



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
SUPPORTING INNOVATION IN SMALL AND MEDIUM ENTERPRISES PROJECT  
APPROVED ON OCTOBER 31, 2012  
TO  
LEBANESE REPUBLIC

FINANCE, COMPETITIVENESS AND INNOVATION

MIDDLE EAST AND NORTH AFRICA

Regional Vice President:	Ferid Belhaj
Country Director:	Saroj Kumar Jha
Regional Director:	Najy Benhassine
Practice Manager/Manager:	Nabila Assaf
Task Team Leader(s):	Alexandre Hugo Laure



**ABBREVIATIONS AND ACRONYMS**

BDL	Banque du Liban – Central Bank of Lebanon
COVID-19	Coronavirus Disease
CDG	Concept Development Grant
DA	Designated Account
DGF	Development Grant Facility
EFF	Emergency Financing Facility
ESIF	Early Stage Investment Facility
ESMF	Environmental and Social Management Framework
FM	Financial Management
FS	Financial Statements
GAC	Governance and Anticorruption
GOL	Government of Lebanon
HC	Holding Company
IA	Implementing Agency
IC	Investment Committee
ICT	Information and Communications Technology
iSME	Innovation in SMEs
IFR	Interim Financial Report
IBRD	International Bank for Reconstruction and Development
IPC	Infection Prevention and Control
IPO	Initial Public Offering
IPR	Intellectual Property Right
LA	Loan Agreement
LBP	Lebanese Pound
M&E	Monitoring and Evaluation
MSME	Micro Small and Medium Enterprises
MOF	Ministry of Finance
MOPH	Ministry of Public Health
NDGI	National Deposit Guarantee Institution
PA	Project Agreement
PCR	Polymerase Chain Reaction
PDO	Project Development Objective
PHCC	Primary Health Care Center
PMU	Project Management Unit
POM	Project Operational Manual
PPE	Personal Protective Equipment
PPSD	Project Procurement Strategy for Development
R&D	Research and Development
RF	Results Framework
SA	Subsidiary Agreement
SAL	Société anonyme libanaise



## The World Bank

Supporting Innovation in Small and Medium Enterprises Project (P127306)

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SARL	Société a responsabilité limitée
SME	Small and Medium Enterprise
STEP	Systematic Tracking for Exchanges in Procurement
TA	Technical Assistance
TOR	Terms of Reference
TSA	Treasury Single Account
TTL	Task Team Leader
VAT	Value Added Tax
VC	Venture Capital
WB	World Bank
WIPRO	World International Property Rights Organization



**BASIC DATA**

**Product Information**

Project ID P127306	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 31-Oct-2012	Current Closing Date 30-Jun-2022

**Organizations**

Borrower Lebanese Republic	Responsible Agency Kafalat
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**Project Development Objective (PDO)**

Original PDO

The project's development objective is to encourage the equity investment market to increase the supply of early stage investment finance for financially viable, new, and existing innovative firms.

**Summary Status of Financing**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Commitment	Net Disbursed	Undisbursed
IBRD-82020	31-Oct-2012	13-Feb-2013	03-Feb-2015	30-Jun-2022	30.00	18.88	11.12

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

### A. Project Status

1. The Supporting Innovation in SMEs (iSME) Project is a successful project in the Mashreq Department portfolio. Despite the different setbacks it has faced since its signing (February 13, 2013), mainly due to delays in loan ratification (January 14, 2015) and interruptions in the replenishment of the Project account by the Ministry of Finance (2018-19), the project currently stands at a 63% disbursement of the total loan amount (March 2020). The project has been rated as Satisfactory in the last two Implementation Status and Results Reports (ISRs), respectively in February 2020 and August 2019, an upgrade from Moderately Satisfactory rating for three consecutive ISRs (since November 2017). The project closing date was recently extended to June 30, 2022 to ensure that results will be achieved on all measurable outcomes. To cope with the ongoing economic crisis, iSME revised its investment strategy in the last quarter of 2019 to focus on export-oriented startups with the capacity to generate revenues outside of Lebanon. Kafalat S.A.L also decided to establish a 'middle office' with the hiring of a full time Portfolio Manager (in charge of post-investment). Despite the situation, Lebanese VC funds are still active, and the market just welcomed a new fund manager early 2020 (Founders Capital) and existing fund managers are launching new funds (IM Capital and Speed). There are enough co-investors to partner with iSME moving forward.

### B. Country Context.

2. An outbreak of COVID-19 caused by the 2019 novel coronavirus (SARS-CoV-2) has been spreading rapidly globally since December 2019, from Wuhan, Hubei Province, China to 205 countries and territories. It comes at a time when Lebanon's economy is already going through the worst economic crisis in recent history and the GOL has limited resources to respond. As of April 1, 2020, the outbreak has resulted in over 823,000 cases and over 40,500 deaths world-wide. The outbreak is taking place at a time when global economic activity is facing uncertainty and governments have limited policy space to act. Like its neighbors, Lebanon is also affected by the COVID-19 outbreak, which poses a threat to its health system and beyond. The first case of COVID-19 was reported in Lebanon on February 21, 2020. As of April 1, 2020, there have been 479 confirmed cases and 12 associated deaths. The COVID-19 outbreak is stressing an already strained health sector and setting back Lebanon's efforts in its fight against poverty. There are concerns that the outbreak will particularly hit the poor and the refugee population. The GOL has already taken several steps to mitigate the impact of the epidemic. It has prepared a COVID-19 Health Sector Response Plan, mobilized resources to equip additional public hospitals with critically needed medical equipment and strengthened risk communication to the population. Despite these efforts, the unmet needs are immense, and Lebanon is under-equipped to respond to such a global pandemic. Lebanon's financial crisis has resulted in a scarcity of medical supplies necessary to deal with the COVID-19 outbreak, including PPEs as well as ventilators and other critical medical equipment, posing the risk of the virus overwhelms the already struggling health care system.

