



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-Jun-2021 | Report No: PIDA31067

**BASIC INFORMATION****A. Basic Project Data**

Country Lebanon	Project ID P176013	Project Name Building Beirut Businesses Back & Better (B5) Fund	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 04-Jun-2021	Estimated Board Date 30-Jul-2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Kafalat SAL	Implementing Agency Kafalat SAL	

## Proposed Development Objective(s)

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

## Components

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

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	25.00
<b>Total Financing</b>	25.00
<b>of which IBRD/IDA</b>	0.00
<b>Financing Gap</b>	0.00

**DETAILS****Non-World Bank Group Financing**



Trust Funds	25.00
Lebanon Financing Facility	25.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

**B. Introduction and Context**

Country Context

1. **Lebanon is facing multiple crises all at once: an economic and financial crisis; the COVID-19 pandemic; and the aftermath of the Port of Beirut (POB) explosion.** What was initially seen as dollar note shortfall on the Lebanon side due to a severe deterioration in capital inflows has evolved into a unique multi-faceted economic and financial crisis in Lebanon, that was exacerbated by a global and local supply as well as demand shocks generated by the pandemic. The COVID-19 pandemic and subsequent lockdown measures have had deep and negative impacts on economic activity. Lockdown measures, implemented to alleviate the healthcare crisis, have strained economic activity. Some firms are not able to produce their goods and services (supply shock due to the inability of employees to work during the lockdown period), while others are not able to sell their products and services (demand shock). The situation significantly affected firms’ productivity and revenue generation and lead to substantial lay-offs and bankruptcies, which further slowed down recovery in an already aggravated economic environment. According to a rapid firm level survey<sup>1</sup> conducted by the World Bank in November 2020, 16.62% of firms are confirmed or assumed permanently closed, 79% of firms reduced sales - on average a 69% decline, 61% of firms decreased the number of permanent workers by 43% on average. 24% of firms expect to fall (further) into arrears and default on liabilities in the next 3 months, projecting their survival at less than 7 months or 27 weeks, given current costs.

2. **The POB explosion, which shook Lebanon on August 4, 2020, came at the heel of the ongoing crises, and severely impacted the economy.** The explosion claimed the lives of at least 200 people, injured more than 6,000, left nearly 300,000 homeless, and left an estimated 1,000 people with permanent

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<sup>1</sup> The World Bank conducted a rapid firm level survey in November 2020 enterprise survey that as a follow-up to the 2019/2020 Enterprise Survey (ES) which was carried out between May 2019 and April 2020. Business owners and top managers of 532 formal firms were interviewed as part of the standard ES. The same firms were contacted by phone for the follow up survey between November and December 2020.



disabilities. According to the Rapid Damage and Needs Assessment (RDNA), produced by the World Bank Group (WBG) in collaboration with the European Union (EU) and the United Nations (UN) immediately following the blast, the explosion caused between US\$3.8 and US\$4.6 billion in damage to physical stock. The RDNA estimated losses, which included changes in economic flows due to the decline in the output of the economic sectors, to be in the range of US\$2.9 and US\$3.5 billion. According to the WB rapid firm level survey, almost half of all surveyed firms – both in Beirut and elsewhere – have been affected by the explosion (46%) either directly or indirectly. Findings indicate that 22% of firms temporarily closed, 17% of firms experienced interruption their supply chain, 11% of firms decreased jobs, and 28% experienced a drop in sales because of the explosion.

