

Action Fiche for Republic of Lebanon

1. IDENTIFICATION

Title/Number	Support programme for infrastructure sector strategies and alternative financing (SISSAF)		
Total cost	EU contribution: EUR 9 000 000		
Aid method / Method of implementation	Project approach – <i>partly decentralised management</i>		
DAC-code	14010, 23010 and 21010	Sector	Water, Energy and Transport

2. RATIONALE

2.1. Sector context

The overarching challenge facing Lebanon’s public infrastructure sectors is the bridging of the gap -both quantitatively and qualitatively- between supply and demand, in a way deemed satisfactory to users and efficient to investors. The mismatch of investments in Lebanese infrastructure is aggravated by suboptimal channelling due to lack of systematic integration (i.e. power plants without access to fuel, waste water plants without networks). Poor service delivery is due to institutional shortcomings as well as to human resources and capacity constraints.

The water, energy and land transport sectors are lacking comprehensive sector strategies endorsed by the Government, including integrated medium-term strategies/priorities linked to the national budget, as well as appropriate tariffs to support adequate services and investments. The absence of an institutional coordination framework and organisational capacities at all sector levels weaken the decision making process. Donor coordination is difficult in the absence of comprehensive national strategies, and large scale donor involvement is inhibited in the absence of a broader framework within which to undertake investments. Therefore, donors are concentrating on *ad hoc* projects which contribute to ineffectiveness in infrastructure investments.

2.2. Lessons learnt

The widely accepted weaknesses found at the 1996 European Commission-funded Investment Planning Project (MED/1996/003-493) encompassing six modules (including energy, water and public works) were the lack of strategy ownership by the line ministries, the lack of intergovernmental coordination, and the lack of an effective project promoter within the government. The mid term evaluation of the European Commission-funded project “Mise en place des outils techniques de gestion de l’eau” (MOTGE) highlighted the lack of institutional framework to improve absorption capacity both on a human and financial scale.

The formulation of the 2009 European Commission-funded “Support to Education and PFM Reforms” project, concluded that implementation of Budget Support in any sector in Lebanon in the near future requires a comprehensive pre-Budget Support intervention preparing the relevant sectors to meet eligibility criteria. The World Bank, a major donor in all three sectors, also stressed the necessity of laying down the right foundations for enabling sector policy design, especially in the light of their unsuccessful experience with general Budget Support in Lebanon.

2.3. Complementary actions

The SISSAF programme is fully aligned with the ENP Action Plan on Transport, Energy and Water where the implementation of a national transport policy, the development of a long term energy strategy and an integrated water resources management approach appear as priority actions. SISSAF is part of a wider initiative to prepare the Lebanese government to benefit from Budget Support.

Complementarities will be established with the public finance management component of the above-mentioned “Support to Education and PFM Reforms” project which supports both Ministry of Education and Ministry of Finance in the process of Mid Term Expenditure Framework (MTEF) and Budget Support implementation. This component will consist of a Public Expenditure and Financial Accountability (PEFA) review, the formulation of a Public Financial Management (PFM) strategy, capacity building and awareness for the Ministry of Finance (MoF), Project Administration Office (PAO), line ministries and members of Parliament. In addition, the Ministry of Public Works and Transport (MoPWT) and the Ministry of Energy and Water (MoEW) will benefit from the EU-funded 2010 project “Policy planning and governance”, to be implemented by the Office of the Minister of State for Administrative Reform (OMSAR), which will train line ministries on methods of strategic planning.

Synergies with regional sector cooperation programmes as MED-EUWI, EuroMED Transport Project, MEDENEC and the Mediterranean Solar Plan will be ensured as well as with regional investment programs as the Neighbourhood Investment Facility (NIF) and the European Investment Bank (EIB) priority investment projects.

2.4. Donor coordination

There is currently no donor coordination led by the Lebanese authorities. The EU donors already established a Working Group on water chaired by German GTZ which has been opened to the participation of Lebanese government representatives. Institutionalisation of this group is an expected result of the SISSAF programme, foreseeing a similar set up for the other sectors.

Bilateral meetings with the donor community indicate general support for the sector approach and the donor coordination to be promoted by the SISSAF project. In particular, EU member States are in support of the establishment of the framework for a future Sector Wide Approach which will allow aligning their financing to national priorities in a more strategic manner.

