

## Action Fiche for Lebanon

### 1. IDENTIFICATION

Title/number	Support to Municipal Finance Reforms in Lebanon
Total cost	EU contribution: EUR 20,000,000
Method of implementation	Project approach – direct centralised & direct decentralised management
DAC code & sector	15112 Decentralisation and Support to Sub-National Government 15110 Public Sector Policy and Administrative Management

### 2. RATIONALE

#### 2.1. Sector context

The Lebanese Administration is subdivided into 4 levels of administration: the central level with the Ministry of Interior and Municipalities, who has the official mandate to deal with reforms linked to the organisation of the Lebanese Administration and the Municipalities, the Mohafazah (provinces), the Caza (sub-division) and the Municipalities that are entitled by law to form Unions of Municipalities (UoMs).

According to the Municipal Act, municipalities are entrusted with a wide set of tasks without formally allocating responsibilities between the central government and local administrations. Despite their relative autonomy, municipalities are subject to the authority and control of various ministries and central government agencies which has limited their discretionary powers and hampered the effective implementation of mandated functions. The government currently exercises both administrative and financial control over the municipalities through various ministries and agencies. The Ministry of Interior and Municipalities, which oversees the municipal sector, is responsible for the budget and finance of municipalities.

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 municipal sector therefore faces major problems such as the lack of sector policy and strategy, the unclear mandate of the Ministry of Interior and Municipalities and delineation of roles and responsibilities vis-à-vis municipalities resulting in interferences in financial management of local development, the weak administrative

and managerial capacity at both central and local level coupled with a weak regulatory framework, a shortage of funds at both central and municipal level combined with ineffective intergovernmental transfers.

The need for reforms in the municipal sector is widely recognised by key stakeholders and the Ministry of Interior and Municipalities is committed to strengthening local administrations or municipalities with democratic legitimacy and genuine powers for local decision making and self governance all the more that administrative decentralisation is embedded in the Taef agreement and appears clearly in the priorities of the President of the republic as well as in the Ministerial statement of 2009 and the reform programme of the Ministry of Interior and Municipalities. The programme is coherent with the priorities set down in the Joint Communication of 8 March 2011 of the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy, entitled "A Partnership for Democracy and Shared Prosperity with the Southern Meditterrean".

## **2.2. Lessons learnt**

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 Unions of Municipalities (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, has been supporting clusters of municipalities to address unemployment and poverty through grants for the implementation of projects (income generating activities, social infrastructure).

The Project complements and builds on the lessons learned from these projects in that it moves towards a more competitive approach, promoting performance-based municipal grants to UoMs and recognises that capacity building activities on project management should continue as most of UoMs are not yet fully able to formulate, design and implement local development projects

Another lesson is that the lack of involvement of central government stakeholders prevented the past projects from addressing the structural problem of chronic, insufficient funding of the municipalities. Thus great importance will be given to (i) Ministry of Interior and Municipalities ownership of the Project to ensure long term sustainability ; (ii) municipal finance reform to strengthen the relation between the central and local levels, by reforming the Independent Municipal Fund (IMF), enhancing local revenues and ensuring performance-based fiscal transfers from central government and donors to municipalities.

### **2.3. Complementary action**

The design of the project has been done to ensure continuity with the grant schemes at local level initiated by the European Union (see paragraph 2.2 for the description) and that will be phasing out when this project starts.

It is also design to complement and bring a more comprehensive and strategic reform-oriented approach to a number of activities initiates by other donors. These include:

- The SUNY-CLD Programme (United States Agency for International Development funding), which has introduced and implemented a municipal revenue system, as well as provided training, manuals, and software for municipalities to record and register the relevant data.
- The Municipal Finance Study (World Bank), which provided a draft roadmap and draft strategic framework for modernising municipal finance.
- Improved municipal governance for effective decentralization in Lebanon project, Italian Government funds channelled through United Nations Human Settlements Programme UN-Habitat. This project aims at strengthening the capacities of the Directorate General for Municipalities in Ministry of Interior and Municipalities and facilitating the launch of the consultative process for decentralisation.

