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Report No: PAD5007

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF
US\$135 MILLION EQUIVALENT

AND A TRUST FUND GRANT

IN THE AMOUNT OF
US\$15 MILLION EQUIVALENT
FROM THE GLOBAL CONCESSIONAL FINANCING FACILITY (GCFF)

TO THE

LEBANESE REPUBLIC

FOR A

LEBANON: WHEAT SUPPLY EMERGENCY RESPONSE PROJECT

APRIL 25, 2022

Agriculture And Food Global Practice
Middle East And North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective {April 21, 2022})

Currency Unit =

LBP 1,512 = US\$1

US\$ 0.7318 = SDR 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guidelines
BdL	Central Bank of Lebanon (<i>Banque du Liban</i>)
CIF	Cost, Insurance and Freight
COVID-19	Coronavirus disease 2019
CPF	Country Partnership Framework
CQS	Consultant's Qualification-based Selection
DA	Designated Account
E&S	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESIA	Economic and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESSN	Emergency Social Safety Net
FAO	Food and Agriculture Organization
FM	Financial Management
GAFTA	Grain and Feed Trade Association
GCCF	Global Concessional Financing Facility
GFRP	Global Food Crisis Response Program
GM	Grievance Mechanism
GoL	Government of Lebanon
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFM	International Monetary Fund
IFRs	Interim Financial Reports
IPF	Investment Project Financing
LBP	Lebanese pound
LEM	Lebanon Economic Monitor
LFF	Lebanon Financing Facility
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation
MoA	Ministry of Agriculture
MOET	Ministry of Economy and Trade
MoF	Ministry of Finance
MPI	Multidimensional Poverty Index
OHS	Occupational Health and Safety
OP/BP	Operational Policies/Bank Procedures
PDO	Project Development Objective
PFS	Project Financial Statements
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
SEP	Stakeholder Engagement Plan
SMEB	Survival and Minimum Expenditure Basket

SoE	Statement of Expenditures
SORT	Systematic Operations Risk Rating Tool
STEP	Systematic Tracking of Exchanges in Procurement
ToC	Theory of Change
TPMA	Third Party Monitoring Agent
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
US	United States
US\$	United States Dollar
WB	World Bank
WFP	World Food Programme
yoy	Year-on-year



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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Lebanon	Lebanon: Wheat supply emergency response project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P178866	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
06-May-2022	31-May-2023

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The Project Development Objective is to ensure the availability of wheat in Lebanon, in response to the global commodity market disruptions, and to maintain access to affordable bread by poor and vulnerable households.



Components

Component Name	Cost (US\$, millions)
Component 1: Financing immediate wheat import needs and maintaining bread access for poor and vulnerable population groups	147.50
Component 2: Project management and capacity building	2.50

Organizations

Borrower:	The Lebanese Republic
Implementing Agency:	Ministry of Economy and Trade

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	135.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	135.00
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Non-World Bank Group Financing

Trust Funds	15.00
Concessional Financing Facility	15.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2022	2023
Annual	4.10	145.90



Cumulative

4.10

150.00

INSTITUTIONAL DATA

Practice Area (Lead)

Agriculture and Food

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Substantial
8. Stakeholders	● High
9. Other	● Moderate
10. Overall	● High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[] Yes [✓] No



Does the project require any waivers of Bank policies?

[] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

The Borrower, through MOET, shall by not later than one (1) month after the Effective Date designate staff within the MoET and/or recruit experts, as appropriate and as listed in the Project Operations Manual (POM), and thereafter maintain at all times during the implementation of the Project staff and/or experts in adequate number designated to support the implementation of the Project within the MoET, with composition, resources, terms of reference and functions acceptable to the Bank.



Sections and Description

Without limitation to the provisions of the Anti-Corruption Guidelines, the Borrower, through MoET, shall, pursuant to and consistent with the laws of Lebanon, (a) take appropriate measures to prevent Fraud and Corruption in connection with the milling of wheat, distribution of the flour to and the distribution of bread to the population of Lebanon, including (but not limited to) by any Eligible Miller or Eligible Bakery, or any other entity selected for the implementation of activities under the Project; (b) immediately report any credible and material allegation of Fraud and Corruption in connection such activities to the Bank; (c) take timely and appropriate action to investigate any such allegations and report to the Bank at regular intervals on the progress of such investigation and, upon its completion, the findings thereof; and (d) if any such allegations are substantiated by such investigation, take timely and appropriate remedial or corrective action to address the Fraud and Corruption and prevent its recurrence and report to the Bank on such action, all as further described in the POM.

Sections and Description

The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through the Ministry of Economy and Trade, in accordance with the provisions of the Loan Agreement. Without limitation to the provisions of the previous paragraph, the Borrower shall carry out of the Project in accordance with the terms of the Regulatory Framework (as defined in the Loan Agreement). The Additional Events of Suspension consist of the following, namely, that the Regulatory Framework or any provisions thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Bank, the ability of (a) the Borrower to achieve the objective of the Project and/or perform any of its obligations under the Loan Agreement; and/or (b) Eligible Importers to perform any of its obligations under the Framework Agreement in a manner that would negatively impact the implementation of the Project.

Conditions

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	The Borrower, through the MOET, has developed and adopted the Project Operations Manual for the Project in a manner satisfactory to the Bank.
Effectiveness	Trust Funds, IBRD/IDA	The Borrower, through the MOET, has designated a staff of the MOET to act as project coordinator, all with terms of reference and qualifications and experience (including the allocation of appropriate resources) satisfactory to the Bank.
Disbursement	Trust Funds, IBRD/IDA	MOET has entered into Framework Agreements with the Eligible Wheat Importers in accordance with the provisions of the Loan Agreement.



Type	Financing source	Description
Disbursement	Trust Funds, IBRD/IDA	MOET has prepared and disclosed the ESMP under terms acceptable to the Bank.



I. STRATEGIC CONTEXT

A. Country Context

1. **The war in Ukraine has delivered a major shock to global commodity markets.** In 2021, Russia was the largest natural gas-exporting country in the world, and the second-largest crude oil and condensates-exporting country. Russia and Ukraine together represent between 25 and 30 percent of the global wheat market, while Russia (and Belarus) are also major exporters of fertilizers. The disruptions from the conflict (sanctions, breakdowns in supply, etc.) had an immediate impact on global fuel and food prices. Oil prices have increased by about 90 percent compared to March 2021. Wheat prices have increased by 50 percent since early February 2022 and 80 percent since March 2021, and they are now at an all-time high. The cutoff of exports from Russia and Ukraine poses an immediate threat to major wheat-consuming countries with high shares of wheat imports from Russia and/or Ukraine.

2. **Lebanon is heavily dependent on wheat imports, most of which came from Ukraine and Russia before the crisis.** A country with limited agronomic potential for wheat production, Lebanon imports about 80 percent of all the wheat it consumes. In the years preceding the conflict, Lebanon has been importing about 580 thousand tons of wheat annually (2018-2020 average, COMTRADE) for a yearly trade value of US\$134 million (2018-2020 average, COMTRADE). In 2020, 96 percent of Lebanon's wheat imports were sourced from Ukraine (80 percent of total wheat imports), and Russia (16 percent of total wheat imports), respectively.

3. **The conflict comes at a time when Lebanon has been grappling with the direst of shocks,** starting with the acute economic and financial crises, compounded by the COVID-19 pandemic, and finally the Port of Beirut explosion. In 2019, Lebanon faced an economic and financial crisis due to a stop in capital inflows, which led to systemic failures across the banking sector, debt, and the exchange rate. A shortage of United States (US) dollars in the market resulted in multiple exchange rates, as well as informal restrictions and control mechanisms on deposits held in US dollars and on transfers out of the country. The COVID-19 pandemic and subsequent lockdowns exacerbated the situation, directly affecting people's health, livelihoods, and food security. The Port of Beirut explosion in August 2020 had significant negative economic impacts, including the loss of livelihoods, placing further strain on the economy. In the face of these crises, Lebanon's gross domestic product plummeted from close to US\$52 billion in 2019 to a projected US\$21.8 billion in 2021, a 58 percent contraction. Such a significant and rapid contraction is usually associated with conflicts or wars. The compounding nature of these challenges makes a recovery difficult, with long-term implications for the welfare of Lebanese households.

4. **The crises increased unemployment, further worsening household welfare.** One in five workers has lost a job since October 2019, while 61 percent of firms surveyed decreased the number of permanent workers by 43 percent on average (World Bank Enterprise Surveys, 2019–2020). Medium-sized and large firms laid off a larger number of workers: 76 percent of large firms downsized by an average of 37 percent, while 70 percent of medium-sized firms shrank by 43 percent. These numbers cover only formal firms, and the impact is expected to be worse amongst informal firms and micro-sized formal firms, where many of the poor work. About 13 percent of firms lowered salaries by around 45 percent, while 29 percent of firms raised the salaries of their employees by approximately 40 percent.



5. **Monetary and financial turmoil, along with surging inflation, continue to drive crisis conditions.** The exchange rate further deteriorated in 2021, with the US dollar banknote rate depreciating by 211 percent year on year (yoy) over the first 11 months of 2021, repeatedly breaching the LBP 22,000/US\$ threshold. This situation occurred within a multiple-exchange-rate system that also includes the official rate of LBP 1,507.5/US\$, and the Central Bank of Lebanon (*Banque du Liban*, BdL) administered lower rates. Overall, the World Bank Average Exchange Rate depreciated by 219 percent yoy over 11 months of 2021. Exchange rate pass-through effects have implied surging inflation, which is estimated to average 150 percent in 2021— the third highest globally after Venezuela and Sudan (Lebanon Economic Monitor [LEM], Fall 2021). After falling to 101 percent yoy by June 2021, inflation rose again to 174 percent yoy in October 2021. The surge since June 2021 is linked to the steady removal of the foreign exchange subsidy on imported goods and inflation recorded a further spike at 240 percent yoy in January 2022.

6. **While the average annual inflation rose to 85 percent in 2020, the average food inflation alone grew by a record 250 percent over 2019.** Between January 2021 and January 2022, the average yoy inflation rate reached 157 percent, with a corresponding food inflation rate of 328 percent. Since the removal of foreign exchange subsidies, yoy food inflation has increased sharply, reaching 483 percent in January 2022. This situation has dire consequences for the poor because food consumption forms a larger proportion of household expenses in poorer households. Phone surveys in May and July 2021 found that 46 percent of households reported challenges in accessing food and other basic needs (World Food Programme, 2021).

7. **Poverty and vulnerability have increased significantly, with severe implications for Lebanon’s human capital.** The poorest households are most likely to bear the brunt of the economic contraction and rapidly increasing food prices. As household budgets come under increasing strain, the poor are being forced to reduce their investments in education, skills, and health—aggravating poverty and leaving them vulnerable to future shocks. Poverty was already increasing before the crisis, from an estimated 26 percent in 2012 to 37 percent in 2019. Tentative projections by the World Bank suggest that well over 50 percent of the population likely fell under the national poverty line in 2020 (World Bank, 2021). The 2021 Multidimensional Poverty Index (MPI) reveals that the multidimensional poverty rate doubled from 39 percent in 2019 to 81 percent¹. These statistics further highlight the vulnerability of households with young children and the severe challenges that the current crises pose for their human capital.

8. **Refugees and their host communities are among the most affected by these crises.** Lebanon, a small country of 5.2 million people (July 2021, estimate), hosts the highest per capita concentration of refugees in the world. The latest Government of Lebanon (GoL) estimates are that the country hosts 1.5 million displaced Syrians, along with 31,502 Palestinian refugees from Syria, and a preexisting population of more than 277,985 Palestinian refugees (LCRP, 2020). This influx has put enormous pressure on the country's already scarce resources, stretched its public services, and contributed to rising tensions in a nation vulnerable to conflict and instability. According to the Economic and Social Impact Assessment (ESIA) carried out by the World Bank², the fiscal costs related to the Syrian crisis have amounted to an estimated US\$2.6 billion over 2012-2014.

9. **The crises have also reduced women’s ability to generate income and improve their livelihoods.** At 25

¹ UNESCWA, (2021). Multidimensional poverty in Lebanon. A proposed measurement framework, and an assessment of the socioeconomic crisis.

² The World Bank. (2014). Lebanon Economic and Social Impact Assessment of the Syrian Crisis.



percent by the end of 2019, female labor force participation in Lebanon is one-third of the male labor force participation rate. Survey data shows that after the multiple crises affecting Lebanon, the share of job losses among women was notably higher than that among men, even though women comprise less than one-third of the total full-time workforce (follow up to 2019 Enterprise Survey, 2020). The crises have impacted women's access to economic opportunities in different ways; for example, school closures due to the COVID-19 pandemic have made it difficult for women to manage work and family care responsibilities, so some have exited from the economy. Furthermore, the lockdowns and closures due to the COVID-19 pandemic coupled with the broader economic crisis have exacerbated the risks of violence against women. During the first five months of the lockdown, significantly more reports of gender-based violence were captured and recorded by different sources. The Gender-Based Violence Information Management System recorded a 3 percent increase in intimate partner violence by current or former partners; a 5 percent rise in physical assault incidents; and a 9 percent uptick in incidents occurring in a survivor's home (UN Women, 2020).

