



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2015 part II in favour of the Republic of Lebanon

Action Document for "Supporting the private sector development in Lebanon"

1. Title/basic act/ CRIS number	Supporting the private sector development in Lebanon CRIS number: ENI/2015/038-180 financed under European Neighbourhood Instrument			
2. Zone benefiting from the action/location	Southern Neighbourhood, Lebanon The action shall be carried out at the following location: Lebanon			
3. Programming document	Single Support Framework for EU Support to Lebanon (2014-2016)			
4. Sector of concentration/thematic area	Sector II: "Reinforcing social cohesion, promoting sustainable economic development and protecting vulnerable groups."			
5. Amounts concerned	Total estimated cost: EUR 15,000,000 Total amount of EU budget contribution EUR 15,000,000 Budget line: 21.030102			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with Member State agency			
7. DAC code(s)	32130 – SME development			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flags	N/A			

SUMMARY

The private sector in Lebanon faces a number of constraints which include a lack of a well-functioning enabling environment, lack of competitiveness of Lebanese enterprises, a weak national quality infrastructure and a poor business ecosystem. The institutional framework for Micro, Small and Medium Enterprises (MSMEs) remains weak in the absence of an overall enterprise policy and strategy. The majority of the businesses, in particular in rural and remote areas, even if having a good potential to develop, are featured by a high degree of fragmentation and dispersion, as well as by the lack of inter firm linkages and access to information, *adversely and increasingly* affecting their chances of survival and therefore increasing the risk of social tensions and unrest. Despite remarkable resilience and willingness of businesses to develop in a context of persistent crisis and uncertain geo-political context, the private sector needs assistance in order to reach a better competitiveness.

Taking into consideration past experiences and the recent evaluation of the Private Sector Development ('PSD14'), it is recommended to focus the levels of intervention at meso and micro levels. There is indeed a strong need to adopt, based on a clearly assessed market development potential, a *bottom-up oriented approach*, improving the effectiveness and efficiency of the meso actors and answering the needs and challenges identified among the target micro-level businesses.

The recommended approach is based on a mix of value chain and clustering development measures within a dynamic and evolving context. Both value chains and clusters are indeed effective instruments fostering MSME development, in consideration of geographical or territorial factors and linkages with cross cutting areas and issues.

This EUR 15 million programme aims at increasing micro, small and medium enterprises competitiveness and participation in the economy by fostering their development and integration into value chains. It is fully consistent with The Single Support Framework priorities for 2014-2016 aiming at contributing to promoting economic development and increase competitiveness of Lebanese private sector.

1. CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Lebanon is a small but highly urbanised middle income country of 4.4 million people with a Gross Domestic Product (GDP) of around USD 43 billion (GDP per capita of USD 10,311 million).

The World Bank estimates GDP growth at 1.5% in 2014 up from an estimated 0.9% in 2013.

The economy is led by the services, especially trade, sector with 76% of GDP (2013), of which banking is most noticeable and dominant in the centre of Beirut. Tourism, especially from the Gulf States and Europe, used to be another driving sector of the services-based economy. Agricultural output amounts to about 4% of GDP, with a mixture of cash crops and food for local consumption, although a fair share of Lebanon's up-market quality wines are exported. Lebanon is characterised by regional socio-economic disparities with almost 30% of the population living under the poverty line and 8% under the extreme poverty line.

Lebanon remains constrained by the spillovers of the Syrian conflict and local tensions. The conflict in neighbouring Syria has exacerbated the security, political, and economic issues facing the country, and resulted in a further decline in tourism, private investments and economic activities. This has culminated in economic growth falling sharply from the 7%-9% growth rates experienced during 2008-2010, to 1.5% and less in the last years, the lowest growth performance since 2006 conflict. The numbers of Syrian refugees has significantly increased in the period 2013-2014 constituting at present about one third of the population; while spread throughout the whole country, the highest concentrations are recorded in Northern Lebanon and in the Bekaa.

According to the World Bank, the overall unemployment rate in Lebanon is estimated at 11% and stands at 18% and 34% for women and youth, respectively. Labour participation is also low with only 70% of working-age men and 24% of women active in the labour force; the World Bank estimates total unemployment will actually reach 20% in 2014, in large part due to the Syria crisis.

