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Lebanon - Privatization Support Project

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Republic of Lebanon
 Office of the Minister of State for Administrative Reform
 Center for Public Sector Projects and Studies
 (C.P.S.P.S.)

Report No. PID9427
 Project Name Lebanon-Privatization Support (@)
 Region Middle East and North Africa Region
 Sector Telecommunications & Informatics;
 Other Transportation
 Project ID LBPE70469
 Borrower(s) GOVERNMENT OF LEBANON
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 Date PID Prepared August 11, 2000
 Projected Appraisal Date September 25, 2000
 Projected Board Date December 19, 2000

1. Country and Sector Background

The GOL has initiated a privatization program covering the major public utilities (telephone, power, transportation and water) and the relatively few other economic assets, such as Middle East Airlines (MEA), which the Government owns or controls. This program is motivated primarily by a desire to improve the efficiency of the companies and assets involved, reduce operating losses, and to utilize the anticipated proceeds from privatization to reduce the national debt. The GOL has set a target of US\$5 billion in privatization proceeds over a five-year period. In addition, the GOL intends to utilize the program to help establish a competitive business environment in the economy at large and in the sectors being privatized. The financial community views positive action by the Government on implementation of the privatization program as a test of the seriousness of its commitment to economic reform, an important indicator for a country heavily dependent on domestic and international capital markets to finance its deficit. A Privatization Law was approved by the Parliament in June 2000 and, in the same month, the Council of Ministers approved a Privatization Strategy. The Law establishes a ministerial level privatization committee to implement the privatization program. The next steps are to establish a small technical secretariat to assist the ministerial committee with management of the privatization program and to initiate the privatization process. The first two transactions are expected to be the sale to international "strategic" partners of substantial minority interests (30 to 40 percent) and management control in MEA and MPT/OGERO, the operator of the fixed wire telephone network. Both enterprises suffer from a prolonged period of government ownership/management, including over-staffing, under-utilization of capital investments, and poor operating and financial results. The GOL's objective is to improve the management of these two enterprises and to integrate them fully into international and regional markets. The International Finance Corporation (IFC) has recently been contracted by the Government to handle the privatization of MEA.

2. Objectives

The objectives of the project would be three-fold: (a) to assist the

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Government in launching its privatization program; (b) to help implement the privatization of MEA as its first major transaction; and (c) to h

prepare for the privatization of MPT/OGERO, which is expected to be the next major transaction.

3. Rationale for Bank's Involvement

The Bank has acted as a catalyst for sector reform and privatization in Lebanon since the initiation of the Emergency Recovery Program following the end of the Civil War and has helped the Government prepare the legal and institutional framework for the privatization program. This project would build on the privatization support work already initiated by the Bank and continue that support through implementation of the first two privatization transactions, thereby helping to ensure that the reform program moves ahead. The value added of Bank support for this project includes: i) acting as a catalyst for policy and sector reform in air transport, telecommunications and other sectors; ii) using the Bank's procurement procedures for the selection of international consultants to provide advisory services for the telecommunications transaction; iii) helping mobilize grant funds for consulting services on increased private sector involvement - including privatization - in air (and road) transport services and to initiate the drafting of a Competition Law, a key element to encourage increased competition in the infrastructure sectors.

4. Description

The proposed project has three components (estimated mid-point project costs are shown in parentheses): i) design and implementation of the privatization program (US\$9 million); ii) severance payments associated with privatization of MEA (US\$55 million); and iii) preparation of MPT/OGERO for privatization, including the establishment and operation of the telecommunications sector regulatory authority, and support for severance payments associated with the privatization transaction, if it can be completed in a timely manner (US\$27 million). The project cost would depend on the extent to which the telecommunications transaction establishment of the sector regulatory authority is included. On this basis, the project cost would range from a low of about US\$65 million to about US\$90 million.

5. Financing

Total Project Cost The preliminary estimate of the financing for the proposed project (based on the mid-point estimates contained in the previous paragraph) is:

Total (US\$m)	
Government	15
World Bank	70
European Union	5
Total Project Cost	90

6. Implementation

Implementation period: 2001-2004
 Executing agency: Expected to be the technical secretariat for the privatization program for all matters related to design and implementation of the privatization program; the Ministry of Finance for the disbursement of severance payments in association with the privatization transactions; and the Ministry of Air and Telecommunications for the establishment and operation of the

