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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LB - MUNICIPAL INFRASTRUCTURE PROJECT
ADDITIONAL FINANCING GRANT
NOVEMBER 3, 2006
TO THE
LEBANESE REPUBLIC

December 22, 2011

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ABBREVIATIONS AND ACRONYMS

FMIP	First Municipal Infrastructure Project
PCU	Project Coordination Unit
TFL	Trust Fund for Lebanon

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LEBANON
LB - MUNICIPAL INFRASTRUCTURE

CONTENTS

	Page
A. SUMMARY	4
B. PROJECT STATUS	4
C. PROPOSED CHANGES	5
D. APPRAISAL SUMMARY	7

LB - MUNICIPAL INFRASTRUCTURE DEVELOPMENT

RESTRUCTURING PAPER

SUMMARY

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 surplus 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 (P103875) from the TFL for US\$30 million was approved on November 3, 2006. The proposed changes to the Project, TF057505, P103875, as requested by the Borrower in their letter dated November 28, 2011, are as follows:

- (i) A reallocation of grant proceeds among categories; and
- (ii) A four-month extension of the Grant's closing date from December 30, 2011 to April 30, 2012.

PROJECT STATUS

2. Overall, the project is on track. The reconstruction or repair of damaged municipal infrastructure (under Component 1) and the capacity building activities (under Component 3) are completed. Sixteen local development projects under Component 2 are still not completed, however, and are at risk of remaining incomplete for lack of investment funds at the municipal level. The remaining procurement progress and financial management activities remain satisfactory. Project management is rated moderately satisfactory. Despite adverse conditions during most of its implementation phase, the Project is still achieving its Development Objectives and Implementation Progress moderately satisfactorily. The project objectives remain relevant and are largely achieved: basic services have been restored; priority public infrastructure has been rebuilt; and an increased share of the municipal budgets is now allocated to investments; the ratio of municipal revenues over Government transfers has been reduced significantly and a Municipal Observatory has been established. Following the additional delays experienced during the period June – September 2011, all remaining local development projects are now under execution and progressing well.

3. The Grant, in the amount of US\$30 million, was approved on November 3, 2006, and declared effective on November 29, 2006. The project was restructured three times, mainly to account for the delays associated with the volatile situation in Lebanon, coupled with changes in municipal governments in 2010. The first restructuring (amendment) took place in December 2009, and extended the Grant's Closing Date from December 31, 2009 to June 30, 2011. A second restructuring was done in July 2010 and

entailed a reallocation of grant proceeds. The third restructuring was done in June 2011 and entailed an extension of the Grant's Closing Date from June 30, 2011 to December 30, 2011 and a reallocation of Grant proceeds.

4. At this stage, 100% of the Grant is committed with all the outstanding activities already procured. As of December 20, 2011, disbursements amount to 93.74% of the Grant amount. There is no outstanding audit and all the audits submitted are unqualified.

PROPOSED CHANGES

Reallocation of Grant Proceeds:

5. The proposed reallocation is necessary in order to effectively maintain the Project Coordination Unit (PCU) for a longer duration than originally envisioned and which is required to deliver the municipal investments. The reallocation will ensure funding of the reduced staff of the PCU over the extension period to carry out proper supervision of all works remaining for a full delivery of the local development projects. All the procurement processes are now substantially completed. There will be no additional activities added to the Project implementation schedule. Based on the project implementation status, the estimated amount of US\$1.225 million allocated under the project management costs will no longer be sufficient. Given that most of the expenditures under the Civil Works Category will not be needed, it is proposed to transfer US\$150,000 from the Civil Works Category (Category 2) to increase the Project Management Category (Category 4) by US\$100,000 from US\$1.225 million to US\$1.325 million and also to increase the Goods Category (Category 1) by US\$50,000 from US\$525,000 to US\$575,000 to cover the costs of a pending goods contract under one of the local development projects (Municipality of Makneh).

Category of Expenditure	Allocation			Percentage Financed
	Initial allocation	Current ¹	Revised allocation	
Current (no revisions made)				
(1) Goods	US\$600,000	US\$525,000	US\$575,000	100%
(2) Works	US\$22,000,000	US\$26,250,000	US\$26,100,000	100%
(3) Consultants' services	US\$2,000,000	US\$2,000,000	US\$2,000,000	100%
(4) Project Management Costs	US\$1,000,000	US\$1,225,000	US\$1,325,000	100%

¹ Following an earlier reallocation approved on July 21, 2010, these are the current allocations.

