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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 22-Jun-2023 | Report No: PIDISDSA36477

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Lebanon	P180334	Lebanon: Green Agri-food transformation for economic recovery (GATE)	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	08-May-2023	28-Jun-2023	Agriculture and Food
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	The Lebanese Republic	Council for Development and Reconstruction	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve the resilience of farmers and Small and Medium Enterprises (SMEs) in the Lebanese agri-food sector.

Components

Climate Smart Investments in Agri-food Value Chains
Climate-Smart Infrastructure and Services for Agri-Food Sector Development
Improving the Enabling Environment and Restoring Support Services for Agri-food Sector Development
Project and Knowledge Management
CERC

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	210.00
Total Financing	210.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00
Non-World Bank Group Financing	
Commercial Financing	10.00
Unguaranteed Commercial Financing	10.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Lebanon is impacted by a devastating multi-pronged crisis, erasing 15 years of economic growth.** With a total population of 6.77 million (2021)[1], Lebanon hosts the highest per capita concentration of refugees in the world, including 1.5 million displaced Syrians[2] (879,598 of whom are registered as refugees with UNHCR[3]) and 257,000 Palestinian refugees. The economic and financial crisis that started in 2019 has been exacerbated by the COVID-19 pandemic, the devastating Port of Beirut explosion in August 2020, and, more recently, the food security shock and oil price hike due to the war on Ukraine. Nominal GDP has plummeted from nearly US$ 52 billion in 2019 to an estimated US$ 23.1 billion in 2021. Real GDP contraction for 2021 is estimated at seven percent. The Lebanese pound has lost around 98 percent of its value since 2019 with the unofficial exchange rate exceeding 100,000LBP/US$ on March 15, 2023. The sharp devaluation of the currency continues to drive surging inflation, in triple digits since July 2020, impacting the poor and vulnerable the most. Year-on-year inflation averaged 150 percent in 2021, climbing to 218 percent in the first half of 2022 (reaching a peak of 240 percent in January 2022).[4]

2. **The adverse shocks facing the country have driven a considerable share of the population into poverty and vulnerability to food insecurity.** Pre-crisis data from the 2018-2019 Labor Force and Household Living Standards Survey in Lebanon found that close to 26 percent of households considered themselves to be either poor or extremely poor. The 2019 Multidimensional Poverty Index (MPI)[5] for Lebanon reveals that 53.1 percent of the residents in Lebanon are poor, with the highest incidence among children aged 0-4 years, at 66.8 percent. The economic crisis and inflationary pressure, exacerbated by

[1] Lebanon Economic Monitor, Fall 2022. Population of Lebanon includes Syrian refugees residing in Lebanon. As of 2021, the population of Lebanon is 6.77 million.
[2] "Displaced population" refers to those who were forced to flee their country due to violence and unsafety and sought refuge in another country. "Refugee" refers to displaced people who are registered in the country of asylum and are legal residents with proper documentation. This differentiation was originally made by the Lebanese government.

[3] UNHCR, Lebanon Factsheet, 2020.
[4] Lebanon Economic Monitor, Fall 2022.
[5] The CAS together with the World Bank have issued in March 2022 the first official MPI for Lebanon using the nationally representative 2018-2019 Labor Force and Housing Living Conditions Survey. The index is derived from 20 indicators across five dimensions which are education, health, financial security/well-being, basic infrastructure, and living standards.

the rise in global food prices, have led to high food inflation reaching 332 percent in June 2022. Water and fuel prices had risen to 594 percent compared to July 2020, while the overall consumer price index had shot up to 210 percent.[6,7] Phone surveys conducted in June–July 2021 found that 46 percent of households reported challenges in accessing food.[8] According to the first Integrated Food Security Phase Classification (IPC) acute food insecurity analysis, 37 percent of the population are living with acute food insecurity, with over 306,000 people facing a severe lack of access to food that threatens the possibility of starvation (September-December 2022). This estimate was expected to increase from 37 to 42 percent for the first quarter of 2023 — including 354,000 in IPC Food Security Classification Phase 4 —for the first quarter of 2023 if action is not taken.[9]

3. **The crisis is causing a breakdown of basic public services and infrastructure.** Prolonged political instability and administrative dysfunction have severely hindered the effective planning, implementation, and maintenance of essential government functions and related infrastructure assets. An almost total absence of public funding interrupted service delivery and threatens to cause irreversible damage to public infrastructure assets through lack of maintenance and abandonment. For example, water sources are experiencing devastating contamination as only eight percent of wastewater is being treated up to secondary and tertiary levels and only 16 percent of the available wastewater treatment capacity is operational. This situation persists despite significant recent investments in the sector (with international support) having created sufficient modern treatment capacity, which is now degrading due to lack of use and unsustainable emergency stop-gap measures to maintain service.

