



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 09-Apr-2024 | Report No: PIDA37500



BASIC INFORMATION

A. Basic Project Data

Country Lebanon	Project ID P181623	Project Name Building Beirut Businesses Back & Better (B5) Fund - Additional Financing	Parent Project ID (if any) P176013
Parent Project Name Building Beirut Businesses Back & Better (B5) Fund	Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 21-Mar-2024	Estimated Board Date 13-May-2024
Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Investment Project Financing	Borrower(s) Kafalat SAL	Implementing Agency Kafalat SAL

Proposed Development Objective(s) Parent

The Project Development Objective is to support the recovery of targeted micro and small enterprises (MSEs) and sustain the operations of eligible microfinance institutions (MFIs).

Components

- Component 1 - Grants to MSEs
- Component 2 - Grants to MFIs
- Component 3 - Project Management and Gender Support

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	3.00
Total Financing	3.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	3.00
Lebanon Financing Facility	3.00



Environmental and Social Risk Classification

Moderate

B. Introduction and Context

Country Context

- 1. Lebanon is impacted by the most devastating multi-pronged crisis in modern history erasing 15 years of economic growth.** The economic and financial crisis that started in 2019 has been exacerbated by the COVID-19 outbreak, the massive Port of Beirut explosion in August 2020, and the food security shock and oil price hike due to the war in Ukraine. Since 2019, nominal GDP plummeted from nearly US\$52 billion to an estimated US\$18 billion in 2023. RGDP is estimated to have further contracted by 0.2 percent in 2023; cumulative economic contraction is close to 35 percent since 2018. The Lebanese pound has lost around 98 percent of its value since 2019 as the unofficial exchange rate peaked at 140,000 LBP/US\$ before stabilizing at ~90,000LBP/US\$ since May 2023. The sharp deterioration in the currency drove triple digit inflation since July 2020, impacting the poor and vulnerable the most. Food inflation was 239 percent in September 2023, after a year-on-year peak of close to 500 percent in early 2022.
- 2. Given its high exposure to sovereign risk, the banking sector is currently insolvent, cash-constrained and in full paralysis.** In 2019, deposit inflows to finance the country's large current account and fiscal deficits came to a reversal. The Government of Lebanon defaulted on a Eurobond repayment in March 2020 and suspended the payment of the rest of its outstanding Eurobonds (~US\$30 billion). Given the large exposure of banks to Banque du Liban (BdL) and the Government, a severe financial crisis was triggered, underpinned by unsustainable banks-central bank-sovereign nexus that accumulated over years. The associated financial losses in the banking sector are huge, exceeding US\$75 billion, equivalent to nearly four times the 2023 GDP. Combined losses stem from a public sector in default, a central bank holding the large net negative reserves position, and an oversized and insolvent banking system. As of December 2023, 73 percent of banking assets were in sovereign securities, 88 percent of which are with BdL in the form of deposits, while the remaining are in government securities (TBs and Eurobonds) and claims on the public sector. Since October 2019, an unofficial capital control was imposed, restricting depositors from transferring or withdrawing their funds. Between 2021 and 2024, BdL has issued several circulars to formally allow for a gradual withdrawal of deposits in a mix of LBP at the official exchange rate and USD, resulting in massive haircuts on deposits (60–90 percent).
- 3. As a result, financial intermediation has been severely interrupted, leaving businesses and individuals without any access to finance, not even their own deposits.** The credit portfolio of the banking sector, equivalent to the GDP of US\$52 billion in 2018 has contracted to US\$11.5 billion, of which 78 percent is nonperforming as of December 2023. US\$-denominated loans have been paid back either in LBP or in US\$ cheques that have been trading at a diminishing fraction of their face value over time. The largest 2,500 enterprises are estimated to have reimbursed 53 percent of the foreign currency denominated loans at a discounted value. Lending from BdL at the beginning of the crisis has allowed Lebanese commercial banks to pay off liabilities to correspondent banks in order to retain linkages to the global financial system.



Correspondent banks have cut exposures to Lebanese banks by about half over the past three years, while tightening the terms on the remaining, mainly trade lines with 100 percent cash collateral.

