

Annex

to the Commission Implementing Decision modifying Decision C(2011)5703 on the Annual Action Programme 2011 in favour of the Republic of Lebanon

Action Fiche for Support for Municipal Finance in Lebanon

1. IDENTIFICATION

| | | | |
|---------------------------------------|---|--------|--|
| Title/Number | Support for Municipal Finance in Lebanon CRIS number ENPI 2011/22758 | | |
| Total cost | Total estimated cost: EUR 20 000 000 Total EU budget contribution: EUR 20 000 000 from the general budget of the European Union for 2011 | | |
| Aid method / Method of implementation | Project approach: - Direct centralised management — procurement of services - Partially decentralised management with the Republic of Lebanon, i.e. the Ministry of Interior and Municipalities | | |
| DAC-code | 14030 | Sector | Basic drinking water supply and basic sanitation |
| | 14050 | | Waste management / disposal |
| | 15110 | | Public sector policy and administrative management |
| | 15112 | | Decentralisation and support for sub-national government |
| | 73010 | | Reconstruction, relief and rehabilitation |

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The original project was designed to focus on Municipal Finance Reform. While this is still relevant, the recent dramatically increasing influx of refugees from Syria to Lebanon changed significantly the conditions and needs in the municipalities. In most parts of the country, the refugee hosting is severely stretching the economic and social resources of the host municipalities which already suffer from severe poverty. In this context, it was agreed with the Lebanese Government that the original project would not respond to the most important priorities of the Government any more.

The reoriented action will assist municipalities to alleviate the short- and medium term needs of their communities and of refugees from Syria¹ settling in them. It is therefore necessary

- to completely reallocate non committed funds into a first component financing Local development projects (EUR 16 million);
- to reorient the already contracted technical assistance towards institutional support to the Ministry of Interior and Municipalities, in the frame of a second component (EUR 2.9 million).

This programme is concerned with upgrading municipal services in those municipalities affected by the influx of Syrian refugees. This project will achieve its objective by (i) financing the construction or rehabilitation of public infrastructure, mainly for solid waste treatment and disposal, wastewater management and water supply, and by (ii) improving the municipalities' capacities for public finance management and local project planning.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

Lebanon is characterised by regional socio-economic disparities and a high number of municipalities which are granted certain prerogatives to provide services to citizens. In the absence of a modern legal framework on decentralisation, a lack of appropriate human and financial capacities and a non-performing fiscal system, they often fail to fulfil their mandate. The quality and accessibility of public services is therefore quite low and the backlog of municipal investments that would be needed exceeds the available resources.

2.2.1.2. National development policy

As of 2010, there are 963 municipalities for a registered population of 4 million people, therefore the majority of them (70%) are considered to be small as their registered population does not exceed 4,000 people.

The total expenditure of the municipal sector is estimated around USD 230 million in 2009, which roughly represents 5% of central government spending. This is considerably lower than the 10-15% in similar countries. It is estimated that Lebanese municipalities would need an additional USD 150-170 million in order the total spending at local level reaches 10%.

The existing mechanism that transfers financial resources, such as taxes and fees from central government to municipalities to cover their recurrent costs — the Independent Municipal Fund (IMF) — faces many difficulties (e.g. fragmented tax collection system involving different ministries, limited municipal finance

¹ "Refugees from Syria" also include persons without Syrian nationality but originally residing in Syria (e.g. Lebanese returnees, Palestine refugees) that have fled the country to Lebanon as a consequence of the crisis.

management, protracted budget transfer from central government to municipalities). The Government is currently investigating the possibility of putting in place a pool-funding mechanism, a Municipal Development Fund (MDF), aimed at promoting local development activities.