4. **The magnitude of the crisis has also led to the insolvency and full paralysis of the banking sector and the interruption of financial intermediation.** In 2019, deposit inflows to finance the country's large current account and fiscal deficits stopped and came to a reversal. The Government of Lebanon defaulted on a Eurobond repayment in March 2020 and suspended the payment of the rest of its outstanding US$ 31 billion in Eurobonds, triggering a severe financial crisis. The size of the balance sheet and associated losses in the financial sector are colossal, with financial losses exceeding US$ 72 billion[10], equivalent to more than three times the GDP in 2021. In October 2019, an unofficial capital control was imposed to restrict depositors from transferring or withdrawing their funds. From June 2021 Banque du Liban (BdL) has formally allowed for a gradual withdrawal of deposits, a lirafication[11] scheme that has resulted in 60–80 percent haircuts on deposits. The credit portfolio has further contracted by US$ 4.4 billion as of end-July 2022, bringing the total credit contraction to about 53 percent since the beginning of the crisis in 2019. Credit performance as measured by Non-Performing Loans (NPL) Ratio for banks has sharply deteriorated since 2019 to reach around 60 percent in 2022. Lending from BdL has allowed Lebanese commercial banks to pay off liabilities to correspondent banks to retain linkages to the global financial system. Correspondent banks have cut exposures to Lebanese banks by about half over the past three

[6] World Bank, Lebanon Economic Monitor (Fall 2022).
[7] Central Administration of Statistics, June 2022.
[8] Phone surveys conducted by the World Food Program in cooperation with the World Bank. Source: World Bank (2021). Lebanon Economic Monitor.
[9] IPC: Lebanon: Acute Food Insecurity Situation September - December 2022 and Projection for January - April 2023. https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Lebanon_Acute_Food_Insecurity_Report_Dec2022.pdf.
[10] Lebanon Economic Monitor, Fall 2022.
[11] "Lirafication" describes a policy that allows commercial banks to return USD deposits in Lebanese pounds, also known as Lebanese lira, at an exchange rate determined by the Central Bank.

years, while tightening the terms on the remainder, mainly trade lines with 100 percent cash collateral.

5. **Unemployment rates, including the gender gap in labor force participation, have increased dramatically since 2019, driving job seekers into informality in sectors such as agriculture.** The unemployment rate increased from 11.4 percent in 2018-2019 to 29.6 percent in January 2022, and the youth unemployment rate (15–24 years old) increased from 23.3 percent in 2018-2019 to 47.8 percent in January 2022. Employment to population ratio decreased drastically from 43 percent in 2018-2019 to 31 percent in 2022. The gender gap in Labor Force Participation (LFP) stands at 44 percent, with female LFP at 22.2 percent versus a male LFP at 66.2 percent. The share of workers with informal jobs increased from 55 percent in 2018-2019 to 62 percent in 2022. The sectors with the highest share of informal employment are Agriculture, Fishing, and Forestry, accounting for 98.1 percent. [12]

6. **The crisis is disproportionately affecting lagging and under-served rural areas.** Existing disparities across urban and rural areas, as well as between rural areas have been accentuated by the crisis. The poorest areas —Baalbek-Hermel, Akkar, and the South — have seen disproportionate declines across a range of socioeconomic indicators. The unemployment rate has increased in every governorate without exception. According to the January 2022 Labor Force Survey, the largest increase in unemployment was observed in Baalbek-Hermel (a staggering 30 percentage points, from 11 percent in 2018-2019 to 40.7 percent in January 2022), followed by South-Lebanon, where the rate increased by 24 percentage points, from 12.3 percent in 2018-2019 to 36.5 percent in January 2022.

Sectoral and Institutional Context

7. **Despite the severe impact of the crisis on economic activity, the agri-food sector continues to generate livelihoods and income for a large share of the poor.** It is estimated that approximately 20 percent of Lebanese households generate primary or secondary income from the broader agri-food sector, with agribusiness as the largest industrial sub-sector of the economy. Agri-food businesses account for the largest share (26 percent) of industrial establishments in Lebanon, with around 1,245 businesses involved in agri-food. The agri-food sector accounted for over 17 percent of total exports in 2020 (or US$ 0.7 billion on average between 2014 and 2020). Lebanon's agri-food exports increased by 51 percent to US$ 949 million between 2019 and 2021, primarily driven by a surge in fruit exports, especially grapes.[13] Although domestic agri-food production satisfies only 20 percent of local demand, it contributes the largest share to livelihood generation for poor segments of society and is concentrated in the poorest areas. Similarly, the tourism sector (7.7 percent of GDP as of 2017) continues to generate growth in 2021, and a significant share of this activity is concentrated in rural areas. Agri-tourism is at a nascent stage and creating an enabling environment for the development of sustainable agri-tourism can diversify the rural economy.

8. **Lebanon offers a range of agroecological zones well suited to the production of diverse agricultural products and with potential for exports.** There are five distinct agro-climatic zones, including the coastal strip, low and middle altitudes of Mount Lebanon, West, Central and North Bekaa. The most fertile and productive lands are in the Bekaa Valley, the Plain of Akkar and the thin strip of coastal plains. Mountain agriculture is characterized by small holdings sustaining poor farmers and many households for whom agriculture is a secondary source of income. Agriculture in the coastal plains is dominated by permanent crops (e.g., citrus and banana), while the plains of Akkar and Bekaa Valley are dominated by

[12] Lebanon follow-up Labour Force Survey January 2022. https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_848353.pdf

[13] IDAL (2020b). Agriculture Sector in Lebanon - 2020 Factbook.

cash crops (potatoes and vegetables). Crop production represents about 60 percent of agricultural output, while livestock production accounts for 40 percent and contributes a critical year-round source of livelihood.