3. **As a result of these crises, real GDP growth is estimated to have contracted by 20.3% in 2020, on the back of a 6.7% contraction in 2019 and more than half of the population now lives in poverty.**<sup>2</sup> In a large part due to COVID-19, the tourism sector has been particularly hit; tourist arrivals fell by 71.5% (yoy), over the first five months of 2020 (5M-2020). Meanwhile, construction permits and cement deliveries (proxies for the construction and real estate) suffered respective declines of 26.9% (yoy) and 44.7% (yoy) over the first 10 months of 2020 (10M-2020). The social impact of the crisis, which is already dire, could rapidly become catastrophic and more than half the population is likely below the national poverty line. The GOL began addressing the crises through approval of the Economic and Financial Recovery Plan to reduce the fiscal deficit, restructure the debt, stabilize the banking sector and jumpstart the economy. The GOL then initiated negotiations with the International Monetary Fund (IMF) on May 13, 2020. Since the POB explosion and the subsequent resignation of the Cabinet, negotiations with the IMF were put on hold.

4. **The WBG, UN, and EU, in cooperation with civil society, GOL and the international community, have developed the Reform, Recovery and Reconstruction Framework (3RF) and established a pooled financing mechanism, the Lebanon Financing Facility (LFF) that is one of the primary instruments to channel support to selected priorities under the 3RF.** The 3RF provides a roadmap to operationalize the findings of the RDNA and other assessments and responds to the devastating explosion in the POB. The 3RF is structured around four strategic pillars: (a) governance and accountability; (b) jobs and opportunities; (c) social protection, inclusion, and culture; and (d) services and infrastructure. LFF objectives are to support the immediate socio-economic recovery of vulnerable people and businesses affected by the POB explosion, and to build the foundation for medium-term recovery and sustainable reconstruction of the POB and affected neighborhoods. The LFF provides an important means for mobilizing support in a transparent, inclusive, timely and well-coordinated manner, in a context of high uncertainty. It proposes innovative and flexible implementation modalities as it seeks to provide direct support to capable non-government organizations (NGOs) and civil society organizations (CSOs), as well as to private sector intermediaries to reach affected MSMEs. The first LFF Partnership Council (PC) took place on April 29, 2021 and endorsed the LFF workplan, which includes the B5 Fund project for an amount of US\$25 million.

## Sectoral and Institutional Context

5. **The POB explosion had a severe impact on the productive sector, which was already suffering the ramification of the multiple crises.** The explosion damaged approximately 10,000 privately-owned businesses located within a 5 km radius of the explosion site. The RDNA estimated physical damages to

<sup>2</sup> Lebanon Economic Monitor, May 2021



commerce, industry and tourism sectors to range between US\$275 and US\$330 million, while economic losses ranged between US\$475 and US\$580 million. The affected formal businesses across a number of sectors – tourism, commerce and industry, creative industries, utilities, health, and education – will find it extremely difficult to resume service delivery, unless they receive urgent assistance. Local microfinance institutions (MFIs) confirmed the RDNA finding reported that over 5,200 borrowers located in the blast area experienced material damage to their homes and/or businesses, and some lost their primary breadwinner. According to the RDNA, businesses in the commerce, industry and tourism sectors will need between US\$335 and US\$415 million to recover, of which US\$225 and US\$275 million in the immediate term. Around 50% to 60% of firms will be unable to resume operations unless these funds come from external sources, per a survey by the Agency for Technical Cooperation and Development (ACTED) (an INGO). Micro-borrowers identified financing for their business as the most pressing need in a survey conducted by the Consultative Group to Assist the Poor (CGAP) following the blast. One fifth of the affected businesses in the area were female-led, and according to a UN Women/Stand for Women assessment, half of them will not reopen without some form of assistance. Overall, 12% of firms will not be able to return to business (Strategy & Post Blast Survey). There is scarce information on entrepreneurs and business owners, or employees left with a permanent disability as a result from the blast

6. **The explosion further exposed the fragility of the financial sector (banking, insurance, and microfinance), which is facing unprecedented crises.** Deposit inflows to finance the country's large current account and fiscal deficits slowed over a period of several years and turned negative in 2019, resulting in a severe liquidity shortage. GOL defaulted on a Eurobond repayment due in March 2020 and suspended the payment of the rest of its outstanding US\$31 billion in Eurobonds. Banking sector exposures to the sovereign debt (BDL and GOL) amount to 70% of total banking assets. To address the liquidity challenge, the banking sector imposed harsh restrictions on external transfers of funds and deposit withdrawals in late 2019. As BDL rationed the provision of dollar funds, parallel exchange rates emerged on both the regulated currency exchange and informal markets.

