

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No: PIDC 0129474

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<b>Program Name</b>	Lebanon National Job Creation Program
<b>Region</b>	Middle East and North Africa
<b>Country</b>	Lebanon
<b>Sector</b>	Trade and Competitiveness, Social Protection and Jobs
<b>Financing Instrument</b>	Program For Results
<b>Program ID</b>	P163576
<i>{If Add. Fin.}</i> <b>Parent Program ID</b>	
<b>Borrower(s)</b>	The Lebanese Republic
<b>Implementing Agency</b>	To Be Determined
<b>Date PID Prepared</b>	August 21, 2017
<b>Estimated Date of Appraisal Completion</b>	January 20, 2018
<b>Estimated Date of Board Approval</b>	March 2018
<b>Concept Review Decision</b>	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

**I. Introduction and Context**

**A. Country Context**

1. **Lebanon is a small, upper-middle income, acutely fragile, open economy with a population of 4.5 million people in 2013.**<sup>1</sup> The Gross Domestic Product per capita was US\$17,390 in purchasing power parity terms and US\$9,905 in current dollars in 2013. Services and trade are the most important sectors, with tourism and financial services forming the backbone of the national economy. The country has experienced a prolonged civil war (from 1975 to 1990), external conflicts, and several waves of Palestinian and, more recently, Syrian refugee influxes. Fragility and vulnerability are a product of decades of recurrent conflict, political instability, and social and economic inequalities, exacerbated by regional conflicts, including the ongoing war in Syria.

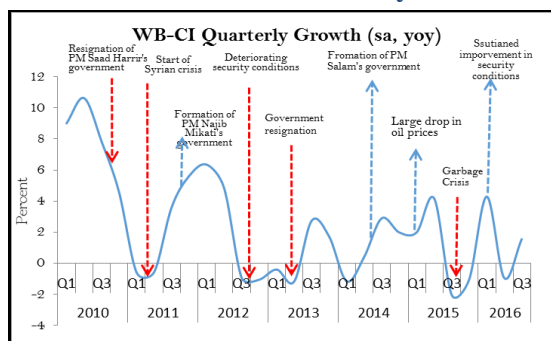
2. **The Lebanese economy has grown at a moderate pace over the past decades, but growth has been uneven due to large, frequent, and mostly “political” shocks, to which the economy has shown remarkable resilience.** Real GDP grew, on average, an estimated 3.6 percent from 1965 to 2014 (4.4 percent from 1992 to 2014), but these figures mask the impact of many domestic, international, political, and confessional crisis during this period, including over the past few years since the onset of the Syrian war.

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<sup>1</sup> Population estimates for 2016 stand at 5.9 million due to the influx of Syrian refugees. (LCRP)

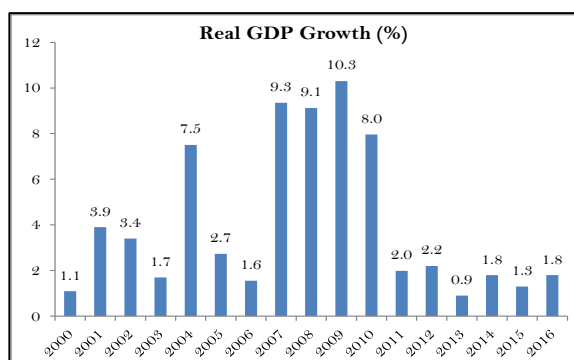
3. **The crisis in Syrian - its wider regional impacts and due to the strong linkages between the two countries - has contributed to a sharp slowdown in Lebanon's vulnerable economy.** While the economy since the early nineties has traditionally been susceptible to the frequent political and security shocks resulting in volatile growth rates (Figure 1), the post-2011 period has witnessed a shift in economic fundamentals. Traditional drivers—real estate, construction, finance and tourism—have suffered greatly and real GDP growth rate dropped sharply from an average of 5.4 percent during the 2000-2010 pre-crisis period to 1.9 percent for 2011-2016 (Figure 2).

**Figure 1. Frequent shocks result in volatile economic activity.**



Sources: Lebanese authorities and WB staff calculations.

**Figure 2. A slight pick in economic activity in 2016.**



Sources: Lebanese authorities and WB staff calculations.