9. **Lebanon has a revealed comparative advantage for vegetable, fruit, nuts, and other high-value agriculture products, with fruit and vegetable production also representing an important segment of Lebanon's agribusiness sector.** Lebanon's top five categories of agricultural and food exports by value include preparations of vegetables, fruit, or nuts; edible fruits and nuts; beverages, spirits, and vinegar, miscellaneous edible preparations, and animal or vegetable fats and oils. Lebanon has a significant comparative advantage for exporting high-value agri-food products to premium markets thanks to its agri-climatic conditions and favorable trade agreements with Europe and the Gulf Cooperation Council (GCC). According to the International Trade Centre, the untapped agricultural and agri-food export potential exceeds US$450 million, with 65 percent coming from fruits, food products, and vegetables. Expanding agri-food exports can increase much-needed foreign currency inflows. Increasing local production offers opportunities for import substitution. This can be achieved by supporting small producers and Small and Medium Enterprises (SMEs) to comply with stringent food safety, quality, traceability, labeling, and environmental sustainability requirements imposed by high-value export markets.

10. **The agri-food sector, however, is facing severe challenges posing threats to food security and rural livelihoods, and leaving the sector unprepared to face climate change:**

11. **Local agricultural production is severely impacted by the global rise in fertilizers and fuel prices, compounded by the foreign exchange crisis and poor access to electricity.** Increases in production costs are undermining the viability of agriculture and threaten to diminish the contribution of local production to food security. According to a survey of agricultural households carried out in July and August 2022 by FAO, over 80 percent of crop producers faced production difficulties, with the most frequent being access to fertilizers (72 percent) and pesticides (59 percent). High food and fuel prices were the most common shocks cited (90 percent and 87 percent, respectively), a significantly higher share than reported in previous rounds conducted in late 2021 and April 2022. Small and medium-sized farmers relying only on farming income have been particularly affected by the increase in the prices of inputs, processing, and packaging materials with farmers reducing input application, or substituting with lower quality inputs, leading to lower marketable production and incomes and environmental pollution. Moreover, poor access to electricity and increasing energy costs jeopardize business operations. Renewable energy is an attractive alternative solution for businesses and could help reduce their costs. However, farmers and businesses are unable to invest in such solutions given their limited access to finance.

12. **Lebanese farmers and agri-food SMEs lack the necessary access to finance to sustain their operations and invest in sustainable, climate smart and efficient production.** Since the beginning of the crisis in 2019, access to finance has severely deteriorated and become virtually impossible. Farmers and businesses are unable to finance their operations as banks and financial institutions imposed strict restrictions on transfers outside the country, suspended unused credit facilities, and restricted withdrawals from own US dollar accounts. According to a rapid firm level survey implemented by the World Bank in November 2021, 3 out of 4 firms reported a decrease in liquidity at least once between October 2020 and October 2021; around 3 out of 5 firms did not have any access to finance; the share of firms that relied on banks or financial institutions to finance their liquidity shortfalls dropped to 2 percent

in October 2021. Even before the financial crisis, most Lebanese farmers had little or no access to capital. It was estimated that agriculture represented only about 1 percent of total credit before the crisis. The high costs of small loans and the inability of most small-scale farmers to provide collateral have long dissuaded the country's commercial banks from lending to the agricultural sector and/or led them to demand high interest rates. Lebanese farmers used to rely on informal credit arrangements from input suppliers to obtain seeds, fertilizers, and other imported inputs. With the depreciation of the Lebanese pound and the restriction to access deposits and hard currency, those informal arrangements have dwindled. Currently, farmers and businesses are even more cash-strapped than before the crisis; they are unable to finance working capital, import raw materials, invest in renewable energy sources to maintain production capacity, maintain their workforce, and even have basic solvency.

13. **Weak value chain integration, lack of aggregation and poor food safety limit economies of scale and reduce competitiveness**. The small size of agricultural land parcels (87 percent of farming households in Lebanon are small-scale, i.e. less than two hectares) constrains horizontal and vertical linkages across value chains and the lack of access to post-harvest facilities and services reduces competitiveness and the bargaining power of smallholders. Currently, there are around 900 cooperatives in Lebanon, out of which 60 percent are in the agriculture sector. Their capacity varies tremendously, with some inactive, others weak and few strong. Stronger cooperatives are also acting as service providers to their own members, and more importantly to a much larger group of farmers in their region who use the cooperative's equipment to process their agriculture production. A modern Food Safety Law (FSL) was adopted in 2015 but it is not enforced, and the national food safety system still requires substantial strengthening. The public institutional structure for food safety is lacking efficiency. Based on the FSL, a Food Safety Lebanese Commission (FSLC) should be established to hold numerous responsibilities. However, the FSLC is not operational, food safety is administrated by different agencies on national and local levels and the institutional structure remains unclear. These factors limit access to international markets and decrease the competitiveness of Lebanese agricultural products, both locally and internationally. The untapped potential of the agri-food sector can be achieved by addressing the sector's fragmentation, facilitating farmers' aggregation[14] and ensuring that export-oriented products are standardized, quality-controlled and certified.

14. **The breakdown in public service provision is threatening the sector's viability, with water and soil quality or basic rural road connectivity quickly deteriorating.** Service disruptions are disproportionally affecting rural areas as scarce resources are concentrated in dense urban areas. Irrigation schemes are falling into disrepair. Several otherwise functional irrigation schemes are currently unusable due to contamination from untreated wastewater, and results of water quality tests of aquifers are similarly alarming. The National Water Sector Strategy of 2021 indicates that only 7 percent of the wastewater in Lebanon is treated, and open discharge of untreated domestic wastewater is the main source of surface water contamination. An assessment of public and private solid waste management (SWM) facilities revealed that 92 percent of the waste is not being treated in existing SWM facilities leading to significant increase in illegal open dumps that cause toxic pollution of agricultural soils, water sources and pose grave public health risks. Key road networks to market agricultural products often remain unusable due to the public sector's inability to undertake basic minor repairs.