### C. Rationale for restructuring.

3. The purpose of the proposed restructuring is to support the GOL to mitigate the impact of the COVID-19 outbreak. The acute global shortage of medical goods and equipment calls for the GOL to engage the local SMEs community in the manufacturing and health sectors to address this supply gap. Governments throughout the world have instituted measures to mobilize their industrial sector and SMEs in order to keep up with the demand for the medical products necessary to combat COVID-19<sup>1</sup>. The restructuring responds to a request from the GOL dated March 27, 2020 to add a component to the Project on COVID-19 preparedness and response that will allow for immediate support to increase the supply of domestically produced medical goods and equipment. This restructuring on the supply side complements the recently restructured Lebanon Health Resilience Project (P163476) on the demand side that will finance the procurement of medical goods and equipment.

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<sup>1</sup> <https://www.natlawreview.com/article/free-all-or-all-one-medical-supply-chain-and-covid-19>



## II. DESCRIPTION OF PROPOSED CHANGES

### A. Summary of proposed changes

1. Below is an overview of the main changes:

- (a) The PDO will be revised as “to increase the supply of early stage finance for financially viable, new, and existing innovative firms, and support the capability of firms to respond to the COVID -19 crisis.”;
- (b) A new component will be added “Component 3: Emergency Financing Facility (iSME-COVID) Funding Program”;
- (c) Project funds will be reallocated from the Component 1 (US\$ 5.5 Million, i.e. minus 20%, justifying the reduced scope in the first part of the PDO with regard to early-stage financing) to Component 3 (new activities justifying the addition of the second part of the PDO on COVID-19);
- (d) The Results Framework (RF) will be amended to include new indicators for Component 3 and to adjust indicators and targets for Component 1.

2. While there will be no changes in the type of activities under Components 1 and 2, the total cost of Component 1 will be reduced in order to be allocated to the new Component 3. Changes in components and cost will be as follows:

	Original Budget Allocation (Million US\$)	Budget Allocation after the Restructuring (Million US\$)	Original Key Indicators	Revised Key Indicators after Restructuring (% of the original)	Rationale for Revision
<b>Component 1: Innovation in SMEs (iSME) Funding Program</b>	27.5	22	-Number of firms/ entrepreneurs funded: 200  -Amount of private capital leveraged: \$50 Million	- Number of firms/ entrepreneurs funded: 225 (113%)  -Amount of private capital leveraged: \$40 Million (80%)	- Number of firms is revised and increased given funded projects have already reached 199 and it is expected that 25 more firms will be funded under components 1 and 3.  - Private capital is revised to reflect the reduction of \$5.5 Million in Component 1 which will limit the number of new investments and therefore the amount of private capital mobilized. Additionally, iSME new investment
<i>Concept Development Grants</i>	2.5	3			
<i>Equity Co-Investment</i>	25	19			
<b>Component 2: Project Management</b>	2.425	2.425			
<b>Component 3: Emergency Financing Facility (iSME-COVID) Funding Program</b>	0	5.5			
<b>Front-end Fee</b>	0.075	0.075			
<b>Total</b>	30	30			



			- Number of full-time equivalent jobs created: 180	- Number of full-time equivalent jobs created: 250 (139%)	strategy prioritized follow-on investments.  - Number of jobs created to date is 256, exceeding the initial target. Given the economic and financial situation, the newly disbursed funding will help preserve jobs rather than creating new jobs.
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**B. Description of Component 3: Emergency Financing Facility (iSME-COVID) Funding Program**

3. The iSME-COVID Funding Program aims at increasing the supply of domestically produced medical supplies, equipment and services through the support of targeted beneficiaries. This component will finance the following activities:
  - (a) Provision of grants to eligible recipients for the purpose of covering the costs incurred for research and development (R&D), technology adoption, commercialization and technical assistance services;
  - (b) Provision of soft loans to eligible recipients for the purpose of financing the costs incurred for working capital, imports of raw materials or intermediate goods needed for production, equipment and light civil works within existing premises of the eligible recipient. These loans will complement the interest free loans supported by BDL under its intermediate circular 547 issued 23 March 2020 to alleviate the impact of the COVID-19 crisis on businesses and individuals.
  
4. Kafalat shall appraise, approve, monitor and evaluate grant and soft loans agreements and administer the agreements in accordance with the guidelines and procedures set forth in Project Operations Manual (POM).
  
5. The Project Management Unit (PMU) will build on its Concept Development Grants’ (CGD) track record (fully deployed to 175 entrepreneurs and firms), templates and processes to adjust the design of iSME-COVID Funding Program. Thus, it will adopt a similar selection mechanism with the establishment of: i) a selection committee composed of finance experts (assessing creditworthiness and feasibility of beneficiaries’ applications and Financing Plans (FP)); and ii) an advisory committee composed of health experts to review and prioritize a list of eligible items and services to be locally rendered. The advisory committee will adopt a balanced approach to prioritization, taking into account items in high demand, in shortage and with high value added.
  
6. **Beneficiaries.** Targeted beneficiaries are viable Lebanese firms or research centers that have or could develop capabilities to produce medical supplies, equipment and services needed to fight COVID-19. A rapid assessment of firms and research centers, their productive capabilities and the feasibility of spurring a supply response is being conducted by the Ministry of Industry (MOI) with the support of the World Bank. A preliminary list of potential beneficiaries has been compiled by the Association of Lebanese Industrialists with more than 30 firms producing a range of medical supplies and equipment. More than 3 firms are finalizing prototypes of ventilators and several others are producing PPEs, including one of iSME’s existing portfolio companies who is also finalizing the design of a ventilator and is currently testing its product.