10. **Recurrent political paralysis and weak governance further complicate recovery.** Lebanon is characterized by poor governance, with only 4 percent of Lebanese report being satisfied or completely satisfied with their government (Arab Barometer). According to the World Bank's Lebanon Economic Monitor (LEM, Fall 2021), elite capture persists despite the severity of the crisis, and it has come to threaten the country's long-term stability and social peace. General elections are scheduled for May 15, 2022. Talks with the International Monetary Fund (IMF) have been relaunched with a mission in January, February, and March 2022, aiming to develop a stabilization program and secure foreign currency financing. Critical elements of a stabilization program comprise: a national budget for 2022 and a medium-term fiscal framework, a new monetary policy (starting from the process to unify the multiple exchange rates and an audit of the BdL), recognition and distribution of the banking sector losses (LEM Spring 2021, LEM Fall 2021), growth enhancing reforms, and comprehensive, well-targeted social protection programs.

B. Sectoral and Institutional Context

11. **The food security situation continues to deteriorate in Lebanon and has reached alarming levels for some population groups, particularly refugees.** It is estimated that 34 percent of Lebanese people and 50 percent of refugees were food insecure in 2021 (World Food Programme - WFP, 2022). More than half of adults—53 percent—reported that they lacked money for food at some time in the previous 12 months (Loschky, 2021). Consumer prices in Lebanon have continued to climb significantly, and the overall yoy consumer price index rose by more than 240 percent in January 2022, the largest spike since the onset of Lebanon's current economic crisis. Prices of food and non-alcoholic beverages jumped by 483 percent in January 2022. These represent the biggest upticks since the onset of the crises and are an outlier globally.

12. **Bread is an essential staple in the poorest people's diet.** Bread is the single largest item in the survival and minimum expenditure basket (SMEB) in Lebanon, as calculated by the WFP in 2020. Bread needs are estimated at 234 grams/person/day, or 632 kcal out of a needed 2,100 kcal per day and represent an estimated 20 percent in the SMEB cost. Around 88 percent of Syrian refugee households fall below the SMEB. Poor, vulnerable households and refugees are the most impacted by any disruption of the wheat value-chain. As shown by the August 2021 events related to fuel disruptions, poor households and refugees are also the least capable of stocking bread due to their vulnerable consumption capacity. Those shocks are not mitigated by the safety-net



programs, as they would send the price of bread upwards.

13. **Domestic production covers, on average, less than 20 percent of the total wheat consumption in Lebanon.** The farming sector in Lebanon contributed 3 percent to the country's gross domestic product and employed 11 percent of the active working population in 2019 (World Bank, 2021), although those figures exclude the contribution of the broader agri-food sector. Agriculture is predominantly providing employment and livelihood to much of the refugee population. Crop production represents about 60 percent of agricultural output (Dal et al., 2021), and cereal production is marginal. Lebanon produced 140,000 tons of wheat in 2020, on par with levels in recent years, against a consumed total of 630,000 tons (2021). The region of Bekaa (Central and West) yields the highest production of wheat (44 percent of domestic production), followed by Baalbeck and Hermel (14 percent) (Ministry of Agriculture [MoA] & Food and Agriculture Organization [FAO], 2012; Tohme et al. 2019). Wheat production combined with animal production represents 41 percent of the wheat-based production systems in West Bekaa. The average wheat yield is 4.6 tons/ha, ranging between 1 ton/ha and 8 tons/ha (MOA & FAO, 2012; Tohme et al. 2019). In the West Bekaa, most of the wheat producers are tenants (70 percent), and almost 86 percent of those produce only wheat on the land.

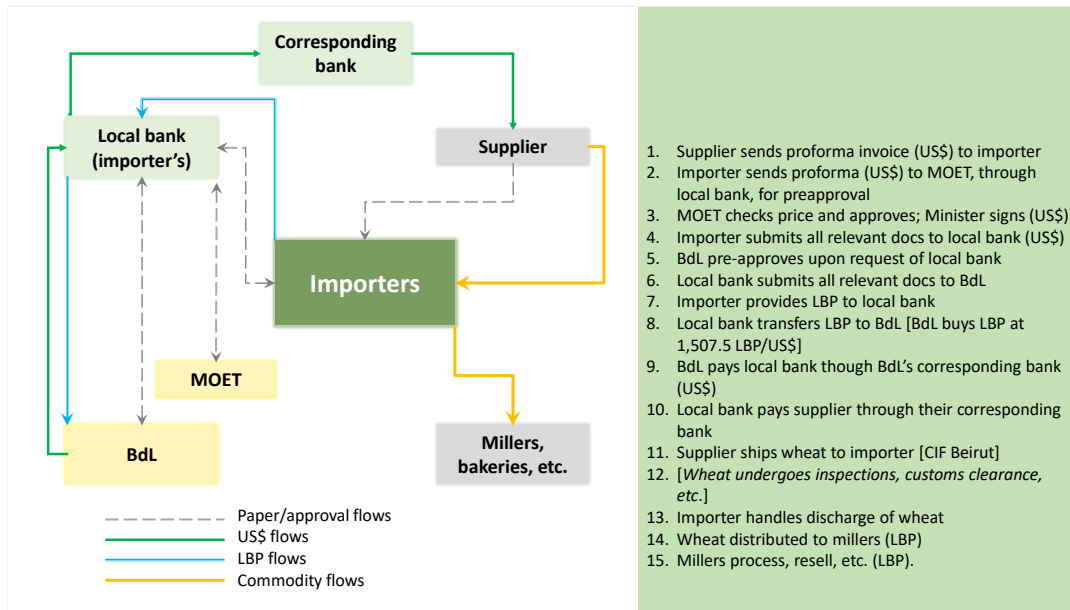
14. **However, domestic wheat is not well-suited for Arabic bread production.** In Lebanon, the production of durum wheat was incentivized, which is rich in gluten and used for pasta production; there are two pasta factories operating in the country and two more are being set up. However, Arabic bread, which is consumed by most of the population, requires flour extracted from soft wheat, and this demand is satisfied through imports.

15. **In Lebanon, bread prices are kept low through a combination of price controls on bread and exchange rate subsidies on wheat; the cost of these policies has risen sharply over the past two years.** The government has historically bought wheat from local farmers at above-market rates to subsidize local agriculture.³ A stagnation in wheat production was observed during the last two decades, along with a significant increase in wheat imports since 2011, demonstrating that the strategic goal of increasing food security by subsidizing wheat production was not achieved. The domestic wheat subsidy program was effectively halted in 2019. After the lira began its devaluation in late 2019, the mills and the Ministry of Economy and Trade (MOET) agreed to adopt a periodically updated bread price schedule. Periodic decisions issued by MOET regulate the price of bread in Lebanon. Moreover, BdL launched a foreign exchange subsidy scheme that allowed importers of certain products, including wheat, to exchange their lira for the dollars needed to pay foreign suppliers at the official exchange rates, which are far below those in the open currency exchange market. Other commodities exited this program, but wheat is still covered. In 2020, the wheat imports subsidy bill, delivered through BdL, was roughly US\$12 million per month (Salame, 2022). In 2021, largely due to increasing global wheat prices, the amount spent on wheat subsidies rose to about US\$20 million per month, even though the quantity of wheat imported stayed the same. Given the recent price spikes and the limited financing capacity of the Government, the country is now facing a situation in which it may be unable to consistently continue importing wheat to cover its needs after mid-April 2022.

³ The government spent US\$94.8 million on wheat subsidies in 2009 (World Bank, 2010).



Figure 1: Current practice used for importing wheat in Lebanon



16. **The wheat value chain is composed of importers, millers, bakers, and retailers, who operate under the oversight of the MOET, which is responsible for the safe domestic supply of bread.** There are 13 flour mills in Lebanon, of which 11 are operational, with a total storage capacity of about 125,000 metric tons (or just over 2 months' worth of domestic consumption). Eight of these flour mills are also wheat importers, and most of them are well-established businesses passed down generations. There are around 275 bakeries registered with MOET, but the number of artisanal and small bakers is higher. The six largest bakeries have around 60 percent of the market. They all have distributors either in house, for the big bakeries, or independent distributors who supply to retail shops and supermarkets. The duty to maintain a safe domestic supply of bread, and to support domestic production is set out in a Legislative Decree of 1959 (and its subsequent amendments) and delegates these duties to the General Directorate of Cereals and Sugarbeet of the MOET. MOET is currently accepting prices of imported wheat based on comparison between the different importers, with some triangulation of international prices. The price of wheat that they are subsidizing at Sayrafa (shadow exchange) rate only includes CIF port of Beirut. All other costs such as customs clearance, unloading, transport to the mill (which are all paid in US\$), plus fumigation of trucks (paid in LBP) is paid by the millers and is not subsidized. MOET is regulating the price of flour and bread, based on a formula that factors in production costs (fuel, operations and maintenance, price of yeast, sugar, plastic bags) and profit margins for milling. MOET, through its consumer protection department, has around 100 inspectors across Lebanon. They carry out inspections jointly with the General Security and the State Security to cover supermarkets, bakeries, mills, private electricity providers (generator owners), etc., to check compliance with state-imposed pricing or laws regarding consumer protection.

17. **Following the Beirut port explosion, wheat imports have been handled in a just-in-time fashion and current domestic wheat stocks are alarmingly low.** The explosion in the port of Beirut in August 2020, destroyed a considerable part of the port capacity: notably (1) the wheat silos, which served as a strategic buffer and storage for Lebanon's privately operated wheat import supply chain, as well as warehouses for storage of animal feed



(maize, soybeans); (2) the container terminal; (3) the bulk/cargo capacity; and (4) the nearby Special Economic Zone (which included cold and dry storage for food items). Preliminary estimates by the World Bank estimated the cost of reconstruction to be approximately US\$250 million. This includes US\$100 million for approximately 1,000 meters of damaged quays in the dry bulk terminal, and an estimated US\$45 million for the wheat silos. Since then, wheat and other grains have been stored exclusively in the country's private mills. So far, and due to the ongoing economic and financial crisis and political challenges, no steps have been taken towards rebuilding the damages of the explosion. The wheat imports supply chain has continued to operate in just-in-time fashion, bypassing the silos and using basic unloading techniques that have increased costs for private sector importers and vessel turnaround. From a logistics perspective, the importers' capacity to purchase wheat has become constrained by their storage and milling capacity, and they must rely on frequent small-scale shipments. Shipment size is also limited by the ports' (Beirut and Tripoli alike) handling capacity. Having storage in the port of Beirut remains important because most millers are close to the port. Shifting to the port of Tripoli would add significant transportation costs. Given the just-in-time supply system and the recent global supply constraints and volatility in the international market, it is estimated that the country is currently relying on a stock of about 50,000 tons of wheat, able to cover only about a month of consumption. This makes it particularly vulnerable to unpredictable market developments and supply shocks.

C. Relevance to Higher Level Objectives

18. The project aligns with the Helping Countries Transition out of Fragility pillar of the Strategy for Fragility, Conflict, and Violence 2020–2025, by ensuring wheat availability to foster social contract between citizens and the state and a healthy local private sector. It would also contribute to the delivery of the World Bank Group Country Partnership Framework (CPF) for the Lebanese Republic for the Period FY17-FY22 by renewing the social contract contributing to strengthening the relationship between the state and its citizens, a critical ingredient for peace and stability. Specifically, it will contribute to CPF Objective 2f: “Responding to the COVID-19 crisis and enabling socioeconomic recovery”, by providing access to affordable bread. The project is also aligned with the World Bank Group COVID-19 Crisis Response Approach Paper. Specifically, it contributes to Pillar 2: Protecting the Poor and Vulnerable by providing access to affordable bread products; Pillar 3: Ensuring Sustainable Business Growth and Job Creation by ensuring the operation of the private sector along the wheat value chain.

19. The project will specifically respond to the unprecedented humanitarian needs for the Lebanese people, the size and scale of which are rapidly increasing. Overall, Lebanon's poverty rate has doubled in recent years, from 26 percent in 2012 to an estimated over 50 percent in 2020. While much of Lebanon's poverty had struck non-citizens before the current political crisis, 81 percent of the Lebanese population live in multidimensional poverty as of 2021.⁴ Extreme poverty has increased to 1,650,000 people, equivalent to about 400,000 households.⁵ In this context, the project, which will focus on addressing supply-side constraints, will complement the ongoing World Bank-financed Lebanon Emergency Crisis and Covid-19 Response Social Safety Net Project

⁴ Multidimensional poverty assessment using a multidimensional poverty index (MPI) which framework is composed of six dimensions sorted by three pillars: 1. The human capabilities pillar, includes the 'education' and 'health' dimensions. 2. The housing and access to services pillar, including the 'housing' and 'general services' dimensions. 3. The livelihood and assets pillar, including the 'assets' and 'employment and income' dimensions. A household is classified as multidimensionally poor if it is deprived in one or more out of the six dimensions. Multidimensional poverty assessment aims to measure the non-income-based dimensions of poverty and complement traditional monetary poverty measures.