4. **Regional disparities are stark with most of the poor living in peripheral areas, where labor market outcomes are worst.** Poverty rates in the Bekaa, North and South Lebanon regions were higher than the national poverty rate (27 percent) at 38 percent, 36 percent, 31 percent, respectively. It drops below the national average to 22 percent and 16 percent in Mount Lebanon and Beirut, respectively.<sup>2</sup> The labor market picture is similar. The participation rates are lowest in the North (38 percent) and somewhat lower in the South and Nabatieh. Unemployment is highest in South and Nabatieh. In the North, the majority are self-employed. In Beirut and Mount Lebanon, over half of the labor force consists of wage employees.

### ***B. Sectoral and Institutional Context of the Program***

5. **Lebanon faces significant, long-standing jobs challenges which have been severely aggravated by the Syrian crisis.** Even before the Syrian crisis, economic growth did not translate into sufficient job creation: with an employment growth elasticity of 0.2<sup>3</sup>, Lebanon fared significantly worse than other countries in the region (the MENA average is 0.5). Disregarding the recent influx of refugees, there were, on average, 23,000 new entrants to the labor market annually between 2004 and 2007, while the economy was only creating one-sixth of these jobs per year. One result of this mismatch is high and long-term unemployment, which has been particularly acute in areas outside of Beirut and Mount Lebanon. In addition, job

<sup>2</sup> Central Administration of Statistics (CAS) and World Bank (2015). Measuring Poverty in Lebanon using 2011 HBS: A Technical Report.

<sup>3</sup> World Bank (2012), "Republic of Lebanon—Good Jobs Needed: The Role of Macro, Investment, Education, Labor and Social Protection Policies", December, Washington DC.

creation has been concentrated in low-productivity activities that demand low-skill labor.<sup>4</sup> These jobs were often carried out by migrant workers even prior to the crisis, due in part to the relatively higher skills and reservation wages of Lebanese workers. By contrast, growth and job creation was limited in more productive sectors such as communications, financial services, and manufacturing.<sup>5</sup> A large reservoir of untapped human resources coupled with limited private sector formal job creation has pushed a growing number of workers into unproductive, subsistence-level activities, often in the informal economy. In 2010, prior to the influx of refugees, half of the Lebanese labor force worked in the informal sector.<sup>6</sup>

**6. Women and youth have particularly poor labor market outcomes.** Prior to the onset of the Syrian crisis, 70 percent of working age men were participating in the labor force, compared to 24 percent of working age women. Females and youth face higher unemployment rate than men (18 and 34 percent, respectively, versus 9 percent amongst men, compared to a national average of 11 percent), but they spend less time unemployed. A number of differentiating factors are at play. Women, for instance, are more likely to leave jobs for childbearing. A more recent study on North Lebanon<sup>7</sup> found that the majority (80 percent) of women do not participate in the labor force (compared to 73 percent among working age men), primarily due to home duties (64 percent reported it as the primary reason). The study also found that, controlling for a set of characteristics, women are more likely to work as wage employees (22 percentage points) compared to men.

**7. Since the 2011 onset of the Syrian conflict, close to 1.5 million Syrians have crossed into Lebanon, with 1.03 million officially registered with the UNHCR.** Syrian refugees in Lebanon represent close to one quarter of the total Lebanese population (around 4.2 million pre-crisis). This is the highest refugee per capita ratio in the world. In 2014, Lebanon hosted over 230 refugees per 1,000 inhabitants, compared to 87 in Jordan in the same year.<sup>8</sup> Lebanon is bearing a disproportionately high burden and cost on behalf of the international community.

**8. The Syrian refugee crisis has had a significant impact on labor market with already lagging regions of the North and Bekaa feeling a larger impact.** By end-2014, 170,000 additional Lebanese had been pushed into poverty (over and above the 1 million previously below the poverty line). This influx of refugees has also resulted in a large increase in labor supply in Lebanon with negative impacts to the labor market. The labor force participation rate of Syrian refugee men is estimated at 85 percent compared to 73 percent for Lebanese men. This high level of participation is contributing to a growth rate in the labor force that is 35 percent faster than the population growth rate. Because Syrian refugees tend to have lower education levels, and due to the lack to formal job creation in the economy, most refugees are constrained to work in the informal economy.<sup>9</sup> Labor market prospects for Lebanese youth have been

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<sup>4</sup> The main contributors to employment by order of importance were trade, low-productivity service sectors, and construction

<sup>5</sup> World Bank (2016). "Lebanon: Promoting Poverty Reduction and Shared Prosperity, A Systematic Country Diagnostic". Middle East and North Africa Region.