3. DESCRIPTION

3.1. Objectives

Overall Objective:

Improve the efficiency and effectiveness of service delivery and financial sustainability in the Lebanese infrastructure sectors i.e. water, energy and land transport.

Purpose:

Promote government ownership and consensus on sector strategies in order to prepare and promote future investments.

3.2. Expected results and main activities

3.2.1. *Phase I: horizontal approach*

Result 1: Comprehensive sector (or substantial sub-sector) strategies prepared through participatory processes in the water, energy and land transport sectors.

Activities: Support to the development of comprehensive sector strategies in the water, energy and land transport sectors will be provided through technical assistance, "hands-on" training and potential opportunities for twinning.

- Analyse and review the current institutional, legislative and regulatory framework in the water, energy and land transport sectors.
- Assess the revenue/expenditure flows for investment, operation and maintenance for the main categories of infrastructure in the three sectors or sub-sectors.
- Support line ministries and sector stakeholders in defining and/or complementing their respective sector strategies, and establishing a time frame, a budget framework linked to the national budget and a mapping of the operational sequence for actions.
- Identify training needs and opportunities for twinning, to design an institutional training plan for stakeholder organisations and line ministries and to provide "hands-on" training.

Result 2: Donor and stakeholder sector coordination groups led by line Ministry in collaboration with the Ministry of Finance.

Activities: Support to stakeholder and donor coordination through the reinforcement of institutional capacities and the implementation of coordination mechanisms and framework.

- Definition and promotion of structural involvement of all stakeholders including civil society.

- Definition of institutional structures for stakeholder coordination and transparent decision making process for the preparation and promotion of dynamic sector strategies.
- Extend donors working groups currently limited to the water sector to cover also the energy and transport sectors. Support the institutionalisation of these working groups under the leadership of the respective line ministries and participation of the MoF.

An evaluation of sectors will be done at the end of Phase I. During phase II, the project will focus on the most advanced sectors.

3.2.2. *Phase II: Vertical approach - Sector strategy implementation and coordination mechanisms*

Result 3: Selected sectors to be made fully capable of executing strategies and absorbing additional investments.

Activities: Assistance will be provided to selected sectors successfully completing phase I to implement the key elements of their relevant sector strategy.

- Translate sector strategies into implementation action plans; identify and elaborate key performance indicators; initiate monitoring and evaluation systems.
- Assist and sustain sector donors working group.
- Assess training needs for financial managers and accounting agents, in order to manage MTEF process and provide “hands-on” training to link the sector strategy to the budget of the line ministry, implement a cost accounting system at line ministry level and create links with the general budget and general MTEF.
- Assist in elaborating Public Private Partnerships (PPP) legal and regulatory frameworks to attract additional investments.

Result 4: Sector investments reflect sector (or substantial sub-sector) priorities and strategies.

Activities: Assistance will be provided to the selected sector to prepare the ground to support priority sector (or substantial sub-sector) investments.

- Identify basic engineering alternatives, with preliminary life-cycle cost comparisons, and suggest types of investments that support policies (renewable energy, environmental protection or security issues).
- Prepare budgeted business plans covering investment, operation and maintenance, to be used as benchmarks for political decisions, evaluation of tenders, etc.
- Identify alternative financing/operational modalities and assist the Government of Lebanon (GoL) in defining risk sharing and securing the required co-financing and parallel financing. Incorporate these within the SWAP.

3.3. Risks and assumptions

Main identified risks are the following: (i) Security environment deterioration; (ii) Political tensions in Lebanese institutions increase making consensus on sector strategies difficult; (iii) Human and technical capacity of the line ministries is further deteriorated; and (iv) Macroeconomic situation is not stabilised and public finance management degrades making the perspective for investments more difficult.

SISSAF is based on the assumptions that the positive momentum created by the government's Ministerial Declaration in December 2009 towards sector strategies is maintained, that there is a clear and ensured leadership within the line ministries, that Donors remain motivated to promote Sector Wide Approach and that the awareness for alternative financing is growing and privatisation is seen as a possible solution for reducing public debt.