⁵UNESCWA, (2021). Multidimensional poverty in Lebanon. A proposed measurement framework, and an assessment of the socioeconomic crisis.



(ESSP) and UN-administered cash transfer programs for displaced Syrians, addressing demand-side constraints regarding economic access of the poor and most vulnerable including refugees to food and food security.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

20. The Project Development Objective (PDO) is to ensure the availability of wheat in Lebanon, in response to the global commodity market disruptions, and to maintain access to affordable bread by poor and vulnerable households.

PDO Level Indicators

21. Progress toward the PDO will be monitored through the following key indicators: (1) the cumulative amount of wheat procured through the project and delivered in the ports of Beirut and Tripoli (target 250,000 tons); and (2) vulnerable beneficiaries with access to affordable bread⁶ (target: 95 percent vulnerable beneficiaries; vulnerable host communities: 95 percent; refugees: 95 percent; vulnerable women: 99 percent).
22. The project will also track progress through the following Intermediate Results Indicators:
- Monthly amounts of wheat procured through the project and delivered in the ports of Beirut and Tripoli (target: monthly average of 50,000 tons for the first 5 months of project implementation).⁷
 - Percentage of beneficiaries' feedback addressed through the Grievance Mechanism (GM) within the required timeframe publicly communicated by the project (Percentage).
 - Improved wheat and bread price monitoring system implemented by MOET (yes/no).

B. Project Components

Component 1: Financing immediate wheat import needs and maintaining bread access for poor and vulnerable population groups (US\$ 147.5 million)

23. **The component will finance immediate wheat purchases to avoid the disruption of imports in the short term, and its dire socioeconomic implications.** This way, the project will help manage the immediate supply shock resulting from the conflict in Ukraine and avoid a collapse of the value chain with catastrophic impacts on the most vulnerable households. This will be done in accordance with the World Bank Policy on Investment Project Financing and its special considerations for Projects in Situations of Urgent Need of Assistance or Capacity Constraints. No retroactive financing is foreseen.

⁶ The vulnerable beneficiaries (poor Lebanese population and refugees, respectively) will be drawn and sampled based on the current WFP and UNHCR databases, respectively. The indicator will track bread consumption, specifically, rather than food security more broadly; the actual values will be determined through the high frequency surveys foreseen during project implementation.

⁷ This is based on an assumed wheat price of US\$ 500 per ton.



24. **While market conditions and price developments are difficult to anticipate in the following months, it is expected that the project will help procure approximately 250,000 metric tons of wheat.** This will allow maintaining food security for the approximately 6.8 million people living in Lebanon, including close to 1.5 million refugees and asylum seekers and their host communities, over a period of 3 to 5 months. Procurement will aim to ensure regular and adequate monthly supply (on par with current levels) and avoid disruptions and shortages in wheat availability on the Lebanese market. It is particularly important, given the current global market and domestic financial pressures, to ensure continuity in wheat supply immediately after project effectiveness.

25. **Commercial practices will be used for procuring wheat imports.** Several options were considered for carrying out this activity, namely: (i) public procurement; (ii) third-party procurement; and (iii) procurement through private sector importers following commercial practices. Public procurement was ruled out given the limited capacity of the public sector, notably MOET, with such activities, the anticipated length of such process, and the emerging experience in the region under the current market conditions. Traditionally, Lebanon has relied on a network of private importers-millers to cover its import needs. The public sector, through MOET, has only stepped in to import wheat at given times, usually during crises; the most recent example dates to 2014. Combined with low staffing at MOET, the public procurement option is deemed to pose a significant challenge to the efficient acquisition of wheat during a highly reactive seller's market. Furthermore, public tenders organized in the region after the start of the conflict in Ukraine yield a cautionary tale, with low bidder turnout and higher than expected bid prices. Third-party procurement, through an independent agency, was also explored and ruled out. While it could eliminate some of the risks usually associated with weak public procurement capacities, it is deemed that the process for recruiting a third-party agent would take too long to guarantee that wheat imports would not be discontinued or disrupted for any given time. Besides, both these options would have the immediate even if the temporary effect of displacing the existing private sector importers-millers, who already have the capacities and market networks that allow them to respond to fast-changing market signals most efficiently. An assessment of the private sector capacities has been conducted, and mechanisms will be put in place during project implementation to ensure the efficiency and integrity of the procurement process, and its compliance with the relevant World Bank rules and procedures.

26. **The wheat market in Lebanon comprises eight importers (who are also millers) plus five other millers.** While most of the importers purchase wheat for their own use, some also sell wheat to other millers. Most importers have been in the business for over 30 years. They procure wheat from international suppliers mostly from the Black Sea area (given the proximity and quality of wheat which meets the Lebanese specifications). MOET will sign Framework Agreements with selected importers who comply with the World Bank eligibility requirements and meet the predefined qualification criteria. The Framework Agreements will state the roles and responsibilities of each party, lay out the technical and contractual requirements for wheat import purchases, and set the rules for pricing and payments. They will also incorporate the obligation to comply with the World Bank's Anti-Corruption Guidelines (ACG). The agreements between MOET and the selected importers will be reviewed and cleared by the World Bank prior to signature. Due to limited storage capacity, wheat imports will continue to involve multiple purchases by selected importers, most in the range of 5,000-10,000 tons, and a total monthly average of 50,000 tons, over the project duration. Selected importers will prepare and share with MOET a schedule of planned wheat purchases, including the proposed quantities and the names of the mills to which the wheat will be distributed. Each importer will request quotations in US Dollars for every scheduled purchase, either directly or through brokers, from eligible and qualified international wheat suppliers who have a track record of supplying wheat. The quotation which offers the best combination of quality, price and delivery schedule shall be selected and a draft contract in US Dollars with the selected supplier shall be prepared. Contracts



entered into between the importers and the suppliers are based on The Grain and Feed Trade Association (GAFTA) Contracts. The GAFTA contracts were reviewed by the World Bank and found acceptable subject to the incorporation of Bank Anti-Corruption Guidelines. The contracts between the importers and the suppliers will be reviewed by MOET and the World Bank, prior to signature. Technical audits will verify the quality, quantities, etc., of the wheat imported based on supply contracts.

27. **Private sector financial participation will be embedded as a tool for future exit from the current wheat subsidy policy and for ensuring sustainability.** This will be designed in conjunction with the activities described under Component 2 that will help improve capacities in the wheat sector and help inform policy reforms. Wheat imports are now subsidized to a great extent (e.g., in 2020, for every ton of wheat that was imported for an average price of US\$235, exchange rate subsidies accounted for US\$228, or 97 percent). While, together with bread price ceilings, these subsidies have achieved the goal of affordability of this basic dietary staple, they have come at a high fiscal cost⁸, further aggravated by the organizational inefficiencies resulting from the current process. However, importers already contribute a share of the cost of wheat imports and this principle will be maintained as part of the project design and implementation; their contributions will be deposited in the Treasury account, according to procedures and processes that will be further detailed in the POM. Lebanese importers buy from primary suppliers of wheat, whose involvement is considered essential for the project to achieve its objective. The suppliers of wheat are grain trading companies, which are selected usually by importers' brokers, who shop for the most advantageous offers, in terms of price and logistics, for meeting the wheat specifications needed. The suppliers usually store the wheat at different locations around the world, and sometimes buy from loaded ships in the middle of the sea and mobilize the shipment to Lebanon based on most convenient logistic arrangements.

28. **The project will put in place several mechanisms to address diversion, misuse and other risks related to wheat imports.** The Framework Agreements between MOET and wheat importers will provide critical mitigation measures (such as, in exchange of the project support, obligation to deliver wheat in Lebanon, mill the wheat and distribute the flour within a certain timeframe, etc.). Public oversight capacities will be strengthened under Component 2 (third-party monitoring, strengthening the role of the consumer protection agency under MOET, and strengthening the GM mechanisms). Third party monitoring arrangements and technical audit (to be financed through Component 2), such as superintendents, Red Cross volunteers through the Lebanese Red Cross/International Federation of Red Cross and Red Crescent Societies, will be introduced to enhance verification. In addition, small shipment size due to constraints on port handling capacity and small grain storage capacity in the private sector limit commodity hoarding risks and speculative resale.

29. **The project will equally focus on safeguarding access to affordable bread for poor and vulnerable households, including refugees.** Through the activities described under Component 2, the project will monitor the accessibility of vulnerable communities to affordable bread based on the available combined databases maintained by WFP (for poor Lebanese households identified under the National Poverty Targeting Program, NPTP/Emergency Social Safety Net Project (ESSN) and the United Nations High Commissioner for Refugees (UNHCR). If wheat availability is ensured in Lebanon and bread pricing policy remains unchanged, any systemic challenges to access affordable bread by vulnerable and poor households would likely be due primarily to economic/income constraints at household level. Several complementary analytical activities outside the scope of this project will help inform the most effective and fiscally responsible solutions; it is likely that such solutions will have to rely on a close articulation with and further scaling up of

⁸ The public sector, through the exchange rate subsidy, currently absorbs the bulk of global wheat price increases. Bread prices have only been subject to modest, managed increases; therefore, the consumers have not been directly impacted in a significant way so far.



targeted support through the social security net mechanisms. Such mechanisms will not be implemented by this project, as they are currently foreseen under the World Bank financed ESSN Project (ongoing, and targeting the extreme poor), and under the Emergency Broad Coverage Cash Transfer Project (in the pipeline and designed to benefit a broader population group).

30. **Nonetheless, the component will foresee adaptive mechanisms to safeguard access to affordable bread to the poorest and most vulnerable households, including refugees**, in case of severe shortages in domestic supply, leading to a deterioration in bread access for the vulnerable groups. The Framework Agreements will foresee provisions for prioritizing the distribution of wheat and, where applicable, flour to populations or regions where shortages are identified, in accordance with the procedures set out in the Project Operations Manual. Such responses, and, as needed, others, will be informed by the monitoring systems and data collection supported under Component 2.

31. In line with the outcomes of the complementary technical support described under Component 2, **a managed exit strategy from the current wheat subsidy scheme needs to be considered when the project ends**. The private sector financial participation can be incrementally increased within this design, in line with an approach and a calendar that can be informed by the activities described under Component 2.

32. **This component would contribute to energy and resource use efficiency as the World Bank's financing would reduce the risk of investment and allow importers to aggregate and purchase a higher volume of wheat supply, reducing the number of shipments, with mitigation co-benefits**. Additionally, the component would benefit from a better management plan, which would reduce food loss and waste along the wheat value chain and, therefore, generate climate change mitigation co-benefits.

Component 2: Project management and capacity building (US\$2.5 million)

33. **This component will finance all aspects of project management**, including equipment and materials, consultant costs, compliance with fiduciary, procurement (including internal controls and auditing), and safeguards (environmental and social) requirements (including a citizen engagement mechanism and a strengthened GM for better risk management), monitoring and evaluation, and impact assessment, knowledge management and communication.

34. **The component will specifically finance mechanisms to improve the mitigation of risks associated with wheat imports and access to affordable bread under Component 1**. To address fiduciary risks and ensure the integrity of the wheat procurement process, it will finance semi-annual financial audits focused on participating importers (as described under Section IV.B). To address technical risks, such as misuse or misappropriation of project-financed wheat imports, the project will finance consultancy services and technical assistance to strengthen the role of the consumer protection agency under MOET and of Lebanon's Central Inspection agency, as well as technical audits upstream in the value chain through specialized providers. Such technical audits will be contracted under the project according to clearly defined terms of reference and will collect data on: (1) declared prices/quantities at loading port to compare with declared and actual prices/quantities at destination (port of Beirut or Tripoli), for each shipment; (2) quantity of wheat received at each mill as well as quantity of flour produced and sold by each mill, daily for each mill; and (3) quantity of flour procured by bakeries as well as quantity of bread produced and sold by each bakery (direct retail and distribution), daily for an agreed sample of bakeries across all governorates. These audits will complement and reinforce the public monitoring capacity and will provide timely information for appropriate remedy in accordance with the national laws and regulations.



To address price risks and monitor access to affordable bread, the project will finance third-party monitoring agency (TPMA), such as mobilization of Red Cross Volunteers with the Lebanese Red Cross/International Federation of Red Cross and Red Crescent Societies at community level/downstream. The TPMA will facilitate price data collection for flour at the mill, for bread at the bakeries, and for bread at retail outlets, on a weekly basis and for a sample of outlets across all governorates. At the same time, the project will finance high frequency 'Listening to Poor and Vulnerable Household Surveys', entailing data collection on bread prices and consumption for the poor and vulnerable households, by conducting random sampling and surveying (biweekly) using UNHCR and WFP beneficiary lists. This information will be triangulated at MOET level with information consolidated from the consumer protection agency, GM, and WFP price monitoring system, and used to adopt appropriate remedies, such as activating the preferential distribution clause foreseen in the Framework Agreement, for bakeries in areas where most of the poor and vulnerable groups are located. All monitoring reports will be published on Central Inspection's IMPACT online platform.