<sup>6</sup> World Bank (2012), "Lebanon - Good jobs needed: the role of macro, investment, education, labor and social protection policies (MILES)," Report No. 76008-LB, December.

<sup>7</sup> World Bank (2017), "Jobs for North Lebanon: Value Chains, Labor Markets, Skills and Investment Climate in Tripoli and the North"

<sup>8</sup> UNHCR

<sup>9</sup> World Bank, UNHCR (2016). The Welfare of Syrian Refugees: Evidence from Jordan and Lebanon.

particularly hard hit. It is estimated that an additional 220,000 Lebanese, primarily unskilled youth, are expected to become unemployed.<sup>10</sup> Youth are much more likely to compete, both sectorally and occupationally, with Syrian refugees in the labor market. They are also likely to be concentrated in sectors (tourism and trade), where growth is most impacted by the crisis.<sup>11</sup>

**9. Large-scale job creation is needed to address the urgent jobs needs of vulnerable Lebanese and refugee populations. Given the structural nature of the challenge, job creation must be underpinned by a significant expansion of private sector investment.**

Short-term solutions like public works are part of the equation particularly for low and semi-skilled employment, but the private sector growth is needed over the longer-term to generate sustained demand for skilled workers. Younger and productive firms, especially SMEs, are the engine of job creation in Lebanon which has one of the highest elasticity of job creation to productivity in the MENA region (a one percent increase in firm productivity generates an increase in job creation of 3.9 percent<sup>12</sup>). But substantial barriers to firm entry and productivity growth restrict a faster job creation. The political and economic constraints faced by businesses are reflected in private investment performance. FDI levels are relatively low and have fallen sharply in recent years. Existing domestic and foreign investment is highly concentrated in finance and real estate, but remains very limited in tradable sectors. Exports have stagnated since the start of the Syrian crisis.

**10. In 2014, 58 percent of firms in Lebanon identified political instability as a principal obstacle to their operations and growth<sup>13</sup>, a substantial increase over 2009 (45.2 percent).**

This reflects heightened uncertainty due to the Syrian crisis, as well as to longer-standing concerns over wider stability in the region. Beyond instability, firms also face a wide range of business environment constraints. At the top of the list is access to electricity<sup>14</sup> and corruption, which are cited as major constraints by 61 percent and 55 percent of firms, respectively. Lack of access to bank loans (cited by 41 percent of firms), which forces firms to rely on internal financing also limits growth potential. A plethora of other constraints – from starting a business, licensing and permits to trade facilitation, tax administration, access to justice, labor market - collectively rank high as a constraint to investment (see Figure 3).

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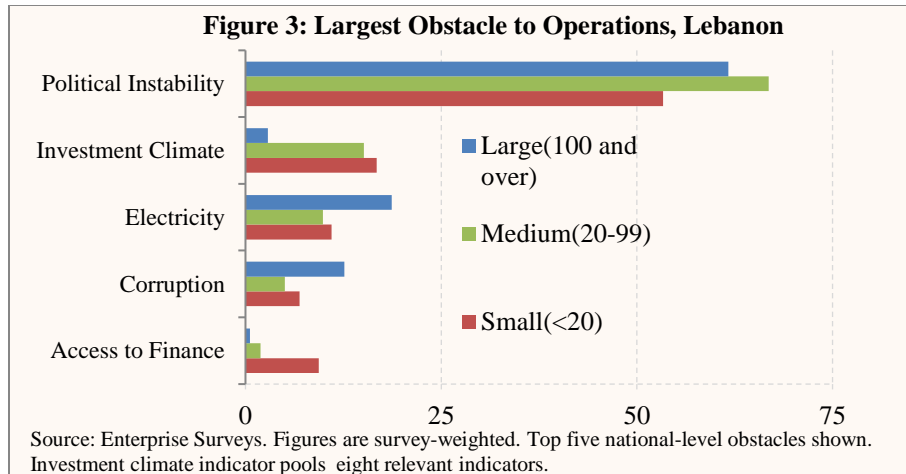
<sup>10</sup> World Bank (2013), Lebanon: Economic and Social Impact Assessment of the Syrian Conflict.