Regarding the consequences of the Syrian crisis on the trade routes, firms have gradually adapted to the shock and have found ways to cope or benefit. As an economy with a large trade sector, Lebanon is significantly exposed to Syrian crisis not only due to its role as a trading partner, but also because a sizable share of Lebanese trade transits through Syria. The first half of 2013 witnessed sharp reductions in trade flows, particularly for food products and consumer goods. Data through 2014 reveal, however, that while Lebanese exporters to Syria have suffered from a drop in demand in the Syrian market, other Lebanese exporters have started to export to Syria to fill the gap in Syrian production. Furthermore, the massive amount of refugees representing more than 25% of the Lebanese population, has led to increased domestic demand for domestically produced food items.

The performance of the agricultural sector may seem modest in terms of contribution to the annual national wealth (4% of GDP in 2011, 6% in 2012),¹ nonetheless, agriculture participates fully in the balance and social equity in rural areas (6% of

¹ MOA, 2013.

national employment, but up to 25% of employment and 80% of GDP in some rural areas).² Agro-food industries constitute the first sector in terms of number of economic establishments, representing 18.2% (736 registered) of total economic activities and with a work force of 24.9% (20,607) of the total industrial labour and with total industrial outputs of 25.7% (USD 410,287 million).

The industrial (manufacture, as a whole) sector accounts for 20% of GDP and according to IDAL³, it accounts for around 7.5% of national output and employs around 140,000 people, or the equivalent of 25% of the local labour force, constituting the second largest employer after the public sector, ahead of other economic sectors.

Statistics on Lebanese SMEs are scarce, fragmented and often inconsistent with each other.

According to governmental sources, about 97% of Lebanese private enterprises can be considered as MSMEs. According to the Ministry of Economy and Trade (MoET) SME Strategy and the proposed definition of SME⁴, the total number of Micro and SMEs is estimated in about 60,000-65,000, constituting about 93%-95% of total enterprises and with a total employment of over 800,000 (over 50% of the working population), the majority being micro businesses with less than 5 employees and operating in the informal economy.

According to the World Bank, the size of informality as a percentage of GDP is estimated by the World Bank to be 36.4%. The share of the labour force, which does not make any social security contributions, goes up to 66.9% among employees⁵.

The distribution of the number of MSMEs by sector is not available; it is estimated in any case that at present over 60% of the enterprises operate in the trade and service sectors and 15%-20% in the industry sectors, *calling therefore for a diversification of the Lebanese economy*.

1.1.1 Public Policy Assessment and EU Policy Framework

Relevant National Policy Framework

The Small Business Act assessment (2014) indicates that over the last three years, there have been very limited improvements in the SME policy framework. The economic stagnation witnessed over the last two years has led to growing calls for a more active approach.

The SME policy mandate in Lebanon is currently distributed across several institutions, including the Ministry of Economic and Trade, the Ministry of Industry, Ministry of Agriculture, the Business Development Centres (BDCs), the Industrial Research Institute, the Euro-Lebanese Centre for Industrial Modernisation.

In response to growing calls for fostering competitiveness and sustainability of the private sector, the Ministry of Economic and Trade presented in December 2014 its national SME Strategy as a Roadmap for public and private stakeholders to introduce, adopt and implement a series of priority reforms and measures. While constituting an important reference framework for needed steps and actions, it will

² Analysis of Lebanon's Food market, BankMed, 2013.

³ Investment Development Authority of Lebanon.

⁴ 10/50/100 employees and LBP 0.5/5/25 billion, for micro, small and medium, respectively.

⁵ The challenge of informality in the Middle East and North Africa, World Bank, 2011.

need to be complemented by clearer and more prioritised action plans and implementation modalities.

The Ministry of Agriculture (MoA) Strategic Plan 2010–2014 revolves around eight pillars which set forth interventions at the central and local levels, using a combination of programmes, projects and policy measures aiming at containing the cost of production and improving quality of Lebanese agricultural products including also and among other developing value chains, improves focus on better quality, production, marketing and export of agricultural products.