7. **To date, there have been very limited policy responses by the authorities of Lebanon to support the recovery of the financial sector.** Lebanon needs to urgently adopt and implement a credible, comprehensive, and coordinated macroeconomic stabilization strategy including a comprehensive financial sector restructuring toward regaining solvency of the banking sector. Restructuring the banking sector in a timely manner is of first order importance to support the channeling of the needed financing for reconstruction, as well as medium- to long-term recovery of the economy.

8. **Access to finance has severely deteriorated.** Deleveraging of domestic credit portfolio by 27.5% in 2020<sup>3</sup> (although partly reflecting the settling of loans using deposits locked up in bank accounts) has put severe strains on the economy. The deleveraging trend has emerged in 2018 and intensified over the past year. Moreover, trade finance has been interrupted, and firms are unable to pay for imports of both final and intermediary goods, as banks imposed strict restrictions on transfers outside the country, suspended unused credit facilities, and restricted the withdrawal of U.S. dollars from U.S. dollar accounts. In fact, opened letters of credit in year 2020 dropped 93%<sup>4</sup> compared to year 2019. Some international correspondent banks are raising their threshold for Lebanese banks, or even refusing to confirm or underwrite letters of credit opened by local banks. In addition, terms of trade with international and local

<sup>3</sup> World Bank, Lebanon Economic Monitor 2021

<sup>4</sup> BDL Documentary Credits Data



suppliers are changing, limiting the use of credit, and moving into cash only transactions. To cope, firms are exchanging available LBP money in parallel markets at an exchange rate up to 10 times higher than the pegged rate set by BDL, which raises the price of imports and triggers inflationary pressures.

9. **Firms, specifically MSMEs affected by the explosion, are struggling to finance their reconstruction and recovery needs.** The multiple crises environment and the disruption in operations, caused many firms to be in desperate need of liquidity to survive and adapt, and MSMEs will be the least able to access it. By November 2020, 55% of firms experienced a decline in their cashflow and around 75% of firms witnessed decreased sales and purchases on credit<sup>5</sup>. Given the extended duration and scale of the crises, firms have either depleted their cash reserves or do not have enough reserves to repair and operate their businesses. Many firms will need access to external financing support, or they will face insolvency.

10. **Given the financial conditions of the insurance sector and a significant protection gap, it is expected that the sector will play a limited role in supporting resilience and recovery.** While early estimates vary widely, damages that the insurance sector may be liable for are likely to range between 10-20% of total economic cost. Insurers and reinsurers are awaiting clarity on the cause of the POB explosion to determine if coverage is excluded. Even if reinsurers bear a substantial part of the cost, domestic insurers will still be liable for upwards of US\$900 million<sup>6</sup>, which exceeds their capacity and leads to potential solvency challenges.

