

The way forward

Practical recommendations for moving forward are categorised under three pillars, in relation to financial, regulatory and stakeholder relevant issues. These are briefly presented below in the form of a checklist for action. More detailed information on these is available in the Country's Report.

KEY AREAS FOR IMPROVEMENT

Improving the financial sustainability of water services

Improving the regulatory framework for water

Enhancing water integrity, stakeholders' engagement and gender mainstreaming

WAYS FORWARD INCLUDE ACTIONS TO:

- **Develop improved organization structures for the Ministry of Energy and Water (MEW) and the Water and Sanitation Establishments (WSEs)** based on clear roles and responsibilities and improve coordination between MEW and WSEs.
- **Restructure the WSEs to achieve the required human resources levels and capabilities** to ensure an appropriate operation and maintenance of assets and the delivery of water at optimal service levels.
- **Prepare a Strategic Financial Plan to prioritise infrastructure and management-related initiatives**, as described in the National Water Sector Strategy, and rank them based on their impact and investment needs. In this context, identify affordability constraints from consumer budgets or willingness-to-pay, variable levels of service under different policy scenarios, etc. to enhance private sector interest.
- **Clarify the interface between the legal framework specific to the water sector**, including the Water Code that is pending for ratification, and the new PPP law.
- **Develop an improved tariff system** taking into account its potential impacts on different social clusters (poor, women, youth) and accompanied by willingness-to-pay and affordability assessments at local level and/or at national level.
- **Enhance consultation with communities** at all stages of the development and implementation of the regulatory framework and of specific projects to identify and diagnose social and technical issues derived from differences in socio-economic needs and interests (e.g. poor, women, men, youth, etc.) and to increase trust in the public institutions.
- **Build dedicated capacities of the water professionals in the entire PPP process** by enacting effectively the related provision of the new PPP law, ensuring that training/capacity building is provided for men and women alike;
- **Concerning the WSEs, include monitoring and social safeguards as part of the PSP training**, and enhance their credibility through the provision of transparent and publicly accessible reporting on the use of revenues.
- **Consider social parameters and gender indicators**, which are unique to the water sector, for procured projects based on the new PPP Law.
- **Strengthen the government's focus on Corporate Social Responsibility (CSR)** as an enabler for efficient PSP in the water sector and evaluate the needs for reinforcing the legal framework in this respect, regarding e.g. transparency, anti-corruption, etc.
- **Promote awareness raising and targeted information towards the private sector** regarding opportunities and challenges in the water sector, also as a focus for CSR.
- **Enhance integrity and transparency mechanisms in the water sector** i.e. through effective accountability and monitoring mechanisms for evaluating the performance of relevant institutions, controlling illegal actions (e.g. illegal connections, illegal wells etc.), ensuring independent procedures in the recruitment process for personnel and in the interaction between citizens and public servants.

Among the work's highlights has also been the added value and contribution to the existing framework for the promotion of water efficiency projects under the Lebanese Environmental Action of the Central Bank of Lebanon (BdL). In this respect, the Dialogue on enhancing the role of Banks has pointed out the following important issues:

- **Find appropriate ways to engage more actively the local authorities/municipalities**, since they cannot benefit directly from the green loans provided by private Banks, eventually through the collaboration with a third party (private company, NGO etc.).
- **Work in parallel on raising the awareness of potential applicants** about the availability of financial mechanisms for water projects in Lebanon and, at the same time, encourage commercial Banks to be more active in this process.
- **Complement the above work with capacity building and further support towards potential applicants** through the Centre d'Information et de Formation aux Métiers de l'Eau (CIFME).
- **Train practitioners and the public on water scarcity and available solutions** (including innovative approaches on non-conventional water resources).

About the Governance & Financing for the Mediterranean Water Sector Project

Labelled in 2012 by the Union for the Mediterranean (UfM), the *Governance & Financing for the Mediterranean Water Sector Project* is a joint undertaking of the Global Water Partnership - Mediterranean (GWP-Med) and the Organisation for Economic Cooperation and Development (OECD).

The aim of this regional four-year project (2013-2017) is to diagnose key governance bottlenecks to mobilising financing for the water sector and to support the development of consensual action plans based on international good practices.

