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Report No:

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

March 31, 2011

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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 extend the LB – ADDITIONAL FINANCING GRANT FOR THE FIRST MUNICIPAL INFRASTRUCTURE PROJECT closing date and reallocate the FMIP-AFG proceeds as follows:

Category of Expenditure	Allocation		Percentage Financed
Current (no revisions made)	Current ²	Revised	Current (no revisions made)
(1) Goods	US\$600,000	US\$525,000	100%
(2) Works	US\$26,400,000	US\$26,250,000	100%
(3) Consultants' services	US\$2,000,000	US\$2,000,000	100%
(4) Project Management Costs	US\$1,000,000	US\$1,225,000	100%
(5) Unallocated	US\$0	US\$0	

3. Overall, the project is on track. During the early years of project implementation the reconstruction or repair of damage municipal infrastructure (under Component 1) received highest priority 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.

² Following an earlier reallocation approved on July 21, 2010, these are the current allocations.

Similarly, the capacity building activities (Component 3) have also been fully delivered. The launch of the Local Development investments (Component 2) had, however, been intentionally postponed to fully concentrate the local implementation capacity on the most urgent activities until the emergency work was sufficiently advanced. Because of the political uncertainties and security conditions experienced in 2007 and 2008, the time and efforts required to carry out the agreed scope of work were much greater than initially anticipated. As a result of the delays faced during the initial stage of the project, and in response to a request by the Government of Lebanon (GOL), the Bank approved on December 16, 2009 an 18-month extension of the Grant's closing date. This additional time allowed for the completion of emergency reconstruction work and advancing the more complex implementation of the municipal investments. As the project enters in its final phase, there are now only 15 ongoing works contracts aimed at reviving the local economy, fostering social integration and promoting local development, which will need a little more time to reach completion.

4. The remaining scope of work, though small, was delayed because of the municipal elections which took place in May 2010. As a result of the election process, some adjustments were required to respond to the request of the incoming municipal authorities. However, the changes in the design and work contracts were kept to the minimum limiting the negative impact on the overall project performance.

5. Although the FMIP-AFG has been previously extended for an 18 months period, there is a solid rationale to favorably consider this second extension of the Grant closing date, in order to ensure the completion of the ongoing local development investments.

6. Based on the progress observed, it is estimated that the outstanding work would require about six to eight months to be fully executed. Because the time needed to complete the work extends beyond the current FMIP-AFG closing date (June 30, 2011), the GOL has requested (Letters from the Ministry of Interior and Ministry of Finance dated December 17, 2010 and December 22, 2010 respectively) a second extension of the FMIP-AFG closing date until December 30, 2011. This adjustment would allow to fully reap the FMIP-AFG expected development outcomes.

7. Both the revised implementation plan and the structure of project management are satisfactory and will ensure that the development objective of the FMIP-AFG be fully achieved. While disbursement was slower than expected, the ratio remained stable as the project shifted to the more complex local development components. All the procurement processes are now substantially completed. With project implementation reaching its final stage and all operational costs identified, the reallocation of grant proceeds becomes necessary in order to fund the reduced staff of the Project Management Unit (PCU) over the extension period and supervise the work for a timely delivery of the project benefits.

8. More specifically, the proposed reallocation would allow covering the financing requirements of Components 3, as costed in its Procurement Summary Table (Annex 1 of the Project Paper). There will be no additional activities added to the project implementation schedule. Based on the project implementation status, the initially estimated amount of US\$1.0 million allocated under the Project management costs will no longer be sufficient. As all the expenditures are now identified and there are no more

uncertainties, it is proposed to transfer the US\$75,000 from the Goods Category and US\$150,000 from the Works Category to increase the Project Management Category (Category 4), from US\$1.0 million to US\$1.225 million.

9. Consequently, the proposed extension would have no impact on the current program design and the proposed reallocation of funds stays within the Board of Directors approved costing parameters of the FMIP-AFG, as described in the Project Paper, with the total cost of works estimated at US\$27 million and split as follows: Component 1 (US\$18 million) and Component 2 (US\$9 million).

10. The Project Team concurs with the Government's request as the Project objectives continue to be achievable, and the implementation performance is rated satisfactory. Moreover, the Government of Lebanon has prepared a specific action plan and detailed schedule, to fully reap the Grant's expected outcome. There is no outstanding audit and all the audits submitted are unqualified.