11. **The POB explosion further exacerbated stress on the microfinance sector, which was already operating in a multiple crises environment.** The sector has been key in facilitating access to finance for micro entrepreneurs and small businesses since the 1990's and includes several top-performing institutions. By mid-2019, the nine members<sup>7</sup> of the Lebanese Microfinance Association (LMFA) had an aggregated portfolio exceeding US\$220 million and 135,000 loans, over half of which went to female entrepreneurs. The sector is concentrated, with one institution reaching out to approximately 50% of the market, and four institutions totaling over 95% of the market. Similarly, to the Lebanese economy, the sector has been shrinking, with portfolio losing at least 25% of its value and loans falling below the 100,000 mark. Prior to the explosion, the sector was already under severe strain, and for the past year, it has not generated sufficient revenues to cover all of its costs. On the one hand, demand for new loans has been declining, initially driven down by the economic slowdown, then by the series of lockdowns imposed by the pandemic. According to the CGAP survey, 90% of micro entrepreneurs saw their sales drop, and 40% of microfinance clients are no longer able to meet their basic needs as their revenues dwindled while their purchasing power dropped significantly. As a result, they have been servicing their debts with delay. Given the context, microfinance institutions (MFIs) have limited collection power and non-performing loans have soared from a historically low 2% to over 20% in late 2020. On the other hand, some of the large MFIs have currency mismatches in their assets and liabilities. Those MFIs lend either in USD or in LBP, with a portfolio mix varying between 10% and 90% in USD depending on the institution. They have fueled their growth primarily through debt, often from foreign lenders, leaving them with an aggregate outstanding external debt of US\$75 million. Clients are however reimbursing their loans at the pegged rate, generating important foreign exchange losses. The US dollar deposits they hold at local commercial banks are subject to the informal capital control and might be subject to further losses, depending on the outcome of the overall banking

<sup>5</sup> WB rapid firm level survey November 2020

<sup>6</sup> Lebanon Reform, Recovery and Reconstruction Framework, 2020

<sup>7</sup> Members of the association include ADR, AEP, Al Majmoua, CLD, EDF, Emkan, Ibdaa, Makhzoumi Foundation, and Vitas.



crisis. This combination of lower activity, poorer portfolio quality, and foreign exchange losses is posing serious solvency risks to the entire sector, which is threatening access to finance to micro entrepreneurs and small businesses, and a significant portion of the low-income active population that the sector caters for as a whole. Prior to the credit crunch, the LMFA members used to operate in a very competitive market comprising over 100 providers, some regulated by the Central Bank and others not, encompassing banks, non-bank financial institutions (NBFIs), as well as well as non-governmental and faith-based organizations and cooperatives.

12. **The impact of the POB explosion, compounded with the economic crises and aggravated by the COVID-19 pandemic, will likely set back previous gains on women economic empowerment.** Representing a smaller share of the total enterprise landscape and having more limited assets to start with, female entrepreneurship has taken a big hit in 2020 with many women owned businesses having to close due to the pandemic: international estimates point to a 6% gap in terms of closures to the disadvantage of women.<sup>8</sup> In Lebanon, preliminary data on vulnerable populations during the early days of the health crisis revealed that more women than men reported losing their jobs (48% compared to 40% of men) and 7% of women claimed income reductions compared to 3% of men.<sup>9</sup> In the CGAP survey, 45% of women reported becoming inactive, three times more than men, and 68% said they have been handling family care alone during the pandemic. These statistics come on the heels of the economic crisis where an estimated 106,000 jobs will be lost to women who will most likely exit the labor force altogether.<sup>10</sup> In addition, one in five of the businesses impacted by the explosion were women-led, with half of them likely to be smaller than male owned firms, unregistered and employing more female employees.<sup>11</sup> In an assessment carried out among women-owned businesses damaged by the explosion, 70% of employees were women.<sup>12</sup> Therefore, the loss of women-led businesses also leads to a loss of employment opportunities for women. According to a study conducted by Stand for Women, half of these businesses will not be able to reopen without some form of assistance.<sup>13</sup>

13. **Several support initiatives spurred by the local and international community have come short of meeting the real needs.** The GOL has allocated LBP 150 billion for the reconstruction of 100,000 damaged houses and businesses. The Banque du Liban (BDL) issued decision no. 13254 under basic circular 152 providing firms and individuals with access to zero percent interest rate dollar loans to support reconstruction efforts upon proof of damage assessment from the bank.<sup>14</sup> The Beirut Chamber of Commerce has been providing in-kind support to firms by contracting glass panels for window repairs. The provision of around US\$1,000,000 worth of glass has been provided to firms of different sizes to support in the resumption of business activity. In addition, the Chamber of Commerce has established a free of charge

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<sup>8</sup> World Bank, 2020. <https://blogs.worldbank.org/developmenttalk/global-state-small-business-during-covid-19-gender-inequalities>

<sup>9</sup> UN Women, 2020. Gender Alert on COVID-19 Lebanon.