More recently, in December 2014, the MoA issued a MoA Strategy 2015-2019, a milestone for the future development of the sector in Lebanon; priority areas include provision of safe and quality food from local and imported products, increase productivity and competitiveness of the Lebanese agricultural products, through improving the value-added of plant (and animal) production chains; Strengthening agricultural extension and education, and development of the cooperative sector and mutual funds.

Remarkable progress was made in the sustainable energy and environmental sectors that will be addressed by the programme in a wider competitiveness enhancement context.

The National Energy Efficiency Action Plan for Lebanon is currently the main guiding policy document for the development of energy efficiency in the country; it foster energy efficiency and the use of renewable energy sources in an enlarged public (municipal) and private sector context in order also to strengthen private sector companies in the national supply chain to boost their market shares and increase productivity.

EU relevant policy framework

The programme is fully consistent with:

- The Action Plan for EU-Lebanon Partnership and Cooperation 2013-2015, in particular with priorities H "*Improvement of business environment, particularly for MSMEs, and development of domestic market conditions in key sectors*" and I "*Enhancing production and marketing of agricultural products in line with international standards, advancing liberalisation, raising competitiveness and developing rural economy*".
- The recent European Commission Communication 263 on “A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries”, calling for, in particular and among other for an enhanced role of the Private Sector in fostering an inclusive, sustainable economy, a higher focus on employment creation, inclusiveness and poverty reduction, introduction of different conditions and incentives to contribute to enterprise development, creation of opportunities through market-based solutions and on enhancement of the support to micro, small and medium-sized enterprises in the formal and informal sector.

1.1.2 Stakeholder analysis

Besides the target groups (ultimate beneficiaries), constituted by Micro and SMEs operating directly and indirectly⁶ in the agribusiness and wood processing in the Northern Bekaa, Northern Lebanon and Tripoli, including also local vulnerable groups, key stakeholders include a wide range of local and national private sector institutions and associations (BDCs⁷ of Tripoli and Saida, Chambers of Commerce of Beirut, Tripoli and Saida, ALI⁸, RDCL⁹, LAFI¹⁰, the Order of Engineers and Architects and other sector unions). They all expressed interest and commitment to contribute to the programme, fully sharing the value chain and cluster approach. Similarly, key financial institutions including the Central Bank, several banks, Kafalat, the ESFD¹¹ and Micro Finance Institutions (MFI) have expressed their readiness to provide financial support through the available lending schemes in Lebanon on the basis of viable action and financial plans.

In addition, the Lebanese Centre of Energy Conservation and various other specialised institutions such as Qualeb¹², IRI¹³, ELCIM¹⁴ - all supported by the European Commission -LARI¹⁵ and other accredited laboratories at the Chambers of Commerce are all interested to participate and actively contribute in their respective areas of competence.

1.1.3 Priority areas for support/problem analysis

Despite the absence in Lebanon of a sound policy framework and despite a weak business regulatory environment for supporting the private sector, as well as other geo-political constraints including the Syrian refugees' issues, there are some positive elements:

- With the support of major international organisations including the Central Bank, EU, the European Investment Bank (EIB), International Finance Cooperation (IFC), United Nations Development Programme (UNDP), Agence française de développement (AFD) and the World Bank, the Central Bank and other institutions have made available to the private sector (especially MSMEs) large credit lines, assisted also by Kafalat thematic guarantee facility to boost development and innovation and which are, however, only partially utilised. Significant resources have been made available also for financing energy efficiency and renewable energy schemes, as well as innovation sectors and , more recently, for supporting start-ups.
- The Lebanese private sector is showing remarkable levels of interest, resilience and dynamism, as proved by the increasing demand for technical assistance and

⁶ Providing complementary services and products.

⁷ Business Development Centers and Incubators, that did benefit of significant support from the European Commission).

⁸ Association of Lebanese Industries.

⁹ Lebanese Businessmen Association.

¹⁰ Lebanese Association of Food Industrialists.

¹¹ The Economic Social Development Fund.

¹² Lebanese Quality Management Unit at the MoET.

¹³ Industrial Research Institute.

¹⁴ Euro Lebanese Centre for Industrial Modernisation.