<sup>11</sup> In 2010 more than half of the employed youth worked in tourism and trade, compared with only 33 percent in 2015.

<sup>12</sup> World Bank (2016). “Lebanon: Promoting Poverty Reduction and Shared Prosperity, A Systematic Country Diagnostic”. Middle East and North Africa Region.

<sup>13</sup> Based on the results of the 2013/2014 Enterprise Survey.

<sup>14</sup> A recent study as shown that – beyond the core necessity of better access to electricity, the Syrian crisis has deepened the problem due too: (i) increased burden on an already deteriorating network; (ii) negative impact on quality of supplied power due to additional demand in some areas; (iii) indirect impact of additional power consumption of schools hosting displaced Syrians as well as municipalities/water establishments; (iv) damaged to distribution transformers and cables due to overload; (v) rise in non-technical losses and damage to distribution network due to the non-metered connections. Main findings extracted from: *Ministry of Energy and Water and UNDP. (2017). The Impact of the Syrian Crisis on the Lebanese Power Sector and Priority Recommendations.*



11. Finally, 70 percent of female-run businesses identified crime and insecurity as a major constraint, versus just 31 percent of male-run businesses. Female-run businesses also face greater constraints to accessing finance and infrastructure services.

### ***C. Relationship to the Country Partnerships Framework***

12. **The operation will support pillar 2 of the Country Partnership Framework (CPF) FY 17-22, which seeks to** “*expand economic opportunities and increase human capital (to)... help Lebanon adapt to the economic and social impact of the Syria crisis, safeguard the country’s development gains, address the country’s pre-Syria crisis vulnerabilities, and enhance the prospects for stability and development in the coming years.*” The World Bank Group (WBG) aims to address the jobs challenge along several CPF priority dimensions – business environment, access to finance and infrastructure, and skills development - with an emphasis on leveraging the private sector as the main engine of job growth.

13. **The proposed program – building on the Government’s Public Private Partnership (PPP) law (currently pending Presidential signature) - would apply the WBG “cascade” approach to determine the best deployment of the PforR funds.** This will serve to ensure that the International Bank for Reconstruction and Development (IBRD) / Global Concessional Financing Facility (GCF) funding supports an overall National Job Creation Program expenditure framework that incentivizes optimum levels of complementary private financing.

### ***D. Rationale for Bank Engagement and Choice of Financing Instrument***

14. **The WBG approach provides a multifaceted solution to link the Government’s job creation priorities to a medium-term development strategy focused on expansion of private sector employment, with an additional focus on creating these opportunities in lagging regions and among more vulnerable “women, youth and refugee” segments of the labor force.** Following are some of the main factors that justify the Bank’s intervention:

- i. **WBG has the expertise and international experience to support the multi-sector (supply and demand) approach needed to address the jobs agenda.** This will require inter-linked interventions to unlock investment by the private sector, while at the same time strengthening

the productivity of workers and entrepreneurs and expanding access of vulnerable populations to productive employment opportunities.

- ii. **WBG has had close ongoing engagement with the Government and the private sector in Lebanon on the key issues that will be addressed in this program.** This engagement includes the recently completed diagnostic report “*Jobs for North Lebanon: Value Chains, Labor Markets, Skills and Investment Climate in Tripoli and the North*” (2016), the “*Lebanon, Good Jobs Needed: The Role of Macro, Investment, Education, Labor and Social Protection Policies (MILES)*” report (2012). There is also ongoing diagnostic and advisory support being provided by the WBG in respect of the government’s PPP law, some key financial sector and business environment and policy constraints, including the establishment of a Special Economic Zone in Tripoli (TSEZ). Additionally, gender diagnostic work is underway to understand women’s constraints in accessing jobs.
- ii. **WBG’s ability to convene the private sector around a common goal to support the Government job creation agenda is a further key factor.** Close collaboration between the World Bank, IFC and MIGA and with the private sector in project design and implementation will play a critical role in leveraging private sector participation and investment in key infrastructure and services that will be delivered through the program.
- v. **WBG financing for this program will include access to the Global Concessional Financing Facility (GCFF).** This will enable the Government to borrow on IDA-equivalent terms, which is appropriate given the global public good that Lebanon has been providing in the context of the Syrian crisis.