7. Eligible recipients of a grant or a soft loan will be selected and approved in accordance with the selection and eligibility criteria acceptable to the World Bank as further set forth in the Project Operations Manual. An applicant can be an eligible recipient of both the grant and soft loan instruments to the limit of a maximum aggregate amount size of US\$500,000. iSME-COVID will only consider applicants engaging in the manufacturing medical supplies and equipment or health services that: i) strengthen health facilities and establishment; ii) equip quarantine and treatment centers; and iii) protect most vulnerable people. A priority list of eligible items and services will be identified by the program's advisory committee. This could include:
  - (a) Ventilators, pulse oximeters, laryngoscopes, oxygen generators, other equipment and supplies for COVID-19 case management;
  - (b) Personal Protective Equipment (PPE), disinfectants and other commodities for infection prevention and control (IPC) as well as healthcare waste management; and
  - (c) Health related services needed to respond to COVID-19.
8. Further description of iSME-COVID facility selection criteria, conditions and repayment methods are spelled out below (eligibility criteria, recipient agreement, grant conditions, soft loan conditions).
9. **Eligibility criteria.** For Component 3, the implementing agency (Kafalat) will make available grants and soft loans to eligible recipients for conducting the approved activities in the submitted Financing Plan (FP) in accordance with eligibility criteria and procedures acceptable to the World Bank, and elaborated in the POM, which shall include the following:
  - (a) Any proposed recipient shall fulfil the following: (i) the recipient is a Lebanese firm or a research center (standalone or part of an university, a hospital, etc.) and has prepared a viable Financing Plan (FP) to develop capabilities to produce medical supplies, equipment and services needed to fight COVID-19; (ii) the recipient has applied to the call for proposals, been screened by Kafalat and thereafter selected by a selection committee to receive a grant or a soft loan for a Financing Plan (FP), in accordance with the provisions of the POM; (iii) the recipient has medical supply, equipment or service, or proof of concept for such medical supply, equipment or service that is eligible under a positive list of items and services of iSME-COVID funding program that will be developed and agreed by the advisory committee; and (iv) the recipient has proven capacity in managing environmental and social risks related to its activities, this could be through environmental license, environmental compliance certificate, recent environmental audit, etc..
  - (b) No proposed Financing Plan (FP) shall be eligible for financing under a grant or a soft loan unless: i) Kafalat shall have determined, on the basis of an appraisal carried out in accordance with guidelines acceptable to the World Bank and elaborated in the POM, that the proposed Financing Plan (FP) meets the eligibility criteria set forth in the POM (such as cash forecast, feasibility study, documentation supporting the viability of the FP or the creditworthiness of the recipient, etc.); ii) the pertinent Financing Plan (FP) has been evaluated and reviewed by Kafalat and, thereafter, selected by a selection committee to receive a grant or a soft loan, in accordance with the provisions of the POM; and iii) the pertinent Financing Plan (FP) has been appraised by Kafalat and has fulfilled the requirements of any applicable Safeguards Instrument.
  - (c) Notwithstanding the provisions of sub-paragraph (b) immediately above, the following types of activities may not be included in a Financing Plan (FP) and shall not be eligible for financing under a grant or soft loan: (i) activities relating to the purchase of land; (ii) activities carried out in relation to the adjudication of lands under dispute; (iii) activities adversely affecting local communities, or where communities have not provided their



- broad support to such activities; (iv) activities involving the removal or alteration of any physical cultural property (includes sites having archeological, paleontological, historical, religious, or unique natural values); (v) activities involving conversion, deforestation or degradation or any other alteration of natural forests or natural habitats; (vi) financing of elections or election campaigning; or (vii) purchase of arms or ammunitions.
10. **Recipient agreement.** Kafalat shall provide each grant under a grant agreement, or each soft loan under a soft loan agreement, with the respective recipient, on terms and conditions approved by the World Bank and further elaborated in the POM, which shall include the following:
- (a) Kafalat shall obtain rights adequate to protect its interests and those of the World Bank, including the right to:
    - i) suspend or terminate the right of the recipient to use the proceeds of the grant or soft loan, or obtain a refund of all or any part of the amount of the grant or soft loan then withdrawn, upon the recipient's failure to perform any of its obligations under the grant or soft loan agreement; and
  - (b) Require each recipient to:
    - (i) carry out its Financing Plan with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the World Bank, including in accordance with the provisions of the Safeguard Instrument(s), and the provisions of the Anti-Corruption Guidelines applicable to recipients;
    - (ii) provide, promptly as needed, the resources required for the purpose;
    - (iii) procure the goods, light works and services to be financed out of the grant or soft loan in accordance with the provisions of the amendments of the Loan Agreement;
    - (iv) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the World Bank, the progress of the Financing Plan and the achievement of its objectives;
    - (v) open a bank account in a commercial bank approved by Kafalat, to be exclusively dedicated to the proceeds of the grant and/ or loan;
    - (vi) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect its operations, including the operations, resources and expenditures related to the Financing Plan (FP); and at Kafalat's, or the World Bank's request, have such financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to Kafalat and the World Bank;
    - (vii) enable Kafalat and the World Bank to inspect the recipient, its operation and any relevant records and documents (including bank statements and the status of other outstanding loans); and
    - (viii) prepare and furnish to Kafalat and the World Bank all such information as Kafalat or the World Bank shall reasonably request relating to the foregoing.
11. Kafalat shall exercise its rights under each grant or soft loan agreement in such manner as to protect the interests of the GOL, Kafalat, the World Bank, and to accomplish the purposes of the grant or soft loan. Except as the World Bank shall otherwise agree in writing, Kafalat shall not assign, amend, abrogate or waive any grant or soft loan agreement or any of its provisions.
12. **Emergency grant conditions.** The maximum amount size of the grant will be US\$ 100,000 depending on the R&D, technology and commercialization costs, which will to be duly justified in the Financing Plan (FP). Eligible expenditures



for the grant are costs incurred for research and development (R&D), technology adoption, commercialization and technical assistance services including: i) prototyping and testing costs; ii) rental costs of technical facilities, laboratories, servers, etc.; iii) certification and approval costs; and iv) other relevant costs. The grant will be paid either in LBP or in USD depending on the type of expenditure and supplier, local vs foreign. The grant beneficiaries are expected to provide a financial and /or non-financial contribution to the activity. It is expected that the processing of application takes no more than 15 working days from the date of receipt of the completed Financing Plan (FP). The disbursement of the grant is expected to be in two instalments with an advance up to 30 percent of the grant amount approved by the selection committee.

