# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 03-Oct-2019 | Report No: PIDISDSA25485

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Lebanon | P166580 | Municipal Investment Program | |
| **Region** | **Estimated Appraisal Date** | **Estimated Board Date** | **Practice Area (Lead)** |
| MIDDLE EAST AND NORTH AFRICA | 06-Sep-2019 | 12-Dec-2019 | Urban, Resilience and Land |
| **Financing Instrument** | **Borrower(s)** | **Implementing Agency** | |
| Investment Project Financing | Ministry of Finance | Council for Development and Reconstruction (CDR) | |

Proposed Development Objective(s)

The Project Development Objective (PDO) for SOP I is to (i) improve municipal services and local economic opportunities in selected secondary cities; and (ii) improve the enabling environment for private sector participation in municipal investments in selected primary and secondary cities.

Components

Component 1: Municipal Investments and Financial Management Strengthening
Component 2: Enabling Environment for Private Sector Participation in Municipal Investments
Component 3: Project Management Costs

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

| | |
|---|---|
| **Total Project Cost** | 100.00 |
| **Total Financing** | 100.00 |
| **of which IBRD/IDA** | 90.74 |
| **Financing Gap** | 0.00 |

### DETAILS

**World Bank Group Financing**

| | |
|---|---|
| International Bank for Reconstruction and Development (IBRD) | 90.74 |

| Non-World Bank Group Financing | |
|---|---|
| Trust Funds | 9.26 |
| Concessional Financing Facility | 9.26 |

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

## B. Introduction and Context

Country Context

1. **The Lebanese economy currently faces an uncertain political environment and severally limited fiscal space**. With the continuing turmoil in the region, increasing public debt already above 140 percent of Gross Domestic Product (GDP), and subdued GDP growth, Lebanon's economy remains vulnerable. The Syrian Crisis, now entering its eighth year, has been very costly for the Lebanese economy. World Bank estimates show that the total fiscal impact of the Syrian conflict exceeds US$2.5 billion for the 2012-2014 period. At 0.2 percent in 2018, 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 the fiscal deficit widening to 11.5 percent of GDP in 2018 due to declining revenues and increasing interest payments, which have reached nearly one-third of the budget[1]. The weakened economy and the limited Foreign Direct Investments (FDIs) and Domestic Direct Investments (DDIs) in the country have had a direct impact on the fiscal transfers from the Independent Municipal Fund (ImF) to local governments and have been accompanied by 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.** Access to and quality of basic services such as urban roads, water, sanitation, drainage, affordable housing, and energy 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. 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 conducted in 2000, the Ministry of Public Works and Transport (MPWT) estimated that only 15 percent of roads in the main network

[1] Lebanon Recent Economic Developments, World Bank, April 2019.

were in good condition. Further aggravating the situation is the absence of a reliable public transportation system. Consequently, Lebanon has one of 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.

3. **The infrastructure deficit hinders productivity and discourages private investment.** The quality of infrastructure in Lebanon falls well below that of 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. Water quality is also deteriorating because 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. In the absence of policy change, continuing this alarming pattern of under-financing infrastructure investments could lead to an insurmountable infrastructure gap.

4. **The country is characterized by having 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 cities. At the economic level, the country's export-oriented economy favors coastal agglomeration at the expense of secondary 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 study financed 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 are deep, causing a growing urban divide and striking income disparities, which have been exacerbated by the Syrian crisis**. At the municipal finance level, smaller cities have limited local expenditure autonomy; high transactions costs for borrowing (making it virtually impossible to access credit); 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 municipal investments, such as solid waste management, drainage and urban transport projects.

6. **Climate change complicates the potential for economic growth and mitigating and adapting to its effects will be crucial to sustainable, inclusive, and long-term development in Lebanon.** Climate projections in Lebanon include increasing mean annual temperatures, evapotranspiration, and extreme weather events, such as drought and heat waves, decreasing precipitation, and rising sea levels. For example, increased frequency of heat waves and increases in mean annual temperatures between 1.2 and 1.7 degrees Celsius by 2050 are expected, which have already begun to impact energy demand and consumption and will require greater electricity transmission capacity. These changes are expected to impact various sectors, including water,

energy, transport, and agriculture, and will further strain municipal resources. The impacts of climate change on Lebanon's natural resources, public finances, and service delivery are further exacerbated by rapid urbanization and population growth, in addition to the influx of refugees. Dilapidated drainage structures and roads are unable to handle more intense and frequent storms, lead to erosion, and contribute to the deterioration of water quality due to pollution. Capital planning is necessary to appropriately plan for and adapt to climate change.

