

Document of
The World Bank

Report No: 60156-LB

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF AN
ADDITIONAL FINANCING GRANT FOR THE
FIRST MUNICIPAL INFRASTRUCTURE PROJECT

November 3, 2006

IN THE INITIAL AMOUNT OF
US\$30 MILLION EQUIVALENT

TO THE
LEBANESE REPUBLIC

July 15, 2010

This document has a restricted distribution and may be used by the recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

Reallocation of Proceeds

LB – ADDITIONAL FINANCING GRANT FOR THE FIRST MUNICIPAL INFRASTRUCTURE PROJECT

P103875

Grant TF057505-LE

Restructuring Paper

1. The Bank's Board of Directors approved the establishment of the Trust Fund for Lebanon (TFL) on September 7, 2006, with a transfer of US\$70 million from IBRD surplus¹ following the July 2006 hostilities. To help alleviate the severe impact of the conflict on municipalities, an ADDITIONAL FINANCING GRANT FOR THE FIRST MUNICIPAL INFRASTRUCTURE PROJECT (FMIP-AFG - *P103875*) from the TFL for US\$30 million was approved on November 3, 2006.
2. The purpose of this Restructuring Paper is to reallocate the proceeds for LB – ADDITIONAL FINANCING GRANT FOR THE FIRST MUNICIPAL INFRASTRUCTURE PROJECT as follows:

Category of Expenditure	Allocation		Percentage Financed
Current (no revisions made)	Current	Revised	Current (no revisions made)
(1) Goods	US\$600,000	US\$600,000	100%
(2) Works	US\$22,000,000	US\$26,400,000	100%
(3) Consultants' services	US\$2,000,000	US\$2,000,000	100%
(4) Project Management Costs	US\$1,000,000	US\$1,000,000	100%
(5) Unallocated	US\$4,400,000	US\$0	

3. Overall, the project is on track. Despite political uncertainties and degrading security conditions which took place in 2007 and the first half of 2008, the reconstruction or repair of damage municipal infrastructure received highest priority during the early years of project implementation in order to address the population's most pressing needs.

¹ See Board of Directors Resolution IDA/2006-0176/2. The transfer from surplus was subsequently approved by Board of Governors Resolution 580 of September 20, 2006.

Most of the physical reconstruction (under Component 1) is now substantially completed. Because the time and efforts required to carry out the agreed scope of work were much greater than initially anticipated, the Bank approved an 18-month extension of the Grant's closing date in response to a request by the Government of Lebanon (GOL). Considering the current implementation performance, it is projected that the GOL will fully reap the Grant's expected outcome before the closing date (June 30, 2011).

4. Both the revised implementation plan and the structure of project management are satisfactory and should ensure that the development objective of the Grant be fully achieved. While disbursement is slower than expected, the ratio will gradually increase over the coming months as the project shifts to the more complex components, particularly the implementation of the local development projects (Component 2) and the capacity building activities (Component 3). All outstanding activities are engaged with the procurement processes well advanced. With project implementation in full swing and all operational costs identified, the reallocation of grant proceeds becomes necessary in order to fund the remaining contracts and complete the work in a timely manner.

5. More specifically, the proposed reallocation will allow covering the financing requirements of Components 1 and 2 as described in the Project Paper (PP) dated October 27, 2006, and as costed in its Procurement Summary Table (Annex 1 of the PP). There will be no additional activities added to the project implementation. In the design of the project, a substantial amount of the grant (US\$4.4 million) had initially been earmarked to the Unallocated Category of expenditures (Category 5) to allow adequate flexibility under the post conflict conditions prevailing at the time of the project preparation. Based on the project implementation status, the initially estimated amount of US\$22 million allocated under the Works Category will no longer be sufficient. As all the major expenditures are now well identified and uncertainties are very limited, it is proposed to transfer the US\$4.4 million from the Unallocated Category to increase the Works Category (Category 2), from US\$22 million to US\$26.4 million.

6. Consequently, the proposed reallocation of funds stays within the Board of Directors approved costing parameters of the FMIP Grant as described in the Project Paper. At that stage, the total cost of works was estimated at US\$27 million as follows: Component 1 (US\$18 million) and Component 2 (US\$9 million).