15. **Based on consultations with the government on the scope of an operation, the Program-For-Results (PforR) instrument was chosen for the following reasons:**

- i. **Addressing the jobs challenge will require a complex mix of investments, policy and program actions, and technical assistance.** Catalyzing private sector investment will entail business environment and financial sector reforms, as well as targeted financial and technical support to the development of high-jobs-potential value chains and MSMEs. It will also require undertaking investments in infrastructure services to unblock barriers to productivity. On the supply side removing barriers to activation and efficient matching will require reforms to the current ineffective and inefficient system. Such a comprehensive approach can be most effectively supported through a programmatic instrument.
- ii. **The PforR instrument enhances the Bank’s ability to leverage other development organizations.** This will entail inter-donor collaboration to coordinate different programs and enable pooling of IBRD/GCFF and donor grant resources, notably for the key technical assistance activities that it is anticipated will need to accompany the Bank operation.
- ii. **PforR allows for focus on results, while providing flexibility and strengthening national systems.** The results focus of PforR, reinforced by disbursement-linked targets and robust monitoring and evaluation mechanisms, allows for a flexible program approach combined with a predictable disbursement schedule, which best responds to the market-demand driven elements of the program and the dynamic external environment that Lebanon faces. The approach also allows for strengthening of institutions and systems that support private sector development, employment services, and key trade and investment agencies. Such a broad level of support would be more difficult to deliver under other instruments.
- v. **The Government and WBG has developed a good working experience with PforR.** The recent and ongoing experience with the Reaching All Children with Education (RACE) project

has provided valuable learning experiences for the Government and WBG in the design and implementation of PforR projects in the Lebanese context.

## II. Program Development Objective(s)

16. *The proposed Program Development Objective (PDO):* Create jobs in the private sector for unemployed and inactive Lebanese, as well as for Syrian refugees, in accordance with Lebanese laws and regulations.

17. *Beneficiaries.* The primary beneficiaries of this program are Lebanese SMEs/firms, young first-time jobs seekers (18-35) and women, as well as Syrian refugees.

18. *Key Principles of the proposed operation.* The proposed operation will support the government program to create sustainable, quality jobs, over the short to medium term (1-5 years) through a focus on:

- a. Incentivizing *private sector job-creating investment* through support to selected policies, programs and institutional changes that can “catalyze, mobilize or co-finance” this investment;
- b. Applying a “*gender lens*” to the different interventions of the operation to ensure access to job barriers amongst women are addressed;
- c. Addressing the *fragility, conflict and violence* (FCV) context of the operation – in particular as it impacts youth, women and lagging regions.

### ***Key Program Results***

19. **The key program results are increased private investment and job creation**, including a focus on *SME development* through new firm entry, improved competitiveness and export performance in key value chains, and the *increased participation of women and youth* in the labor market. These key Program Results will be measured through selected indicators including:

- (i) Policy and legislative actions that can: (a) unlock private investment and SME growth, (including in women-headed businesses) and; (b) improve labor market outcomes;
- (ii) Performance of targeted programs - on both supply and demand sides - that can address specific constraints to the participation of women and youth in the labor market, including through engaging in entrepreneurial activities;
- (iii) Private investment in critical economic infrastructure, including the TSEZ.

20. The actions envisaged under the PforR involve several innovations in design and implementation arrangements. A robust impact evaluation will therefore be embedded to offer important learning opportunities

## III. Program Description

### ***PforR Program Boundary***

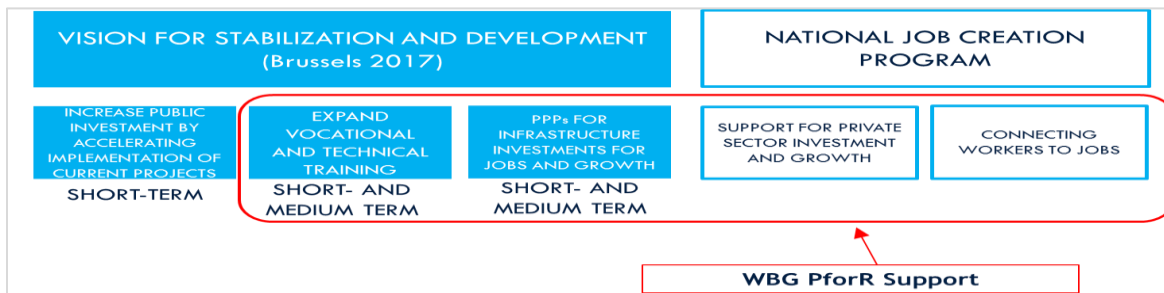
21. **The project is linked to the development priorities of the Lebanese Government set out in the Vision for Stabilization and Development (VSD) presented by the Prime**