### Sectoral and Institutional Context

7. **Lebanon has a three-tier administrative structure, with a dual system of governance.** Below the national level, there are deconcentrated authorities at the intermediate or regional level, represented by 9 governorates (mouhafazat) and 26 districts (qada). The decentralized authorities at local level are 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.

8. **The Lebanese municipal sector suffers from three major weaknesses.** First, Lebanon has an extremely large number of municipalities 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. Most municipalities are small and lack qualified manpower with 70 percent of them hosting a registered population of less than 4,000. Fiscal transfers from the center are both unpredictable and inconsistent. Third, there is a large gap between the mandate conferred on municipalities by law and the services provided by them in practice. Municipalities are authorities with financial and administrative autonomy, but the influx of displaced Syrians has imposed new demands on municipal services and budgets.

9. **The financial resource gap for municipalities is widening and existing financing instruments have been limited and inadequate to respond to urban and local infrastructure investment needs.** 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 central 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 (MoIM). Lastly, local governments have very limited access to commercial debt financing. While Municipal Law 118[2] allows local governments to borrow, Law No. 5 (1989) stipulates that any loans or guarantees to municipalities require prior passage of a law in Parliament. 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 under the proposed operation.[3]

[2] Decree Law No. 118 dated June 30, 1977.

[3] Law No. 5, dated January 5, 1989, states that any new loans to the benefit of the State, public institutions or municipalities, in addition to any guarantee that the State may consent to for different types of loans, require the prior passing of a law in application of Article 88 of the Lebanese Constitution.

10. **Past efforts at municipal finance reforms have yielded mixed results and indicate that effective policy dialogue, recognizing Lebanon's unique political economy, will require a gradual, phased-in approach.** A combination of a fragile and relatively new central government administration, an on-going fiscal austerity reform program, uncertainties caused by a large displaced population, and limited central government financial resources, suggests that needed reforms to the ImF will take time and depend on strong government ownership. Reassessment of the ImF financial resource pool, the distribution formula, and the rules that govern eligibility for funding will all need to be undertaken in the years ahead. Accordingly, efforts to strengthen the municipal finance system will need to be carefully considered, politically-feasible, and developed from an Action Plan that is appropriately sequenced and embraced by all stakeholders. MIP presents an important opportunity to advance this agenda without locking in specific actions at this early stage.

11. **Influx of displaced Syrians 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. Around 70 percent of these displaced persons live below the poverty line 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. This is having a direct impact on social cohesion and exacerbating drivers of tension, especially in secondary cities. With such a 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. Local governments face greater demands for services, especially in those communities accommodating a large share of displaced persons. Host communities in secondary cities (in the North, Beqaa and South areas), are absorbing most of this population shift, as 72 percent of displaced Syrians are registered outside Beirut. Yet, these secondary cities in Lebanon are home to the most vulnerable Lebanese. The population living in areas outside Greater Beirut and Mount Lebanon endure persistent and increasing social and economic inequalities, reflected in higher poverty and unemployment rates. The existing urban systems are to a large extent unable to take steps towards addressing this growing social and economic divide.