35. **The component will also support consultancy services and technical assistance that will strengthen MOET's oversight function as well as capacity to manage the gradual transition from the current wheat subsidy system to a more market-oriented system.** This will include developing a better price monitoring and data system (both for wheat and bread); developing an implementation plan for gradually removing wheat subsidies and bread prices and potentially increasing importers' financial participation in wheat import purchases, to be informed by the complementary activities described below; conducting an adequate stakeholder outreach and communication about these reforms; and strengthening regional cooperation around food security and risk management in the wheat supply chain. These activities will also contribute to building resilience to climate change as, according to projections, national wheat production would be reduced because of increased temperature. Thus, better risk management of the wheat value chain through capacity building activities will mitigate the negative impacts of climate change.

36. Understanding that more sustainable solutions are needed for increasing resilience of the wheat value chain and for improving its operation and governance, **this component will be reinforced by a set of parallel, World Bank-executed activities that will be funded outside the scope of this project through World Bank-executed trust funds through the Lebanon Financing Facility.** Three streams of advisory activities are envisaged: (i) on better food security risk management; (ii) on reform options for the current wheat subsidies and bread prices; and (iii) on solutions for improving the operation and governance of the wheat value chain. This analytical work would benefit from the collaboration with the Faculty of Agricultural and Food Sciences, American University of Beirut, WFP, FAO, International Food Policy Research Institute (IFPRI), and International Center for Agricultural Research in the Dry Areas (ICARDA).

37. *As regards better food security risk management:* the activities under this stream will focus on grain import risk management options (buffer stocks, storage capacities, management procedures, opportunities for regional cooperation in food reserve management, etc.), financial instruments to manage price risks, such as price risk hedging instruments (future contracts) and commodity derivatives (such as forward contracts), wheat imports feasibility studies for leveraging investment to upgrade and shock-proof the grain value chain; and capacity building to improve governance and transparency in the grain/wheat value chain. This workstream would build on WFP's experience.

38. *As regards wheat subsidy and bread price reforms:* The proposed reform of the wheat subsidies and bread prices must be accompanied by alternative policies that ensure the social protection of the most vulnerable, possibly through an expansion of the current social safety net program (ESSP). The activities under this stream will assess the poverty, fiscal and macroeconomic implications of these reform options, also with a view to strengthening public management and governance systems. The findings of this stream of analytical work will inform the timeline of the reforms to be



undertaken.

39. *As regards solutions for improving the operation and governance of the wheat chain:* The activities under this stream will aim to improve the business environment and leverage private sector investment in a value chain of critical socioeconomic importance and heavily affected by the port of Beirut explosion and destruction of grain storage. They will, at the same time, aim to improve public sector oversight and accountability (with a focus on MOET).

C. Project Beneficiaries

40. **The direct beneficiaries of this project will be the Lebanese people and displaced populations, including Syrian and other refugees** as the project will help reduce the cost of bread. The project would provide access to affordable bread to maintain food security for the approximately 6.8 million people living in Lebanon including close to 1.5 million refugees and asylum seekers and their host communities. Bread is an essential part of the Lebanese population's diet and represents the main caloric source, especially for the vulnerable Lebanese and refugees who constitute a large chunk of the population. As indicated, bread is the single largest item in the survival and minimum expenditure basket (SMEB) in Lebanon and represents an estimated 20 percent in the SMEB cost, as calculated by the WFP in 2020. Around 88 percent of Syrian refugee households fall below the SMEB. The share of food expenditure of vulnerable Lebanese and refugees was already 48 percent as of 2020. The project would directly address specific women's vulnerabilities, as women already practice negative coping mechanisms by reducing the number of meals in favor of other household members. At the national poverty line, poverty among the Lebanese community was expected to have increased by 46 percentage points by the end of 2021 compared to the period before the financial crisis. Syrian refugees already had higher poverty rate before the financial crisis and observed an increase of around 24 percentage point since 2019. While much of Lebanon's poverty had struck non-citizens before the current political crisis, now one-third of all Lebanese are food insecure, and 81 percent of Lebanese households live in multidimensional poverty. The project would avoid a breakdown of the wheat import supply chain, in a context where the country is rapidly exhausting its domestic stocks and foreign reserves, and at a time when wheat prices are at an all-time high on global markets.

41. **The Government of Lebanon will also be a direct beneficiary of this project through the capacity building activities that will enhance its oversight and governance functions.**

D. Results Chain

42. As outlined in Figure 2, **the project activities aim to ensure the availability of wheat in Lebanon in the short term, while safeguarding access to affordable bread by the poor and vulnerable on an emergency basis.** While addressing the sector's urgent need, the project, together with other complementary activities (as described under Component 2), also sets the framework for reforms in wheat sector policy and governance, with the longer-term goal of putting it on a pathway toward recovery and greater resilience. The wheat imports financed under Component 1 will contribute directly to avoiding a breakdown of the wheat supply in Lebanon in the immediate term, while providing a buffer to help stabilize wheat supply and provide food security, especially for the most vulnerable households. The activities under Component 2 will contribute directly to strengthening the capacities and systems that would inform responses to secure access to affordable bread for the vulnerable and poor households, and would strengthen governance capacity in the wheat sector, with a focus on technical and fiduciary oversight.



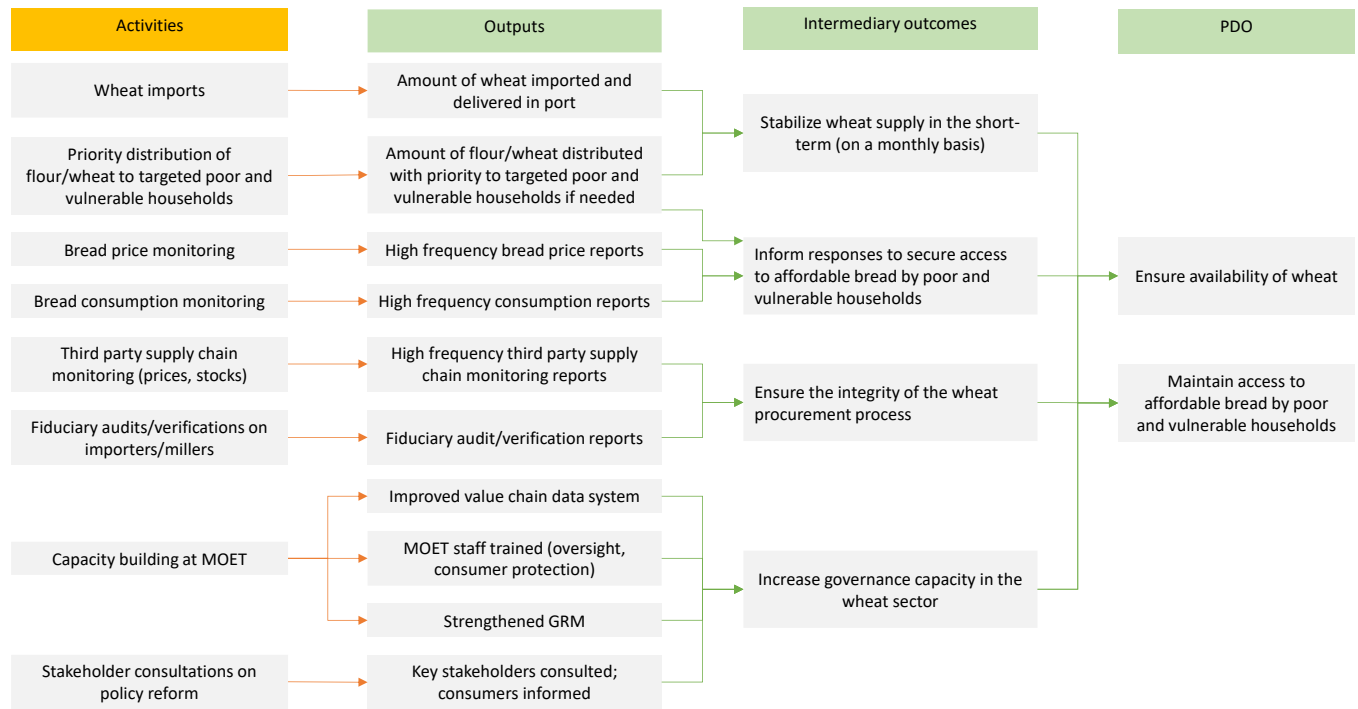
43. **The ultimate results, going beyond the scope of this project but being facilitated by it, are expected to be:** (i) a more resilient wheat supply chain, (ii) policy incentives that are better aligned with market signals, and (iii) better food security and protection of the most vulnerable consumers through better targeted and more efficient instruments. To achieve this, a gradual approach is foreseen, as follows:

- (i) *In the immediate term (0-6 months)*, the focus will be on ensuring the continuity of wheat supply and meeting the food security needs of the vulnerable groups, assessing storage needs and solutions (temporary and permanent), developing options for policy reform in the sector (with a focus on wheat subsidies and bread price controls), and building the oversight capacity of the public sector.
- (ii) *In the short term (6-12 months)*, the focus will be on initiating implementation of the needed policy reforms in the wheat sector, investing in selected temporary storage options while exploring financing opportunities for longer-term solutions, and assessing local production potential; and
- (iii) *In the medium- to long-term (over 12 months)*, the focus will be on developing long-term storage solutions and broader risk management instruments in the sector, implementing fiscally sustainable measures for protecting the food security of the most vulnerable groups (likely through social protection mechanisms), strengthening the domestic production base, and improving public oversight and response capacity to food security threats.

44. **Critical assumptions for achieving the expected project objectives include:** (i) socioeconomic and political stability will be preserved in Lebanon during project implementation (the approval of the agreement with the International Monetary Fund as well as of the Parliamentary elections in May 2022 will be important in this regard); (ii) bread prices will be maintained at levels that strike the right balance between consumer affordability and market incentives for millers and bakeries (strengthening the MOET regulatory and oversight capacities are key for this purpose); and (iii) there will be appetite and ownership for reforming the bread price controls and wheat subsidies to ensure a managed transition to better policy approaches (the financial burden of the current policies jointly with the likely high cost of inaction are likely to be major drivers of such reforms in the short and medium term).



Figure 2: Project theory of change



E. Rationale for Bank Involvement and Role of Partners

45. **Given the volatile global wheat market following the conflict in Ukraine, as well as the current dire state of the macro-fiscal framework of the country, the wheat sector requires urgent intervention.** Ensuring immediate and uninterrupted availability of wheat to Lebanon is critical for avoiding widespread food insecurity and severe socioeconomic impacts. The World Bank will add value by not only providing financing in the short-term to address the immediate food security needs but also helping improve the sustainability of sector operations by kickstarting and informing, through the project and other complementary activities, critical reform processes.

46. **The World Bank has a strong track record in addressing the multiple facets of food insecurity, both through investment and analytics, and is well equipped to provide response in food crisis situations.** Particularly during the 2007/08 global food crisis, the World Bank organized rapidly for short-term support in the crisis, launching a fast-track program of loans and grants, the Global Food Crisis Response Program (GFRP). The GFRP mainly targeted low-income countries and provided detailed policy advice to governments and its own staff on how to respond to the crisis. The World Bank also scaled up lending for agriculture and social protection to support the building of medium-term resilience to future food price shocks.

47. **World Bank involvement is also expected to leverage further action and finance from other donors to support food security and sector reforms.** The World Bank has secured \$15 million from the Global Concessional Financing Facility (GCFF) to complement project resources with concessional funding and is also seeking to mobilize technical assistance funds through the Lebanese Financing Facility (LFF).



F. Lessons Learned and Reflected in the Project Design

48. **The project primarily builds on the lessons learned from the GFRP, which embodied the World Bank's response to the 2008 global food crisis.** GFRP mixed fast-track funding from the International Bank for Reconstruction and Development and International Development Association with trust fund grants to help governments address the immediate food crisis, while encouraging agricultural policies that will increase resilience in the future. Key lessons also reflected in the project design are summarized below:

- **Simple design of emergency operations is crucial for rapid response.** A simple design of emergency operations is a key for success. The design of the project should focus on responding to the government's short-term priority and to the urgent needs of the beneficiaries, as a key factor in the project's successful implementation.
- **Establishing an effective monitoring and evaluation (M&E) system in the context of a crisis response operation is a challenge, but its importance should not be underestimated.**
- **Emergency responses can help in crafting longer-term responses to vulnerability.** For example, in Nicaragua, the food crisis response project was used as an opportunity to move forward the long-standing agenda for developing emergency responses to food price crisis in a country that constantly faces them and needs a comprehensive long-term response. In the Philippines, the emergency response catalyzed a nascent reform agenda in social protection, including a standardized database of poor households and conditional cash transfers. Emergency operations by nature finance short-term measures which often do not have the potential to sustain development impact. Therefore, a follow-up operation should be considered that can build on the experiences of the emergency operation.
- **Adequate attention to an institutional capacity building during preparation despite the emergency nature of operations is essential.** In Tajikistan, the food crisis response project over-estimated the capacity and willingness of local government officials to assume responsibility for beneficiary selection and distribution and underestimated the level of support needed from local governments. On the other hand, since emerging from a severe food crisis in 2005, Niger has improved its institutional framework to prevent and respond to adverse events. Thus, the World Bank's rapid response to the client's request for assistance was met by a strong commitment and a high level of preparedness on the part of the counterpart. Limited funds were, thus, able to provide timely and critical resources and technical assistance to develop an action plan to strengthen the government's current programs and assess the feasibility of new pilot programs to respond to the needs of poor and vulnerable people.
- **The World Bank can be effective in providing emergency assistance even when the overall governance environment is weak.** However, it should not undermine governance issues. Building the capacity of government apparatus and of communities to play a responsible role and demand accountability from the government are key elements for building governance structures.