Country reviews are carried out to identify main governance challenges to sustainable financing via in-depth technical work and informed multi-stakeholder national dialogues, in close cooperation with the Ministries in charge of water, while a regional dialogue enables the sharing of policy and practical experiences among Mediterranean countries and the promotion of best practices. The project is executed through an interplay of national and regional activities, where the outcome of national work feeds into the regional dialogue, and findings and experiences from the regional dialogue bolster the national work.

Strategic partnerships with the Swedish International Development Cooperation Agency (Sida), the FEMIP Trust Fund (FTF) of the European Investment Bank (EIB), the GEF - UNEP/MAP MedPartnership programme and the Mediterranean Component of the EU Water Initiative (MED EUWI) have been instrumental in setting the project in motion and under effective implementation.

THE PRESENT DOCUMENT WAS DEVELOPED WITHIN THE FRAMEWORK OF THE PROJECT:

Governance & Financing for the **Mediterranean Water Sector**

PROJECT LABELLED UNDER:



Union for the Mediterranean
Union pour la Méditerranée
الإتحاد من أجل المتوسط

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Description: Chabrouh dam, Lebanon

POLICY BRIEF

WATER GOVERNANCE IN LEBANON: OVERCOMING THE GOVERNANCE CHALLENGES TO PRIVATE SECTOR PARTICIPATION

Governance & Financing for the **Mediterranean** Water Sector

The present document is based on the outcomes of the Lebanese Water Policy Dialogue (2016-2017) conducted by the Global Water Partnership-Mediterranean (GWP-Med) in collaboration with the EU-funded project Sustainable Water Integrated Management – Horizon 2020 Support Mechanism (SWIM-H2020 SM) in close cooperation with the Lebanese Ministry of Energy and Water and the Central Bank of Lebanon. The Dialogue allowed building a shared understanding among key stakeholders on the main areas for improvement towards the sustainable financing of Lebanon's water sector, also through private sector involvement with emphasis on the role of Banks. A set of targeted actions to achieve this are described in an analytical country Report and are based on best practices and internationally recognised tools. The Dialogue was carried out in the framework of the Union for the Mediterranean (UfM) labelled project *Governance & Financing for the Mediterranean Water Sector*, with the financial support of the Swedish International Development Cooperation Agency (Sida) and the SWIM-H2020 SM project.

Water Financing in Lebanon: Context of the dialogue & policy relevance

The Government of Lebanon is well-aware of the financial challenges that the water sector of the country faces and has been considering the potential involvement of the Private Sector, including Banks, to assist with the financial sustainability of the sector and meeting the country's water needs.

In fact, the needed investments for the planned infrastructure development, including the "softer" management-related interventions (institutional, tariff, legal and regulatory reforms) are significant and come up against strong financing constraints. The Government estimates that financial contributions through the State budget and Official Development Assistance will not suffice to cover the sector's needs.

Considerable efforts have been already made to face the related enabling environment challenges (primarily governance-related) to the development of the Private Sector Participation (PSP) in the Lebanese water sector.

Among the most prominent examples are the recent enactment by the Parliament of Law 48 Regulating Public Private Partnerships (7 September 2017) and the approval by the Council of Ministers of the Water Code (7 October 2017) that is pending for ratification by the Parliament (status as of December 2017).

However, constraints continue to be important and relate to:

- Institutional uncertainty, mainly due to the delayed and/or limited law enforcement for rationalising the water sector;
- Limited administrative capacities within relevant public authorities, and;
- High political and commercial risks that include low collection rates and limited cost recovery and might discourage Private Sector involvement.

Moreover, a more effective interface among government entities, private sector (including Banks) and civil society is needed, in order to establish a common understanding on PSP, the opportunities and risks from such involvement as well as the measures and needed actions to overcome existing obstacles.

Consultation with private sector and Banks has been already initiated in Lebanon by GWP-Med/OECD since 2010, during the Policy Dialogue on Integrated Water Resources Management carried out in the framework of the Mediterranean Component of the EU Water Initiative (MED EUWI).

