

Annex A

Terms of Reference

for the

**ENGAGEMENT OF INDEPENDENT VERIFICATION AGENT (IVA)
TO VERIFY THE ACHIEVEMENT OF PERFORMANCE BASED
CONDITIONS (PBCs)**

In relation to the

**LEBANON ELECTRICITY SERVICES EMERGENCY SUPPORT
PROJECT (P177846)**

Ministry of Energy & Water, Republic of Lebanon

1. Background

1. Lebanon is currently facing a perfect storm that combines a fiscal and financial crisis with political instability while, at the same time, battling the economic impacts of COVID-19. The country has defaulted on its Eurobond obligations in March 2020 and is expected to default on the remaining obligations of these outstanding liabilities until reaching agreement for external support tied to a revamped macro-fiscal framework. The fiscal impact of the power sector is a significant cause of the country's macro-fiscal weakness. While annual budgetary transfers to *Electricité du Liban* (EDL), the state-owned power utility, fluctuate year to year based on changes in fuel prices (e.g., they reached approximately US\$1.045 billion in 2009, US\$923 million in 2016, and US\$ 1.5 billion in 2019), they averaged 3.8 percent of Gross Domestic Product (GDP) over the last decade, amounting to close to half of the overall fiscal deficit. At their peak in 2012, the Government transferred US\$2.2 billion to EDL, equivalent to 5.1 percent of GDP.
2. With the overall fiscal balance in deficit since 1992, part of EDL transfers have been effectively paid through borrowing, which significantly contributed to the surge in the debt-to-GDP ratio since the early 1990s to over 170 percent of GDP, one of the highest globally.

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As a result, the Government's annual debt service obligations mushroomed to around 10 percent of GDP, consuming approximately half of domestic revenues. Resolution of sector challenges will require a comprehensive program to urgently address key sector challenges. Technical solutions and needed reforms are known and have been extensively studied, and the current unprecedented fiscal and financial crisis facing the country only highlights the urgent need to reform the sector.

3. The sector's financial sustainability requires progress along two closely linked axes. First, sector revenues need to substantially increase through reforms to EDL's commercial framework. This requires reforms of electricity tariffs, which remain unchanged since 1996, to better align it with sector costs and focus targeted tariff support to vulnerable groups. EDL repeatedly requested increases to its tariffs over the years, but the decision to do so is with the Ministry of Energy and Water, Ministry of Finance, and Council of Ministers. Currently, tariffs cover only 4.3 percent of EDL's costs, resulting from legacy challenges in the sector and more recently significant depreciation of the Lebanese Lira. Given that the entirety of EDL's revenue is in Lira and most of its costs are in US dollars, this creates a significant cashflow gap that is financed by subsidies. However, increasing tariffs by themselves are not enough to ensure the sector's financial sustainability. Second, substantially improving EDL's ability to bill and collect revenue under these tariffs is essential. EDL's technical and non-technical losses on its network are estimated to have decreased from 31.8 percent in 2019 to become 36.7 percent in 2020, implying that only 63.3 percent of energy generated or purchased by EDL in 2020 resulted in revenue to the utility. EDL is also not able to collect all the revenue billed, particularly from public institutions and state-owned enterprises.
4. The sector will require significant investments to finance capital expenditures. Towards that end, the sector's financial condition and creditworthiness is a critical prerequisite to attracting this support. As such, a cash waterfall and liquidity support mechanism to govern sector revenue through a unified account with *Banque du Liban* (BDL), Lebanon's central bank will be established.
5. The Government of Lebanon (GOL) has requested financing from the International Bank for Reconstruction and Development (The World Bank) towards the **Electricity Services Emergency Support and Reform Project (P177846)**. The objective of the project is to provide emergency support to improve electricity supply in Lebanon while reducing electricity sector costs and improving its operational efficiency. The project is expected to have three components:
 - (a) Component (1) - Natural Gas Purchases for Power Generation. This component is designed to earmark funding to Lebanon's purchase of Egyptian natural gas and ties these disbursements to Performance Based Conditions (PBCs), aimed to initiate reforms which should be pursued to turn around the sector. **The IVA is expected to support the monitoring and verification of progress in achieving PBCs for Component (1).**
 - (b) Component (2) - Enhanced Renewable Energy. This component would include two sub-components. The first sub-component (Component 2.1) supports rolling out solar photovoltaic (PV) systems, variable frequency drives (VFDs), and Supervisory Control and



Data Acquisition (SCADA) control systems for water pumps of Lebanon's Water Establishments. The second sub-component (Component 2.2) supports rehabilitation of the existing Hrache-Jeita Hydro Plant. Component (2) is expected to be implemented by UNDP through and Output Agreement with MEW; and

(c) Component (3) - Technical Assistance and Capacity Building. This component will provide technical assistance (TA) to the Ministry of Energy and Water (MEW), and other associated actors such as Electricité du Liban (EDL), Lebanese Oil Institutions (LOI), and Banque du Liban (BDL) to achieve the targeted institutional reforms and performance outcomes of the sector.