[14] Based on a review of Bank experience with facilitating farmers' group organization and linking them to offtakers it is possible to reach sales increase of 20 to 60 percent, about 30 percent higher than in the control groups.

15. **Three quarters of Lebanon's arable land area is irrigated, consuming 56 percent of total water supplies.** Agricultural water needs are projected to increase from 842 million m^3/year in 2020 to 927 million m^3/year in 2035. Smaller canal-based irrigation schemes commanding less than 100 hectares are in dire need of rehabilitation and upgrading to meet the needs of modern field irrigation systems such as drip and micro sprinklers. Keeping canals free from discharge of untreated wastewater and widespread solid waste disposal remains a major challenge. A recent study estimated that the Litani River Basin receives around 40,000,000 m^3 of wastewater a year due to the lack of sanitation infrastructures in the river basin's villages, thus leading to higher pollution levels than the permissible WHO norms for consumption and irrigation (this included significant microbial and chemical contamination).[15] The National Water Sector Strategy 2020-2035 foresees that if water systems are not optimized and properly managed the country will witness severe water shortage (see Figure 2). [16]

16. **Climate change exacerbates the vulnerability of the agri-food system through impacts on the scarce water and land resources, calling for the adoption of climate-smart agricultural practices.** The combined impact of climate change, including temperature increases (by up to 1.7 °C and 3.2 °C) and precipitation decreases, will reduce water and soil availability and quality. As the single largest consumer of water, the agricultural sector has a comparably high vulnerability. Climate change will also increase the incidence of pests and diseases. Extreme events, such as flooding of roads, will also disrupt the processing of perishable goods. Coupled with Lebanon's low adaptive capacity, projected climate change will exacerbate existing vulnerabilities by limiting growth in key productive sectors, especially in the agricultural sector. According to Lebanon's 4th national communication to the UNFCCC, the direct annual economic losses from damages caused by climate change and/or related disaster to the agricultural sector were estimated at US$ 605 million in 2018.[17] Generally, floods are considered the most damaging to the sector, with high annual financial losses (US$ 330 million in 2018), casualties, loss of animals and destruction to agricultural lands. In recent years, extreme weather events in Lebanon have resulted in damage to agricultural yields and affected the livelihood of a significant portion of the Lebanese population that works in the agricultural sector. To mitigate the impacts of climate change, increased adoption of climate smart and green practices is required.

The employment conditions in rural areas and in the agri-food sector are often poor. The sector is characterized by high levels of informality, especially among low-skilled daily workers, lack of knowledge about or access to adequate social protection, and poor Occupational Safety and Health (OSH) measures. Given the seasonality of farm labor, workers tend to work for multiple employers, further increasing the risk of labor rights violations. Workers in the agriculture sector, many of whom are women, are excluded from coverage under the national Labor Law (as per Article 7) as well as from the National Social Security Fund. Unfavorable working conditions and low wages also limit youth employment.[18] Climate risks will

[15] Nada Nehme and Chaden Haidar (2018), "The Physical, and Chemical and Microbial Characteristics of Litani River Water" in "The Litani River, Lebanon: An Assessment and Current Challenges", Water Science and Technology Library, Volume 85, 2018.

[16] file:///C:/Users/wb427831/Downloads/NWSS%20update%20FINAL%20221220.pdf

[17] MoE/UNDP/GEF (2022). Lebanon's Fourth National Communication to the UNFCCC. Beirut, Lebanon. See https://www.undp.org/lebanon/publications/lebanons-4th-national-communication-climate-change

[18] Farmers and agricultural operators in Lebanon tend to be older adults, and this population is ageing. In Lebanon, the average agricultural operator was approximately 52 years old, while female agricultural operators were an average of 55 years old. Younger adults under the age of 35 represented only a minor share (11.1 percent) of all operators and operated a similar share of the total utilized agricultural area (12 percent). The figures are more extreme for farmers under 25 years, who comprise only 2 percent of agricultural operators and use 1 percent of

also disproportionately impact the poorest communities further exacerbating an already sensitive balance and further degrading income and employment opportunities in rural areas. Child labor remains a significant concern.

17. **Various challenges and barriers affect women's economic involvement in agriculture in Lebanon.** Around 75 percent of women working in the agriculture sector are recruited as seasonal workers and are not eligible for social security or basic social protections, leaving them vulnerable to exploitation.[19] In Lebanon, women and girls are paid less than half of what men are paid per day for their work in the sector[20]. Based on the 2010 Agriculture Census, only 9 percent of farms were owned by women, and only five percent were cultivated by them[21], who primarily work in dairy production, subsistence farming, and food preservation.[22] Most of the land cultivated by women is fragmented and smaller than that cultivated by men.[23] There are significant differences in terms of women being able to access productive resources: a mere 13 to 15 percent of Lebanese women could access irrigation sources and agricultural inputs.[24] Consequently, women may participate less in decision-making processes and have less access to extension and marketing services, adequate farm inputs, and technologies as compared to men. Women are often left with inadequate access to financial services due to limited income (subsistence agriculture), lack of collateral (land ownership), or other sociocultural constraints.[25] Very few to no women have access to necessary equipment and tools, as well as information on best agricultural practices, or business support and rural incubators.[26,27]