Sectoral and Institutional Context

4. **The sustainability of the Lebanese Microfinance sector is at risk, potentially leaving a sizeable portion of the vulnerable population in Lebanon without any access to finance.** The sector was severely impacted by the multiple crisis hitting the country and contracted significantly since. It faced significant losses, primarily due to foreign exchange risks as loans in USD were reimbursed in LBP at a discounted value, and cash held at banks subject to informal capital controls and haircuts. In addition, the dramatic decrease in economic activity led to Non-Performing Loans (NPLs) increasing from less than 5 percent prior to the crisis to around 30 percent, before stabilizing at less than 5 percent for new loans in the recent past. As a result, after several years of steady growth that served to expanding the base of clients needing access to finance, the microfinance sector's outreach shrunk to less than 10 percent of its peak level, when it served more than 150,000 borrowers, over half of which were female entrepreneurs, with an aggregate portfolio of US\$220 million. Currently, the three largest MFIs that historically served ~80 percent of the market, now have an aggregate lending portfolio of US\$9 million serving close to 39,000 clients, a tremendous decline with substantial negative impacts on the low-income entrepreneurs. Demand has significantly picked up, especially for US\$ loans, but existing best-practice actors are significantly cash constrained. During the past year, MFIs issued 28,757 loans leveraging all their lending capacity. They had to reject a large number of loan applications due to their limited funds and often had to offer a third to half of the requested amount given their shortage of liquidity. Newly issued loans show excellent repayment performance, with less than 2 percent NPL ratios as of December 2023.
5. **To support the microfinance sector, the World Bank (WB) through the Building Beirut Businesses Back and Better (B5) Fund, provided sustainability grants to select MFIs.** The B5 was an urgent first step to extending lifeline support to MFIs considering the multiple crises affecting the country. Three MFIs were selected to receive grant support based on a thorough third-party assessment. This important support ensured their immediate to short-term sustainability and is helping them maintain their capacity, lending operations, and retain a significant number of their employees. However, the B5 support for most MFIs ends in March 2024 and while MFIs are all trying to generate additional resources by extending new loans, their liquidity shortages in hard currency limits their ability to sustain their operations through their lending activities.
6. **To ensure longer term sustainability and continuity of service provision, MFIs need liquidity to allow them to resume lending at a larger scale and offer much needed financial services.** Additional financial support will help MFIs offer financing solutions accessible to low-income households. This will, on the one hand, help improve their revenue generation capacity and, on the other hand, allow them to provide much needed financial services to a large share of the low-income population, currently with absolutely no access to finance. Given the extremely low level of liquidity, MFIs are not able to grow fast enough to generate sufficient revenues and ensure self-sufficiency.



C. Proposed Development Objective(s)

Original and current PDO

The Project Development Objective is to support the recovery of targeted micro and small enterprises (MSEs) and sustain the operations of eligible microfinance institutions (MFIs).

Key Results

- 7. **Since its launch, the B5 project has achieved significant results, supporting around 3,264 MSEs and more than 7,300 persons who maintained their basic source of income.** The project has disbursed 82 percent of its funds and progress towards achievement of the Project Development Objective has been consistently rated Satisfactory. As of February 27, 2024, the B5 Fund has committed US\$16.3 million and disbursed US\$14.1 million in the form of grants to MSEs, representing 93 percent of the total funds allocated for grants to MSEs. 3,541 grant applications were received, and 3,264 grants were approved for disbursal, of which 30 percent are Women Owned or Led (WOL) businesses. The average grant per MSE is US\$5,000.
- 8. **Three MFIs (Al Majmoua, Vitas and Ibdaa) are receiving grants to finance part of their operational expenses and ensure their immediate to short term sustainability.** Selected MFIs were assessed by the specialized third party hired for the project, with a particular focus on their institutional, financial, and social performance, and according to a methodology approved by the World Bank. These grants finance part of MFIs operational expenses over eighteen months.
- 9. **The B5 Results Framework (RF) under the B5 Additional Financing (AF) will be updated to include new intermediary indicators and targets related to the new subcomponent.** Also, the end targets or definitions of some of the existing intermediate results as initially planned will need to be revised based on the Mid-Term Review of the project. The revisions related to the proposed AF are detailed in the Table 1 below.

Table 1: Revised indicator targets for the AF

PDO Indicators	Adjusted Indicator	Original Target	New Target	End Target Date
Share of Micro and Small beneficiary enterprises that are operational for at least 12 months after receiving the grants (Percentage, Custom)	Share of Micro and Small beneficiary enterprises that are operational for <u>6</u> months after receiving the grants (Percentage, Custom)	80%		By July 2024
of which are women owned or led enterprises (Percentage, Custom Supplement)		30%		By July 2024