¹⁵ Lebanese Agricultural Research Institute.

finance to develop and/or innovate and/or expand despite the persistent crisis as recorded at the BDCs, Central Bank and other institutions.

- According to MoET SME Strategy, Lebanese entrepreneurs and SME owners are 2-4 times more likely to be highly educated persons who already have jobs, a pattern generally quite different and unseen in other MENA countries.

At the same time, however:

- Effective market, organisational, production and management linkages, cooperation and coordination among stakeholders constitute a major historical problem in Lebanon, independently from the past wars and the on-going Syrian crisis.
- The majority of the businesses in rural or relatively remote areas even if having an untapped potential to develop are featured by a high degree of fragmentation, dispersion and informality, as well as by the lack of inter firm linkages, access to information and access to finance capacity.
- Poor product/produce quality, a fragmented or non-organised trading system, and lack of constant supply of electricity, poor waste management practices, have led to a significant decrease of productivity, increase of production costs and therefore of overall competitiveness.

In this framework, a support to private businesses, especially MSMEs, based on sound value chain and clustering approaches, has been considered as the most appropriate for addressing economic and social development in a fully integrated, inclusive, synergic and sustainable perspective, as well as an indirect instrument also to leverage more effectively needed reforms, strategies and policies.

The pre-selected sectors of intervention include agribusiness¹⁶ and the whole wood processing in Northern Bekaa, Northern Lebanon and Tripoli areas and where an integrated socio-economic development potential has been identified that would build on available skills, resources and traditional activities.

According to the Lebanese Statistics Office, the contribution to the GDP of the wood, paper manufacturing and printing and of the agro-food industries increased by 7% and 10%, respectively, in 2013.

In terms of employment, agriculture and manufacture account for 6% and 12% of total employment and unemployment in these areas is estimated between 7% and 10% among the active working population.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
The Syrian conflict could spill-over more deeply into Lebanon. This could jeopardise the project and cut-off access to Lebanese territory for international	M	The EU Delegation will consult with HQs on necessary actions for interrupting or re-tailoring on-going activities according to actual circumstances.

¹⁶ Agribusiness includes agro-food industry and the agricultural sector (mainly primary production); post harvest is considered as part of the agro-food industry.

organisations and actors.		
Scarce number of interested MSMEs, below the planned target values.	L	In consultation with local institutional stakeholders (especially the Chambers of Commerce) preparation and adoption of improved communication and dissemination strategies on the programme benefits and incentives.
Constrained access to finance in the target areas that might delay the implementation of planned investments.	L/M	Review of the financial plans jointly with FIs (Funding Institutions, including and local bank branches). Increase of advisory assistance to FIs.
Unforeseen instability or constraints of identified market targets.	L/M	Formulation of alternative viable market development and marketing strategies in the initial stage of the programme.
Assumptions		
The stability and security of Lebanon are key assumptions for the sustainability of the EU intervention as efforts can be jeopardised in case of widespread conflict. The project will need to maintain a high degree of flexibility in order to be able to adapt to an evolving context.		
Willingness and interest of MSMEs to establish linkages and jointly cooperate		
Interest and commitment of key central and local private sector institutional and financial stakeholders		

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The recent evaluation of the PSD14 programme made the following recommendations:

- Avoid fragmentation of activities and ensure consistency of the whole approach;
- Focus at micro/meso levels and have a more integrated and focused approach, e.g. sector-based;
- 'Stimulate' competition among actors and encourage them to adopt stronger oriented strategies, building on lessons learnt from Donors' assistance programme;
- Further strengthen their capacity to provide specialised services for supporting of MSMEs through the tools that the PSD programme will make available to the value chains and/or clusters for the achievement of planned objectives and results;
- Be more thematically focused and have a greater outreach in the regions in order to ensure impact.