<sup>10</sup> UN Women 2020. Women on the Verge of an Economic Breakdown.

<sup>11</sup> UN Women, CARE, UN ESCWA, ABAAD, UNFPA, *Rapid Gender Analysis of the August 2020 Beirut Port Explosion: An Intersectional Examination* (October 2020).

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> BDL also issued circular 547 allowing banks and NBFIs to extend exceptional five-year zero-percent interest rate loans in LBP and in US dollars to customers with outstanding loans but unable to pay their obligations, operating expenses, or salaries over March, April and May 2020 because of the pandemic.



operations room to support negotiations between insured businesses and their insurers to make sure businesses receive payments in actual U.S. dollars. Few insurance companies were also able to address some of their clients' needs. In addition, some donor-funded programs are currently being implemented (either new or repurposed) to support MSMEs affected by the blast. Other local NGOs and private sector actors have contributed to the reconstruction efforts by providing direct non-financial support to the businesses or pledging amounts, including from the Lebanese diaspora, to support reconstruction efforts. While the aggregate value provided is difficult to know, it is in any case likely to have covered a fraction of the actual needs.

14. **To support the immediate recovery of viable MSMEs affected by the explosion and sustain the microfinance sector operations, the World Bank is proposing the establishment of a Building Beirut Businesses Back & Better (B5) Fund financed by the LFF as immediate support to the private sector.** The B5 Fund will provide grants to MSMEs to cover immediate recovery needs and grants to MFIs. The fund will also provide technical assistance to damaged Women Owned or Led (WOL) businesses to help them build back better. The fund will specifically target WOL businesses affected by the crisis.

15. **The proposed implementation arrangements for the B5 Fund are designed to disburse in a transparent and timely manner, directly through specialized and tested non-governmental institutions.** The proposed implementation arrangement meets three critical criteria. First, it is rapidly deployable, leveraging existing or tested working arrangements and partnerships. The proposed implementing agency, Kafalat SAL, hosts the Project Management Unit (PMU) of the Innovative SMEs (iSME) World Bank-funded project and it has a proven track record of satisfactory project management and independence vis-à-vis vested interests. Second, it is transparent, leveraging the capacity of MFIs and other partners honed in managing flows of funds and cash transfers in ways that meet WBG standards of ethics and operation. Third, it is reliable in assessing the eligibility of beneficiaries and their needs, by leveraging the competence of a large number of immediately available loan officers and their proven skills of assessing eligibility for loans or financial support.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

#### Key Results

The objective will be measured through the following indicators:

- **Share of Micro and Small beneficiary enterprises that are operational for at least 12 months after receiving the grants of which 30% are women-owned or led (WOL)<sup>15</sup> enterprises.**
- **Number of Microfinance Institutions operational for at least 24 months after receiving support.**

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<sup>15</sup>In the context of this project, woman-owned enterprise is defined as having at least one owner who is a woman, and woman-led enterprise as having at least one woman in a managerial or leadership position.



**D. Project Description**

- 17. **The project has 3 components.** The project is expected to support beneficiary firms’ rehabilitation, help them resume their operations, recover their revenues, increase their resilience, build back better, and protect economic activity. The project will also support the operational expenses of selected MFIs, stabilizing their activities until broader growth can resume.
- 18. **The size of the project is US\$25 million.** It will finance a subset of prioritized activities of the overall B5 Fund, whose target size is US\$70 million. This project is envisaged to focus on grants to MSEs and MFIs. The B5 Fund is scalable and agile by design and it is expected that additional funds from LFF will be channeled to this operation.