Since SISSAF will specifically support the formulation of long term comprehensive strategies with adequate institutional coordination structures based on consensus, priorities should be resistant to changes in management structures provoked by ministerial reshuffles. This process will be conducted in a participatory manner to ensure ownership of all stakeholders in the different sectors.

3.4. Crosscutting Issues

SISSAF will enhance good governance in the three considered sectors. Appropriate management will improve service delivery and will promote transparent tariff structures with the appropriate collecting and billing measures.

3.5. Stakeholders

Three categories of stakeholders are concerned: (i) National institutions in charge of policy development (ii) Public implementing agencies and (iii) Final beneficiaries including the private sector.

The project will particularly involve line ministries, as responsible for sector strategy development. The MoF will ensure the link between the strategies and the national budget, the Council for Reconstruction and Development (CDR) will coordinate the preparation of public investment programmes and finally the PAO within the Lebanese Presidency of the Council of Ministers (PCM) will function as the Contracting Authority. The Regional Water Authorities (RWA), Electricité de Liban (EdL) as well as the Chemins de Fer et Transports en Commun (OCFTC) will benefit from a strengthened inclusion in the overall strategy definition and final implementation.

Final beneficiaries are two-tiered i.e. the end users and potential investment partners and will benefit from improved efficient service delivery and increased transparency and regulation.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The programme will be managed following the *partly decentralised* mode through the signature of a Financing Agreement with the Government of the Republic of Lebanon. The Lebanese Presidency of the Council of Ministers (PCM) will be the Contracting Authority for all contracts besides framework contracts, audit, monitoring and evaluation contracts that will be contracted directly by the EU.

The Commission controls *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 > 50,000 EUR and may apply *ex post* for procurement contracts ≤ 50,000 EUR. The Commission controls *ex ante* the contracting procedures for all grant contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

Works	Supplies	Services	Grants
< 300.000 EUR	<150.000EUR	< 200.000 EUR	≤ 100.000 EUR

In terms of implementation arrangements, the PAO attached to the PCM, will be in charge of execution of the activities. The PAO will support the day-to-day coordination as well as administrative, contractual and financial management on behalf of the PCM. To ensure ownership technical assistance will be located in each line ministry and report to a Sector Manager nominated by each Ministry.

A Steering Committee will oversee and validate the overall direction of the project activities and of the project management, and will include representatives from the line ministries, the MoF, the CDR, OMSAR, and as well as other major stakeholders.

4.2. Procurement and grant award procedures

(1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the EU for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI regulation. Further extensions of this participation to other natural or legal persons by the relevant authorising officer shall be subject to the conditions provided for in *article 21(7) ENPI*.

(2) Specific rules of grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities
- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

(3) Specific rules on programme estimates

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question i.e. the Practical Guide to procedures for programme estimates.

4.3. Budget and calendar

The indicative budget of the programme is 9 000 000 EUR with EU contribution of the total indicative budget. The Government of Lebanon will give in kind contribution by putting at the disposal of the programme human resources and premises.

The indicative budget is:

Breakdown	Indicative budget EUR
1. Phase I (services contracts)	2 900 000
2. Phase II (mainly services, some grants)	5 000 000
3. Others (service contracts, some grants)	500 000
4. Communication/Visibility	200 000
5. Audit, Monitoring, Evaluation	300 000
6. Contingencies*	100 000
Total	9 000 000

* The budget line Contingencies can only be used with the Commission's prior approval.

The project will have the duration of 72 months following the signature of the Financing Agreement. The operational implementation phase will be 48 months and the closure phase will be maximum 24 months.

4.4. Performance monitoring

Day-to-day technical and financial monitoring will be part of line ministry responsibilities. For this purpose, they will establish in agreement with the EU Delegation to Lebanon a permanent internal, technical and financial, monitoring system of the project, which will be used to elaborate progress reporting.

4.5. Evaluation and audit

The EU will carry out audits, a mid-term and a final evaluation and will communicate all audit and evaluation reports to the Beneficiaries. The EU will also carry out independent monitoring and audit missions, whenever they are deemed necessary.

4.6. Communication and visibility

The beneficiary will in coordination with the implementing partners carry out all activities pertaining to the promotion of the programme's activities, ensuring that information reaches out the largest possible population. This includes notably the establishment of a communication and visibility action plan, in line with the Communication and Visibility Manual for EU external actions.