3.2 Complementarity, synergy and donor coordination

The programme envisages a high degree of complementarity and synergies with a number of other programmes including:

- ◆ EU - European Training Foundation (ETF): Labour Market and Vocational and Technical Education support programme, where synergies and linkages could be established, e.g. formulation of curricula, entrepreneurship, specific capacity building actions, updating and enlarging training for unemployed and disadvantages.
- ◆ Deutsche Gesellschaft für Internationale Zusammenarbeit(GIZ): Dual System Training programme and CLOSER programmes, providing support to vocational training and the development of SMEs, environmental protection and civil conflict management.
- ◆ International Labour Organisation (ILO): support to Employment and Income for Vulnerable People affected by the Syrian refugee crisis in North Lebanon.
- ◆ The EU-funded Lebanon Energy Efficiency and Renewable Energy Finance Facility¹⁷ that includes a technical assistance component dedicated specifically to Energy Efficiency and Renewable Energy for undertaking feasibility studies and setting procedures to obtain loans under the joint European Investment Bank (EIB) and Agence française de développement (AFD) funding.
- ◆ The EU-funded MED-ENEC Project on Energy Efficiency in the Construction Sector in the Mediterranean¹⁸, focusing on energy efficiency renewable energy sources in the construction sector working and quality standards.
- ◆ SWITCH – MED programme, aiming at stimulating the demand and supply of sustainable production services to the industry, promoting the adoption of new green and socially inclusive business models.
- ◆ Relevant activities organised within the framework of the Euro-Mediterranean industrial cooperation process¹⁹, in particular regarding clusters.
- ◆ EU – funded Agriculture and Rural Development Programme²⁰ (ARDP), including a EUR 3.5 million guarantee scheme for rural credit, training of trainers for extension engineers at the MOA, introduction of Good Agricultural Practices.
- ◆ United States Agency for International Development (USAID) Industry Value Chain Development (LIVCD) aiming at increasing incomes in rural areas in selected complementary sub-sectors.
- ◆ World Bank “Sustainable Agriculture Livelihoods in Marginal Areas (SALMA)” support to the Ministry of Agriculture in the water resource management, rural services and infrastructure under the programme.

¹⁷ C(2011)5547.

¹⁸ C(2008)4089.

¹⁹ http://ec.europa.eu/growth/industry/international-aspects/cooperation-regions/eu-mediterranean/index_en.htm.

²⁰ C(2010)7440.

- ◆ Various United Nations Development Programme (UNDP) interventions in cooperation with the MoE and MoA targeting climate change and the latter is aiming at reviving livelihoods of farmers' in Southern Lebanon.
- ◆ United Nations Industrial Development Organisation (UNIDO): support to Tripoli furniture sector cluster in the framework of "Supporting the Development of Creative Clusters in the Southern Mediterranean Region" programme (funded by the EU and the Italian cooperation).

3.3 Cross-cutting issues

The programme will address gender equality, employment, green energy development and environmental aspects with particular attention, in a wider economically sustainable context through the recommended value chain and clustering approaches as outlined in point 1.1.3 and in line with the recent EU Communication EU Communication on "*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*" and the Single Support Framework.

Value chains and cluster shall constitute moreover an opportunity to establish business models for integrating informal MSMEs into the formal economy, through the introduction of proper incentives and clearer economic benefits.

4. DESCRIPTION OF THE ACTION

4.1 Objectives/results

The overall objective of the programme is to contribute to Lebanon's economic development and job creation by enhancing the productivity and competitiveness of its private sector, with focus on vulnerable groups.

The specific objective of the programme aims at providing integrated non-financial and financial intermediation services to groups of Micro and SMEs in the agribusiness and wood processing sectors through establishment, management and operation of market-oriented value chains and clusters with special focus on enhancement of productivity and competitiveness. Value chains and clusters are considered as the most appropriate specific approach for achieving concrete results in terms of effective inter-business, inter-sectoral and private/public institutional linkages.

The expected outputs are:

1. MSMEs are reorganised into stronger groups for a more efficient and cost-effective use of inputs and resources
2. Market positioning and market access of MSMEs in the targeted sectors are expanded
3. Access to finance is facilitated for needed investments; available funding instruments are better used
4. New jobs and inclusive employment are created as a result of increased production and sales

4.2 Main activities

Agribusiness and wood processing have been pre-selected as target sectors on the basis of a mix of criteria reflecting their potential, opportunity for inclusive job

creation, socio-economic importance, synergy with other donors and potential impact on cross-cutting issues.

Agribusiness is a strategic sector in Lebanon, with high socio-economic impact going far beyond its weight on the GDP and total spending of the country. Stone fruits are an important agriculture sub-sector, with great but still untapped potential of development in terms of production and quality. Stone fruits, in particular apricots and plums, are mostly produced in the Beeka and North Lebanon, including Akkar. They have a good price/quality ratio and do not have any historical records of Sanitary and Phytosanitary (SPS)-specific limitations. The stone fruits chain can be easily developed into localised clusters to produce fruits derivatives, such as dried, puree and nectar. The volume of production, estimated at around 50 000 tons per year for apricots and plums, has been gradually reduced since the civil war by about 50%. This choice is fully in line with the ENP Action Plan, and in particular with Priority I "*Enhancing production and marketing of agricultural products in line with international standards, advancing liberalisation, raising competitiveness and developing rural economy*".

Wood is one of the oldest industries and one of the most valuable and monitored commodities in the world. Wood is very well recognised for its many uses starting with the commodity being a source of heat, handmade and art products, as well as being an important construction, floor and furniture material. The wood processing sector, and in particular the furniture industry, used to be an important driver of the Lebanese economy. At present, it serves also and especially other important sectors of the Lebanese economy, such as construction and craft. Despite the overall economic decline especially of the furniture sector and massive cheaper imports from Asian countries, imports of semi-finished products such as panels are increasingly serving domestic and, to a more limited extent, the export markets. Considering the availability of skills and of production assets, which are in relatively good conditions and not obsolete especially in Northern Lebanon where wood processing used to constitute an important traditional activity of the regional economy, there is definitely a good development potential for local product expansion and diversification.

The programme will target, e.g. *inter alia*:

- In the agribusiness sector:
 - ❖ Two stone fruit value chains (apricots and plums), with an indicative initial participation of about 100-150 MSMEs in the Northern Bekaa and Akkar areas.
- In the wood processing sector:
 - ❖ One wood-processing cluster, with an indicative participation of about 100 MSMEs, in Tripoli area and Northern Lebanon.

This selection will be further validated during the inception phase with a possibility to adjust to new conditions especially regarding the security situation in the targeted areas.

The programme will be built around the following *non-exhaustive* key activities:

Programme Management:

- Establishment of Sector Management and Coordination Unit (SMCU);

- Identification of potential domestic and foreign market targets, alternative and direct supply sources of needed inputs, business leaders and potential strategic partnerships;
- Formulation of market development strategies;
- Diagnostic surveys, gap assessments and organisation of value chains;
- Formulation and adoption of value chain and cluster integrated market driven action plans;
- Mobilisation of funding sources for assessed and viable investment plans in the target value chains;
- Formulation of national sector strategies with proposals for streamlining and adopting relevant legislative and regulatory frameworks;
- Supervision, Monitoring & Evaluation of the work of the SMCUs.

Targeted intervention in the agribusiness and wood processing sectors:

- Implementation of the action plans for enhancement of competitiveness and productivity in partnership with national and international organisations, institutions and business leaders and the organisation and procurement of specialised services, equipment, technologies and works;
- Assistance in loan applications and finalisation of arrangements with funding institutions;
- Provision of advisory and counselling assistance to the MSMEs and organisation of targeted workshops and training cycles;
- Assistance to the management of commercial contracts;
- Participation to selected specialised fairs and networking with EU institutions and programmes for know-how transfer and development;
- Formulation and adoption of national target sector strategies including regulatory frameworks and as contributions to the national SME and Agricultural strategies;
- Organisation of dissemination and visibility events on programme's approaches and results, strategies and regulatory frameworks.

Public/private Dialogue will be enhanced through official meetings at the Steering Committee. Continuous cooperation is also expected throughout the programme, where the private sector will contribute and advocate the adoption of sectoral strategies and relevant legal and regulatory frameworks.

4.3 Intervention logic

The EU is committed to contribute to Lebanon's economic growth by boosting job creation and reducing poverty. Besides its importance for the economic development of the country, main reasons to continue supporting private sector development in Lebanon lie with the actual willingness of businesses to develop and expand despite the persistent crisis, the availability of skilled manpower and the presence of strong private sector institutions and associations, some assisted directly or indirectly by EU past interventions.