12. **Due to limited involvement or lack of voice of women in the selection, prioritization and design of municipal services and infrastructure in Lebanon, services and infrastructure developed by municipal agencies are often not responsive to women's needs.** Women councilors comprise 5.4% of the total number of municipal councilors in Lebanon, which increased from the 2010 election but still shows a low rate of women's participation in municipal councils[4]. The skewed representation limits women's inputs in the identification of capital investments and service delivery priorities of municipalities. In addition, no systematic consultations are held with women by municipalities to identify and prioritize specific interventions. As a result, access to and use of municipal infrastructure in the city, such as public spaces or community facilities, is much more challenging for women compared to men. This is reflected in limitations faced by women in mobility, walkability, safety and access, due to a combination of gender-blind infrastructure not designed to address their needs (such as lack of recreational or community facilities or spaces, adequate lighting, public toilets, sidewalks etc.) and prevailing socio-cultural norms. This hinders women's ability to equally participate in civic and economic life. Inactivity and unemployment are significantly high amongst Lebanese women[5]. Only 1 in 5 working age women

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[4] https://www.undp.org/content/dam/lebanon/docs/Governance/Publications/Women%20in%20Municipal%20Elections%202016%20-%20Key%20Results.pdf

[5] https://openknowledge.worldbank.org/bitstream/handle/10986/29852/126361-BRI-add-series-PUBLIC-QN-170.pdf?sequence=1&isAllowed=y

participates in the labor market, compared to 70% of working age men[6]. The situation is worse in some of the lagging regions in Lebanon. For example, the North has a relatively large working age population (around 610,000), of whom only 47 percent (289,000) are active. And, while the inactive population includes a fairly large number of youth who are still in school (79,000), the majority of the inactive population are working-age women (168,000)[7].

13. **Despite these weaknesses, several municipalities in Lebanon enjoy a relatively sound administrative structure and are 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-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, to fund capital investment.

14. **Mobilizing private capital for municipal investment from the banking sector, as well as institutional sources and individual investors, 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 lending portfolios and client base. With a loan-to-deposit ratio of only 30 percent, commercial banks have indicated that they are in a position to put another 30 percent of deposits in play given the right conditions. But this will require effective regulatory reforms, training and credit enhancement support, including wisely-determined public investments in city infrastructure that could help leverage new private investment. There are also legal framework ambiguities and implementation challenges that require further review and refinement to facilitate municipal access to financing.

15. **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 in improving Lebanon's standing in business environment rankings[8]. 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 (HCP) to include Public-Private Partnerships (PPP) are strong signals of the Government's serious commitment to reforms.

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[6] World Bank (2012). Lebanon: Good Jobs Needed – The Role of Macro, Investment, Labor, Education and Social Protection Policies.

[7] World Bank, 2017. Jobs for North Lebanon. Washington DC: World Bank Group.

[8] Lebanon currently ranks 126th out of 189 countries in the 2017 World Bank Doing Business Report

16. **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 for private sector. The main lessons learned from Lebanon's PPP 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. However, this experience points to 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 be supported under this operation.

17. **Past Government and donor financing have focused predominantly on Beirut and a few other cities, leaving secondary cities with limited support and attention**. Given Lebanon's urban hierarchy of inter-connected networks where one city's growth affects others, secondary 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) focus on infrastructure rehabilitation and service delivery improvements in secondary cities (2004 – 2018) namely, 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 Program (MIP) will seek to fill the infrastructure deficit gap in secondary cities. Given the extensive need, the Bank is working closely with the Agence Francaise de Developpement (AFD), the European Investment Bank (EIB) and the European Union who together will finance, under a forthcoming program, investments in primary cities[9] promoting integrated urban development in line with the principles of the National Physical Master Plan for the Lebanese Territory[10]. 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 in coordination with other donors and IFIs.

## C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

18. The Project Development Objective (PDO) for SOP I is to (i) improve municipal services and local

[9] Aaley, Baalbeck, Halba, Jbeil, Nabatieh, Saida, Tripoli/El Mina, Tyr, and Zahle.

[10] National Physical Master Plan for the Lebanese Territory, Final Report, Lebanese Republic, Council for Development and Reconstruction, December 2005.

economic opportunities in selected secondary cities; and (ii) improve the enabling environment for private sector participation in municipal investments in selected primary and secondary cities.