2.2.2. *Sector context: policies and challenges*

The pressure on an already fragile system of local public services is increasing further as the number of Syrian refugees settling down in municipalities increases. Lebanon has so far been the main recipient, with more than 475 000 refugees registered or awaiting registration by mid of May 2013. This number is expected to continue to increase.² As some refugees are hesitant to register with the United Nations High Commissioner for Refugees (UNHCR), the actual number of Syrian refugees is thought to be much higher. The influx was initially concentrated in the northern region but quickly expanded to include the Bekaa Valley. Both regions are among the poorest in Lebanon and are characterised by weak infrastructure and limited livelihood opportunities. Now, Syrian refugees have settled in more than 1 100 locations, some of them the poorest communities in the country. The highest concentrations so far remain in the north, including the city of Tripoli, and in the Bekaa Valley (see refugees map in Annex I). After having hosted refugees, most often in private homes, the resources of the host communities are stretched to the limit.

As a result of the recent Syrian crisis, the Lebanese Prime Ministry launched in December 2012 the "*Response of the Government of Lebanon to the Crisis of Syrian Displaced Families*". This was the first official recognition of the urgency of the crisis and of the Government's responsibility in dealing with it. The response plan represents a global approach that intends to bring together all the actors – the UN, local and international NGOs as well as donors - under the umbrella of the Lebanese Government.

Humanitarian assistance is already being mobilised to address the immediate needs of the refugee population, e.g. food and shelter. However, it is clear that the needs of the Syrian refugees, as well as of the Lebanese host communities, will go beyond the immediacy of humanitarian assistance. Indeed, the consequences of the current situation is taking a toll on the economy as a whole (inflation, unemployment, changes in trade patterns), the provision of public and social services (education, health services and public facilities) and security (petty and organised crime on the rise). Given the vulnerability of the host communities there is an increased risk of tension emerging between the refugee population and their hosts.

Consequently, as the number of refugees continues to increase rapidly in most parts of the country, it is important to scale up municipal public services to respond to the immediate needs of host communities. The Ministry of Interior and Municipalities, which holds the mandate over the municipalities, is committed to providing the necessary support to the worst affected municipalities, but its efforts are hampered by the lack of human and financial resources.

²

1 million refugees in need of assistance are forecasted for 31 December 2013 (Source: UNHCR, April 2013).

2.3. Lessons learnt

The project complements and builds on the lessons learned from the EU funded projects concerning local governance (see below) in that it recognises that capacity building activities on project management are crucial as most of Unions of Municipalities (UoMs) are not yet fully able to formulate, design and implement local development projects.

The main lessons learned from past similar projects concern the imperative need for co-ordination and co-operation between the various institutional stakeholders, over and above political concerns. It is therefore necessary to obtain formal agreement from all key stakeholders prior to the programme being endorsed.

In particular, before launching any project, the beneficiary's responsibility, ownership and accountability will be formally requested, including its ability to sustain the project after completion. Moreover, strong information channels on programme implementation will be set up, and regular structured meetings of the programme Steering Committee will be essential.

Because of recurrent political conflicts, approved laws and regulations are sometimes not enforced in any lasting way. The programme will favour projects whose implementation is not conditioned by the enforcement of any specific legal framework.

2.4. Complementary actions

The EU has been active in the last 10 years in the local governance sector and targeted unions or clusters of municipalities, giving them an active role in the management of their own grants. Major actions in the sector include, among others:

- The Local Governance Project (LOGO), supports 12 UoMs throughout Lebanon in the field of local development planning, capacity building and funds the implementation of priority local development projects.
- The Local Development Programme in North Lebanon adopts a regional approach and focuses on poverty alleviation in the most vulnerable region of Lebanon. The programme will help local actors to diversify their economy and will initiate a land use planning approach at regional level.
- The Economic and Social Fund for Development (ESFD), has been supporting clusters of municipalities to address unemployment and poverty through grants for the implementation of projects (income generating activities, social infrastructure).