III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

49. **MOET, which oversees grain imports in Lebanon, will provide overall project oversight.** It will coordinate with the Ministry of Finance (MoF) and BdL on fiduciary aspects, as described in Section IV. B.

50. **While no project implementation unit will be established, project implementation will rely on a designated project task team,** consisting of MOET staff with clearly assigned roles. External consultants will be hired to complement MOET staff in key areas such as fiduciary and strengthen capacity. The project task team will be responsible for managing the day-to-day implementation of the project. It will include the roles of a project coordinator, a procurement officer, a financial and accounting manager, a monitoring and evaluation specialist and a safeguards officer.

51. **Framework Agreements between MOET and selected local importers will be put in place to state the roles and responsibilities of each party,** lay out the technical and contractual requirements for wheat import purchases, and set the rules for pricing and payments. The Framework Agreement will be annexed to the POM. Framework Agreements with selected importers will be reviewed and cleared by the World Bank prior to signature. To be selected, local importers will have to comply with the World Bank eligibility requirements and to meet the predefined qualification criteria, in terms of number of years in wheat import business and volume of annual wheat imports. The selected importers will procure wheat, using established market practices acceptable to the World Bank. They will continue to contribute a share of the cost of wheat imports (that can be gradually increased based on the wheat subsidy phasing out calendar that will be informed by Component 2 and complementary activities).

B. Results Monitoring and Evaluation Arrangements

52. **MOET has the primary responsibility for the monitoring and evaluation of the project.** The Director of the General Directorate of Cereals and Sugar Beets will designate a MOET staff as a monitoring and evaluation specialist who will be responsible for collating biweekly monitoring reports and collecting information from relevant entities (importers, customs authority and so on) to share with the World Bank. For the duration of project implementation, MOET will establish a wheat procurement management and monitoring plan, which will include a database where all the wheat imports supported by the project will be recorded. The database will include information such as importer's identification information and details specific to each transaction (quantity, shipment date, date of delivery and discharge, price, etc.). MOET will continue collecting, monitoring, and reporting on bread prices as is currently doing as part of its mandate. The results framework established for the project will serve as a basis for establishing the tracking framework for the project. Given its short duration, the project will not be subject to a mid-term review but, at the end of the project, MOET will prepare a project completion report within 6 months of the project closure and in close collaboration with the World Bank team.

53. **A joint monitoring committee will be established to include representatives of the Global Concessional Financing Facility (GCF), the World Bank and other relevant stakeholders.** The committee will be chaired by the



World Bank and will have an oversight and implementation support role. It will meet regularly (monthly, or more frequently, if needed) to follow project implementation progress, and in particular brief, based on MOET reporting, on the findings of third-party monitoring and discuss and advise promptly any issues that might arise.

C. Sustainability

54. **To ensure sustainability, the project will pursue a two-track approach:** (i) providing relief in the short term by financing wheat imports, and thereby avoiding a breakdown of imports and its dire socioeconomic impact on the Lebanese population, and (ii) laying the ground for critical sector reforms (e.g. phasing out of the wheat subsidy, gradual removal of bread price controls accompanied by appropriate mitigation measures to protect the poorest segments of the population), addressing inefficiencies in the value chain that result in higher costs for consumers, and stronger oversight by MOET.

55. **Several elements are built into the project design to promote sustainability:** (i) private sector financial contribution for wheat imports, to be gradually increased as wheat subsidies are being removed and bread prices are more closely aligned with market prices (Component 1); and (ii) technical assistance and capacity building activities that will help improve MOET's capacity to exercise its governance and oversight functions (Component 2). In addition, as described under Component 2, several other activities will be carried out in complementarity to this project to accompany and inform the wheat sector reform process and its resilience-building.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

56. As reflected in the lessons learned from the GFRP, **the project opted for a simple and well-focused design building on the existing market and governance structures.** Wheat imports will be carried out using existing commercial practices, with adequate checks and balances in place, whereas project implementation will be ensured by the existing MOET structures and staff, thereby building their capacity, and strengthening their ability to perform their sector oversight function after the project closes. At the same time, the project will include elements to help increase longer-term capacity to reduce vulnerability to shocks.

57. **The global wheat market is subject to unprecedented volatility, as the war in Ukraine is continuing to unfold.** The implications of this conflict on global wheat prices cannot be fully anticipated at this point. At the same time, domestic macroeconomic circumstances and financial constraints could soon force Lebanon to halt its wheat imports.

58. **In the event of a breakdown of the wheat supply in Lebanon, refugees and their vulnerable host communities are going to be the hardest hit.** This is because they count among the poorest and most vulnerable population groups in the country and are among the most reliant on bread in their diets. Unavailability of bread, could quickly have catastrophic food insecurity implications for these groups, and protracted food security implications for the entire population of the country. Given the systemic implications of such a scenario and the particularly high negative impacts on the vulnerable refugee and other communities, the project will finance the



amount of wheat necessary to secure wheat imports over the next few months, with a lookout to a managed phase-out from the current policies to a more sustainable policy approach and a more resilient wheat value chain, overall, in the medium term.

59. **The project's benefits are expected to be twofold:** on the one hand, they would stem from preventing a breakdown of the critical wheat supply in Lebanon in the short term, which would come at high social and economic costs, in particular for the poorest households; on the other hand, they would result from the country's improved capacity and knowledge to increase its wheat value chain resilience in the medium term.

60. **Given their critical role for Lebanon's food security, wheat and bread are subject to a combination of exchange rate subsidies (wheat) and price controls (bread)** that result in low financial costs for domestic consumers. As of March 2022, the price of a typical bag of Lebanese bread (910g) has been around LBP 13,000. Considering the dual exchange rate system, with an official exchange rate of 1,507 LBP/US\$, and a shadow exchange rate of about 22,000 LBP/US\$, it is estimated that the financial price of bread represents about a third of its economic price. By providing a short-term buffer, the project will avoid a shock to the Lebanese bread consumers and especially the most vulnerable of them, who would otherwise have to bear the full brunt of the steep increase in bread prices if these policy instruments were abruptly removed without adequate targeted (social) protections being put in place to compensate.

61. **The medium-term benefits are expected to come from:** (i) reducing policy and governance inefficiencies in the wheat supply chain; and (ii) creating an environment that will be more conducive to managing risk (through better storage capacity, etc.) and attracting investment to shock-proof the sector.

62. **Gender:** food security needs of women by ensuring targeting measures give additional weight to vulnerability criteria along key dimensions, such as sex, displacement status, income level or employment, etc. as women who are responsible for food management at the household level already practice negative coping mechanisms by reducing the number of meals in favor of other household members. Furthermore, by targeting vulnerable women, the project supports female-headed households, which make up to 18.5 percent of households nationally (Central Administration of Statistics, 2019) as their income is more limited. Men earn on average 6.5 percent more than their female counterparts for the same job. Furthermore, almost 30 percent of working women were occupied in professional positions, such as doctors, teachers, and engineers, compared with only 10 percent of working men. These occupations were particularly hit because of the financial crisis and currency devaluation.

63. **Climate change co-benefits:** The project would reduce the risk of investment and allow importers to aggregate and purchase a higher volume of wheat supply, reducing the number of shipments, and therefore, it would generate climate change mitigation benefits by contributing to energy and resource use efficiency. Additionally, the project would reduce food loss and waste through improved wheat value chain operations which generate climate change mitigation co-benefits. Component two would also contribute to building resilience to climate change as, according to projections, national wheat production would be reduced because of climate change. Thus, better risk management of the wheat value chain through capacity building activities would mitigate the negative impacts of climate change.

64. **Citizens' engagement:** The project would ensure citizens engagement through the following



interventions: (1) establish social accountability groups or committees in selected localities by monitoring availability of affordable bread in the WFP-eligible shops which provide support to vulnerable communities; (2) conducting a baseline survey and periodic monitoring using random sampling based on UNHCR and WFP beneficiary lists; and (3) strengthening the MOET's GM system. At the same time, the findings of the baseline survey and subsequent tracer surveys will be used to generate periodic action plans to address the feedback received from beneficiaries through the surveys' implementation.

B. Fiduciary

(i) Financial Management

65. The project will be implemented by MOET in line with World Bank policies that are standard for project implementation, including the "Procurement Regulations" dated November 2020.

66. The Financial Management (FM) assessment conducted for MOET found that the FM risk, as a component of the fiduciary risk, is rated as Substantial. With the proposed mitigating measures, MOET will meet the World Bank's FM requirements and will have an acceptable FM system. The residual FM risk rating would be Moderate after mitigating measures. The details of the FM assessment and arrangements are included in Annex 1.

67. A single segregated Project Designated Account in US Dollars will be opened at the BdL under MOET in the name of the project. Funds will be channeled from the World Bank to the Ministry of Finance's treasury account and then transferred to the project designated account opened at the BdL. Disbursements will follow the guidelines and the modalities specified in the Loan Agreement and Disbursement and Financial Information Letter.

68. The general accounting principles for the project will be as follows: (a) project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. Project accounting will be based on cash basis of accounting; and (b) project transactions and activities will be separated from other activities undertaken by MOET.

69. The task team at MOET will be responsible for preparing periodic reports and maintaining the project bookkeeping and will produce quarterly Unaudited Interim Financial Reports (IFRs) and annual Project Financial Statements (PFS). The task team will produce the IFRs every quarter and submit them to the World Bank within 45 days at the end of each quarter. The PFS will be prepared on a semi-annual basis and will include the same information as the IFRs.

70. The PFS will be subject to an audit that will be conducted on a semi-annual basis. The external audit will also cover the financial operations, internal control and FM systems, along with a comprehensive review of Statement of Expenditures (SOEs). The audit will include: (i) the auditor's opinion on the project's semi-annual financial statements; and (ii) a management letter on the project's internal controls. The audit report and management letter will be submitted to the World Bank within two months from the end of each calendar semester.

71. MOET will recruit a Technical Auditor with terms of reference acceptable to the Bank to validate that the wheat imports have been executed as per the Framework Agreement between MOET and importers and the



contracts between the importers and suppliers. In addition, MOET will recruit a TPMA to verify the results at the community level.

(ii) Procurement

72. **Procurement under the project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated November 2020** ('Procurement Regulations'). The project will be subject to the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants", October 15, 2006, revised in January 2011, and as of July 1, 2016. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record, and track procurement transactions.

73. **The simplified procurement procedures for 'Situations in Urgent Need of Assistance or Capacity Constraints' described under paragraph 12 of Section III of the IPF Policy will be applicable to fast-track project procurement.** Those will include: (a) direct selection, as appropriate; (c) increased thresholds for requests for quotations; and (d) selection of consulting firms using Consultant's Qualification-based Selection (CQS).

74. **MOET will hold the overall responsibility and will act as the Bank's counterpart for procurement. MOET will be responsible for oversight of wheat imports under Component 1 and for undertaking procurement and contract management for Component 2.** For wheat imports, MOET will enter into direct Framework Agreements with selected local importers who comply with the World Bank eligibility requirements and meet the predefined qualification criteria, in terms of number of years in wheat import business, volume of annual wheat imports and unqualified audit reports. The selected importers will procure wheat, using established market practices acceptable to the World Bank, in accordance with paragraph 6.46 of the Procurement Regulations. The guiding principles, procurement procedures, and contract conditions and form, acceptable to the World Bank shall be outlined in the POM and in the Framework Agreements to be signed between the MOET and the importers. These principles shall, inter alia, include:

- a. Procurement procedures and contract conditions and form shall be consistent with market practices, acceptable to the World Bank;
- b. Ensuring that suppliers/brokers comply with the World Bank eligibility requirements in accordance with paragraphs 3.21-3.24 of the Procurement Regulations and are qualified. The wheat shall also be from eligible countries of origin;
- c. Avoiding situations of conflict of interest, in accordance with paragraphs 3.14-3.17 of the Procurement Regulations, in the award of contracts.
- d. Ensuring compliance by the importer, supplier and broker with the World Bank Anti-Corruption Guidelines in the procurement process and during contract execution.
- e. Oversight by MOET's General Directorate of Cereals and Sugar Beets of the procurement process to be carried out by the importers, through prior review and clearance of the draft contracts (in US Dollars) with selected wheat suppliers. MOET shall ensure: (i) compliance with the accepted procurement practices and contract conditions, (ii) adherence to MOET technical specifications and (iii) price reasonableness in comparison with prevailing market prices. MoET shall obtain World Bank no objection, where applicable.
- f. The Importer shall not sign the contract with the supplier until the clearance to proceed with the signature of the contract has been obtained in writing from MOET.



