are pooled and then distributed by the Ministry of Interior and Municipalities. Lastly, local governments have very limited access to commercial debt financing. Municipal law 118 allows local governments to borrow but central government requires that local governments first seek approval before engaging in such undertakings. However, so far there has been only one experience in direct borrowing at the municipal level. To estimate the need in external funding, forecasts of needed local infrastructure investments over the next 5 to 10 years versus availability of public funds will be assessed during project preparation.

9. Influx of displaced Syrian increases the burden on local governments. Lebanon has absorbed 1.5 million registered Syrians and another half million unregistered since the beginning of the Syrian Crisis. 70 percent of these displaced persons live below the poverty line alongside 30 percent of the Lebanese population, and the situation is worsening, as this sudden shock of displaced persons arriving in Lebanon has put stress on already stretched local infrastructure and services and is having a direct impact on social cohesion, exacerbating drivers of tension, especially in secondary and tertiary cities. With such large influx, 30 percent of the population currently residing in Lebanon is displaced, making Lebanon the country with the highest ratio of displaced persons globally. With the Syrian War, local governments face even greater demands for services, especially in those communities accommodating a large share of displaced persons. Host communities in secondary and tertiary cities (in the North, Beqaa and South areas), are absorbing the overwhelming majority of this population shift, as 72 percent of displaced Syrians are registered outside Beirut. Yet, these secondary and tertiary cities in Lebanon are home to the most vulnerable Lebanese. The population living in areas outside Greater Beirut - Mount Lebanon endure persistent and increasing social and economic inequalities, reflected in higher poverty and unemployment rates. As they stand, the existing urban systems are to a large extent unable to make steps towards addressing this social and economic divide.

10. Despite these weaknesses, a number of municipalities in Lebanon enjoy a relatively sound administrative and managing their finances relatively effectively even under duress. On the administrative side, Lebanon held its first local election in six years in May 2016, which brought about newly publicly elected bodies eager to meet the service delivery
needs of their constituents and to make decisions on economic development at the local level. On the financial side, research carried out by the World Bank in 2013 revealed that there are some municipalities that could be considered creditworthy and had a growing ability to meet financial obligations. For instance, the municipality of Tripoli had a BB+ rating (considered the highest speculative grade by market participants), as did the union of municipalities of El Fayhaa. The Municipality of Jounieh was rated BBB- (considered lowest secured grade by market participants). Moreover, given that most Lebanese municipalities are “cash poor and land rich”, municipal land and properties can be leveraged or used as collateral to generate substantial revenues or partner with the private sector, as means to fund capital investment. The relative strengths and weaknesses of municipalities in tapping private financing and credit markets over time will be assessed further during project preparation.

11. **The private sector in Lebanon is vibrant and can play a more prominent role in driving economic growth, creating jobs and providing public goods and services at local level.** Mobilizing private capital from the banking sector, as well as institutional and individual investors, for municipal investment will be critical in reducing the infrastructure financing gap, especially as the public sector is fiscally constrained. Given that 90 percent of the banking sector’s loan portfolio is exposed to real estate, which has entered a period of stagnation, after a strong period of growth through 2011, there is an increased appetite within the banking sector for diversifying their lending portfolios and client base. With a loan-to-deposit ratio of only 30 percent, commercial banks have indicated they are in a position to put another 30 percent of deposits in play if the conditions are right. But this will require effective training and credit enhancement support, including wisely-determined public investments in city infrastructure that could help leverage new private investment.

12. **Improved city infrastructure will help attract more businesses by improving the prospects for productivity gains and access to markets while facilitating human capital accumulation, agglomeration economies and knowledge dissemination.** Public officials indicate a strong desire and urgent need to improve Lebanon's standing in business environment rankings, where currently it ranks a paltry 126 out of 189 countries in the 2017 World Bank Doing Business Report. Across the 12 categories within the World Economic Forum's Global Competitiveness Index (2016-17), Lebanon also performs poorly in quality of institutions (119/138) and infrastructure (117/138). Progress made towards stimulating private sector participation in the development, operation and management of public assets will be highly dependent on dramatically improving the institutional enabling environment and basic infrastructure to attract the interest of the private sector. Passage of the PPP Law in September 2017 and the expanded mandate of the High Council for Privatization to include Public-Private Partnerships (HCPP) are a strong signal of the Government's serious commitment to reforms.