Key Results

### D. Project Description

19. The Project Development Objective (PDO) for SOP I (US$100 million, 2019-2025 is to (i) improve municipal services and local economic opportunities in selected secondary cities; and (ii) improve the enabling environment for private sector participation in municipal investments in selected primary and secondary cities. The Project Development Objective (PDO) for SOP II ($50 million, 2023-2026) is to mobilize private sector financing for municipal investments in selected primary and secondary cities. The proposed overarching Program Development Objective (PrDO) is to (i) enhance livability in secondary cities, and (ii) expand sustainable financing options for municipal investments in the country. The triggers for advancing from SOP I to SOP II would be: (i) a GIS-based Asset Management System successfully piloted in at least two target municipalities and ready for roll-out; (ii) Municipal PPP Pipeline developed; and (iii) Municipal PPP Guidelines prepared and officially adopted by HCP. MIP is structured into three components as follows:

20. **Component 1. Municipal Investments and Financial Management Strengthening (US$89.10 million).** This component would be implemented by Council for Development and Reconstruction (CDR) as 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 municipal investments (US$80 million) to bolster municipal service capacity for residents and businesses in up to 18[11] participating secondary city municipalities using a “whole of community” approach. The participating cities have been selected to complement interventions by other development partners such as AFD, EIB, and EU and expand programmatic impact. This component will also provide targeted and custom-designed training and technical assistance programs for strengthening municipal financial management, focused on local own-source revenue enhancement and improved asset management, as well as support to MOIM in developing a Critical Path Action Plan for ImF reforms.

21. **Component 2. Enabling Environment for Private Sector Participation in Municipal Investments (US$7.70 million).** As a second-tier response to implement municipal projects and to help sustain investments over time, this component would provide financing for technical assistance, training and consulting services to develop an enabling framework for municipal PPPs that would attract private sector equity and financing for municipal services. It would be implemented by the CDR in close collaboration with the High Council for Privatization and PPP (HCP) and is designed to build capacity, simplify PPP project preparation, and save on transaction cost. It would target Lebanon's primary cities identified under the AFD/EIB Urban projects Finance Initiative (UPFI), including Zahle, Aaley, Baalbeck, Halba, Saida, Tripoli/El Mina, Tyr, Jbeil, Nabatieh, and selected secondary cities from the pool of 18 supported under component 1, with technical assistance in the

[11] The eighteen participating secondary city municipalities were selected based on geographical distribution across the country, host a disproportionate number of displaced persons, and are centrally located in their Caza with economic links to surrounding smaller cities or towns to generate economic spillover benefits. They include: Anjar, Baakline, Batroun, Bcharre, Bint Jbeil, Chhim, Douma, Hasbaya, Hazmieh, Hermel, Jezzine, Jib Jennine, Kfardebiane, Marjeyoun, Minye, Qoubaiyat, Rashaya, and Zgharta,

form of training, advisory services, toolkits and resources customized to address each city's municipal PPP enhancement needs. It is designed and built through a partnership with the International Finance Corporation (IFC) and the World Bank's Infrastructure, Guarantees and PPPs Group (IPG), including resident PPP experts, a database of over 1,000 PPP transactions (the PPI database), toolkits and model contract clauses for municipal PPP transactions.

22. **Component 3. Project Management Costs (US$3.20 million).** The CDR would be the implementing agency for MIP. This component would provide CDR with the means to retain a lean but qualified and competent team of consultants necessary to oversee effective implementation and monitoring of the MIP. It will cover the Operating Costs of the PIU, 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 actively monitor project-supported activities, and related project implementation support for meeting the Bank's fiduciary and safeguards requirements.

## E. Implementation

### Institutional and Implementation Arrangements

23. Overall implementation responsibility for MIP at the national level rests with CDR. This will be carried out in close conjunction with participating municipalities at the local level. As Lebanon's statutory body responsible for facilitating PPPs, CDR will coordinate closely with HCP in implementing component 2. The HCP will be responsible for planning, coordinating, and monitoring of Component 2 financed activities aimed at creating an enabling environment for municipal PPPs (in close coordination with CDR). CDR will assume all technical, fiduciary, safeguards and monitoring aspects of the MIP. However, participating municipalities will lead the process of investment identification and prioritization in consultation with their communities. Policy coordination will be enabled across national level agencies by a Project Coordinating Committee (PCC) and externally with development partners. Implementation arrangements are further detailed in Annex 2 (Implementation Arrangements) along with a chart illustrating reporting and coordinating links and relationships.