**Table 2 – Project Components**

<b>Component</b>	<b>Target allocation US\$, million</b>
Component 1 – Grants to Micro and Small Enterprises	18.50
Component 2 – Grants to Microfinance Institutions	5.00
Component 3 – Project Management and Gender Support	1.50
<b>Total</b>	<b>25.00</b>

**COMPONENT 1 – GRANTS TO MICRO AND SMALL ENTERPRISES (Proposed Allocation: US\$18.5 MILLION)**

- 19. **This component will provide grants to eligible MSEs that have been affected by the Beirut port explosion.** It will award non-reimbursable grants to eligible MSEs, including self-employed, regardless of whether they are formal or informal. It is expected that at least 30% of selected MSEs will be women-owned or -led (WOL).<sup>16</sup> Efforts will also be made to identify and support entrepreneurs and businesses who directly or indirectly suffer from a disability due to the blast.
- 20. **Kafalat will have the overall responsibility of managing the grants scheme, including selection of participating MFIs based on a third-party assessment in accordance with the guidelines and procedures set forth in the Project Operations Manual (POM).** For MSEs, Kafalat will be responsible for assessing and selecting eligible formal MSEs with less than 20 registered employees. Kafalat will raise awareness about the grant opportunity to the private sector. Women participation and equal access to the grant’s schemes will be encouraged through the organization of specific outreach activities.
- 21. **Wholesale approach through MFIs.** Grants up to US\$10,000 for MFI clients and informal MSEs, will use a wholesale approach, whereby Kafalat delegates to MFIs the entire granting process to eligible participating MFIs.

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<sup>16</sup>In the context of this project, woman-owned enterprise is defined as having at least one owner who is a woman, and woman-led enterprise as having at least one woman in a managerial or leadership position.



22. **Retail approach through Kafalat.** Grants up to US\$25,000 for formal MSEs with less than 20 registered employees will use a retail approach, whereby Kafalat retains the granting decision as well as the channeling of funds and only delegates the compilation of needed supporting documentation for the application to intermediaries. The granting decision will be taken by the iSME Selection Committee, already established for the purpose of the iSME COVID Financing Facility. The TORs of the committee will be amended to include B5 Fund grants to MSEs.
23. **Zoning approach for prioritization.** The project will adopt a zoning approach for prioritization, whereby eligible beneficiaries will be prioritized based on their proximity to the explosion site. The detailed zoning approach will be elaborated in the POM.
24. **It is expected that 4,300 businesses and/or entrepreneurs will benefit from the project financing, of which 30% will be WOL businesses.** The project has a broad non-sector specific approach to supporting MSEs, and it is expected that different sectors will benefit from the business recovery grants.

#### **COMPONENT 2 – GRANTS TO MFIs (Proposed Allocation: US\$5 MILLION)**

25. **This component will provide self-sustainability grants to microfinance institutions (MFIs) to preserve the microfinance sector and its capacity.** MFIs have decades of experience serving micro and small businesses, low-income populations, and the informal sector at large. This component will help MFIs stand by the communities they serve and bounce back during the time of multiple crises. Initially, this component will help eligible MFIs sustain their activities by covering part of their operational expenses for an average of 9 months.
26. **Eligible recipients of a grant will be selected and approved in accordance with the selection and eligibility criteria acceptable to the World Bank as further set forth in the POM.** MFIs used to employ around 1,000 staff but this number has been progressively decreasing throughout 2020-2021. By sustaining jobs within MFIs, the grant will allow the sector to remain anchored within low-income communities. Once demand picks up, MFIs will be able to rapidly deploy new loans in the market, thereby fueling future economic activity.
27. **Kafalat will appraise, approve, monitor, evaluate and administer the grant agreements with MFIs in accordance with the guidelines and procedures set forth in POM.** Given the relatively small number of specialized MFIs in Lebanon, all those that express interest under the call for expression of interest to be launched and managed by Kafalat shall be assessed by a third party hired by Kafalat. Eligibility criteria will include a measure of Financial Self-Sustainability (FSS) prior to the crises, while the assessment of the needs for each MFI (i.e., the grant amount) will be based on Operational Self-Sufficiency (OSS), both as further defined in the POM.
28. **It is expected that a maximum of 5 eligible MFIs would benefit from the grant support.** The selection of MFIs will be based on an MFI performance assessment conducted by a specialized third party, in accordance with the guidelines and procedures set forth in the POM.