**Minister in Brussels in April, 2017.** The Government is responding to immediate crisis through a program focused on acceleration of public infrastructure investment and investment in vocational education and training. The WBG is supporting these efforts through other projects including Roads and Employment Project, Reaching All Children with Education (RACE 2) PforR, and the upcoming Bus Rapid Transit Project.

22. **Central to the VSD is a multi-year \$10-12 billion Capital Investment Program (CIP) currently under preparation** This CIP builds on the initial \$4 billion investment program that targets the completion of the existing pipeline of investment priorities that can generate much-needed short term employment. The CIP will lay out a wider program of capital investment to address the constraints to private sector-led economic growth.

23. **The PforR will finance a set of activities – under a National Job Creation Program (NJCP) anchored on relevant CIP projects – which are designed to address long-standing structural barriers to job creation.** In this context, WBG-financed activities aim to complement the existing public investment-led, short-term job creation efforts with a program designed to support sustainable, quality job creation through expansion of the private sector. The NJCP would comprise a policy and programming initiative of demand and supply side interventions to support job creation and productive self-employment, including a focus on women and youth in lagging regions of the country (see Figure 4).

Figure 4: Government Program and WBG areas of support



#### IV. Initial Environmental and Social Screening

##### *Environment*

24. The different planned interventions of the Program will be screened against the criteria provided in the PforR Interim Guidance note, and those interventions with potentially high environmental risks will be identified. The screening exercise will be informed by the type of industries to be supported under the Program, the environmental context and the existence of any sensitivities. Should the TSEZ (dependent on the types of industries that it hosts) or any other infrastructure investments to be supported by the PforR be considered high-risk, these components of the PforR project would be subject to investment project financing (IPF) safeguards policies.

##### *Social*



25. The Program is expected to have positive social impacts. In its design, the Program includes activities that invest in people, which provide skills, training and other support to job seekers. These activities will help reduce unemployment among beneficiaries and will have indirect positive impacts on the beneficiaries' communities. In addition, the Program includes activities to strengthen the business environment and financial sector, including support for entrepreneurship with a focus on women and youth in lagging areas. These activities will directly reduce the vulnerability of these social groups and could also have indirect impacts on social cohesion.

26. Infrastructure-related activities as currently proposed would also have positive social impacts. The TSEZ development would create jobs locally in Tripoli, employing directly Lebanese and Syrian workers and providing increased incomes from local businesses providing goods and services to the TSEZ. The TSEZ is located on government-owned land, is free from all encroachment and is well secured, so informal encroachment is unlikely. Social risks that would need to be managed are related to labor influx, if companies hired to build the TSEZ bring in significant numbers of outside workers. These and other labor risks, such as the risk of having poor working conditions, would be managed by working with the management of the TSEZ to ensure that contracts include provisions that require contractors to follow local labor laws, and for the TSEZ management to monitor for any potential social risks related to the work of contractors. There was agreement to hold consultations with a broad range of stakeholders, including communities surrounding the TSEZ site and that feedback would be used to improve the design of activities.

27. An Environmental and Social Systems Assessment (ESSA) will be developed by the WBG as part of preparation for this project. The ESSA will more broadly assess social and environmental risks and implementing agencies' capacity to manage them. The ESSA will also propose a course of action for mitigating against any risks and capacity building measures to assist implementing agencies in developing their social and environmental capacity. The ESSA will need to be developed once the Program implementation arrangements are clear, at which point the capacity of each agency involved will be assessed.

**V. Tentative financing**

Source:	(\$m.)
Borrower/Recipient	
IBRD	400
IDA	
Others (specify)	
Total	400

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