24. CDR has a long track record of implementing large, complex infrastructure projects, including in challenging implementation environments, dating back to its establishment in January 1977 during the Lebanese civil war. CDR has played a major role in rebuilding damaged infrastructure within the country, having managed many projects since its establishment with the World Bank and a wide range of donors. CDR is directly accountable to the Prime Minister. Since its establishment, it has been the primary agency responsible for planning and coordinating donor funding and financing for rebuilding infrastructure at the national and local level, including road repairs, transport and rebuilding of the Beirut International Airport. CDR has worked extensively with municipalities by providing support and overseeing the implementation of municipal infrastructure, through its permanent staff and the specialized consultants hired for periodic project activities. CDR is the best suited given the territorial development and service delivery objectives of the proposed activity as well as for delivering on municipal capacity strengthening for implementing PPPs.

25. CDR, in addition to its own personnel, also has utilized experienced consultants in implementing and reporting on financial and procurement aspects of Bank-financed projects, and has proven to be competent in meeting the Bank’s fiduciary requirements, however still follows a slow bureaucratic paper base system that

may delay the implementation and has limited experience with the Bank's new procurement regulations. CDR has also been exposed – through specialized training and project implementation experience – to the Bank's environmental and social safeguards policies and has developed frameworks and procedures to identify and mitigate environmental and social risks.

26. The MIP will be implemented through a Project Implementation Unit (PIU) that will be established at the CDR in coordination with the beneficiary municipalities. The PIU will consist of a Project Manager, a Procurement Specialist, a Financial Management Specialist, Environmental and Social Safeguards Specialist, and a Monitoring and Evaluation Specialist. Furthermore, the CDR will be using the services of qualified outsourced consultants paid under the project, in addition to its own staff to make sure that the Project Management team is adequately backed by additional support for the project's timely and quality implementation.

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### F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Component 1 of the Project will be implemented in up to eighteen participating muncipalities that are host communities to a disproportionately large number of displaced Syrians. These municpalities have been selected from among the tier of secondary cities, located generally within the center of the administrative district (Qada) and some sub-projects are expected to benefit the region or sub-region beyond the target municipality boundaries. In some cases, sub-projects will span more than one municipal boundary and in such cases the relevant Union of Municipalities will be formally involved in the process, including provision of official consent and endorsement of the sub-project by the adjacent municipalities, as well as provisioning for any relevant operating and maintenance costs for assets developed under the Project. 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. Based on an initial screening, there will likely be sub-projects of the following profile: secondary or tertiary roads to improve access or reduce congestion; sidewalks and pedestrian walkways to improve urban mobility; car parks; upgrading public spaces, upgrading and urban renewal of historic old city areas, municipal markets, and related assets in central business districts (CBD); stormwater drainage; street lighting using energy efficiency options; and municipal serviced plots for small scale businesses, particularly for touristic and small-scale retail enterprises. Activities under Component 2 will be limited to technical assistance for creating an enabling environment for PPP investments and will involve no physical works.

### G. Environmental and Social Safeguards Specialists on the Team

Amal Nabil Faltas Bastorous, Social Specialist
Shafick Hoossein, Environmental Specialist
Noushig Chahe Kaloustian, Social Specialist

## SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies | Triggered? | Explanation (Optional) |
| --- | --- | --- |
| Environmental Assessment OP/BP 4.01 | Yes | The project will involve small-scale civil works in up to 18 participating cities in Lebanon under Component 1. The soft interventions under Component 2 will also lead to PPP investments under an anticipated Phase II of the Program. To mitigate against any social and environmental risks, a structured screening process has been put in place, including an extensive City Situation Analysis, which is currently being tested to screen out any Environmental Category A sub-projects or any projects that involve land acquisition of any kind. Each identified subproject 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 has been 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 has been 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 also sets out 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 displaced persons. Special efforts will be made to include and disaggregate, where feasible, data gathered on women and the displaced. 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 |