Number of Microfinance Institutions operational for at least 24 months after receiving support (Number, Custom)	Number of Microfinance Institutions operational for at least 24 months after receiving support <u>or by project closing date (whichever comes later)</u> (Number, Custom)	3		June 2025
Intermediate Results	Adjusted Indicator	Target	New Target	End Target Date
Number of Micro and Small enterprises receiving grants (Number, Custom)		4,300	<u>3,500</u>	By July 2024
Percentage of women owned or led micro and small beneficiary enterprises receiving grants (Percentage, Custom Supplement)		30%		By July 2024
Amounts of funds disbursed to Micro and Small Enterprises (Amount (USD), Custom)		17,800,000		By July 2024
Number of jobs maintained within 12 months of receiving the grants (Number, Custom)	Number of jobs maintained within <u>6</u> months of receiving the grants (Number, Custom)	4,472	<u>7,600</u>	By July 2024
Number of MFIs receiving financing (Number, Custom)	Number of MFIs receiving financing <u>for OPEX</u> (Number, Custom)	3		By July 2024
Amount disbursed to Microfinance Institutions (Amount (USD), Custom)	Amount disbursed to Microfinance Institutions <u>for OPEX</u>	4,900,000		By July 2024
Employment Capacity of Microfinance Institutions maintained (Percentage, Custom)		80%	<u>70%</u>	By July 2024
Share of Micro and Small women owned or led enterprises receiving business support training (Percentage)		100%	<u>50%</u>	By July 2024
Beneficiary Engagement: Share of women owned or led beneficiary firms who reported being satisfied with technical support offered (Percentage, Custom)		75%		By July 2024
Number of Microfinance Institutions receiving gender sensitive training (Number, Custom)		3	<u>To be dropped</u>	



Number of micro and small businesses benefitting from financial services (Number, Custom)	New Intermediary Indicator		<u>2700</u>	June 2025
of which are for women owned or led businesses (Percentage, Custom Supplement)	New Intermediary Indicator		<u>30%</u>	June 2025
Number of jobs maintained at beneficiary businesses (Number, Custom)	New Intermediary Indicator		<u>3,500</u>	June 2025
of which are for women (Percentage, Custom Supplement)	New Intermediary Indicator		<u>30%</u>	June 2025
Improved capacity for one MFI	New Intermediary Indicator		<u>Yes</u>	June 2025
Time-bound capitalization plans developed for MFIs participating in the B5	New Intermediary Indicator		<u>4</u>	June 2025

D. Project Description

10. **The B5 Fund is a US\$25 million grant that aims to support the recovery of Micro and Small Enterprises (MSEs) damaged by the Port of Beirut (PoB) explosion of August 4, 2020, and sustain the operations of Microfinance Institutions (MFIs).** It is financed by the Lebanon Financing Facility (LFF), a multi-donor trust fund established in December 2020 and managed by the World Bank to pool and coordinate grants resources from donors in support of the immediate socio-economic recovery of vulnerable people and businesses impacted by the explosion in August 2020. The LFF is supported by contributions from Canada, Denmark, the European Union, France, Germany, and Norway. The project was approved by the World Bank on July 28, 2021, signed on August 5, declared effective on October 8, and launched on November 11, 2021.

11. Project components and activities include:

- Component 1 – Grants to MSEs (US\$18.5 million): Grants to eligible MSEs impacted by the explosion to support their rehabilitation and recovery.
- Component 2 – Grant to MFIs (US\$5 million): Self-sustainability grants to MFIs to preserve the microfinance sector and its capacity.
- Component 3 – Project Management and Gender Support (US\$1.5 million): This component will finance training and capacity building activities to beneficiary women owned or led (WOL) and disabled owned or led (PWD) MSEs. It will also cover project management costs.

12. **The proposed US\$3 million AF will finance: (i) an additional allocation of US\$2.7 million to Component 2 - Grants to MFIs (new subcomponent 2.2 – Grants for MFIs for on-lending – US\$2.67 million; new subcomponent 2.3 – Capacity Building for select MFI – US\$30,000); and (ii) an additional allocation of US\$300,000 to Component 3 - Project Management.** The proposed AF will not result in a change in the PDO,



PDO indicators or key implementation arrangements. The RF will be updated as described above. The closing date of the proposed AF will be June 30, 2025, and the closing date of the Parent project will be extended to the same date (11 months extension).