(5) Unallocated	US\$4,400,000	US\$0	US\$0	
Total	30,000,000			

Closing date:

6. An extension of the closing date is being sought from December 30, 2011 to April 30, 2012. In accordance with OP 13.30, the team confirms that: (a) the project development objectives continue to be achievable; (b) the performance of the implementing agency is satisfactory; and (c) an action plan has been prepared by the implementing agency and agreed with the Bank to ensure successful completion of the Project.

7. The original Project (an IBRD Loan for US\$80 million) was approved in June 2000. An Additional Financing of US\$30 million was approved in November 2006, whereby the original Project Closing Date was December 31, 2008 and that of the Additional Financing was December 31, 2009. The proposed restructuring would bring the cumulative closing date extensions of the Project to 40 months.

8. Under OP 13.20, additional loans must close within three years from the closing date of the original Project at the time of Additional Financing. However, in exceptional cases the Bank may consider extending the closing date of an Additional Loan beyond this three year limit. According to paragraph 15 (n) of the "Processing Additional Financing: Guidance to Staff" dated 1/24/2011, "when implementation of the additional loan activities is delayed because of a factor that is clearly external to the operation and outside the control of the borrower or implementing agencies (e.g., delay in additional loan effectiveness, natural disaster, major political change), the task team may request an extension of the closing date for a period that is equal to the delay due to the responsible factor. The RVP approves such a request." In the case of the FMIP, OP 13.20 clearly applies as project implementation was greatly affected by political uncertainties and deteriorating security conditions throughout the implementation period from 2007-2011. This included a series of events related to political instability and security incidents which were outside of the control of the project. The project was further delayed by the municipal election process of 2010 and the consecutive changes in municipal teams who were not familiar with the Project. The delays associated with the first extension of the Grant's closing date (24 months) were all due to external factors.

9. During the early years of project implementation, the reconstruction or repair of damaged municipal infrastructure (under Component 1) received the highest priority in order to address the population's most pressing needs. All works financed under Component 1 are fully completed. Similarly, the capacity building activities (Component 3) have also been fully delivered. Implementation of local development projects (Component 2) was first delayed due to the municipal elections of May-June 2010. As a result of the elections, some adjustments were needed to respond to the request of the incoming municipal authorities. However, the changes in the design and work contracts

were kept to the minimum in order to limit the negative impact on the overall project performance.

10. Despite the two extensions and reinforced supervision of and assistance to local development projects by the PCU, a number of local development projects suffered significant delays in the implementation of activities over the June – September 2011 period. These delays are also outside of the control of the PCU. They are mainly attributed to the adverse local, national, and regional environment throughout 2011, most notably: (i) the regional context and the security threats in Syria, which largely affected the availability of adequate labor force (mostly Syrian) in the construction sector; (ii) the sudden large scale and illegal construction of housing units (roughly estimated at around 3,000 to 4,000 buildings) on public land in Southern Lebanon during the care-taker Government has considerably distorted the construction sector from January to June 2011, and has led to a severe shortage of construction material followed by rapid prices increases; (iii) the restriction in the transport of construction material transport banned from entering Southern Lebanon from April-May 2011 to gradually stop the proliferation of illegal construction further reduced construction works. Against this background and the repeated security incidents witnessed in Southern Lebanon during the summer of 2011, the delays incurred earlier by the change of municipal teams could not be mitigated and were at times even reinforced, thus impacting the overall revised timetable.

11. The proposed extension is thus necessary to ensure the completion of the ongoing local development investments and achievement of their full development benefits. It is noteworthy that both the revised implementation plan and the structure of Project management are satisfactory (the rating is MS due to the delays) and will ensure that the Project Development Objective is fully achieved. The Government of Lebanon has prepared a specific action plan and detailed schedule to fully support the Grant's expected outcome. This document was sent to the Bank and has been reviewed and found acceptable by the task team. 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 completed.

12. At this stage, and with the approval of this restructuring, the Project objectives continue to be achievable; the performance of the Borrower and other Project implementing agencies is satisfactory.

APPRAISAL SUMMARY

13. **Financial and Economic Analysis:** None of the proposed changes would have a major effect on the original economic, financial or technical of the project as appraised.

14. **Social and Environment:** The proposed restructuring would not result in any changes to the social and environmental aspects as defined at appraisal.

15. **Risks:** The proposed restructuring does not trigger new risks or exceptions to Bank policy.