The project will also complement the ‘ART GOLD’ Lebanon project, financed by several EU Member States through the United Nations Development Programme. This project focuses on building capacity for Local Governance and Decentralized, Participatory Development Management.

### **2.4. Donor coordination**

In line with donor commitments made in the Paris Declaration on Aid Effectiveness, this project was subject to a joint identification/formulation process with the Italian Government. The Italian Government will grant additional funds to the component 2 of the program through a parallel funding to the Government of Lebanon. To avoid previous interventions fragmentation and lack of sufficient coordination between Government, donors, agencies and numerous non-governmental organisations, the Working Group on Local Development has drafted "Common Donors Guidelines on Local Development". Moreover, as the Ministry of Interior and Municipalities is recognised as the key institutional partner in this area, the project should support the Ministry of Interior and Municipalities to manage and chair the Working Group in order to ensure ownership and overall coordination. The Ministry has developed in 2009 a Local Development Master Plan with the purpose of listing and coordinating local development activities in Lebanon.

### 3. DESCRIPTION

#### 3.1. Objectives

**The overall objective** of the Project is to contribute to a balanced socioeconomic development through modernised municipal administration and effective central support to local governments. **Specific objectives** include 1) improved effectiveness and efficiency of municipal sector management, and 2) strengthened municipal finance systems to sustain service delivery.

The achievement of these objectives is critical for the long term decentralisation strategy that the Ministry of Interior and Municipalities is going to initiate<sup>3</sup>. The Project can facilitate the initiation of such a decentralisation process through the support to the creation of a Municipal Development Fund (MDF), strengthening of the municipal finance framework and provision of performance-based municipal development grants.

### 3.2. Expected results and main activities

The Project proposal consists of the following three components with associated subcomponents:

#### **Component 1 "Support to Municipal Finance Reform"**

Expected result 1.1: a feasibility study and all the design and implementations parameters will result in a Municipal Development Fund, which will serve as a vehicle for channelling performance-based grants and loans to municipalities and unions of municipalities for promotion of local economic growth, improved public service delivery and strengthening of municipalities' administrative capacity in place and operational.

Expected results 1.2: a regulatory framework for enhancing municipal revenues and a new formula for allocation of funds to municipalities are in place.

#### **Component 2 "Reform-based Project Financing"**

**Result 2.1**: the Union of Municipalities are ranked according to a creditworthiness assessment which will allow to be eligible to a specific grant scheme based on their needs and abilities for development projects and improve their skills and approach to local development.

**Result 2.2**: improved service delivery, revenue generation and management capacity at local level through providing development grants to Unions of Municipalities (UoMs). The proposals will be consistent with local development plans (if any) or with national plans and sector strategies which will contribute to promote an integrated and overall approach of local development issue.

#### **Component 3 "Support to Project Implementation"**

The nature of the programme makes necessary to foresee two type of technical co-operation: a technical assistance to help the Ministry of Interior and Municipalities to efficiently manage the programme in a context of a lack of human resources and management skills; a technical assistance to UoMs to improve their capacity to prepare and implement local development projects.

---

<sup>3</sup> The successful of decentralisation reforms depend on local governments' financial, administrative and technical capacity to deliver basic public services and to engage in activities that promote growth and socio-economic development. Equally important is the central government's capacity to provide stable, transparent and predictable financial support to local governments and to monitor and evaluate their implementation performance.

**Result 3.1: programme efficiently managed with projects activities under component 1 and 2 effectively implemented** (programme management and reporting documents timely provided, procurement and fund management made in compliance with the Commission's rules, studies contracted, reforms identified and undertaken, MDF in place, call for proposal launched)

**Result 3.2: Managing performance of the UoMs and service delivery improved** (training and capacity building linked to the grant scheme provided, number of proposals received, and projects properly and timely implemented).

