

LOAN AGREEMENT BETWEEN LEBANON AND IBRD

PARIS III – RAFIC HARIRI CONFERENCE

BRIEF DESCRIPTION

I. Background

In the context of the International Conference for Support to Lebanon “Paris III or Rafic Hariri” held on January 25th 2007 in Paris, the World Bank pledged \$700 million in loans in support to Lebanon. These loans to the Government are in addition to \$275 million in loans to the private sector through the International Finance Corporation. The first agreement of the \$700 million with the International Bank for Reconstruction and Development was approved by the Bank’s Board of Executive Directors on August 2, 2007. The agreement is in the form of a Reform Implementation Development Policy Loan (RIDPL) that earmarks money for budgetary support, the disbursement of which is conditional on the implementation of reforms that have been committed to by the government in its Paris III program. The first RIDPL focuses on reforms in the power sector, but also covers the social, business climate and public financial management sectors. This form of lending helps in achieving two important objectives: reducing the debt burden, and expediting reforms in the targeted sectors.

II. RIDPL Negotiation Process

The RIDPL was negotiated on July 6, 2007 between a Beirut-based team comprised of IBRD staff and Lebanese government representatives from the Prime Minister's Office, Ministry of Finance, Ministry of Energy and Water, *Electricité du Liban* (EdL) and Higher Council for Privatization, and a Washington-based team comprised of the IBRD energy task team.

III. Terms of the Loan

1. Size of the loan: \$100 million in one disbursement
2. Coupon payments:
 - ⇒ Variable: LIBOR plus fixed spread
 - ⇒ Interest is payable on April 15 and October 15 of each year
3. Maturity and Repayment schedule: The loan has a 15 year maturity and a 5 year grace period. Principal repayments will be on April 15 and October 15,

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each for 5 percent of the loan. Principal repayments commence on October 15, 2012 and end on April 15, 2022.

4. Intended uses: Budgetary support / Debt repayment

IV. Sector Reform Support

The RIDPL agreement aims at supporting the Government's reform program as presented in Paris III. The Government, as part of its reform program implementation, had undertaken certain reform actions that were presented World Bank Board of Directors prior to approval of the loan agreement.

- ⇒ Reform of the Energy Sector. As is consistent with the government's program, particular emphasis is placed on the reform of the power sector. As part of the several actions undertaken by the Government within its reform program for the power sector, the following were presented to the IBRD board as conditions for disbursements of the first RIDPL: establishment of an inter-ministerial power sector reform committee, award of contracts for advisory services to the Ministry of Energy and Water, *Electricité du Liban* (EdL) and Higher Council for Privatization for the restructuring of EdL, appointment of auditor for 2002-2006 EdL accounts, employment of consultants to advise on the installation of meters, engagement of a consultant to prepare a Master Plan for the electricity sector and signature of an import contract for natural gas.
- ⇒ Improving the Business Climate. The government reforms focus on reducing impediments to business. Under this heading, the following was presented to the IBRD board as conditions for disbursements of the first RIDPL: creation of the Telecommunications Regulatory Authority and appointment of its Board.
- ⇒ Social Protection Reforms. Social reforms are a main pillar of the government program, with the aim of providing improved social services more efficiently. Under social reform, the following were presented to the IBRD board as conditions for disbursements of the first RIDPL: establishment of an inter-ministerial committee for social policy, and completion of technical discussions at a specialized parliamentary committee on draft law that reforms the end-of-service indemnity.
- ⇒ Modernizing Public Financial Management. The government has embarked on public financial management before and within the context of its Paris III reform program. Within this context, the following were presented to the IBRD board as conditions for disbursements of the first RIDPL: appointed an advisor to launch the implementation of a modern internal audit function at

MOF, and publish on MOF's website a high level summary of the Public Finance Management action plan

The Government of Lebanon is currently in discussions with the World Bank regarding another RIDPL with a focus on the Social Sector for \$75 million.

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