13. **Emergency soft loan conditions.** The maximum amount size of the soft loan will be US\$500,000 depending on the eligible expenditures such as working capital (example: imports of raw materials or intermediate goods needed for production, equipment and light civil works) and spelled out in the Financing Plan. Such costs estimates will have to be supported with a business plan, or cash forecast, or feasibility study, or documentation supporting the viability of the FP or the creditworthiness of the recipient, or a combination of these supporting documents. The currency of the loan will either be in LBP or USD or a combination of both depending on the type of expenditure and supplier, local vs foreign. It is expected that repayment will be in the same currency as loan. The maturity of the soft loan would generally be expected to be linked to expected conclusion of sales of goods or services whose production is supported under the loan, in order to recirculate the funds for further lending as soon as possible, but can be up to maximum 5 years with a grace period up to 12 months, to be reimbursed/ repaid to Kafalat in instalments, the month following the grace period and as described in the reimbursement/ repayment schedule in the signed soft loan agreement between Kafalat and the recipient in accordance with procedures and methods acceptable to the World Bank, and elaborated in the POM. The soft loan is a no-interest loan which means that the recipient will only reimburse/ repay the amount of received without interest nor fee. It is expected that the processing of application takes no more than 20 working days from the date of receipt of the completed Financing Plan (FP). The disbursement of the soft loan is expected to be in one or more instalments with an advance up to 30 percent of the soft loan amount approved by the selection committee. The total loan amount is to be disbursed within a period not exceeding the grace period.
14. **Risks to be mitigated.** There are significant risks facing beneficiaries of iSME-COVID Funding including: 1) foreign exchange risk since firms may be borrowing in foreign currency while generating local currency revenues in a context of high monetary uncertainty; and 2) imposition of Capital Controls restricting beneficiaries ability to withdraw or transfer money abroad; 3) procurement delays for inputs needed for production given possible shortages worldwide; and 4) operational risks faced by the firms. In addition, there is a risk of non-repayment of the loans by the firms. To mitigate the impact for the above-mentioned risks, the MOF (Borrower), Kafalat and the WB will work with the BDL to design risk mitigation solutions to be elaborated in the POM. Such mitigation measures include limiting down-side foreign exchange risk to the beneficiaries (beyond which the risk would be taken on by the government), ensuring that the liquidity injected through the iSME-COVID Funding Program be considered “fresh money”, as such capital controls imposed by local commercial banks would not apply to beneficiaries, and assessing constraints on procurement of inputs and considering these constraints in selection of beneficiaries.

### C. Procurement

15. Procurement continues to be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published by the



World Bank in January 2014 revised in July 2014; and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA credits and Grants by World Bank Borrowers” dated January 2014 revised in July 2014.

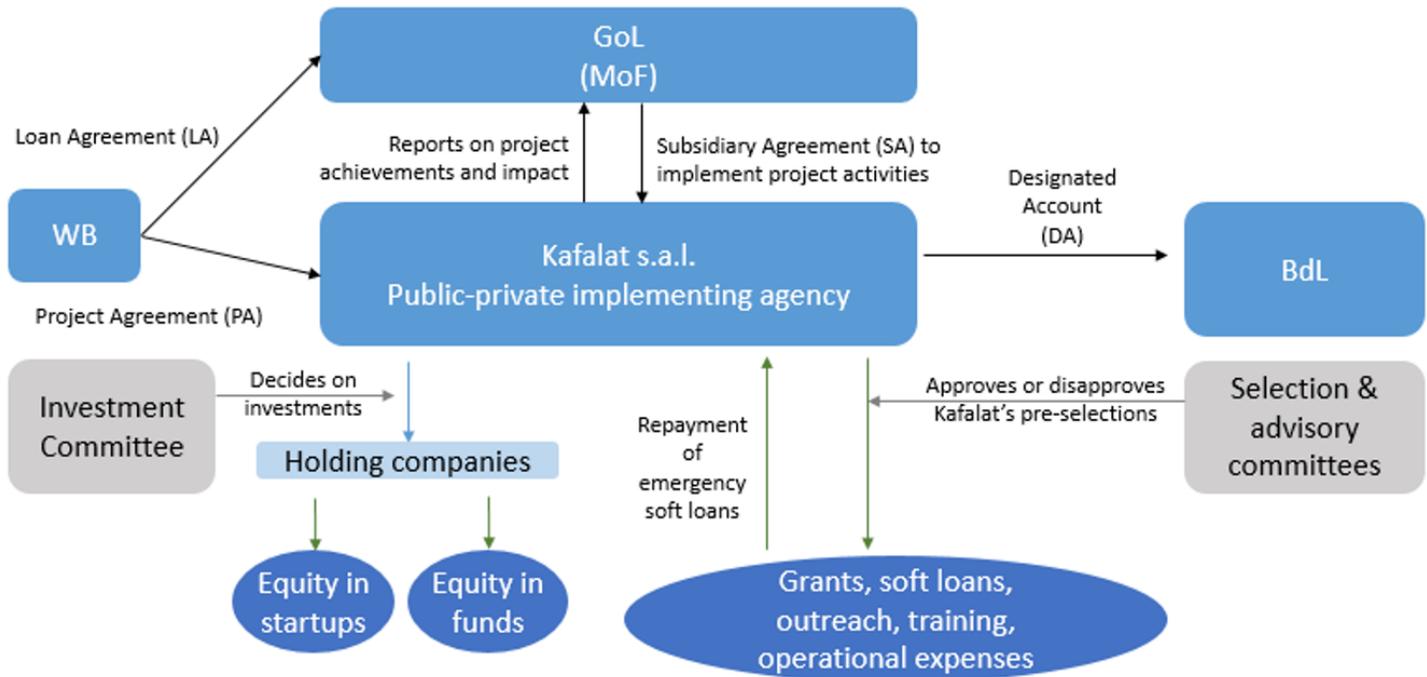
16. **STEP.** Systematic Tracking of Exchanges in Procurement (STEP) will be used on time for approval and publication of Procurement Plans and Award Notifications, as well as full processing of the procurement steps. Any contract not planned and uploaded in STEP, with award notification not being uploaded prior to signing of contracts, may not be eligible for financing.
17. **Prior Review Threshold.** Based on the assessment and the socio-economic and political situation of the country, the Project shall be subject to high risk prior review thresholds as follow: US\$1.5 million for contracts of Goods, US\$0.5 million for Consulting Firms, and US\$200,000 for Individual Consultants.
18. **Project’s Operations Manual (POM).** An addendum to the project’s operations manual shall be developed by the PMU containing detailed: (i) procurement, financial management and monitoring and evaluation procedures; (ii) clear and quantifiable selection criteria of the iSME based on latest revisions and how to monitor compliance with the established criteria; (iii) templates for the grant and soft loan agreements; and (iv) positive list of items and services of iSME-COVID funding program that will be developed and agreed by the advisory committee. The POM will be adopted by the Kafalat upon the approval of IBRD. The POM will specify approval authority for revisions to the POM, which shall include IBRD non-objection.