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| | | communities and the need for the mechanism to be informed, inclusive and transparent. An adequate GRM will be developed as an update of the existing GRM established at CDR for prior projects, and will be used to ensure an effective mechanism is in place for affected communities, as well as laborers, to express any grievances. The GRM is outlined in the ESMF. |
| Performance Standards for Private Sector Activities OP/BP 4.03 | No | The application of Performance Standards is not envisaged. |
| Natural Habitats OP/BP 4.04 | Yes | Most of the subprojects will be implemented in urban areas of secondary cities as described above. However, some PPP interventions may include managing of natural protectorates. The ESMF has been developed and will include the identification of risks and impacts to Natural Habitats and any mitigation measures identified will be part of site specific ESIAs/ESMPs. |
| Forests OP/BP 4.36 | No | The project will be implemented in dense urban areas without any forested areas in the vicinity. |
| Pest Management OP 4.09 | No | The project will not employ or support the use of any chemicals or other treatments dealing with pest management. |
| Physical Cultural Resources OP/BP 4.11 | Yes | 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 and will be addressed in accordance with OP/BP 4.11 procedures. The ESMF has been developed and includes the identification of risks and impacts of chance finds of Physical Cultural Resources and mitigation measures identified will be part of site specific ESIAs/ESMPs. |
| Indigenous Peoples OP/BP 4.10 | No | The project will not impact any indigenous people within the project affected areas. |
| Involuntary Resettlement OP/BP 4.12 | Yes | For Component 1 of the project, a 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 involving involuntary resettlement (both land and livelihoods |

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|---|---|---|
| | | 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 are addressed in the RPF and will be addressed in any subsequent RAPs as needed. Meaningful consultations were carried out on 8 August 2019 as part of the preparation of the RPF and theESMF. . Additional consultations will be carried out as part of any future RAP preparation. The consultations that will be conducted will follow the outline of the stakeholder engagement plan for future sub-projects. In addition, the GRM has been outlined in the RPF and discussed during the consultation session conducted and will be outlined as well in any of the subsequent RAPs, which will be applicable for the sub-projects once selected. |
| Safety of Dams OP/BP 4.37 | No | The project will not finance the construction of any dams and, accordingly, this safeguard policy is not triggered. |
| Projects on International Waterways OP/BP 7.50 | No | The project will not have any impact on any 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. |

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Component 1 (Municipal Infrastructure Investments) was the only one identified with social and environmental risks, as it involves financing of small-scale municipal investment civil works sub-projects, including inner-city roads, municipal markets, solar lighting, sidewalks and pedestrian walkways, and upgrading of historic city areas, among other small-scale investments, that are expected to have minimal to moderate social and/or environmental impacts. MIP has adopted a framework design where the rules and procedures for subproject selection are defined up front. A screening process of subprojects will be carried out using a negative list that will explicitly exclude any Environmental Category A projects, as well as water, wastewater, and solid waste projects, and any project that would require land acquisition. MIP has triggered OP 4.12, as it is likely to involve small-scale resettlement both temporarily (construction phase) and in some cases permanently. Accordingly, a Resettlement Policy Framework (RPF) has been prepared, which sets out the relevant laws, regulations and procedures for dealing with any aspect of resettlement and guidelines for preparing sub-project specific Resettlement Action Plans (RAPs) where relevant. An Environmental and Social Management Framework (ESMF) has also been prepared and contains guidelines for preparing Environmental and Social Management Plans (ESMPs) in specific cases where subprojects require risk identification and mitigation planning.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
No potential indirect or long term negative or social impacts are foreseen under the Project. Quite the contrary, MIP-financed investments are likely to contribute to improved environmental conditions by reducing environmental degradation and reinforcing the social contract between the State and citizens of Lebanon, through extensive citizen engagement and consultations.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Subprojects will, in some cases as a condition of approval, be subjected to alternative designs to ensure that any social and environmental impacts will be kept to a minimum. Sub-project selection and design alternatives will factor in the availability of public land for the pre-screened investments projects, avoiding land acquisition and any significant environmental or social impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
To mitigate against any social and environmental risks, a structured screening process has been put in place, including an extensive City Baseline Assessment (CBA), which is currently being tested to screen out any Environmental Category A sub-projects that involve significant land acquisition. The City Baseline Assessment will advise the project decision makers during the sub-project screening phase which reasonable and feasible options of sub-projects should be pursued based on their environmental and social risks. This will use principles of Strategic Environmental and Social Assessment which has not been developed in the Lebanon. It will guide the decision making process as to the most suitable sub-projects. Even in cases of Environmental Category B sub-projects, alternative designs would be used to ensure minimal negative environmental or social impacts. An ESMF and RPF have been prepared for the project to provide overall guidance in dealing with environmental and social safeguards, including templates for ESMP and RAPs. Contracts for the feasibility and design consultant will include the ESMP and RAP templates as an annex and will be prepared for all sub-projects requiring any environmental or social mitigation measures. These ESMPs and RAPs will be included as annexes to the civil works contracts as well to ensure compliance by contractors. Component 1 will also finance a CBA for all participating 18 secondary cities which will inventory and analyze the social, environmental, economic, infrastructure and physical characteristics of each city and sub-projects will be validated by the CBAs, as well as by community engagement consultations that are built into the project cycle. CDR has implemented numerous Bank-financed operations, including the Cultural Heritage and Urban Development Project (CHUD), Municipal Services Emergency Project (MSEP), and many others, and has developed a strong in-house knowledge and capacity to meet World Bank social and environmental safeguards guidelines.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Key stakeholders of the 18 participating secondary cities for Component 1 include businesses and residents, vulnerable and marginalized groups, including women, the elderly and refugees. They will be consulted through the CBA process (aimed at delving deeply into the social, economic and environmental dynamics of the community, including impact of the displaced on demand for services), and each sub-project will be validated through a dedicated