- g. Payments for wheat purchased/shipped shall be made by MOET authorized by Borrower in US Dollars directly to suppliers in accordance with the terms stipulated in the signed contract.
- h. Maintaining all relevant records and allowing for inspections and audits by MOET, through the TPMA or external auditor, and by the World Bank, when requested.

75. **As a result of the conflict in Ukraine, grain prices are continuing to increase on global markets. To ensure security of supply in the context of volatile market prices and given limited storage capacity in Lebanon, wheat imports will involve multiple purchases by selected importers**, most in the range of 5,000-10,000 tons, and a total monthly average of 50,000 tons, over the project duration. Importers will prepare and share with MOET a schedule of planned wheat purchases. Each importer will request quotations for every scheduled purchase, either directly or through brokers, from eligible and qualified international wheat suppliers who have a track record of supplying wheat at quality and on time. The quotation which offers the best combination of quality, price and delivery schedule shall be selected and a draft contract with the selected supplier shall be prepared using conditions of contract, acceptable to the World Bank.

76. Based on a review of samples of wheat purchase contracts in use by wheat importers, it was noted that they are based on the GAFTA Contract No. 48 (delivery based on CIF). The latter would generally be acceptable to the World Bank, subject to the addition of World Bank Anti-Corruption Guidelines provisions; including without limitation of the Bank's right to sanction and the Bank's inspection and audit rights, and other provisions as it becomes necessary to make the contract acceptable to the Bank, including the disclosure in the contract of the brokerage (fee to be paid to the broker by the supplier). The contract shall include relevant contract specifics and data, including description of the commodity, quality and any additional specifications, quantity and applicable delivery terms, period of delivery, price, payment terms and any additional documents required in addition to the relevant shipping documents specified in the applicable GAFTA General Conditions, and any other requirements, ensuring that there is no inconsistency between the General and contract specific information.

77. **A procurement risk and capacity assessment was carried out by the World Bank.** It concluded that MOET has limited procurement capacity and it will have difficulty to attract capable international suppliers of wheat, partly due to poor perception among bidders and limited ability for market outreach and mobilization activities. Furthermore, MOET does not have experience in implementing projects following World Bank Procurement Regulations. On the other hand, wheat imports have historically been carried out by private sector importers, in accordance with established market practices. Private sector importers have managed to secure a continuous supply of wheat at market prices, through international qualified suppliers. Potential risks include re-export of wheat to neighboring countries, hoarding of wheat to resell at higher prices, and leakages downstream after the wheat is imported. To ensure funds are used for the intended purposes and to mitigate procurement and integrity risks, the following measures shall be put in place:

- a. The Framework Agreements shall specify the price at which the importer shall distribute imported wheat to other distributors and the mechanism/regulation to be followed in setting the price of flour to be sold to bakeries.
- b. The World Bank will review and clear Framework Agreements between MOET and selected importers prior to signature.



- c. The wheat purchase contracts shall be subject the World Bank’s to prior review. MOET’s General Directorate of Cereals and Sugar Beets will be responsible for reviewing and approving the award recommendations/draft contracts and submitting these for the World Bank’s review through STEP.
- d. Given the volatile market conditions, and the short quotation validity period, the clearance of the draft contracts by MOET/the World Bank shall be completed within 1-2 business days.
- e. Payments for wheat purchased/shipped shall be made in US Dollars by MOET directly to suppliers in accordance with the terms stipulated in the signed contract.
- f. MOET will include a qualified procurement officer to be responsible for day-to-day handling of procurement and contract management under Component 2.
- g. The World Bank team will provide close implementation support to designated MOET staff during the initial stages of implementation.
- h. Technical audits will be commissioned by MOET to ensure that the wheat supplied complies with the quantity and quality stipulated in the signed contracts and to monitor the distribution of wheat and flour downstream.

78. **Procurement risk is rated High.** The World Bank prior review thresholds for High-risk rating projects shall apply to the project. Wheat purchases are expected to exceed US\$1.5 million, therefore, it is expected that all contracts will be subject to the World Bank’s prior review. Given the urgent need for assistance, MOET will prepare a streamlined Project Procurement Strategy for Development (PPSD). The PPSD and the Procurement Plan will be finalized during the initial stages of Project implementation.

C. Legal Operational Policies

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

D. Environmental and Social

79. The social risk rating is substantial. The project is not associated with any civil works. The social risks are related to: (i) potential child labor and forced labor engaged by primary suppliers, which are trading companies (low risk); (ii) smuggling of subsidized wheat, which may have an impact on poor and vulnerable groups from accessing bread, and (iii) access to affordable bread for the most vulnerable populations. To mitigate the risk of child and forced labor engaged by primary suppliers, the Framework Agreements that will be signed between MOET and the importers will include a declaration that they will not use child labor or forced labor. To mitigate the risk of smuggling of subsidized wheat, the Framework Agreements will include a provision with the obligation to deliver wheat in Lebanon. To ensure access to affordable bread for the most vulnerable populations, the Framework Agreements will include provisions for delivery of wheat to bakeries in areas with high levels of poverty, refugees, and their host communities. The project will include third-party monitoring arrangements, such as Red Cross volunteers through the Lebanese Red Cross/International Federation of Red Cross and Red



Crescent Societies, which will confirm that the bakeries service areas that include poor and vulnerable groups are receiving the flour as per Framework Agreement. In addition, the project will finance high frequency 'Listening to Poor and Vulnerable Household Surveys', entailing data collection on bread prices and consumption for the poor and vulnerable households, by collecting random sampling and surveying (biweekly) using UNHCR and WFP beneficiary lists. This information will be triangulated at MOET level with information consolidated from the consumer protection agency, GM, and price monitoring system, and used to adopt appropriate remedies, such as including in the Framework Agreement a preferential distribution clause for bakeries located in areas where most of the poor and vulnerable groups are located. Additional social risks are associated with the consultancy services and technical assistance under Component 2 that will help MOET's planned transition from the current wheat subsidy system to a more market-oriented system. Such risks will be mitigated through recommendations in the study to ensure linkages with the social safety net programs like ESSN, a clear communication campaign, and an effective and widespread dissemination of the grievance mechanism. All the mitigation measures will be covered in the Environmental and Social Management Plan (ESMP), which will be prepared before signing Framework Agreements with local importers and as a disbursement condition.

80. The Environmental risk rating is Moderate. The project is limited to procurement of wheat to maintain the supply during the market disruptions caused by the war in Ukraine. The project finance will not involve any civil works nor any other activities after the vessels deliver the shipment at the ports of Beirut and/or Tripoli. There are some associated activities, which are not directly financed by the project but are directly and significantly related to the project; will be carried out contemporaneously with the project; and necessary for the project to be viable and would not have been conducted if the project did not exist. Those activities include (i) the offloading the wheat from the vessels to either trucks or temporary storage at the port, and (ii) trucks moving to the port to be loaded from vessels and transporting the wheat to mills including any transit fumigation needed. Other downstream activities (i.e., storage at the mills and related pest control, milling, distributing flour, baking and distributing bread and other baked products) are not considered associated with the project because they will follow exactly the existing arrangements and processes which existed before the project and will remain after the project closure. The unloading of the wheat from the vessels will be associated with limited environmental risks, including some dust emission while moving the wheat by the clamshell buckets from vessels to trucks, in addition to limited Occupational Health and Safety (OHS) risks (moderate risks) to the port workers caused by the dynamic risk from moving objects. This would be mitigated through following proper OHS management measures. In some cases, the wheat may be offloaded to temporary storage at the port (especially Port of Tripoli) until it is transported later to mills, however, this is not expected to be common practice as this would be associated with extra costs that private mills/importers would be keen to avoid. In such cases there would be risks that offloading the wheat to storage areas may cause some fire risks in case of improper storage conditions (moderate risk) and this would be mitigated through ensuring proper storage and adopting needed fire prevention measures before offloading the wheat. There are some risks related to food safety in case the imported wheat contains some fungi or related toxins, or some remains from the fumigation activities during the upstream loading at sources and in transit (moderate risk), and this risk would be mitigated by ensuring that wheat is properly analyzed and is meeting the food safety standards. There are also some risks related to transporting the wheat from the port to the mills, including road safety issues (moderate risk) which would be mitigated through following proper safety measures, and risks related to fumigating the trucks to preserve the wheat while in transit (moderate risk) and this would be mitigated through following proper pest management procedures. Component 2 activities include technical assistance and consultancy services that cover monitoring wheat pricing; developing an implementation plan for gradually removing wheat subsidies; conducting an adequate communication campaign about these reforms; and



recruiting an external auditor for fiduciary and procurement verifications. Those activities have low/no environmental risks. The project will involve primary suppliers of wheat, whose involvement is considered essential for the project to achieve its objective. Risks associated with the primary suppliers include risks related to the supply chain of wheat and the possibility that it has been produced from areas where significant conversion of natural habitats took place to clear the land for agriculture (low risk for wheat cultivation). All the above risks are considered moderate because they are: (i) predictable and of temporary nature; (ii) site specific; and (iii) of low probability of serious effects to human health and/or the environment.

81. **Borrower Capacity:** The project will be implemented by the Ministry of Economy and Trade (MOET), which oversees grain imports in Lebanon. The project will directly pay suppliers of wheat through procurement carried out by the private sector following the existing arrangements, and MOET will provide overall supervision of the process to ensure proper fiduciary arrangements. MOET has no experience in implementing World Bank Investment Project Financing, and, hence, has no past experience of Safeguard Policies nor the Environmental and Social Framework (ESF). While no project implementation unit will be established, project implementation will rely on a designated MOET task team, with clearly assigned roles. In this regard, the environmental and social (E&S) focal point has already been assigned and has supported in the preparation of the Environmental and Social Commitment Plan (ESCP) and Stakeholder Engagement Plan (SEP). During implementation, the E&S focal point will ensure implementation of the E&S requirements as per the material measures and actions stipulated in the ESCP. The MOET assigned E&S focal point will conduct field visits to monitor the E&S activities implemented by Contractors and ensure that the E&S requirements are integrated into the contracts with the suppliers. The MOET's limited capacity in application of the World Bank ESF is a risk factor which is expected to be mitigated through the World Bank team's capacity building measures to the E&S assigned focal point throughout the project duration as needed.

82. **Stakeholder Engagement:** Initial stakeholders' identification and consultation was conducted during the preparation phase in March 2022 followed by consultations with mills owners (Big Mills of the South, Lebanon Modern Mill, and Shahba Mills) on March 17, 2022, at the MOET premises. During the consultation session, mill owners indicated that they welcome the World Bank support but also shared their concerns on potential smuggling of wheat and their concern that the wheat subsidy will be lifted after completion of the World Bank's intervention. Due to the emergency nature of the project and the lack of time during the preparation phase, the consultations were limited to the mill owners. MOET is planning to implement additional and immediate stakeholder consultations before project activities begin to ensure a more inclusive consultation and particularly taking into consideration the views of poor and vulnerable groups including refugees and to effectively disseminate the project grievance mechanism. Active efforts will be made to seek stakeholders' feedback and particularly feedback from vulnerable groups including the poor and refugees on the consistent availability of wheat. The modes of engagement and the frequency of engagement will be determined by the needs of the project as well as the needs and interests of different stakeholders. Information about the project will be made available to stakeholders through the MOET website. The MOET prepared a SEP which is ready to be disclosed. Regular stakeholder engagement will be conducted where various stakeholders will be engaged and consulted throughout the implementation of the project activities in accordance with ESS10 provisions.

83. **Grievance Mechanism:** The MOET also has in place a formal mechanism for uptake of grievances which are handled by a dedicated office. The grievances are documented in a formal manner. Below is the summary of the current uptake channels to register a grievance at MOET: Enquiries or complaints can be raised through



different channels: (1) By telephone on the following hotline: 1739 or +961 - 1 - 982360/1/2/3/4/5; (2) By email on Info@economy.gov.lb; (3) By using an online form provided on the Website: <https://www.economy.gov.lb/tickets/en/new-ticket>; (4) Through an application that can be downloaded on the following link: <https://www.economy.gov.lb/en/services/consumer-protection/services-online/consumer-protection-complaint-mobile-application>. The MOET’s grievance mechanism is consistent with requirements of ESS 10 and will be used to receive, process and address project related grievances received from complainants.

84. ESF Instruments: As per the provisions of the ESCP, the MOET will prepare an ESMP integrated with Labor Management Procedures (LMP) before signing Framework Agreements with eligible importers. The ESMP integrated with LMP will include (i) assessment of the existing measures adopted by offloading contractors, sampling/analysis of wheat grains to ensure food safety, temporary storage of wheat the port, fumigating companies and transporting companies, (ii) identification of any gaps between the existing procedures and the requirements of the ESF, the Environmental, Health and Safety Guidelines (EHSG) of the World Bank Group and recommendation of measures to bridge any identified gaps and ensure adequate management of potential environmental and social risk; (iii) COVID-19 prevention measures; (iv) Gender-Based Violence (GBV) prevention; (v) grievance mechanism (vi) social risks and impacts and particularly impacts of component 2 on the vulnerable groups including the poor and refugees and respective mitigation measures.