It is essential to continue supporting the Lebanese private sector, taking into account the objectives of:

- increasing micro, small and medium enterprises productivity and participation in the economy by fostering their development and integration into value chains;
- focusing on the meso and micro levels, as no actual progress took place at macro level in the implementation of an economic reform agenda as recommended by a number of previous interventions by the EU and other donors, and due to an absence of a comprehensive policy.

The evaluation of the PSD14 highlighted the lack of a market driven approach, of a local and regional dimension of the programme and consequently the absence of local institutional and private actors in the process.

The intervention strategy will be based on a number of fully integrated, synergic and mutually consistent measures at both micro and meso levels. The first will focus on enhancement of productivity and competitiveness factors in all relevant areas such as MSMEs' organisation, production cost reduction, technology upgrade, energy and environment, quality management, marketing and others, while the meso level will focus on business support services, access to finance (for effectively leveraging available funding sources for needed viable investments), formulation of sector strategies, networking with EU specialised associations, visibility and dissemination actions for impact enhancement at whole sector and national levels.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) N° 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of adoption by the Commission of this Action Document.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Indirect management with a Member State agency

This action may be implemented in indirect management with Expertise France in accordance with Article 58(1) of Regulation (EU, Euratom) N° 966/2012. After having consulted with several Member States agencies (GIZ, Denmark's development cooperation - DANIDA, Swedish International Development Cooperation Agency - SIDA, Belgian Development Agency - BTC), Expertise France has been chosen for the following reasons:

i) Due to the complexity and technical nature of the programme, Indirect Management with a Member State agency is the preferred option. Expertise France is the lead implementation agency in the field of private sector development. The agency will be able to fully contribute to the further design of the programme and will be able to adjust it according to the volatile conditions prevailing in the country.

ii) Lebanon is highly impacted by the Syrian crisis. The volatile environment as well as the target groups (vulnerable communities) require flexibility and rapid response.

iii) The French agency has a good knowledge of the Lebanese background, where it has already implemented projects.

iv) A 'peer to peer' approach will be privileged so as to have a better focus on the private sector needs. The agency will be able to mobilise a large network of actors, including Chambers of Commerce and 'field' experts.

The entrusted entity would carry out the following budget-implementation tasks:

- Establishment and management of a Technical and Financial Coordination Unit (TFCU) and of two main Sector Management and Coordination Units (SMCU);
- Launching of call for tenders and calls for proposals;
- Definition of eligibility, selection and award criteria;
- Evaluation of tenders and proposals;
- Award of grants, contracts;
- Concluding, monitoring and managing contracts;
- Carrying out payments, and recovering amounts due.

5.3.2 Changes from indirect to direct management mode due to exceptional circumstances

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management through procurement of services.

Subject in generic terms	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
enhancing productivity and competitiveness in the Lebanese private sector	services	1	Q1 2016

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the

basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

Programme Components	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1.1 Indirect Management	15 000 000	N.A.
Totals	15,000,000	N.A.

5.6 Organisational set-up and responsibilities

The programme envisages the establishment of a Technical and Financial Coordination Unit (TFCU) and of two main Sector Management and Coordination Units (SMCUs). The TFCU will coordinate and guide the work of the SMCUs, coordinate and manage mobilisation of funding sources, cooperate with Lebanese national private sector institutions and associations on dissemination and advocacy. The SMCUs will manage and coordinate all assistance and activities to be provided directly at the level of value chains and clusters.

The Delegatee will ensure the management of the TFCU and the overall supervision and coordination of the programme. It will also proceed to the set-up of the SMCUs.

The EU Delegation will monitor the overall implementation of the programme and will be the focal point for any communication issuing from the Delegatee.

A Steering Committee of the programme, composed of representatives of the relevant institutions (including in particular the Ministry of Economy and Trade, the Donors, the Central Bank, the Head of TFCU) and the European Commission, will meet on a bi-annual basis. This Committee will:

- (i) assess and monitor the programme's progress;
- (ii) jointly discuss any critical points, risks or bottlenecks of programme's implementation and propose and discuss remedies in case of problems;
- (iii) ensure close cooperation among all involved relevant stakeholders.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. An ex-post evaluation could be foreseen under the next programming exercise.