13. **The PPP track record in Lebanon is mixed and requires strengthening to bring it in line with international good practice standards.** The World Bank's PPI database identified 44 transactions in Lebanon, generating a total investment of US$827 million. Of these, 20 were canceled, 6 concluded and the remaining 18 are operational. In addition, there have been a small number of PPP transactions in non-core infrastructure sectors at the municipal level (e.g. solid waste) which were not tracked by the PPI database. Many tenders involving PPPs have been discontinued or contracts renegotiated, causing uncertainty and perceived risks with PPPs. The main lessons learned from Lebanon’s past experience could be summarized as: (i) **weaknesses due to lack of standardized project preparation processes and contract design** (this led to termination of contracts such as the France Telecom Mobile Liban and Liban-Cell merchant contracts). Termination was due to disagreements between GoL and the operators on unsuitable contractual terms related to maximum subscriber bases and the alleged under-reporting of revenue figures; and (ii) **inadequate tender procedures**: PPPs were procured under sector-specific and/or project-specific laws, using tender procedures drawn from the Public Accounting Law, prior to enactment of the PPP Law. These general procurement procedures were not designed for traditional public procurement processes and lacked the detailed multi-stage PPP-specific processes that can ensure
transparency and competitiveness. This experience points to both the potential market for PPPs, while also underscoring the urgent need for legal/regulatory framework development, training, and standardization of contracts and procedures that could both be supported under LMIP.

14. **Past Government and donor financing has focused predominantly on Beirut and few other cities, leaving secondary and tertiary cities with limited support and attention.** Given Lebanon’s urban hierarchy of inter-connected networks where one city's growth affects others, secondary and tertiary cities play a major role in service provision and serve as markets to the cluster of smaller villages around them. Two successive urban projects helped the Government of Lebanon (GoL) to focus on infrastructure rehabilitation and service delivery improvements in secondary and tertiary cities (2004 – 2018): the Cultural Heritage and Urban Development Project (CHUD) and the Municipal Services Emergency Project (MSEP). Building on the achievements of the recently closed CHUD project, which focused on improving local economic development in five main secondary cities (Saida, Tyre, Tripoli, Baalbek, and Byblos) – and sustaining progress made under the MSEP, the proposed Lebanon Municipal Investment Project (LMIP) will seek to fill the infrastructure deficit gap in secondary and tertiary cities. Given the extensive need, the Bank is working closely with its development partners in the sector -- Agence Francaise de Developpement (AFD), the European Investment Bank (EIB) and the European Commission -- who together will finance, under a forthcoming program, investments promoting integrated urban development in line with the principles of the National Physical Master Plan for the Lebanese Territory. The Bank would build on the consultations carried out under this forthcoming program to ensure optimal synergy and coordination with development partners. The potential returns of such investments will be subject to further review and analysis during project preparation in coordination with other donors and IFIs.
15. **The LMIP is fully aligned with the objectives of the World Bank Group Country Partnership Framework (CPF) for Lebanon for the period FY17-FY22.** The CPF focuses on two areas as a way of renewing the social contract between the state and citizens: (i) expanding access to and quality of service delivery; and (ii) expanding economic opportunities and increasing human capital. The LMIP is an integral part of the CPF, as it seeks to strengthen the ability of central and local institutions to finance and deliver improved public services in response to the pressing needs of citizens and businesses. More specifically, the LMIP responds to the CPF’s Objective 1c (Improved access to and quality of infrastructure and public transportation services) and Objective 1d (Improved capacity of central and local governments to provide basic services to communities hosting displaced Syrians and stimulate economic development at the local level). The LMIP is also fully aligned with the World Bank’s MENA Regional Strategy. It will contribute to an improved resilience and a renewed social contract in Lebanon through: (i) strengthening the transparency and financial management practices of cities, which in turn will help them mobilize market-based finance for public services; (ii) undertaking and improving infrastructure investments to boost business productivity and efficiency and enhance the quality of life for urban residents; and (iii) capitalizing on the private sector capabilities to help create jobs for struggling Lebanese and Syrian workers, and increase the country’s fiscal space.