Considering the new orientation of the programme, this action is complementary to the overall support the EU and other donors provide to address the needs raised in Lebanon as a consequence of the crisis in Syria. The EU is reorienting its development assistance as far as possible towards this support, including projects originally under the AAP 2013 “Special Measure II for “Support to enhance basic infrastructure and economic recovery”. That programme proposes (parallel to this present one) expanding basic infrastructure in host communities and to start a number of initiatives to create jobs. Both come in continuation to three previous interventions:

*Support for areas affected by the influx of Syrian refugees to Lebanon,*³ which allocated EUR 5 million through a contribution agreement with UNHCR to address medium and long-term needs in the areas of i) capacity building of host country institutions to handle the crisis (ministerial and municipal level as well as civil society organisations), ii) education, and iii) local community empowerment;

*Support for areas affected by the influx of Syrian refugees to Lebanon II,*⁴ which allocated EUR 10 million through contribution agreements with UNHCR and the United Nations Children's Fund (UNICEF), as well as a call for proposal (NGOs and UN agencies), to address i) education, ii) children's needs and vulnerabilities; iii) capacity building of Lebanese institutions and structures, iv) local community empowerment, and v) vulnerabilities identified through a call for proposals; and

*EU Contribution to the Government of Lebanon Response Plan to the Syrian crisis*⁵, which allocated EUR 30 million in the areas of i) strengthening the capacity of the Lebanese institutions, ii) community empowerment and livelihood activities, iii) education, and iv) support for the response of UNRWA to the influx of Palestine refugees from Syria (Financing Agreement to be signed with the Government of Lebanon).

2.5. Donor co-ordination

With regard to the Syrian crisis, the EU has a close working relationship with the Lebanese Government, the main UN agencies involved in handling the influx of Syrian refugees to Lebanon, including UNHCR, United Nations Development Programme (UNDP), UNICEF, World Food Programme (WFP), and UNRWA, and with a number of international and national NGOs that often act as implementing partners for UN agencies.

Regular co-ordination meetings are conducted at various levels. Some are donor-oriented, others are technical in nature (e.g. shelter, education, child protection, water, sanitation and hygiene), inviting all stakeholders to participate. There are meetings in Beirut and in the regions. The regular meetings are co-ordinated by UNHCR and involve donors, implementing and other partners and increasingly Lebanese authorities.

3. DETAILED DESCRIPTION

3.1. Objectives

The **overall objective** is to upgrade municipal services to help mitigate the impact of the Syrian crisis on Lebanon.

The **specific objective** of this project is to improve infrastructure at local level and to enhance Lebanese institutions' capabilities.

³ C(2012)3815 adopted on 7 June 2012.

⁴ C(2012)9360 adopted on 14 December 2012.

⁵ COM(2013)2348 adopted on 18 April 2013.

3.2. **Expected results and main activities**

The expected results and main activities are:

Component 1 — Local development projects

Expected result 1.1: Priority actions at the local level are identified through a participative process involving all stakeholders.

Main activities may include:

- Identifying the municipalities;
- Implementing Rapid Participatory Appraisal (RPA) in designated communities involving the following sub-activities:
 - desk review and field visits;
 - structured interviews with key informants;
 - focus group discussions based on guiding questions;
- Identification and prioritisation of needs.

Expected result 1.2: The provision of municipal services is improved.

The following activities are foreseen building upon the results described in 1.1:

- Improvement/extension of water supply facilities;
- Construction/extension/supply/rehabilitation of solid waste, waste water and sanitation facilities, equipment and networks including:
 - Waste disposals and collection equipment
 - Solid waste infrastructure and services,
 - Sanitary landfills;
 - Sewer networks.

Where appropriate, staff that will operate these facilities (operations & maintenance and/or procurement process) will be trained. As far as possible, labour intensive construction methods will be used to implement these activities.

Component 2 — Institutional support for the Lebanese administration to enhance capacities of the municipal sector

This component is accompanying and supporting the implementation of Component 1.

Expected result 2.1: Municipal finance efficiency is enhanced.

Main activities may include:

- Strengthening existing Independent Municipal Fund (IMF) efficiency by enhancing management capacities;
- Establishing the demand for a Municipal Development Fund (MDF), legal implications, implications for current donor funding to the municipal sector;
- Revision of the regulatory framework for municipal fees and taxes, and development of new formula for allocation of funds to municipalities;
- Formulation of mechanisms to ensure the sustainability of MDF operations and municipalities' take-up;
- Designing the practical arrangements and institutional set-up of the Fund (including definition of target group, development of performance criteria, disbursement mechanisms).

Expected result 2.2: The capacity of the Ministry of Interior and Municipalities for dealing with municipal issues is enhanced.