18. **Beyond the urgent need to help rural producers cope with the current crisis, there is a need to support the transition from emergency support to short- and medium- term sector development by building resilience and competitiveness of the agri-food sector**. The World Bank has provided emergency support through (a) the Emergency Crisis and COVID-19 Response Social Safety Net Project (P173367) by financing transfers to vulnerable communities, (b) the Wheat Supply Emergency Response Project (P178866), which ensures affordable access to Arabic bread, and (c) the Emergency Farmers' Support component under the Roads and Employment Project (P160223) which provided input vouchers support for vulnerable farmers, and conducted animal vaccination support. The international community has been providing in-kind grants for inputs, materials, and machinery, capacity building, and technical assistance for smallholders as well as local stakeholders and cooperatives. The majority of financing has an emergency nature, is small-scale, fragmented, and lacks coordination. In the short and medium term there is an urgent need to restore public services and infrastructure and to facilitate access to finance.

the total agricultural area (Lebanese Ministry of Agriculture 2012).
[19] ILO (International Labor Organization). 2018. Care Work and Care Jobs: For the Future of Decent Work. Geneva: ILO.
[20] In Lebanon, women and girls are paid less than half of what men are paid per day for their work in the sector. According to an ILO study, the average monthly income for women in agriculture in Akkar was $130-$200 per month, compared to $660-$990 per month for men. ILO (International Labor Organization). 2018. Potential Opportunities for Women's Economic Empowerment - Potato and Leafy Green Vegetable Value Chains - Akkar, Northern Lebanon. Beirut, Lebanon
[21] FAO (Food and Agriculture Organization). 2021. Briefing note: Role of women in agriculture in Lebanon. Beirut, Lebanon.
[22] Fair Trade Lebanon (2022). *Project Implementation | FTL | Fair Trade Lebanon*. [online] www.fairtradelebanon.org. Available at: https://www.fairtradelebanon.org/en/expertise/project-implementation
[23] FAO (Food and Agriculture Organization). 2012. Lebanon Country Programming Framework 2012–2015. Beirut, Lebanon
[24] Fair Trade Lebanon (2022). *Project Implementation | FTL | Fair Trade Lebanon*. [online] www.fairtradelebanon.org. Available at: https://www.fairtradelebanon.org/en/expertise/project-implementation
[25] https://lebanon.unwomen.org/sites/default/files/2022-12/UNW%20WomensVoicesAgri%20A4%20Report%20Web.pdf
[26] Women's Voices in Agriculture and Agri-food Sectors in Lebanon, Nur Turkmani for UN Women Lebanon, August 2022
[27] Fair Trade Lebanon (2022). *Project Implementation | FTL | Fair Trade Lebanon*. [online] www.fairtradelebanon.org. Available at: https://www.fairtradelebanon.org/en/expertise/project-implementation

19. **The current financing of the agrifood sector comes short of meeting the needs.** Before the most recent crisis, the total investment needs of the agri-food sector and related infrastructure (irrigation, wastewater treatment) were estimated at US$1.3 billion for the 2020-2025 period,[28] and they have only increased since then. Lebanon's Crisis Response Plan estimates the needs for food security and the agriculture sector for the years 2022-2023 at US$975 million.[29,30] Currently, public support to the agri-food sector is limited, and private investments are constrained due to the severe financial crisis. According to a recent mapping of interventions in the agri-food sector, as of September 2021 the international community's support to agriculture, environment, forestry and fisheries, amounted to a total of about US$363 million over the period from 2018 to 2027. This is around US$ 40.33 million per year, equivalent to 1.5 percent of the agri-food sector GDP (US$2.7 billion per year), leaving a significant gap in financing.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to improve the resilience of farmers and Small and Medium Enterprises (SMEs) in the the Lebanese agri-food sector.

Key Results

20. The PDO indicators measure the following outcomes:

- Increase in the value of agri-food sales by beneficiaries beneficiaries participating in the program [31] (Percentage)
- Number of farmers adopting climate-smart agricultural practices (Number)
- Area provided with new/improved irrigation or drainage services (ha)
- Number of municipalities with improved service delivery (Number)

D. Project Description

21. **The GATE project is designed to (i) support the recovery of the agri-food sector in the short to medium term; and (ii) promote a pathway toward sustainable transformation of the sector through a demand-driven and integrated approach**. The project is structured into three substantive components supplemented by components for project management and a Contingent Emergency Response component (CERC). Component 1 will catalyze climate-smart investments in agri-food value chains by providing technical and financial support to farmer groups, agribusinesses operators in support of

[28] The NAS 2020-2025 budget identified the total resources requirements for its implementation to around 710.5 million USD with an estimated Government contribution of around 14 percent, matched by an equivalent amount from ongoing and projected pipeline of donors, and a 73 percent financial gap to be covered by systematic resource mobilization(2) Priority 1 irrigation schemes and hill lakes in Akkar and Bekaa as per the National Water Sector Strategy: Total budget US$ 25,5 million; (3) Priority 1 wastewater project identified under the National Water Sector Strategy in Akkar, Bekaa and South Lebanon: US$ 562 million.