16. **This Concept Note was developed based on an ongoing dialogue with the Lebanese Government, which expressed particular interest in mobilizing private capital for local investments.** In its May 18, 2018 letter requesting World Bank financing and technical assistance for LMIP, the Minister of Finance emphasizes the need to "mobilize private sector investment in municipal services, building on the country's system of cities that are characterized by different sizes and economic composition." MOF seeks to work along two tracks, (i) providing infrastructure financing to support tertiary cities in developing their local economies through backward and forward linkages to secondary cities, and (ii) supporting the Government in establishing an enabling environment for municipal PPPs that will help leverage project financing in the delivery of municipal infrastructure and services. This request is received alongside GoL's demonstrated strong interest in urban development reflected in the large number of urban-wide projects under its Capital Investment Plan (CIP). However, limiting any contingent liability on the Government remains a central objective. Lebanese officials have shown renewed interest in accessing a Municipal Credit Enhancement Facility to be funded by the Government as well as interested IFIs and donors (WBG, EIB, USAID, AFD, EU, etc.). Due diligence in exploring these options, avoiding moral hazard, and building municipal credit markets on a solid footing over time will be critical.

C. Proposed Development Objective(s)

17. Given the scale of the development challenge and diversity of needs across secondary and tertiary cities, the preferred investment product option is the World Bank's Series of Projects (SOP). The SOP adopts a programmatic approach to supporting a Government's development agenda that requires a sustained effort, partnership, and continuity to achieve a Government's long-term objectives through learning-by-doing, which cannot be achieved in a single investment operation. Among the different types of SOP structures, the "Time-Series SOP" is deemed most...
suitable, as it is designed in a series of two or more projects over time, building on lessons learned and achievements from previous projects in the series. This approach is used when (i) sustained changes in institutions, organizations, or behavior are key to successfully implement a Government program, and (ii) when moving forward with certain interventions or activities requires previous conditions or actions to take place (as in the case of the performance basis that LMIP will structure for municipalities to advance from SOP I to SOP II). SOP is also suitable for advancing or expanding geographically over time to new or additional participants, as is the case in LMIP with the expansion to include additional cities over time.

18. The proposed overarching Program Development Objective (PrDO) is to (i) expand long-term, sustainable financing options for municipal infrastructure investments, and (ii) improve municipal service standards in secondary and tertiary cities. The Project Development Objective (PDO) for SOP I (US$100 million, 2019-2022) is to (i) improve access to municipal services for host communities and displaced persons in participating tertiary cities; and (ii) develop capacity to mobilize and absorb infrastructure financing. The Project Development Objective (PDO) for SOP II ($50 million, 2022-2026) is to (i) address the municipal infrastructure and service delivery deficits in participating secondary and tertiary cities; and (ii) mobilize private sector financing for municipal service provision.

Key Results (From PCN)

19. The achievement of the PDO will be measured by the following indicators applied in LMIP participating cities:
   a. Number of residents, businesses, and registered displaced people with access to improved, community-prioritized municipal services in host communities;
   b. Percentage of beneficiaries reporting improved level of services;
   c. Number and value of viable transactions identified as part of a pipeline of feasible municipal PPP projects in participating cities;
   d. Percent of surveyed businesses indicating enabling environment for municipal PPP is better or substantially better than before-project conditions.

D. Concept Description

20. **LMIP will work on two tracks to support participating municipalities in reducing their infrastructure and service delivery gap.** First, in the short-term, and in coordination with other donor partners, it will provide immediate financing support to LMIP-targeted host communities in tertiary cities. This urgent and immediate intervention could complement and possibly trigger private investment in some cases. Second, LMIP will support the Government in establishing an enabling environment for municipal PPPs that will help leverage private sector investment and participation in the delivery of municipal infrastructure and services. Successful mobilization of private sector financing will be a condition for advancement in SOP II. This effort will be focused on reducing perceived private sector risk by exploring and developing the use of municipal credit enhancement instruments and strategies, including development of the policy and regulatory framework required for municipal PPPs, Partial Risk Guarantee (PRG) instruments, improving municipal creditworthiness, developing customized tools and institutional capacity to see PPP transactions through to closure at the municipal level with central government support. Within a total financing package of $150 million (SOP I and SOP II), LMIP SOP I would require $100 million and be structured around the following components:

21. **Component 1. Municipal Infrastructure Investments (US$85 million).** This component would be a first-tier response to the municipal infrastructure and service delivery deficit, which was exacerbated by the Syrian crisis. It will enable the
financing of priority investments to bolster municipal service capacity in up to ten participating municipalities that are host communities to a large number of displaced Syrians. These infrastructure investments will be aimed at facilitating access to improved municipal services for both residents and businesses. Subprojects under the LMIP would be identified and prioritized based on their ability to respond to a critical community-prioritized infrastructure need and/or the subproject’s ability to trigger investment by the private sector, including expansion of existing businesses or new business entry in a targeted municipality. Subproject investments would be selected from a positive list with minimal social or environmental impact infrastructure (Environmental Category B or lower), including secondary or tertiary roads to improve access or reduce congestion; sidewalks and pedestrian walkways to improve urban mobility; car parks; upgrading public spaces, renewal of municipal markets, and related assets in central business districts (CBD); stormwater drainage; street lighting using energy efficiency options; municipal serviced plots for small scale businesses, particularly in agribusiness and light manufacturing; small-scale slaughterhouses; health and sanitation facilities; and green and other public areas. The sub-projects will be screened against environmental and social criteria, with an aim to exclude any investment that may result in significant environmental impacts or negative social implications, particularly related to land (property and livelihoods), reducing land acquisition and prioritizing investments on publicly-owned land, due to the high cost of land and the limited resources that the Government can make available for land expropriation from its counterpart funds. This component would also finance the feasibility studies, preparation of environmental and social safeguards instruments, detailed designs, bidding documents, civil works contracts, and supervision services. Priority will be given to contract bundling, to enhance implementation efficiency, maximizing the use of design and build contracts, which have proved their effectiveness in recent urban operations in the country. The participating cities would be selected in coordination with other development partners -- AFD, EIB, and possibly others -- to complement interventions and expand programmatic impact.

22. Component 2. Municipal PPP Enabling Environment (US$12 million). This component would be designed to lower the risk and increase the attractiveness for investment and partnership with the private sector in municipal PPPs and infrastructure service provision. It would be designed and built through a partnership with the World Bank's PPP Infrastructure, Guarantees and PPPs (IPG) Group, including resident PPP experts, a database of over 1,000 PPP transactions (the PPI database), toolkits and model contract clauses for PPP transactions. This strategic partnership will facilitate the design of structured training programs for the Higher Council for Privatization (HCPP), which will be the central focus of the activities under this component, as well as targeted municipalities in secondary cities, as well as other relevant national government agencies and stakeholders. This component would also develop the secondary legislation (PPP regulatory guidelines and framework) to complement the PPP Law passed in September 2017. It will develop customized municipal PPP tools, standardized procedures, contract clause/templates, and provide consulting services to help identify and develop a pipeline of municipal PPP transactions at the municipal level. Such transactions are expected to range from Energy Service Company (ESCOs) to attract private investment in renewable and energy efficiency services, including solar fields, solar installations on municipal buildings; waste and public transport, cultural and natural heritage sites; leasing of municipal land and properties for general purpose functions and facilities with commercial potential.

23. Further technical assistance and capacity building elements under this component of LMIP would include (i) due diligence in carrying out market soundings for private participation in municipal infrastructure and service provision under a variety of different terms and conditions; (ii) strengthening the knowledge and capacity of selected municipalities in the areas of financial management and creditworthiness based on the findings of rating reports carried out to assess subnational creditworthiness; (iii) developing the enabling environment to mitigate credit default risks to the government, the banking sector and to municipalities (for instance by introducing credit default risk models at an appropriate regulatory body, as was done successfully in Turkey); (iv) exploring options for hedging against currency exchange risks; (v) instituting a municipal credit rating system; and (vi) exploring the prospects for introducing securitization measures against land assets and/or future fiscal transfer streams (possibly involving the use of an irrevocable trust mechanism, as was done in
Mexico) to ensure that pricing of municipal loan products are competitive.