community engagement consultation workshop. Consultation workshops will be organized in Beirut at CDR premises and at clusters of local participating city groups in the regions on the project-specific ESMF and RPF prior to public disclosure and these instruments will be posted on the CDR website and the websites of the respective participating secondary cities. Public consultants will follow a two phase approach: (a) Phase-I, which was completed on August 8, 2019, consisted of holding a public consultation workshop on the ESMF and RPF at CDR involving the Mayors of all 18 secondary cities along with local NGOs. Furthermore, all the 18 cities will publicly disclose the two documents (ESMF and RPF) and share these with relevant government agencies, nongovernmental organizations and development partners of Lebanon. These reports will also be disclosed in country (on CDR website) and at the World Bank's external website as part of the PAD; and (b) Phase-II will involve holding, by project effectiveness date, townhall meetings in each of the 18 cities. Such meetings will involve discussing the project's environmental and social aspects with local stakeholders, NGOs and community groups to take their views into account. The implementing agency (CDR) will initiate these consultations as early as possible, and will provide relevant material in a timely manner before consultation, in a form and language that are understandable and accessible to the groups being consulted with. Satisfactory completion of Phase-II will be a Project Effectiveness Condition.

A GRM mechanism, which already exists at CDR, will be updated and adapted to MIP to enable a continuous mechanism for community inputs or grievances and a defined method for intake and processing/resolution of any issues that arise in a timely manner.

### B. Disclosure Requirements

**Environmental Assessment/Audit/Management Plan/Other**

| Date of receipt by the Bank | Date of submission for disclosure | For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors |
|---|---|---|
| 08-Aug-2019 | 06-Sep-2019 | |

**"In country" Disclosure**

**Resettlement Action Plan/Framework/Policy Process**

| Date of receipt by the Bank | Date of submission for disclosure |
|---|---|
| 08-Aug-2019 | 06-Sep-2019 |

**"In country" Disclosure**

Lebanon
12-Sep-2019

Comments

## C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?
No

**OP/BP 4.04 - Natural Habitats**

Would the project result in any significant conversion or degradation of critical natural habitats?
Yes
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
Yes

**OP/BP 4.11 - Physical Cultural Resources**
Does the EA include adequate measures related to cultural property?
Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

**OP/BP 4.12 - Involuntary Resettlement**

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

## CONTACT POINT

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### Borrower/Client/Recipient

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## APPROVAL

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| Country Director: | Claire Kfouri | 09-Oct-2019 |