The involvement of Banks in the consultation process represents a novelty in the country, and could assist with the financial sustainability of the water sector. This is also the expressed interest of the Ministry of Energy and Water (MEW) that besides the large-scale infrastructure projects to be implemented through the involvement of the Private Sector, is also keen in pursuing smaller projects with the support of commercial Banks, similar to what is being already carried out in the framework of the Central Bank of Lebanon (Banque du Liban - BdL) green financing mechanisms. In particular, the Lebanese Environmental Action (LEA) of BdL, offers opportunities for the promotion of water related projects focusing on water economy and efficiency.



2nd Consultation Workshop. From left to right: Prof. Michael Scoultos, Team leader of SWIM-H2020 SM, Chairman of GWP-Med, H.E Eng. Cesar Abi Khalil, Minister – MEW, Dr. Fadi Comair, Director General of Hydraulic and Electric Resources-MEW, Mr. Mario El Khoury, BdL, Ms. Esse Nilsson, Sida.

2017 has been an important year for the legislative framework related to both PSP and the water sector with the ratification of the law for regulating Public Private Partnerships and the approval of the Water Code by the Council of Ministers, pending for ratification by the Parliament.

The Government's willingness to improve the governance structure needed for attracting private investment into the sector, is clearly demonstrated and also reflected in the new Water Code.



The national water policy dialogue: What for?

The main objective of the GWP -Med / SWIM-H2020 SM Policy Dialogue on Water Governance and Financing in Lebanon (2016-2017) was to raise awareness on the enabling environment for sounder private sector involvement in water infrastructure with a focus on the banking sector and to identify the necessary incentives for expanding the environmental account fund in the Banks of Lebanon, primarily to promote the use of non-conventional water resources in the water-related sectors (agriculture, industry, domestic, tourism). Furthermore, the Dialogue aimed to support the work of water service facilities. In this sense, the Dialogue assisted the on-going efforts of the Lebanese Ministry of Energy and Water (MEW) and of the Central Bank of Lebanon (Banque du Liban - BdL) towards a more sustainable management and financing of water resources in the country.

In particular, the Dialogue focused on elaborating:

- the National Report entitled 'Water Governance in Lebanon: Overcoming the challenges to Private Sector Participation' that aims to be utilised as a tool in the hands of policy-makers and as a reference on water PSP in the country;
- the technical criteria for bankable water projects under BdL's Lebanese Environmental Action (LEA) green financial mechanism, that allows commercial Banks to provide loans with very low interest rates for projects related to water efficiency, such as wastewater treatment and rainwater harvesting, sustainable water fixture etc.;
- the type of small-scale projects that can be selected for further assessment and implementation as pilot cases through private sector/banks' support, thus contributing through 'learning by doing' towards a better understanding of the enabling conditions for PSP in the water sector.

The Dialogue included due consideration for key cross-cutting issues, including the importance of gender mainstreaming and Corporate Social Responsibility (CSR) as well as the need to consider socio-economic criteria such as affordability and willingness to pay. These issues have been integrated both in the National Report and in the consultations focusing on the role of private Banks and on the development of technical criteria for water projects under LEA. Having engaged more than 110 stakeholders, the Dialogue was based on multi-stakeholders consultations that guided and validated the step-by-step development of the technical work.

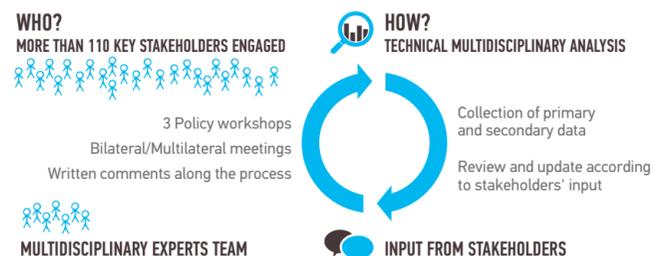
Key milestones of the process have been three Consultation workshops that contributed respectively to:

- Launch the Dialogue on enhancing the potential for Private Sector Participation in Water Infrastructure in Lebanon, with emphasis on the role of Banks and set the ground for the technical work to be conducted (March 2017);
- Present and discuss findings related to the National Report and a set of draft technical criteria for the financing of water projects under the LEA mechanism of BdL (October 2017);
- Present the final Report (November 2017) and advance the discussion on the elaboration of technical criteria for water projects, including socio-economic aspects.