[29] Lebanon Crisis Response Plan (LCRP), 2022-2023

[30] The NAS 2020-2025 budget identified the total resources requirements for its implementation to around 710.5 million USD with an estimated Government contribution of around 14 percent, matched by an equivalent amount from ongoing and projected pipeline of donors, and a 73 percent financial gap to be covered by systematic resource mobilization

[31] Beneficiaries will include all SMEs receiving loans, and all formalized farmers groups receiving matching grants. The value would be measured in constant prices and USD equivalent.

diversified livelihoods and jobs retention and creation. Component 2 will restore selected public services and infrastructure at local and service area levels, including greening and improving access to services such as irrigation and community-scale water and wastewater facilities through the rehabilitation and introduction of renewable energy sources. Component 3 will improve the enabling environment for agri-food development at national level, including building capacity to accelerate the use of climate smart innovation and digital technologies, and improving the enabling environment for food safety and export. Together, the three components form an integrated support package that addresses constraints imposed by the current crisis and advances a transition towards the sustainable transformation of the agri-food sector.

Component 1: Climate Smart Investments in Agri-food Value Chains

22. **The objective of this component is to provide access to finance to strengthen the resilience and improve the competitiveness of farmers and MSMEs involved in agri-food value chains.** The component will promote climate smart practices, create higher value addition, improve links between farmers, agribusinesses and markets, and unlock diversification opportunities. The project will finance activities specifically designed to benefit women and seek to contribute to reducing some of the gender gaps identified in terms of access to finance, inputs, markets, technical capacity building activities, improved confidence and negotiation skills as well as addressing social norms through a carefully designed behaviorally informed outreach campaign, also targeting men.

23. **Sub-component 1.1: Development of climate smart value chains through improved aggregation.** The objective of this subcomponent is to strengthen farmers' organizations (cooperatives and associations) by boosting climate smart agricultural production and promoting farmers horizontal-linkages with other smallholders and vertical linkages with buyers/off-takers[32], thus enhancing their participation in value addition. Support to farmers' organizations will include technical assistance, training and matching grants. Specifically, the component would finance: (i) a gender-sensitive communication campaign, to encourage existing organizations of small- and medium-size agricultural producers of crop and livestock products to engage in collective action to generate aggregation; (ii) competitively selected service provider/s to administer the matching grants, assist producers with the preparation and implementation of climate-informed business plans, and provide training to farmers' organizations members on business and financial management, governance, and when relevant, technical assistance to link formalized producer groups to off-takers; and (iii) matching grants to finance the climate-informed business plans of eligible farmers' organizations. The training of the group members to enable them to adopt the specifications and standards of the off-taker or target market would be provided through Component 3.1.

Sub-component 1.2: Support to Agrifood SMEs. The objective of this sub-component is to support viable agri-food Small and Medium Enterprises (SMEs) and farmers with access to finance. It aims to provide urgent liquidity in the form of loans for investment and working capital financing to eligible SMEs currently credit constrained and struggling to finance their needs due to the multiple crises hitting Lebanon and the paralysis of the banking system. The sub-component will be implemented by Kafalat S.A.L, [33] the national

[32] Off-takers could be private firms and/ or individuals such as brokers, traders, exporters, wholesalers, supermarkets, specialized distributors, processors, restaurant chains, school feeding programs, hospital food supply.
[33] Kafalat S.A.L., is a Joint Stock Company established based on Law No. 24 authorizing the National Deposit Guarantee Institution (NDGI) to participate in a Lebanese Joint Stock Corporation pursuant to the Lebanese Code of Commerce with

credit guarantee agency. Channeling funds through Kafalat is an emergency measure, in the absence of a functioning banking sector. Two sets of activities will be financed under this subcomponent: (i) Loans to eligible SMEs, and (ii) Technical assistance (TA) and IT systems to strengthen Kafalat's lending capacity.

Component 2. **Climate-Smart Infrastructure and Services for Agri-Food Sector Development**

24. **The objective of this component is to restore service delivery, build operational capacity and ensure the sustainability and climate-resilience of public infrastructure underpinning the agri-food sector**. It will be structured across two sub-components: Sub-component 2.1: Improving Rural Community Infrastructure for Agriculture; and Sub-component 2.2: Restoring Access and Protecting Agency-managed Infrastructure and Services Underpinning Agriculture.

25. **The component will finance investment in selected public rural infrastructure and services deemed essential to enhancing competitiveness and sustainability of the agri-food sector and to making it more climate-responsive**. These will include the following types of investment: (i) rehabilitation and modernization of public irrigation infrastructure including small community-/farmer-led irrigation developments (FLID) as well as larger agency-managed public irrigation infrastructure; (ii) rehabilitation of rural feeder roads; (iii) rehabilitation local agricultural markets; (iv) optimizing the operation of existing wastewater (WW) treatment systems (including sludge management and WW re-use for agriculture); (v) optimizing the operation of existing solid waste (SW) management systems.

Sub-component 2.1. Improving Rural Community Infrastructure for Agriculture

26. **The objective of this sub-component is to improve rural community infrastructure to support agri-food development.** It will focus on financing of water storage, small community-/farmer-led irrigation networks, rural roads, and other demand-driven agricultural sub-projects. The sub-component will be implemented by the Green Plan in close coordination with respective unions of municipalities or individual municipalities and the Ministry of Agriculture (MoA). Operation and Maintenance (O&M) will be the responsibility of the unions of municipalities or individual municipalities.

27. **Unions of Municipalities or individual municipalities and associated stakeholders[34] will develop and promote investment proposals (Community Infrastructure Sub-projects) for project support**. Fund allocations will be regionally balanced, identified and prioritized through an inclusive participatory process, with sub-projects evaluated against a set of eligibility and selection criteria, which will be defined in the POM. Indicative criteria will include the following: (i) the degree of food insecurity and poverty impact; (ii) the level of agricultural activity; (iii) synergies with Component 1; (iv) climate co-benefits and environmental sustainability; (v) commitment to sustainable operation and maintenance arrangements; and (vi) local ownership as expressed through co-financing commitments by unions of municipalities or individual municipalities.