The PBC's link the disbursement of funds with results through the achievement of specified conditions that will unlock financing for the Government of Lebanon. These are set out in three PBC's, and 18 associated PBC Linked Results. For each PBC, allocated amounts, baselines, yearly targets, conditions of achievements, verification protocols, deadlines for achievement, and determination of the amount to be disbursed have been defined. Each PBC is explained in detail in Annex 1 of this Terms of Reference (TOR). The three PBCs for P177846, and their associated PBC Linked Results, are set out in Annex 2 of this Terms of Reference (TOR). Disbursements on PBC achievements will be made based on verified results as measured by the Independent Verification Agent (IVA). The IVA's role will be to validate the disbursement claims made under the Project through an assurance process that tangible, sustainable Project results are achieved. Verification will be undertaken in ways that are both credible and sustainable by using, to the fullest extent possible, existing government systems for oversight and monitoring, paired with clear and specific verification protocols, which will validate the PBC achievement. The Project Management Unit (PMU) is responsible for tracking results against the PBCs. The IVA will therefore work closely with the PMU in its capacity as the team leading on monitoring and evaluation of results for P177846. To be noted that the role of IVA is to verify PBCs achievements, which is for Component 1 only. For monitoring and evaluation (M&E) of the whole project, which covers the M&E of 3 components, an M&E specialist would still be needed as part of the PMU, and the PMU is responsible for M&E of the whole project, with the support from IVA (Component 1), UNDP (Component 2), and various entities (Component 3).

Disbursements may pass/fail depending on whether the PBC is achieved or not; or scalable depending on the extent of performance of the PBC.

Against this background, The MEW is seeking to procure the services of an IVA with financial and technical audit qualifications for the assessment of PBC achievements. The IVA will be expected to carry out the continuous verification of results to trigger disbursements in the event of their satisfactory achievement to the World Bank.

2. Objective of the Assignment

The objective of the consultancy is to verify, in accordance with the methodology to be agreed, that the results as laid out in the PBC matrix have been physically delivered, in an approved manner, and properly documented.

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Results will be verified through administrative data, independent verification, and consultations with beneficiaries and partners to confirm the submitted data and test the accuracy of results claimed. In accordance with good audit and assessment practices, verification will take place against a sampling framework and frequency.

The IVA will provide capacity development in Monitoring and Evaluation (M&E) practice to MEW entities, and the PMU's officers over the course of the assignment. The aim of this work is to help build the capacity of teams within the MEW with responsibility for tracking and communicating PBC achievements on P177846. To be noted that the IVA is not expected to address the full needs of M&E capacity building. The PMU needs to recruit an M&E specialist as part of its staff especially for impact evaluation.

The IVA will:

1. Verify that agreed PBCs have been achieved based on the established verification protocols in the PBCs for disbursement matrix.
2. Produce independent verification reports and
3. Recommend the disbursement of allocated funds based on achievements by the parties.

3. Scope of Work

Verification and Reporting of P177846 Results

The IVA will prepare periodic Results Verification Reports (RVRs) and submit to the Minister of Energy and Water, the PMU Manager, followed by onward submission to the P177846 Project Steering Committee. Once validated, the RVR will be submitted by the chair of the Steering Committee to the World Bank for clearance. The World Bank and the Government of Lebanon will use RVRs as part of the evidence in their discussion of results presented by MEW, through the PMU, and linked disbursement of project finance.

To achieve the above objective, the IVA will perform the following tasks:

1. **Baseline Establishment:** Conduct initial review of the baseline data and PBC verification protocols to produce an initial assessment report and a plan for the assignment advising as required by the World Bank on any need to adjust PBCs as a result. The plan will also be required to verify that the planned deliverables are adequately scoped to achieve expected results.
2. **Develop a Process** to track completion of deliverables.
3. **Scheduled Reviews:** Conduct scheduled reviews of the PBC verification protocols and verify the pre-agreed conditions as evidence of the achievements of outputs claimed. Carry out regular risk analysis and programme delivery forecasts as required.
4. Carry out all other actions as may be required to ensure successful achievement of agreed results.

4. Deliverables

The IVA will submit interim deliverables in English language and final deliverables in English and Arabic to the PMU Manager, who will discuss them with other members of the P177846 Steering Committee as part of the mandate for MEW for the project. In parallel to submitting deliverables