Main activities may include:

- Organising workshops and courses on how to draft master plans (identification of needs, content, field visits, etc.);
- Support for the preparation of local development plans and strategies;
- Assistance in devising specific land-use plans, urban master plans, municipal land registry, etc.;
- Study tours in Europe and/or ENP countries to share experiences in municipal affairs.

Expected result 2.3: Administrative capacities in providing public services at municipal level are improved.

Main activities may include:

- Developing overall capacities of the municipalities on Public Finance Management (PFM), including transparency and accountability in managing municipal budgets;
- Assistance in developing information/management systems for municipalities;
- Support for the participation of municipalities in co-funding and in leveraging public (including donors and other municipal funds) and private resources for development projects;
- Support for more efficient collection of local taxes and other local income-generating activities;
- Ensuring quality and timely public service delivery within planned budgets, etc.
- Developing reporting and monitoring/evaluation tools.

3.3. Risks and assumptions

Although the programme pays particular attention to minimising the impact of possible future political turmoil, it will be easier to achieve the expected results if national public authorities involved in steering the programme keep up a regular, structured and constructive dialogue.

The limited number of qualified people in line ministries and at municipal levels represents a risk. There will therefore be dedicated support through a supervisor for Component 1 and technical assistance for Component 2, with a view to underpinning the design and implementing phases of key actions under the programme.

3.4. Cross-cutting issues

The *environmental impact* of the projects is expected to be positive as the scheme will help Lebanon to manage the refugee influx, which in itself is likely to have a negative effect on the environment due to demand for resources and by creating additional pressure on existing infrastructure (e.g. solid waste and waste water treatment facilities).

The project will have a positive effect on *gender equality* as it will facilitate public services which are particularly important for family health and women's health and security (e.g. hygienic waste disposal, safe drinking water and sanitation facilities).

By working directly at local level with municipalities, the project will contribute significantly to *good governance* and support the Lebanese authorities in their response to the influx of refugees. This work will take place at central and local levels alike. In addition, community empowerment activities will engage citizens and refugees in pinpointing needs and possible solutions.

By seeking to mitigate the impact of the influx of refugees, the project will help to defuse potential tension between refugees and host communities. This should have a positive effect on refugee protection and *human rights* overall. Local communities will be given a stronger voice in identifying needs and assistance. Finally, individuals and groups vulnerable to child abuse or sexual and gender-based violence would benefit from strengthened Lebanese institutions, in terms of both prevention and support for victims.

3.5. Stakeholders

The success of this programme depends on the degree of ownership, at both decision-making and implementation levels. It is therefore crucial to involve Lebanese institutions in day-to-day management.

For this programme, the main stakeholder at government level is the Ministry of Interior and Municipalities as National Coordinator, supported by the European Social Development Fund, which has demonstrated substantial experience in managing and implementing infrastructure projects at country level.

In addition, municipalities will play a significant role in project design and implementation, and will act as communication relays vis-à-vis the local populations who will directly benefit from the programme. Wherever possible, civil society and private sector operators will also be involved in this programme.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

The intention is to conclude an addendum to the financing agreement that was signed in May 2012 with the partner country, as referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action is 60 months, during which the activities described in sections 3.2. and 4.3. will be carried out, subject to modifications to the relevant agreements to be agreed by the authorising officer.

4.3. Implementation components and modules

4.3.1. Partially decentralised management with the Republic of Lebanon

Component 1 of the programme will be implemented in partially decentralised management with the Republic of Lebanon, more particularly with the Ministry of Interior and Municipalities, in accordance with Article 53c and 56 of Financial Regulation 1605/2002. Based on their experience in dealing with implementing local development projects, ESFD will be the Supervisor of the Component 1 of the project. The arrangements will be as follows:

The partner country will act as the contracting authority for the procurement and grant procedures. The Commission will control ex ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex ante control for procurement contracts > EUR 50 000 and may apply ex post control for procurement contracts ≤ EUR 50 000. The Commission will control ex ante the contracting procedures for all grant contracts.