#### D. Financial Management

19. Kafalat will need to adjust the POM to include the new activity and the new disbursements arrangements as specified below. The revised POM will need to be submitted to the Bank for approval no later than 1 month after the official restructuring. The financial reporting and auditing of the project will remain the same. The project has no overdue audits as of March 2020.
20. The implementing agency is Kafalat s.a.l. (a joint stock company operating as a Financial Institution under Lebanese law), responsible for:
  - (a) **Execution and implementation of all project activities:** advertises iSME funding, receives and screens proposals from companies and funds, proposes them for approval or disapproval to private-led selection committees (Investment Committee, Grant / Soft Loan Committee), signs agreements with selected companies, disburses the funding; the ongoing FM arrangements will apply to the new category and the project operational manual will be updated accordingly.
  - (b) **M&E and project reporting to the WB.**
21. Kafalat handles the Designated Account (DA) which is opened at Banque de Liban (BDL). MOF and BDL monitors the funds and all the disbursement requests to ensure that all the terms and conditions of the project loan are being met. In case of any unused funds remaining in the DA, Kafalat shall return to the MOF (the Borrower) the final proceeds of the iSME-COVID Funding Program upon closure of the project.



FIGURE 1 - IMPLEMENTATION CHART FOR ALL COMPONENTS OF THE ISME PROJECT



**E. Disbursement**

22. Due to delays witnessed in: i) processing Withdrawal Applications (WAs) from the MOF to the Project’s Designated Account (DA); and ii) in replenishing iSME Funding Program with appropriate and timely capacity to commit and deploy funds, the disbursement arrangements will need to be modified accordingly to add the Direct Payment method (currently not available in existing arrangements), and switch the DA ceiling from fixed to variable ceiling to allow project to link the ceiling to cash forecast.

23. Change in disbursement arrangements are spelled out below:

- (a) **Direct payment (DP) is added as a disbursement method.** DP will be made available for the newly created Category (i.e. Component 3 of the project, or Part 3 in the legal agreements) with a Minimum Application Size (MAS) at \$100,000. For DP below MAS, the PMU will request the TTL to accept the DP which exception will be transmitted to the Disbursement team for processing. Supporting documentation for DP are signed agreement between Kafalat and the recipient of the agreement for goods and/or services to be rendered.
- (b) **iSME funding capacity will be improved through replenishment.** The timely replenishment of iSME is critical for both iSME and iSME-COVID funding programs. Thus, to allow this agility in funds deployment, the project will move away from a Designated Account (DA) with ceiling to adopt a DA with variable ceiling with rigorous reporting of statement of expenses while allowing submission of WAs based on iSME cash forecast.
- (c) **Change in disbursement categories:**

Category	Original Allocation (US\$)	Amount After Reallocation (US\$)	Percent of Expenditures to be financed (inclusive of Taxes)
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## The World Bank

Supporting Innovation in Small and Medium Enterprises Project (P127306)

(1) Goods, non-consulting services, and consultants' services for Concept Development Grants (CDGs) under Part 1(a) of the Project	2,500,000	3,000,000	100%
(2) Eligible Investments under Part 1(b) of the Project	25,000,000	19,000,000	100%
(3) Goods, non-consulting services, and consultants' services, audit, Incremental Operation Costs, Training and Incremental Fees for Part 2 of the Project	2,425,000	2,425,000	100%
(4) Front-end Fee	75,000	75,000	Amount payable pursuant to Section 2.03 of the loan agreement in accordance with Section 2.07(b) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	0	0	Amount due pursuant to Section 2.07(c) of this Agreement
(6) Goods, non-consulting services, works, and consultants' services under Part 3 of the Project	0	5,500,000	100%
<b>Total Amount</b>	<b>30,000,000</b>	<b>30,000,000</b>	