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telecommunications sector regulatory authority. Project administration

coordination: Although it has not yet been established, the technical secretariat for the privatization program is logically expected to have project administration and coordination for the project as a whole as will play the central role in managing the privatization program on behalf of the Government's ministerial privatization council. The Privatization Law empowers the ministerial privatization council to contract local and international consultants to assist in designing and carrying out the privatization program and specific privatization transactions. The first contract has been signed, with the IFC, to carry out the privatization of MEA. Specialists have completed most of the work needed to prepare MPT\OGERO for corporatization and eventual privatization. Further consulting assistance would be engaged to prepare the labor issues related to the telecommunications privatization, as well as the establishment of the sector regulatory authority. The European Union has agreed in principle to provide grant funds to support the stationing of short-term and long-term specialist advisors at the privatization secretariat and the telecom regulatory authority to complement GOL and Bank funding.

7. Sustainability

Project sustainability will depend on: establishment of a technical secretariat for the privatization program that is staffed with well qualified and adequately compensated professionals. operation of the privatization program in a transparent and professional manner, following well publicized competitive procedures to select investors. establishing and sticking to fair, objective and transparent procedures for letting go of redundant staff in the context of privatization transactions and the payment of fair and reasonable severance compensation to staff made redundant. establishing a sound, competitive environment for those sectors where privatization will take place (beginning with air transport and telecommunications) by the announcement of a clear sector policy, based on domestic and international competition, enactment of a sound legal framework and the establishment of an adequate, but light, regulatory mechanism.

8. Lessons learned from past operations in the country/sector

Among the important lessons learned and the manner in which they are planned to be incorporated in the project design on the following: a successful privatization program, even one in a country like Lebanon with a small public sector, needs to be carefully prepared, strongly supported by the Government, and well managed. Individual transactions take time to prepare but the added time required to get it right is worthwhile, given the negative consequences that are likely to result from hastily prepared transactions, or those carried out with equivocation or in a non-transparent manner. Thus, project preparation has focused on preparing a privatization strategy, a framework Privatization Law, and thorough preparation of the enabling policy and regulatory frameworks for the telecommunications and transport sectors. Close follow up will be needed as the privatization program moves forward and it is essential that the Government appoint a well motivated and skilled team to manage the program. in order to avoid crippling procurement delays resulting from the Government's cumbersome procurement procedures, a relatively small amount of World Bank funds will underwrite privatization advisory services through a revolving fund so that the Bank's competitive procurement policies and procedures are applied. the perception within Lebanon is

□ the cost of international consulting services is high and there is a reluctance to use borrowed funds for consultants when grant funds may be available: the Bank and the European Union have agreed in principle with the Government to coordinate their funding of various project components to maximize the use of EU grant funds and the Bank's technical expertise. The level of severance compensation needs to be sufficient to encourage the separation of surplus staff, affordable in terms of the Government's budget and the impact on future privatization transactions and reasonable in comparison to compensation paid in similar cases elsewhere. The severance package needs to provide tangible and valuable cash and non-cash benefits to those workers affected and mechanisms need to be put in place to ensure fair and transparent administration of the severance compensation system. The severance packages likely to be proposed will be consistent with these principles and will be administered and monitored carefully both at the time of payments and for a reasonable period thereafter. Innovative projects like the proposed one require intensive technical, procurement and managerial supervision during preparation and implementation.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation) Issues : The Privatization Law enacted by the Parliament requires that environmental concerns be addressed by companies to be privatized. The assistance provided in this project would help implement due diligence procedures for the environmental issues related to the privatization transactions supported by the project. For the advisory services funded by the project, environmental audits of assets to be privatized will be carried out according to Bank guidelines. Typically for these transactions, independent consultants to the Government will carry out environmental audits, and the information will be used by a second team of specialists charged with preparing and implementing the actual transactions. For the privatization of MPT/OGERO, where advisory services are expected to be funded by this project, the environmental risks are considered low because it is an existing fixed wire telephone network. Still an independent environmental audit is planned as part of the advisory services for transaction preparation work. The MEA privatization transaction is being carried out by IFC under a separate project. For that transaction, environmental due diligence is being undertaken by IFC within the scope of their contract for advisory services. The project is assigned a C category because the financing provided by the Bank is for technical assistance services and to fund severance packages for surplus workers, with no proposed Bank funding for physical investments in civil works, goods or equipment. No separate environmental assessment report will be prepared prior to appraisal or prior to Board presentation. During project implementation, Bank supervision missions will review the environmental due diligence procedures for the transactions involving preparation activities funded by the project.

11. Contact Point:
Task Team Leader
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The World Bank

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12. For information on other project related documents contact:
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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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