- 13. **The proposed AF will allow the B5 to continue supporting the selected MFIs by providing them with grants for on-lending purpose, allowing them to deploy financing solutions to micro and small businesses and to sustain their operations.** The additional funds will allow the three selected MFIs (Al Majmoua, Vitas, and Ibdaa) to deploy financing products for micro entrepreneurs, with a focus on women and youth, based on market needs and demand. The additional funds will allow the deployment of around 2,700 new USD loans in 1 year with an average of US\$1,000 (revolving, with an estimated average loan maturity of 12 months), and around 8000 new loans within 3 years. It is expected that 30 percent of micro borrowers to be women. The funds will be disbursed to the three selected MFIs in accordance with their current market share, with a minimum allocation of US\$150,000, and based on demand schedule for loans for each MFI and on the utilization. Further details on the loans terms and conditions will be detailed in the Project Operation Manual (POM) and will be subject to the Bank’s no objection. The AF will also support the provision of Technical Assistance (TA) to one MFI, Association d’Entraide Professionnelle (AEP), to help strengthen its core functions and align them to best practices.
- 14. **The proposed AF is consistent with Lebanon’s Nationally Determined Contribution and other climate-related strategies and actions plans.** Significantly constrained and almost non-existent access to finance is among the major constraints hindering any tangible progress with climate action, including with the implementation of the national climate-related objectives. According to Lebanon Country Climate and Development Report (CCDR), aligning Lebanon's recovery with cost-effective climate action between 2024-2030, requires Lebanon to invest an estimated US\$7.6 billion in the four key sectors covered in the CCDR (energy, water, transport, and solid waste). Banking sector in Lebanon is insolvent, and other private sector financing options have significantly downsized over the last few years. Against this backdrop, restoring access to finance to businesses so that they increase their resilience, both in general and to climate effects, is critical, and the proposed AF contributes to this objective.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

- 15. **The environmental and social risk is rated Moderate.** The environmental and social (E&S) risk classification under the parent project is Substantial (Moderate for Social and Substantial for Environment) and the following ESSs apply: ESS1, ESS2, ESS3, ESS4, ESS9 and ESS10. The same ESSs will apply under the AF, nonetheless, the environmental risk is recalibrated to Moderate. The nature of works and project activities will remain similar to those under the Parent project. The capacity of the Project Implementation Agency (PIA)



at Kafalat and the MFIs has improved significantly since the start of the Parent project's implementation, as observed during implementation support missions and the strong progress reports submitted timely. Moreover, the environmental and social performance of the parent project has remained satisfactory throughout the project implementation. Additionally, the same institutional arrangement under the Parent project would be in place for the AF: Kafalat as the Financial Intermediary, with its strong Environmental and Social Management System (ESMS) in place, and 3 MFIs with their robust ESMS in place as well. The E&S Specialist was hired at the start of the parent project implementation and has performed satisfactorily. The E&S Specialist has attended supplementary capacity building trainings and workshops led by the World Bank team. The E&S Specialist provides capacity building to the MFIs and handholding as needed. There is no large scale, significant and/or irreversible impacts that will be financed under this project. In fact, only low and moderate subprojects are considered for financing. Under the AF, the Kafalat team will update, clear and disclose the following instruments before project Appraisal: ESMS will be updated to reflect the new proposed flow of grants to MFIs, respective E&S measures and updated exclusion list, the Stakeholder Engagement Plan (SEP) will be revised to incorporate feedback from consultations conducted under the AF on January 10, 2024, and the Environmental and Social Commitment Plan (ESCP) will also be updated to replace the initial ESCP under the AF. These instruments will also be adopted by the participating MFIs and will follow a similar subsidiary loan agreement and obligations for E&S implementation as per the Parent project.

- 16. Kafalat's project grievance mechanism, which has multiple uptake channels through a direct line, via email and online complaint form in Arabic and English, has been functioning adequately under the Parent project and will continue to be adopted under the AF.** A similar observation was made for the grievance mechanism of the MFIs as per Kafalat's progress reporting. Up until December 31, 2023, the project registered 940 grievances through Kafalat and MFI uptake channels regarding delays in payments and processing of application questions, and all grievances have been closed. No incidents and Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) grievances were reported.

E. Implementation

Institutional and Implementation Arrangements

- 17. The PIA, Kafalat, will continue to implement the B5.** Kafalat is responsible for the overall implementation, management, fiduciary responsibility, including financial management and procurement, monitoring and evaluation, with functions, staffing and responsibilities satisfactory to the World Bank and LFF donors. Kafalat has been performing satisfactorily under the initial financing and has already entered into grant agreements with three selected MFIs (Al Majmoua, Vitas, Ibdaa). These grant agreements will be amended to account for the proposed new activity under the AF. Upon receipt of the funds, MFIs will in turn finance/ on-lend to eligible micro borrowers, micro entrepreneurs with a focus on women and youth. Kafalat will also hire one or more consultants to implement the TA to a fourth MFI, AEP. More details about implementation arrangements will be included in the POM, which will be updated accordingly.

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APPROVAL

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