V. GRIEVANCE REDRESS SERVICES

85. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial



4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	High
7. Environment and Social	Substantial
8. Stakeholders	High
OVERALL	High

86. The overall risk rating for the project is high. The key risks and mitigation measures are described below:

- a) **Political and governance risks** associated with stalemate in the executive and legislative branches of the Government are high and may affect the project approval process by the Cabinet of Ministers or lead to delays in parliamentary approval of the proposed loan. This could significantly delay project effectiveness, especially in view of the uncertainties related to the upcoming elections in mid-May 2022. In addition, failure to reach an agreement on a new election law may result in a parliamentary vacuum, as a third extension for the current Parliament has been ruled out by both the President and the Speaker of Parliament. Changes in political leadership could also potentially affect commitment to the sustainability of the project. This risk affects all World Bank-financed operations and cannot be fully mitigated. Lebanese politicians at the highest level have expressed to the donor community and the World Bank their readiness to expedite and facilitate the approval of development loans and grants, especially those linked to the GCF.
- b) **Macroeconomic risks** are high. In the absence of a stabilization program and an agreed macroeconomic framework, there is no guarantee that inflation will not remain in triple digits, depreciation will not continue at dramatic rates, fiscal transfers will be available, foreign exchange resources will be available, or citizens will be able to afford the rising cost of food. The food sector, and particularly wheat imports, would be affected through a breakdown in the government’s ability to contribute to the cost of wheat imports, especially in a context of high global market volatility and rising wheat prices due to the conflict in Ukraine. This would have devastating socio-economic impacts on the entire Lebanese population. The project aims to mitigate some of these risks by providing a buffer that will ensure the continuation of wheat imports and avoid a breakdown in wheat supply, while setting the frame for more sustainable solutions for the sector in the medium term.
- c) **Sector strategies and policies risks** are substantial. While there is government ownership for reform, current policy distortions are high and associated fiscal costs are unsustainable, particularly considering the rising global wheat prices. Lifting bread price controls abruptly could have devastating consequences on Lebanese consumers, and especially the most vulnerable consumer groups. The project will mitigate these risks by laying the ground for initiating much-needed sector reforms, and by creating the space for a managed transition to more effective policies.
- d) **Institutional capacity for implementation and sustainability risks** are substantial and associated with the overall weak governance in Lebanon and low human capacity at MOET, as well as with a need to ensure



a managed policy transition when the project financing ends. Mitigation includes introducing capacity building and technical activities through Component 2, as well as technical support through the project and complementary to it in to manage the needed policy transition.

- e) **Fiduciary risks** are high. Financial Management risk is Moderate given complex institutional arrangements and weak capacity (see Annex 2 for details). Procurement risk is rated High due to volatile market conditions and weak oversight capacity in MOET. Mitigation measures have been included in project design as detailed in Annex 2.
- f) **Environmental and social risks** are substantial: The environmental risks are considered moderate because they are: (i) predictable and of temporary nature; (ii) site specific; and (iii) of low probability of serious effects to human health and/or the environment. The downstream activities after offloading the vessels (i.e., transportation, pest control, milling, distributing flour, baking, and distributing bread and other baked products) are not considered associated with the project because they will follow exactly the existing arrangements and processes without any need for constructing, expanding, or conducting any additional activities. Those downstream activities are not needed to achieve the PDO or intermediate project indicators. The social risk rating is substantial. The social risks are related to (i) potential child labor and forced labor engaged by primary suppliers which are trading companies (low risk), (ii) smuggling of subsidized wheat which may have an impact on poor and vulnerable groups from accessing bread, and (iii) access to affordable bread for the most vulnerable populations. See environmental and social assessment above for further details and mitigation.
- g) **Stakeholder risks** are high. There are significant vested interests linked with the wheat sector not only from political parties and sectarian groups but also from the private sector and civil society. Most importantly, the wheat price transmission to the cost of bread could deeply affect the entire population of Lebanon. Related reforms will be politically challenging and require coordination with other ministries, including the Ministry of Finance, Ministry of Social Affairs, and others. Mitigation includes technical support and a strong focus on stakeholder engagement and communication activities, included in the project design and complementary to it, to inform such reforms and ensure a managed transition.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Lebanon

Lebanon: Wheat supply emergency response project

Project Development Objectives(s)

The Project Development Objective is to ensure the availability of wheat in Lebanon, in response to the global commodity market disruptions, and to maintain access to affordable bread by poor and vulnerable households.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Ensure the availability of wheat in Lebanon							
Cumulative amount of wheat procured through the project and delivered in the ports of Beirut and Tripoli (Metric ton)		0.00	50,000.00	100,000.00	150,000.00	200,000.00	250,000.00
Poor and vulnerable beneficiaries with access to affordable bread.							
Vulnerable beneficiaries with access to affordable bread. (Percentage)		90.00					95.00
Refugees with access to affordable bread (percentage) (Number)		90.00					95.00



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Vulnerable host beneficiaries with access to affordable bread (percentage) (Number)		90.00					95.00
Vulnerable women with access to affordable bread (percentage) (Number)		90.00					99.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
C1: Financing immediate wheat import needs and bread access for poor and vulnerable groups							
Monthly amounts of wheat procured through the project, delivered in the ports of Beirut and Tripoli (Metric ton)		0.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00
C2: Project management and capacity building							
Percentage of beneficiaries' feedback addressed through the GM within the timeframe publicly communicated by the project (Percentage)		0.00	50.00	55.00	60.00	75.00	100.00
Improved wheat and bread price monitoring system implemented by MOET (Yes/No)		No					Yes



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Cumulative amount of wheat procured through the project and delivered in the ports of Beirut and Tripoli	The indicator will measure the amount of wheat (tons, gross weight) imported to Lebanon and delivered in the ports of Beirut and Tripoli. The indicator will be measured based on data collected regularly and reported by the Ministry of Economy and Trade.	The indicator will be measured monthly and at the end of the project implementation period, and will reflect cumulative wheat import procured with project financing since the start of the project.			
Vulnerable beneficiaries with access to affordable bread.	The data will be collected from using random sampling and surveying (biweekly) using UNHCR and WFP beneficiary lists.				



Refugees with access to affordable bread (percentage)					
Vulnerable host beneficiaries with access to affordable bread (percentage)					
Vulnerable women with access to affordable bread (percentage)					

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Monthly amounts of wheat procured through the project, delivered in the ports of Beirut and Tripoli	The indicator will measure the average amount of wheat (tons, gross weight) imported to Lebanon and delivered in the ports of Beirut and Tripoli every month. The indicator will be measured based on data collected regularly and reported by the Ministry of Economy and Trade.	Monthly, on the last day of each month.	Ministry of Economy and Trade	Ministry of Economy and Trade will collect, process, and centralize price and quantity data from contracts, invoices, other commercial documents presented by the eligible importers	Ministry of Economy and Trade
Percentage of beneficiaries' feedback addressed through the GM within the timeframe publicly communicated by the project	The indicator will track the extent to which the feedback from project beneficiaries is recorded and addressed.	Biweekly	MOET	Data will be collected through the project GM as described in the POM	MOET
Improved wheat and bread price monitoring system implemented by MOET	The improved price monitoring system will	Daily (for international	Source of international	International data will be collected from open	MOET



	include the following layers: (i) international wheat price monitoring and analysis; (ii) domestic wheat, flour and bread price monitoring to check regulatory compliance (to be done through TMPA, government verification services and high frequency surveys).	al wheat prices); biweekly for domestic prices.	market prices will be defined in the POM. Domestic prices will be collected through high frequency surveys, and also reported through third-party monitoring agents and government verification.	data sources to be defined in the POM. Domestic data will be collected in a data platform using reporting from TPMA, government sources and high frequency surveys. An IT solution for data collection and reporting (such as a dedicated application) will be used if possible.	
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ANNEX 1: Implementation Arrangements and Support Plan

Strategy and Approach for Implementation Support

1. Implementation support for the project will focus on functions and activities typically monitored by World Bank task teams during supervision, including technical activities, management functions (administration, FM, procurement), and compliance with safeguard policies. Special attention will be directed to ensuring the timely implementation of the risk mitigation measures identified in the SORT matrix. The implementation support strategy is flexible and likely to be amended during implementation in response to the evolving needs of the project, including changes in the institutional context.

Implementation Support Plan and Resource Requirements

2. The areas on which implementation support activities will focus are summarized in Table A1.1, which also lists skill requirements.

Table A1.1: Implementation support focal activities and skill requirements

Time	Focus	Skills needed	Resource estimate
First 6 months	<ul style="list-style-type: none"> Project establishment Establishment of fiduciary systems Communications strategy development and implementation Environmental and social aspects in place Establishment of Technical Committees/PCU Establishment of cooperation agreements with importers, etc. Setting-up M&E system 	<ul style="list-style-type: none"> Task Team Leader Environmental Specialist Agri-food Specialist Procurement Specialist Social Specialist FM Specialist 	10 staff weeks
12 months	<ul style="list-style-type: none"> Program implementation Communication activities Monitoring Reporting 	<ul style="list-style-type: none"> Task Team Leader Environmental Specialist Agri-food Procurement Specialist Social Specialist FM Specialist 	20 staff weeks



ANNEX 2: Financial Management

1. The “Lebanon: Wheat Supply Emergency Response” Project is a Recipient Executed project that will be implemented, according to the World Bank guidelines, by the Ministry of Economy and Trade (MOET), which oversees grain imports in Lebanon. The MOET does not have previous experience in carrying out the implementation of World Bank financed projects. While no project implementation unit will be established, project implementation will rely on a designated MOET task team, with clearly assigned roles. This task team will be responsible for overall planning, implementation and management of project activities and will supervise the implementation of activities by suppliers.
2. The MOET will be responsible for putting in place all the arrangements, including the FM arrangements, to implement the project. This includes establishing, as early as possible, a dedicated task team composed of external consultants to speed up the implementation of the project activities. The Bank will provide the task team with guidance and hands-on support to implement the FM activities. A third-party monitoring agent with Terms of Reference (TORs) acceptable to the Bank will be recruited to validate that the wheat imports are executed as per the Framework Agreement to be signed between the MOET and importers and the agreements between the importers and the suppliers.
3. The MOET task team will be responsible for handling the FM aspects of the project. The project funds will be disbursed in US\$ and will be channeled through the MoF Treasury Account and will be transferred to the Project Designated Account opened at the Central Bank. Funds will be channeled from the World Bank using advance, direct payments and reimbursements through withdrawal applications accompanied by proper supporting documentation. Disbursement will be following the applicable procedures and the World Bank's Disbursement Handbook. Interim Unaudited Financial Reports (IFRs) and semi-annual PFS will be used as a financial reporting mechanism and not for disbursement purposes.

Financial Management Assessment

4. The FM team reviewed the FM arrangements at MOET. Based on the result of the assessment, the FM risk, as a component of the fiduciary risk, is rated as Substantial. With the proposed mitigating measures, MOET will meet the Bank's FM requirements and will have an acceptable FM system and the residual FM risk rating would be Moderate.
5. The following are the risks identified:
 - i. Possible delays of funds to be transferred from the MoF Treasury Account to the Project Account due to the lengthy clearance processes, thus impacting timely payments.
 - ii. Importing wheat from international suppliers goes through local importers with MOET playing a supervisory and regulatory role, arrangements between MOET, importers and suppliers may be complex to manage. In addition, there is a risk of divergence and/or misuse of the wheat procured from their final destination.
 - iii. MOET has internal bylaws and procedures; however, they do not comprehensively cover the World Bank's FM requirements.
 - iv. MOET does not have an accounting software to record transactions and produce financial reports.
 - v. The continuing devaluation of the Lebanese Pound (LBP) against the US\$.



- vi. MOET does not have previous experience in implementing World Bank financed projects.
 - vii. MOET fall under the audit of the Court of Accounts (CoA), although the CoA has technical expertise, it lacks the human resources capacities and may not specifically audit the project funds on a yearly basis.
6. To mitigate these FM risks, the following mitigation measures are proposed:
- i. MoF and the Central Bank in coordination with MOET, will ensure that funds will be transferred from the treasury account to the project designated account promptly after receiving the request from MOET and the Central Bank will ensure that payments to suppliers are executed promptly after the receipt of the transfer request submitted by MOET.
 - ii. MOET will dedicate a team to handle project implementation. The team will include a financial officer handling all FM aspects of the project.
 - iii. MOET will enter into Framework Agreements with the local importers that will establish roles and responsibilities. Local importers will sign contracts with international suppliers. All Framework Agreements and contracts will be prior reviewed by the World Bank.
 - iv. MOET will use excel files/ spread sheets to record daily transactions and produce the required interim financial reports (IFRs) which will be prepared on quarterly basis and submitted 45 days after the end of each quarter.
 - v. MOET will prepare a Project Operations Manual (POM) which will include an FM chapter.
 - vi. MOET will recruit a technical auditor to verify that the wheat import has been executed according to the relevant agreements/contracts and POM. In addition, the technical auditor will be complemented by the TPMA to verify that the wheat has been distributed fairly and reached their agreed final destination.
 - vii. MOET will get into a contract with an independent external auditor with TORs acceptable to the Bank to audit the PFS. The auditor will prepare an audit report and management letter that will cover each calendar semester of the project and will be due no later than two months after the end of each calendar semester.