Payments are made by the Commission except in cases where programme estimates are applied, in which case payments are made by the partner country for operating costs and contracts up to the ceilings below.

| Works | Supplies | Services | Grants |
|---------------|-----------------|-----------------|---------------|
| < EUR 300 000 | < EUR 300 000 | < EUR 300 000 | ≤ EUR 100 000 |

The financial contribution covers, for an amount of EUR 1 000 000, the ordinary operating costs deriving from the programme estimates.

The change of method of implementation constitutes a substantial change except where the Commission ‘re-centralises’ or reduces the level of budget implementation tasks previously entrusted to the beneficiary partner country.

In accordance with Article 262(3) of the Rules of Application, the partner third country shall apply the procurement rules of Chapter 3 of Title IV of Part Two of the Financial Regulation. These rules, as well as rules on grant procedures in accordance with Article 193 of the Financial Regulation, will be laid down in the financing agreement concluded with the partner country.

4.3.2. Procurement (direct centralised management)

Component 2 will be implemented through direct centralised management through one service contract for Technical Assistance to the Ministry of Interior and Municipalities⁶.

| Subject | Type (works, supplies, services) | Indicative number of contracts | Indicative quarter of launch of the procedure |
|---|----------------------------------|--------------------------------|---|
| For implementation of Component 2 Technical assistance, training and capacity building for improving municipalities' financial and project management. | Services | 1 | Already contracted in 2012 |

4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act ENPI by reason of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5. Indicative budget

| Component/Module | Amount in EUR thousand | Third party contribution |
|--|------------------------|--------------------------|
| 4.3.1. — Component 1: Local Development Projects (Partially decentralised) | 16 000 | / |
| 4.3.2. — Component 2: Institutional support for the Lebanese administration to enhance capacities of the municipal sector (direct centralised) | 2 900 | / |
| 4.7. Monitoring, external evaluation and audit | 200 | / |
| Contingencies | 900 | / |
| Totals | 20 000 | / |

⁶ This service contract has already been procured under the original decision.

4.6. Performance monitoring

Achievements will be monitored regularly by:

- the Ministry of Interior and Municipalities as Contracting Authority for both Components, by setting up a programme technical and financial monitoring system. Regular progress reports will be produced. The Contracting Authority will be assisted in this task by the supervisor, the Economic and Social fund for Development;
- the European Commission, for Component 2 of the project, with the support of a dedicated technical assistance entity.

All results will be reported to the European Commission, which may also carry out Results Oriented Monitoring (ROM) via independent consultants.

4.7. Evaluation and audit

The Commission will carry out external evaluations (via independent consultants), as follows:

- a mid-term evaluation exercise;
- a final evaluation, at the beginning of the closing phase.

The Beneficiary and the Commission shall analyse the conclusions and recommendations of the mid-term evaluation and jointly decide on any follow-up action to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. The reports of the other evaluation and monitoring exercises will be given to the Beneficiary, with a view to taking into account any resulting recommendations.

The Commission shall inform the Beneficiary at least three months in advance of the scheduled dates of the external inspections. The Beneficiary shall collaborate efficiently and effectively with the monitoring and/or evaluation experts, and will provide them with all necessary information and documentation, as well as access to the project premises and activities.

Audits may be carried out as necessary and in addition to the scheduled verification measures.

An amount of EUR 200 000 is earmarked for audit and evaluation purposes, to be implemented through procurement under direct centralised management (service contracts). Evaluation and audit assignments will be implemented through service contracts, making use of one of the Commission's dedicated framework contracts or alternatively through the competitive negotiated procedure or the single tender procedure. Indicatively 3 contracts are foreseen, to be contracted in year 2 and year 4 of the implementation period.

4.8. Communication and visibility

The European Union will ensure that adequate communication and visibility is given by the contracting parties to the EU funding. Visibility measures will be undertaken

by the ESFD under the Programme Estimate for Component 1 and by the consultant under Component 2. In addition, each contractor recruited under the project will make provision for its own contract visibility.

All visibility activities will adhere to the European Union's requirements for visibility on EU funded activities, as described in the published "Communication and Visibility Manual for EU external actions", available at the following link:

http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf.