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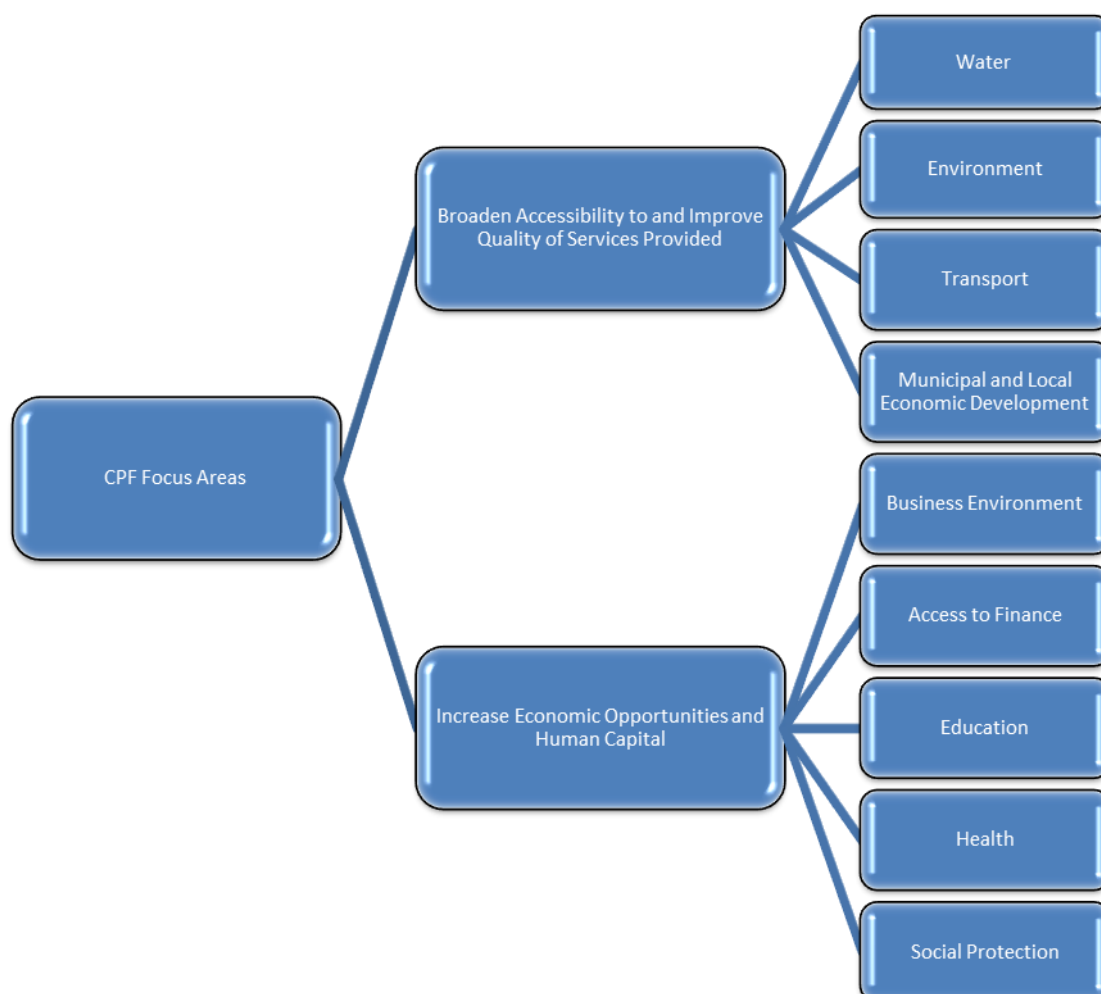
Lebanon is a small country, housing different cultures, religions and political parties, with a population of around 4.5M people. Lebanon's diverse composition resulted in the country being a channel of socio-political freedom in times of serenity, and a catalyst worsening problems during regional and international conflicts.

Its economic growth has been substantially less than a potential of 2.5%, at 1.5% in 2015. Fiscal policy has been unproductive and inefficient, with the Syrian crisis exacerbating fiscal costs by an estimated \$2.6B (\$1.1B in lost revenues and \$1.5B in increased expenditures) over the period 2012-2014. Public debt has been on the rise, with debt-to-GDP ratio being the highest in the world at 148.7% at the end of 2015.

Due to the rise of the Arab Spring and the war in Syria, the World Bank Group (WBG), with the help of other international institutions, initiated a new six-year program, the Country Partnership Framework (CPF), covering fiscal years 2017 to 2022, to support the Lebanese economy that has been impaired by the political and regional mayhems. Lebanon is considered to be providing the world with a public good by accommodating the largest per capita number of refugees in the world.

The CPF's main goal is to alleviate the spillover effects from the Syrian crisis, by tackling the major challenges that hinders the development of the Lebanese economy. The CPF sheds attention on achieving two major matters: broadening the accessibility to and improving the quality of services provided, and increasing economic opportunities and human capital. In specific, the International Finance Corporation (IFC) will continue to back the private sector and to create job opportunities.

Country Partnership Framework's Goals



Source: World Bank

The first focus area, broadening the accessibility to and improving the quality of services provided, will be addressed by improving Lebanon's infrastructure, which in some cases will be done by encouraging private sector participation .

First, the WBG, with the Ministry of Energy and Water and Regional Water Establishments, the Council for Development and Reconstruction, and Ministries of Environment and Agriculture, will work on improving water supply services in Greater Beirut. Alongside the ongoing Greater Beirut Water Supply Project (\$200M loan) and the Water Supply Augmentation Project (\$474M loan), the Bank will be also working on the implementation of the National Water Sector Strategy. These projects, which are financed by the World Bank, would lead water supply in Lebanon to be buoyant against impacts of climate change.

Reducing pollution, which results in around \$700M of costs to the Lebanese economy, is another point on the WBG's agenda, with water pollution being the most critical. The Bank has already reinforced the development of environmental regulation. Moreover, the Bank is working on reducing industrial, hazardous and wastewater pollutions through the Environmental Pollution Abatement Project (\$15M), the PCB (Polychlorinated biphenyls) management in the Power Sector, and the proposed Lake Qaraoun Pollution Prevention Project (\$55M loan, under preparation). Meanwhile, the

IFC is working with local banks to promote sustainable energy finance that would decrease demand for fossil fuels.

The third objective consists of improving the transportation services. Poor road condition, traffic congestion, high transport costs and the lack of a reliable and safe public transport in Lebanon are undermining private investments and trade competitiveness. With the help of the IFC to include private participation, the WBG will fulfill the Lebanese government's urgent request of designing and implementing a Bus Rapid Transit (BRT) project. In addition, a project to rehabilitate roads in rural areas will be implemented. This project will create employment for Lebanese and Syrian refugees.

The last target to fulfill the first focus area is improving capacity of central and local governments to provide basic services to communities hosting Syrian refugees and stimulating economic development at the local level. The Municipal Services Emergency Project, financed out of the Lebanon Syrian Crisis Trust Fund, is providing funds directly to the communities hosting Syrian refugees for small-scale investments. This project boosts the capacity to supply local services in a sustainable manner, strengthening municipal service delivery.

As for the second focus area, increasing economic opportunities and human capital, it would be achieved by improving private investment environment, access to finance, and the education services.

Many constraints have impeded job creation and poverty reduction in Lebanon such as mismatch between the labor demanded and supplied, a dysfunctional investment environment, and lack of financial inclusion.

Hence, the WBG will address these hurdles through policies and programs, with a focus on the private sector that is the main motor for job creation.

To improve the private investment environment, the World Bank and the IFC advise the government on developing the Tripoli Special Economic Zone, and other potential industrial and special economic zones that could serve to promote job opportunities. Moreover, the World Bank and the IFC would also engage in financing needs by crowding in the private sector through Private-Public Partnership arrangements .

These private-sector-led job creation initiatives will continue to be complemented by selective technical assistance and advisory services that foster increased firm entry and growth through targeted regulatory and institutional reforms.

Additional efforts by IFC and the Bank will aim at enhancing credit infrastructure to improve access to finance through the development of modern and predictable insolvency regime, developing a comprehensive, reliable and innovative credit reporting, and promoting movable assets as collateral for loans as a means to increase access to finance options for smaller firms.

On another note, the Bank is also providing technical assistance to the Directorate of Land Register and Cadastre with a view to linking land registry and Cadastre records with other public geospatial datasets. This will reduce discretionary practices in the management of land and natural resources and reduce subjectivity around property valuation and taxation.

Another objective the WBG seek to attain to increase human capital is ameliorating access to finance and financial inclusion. Specific activities include an ongoing loan, from the International Bank for Reconstruction and development, targeting the provision of early seed equity capital to start-up and young enterprises with potential to grow. The project is complemented by a small matching grant facility to strengthen the business ecosystem, supporting start-up businesses. In addition, the WBG is providing technical assistance and advisory services to: (i) develop the capital market capacity through regulatory reform, institutional strengthening of the Capital Market Authority, including supervision of

corporate financial reporting, as well as support to diversify capital market products; (ii) strengthen financial sector architecture through passage of secured transactions and insolvency laws; (iii) continue partnering with the Lebanese Association for Certified Public Accountants to strengthen the professional accountancy body and to support accountancy and auditing reforms; and (iv) further develop the security and inclusiveness of the national payments system.

The World Bank Group will also be piloting initiatives to test out new instruments that can broaden access to financial services. This includes the proposed Subsidized Temporary Employment Program ("STEP"), whose objective is to trigger private sector business expansion, conditional upon the creation of formal jobs.

In addition to these financial sector interventions, IFC will look to further strengthen its existing client relationships in the financial sector by employing targeted instruments such as risk sharing facilities and traditional funding lines, as well as providing risk management and capacity building support. IFC will also tap into the private equity space and seek to facilitate expanded access to finance through investments in funds that target real sector firms to support job creation. IFC will continue its support to microfinance institutions and take a targeted approach to increasing access to finance and non-financial services for very small enterprises, women, and other disadvantaged Lebanese communities, as well as refugees residing in Lebanon when feasible to do so. This will include an exploration of possible investment opportunities in non-banking financial institutions, including microfinance and leasing, in order to address issues of financial inclusion, particularly for vulnerable groups, as well as to mitigate the effects of climate change through sustainable energy finance products.

Such interventions will help increase opportunities for better job and livelihood opportunities for Lebanese citizens and refugee populations, thus mitigating risks of elevated level of socio-economic stress within Lebanon. In addition, the WBG has developed a strong dialogue with the Central Bank, to follow up work on capital market and national payments system reform.

Developing education and skills is another prerequisite needed to improve labor market in Lebanon. However, this prerequisite has been worsened by the Syrian influx to Lebanon, which is putting enormous pressure on the Lebanese public education system.

In response to the high number of Syrian refugees in Lebanon, the Government launched the Reaching all Children with Education (RACE) initiative, which has succeeded in increasing the number of Syrian students in formal education from 18,935 in 2011/12 to 141,722 in 2015/16. Nonetheless, this seven-fold increase has strained the formal education system's ability to maintain both the quality of the education system and the level of access for Lebanese students. The success of RACE and the need for additional support led to the development of a longer-term system-level strategy to increase both access and quality, RACE II. The Bank, along with other partners, is supporting RACE II with a view to providing equitable access to quality education services to Lebanese and refugee children. Specifically, a \$235M Program-for-Results is currently under preparation and will help expand equitable access to schooling, improve conditions for learning, and strengthen management of the education system. It is expected that efforts under the RACE II initiative will minimize the short and medium-term costs of displacement for refugee families while strengthening the long-term capacity of the Lebanese education system to prepare children for life and work once regional stability returns.

In addition to supporting the Government's RACE II program, the World Bank is supporting improved teaching quality and learning environments in general education and pre-school as well as improved governance and managerial capacity within the sector through the ongoing Second Education Development Project (\$40M approved in FY11). The Bank also extended an emergency grant (\$32 million) in FY15 to support the Government's immediate response to the Syrian refugee influx and the need for schools to expand access to this population .

Another important feature of the Bank's engagement is work on improving data collection with a view to creating a comprehensive data tracking system. This will lead to greater transparency of education expenditures and learning outcomes, thereby enabling decision makers and the public to make informed choices about public resource allocations and reducing opportunities for elite capture .

Finally, WBG's support seeks to transform education and training systems to produce educated, skilled and productive citizens. IFC will explore opportunities for partnering with domestic or regional education providers, building on its past experience in supporting SABIS International School in Lebanon.

On the skills development side, the WBG has a number of ongoing engagements that provide life skills and on-the-job training for youth. The CPF will facilitate labor market entry for unemployed youth through employment services combining life skills training, job search techniques, counseling, practical on-the-job training, and incentives for employers through the New Entrants to Work Program and the National Volunteer Services Program. These engagements will be complemented by employment services interventions targeting the youth, to help them connect to jobs by facilitating labor market transitions from inactivity or unemployment into jobs, or from low to high productivity jobs. The Bank will incorporate a key skills development component – designed and implemented in close collaboration with the Lebanese government and the private sector - to close skills gaps and demand and supply mismatches in the labor market. Leveraging its network of banks and microfinance institutions, IFC will explore opportunities to expand provision of non-financial services (training, mentoring and other skills development activities) to underserved Lebanese citizens and, potentially, refugee communities.

Meeting these two major focus areas also requires the World Bank to strengthen financial institutions, improve data availability, and contribute to the policy reforms.

The outcomes targeted by this framework are subject to various political, security, and economic risks, in addition to risks pertaining to institutional capacity and program implementation. The delicate political and regional security environment is the most substantial risk that might hinder the ability to attain the CPF objectives.

Furthermore, sizable macroeconomic imbalances expose the country to considerable risks. The Lebanese economy's dependence on the declining capital inflows to finance its current account deficit, led to deterioration in the country's net foreign asset position. In addition, increasing expenditures and decreasing revenues are increasing the fiscal deficit and broadening public debt.

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