#### **COMPONENT 3 – PROJECT MANAGEMENT AND GENDER SUPPORT (Proposed Allocation: US\$1.5 MILLION)**



- 29. **This component will finance project management costs over the project life. Kafalat will be the Project Implementation Agency (PIA).** Costs of the PIA include management and consultancy fees, operations and administrative costs for the management and supervision of the project activities. Project funds will support the PIA costs for the following: Gender capacity building support to beneficiary MSEs, conducting assessments and analysis, citizen engagement activities, monitoring and evaluation (M&E), safeguards monitoring and review, legal, accounting, auditing, financial management and gender.
  
- 30. **Kafalat will hire one or more consulting firms with expertise in delivering gender-sensitive capacity building support to beneficiary WOL MSEs in financial management, digital sales/e-commerce and other potential areas to be identified by MFIs and WOL MSEs.** Kafalat will launch one or more call for proposals. Assessment and competitive selection of qualified consulting firms will be based on the following criteria (among others): (i) track record of delivering training to micro and small firms in selected areas including gender-specific experience; and (ii) capacity to deliver training and coaching to a large number of MSEs in a relatively short period of time, 6-9 months.

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

- 31. **The Environmental risk rating of the project is Substantial.** The project environmental risks include air and noise emissions, liquid and solid waste generation, potentially hazardous waste, and Occupational Health and Safety (OHS). The impacts are likely to be minor, localized, and reversible due to the small scale of rehabilitation activities and can be mitigated with simple measures and environmental and social good practices. The capacity of the MSEs in implementing the ESF is not yet known and Kafalat as the Project Implementation Agency (PIA) will ensure and monitor implementation of all Environmental and Social Framework (ESF) requirements as relevant. There is a likelihood that the MSEs will have existing environment, health, and safety (EHS) issues/risks. The extent of the risks will depend on the sectors in which they operate and the specific nature and scale of operations, which is yet to be defined during the screening. MSEs that may potentially generate hazardous waste will need to prepare and implement an Environmental and Social Management Plan in order to be eligible for funding.
  
- 32. **The social risks are classified as Substantial.** The social risks and impacts can be summarized as follows: (a) risks related to social exclusion and elite capture in its various forms that would need to be mitigated through ensuring that project benefits, such as access to grants, can be accessed and optimized for the most vulnerable, including women and persons with disabilities and the elderly; and (b) risks related to labor and working conditions for project workers of Kafalat: Inadequate grievance



redress mechanism to handle complaints and concerns, weak communication outreach, and potential sexual exploitation and abuse and sexual harassment (SEA/SH risks). To manage such risks, a robust and functional grievance redress mechanism needs to be established for the project and inclusive and meaningful consultations need to be conducted with COVID-19 preventive measures throughout project implementation as per the Stakeholder Engagement Plan (SEP). In addition, to manage SEA/SH risks, the PIA is recommended to prepare a SEA/SH A SEA/SH Prevention and Response Action Plan.

- 33. An Environmental and Social Management System (ESMS) with framework approach is in place which will be the guidance document to manage the environmental and social risks and impacts associated with this project.** The ESMS with framework approach was prepared, consulted on and disclosed. It identifies the environmental and social risks and impacts of the projects' activities and defines the appropriate mitigation measures including the associated budgets and the Grievance Redress Mechanism. The ESMS provides the guidance to assess the MFIs compliance with the World Bank's requirements of the Environmental and Social Standards for Financial Intermediaries (ESS9) . In addition, during project implementation, the recipient will ensure that all bidding documents incorporate the ESF, WBG ESHS and SEA/SH requirements. An Environmental and Social safeguards specialist will be hired by Kafalat to support the implementation, management and documentation of environmental, social, health and safety (ESHS) risks and impacts of the project.