### F. Safeguards



24. The new Component 3 will increase the supply of domestically produced medical supplies, equipment and services which would require provision of goods and equipment and light civil works inside the premises of beneficiaries. Those activities would be associated with some environmental and social impacts, such as occupational health and safety risks during installation of new equipment and operation of existing production lines, generation of solid waste, wastewater and air emissions, and issues related to safe handling of raw materials. Those issues need to be assessed and managed therefore Project will be upgraded from Category C to Category FI, as the funds will be channeled through Kafalat. As such, Kafalat will prepare an Environmental and Social Management Framework (ESMF) that will: i) identify the capacity enhancing needs of Kafalat to have a functioning system for managing environmental and social issues related to Component 3 investments; ii) include a screening mechanism for the sub-projects under Component 3 and exclude any sub-projects that would be classified Category A; iii) identify an eligibility criteria for beneficiary SMEs based on their environmental and social performance as well as their capacity to produce quality products according to the needed standards of the healthcare sector; iv) identify the modality of safeguard instruments that need to be prepared for each type of sub-project; v) identify a system for monitoring and follow up on the E&S performance of the sub-projects during implementation; and vi) establish a Grievance Redress Mechanism (GRM) for the project with dedicated qualified staff and a specified resolution timeline. The ESMF will be cleared by the Bank before any funds are transferred to beneficiaries, and this is a disbursement condition in the Legal Agreement.
25. The ESMF will be consulted upon using a modality that will be feasible given the current COVID19 outbreak and restrictions in mobility and will then need to be disclosed on both the World Bank external website and the FI website. In this regard, the Kafalat is recommended to refer to the World Bank's technical note on public consultations and stakeholder engagements in WB supported operations when there are constraints on conducting public meetings.

## G. Other changes

26. **Economic Analysis.** The new COVID component will target firms producing urgently required medical supplies, equipment, and services primarily for the local market, with the possibility of exporting additional stock to the regional and international markets. The challenge to assessing the economic impact are primarily the overall economic slowdown that the pandemic has caused, added to the already existing Lebanese financial crisis.
27. Above and beyond preserving the lives of the Lebanese citizens through production of the necessary supplies to tackle and mitigate the spread of the virus, the overall impacts of the program will be observed on three levels:
  - (a) supply of material to the local market decreasing dependency on imports (at times where even international supply is scarce and the Lebanese firms are facing difficulties accessing foreign funds to import);
  - (b) creating opportunities for local innovating companies to manufacture a more sophisticated set of health products that would potentially outlive the pandemic and result in further growth and development of the Lebanese health industry;
  - (c) job and employment – this will include job sustainability of employees working in firms on the brim of closing down due to the financial crisis, and possible creation of new jobs due to expansion of existing firms to scale production and introduce new production lines.
28. Quantifying the overall economic impact will be difficult, but some indicators on job creation and job sustainability, and substitution of imported products with locally produced could be measured along the life of the project. Longer term impacts such as sector growth and resilience could only be measured at least 5 years after the project closing date.



29. **Financial Analysis.** The direct financial return of the program will likely deviate from the projected return due to the substitution of equity investments into the soft loans and grants. The return of the US\$ 5.5 Million out of the US\$ 27.5 Million in iSME Funding Program (component 1) is now reduced to a best-case scenario where the full amount of funds is disbursed under emergency soft loans – meaning they will be fully recovered, or a worst-case scenario where the full amount of funds will be disbursed as only emergency grants. Even under an only grants’ disbursement scenario, the expected return of the full program (\$30 Million) - measured by an estimated market value of the investment in portfolio of companies - will in effect be the return on investments that Kafalat has already generated to date. The overall return on investment will remain positive while also providing a wider economic benefit to the country likely generated through spillover effects.
30. **Technical Analysis.** The restructuring will on urgent basis make funds available through the existing and an “already tested/proven” successful setup to tackle the shortage in supplies and inability to access international markets. Kafalat has the financial expertise and market knowledge to assess the incoming proposals. This will address the gap in local production to meet the sudden surge in demand for health products particularly pertaining to the COVID relevant necessities, while ensuring some operation in health-related firms is sustained given the dual Financial and health Crisis.

**III. SUMMARY OF CHANGES**

	Changed	Not Changed
Project's Development Objectives	✓	
Results Framework	✓	
Components and Cost	✓	
Reallocation between Disbursement Categories	✓	
Disbursements Arrangements	✓	
Disbursement Estimates	✓	
Safeguard Policies Triggered	✓	
EA category	✓	
Legal Covenants	✓	
Financial Management	✓	
Procurement	✓	
Other Change(s)	✓	
Economic and Financial Analysis	✓	
Technical Analysis	✓	
Social Analysis	✓	
Environmental Analysis	✓	
Implementing Agency		✓



DDO Status		✓
DLIs		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Overall Risk Rating		✓
Institutional Arrangements		✓
APA Reliance		✓
Implementation Schedule		✓

**IV. DETAILED CHANGE(S)****PROJECT DEVELOPMENT OBJECTIVE****Current PDO**

The project's development objective is to encourage the equity investment market to increase the supply of early stage investment finance for financially viable, new, and existing innovative firms.

**Proposed New PDO**

The new project's development objective is to increase the supply of early stage finance for financially viable, new, and existing innovative firms, and support the capability of firms to respond to the COVID -19 crisis.

**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Innovation in SMEs (iSMEs) Funding Program	27.50	Revised	Innovation in SMEs (iSMEs) Funding Program	22.00
Project Management	2.50	No Change	Project Management	2.50
	0.00	New	Emergency Financing Facility (iSME-COVID) Funding Program	5.50
<b>TOTAL</b>	<b>30.00</b>			<b>30.00</b>

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed



IBRD-82020-001 | Currency: USD

iLap Category Sequence No: 1	Current Expenditure Category: G, Non CS,CS -Part 1a			
2,500,000.00	2,482,800.00	3,000,000.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: Elig invest under Part 1b			
25,000,000.00	10,146,700.00	19,000,000.00	100.00	100.00
iLap Category Sequence No: 3	Current Expenditure Category: G, Non CS,CS, ADT, IOC, TR,IFEE -P2			
2,425,000.00	1,172,858.06	2,425,000.00	100.00	100.00
iLap Category Sequence No: 5	Current Expenditure Category: PREMIUM FOR CAPS/COLLARS			
0.00	0.00	0.00		
iLap Category Sequence No: 6	Current Expenditure Category: G, Non CS,CS, W -P3			
0.00	0.00	5,500,000.00		100
<b>Total</b>	<b>29,925,000.00</b>	<b>13,802,358.06</b>	<b>29,925,000.00</b>	