24. Component 3. Project Management Costs (US$3 million). The Council for Development and Reconstruction (CDR) would be the implementing agency for LMIP and this component would provide CDR with the means to retain qualified and competent consultants necessary to oversee effective implementation and monitoring of the LMIP. It will cover the costs of supervision and monitoring of civil works financed under the project, preparing a quarterly monitoring report, overseeing implementation of project activities, supplying equipment necessary to make field site visits to actively monitor project-supported activities, and related project implementation support for meeting the Bank's fiduciary and safeguards requirements.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Component 1 of the Project will be implemented in up to ten participating municipalities that are host communities to a large number of displaced Syrians. These municipalities will be selected within secondary and tertiary cities (TBD) which are typically developed with relatively high population densities. The selection of the sub-projects, and the cities, will be based on their ability to respond to a critical community-prioritized infrastructure need and/or the subproject's ability to trigger investment by the private sector. The sub-projects will be screened and all Category A sub-projects will be excluded. There will be a positive list of municipal infrastructure sub-projects including the following: secondary or tertiary roads to improve access or reduce congestion; sidewalks and pedestrian walkways to improve urban mobility; car parks; upgrading public spaces, renewal of municipal markets, and related assets in central business districts (CBD); stormwater drainage; street lighting using energy efficiency options; municipal serviced plots for small scale businesses, particularly in agribusiness and light manufacturing; small-scale slaughterhouses; health and sanitation facilities. Activities under Component 2 will be limited to creating an enabling environment for PPP investments. Those investments are not known at this stage, however, they are expected to include investments in renewable and energy efficiency services, including solar fields, solar installations on municipal buildings; waste and public transport, cultural and natural heritage sites (which normally require specific measures to protect their salient characteristics); leasing of municipal land and properties for general purpose functions and facilities with commercial potential.

B. Borrower’s Institutional Capacity for Safeguard Policies

As the project implementing agency, CDR has extensive experience working with the World Bank and other donor agencies and has developed an in-house capacity to develop and reliably oversee the implementation of the Bank’s recommended environmental and social safeguards instruments. It is worth noting that currently the CDR is in the process of hiring part-time PMU environmental and social focal points for other Bank funded projects who may also be working on this project. The Bank team will ensure that the selected E&S focal points have adequate capacity and experience for implementing and monitoring environmental and social safeguards based on the Bank’s policies. Capacity building and technical support will also be needed during project preparation and implementation for the selected municipalities to enable them to carry out environmental and social safeguards.

C. Environmental and Social Safeguards Specialists on the Team

Amal Nabil Faltas Bastorous, Social Specialist
Mohammad Farouk Ibrahim Kandeel, Environmental Specialist  
Noushig Chahe Kaloustian, Social Specialist