## **E. Implementation**

### Institutional and Implementation Arrangements

- 34. For the purpose of this project, Kafalat will be both the recipient and the project implementing agency (PIA).** Kafalat will be the formal project counterpart throughout project implementation. Overall management of the project is the responsibility of the PIA. The PIA is responsible for procurement, financial management, safeguards, and M&E, including annual work planning and progress reporting and oversight of the various grants' schemes under the project.
- 35. Kafalat will establish a PMU and will maintain it throughout project implementation.** The PMU will be fully funded and staffed. The PMU responsibilities will include: (i) selecting eligible MFIs who will be responsible for administering the grants to micro businesses or entrepreneurs; (ii) establishing a selection committee that will assess and select eligible formal businesses with less than 20 employees; (iii) assessing and selecting eligible MFIs to receive grants; (iv) ensuring that the grant proceeds are channeled to final beneficiaries in accordance with the terms and conditions set forth in the Project Operations Manual (POM); (v) adhering to all fiduciary and safeguard requirements of the World Bank; and (vi) monitoring and evaluating based on the agreed results indicators.
- 36. The PIA responsibilities are summarized below and will be spelled out in detail in the POM:**
- (a) The PIA will undertake day-to-day administration of overall planning, coordination, technical, fiduciary (i.e. procurement and financial management), monitoring, evaluation, reporting and communication of the activities under the Project.
  - (b) The PIA will carry out its respective activities under the project with due diligence and efficiency in conformity with appropriate administrative, financial, procurement, technical, environmental



and social practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

- (c) The PIA will be required to maintain capacity, functions, staffing and resources satisfactory to the World Bank, including inter alia specialists in procurement, financial management, safeguards and M&E.
- (d) The PIA will withdraw the proceeds of the grant in accordance with the Grant Agreement (GA). The PIA will ensure that the grant proceeds are extended solely and entirely for the intended purposes for which the financing was provided.
- (e) The PIA will prepare and submit an Annual Work Plan and Budget containing all activities proposed to be included in the Project and a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts and sources of financing.
- (f) The PIA will ensure that the Project is implemented in accordance with the Annual Work Plan and Budget as approved by the World Bank.
- (g) The PIA will procure goods and services required for carrying out project activities and to be financed out of the proceeds of the grant, in accordance with the provisions of the GA.
- (h) The PIA will implement the project in accordance with the provisions of Safeguards instruments
- (i) The PIA will implement the project in accordance with terms of the World Bank Anti-Corruption Guidelines.
- (j) The PIA will: (i) maintain a separate financial management system for implementing the project; (ii) prepare financial statements; and (iii) register separately the operations, resources and expenditures related to the project.
- (k) The PIA will prepare interim unaudited financial reports for the project, on a quarterly basis, in form and substance satisfactory to the World Bank. The Interim Unaudited Financial Reports (IFRs) will be prepared and submitted to the World Bank each calendar quarter.
- (l) The PIA will ensure that the Financial Statements for the project are audited in accordance with the GA. Each such audit of the Financial Statements will cover the period of one fiscal year. The audited Financial Statements for each such period will be submitted to the World Bank.
- (m) The PIA will monitor and evaluate the progress of the project and prepare progress reports in accordance with the GA and based on indicators acceptable to the World Bank. Each project progress report will cover the period of one calendar quarter and will be submitted to the World Bank.

37. **Project Operations Manual (POM).** Kafalat will prepare a POM satisfactory to the Bank stipulating the operational structure, financial management, governance, the decision-making process, selection process, and eligibility criteria for the grant beneficiaries (including negative list), and all other processes related to project implementation, prior to disbursement of the grants.



## CONTACT POINT

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## APPROVAL

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### Approved By

Practice Manager/Manager:		
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