Financial Management and Disbursement Arrangements

7. *Staffing:* MOET will establish a dedicated task team who will be responsible for overall planning, implementation and management of project activities and will supervise the implementation of activities by suppliers. The team will include a financial officer to handle all FM aspects of the project. The World Bank will provide the necessary training to the task team on World Bank FM procedures. The establishment of a dedicated team and the recruitment/assignment of a financial officer will be a condition for disbursement.

8. *Internal controls:* MOET has limited internal controls functions. The internal controls are set according to MOET's internal bylaws. For the purpose of the project, MOET task team will prepare a Project Operations Manual (POM) which will include an FM chapter containing detailed information about the FM procedures and rules governing the flow of funds and internal control procedures, as well as the specific responsibilities of each member of the task team. The preparation of the POM will be a condition for effectiveness.

9. *Wheat* will be purchased by local importers from international suppliers. MOET will play a supervisory and regulatory role in the process. Framework Agreements will be established between MOET and local importers describing the roles and responsibilities of each party. The Framework Agreements will be cleared by the World Bank. Local importers will sign contracts with the international suppliers to procure the wheat. The contracts will detail the quantities, process, mechanism of shipment, payments provisions, delivery, storage, and distribution.



Based on these agreements, MOET will pay suppliers directly. MOET will receive and review all supporting documents from the importers after signing the contracts with the suppliers and will clear them before processing and payment.

10. MOET will recruit a Technical Auditor, with TORs acceptable to the Bank, to validate that the purchase of the wheat has been made according to the legal agreement, POM, Framework Agreements (to be signed between MOET and importers) and the contracts to be signed between the importers and suppliers and that the wheat has been discharged at the Beirut and Tripoli ports. The Technical Auditor will also verify that the wheat has been discharged and distributed to the mills according to the agreement with MOET and the mills. Specifically, they will conduct the following:

- Validate the stock count of the wheat upon delivery at the designated ports (verify the quantities as per the framework and contracts signed, this will include declared prices/quantity at loading port to compare with declared price/quantity arriving in Beirut or Tripoli).
- Verify that the wheat has been discharged and moved to delivery at the initial destination and then verify that the wheat is received by the mills and securely stored according to the Framework Agreement.
- Verify that the flour produced by the mills and subsequently distributed to the retail sellers (bakeries). This is based on data collection and data analysis.
- Validate the quantities distributed as bread and flour to the retail sellers (supermarkets, stores, etc.) across all governorates by sampling and analyzing data.

11. The Technical Auditor will keep detailed monthly data records related to the above process and will produce weekly reports about the progress made in distribution and will submit the reports simultaneously to the MOET and the World Bank. MOET will maintain a detailed inventory of the wheat stock from purchase to discharge to distribution along the chain and will add this inventory to the periodical financial reports (IFRs) to be submitted to the Bank.

12. MOET will recruit a TPMA to verify the results of the project at the community level/downstream. The TPMA has been identified as the Lebanese Red Cross and will facilitate price data collection for flour at the mill, for bread at the bakeries, and for bread at retail outlets, on a weekly basis and for a sample of outlets across all governorates. The TPMA will ensure that project beneficiaries are benefitting from the bread at a reasonable price and that bread is available for all communities in sufficient quantities are reasonable prices as specified by MOET. The TPMA will issue monthly reports on the progress made.

13. *Budgeting:* a budget plan will be prepared for the project and will be based on the procurement plan to compare planned expenditures with actual ones and monitor any variances. The MOET task team will be preparing a separate annual budget. The budget will be prepared on an annual basis and submitted to the World Bank in November/December of each year covering the subsequent year. The task team will monitor the variances in the disbursement plan and will provide justification on any major divergence.

14. *Project accounting system:* MOET does not have an accounting software to record transactions and produce financial reports. MOET will be using excel files/ spreadsheets to record daily transactions and produce the required financial reports. The task team will be responsible for preparing the IFRs. Project accounting will cover all sources and uses of project funds, including payments made and expenses incurred. All transactions related to the project will be recorded using the cash basis of accounting. MOET will ensure that all financial



transactions are comprehensive and complete and recorded in a timely manner and that all records are available for review and validation daily. The reconciliation of records will be made by MOET on a weekly basis.

15. *Project reporting:* The project financial reporting includes IFRs and yearly PFS. IFRs should include data on the financial situation of the project, including:

- 1) Statement of Cash Receipts and Payments by category and component.
- 2) Accounting policies and explanatory notes including a footnote disclosure on schedules: (i) “the list of all signed Contracts per category” showing contract amounts committed, paid, and unpaid under each contract, (ii) Reconciliation Statement for the balance of the Project’s Account, (iii) Statement of Cash payments made using SOE basis, (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; (v) a comprehensive list of all fixed assets; and (iv) detailed inventory of the wheat purchased and distributed

16. The IFRs should be produced every quarter and sent to the Bank within 45 days from the end of each quarter. PFS should be produced on a semi-annual basis and will include the same information as the IFRs.

17. *Flow of funds:* The funds will be transferred from the Bank to the project in accordance with the provisions of the Legal Agreement and Disbursement and Financial Information Letter. The funds will be channeled from the World Bank to the MoF Treasury Account and then transferred to the Project Designated Account opened for the project at the Central Bank of Lebanon in US\$. MoF and the Central Bank in coordination with MOET will ensure that once funds are received at the treasury account, they will be transferred to the project designated account. Then once the funds are in the designated account, payments will be executed by the Central Bank after the receipt of the transfer request submitted by MOET. The borrower (Ministry of Finance) will authorize the MOET to execute payments out of the project designated account. Deposits into the treasury account will be made in accordance with the provisions set out in both the Legal Agreement and Disbursement and Financial Information Letter and as outlined in the WB’s “Disbursement Guidelines for Projects.” The funds will be received in US\$ in the treasury account.

18. For payments related to component 1 (wheat imports), payments will be made from the project designated account in US\$ to the suppliers based on transfer requests submitted by the MOET to the Central Bank. Payments will be executed by the Central Bank after the receipt of the payment request by the MOET. MOET will be responsible for preparing withdrawal applications for advance and replenishment to the treasury account accompanied by appropriate supporting documentation. Payments to suppliers will be supported by the following: (i) a copy of the GAFTA contract, (ii) a copy of the invoice; (iii) bill of lading; (iv) documents confirming that the wheat has been loaded on the ship; and (iv) supplier bank account details. The choice of using the designated account to pay for suppliers as opposed to direct payments is because the Ministry of Finance has not established a mechanism to record direct payments in its books and the direct payments method is considered as an out of budget process which cannot be linked to any budget lines within the national budget. For payments related to component 2 of the project, transfers will be made from the project designated account and will be received in Lebanese Pounds by the third parties/beneficiaries at the Central Bank Sayrafa platform rate.

19. *Audit of the project financial statements:* The PFSs will be audited by an independent private external auditor acceptable to the World Bank. The audit will cover World Bank financing to MOET and will be carried out in accordance with International Standards on Auditing. The audit TORs will be cleared by the World Bank and will cover, among other things, compliance with the FM chapter of the POM, the effectiveness of the internal controls



system, and compliance with the Legal Agreement. The audit will be accompanied by a management letter that contains the external auditor’s assessment of the internal controls, accounting system, and compliance with the financial covenants in the Legal Agreement. The audit report and audited PFSs, along with the management letter will cover each calendar semester of the project and will be submitted to the World Bank no later than two months after the end of each calendar semester. The external audit TORs will be finalized and agreed with the World Bank within one (1) month after project effectiveness, and the external auditor is expected to be engaged within three months after project effectiveness. The World Bank makes publicly available the borrower’s audited annual financial statements for all investment operations. According to the World Bank disclosure policy, the MOET will ensure that the yearly project audit report is made public in a manner satisfactory to the World Bank.

Summary of actions to be implemented:

Actions	Deadline
Recruit a technical auditor and a third-party monitoring agent	1 month after effectiveness
Designate project coordinator	By effectiveness
Establish task team	1 month after effectiveness
Prepare POM	By effectiveness
Hire an independent external auditor	3 months after effectiveness

20. *Disbursement:* The funds will be disbursed according to the World Bank guidelines and should be used to finance project activities. The proceeds of the project will be disbursed in accordance with the traditional disbursement procedures of the World Bank and will be used to finance activities through the disbursement procedures currently used: i.e., Advances, Direct Payment and Reimbursement accompanied by appropriate supporting documentation (SOEs) in accordance with the procedures described in the Disbursement and Financial Information Letter and the Bank's "Disbursement Guidelines". The ceiling of the project designated account is set at US\$25.00 million (divided between US\$22.5 million for the IBRD part and US\$2.5 million for the GCFF part). The project will be fast disbursing with expected payments to suppliers ranging between US\$7.00 million to US\$8.00 million per week, hence the need for a larger advance ceiling to ensure that funds are readily available in the designated account to honor payments to suppliers and avoid any delays in shipments. The IFRs and the PFS will be used as a financial reporting mechanism and not for disbursement purposes. The minimum application size for direct payment, reimbursement will be equal to US\$1.00 million for the IBRD part and US\$100,000 for the GCFF part.

Allocation of the Project’s Proceeds:

Category	Amount Allocated from the Non-Concessional Portion of the Loan (US\$)	Amount Allocated from the Concessional Portion of the Loan (US\$)	Percentage of Expenditures to be financed (inclusive of Taxes) For Non-Concessional Portion of the Loan	Percentage of Expenditures to be financed (inclusive of Taxes) For Concessional Portion of the Loan



1) Goods related to Component 1 of the project	132,412,500	14,750,000	90%	10%
2) Goods, consultants' services, non-consultants' services, training and operational cost related to Component 2 of the project	2,250,000	250,000	90%	10%
3) Front End Fee	337,500	0.00		
Total	135,000,000	15,000,000		

21. *Disbursement conditions for expenditures under Category (1):* Two disbursement conditions will apply for expenditures under Category (1), namely: (i) MOET has entered into Framework Agreements with the Eligible Wheat Importers in accordance with the provisions of the Loan Agreement; and (ii) MOET has prepared and disclosed the ESMP under terms acceptable to the Bank.

22. *Designated Account (DA):* the Ministry of Finance's treasury account (pooled single treasury account under MoF) will be the account where funds will be received from the World Bank. MOET will open a segregated Project Designated Account in the BdL in US\$ to receive the funds from the treasury account and to cover the Project's share of eligible expenditures. The ceiling of the project designated account will be US\$25.00 million (divided between US\$22.5 million for the IBRD part and US\$2.5 million for the GCFF part). Given the disbursements conditions applying to category 1 of the project, for the IBRD part, MOET will be able to claim US\$360,000 only for Disbursement Category 2 of the Financing, until the disbursement conditions that apply to Disbursement Category 1 are met, and US\$22,500,000 after those conditions are met. For the GCFF part, MOET will be able to claim US\$40,000 only for Disbursement Category 2 of the Financing until the disbursement conditions that apply to Disbursement Category 1 are met; and US\$2,500,000 after those conditions are met. MOET will be responsible for submitting advance requests and replenishment applications with appropriate supporting documentation.

23. *Statement of Expenditures (SOEs):* For requests for Reimbursement and for reporting eligible expenditures paid from the Designated Account:

- Statement of Expenditures for category 1 of the project (attachment no. 2 of the Disbursement Letter)
- Statement of Expenditures for category 2 of the project (attachment no. 2 of the Disbursement Letter)

24. For requests for direct payments: records evidencing eligible expenditures e.g., copies of receipts, copies of suppliers' invoices above the minimum application size.

25. *Authorized Signatories:* Two authorized signatories will be nominated by MOET for the project to sign the withdrawal applications. Their corresponding specimen signatures will be submitted to the World Bank prior to the receipt of the first withdrawal application (advance to DA). Each withdrawal application will be approved and signed by the authorized signatories.

26. *Fraud and corruption* may affect the project resources, and thus impact negatively the project outcomes. The above proposed fiduciary arrangements, including the POM with a detailed FM chapter, reporting,



recruitment of a third-party monitoring agent and external financial audit, will help address the risk of fraud and corruption that are likely to have a material impact on the project outcomes.

27. **Implementation Support.** The World Bank FM team will ensure hands-on support for the project for the first six months, this will include early training in financial management and disbursements procedures to ensure that the FM arrangements including monitoring and controls are set in place, POM prepared, payments are executed in a timely manner and financial records are complete and reporting is on time and comprehensive. Implementation support missions will be scheduled every three months for the first 6 months and will be revisited as needed.