### **3.3. Risks and assumptions**

The successful implementation of the Project is based on a number of assumptions:

- Government of Lebanon continued commitment to support reform initiatives in the sector, which includes a regulatory and institutional strengthening of the framework for municipal finances.
- Continued championing of municipal sector reforms, including decentralisation, by the incumbent Ministry of Interior and Municipalities.
- UoMs are committed to local development, and ready to invest energy and resources into building up the capacity needed to satisfy performance requirements; raise capital for co-funding or loans and ensure effective projects implementation.

The main risk that could jeopardise the programme implementation is the security situation at regional, national or local level.

### **3.4. Crosscutting issues**

The Project is partly oriented toward the improvement of governance at the level of the Lebanese Administration as the link between central and local level will be reinvigorated.

Moreover, in the framework of the grant scheme, it is assumed that the Contracting Authority and other stakeholders will strictly observe EU policies in relation to cross-cutting issues, such as gender equality, principles of good governance, environmental sustainability, public participation, or human rights in the formulation and implementation of project actions.

### **3.5. Stakeholders**

During the implementation of the Project, the stakeholders and beneficiaries are the central government, notably the Ministry of Interior and Municipalities and the Directorate General for Municipalities, Unions of Municipalities, and the public at large (through participatory planning processes and improved service delivery).

## 4. IMPLEMENTATION ISSUES

### 4.1. Method of implementation

The project will be implemented as follows: Partial decentralised management through the signature of a financing agreement with the republic of Lebanon in accordance with Articles 53c and 56 of the Financial Regulation. Decentralised management will apply to components 1 and 2, while centralised management will apply to component 3, except for operating costs.

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.

<b>Works</b>	<b>Supplies</b>	<b>Services</b>	<b>Grants</b>
< EUR 300,000	< EUR 150,000	< EUR 200,000	≤ EUR 100,000

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country.

### 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 Commission 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) N° 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget.

In specific cases, the nature of the action and the situation of the beneficiary may require to fully finance the action which will be done based on article 169 of the Financial Regulation and 253 of its Implementing Rules.

- 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).

The EU financial contribution covers the ordinary operating costs deriving from the programme-estimates.

#### **4.3. Indicative budget and calendar**

The indicative budget (in EUR) by Project component is as follows:

Component 1: Municipal finance reforms	2,000,000
Component 2: Performance-based project financing	13,200,000
Component 3: Project implementation and support at local level	3,200,000
Communication / Visibility	200,000
Operating costs	200,000
Monitoring, audit, external evaluation	200,000
Contingencies	1,000,000
Total	20,000,000

The operational duration of the programme will be 48 months as from signature of Financing Agreement.

#### **4.4. Performance monitoring**

- (a) Day-to-day technical and financial monitoring will be a continuous process as part of the Beneficiary (Ministry of Interior and Municipalities) responsibilities. To this end, the Beneficiary shall establish a permanent internal, technical and financial, monitoring system to the project, which will be used to elaborate the progress reports.



- (b) Independent consultants recruited directly by the Commission on specifically established terms of reference will carry out external results oriented monitoring system, which in principle will start from the sixth month of project activities, and will be finalised at the latest 6 months before the end of the operational implementation phase.

#### **4.5. Evaluation and audit**

The project will be subject to periodic external independent evaluations (i) mid-term: to assess progress in the execution of the project, (ii) and *ex-post*: to evaluate the overall efficiency, impact and sustainability of the project and also to financial and possibly system audits.

#### **4.6. Communication and visibility**

The EU will ensure that adequate communication and visibility is given to the EU funding by the Government of Lebanon through specific events like inauguration of the Project, press conferences, media reports, etc.

All information provided to the press, the beneficiaries of funds, and all related publicity material, official notices, reports and publications, will respect the Communication and Visibility Manual for EU external actions available at [http://ec.europa.eu/europeaid/work/visibility/index\\_en.htm](http://ec.europa.eu/europeaid/work/visibility/index_en.htm).