Registration number 75000, incorporated and operating as a Financial Institution under Lebanese law. It is regulated by the BdL and the Bank Control Commission (BCC). Kafalat's ownership structure and governance are as follows: 75.1 percent of the shares are owned by the NDGI; the rest of the shares (24.9 percent) are owned by 39 private banks that constitute over 90 percent of the banking sector.

[34] Where Municipalities have not been aggregated into Unions.

Sub-component 2.2. Restoring Access and Protecting Agency-managed Infrastructure and Services Underpinning Agriculture

28. **The objective of this sub-component is to restore access to essential services and protect infrastructure underpinning the resilience and competitiveness of agri-food systems.** Adopting a systems perspective, interventions will aim to ensure basic system functionality through investments in the rehabilitation of existing public infrastructure and the lowest possible level of complexity of interventions in the underpinning systems. This approach will allow to balance the risk of ineffective isolated investments with implementation risks linked to complexity. It also maximizes the use of available resources and avoid investments in new infrastructure in the current context.

29. **The sub-component's scope will include infrastructure rehabilitation in the following sectors identified as critical to the continued viability of the agri-food sector:** agency-managed irrigation schemes, wastewater management (WWM), solid waste management (SWM) and farmer markets, The scope of investments will be commensurate with the effectiveness of restoring the functionality of the smallest viable service area applicable to the specific service or infrastructure, such as irrigation perimeters and wastewater management networks.

30. **The Sub-component will adopt a framework approach by which a list of pre-identified investments will undergo an assessment to validate the technical, economic, social and environmental performance of each sub-project.** Eligible investments will have to meet the following criteria: (i) investments focus on rural areas and directly benefit the agri-food sector providing a service; (ii) interventions targeting the rehabilitation, reactivation, and protection of existing infrastructure assets, preventing further deterioration and loss of public assets from neglect; (iii) priority investments supported by national sectoral strategies and masterplans; (iv) resilient system design supported by sustainable operation and maintenance (O&M) plans; (v) complexity of investment is aligned to institutional capacity to reduce implementation risk; and (vi) sub-projects are validated through inclusive stakeholder consultations.

Component 3: Improving the Enabling Environment and Restoring Support Services for Agri-food Development

31. The objective of this component is to restore and strengthen the capacity of sector institutions to support the recovery and transformation of the agri-food sector.

32. **Sub-component 3.1: Improving access to climate-smart agriculture practices, data, and knowledge.** This sub-component aims to improve the knowledge base for decision-making in the agri-food sector, including for policy makers, farmers, and agribusinesses, and to accelerate the use of digital innovations and tools in areas such as land use monitoring and agricultural extension system. It will finance: (i) a food system diagnostic, including agricultural and industrial censuses, and agri-food related surveus;[35] (ii) a land productivity map and a land use decision tool; (iii) digitizing the MoA's agricultural services, process and communication, including digitalization of extension services and support for the farmers registry and building the capacity of MoA on the use of remote sensing tools; (iv) the delivery of improved extension services. Training on climate smart practices will be provided to 15,000 smallholders

[35] The development of the industrial census will be supervised by the Ministry of Industry.

with a farm size of 1 to 50 dunums (10 dunums = 1 hectare); (v) coordination by MoA of agri-food related projects; and (vi) technical assistance for the revision of the social fund law (governing the national social security fund, NSSF) to include agricultural workers.

33. **Sub-component 3.2: Strengthening Food Safety**. This sub-component aims to enhance Lebanon's capacity to ensure food safety and increase export opportunities for Lebanese food products. It will finance: (a) technical assistance for (i) the harmonization of national food safety requirements with Codex Alimentarius and the requirements of target markets in case of export, (ii) the establishment of the framework required for the implementation of good agricultural practices (GAP), good manufacturing practices (GMP), food safety management systems based on the Hazard Analysis and Critical Control Points (HACCP), (iii) designing and implementing residues and contaminants monitoring programs for food of animal origin; (b) the digitization of agri-food related certificates and licenses, including the establishment of (i) an SPS e-Certification system and integration into the ePHYTO system; (ii) the registration and administration system for food business operators including food exporters; (c) upgrade of the operational capacities of the public sector involved in food safety management including: (i) development of frameworks aimed to strengthen national food safety management; (ii) creation of frameworks required to ensure efficient laboratory testing of food safety including testing for pesticide residues other contaminants and substances by investments in upgrading quality infrastructure and supporting maintenance and operation of existing laboratories[36] at MoA, LARI and the Industrial Research Institute (IRI); and (iii) supporting and improving seeds multiplication capacity of relevant institutions.

34. **Additionally, this subcomponent will finance livestock vaccination campaigns and surveillance mechanisms for selected, priority pests and diseases and support awareness-raising campaigns about the potential spread of new pests and diseases due to climate change.** The surveillance will include the management of quarantine pests and Fruit fly in Lebanon, and strengthening quarantine measures to detect, control and monitor the spread of *Xylella fastidiosa* plant pathogen. This activity will directly build climate resilience to increased frequency of pest infestation and diseases due to climate change, and indirectly lead to GHG emissions reduction, as farmers aim to comply with regulatory standards such as reduced fertilizer usage.