### D. Policies that might apply

<table>
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<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>The project will involve small-scale civil works in up to ten participating cities in Lebanon under Component 1. The soft interventions under Component 2 will also lead to PPP investments as indicated above. Each identified subproject, under both components, will have a feasibility study conducted along with an adequate environmental and social assessment that will analyze different design options, identify environmental and social risks and impacts, and identify measures for minimizing risks and mitigating negative impacts. No Category A subprojects will be financed under the project and a screening criteria will be developed that explicitly excludes such subprojects (both under Component 1 and Component 2) at the screening stage. Accordingly, LMIP is classified as Category B and an ESMF will be developed identifying main risks and impacts and the guidelines and principles that will be followed for screening sub-projects and selecting the adequate environmental and social assessment instrument for them. The ESMF will also frame the consultation and complaints redress mechanism requirements The consultation sessions for selection of the sub-projects under component 1 shall be inclusive of all vulnerable and marginalized groups, including women, the elderly and refugees. Special efforts will be made to include and disaggregate, where feasible, data gathered on women, elderly and refugees. A Stakeholder Engagement Plan will also be prepared for the project that lays out the mechanism to be followed over the life-cycle of the sub-projects, considering the socially sensitive fragile nature of the communities and the need for the mechanism to be informed, inclusive and transparent. An adequate GRM will also need to be prepared and monitored for affected communities as well as labourers for the sub-projects which shall be outlined in the ESMF.</td>
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<tr>
<td>Performance Standards for Private Sector Activities OP/BP 4.03</td>
<td>No</td>
<td>The application of Performance Standards is not envisaged.</td>
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<td>Natural Habitats OP/BP 4.04</td>
<td>Yes</td>
<td>Most of the subprojects will be implemented in secondary and tertiary cities as described above, however, some PPP interventions may include managing of natural protectorates.</td>
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<td>Forests OP/BP 4.36</td>
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<td>The project will be implemented in dense urban areas without any forested areas in the vicinity.</td>
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<td>Pest Management OP 4.09</td>
<td>No</td>
<td>The project will not employ or support the use of any chemicals or other treatments dealing with pest management.</td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td>Component 2 of the Project will include management of cultural heritage sites and attractions which will be carried out in accordance with OP4.11 requirements. Other Components will include construction phase activities, for which chance find measures will be included in contract provisions, will be addressed in accordance with OP/BP 4.11 procedures.</td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>No</td>
<td>The project will not impact any indigenous people within the project affected areas.</td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>Yes</td>
<td>For the component 1 of the project, diverse range of Category B sub-projects will be implemented as mentioned above. To manage the potential involuntary resettlement related impacts, the Bank will support the Client in developing and applying screening criteria that would require excluding any projects with significant potential impacts related to involuntary resettlement (both land and livelihoods related impacts). Some minor involuntary resettlement may be required both during and following the construction phase. Criteria will be set to help in ensuring that the selected investment will have manageable impact related to land and livelihoods. Accordingly, involuntary resettlement procedures outlined in OP/BP 4.12 will be addressed both in the RPF and in the subsequent RAP/ARAPs as needed. Meaningful consultations will be carried out as part of the preparation of the RPF and the subsequent RAP/ARAPs. The consultations that will be conducted will follow the outline of the stakeholder engagement plan for future sub-projects. In addition, a grievance redress mechanism will be outlined in the RPF and the subsequent RAP/ARAPs, which will be adhered to for the sub-projects once selected.</td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td>No</td>
<td>The project will not finance the construction of any dams and, accordingly, this safeguard policy is not triggered.</td>
</tr>
</tbody>
</table>
Projects on International Waterways  
OP/BP 7.50  
No  
The project will not have any impact on international waterways, and, accordingly, this safeguard policy is not triggered.

Projects in Disputed Areas OP/BP 7.60  
No  
The project will not have any subproject investments in disputed areas, and, accordingly, this safeguard policy is not triggered.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS  
Sep 19, 2018  

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Shortly following approval of the PCN, including any revisions based on the concept review meeting, the team will guide the client in preparing the ESMF and RPF and will also undertake to support the participating municipalities in identifying and preparing a pipeline of subproject investments. The selected subprojects would need to meet initial screening procedures, including confirmation that the proposed sub-projects were (i) identified by the community as a priority using public consultation procedures that the Bank will support CDR and the participating municipalities in establishing and implementing; (ii) conforms to a LMIP positive list of sub-projects; and (iii) excludes any Environmental Category A subprojects and any project that may result in significant environmental impacts as well social implications related to land (including negative livelihoods impacts). It is to be noted that the consultation for selection of sub-projects will be designed to be inclusive of vulnerable and marginalized groups including women, the elderly as well as refugees. Upon confirmation of the above, the participating municipalities, with Bank team support, will prepare feasibility and design studies for the pre-screened subprojects including environmental and social analysis of alternatives with the aim of minimizing any negative environmental or social impacts through alternative design scenarios and risk mitigation measures. Sub-projects once fully appraised and determined suitable in accordance with the Environmental and Social Management Framework (ESMF) prepared for LMIP, will have Environmental and Social Management Plans (ESMPs) prepared that set out a plan for managing and mitigating environmental and social risks during the construction and post-construction phase of the subproject. As for any resettlement or livelihood impacts, Resettlement Action Plans (RAPs) or Abbreviated Resettlement Action Plans (ARAP) will be also prepared for the investment that will result on any negative implications related to land take or changes in land uses and impacts to livelihoods. All compensations for land and livelihoods related impacts should be paid before the commencement of any civil works as per the principles of OP 4.12. Appropriate local level grievance redress mechanism should be designed and published in all the sub-project locations. Therefore, the safeguards studies which will be required by this project include: ESMF, RPF, ESMPs, RAPs, and/or ARAPs.

CONTACT POINT

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**Implementing Agencies**

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**APPROVAL**

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<td>Saroj Kumar Jha</td>
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