Key stakeholders engaged in the process comprised government agencies, water establishments, private sector, including companies and Banks, regional and international organisations and donors, academia, as well as civil society. The positive momentum represented by the developments in the legislation related both to PPPs and to the water sector has given leverage to the Dialogue's process and outputs.

Moreover, the feedback received especially from the Banks throughout the activity has been crucial for the elaboration of the criteria, because of their experience in supporting environmental projects under other existing BdL green funding mechanisms and their understanding of the market related to environmental projects.

SNAPSHOT OF THE DIALOGUE: POLICY DIALOGUE – METHODOLOGY



'What we are doing today is an important step forward and a direct outcome of our coherent efforts to explore the potential for PSP in the water sector, efforts that started already in 2009 with the help and contribution of GWP-Med, the Mediterranean Component of the EU Water Initiative and OECD and all the Lebanese stakeholders who have actively participated in this Dialogue.' With these words Dr. Fadi Comair, Director General of Hydraulic and Electric Resources speaking on behalf of H.E Eng. Cesar Abi Khalil, Minister of Energy and Water, acknowledged the value-added of the dialogue during the Opening session of the 3rd consultation workshops.

What are the main findings of the policy dialogue?



3rd Consultation Workshop, Beirut, 8 November 2017

The technical work that focused on the enabling conditions needed for a successful Private Sector Participation (PSP) in Lebanon, fully aligns with the ongoing water sector's reform process and the improved legal framework for PPPs.

Moreover, the elaboration of the criteria for bankable water projects under the non-conventional water resources management spectrum and with due consideration of socio-economic aspects also contributes to the existing efforts of BdL and private Banks to enhance the efficiency of the water sector through the green funding mechanism LEA.

Corroborated through the stakeholders' consultations, the analysis pointed, among others, to the following key issues:

- The implementation of the **newly ratified PPP law** is expected to create transparency through setting the details of the tendering mechanism, which involves all stakeholders, and the main elements of the PPP agreement.
- Under the law, **the High Council for Privatization and PPPs assumes the functions of the PPP Unit**, which will be composed of PPPs experts in the fields of financing, negotiation and contracting. The Unit will also be responsible for formulating the PPP Program, which would establish the credibility and commitment of the Lebanese government to a pipeline of PPP projects and provide, as such, comfort to investors.
- Important regulatory functions still need to be in place** prior to and during the process of introducing PSP. In particular, capacity within the Water and Sanitation Establishments (WSEs) needs to be enhanced in order to be able to deal effectively with PSP.
- The allocation of roles and responsibilities** among the government, the public water establishments and the local authorities, mainly regarding the supervision of the performance and the contractual obligations of the private sector, **needs to be better defined**. The lack of means and capacity within the public administrations leads to a *de facto* re-allocation of responsibilities and increases the institutional perplexity.
- The commercial risk is high** in view of the current performances of the WSEs. In particular, the weakness in cost recovery rates limits the private sector's profitability perspectives.
- The applied tariffs and the collection rates related to drinking water do not allow the recovery of costs**, even the operational ones. Charging for sanitation services could help bring out the potential for revenue and support the WSEs' financial capacities so they can be in charge of the service. Sanitation services-related tariffs have been applied recently as a symbolic flat fee on all water customers in the country with a slightly higher one on all subscribers connected to wastewater networks whose water is treated in a wastewater treatment plant.
- The political risk**, both domestic and external, **is important** because of the turbulent situation in the region.
- There is significant interest from commercial Banks to support water efficiency projects** by using the existing green funding mechanisms (such as LEA from BdL), because effective water management is recognized as a key issue for Lebanon. However, there are concerns about the slow rate of return on investment for such projects that could discourage investors.
- There is potential for private companies and Banks to become more involved through their Corporate Social Responsibility (CSR) component**, also by exploring where the interests of stakeholders coincide with those of their business.
- Stakeholders' engagement and encouragement of public participation in the decision-making are currently poorly practiced** in Lebanon and usually left to the initiative and commitment of the promoters/donors of a project.
- Social analysis** considering attitudes and behavioural patterns **related to water management and services with a gender perspective** is usually not carried out, although essential to support communication and awareness-raising efforts.