

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB2627

Project Name	FIRST MUNICIPAL. INFRASTRUCTURE PROJECT ADDITIONAL FINANCING
Region	MIDDLE EAST AND NORTH AFRICA
Sector	Central government administration (95%);Law and justice (5%)
Project ID	P103875
Borrower(s)	LEBANESE REPUBLIC
Implementing Agency	Ministry of Interior and Municipalities
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	October 25, 2006
Date of Appraisal Authorization	October 5, 2006
Date of Approval	November 7, 2006

1. Country and Sector Background

1.1 On August 14, 2006, a UN-brokered ceasefire brought an end to intense hostilities that took place in Lebanon for 33 days. A preliminary assessment carried out by the Government of Lebanon (GOL) indicates that the municipalities located in the conflict-affected areas suffered wide-scale destruction. The housing sector accounts for almost 50 percent of the total damage particularly in the southern suburbs of Beirut as well as in southern Lebanon. The damage to the municipal sector (which includes, among others, urban roads, retaining walls, street lighting, water and sanitation, municipal buildings, and equipment) is provisionally estimated at around US\$80 million.

1.2 An US\$80 million IBRD loan for the First Municipal Infrastructure Project (FMIP) was approved on June 22, 2000 and became effective on November 28, 2000. The FMIP finances the rehabilitation of municipal infrastructure, including potable water and sanitation networks, as well as improved access roads, retaining walls and street lighting to primary services such as health clinics and hospitals, schools and community facilities, churches and mosques, cemeteries and commercial areas. In addition to the rehabilitation of the physical municipal assets the FMIP focuses on strengthening the management capacities of local governments. By being directly responsible for project identification, appraisal, design, bid preparation and construction supervision, municipalities in Lebanon have considerably improved their capacity to discharge their financial, planning and implementation responsibilities.

1.3 The FMIP is the best performing Bank project in Lebanon and is well on track to achieve its development objectives and related outcomes. Implementation progress and the achievement of the development objectives were rated *satisfactory* prior to the hostilities. Almost 800 sub-projects have been implemented so far in more than 720 municipalities. For instance, by June 2006, over 1,500 km of roads and 260 km of retaining walls had been repaired and upgraded, over 12,000 street lighting poles had been installed, and almost 350 km of drainage, water and sewerage networks had been repaired. By September 30, 2006, disbursements have reached

US\$63 million (i.e., almost 80 percent of the loan amount) with the uses of all the remaining funds already identified.

1.4 The municipal sector at-large has been significantly affected by the hostilities. Because of the combination of growing municipal expenditures and scarce resources the capacity of the municipalities to deliver basic services to the vulnerable population has been seriously compromised. The impact on the lower tier of government is being assessed to fully understand the negative implications on local government performance.

2. Objectives

2.1 The objectives of the additional financing grant are to (i) restore basic services and rebuild priority public infrastructure in the affected municipalities and villages¹, (ii) support local economic recovery and development in the municipalities that have suffered the heaviest damage, and (iii) provide technical assistance to and build the capacity of municipalities to mitigate the impact of the hostilities on municipal finances (within the broader context of developing the municipal sector). In pursuit of these objectives, the grant finances three components.

2.2 **Component 1: Reconstruction of Public Infrastructure (US\$18.0 million).** This component finances the reconstruction of priority public infrastructure destroyed or damaged during the hostilities in about 165 municipalities not supported by other donors. Sub-projects consist of, but are not limited to, urban roads, sidewalks, retaining walls, street lighting, water and sewerage networks, municipal buildings and ICT equipment.

2.3 **Component 2: Municipal Recovery and Development (US\$9.0 million).** This component provides assistance to build new municipal infrastructure in order to help revive the local economy. Among others, it finances market places, access to public facilities, site and services schemes, and the upgrading of service delivery systems and related equipment. The grant supports development-oriented sub-projects in about 10 to 15 municipalities that (i) receive reconstruction assistance from other donors and (ii) show the highest potential to become growth centers for the regional economy.

2.4 **Component 3: Project Management and Capacity Building (US\$3.0 million).** This component supports the following activities: (i) project management and technical assistance for implementing the additional financing grant, and (ii) capacity building for increasing local revenues and improving transparency in the management of intergovernmental transfers and financial flows between the central government and the municipalities.

3. Rationale for Bank Involvement

3.1 Considering the FMIP's demonstrated implementation effectiveness and quality of assistance to the municipalities, the Ministry of Interior and Municipalities (MOIM) requested supplemental financing from the Bank in early 2006 to expand the geographic scope of the

¹ The municipalities located in Beirut's southern suburbs would be excluded from this grant as they are expected to benefit from a comprehensive and integrated urban development program to be financed under an alternative scheme.

project. The recent hostilities necessitated a reorientation of the envisaged additional financing, focusing on replacing lost municipal assets, restoring basic services and re-launching economic activity in mostly in those conflict-affected municipalities and villages that do not benefit from the financial support of other donors. The FMIP’s tested mechanisms, procedures and capacities are considered the most suitable operational vehicle to rapidly address these unforeseen needs. The duration of the grant is about three years.

4. Financing

Source:	(\$m.)
Borrower	0
Special Financing (Trust Fund for Lebanon)	30
Total	30

5. Implementation

5.1 The implementation arrangements for the grant are aligned with the provisions established under the FMIP. The core principles include: (i) a demand-driven construction program based on well identified needs by the municipalities and villages; (ii) simplified approval and efficient implementation procedures; and (iii) compliance with FMIP eligibility criteria as well as its fiduciary, environmental and social safeguards.

5.2 The allocation of the grant proceeds varies between Components 1 and 2. Under Component 1, the funds are apportioned among the affected municipalities and villages according to the level of recorded destruction. Under Component 2, funds are provided primarily to the medium size cities with the highest potential to become growth centers for the regional economy; the selection of the sub-projects is made according to the projected overall economic growth impact.

5.3 The MOIM is responsible for project execution through the existing Project Coordination Unit (PCU). The PCU is tasked with all aspects of project management. It prepares quarterly and annual reports as well as a mid-term review and an implementation completion report. In order to meet the unexpected and significant needs in the conflict-affected localities effectively, the implementation capacity of the PCU and of the Directorate General of Municipal Administration (DGMA) in the MOIM requires strengthening, the latter with specific emphasis on coordination and monitoring of the reconstruction effort.

6. Sustainability

6.1 While the FMIP does not aim to develop a full-fledged long-term strategy for the municipal sector, it has succeeded in setting the stage for the gradual assumption of responsibility for municipal services and for promoting sustainable management practices at the local level. The ratio of government transfers to municipal revenues dropped from one-half to almost one-third, indicating improved financial sustainability. The capacity building activities have helped develop, implement and maintain an infrastructure rehabilitation program, including support for preparing feasibility studies, tender documents, sub-project technical designs and supervision, and maintenance programming. Moreover, significant progress has been made in

carrying out the complex studies on strengthening the MOIM to better coordinate the municipal sector and on completing the review of the economic potential of ten cities to promote local development. As such, this additional grant financing builds on these successes and continues to strengthen municipal capacity in response to the emergency situation.

7. Lessons Learned from Past Operations in the Country/Sector

7.1 The FMIP and previous operations have encountered challenges in terms of the statistical information available at the national level which is limited with regard to municipalities and villages. Allocation criteria and monitoring indicators have, therefore, been designed to ensure the efficient use of the grant resources and maximize the number of beneficiaries. These provide the MOIM with a management tool that facilitates the achievement of the project objectives. Furthermore, in response to past experiences, the additional financing grant places special emphasis on developing national and local capacity for policy formulation and project implementation, respectively.

8. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

9. List of Factual Technical Documents

1. War Damage Assessment and Restoration Program - Preliminary Damage Assessment Report (Prime Minister's Office), August 31, 2006 (confidential)
2. List of Municipalities Supported by Bilateral Donors (Prime Minister's Office), October 10, 2006
3. List Municipalities Eligible for Municipal Infrastructure Reconstruction Assistance (Prime Minister's Office), October 10, 2006
4. Municipal Infrastructure Damage Database (Ministry of Interior and Municipalities – FMIP Coordination Unit)
5. Municipalities' Damage Reports (Ministry of Interior and Municipalities – General Directorate of Municipal Administration)

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

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