35. **Sub-component 3.3. Improving agri-food export promotion and marketing systems**: The sub-component aims to improve agri-food export performance and access to new markets. It would finance the following: (i) co-financing of trade missions and participation in international fairs identified by the private sector, and (ii) technical assistance for facilitating access to information including information on export processes, quality requirements, trial shipments, maritime, land, and air transportation options including upgrading the Ministry of Economy and Trade's (MoET) LEBTRADE platform, and informing the network of Economic Attachés under the Ministry of Foreign Affairs in key export destinations to facilitate export opportunities. Specific emphasis would be placed on strengthening women's access to local and international markets. The sub-component would be implemented by the PCU under the technical leadership of MoET.

[36] The existing laboratories at the MoA and LARI are public labs that provide an array of services for farmers, agro-processors, and traders. The main tests are microbiology, water quality, heavy metals, fertilizers, soil quality, wine, olive oil, and honey testing. The IRI also provide microbiological tests including others like soil mechanics, metrology and calibration, tests for grain, flour, and bread quality, as well as water quality.

Component 4: Project and Knowledge Management

36. **This component will support the coordination and management of the implementation of the project.** It will finance the overall project management, including: (i) coordination among different stakeholders; (ii) monitoring and evaluation; (iii) project environmental and social standards; (iv) hiring of a gender specialist; (v) project fiduciary administration, internal controls, and audits; (vi) communication and information activities, and (vii) the establishment and maintenance of a grievance mechanism (GM) and a citizen's engagement mechanism. This component will also finance timely communication of results. This component will finance a Third-Party Monitoring (TPM) mechanism. The project will also recruit a Service Provider (NGO) specialized in child labor prevention and response and who will be responsible for supporting the project in preventing, mitigating, monitoring, and responding to such risks during implementation. It will finance the development of an action plan to combat child labor and a roadmap to improve social protection for farmers.

Component 5: CERC

37. **This component will have zero funding allocation at the onset and will only be triggered in emergency circumstances**; the project will support the preparation of a procedure manual governing the CERC operations.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

38. **The environmental risk is 'substantial'.** There will be many environmental benefits from the project such as better resource efficiency from the climate smart interventions, improving use of pesticides through improved digitized extension, improving wastewater treatment and waste management, introducing organic farming and Biological Pest Control (BPC) which will minimize the use of agrichemicals and enhancing food safety. On the other hand, the project will be associated with some environmental risks including risk of unregulated water lifting pumps; risk on public safety and ecosystem services from rehabilitation of canals and roads and installation of wastewater treatment and waste management facilities; risks and impacts related to operation of SMEs including waste management, air emissions and workers health and safety; risks to health and safety of workers and community related to constructing infrastructure works; risk of overuse of pesticides by some farmers leading to food safety risks; risk of inadequate management of agriculture waste that could lead to wild fires; risk of discharging drainage water contributing to the contamination of water courses; risk of unregulated expansion of agriculture lands by farmers; risks related to the downstream activities recommended by technical

assistance and capacity building activities; and risks related to e-waste management and energy consumption as part of Component 3.1.

39. **Social risks are rated 'substantial'** and are mainly associated with the potential risk of exclusion of some of the more vulnerable targeted beneficiaries like women farmers, women rural entrepreneurs, smallholder farmers, poor farmers, youth, refugees, workers/laborers due to potential discrimination, the risk of SEA/SH associated with potential labour influx, child labour which is already existing in the agricultural sector in Lebanon, the risk of weak and ineffective communication, consultation and dissemination of the project grievance mechanism thus resulting in the perception of exclusion and potential rising social tensions amongst the targeted beneficiaries, and the potential for restrictions on land use during rehabilitation of irrigation canals and potential land acquisitions associated with construction of hill lakes and rural feeder roads. Other risks include SEA/SH risks that may arise during technical assistance and capacity building activities.

E. Implementation

Institutional and Implementation Arrangements

40. **A Project Steering Committee (PSC), chaired by the Minister of Agriculture, Minister of Economy and Trade,** and Minister of Energy and Water, **will be established to oversee the implementation of project activities and resolve issues of a policy nature that might emerge during project execution**. The PSC will be responsible for approving the project's annual workplan and budget and shall consult and coordinate between its members to overcome any obstacles that hinder the implementation of the project. In addition to its chairs, it will include the Minister of Finance, Minister of Industry, Minister of Environment, Minister of Tourism, and the President of the Council for Development and Reconstruction (CDR).

41. **Overall project implementation will be led by the CDR as Project Implementing Agency (PIA), through a Project Coordination Unit (PCU).** The PCU will lead the overall project management and coordination, by: (i) ensuring strategic oversight of overall project implementation; (ii) ensuring coordination and cooperation among all participating agencies and institutions; (iii) providing overall guidance during project implementation; and (iv) endorsing financial, programmatic, procurement, and monitoring reports to be presented to the World Bank and other national stakeholders to ensure transparency and accountability. The PCU will also act as a secretariat for the steering committee and will be responsible for the preparation of the committee meetings agenda and invitations. The CDR will be responsible for the procurement, financial management, safeguards, and monitoring and evaluation of all components except Component 1.2 which will be implemented by Kafalat and Component 2.1 which will be implemented by the Green Plan. Other, project activities will be implemented by the PCU under the technical leadership of the respective line Ministries and organizations. The Memorandum of Understandings between the government and the main implementing partners will also be described in the Project Operational Manual (POM).

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