The mid-term evaluation will be carried out for problem solving, learning purposes, in particular with respect to the intention to continue the action.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)²¹

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: impact	To contribute to Lebanon's economic development and job creation by enhancing the productivity and competitiveness of its private sector, with focus on vulnerable groups	Unemployment rate Employed population in the targeted regions % of population living under the poverty line (2015) Number of people living under the poverty line (2014) in the targeted regions	20% (2015) 1,118 000 employed in the country (2010) 28% 1,170 000 (2014; whole country)	18% (2020) 1,123 000 (+5000 jobs created) 27% 1,145 000 (2020)	- international and national statistics; macroeconomic data - programme's reports - evaluation reports	Security and political situation remains stable
Specific objective: Outcome(s)	To enhance the productivity and competitiveness of the agribusiness and wood processing sectors through the development of inclusive, social and economically sustainable value chains and clusters	% increase of sector contribution to the national GDP % of increases and value of exports % of employed vulnerable groups and Syrian refugees	About 6%-7% GDP contribution (whole agribusiness, of which 4% from primary agricultural production) and 7%-8% (wood processing), according to 2011/2012 statistics and estimates	At least 50% increase by 2020 in each target sector/sub-sector	National and local statistics, records from the TCFU and SMCUs	National and local Monitoring & Evaluation systems in place
Outputs	1. MSMEs are reorganised into stronger groups for a more efficient and cost-effective use of	Number of grouped MSMEs in value chains and clusters sharing	Lack of linkages among businesses. 70% of informality	250-300 MSMEs organised in value chains and	Action Plan adopted. Records from TCFU,	Willingness and interest of MSMEs to share assets,

²¹

Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

	inputs and resources	common services	among MSMEs (2012/2013)	clusters. Decrease of informality among participating MSMEs. Assessed and bankable action plan (2016/2017)	SMCUs, Chamber of Commerce and other stakeholders	resources and strategic goals
	2. Market positioning and market access of MSMEs in the targeted sectors are expanded	Number of domestic and export served markets and regularly sold quantities of products	Lack of business leadership and of product demand	Identified markets and business partners in the GCC, EU and other countries (2016/2017)	Records from SMCUs, Chambers of Commerce, MSMEs, business leaders	Interest and availability of business associations and marketing channels to drive market expansion
	3. Access to finance is facilitated for needed investments; available funding instruments are better used	Number of loans and guarantee agreements in the target areas	Decreased lending in the target areas (10-20% of total national lending, 2010)	40% increase of lending in the targeted value chains and clusters (2018)	Statistics from BdL, banks, Kafalat and MFIs records; Records from TFCU, SMCUs	Availability of lending instruments and resources from BdL, Kafalat, EIB and other FIs/MFIs
	4. New jobs and inclusive employment are created as a result of increased production and sales	% increases of total employment and of women, youth and vulnerable people in the target value chains and clusters	Increasing unemployment in the target areas. 6%-8% of women youth employment in the agriculture and manufacture sectors (2012/2013)	15%-20% increase of total employment, of which at least 20% women, youth and vulnerable people (2020)	Records from value chains and clusters, MSMEs, SMCUs and local and national agencies	Interest and active participation of women, youth and vulnerable people into value chains and clusters

<p style="text-align: center;">Activities (non-exhaustive)</p>	<p>1.1 Facilitation of value chain organisation and provision of capacity building</p> <p>1.2 Facilitation of strategic partnerships, including between Lebanese exporters and importers in targeted markets</p> <p>1.3 Business development services are enhanced through business intermediaries</p> <p>2.1 Development of gap assessments, marketing studies and Action Plans in the targeted sectors</p> <p>2.2 Assistance in product development and technology upgrade</p> <p>2.3 Delivery of coaching and training on quality management</p> <p>3.1 Assistance in loans application and dissemination of financial instruments available</p> <p>3.2 Provision of capacity-building to business intermediaries</p> <p>4.1 Promotion and training of Quality management and traceability system</p> <p>4.2 Networking with EU organisations/programmes and exchange of know-how</p>					
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