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2013	0.00	0.00
2014	0.00	0.00
2015	5,500,000.00	5,075,000.00
2016	800,000.00	48,525.00
2017	3,200,000.00	2,226,103.90
2018	20,500,000.00	5,553,859.42
2019	0.00	4,046,472.50



2020	0.00	3,057,820.24
2021	0.00	8,869,577.00
2022	0.00	1,122,641.94

**COMPLIANCE**

**Safeguard Policies**

Safeguard Policies Triggered	Current	Proposed
Environmental Assessment (OP) (BP 4.01)	No	Yes
Performance Standards for Private Sector Activities OP/BP 4.03	No	No
Natural Habitats (OP) (BP 4.04)	No	No
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	No	No
Physical Cultural Resources (OP) (BP 4.11)	No	No
Indigenous Peoples (OP) (BP 4.10)	No	No
Involuntary Resettlement (OP) (BP 4.12)	No	No
Safety of Dams (OP) (BP 4.37)	No	No
Projects on International Waterways (OP) (BP 7.50)	No	No
Projects in Disputed Areas (OP) (BP 7.60)	No	No

**Environmental Assessment (EA) Category**

Change of EA Category	Original EA Category
Yes	Not Required (C)
Current EA Category	Proposed EA Category
Not Required (C)	Financial Intermediary Assessment (F)

**LEGAL COVENANTS**

Loan/Credit/TF	Description	Status	Action
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IBRD-82020	Finance Agreement :Institutional Arrangements - Schedule 2, Section I. A.1 and A.2   Description :Borrower through its MOF, to maintain responsibility & oversight of the Project and be responsible for strategic guidance on Project implementation; to assign Kafalat to implement the project and establish PMU; carry out the Project through PMU and HC(s) in accordance with POM and PA and not amend POM without approval; establish-maintain IC and HC, select & ensure availability of Grant Evaluators.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Project Implementation - Schedule 2, Section I. A.3   Description :Kafalat to enter into a Project Agreement (PA) with the Bank, and BDL, under the Code of Money and Credit, to monitor the Designated Account (DA) in accordance with the provisions of Loan Agreement (LA), the Project Agreement (PA) and the Project Operations Manual (POM).   Due Date :04-Apr-2013	Complied with	No Change
IBRD-82020	Finance Agreement :Subsidiary Agreement and Management Agreement-Schedule 2, Section I. B.1 and B.2   Description :Borrower to make the proceeds of the Loan available to Kafalat under the Subsidiary Agreement (SA) to include various terms listed in the LA and to exercise its rights under the SA in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and not assign, amend, abrogate or waive the SA or any of its provisions without Bank approval.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Anti-Corruption - Schedule 2, Section I. C   Description :Borrower to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Concept Development Grants and Eligible Investments - Schedule 2, Section I. D	Complied with	No Change



	Description :Borrower to cause Kafalat to provide CDGs, and make Eligible Investments through HC(ies), in accordance with the procedures set forth in the PA and the POM.   Frequency :CONTINUOUS		
IBRD-82020	Finance Agreement :Institutional Arrangements - Schedule, Section I. A.1   Description :Kafalat to carry out the Project through its PMU and HC(ies); establish and maintain the PMU; establish and maintain the IC; select and ensure availability of Grant Evaluators (GEs); ensure HC(ies) are established and maintained and have the capacity to perform its (their) function(s) under Part 1(b) of the LA. Kafalat may sell a HC for the purpose of an agreed exit.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Subsidiary Agreement - Schedule, Section I. B.1 and B.2   Description :Kafalat to enter into the Subsidiary Agreement (SA) with the Borrower under the terms listed in the PA. Kafalat shall exercise its rights under the SA in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, Kafalat shall not assign, amend, abrogate or waive the SA or any of its provisions.   Due Date :04-Apr-2013	Complied with	No Change
IBRD-82020	Finance Agreement :External Auditor - Schedule, Section I. A.2   Description :Kafalat to hire or appoint an external auditor with qualifications and terms of reference acceptable to the Bank no later than 6 months after the Effective Date, and to maintain the external auditor with qualifications and terms of reference acceptable to the Bank throughout the life of the Project.   Due Date :08-Aug-2013	Complied with	No Change
IBRD-82020	Finance Agreement :Internal Auditor - Schedule, Section I. A.3   Description :Kafalat to maintain the internal auditor with qualifications and terms of reference acceptable to the Bank throughout the life of the Project.   Due Date :01-Aug-2013	Complied with	No Change



IBRD-82020	Finance Agreement :Co-Investors - Schedule, Section I. A.4   Description :Kafalat to submit to the Bank a preliminary list of an adequate number of Co-investors meeting the eligibility criteria set forth in the POM, no later than two months after the Effective Date.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Anti-Corruption - Schedule, Section I. C   Description :Kafalat shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Concept Development Grants - Schedule, Section I. D   Description :Kafalat to provide CDGs to Eligible Recipients (ERs) in accordance with eligibility criteria, selection methods & procedures acceptable to the Bank, as set forth in POM, including prior screening by Kafalat & approval by GEs. Kafalat to make each CDG under CDG Agreement with respective ERs on terms & conditions approved by the Bank; to exercise its rights as to protect the Borrower, Bank& Kafalat   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Safeguards - Schedule, Section I. G   Description :Eligible Investments or Concept Development Grants shall not be eligible for activities excluded under the Project Operations Manual and the PA including the exclusion list annexed to the PA.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Finance Agreement :Holding Company (HC) - Schedule, Section I. E.1 and E.2   Description :To carry out Part 1(b) of LA, Kafalat to establish & maintain one or more HC(ies); enter into a Management Agreement (MA) with eachHC; perform its obligation under MA in accordance with the agreement & POM & exercise its rights under the MA in such manner as to protect the interests of Borrower & Bank (incl. matters listed in PA). Kafalat to ensure each HC carries out the obligation listed inPA.   Frequency :CONTINUOUS	Complied with	No Change



IBRD-82020	Finance Agreement :Additional HC(ies) - Schedule, Section I. E.3   Description :Kafalat may establish Additional HCs for purpose of Part 1(b) of Project. Prior to any Eligible Investment through Additional HC Kafalat has to comply with requirements listed in PA and provide evidence of such matters to the Bank (legal establishment with at least 98% ownership & legal opinion related to same), enter into MA, adoption of POM, establish accounting & FM system & open segregated a/c   Frequency :CONTINUOUS	Not yet due	No Change
IBRD-82020	Finance Agreement :Eligible Investments - Schedule, Section I. F.1 and F.2   Description :Kafalat to make Eligible Investments in Eligible Enterprises in accordance with eligibility criteria, selection methods and procedures acceptable to the Bank, as further set forth in the POM, including prior screening and approval by the IC. Kafalat to cause eachHC to make Eligible Investments under an Investment Agreement and Shareholder Agreement.   Frequency :CONTINUOUS	Complied with	No Change
IBRD-82020	Disbursement Condition: No withdrawal shall be made under Category 6 until Kafalat has adopted the Environmental and Social Management Framework.	Not complied with	New
IBRD-82020	Advisory Committee: Kafalat shall establish and maintain an iSME -COVID Advisory Committee, consisting of relevant health experts, with functions, staffing, resources, terms of reference and qualifications satisfactory to the Bank.	Not complied with	New
IBRD-82020	Selection Committee: Kafalat shall establish and maintain an iSME-COVID Selection Committee, in a form and with functions, staffing, resources, terms of reference and qualifications satisfactory to the Bank.	Not complied with	New



**Results framework**

**COUNTRY: Lebanon**

**Supporting Innovation in Small and Medium Enterprises Project**

**Project Development Objectives(s)**

The project’s development objective is to encourage the equity investment market to increase the supply of early stage investment finance for financially viable, new, and existing innovative firms.

**Project Development Objective Indicators by Objectives/ Outcomes**

Indicator Name	DLI	Baseline	End Target
<b>Increase supply of early stage finance for financially viable, new, and existing innovative firms (Action: This Objective has been Revised)</b>			
Total number of firms receiving equity financing leveraging investors and the iSME funding program (Number)		0.00	95.00
<b>Action: This indicator has been Revised</b>			
No. of beneficiary firms, women owned (Number)		0.00	10.00
<b>Action: This indicator has been Revised</b>			
Total amount of equity financing received (leveraged) leveraging investors and the iSME funding program (Amount(USD))		0.00	40,000,000.00
<b>Action: This indicator has been Revised</b>			
c) Total number of firms receiving equity financing leveraging investors only (as a result of a Grant) (Number)		0.00	30.00
<b>Action: This indicator has been Marked for Deletion</b>			
a) Number of new/ improved products/processes offered (Number)		0.00	166.00
<b>Action: This indicator has been Marked for Deletion</b>			



Indicator Name	DLI	Baseline	End Target
b) Number of new start-ups created under the project (Number)		0.00	70.00
<i>Action: This indicator has been Marked for Deletion</i>			
Number of new jobs created in beneficiary firms (Number)		0.00	250.00
<i>Action: This indicator has been Revised</i>			
No. of new jobs created, of which % are filled by women (Number)		0.00	30.00
<i>Action: This indicator has been Revised</i>			
<b>Support the capability of firms to support the response to COVID-19 crisis (Action: This Objective is New)</b>			
Percent of beneficiary firms reporting sales of new medical goods and services sales (Percentage)		0.00	70.00
<i>Action: This indicator is New</i>			

**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	End Target
<b>Innovation in SMEs (iSMEs) Funding Program (Action: This Component has been Revised)</b>			
Intermediate Result Indicator 1: No. of eligible firms applying for proof of concept grants (Number)		0.00	360.00
<i>Action: This indicator has been Revised</i>			
Intermediate Result Indicator 2: No. of firms receiving proof of concept grants (Number)		0.00	200.00
<i>Action: This indicator has been Revised</i>			



Indicator Name	DLI	Baseline	End Target
Intermediate Result Indicator 3: Vol. of proof of concept grants (Amount(USD))		0.00	3,000,000.00
<b>Action: This indicator has been Revised</b>			
Intermediate Result Indicator 4: No. of firms applying for equity (Number)		0.00	170.00
<b>Action: This indicator has been Marked for Deletion</b>			
Intermediate Result Indicator 4: Vol. of equity investments mobilized by Grantees (Amount(USD))		0.00	13,500,000.00
<b>Action: This indicator is New</b>			
Intermediate Result Indicator 5: No. of firms successfully receiving equity (Number)		0.00	25.00
<b>Action: This indicator has been Revised</b>			
Intermediate Result Indicator 6: Vol. of equity investments mobilized as co-investments in portfolio of companies (Amount(USD))		0.00	26,500,000.00
<b>Action: This indicator has been Revised</b>			
<b>Emergency Financing Facility (iSME-COVID) Funding Program (Action: This Component is New)</b>			
Intermediate Result Indicator 7: No. of firms receiving funding from the COVID19 financing facility (Number)		0.00	11.00
<b>Action: This indicator is New</b>			
<b>Project Management (Action: This Component is New)</b>			
Intermediate Result Indicator 8: Percent of firms reporting that iSME funding contribute to jobs protection during the economic crisis and COVID-19 outbreak (Percentage)		0.00	80.00
<b>Action: This indicator is New</b>			



**The World Bank**

Supporting Innovation in Small and Medium Enterprises Project (P127306)

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